



# Scoping Study on the Issuance of Municipal Bonds in Ethiopia

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# Executive Summary

## Background

**Municipal bonds are debt instruments issued by subnational governments to raise capital for public investments and infrastructure.** They allow subnational governments to borrow funds from investors, typically for long-term use, with repayment made through future revenue streams such as taxes, user fees, or government transfers. Globally, municipal bonds have enabled subnational governments to finance roads, water systems, housing, public transport, and energy infrastructure without relying solely on grants or national government funding. In this study, municipal bonds refer to debt instruments issued by any level of government below the sovereign, including regional governments, city administrations, and local government bodies.

**Ethiopia is undertaking significant capital market reforms, creating an opportunity to assess new financing instruments including municipal bonds.** In 2013/2014 EC (2021 GC), the Capital Market Proclamation 1248/2021 introduced a ten-year plan to develop Ethiopia's capital markets and established the Ethiopian Capital Market Authority (ECMA). The Ethiopian Securities Exchange (ESX), the country's first securities exchange, launched in 2017 EC (January 2025 GC). As Ethiopia continues to develop its capital markets, it is worth exploring whether municipal bonds could serve as a viable instrument to support subnational financing objectives.

**This study assesses the feasibility of issuing municipal bonds in Ethiopia.** In particular, the analysis aims to identify the legal, institutional, and market conditions that would need to be in place for subnational bond issuance and offer recommendations for establishing the necessary foundations over time.

## Methodology

**The feasibility study is structured along five stages of analysis.** It begins with a legal and regulatory review to identify gaps and preconditions for bond issuance, benchmarked against India, Nigeria, and Kenya. The second stage examines market enablers, such as bond market infrastructure. Third, the study considers the potential investor base for municipal bonds, focusing on the appetite for various investor groups to purchase municipal bonds. The fourth stage evaluates the appetite and capacity of regional governments to issue municipal bonds, including their risk assessment capacity and capital needs. Finally, the study synthesises findings to assess feasibility and provide recommendations.

**A mixed-methods approach is used, combining desktop research, stakeholder interviews, a regional survey and data analysis.** Desktop research was used to review appropriate Ethiopian laws, regulations, capital market developments - as well as to benchmark Ethiopia's legal and regulatory environment against the three comparator countries. Interviews were conducted with government, regulatory, and infrastructure stakeholders to understand perceived constraints. Six regional states were selected for deeper assessment, where finance and planning officials participated in structured interviews and surveys to evaluate readiness and borrowing capacity. Quantitative data from these regions were analysed to assess fiscal performance, debt levels, and capital needs.

## The Legal and Regulatory Framework

**A review of federal and regional legislation indicates that regional states and city administrations have the authority to issue municipal bonds.** In particular, the FDRE Constitution - through Article 51(7) - provides borrowing powers to regional states, subject to conditions set by the Federal Government. This is further reinforced by regional financial administration proclamations in several regions, which explicitly state that issuing securities is a permissible form of borrowing. City administrations are similarly empowered through their governing charters: the Addis Ababa and Dire Dawa City Administration Charters explicitly allow the issuance of bonds, subject to federal government authorisation. This approach aligns with how subnational borrowing powers are recognised in benchmarking countries such as India and Nigeria and is therefore considered sufficient in terms of establishing legal authority to issue.

**Legislation does not permit the lowest tiers of government - such as woredas and kebeles - to borrow or issue bonds.** Within regional states, no provisions in the constitutions or financial laws grant these units independent borrowing authority. Similarly, the Addis Ababa and Dire Dawa city charters explicitly prohibit sub-cities and kebeles from borrowing or issuing securities.

**Eligibility criteria and approval processes for municipal bond issuance are not defined in current legislation.** The benchmarking countries have established eligibility criteria for subnational bond issuance - such as fiscal performance benchmarks and minimum credit ratings - to ensure that only appropriate subnational entities can access capital markets. Current national and subnational legislation in Ethiopia provides no equivalent criteria or framework for determining which subnational governments may issue bonds, nor does it set out an approval process for issuances.

**Current Ethiopian legislation does not explicitly define the permissible uses of funds raised from municipal bonds, although there is precedent for bonds being issued for defined purposes at the federal level.** Many countries - including the benchmarking countries - impose legal restrictions to ensure that bond proceeds are used exclusively for capital investment or revenue-generating projects rather than recurrent expenditure. Current Ethiopian legislation does not explicitly state the permissible uses of funds raised from municipal bonds, although there is a precedent for bonds being issued for specific purposes at the federal level.

**There is no bespoke oversight framework for a municipal bond market in Ethiopia based on current legislation.** While various government entities - such as the Ministry of Finance or Ethiopian Capital Markets Authority - play a role in broader capital market oversight, there is no clearly defined institutional responsibility for regulating or supervising municipal bond issuance. Regarding the ECMA's role specifically, while the Capital Market Proclamation 1248/2021 grants the Authority a mandate to regulate public securities markets, including debt instruments issued by or on behalf of the government, the legislation defines "government" as the Federal Government. As such, it is unclear whether ECMA's oversight extends to securities issued by subnational governments, such as bonds issued by regional states.

**Investor protection mechanisms related to municipal bond issuance remain underdeveloped.** While some general provisions exist in broader capital market legislation, current laws do not set out specific requirements for municipal bonds in areas such as disclosures, credit ratings, guarantees, or dispute resolution processes. The Capital Market Proclamation does include a

basic dispute resolution clause, and the ECMA is currently in the process of developing a more detailed directive that may address some of these gaps. In contrast, benchmarking countries have adopted a range of investor protection measures - such as mandatory credit ratings, prospectus requirements, rules on collateralisation or escrow accounts, and defined dispute resolution mechanisms - to bolster investor confidence. Strengthening these protections will be important as Ethiopia builds out its municipal bond market.

**Municipal bonds in Ethiopia would be subject to taxation unless explicitly exempted in future legislation.** Unlike federal government bonds - which are exempt from stamp duty, capital gains tax, and income tax on interest payments - no equivalent exemptions currently apply to municipal bonds. As a result, municipal bonds would likely be subject to all standard forms of taxation, including stamp duty, a 30% capital gains tax upon disposal, and income tax on interest earned, unless specific exemptions are to be granted in law or regulation in the future. However, engagements between the ECMA and Ministry of Finance that are currently ongoing to determine the appropriate tax treatment of municipal bonds amongst other things.

## Market Enablers and Infrastructure

**Ethiopia is still in the process of developing a well-defined regulatory framework for issuers and underwriters, as well as a mature ecosystem of professional intermediaries to support primary market issuance.** An important component of a well-functioning municipal bonds market is a clear framework which defines the roles, responsibilities, and processes for issuers and underwriters during the bond issuance process, ensuring the issuance is both efficient and compliant with regulations. While recent directives provide a general framework for issuing securities, they are primarily geared toward corporate issuers. Separately, Ethiopia's ecosystem of professional intermediaries - such as transaction advisers, bond legal counsel, and reporting accountants - is still in an early stage of development. These intermediaries play critical roles in supporting subnational entities to navigate timing, pricing, structuring, and disclosure requirements in a bond issuance.

**There are currently no domestic credit rating agencies operating in Ethiopia, unlike in the benchmarking countries where such agencies play an important role in municipal bond issuance.** Credit ratings can be important in helping investors assess the creditworthiness of subnational issuers and in establishing appropriate pricing for bond instruments. In the absence of domestic rating agencies, any municipal bond issuance in Ethiopia would likely require assessment by international agencies that are licensed or authorised by the Ethiopian Capital Market Authority as is required by law.

**Ethiopia's capital market infrastructure appears capable of supporting secondary market activity for municipal bonds.** The Ethiopian Securities Exchange operates a multi-asset trading system capable of accommodating fixed-income securities, including municipal bonds if introduced. Additionally, the integration of the Central Securities Depository (CSD) with the Exchange is expected to support post-issuance liquidity by facilitating settlement and transfer of ownership. These features suggest that the technical infrastructure needed to enable a functioning secondary market for municipal bonds is already in place.

**There is currently no actively traded secondary market for federal government bonds and a benchmark yield curve with issuances across both short and long-term maturities which may**

**undermine the development of a future municipal bond market.** An actively traded secondary market is important for improving investor confidence and enabling price discovery, which in turn helps lower borrowing costs for new issuers. Similarly, a benchmark yield curve for government bonds provides a reference for risk-free pricing and allows investors to assess credit risk and appropriate premiums for new bond issues. However, currently there is no secondary market for federal government bonds in Ethiopia, and federal government bonds have only been issued with relatively short maturities of up to five years.

**Ethiopia appears to have the core infrastructure in place to support post-trade processes for municipal bonds, including clearing, settlement, and record keeping.** The recent establishment of a CSD at the National Bank of Ethiopia, and its integration with the Ethiopian Securities Exchange and the Real-Time Gross Settlement (RTGS) system, enables delivery-versus-payment settlement in central bank money. This aligns with international standards and boosts investor confidence by mitigating settlement and counterparty risk. In addition, the broader payment system and dematerialisation of securities support the safe and efficient transfer of ownership, suggesting that Ethiopia's post-trade environment is largely fit for purpose.

## Investor Base and Market Readiness

**Investor readiness for a municipal bond market in Ethiopia is still emerging, with institutional investors showing cautious interest alongside some concerns.** Investors such as pension funds, commercial banks, and insurance companies have expressed a general appetite for fixed income instruments but highlight several constraints specific to municipal bonds. These include concerns around the capacity of subnational governments to issue and manage debt, as well as limitations in their own ability to assess the risk and return profile of municipal bonds. In some cases, investment mandates and institutional preferences - such as a strong orientation toward short-term, risk-free securities - further limit demand.

**Despite these constraints, recent reforms and ongoing market development efforts present an opportunity to strengthen investor confidence over time.** Investors noted that enhanced transparency, stronger issuer capacity, and greater clarity on legal and regulatory frameworks would be essential to building trust in the market. In particular, the insurance sector - though currently underdeveloped - could play a more active role if ongoing reforms yield greater institutional depth. Similarly, the emergence of collective investment schemes, enabled by new regulations, could support future demand by mobilising retail investors. Overall, the investor base remains shallow but shows signs of potential that could be unlocked through continued regulatory progress and targeted market-building initiatives.

## Regional Appetite and Capacity

**Institutional awareness of municipal bonds remains limited, but interest is growing among regional authorities.** Engagements with regional Bureaus of Finance and Economic Development (BoFEDs) revealed low levels of familiarity with the municipal bond issuance process, with Addis Ababa being the only region demonstrating a moderate level of preparedness. Despite this, multiple regions indicated rising interest in alternative financing tools to address infrastructure investment gaps and expressed demand for technical assistance and capacity building.

**Revenue and expenditure trends vary widely across regions, affecting their fiscal space and readiness to take on debt.** Addis Ababa and Oromia emerged as the strongest candidates for bond issuance based on their large and growing own revenues, significant capital investment budgets, and - at least in the case of Addis Ababa - a balanced budget. Other regions face more constrained fiscal positions, with challenges such as low revenues, high dependence on federal transfers, and limited capital investment.

**Targeted, phased engagement with leading regions may offer an intelligent path forward.** A gradual approach starting with plain vanilla bonds - offering fixed returns and predictable repayment terms - may be appropriate for regions like Addis Ababa and Oromia. For other regions, revenue bonds tied to the cash flows of specific projects could provide a more feasible entry point, provided those projects are carefully selected and revenue-generating.

## Recommendations

**In terms of the legal and regulatory framework, further legislation is needed to clarify the conditions under which municipal bonds may be issued.** While regional states and city administrations are already permitted to issue municipal bonds under existing legislation, the legal framework does not currently set out clear conditions governing who may issue, how much may be borrowed, or what the proceeds may be used for. A comprehensive regulatory framework is needed to define eligibility criteria, establish borrowing limits, and restrict the use of bond proceeds to capital investment projects.

**Further to this, a formal oversight and approval framework for municipal bonds should be established and defined in legislation.** There is currently no structured process to assess whether a proposed municipal bond issuance meets legal and financial requirements, and institutional responsibilities for approving and supervising such issuances remain undefined. To address this, a clear institutional framework should be developed and embedded in legislation - defining the roles of key entities in reviewing, approving, and supervising municipal bond issuances. Consideration could also be given to establishing a dedicated debt management office to provide technical support and ensure alignment with national fiscal and debt sustainability objectives.

**Outstanding elements of the legal framework that are currently under development should be finalised.** The ECMA is currently developing a dispute resolution directive that may help address gaps in investor protection in a potential municipal bonds market. Similarly, ongoing engagements between the ECMA and Ministry of Finance are underway to clarify the tax treatment of municipal bonds amongst other things. These activities should be finalised and the outcomes clearly communicated to market participants to support the development of a stable and predictable municipal bond market.

**To enable effective pricing of municipal bonds, the federal government should extend the maturity profile of its bond issuances and support the development of a secondary market for federal government bonds.** The current absence of medium- and long-term federal government bonds makes it difficult to construct a yield curve that can serve as a pricing benchmark for municipal bonds. Additionally, the lack of a secondary market for federal government bonds limits price discovery and liquidity, further complicating bond valuation.

Addressing these two gaps will help create a more predictable and investor-friendly environment for municipal debt.

**Investor education and engagement will be an important step in building a well-functioning municipal bond market.** Interviews conducted during the study revealed that many potential investors, including pension funds and insurance companies, have limited understanding of municipal bonds and how to evaluate the associated risks. Capacity-building initiatives - such as facilitated workshops - can help strengthen foundational knowledge, improve credit risk assessment capabilities, and build investor confidence. These engagements should also create opportunities for dialogue between investors and regions to clarify risk appetites, investment preferences, and potential deal structures.

**Similarly, building the capacity of regional finance authorities is recommended to ensure that they are well-equipped to issue municipal bonds successfully.** The study found that many Bureaus of Finance and Economic Development (BoFEDS) have limited familiarity with municipal bonds, and no prior experience with issuing securities. Providing these regional entities with training on capital markets and municipal bonds in particular - complemented by practical guidance on planning, budgeting, accounting, monitoring, reporting and auditing - will be important to equip these entities for their potential role as issuers.

**Moreover, technical assistance may be needed to help regional governments identify and prepare eligible projects for bond financing.** Due to the limited understanding of municipal bonds, BoFEDs, in their capacity as issuers, have not identified eligible projects according to the type of bonds of interest. As such, external support should focus on defining broad categories of eligibility, guiding the evaluation and selection process (including feasibility studies and alignment with development plans), and clarifying potential guarantees or collateral. The reporting phase is also critical to ensure transparency on the use of proceeds and assess project impact. External experts could be recruited to assist priority regions - such as Addis Ababa and Oromia - to develop credible issuance lists based on both existing and newly designed investment projects.

# 1 | Introduction and Context

## The Ethiopian Context

**Ethiopia displays an overall positive macroeconomic environment marked by rapid growth alongside improving fiscal conditions, albeit tainted by double digit inflation.** Ethiopia's real Gross Domestic Product (GDP) exhibited a strong growth rate of 8.1% in 2016 EC (2023/24) - driven by infrastructure development, agricultural expansion, and manufacturing. This follows a period of consistently high growth, with the real GDP growth rate averaging around 7% over the past three years.<sup>1</sup> Inflation, meanwhile, has remained high - despite reducing slightly to 26.6% in 2016 EC (2023/2024 GC).<sup>2,3</sup>

**However, monetary and trade indicators have shown less favourable trends in 2016 EC (2023/2024 GC).** The real effective exchange rate depreciated by 12.6%, following Ethiopia's transition to a managed float in July 2024.<sup>4</sup> On the fiscal front, the fiscal deficit improved from 3.3% in 2015 EC (2022/2023 GC) to 2% in 2016 EC (2023/2024 GC) as a result of governments efforts to control spending and a significant rise in tax revenue.<sup>5,6</sup> The current account deficit remained steady at 2.9% of GDP, reflecting a narrowing trade deficit and moderate export growth.<sup>7</sup>

**However, Ethiopia has been prone to overlapping shocks since 2010/2011 EC (2018 GC) - including a conflict which slowed down growth, increased debt and led to a humanitarian crisis.** The country's debt trend is something of a concern, though it maintains a moderate debt to GDP ratio of 42%.<sup>8</sup> This is because Ethiopia's debt is driven largely by multilateral debt, and there is a risk of external debt distress caused by pending arrears on commercial debt obligations, including its Eurobond.<sup>9</sup> However, the government is currently working on restructuring its sovereign debt such that its sovereign local outlook was raised from "negative" to "stable" by Standard and Poor's (S&P).

**The federal and decentralised system of governance in Ethiopia was established by the 1995 Constitution (Proclamation No. 1/1995), which sets out the division of powers between the federal and regional governments, including fiscal powers.**<sup>10</sup> Article 47 defines the structure of

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<sup>1</sup> IMF (2025). IMF Country Report - Ethiopia. Available at: <https://www.imf.org/en/Publications/CR/Issues/2025/01/29/The-Federal-Democratic-Republic-of-Ethiopia-Second-Review-Under-the-Extended-Credit-561399>.

<sup>2</sup> World Bank (2024). World Development Indicators. Available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2023&locations=ET&start=2013>.

<sup>3</sup> IMF (2025). IMF Country Report - Ethiopia. Available at: <https://www.imf.org/en/Publications/CR/Issues/2025/01/29/The-Federal-Democratic-Republic-of-Ethiopia-Second-Review-Under-the-Extended-Credit-561399>.

<sup>4</sup> IMF (2025). IMF Country Report - Ethiopia. Available at: <https://www.imf.org/en/Publications/CR/Issues/2025/01/29/The-Federal-Democratic-Republic-of-Ethiopia-Second-Review-Under-the-Extended-Credit-561399>.

<sup>5</sup> African Development Bank (2024). African Economic Outlook. Available at: [https://www.afdb.org/sites/default/files/2024/06/06/aeo\\_2024\\_-\\_country\\_notes.pdf](https://www.afdb.org/sites/default/files/2024/06/06/aeo_2024_-_country_notes.pdf).

<sup>6</sup> IMF (2025). IMF Country Report - Ethiopia. Available at: <https://www.imf.org/en/Publications/CR/Issues/2025/01/29/The-Federal-Democratic-Republic-of-Ethiopia-Second-Review-Under-the-Extended-Credit-561399>.

<sup>7</sup> IMF (2025). IMF Country Report - Ethiopia. Available at: <https://www.imf.org/en/Publications/CR/Issues/2025/01/29/The-Federal-Democratic-Republic-of-Ethiopia-Second-Review-Under-the-Extended-Credit-561399>.

<sup>8</sup> IMF (2025). Fiscal Monitor. Available here: [https://www.imf.org/external/datamapper/GGXWDG\\_GDP@AFRREO/SSA/OEXP/OIMP/COM](https://www.imf.org/external/datamapper/GGXWDG_GDP@AFRREO/SSA/OEXP/OIMP/COM).

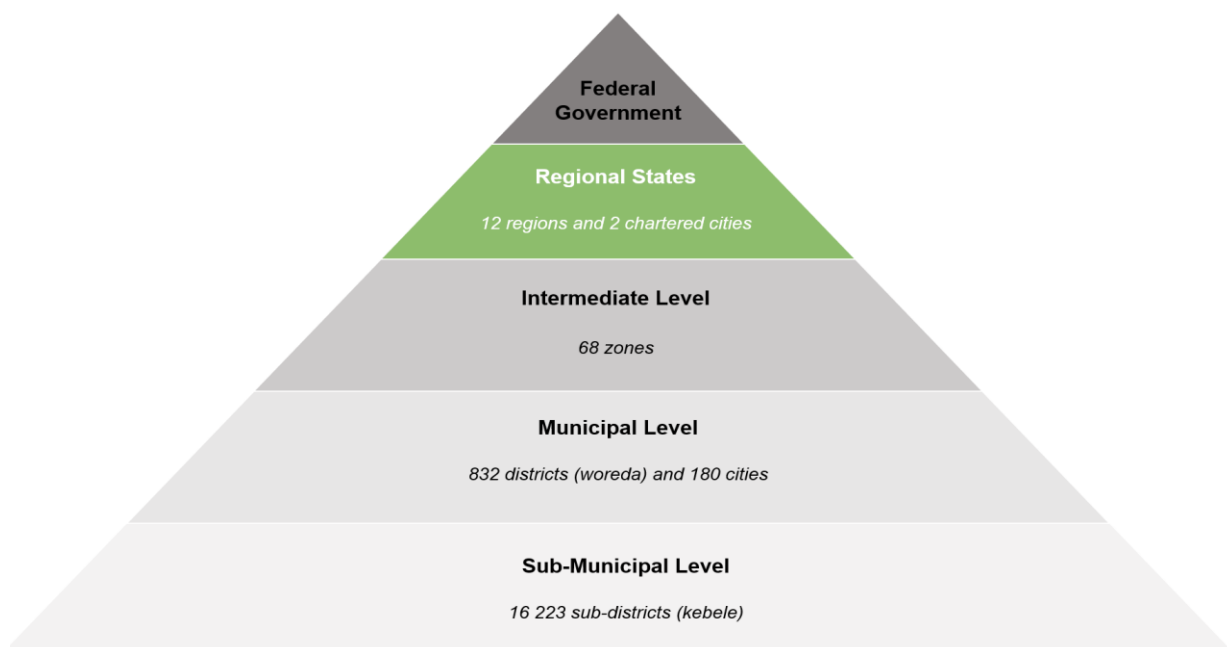
<sup>9</sup> African Export-Import Bank (2023). Ethiopia Country Brief. Available here: <https://mylearning.afacad.com/media/wysiwyg/Download/Ethiopia-Country-Brief-2023-1.pdf>.

<sup>10</sup> Federal Democratic Republic of Ethiopia (1995). Constitution of the Federal Democratic Republic of Ethiopia. Available at: <https://ethiopianembassy.be/wp-content/uploads/Constitution-of-the-FDRE.pdf>.

the federation by dividing the country into regional states and two chartered city administrations, Addis Ababa and Dire Dawa.<sup>11</sup> Article 52 reserves for the regional states and chartered city administrations all powers not expressly given to the federal government, including the right to establish their own constitutions, formulate and implement economic and social policies, and levy and collect taxes and duties (see also Article 97).<sup>12</sup>

**Below the regional states are zones, woredas (districts), and kebeles (sub-districts) - which function under regional jurisdiction.**<sup>13</sup> This territorial organisation is illustrated in the figure below. As the primary subnational units directly below the federal government, regional states and city administrations hold primary responsibility for revenue generation and fiscal management within their jurisdictions - making them the most relevant candidates for exploring bond issuance in Ethiopia.<sup>14</sup> However, this study also considers bonds issued by lower levels of government.

**Figure 1: Territorial organisation of Ethiopia<sup>15</sup>**



**Regional governments typically categorise their expenditures into capital and recurrent components, each covering key development and administrative functions.** Capital expenditure in Ethiopia comprises three main categories: (i) *economic development*, which includes projects in agriculture, natural resource development, trade, industry and tourism, mining and energy, transport, and urban development; (ii) *social development*, covering sectors such as education, health, culture, and labour; and (iii) *general development*, which refers to

<sup>11</sup> Federal Democratic Republic of Ethiopia (1995). Constitution of the Federal Democratic Republic of Ethiopia. Available at: <https://ethiopianembassy.be/wp-content/uploads/Constitution-of-the-FDRE.pdf>.

<sup>12</sup> Federal Democratic Republic of Ethiopia (1995). Constitution of the Federal Democratic Republic of Ethiopia. Available at: <https://ethiopianembassy.be/wp-content/uploads/Constitution-of-the-FDRE.pdf>.

<sup>13</sup> OECD/UCLG (2022). Ethiopia Country Profile. Available at: <https://www.sng-wofi.org/country-profiles/ethiopia.html>.

<sup>14</sup> OECD/UCLG (2022). Ethiopia Country Profile. Available at: <https://www.sng-wofi.org/country-profiles/ethiopia.html>.

<sup>15</sup> OECD/UCLG (2022). Ethiopia Country Profile. Available at: <https://www.sng-wofi.org/country-profiles/ethiopia.html>.

sovereign functions including justice, public order, general services, contingency, and miscellaneous spending.

Recurrent expenditure corresponds to the services in two same categories similar to capital expenditure - economic and social - and also includes administrative and general services (sovereign services), general services and various expenditures related to pensions, public debt, contingencies, municipalities and miscellaneous.

**Functions for expenditure and revenue responsibilities for education, health, hospital care and water and sanitation evolve within different tiers of government and vary from one region to another.** However, the federal government remains responsible for specific services. The table below presents the expenditure and functional responsibilities and revenue sources for each tier of government.

**Table 1: Revenue sources by level of government<sup>16</sup>**

| Tier of Government           | Expenditure and functional responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Revenue sources                                                                                                                                                                                                                                                                                                                                        |
|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Federal government</b>    | <ul style="list-style-type: none"> <li>National standard setting for education, health, and water and sanitation; transport infrastructure (railways, airports, roads, etc.), public utilities (energy plants), telecommunications infrastructure</li> <li>Tertiary education</li> <li>Specialised federal hospitals</li> <li>Trade, industry and tourism</li> <li>Mines and energy;</li> <li>Social development (culture and sports)</li> <li>Labour and social welfare</li> <li>DPPC.</li> </ul>                                            | <ul style="list-style-type: none"> <li>Custom duties: export and Import taxes or levies, Income and enterprise taxes; taxes on proceeds of national lottery, stamp duties, Income from federal monopolies, and fees from transport services (road, at water, and rail)<sup>17</sup></li> </ul>                                                         |
| <b>Regional government</b>   | <ul style="list-style-type: none"> <li>Standard setting for primary and secondary education</li> <li>Vocational and technical training, teacher training institutes, and medium-level colleges</li> <li>Hospitals and referral hospital</li> <li>Control and prevention of disease outbreaks</li> <li>Coordination and execution of civil service re-form programs at the regional level</li> <li>Policy setting on regional water resource development and protection</li> <li>Second cycle of secondary education (Grades 11-12)</li> </ul> | <ul style="list-style-type: none"> <li>Grants from federal government (70-80 percent of revenues)</li> <li>Income taxes (personal, sales, corporate, profit, property, and other)</li> <li>Fees on agricultural land, licensing, royalty, forest resources, water use, and other activities</li> <li>Fees on health services, such as drugs</li> </ul> |
| <b>Woreda administration</b> | <ul style="list-style-type: none"> <li>Coordination of school management and cost-sharing activities</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                               | <ul style="list-style-type: none"> <li>Grants from regional government (80-90% of revenues)<sup>18</sup></li> </ul>                                                                                                                                                                                                                                    |

<sup>16</sup> Garcia & Rajkumar (2008). Achieving Better Service Delivery Through Decentralization in Ethiopia. Available at: <https://openknowledge.worldbank.org/server/api/core/bitstreams/aeca2b11-af71-5124-9f57-4ada66a41c3b/content>.

<sup>17</sup> The federal government shares revenue from profit, excise, personal income taxes, dividend taxes, and the income derives from mining, petroleum, and gas operations with the regions. Currently, there are no export taxes, but the federal government is obligated to impose them.

<sup>18</sup> Many municipalities do not receive grants but are self-financing.

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                            |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <ul style="list-style-type: none"> <li>• Coordination of primary preventive and curative health care activities</li> <li>• Establishment and administration of primary schools (Grade 1-8) and first cycle of secondary education (Grades 9-10)</li> <li>• Implementation of health extension</li> <li>• Construction and administration of health stations and health posts and administration of clinics</li> <li>• Control and prevention of HIV/AIDS and malaria</li> <li>• Immunisation</li> <li>• Coordination and management of drinking water supplies</li> </ul> | <ul style="list-style-type: none"> <li>• Personal income tax, agricultural income tax, rural land use tax, rental income tax, licenses and fees</li> </ul> |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Ethiopia is undergoing significant financial sector reforms, creating new opportunities for capital market development.** In 2013/2014 EC (2021 GC), the National Bank of Ethiopia introduced the Capital Market Proclamation 1248/2021, a landmark policy which proposed a ten-year implementation plan (currently at its inception phase) to liberalise and develop Ethiopia's capital markets.<sup>19,20</sup> The Capital Markets Proclamation also established the Ethiopian Capital Market Authority (ECMA), which is responsible for licensing, regulating, and supervising Ethiopia's capital markets.<sup>21</sup> Then, in 2017 EC (January 2025), Ethiopia launched the Ethiopian Securities Exchange (ESX) - the country's first securities exchange.<sup>22</sup> These reforms, amongst others, reflect Ethiopia's broader efforts to liberalise its financial sector and expand access to market-based financing mechanisms.

## History of Government Bonds in Ethiopia

**Understanding the history of government bond issuance in Ethiopia may provide important context for the assessment of municipal bond feasibility.**

**Government bond issuance in Ethiopia dates back to the Imperial era, with initial laws passed in the decade following 1953 EC (1960s GC) to fund development and foster a securities market.**<sup>23</sup> Proclamation No. 172/1961 and its amendment, Proclamation No. 262/1969 established the legal foundation for issuing government bonds, authorising the Ministry of Finance to raise up to 100 million Ethiopian dollars.<sup>24</sup> The laws sought to attract domestic capital by offering fixed-interest bearer bonds with maturities of up to ten years, and were designed to support public investment while stimulating the emergence of a formal capital market.<sup>25</sup> While these

<sup>19</sup> FSD Africa (2023). For Success, Planned Ethiopian Capital Market Needs Patience and Smart Policy. Available here: <https://fsdafrica.org/news/for-success-planned-ethiopian-capital-market-needs-patience-and-smart-policy>.

<sup>20</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>21</sup> FSD Africa (2023). For Success, Planned Ethiopian Capital Market Needs Patience and Smart Policy. Available here: <https://fsdafrica.org/news/for-success-planned-ethiopian-capital-market-needs-patience-and-smart-policy>.

<sup>22</sup> Reuters (2025). Ethiopia Launches Stock Exchange in Fresh Step to Liberalise Economy. Available at: <https://www.reuters.com/world/africa/ethiopia-launches-stock-exchange-fresh-step-liberalise-economy-2025-01-10/>.

<sup>23</sup> Alula (2017). Debentures and Bonds Under Ethiopian Law. Available at: <https://journaluog.edu.et/index.php/IJELS/article/download/67/56/128>.

<sup>24</sup> Alula (2017). Debentures and Bonds Under Ethiopian Law. Available at: <https://journaluog.edu.et/index.php/IJELS/article/download/67/56/128>.

<sup>25</sup> Alula (2017). Debentures and Bonds Under Ethiopian Law. Available at: <https://journaluog.edu.et/index.php/IJELS/article/download/67/56/128>.

proclamations marked an important early step, their impact was limited by the absence of supporting institutional frameworks, and the bond market did not become deeply rooted before the political upheaval of 1966 EC (1974 GC).<sup>26</sup>

**A more structured government bond programme emerged during the 1990s, with the introduction of Treasury bills aimed at addressing fiscal needs through domestic borrowing.**

The National Bank of Ethiopia began issuing 91-day T-bills in 1985/1986 EC (1993 GC), marking the formal start of Ethiopia's T-bill market.<sup>27</sup> Over the next few years, the market expanded to include 28-day and 182-day maturities in 1988/1989 EC (1996 GC) and a 364-day bill in 2003/2004 EC (2011 GC).<sup>28</sup> Auctions were initially held monthly, then biweekly, and eventually weekly by 2009/2010 EC (2017 GC).<sup>29</sup> However, interest rates were often held below inflation and the minimum deposit rate, limiting demand from private investors. As a result, most purchases came from public financial institutions such as state-owned banks and pension funds.<sup>30</sup>

**Major reforms in 2011 EC replaced central bank financing with a competitive auction system.**

Due to this shift, the National Bank of Ethiopia no longer automatically purchased new T-bills. Instead, bills were auctioned competitively on a weekly basis, with yields determined by market demand.<sup>31</sup> Over ETB 95 billion (about USD 709,204) was raised in the first year, primarily from private banks and public pension funds. The reform also helped establish a yield curve across four maturities - 28, 91, 182, and 364 days - and signalled a move toward greater monetary policy transparency and reliance on open market operations.<sup>32</sup> Nonetheless, real returns remained negative, and a liquid secondary market did not materialise, which limited broader investor participation.<sup>33</sup>

**At present, Ethiopia's government bond market remains dominated by short-term Treasury bills with limited participation beyond banks and public institutions, although important structural changes are underway.** Treasury bills continue to be issued weekly at four maturities (28, 91, 182, and 364 days), with yields rising to around 13-15% by late 2016/2017 EC (2024 GC).<sup>34</sup> Demand, meanwhile, remains concentrated among a few large domestic institutional investors - especially state-owned banks and pension funds - while a secondary market has not yet

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<sup>26</sup> Alula (2017). Debentures and Bonds Under Ethiopian Law. Available at:

<https://journal.uog.edu.et/index.php/IJELS/article/download/67/56/128>.

<sup>27</sup> Yigermal (2017). History of Treasury Bills Market in Ethiopia: T-bills Yield and other Interest Rates, Available at:

<https://www.iiste.org/Journals/index.php/HRL/article/download/35350/36376>.

<sup>28</sup> Yigermal (2017). History of Treasury Bills Market in Ethiopia: T-bills Yield and other Interest Rates, Available at:

<https://www.iiste.org/Journals/index.php/HRL/article/download/35350/36376>.

<sup>29</sup> Yigermal (2017). History of Treasury Bills Market in Ethiopia: T-bills Yield and other Interest Rates, Available at:

<https://www.iiste.org/Journals/index.php/HRL/article/download/35350/36376>.

<sup>30</sup> Yigermal (2017). History of Treasury Bills Market in Ethiopia: T-bills Yield and other Interest Rates, Available at:

<https://www.iiste.org/Journals/index.php/HRL/article/download/35350/36376>.

<sup>31</sup> Cepheus Research & Analytics (2020). Ethiopia's Treasury Bills Market: A One-Year Overview. Available at:

<https://cepheuscapital.com/wp-content/uploads/2020/12/Ethiopias-Treasury-Bills-Market.pdf#:~:text=Ethiopia's%20auction,issues%2C%20and%20what%20might%20be>.

<sup>32</sup> Cepheus Research & Analytics (2020). Ethiopia's Treasury Bills Market: A One-Year Overview. Available at:

<https://cepheuscapital.com/wp-content/uploads/2020/12/Ethiopias-Treasury-Bills-Market.pdf#:~:text=Ethiopia's%20auction,issues%2C%20and%20what%20might%20be>.

<sup>33</sup> Cepheus Research & Analytics (2020). Ethiopia's Treasury Bills Market: A One-Year Overview. Available at:

<https://cepheuscapital.com/wp-content/uploads/2020/12/Ethiopias-Treasury-Bills-Market.pdf#:~:text=Ethiopia's%20auction,issues%2C%20and%20what%20might%20be>.

<sup>34</sup> Capital Ethiopia. Central Bank Raises Treasury Bill Yields to Boost Market Participation. Available at:

<https://capitalethiopia.com/2024/11/25/central-bank-raises-treasury-bill-yields-to-boost-market-participation/>.

materialised.<sup>35,36</sup> Treasury bonds are issued with a 5-year maturity, the only long-term tenor currently on offer domestically, although the government has announced plans to issue 10-year bonds.<sup>37,38</sup>

## Background to Municipal Bonds

**Municipal bonds are a form of subnational debt used by local governments to finance public investments and infrastructure.** These bonds allow subnational government entities - such as regions and municipalities - to raise capital for long-term development projects by issuing debt in financial markets.<sup>39</sup> While the term "municipal bonds" is often associated with city-level financing, for the purposes of this study, it refers more broadly to bonds issued by government entities below the sovereign - including regional states, city administrations, and other local government bodies.

**In practical terms, municipal bonds function similarly to other fixed-income instruments, with defined terms, interest payments, and a final repayment at maturity.** At the start of a municipal bonds lifecycle, the issuer sells it in the primary market, typically through either a public issuance, where bonds are marketed to a wide range of investors via a syndicate of underwriters, or a private placement, where they are sold directly to a small group of investors through a single investment bank.<sup>40,41</sup> These bonds are often purchased by a range of institutional investors including pension funds, insurance companies, mutual funds, commercial banks, and, in some cases, retail investors.<sup>42</sup> Once issued, the bond has a defined tenor, and investors receive periodic interest payments, with returns influenced by prevailing monetary policy, bond duration, and the issuer's creditworthiness.<sup>43</sup> While some investors hold these bonds until maturity, others trade them in the secondary market, where prices fluctuate based on interest rates, liquidity conditions, and investor demand, before the principal is ultimately repaid at maturity, completing the bond's lifecycle.<sup>44</sup>

**Municipal bonds can be broadly categorised into two types: general obligation bonds and revenue bonds.** General obligation bonds are backed by the issuing government's general tax revenues and typically offer fixed interest rates due to their lower risk. Revenue bonds, on the other hand, rely on specific income streams, such as tolls or utility fees, and may have fixed or variable interest rates depending on market conditions.<sup>45</sup>

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<sup>35</sup> IMF (2024). Request of an Arrangement Under the Extended Credit Facility-Press Release. Available at: <https://www.elibrary.imf.org/downloadpdf/view/journals/002/2024/253/article-A001-en.pdf>.

