MONTHLY LEGAL UPDATE

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*This month's update commemorates **International Women's Day**, observed on March 8th, It is a moment to recognize women's achievements, rights, and vital contributions to society across the globe.*

Top Update

Ethiopia's Investment Incentives Regulation No. 586/2026: A Shift to Performance-Linked, Contract-Driven Incentives

Council of Minister Introduces a performance-linked, contract-driven approach to investment incentives, aiming to enhance efficiency, accountability, and alignment with national economic priorities.

What's Covered this Month?

Welcome to the March 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. Directive No. SIB/63/2026: Requirement for Person with Significant Influence in Insurance Company
2. Licensing of Insurance Brokers: Directive No. SIB/62/2026
3. Licensing and Supervision of Microinsurance Agents: Directive No. SIMB 4/2026
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5. Ethiopia's Investment Incentives Regulation No. 586/2026: A Shift to Performance Linked, Contract-Driven Incentives

1.Directive No. SIB/63/2026: Requirement for Person with Significant Influence in Insurance Company

Directive No. SIB/63/2026 replaces Directive No. SIB/32/2012 and establishes a strengthened framework governing influential shareholders, board members, chief executive officers, and senior executive officers. It forms part of the broader reform effort outlined above, with a specific focus on strengthening governance by linking control and decision-making authority to demonstrable competence, integrity, and financial soundness.

The Directive introduces structured and stringent "fit and proper" standards and places ongoing compliance obligations on insurance companies, moving beyond entry-level screening toward continuous regulatory oversight.

Governance Competency Architecture and Qualification Thresholds

Board of Directors: Composition, Competence, and Independence

The Directive raises the expectations for board composition, requiring directors to hold at least a first degree and to have a minimum of five years' relevant professional experience in areas such as insurance, risk management, finance, or auditing. The framework is designed to ensure that boards are selected based on competence rather than ownership representation alone, strengthening the quality of strategic oversight. In addition to professional qualifications, boards must now be structured to enhance diversity and independence. No board may consist solely of one gender, and at least two female directors must be appointed. Insurance Companies are also required to have three independent directors who are free from family or business ties with the institution, possess advanced academic qualifications at the master's level, and bring a minimum of ten years of experience in the financial sector.

Chief Executive Officers (CEOs): Experience and Approval Requirements

CEOs are now subject to elevated experience standards, with a minimum of twelve years in the insurance industry, including at least five years in senior executive roles. Appointments to this position, as well as acquisitions that create influential shareholding, require prior approval from NBE. This ensures that individuals occupying the highest operational authority possess both the professional depth and market understanding necessary to navigate a complex and evolving insurance sector.

Senior Executive Officers: Managerial Experience and Compliance

Senior executive officers must bring a minimum of eight years of experience within the insurance industry, including at least four years in managerial roles. Like CEOs, their appointments are subject to prior regulatory approval. By establishing these thresholds, the Directive seeks to maintain operational continuity, managerial competence, and accountability at the executive level.

Specialized Support Functions: Flexibility in Operational Appointments

The Directive provides a degree of operational flexibility for roles in specialized support functions, such as human resources, information technology, finance, and marketing. Appointments to these positions no longer require prior approval from the regulator, reducing administrative delays in non-core operational areas while allowing companies to maintain agility in essential support services.

Integrity and Financial Soundness Assessment

The Directive places considerable emphasis on the personal and financial credibility of individuals with significant influence over insurance companies. The assessment of fitness and propriety extends beyond formal qualifications to include past conduct and financial behavior.

Indicators that may negatively affect eligibility include a history of non-performing loans, issuance of dishonored checks, insufficient net worth relative to acquired shares, outstanding court judgments for unpaid debts, or the use of funds originating from insolvent or bankrupt entities for share acquisition. The review also extends to entities under the individual's control, particularly where there have been failures in financial disclosure or compliance.

At the same time, the framework allows for contextual assessment. For instance, prior involvement in a company that entered liquidation does not automatically disqualify an individual unless responsibility for the failure can be attributed to them. This approach introduces a degree of flexibility while maintaining scrutiny over financial and ethical conduct.

Oversight, Compliance, and Institutional Obligations

The Directive establishes an ongoing supervisory framework rather than a one-time approval process. NBE retains authority to reassess the fitness and propriety of relevant individuals at any time and may take corrective measures, including suspension of voting rights of influential shareholders or removal of directors and senior executives who no longer meet the required standards.

