



LEGAL UPDATE

May 2024

Legal Update on the Special Economic Zone Proclamation No. 1322/2024

This legal update is distributed electronically and free of charge by DABLO Law Firm LLP.

DABLO LAW FIRM LLP has extensive expertise in dispute, corporate and commercial law, trade and investment, and civil societies law. Its reach extends across a diverse range of industries, including established sectors like manufacturing, real estate, construction, farming and agro-processing, healthcare and pharmaceuticals, alongside flourishing areas like fintech and information technology. This multi-sectoral strength allows DABLO to cater to a wide array of clients, from established multinational corporations to nimble tech start-ups.

Office Address: Addis Ababa, Arat Kilo, Nib Bank Building, 2nd Floor, Office No. 201

Email: info@dablolawfirm.com

Website: www.dablolawfirm.com

LinkedIn: www.linkedin.com/company/ethiolawyers/

Legal Update on the Special Economic Zone Proclamation No. 1322/2024

Throughout the years, the development and implementation of aspects of industrial parks have been one of the identifying traits of the Ethiopian investment schemes to boost trade and attract foreign investment. Key policy considerations were taken throughout the development and implementation of industrial parks, some relating to:

- creation of jobs,
- promotion of exports,
- addressing the shortage of foreign reserves and trade deficit, and
- development of specific industries with an underlying intent of technology transfer.

Disclaimer: The views and opinions expressed do not reflect the official policy or position of DABLO. The writing is not intended to be, and should not be used as, a substitute for taking legal advice in any specific situation.

Recent activities in the Ethiopian legislative arena include the reconsideration of industrial parks and considerations of expanding them to Special Economic Zones ("SEZs") with the issuance of the Special Economic Zone Proclamation No. 1322/2024 which shows some reconsiderations from previous legislative practice.

What should we consider in relation to this legislation?

Relatable points under this legislation are the intent to develop significant marketing and logistics infrastructure that will be allowed to secure a license to trade. Import of goods allowed to foreign investors where they are the manufacturers of that very product and commit to import up to USD 10 million worth of products in one fiscal year.

Is the special economic zone only for production?

The definition entails service parks including hotels, tourism and hospitality, information and communication, logistics, finance, and corporate headquarters.

We should note that the creation of SZE is not limited to industries but also inclusive of free trade zones, service parks, logistic parks, agricultural zones, and, science and technology parks.

Manner of Designation of Special Economic Zone

The process of establishing an SEZ is open to a variety of applicants. Formal applications be made by **private developers, regional/local/federal government, or public-private development partnership (PPP)**.

There is a minimum capital requirement of **USD 75 million** for zone development. This amount can be paid in phases, but applicants should carefully consider how they will access these funds, whether through debt financing or equity investment. Financial plans outlining the funding strategy must be approved by the Ethiopian Investment Board (the Board).

Another key aspect is the location identification process (especially when the private developer comes in to develop out of its own initiation) and bureaucratic imperatives. Industrial Parks Development Corporation (IPDC) will have had land transferred to it according to a Council of Ministers regulation for further development under previous legislations. Otherwise, for lands outside of the IPDC system, the regional or city administration allocates the land upon the approval by the Board. The Board ultimately designates the specific geographical area that will be considered the SEZ.

The SEZ proclamation outlines four main licenses:

1. **Special Economic Zone Developer:** This license authorizes entities to take a comprehensive role in the development and management of an SEZ. Developers can design, construct, finance, operate, and even own the entire SEZ. Both domestic and foreign investors can apply for this license, but they must meet specific requirements and secure an investment permit from the Ethiopian Investment Commission (EIC).
2. **Special Economic Zone Sub-Developer:** This license caters to entities that want to develop and manage a specific portion within a larger SEZ. Similar to developers, sub-developers require an investment permit from the EIC.
3. **Special Economic Zone Operator:** This license is for entities that specialize in the day-to-day operations of an SEZ. Operators are responsible for managing, maintaining, repairing, servicing, and promoting the entire SEZ. Domestic and foreign investors can apply for this license, again needing an investment permit from the EIC.

4. **Special Economic Zone Enterprise:** This license is for businesses that want to establish themselves within an SEZ. By obtaining this license, entities can lease or rent developed land or buildings for conducting profit-driven economic activities. As with the other licenses, an investment permit from the EIC is a prerequisite.

The proclamation opens the door for financial institutions to offer services within SEZs. The National Bank of Ethiopia (NBE) will be responsible for issuing directives outlining the selection criteria, operational standards, and licensing requirements for these institutions. Furthermore, the NBE will implement reforms to enhance the attractiveness of SEZs for financial service providers. According to the Proclamation, these reforms may include facilitating the remittance of investment earnings and export proceeds, allowing the opening of foreign currency accounts, and defining the acceptable transaction currencies within SEZs.

Investment Guarantees and Protections

Foreign investors can participate in SEZs without ownership restrictions, either individually or jointly with domestic investors. Investments within SEZs are protected from expropriation by the government, except for public purposes, with due process and fair compensation in convertible currency.

Key takeaway

One of the biggest roles of the SZE being the attraction of FDI, one should not forget to consider wholesale and retail activities being open for foreign investors which goes beyond activities within the SZE. While the track record relating to export-oriented activities of such zones was not fully implemented in the previous scheme where four of twenty-two industrial parks delivered 80% of exports, the diversification of services in the zones (which extends beyond manufacturing) will be intriguing.

Key policy objectives of such legislative exercises give room for potential experimentation within the zones so that deeper economic reforms are realized. Such actions are intended for the improvement of efficiency and conduciveness of the investment and business environment while strengthening its competitiveness in regional and international global value chains.