<sup>36</sup> National Bank of Ethiopia (2024). Quarterly Bulletin - Fourth Quarter 2023/24. Available at: <https://nbe.gov.et/wp-content/uploads/2025/01/Fourth-Quarter-Report-2023-24-new.pdf?>

<sup>37</sup> National Bank of Ethiopia (2022). Establishment and Operations of Treasury Bonds Directive. Available at: <https://nbe.gov.et/wp-content/uploads/2023/04/Directive-NO.MFA-TRBO-001-2022.pdf?>

<sup>38</sup> Reuters (2024). Ethiopia to Issue \$7.5 bln Local Bonds to Pay State Firms' Debts, Parliament Document Shows. Available at: <https://www.cnbc.com/wire/653101/>.

<sup>39</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>40</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>41</sup> While some countries, such as India, use competitive auctions to sell municipal bonds alongside national government securities, this remains uncommon in most developing markets.

<sup>42</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>43</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>44</sup> World Bank (2000). Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>45</sup> World Bank (2000). Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

**Municipal bonds can be a valuable tool for local governments to finance their development agenda and meet growing infrastructure and service delivery needs.** Municipal bonds allow issuing entities to fund these development projects by tapping into capital markets.<sup>46</sup> Such an approach offers multiple potential benefits. First, issuing bonds enable governments to obtain capital from a variety of sources - including retail and institutional investors such as pension funds, insurance companies, and asset managers - rather than relying solely on bank loans.<sup>47</sup> Second, they allow issuers to secure large amounts of capital upfront, ensuring that critical infrastructure projects can be implemented without delays caused by budget constraints.<sup>48</sup> Third, bonds offer flexibility in debt structuring, as their maturity can be aligned with the lifespan of the assets they finance, ensuring that repayment is spread over time.<sup>49</sup> Additionally, municipal bonds can lower borrowing costs compared to commercial loans, particularly for issuers with strong credit ratings.<sup>50</sup> These benefits, among others, make municipal bonds a tool worth considering for local and regional governments seeking financing across developing markets.

**Despite these benefits, municipal bonds also pose certain risks that governments and investors must consider.** A common challenge underpinning municipal bond markets is moral hazard, where municipal entities may engage in excessive borrowing under the assumption that central governments will intervene if repayment difficulties arise.<sup>51</sup> There is also the risk of default - several countries have experienced subnational debt crises triggered by macroeconomic shocks or unsustainable borrowing, including Argentina, Brazil, Mexico, and Russia.<sup>52</sup> Even in cases where explicit defaults are avoided, fiscal stress at the local level can create indirect liabilities and force central governments to step in if a large municipality defaults, especially if the default affects essential services or has broader economic consequences.<sup>53</sup> In addition, many municipal entities may face capacity and knowledge gaps, with limited expertise in structuring and managing debt. This increases the risk of poorly designed instruments, inefficient use of funds, or difficulties in meeting repayment obligations.<sup>54</sup> These risks are particularly serious in contexts where borrowing is not matched by strong revenue capacity or investment planning and warrant a deep understanding of municipal bond markets to effectively mitigate potential pitfalls.

**Globally, local and regional governments are increasingly turning to municipal bond markets to meet their growing infrastructure and investment needs.** Municipal bonds are the dominant source of new municipal borrowing, accounting for over 85% of new local and regional government debt issuance.<sup>55</sup> However, this figure is driven primarily by issuance in high-income

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<sup>46</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/eln/eechap/20587\\_6.html](https://ideas.repec.org/h/eln/eechap/20587_6.html).

<sup>47</sup> United Nations (2018). Sub-National Borrowing in Africa. Available at: <https://unhabitat.org/sites/default/files/download-manager-files/Sub-National%20Borrowing%20in%20Africa.pdf>.

<sup>48</sup> United Nations (2018). Sub-National Borrowing in Africa. Available at: <https://unhabitat.org/sites/default/files/download-manager-files/Sub-National%20Borrowing%20in%20Africa.pdf>.

<sup>49</sup> United Nations (2018). Sub-National Borrowing in Africa. Available at: <https://unhabitat.org/sites/default/files/download-manager-files/Sub-National%20Borrowing%20in%20Africa.pdf>.

<sup>50</sup> United Nations (2018). Sub-National Borrowing in Africa. Available at: <https://unhabitat.org/sites/default/files/download-manager-files/Sub-National%20Borrowing%20in%20Africa.pdf>.

<sup>51</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/eln/eechap/20587\\_6.html](https://ideas.repec.org/h/eln/eechap/20587_6.html).

<sup>52</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/eln/eechap/20587\\_6.html](https://ideas.repec.org/h/eln/eechap/20587_6.html).

<sup>53</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/eln/eechap/20587\\_6.html](https://ideas.repec.org/h/eln/eechap/20587_6.html).

<sup>54</sup> Glasser (2020). Municipal Bonds in Three Countries: India, South Africa and the United States. Available at: <https://readingroom.law.gsu.edu/cgi/viewcontent.cgi?article=1054&context=jculp>.

<sup>55</sup> S&P Global (2024). Subnational Debt 2024. Available at: [https://www.spglobal.com/\\_assets/documents/ratings/research/101593933.pdf?](https://www.spglobal.com/_assets/documents/ratings/research/101593933.pdf?)

countries, particularly the United States, Canada, and Australia - which together account for the vast majority of municipal debt. In contrast, emerging and frontier markets outside of China and India make up just 3% of the global municipal debt stock.<sup>56</sup> Looking ahead, municipal bond issuance is projected to grow further, with an additional USD 2 trillion expected by 2019/2020 EC (2027 GC).<sup>57</sup> Nonetheless, the use of these instruments in developing economies is expected to grow over the forthcoming years.<sup>58</sup>

**The growth in municipal borrowing is closely tied to trends toward decentralisation and has been further compounded by rapid urbanisation.** Many governments across the world are undergoing a process of decentralisation, whereby authority over key public services, infrastructure development, and fiscal management is increasingly devolved to regional and local governments and thereby allowing them to drive their own development agenda.<sup>59</sup> At the same time, rapid urbanisation has intensified demand for critical infrastructure and public services, such as transportation, sanitation, healthcare, and education.<sup>60</sup> As cities have expanded and population densities have risen, local governments are facing mounting pressure to secure sustainable financing, with municipal borrowing emerging as a potential tool to bridge financing gaps and support long-term economic growth.<sup>61</sup>

## Study Objectives and Approach

**With the above context in mind, this study aims to evaluate the feasibility of issuing municipal bonds in Ethiopia.** This will be conducted in several phases of analysis. First, the study will evaluate the enabling environment pertaining to municipal bond issuance in Ethiopia, which will include a review of Ethiopia's existing legal and regulatory framework, alongside a comparative analysis of frameworks from selected countries to identify relevant lessons and best practices. Second, the study will assess the capacity of municipal governments by evaluating their fiscal performance, debt management capabilities, revenue models, and governance practices. Then, the study will analyse municipality project pipelines, assessing ongoing and planned projects while identifying financing needs, funding amounts, and timelines. Finally, on the basis of the evidence presented in the prior phases of analysis, the study will make recommendations around the feasibility of municipal bond issuance in Ethiopia and outline steps to establish a robust framework for regional capital raising.

**To identify relevant lessons for Ethiopia, the study draws on the experiences of three selected benchmarking countries - Nigeria, India, and Kenya.** The benchmarking countries were selected based on key structural and market characteristics that influence municipal bond feasibility to ensure that the analysis provides relevant insights for Ethiopia from a diverse set of contexts. As such, the selection considered factors such as the system of government, the level

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<sup>56</sup> S&P Global (2024). Subnational Debt 2024. Available at: [https://www.spglobal.com/\\_assets/documents/ratings/research/101593933.pdf?](https://www.spglobal.com/_assets/documents/ratings/research/101593933.pdf?)

<sup>57</sup> S&P Global (2024). Subnational Debt 2024. Available at: [https://www.spglobal.com/\\_assets/documents/ratings/research/101593933.pdf?](https://www.spglobal.com/_assets/documents/ratings/research/101593933.pdf?)

<sup>58</sup> International Centre for Public Policy (2023). Fiscal Decentralization and Subnational Government Investment in Developing Countries: The Case for Increasing Subnational Borrowing and Commercial Debt. Available at: <https://icepp.gsu.edu/files/2023/12/paper2322.pdf?>

<sup>59</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>60</sup> United Nations (2018). Sub-National Borrowing in Africa. Available at: <https://unhabitat.org/sites/default/files/download-manager-files/Sub-National%20Borrowing%20in%20Africa.pdf>.

<sup>61</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

of fiscal decentralisation, and the presence of a regional-tier bond issuance framework, ensuring alignment with Ethiopia's governance structure. In addition, the benchmarking countries were selected so as to include countries with municipal bond markets of varying levels of development - offering lessons from both more established and emerging markets. The table below summarises the key characteristics of the selected benchmarking countries and the rationale for their inclusion in this study.

**Table 2: Proposed Benchmarking Countries and Rationale for Inclusion**

| Country/Criteria                                                                                      | System Type <sup>62</sup> | Primary Subnational Borrowing Unit <sup>63</sup> | Municipal Bond Market Development | Summary Rationale                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------------------|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>India</b><br>     | Federal                   | Regional (State)                                 | Mature                            | India has a federal structure and a similar legal framework to Ethiopia. It boasts a well-developed legal framework for municipal bonds, with states and municipalities having a proven track record of issuing bonds to fund infrastructure projects (mostly water supply, sewerage and road construction projects). <sup>64</sup> In addition, considering India in our sample of benchmarking countries also adds geographical diversity that may offer valuable insights from a different regional context. |
| <b>Nigeria</b><br> | Federal                   | Regional (State)                                 | Developed                         | Nigeria has a similar federal structure to Ethiopia and has a well-established framework for issuing state bonds. A substantial volume of state-level bonds has been issued by states across the country, with the proceeds for these bonds being used for capital expenditure - including to finance transportation infrastructure and water supply and sanitation projects. <sup>65,66</sup>                                                                                                                  |
| <b>Kenya</b><br>   | Unitary                   | Regional (County)                                | Emerging                          | Kenya is a regional peer with a capital market regulatory framework similar to Ethiopia's, which also includes a bond issuance framework that allows counties to issue bonds with a national guarantee. Although still in its early stages and no municipal bonds have been issued to date, the market is gradually developing, with some counties progressing toward their issuance.                                                                                                                           |

<sup>62</sup> OECD/UCLG (2022). India Country Profile. Available at: <https://icepp.gsu.edu/files/2023/12/paper2322.pdf?>

<sup>63</sup> OECD/UCLG (2022). India Country Profile. Available at: <https://icepp.gsu.edu/files/2023/12/paper2322.pdf?>

<sup>64</sup> L Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmi-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>65</sup> Orimobi (2011). The Issuance of State Government Bonds in Nigeria - an Overview. Available at: <https://www.proshare.co/articles/the-issuance-of-state-government-bonds-in-nigeria-an-overview?menu=Market&classification=Read&category=Bonds%20%26%20Fixed%20Income>.

<sup>66</sup> Arise News (2021). Lagos Raises Nigeria's Largest Sub-National Bond of \$137bn to Finance Infrastructure. Available at: <https://www.arise.tv/lagos-raises-nigerias-largest-sub-national-bond-of-137bn-to-finance-infrastructure/?>

**This study follows a structured research framework to assess the feasibility of municipal bond issuance by regional governments in Ethiopia, including:** four key components:

- An assessment of the legal and regulatory framework for issuing municipal bonds
- A review of market enablers (e.g. a liquid government bond market) and market infrastructure
- A review of the investor base for municipal bonds
- A review of the regional government capacity, project pipelines, and financing needs.

The research employs a mixed-method approach, integrating regulatory analysis, financial modelling, stakeholder consultations, and comparative benchmarking to ensure a comprehensive assessment.

## 2 | The Enabling Environment for Municipal Bonds

**An understanding of the enabling environment for municipal bonds is an important component of assessing their feasibility in Ethiopia.** While municipal bonds can become valuable tools for regional governments for financing infrastructure and public services, successful implementation depends on whether the necessary conditions are in place to support issuance, trading, and repayment.<sup>67</sup>

**The ability to issue municipal bonds depends on a variety of enabling factors.** These enabling factors can be broadly grouped into several pillars, including:

- **Legal and Regulatory Framework** - The issuance of municipal bonds requires an explicit legal authorisation of regions to issue bonds, as well as a robust regulatory framework setting out the practical rules of issuing and managing municipal bonds.<sup>68</sup> In the absence of such a framework, municipal bond markets can face significant consequences - including excessive borrowing, misallocation of funds, and weakened investor confidence.<sup>69</sup>
- **Market Enablers and Infrastructure** - a municipal bond market relies on both enabling market conditions and infrastructure capable of supporting issuance, settlement, and trading. The absence of these conditions and infrastructure can limit market development, reduce investor participation, and increase transaction costs. In addition, a vibrant domestic government bond market is important for providing pricing benchmarks and supporting investor confidence. The presence of relevant market intermediaries such as financial advisors, investment banks, and underwriters - is also important. These actors play an important role in structuring bond issuances, advising on legal and financial obligations, and coordinating investor engagement, including book-building and market sounding processes.
- **Market Dynamics and Readiness** - A well-functioning municipal bond market depends on both sufficient investor demand and reliable pricing mechanism to support liquidity and efficient capital allocation.<sup>70</sup> Without these factors, municipalities may struggle to raise funds efficiently, markets may become illiquid, and borrowing costs may be unpredictable due to the lack of clear price benchmarks.<sup>71,72</sup>

**The capacity and appetite of regional governments to issue municipal bonds is another important characteristic of the enabling environment and determinant of feasibility.** This includes their ability to issue and manage debt, allocate funds to revenue-generating projects,

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<sup>67</sup> World Bank (2000), Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>68</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>69</sup> World Bank (2000), Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>70</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>71</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>72</sup> Glasser (2020). Municipal Bonds in Three Countries: India, South Africa and the United States. Available at: <https://readingroom.law.gsu.edu/cgi/viewcontent.cgi?article=1054&context=jculp>.

maintain creditworthiness, and collect revenue effectively. These considerations are explored further in Section 3 of this report.

**This section examines each of the three listed enabling environment pillars above in detail.**

For each pillar, the key conditions required for a well-functioning municipal bond market are outlined, followed by an assessment of their application in the context of Ethiopia. Insights from the benchmarking countries are woven throughout this section to highlight relevant experiences and key lessons that may inform Ethiopia's approach to developing the municipal bond market.

## Legal and Regulatory Framework

**A clear legal and regulatory framework governing municipal bonds is essential for a well-functioning market.** This framework must govern both the pre-issuance and post-issuance processes, ensuring that there are well-defined rules and certainty for issuers on the supply side and confidence for investors on the demand side. A clear and robust regulatory framework promotes transparency, fiscal discipline, and investor participation, ensuring that municipalities can access funding sustainably while protecting market stability.

**This section examines key aspects of the legal and regulatory framework that shapes municipal bond markets.** Specifically, this section considers each aspect of the legal and regulatory framework by outlining its role in a well-functioning municipal bond market. Thereafter, each of these aspects of the legal and regulatory framework is first assessed within Ethiopia's existing legal and regulatory framework, followed by a review of how they are provided for in the benchmark countries. This approach is useful, as it allows for the identification of gaps in Ethiopia's existing legal and regulatory framework for municipal bonds, providing insights into potential amendments to support the development of a municipal bond market.

Documents reviewed include, inter alia, the Federal Constitution, which sets out the overarching legal framework for governance and fiscal decentralisation, as well as regional constitutions, which define the financial autonomy of subnational governments. In addition, relevant proclamations, regulations, and directives were examined. A full list of the documents reviewed can be found in the appendix of this report.

**It is important to note that there are nuances in bond issuance at different levels of local and regional government in our benchmarking countries.** In India, for example, both regional/state governments and local administrations can issue bonds, but they serve different purposes and operate under different legal and regulatory frameworks. Bonds issued by state governments - known as State Development Loans (SDLs) - are issued under a relatively permissive framework, with no strict creditworthiness requirements and strong investment demand due to their Statutory Liquidity Ratio (SLR) eligibility and perceived implicit central government backing.<sup>73</sup> In contrast, bonds issued by local governments in India - called Urban Local Bodies (ULBs) - are regulated by the Securities and Exchange Board of India (SEBI) and face far stricter requirements than state government bonds.<sup>74</sup> In Nigeria, both state and local government bonds are regulated by the Securities and Exchange Commission (SEC) Nigeria, and are largely governed by the

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<sup>73</sup> R. Pandey (2024). Understanding States' Debt and Bond Markets. Available at: [https://www.nipfp.org.in/media/medialibrary/2024/06/WP\\_\\_410\\_2024.pdf](https://www.nipfp.org.in/media/medialibrary/2024/06/WP__410_2024.pdf).

<sup>74</sup> The Institute of Chartered Accountants India (2018). Municipal Bonds for Financing Urban Infrastructure in India. Available at: <https://kb.icaai.org/pdfs/PDFFile5b277d29704bf9.01190824.pdf>.

Investment and Securities Act - although issuance by local governments is rare.<sup>75,76</sup> For the purposes of this section, the legal and regulatory framework of both regional/state and local governments within these countries are considered to the extent possible.

**A well-functioning municipal bond market requires a clear legal and regulatory framework that establishes the authority, conditions, and limitations under which subnational governments may issue bonds.** This section examines the legal and regulatory framework pertaining to municipal bonds in Ethiopia by following the bond issuance process - beginning with whether subnational governments have the authority to issue bonds, and progressing through the criteria they must meet, how approval is granted, and how raised funds are permitted to be used.

**In Ethiopia's legal system, federal law - such as the FDRE Constitution and other federal proclamations - form the foundation of Ethiopian law upon which regional laws are built.** In Ethiopia's federal system, federal laws are binding across all levels of government and therefore provide the overarching legal framework within which regional laws must operate. While regions have legislative autonomy in areas assigned to them, their laws must remain consistent with higher-order federal laws. This hierarchy of legislation makes federal law the natural starting point when assessing the legal environment for municipal bond issuance.

**As such, for each element of the bond issuance process outlined above, the analysis begins by reviewing the applicable federal laws and then assessing how these issues are addressed in regional legislation.** This includes analysis of the FDRE Constitution, financial administration proclamations, and capital market laws at the federal level, followed by review of regional constitutions, financial administration proclamations, and city-level laws. The table below lists the full set of legal and regulatory instruments reviewed, along with a high-level summary of the contents of each.

**Table 3: Reviewed Regulations and Legal Documents**

| Category                                             | Document Name                                                       | High-level content                                                                                                                                                                                                                          |
|------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Federal Constitution</b>                          | Federal Democratic Republic of Ethiopia Constitution                | The constitution is the basis for the entire legislation as parent law. It is the basis that defines the pillars of the government structure and distributes power accordingly. Regional state mandates are defined under the constitution. |
| <b>Capital Market Proclamation</b>                   | Capital Market Proclamation 1248/2021                               | Establishes the Ethiopian Capital Market Authority and provides the legal framework for the development, regulation, and supervision of Ethiopia's capital markets.                                                                         |
| <b>Federal Financial Administration Proclamation</b> | Federal Financial Administration Proclamations                      | Sets out rules for financial management at the federal level, including budgeting, reporting, and borrowing responsibilities of federal institutions.                                                                                       |
| <b>Federal Debt Management Legislation</b>           | Public Debt Management and Guarantee Issuance Directive No. 46/2017 | Sets out the rules and procedures for the management of public debt and the issuance of government guarantees, including roles and responsibilities of relevant authorities.                                                                |

<sup>75</sup> The Securities and Exchange Commission of Nigeria, 2007. Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>76</sup> The Securities and Exchange Commission of Nigeria (2015). Available at: <https://sec.gov.ng/states-and-local-government-bonds-issued-1978-to-date/>.

|                                                        |                                                              |                                                                                                                                                                                             |
|--------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>National Bank of Ethiopia Proclamations</b>         | National Bank of Ethiopia Proclamation 1359/2025             | Defines the mandate, structure, and powers of the National Bank of Ethiopia as the central bank, including its regulatory and supervisory responsibilities in the financial sector.         |
| <b>Development Bank of Ethiopia Proclamations</b>      | Development Bank of Ethiopia Regulation No. 83/2003          | Establishes the regulatory framework for the Development Bank of Ethiopia, detailing its governance structure and its role in supporting national development objectives.                   |
| <b>Government Bond Proclamations and Directives</b>    | Government Bond Proclamation No. 262/1969                    | Establishes the legal authority for the Ministry of Finance to issue government bonds domestically for the purpose of funding public investment.                                            |
|                                                        | Special Government Bond Proclamation No. 531/2007            | Authorises the issuance of a special government bond amounting to Birr 2.5 billion specifically to raise the capital of the Commercial Bank of Ethiopia.                                    |
|                                                        | Government Bond Proclamation No. 867/2014                    | Facilitates the issuance of government bonds in international capital markets, marking Ethiopia's entry into foreign capital markets.                                                       |
|                                                        | Government Bond Proclamation No. 937/2016                    | Authorises the issuance of special government bonds amounting to Birr 2.57 billion to raise the capital of the Development Bank of Ethiopia.                                                |
|                                                        | Government Bond Proclamation No. 994/2017                    | Authorizes the issuance of government bonds amounting to Birr 26.5 billion to raise the capital of the Commercial Bank of Ethiopia. These bonds are exempt from stamp duty and other taxes. |
|                                                        | Special Government Bond Proclamation No. 1211/2020           | Empowers the Ministry of Finance to issue special government bonds totalling Birr 21.02 billion to raise the capital of the Development Bank of Ethiopia.                                   |
|                                                        | Directive No. MFAD/TRBO/001/2022 on Treasury Bonds           | Sets out detailed procedures for issuing, managing, and redeeming treasury bonds, including repayment timelines and institutional responsibilities.                                         |
| <b>Regional State Constitutions</b>                    | Somali Regional State Constitution                           | Define the governance structures and powers of regional states, including fiscal powers and responsibilities under the federal system.                                                      |
|                                                        | Oromia Regional State Constitution                           |                                                                                                                                                                                             |
|                                                        | Afar Regional State Constitution                             |                                                                                                                                                                                             |
|                                                        | Amhara Regional State Constitution                           |                                                                                                                                                                                             |
| <b>City Administration Charters</b>                    | Addis Ababa City Administration Charter                      | Define the administrative, structural, and financial management powers of Addis Ababa and Dire Dawa, including provisions on borrowing under federal oversight.                             |
|                                                        | Dire Dawa City Administration Charter                        |                                                                                                                                                                                             |
| <b>Regional Financial Administration Proclamations</b> | Amhara Regional State Financial Administration Proclamations | Set out the rules for financial management at federal and regional levels, including provisions related to borrowing and debt issuance by subnational governments.                          |
|                                                        | Oromia Regional State Financial Administration Proclamations |                                                                                                                                                                                             |
|                                                        | Harari Regional State Financial Administration Proclamations |                                                                                                                                                                                             |

|                                 |                                                                        |                                                                                                                               |
|---------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
|                                 | Tigray Regional State Financial Administration Proclamations           |                                                                                                                               |
|                                 | Addis Ababa City Administration Financial Administration Proclamations |                                                                                                                               |
| <b>Tax and Duty Legislation</b> | Stamp Duty Proclamation No. 110/1998                                   | Introduces duties on legal documents and financial instruments, including contracts, bonds, and share transfers.              |
|                                 | Stamp Duty (Amendment) Proclamation No. 612/2008                       | Amends the original proclamation to revise applicable duty rates and exemptions.                                              |
|                                 | Federal Income Tax Proclamation No. 979/2016                           | Establishes the legal framework for taxation on income, including interest and capital gains earned on financial instruments. |

## Authority to Issue

**Understanding the legal foundation for municipal bond issuance requires an examination of whether subnational governments have the clear and unambiguous authority to issue bonds.**<sup>77</sup> Without such legal foundations, municipal bond markets cannot function, as subnational entities would lack the necessary authorisation to raise funds through bond issuance.

**Taking a look at the approach in which other countries authorise subnational governments to issue bonds, this is generally either enshrined in the constitution, an additional Act of Parliament, or specific public finance laws that govern municipal borrowing.** Examples of how this authority is granted in different jurisdictions is presented in the box below, which outlines the approaches taken in the benchmarking countries.

### Box 1: How Benchmarking Countries Authorise Municipal Bond Issuance

#### India



India has a three-tier system of government, consisting of the central government, state governments, and local governments (consisting of rural (panchayats) and urban local bodies (ULBs). The **Indian Constitution** grants states the power to borrow but does not specify the instruments through which borrowing may occur. In particular, **Article 293** provides that a state government may borrow within the territory of India, subject to any limits fixed by state legislation, and may also provide guarantees. While the Constitution clearly authorises borrowing, it does not explicitly state that states may issue bonds or other securities for this purpose.<sup>78,79</sup> State governments in India have been permitted to issue bonds since the adoption of the Indian Constitution in 1950 under Article 293 - which explicitly states that state governments have the power to borrow subject to certain conditions.<sup>80</sup> In addition, the **74th Constitutional Amendment (1992)** recognised Urban Local Bodies as the third tier of government, and granted states the power to authorise ULBs to raise funds through municipal bonds. However, specific ULBs can only issue bonds if state governments enact enabling legislation granting them the authority to do so.<sup>81</sup>

<sup>77</sup> African Development Bank (2019). Guidelines on Subnational Finance. Available at:

[https://www.afdb.org/sites/default/files/2021/02/19/afdb\\_guidelines\\_on\\_subnational\\_finance.pdf](https://www.afdb.org/sites/default/files/2021/02/19/afdb_guidelines_on_subnational_finance.pdf).

<sup>78</sup> OECD/UCLG (2022). India Country Profile. Available at: <https://icepp.gsu.edu/files/2023/12/paper2322.pdf?>

<sup>79</sup> Government of India (2024). The Constitution of India. Available at:

<https://cdnbbsr.s3waas.gov.in/s380537a945c7aaa788ccfcdf1b99b5d8f/uploads/2024/07/20240716890312078.pdf>.

<sup>80</sup> OECD/UCLG (2022). India Country Profile. Available at: <https://icepp.gsu.edu/files/2023/12/paper2322.pdf?>

<sup>81</sup> Glasser (2020). Municipal Bonds in Three Countries: India, South Africa and the United States. Available at:

<https://readingroom.law.gsu.edu/cgi/viewcontent.cgi?article=1054&context=jculp>.

## Nigeria



Nigeria has a federal system of government, consisting of the central government, state governments, and local government areas.<sup>82</sup> While state and local governments have had the authority to issue bonds since 1978, the formal legal basis for state and local governments to issue bonds in Nigeria is currently enshrined in **Section 223** of the **Investment and Securities Act** - an Act that was first introduced in 1999 and later amended in 2007.<sup>83,84,85</sup> Specifically, **Section 223** of the Act authorises the Federal Government, state governments, local governments, and their agencies to raise internal loans for specific projects through the issuance of securities, including registered bonds and promissory notes. **Section 222** explicitly states that these provisions apply to both state and local governments.<sup>86</sup>

## Kenya



Kenya has three tiers of government, including the central government, regional (county) governments, and local governments.<sup>87</sup> The **Constitution of Kenya** (2010) grants counties a general power to borrow. Specifically, **Article 212** provides that a county government may borrow money, but only if the national government guarantees the loan and the county assembly approves the borrowing. However, the Constitution does not specify the instruments through which borrowing may occur - such as through the issuance of bonds.<sup>88</sup> This general borrowing authority is operationalised and further clarified in the **Public Finance Management Act** (2012).<sup>89</sup> **Section 144** of the Act expressly authorises counties to borrow by issuing securities, stating that a county government may raise a loan through the issuance of securities, subject to prescribed conditions and regulations. **Section 144(3)** further clarifies that borrowing includes borrowing by way of securities. Thus, in Kenya, the constitutional power to borrow is broad and does not itself specify securities, as the enabling legislation provides the explicit authority for bond issuance.<sup>90</sup> Regional (county) governments in Kenya have had the authority to issue bonds since the enactment of the **Constitution of Kenya in 2010** (Article 212) and the **Public Finance Management Act** in 2012.<sup>91</sup> However, despite this technical authorisation, significant uncertainty around the procedures to follow to pursue an issuance persisted among stakeholders until specific regulations were published in 2021, which clarified the operational framework for county bond issuance.<sup>92</sup>

## This study included a review of relevant laws in Ethiopia to determine whether existing legislation strictly allows or prohibits subnational governments in Ethiopia to issue bonds.

This included a review of, amongst others, the Federal Democratic Republic of Ethiopia (FDRE) Constitution, regional constitutions, city charters, and various proclamations such as the Federal Financial Administration Proclamation to assess whether these legislative documents contain any relevant provisions around the right of subnational governments to issue bonds.

**The Constitution permits regions to issue municipal bonds, and guides that the terms and conditions under which such borrowing can take place is to be determined by separate legislation.** The FDRE Constitution is the supreme law of the land in Ethiopia, meaning that any

<sup>82</sup> OECD/UCLG (2022). India Country Profile. Available at: <https://icepp.gsu.edu/files/2023/12/paper2322.pdf?>

<sup>83</sup> OECD/UCLG (2022). Nigeria Country Profile. Available at: <https://www.sng-wofi.org/country-profiles/nigeria.html>.

<sup>84</sup> The Securities and Exchange Commission of Nigeria, 2007. Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>85</sup> Orimobi (2011). The Issuance of State Government Bonds in Nigeria - an Overview. Available at: <https://www.proshare.co/articles/the-issuance-of-state-government-bonds-in-nigeria-an-overview?menu=Market&classification=Read&category=Bonds%20%26%20Fixed%20Income>.

<sup>86</sup> The Securities and Exchange Commission of Nigeria, 2007. Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>87</sup> OECD/UCLG (2022). Kenya Country Profile. Available at: <https://www.sng-wofi.org/country-profiles/kenya.html>.

<sup>88</sup> The Republic of Kenya (2010). The Constitution of Kenya. Available at: <https://kenyalaw.org/kl/fileadmin/pdfdownloads/TheConstitutionOfKenya.pdf>.

<sup>89</sup> The Republic of Kenya (2012). Public Finance Management Act. Available at: <https://www.worldbank.org/content/dam/Worldbank/document/Africa/Kenya/Kenay%20Devolution/Public%20Finance%20Management%20Act%20%282012%29.pdf>.

<sup>90</sup> The Republic of Kenya (2012). Public Finance Management Act. Available at: <https://www.worldbank.org/content/dam/Worldbank/document/Africa/Kenya/Kenay%20Devolution/Public%20Finance%20Management%20Act%20%282012%29.pdf>.

<sup>91</sup> OECD/UCLG (2022). Kenya Country Profile. Available at: <https://www.sng-wofi.org/country-profiles/kenya.html>.

<sup>92</sup> Parliament of Kenya (2022). Laikipia County Borrow Issuance of Ksh.1.16 Billion Infrastructure Bond Parliamentary Session. Available at: <http://www.parliament.go.ke/node/17169>.

law, practice, or decision that contradicts it is invalid. As such, any potential municipal bond issuance must align with constitutional provisions, making it a logical starting point for analysis before examining regional laws and other relevant legal frameworks. The Constitution establishes that the regional states have legislative, executive, and judicial authority, allowing them to govern internal matters and set development agendas. It also provides regional states with a level of financial autonomy, by permitting them to levy and collect taxes within their jurisdictions, manage their budgets, and allocate financial resources to meet local development priorities.<sup>93</sup> Regarding borrowing specifically, Article 51(7) explicitly states: "It [the Federal Government] shall determine by law the conditions and terms under which States can borrow money from internal sources." As such, the Constitution does allow regional governments to issue municipal bonds, and that the terms and conditions under which they are able to do so are to be determined by separate legislation. As outlined in the box above, this is similar to the relevant constitutional provisions in the benchmarking countries of India and Kenya – where the constitution provides that regions may borrow but does not explicitly specify that states may issue bonds or other securities for this purpose.

**Federal financial legislation reinforces this position by assigning control over subnational borrowing to the Ministry of Finance.** Article 65 of the Federal Financial Administration Proclamation states that the Minister of Finance is responsible for determining the amounts to be borrowed by individual regional governments, taking into account national fiscal and macroeconomic policies.<sup>94</sup> Regional governments are also required by the Federal Financial Administration Proclamation to provide the Ministry with all necessary information to support this determination, ensuring that borrowing decisions align with broader fiscal objectives.<sup>95</sup>

**While the regional state constitutions do not contain any provisions that explicitly authorise borrowing, the borrowing powers outlined in the FDRE Constitution are reinforced through regional financial administration proclamations.** In line with the FDRE Constitution, each regional state has its own constitution, which defines its governance structure and legislative powers. For this study, the constitutions of Somali, Oromia, Afar, and Amhara Regional States were reviewed. In each of the constitutions, besides reserving the power to enact laws that would help in generating revenue and mandate to formulate policies to grow the economy of the region, there are no specific clauses that clearly stipulates regional states authority to issue municipal bonds. However, regional financial administration proclamations for Amhara, Oromia, Harari, Tigray, and Addis Ababa grant borrowing powers to regional finance bureaus – including the authority to issue securities, subject to approval from regional councils. For example, Article 40(1) of the Amhara National Regional State Revised Finance Administration Proclamation No. 178/2011 explicitly states that the Bureau is authorized to 'borrow money or issue a guarantee or securities on behalf of the Regional Government,' confirming that borrowing powers – including through the issuance of securities – are vested in the regional finance bureau.<sup>96</sup>

<sup>93</sup> Federal Democratic Republic of Ethiopia (1995). Constitution of the Federal Democratic Republic of Ethiopia. Available at: <https://ethiopianembassy.be/wp-content/uploads/Constitution-of-the-FDRE.pdf>.

<sup>94</sup> Federal Democratic Republic of Ethiopia (2009). Federal Financial Administration Proclamation. Available at: [https://www.mofed.gov.et/media/filer\\_public/e2/42/e24232d7-019e-43dc-8501-4ebffb794a15/consolidated\\_pfm\\_laws.pdf](https://www.mofed.gov.et/media/filer_public/e2/42/e24232d7-019e-43dc-8501-4ebffb794a15/consolidated_pfm_laws.pdf)

<sup>95</sup> Federal Democratic Republic of Ethiopia (2009). Federal Financial Administration Proclamation. Available at: [https://www.mofed.gov.et/media/filer\\_public/e2/42/e24232d7-019e-43dc-8501-4ebffb794a15/consolidated\\_pfm\\_laws.pdf](https://www.mofed.gov.et/media/filer_public/e2/42/e24232d7-019e-43dc-8501-4ebffb794a15/consolidated_pfm_laws.pdf)

<sup>96</sup> Council of Amhara Regional State (2011). The Amhara National Regional State Finance Administration Revised Proclamation. Available at: <https://chilot.wordpress.com/wp-content/uploads/2013/10/proclamation-no-178-2011-revised-finance-administration-proclamation.pdf>.

**Further, the regional financial administration proclamations grant regional governments some discretion over borrowing terms.** Some proclamations explicitly allow regional finance bureaus to determine key borrowing terms, including the tenor (maturity date), interest rate, and issuance conditions. For example, the Amhara, Oromia and Tigray proclamations state that the head of the BoFED may set the issuance date, interest rate, and repayment schedule for securities issued on behalf of the regional government.

**In terms of borrowing at the lowest tiers of government within regional states, regional legislation does not grant the authority for woredas or kebeles to borrow independently or issue bonds.** The review of the regional state constitutions found no provision allowing lower tiers of government to issue bonds. While some financial administration laws allow regional governments to provide loans to woredas, this is strictly controlled and deducted from their subsidy budgets - meaning that woredas do not have independent external borrowing powers.