Insurance companies are required to institutionalize compliance through internal fit-and-proper policies, maintain documented assessments, and ensure continuous monitoring of relevant individuals. They are also obligated to notify NBE of any developments that may affect an individual's suitability, including emerging concerns regarding integrity or financial standing.

The Directive further requires the implementation of whistleblowing mechanisms that enable the reporting of serious concerns, with protections for individuals who report in good faith. In addition, it limits the duration of acting chief executive appointments to a maximum of nine months, addressing prolonged interim arrangements that may otherwise bypass formal regulatory scrutiny.

Transition and Implementation

The Directive provides transitional measures intended to facilitate implementation while maintaining operational continuity. Existing board members are allowed to complete their current terms before the new qualification and experience requirements become applicable.
Senior executive officers occupying positions that now require formal regulatory approval are given a six-month period to obtain such approval. Failure to comply within this period results in financial penalties of ETB 10,000 per position.

Implications for Investors and Market Participants

The Directive raises the threshold for participation in the insurance sector, particularly in relation to influential shareholding and senior management roles. Investors are now required to demonstrate not only capital capacity but also the legitimacy of funding sources, financial track record, and overall reputational standing. This may affect transaction structuring, particularly where ownership involves complex funding arrangements or indirect shareholding.

Governance costs are likely to increase as companies seek to comply with independence, qualification, and diversity requirements at board level. The pool of individuals meeting the prescribed criteria remains limited, which may affect both recruitment timelines and compensation structures.

At the management level, the experience thresholds may constrain the ability of companies to rapidly appoint or replace senior executives, particularly in a market where sector-specific expertise is concentrated among a relatively small group of professionals.

The introduction of ongoing regulatory assessment also alters the compliance landscape. Suitability is no longer assessed only at the point of appointment or licensing; it becomes a continuing obligation, with the possibility of regulatory intervention where standards are no longer met.

2. Licensing of Insurance Brokers: Directive No. SIB/62/2026

Directive No. SIB/62/2026 marks a deliberate restructuring of the insurance brokerage sector, replacing the prior Directives No. SIB/31/2010 and No. SIB/009/1995. The framework shifts brokerage from a largely transactional role into a professionalized, client-focused function, establishing clear governance, qualification, and financial security standards. Brokers are positioned as technical advisors responsible for the placement, administration, and renewal of insurance contracts, with obligations to act in the best interest of clients while maintaining transparency, independence, and professional integrity. This alignment with the Commercial Code reflects an intentional modernization of intermediary practices and a stronger regulatory emphasis on competence and accountability.

Business Organization and Licensing Requirements

Under the Directive, insurance brokerage businesses, whether general, life, or composite, must be established as either sole proprietorships or limited liability partnerships (LLPs) and be entirely owned by Ethiopian nationals. Brokers must maintain their principal place of business where day-to-day operations are conducted. The Directive gives a five-year transitional period for existing brokers to reorganize themselves as LLPs.

Leadership Standards and Fit-and-Proper Requirements

The Directive imposes strict leadership and governance criteria to ensure that insurance brokerage businesses are managed by qualified professionals. Chief Executive Officers must hold a university degree and demonstrate at least three years of relevant insurance management experience or five years in a managerial role at the Ethiopian Insurance Corporation. For LLPs, partners are required to hold at least a first degree and possess a minimum of ten years of experience in insurance, including four years in managerial positions. Licensing is contingent on the CEO and partners meeting stringent integrity standards; all individuals must be of sound character, demonstrate diligence, and remain free of convictions related to dishonesty. NBE reserves the right to suspend a broker's license if a firm remains without a qualified CEO for more than four consecutive months.

Operational and Client-Centric Obligations

Insurance brokers are obligated to act primarily in the interests of their clients, providing advice, placement, renewal, and administration of coverage with professional skill, diligence, integrity, and good faith. Brokers must conduct comprehensive market analysis, obtaining quotations from at least three insurers for any risk, unless the client has expressly selected a specific insurer in writing. To preserve independence, the Directive prohibits brokers from holding equity in insurance companies, loss-adjusting firms, or actuarial companies if leadership or close relatives maintain personal stakes, ensuring that their fiduciary loyalty remains exclusively with clients.

Risk Management and Regulatory Oversight

All brokers are required to maintain professional indemnity insurance at all times, covering risks including negligence, breach of duty, defamation, and dishonest acts by employees. The minimum coverage is set at the greater of 1 million Birr or three times the firm's total commission from the previous year. NBE retains the authority to suspend or revoke licenses where firms fail to comply with regulatory standards, operate in bad faith, violate laws or directives, act contrary to client interests, or compromise the integrity of the sector. Administrative obligations, including annual license renewal and adherence to penalties for non-compliance, are also formalized, with a uniform fine of 10,000 Birr per infraction.

