

Investment Incentives for Foreign Investors: Remittance of Funds

Description

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The latest Investment Proclamation of Ethiopia No 1180/2020 (the Investment Proclamation) provides for any foreign investor in Ethiopia to remit funds out of Ethiopia in a convertible foreign currency at the prevailing exchange rate on the date of transfer. This is a major incentive that is put in the proclamation to attract direct foreign investment. Who is eligible for such an incentive and what type of earnings are eligible for remittance shall be discussed below.

Who is Eligible?

The right to remit is available only to foreign investors and expatriates employed in an investment. Foreign investors are defined in the Investment Proclamation to include foreign national, enterprise in which a foreign national has an ownership stake, an enterprise incorporated outside of Ethiopia by any investor, or an enterprise established in Ethiopia by a foreign national, an enterprise in which a foreign national has an ownership stake and an Ethiopian permanently residing abroad and preferring treatment as a foreign investor. The right to remit earnings is therefore extended to such foreign investors.

The right to remit doesn't extend to domestic investors. Even in situations where a domestic investor invests jointly with a foreign investor, the domestic investor does not have the right to remit his earnings out of Ethiopia. However, for domestic investors, the Investment Incentive and Investment Areas Reserved for Domestic Investors Council of Ministers Regulation No 270/2012(as amended) relating to investment incentives will apply to provide them(the domestic investors) with different incentives.

What Earnings Are Remittable?

Earnings that are eligible for remittance are listed in the Investment Proclamation. These are profits and dividends accruing from investment; proceeds from transfer of shares or conferral of partial or total ownership of an enterprise to another investor; proceeds from sale, capital reduction or liquidation of an enterprise or compensation paid for expropriation. Concerning expatriates, they can remit, in accordance with applicable law, their salary earned from their employment in convertible foreign currency at the prevailing exchange rate on the date of transfer.

The directive of the National Bank of Ethiopia concerning allocation of foreign currency is Transparency in Foreign Currency Allocation and Foreign Currency Exchange Management Directive No FXD/77/2021(Directive). The Directive states the fact that foreign exchange is a scarce resource that should be managed carefully to ensure its efficient and proper allocation. The Directive provides details of priority sectors in allocation of foreign currency. Remittance of funds by foreign investors is put as the third priority area in the Directive.

Conclusion

Foreign investors and expatriates are guaranteed the right to remit earnings in convertible foreign currency at the prevailing exchange rate on the date of transfer. Extending such an incentive for foreign investors and expatriates attracts direct foreign investment. Foreign exchange, as a scarce resource, should be managed carefully. However, guaranteed incentives by law, such as remittance of funds and earnings of foreign investors and expatriates, should be managed in a manner not to defeat the Investment Proclamation's promise and objectives.

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