**The city charters permit city administrations to borrow through the issuance of bonds, subject to federal government authorisation.** The Addis Ababa City Administration Charter (Proclamation No. 361/2003) under Article 54(1)(2) states that the City Government may borrow from domestic sources either directly or by way of selling bonds on short and long repayment terms, provided that it is authorised by the federal government.<sup>97</sup> Similarly, the Dire Dawa City Administration Charter (Proclamation No. 416/2004) under Article 45(1)(2) states that the City Government may borrow directly from domestic and external sources by short-term and long-term repayment arrangements or by selling bonds - subject to the authorisation of the federal government.<sup>98</sup>

**City administration legislation explicitly prohibits subnational borrowing by the lowest tiers of government.** The city charters explicitly restrict borrowing by lower-tier government units. In particular, both the Addis Ababa and Dire Dawa Administration Charters state that sub-cities and kebeles may not engage in any form of borrowing nor they issue or sell securities/bonds - as specified in Article 54(4) and Article 45(1)(2) respectively.<sup>99,100</sup>

**In sum, it appears that regional states have borrowing authority subject to conditions set by the federal government, city administrations can borrow but require explicit federal approval, and lower tiers of government across both are entirely prohibited from borrowing.** The FDRE Constitution permits regional states to borrow - including through municipal bonds - provided that the terms and conditions are defined through separate legislation. Similarly, regional financial administration proclamations generally grant borrowing powers to regional states, though these are subject to debt ceilings set by each region and by the federal government, with the federal government ultimately determining the amount to be borrowed to account for national fiscal and macroeconomic policy. City charters, on the other hand, clearly require federal approval for borrowing, restricting Addis Ababa and Dire Dawa from

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<sup>97</sup> Federal Democratic Republic of Ethiopia (2003). Addis Ababa City Administration Charter. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/361.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/361.pdf).

<sup>98</sup> Federal Democratic Republic of Ethiopia (2004). Dire Dawa City Administration Charter. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/361.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/361.pdf).

<sup>99</sup> Federal Democratic Republic of Ethiopia (2003). Addis Ababa City Administration Charter. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/361.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/361.pdf).

<sup>100</sup> Federal Democratic Republic of Ethiopia (2004). Dire Dawa City Administration Charter. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/361.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/361.pdf).

independently issuing debt. At the lowest levels, woredas and kebeles have no borrowing powers, with city charters explicitly prohibiting them from issuing bonds or other forms of debt.

## Eligibility Criteria and Approval Process

**Further to the explicit legal authorisation for subnational governments to issue bonds, a sound legal and regulatory framework should also establish which entities can issue and how.** While the legal framework establishes the right for subnational governments to borrow, it does not automatically confer the ability to do so. This is because municipal bond issuance is typically subject to conditions assessing both characteristics of the issuing entity and the specific characteristics of the bond. Such criteria are enforced to ensure that municipal borrowing remains sustainable, protects investor confidence, and supports long-term fiscal stability. In addition, a structured approval process is often implemented to ensure that bond offerings align with regulatory standards, fiscal responsibility principles, and investor protection mechanisms. This subsection examines both the eligibility requirements for prospective subnational issuers and the procedures they must follow to obtain approval.

**The review of legislation found that there are no explicit eligibility criteria that would apply to prospective issuers of municipal bonds in Ethiopian law.** However, existing laws governing subnational borrowing provide some indications of how such a framework could take shape.

**Some existing laws provide indications of how eligibility criteria could be structured in a future municipal bond regulatory framework.** Specifically, existing federal and regional legislation suggests that such a framework would likely include limits set on borrowing for regional governments. In particular, the Federal Financial Administration Proclamation (No. 648/2009) grants the Ministry of Finance the authority to regulate subnational borrowing, including setting borrowing limits for regional governments.<sup>101</sup> Similarly, regional financial administration laws, such as those in Amhara, Oromia, and Addis Ababa, also refer to borrowing not being permitted to exceed a given limit. However, in the laws reviewed for this study, the ceiling is not defined - and the legal representative from the Ministry of Finance engaged for this study was also unaware of any law that establishes such a limit.<sup>102</sup>

**Besides these undefined debt limits, there is no clear eligibility framework governing municipal bond issuance.** The reviewed laws do not specify the conditions under which subnational governments may issue bonds, such as financial health, debt sustainability, or other fiscal requirements.

**While Ethiopia's legal framework does not define specific eligibility requirements for municipal bond issuance, international experience offers insight into how such criteria are typically structured.** Common criteria include demonstrating a positive net worth over a specified period, maintaining a track record of timely debt repayments, and proving compliance with prescribed fiscal responsibility principles.<sup>103</sup> In addition, some regulatory frameworks also require issuers to obtain a minimum credit rating to be considered for municipal bond issuance.<sup>104</sup>

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<sup>101</sup> Federal Democratic Republic of Ethiopia (2009). The Federal Government of Ethiopia Financial Administration. Available at: <https://www.inu.edu.et/download/1-proclamation-no-648-2009-the-federal-government-of-ethiopia-financial-administration/#>.

<sup>102</sup> Genesis Analytics Stakeholder Engagements, 2025.

<sup>103</sup> African Development Bank (2019). Guidelines on Subnational Finance. Available at: [https://www.afdb.org/sites/default/files/2021/02/19/afdb\\_guidelines\\_on\\_subnational\\_finance.pdf](https://www.afdb.org/sites/default/files/2021/02/19/afdb_guidelines_on_subnational_finance.pdf).

<sup>104</sup> African Development Bank (2019). Guidelines on Subnational Finance. Available at: [https://www.afdb.org/sites/default/files/2021/02/19/afdb\\_guidelines\\_on\\_subnational\\_finance.pdf](https://www.afdb.org/sites/default/files/2021/02/19/afdb_guidelines_on_subnational_finance.pdf).

Moreover, many frameworks impose statutory or prudential limits on the level of debt that subnational governments can take on.<sup>105</sup> These limits may be expressed as a percentage of own-source revenue, a cap on total outstanding debt relative to GDP, or restrictions on debt service costs as a share of annual budgets.<sup>106,107,108</sup>

**To further demonstrate how these eligibility rules operate in practice, the approaches taken in the benchmarking countries are summarised in the table below.** The table delineates between eligibility criteria for regional/state governments to issue bonds and the eligibility criteria for local/municipal governments. Important to note, however, is that in the case of Nigeria these requirements are the same - as both types of bonds are subject to the same legal and regulatory framework, set out largely in the Investment and Security Act.<sup>109</sup>

**Table 4: Eligibility Criteria for Subnational Governments to Issue Municipal Bonds Across Benchmarking Countries**

| Country | Eligibility Criteria                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|         | Regional/State Governments                                                                                                                                                                                                                                                                                                                                                                                                    | Local/Municipal Governments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| India   | <ul style="list-style-type: none"> <li>The Government of India determines the borrowing limit for each state at the beginning of the year, in consultation with the Reserve Bank of India and the respective state government.<sup>110</sup> In addition, states must adhere to the Fiscal Responsibility and Budget Management (FRBM), which sets borrowing constraints and fiscal deficit targets.<sup>111</sup></li> </ul> | <ul style="list-style-type: none"> <li>The issuer must have a minimum credit rating of A+ from at least one recognised credit rating agency.<sup>112</sup></li> <li>The issuer should be allowed to raise money under the laws that govern it.<sup>113</sup></li> <li>The issuer must have recorded a surplus in its income and expenditure statement for at least one of the last three financial years.<sup>114</sup></li> <li>The issuer must not have defaulted on loan repayments to banks or financial institutions in the past year.<sup>115</sup></li> <li>The issuer must have maintained a positive net worth over the last three financial years.<sup>116</sup></li> </ul> |
| Nigeria | <ul style="list-style-type: none"> <li>The issuer must have explicit legal authority and legislative approval to issue bonds.<sup>117</sup></li> </ul>                                                                                                                                                                                                                                                                        | <ul style="list-style-type: none"> <li>The issuer must have explicit legal authority and legislative approval to issue bonds.<sup>122</sup></li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

<sup>105</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>106</sup> For example, Mexico caps total municipal debt at 40% of annual revenue.

<sup>107</sup> For example, South Africa mandates that debt service costs must not exceed 15% of annual operating revenue.

<sup>108</sup> For example, Brazil limits total municipal debt stock to 100% of net revenues.

<sup>109</sup> The Securities and Exchange Commission of Nigeria (2007). Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>110</sup> R. Pandey (2024). Understanding States' Debt and Bond Markets. Available at: [https://www.nipfp.org.in/media/medialibrary/2024/06/WP\\_410\\_2024.pdf](https://www.nipfp.org.in/media/medialibrary/2024/06/WP_410_2024.pdf).

<sup>111</sup> R. Pandey (2024). Understanding States' Debt and Bond Markets. Available at: [https://www.nipfp.org.in/media/medialibrary/2024/06/WP\\_410\\_2024.pdf](https://www.nipfp.org.in/media/medialibrary/2024/06/WP_410_2024.pdf).

<sup>112</sup> The Institute of Chartered Accountants India (2018). Municipal Bonds for Financing Urban Infrastructure in India. Available at: <https://kb.icai.org/pdfs/PDFFile5b277d29704bfg.01190824.pdf>.

<sup>113</sup> The Institute of Chartered Accountants India (2018). Municipal Bonds for Financing Urban Infrastructure in India. Available at: <https://kb.icai.org/pdfs/PDFFile5b277d29704bfg.01190824.pdf>.

<sup>114</sup> The Institute of Chartered Accountants India (2018). Municipal Bonds for Financing Urban Infrastructure in India. Available at: <https://kb.icai.org/pdfs/PDFFile5b277d29704bfg.01190824.pdf>.

<sup>115</sup> The Institute of Chartered Accountants India (2018). Municipal Bonds for Financing Urban Infrastructure in India. Available at: <https://kb.icai.org/pdfs/PDFFile5b277d29704bfg.01190824.pdf>.

<sup>116</sup> The Institute of Chartered Accountants India (2018). Municipal Bonds for Financing Urban Infrastructure in India. Available at: <https://kb.icai.org/pdfs/PDFFile5b277d29704bfg.01190824.pdf>.

<sup>117</sup> World Bank (2019). Subnational Debt Management Performance Assessment. Available at: <https://openknowledge.worldbank.org/server/api/core/bitstreams/e79egd1b-1c59-5099-b907-2b8080062d23/content>.

<sup>122</sup> World Bank (2019). Subnational Debt Management Performance Assessment. Available at: <https://openknowledge.worldbank.org/server/api/core/bitstreams/e79egd1b-1c59-5099-b907-2b8080062d23/content>.

|              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|              | <ul style="list-style-type: none"> <li>• The issuer must be in good standing with its existing debt obligations. SEC regulations state that no issuer (including a state) shall offer a new bond if it is in default on any prior loan/bond interest or principal for over 6 months.<sup>118</sup></li> <li>• The issuer must have a credit rating that is at least investment grade (BBB or higher).<sup>119</sup></li> <li>• The internally-generated revenue must not be less than 60% of consolidated revenues for three years.<sup>120,121</sup></li> </ul>                                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>• The issuer must be in good standing with its existing debt obligations. SEC regulations state that no issuer (including a state) shall offer a new bond if it is in default on any prior loan/bond interest or principal for over 6 months.<sup>123</sup></li> <li>• The issuer must have a credit rating that is at least investment grade (BBB or higher).<sup>124</sup></li> <li>• The internally-generated revenue must not be less than 60% of consolidated revenues for three years.<sup>125,126</sup></li> </ul> |
| <b>Kenya</b> | <ul style="list-style-type: none"> <li>• The financial position of the issuer over the medium term must be deemed to be "satisfactory".<sup>127</sup></li> <li>• The issuer must be deemed to be creditworthy - typically through an independent credit rating.<sup>128,129</sup></li> <li>• The issuer must prove that they are compliant with fiscal responsibility principles - in particular that they are not spending more than 35% of their budget on recurrent expenditure and are spending at least 30% of their budget on development expenditure.<sup>130</sup></li> <li>• The issuer must prove that they have sufficient revenue-generating activities or resources outside their budget allocation from Treasury that can service any borrowings.<sup>131</sup></li> </ul> | <ul style="list-style-type: none"> <li>• Not applicable - Kenya's counties (regional governments) are the lowest level of subnational government; there are no local governments below this level.</li> </ul>                                                                                                                                                                                                                                                                                                                                                    |

**In a similar vein to eligibility criteria, there is no formal approval process for municipal bonds in Ethiopia - but existing legislation provides some indications of how this might be structured.** Regional financial proclamations specify that regional borrowing must receive approval from their respective regional councils. In addition, the Federal Financial Administration Proclamation (No. 648/2009) requires that all regional borrowing adhere to limits set by the Ministry of Finance.<sup>132</sup> Given these requirements, it is likely that a future municipal bond approval process would also involve both the regional councils - to authorise issuances at the subnational level - and the Ministry of Finance - to ensure borrowing aligns with national fiscal policies.

<sup>118</sup> Securities and Exchange Commission of Nigeria (2010). Bond Related Rules. Available at: <https://sec.gov.ng/bond-related-rules/#:-text=4,6%29%20months>.

<sup>119</sup> Securities and Exchange Commission of Nigeria (2010). Bond Related Rules. Available at: <https://sec.gov.ng/bond-related-rules/#:-text=4,6%29%20months>.

<sup>120</sup> United Nations (2018). Sub-National Borrowing in Africa. Available at: <https://unhabitat.org/sites/default/files/download-manager-files/Sub-National%20Borrowing%20in%20Africa.pdf>.

<sup>121</sup> This requirement, which replaced a previous debt ceiling, came into effect in 2016.

<sup>123</sup> Securities and Exchange Commission of Nigeria (2010). Bond Related Rules. Available at: <https://sec.gov.ng/bond-related-rules/#:-text=4,6%29%20months>.

<sup>124</sup> Securities and Exchange Commission of Nigeria (2010). Bond Related Rules. Available at: <https://sec.gov.ng/bond-related-rules/#:-text=4,6%29%20months>.

<sup>125</sup> United Nations (2018). Sub-National Borrowing in Africa. Available at: <https://unhabitat.org/sites/default/files/download-manager-files/Sub-National%20Borrowing%20in%20Africa.pdf>.

<sup>126</sup> This requirement, which replaced a previous debt ceiling, came into effect in 2016.

<sup>127</sup> Kenyan National Treasury and Planning (2021). Guidelines on Borrowing by County Governments. Available at: <https://mailigrtc.go.ke/views/img/resource/OTHERS/Guidelines%20on%20borrowing%20by%20County%20Governments.pdf>.

<sup>128</sup> Shah (2021). Kenya: Guidelines Issued for County Governments to Tap into Loans and Debt Market. Available at: <https://www.ensafrica.com/news/detail/3959/kenya-guidelines-issued-for-county-government?>.

<sup>129</sup> Kenyan National Treasury and Planning (2021). Guidelines on Borrowing by County Governments. Available at: <https://mailigrtc.go.ke/views/img/resource/OTHERS/Guidelines%20on%20borrowing%20by%20County%20Governments.pdf>.

<sup>130</sup> Shah (2021). Kenya: Guidelines Issued for County Governments to Tap into Loans and Debt Market. Available at: <https://www.ensafrica.com/news/detail/3959/kenya-guidelines-issued-for-county-government?>.

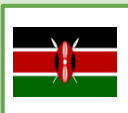
<sup>131</sup> Shah (2021). Kenya: Guidelines Issued for County Governments to Tap into Loans and Debt Market. Available at: <https://www.ensafrica.com/news/detail/3959/kenya-guidelines-issued-for-county-government?>.

<sup>132</sup> Federal Democratic Republic of Ethiopia (2009). The Federal Government of Ethiopia Financial Administration. Available at: <https://www.inu.edu.et/download/1-proclamation-no-648-2009-the-federal-government-of-ethiopia-financial-administration/#>.

However, existing legislation does not contain any explicit provisions on the role of other entities in the approval process for a potential municipal bond market.

**While Ethiopian law grants oversight responsibilities to entities such as the ECMA and Ministry of Finance, there is no clearly defined or documented approval process that issuers must follow when seeking to issue municipal bonds.** International practices offer insight into how such processes are typically designed. In practice, municipal bond approval processes generally require prospective issuers to submit a formal borrowing proposal - which often includes contents such as financial statements, a debt sustainability assessment, and project feasibility studies.<sup>133</sup> To provide further insight into how Ethiopia's municipal bond approval process could be structured, the below box outlines the approval mechanisms in the benchmarking countries - highlighting key steps and designated approving authorities.

#### Box 2: The Municipal Bond Approval Process in Benchmarking Countries

|                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>India</b></p>      | <p>In India, <b>for state governments</b>, each state determines its borrowing requirements within the limits agreed upon and approved by the central government at the beginning of each year.<sup>134</sup> The <b>RBI</b> then, in consultation with the state governments, announces an indicative quarterly borrowing calendar. Specific details of each issuance, such as the amount, tenor, and auction date, are provided in notifications issued by the respective state governments before the auction.<sup>135</sup></p> <p><b>For local governments</b>, prospective issuers typically begin by presenting a <b>bond proposal</b> to their <b>elected council</b> and, when required, the <b>state government</b> for initial approvals. Thereafter, a detailed issuance proposal is submitted to the <b>Securities and Exchange Board of India (SEBI)</b>. SEBI reviews the proposal and any accompanying disclosures for compliance with its regulatory requirements and, if satisfied, grants approval. Following SEBI approval, the bond issuance proceeds, with final listing on an exchange.<sup>136,137</sup></p> |
| <p><b>Nigeria</b></p>  | <p>In Nigeria, both <b>state and local governments</b> seeking to issue municipal bonds must first obtain <b>approval from their State House of Assembly</b>. The bond proposal is then submitted to the <b>Securities and Exchange Commission (SEC)</b>, which reviews it for compliance with securities regulations and disclosure requirements. Once approved, the bond is issued to investors.<sup>138</sup></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <p><b>Kenya</b></p>    | <p>In Kenya, county (regional) governments submit a bond proposal to their respective <b>County Executive Committee</b> and <b>County Assembly</b> for approval. Once approved, the proposal goes to the <b>National Treasury</b>, where the Cabinet Secretary consults the <b>Intergovernmental Budget and Economic Council</b> and the <b>Attorney General</b> before recommending approval or rejection. If the Cabinet Secretary recommends approval, they will forward it to <b>Parliament</b> for authorisation. Upon approval, the bond is added to the national issuance calendar.<sup>139</sup> However, this approval process has not been followed in practice - as there has not been a bond issued by a county in Kenya to date.</p>                                                                                                                                                                                                                                                                                                                                                                                    |

<sup>133</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finance-a-handbook-for-local-governments.pdf>.

<sup>134</sup> R. Pandey (2024). Understanding States' Debt and Bond Markets. Available at: [https://www.nipfp.org.in/media/medialibrary/2024/06/WP\\_410\\_2024.pdf](https://www.nipfp.org.in/media/medialibrary/2024/06/WP_410_2024.pdf).

<sup>135</sup> Reserve Bank of India (2020). Frequently Asked Questions. Available at: <https://www.rbi.org.in/commonman/english/scripts/FAQs.aspx?Id=711>.

<sup>136</sup> Securities and Exchange Board India (2015). Issuing and Listing of Municipal Debt Securities. Available at: <https://www.sebi.gov.in/legal/regulations/sep-2019/securities-and-exchange-board-of-india-issue-and-listing-of-municipal-debt-securities-regulations-2015-last-amendment-on-august-03-2021-34611.html>.

<sup>137</sup> Securities and Exchange Board India (2023). Steps Involved in Issuance and Listing of Municipal Debt Securities. Available at: [https://www.sebi.gov.in/sebi\\_data/commndocs/jan-2023/Steps%20involved%20in%20issuance%20and%20listing%20of%20Municipal%20Debt%20Securities\\_p.pdf](https://www.sebi.gov.in/sebi_data/commndocs/jan-2023/Steps%20involved%20in%20issuance%20and%20listing%20of%20Municipal%20Debt%20Securities_p.pdf).

<sup>138</sup> Orimobi (2011). The Issuance of State Government Bonds in Nigeria - an Overview. Available at: <https://www.proshare.co/articles/the-issuance-of-state-government-bonds-in-nigeria-an-overview?menu=Market&classification=Read&category=Bonds%20%26%20Fixed%20Income>.

<sup>139</sup> Kenyan National Treasury and Planning (2021). Guidelines on Borrowing by County Governments. Available at: <https://mailigrtc.go.ke/views/img/resource/OTHERS/Guidelines%20on%20borrowing%20by%20County%20Governments.pdf>.

**As illustrated in the benchmarking examples above, municipal bond approval processes in other jurisdictions typically involve both subnational legislative approval and national-level oversight to ensure fiscal discipline and investor protection.** Drawing on these practices, Ethiopia could consider establishing a multi-tiered approval framework that includes - for example - regional council authorisation, review by the Ministry of Finance to ensure alignment with national fiscal policy, and regulatory clearance by ECMA as the market regulator.

### Permissible Use of Proceeds

**Many legal and regulatory frameworks for municipal bonds impose restrictions on how proceeds from issuances can be used.** These rules are designed to ensure that funds are directed toward projects that serve the public interest and contribute to long-term fiscal sustainability. By contrast, there are jurisdictions where this is not the case, with the implication being that if investors are not confident that the bond's proceeds will be used for projects that serve the public interest, the bond will go unfunded.

This subsection examines the extent to which Ethiopia's existing legal framework provides guidance on the allowable uses of municipal bond proceeds and explores how such provisions are structured in other jurisdictions.

**Ethiopia's legal framework does not impose clear restrictions on the use of municipal bond proceeds.** While regional financial administration proclamations grant borrowing powers to subnational governments, they do not explicitly require that raised funds be used for specific purposes, such as infrastructure or capital projects. Rather, they contain general provisions regarding what borrowed funds *may* be used for. Specifically, they allow the head of the BoFED to borrow money to cover direct advances, redeem maturing securities, or manage the Consolidated Fund efficiently. This suggests that in the absence of clear restrictions, bond proceeds could potentially be used for debt management or operational expenses rather than being reserved exclusively for capital projects.

**There is however precedent for linking bond proceeds to infrastructure projects by way of legislation.** Specifically, the Federal Government Bond Proclamation No. 867/2014, which governs government bonds to be transacted in international markets, indicates a legislative intent to direct proceeds from the bonds toward infrastructure projects. In particular, the preamble of the proclamation states: "It has become necessary to raise funds to finance the foreign currency requirements of infrastructure projects by issuing government bonds to be transacted in the international market."<sup>140</sup> While this proclamation does not contain any provisions that explicitly mandate the exclusive use of proceeds raised for infrastructure projects, it clearly demonstrates a legislative intent to prioritise such projects. Similarly, other federal proclamations - such as Proclamation Nos. 531/2007, 994/2012, and 1211/2020 - have also specified the intended purpose of bond issuances.<sup>141</sup> This reflects a principle at the federal level in setting out a clear intent for how proceeds should be used - a principle that should ideally be applied to any issuances of bonds at the subnational level.

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<sup>140</sup> [Federal Democratic Republic of Ethiopia](#), 2014.

<sup>141</sup> In particular, Proclamation No. 531/2007 authorised the issuance of a special government bond to raise the capital of the Commercial Bank of Ethiopia; Proclamation No. 994/2017 similarly authorised a bond issuance for the capitalisation of the Commercial Bank of Ethiopia; and Proclamation No. 1211/2020 authorised a special government bond to raise the capital of the Development Bank of Ethiopia.

**Regulations governing the permissible use of municipal bond proceeds are common across many countries and may offer valuable insights for shaping Ethiopia's approach.** Many countries impose stringent rules around the permitted uses of municipal bond proceeds. These are generally pre-issuance requirements, in that subnational governments must demonstrate a clear plan for fund utilisation before receiving approval to issue municipal bonds - which is typically documented in the bond offering documents.<sup>142</sup> Generally, these regulations require that municipal bond proceeds be allocated exclusively to capital expenditures, such as infrastructure development, transportation, and essential public services, rather than being used for operating expenses such as salaries or rent.<sup>143,144</sup> Moreover, many frameworks - including those of the benchmarking countries - mandate that funded projects must have revenue-generating potential to ensure that municipalities can service their debt obligations without compromising their fiscal health.<sup>145</sup> A summary of the regulations pertaining to the permissible use of proceeds raised from the issuance of municipal bonds in the benchmarking countries is presented in the table below.

**Table 5: Regulations around permissible use of funds in benchmarking countries**

| Country        | Permissible use of municipal bond proceeds                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                | Regional/State Governments                                                                                                                                                                                                     | Local/Municipal Governments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>India</b>   | <ul style="list-style-type: none"> <li>No formal legal restrictions on uses of proceeds, state governments can use proceeds from issuances to fund their fiscal deficits - which may include recurrent expenditure.</li> </ul> | <ul style="list-style-type: none"> <li>The proceeds of the issue must be clearly earmarked for a defined project or a set of projects that are specified in the bond's offer document.</li> <li>The funds raised from municipal bonds must be transferred to a dedicated bank account and used only for the projects outlined in the offer document.</li> <li>Municipalities must contribute at least 20% of project costs from internal funds or grants.</li> <li>The municipality must disclose the schedule of implementation of the project(s) and the funds raised by the issuer shall be utilised in accordance with the disclosed schedule.<sup>146,147</sup></li> </ul> |
| <b>Nigeria</b> | <ul style="list-style-type: none"> <li>The proceeds of the issue must be allocated to specific projects, and feasibility reports on the projects to be funded are required to secure</li> </ul>                                | <ul style="list-style-type: none"> <li>The proceeds of the issue must be allocated to specific projects, and feasibility reports on the projects to be funded are required to secure</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

<sup>142</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>143</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>144</sup> A notable exception, however, is in the case of state government bonds in India - as demonstrated in the table.

<sup>145</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>146</sup> Securities and Exchange Board India (2015). Issuing and Listing of Municipal Debt Securities. Available at: [https://www.sebi.gov.in/legal/regulations/sep-2019/securities-and-exchange-board-of-india-issue-and-listing-of-municipal-debt-securities-regulations-2015-last-amendment-on-august-03-2021-\\_34611.html](https://www.sebi.gov.in/legal/regulations/sep-2019/securities-and-exchange-board-of-india-issue-and-listing-of-municipal-debt-securities-regulations-2015-last-amendment-on-august-03-2021-_34611.html).

<sup>147</sup> The Institute of Chartered Accountants India (2018). Municipal Bonds for Financing Urban Infrastructure in India. Available at: <https://kb.icai.org/pdfs/PDFFile5b277d29704bfg.0190824.pdf>.

|              | bond approval. <sup>148,149</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | bond approval. <sup>150,151</sup>                                                                                                                                                                             |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Kenya</b> | <ul style="list-style-type: none"> <li>• Funds may only be used for development (capital) expenditure and cannot be allocated to recurrent expenditure.</li> <li>• Bond proceeds must be tied to specific projects that could not have been financed without borrowing.</li> <li>• Municipalities must demonstrate project feasibility, including land acquisition, compensation for affected persons, regulatory approvals, and resource planning.</li> <li>• A minimum of 15% of project costs must be contributed from the municipality's own resources.<sup>152,153</sup></li> </ul> | <ul style="list-style-type: none"> <li>• Not applicable - Kenya's counties (regional governments) are the lowest level of subnational government; there are no local governments below this level.</li> </ul> |

## Oversight Framework

**An effective oversight structure is essential for ensuring that municipal bond markets function transparently and efficiently.**<sup>154</sup> Effective oversight mechanisms are important aspects of a legal and regulatory framework for municipal bonds, ensuring that issuers operate within established rules, maintain fiscal discipline, and uphold transparency in debt management.<sup>155</sup> This subsection examines Ethiopia's current legal provisions related to borrowing oversight and explores international practices to highlight potential regulatory approaches for a future municipal bond market.

**The role of the ECMA in a potential municipal bond market is supported by existing legislation.** The Capital Market Proclamation No. 1248/2021 and its associated directives grant ECMA the authority to regulate securities markets, including public debt securities. This positions the ECMA to play a central role in the oversight of a potential municipal bonds market. However, it is worth noting that the Proclamation defines "government" specifically as the Federal Government. Given that public debt securities are defined as instruments issued "by or on behalf of the government," this could raise interpretive questions around ECMA's authority over debt issued by subnational entities. Nonetheless, this definitional detail does not appear to preclude ECMA's potential role in regulating and overseeing a future municipal bonds market, and any residual ambiguity could be clarified through subsequent regulatory guidance.

<sup>148</sup> Orimobi (2011). The Issuance of State Government Bonds in Nigeria - an Overview. Available at: <https://www.proshare.co/articles/the-issuance-of-state-government-bonds-in-nigeria-an-overview?menu=Market&classification=Read&category=Bonds%20%26%20Fixed%20Income>.

<sup>149</sup> The Securities and Exchange Commission of Nigeria (2007). Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>150</sup> Orimobi (2011). The Issuance of State Government Bonds in Nigeria - an Overview. Available at: <https://www.proshare.co/articles/the-issuance-of-state-government-bonds-in-nigeria-an-overview?menu=Market&classification=Read&category=Bonds%20%26%20Fixed%20Income>.

<sup>151</sup> The Securities and Exchange Commission of Nigeria (2007). Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>152</sup> Shah (2021). Kenya: Guidelines Issued for County Governments to Tap into Loans and Debt Market. Available at: <https://www.ensafrica.com/news/detail/3959/kenya-guidelines-issued-for-county-government?>.

<sup>153</sup> Kenyan National Treasury and Planning (2021). Guidelines on Borrowing by County Governments. Available at: <https://mailigrtc.go.ke/views/img/resource/OTHERS/Guidelines%20on%20borrowing%20by%20County%20Governments.pdf>.

<sup>154</sup> African Development Bank (2019). Guidelines on Subnational Finance. Available at: [https://www.afdb.org/sites/default/files/2021/02/19/afdb\\_guidelines\\_on\\_subnational\\_finance.pdf](https://www.afdb.org/sites/default/files/2021/02/19/afdb_guidelines_on_subnational_finance.pdf).

<sup>155</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

**Aside from the ECMA, few other entities are explicitly assigned oversight responsibilities related to securities markets.** Notably, the Capital Market Proclamation No. 1248/2021 mandates the National Bank of Ethiopia (NBE) to establish, operate, and regulate a central securities depository for government securities.<sup>156</sup> The proclamation also specifies that the ECMA will cooperate with the Ministry of Justice and the federal government when conducting investigations.<sup>157</sup> However, beyond these specified roles, no other public entities are explicitly assigned regulatory responsibilities under the proclamation. The Capital Market Proclamation No. 1248/2021 does, however, recognise self-regulatory organisations (SROs) - which may be delegated regulatory responsibilities by ECMA provided they meet certain conditions.<sup>158</sup>

**The oversight framework for municipal bond markets in other countries may provide valuable insights for designing an effective framework in Ethiopia.** Oversight mechanisms for municipal bond markets typically encompass both pre-issuance approval procedures discussed previously as well as post-issuance monitoring to ensure compliance with financial reporting requirements, debt servicing obligations, and broader fiscal sustainability measures.<sup>159</sup> These mechanisms generally include national regulatory authorities - typically the national capital market authority - and other oversight bodies that establish regulations, supervise market activities, and enforce regulatory compliance.<sup>160</sup> An overview of the oversight mechanisms present in the benchmarking countries are summarised in the box below.

### Box 3: The Municipal Bond Oversight Framework Across Benchmark Countries

#### India



In India, borrowing by states is regulated through a multi-tiered framework involving the **Government of India**, the **Reserve Bank of India (RBI)**, and **state governments**.<sup>161</sup> The Government of India sets borrowing limits for each state at the beginning of the financial year, while state governments determine the amount and tenure of borrowing within these limits. The **RBI serves as the market regulator**, overseeing issuance while also playing a role in monitoring market conditions and state government borrowing to ensure fiscal stability.<sup>162</sup>

For bonds issued by local governments, the **Securities and Exchange Board of India (SEBI)** - India's capital market authority - is the primary regulator of the municipal bond market, handling pre-issuance oversight (setting regulatory aspects such as eligibility criteria, disclosure and credit rating requirements) and post-issuance oversight (such as ensuring continuous disclosures, listing compliance, and investor protection).<sup>163</sup> The **Reserve Bank of India (RBI)**, meanwhile, provides broader oversight by shaping policies that affect the market - for example, permitting banks and foreign investors to invest in municipal bonds within set limits - thus influencing the post-issuance

<sup>156</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>157</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>158</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>159</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>160</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>161</sup> R. Pandey (2024). Understanding States' Debt and Bond Markets. Available at: [https://www.nipfp.org.in/media/medialibrary/2024/06/WP\\_410\\_2024.pdf](https://www.nipfp.org.in/media/medialibrary/2024/06/WP_410_2024.pdf).

<sup>162</sup> R. Pandey (2024). Understanding States' Debt and Bond Markets. Available at: [https://www.nipfp.org.in/media/medialibrary/2024/06/WP\\_410\\_2024.pdf](https://www.nipfp.org.in/media/medialibrary/2024/06/WP_410_2024.pdf).

<sup>163</sup> Rau's IAS (2024). Municipal Bonds. Available at: <https://compass.rauias.com/current-affairs/municipal-bonds/>.

environment.<sup>164</sup> In addition, **state governments** have a pre-issuance oversight role by approving municipal bond issuances under state municipal finance laws.<sup>165</sup>

#### Nigeria



In Nigeria, the **Securities and Exchange Commission (SEC)** serves as the primary capital market regulator, providing both pre-issuance and post-issuance oversight for both state and local government bonds.<sup>166</sup> The **Nigerian Debt Management Office (DMO)** also provides oversight by monitoring subnational borrowing patterns and tracking debt sustainability.<sup>167</sup> State Houses of Assembly reinforce these checks by adding a legislative layer to pre-issuance oversight - being tasked with reviewing and approving bond proposals.<sup>168</sup>

#### Kenya



Kenya has a multi-tiered oversight structure for municipal bonds. The **Capital Markets Authority (CMA)** provides both pre-issuance and post-issuance oversight, regulating matters such as eligibility criteria, investor disclosures, and ongoing compliance requirements.<sup>169</sup> The **National Treasury** - in consultation with the Intergovernmental Budget and Economic Council (IBEC) - reviews county borrowing proposals to ensure that subnational entities remain within subnational borrowing limits.<sup>170</sup> However, this oversight framework has not been tested in practice - as no municipal bonds have been issued in Kenya to date.

**The experience of Nigeria demonstrates the potential value of having a dedicated debt management office to support subnational borrowing.** The Debt Management Office (DMO) is a government agency under Nigeria's Ministry of Finance, established to centrally coordinate the management of Nigeria's public debt at both the federal and subnational levels.<sup>171</sup> In relation to state governments, the DMO plays a substantial role in managing and overseeing borrowing activities, including the issuance of bonds.<sup>172</sup> In particular, the DMO is responsible for evaluating borrowing requests submitted by state governments - including required documentation such as feasibility studies, repayment terms, and justifications - to ensure alignment with national debt sustainability objectives and legal borrowing frameworks.<sup>173</sup> Further to this, The DMO reviews the financial standing of the issuer, assesses the economic and technical viability of the proposed projects to be financed through bond proceeds, and sets ceilings on subnational borrowing in consultation with the Federal Ministry of Finance.<sup>174</sup> It also maintains a centralised database of state-level debt and monitors subnational borrowing trends to identify emerging fiscal risks and

<sup>164</sup> PwC (2019). Foreign Portfolio Investors Can Invest in Municipal Bonds. Available at: [https://www.pwc.in/assets/pdfs/news-alert/2019/pwc\\_news\\_flash\\_26\\_april\\_2019\\_fpi\\_can\\_invest\\_in\\_municipal\\_bonds.pdf#](https://www.pwc.in/assets/pdfs/news-alert/2019/pwc_news_flash_26_april_2019_fpi_can_invest_in_municipal_bonds.pdf#).

<sup>165</sup> Government of India (2017). Guidance on Use of Municipal Bond Financing for Infrastructure Projects. Available at: [https://www.pppinindia.gov.in/report/Guidance%20on%20use%20of%20Municipal%20Bonds%20for%20PPP%20projects.pdf\\_1685082702.pdf#](https://www.pppinindia.gov.in/report/Guidance%20on%20use%20of%20Municipal%20Bonds%20for%20PPP%20projects.pdf_1685082702.pdf#).

