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Legal Update

Ethiopia Eases Trade Finance Bottlenecks with Major FX Regulatory Relief on Letter of Credit and Cash Against Document Regulations!

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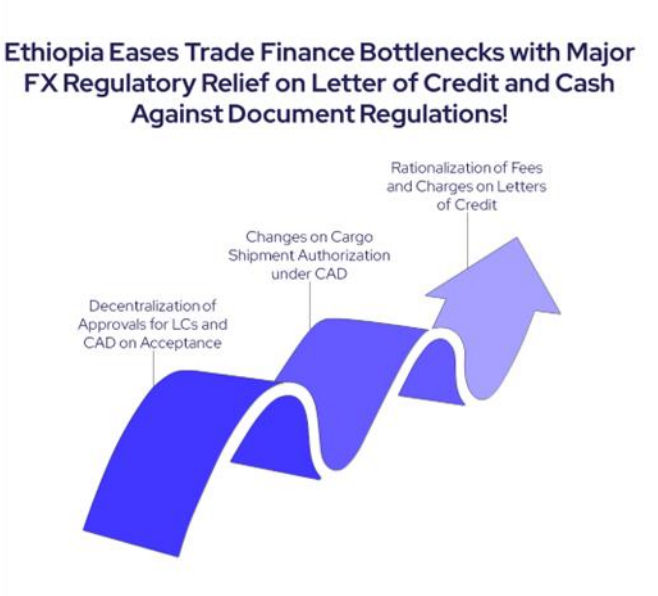
Ethiopia Eases Trade Finance Bottlenecks with Major FX Regulatory Relief on Letter of Credit and Cash Against Document Regulations!

The National Bank of Ethiopia (**NBE**) has introduced significant regulatory changes to its foreign exchange administration framework, aiming to eliminate bureaucratic bottlenecks, lower transaction costs, and align the country's trade finance environment with international best practices. This latest measure modifies the requirements established under the Foreign Exchange Directive No. FXD/01/2024 (the "**Green Directive**"), which was originally enacted in July 2024 as part of the country's transition to a market-based foreign exchange regime.

The recent changes made by NBE targets approval delays and rationalizes the fee mechanisms related to Letters of Credit (**LCs**) and Cash Against Documents (**CAD**) on acceptance.



1. Decentralization of Approvals for LCs and CAD on Acceptance

Under the provisions of the Green Directive, commercial banks were restricted from processing certain trade transactions on credit/deferred terms without seeking explicit authorization from NBE. Specifically, the Green Directive provided that utilizing a Letter of credit on acceptance or Cash against document on acceptance required prior approval from the NBE.

To streamline business operations, the new changes introduced by NBE completely dismantle these entry barriers for eligible entities (institutions holding foreign currency accounts or retention accounts). Commercial banks are now fully authorized to approve both Letters of Credit on acceptance and Cash Against Documents on acceptance without seeking prior approval from the NBE. This administrative waiver applies specifically to institutions holding foreign currency accounts, including retention account holders.

2. Changes on Cargo Shipment Authorization under CAD

Beyond decentralizing bank approvals, the new changes give substantial autonomy directly to importers. Previously, under the Green Directive, importers utilizing Cash Against Documents (CAD) were strictly required to obtain a prior registration or bank approval before ordering goods for shipment.

The recent change removes this regulatory constraint for qualifying market players. Institutions holding foreign currency accounts and retention account holders are now legally permitted to order or initiate the shipment of goods under CAD arrangements without obtaining prior approval from their banks. The processing of eventual payments remains subject to standard compliance, requiring the presentation and subsequent verification of the necessary trade documents.

3. Rationalization of Fees and Charges on Letters of Credit

Previously, the fee structures imposed by Ethiopian commercial banks on foreign exchange transactions, especially LCs, were inconsistent with global norms and international best practices, and it had been inflating transaction expenses for domestic businesses. To remedy this pricing distortion, the NBE has issued mandatory fee guidelines to bring local trade finance costs closer to international standards.

Under the current changes, banks must comply with the following pricing rules:

- Fees and charges for LCs transactions executed for foreign currency and retention account holders must be evaluated on an annualized basis.
- These charges must be applied on a pro-rata basis, directly tied to the exact tenor of the respective LCs.
- The annualized fee rate applied by any commercial bank must strictly remain below the maximum limits previously stipulated by the NBE.

By shifting away from arbitrary upfront fees and moving toward tenor-synchronized, pro-rata pricing, the NBE aims to drive down huge transaction costs for both exporters and importers. As stipulated on the public notice issued by NBE, this procedural relaxation represents a big step forward in improving the competitiveness of Ethiopia's trade landscape and securing the long-term stability of its ongoing foreign exchange reforms.

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Founded by Mehrteab Leul Kokeb,
Mehrteab and Getu Advocates LLP ("MLA") is a leading full-service law office in Ethiopia, and has over 20 years experience advising and representing clients on wide range of legal issues concerning business and investment in the country.

MLA's clients range from start-up companies, to government entities and multinational corporations, such as, Coca Cola and General Electric (GE).

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