MONTHLY LEGAL UPDATE

WWW.TSEGASOLOMON.COM

TSEGAMLAK SOLOMON & ASSOCIATES

February, 2026

This month's update is dedicated to the upcoming 130th anniversary of the Battle of Adwa! a historic victory that symbolizes Ethiopia's resilience, unity, and freedom

Top Update

FXD/04/2026: Ethiopia's Latest Foreign Exchange Liberalization Measures

The National Bank of Ethiopia has introduced a more flexible foreign exchange framework, to liberalize and modernize the country's foreign exchange regime, easing administrative controls, expanding access to foreign currency for service exporters and investors.

What's Covered this Month?

Welcome to the February 2026 edition of the TSA Legal Update! This newsletter brings you key legal developments to help you stay informed and navigate the evolving legal landscape.

In this issue, we cover:

1. FXD/04/2026: Ethiopia's Latest Foreign Exchange Liberalization Measures
2. MOR Issues Enforcement Notice on Quarterly Advance Profit Tax Enforcement
3. Authority for Civil Society Organizations Notice on Digital Reporting Compliance
4. Ministry of Finance Notice: Generators & Transformers Added to Duty-Free Capital Goods List
5. Ethiopia Establishes Disaster Risk Response Fund: What Businesses Need to Know

1. FXD/04/2026: Ethiopia’s Latest Foreign Exchange Liberalization Measures

Following Ethiopia’s July 2024 market-based FX reform under Foreign Exchange Directive FXD/01/2024 (sometimes referred to as the “Green Directive”) that liberalized exchange-rate setting, ended surrender to the central bank, and streamlined foreign-currency accounts, the National Bank introduced an interim amendment in May 2025 (FXD/03/2025) to fine-tune operational thresholds and traveler/advance-payment rules, before issuing FXD/04/2026 to deepen the liberalization. The newly issued Directive FXD/04/2026 amendment addresses remaining constraints by authorizing forward FX transactions, granting indefinite 100% retention for service exporters, simplifying dividend/profit repatriation via banks, widening eligibility and requirements for foreign-currency accounts, and removing several day-to-day bottlenecks for investors, exporters, and individuals.

The sections below outline how these reforms affect investors and treasury operations, shape external-financing options, modernize cash management and bureau operations, and update trade-compliance timelines, concluding with key actions for CFOs.

1.1.Implications for FDI Companies and New Entrants

a) Simplified Entry and Operational Banking

For foreign investors considering entry or expansion, the post-2024 environment meaningfully reduces friction at account opening, during ongoing operations, and at exit. Under the Green Directive, FX transactions moved to negotiated market rates with the central bank limiting itself to indicative guidance and intervention only in disorderly conditions, creating the predictability investors had long requested. Now, the newly introduced FXD/04/2026 further removes several of the remaining operational bottlenecks by allowing FDI companies to open foreign-currency accounts simply by presenting an application letter, investment license, and TIN at a bank of their choosing, without requiring separate NBE approval. Banks may also issue internationally recognized foreign-currency cards to all eligible FX account holders, enabling seamless participation in e-commerce and cross-border retail payments, closing gaps that previously forced investors to rely on workarounds.

b) Repatriation and Group-Level Cash Movements

Dividend and profit repatriation is also materially simplified. Banks are now expressly authorized to approve and remit net profits and dividends for registered foreign investments against the standard documentation and must report such remittances to the National Bank on a monthly basis. This change replaces a central-approval dependency with a decentralized, bank-managed workflow, significantly shortening timelines and reducing uncertainty for investors planning group-wide consolidations or periodic distributions.

1.2.Working Capital, Hedging, and Pricing Certainty

a) Forward FX for Predictable Pricing

Since the 2024 shift to market-based exchange rates, companies have been able to transact FX at freely negotiated prices rather than relying on allocation queues, improving visibility on executable rates. FXD/04/2026 strengthens this by allowing banks to offer forward FX contracts alongside spot transactions, enabling firms to lock in future rates and prices with greater certainty. This is especially valuable for importers and exporters with long production cycles or thin margins.

b) Full and Indefinite FX Retention for Service Exporters

Service exporters now benefit from indefinite 100% retention of export proceeds, replacing earlier partial and time-bound rules. This eliminates forced conversions, improves liquidity, and supports natural hedging of FX-denominated costs across sectors such as ICT, consulting, aviation, logistics, and tourism.