<sup>166</sup> The Securities and Exchange Commission of Nigeria (2007). Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>167</sup> The Securities and Exchange Commission of Nigeria (2007). Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>168</sup> World Bank (2019). Subnational Debt Management Performance Assessment. Available at: <https://openknowledge.worldbank.org/server/api/core/bitstreams/e79e9d1b-1c59-5099-b907-2b8080062d23/content>.

<sup>169</sup> Kenyan National Treasury and Planning (2021). Guidelines on Borrowing by County Governments. Available at: <https://mailigrtc.go.ke/views/img/resource/OTHERS/Guidelines%20on%20borrowing%20by%20County%20Governments.pdf>.

<sup>170</sup> Kenyan National Treasury and Planning (2021). Guidelines on Borrowing by County Governments. Available at: <https://mailigrtc.go.ke/views/img/resource/OTHERS/Guidelines%20on%20borrowing%20by%20County%20Governments.pdf>.

<sup>171</sup> Debt Management Office Nigeria (2025). About DMO. Available at: <https://www.dmo.gov.ng/about-dmo>.

<sup>172</sup> World Bank (2020). MIT Discussion Paper No. 19. Available at: <https://openknowledge.worldbank.org/server/api/core/bitstreams/7ab7e883-6a04-5490-a4b5-0aa9bea12abf/content>.

<sup>173</sup> World Bank (2020). MIT Discussion Paper No. 19. Available at: <https://openknowledge.worldbank.org/server/api/core/bitstreams/7ab7e883-6a04-5490-a4b5-0aa9bea12abf/content>.

<sup>174</sup> World Bank (2020). MIT Discussion Paper No. 19. Available at: <https://openknowledge.worldbank.org/server/api/core/bitstreams/7ab7e883-6a04-5490-a4b5-0aa9bea12abf/content>.

inform national macroeconomic planning.<sup>175</sup> In addition to these market oversight functions, the DMO also plays a developmental and enabling role by providing technical assistance to state governments. This includes, for example, playing an active role in providing technical assistance to state governments - conducting capacity-building workshops for state debt management officers, supporting the preparation of Medium-Term Debt Management Strategies (MTDS), offering training on debt reporting, forecasting, and sustainability analysis, and promoting the use of standardised tools and reporting formats to enhance transparency and consistency in subnational debt practices.<sup>176</sup>

## Investor Protection Mechanisms

**A well-function municipal bond market requires regulatory safeguards to protect investors and maintain confidence in the integrity of the market.** Investor protection mechanisms ensure that bond issuers provide transparent and accurate information, adhere to financial and regulatory requirements, and mitigate risks associated with default or mismanagement. This subsection examines the extent to which Ethiopia's legal and regulatory framework provides investor protections for municipal bonds and explores international approaches to safeguarding investor interests.

**Ethiopia's legal and regulatory framework does not currently provide a dedicated investor protection framework for municipal bonds, but key financial regulations may offer a foundation for future protections.** The review of existing legislation undertaken as part of this study including a scoping of any provisions relevant to investor protection considerations such as debt servicing protections and dispute resolution mechanisms that may pertain to a prospective municipal bond market.

**Debt servicing protections are not explicitly defined for municipal bonds in Ethiopia.** While various financial laws regulate borrowing, they do not establish mechanisms such as sinking funds, escrow accounts, or automatic deductions to ensure municipal bond repayments.

**The existing legal and regulatory framework for the capital market provides some guidance on dispute resolution mechanisms, and the ECMA is currently in the process of developing the dispute resolution framework for the Ethiopian capital market.** The Capital Market Proclamation includes a "Settlement of Disputes" clause under Article 111 which sets a dispute resolution framework for disputes among parties involved in the capital market.<sup>177</sup> According to this clause, any civil matter arising under the proclamation is required to be resolved first through mediation. If mediation does not resolve the dispute, arbitration is mandated as the next step, with the arbitration award being final and binding on both parties.<sup>178</sup> The proclamation further indicates that the specifics of arbitration - such as the appointment, qualification, procedure and

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<sup>175</sup> World Bank (2020). MIT Discussion Paper No. 19. Available at:

<https://openknowledge.worldbank.org/server/api/core/bitstreams/7ab7e883-6a04-5490-a4b5-0aagbea12abf/content>.

<sup>176</sup> World Bank (2020). MIT Discussion Paper No. 19. Available at:

<https://openknowledge.worldbank.org/server/api/core/bitstreams/7ab7e883-6a04-5490-a4b5-0aagbea12abf/content>.

<sup>177</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at:

[https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>178</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at:

[https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

payment or arbitrators - are to be defined in a directive issued by the ECMA.<sup>179</sup> While no such directive has been issued to date, the ECMA is currently in the process of developing a more detailed dispute resolution framework for the capital market, which may address existing gaps in the legal and regulatory framework with respect to dispute resolution.

**The Capital Market Tribunal provides a formal avenue for investors to challenge adverse regulatory decisions, thereby contributing to investor protection.** Established under Article 64 and subsequent provisions of the Capital Market Proclamation, the Tribunal is mandated to hear appeals against decisions made by the ECMA.<sup>180</sup> The proclamation specifies that the Tribunal has jurisdiction to hear and determine appeals related to the decisions of the Authority or any person exercising the functions or powers of the Authority.<sup>181</sup> By offering a structured appeal process, the Tribunal supports investor protection by enabling recourse against potentially unfair or detrimental decisions by the ECMA. However, given that its jurisdiction is limited to ECMA decisions, it remains uncertain whether disputes specifically related to municipal bond investments would fall within its scope.

**International experience provides some insight into how investor mechanisms may be structured.** In many countries, regulations are centred on ensuring that issuers meet their debt obligations to investors through dedicated repayment structures, that independent trustees oversee compliance, and that investors have legal recourse in the case of default.<sup>182</sup>

#### Box 4: Overview of Investor Protection Mechanisms Across Benchmark Countries

##### India



India's regulatory framework for municipal bonds includes several mechanisms to safeguard investor interests. **Debt servicing protections** are ensured through two key financial structures. First, issuers must establish an **escrow fund**, where pledged revenues are deposited exclusively for servicing bondholders.<sup>183</sup> This ensures that funds for debt repayment are protected from being diverted to other municipal expenses. Additionally, issuers are often required to maintain a **Debt Service Reserve Fund (DSRF)** as a backup mechanism to cover payment shortfalls, providing an additional layer of security for investors.<sup>184</sup> **Dispute resolution mechanisms** are embedded in SEBI's regulatory framework, allowing bondholders to take legal action against the issuer in cases of default or misrepresentation. These disputes can be addressed through **contractual enforcement mechanisms and securities market regulations**.<sup>185</sup> Additionally, **transparency and disclosure requirements** play a key role in investor protection, as municipal bond issuers must submit **half-yearly and annual financial reports** to stock exchanges and SEBI, providing detailed updates on

<sup>179</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>180</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>181</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>182</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>183</sup> L Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>184</sup> L Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>185</sup> L Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

revenue performance, outstanding liabilities, and debt servicing capacity.<sup>186</sup>

## Nigeria



Similar to India, Nigeria's regulatory framework for municipal bonds incorporates multiple layers of investor protection. **Debt servicing protections** are ensured through an **Irrevocable Standing Payment Order (ISPO)**, which mandates that bond repayments are deducted directly from a state's statutory allocations before funds reach the state government. In addition, the law requires the establishment of a **sinking fund**, where a portion of revenue is regularly set aside to redeem outstanding debt obligations, serving as a financial buffer for investors.<sup>187</sup> **Dispute resolution mechanisms** ensure that investors have legal recourse in cases of default, fraud, or mismanagement. If an issuer defaults, bondholders representing at least 10% of the bond value have **the right to compel an appointed trustee to take legal action**. Should the trustee fail to act, **bondholders can initiate legal proceedings themselves**. Bondholders are legally recognised creditors, meaning their claims are enforceable under Nigerian law.<sup>188</sup> In terms of disclosure and transparency requirements, municipal bond issuers are required to publish financial reports on bond performance, including revenue streams, liabilities, and repayment capacity.<sup>189</sup>

## Kenya



There is limited publicly available information on investor protection mechanisms in Kenya's municipal (county) bond legal and regulatory framework. **Debt servicing protections are not explicitly defined**, and there is no clear requirement for issuers to establish escrow accounts or sinking funds to secure repayments. However, all county government borrowing must be **approved and guaranteed by the National Government**.<sup>190</sup> The Public Debt Management Office (PDMO) monitors county government debt and ensures compliance with the County Medium-Term Debt Strategy.<sup>191</sup> Additionally, county governments must submit quarterly reports on debt servicing and repayment to the National Treasury.<sup>192</sup> However, there is no clear requirement for continuous public disclosures on bond performance, financial health, or outstanding liabilities, which could limit investor confidence.

**As demonstrated by the box above, the use of sovereign guarantees and equivalent mechanisms varies across contexts.** In some countries, subnational issuers are permitted to access debt markets without sovereign guarantees, allowing municipalities to build an independent credit profile. India is one such example, where municipal bonds are issued without sovereign backing but require a minimum credit rating.<sup>193</sup> Nigeria does not use sovereign guarantees per se, but implements Irrevocable Standing Payment Orders (ISPOs) that automatically deduct debt repayments from federal allocations.<sup>194</sup> Kenya, meanwhile, is the only one of the benchmarking countries where prospective subnational issuers are required to obtain a sovereign guarantee in order to issue municipal bonds.<sup>195</sup>

<sup>186</sup> L. Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>187</sup> The Securities and Exchange Commission of Nigeria (2007). Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>188</sup> The Securities and Exchange Commission of Nigeria (2007). Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>189</sup> The Securities and Exchange Commission of Nigeria (2007). Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>190</sup> Kenyan National Treasury and Planning (2021). Guidelines on Borrowing by County Governments. Available at: <https://mailigrtc.go.ke/views/img/resource/OTHERS/Guidlines%20on%20borrowing%20by%20County%20Governments.pdf>.

<sup>191</sup> Kenyan National Treasury and Planning (2021). Guidelines on Borrowing by County Governments. Available at: <https://mailigrtc.go.ke/views/img/resource/OTHERS/Guidlines%20on%20borrowing%20by%20County%20Governments.pdf>.

<sup>192</sup> Kenyan National Treasury and Planning (2021). Guidelines on Borrowing by County Governments. Available at: <https://mailigrtc.go.ke/views/img/resource/OTHERS/Guidlines%20on%20borrowing%20by%20County%20Governments.pdf>.

<sup>193</sup> L. Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>194</sup> The Securities and Exchange Commission of Nigeria (2007). Investment and Securities Act. Available at: [https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007\\_NIGERIA.pdf](https://sec.gov.ng/wp-content/uploads/2016/02/THE-INVESTMENTS-AND-SECURITIES-ACT-2007_NIGERIA.pdf).

<sup>195</sup> The Republic of Kenya (2012). Public Finance Management Act. Available at: <https://www.worldbank.org/content/dam/Worldbank/document/Africa/Kenya/Kenay%20Devolution/Public%20Finance%20Management%20Act%20%282012%29.pdf>.

**Although sovereign guarantees can strengthen investor confidence, many governments choose to avoid sovereign guarantees to support the development of a self-sustaining municipal bond market.** Sovereign guarantees can mask the true credit risk of the issuing entity, weaken incentives for fiscal discipline, and create moral hazard by shifting perceived repayment responsibility to the central government.<sup>196</sup> Even implicit guarantees - where the market assumes the sovereign would intervene in the event of default - can undermine market discipline and expose the national government to contingent liabilities.<sup>197</sup> For these reasons, a key principle in the development of many subnational debt markets is to establish subnational issuing entities as credible, standalone counterparties that are assessed and priced on their own financial strength.<sup>198</sup>

## Taxation

**Another important consideration of a legal and regulatory framework for a municipal bonds market is taxation.** The treatment of municipal bonds with respect to tax plays an important role in shaping investor demand, influencing borrowing costs for municipalities, and determining overall market development.<sup>199</sup> For example, in many countries, tax incentives - such as exemptions on tax applied to interest income - are used to make municipal bonds relatively attractive to investors and lower financing costs. However, poorly designed tax exemptions can create inefficiencies in the market, including distortions in capital allocation and revenue losses for national governments.<sup>200</sup>

**This study included a review of relevant laws in Ethiopia to determine whether existing legislation provides insight into how municipal bonds may be taxed.** For this analysis, the documents reviewed were the Federal Government Bond Proclamation, the Stamp Duty Proclamation, the Federal Income Tax Proclamation, and other relevant tax regulations. These laws outline the tax treatment of bonds in Ethiopia, including provisions on stamp duty, capital gains tax, and interest income taxation.

**As a starting point, it appears that municipal bonds in Ethiopia would be subject to income tax on interest payments at present unless explicitly exempted in a similar way to federal government bonds.** Federal government bonds currently have an exemption on income tax on interest payments according to the Government Bond Proclamation No. 994/2017.<sup>201</sup> In addition, the Special Government Bond Proclamation No. 1211/2020 provided a complete tax exemption on special government bonds issued to raise capital for the Development Bank of Ethiopia, providing further legal precedent of tax exemptions for government bonds.<sup>202</sup> However, there is currently no similar provision for municipal bonds, and there is ambiguity around which tax rate

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<sup>196</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>197</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>198</sup> World Bank (2000). Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>199</sup> World Bank (2000). Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>200</sup> World Bank (2000). Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>201</sup> Federal Democratic Republic of Ethiopia (2017). Government Bond Proclamation No. 994/2017. Available at: [https://chilot.wordpress.com/wp-content/uploads/2017/11/994\\_2017-government-bond.pdf](https://chilot.wordpress.com/wp-content/uploads/2017/11/994_2017-government-bond.pdf).

<sup>202</sup> Federal Democratic Republic of Ethiopia (2020). Special Government Bond Proclamation. Available at: [https://chilot.wordpress.com/wp-content/uploads/2017/11/994\\_2017-government-bond.pdf](https://chilot.wordpress.com/wp-content/uploads/2017/11/994_2017-government-bond.pdf).

would apply to interest income - whether standard income tax rates or a future rate defined through specific enactments.

**Municipal bonds in Ethiopia may be subject to stamp duty, as there is no explicit exemption similar to that granted for government bonds at present.** Similar to the case of income tax on interest payments, the Government Bond Proclamation No. 994/2017 exempts federal government bonds from stamp duty.<sup>203</sup> However, the Stamp Duty Proclamation - which establishes the legal basis for levying stamp duty on various instruments - lists "bonds" as chargeable instruments. However, it is unclear whether this applies to municipal bonds, as the Proclamation's definition of "bond" is broad and does not explicitly distinguish between different types of bonds.<sup>204</sup> This lack of clarity makes it uncertain whether municipal bonds would be subject to stamp duty or if they should receive the same exemption as government bonds.

**Similarly, on the balance of the evidence reviewed, it appears that municipal bonds would be subject to capital gains tax.** The Federal Income Tax Proclamation (No. 979/2016) and its related regulations classify bonds as "Class B" assets, making them subject to a 30% capital gains tax upon disposal.<sup>205</sup> This tax applies when a bond is sold at a profit, calculated as the difference between the original purchase price and the selling price. Unless exempted from capital gains tax as in the case of the federal government bonds, municipal bonds would be subject to capital gains tax at 30% upon disposal.

**Engagements are currently underway between the ECMA and the Ministry of Finance to clarify the appropriate tax treatment of municipal bonds, which would otherwise likely be subject to taxation unless explicitly exempted under the law.** While federal government bonds are exempt from stamp duty, capital gains tax, and income tax on interest payments, no similar exemption currently exists for municipal bonds. Additionally, municipal bonds would likely be subject to a 30% capital gains tax upon disposal. As such, in the absence of further legislation, these forms of taxation would apply to municipal bonds. However, it is important to note that this is subject to change, given the ongoing engagements on the tax treatment of municipal bonds - amongst other things - between the ECMA and the Ministry of Finance.

**The tax treatment of municipal bonds varies across different jurisdictions, with some countries providing exemptions to support bond market development, while others apply standard tax rules.** To provide context for Ethiopia's approach, the box below summarises the tax treatment of municipal bonds in the study's benchmarking countries.

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<sup>203</sup> Federal Democratic Republic of Ethiopia (2017). Government Bond Proclamation No. 994/2017. Available at: [https://chilot.wordpress.com/wp-content/uploads/2017/11/994\\_2017-government-bond.pdf](https://chilot.wordpress.com/wp-content/uploads/2017/11/994_2017-government-bond.pdf).

<sup>204</sup> Federal Democratic Republic of Ethiopia (1998). Stamp Duty Proclamation. Available at: [https://www.2merkato.com/images/downloads/proclamation\\_110\\_1998.pdf](https://www.2merkato.com/images/downloads/proclamation_110_1998.pdf).

<sup>205</sup> Federal Democratic Republic of Ethiopia (2016). Federal Income Tax Proclamation. Available at: [https://www.2merkato.com/images/downloads/proclamation\\_979\\_2016.pdf](https://www.2merkato.com/images/downloads/proclamation_979_2016.pdf).

## Box 5: Taxation Treatment of Municipal Bonds in Benchmarking Countries

|                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>India</b></p>    | <p>In India, <b>municipal bonds are taxed similarly to other listed bonds</b>.<sup>206</sup> Interest earnings are subject to <b>income tax</b> at the <b>investor's applicable slab rate</b> - which can be 5%, 10%, or 20%.<sup>207,208</sup> Additionally, if an investor sells the bond before maturity after holding it for 36 months, <b>any capital gains are also taxable</b> at a rate of 20%.<sup>209,210</sup> Although tax-free municipal bonds <b>were permitted</b> in earlier issuances, strict eligibility criteria made such issuances uncommon.<sup>211</sup> Instead of offering tax incentives, <b>authorities in India have opted for other means of deepening the market</b> - such as interest subsidies and an incentive program.<sup>212</sup></p> |
| <p><b>Nigeria</b></p>  | <p>In 2011, the Nigerian government issued an <b>exemption</b> order that made income earned from bonds and short-term securities tax-free for a period of 10 years. This exemption applied to bonds issued by federal, state, and local governments, as well as their agencies. The goal was to encourage investment in these securities by enhancing their attractiveness through tax-free returns.<sup>213, 214</sup> However, <b>this exemption expired on the 2nd of January 2022</b> (except for federal government bonds).<sup>215</sup> As such, <b>state and local government bonds are now subject to income tax and capital gains tax</b>.<sup>216,217</sup></p>                                                                                                 |
| <p><b>Kenya</b></p>    | <p>No public information is available on how county (municipal) bonds would be taxed. Based on the precedent set by national bonds, <b>interest income from future municipal bond issuances in Kenya may be subject to withholding tax</b>. However, there is also precedent for bonds in Kenya being tax-exempt. Specifically, <b>infrastructure bonds in Kenya have historically been tax exempt</b> - although a recent proposal is looking to introduce income and capital gains taxes to these instruments.<sup>218</sup></p>                                                                                                                                                                                                                                          |

<sup>206</sup> L Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>207</sup> L Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>208</sup> Cambridge Wealth India (2024). Tax on Bonds: A Complete Guide. Available at: <https://www.cambridgewealth.in/post/tax-on-bonds-a-complete-guide?>

<sup>209</sup> L Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>210</sup> Jiraaf (2024). Taxation on Bonds in India: What Every Investor Needs to Know. Available at: <https://www.jiraaf.com/blogs/taxation-on-bonds>.

<sup>211</sup> L Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>212</sup> L Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>213</sup> SPA Ajibade (2011). Tax Implications of Income from Disposal of Corporate Bonds and Shares. Available at: <https://spaajibade.com/nigerian-tax-issues-tax-implications-of-income-from-disposal-of-corporate-bonds-and-shares/>.

<sup>214</sup> Orimobi (2011). The Issuance of State Government Bonds in Nigeria - an Overview. Available at: <https://www.proshare.co/articles/the-issuance-of-state-government-bonds-in-nigeria-an-overview?menu=Market&classification=Read&category=Bonds%20%26%20Fixed%20Income>.

<sup>215</sup> PWC (2022). FIRS Issues Circular on the Taxation of Government Securities and Corporate Bonds. Available at: [https://pwc-nigeria.typepad.com/tax\\_matters\\_nigeria/2022/02/firs-issues-circular-on-the-taxation-of-government-securities-and-corporate-bonds.html](https://pwc-nigeria.typepad.com/tax_matters_nigeria/2022/02/firs-issues-circular-on-the-taxation-of-government-securities-and-corporate-bonds.html)

<sup>216</sup> PWC (2022). FIRS Issues Circular on the Taxation of Government Securities and Corporate Bonds. Available at: [https://pwc-nigeria.typepad.com/tax\\_matters\\_nigeria/2022/02/firs-issues-circular-on-the-taxation-of-government-securities-and-corporate-bonds.html](https://pwc-nigeria.typepad.com/tax_matters_nigeria/2022/02/firs-issues-circular-on-the-taxation-of-government-securities-and-corporate-bonds.html)

<sup>217</sup> Deloitte (2024). International Tax - Nigeria Highlights. Available at: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-nigeriahighlights-2024.pdf?>

<sup>218</sup> Central Bank of Kenya (2021). Treasury Bills. Available at: <https://www.centralbank.go.ke/images/FAQs/Frequently%20Asked%20Questions%20on%20GoK%20Securities.pdf>.

## Market Enablers and Infrastructure

**Building a well-functioning municipal bond market demands specific market enabling conditions at all phases of the bond's lifecycle** - including issuance on the primary market, trading on the secondary market, and post-trade processes including clearing and settlement.<sup>219</sup> Each link in this chain is vital for market confidence; without these elements, investor appetite shrinks, borrowing costs climb, and broader capital market development can stall.<sup>220</sup>

**This subsection examines the market enablers and infrastructure necessary for a well-functioning municipal bond market at each stage of the bond lifecycle.** This includes the mechanisms and systems that facilitate issuance, ensure liquidity and price discovery in secondary market trading, and support efficient post-trade processes such as clearing, settlement, and custody.

### Issuance - The Primary Market

**For regional governments and city administrations to issue bonds, key market enablers and technical infrastructure must be in place to facilitate this process, starting with the primary market.**

**A key market enabler for a well-functioning municipal bond market is a clear framework that defines the roles, responsibilities, and processes for issuers and underwriters in the bond issuance process.**<sup>221</sup> Issuers are responsible for initiating and structuring the bond offering, determining the terms, and ensuring compliance with relevant regulations. Underwriters, meanwhile, play a key role in helping issuers structure the bond offering including advising on pricing, marketing, and facilitating distribution to potential investors. Given how important these roles are to the issuance process, a robust framework is essential - as it clarifies each party's obligations, standardises issuance procedures, and ensures that the bond issuance is both efficient and compliant with regulatory requirements.<sup>222</sup>

**While recent directives provide a general framework for issuing debt securities in Ethiopia, they do not provide granular guidelines on the specific roles and processes for each party in the municipal bond issuance process.** Existing provisions, such as the Directive on Public Offering and Trading of Securities Directive Number 1030/2024, are largely geared toward share companies (or other statutory bodies) issuing corporate-style bonds and equity.<sup>223</sup> While these provisions do offer a general issuance and underwriting framework applicable to entities

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<sup>219</sup> World Bank (2000), Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>220</sup> World Bank (2000), Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>221</sup> World Bank (2000), Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>222</sup> World Bank (2000), Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>223</sup> Ethiopian Capital Market Authority (2024). Directive on Public Offering and Trading of Securities. Available at: <https://ecma.gov.et/wp-content/uploads/2024/11/Directive%20on%20Public%20Offering%20and%20Trading%20of%20Securities%201030%20-2024.pdf>.

formally recognised as “statutory bodies empowered to issue securities”, they do not provide provisions around many important considerations relevant to municipal bond issuance.<sup>224</sup>

**Beyond issuers and underwriters, municipal bond markets also depend on the presence of a wider ecosystem of professional intermediaries** - including transaction advisers, legal counsel, and reporting accountants. Transaction advisers support subnational entities - especially new issuers - by advising on timing, structure, pricing, and investor targeting when pursuing a municipal bond issuance.<sup>225</sup> They also help develop internal systems such as debt and cash management, and assist in building relationships with rating agencies, particularly in competitive bidding contexts.<sup>226</sup> Bond legal counsel provides the legal opinion required to accompany the bond, confirming the issuer’s authority, the legality of the issue, and the terms under which the bond may be enforced. They are also responsible for preparing covenants that protect bondholders in the event of financial distress and potential default.<sup>227</sup> Reporting accountants, meanwhile, help ensure that financial disclosures in the offering documents are accurate and regulatory-compliant.

**While these roles are important to a well-functioning municipal bond market, Ethiopia’s intermediary ecosystem is still in an early stage of development.** Until recently, there were no licensed investment banks in Ethiopia.<sup>228</sup> Moreover, while securities advisory licenses have been issued by the ECMA, there is only a limited number of transaction advisers operating in the market at present.<sup>229</sup> In addition, the regulatory regime for these intermediaries - as well as for legal counsel and reporting accountants - was described by stakeholders as unclear, and does not clearly define the roles, responsibilities, or professional standards expected of these actors in the context of municipal bond issuance.<sup>230</sup>

**Credit ratings agencies can also be important market enablers for a municipal bond market.** These agencies provide independent assessments of an issuer’s creditworthiness, offering potential investors insights into the risk of investing in municipal bonds.<sup>231</sup> By assigning ratings, these entities help establish transparency and market confidence - which in turn can lower borrowing costs and attract a broader base of investors.<sup>232</sup> Internationally, many legal and regulatory frameworks for municipal bonds require prospective issuers to obtain a minimum

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<sup>224</sup> Ethiopian Capital Market Authority (2024). Directive on Public Offering and Trading of Securities. Available at: <https://ecma.gov.et/wp-content/uploads/2024/11/Directive%20on%20Public%20Offering%20and%20Trading%20of%20Securities%201030%20-2024.pdf>.

<sup>225</sup> World Bank (2000). Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>226</sup> World Bank (2000). Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>227</sup> World Bank (2000). Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>228</sup> Wachira (2025). Ethiopia: First Investment Banking Licenses Issued. Available at: <https://gfmag.com/banking/ethiopia-first-investment-banking-licenses-issued/#:~:text=On%20March%2021%2C%20Ethiopia%20issued,linked%20to%20major%20Ethiopian%20banks>.

<sup>229</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>230</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>231</sup> World Bank (2000). Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>232</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

credit rating as part of their eligibility requirements.<sup>233</sup> Generally, if a subnational issuer in an emerging economy markets a bond primarily to domestic investors, they often use a local rating.<sup>234</sup> International ratings, meanwhile, are often used if the bond wishes to attract international investors.<sup>235</sup> In India for example, municipal bonds are typically rated by domestic ratings agencies (e.g. CRISIL and Care Ratings).<sup>236</sup> International agencies are also used, albeit less frequently, and typically only if there is a cross-border component to the borrowing.<sup>237</sup> Similarly, many state governments in Nigeria utilise local ratings agencies such as Augusto & Co. and DataPro.<sup>238,239</sup>

**In Ethiopia, there are no established domestic credit ratings, meaning that any creditworthiness assessments for regions and city administrations would need to be conducted by international agencies.** The current regulatory framework in Ethiopia does not mandate issuers of debt to obtain a credit rating.<sup>240</sup> However, for issuers that do seek a credit rating, the regulations stipulate that it must come from a credit-rating agency licensed or authorised by the Ethiopian Capital Market Authority.<sup>241</sup> Given the nascent state of Ethiopia's capital market, there are no domestically established credit rating agencies - unlike in other developing countries such as India and Nigeria. However, the ECMA has issued licensing directives that allow qualified international and regional credit rating agencies to operate in Ethiopia, subject to authorisation. As such, in the short term, the Ethiopian Capital Market Authority (ECMA) could consider licensing credible regional or pan-African credit rating agencies - such as Augusto & Co. - to assess subnational creditworthiness. Over the longer term, The ECMA could also play a role in facilitating the development of a domestic credit rating ecosystem to support deeper local capacity and potentially lower the cost of obtaining a credit rating.

**From an infrastructure perspective, issuance also requires a clear and structured mechanism for issuing bonds such as an auction platform.** Sentiments shared during stakeholder interviews suggest that existing infrastructure could provide such a platform.<sup>242</sup> In particular, stakeholders envisioned that auctions for municipal bonds could occur on a system that is integrated with the CSD, following a similar approach to that which will be used for government bonds.<sup>243</sup>

<sup>233</sup> World Bank, (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>234</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>235</sup> World Bank (2014). Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>236</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>237</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>238</sup> Augusto & Co (2024). Augusto & Co. hereby affirms the "Aa" rating assigned to the Lagos State Government's ₦100 Billion Series III Bond. Available at: <https://www.agusto.com/ratings/agusto-co-hereby-affirms-the-aa-rating-assigned-to-the-lagos-state-governments-%E2%82%A6100-billion-series-iii-bond/>.

<sup>239</sup> DataPro (2023). DataPro Rating Guide. Available at: <https://datapronigeria.com/rating-guide/>.

<sup>240</sup> Ethiopian Capital Market Authority (2024). Directive on Public Offering and Trading of Securities. Available at: <https://ecma.gov.et/wp-content/uploads/2024/11/Directive%20on%20Public%20Offering%20and%20Trading%20of%20Securities%201030%20-2024.pdf>.

<sup>241</sup> Ethiopian Capital Market Authority (2024). Directive on Public Offering and Trading of Securities. Available at: <https://ecma.gov.et/wp-content/uploads/2024/11/Directive%20on%20Public%20Offering%20and%20Trading%20of%20Securities%201030%20-2024.pdf>.

<sup>242</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>243</sup> National Bank of Ethiopia (2024). Treasury Bills. Available at: <https://nbe.gov.et/treasury-bills/>.

## Trading - The Secondary Market

**Following the issuance of municipal bonds, a well-functioning municipal bond market also requires a liquid and transparent secondary market** - where investors can trade bonds after their initial sale.<sup>244,245</sup> A secondary market for municipal bonds enables price discovery, allowing bonds to be valued based on supply and demand rather than solely on their initial issuance price.<sup>246</sup> This is desirable because it provides transparent and market-driven benchmarks for future issuances, helping municipalities secure financing at fair and competitive rates.<sup>247</sup> Another important function and benefit of a vibrant secondary market is the provision of liquidity to investors - allowing them to exit their positions when needed. This is an important feature of a bond market, as it lowers the risk of purchasing municipal bonds, increases their attractiveness, and ultimately broadens the investor base.<sup>248</sup>

**Market engagements suggest that Ethiopia has the necessary systems to support post-issuance trading of municipal bonds on the secondary market.** The ESX operates a multi-asset trading system capable of accommodating fixed-income securities, including municipal bonds if introduced. Stakeholders interviewed indicated that listing municipal bonds on the exchange would be a straightforward process, as it would function similarly to other listed securities.<sup>249</sup> Moreover, the integration of the CSD with ESX ensures that, following issuance, municipal bonds could be automatically listed for trade, facilitating post-issuance liquidity.<sup>250</sup> This integration would allow for real-time updates of ownership records, thereby reducing settlement risk. On this basis, stakeholders expressed confidence that the existing infrastructure could support a secondary market for municipal bonds.<sup>251</sup>

**However, a well-functioning secondary market for municipal bonds also requires a liquid secondary market for government bonds.** Active trading ensures that investors can buy and sell bonds quickly without causing large price swings, thus enhancing market confidence and transparency. When liquidity is high, yields better reflect real-time market conditions, providing a more reliable benchmark for subnational bond issuances. Conversely, a thinly traded secondary market weakens the risk-free reference, undermining both investor confidence and possibly municipal bond pricing.<sup>252,253</sup> Ideally, government bonds should be traded on an electronic trading platform - as this fosters real-time dissemination of trade information and price transparency.

**Further to this, a key market enabler for a well-functioning secondary market for municipal bonds is a government bond yield curve with issuances covering both short and long-term maturities.** Such a yield curve acts as a risk-free benchmark, guiding investors in pricing other debt instruments - including municipal bonds - and helping them assess credit risk premiums.<sup>254</sup>

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<sup>244</sup> World Bank (2000), Building Subnational Debt Markets in Developing and Transition Economies. Available at: <http://documents.worldbank.org/curated/en/813501468739463918/pdf/multi-page.pdf>.

<sup>245</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>246</sup> Glasser (2020). Municipal Bonds in Three Countries: India, South Africa and the United States. Available at: <https://readingroom.law.gsu.edu/cgi/viewcontent.cgi?article=1054&context=jculp>.

<sup>247</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>248</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>249</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>250</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>251</sup> Genesis Analytics Stakeholder Engagements, (2025).

<sup>252</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>253</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>254</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

This is because the trading of government bonds at different tenors enables price discovery, creating a benchmark yield curve that reflects market expectations for interest rates and risk which thereby informs the accurate pricing of municipal bonds in the secondary market.<sup>255</sup>

**The lack of a robust market for federal government bonds - characterised by short maturities and the absence of a secondary market - poses a significant challenge to a prospective municipal bond market in Ethiopia.** To date, the federal government has only issued bonds with relatively short time horizons - primarily short-term treasury bills and non-marketable five-year government bonds.<sup>256,257</sup> Moreover, there is currently no secondary market for trading government bonds in Ethiopia.<sup>258</sup> As such, any municipal debt market may face challenges with price discovery, undermining liquidity on the secondary market and eroding investor confidence, which in turn would drive up borrowing costs for regional governments and city administrations.

### The Post-Trade Environment

**A robust post-trade environment is an important component of a municipal bond market, ensuring that trades are efficiently cleared, settled, and protected against counterparty risk.**

Such a robust environment includes a Central Securities Depository (CSD), which handles the clearing and settlement of securities and maintains an electronic record of ownership in dematerialised form. The CSD should, in turn, be linked to the central bank's Real-Time Gross Settlement (RTGS) system, allowing municipal bond payments to be settled in central bank money. This integration is also important as it allows for complete delivery-versus-payment (DvP) - a settlement mechanism in which the transfer of securities occurs only if the corresponding payment is made, thereby eliminating principal risk and boosting investor confidence.<sup>259</sup> In more advanced markets, a Central Counterparty (CCP) further mitigates default risk by novating trades and guaranteeing settlement.

**Ethiopia has taken a significant step in its capital market by establishing a CSD at the National Bank of Ethiopia.** The CSD - using a Montran platform - went live on the 15th of November 2024, and has been integrated with the exchange and tested successfully. As such, the core infrastructure for electronic clearing, settlement and record keeping is operational - and stakeholders interviewed for this study expressed confidence that the CSD could be used for the clearing and settlement of municipal bonds.<sup>260</sup>

**Ethiopia also has the necessary infrastructure in place to underpin the transfer of funds for municipal bond transactions.** While the CSD ensures the clearing and settlement of securities, the actual movement of funds between buyers and sellers is facilitated through Ethiopia's national payment system. Given that high-value financial transactions in Ethiopia typically settle through the Real-Time Gross Settlement (RTGS) system managed by the National Bank of Ethiopia, it is likely that settlement for municipal bond payments would follow the same process

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<sup>255</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>256</sup> IMF (2025). IMF Country Report - Ethiopia. Available at: <https://www.imf.org/-/media/Files/Publications/CR/2025/English/1ethea2025001-print-pdf.ashx>.

<sup>257</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>258</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>259</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>260</sup> Genesis Analytics Stakeholder Engagements (2025).

- aligning with international best practices.<sup>261,262</sup> Importantly, the CSD is integrated with the RTGS system, which would enable settlement in central bank money for municipal bonds. Moreover, the RTGS system - and Ethiopia's national payment system as a whole - is considered functional and capable of facilitating final settlements between financial institutions. As such, based on the information available, the existing infrastructure appears sufficient to handle the clearing and settlement of municipal bond payments.