Transition and Implementation

The Directive provides a structured path for existing brokers to comply with the new framework. Firms operating as general business organizations are required to transition into LLPs within five years, thereby institutionalizing the market and reinforcing accountability. Interim compliance obligations, including CEO appointment and adherence to fit-and-proper standards, are essential to avoid suspension of operations and associated penalties.

Implications for Investors and Market Participants

Directive SIB/62/2026 raises the threshold for participation in the brokerage sector, emphasizing professional competence, ethical conduct, and client-centric practices. Investors and founders must demonstrate not only the capacity to establish a brokerage firm but also the ability to meet rigorous leadership, financial, and compliance standards. These measures are expected to increase operational costs, improve market professionalism, and enhance trust in the insurance intermediary ecosystem.

3. Licensing and Supervision of Microinsurance Agents: Directive No. SIMB 4/2026

Directive No. SMIB/4/2026 establishes a formal licensing and supervision framework for all microinsurance agents, ensuring that intermediary functions in this segment are strictly regulated. By requiring licensing for both individuals and corporate agents, the Directive aims to professionalize distribution channels, safeguard policyholders, and strengthen accountability in the microinsurance market. Microinsurance providers are prohibited from paying commissions or other forms of remuneration to unlicensed intermediaries, reinforcing that distribution activities must occur only within a regulated framework. This represents a strategic move to align microinsurance practices with the broader principles of market integrity, competence, and consumer protection in Ethiopia's insurance sector.

Eligibility Requirements

For corporate microinsurance agents, eligibility is limited to duly registered companies incorporated under the Commercial Code and other institutions authorized by the NBE. Corporate agents must appoint a Responsible Person to manage relations with the microinsurance provider and report to the NBE. This Responsible Person must have completed the prescribed microinsurance training and must not have been convicted in any jurisdiction for an offence involving dishonesty. In addition, corporate agents are required to maintain professional indemnity insurance equivalent to at least 10% of the annual commission earned in the preceding accounting period or Birr 40,000, whichever is higher, for each licensed microinsurance product category.

Individual microinsurance agents must be Ethiopian nationals or foreign nationals of Ethiopian origin, have completed at least Grade 12 or its equivalent, successfully completed the mandatory microinsurance training, and must not have been convicted of any offence involving dishonesty in any country. Individuals are further required to maintain professional indemnity cover of not less than Birr 10,000 for each licensed microinsurance product category and for each microinsurance provider they represent.

Licensing Procedure and Regulatory Oversight

Applications for microinsurance agent licensing, whether by individual or corporate applicants, must be submitted to the NBE in the prescribed manner and supported by core documentation, including proof of training, propriety test questionnaires, a valid agency agreement with a licensed microinsurance provider accompanied by a license request letter, evidence of professional indemnity cover, and payment of the applicable investigation and licensing fees. The Directive sets investigation fees at Birr 500 for individuals and Birr 1,000 for corporate applicants, with initial and renewal license fees of Birr 1,000 and Birr 2,000, respectively, and all licenses are valid for one year. Renewal applications must be submitted within one calendar month after licence expiry, failing which the license is automatically suspended and subject to cancellation if not renewed within one year, while the NBE retains broad authority to suspend or cancel licenses in cases of non-compliance, misconduct and misrepresentation resulting in termination of the agency relationship and cessation of future commissions except those lawfully accrued.

Agency Agreement Standards

The Directive further mandates that all intermediary services between a micro insurance provider and an agent must be governed by a formal, written Agency Agreement. This agreement is the bedrock of the agent's authority, clearly outlining allowable activities such as distribution of advertising and marketing material. The agreement must expressly define the licensed product categories, the scope of intermediary services authorized, and the agent's authority, if any, to collect premiums or settle claims on behalf of the provider, including applicable limits, timelines, and documentation requirements. It must further specify the agent's remuneration, allocate liability and penalties in the event of breach, and clearly regulate termination, including the rights and obligations of each party upon cessation of the agency relationship.