1.3.External Financing, Guarantees, and Group Treasury

a) Expanded Bank Autonomy in External Financing

FXD/04/2026 grants commercial banks greater authority to support cross-border financing by allowing them to issue private foreign-currency loan guarantees of up to ten percent of their total capital. These guarantees are treated as loans for single-borrower-limit purposes but significantly broaden corporate access to offshore credit lines and supplier credit at competitive pricing. This shift reduces dependence on central-bank approvals and enables faster structuring of financing arrangements through the banking system.

b) Interim Adjustments That Smoothed the Pipeline

The 2025 interim amendment (FXD/03/2025) addressed documentation thresholds and practical constraints around advance payments and travel-related FX needs, reducing transaction-level bottlenecks and reinforcing compliance clarity. These refinements served as an operational bridge that prepared banks and corporates for the broader liberalization delivered under FXD/04/2026.

1.4.Cash Management, Cards, and Cross-Border Payments

a) Modernized Payment Flexibility

Banks may now issue internationally recognized foreign-currency cards and load funds based solely on the account holder’s instruction, without requiring visas or travel documents. This improves efficiency for recurring international expenses such as SaaS subscriptions, cloud services, global advertising, and corporate travel.

b) Improved Access for Education, Healthcare, and Family Support

The directive allows advance payments for medical and educational services abroad, up to USD 20,000 per case, without the previous visa or ticket prerequisites. Residents may also transfer up to USD 3,000 abroad for family subsistence support upon providing justification, offering households and employers a more predictable FX channel for essential outflows.

1.5.FX Bureaus, Security Deposits, and Operating Environment

FXD/04/2026 refines the operating environment for FX bureaus by adjusting security-deposit rules and monthly FX-holding limits, creating a more flexible retail FX channel for cash-note transactions. These changes support smoother bureau operations while maintaining oversight through documentation and compliance requirements. The broader reforms, such as the removal of allocation and wait-list rules and the restoration of bank discretion, have reduced day-to-day friction across the FX ecosystem, enabling a more responsive operating environment for compliant businesses.

1.6.Trade Operations and Import Timelines

Import applications now carry a 120-day validity period, which may be extended by the authorized bank for good cause. This aligns FX-related compliance timelines with real-world shipping and customs processes, reducing the need for repeat applications and lowering administrative costs for import-reliant firms. Combined with the 2024 elimination of allocation and wait-list systems and the return of discretionary authority to banks, importers should experience fewer procedural delays when documentation is complete and within directive thresholds.

Practical Actions for CFOs and Treasurers

a) Align Treasury Policies with New FX Tools

Treasury teams should update internal policies to incorporate forward-exchange capabilities, define counterparty limits for banks, and ensure hedge-accounting treatments reflect the ability to lock in future FX rates under the new framework. These adjustments enable more predictable pricing and stronger risk management in line with the expanded flexibility introduced by FXD/04/2026.

b) Recalibrate Cash Management and Intercompany Structures

The shift to 100 percent indefinite retention for service exports allows treasurers to revisit cash-pooling, intercompany pricing, and cost-matching strategies, particularly where foreign-currency obligations can be settled locally. Optimizing these mechanics helps reduce conversion losses and strengthens liquidity planning.

c) Strengthen Governance Around Repatriation and Reporting

With dividend and profit repatriation now decentralized to banks, with monthly reporting to NBE, CFOs should embed these workflows in their investor-relations calendars to avoid quarter-end congestion and ensure documentation remains audit-ready. New SPV onboarding templates should also reflect the streamlined account-opening process and removal of separate NBE approval requirements for FDI entities

2. Ministry of Revenue Issues Enforcement Notice on Quarterly Advance Profit Tax Enforcement

On 17 July 2025, Parliament enacted the Income Tax (Amendment) Proclamation No. 1395/2025, a wide-ranging overhaul intended to modernize administration, broaden the tax base (including digital income), and lift Ethiopia's low tax-to-GDP ratio toward an 11% medium-term target. A key feature is the mandatory quarterly advance profit tax for large (Category A) taxpayers, replacing the previous optional or semi-annual practice. Each quarter, taxpayers prepay 25% of the prior year's income tax, then reconcile at year-end.

Finance officials have framed the shift as part of revenue mobilization: improving government cash flow, smoothing collections over the year, and reducing year-end arrears. The Ministry of Finance's guidance adds that the three-month counting window begins after the month in which the annual financial report is submitted, with 30 days thereafter to pay each instalment, e.g., October filers pay in February, May, and August; April filers pay in August, November, and February.