**Another important market enabler in the post-trade environment is the dematerialisation of securities.** Dematerialisation is an important component of the enabling environment for municipal bonds, as it eliminates the risk of lost or forged certificates, speeds up settlement, and facilitates real-time oversight. These benefits, in turn, increase transparency, boost efficiency, and mitigate systemic risk.<sup>263</sup> In Ethiopia, the current capital markets ecosystem appears sufficient to support the dematerialisation of municipal bonds. In particular the integration of the CSD and ESX would allow bonds to be issued, traded, and settled electronically - with ownership records being updated electronically in real-time. In addition, the Capital Market Proclamation No. 1248/2021 reinforces this by mandating that all publicly offered securities, including bonds, must be issued and settled in electronic form.<sup>264</sup> Specifically, Article 42 requires registration in a central securities depository, while Articles 20 and 21 explicitly state that securities must be issued, recorded, and settled through electronic book entry.<sup>265, 266</sup> As a result, dematerialisation of municipal bonds is unlikely to represent a challenge to a prospective municipal bond market, given the necessary legal and technical foundations already in place. Indeed, this sentiment was shared by various stakeholders interviewed as part of this study.<sup>267</sup>

**Taken together, the technical infrastructure that would underpin a prospective municipal bond market across all phases of the bond lifecycle appears to be largely in place, but the absence of certain market enablers would need addressing.** In particular, the technical infrastructure currently present in the market - including the CSD and related systems - appears to be suitable to support a municipal bond market at each phase of the bond lifecycle. This sentiment was widely expressed by various stakeholders interviewed as part of this study. Nevertheless, several gaps remain. Starting with issuance, while existing legal directives do provide some guidance on issuing and a general underwriting framework, these provisions are largely geared toward share companies (or other statutory bodies) issuing corporate-style bonds and equity. Moreover, they do not provide granular provisions around many important considerations relevant to municipal bond issuance. In terms of trading on the secondary market, the absence of a robust government bond yield curve and active secondary market for government debt is an area of concern, as this will likely hinder price discovery and thereby undermine liquidity in the secondary market for municipal bonds.

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<sup>261</sup> United Nations Capital Development Fund (2023). Ethiopia Digital Payments Assessment. Available at: <https://migrantmoney.uncdf.org/wp-content/uploads/2023/01/Ethiopia-Digital-Payments-Assessment.pdf>.

<sup>262</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>263</sup> IMF (2001). Development of Subnational Bond Markets. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>264</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>265</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>266</sup> Federal Democratic Republic of Ethiopia (2021). Capital Market Proclamation No. 1248-2021. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Capital-Market-Proclamation-No.1248-2021-unlocked.pdf).

<sup>267</sup> Genesis Analytics Stakeholder Engagements (2025).

## Investor Base and Market Readiness

**For a municipal bond market to function effectively, both the supply and demand sides of the market must be robust and well-developed.** Just as in any market, the interaction between

buyers and sellers ultimately determines market outcomes. That is, issuers (sellers) must have the capacity and appetite to issue bonds, while investors (buyers) must have the capacity and willingness to invest in these instruments. This means that, in addition to the legal/regulatory framework and the existence of enablers and financial market infrastructure, the readiness of market participants on both the demand and supply sides must be considered when assessing the feasibility of a municipal bond market. To that end, in this section, we consider the demand side of a potential municipal bond market in Ethiopia - specifically, the willingness and capacity of investors to participate, the composition of a potential investor base, the factors influencing demand, and the broader financial ecosystem that supports market development. The supply side, meanwhile, is considered in the section that follows (Section 3) - which examines the appetite and capacity of regions in Ethiopia to issue municipal bonds.

**An active and willing investor base is crucial.** This typically consists of institutional investors such as pension funds, insurance companies, commercial banks, and development banks, who seek to match assets and liability time horizons. This strategy involves aligning the maturity dates of their assets (investments) with their liabilities (obligations). For instance, a pension fund may invest in a 10-year bond expecting that the bond's maturity (the time when the final payment is due) will coincide with the time when they need to pay out pensions to retirees. This strategy helps manage risk and maintain financial stability.

Collective investment schemes (CIS) may also participate as the market matures and becomes more advanced. Retail investors usually do not directly participate in such bonds due to large ticket sizes and the inherent risk of high exposure to a single entity - they may, however, obtain exposure through mutual funds.

**Retail investor participation in municipal bond markets is generally limited - including in the benchmarking countries.** In India, most issuances have been privately placed and targeted at institutional investors, with only a few public issuances allowing retail participation.<sup>268</sup> One such issuance - Indore Municipal Corporation's 2023 green bond - was oversubscribed by retail investors, though some experts viewed the retail component as symbolic and cited concerns over whether the demand was orchestrated through pre-arranged investors..<sup>269</sup> In Nigeria, retail investors are virtually absent from the state bond market due to high minimum investment thresholds - for example, Lagos State's Series III bond required a NGN 10 million minimum investment - and the predominance of over-the-counter trading channels were geared toward

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<sup>268</sup> L. Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

<sup>269</sup> L. Gangamreddypalli (2023). Municipal Bonds for Financing India's Urban Infrastructure. Available at: <https://dspace.mit.edu/bitstream/handle/1721.1/152754/gangamreddypalli-lakshmig-mcp-dusp-2023-thesis.pdf?sequence=1&isAllowed=y>.

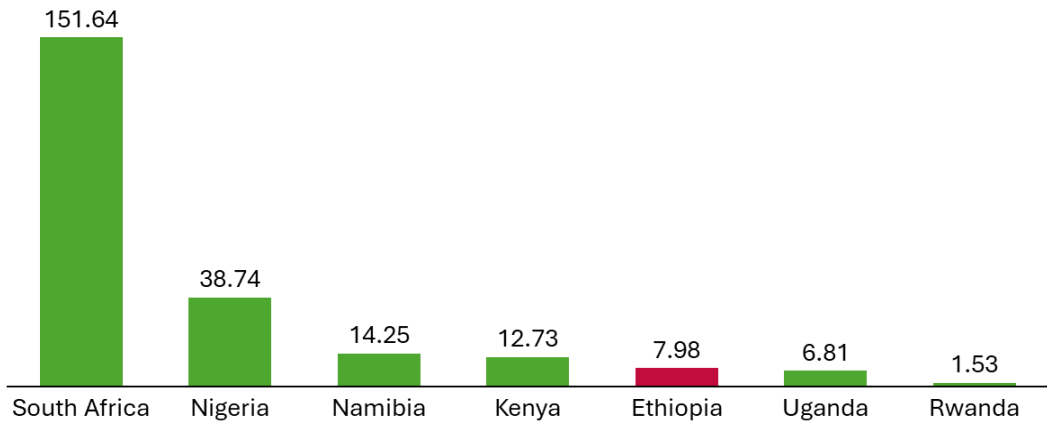
institutional buyers.<sup>270,271</sup> Kenya, meanwhile, has not yet issued any municipal bonds, so there is no track record of retail participation. These examples highlight the barriers to establishing retail engagement in municipal bond markets.

Pension Funds

**Ethiopia has two pension funds: the Public Servants Social Security Administration (PSSSA) and the Private Organisation Employee's Social Security Administration (POESSA).** As of 2015/2016 EC (2023 GC), these funds cover approximately 4.17 million public and private sector employees, with membership at the PSSSA and POESSA standing at around 2.5 million and 1.67 million, respectively.<sup>272</sup> These pension funds operate under a dual mandate - seeking both financial returns on their investments as well as contributing to national development priorities.

**Social security contributions are made in the form of benefit schemes, with 7% rates withheld from all formal employees every month,** with an additional 11% contribution from employers.<sup>273</sup> Currently, total fund assets at PSSSA amount to ETB 299 billion (about USD 2.23 billion)<sup>274</sup> and ETB 150 billion (about USD 1.12 billion) at POESSA - which amounts to approximately 4.9% of GDP.<sup>275</sup> While coverage has increased in Ethiopia, the pension fund industry is considered underdeveloped even compared to peers such as Kenya and Nigeria. This is particularly evident when considering per capita data. Ethiopia's pension fund per capita is just USD 62, notably lower than Uganda and Rwanda, at USD 140 and USD 110 per person, respectively, in 2015/2016 EC (2023 GC).<sup>276</sup>

**Figure 2: Pension fund assets by country<sup>277</sup>**  
**(2016/2017 EC / 2024 GC, USD billions)**



<sup>270</sup> Orimobi (2011). The Issuance of State Government Bonds in Nigeria - an Overview. Available at: <https://www.proshare.co/articles/the-issuance-of-state-government-bonds-in-nigeria-an-overview?menu=Market&classification=Read&category=Bonds%20%26%20Fixed%20Income>.

<sup>271</sup> Securities and Exchange Commission Nigeria (2020). Lagos - Pricing Supplement - Series III. Available at: [https://sec.gov.ng/files/Executed%20Transactions%20March%202020%20Batched/Lagos%20-%20Pricing%20Supplement%20-%20Series%20III%20-%20Executed%20version\\_29%20January%202020.pdf?](https://sec.gov.ng/files/Executed%20Transactions%20March%202020%20Batched/Lagos%20-%20Pricing%20Supplement%20-%20Series%20III%20-%20Executed%20version_29%20January%202020.pdf?)

<sup>272</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>273</sup> PWC (2025). Tax Summaries. Available at: <https://taxsummaries.pwc.com/ethiopia/individual/other-taxes>.

<sup>274</sup> This is based on an exchange rate of 1 USD = 133.957 ETB, as of 25 April 2025. This exchange rate is used consistently throughout the report.

<sup>275</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>276</sup> ABSA. (2024). Africa Financial Markets Index 2024. Available at: <https://cib.absa.africa/home/insights-and-events/absa-africa-financial-markets-index-2024/>.

<sup>277</sup> ABSA. (2024). Africa Financial Markets Index 2024. Available at: <https://cib.absa.africa/home/insights-and-events/absa-africa-financial-markets-index-2024/>.

**Historically, pension fund investments were heavily directed by the government**, primarily into Treasury bills (T-bills), leading to limited diversification and suboptimal returns. This often resulted in negative real returns, with average investment gains of around 13% over the last decade compared to an average inflation rate of approximately 18%.<sup>278</sup>

**Reforms introduced in 2014/2015 EC (2022 GC) through Pension Funds proclamations 1267/2022 and 1268/2022** aimed to address these challenges by transferring investment mandates from the Ministry of Finance to the pension fund boards.<sup>279,280</sup> Despite these changes, pension funds maintain a conservative investment strategy, heavily favouring government securities perceived as risk-free.<sup>281</sup> Investment mandates and strategies at the two funds are currently:

- PSSSA has developed a strategy that has been approved by its board to diversify its portfolio and reduce its overreliance on T-bills, which currently constitute 90% of its assets. The fund favours low-risk investments but aims to strike a balance between security and profitability by expanding its investment options to achieve higher returns. Alongside this, PSSSA is updating its investment mandate, though it is not clear what this may entail.<sup>282</sup>
- POESSA's investment mandate is open to investment outside of T-bills. Nonetheless, the fund's board favours T-bills and government bonds. Furthermore, its investment strategy is limited by a policy that requires ETB 125 billion (about USD 933.3 million) to be locked in 13-year government bonds, which restricts the amount of funds available for investment in other financial instruments.<sup>283</sup>

While both funds remain conservative in their investment approach, they have begun to diversify. In addition to government securities, both PSSSA and POESSA have made limited investments in low-risk alternatives such as time deposits, bank shares, and real estate. This reflects a gradual shift away from exclusive reliance on T-bills, aligned with their low-risk appetite and the flexibility provided by recent reforms.

**Stakeholder interviews highlighted that both private and public pension funds consider municipal bonds a viable instrument for portfolio diversification. However, they also raised concerns about potential liquidity issues arising from an inactive secondary market.** There are concerns that liquidity issues could arise due to a potentially inactive secondary market for municipal bonds. Moreover, the political stability and governance of the issuing region, as well as its ability to mobilise revenue, can impact repayment risk and needs careful evaluation. As a

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<sup>278</sup> FSD Africa (2025). Developing Investment Strategy for Pension Funds. Available at: <https://fsdafrica.org/wp-content/uploads/2023/02/23-01-31-ToR-Pension-Fund-Investment-Strategy.pdf>.

<sup>279</sup> Federal Democratic Republic of Ethiopia (2022). Public Servants' Pension Proclamation. Available at: [https://www.psssa.gov.et/sites/default/files/resource/959\\_Public\\_Servants'\\_Pension\\_Proclamation\\_No\\_12672022\\_Implementation.pdf](https://www.psssa.gov.et/sites/default/files/resource/959_Public_Servants'_Pension_Proclamation_No_12672022_Implementation.pdf).

<sup>280</sup> Federal Democratic Republic of Ethiopia (2022). Private Organization Employees Pension Proclamation. Available at: [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/Private-Organization-Employees-Pension-Proclamation-No.-1268-2022.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/Private-Organization-Employees-Pension-Proclamation-No.-1268-2022.pdf).

<sup>281</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>282</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>283</sup> Genesis Analytics Stakeholder Engagements (2025).

higher return investment option to T-bills, stakeholders also want to see a rate of return on municipal bonds that is higher than inflation.<sup>284</sup>

**Stakeholders** do not see regulatory or legal challenges to investing in municipal bonds - rather, **they want to see a strong investment case for the instrument.** Stakeholder interviews indicated that pension funds generally perceive municipal debt to carry a higher risk compared to federal government bonds, which are widely viewed as risk-free. Therefore, if they are to invest in municipal bonds, the returns must adequately compensate for this perceived risk.

**In both cases, capacity constraints are considered a key challenge for pension funds investment into municipal bonds,** especially in evaluating risk. Historically, their investments have been limited to government T-bills and bonds, resulting in limited internal expertise in assessing the risk and return profiles of new asset classes.

Pension funds also prioritise capital preservation, given their role in ensuring long-term retirement security. As a result of negative real returns on treasury bills they already face, they have a robust incentive to invest in instruments that are more proven. Alternative asset classes include time deposits, shares in private banks, and real estate which PSSSA and POESSA is already invested in, and against which municipal bonds will compete.<sup>285,286</sup>

## Insurance Companies

**Ethiopia is home to 18 insurance companies,** where 17 are privately owned and the largest, Ethiopian Insurance Corporation (EIC), is state-owned.<sup>287</sup> There is also a single domestic re-insurer, Ethiopia Reinsurance, which was established in 2008/2009 EC (2016 GC).<sup>288</sup>

**The country's insurance sector has been growing substantially over the past half-decade.** Assets have more than doubled from their levels in 2012/2013 EC (2020 GC) to ETB 65.6 billion (about USD 489.5 million) in 2016/2017 EC (2024 GC), as have net profits before tax, reaching ETB 6.9 billion (about USD 51.5 million). Likewise, gross written premiums have nearly tripled in the same period, at a compound growth rate of 26.5%. Nonetheless, given an average inflation rate of 18% over that period, and significant depreciation in the price of the local currency, the real growth in both premiums mobilised and assets is lower.<sup>289</sup>

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<sup>284</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>285</sup> Derb (2024). The Challenges and Prospects of Pension Fund Administration: The Case of Private Organization Employees Social Security Agency. Available at: <https://etd.aau.edu.et/server/api/core/bitstreams/e57ed7f8-c607-492a-a255-318986d14846/content>.

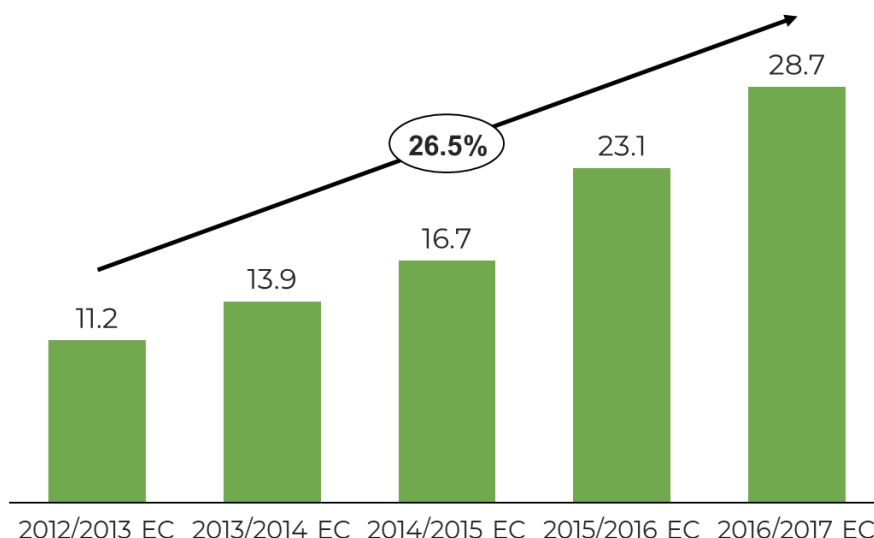
<sup>286</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>287</sup> National Bank of Ethiopia (n.d.). Insurers. Available at: <https://nbe.gov.et/financial-institutions/insurers/>.

<sup>288</sup> Ethiopian Reinsurance (2023). Background. Available at: <https://ethiopianre.com/background/>.

<sup>289</sup> FSD Africa (2025). Developing Investment Strategy for Pension Funds. Available at: <https://fsdafrica.org/wp-content/uploads/2023/02/23-01-31-ToR-Pension-Fund-Investment-Strategy.pdf>.

**Figure 3: Gross written premiums of the Ethiopian insurance sector (2012/2013 - 2016/2017 EC [2020 - 2024 GC], ETB billions)**



Despite this, the sector continues to be underdeveloped. **Even as Ethiopia's economy grew, insurance penetration (as measured by gross written premiums as a share of GDP) was only 0.3% in 2014/2015 EC (2022 GC) lower than regional peers such as Kenya (2.14%), Uganda (0.73%) and Tanzania (0.62%).**<sup>290</sup> Furthermore, life insurance remains minimal, with less than 0.5% of the population having access to formal life insurance products. This situation is exacerbated by the limited variety in retail products, mostly echoing those offered by the government insurer. The sector is wholly locally owned, with EIC holding a dominant position with 44% of total gross written premiums in 2014/2015 EC (2022 GC). The continued reliance on Iddir, informal community insurance initiatives, by approximately 80% of the population, further underscores the underdevelopment. Finally, the restricted digitalisation among insurers and the absence of a single certified actuary in Ethiopia further limit the sector's evolution and growth.<sup>291</sup>

**While insurers have a relatively flexible investment mandate, especially compared to pension funds' historical experience, they are still regulated.** NBE Directive No. SIB/52/2020 requires general insurers, which account for 95% of the market, to invest at least 60% of their total assets in T-bills and bank deposits. For life insurance, which is minuscule in Ethiopia, the share of investment in those assets drops down to 50%.<sup>292,293</sup> In addition to this, insurers are required to invest at least 15% of their net income in Development Bank of Ethiopia (DBE) bonds, which carry an interest rate of two percentage points above bank deposit rates.<sup>294</sup> Currently, bank deposits make up 37.3% of their total assets, a steady rate since 2012/2013 EC (2020 GC).<sup>295</sup>

<sup>290</sup> Deloitte (2024). Africa Insurance Outlook 2024. Available at:

<https://www.deloitte.com/za/en/Industries/insurance/perspectives/africa-insurance-outlook-2024-2025.html>.

<sup>291</sup> Cenfri (2024). Then and Now: Is Ethiopia at an Inflection Point after 15 Years of Insurance Underdevelopment. Available at:

<https://cenfri.org/articles/then-and-now-is-ethiopia-at-an-inflection-point-after-15-years-of-insurance-underdevelopment/>.

<sup>292</sup> National Bank of Ethiopia (2020). Amendment to Investment of Insurance Funds Directive No. SIBS/52/2020. Available at:

<https://nbe.gov.et/wp-content/uploads/2023/12/Directive-No.-SIB-52-2020-Amendment-to-Investment-of-Insurance-Funds.pdf>.

<sup>293</sup> FSD Africa (2022). Insurance Innovation Portrait - Ethiopia. Available at: <https://fsdafrica.org/publication/insurance-innovation-portrait-ethiopia/>.

<sup>294</sup> National Bank of Ethiopia (2021). Investing in Development Bank Bond Directive. Available at: <https://nbe.gov.et/wp-content/uploads/2023/12/Directive-No.-SIB-54-2021-Investing-in-Development-Bank-Bonds.pdf>.

<sup>295</sup> National Bank of Ethiopia (2024). Financial Stability Report. Available at: <https://nbe.gov.et/fsr/>.

Stakeholder interviews suggest that **insurers face similar challenges to pension funds when considering investing in municipal bonds**. Their mandates, which guide them to invest heavily in T-bills and bank deposits, contribute to a preference for low-risk investments and a limited capacity for assessing riskier assets like municipal bonds. To attract investment from insurers, municipal bonds would need to offer competitive returns, potentially 15% or higher (though in practice this would be influenced by the rate prevailing on government bonds and bank deposits). Additionally, the existing regulatory framework could be more explicit in permitting investment in municipal bonds (even if it does not mandate this) potentially encouraging greater insurer participation in this market. Some market participants expressed that investing in municipal bonds - even with the limited volumes - could be viewed as a form of corporate social responsibility.<sup>296</sup>

**Taken together with an upper limit for investments in real estate and company shares - a combined maximum of 30% for general insurers - the remaining 40% of total assets could, in theory, be allocated to municipal bonds under current regulations.** As of 2016/2017 EC (2024 GC), this amounts to ETB 26.2 billion (about USD 195.5 million). Despite this, insurers' actual past experience makes it likely that they would retain a preference for the relatively high returns on time deposits and the safety of treasury bills, likely resulting in actual municipal bond purchases far below the potential 40% limit.<sup>297</sup>

Several developments hint that **the insurance sector could, in time, grow and play a stronger role in municipal bonds as the sector develops**. Part of the reason for this is how the sector is evolving and likely to expand, as evidenced by a mixture of desktop research and stakeholder interviews. Overall, financial inclusion levels have improved, and mobile connectivity has widened, reaching 54% of adults in 2015/2016 EC (2023 GC), up from 2% of households in 1999/2000 EC (2007 GC). As financial inclusion deepens, users graduate to more complex products such as insurance.<sup>298</sup>

Beyond this, **regulatory changes are also promising**. The government's drive to digitalise the finance sector, evidenced by the central bank's decision to allow nonbanks to provide mobile financial services, has led to a dramatic expansion in financialisation. Along with the liberalisation of the telecoms sector, the opening up of the financial sector to foreign competition, could lead to more innovative insurance products being introduced as well.<sup>299</sup>

Such developments make it more likely that insurers will become a more robust investor base for municipal bonds.

## Commercial Banks

**Ethiopia has 32 commercial banks**, where the largest of these is the Commercial Bank of Ethiopia (CBE). The banking sector also includes a policy bank - the Development Bank of

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<sup>296</sup> Genesis Analytics Stakeholder Engagements (2025).

<sup>297</sup> National Bank of Ethiopia (2020). Licensing and Supervision of Insurance Business. Available at: <https://nbe.gov.et/wp-content/uploads/2023/12/Directive-No.-SIB-52-2020-Amendment-to-Investment-of-Insurance-Funds.pdf>.

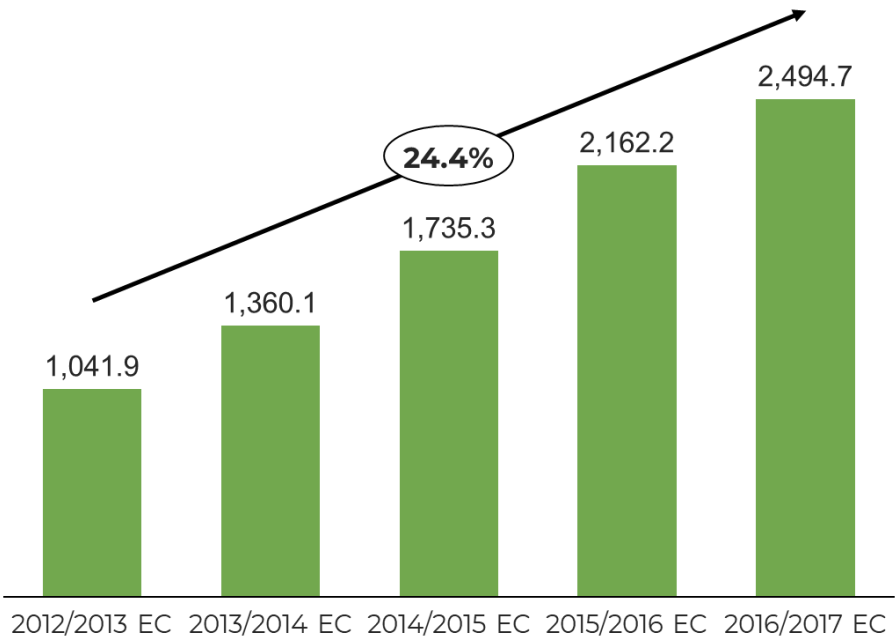
<sup>298</sup> Cenfri (2024). Then and Now: Is Ethiopia at an Inflection Point after 15 Years of Insurance Underdevelopment. Available at: <https://cenfri.org/articles/then-and-now-is-ethiopia-at-an-inflection-point-after-15-years-of-insurance-underdevelopment/>.

<sup>299</sup> Cenfri (2024). Then and Now: Is Ethiopia at an Inflection Point after 15 Years of Insurance Underdevelopment. Available at: <https://cenfri.org/articles/then-and-now-is-ethiopia-at-an-inflection-point-after-15-years-of-insurance-underdevelopment/>.

Ethiopia (DBE) four fully-fledged interest-free banks, six former microfinance institutions (MFIs) that graduated to commercial banks, and 21 other conventional private banks.<sup>300</sup>

**Ethiopia has seen increased financialisation over the past few years as a result of sectoral reforms, especially digitalisation and competition from non-bank financial institutions.** In the four years between 2012/2013 EC (2020 GC) and 2016/2017 EC (2024 GC), total assets, loans and advances, bonds and total deposits of the banking sector have more than doubled. Despite this, a chunk of this growth is partly inflation-driven - as a share of GDP, both loans and deposits have fallen from 16.6% and 30.9%, respectively, in 2012/2013 EC (2020 GC) to 12.4% and 21.6%, respectively, in 2016/2017 EC (2024 GC).<sup>301</sup>

**Figure 4: Total deposits of the banking sector<sup>302</sup>  
(2012/2013 - 2016/2017 EC [2020 - 2024 GC], ETB billions)**



**The banking sector faces several challenges that hinder its development and stability.** One key issue is the chronic shortage of foreign currency, which limits the ability of banks to support international trade and meet customer demands while also deterring foreign investment in the sector. Operational inefficiencies, including limited financial infrastructure and outdated systems, further constrain the sector's capacity to expand services and improve outreach.<sup>303</sup> High levels of credit concentration, especially among state-owned enterprises, exacerbate systemic risks. For instance, just 10 borrowers held 14.7% of total loans and advances in 2016/2017 EC (2024 GC). However, this is much lower than in 2015/2016 EC (2023 GC), when the share was 23.5%.<sup>304</sup> While these structural issues persist, recent economic reforms - particularly liberalisation efforts - have begun to show early signs of progress, contributing to a gradual improvement in the operating environment and laying the groundwork for enhanced sector resilience over time.

<sup>300</sup> National Bank of Ethiopia (2024). Financial Stability Report. Available at: <https://nbe.gov.et/fsr/>.

<sup>301</sup> National Bank of Ethiopia (2024). Financial Stability Report. Available at: <https://nbe.gov.et/fsr/>.

<sup>302</sup> National Bank of Ethiopia (2024). Financial Stability Report. Available at: <https://nbe.gov.et/fsr/>.

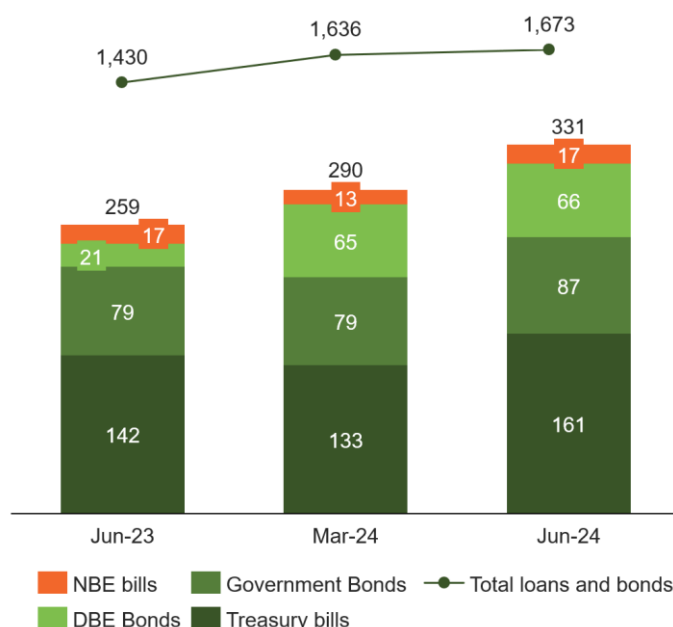
<sup>303</sup> United States International Trade Administration (2022). Ethiopia Banking Sector Opportunities. Available at: <https://www.trade.gov/market-intelligence/ethiopia-banking-sector-opportunities>.

<sup>304</sup> National Bank of Ethiopia (2024). Financial Stability Report. Available at: <https://nbe.gov.et/fsr/>.

The investment mandate of commercial banks has historically been partly limited due to a **2014/2015 EC (2022 GC) NBE directive** that requires banks to channel at least 20% of their fresh loan disbursements into mandatory 5-year Treasury bonds, as well as a directive requiring banks to invest 1% of their outstanding total loans and advances in DBE bonds until a total of 10% of total outstanding loans and advances is reached.<sup>305,306</sup> As of September 2016 EC (2024 GC), banks held ETB 109.6 billion (about USD 818.4 million) worth of these instruments.<sup>307</sup> The sector also holds the majority of the treasury bills, at ETB 161 billion (about USD 1.20 billion) in June 2016 EC (2024 GC), and corporate bonds, which stand at ETB 520 billion (about USD 3.88 billion) and are mostly owed by state-owned enterprises to CBE.<sup>308</sup> The directive also sets an upper threshold for total investments by banks in securities, limiting the overall share of such investments in their balance sheets.<sup>309</sup>

However, recent media reports suggest that these investment requirements will be phased out by June 2017 EC (2025 GC), hence enhancing liquidity in the banking sector.<sup>310</sup>

Figure 5: Fixed income securities held by the banking sector<sup>311</sup>  
(2015–2016 EC [2023–2024 GC], ETB billions)



Stakeholders in the banking sector believe that municipal bonds are more attractive for institutions such as pension funds that lack commercial lending capabilities. Stakeholder interviews also highlighted that banks, which must carefully balance risk and return, view

<sup>305</sup> National Bank of Ethiopia (2022). Establishment and Operation of Treasury Bonds. Available at: <https://nbe.gov.et/wp-content/uploads/2023/04/Directive-NO.MFA-TRBO-001-2022.pdf>.

<sup>306</sup> National Bank of Ethiopia (2021). Investment on DBE Bonds Directive. Available at: <https://nbe.gov.et/wp-content/uploads/2023/04/sbb-81-2021.pdf>.

<sup>307</sup> The Reporter (2024). Banks T-bill Stocks Hit ETB 110bn. Available at: <https://www.thereporterethiopia.com/43128/#:~:text=A%20directive%20issued%20in%20November,the%20Finance%20Ministry%20this%20week>.

<sup>308</sup> National Bank of Ethiopia (2024). Financial Stability Report. Available at: <https://nbe.gov.et/fsr/>.

<sup>309</sup> National Bank of Ethiopia (2022). Establishment and Operation of Treasury Bonds. Available at: <https://nbe.gov.et/wp-content/uploads/2023/04/Directive-NO.MFA-TRBO-001-2022.pdf>.

<sup>310</sup> Yewondwossen (2024). NBE to Suspend Mandatory Bond Purchases for Banks, Aiming to Boost Liquidity. Available at: <https://capitalethiopia.com/2024/08/12/nbe-to-suspend-mandatory-bond-purchases-for-banks-aiming-to-boost-liquidity/>.

<sup>311</sup> National Bank of Ethiopia (2024). Financial Stability Report. Available at: <https://nbe.gov.et/fsr/>.

municipal bonds as relatively low-risk but less appealing due to their lower yields compared to private sector lending, making them less competitive in the eyes of commercial banks. A significant portion of banking resources is already committed to government bonds, including a new instrument requiring banks to allocate 20% of new loans to five-year treasury bonds - totalling ETB 109.65 billion as of September 2016 EC (September 2024 GC). Remaining funds are directed to private sector lending, for which stakeholders reported a robust level of demand.<sup>312</sup>

**Stakeholders noted that in the absence of competitive returns, they may be interested as part of an effort to contribute to national development.** A federal guarantee and a comprehensive feasibility study showcasing fund utilisation, revenue potential, and repayment capability would, nonetheless, be necessary. While some commercial banks are confident in their capacity to assess risks on municipal bonds, there are also concerns about regional governments' capacity to issue and manage such bonds, indicating a need for capacity building in these areas.

### Collective Investment Schemes

**At present, there are no widely recognised licensed Collective Investment Schemes in Ethiopia** - an important point as this is likely the avenue through which retail investors would gain access to the capital markets, including municipal bonds.

Recent developments signal some momentum.

**The Ethiopian Capital Market Service Providers Licensing and Supervision Directive sets out the regulatory framework for Collective Investment Scheme (CIS) Operators.**<sup>313</sup> To operate, CIS Operators must obtain a licence from the Ethiopian Capital Market Authority (ECMA), meeting capital adequacy requirements and maintaining strong internal controls to protect investors. They are also required to uphold high governance standards, ensuring that directors and key personnel meet ECMA's 'fit and proper' criteria. Additionally, CIS Operators must submit regular financial and operational reports, maintain transparency, and implement risk management systems to uphold market integrity and investor confidence. While this framework is in place, it is important to note that the CIS-specific directives are still under development.

Further, initiatives such as the establishment of the ESX could facilitate the growth of a broader range of investment opportunities by increasing the availability of tradable securities, which could, in turn, support the development of Collective Investment Schemes, even if at this stage, the sector remains nascent.

### Regional Endowments

**Regional endowments in Ethiopia are large, regionally based conglomerates established to promote socio-economic development, particularly in areas where private sector investment has been limited.**<sup>314</sup> Notable examples include the Endowment Fund for the Rehabilitation of Tigray (EFFORT), TIRET (Amhara), TUMSA (Oromia) and WENDO (South Nations). These entities

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<sup>312</sup> Ministry of Finance (2024). Public sector debt statistical bulletin. Available at: [https://www.mofed.gov.et/media/filer\\_public/da/15/da150f60-a08c-440d-832c-111410cc1f85/public\\_sector\\_debt\\_statistical\\_bulletin\\_no\\_51-final12.pdf](https://www.mofed.gov.et/media/filer_public/da/15/da150f60-a08c-440d-832c-111410cc1f85/public_sector_debt_statistical_bulletin_no_51-final12.pdf)

<sup>313</sup> ECMA (2020). Capital Market Supervisors Licensing and Supervision Directive. Available at: <https://lawethiopia.com/images/capital%20market%20authority/Directive%203.pdf>.

<sup>314</sup> Seid Demeke.M (2019). Promoting Investment through State-Owned Enterprises and Endowment Companies in Ethiopia's Pastoral Areas: Legal and Policy Analysis. Available at: <https://www.scirp.org/journal/paperinformation?paperid=91343>

were set up with the aim of driving industrialisation, creating jobs, and supporting human resource development within their respective regions. Their portfolios span various sectors such as agriculture, manufacturing, construction, mining, and services, positioning them as significant non-state economic actors in Ethiopia's economy.<sup>315</sup>

**Regional endowments are considered substantial within their local economies, often controlling multiple companies and significant capital.** However, precise and up-to-date figures regarding their total assets are not always publicly disclosed. Available reports indicate that, for example, EFFORT owns 16 companies across diverse sectors and is the largest regional taxpayer in Tigray, providing 60% of the region's locally generated revenues. Despite such indicators of scale, comprehensive public disclosure of financial data remains limited. This lack of transparency is a widely noted characteristic of these entities.<sup>316</sup>

**The growth and performance of regional endowments have been uneven.** While some have expanded their business interests and contributed to regional development, others have faced challenges such as inefficiencies and concerns over commercial sustainability. Many endowment-owned firms have experienced issues commonly associated with large conglomerates, including operational inefficiencies and non-commercial objectives, which can affect their overall performance. It is also noted that these entities tend to operate mainly in non-pastoral areas, which has attracted criticism regarding their role in addressing regional disparities.<sup>317</sup>

**Looking ahead, regional endowments possess substantial capital and could possibly become investors in municipal bonds or other financial instruments.** However, the extent to which they would participate in such instruments is unclear. If, as suggested, their investments are primarily concentrated in the real economy, such as in productive enterprises and infrastructure rather than in securities, this may limit their appetite or capacity to engage in the municipal bond market.