Implications for Market Participants

The Directive introduces a clear professionalization and formalization of microinsurance distribution, which will reshape market entry and operational dynamics. Investors and providers must now account for the costs and timelines associated with mandatory licensing, training, and indemnity coverage, which may influence resource allocation and partnership structures. For individual entrepreneurs, the requirements set a higher threshold for credibility and compliance, effectively narrowing the pool of eligible agents while enhancing the quality and reliability of the distribution network. For microinsurance providers, the obligation to engage only licensed intermediaries strengthens risk management, mitigates reputational exposure, and aligns operational practices with regulatory expectations. Over time, these measures are likely to foster greater consumer confidence, professional discipline, and transparency in microinsurance markets, creating a more stable foundation for sector growth while incentivizing investment in structured agent networks and institutional support infrastructure

4. External Auditor of an Insurance Company: Directive No. SIB/64/2026

Directive No. SIB/64/2026 introduces a formalised framework governing the appointment, independence, and oversight of external auditors in insurance companies. The Directive reinforces the role of external audit as a core component of financial integrity and risk-based supervision, with particular emphasis on independence, transparency, and alignment with International Financial Reporting Standards (IFRS). Within the broader insurance-sector reform package, the Directive addresses the reliability of financial reporting and strengthens the institutional mechanisms through which regulatory confidence is maintained.

Appointment and Independence Safeguards

The Directive introduces formal requirements for the appointment of external auditors, mandating that selection be conducted through a competitive bidding process at the shareholders' meeting. State-owned insurers remain subject to oversight by the Office of the Federal Auditor General.

To mitigate risks associated with prolonged auditor relationships, the Directive limits the tenure of an external auditor appointed through competitive bidding to a maximum of three years. Additional safeguards require that no member of the audit engagement team has been employed by the insurer within the preceding three years.

Independence is further reinforced through restrictions on financial and commercial relationships between the auditor and the audited entity. Auditors are prohibited from receiving insurance services, loans, or advances from the insurer, except where such transactions occur in the ordinary course of business on arm's length terms.

Prior to appointment or reappointment, insurers are required to obtain written independence confirmations and fit-and-proper declarations from all members of the audit engagement team. The Directive also imposes a continuing obligation to notify the NBE immediately where independence is compromised. Audit engagement contracts must include a mandatory clause allowing termination where the auditor no longer meets the prescribed criteria.

In addition, insurers are required to submit requests for regulatory approval of auditor appointments or reappointments within twenty working days, and any amendments to engagement terms must be submitted within ten working days.

Board Oversight and Governance Responsibilities

The Directive assigns explicit responsibilities to the Board of Directors in overseeing the external audit function. The Board is required to ensure that auditors have unrestricted access to all records, personnel, and information necessary to form an independent professional opinion.

Beyond access, the Board must verify that the scope of the audit is sufficiently comprehensive to cover all material lines of business and risk areas within the company. It is also responsible for monitoring the independence and effectiveness of the audit process on an ongoing basis.

The Directive further requires full board participation in key audit engagements, including pre-audit planning meetings and exit discussions with auditors. This reinforces board-level accountability for the quality and integrity of financial reporting.

Reporting, Disclosure, and Supervisory Interface

Insurance companies are required to submit an audited financial report and a comprehensive management letter to the National Bank within three months of the financial year-end. This letter must disclose any internal control weaknesses, regulatory breaches, or irregularities that could jeopardize policyholder interests. To promote market discipline, insurers must implement a formal Disclosure Policy and publish audited statements, including detailed data on solvency, risk profiles, and fair value methodologies, on their websites within two weeks of approval. The National Bank maintains oversight authority to review auditor working papers, mandate tripartite meetings, and report unsatisfactory professional conduct to the Accounting and Auditing Board of Ethiopia.

Impacts on Market Stakeholders

The Directive raises the standard for transparency and audit integrity within the insurance sector, with direct implications for market participants. For shareholders, the competitive bidding and rotation requirements for auditors increase accountability and reduce the risk of financial misstatement or regulatory breach, while emphasizing the board’s role in overseeing robust audit processes. Investors are likely to experience greater confidence in financial reporting, which may influence capital allocation, risk assessment, and valuation judgments. For insurers, compliance with the directive introduces operational rigor in selecting, monitoring, and interacting with external auditors, potentially increasing administrative costs but strengthening credibility with regulators and the market. Over time, these measures are expected to enhance market discipline, improve risk-based supervision, and provide a more reliable foundation for strategic decisions and long-term investment planning in the sector.

5. Ethiopia's Investment Incentives Regulation No. 586/2026: A Shift to Performance-Linked, Contract-Driven Incentives

With the enactment of the new Investment Incentives Regulation No. 586/2026 in January 2026 (and with its gazetting in March 2026), Ethiopia has formally replaced the previous regime under Regulation No. 517/2022, introducing and operationalising restructured incentive framework anchored in performance, accountability, and fiscal discipline.