Accordingly, the Ministry of Revenues has moved from legislative reform to active implementation through a formal notice issued on 20 February 2026. The notice operationalizes the quarterly advance profit-tax requirement and makes clear that compliance will be monitored through structured filing and review procedures.

For the first enforcement window (Yekatit 1–30, 2018 EC), Category A taxpayers are required to submit their advance payment filings exclusively through the e-Tax portal. Any claimed offsets, particularly withholding tax credits, must be supported by original withholding-tax receipts. This documentation requirement signals heightened verification standards and aligns with the Ministry's current desk-review practice. In practical terms, the notice indicates that the quarterly advance regime is no longer transitional or anticipatory in nature; it is now subject to active enforcement, with documentary scrutiny and procedural compliance forming central components of the Ministry's revenue-collection approach.

3. Authority for Civil Society Organizations Notice on Digital Reporting Compliance

Following the Digital Ethiopia Vision 2030 (DE2030) national strategy, which represents a paradigmatic shift from sector-specific digitization to a legally structured, whole-of-economy digital transformation agenda, the Authority for Civil Society Organizations (ACSO) has launched a comprehensive modernization of its archival and reporting systems.

All Civil Society Organizations (CSOs) are now required to adhere to specific technical protocols in their annual reporting to ensure full integration with the Authority's digital database:

1) Searchable PDF Format: provide their annual reports in a searchable PDF format alongside the traditional hard copies to ensure full compatibility with the Authority's digital database.

2) Visual Integrity: Maintain these digital documents are of the highest visual quality for ensuring that scans are clean, clear, and fully legible.

3) Media Requirements: Use only a brand-new or freshly formatted USB flash drive. The drive must be dedicated solely to the annual report submission; any external files, folders, or malware-related data will result in the submission being declined.

4) File size Optimization: Each individual report must be strictly limited to a maximum file size of 20MB.

4. Ministry of Finance Notice: Generators & Transformers Added to Duty-Free Capital Goods List

The Ministry of Finance (MoF), acting under Directive No. 1064/2017 (EC) / 1064/2025 (GC), has clarified through a recent official letter that generators and transformers are now expressly included among capital goods eligible for customs duty-free import, provided they are strictly required for an approved investment project. This clarification is issued pursuant to Article 19(2) of the Directive, which authorizes the Ministry to amend the capital-goods list administratively without the need for a full regulatory amendment.

Directive 1064/2025 implements Ethiopia's Investment Incentives Regulation No. 517/2022 (as amended), which establishes the operational framework for income-tax holidays and customs duty exemptions tied to qualifying investments. The Directive sets out the categories of eligible capital goods, construction materials, and spare parts, while also detailing documentation requirements, monitoring procedures, and revocation mechanisms. The inclusion of generators and transformers therefore falls squarely within the existing incentives architecture rather than introducing a new incentive regime.

Why the Inclusion Matters

Power reliability remains a structural constraint for many investment projects, particularly in manufacturing, agro-processing, industrial parks, and projects located in grid-constrained or off-grid areas. By expressly listing generators and transformers as eligible capital goods, the Ministry has reduced interpretive uncertainty that previously required investors to justify eligibility on a case-by-case basis. The clarification enhances predictability for project planning and financing while maintaining the requirement that the equipment be strictly necessary for approved operations.

At the same time, the broader trajectory of incentive administration in 2025–2026 suggests that improved access to exemptions is accompanied by tighter compliance oversight and documentation scrutiny.

Practical Considerations

Investors should confirm that their project qualifies for incentives and clearly document the operational necessity of the generator or transformer, using technical evidence where appropriate. Application files must comply with the Directive's documentation requirements and expressly reference the Ministry's Article 19(2) clarification. During customs clearance, accurate HS classification and proper linkage to the approved project are essential, particularly in light of any local-availability conditions. Ongoing compliance is equally important, as the Directive allows monitoring and potential revocation, including claw-back of exempted duties, where goods are misclassified, diverted, or not used for the intended project, making robust internal recordkeeping critical.

5. Ethiopia Establishes Disaster Risk Response Fund: What Businesses Need to Know

Regulation No. 576/2025 has now operationalized Ethiopia's national disaster-financing framework by establishing the Ethiopian Disaster Risk Response Fund Office as an independent legal entity. While the underlying mandate was created under Proclamation No. 1386/2025, the Regulation gives practical effect to the Fund's responsibilities, revenue mechanisms, and institutional powers. Beginning this February, the Regulation introduces a structured income-rate system, defined as mandatory contributions collected through identified service channels. All revenues are dedicated exclusively to rapid humanitarian response, enabling the government to mobilize funds quickly to prevent disaster-related disruptions to lives, livelihoods, and essential services.

