



LEGAL UPDATES

March 19, 2026

Ethiopia Introduces a New, Performance-Based Investment Incentive Framework

Introduction

In February 2026, Ethiopia enacted Council of Ministers Regulation No. 586/2026, replacing the earlier Regulation No. 517/2022.

The new framework marks a clear shift toward a performance-based incentive regime designed to reward investments that deliver measurable economic impact; particularly in capital-intensive and strategic sectors.

This represents a shift from a primarily eligibility-based system to one where incentives are tied to ongoing performance.

Executive Summary

The enactment of Council of Ministers Regulation No. 586/2026 marks a significant recalibration of Ethiopia's investment incentive regime, replacing the more eligibility-driven framework under Regulation No. 517/2022 with a structured, performance-oriented approach. The new regulation introduces a system in which the availability and continuity of incentives are linked to the achievement of clearly defined economic outcomes, formalized through binding performance agreements. It further broadens and refines the scope of fiscal and customs incentives, with a pronounced focus on capital-intensive, export-oriented, and environmentally sustainable investments, while enhancing administrative oversight, accountability, and transparency. Collectively, these changes signal a deliberate policy shift toward aligning investment incentives with measurable economic contribution and long-term national development objectives.

What Has Changed and Why It Matters

Under the previous regime (Regulation No. 517/2022), incentives were largely sector-driven and rule-based. The new regulation introduces three major shifts:

- **Performance over eligibility:** Incentives are now tied to measurable outputs such as capital deployment, job creation, and production levels.

- Targeted prioritization: Greater emphasis is placed on high-impact, capital-intensive investments.
- Stronger oversight: Incentives are governed through binding agreements with ongoing monitoring.

What Incentives are Available?

The Regulation provides a broad mix of tax and customs incentives, including:

- Deductions on qualifying capital expenditures;
- Reduced corporate income tax rates;
- Exemptions from minimum alternative tax;
- Dividend and capital gains tax exemption;
- Exemption from tax on capital gains arising from asset disposals; and
- Customs duty exemptions or reductions on imports.

These incentives are designed to reduce upfront costs, improve cash flow, and enhance long-term returns.

Key Conditions Investors Must Meet

To access these incentives, investors must meet several core requirements:

- The investment must create new capacity or add value to the economy;
- The business must be properly registered for tax purposes;
- Separate accounting must be maintained for each incentivized project;
- Incentives must be used strictly for their intended purpose (ring-fencing);
- Benefits are non-transferable and time-bound; and
- Overlapping incentives are generally not permitted.

In addition, large investors seeking reduced tax rates must meet a minimum capital threshold of USD 10 million (excluding SMEs).

Income Tax Incentives: What Investors Can Expect

The Regulation introduces differentiated tax treatments depending on the type of investment:

- Special Economic Zone (SEZ) Developers: Benefit from a 5% income tax rate for 10 years, along with dividend and minimum tax exemptions.
- SEZ Enterprises: Typically subject to a 15% tax rate, with a certain sectors (e.g., fertilizer production) qualifying for deeper reductions.
- Startups and Startup Investors: Startups enjoy a 5% tax rate, while investors benefit from exemptions on capital gains, dividends, and certain taxes.

- Sustainability-Focused Investments: Preferential rates apply to activities such as carbon trading, renewable energy use, and recycling.
- Capital-Intensive Projects: Eligible for one-time capital expenditure deductions (minimum USD 2 million investments).
- Public Listings (IPO): Companies listing on the securities market benefit from a temporary reduced tax rate.

Customs Incentives: Reducing Entry Costs

The Regulation significantly improves import-related incentives, particularly for new investments:

- Full customs exemptions on capital goods and construction materials for SEZ entities;
- Similar exemption for non-SEZ investors establishing new projects;
- Refund mechanisms for locally sources inputs used in production; and
- Duty-free import privileges for specific vehicles and specialized equipment.

Investors in mining, petroleum, and geothermal sectors receive additional, tailored exemptions covering machinery, consumables, and specialized tools.

A New Feature: Performance Agreements

One of the most important innovations under Regulation No. 586/2026 is the introduction of Performance Agreements.

These are legally binding contracts between the investor and the government that:

- Define clear performance targets (e.g., investment size, jobs, output);
- Require regular reporting and compliance; and
- Allow authorities to suspend incentives if obligations are not met.

This is a major departure from the 2022 regime and is central to how incentives are now administered.

Practical Implications for Investors

Regulation No. 586/2026 introduces a more structured incentive framework, with greater emphasis on how investments are implemented and sustained over time. While the range of available incentives has expanded, access to and retention of those benefits will depend on meeting defined performance expectations and ongoing compliance requirements. In practical terms, investors should expect closer engagement with regulators, more detailed reporting obligations, and a need to align project execution with agreed benchmarks. For well-capitalized and carefully planned projects, the new framework presents meaningful opportunities to reduce tax exposure and manage initial investment costs more efficiently.

About Million Alemu and Partners LLP

Million Alemu and Partners LLP is a full-service law firm based in Addis Ababa, Ethiopia, providing comprehensive legal advisory and representation services to local and international clients. The firm is recognized for its commitment to excellence, practical legal solutions, and a client-centered approach across diverse practice areas.

With a team of experienced legal professionals, the firm advises on corporate and commercial law, dispute resolution, regulatory compliance, and other key areas critical to doing business in Ethiopia.

Contact Information

Office Address:

Kazanchis, KazAddis Building, 8th Floor, near Urael Church, in front of Mulugeta Commercial Center

Telephone:

- [+251 911 60 0334](tel:+251911600334)
- [+251 968 66 6677](tel:+251968666677)

Email:

inquiries@millionlegalservices.com

Website:

www.millionlegalservices.com

DISCLAIMER

This legal update is provided for general informational purposes only and does not constitute legal advice. It should not be relied upon as a substitute for specific legal advice tailored to particular circumstances. Million Alemu and Partners Legal Services LLP disclaims any liability for any loss or damage arising from reliance on this publication.