The Regulation reflects a broader policy direction toward aligning tax and customs incentives with measurable economic outcomes, including capital formation, employment generation, export performance, and technology transfer. It responds to long-standing concerns regarding the fiscal cost and limited targeting of prior incentive schemes, and introduces a framework in which incentives are no longer treated as automatic entitlements but as conditional instruments tied to verifiable contributions to national development priorities.

Structural Shift: From Entitlement to Performance-Based Incentives

The Regulation introduces a fundamental shift in the architecture of investment incentives. Qualification under a priority sector no longer guarantees access to benefits. Instead, incentives are granted subject to demonstrable performance and continuous compliance.

This shift is operationalized through a contract-based model, where eligibility, continuation, and scope of incentives depend on measurable outputs rather than initial registration alone. The approach is intended to ensure that tax expenditures translate into tangible economic returns while maintaining fiscal sustainability.

Mandatory Performance Agreements: Contractualizing Incentives

At the centre of the new framework is the requirement for a Performance Agreement between the investor and the relevant Investment Institution.

This agreement serves as a legally binding instrument defining the investor's obligations, including capital investment commitments, employment targets, production capacity, export levels, and technology transfer benchmarks. Incentives are granted and maintained based on compliance with these agreed indicators.

Failure to meet contractual obligations may result in suspension or revocation of incentives, with recovery mechanisms to be determined through subsequent directives. This introduces a formal enforcement layer that was largely absent in the previous regime and strengthens the state's ability to monitor and discipline underperforming investments.

Objectives, Principles, and Incentive Design

The Regulation aligns incentives with strategic sectors and national development priorities, including manufacturing, agriculture, import substitution, environmental sustainability, mining and energy, technology-driven enterprises, and balanced regional development.

Incentives are governed by a set of binding principles. They must be legally grounded, transparent, time-bound, fiscally sustainable, and subject to performance evaluation. Their continuation depends on demonstrable economic contribution, and they are non-transferable unless expressly permitted. The framework also prohibits overlapping incentives except where explicitly authorized, reinforcing discipline in incentive allocation and use.

A uniform set of baseline conditions applies to all beneficiaries. Investments must create additional production capacity or generate measurable value addition. Investors are required to be registered taxpayers, satisfy all prescribed regulatory requirements, and maintain separate accounting records for each incentivized project or business line. This is reinforced through a ring-fencing requirement designed to ensure that incentives are applied exclusively to eligible expenditures and not diverted to unrelated activities.

The Regulation further restricts the transferability and duplication of incentives. Benefits may not be transferred to third parties except where expressly permitted and under controlled conditions, and investors are prohibited from claiming multiple incentives for the same activity unless specifically authorized under the Regulation or subsequent directives.

In addition, and excluding small and medium enterprises, eligibility for reduced income tax rates is subject to a minimum investment threshold of USD 10,000,000 (ten million United States Dollars) or its equivalent in Ethiopian Birr. This requirement introduces a clear capital qualification benchmark within the incentive framework, effectively differentiating between large-scale investments eligible for preferential tax treatment and smaller investments subject to the standard tax regime.

Taken together, these conditions reflect a deliberate shift toward a controlled and performance-oriented incentive system, where access, scope, and continuation of benefits are determined by compliance with clearly defined economic and regulatory criteria rather than sector classification alone.

Incentive Architecture: Incentive Categories and Eligible Beneficiaries

Tax Incentives

The Regulation differentiates incentives across investor categories and sectors, linking benefits to policy priorities.

a) Special Economic Zone (SEZ) developers and sub-developers: SEZ Developers and Sub-Developers benefit from a reduced 5% income tax rate for ten years from the issuance of a business license, alongside dividend tax exemption for five years and exemption from Minimum Alternative Tax for ten years.

b) Industrial Investors in Designated Sectors: Enterprises operating within SEZs in designated sectors including textiles, garments, leather and leather products, wood products, paper and paper products, chemical and chemical products, basic pharmaceuticals, plastics, non-ferrous metals, iron and steel for structural purposes, electronics, electric appliances, transport equipment, machinery, IT, and agro-processing, are generally subject to a 15% income tax rate, with fertilizer manufacturing receiving a preferential 5% rate for ten years.