## Conclusion on Investor Maturity and Readiness

**A functioning municipal bond market requires robust investors** like pension funds, insurance companies, commercial banks, and collective investment schemes. Investors have expressed concerns about their own capacity in risk assessment, indicating a need for enhanced capabilities and tools to evaluate the risk and return profiles of new asset classes such as municipal bonds. Moreover, they have also raised concerns about the issuers' abilities to effectively issue and manage these bonds, which signifies a need for capacity building among regional governments. Despite this, pension funds and commercial banks show moderate readiness for investment, and while the insurance sector remains underdeveloped, promising reforms in the sector could result in a stronger role in the municipal bond market. The collective

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<sup>315</sup> Mamenie E. Messelu (2018). Some Legal Controversies Regarding Party-affiliated Endowments and Their Participation in Business Activities: The Case of EFFORT and TIRET Endowments. Available at: <http://ejoleth.net.edu.et/index.php/BDUJOL/article/view/1669>

<sup>316</sup> Sarah Vaughan (2011). DFID research: Rethinking business and politics in Ethiopia: The role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray. Available at: <https://www.gov.uk/government/news/dfid-research-rethinking-business-and-politics-in-ethiopia-the-role-of-effort-the-endowment-fund-for-the-rehabilitation-of-tigray>

<sup>317</sup> Seid Demeke.M (2019). Promoting Investment through State-Owned Enterprises and Endowment Companies in Ethiopia's Pastoral Areas: Legal and Policy Analysis. Available at: <https://www.scirp.org/journal/paperinformation?paperid=91343>

investment scheme sector is in its early stages but shows potential for growth with recent regulatory frameworks and market infrastructure developments.

**Table 6: Investor base relevance and readiness in Ethiopia**

| Investor Base                        | Relevance to municipal bonds                                                                                                                                                                                                                                 | Maturity level in Ethiopia                                                                                                                                      | Market potential                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Pension funds</b>                 | Pension funds seek stable, long-term returns to match their long-term liabilities. They are increasingly interested in municipal bonds as a means to diversify their portfolios and achieve higher yields compared to government securities.                 | Developing: The size of the pension fund industry is growing but still smaller than regional peers.                                                             | <p>Moderate: Pensions are already significant investors in fixed-income securities and have investment mandates that have grown flexible. But they retain a preference for T-bills and fixed deposits and have limited risk assessment capability.</p> <p>Size of the market: ETB 449 billion (about USD 3.35 billion) (total fund assets, 2015/2016 EC (2023 GC))</p> <p>Municipal bond interest: High<sup>318</sup></p> |
| <b>Commercial banks</b>              | Commercial banks can play a significant role by investing in municipal bonds as part of their asset management strategies. They can also help facilitate bond issuance and provide liquidity through underwriting services.                                  | Established: The traditional banking sector serves as the core of the financial system, especially as other sectors such as capital markets are underdeveloped. | <p>Moderate: Banks are already significant investors in fixed-income securities, but their readiness is moderate, and contingent on competitive returns and the capacity of regional governments to manage bonds.</p> <p>Size of the market: ETB 2,494.7 billion (about USD 18.62 billion) (total deposits, 2016/2017 EC (2024 GC))</p> <p>Municipal bond interest: Low</p>                                               |
| <b>Insurance companies</b>           | Insurance companies often invest in municipal bonds to match their liabilities and benefit from the tax-exempt status of the interest income, making them attractive for funding public infrastructure projects that align with their investment strategies. | Emerging: The sector is small compared to regional peers, and highly dependent on general insurance but reforms are promising and could lead to growth,         | <p>Moderate: Much smaller institutional investors in government securities compared to pension funds and banks but the sector's potential growth moderately enhances readiness to invest in municipal bonds, provided returns are competitive.</p> <p>Size of the market: ETB 28.7 billion (about USD 214.3 billion) (total gross written premiums, 2015/2016 EC (2023 GC))</p> <p>Municipal bond interest: High</p>      |
| <b>Collective Investment Schemes</b> | Collective investment schemes are actively participating in municipal bonds, particularly in developing countries like India. They provide retail investors access to municipal bonds through diversified portfolios, enhancing market liquidity.            | N/A: There are currently no licensed Collective Investment Schemes in Ethiopia although the relevant legal frameworks are in place.                             | <p>Low: Collective investment schemes are at an early stage in Ethiopia - this lack of a mature capital market limits the readiness of this sector to invest in municipal bonds.</p> <p>Size of the market: N/A</p> <p>Municipal bond interest: N/A</p>                                                                                                                                                                   |

<sup>318</sup> The rate of returns are informed by stakeholder interview insights

|                            |                                                                |                                                             |                                                                                                                                                                                                                                 |
|----------------------------|----------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Regional Endowments</b> | Potential long-term investors with regional development focus. | N/A – no known precedent for investment in municipal bonds. | <p>Low – unclear investment appetite beyond productive assets.</p> <p>Size of the market: N/A – financial data not publicly disclosed.</p> <p>Municipal bond interest: unknown - limited transparency and untested interest</p> |
|----------------------------|----------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

### 3 | An Assessment of Ethiopia's Regions

**Having analysed the demand side of a potential municipal bond market, the attention of this study now turns to analysing the supply side of the market.** In particular, this section examines the awareness and capacity of Ethiopia's regions to issue municipal bonds. Awareness refers to regional governments' understanding of municipal bonds and of the process to engage in bond issuance including the identification of infrastructure investment needs and debt sustainability considerations.<sup>319</sup> Capacity, meanwhile, refers to the institutional ability of the region to issue municipal bonds - including its financial position, revenue generation ability, governance structures, and personnel's availability of municipal bond issuance.<sup>320</sup> Both the awareness and capacity of the regional governments to issue municipal bonds are important determinants of the feasibility of a prospective municipal bond market in Ethiopia, as experiences from other countries demonstrate that municipal bond markets remain constrained if potential issuers lack the institutional readiness and financial stability.<sup>321</sup>

It is important to note that public financial management practices in Ethiopia are well-developed and supported by a well-established framework. This is evidenced by regularly updated data that provides a solid foundation for financial analysis. Ethiopia operates under a national PFM framework established by the Federal Government of Ethiopia Financial Administration Proclamation No. 648/2009. This legislation applies to all public bodies funded by the federal budget, including regional administrations. Additionally, audits conducted by the Office of the Regional Auditor General (ORAG) further enhance systematic and transparent financial reporting and are published by PEFA – examples include that of Addis Ababa and Oromia's 2011/2012 EC (2019 GC) assessments.<sup>322,323</sup> However, it is important to note that many Ethiopian regional governments and municipalities have yet to adopt International Public Sector Accounting Standards (IPSAS). This lack of standardised and transparent financial reporting at subnational levels may dampen investor confidence, as it creates uncertainty about the reliability and comparability of financial information.

The decision on which regions to explore in depth was made based on a number of metrics, including their population, urbanisation, employment rates, level of federal transfers, as captured in the table below.

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<sup>319</sup> Liu (2019). Subnational Debt: Developing a Sustainable Market. Available at: [https://ideas.repec.org/h/elg/eechap/20587\\_6.html](https://ideas.repec.org/h/elg/eechap/20587_6.html).

<sup>320</sup> World Bank, 2014. Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>321</sup> World Bank, 2014. Municipal Finances: A Handbook for Local Governments. Available at: <https://documents1.worldbank.org/curated/en/403951468180872451/pdf/Municipal-finances-a-handbook-for-local-governments.pdf>.

<sup>322</sup> PEFA (2019). Public Expenditure and Financial Accountability - Federal Democratic Republic of Ethiopia (The City of Addis Ababa). Available at: <https://www.pefa.org/node/3911>

<sup>323</sup> PEFA (2019). Public Expenditure and Financial Accountability - Federal Democratic Republic of Ethiopia (Oromia National Regional State). Available at: <https://www.pefa.org/node/3971>

**Table 7: Selection criteria for regions**

| Region/Criteria                     | Population <sup>324</sup> | Urbanisation rate (%) <sup>325</sup> | Employment rate <sup>326</sup> | Federal subsidy received <sup>327</sup> (ETB millions) | Federal subsidy per person |
|-------------------------------------|---------------------------|--------------------------------------|--------------------------------|--------------------------------------------------------|----------------------------|
| Addis Ababa                         | 3,945,000                 | 100%                                 | 49.60%                         | 5,255                                                  | 1,332                      |
| Afar Region                         | 2,076,000                 | 23.77%                               | 47.6%                          | 6,306                                                  | 3,038                      |
| Amhara Region                       | 23,216,000                | 22.07%                               | 53.3%                          | 45,105                                                 | 1,943                      |
| Benishangul-Gumuz Region            | 1,251,000                 | 26.58%                               | 52.5%                          | 3,821                                                  | 3,054                      |
| Central Ethiopia Regional State     | 9,382,700 <sup>328</sup>  | 19.62%                               | 49.3%                          | -                                                      | -                          |
| Dire Dawa                           | 551,000                   | 64.66%                               | 41.4%                          | 1,838                                                  | 3,336                      |
| Gambela Region                      | 525,000                   | 40.19%                               | 44.6%                          | 2,778                                                  | 5,291                      |
| Harari Region                       | 283,000                   | 57.44%                               | 50.9%                          | 1,587                                                  | 5,608                      |
| Oromia Region                       | 40,884,000                | 18.18%                               | 48.2%                          | 71,959                                                 | 1,760                      |
| Sidama Region                       | 5,301,868                 | 19.62%                               | 43.5%                          | 8,567                                                  | 1,616                      |
| Somali Region                       | 6,657,000                 | 15.26%                               | 35.4%                          | 20,841                                                 | 3,131                      |
| South Ethiopia Regional State       | 7,728,100 <sup>329</sup>  | 19.62%                               | 49.3%                          | -                                                      | -                          |
| South West Ethiopia Peoples' Region | 4,197,164                 | 19.62%                               | -                              | 6,485                                                  | 1,545                      |
| Tigray Region                       | 5,838,000                 | 33.07%                               | -                              | 12,592                                                 | 2,157                      |

The following table presents the six regional governments chosen for inclusion in the sample, along with a brief justification for their selection.

<sup>324</sup> Ethiopian Statistical Service (2023). Population of Zones and Weredas. Available at: <http://www.statsethiopia.gov.et/wp-content/uploads/2023/08/Population-of-Zones-and-Weredas-Projected-as-of-July-2023.pdf>.

<sup>325</sup> Ethiopian Statistical Service (2024). Project Population - 2024. Available at: [http://www.statsethiopia.gov.et/wp-content/uploads/2024/07/Projected\\_Population-2024.pdf](http://www.statsethiopia.gov.et/wp-content/uploads/2024/07/Projected_Population-2024.pdf).

<sup>326</sup> Ethiopian Statistical Service (2022). First Round UEUS Key Findings. Available at: [http://www.statsethiopia.gov.et/wp-content/uploads/2023/05/2022\\_1st-Round-UEUS-Key-Findings.pdf](http://www.statsethiopia.gov.et/wp-content/uploads/2023/05/2022_1st-Round-UEUS-Key-Findings.pdf).

<sup>327</sup> Ministry of Finance (2024). Citizen's Budget. Available at: [https://www.mofed.gov.et/media/filer\\_public/53/71/53716277-1296-4227-91bd-7ea7da6509f3/efy\\_2016\\_2023-24\\_citizens\\_budget-\\_english\\_-\\_version.docx](https://www.mofed.gov.et/media/filer_public/53/71/53716277-1296-4227-91bd-7ea7da6509f3/efy_2016_2023-24_citizens_budget-_english_-_version.docx).

<sup>328</sup> Ethiopian Demography and Health (2024). Central Ethiopian Region/Kilil. Available at: [http://www.ethiodemographyandhealth.org/Central\\_Ethiopian\\_Region.pdf](http://www.ethiodemographyandhealth.org/Central_Ethiopian_Region.pdf).

<sup>329</sup> Ethiopian Demography and Health (2024). Central Ethiopian Region/Kilil. Available at: [http://www.ethiodemographyandhealth.org/Central\\_Ethiopian\\_Region.pdf](http://www.ethiodemographyandhealth.org/Central_Ethiopian_Region.pdf).

**Table 8: Selection of Regions of Analysis and Justification<sup>330</sup>**

| Regional government | Justification                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Addis Ababa         | Addis Ababa is the economic and administrative capital of Ethiopia. While it is small in population terms, its relatively high urbanisation rate and strong employment rate suggest that the region has a proportionately large contribution to GDP. Its federal subsidy per capita is low, indicating its capacity to generate its own revenue. In addition, Addis Ababa is recognised as one of the most politically and socially stable regions in the country. Taken together, these factors indicate that the region is a strong candidate for investigation.    |
| Amhara Region       | Amhara is one of Ethiopia's largest regions by population, with its moderate level of urbanisation and relatively high employment rate indicating that it plays an important role in the country's economy. Additionally, the region receives relatively low federal subsidies per capita, reflecting fiscal independence and revenue-generating potential. While it currently faces social instability, this must be weighed against its overall economic significance and potential for improvement.                                                                |
| Oromia Region       | Oromia is Ethiopia's most populous region. Importantly, Oromia receives relatively low federal subsidies per capita, indicating a degree of fiscal independence and potential for revenue generation. Despite ongoing challenges with stability, Oromia's economic prominence and scale make it an important inclusion in the study.                                                                                                                                                                                                                                  |
| Dire Dawa           | Dire Dawa is a relatively small region by population but boasts the second-highest urbanisation rate in Ethiopia, highlighting its economic importance as a concentrated urban centre. Its federal subsidy per capita is moderate, reflecting a balanced dependency on federal funding while maintaining some level of fiscal capacity. These factors collectively suggest that Dire Dawa may be a valuable unit in our sample.                                                                                                                                       |
| Sidama Region       | Sidama Region is a relatively populous region with a relatively low level of federal subsidy per capita, suggesting a degree of fiscal independence and potential for revenue generation. Its inclusion in the sample could provide insight into the dynamics of a mid-sized, emerging region with opportunities for economic development and infrastructure growth. The region's inclusion will also be representative of the southern part of the country, and helpful in assessing that part of the country's potential for issuing municipal bonds.               |
| Somali Region       | The Somali Region is marked by promising mineral resources, low population density and is predominantly composed of pastoralist communities, offering a distinct economic dynamic compared to other regions mentioned above. Its central role in the logistics infrastructure of Ethiopia, crucial for both domestic connectivity and international trade, further highlights its significance. Additionally, the region has shown a high propensity for adopting digital financial infrastructure, which could signal readiness for innovative financing mechanisms. |

**In the following section, we present two types of analyses - qualitative and quantitative - to present regions' overall prospects for municipal bond issuance.** First, a qualitative analysis assessing regions' capacity through a survey and KIs to regions' Bureaus of Finance and Economic Development (BoFEDs). BoFEDs at the regional and local levels are responsible for planning and budgeting as well as managing public finances, coordinating economic development, implementing policies and monitoring and evaluation. Given their strategic position, they would be responsible for a municipal bond issuance, thus assessing their understanding of the concept and the process of an issuance as well as their capacity and needs is crucial in assessing the overall prospects for municipal bond issuance in Ethiopia.

Second, a quantitative analysis conducted from data provided by the Ministry of Finance for the period 2017/2018 to 2022/2023 to get an overall view of regions' fiscal situation and levels of

<sup>330</sup> Genesis team analysis.

investments, key indicators for their attractiveness and capacity to issue and manage municipal bonds. This analysis includes:

- i. a comparative analysis of all six regions' approved budget, expenditures and fiscal deficit/surplus,
- ii. each regions' revenue trends and composition, and
- iii. each regions' trends in capital expenditures, which represent investments.

These three indicators give a full picture of the regions' public finances, including the size of their budgets, and inform on their capacity for indebtedness which is assessed through the volume and diversity of their revenue base. Last, their prioritisation of investments through the size of their capital budget.

## Regions' Awareness

**Regional governments' understanding of municipal bonds and of the process to engage in bond issuance was assessed through a qualitative survey. Given challenges in reaching regional stakeholders, at this stage, only Addis Ababa filled out a survey, while Addis Ababa and Sidama participated in KIIs.** The responses from the representatives of the two bureaus are summarised below.

### Readiness of Addis Ababa and Sidama

Addis Ababa and Sidama have both expressed interest in issuing municipal bonds as a strategy to bridge financing gaps in key development sectors, but their approaches, capacities, and contexts differ significantly.

#### Addis Ababa

Addis Ababa's overarching goal is to leverage private sector participation through municipal bonds to finance expansive infrastructure projects such as roads, water systems, housing, and health and education facilities. While the city demonstrates a high level of knowledge and understanding of municipal bonds, its awareness of the detailed processes involved in issuing and managing these financial instruments remains limited. This distinction reflects the difference between conceptual knowledge, such as knowing what municipal bonds are and what they can be used for, and procedural knowledge which includes the technical steps and institutional know-how needed to issue and manage them effectively.

Its self-reported attractiveness to investors is high, and the perceived potential for successful bond issuance is moderate. This seeming discrepancy is explained by the fact that "attractiveness" refers to the region's promising development opportunities and demand for investment, whereas "issuance potential" is shaped more by institutional capacity, reporting systems, and regulatory preparedness. However, Addis Ababa's internal capacity to manage municipal bonds (from issuance to reporting) remains minimal to low, indicating that while the city is conceptually ready, it lacks the practical infrastructure and organisational strength to move forward effectively. Key capacity development needs include ongoing technical assistance and clearer understanding of the bond management lifecycle. The primary anticipated challenges include gaps in the legal and regulatory framework, limited organisational

capacity, and concerns about revenue reliability (discussed in the following section) for repaying bond obligations.

## Sidama

In contrast, Sidama's objective in issuing municipal bonds is more narrowly focused on mobilising additional resources to support capital expenditures, particularly investments in the agriculture sector, which is expected to yield higher returns. However, the region's capacity and readiness are notably lower than Addis Ababa's. Sidama reports low overall knowledge of municipal bonds and no awareness of the issuance and management process. This is reflected in its very low confidence in the potential for successful bond issuance and only moderate self-assessment of regional attractiveness to investors. Sidama's capital needs for 2024 total ETB 21 billion (around USD 156.6 million), yet only ETB 7 billion (USD 52.3 million) has been secured, highlighting a significant funding gap. While development priorities include agriculture alongside infrastructure like roads, water, housing, and health and education, the region faces major hurdles. Internal capacity is minimal, and Sidama identifies a pressing need for foundational awareness and technical guidance on municipal bond processes. Expected challenges are even more acute than in Addis Ababa: beyond legal and organisational issues, Sidama faces structural economic obstacles such as a narrow tax base due to informality and persistent cash shortages, which could undermine both the feasibility and sustainability of bond issuance.

**One of the key highlights of the interviews is the low awareness of municipal bonds by the BoFEDs - a phenomenon that extends to general awareness of capital markets, except for Addis Ababa.** In particular, it was noted that staff are not informed on municipal bonds nor have they received any form of training or exposure to bonds.

Given the nascent awareness on municipal bonds, the primary preoccupation of the BoFEDs is greater awareness on issuing and managing bonds. Given this, they requested information workshops and continuous technical assistance to get a better understanding of these new instruments.

**The survey responses and KIs indicate that BoFEDs are yet to prepare formal pipelines of projects that could benefit from financing from the issuance of municipal bonds.** However, there is a rising interest in alternative sources of funding to fund greater investments, and municipal bonds are an option of interest.

Based on their development plans for the regions and annual budgets, BoFEDs have a ballpark assessment of the financing needs to execute their capital projects - approximately ETB 100 billion (about USD 746.6 million) for Addis Ababa and ETB 21 billion (about USD 156.8 million) for Sidama. Further, it was noted that they generally fall short of fully implementing their investment projects due to revenues collected being insufficient to cover the financing needs of these investment projects. In the case of Sidama, for instance, stakeholder engagements revealed that limited revenue collection often forces the region to reallocate part of its capital budget to cover recurrent expenditures. While this does not suggest an absence of recurrent spending or data, it highlights a fiscal trade-off that reduces the region's ability to implement planned investment projects. Thus, there was an expressed need to preserve capital spending with alternative sources of revenues and regions are willing to explore municipal bonds.

However, stakeholder engagements made clear that municipal bond issuance includes challenges and risks that need to be overcome. Amongst those, there is first and foremost the legal and regulatory framework that should specifically stipulate rules for governing municipal bonds to ensure compliance (as discussed earlier). Secondly, fiduciary risk requires transparent reporting mechanisms while default risk calls for accurate forecasting for revenue streams. Lastly, organisational capacity within BoFED needs to be reinforced to include a dedicated person or a focal point for capital markets to ensure that the necessary attention is given to these debt instruments.

## Regions' Capacity

**Regional governments' capacity refers to their ability to issue municipal bonds - including their financial position and revenue generation ability.** Presenting each region's revenue trends during the six-year period allows for an assessment of their fiscal situation and an understanding of their strengths and weaknesses in revenue mobilisation. The revenue trends are presented according to tax revenues, non-tax revenues and external assistance and loans. **They represent the regions' own revenues, which do not include any subsidy or transfer received by the federal government.**

Though these are discussed in detail in the sections that follow, a few initial insights become clear.

Across all six regions, tax revenues represent the primary source of income, although the magnitude of growth and the share of non-tax revenues differ considerably. The provided data source displays tax revenues to encompass direct taxes (tax income, rental income, profits, rural fees) and indirect taxes (value added taxes on local goods and services, excise taxes on manufactured goods, turnover from sales on manufactured goods and service sales taxes). Non-tax revenues include municipal revenues, sale of goods and services, charges and fees and any other type of revenues.

An overview of the six regions' budgets illustrates that the majority of regions' **own** revenues (shown in more detail later) do not cover expenditures, except Addis Ababa, which has a balanced budget and Sidama whose revenues substantially exceed expenditure. The other four regions' expenditures exceed their revenues, which emphasises their dependency on fiscal transfers and any type of subsidy from the Federal government. Lastly, besides Addis Ababa and Oromia, most of the other regions have not contracted any type of debt. The overall variability in fiscal environments underscores the importance of region-specific fiscal policies and the need to balance tax and non-tax revenue streams to ensure long-term stability.

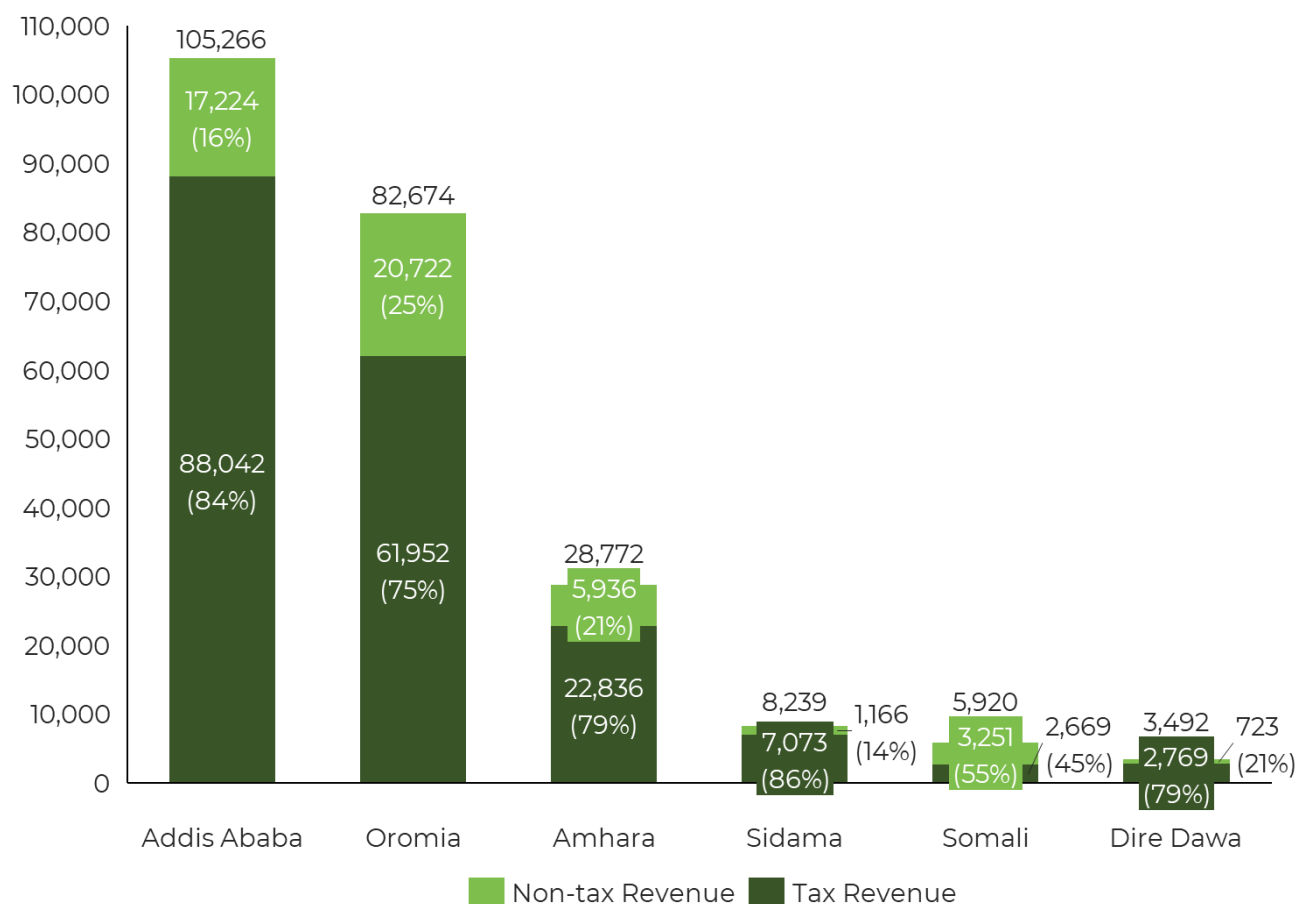
## Regions' Revenue Trends

**All six regions have significantly increased their own revenues throughout a six-year period for which data was shared (2010/2011 - 2015/2016 EC [2018–2023 GC]), a compound annual growth rate (CAGR) of 27% per year across the sample (as discussed in more detail later).**

These revenues are stimulated primarily by tax revenues which represent on average 77% of total revenue. According to the BoFEDs, much of this progress is attributed to widening the tax base and greater awareness of civic duty, efficiency in revenue administration, using technology to reduce corruption and in some cases introducing new taxes. Although there has been an

overall upward trend in revenue mobilisation, there are still notable differences between regions, as shown below.

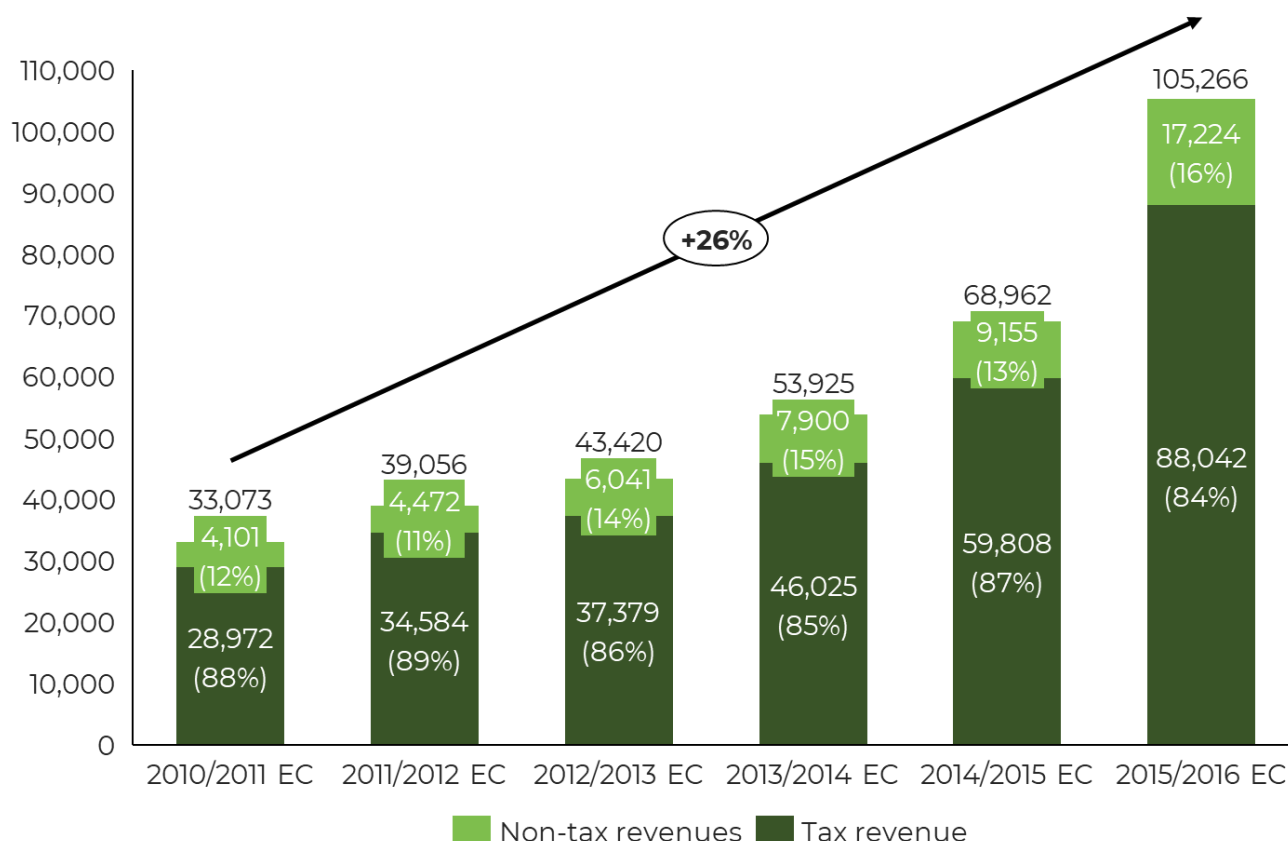
**Figure 6: Regions' total revenue**  
(2015/2016 EC [2023 GC], ETB million)



As shown above, the regions face substantial differences in their revenue generation potential. The leading three regions in revenue collections are Addis Ababa, Oromia and Amhara, respectively mobilising ETB 105 266 million (about USD 785.6 million), ETB 82 674 million (about USD 617.3 million), and ETB 28 772 million (about USD 214.8 million). By contrast, Sidama, Somali and Dira Dawa, mobilise respectively only 8% (ETB 8 239 million), 6% (ETB 5 920 million) and 3% (ETB 3 492 million) of Addis Ababa's revenue collection for the year.

**Addis Ababa's** revenues are generated primarily from tax revenues with little contribution from non-tax revenues (on average less than 14% of the annual total), while federal transfers and external loans remain a small part of the budget.

**Figure 7: Addis Ababa's total revenue**  
(2010/11 - 2015/16 EC [2018–2023 GC], ETB million)



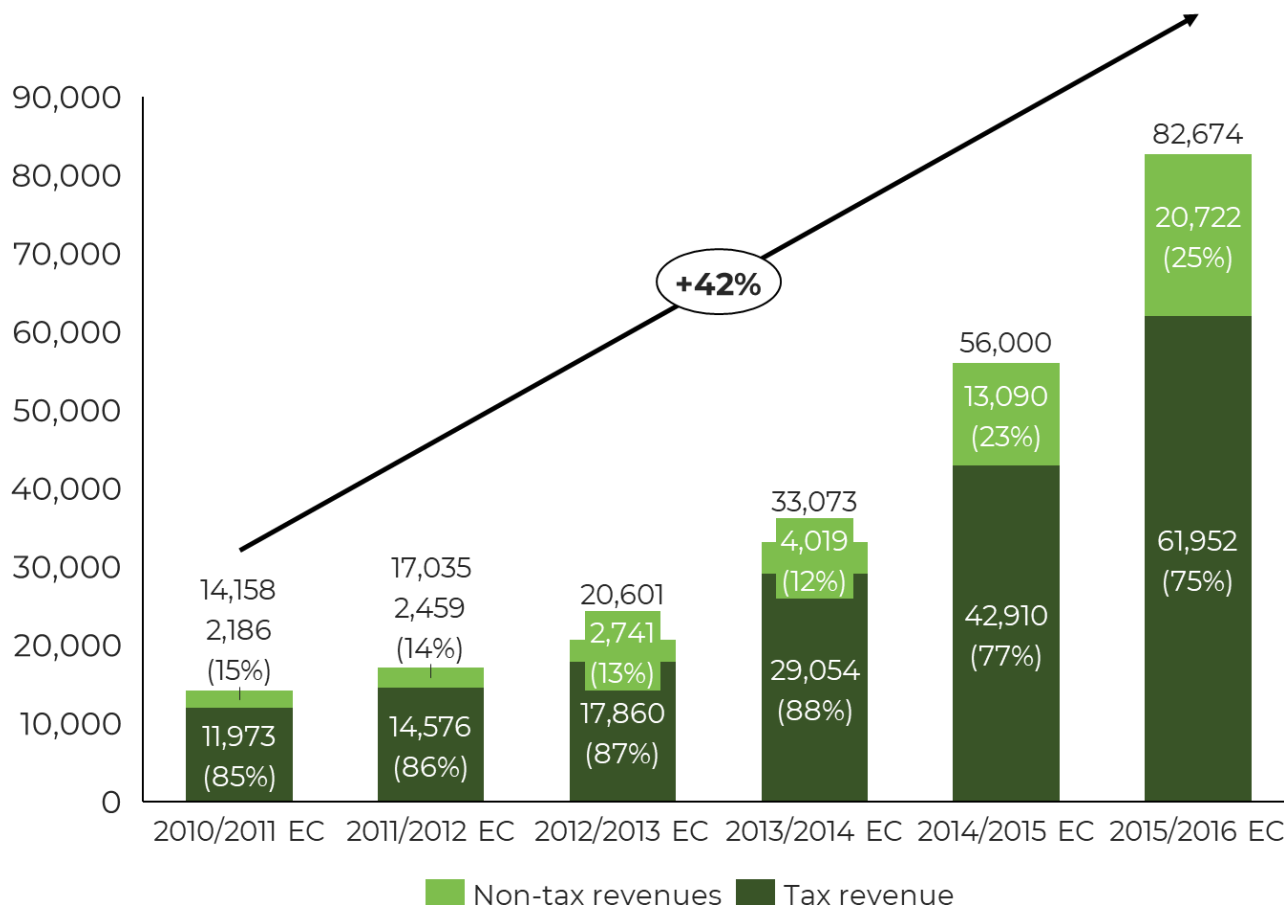
From 2010/2011 to 2015/2016 EC (2018 to 2023 GC), Addis Ababa's total revenue has risen sharply, averaging a 26% CAGR, indicating both strong economic activity and effective tax collection mechanisms. This performance stands in contrast to Ethiopia's overall low tax-to-GDP ratio of around 7% (which is also significantly below that of neighbouring Kenya, which stands at 14%). However, the data also highlights that non-tax revenue in Addis Ababa is notably low as a share of total tax revenue compared to the sample average (16% in 2023 versus 23% for the sample). While a relatively high tax intake can reflect a strong formal economy, limited non-tax revenue diversification may expose Addis Ababa to greater fiscal risks if economic conditions change or if tax compliance weakens.

As shown above, Addis Ababa's revenue is primarily driven by own revenue and reflects a rise of both tax and non-tax revenues. Though not shown, loans have fluctuated between 2010/2011 and 2015/2016 EC (2018 and 2023 GC). In 2011/2012 EC (2019 GC) loans made up less than 1% of total revenue. After peaking at ETB 2,807 million (about USD 20.96 million) in 2013/2014 EC (2021 GC), borrowing dropped sharply to ETB 1,032 million (about USD 7.71 million) in 2014/2015 EC (2022 GC) before rebounding to ETB 2,200 million (about USD 16.42 million) in 2015/2016 EC (2023 GC) - now making up 2% of total revenue. This pattern suggests periodic reliance on external financing to address fiscal gaps or fund specific initiatives, highlighting the need for prudent debt management.

Overall, Domestic revenue growth has been sustained alongside contained borrowing.