A) Digital and Telecommunications

This category covers digital banking services and telecommunications operators providing voice and data services. Contributions are calculated as 5% of digital-service fees and 5% of airtime charges, reflecting the growing scale and economic significance of Ethiopia's digital ecosystem.

B) Banking, Finance, and Insurance

Banks and microfinance institutions contribute 1% of loan amounts disbursed, while insurance providers contribute 1% of total premiums collected. Companies distributing dividends are also included, contributing 1% of distributed dividends, linking financial-sector cash flows directly to national disaster-response financing.

C) Transportation and Aviation

The transport sector contributes through multiple channels: domestic airlines provide a fixed ETB 100 per ticket, fuel suppliers contribute ETB 1 per litre supplied, and maritime transport and logistics operators contribute 5% of service fees. These contributions reflect the sector's role in national mobility and infrastructure.

D) Trade, Manufacturing, and Consumer Goods

Producers and importers of chemicals, tobacco, and alcoholic goods pay contributions based on the value of goods sold, 1% for chemicals and 5% for tobacco and alcoholic products. These rates link consumption and production-based revenues to disaster-risk funding.

E) Licensing and Public Services

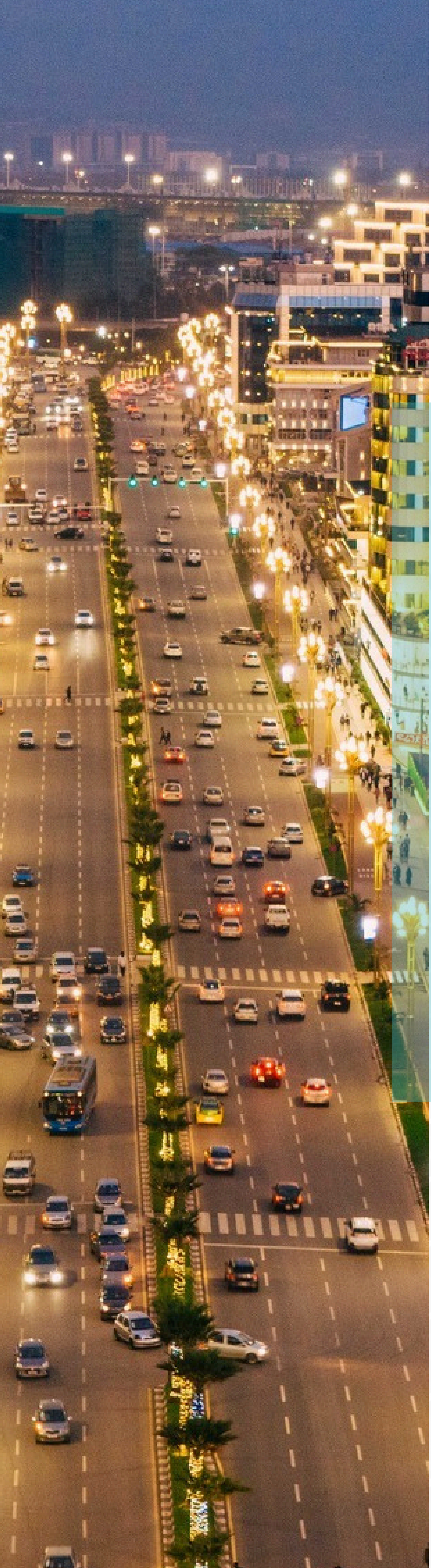
Government service-based contributions include ETB 200 per business license issued or renewed, ETB 200 for passport and visa issuance/renewal, and 5% of fees collected for document authentication and verification.

F) Customs and Asset Sales

The Fund receives 60% of proceeds from the sale of seized goods, providing a periodic but significant revenue stream derived from customs enforcement activities.

G) Government Budget Contributions

The Federal Government, along with the Addis Ababa and Dire Dawa city administrations, contributes 0.25% of their annual budgets on a quarterly basis. This establishes a stable and predictable public-financing baseline for emergency response.



Contact **Us**

www.tsegasolomon.com

+251-926 354 220

tsolomon@tsegasolomon.com

Africa Avenue, Getu Commercial Center, 6th Floor

Addis Ababa