c) Startups and Startup Ecosystem Builders: designated startups are granted a 5% income tax rate for ten years from commencement of business and a five-year dividend tax exemption. Designated startup ecosystem builders benefit from capital gains tax exemption on share disposals and dividend tax exemption for five years. Investors in startups may also qualify for minimum alternative tax relief for up to three years, limited to demonstrated losses.

d) Climate Change and Renewable Energy Investors: Environmental and renewable energy incentives are structured around measurable sustainability outcomes. Companies participating in carbon or emissions trading systems benefit from a 15% income tax rate for ten years. Investors achieving at least 50% renewable energy use or utilizing at least 50% locally sourced recycled inputs qualify for a 15% rate for five years, subject to certification and ongoing verification.

e) Capital Market Participation and Research Expenditures: The Regulation also introduces targeted incentives for scientific research and capital market participation. Research expenditures connected to business activities are deductible, subject to exclusions, while companies listing on a licensed securities exchange benefit from a reduced 25% income tax rate for three years following an initial public offering, conditional on continued participation.

f) Investment Capital Allowance: The framework revises the capital allowance threshold and conditions. Investors in priority sectors committing a minimum of USD 2 million may deduct qualifying capital expenditures on capital goods and building materials. The allowance applies to assets owned and used for generating taxable income and becomes effective once the assets are placed into service. For leased assets, deductibility is limited to actual lease payments.

Customs Duty and Tax Incentives

The Regulation maintains duty-free import privileges for capital goods and construction materials, with differentiated treatment for SEZ and non-SEZ investors.

SEZ developers, administrators, and enterprises may import qualifying goods free of customs duty and taxes without time or quantity limits. Investors outside SEZs benefit from duty exemptions for new investment projects, subject to prior approval of goods lists and compliance with documentation requirements.

The framework also introduces clearer rules on the transfer of incentivized goods, allowing transfer upon payment of applicable duties, re-export, or transfer to similarly entitled investors. In addition, local manufacturers supplying eligible investors may claim refunds of duties paid on imported inputs used for qualifying production.

Sector-Specific Incentives: Mining, Petroleum, and Energy

The Regulation retains and clarifies incentives for extractive and energy sectors. Exploration and production license holders in mining, petroleum, and geothermal activities may import machinery, equipment, and operational inputs free of customs duties in line with approved work programs.

Value addition activities, including processing and refining, qualify for time-bound incentives, while the Investment Board retains discretion to grant additional incentives for strategically significant projects. Alternative thermal energy projects, including biofuel initiatives, are eligible for incentives for up to five years from license issuance.

Institutional Administration and Oversight

The Regulation establishes a multi-institutional oversight framework involving Investment Institutions, the Tax Authority, the Customs Commission, and the Ministry of Finance.

Investment Institutions are responsible for processing applications, concluding Performance Agreements, and conducting monitoring inspections. The Tax Authority and Customs Commission track incentives granted, monitor forgone revenue, and conduct audits. The Ministry of Finance exercises overarching policy and directive authority, consolidates fiscal impact data, conducts cost-benefit analysis, and reports to the legislature.

This layered oversight structure reflects an effort to integrate incentive administration into broader fiscal and regulatory systems.

Enforcement and Compliance

The Regulation introduces clearer enforcement mechanisms. Investors whose licenses are revoked are required to return improperly obtained incentives, with detailed procedures to be specified by directive.

Public officials who fail to meet reporting obligations may face financial penalties, while institutions that do not submit required reports risk having pending incentive applications automatically rejected. These provisions extend accountability beyond investors to implementing institutions.

Implications for Investors and Strategic Positioning

Regulation changes the practical logic of investment incentives in Ethiopia. Access to fiscal benefits is now tied to execution rather than qualification, requiring investors to demonstrate capacity to deliver on capital, operational, and performance commitments over time.

For investors, this introduces a more structured but also more demanding environment. Project planning must now incorporate measurable targets, compliance systems, and ongoing engagement with regulatory authorities. The requirement to enter into Performance Agreements elevates the importance of accurate projections, realistic timelines, and internal monitoring mechanisms.

At the same time, the framework improves predictability and credibility. By clarifying eligibility, standardizing conditions, and strengthening oversight, the Regulation reduces discretionary allocation of incentives and aligns benefits more closely with policy objectives. Investors capable of meeting performance thresholds are likely to benefit from a more stable and transparent incentive regime.

In practical terms, the Regulation favors well-capitalized, execution-oriented investors who can operate within a monitored and contract-driven environment. It also signals a policy direction in which incentives are used selectively to support strategic sectors while maintaining fiscal discipline, suggesting a more controlled but potentially more sustainable investment landscape going forward.

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