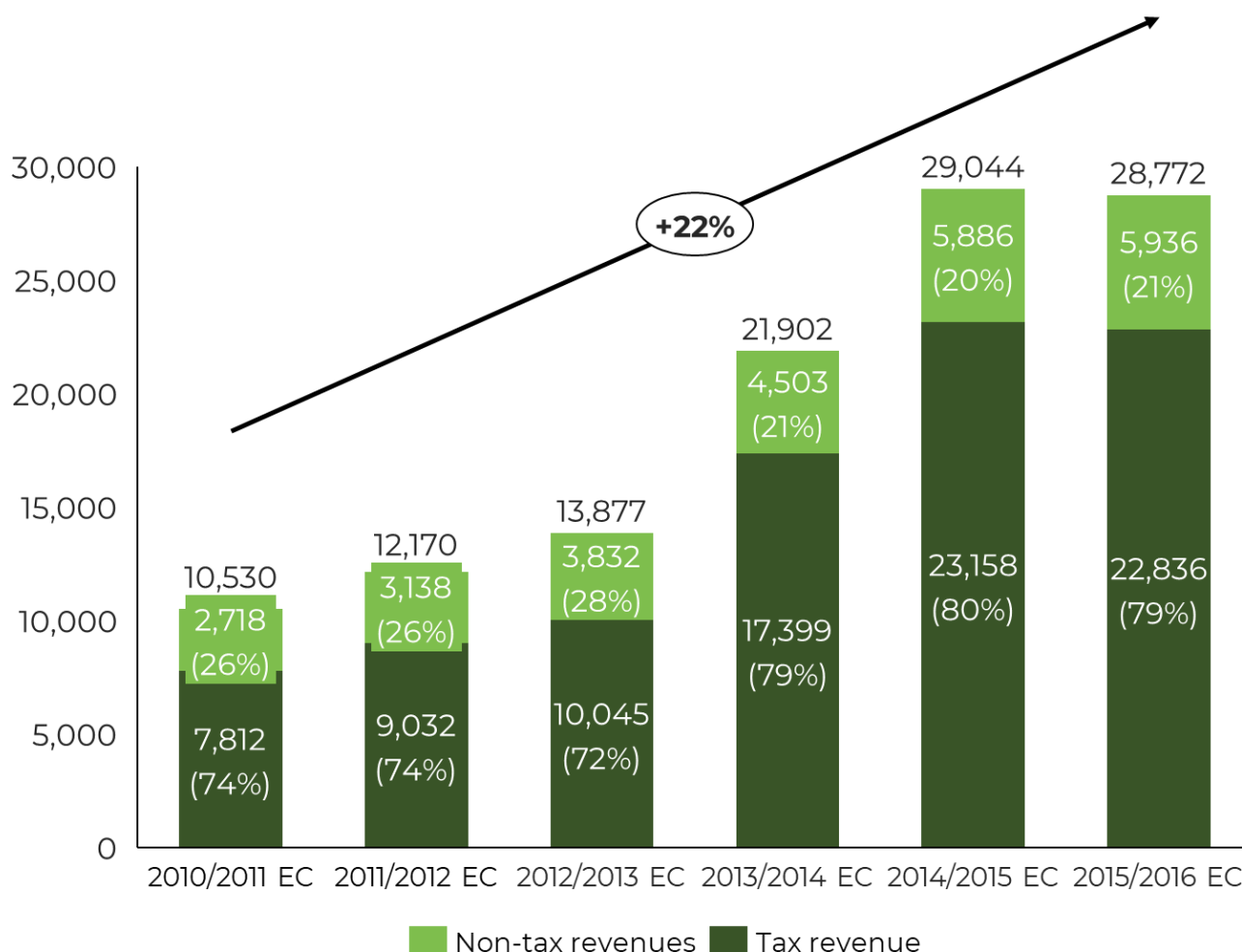
**Oromia** stands out for its growth rate, with a 42% CAGR in total revenue, as shown in the figure below.

**Figure 8: Oromia's total revenue**  
(2010/11 - 2015/16 EC [2018–2023 GC], ETB million)



This surge in Oromia's revenues can be attributed to increasing tax revenue, particularly indirect taxation on non-metallic mineral products which increased from ETB 1 million (about USD 7,466) to ETB 53 million (about USD 395,701) from 2014/2015 to 2015/2016 EC (2022 to 2023 GC). Similarly, increased revenue from taxing Chat income has contributed ETB 1,232 million (about USD 9.19 million) in 2015/2016 EC (2023 GC) in comparison to a vastly lower ETB 1 million (about USD 7,466) in 2014/2015 EC (2022 GC), indicating tax reforms in the form of hiking tax rates. The strong upward trajectory implies growing fiscal space which refers to the expansion of this region's capacity to spend or invest without compromising its fiscal stability. This would give more flexibility and resources to stimulate economic growth, improve public services, and invest in development.

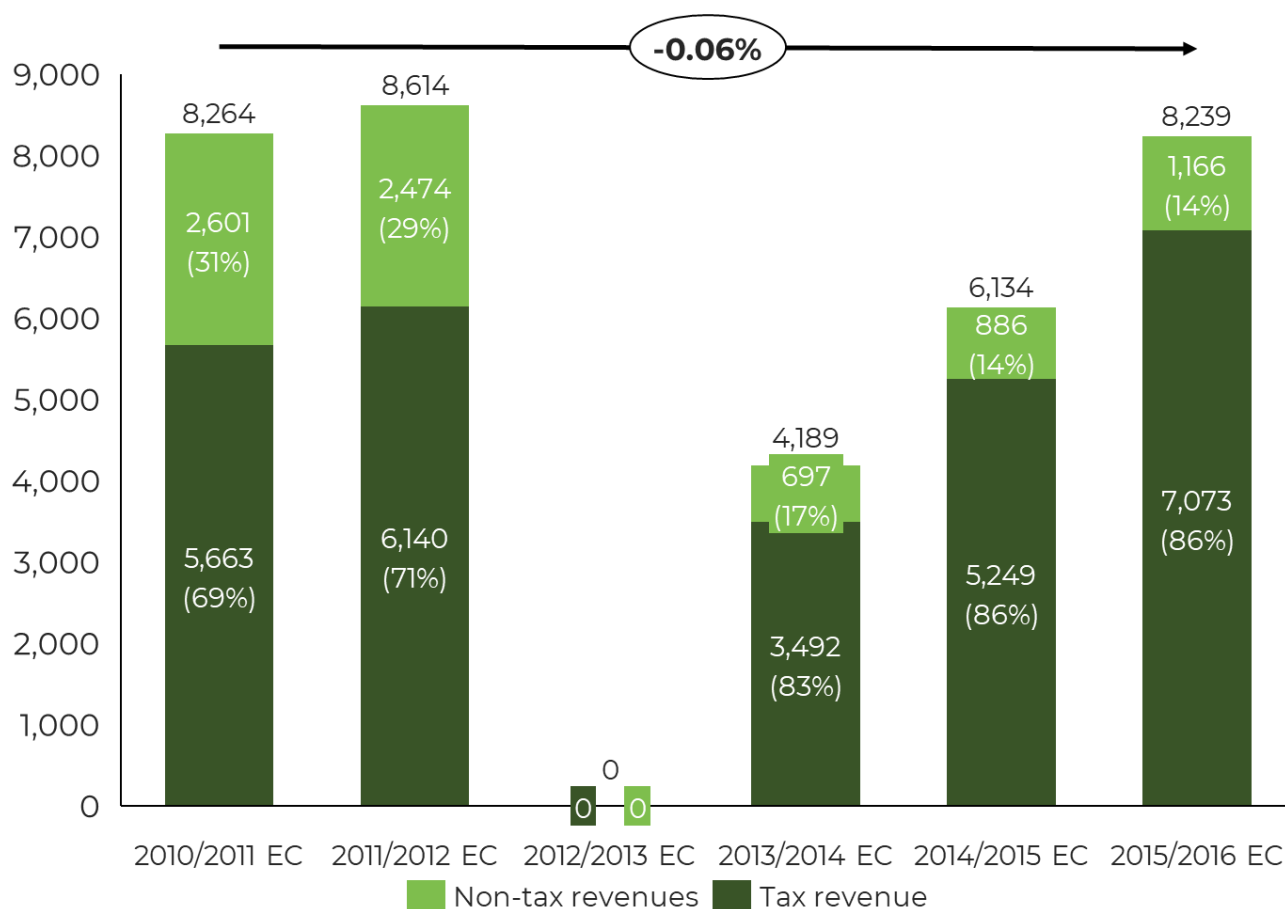
**Figure 9: Amhara's total revenue**  
(2010/11 - 2015/16 [2018–2023 GC], ETB million)



Although Amhara experienced steady gains from 2010/2011 through 2014/2015 EC (2018 through 2022 GC) with a CAGR of 22%, its revenue drop in 2015/2016 EC (2023 GC) stands out as a deviation from the broader upward trend observed over the previous five-year period. Potential factors may include regional economic disruptions, administrative challenges in tax collection, or shifts in policy that adversely impacted revenue growth. This decline, though not sharp, raises interest in Amhara's fiscal policies and the underlying economic conditions that interrupted the general upward trend. Changes in both tax and non-tax revenue were marginal owing to a less than 1% growth in non-tax revenue.

Notwithstanding the omission of data in 2012/2013 EC (2020 GC), **Sidama** also reflects a changing revenue landscape overall, as shown in the figure below.

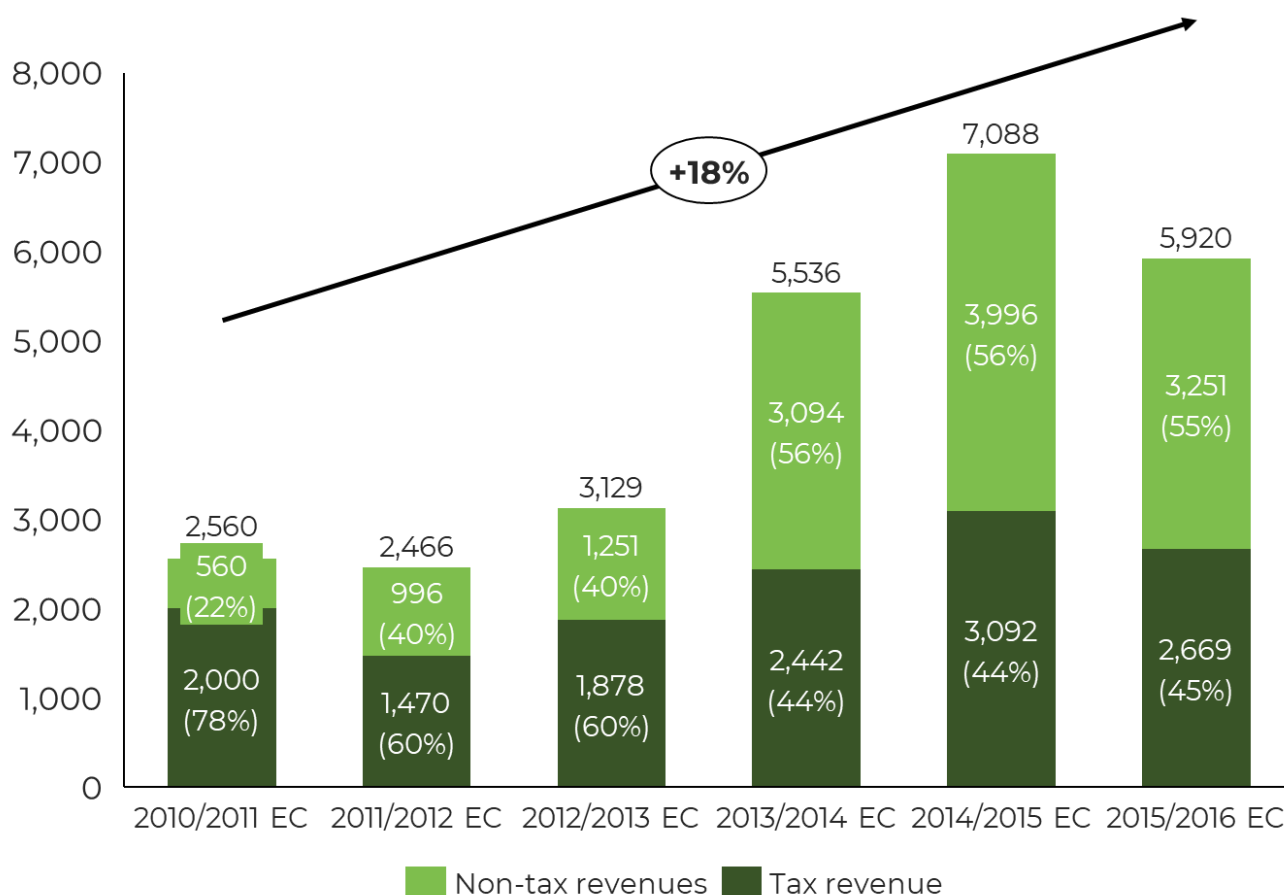
**Figure 10: Sidama's total revenue**  
(2010/11 - 2015/16 EC [2018–2023 GC], ETB million)



Revenues pre-2012/2013 EC (2020 GC) remain higher than post-2012/2013 EC (2020 GC), signalling the persistence of a shock. However, significant increases in tax revenue occurred from 2013/2014 to 2014/2015 EC (2021 to 2022 GC) and again from 2014/2015 to 2015/2016 EC (2022 to 2023 GC), suggesting improvements in tax collection mechanisms and a potentially expanding tax base. Non-tax revenue has remained considerably and consistently lower than tax revenue. The proportion of revenue attributed to non-tax is 14% in 2015/2016 EC (2023 GC) - lower than the regional average of 23%, and while non-tax revenue has shown year-on-year growth from 2013/2014 to 2015/2016 EC (2021 to 2023 GC), it has yet to recover to its pre-2012/2013 EC (2020 GC) levels. Municipal revenue and revenue from sale of goods and services have reduced dramatically in 2013/2014 EC (2021 GC) and remained lower than 2010/2011 EC (2018 GC) levels. The evidence suggests that economic recovery has been slow; in 2015/2016 EC (2023 GC) business, agriculture, and interest income taxes brought in revenue that was far lower than the 2010/2011 EC (2018 GC) share. Moreover, the limited contribution from non-tax sources highlights untapped revenue potential, which, if leveraged, could help reduce the existing overreliance on tax revenue. Despite these structural imbalances, the overall revenue trajectory has been positive since 2013/2014 EC (2021 GC) with a particularly strong year-on-year increase of 34% in 2015/2016 EC (2023 GC) compared to 2014/2015 EC (2022 GC).

**Somali** demonstrates steady growth in non-tax revenue and, from 2013/2014 EC (2021 GC) onwards, surpassing tax revenue

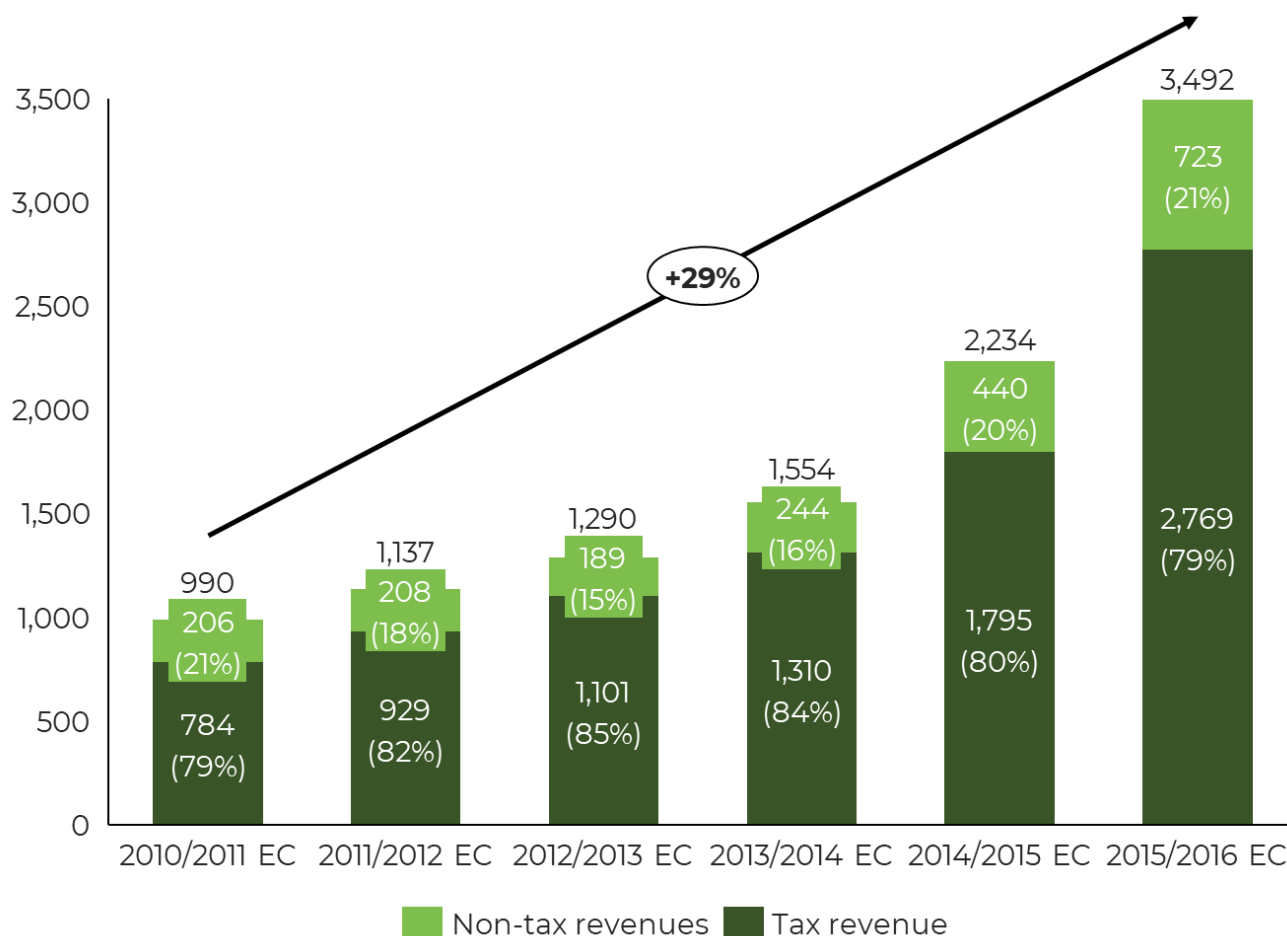
**Figure 11: Somali's total revenue**  
(2010/11 - 2015/16 [2018–2023 GC], ETB million)



This trend indicates a more diversified revenue base in Somali but exposes the region to greater volatility due to the source of these non-tax revenues: miscellaneous revenues. The region exhibits some revenue changes from 2010/2011 to 2015/2016 EC (2018 to 2023 GC). Both tax and non-tax revenue grew until 2014/2015 EC (2022 GC) (at a CAGR of 29%) and then dropped by 16% in 2015/2016 EC (2023 GC). This trend suggests a predominantly stable tax base with effective revenue collection mechanisms, though cyclical factors led to a drop in 2015/2016 EC (2023 GC). The decline was driven by a 63% decrease in tax revenues from agriculture and forestry products and a 25% reduction in municipality revenue. However, despite the decline in total revenue from 2014/2015 to 2015/2016 EC (2022 to 2023 GC), the region's long-term trajectory remains positive, with a CAGR of 18% over the period.

**Finally, Dire Dawa has shown modest yet consistent growth reflecting a smaller and consistent economic base.**

**Figure 12: Dire Dawa's total revenue**  
(2010/11 - 2015/16 [2018–2023 GC], ETB million)



Dire Dawa has shown a steady upward trend and a 29% CAGR. The positive trajectory indicates that the region is gradually expanding its revenue capacity and a continued focus on diversifying both tax and non-tax sources. These increases can be tracked to increasing revenue from rental income tax, which increased by 96% from 2014/2015 to 2015/2016 EC (2022 to 2023 GC) and a CAGR of 29% on non-tax revenues.

The analysis of the regions' revenues reveals critical insights into their fiscal health and growth potential. Notably, Addis Ababa and Oromia are experiencing significant growth and possess the capacity to further enhance both tax and non-tax revenues. By amplifying current reforms in tax policy and administration, these regions can capitalise on their momentum and create additional revenue streams. **A consistent pattern among most regions is a reliance on tax revenue, particularly** in Addis Ababa, Oromia, Amhara, Dire Dawa, and Sidama. All show significant disparities between tax and non-tax revenues, with non-tax revenue only accounting for an average of 23% of total revenue, comparable to the Democratic Republic of Congo (24%), confirming it as an undertapped source of revenue like in the rest of Africa.

Indebtedness across the regions remains insignificant due to the absence of debt (except in Addis Ababa), indicating that cash flow is not currently impacted by external debt obligations. This financial stability provides an opportunity for these regions to invest in innovative strategies aimed at expanding their tax base and enhancing revenue collection from productive sectors.

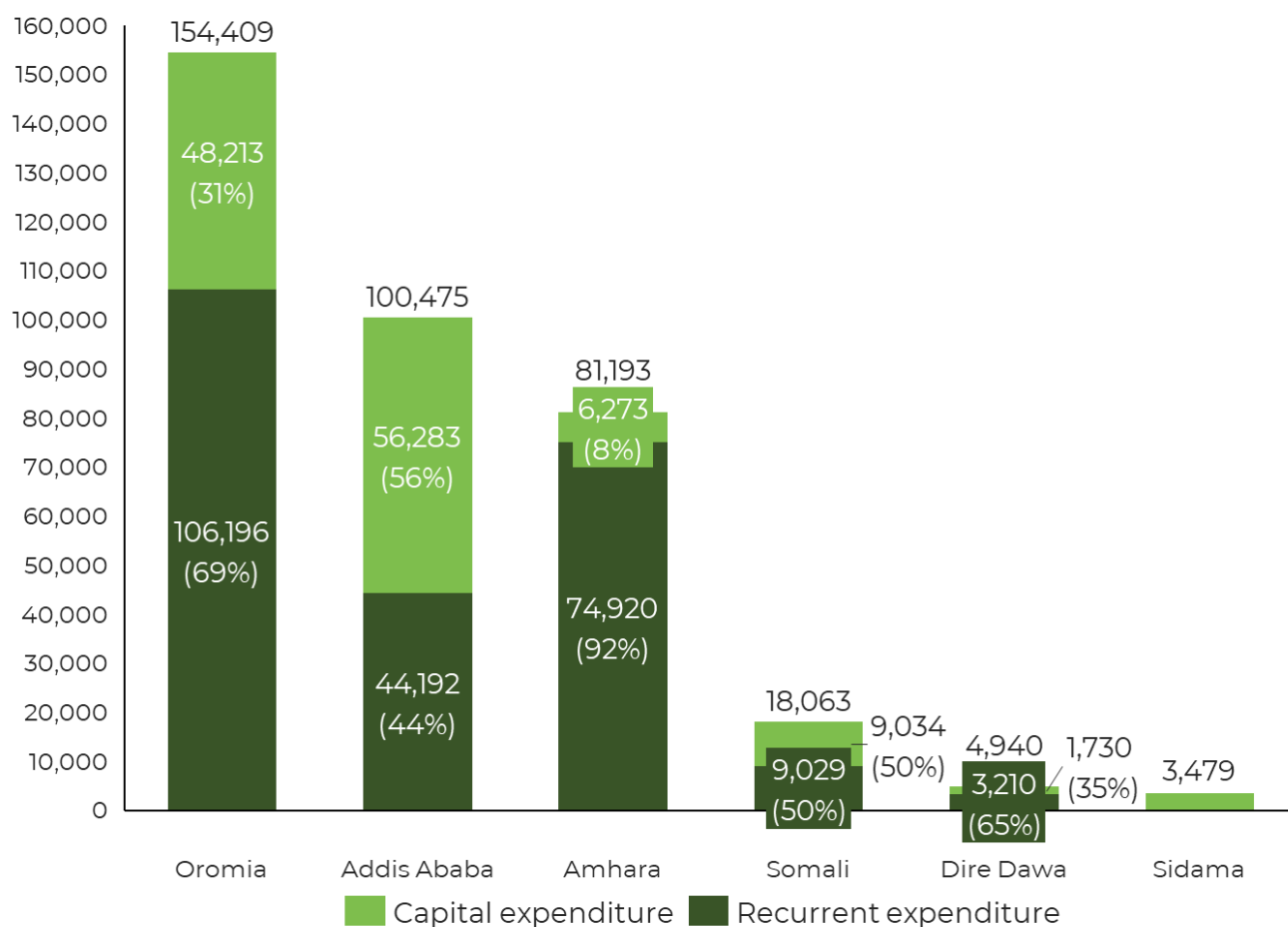
Overall, the findings underscore the need for tailored fiscal strategies that not only address the unique challenges of each region but also promote a balanced and diversified revenue system.

## Regions' Expenditure

As noted earlier, regional expenditures in Ethiopia are classified into capital and recurrent categories. Capital spending focuses on economic (e.g. agriculture, infrastructure), social (e.g. health, education), and general development (e.g. justice, public order). Recurrent spending mirrors these sectors but also covers sovereign and administrative functions such as pensions, debt servicing, and contingencies.

The figure below captures the expenditure breakdown for the year 2015/16 EC (2023 GC) across the six regions, revealing significant disparities in fiscal allocations.

**Figure 13: Regions' total expenditure (2015/16 EC [2023 GC], ETB million)**



The leading regions in total expenditures are Oromia, Addis Ababa, and Amhara, which mobilise substantial resources for both recurrent and capital expenditures. Specifically, Oromia stands out with a total expenditure of ETB 154,409 million (about USD 1.15 billion), primarily driven by its recurrent budget, which significantly overshadows its capital expenditure. Addis Ababa follows with total expenditures of ETB 100,475 million (about USD 750 million), weighted towards capital spending, while Amhara's total expenditure amounts to ETB 81,193 million (about USD 606.1 million), heavily weighted towards recurrent expenditure. The main consequence of that

imbalance is the constraint in building socio-economic infrastructure for greater growth and development.

In contrast, the remaining regions - Sidama, Somali, and Dire Dawa - exhibit much lower expenditure levels. Sidama, for instance, allocates only ETB 3,479 million (about USD 25.96 million), with no data available on the recurrent expenditure component. Somali and Dire Dawa also reflect limited fiscal capacity, with total expenditures of ETB 18,063 million (about USD 134.78 million) and ETB 4,940 million (about USD 36.87 million), respectively, underscoring their constrained budgets and operational needs.

An observation from the data is that the two regions, Addis Ababa with a balanced budget and Sidama with a budget surplus, exhibit lower levels of expenditure compared to other regions. On the other hand, regions such as Oromia, Dire Dawa, and Amhara appear to be running a significant budget deficit, implying higher expenditure than their income. This could be due to various factors, such as higher costs of public services, infrastructure projects, or economic challenges. However, this would need to be confirmed. Similarly, Somali and Dire Dawa demonstrate a more balanced expenditure, with equal (50%) recurrent and capital spending in Somali and a slightly higher recurrent expenditure in Dire Dawa (65%). This indicates an attempt to sustain current operations while investing in future growth. In contrast, Oromia and Amhara exhibit significant budget deficits, with high recurrent expenditures of 69% and 92%, respectively. This suggests a focus on maintaining existing services, driven by high operational costs.

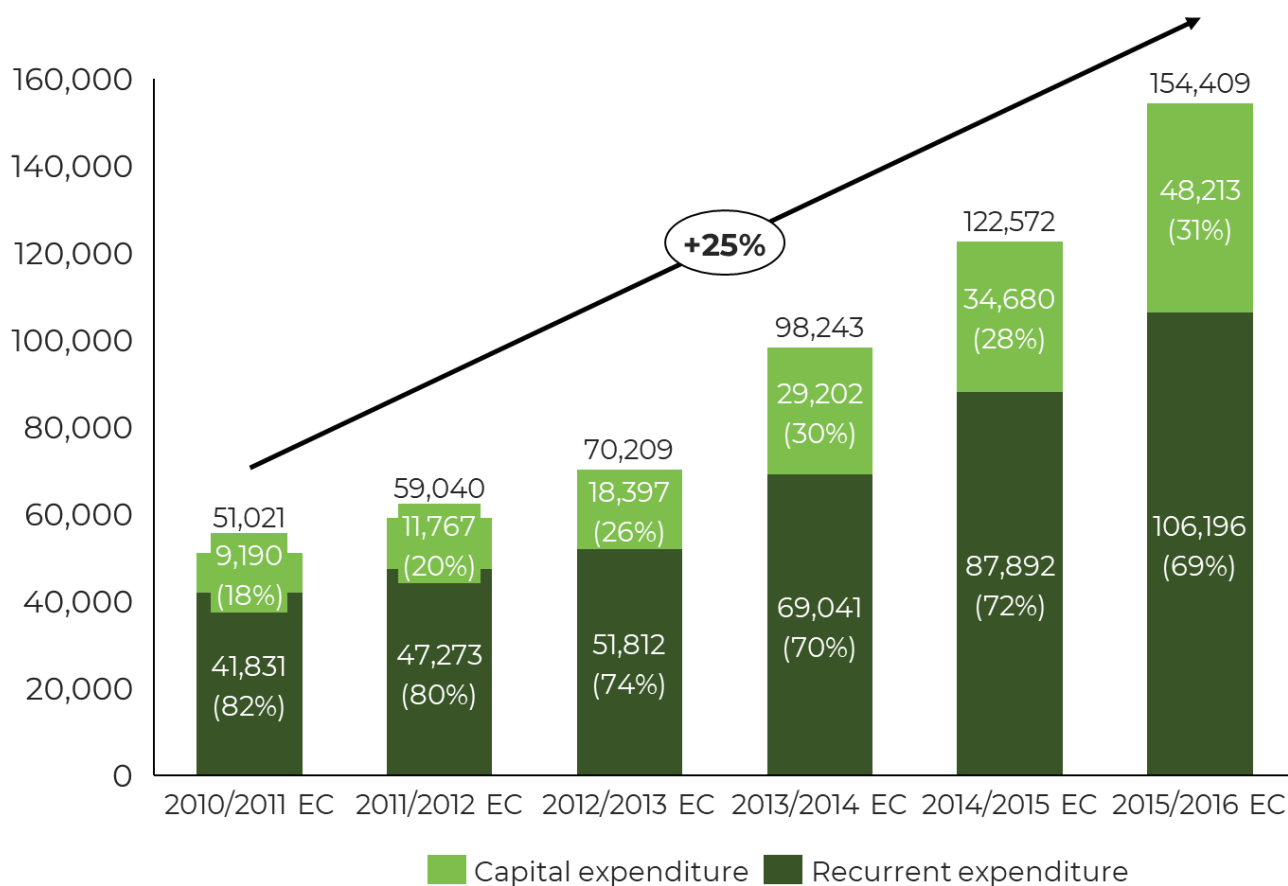
A particular point of concern is the fact that for the four latter regions - Oromia, Dire Dawa, Amhara, and Somali, recurrent expenditure, which includes day-to-day operational costs, consistently surpasses capital expenditure, which is investment in assets or services yielding long-term benefits. This effectively crowds out capital expenditure and may potentially limit these regions' ability to invest in long-term development, thereby affecting their economic potential and sustainability.<sup>331</sup>

In the **Oromia** region, recurrent expenditure remains considerably higher than capital expenditure, indicating a stronger focus on operational needs rather than long-term investments, as shown below.

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<sup>331</sup> IMF (2016). Strengthening Fiscal Frameworks and Improving the Spending Mix in Small States. Available at: <https://www.imf.org/external/pubs/ft/wp/2015/wp15124.pdf>.

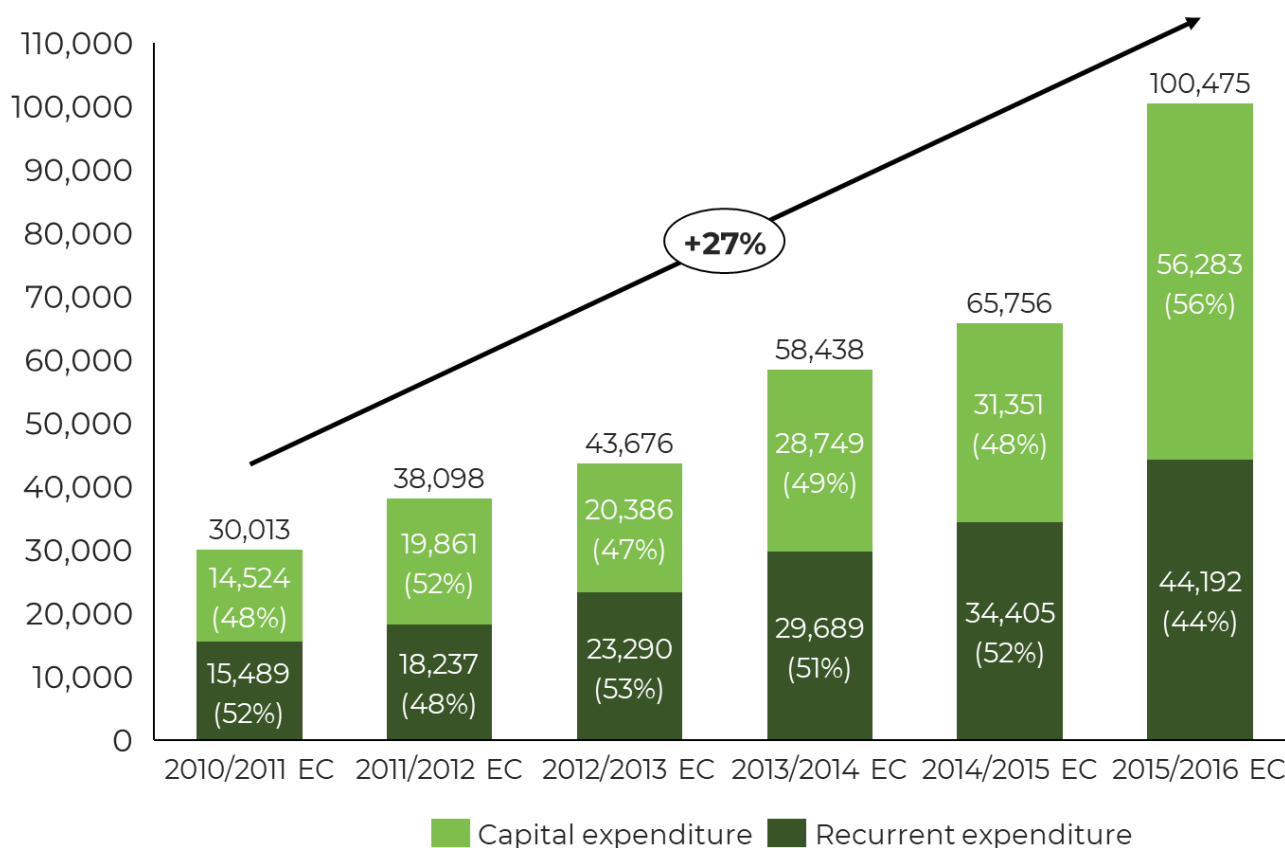
**Figure 14: Oromia's total expenditure**  
(2010/11 - 2015/16 [2018–2023 GC], ETB million)



Oromia's recurrent expenditure is driven up primarily by social services, which have an average year-on-year growth rate of 19% during the period. However, capital expenditure has gradually increased from 2010/2011 to 2015/2016 EC (2018 to 2023 GC), with significant growth in 2014/2015 and 2015/2016 EC (2022 and 2023 GC). Driven in part by social development, capital expenditure rose by 39% from 2014/2015 to 2015/2016 EC (2022 to 2023 GC), maintaining a CAGR of 39% over the observation period. The region should keep the momentum going while controlling recurrent expenditure.

**Addis Ababa**, on the other hand, has experienced a surge in expenditures, particularly in 2015/2016 EC (2023 GC), as shown in the figure below.

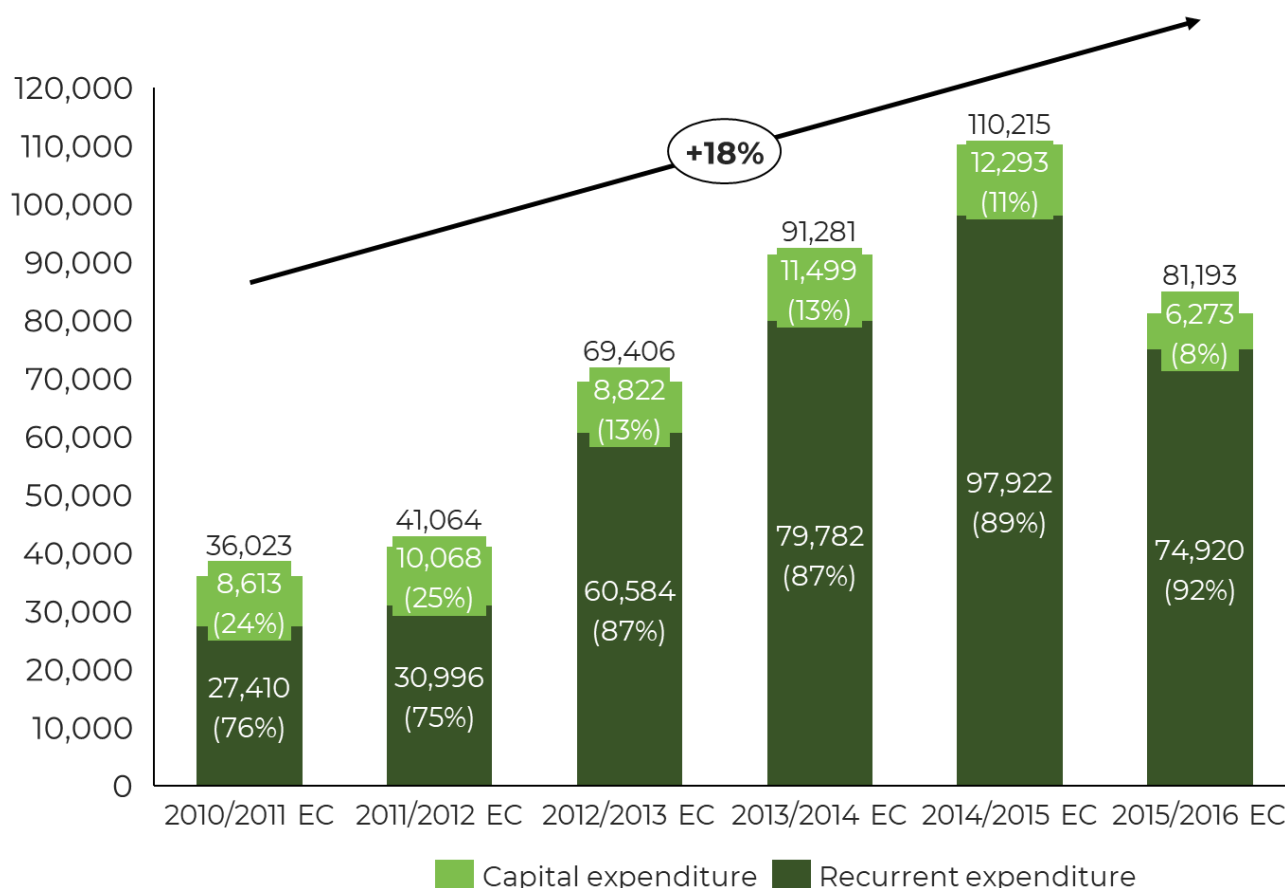
**Figure 15: Addis Ababa's total expenditure**  
(2010/11 - 2015/16 [2018–2023 GC], ETB million)



The city saw an increase of 80% in capital expenditure from 2014/2015 to 2015/2016 EC (2022 to 2023 GC), with overall expenditure growing at a CAGR of 27% per year over the entire period. Capital expenditure roughly matches recurrent expenditure, which makes the budget balanced, with a positive strategic shift towards capital investment in 2015/2016 EC (2023 GC), while keeping recurrent expenditure contained. Interestingly, the CAGR for capital expenditure (31%) marginally exceeds the overall annual growth rate and implies that capital expenditure is growing faster than its counterpart. The sectors with the highest growth in Addis Ababa's capital expenditure are social services, economic services, and administrative and general services. Economic services, particularly trade, industry, and tourism, grew from ETB 1,098 million (about USD 8.2 million) to ETB 4,787 million (about USD 35.7 million), highlighting a focus on economic development. Similarly, recurrent expenditure also reflects consistent growth. This growth reflects a notable emphasis on social services, with education expenditure rising from ETB 3,287 million (about USD 24.5 million) to ETB 9,821 million (about USD 73.3 million), and healthcare from ETB 2,526 million (about USD 18.9 million) to ETB 6,537 million (about USD 48.8 million) over the 2010/2011 to 2015/2016 EC (2018 to 2023 GC) period. Administrative and general services also saw increases, from ETB 4,554 million (about USD 34.0 million) to ETB 13,681 million (about USD 102.1 million), highlighting a correlating increase of overhead costs related to these sectors.

In **Amhara**, capital expenditure remains considerably low in comparison to recurrent expenditure, as shown in the figure below.

**Figure 16: Amhara's total expenditure**  
(2010/11 - 2015/16 [2018–2023 GC], ETB million)

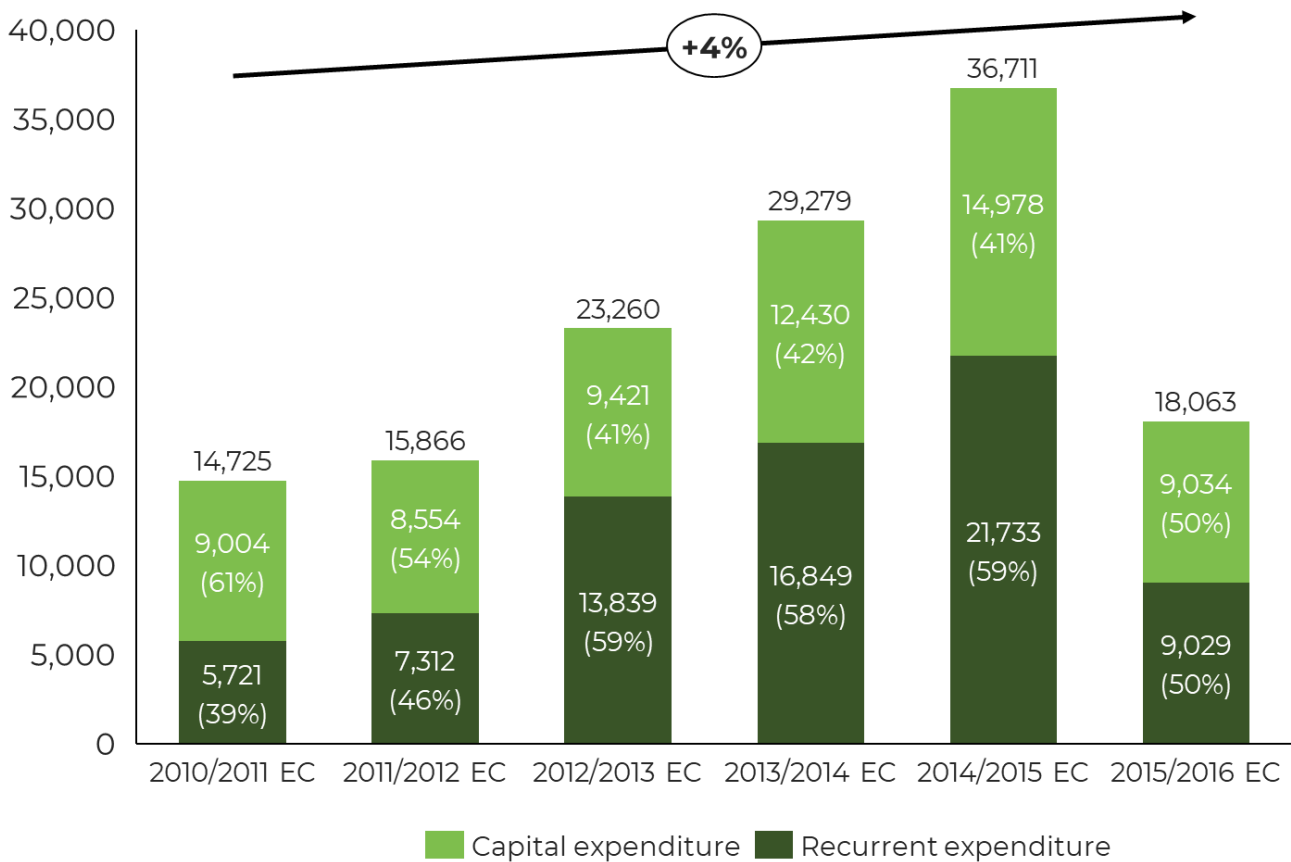


Despite an overall positive CAGR of 18% for total expenditure, capital expenditure has actually declined by a CAGR of 6% over the period. This trend suggests that expenditure growth is skewed heavily towards recurrent expenditure – from 2014/2015 to 2015/2016 EC (2022 to 2023 GC), the year-on-year decline in capital expenditure was 49%. In previous years, economic development, particularly urban infrastructure like road construction, had driven the marginal increases in capital expenditure.

The recurrent expenditure in this region far exceeds its capital expenditure, highlighting a potential lack of investment in long-term projects that could hinder its development potential. While generally maintaining an upward trend, the fall of expenditure in 2015/2016 EC (2023 GC) is attributable to declining administrative and general services expenditures – which initially rose, peaking at ETB 51,294 million (about USD 382.9 million) in 2014/2015 EC (2022 GC) before decreasing to ETB 37,470 million (about USD 279.8 million) in 2015/2016 EC (2023 GC). This suggests a tightening of administrative costs or reallocation of resources. In contrast, economic services maintained consistent growth, particularly in agriculture and transport, indicating a strategic focus on boosting economic infrastructure in the wake of falling overall expenditure.

Similarly, the **Somali** region has demonstrated considerable increases in recurrent expenditure, with the recurrent expenditure consistently surpassing capital expenditure, except in 2013/2014 and 2014/2015 EC (2021 and 2022 GC).

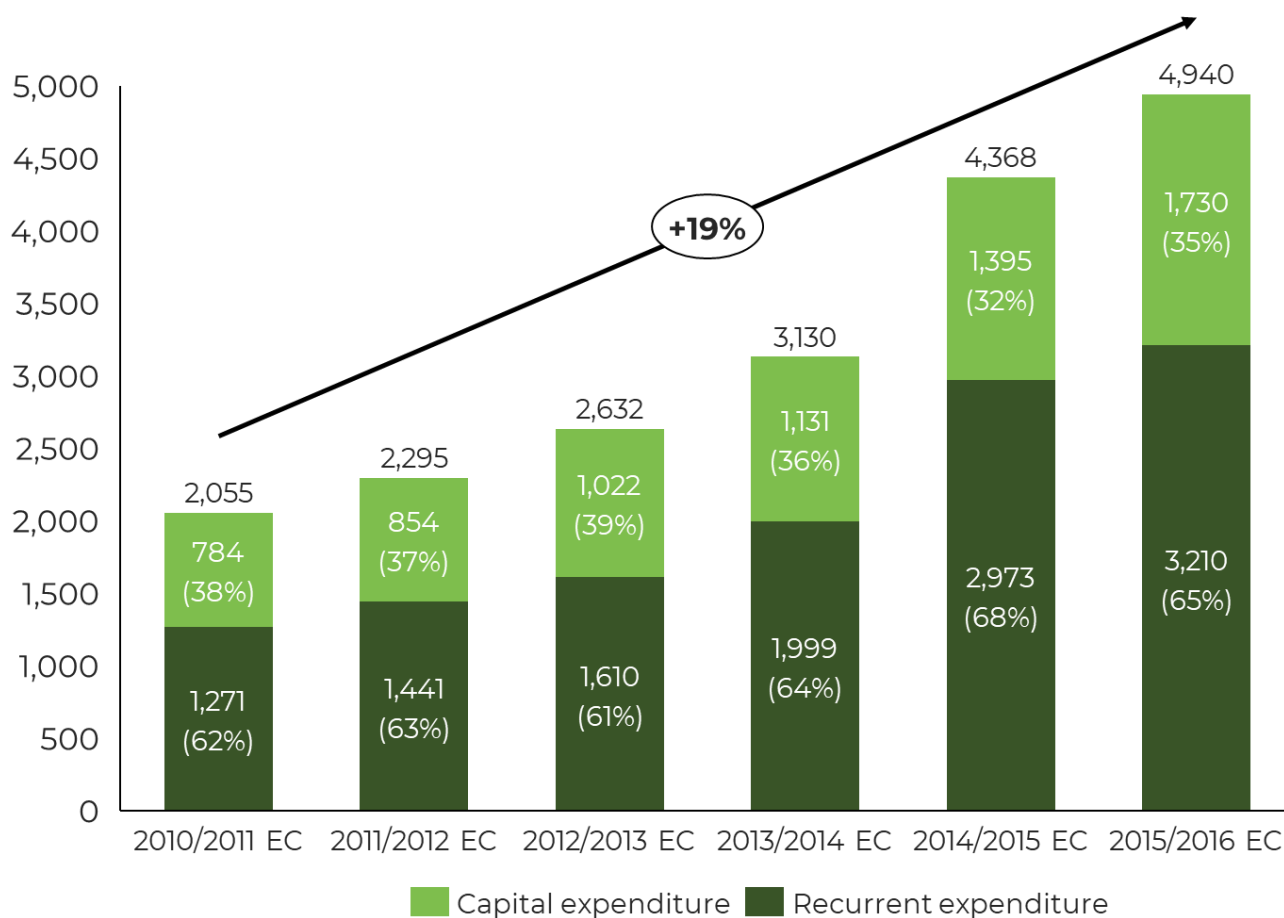
**Figure 17: Somali's total expenditure**  
(2010/11 - 2015/16 [2018–2023 GC], ETB million)



Somali has experienced a growth rate of approximately 29% of recurrent expenditure from 2013/2014 to 2014/2015 EC (2021 to 2022 GC), highlighting the burden of overhead costs. However, overall expenditure falls between 2014/2015 and 2015/2016 EC (2022 and 2023 GC), equalising both capital and recurrent expenditure, with negative growth rates of 40% and 58%, respectively. In particular, the decline in recurrent expenditure is attributed to decreased expenditure in finance and economic development under general services (with a decline of 92% from 2014/2015 to 2015/2016 EC [2022 to 2023 GC]). In the case of capital expenditure, the decline from 2022 to 2023 GC (2014/2015 to 2015/2016 EC) is attributable to decreased spending on urban development and construction, with a negative growth rate of 64%. When calculated over the entire period, the increase in capital expenditure has been minimal.

In **Dire Dawa**, recurrent expenditures have consistently outpaced capital expenditures over the reviewed period.

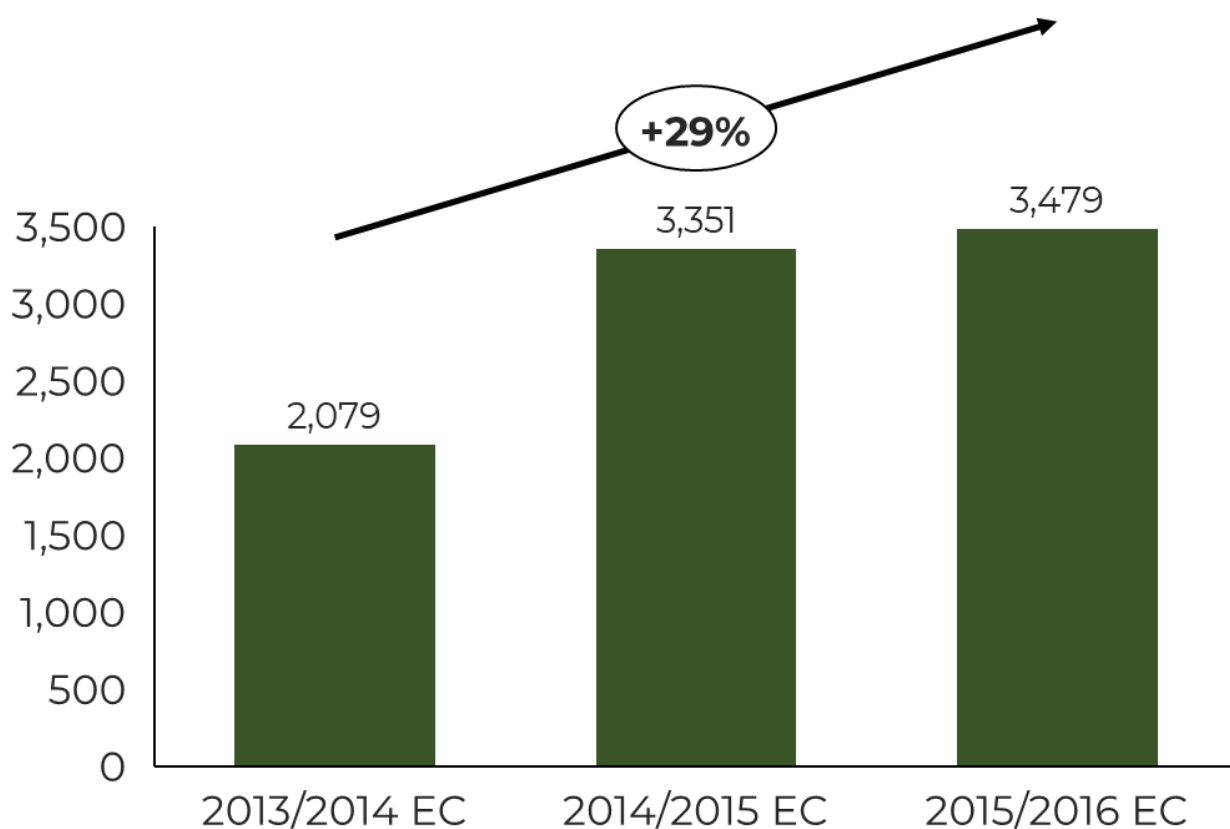
**Figure 18: Dire Dawa's total expenditure**  
(2010/11 - 2015/16 EC [2018–2023 GC], ETB million)



The region's recurrent expenditure showed a steady upward trend, increasing from ETB 1,271 million (about USD 9.49 million) in 2010/2011 EC (2018 GC) to over ETB 3,210 million (about USD 23.96 million) in 2015/2016 EC (2023 GC). This represents a CAGR of 19% over the five-year period. This consistent increase indicates a strong emphasis on operational costs, which may include salaries, administrative expenses, and day-to-day service delivery. On the other hand, capital expenditures in Dire Dawa also continue on a positive trajectory, with an average of 17% year-on-year increase.

Finally, the expenditure data for **Sidama** spans three years, from 2013/2014 to 2015/2016 EC (2021 to 2023 GC), and only covers capital expenditure, nevertheless showing a consistent upward trend.

**Figure 19: Sidama's total capital expenditure**  
(2010/11 - 2015/16 EC [2018–2023 GC], ETB million)



In 2013/2014 EC (2021 GC), Sidama's recorded expenditure was ETB 2,079 million (about USD 15.5 million). A significant increase occurred in 2014/2015 EC (2022 GC), with capital expenditure rising to ETB 3,351 million (about USD 25.0 million), reflecting a substantial growth of approximately 61% from the previous year. The upward trend continued in 2015/2016 EC (2023 GC), reaching 3,479 units, though the growth rate slowed to 4% compared to the sharp rise in 2014/2015 EC (2022 GC). This increase was primarily driven by expenditure on economic development. While the data indicates a steady increase in expenditure, it is important to note that no information was provided regarding recurrent expenditure.

Expenditures generally exceed revenues across most regions, highlighting persistent fiscal gaps, and while revenue CAGRs are generally faster than expenditure CAGRs in the graphs shown earlier, this is typically because revenue is growing from a lower base, i.e. expenditure is generally still growing faster in absolute terms.

Another visible pattern is that in several regions (Amhara, Somali, Dire Dawa) **recurrent costs such as administrative salaries and maintenance increasingly dominate budgets**, though Addis Ababa and Oromia counter this trend. While overall revenue increases across regions are commendable, the prioritisation of recurrent expenditure in several regions leaves limited room for capital investments, which are essential for sustainable infrastructure development. Relatively low capital expenditure may be attributed to challenges in project design and execution, low profitability of potential projects, and the scarcity of competitive service providers, which together push up construction costs and discourage their expansion. Particularly in regions like

Amhara and Somali and Dire Dawa where scaling capital investments is more difficult due to their relatively small budget. As regional authorities continue to allocate a larger share of their budgets to day-to-day operations, the focus shifts from strategic, growth-inducing investments to managing administrative and maintenance expenses. Strengthening project planning, incentivising more profitable ventures, and enhancing the local service provider ecosystem could help balance this expenditure-revenue disparity and promote more effective, long-term economic development.

## Regions' Prospects to Issue Municipal Bonds

The analysis of the supply side of the market, although partial for the assessment of regions' awareness, provides interesting insights regarding regions' capacity, namely their financial situation.

The revenue and expenditure trends for each region over the six-year period reveal their financial situation as well as their capacity to grow their investments. Setting aside legal and regulatory considerations, investors' appetite, and capital market characteristics, we establish a list of four criteria, primarily around fiduciary risk, to rank our regions' eligibility and likelihood to consider issuing bonds in the near future:

1. **Source of repayment:** source of revenue used by the region to repay the bond
2. **Priority of payment:** outstanding credit that is currently being paid back by the region
3. **Budget surplus/deficit:** whether revenues exceed expenditure
4. **Capital investments:** size of the capital budget depicting investments in socio-economic infrastructure

**Table 9: Regional assessment for prospective bond issuance**

| Regions            | Source of repayment                                                                                                                                                                                       | Priority of repayment                                       | Budget surplus/deficit                                                                                                                | Size of investments                                                                                                                               | Relative likelihood to issue |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| <b>Addis Ababa</b> | <b>Strong</b><br>High revenues (ETB 105 266 million - about USD 785.6 million - in 2015/2016 EC [2023 GC]) rising sharply, averaging a 28% year-on-year increase.<br><br>Revenue per capita: ETB 26 683.4 | <b>Moderate</b><br>Repayment of loan on time and no default | <b>Neutral</b><br>Balanced budget with revenues covering expenditure (moderate surplus of ETB 1,207 million (about USD 9.0 million)). | <b>Large</b><br>Significant capital budget (ETB 56 283 million - equating to about USD 420.1 million) with an average growth rate of 33% per year | <b>High</b>                  |
| <b>Amhara</b>      | <b>Moderate</b><br>Modest revenues (ETB 28 772 million - about USD 214.8 million - in 2015/2016                                                                                                           | <b>Strong</b><br>No current loan thus no debt servicing     | <b>Very negative</b><br>High budget deficit of ETB 52,148 million (about USD 389.2 million).                                          | <b>Very small</b><br>Very small capital budget (ETB 6 276 million - equating to about USD 46.8                                                    | <b>Low</b>                   |

|                  |                                                                                                                                                                                                                                                                                                                              |                                                                 |                                                                                                      |                                                                                                                                                                 |                                                        |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
|                  | <p>EC (2023 GCI) with steady gains and an average of 23,8% increase</p> <p>Revenue per capita: ETB 1 239.3</p>                                                                                                                                                                                                               |                                                                 |                                                                                                      | million) with an average annual increase of about 3%                                                                                                            |                                                        |
| <b>Oromia</b>    | <p><b>Strong</b><br/>High revenues (ETB 82 674 million - about USD 617.3 million - in 2015/2016 EC (2023 GCI) with 43,7% average annual increase</p> <p>Revenue per capita: ETB 2 022.2</p>                                                                                                                                  | <p><b>Strong</b><br/>No current loan thus no debt servicing</p> | <p><b>Very negative</b><br/>High budget deficit of ETB 55,326 million (about USD 412.9 million).</p> | <p><b>Large</b><br/>Significant capital budget (ETB 48 213 million - equating to about USD 359.9 million) with an average year-on-year increase of 40%</p>      | <p><b>High</b><br/>Needs to address budget deficit</p> |
| <b>Dira Dawa</b> | <p><b>Weak</b><br/>Low levels of revenues (ETB 3 492 million - about USD 26.1 million - in 2015/2016 EC (2023 GCI) with a steady upward trend of 29,7% year-on-year growth</p> <p>Revenue per capita: ETB 6 337 568.1</p>                                                                                                    | <p><b>Strong</b><br/>No current loan thus no debt servicing</p> | <p><b>Negative</b><br/>Moderate budget deficit of ETB 1,454 million (about USD 10.9 million).</p>    | <p><b>Very small</b><br/>Very small capital budget (ETB 1 730 million - equating to about USD 12.9 million) with an average year-on-year growth rate of 19%</p> | <p><b>Low</b></p>                                      |
| <b>Sidama</b>    | <p><b>Weak</b><br/>Low levels of revenues (ETB 8 239 million - about USD 61.5 million - in 2015/2016 EC (2023 GCI) but a positive revenue trajectory since 2013/2014 EC (2021 GCI), with a particularly strong 32% increase between 2014/2015 and 2015/2016 EC (2022 and 2023 GC)</p> <p>Revenue per capita: ETB 1 553.9</p> | <p><b>Strong</b><br/>No current loan thus no debt servicing</p> | <p><b>Positive</b><br/>Budget surplus of ETB 3,218 million (about USD 24.0 million).</p>             | <p><b>Small</b></p>                                                                                                                                             | <p><b>Low</b></p>                                      |

|               |                                                                                                                                                                                                                                                                                                                              |                                                         |                                                                                              |                                                                                                                    |            |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|------------|
| <b>Somali</b> | <b>Weak</b><br>Low levels of revenues (ETB 5 920 million - about USD 44.2 million - in 2015/2016 EC (2023 GC)) and total revenue growth of 32% between 2010/2011 and 2014/2015 EC (2018 to 2022 GC) in comparison to a 16% decline between 2014/2015 and 2015/2016 EC (2022 to 2023 GC)<br><br>Revenue per capita: ETB 889.3 | <b>Strong</b><br>No current loan thus no debt servicing | <b>Very negative</b><br>High budget deficit of ETB 18,534 million (about USD 138.3 million). | <b>Small</b><br>Small capital budget (ETB 9 034 million - equating to about USD 67.4 million) and an average of 4% | <b>Low</b> |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|------------|

**Addis Ababa and Oromia (with a reservation on the budget deficit) stand out as the two regions that may, over the medium term, meet some of the preliminary conditions to issue any bond.** However, regions would need to design or select the type of investment projects with proven cash flow that could constitute the pipeline of projects that will be funded by the bond issuance. As they build capacity, it will become more likely to issue bonds.

Although Sidama has relatively low levels of revenue, it has demonstrated a positive revenue trajectory since 2013/2014 EC (2021 GC), with a particularly strong 32% increase between 2014/2015 and 2015/2016 EC (2022 and 2023 GC). While inflation (estimated at 15–20%) and currency devaluation have partially offset real growth, the data still indicates double-digit growth. This suggests a degree of underlying fiscal momentum, even if the region is not yet ready for immediate bond issuance.

#### **Box 6: Regional governments' project pipelines**

As highlighted above, regions have unmet needs and investment projects that remain unfunded because of financial gaps. While they have communicated overarching aims in terms of uses for additional funds, these have not yet been formalised into a concrete pipeline of projects, with defined quantum and time horizons.

**Our recommendation would be that the two selected regions take a medium-term perspective with a gradual approach on their journey with capital markets. This entails starting with issuing the most basic financing instruments. Vanilla bonds** offer fixed coupon payments and a predetermined maturity date. These instruments present clear and predictable cash flows, making them easier to analyse and assess. They are often traded in open markets, and the parties involved agree on predetermined terms, including fixed coupon payments or variable rates. As a result, they are widely accessible and suitable for a wide range of investors mainly thanks to the stability they offer and may overall be the best starting point for municipal debt in Ethiopia.

The question of whether the bonds would be structured as general obligation or revenue bonds remains open, though given the regions' revenue/expenditure trends, revenue bonds, which would be secured by revenue from the projects funded by the bond, may be most suitable, as it would mean that they could be extended even to regions with challenging fiscal situations.

## 4 | Recommendations

**The recommendations presented in this section are based on the findings from the analysis of the enabling environment and regional assessments for municipal bond issuance in Ethiopia.** These recommendations aim to address the challenges facing a prospective municipal bond market in Ethiopia that have been identified throughout this report. While some of these issues fall within the direct purview of the ECMA, others may require collaboration with stakeholders such as the MoF, NBE and other relevant entities. The most pertinent issues, and the proposed recommendations to address them, are summarised below.

### **Recommendation 1: Develop the enabling legal and regulatory framework to support the development of a municipal bond market**

**Key finding: The current legal and regulatory framework in Ethiopia - comprising the Constitution, regional financial proclamations, and city charters - provides borrowing powers to regional states and city administrations, including the ability to issue bonds. However, there are gaps in the broader enabling legal and regulatory framework that would be necessary to support a well-functioning municipal bond market.**

**The issue:** While regional states and city administrations are legally permitted to issue municipal bonds, there are gaps in the supporting legal and regulatory framework that would guide how these instruments are issued, managed, and overseen. Key elements that remain undefined include how much can be borrowed, the types of expenditures that are eligible, and the conditions under which borrowing may take place. Similarly, there is no formal guidance on the approval process, nor on the roles and responsibilities of the institutions involved in reviewing, authorising, and overseeing bond issuances. In addition, the current legal and regulatory framework has gaps around key safeguards such as disclosure obligations, investor protection measures, or mechanisms for resolving disputes. Uncertainty also exists at present around how municipal bonds would be taxed.

Collectively, these gaps may create an environment of legal and procedural uncertainty that discourages participation by both prospective issuers and investors. Further to this, gaps in the legal framework governing the municipal bonds market may increase the risk of adverse outcomes - including inconsistent issuance practices, low transparency, inefficient use of funds, and exposure to unsustainable debt obligations for issuers - all of which could undermine the credibility and potential developmental impact of the market.

#### **Recommendation:**

To address the gaps identified above, a set of complementary actions is proposed to strengthen the legal and regulatory framework for a prospective municipal bond market in Ethiopia.

#### **Recommendation 1A: Define clear conditions for municipal bond issuance through dedicated legislation or regulation**

There is currently no regulation or directive that specifies who may issue municipal bonds, how much may be borrowed, or what the proceeds may be used for. This absence of guidance creates uncertainty and raises the risk of the use of bond proceeds for non-developmental purposes.

To address this gap, a comprehensive legal and regulatory framework should be developed that clearly sets out the conditions under which municipal bonds may be issued. This framework should clearly establish eligibility criteria for potential issuers, such as regional states or city administrations, and define the financial and institutional conditions they must meet before issuing bonds. Such criteria should ensure that issuers demonstrate adequate financial management capacity, maintain up-to-date and audited financial statements, and have a track record of sound fiscal performance that is sufficient to support repayment of debt obligations. In addition, the Ministry of Finance should set borrowing limits - such as ceilings on total outstanding debt or debt service ratios - to promote sustainability and prevent over-indebtedness.

Finally, consistent with the intention of ensuring that municipal bond issuance supports long-term developmental objectives, the framework should restrict the use of proceeds raised from issuances to clearly defined capital investment projects. This restriction would help prevent the use of borrowed funds for recurrent expenditure, ensuring that proceeds are directed toward investments that generate long-term value and, where appropriate, support revenue generation to service the debt as outlined in Section 2 of this report.

#### **Recommendation 1B: Establish a formal oversight and approval framework for municipal bond issuance**

There is currently no formal oversight or approval framework governing the issuance of municipal bonds in Ethiopia. Institutional responsibilities for reviewing, approving, and monitoring bond issuances have not been clearly assigned, and there is no structured process in place to assess whether a prospective issuer meets the necessary legal and financial conditions prior to issuing debt.

To address this gap, a formal oversight and approval framework should be established to assess and authorise all municipal bond issuances. This framework should clearly assign responsibility to the Ministry of Finance - or a designated entity - to review whether proposed issuances comply with legal and financial requirements, including debt ceilings, eligibility criteria, and use-of-proceeds rules. The approval process should be standardised and transparent, ensuring consistent evaluation of the financial soundness of issuers and the viability of proposed projects. For example, Ethiopia could consider adopting a multi-tiered approval process similar to the benchmarking countries involving, for example, regional council authorisation, review by the Ministry of Finance to ensure alignment with national fiscal policy, and regulatory clearance by ECMA as the market supervisor.

Consideration could also be given to establishing a dedicated debt management unit within the Ministry of Finance, or an independent debt management office, similar to Nigeria's Debt Management Office which has contributed positively to subnational bond issuances and debt sustainability by performing a number of functions as outlined in Section 2 of this report.

#### **Recommendation 1C: Finalise the draft dispute resolution directive for the capital market, and ensure that it is applicable and appropriate for municipal bonds**

While the existing legal framework for the capital market provides some guidance on dispute resolution - such as the requirement for mediation and arbitration under the Capital Market

Proclamation - some gaps remain. For example, while the proclamation provides for arbitration where mediation fails, it does not define how arbitrators are to be appointed, or the procedures to be followed - leaving important aspects of dispute resolution unclear in practice.

However, the ECMA is currently in the process of developing a detailed dispute resolution directive for the capital market. As such, it will be important for the development of the municipal bond market that this directive is finalised, and that its provisions are explicitly extended to cover disputes that may arise in the context of municipal bond issuance and investment.

#### **Recommendation 1D: Clarify the tax treatment of municipal bonds through ongoing engagements between the ECMA and Ministry of Finance**

There is uncertainty around the tax treatment of municipal bonds in Ethiopia. While federal government bonds are exempt from all forms of tax, no such exemptions exist for municipal bonds. As such, if municipal bonds were to be introduced without further legislative clarity on the matter, these instruments may be subject to one or more forms of taxation, such as income tax, capital gains tax, or stamp duty.

The ECMA and Ministry of Finance are currently involved in ongoing engagements to determine the appropriate tax treatment for municipal bonds amongst other things. It is therefore recommended that these engagements be continued and finalised - with a clear and formal position communicated to the market on the applicable tax treatment for municipal bonds.

#### **Recommendation 1E: Ensure that the enabling legal and regulatory framework for municipal bonds clearly defines the roles, responsibilities, and processes for issuers, underwriters and key parties involved in municipal bond issuance**

A well-functioning municipal bond market depends on a clear framework that sets out the responsibilities of issuers, underwriters, and other transaction parties. While some directives provide general guidance for public securities issuance, they do not offer practical detail on the specific roles and interactions involved in the municipal bond issuance process. The regulatory framework for municipal bonds should address this gap by clarifying each party's role in the issuance process, their obligations, and the processes that must be followed when structuring and executing an issuance.

#### **Recommendation 2: Facilitate access to credit rating services for prospective issuers of municipal bonds**

**Key finding:** There are currently no established domestic credit rating agencies in Ethiopia. Regulations permit issuers to use agencies licensed or authorised by ECMA, but few such options exist, and international providers may be costly or inaccessible to regional governments.

**The issue:** Credit ratings can play an important role in municipal bonds markets - helping investors assess risk, price instruments appropriately, and improve the attractiveness of bonds by providing a credible, independent signal of creditworthiness to the market. In the benchmarking countries of Nigeria and India, domestic credit ratings play a central role in supporting municipal bond issuances. In Ethiopia, however, there are currently no established domestic credit rating agencies, and large international credit ratings agencies may be prohibitively costly for prospective issuers in Ethiopia.

**Recommendation:**

In the short term, ECMA can leverage its existing licensing framework to authorise credible regional or pan-African credit rating agencies to assess the creditworthiness of municipal bond issuers in Ethiopia. Over the longer term, the ECMA could also play a role in facilitating the development of a domestic credit rating ecosystem to support deeper local capacity and potentially lower the cost of obtaining a credit rating.

**Recommendation 3: Extend the maturity profile of federal government bond issuances to support municipal bond pricing**

**Key finding: Government bond issuances in Ethiopia are predominantly short-term, with most bonds limited to T-bills and five-year non-marketable bonds.**

**The issue:** Municipal bonds typically have long-term tenors, usually exceeding ten years. To accurately price these bonds, investors rely on a yield curve derived from government bonds, which acts as a reference point for assessing credit risk premiums and determining appropriate yields. However, in Ethiopia, the government bond market is limited to short-term issuances - including T-bills and non-marketable five-year bonds. As a result, there is no reliable benchmark for pricing long-term municipal bonds, making it difficult for investors to accurately assess credit risk and set appropriate yields. This may result in several adverse outcomes in a potential municipal bond market, including higher borrowing costs as investors may demand higher interest rates to compensate for the uncertainty in pricing long-term debt. Encouragingly, the Ministry of Finance and National Bank of Ethiopia - in collaboration with ECMA and IFC - have already announced plans to issue longer-term government bonds, which would be an important step in supporting this objective.

**Recommendation:**

Extend the maturity profile of federal government bond issuances to include medium- and long-term tenors (around 10 years) to establish a more comprehensive yield curve to act as a benchmark for municipal bond pricing.

**Recommendation 4: Establish a secondary market for federal government bonds to support municipal bond liquidity and pricing**

**Key finding: There is currently no secondary market for federal government bonds in Ethiopia, which may undermine the ability of municipal bonds to be accurately priced and traded efficiently.**

**The issue:** There is currently no secondary market for federal government bonds in Ethiopia. When liquidity is high, yields better reflect real-time market conditions, providing a more reliable benchmark for subnational bond issuances. Conversely, the lack of an active secondary market for federal government bonds weakens the risk-free reference, undermining the pricing of municipal bonds which use government bond yields as a reference.

**Recommendation:**

Establish a secondary market for federal government bonds to enable active trading and real-time price discovery. This will support liquidity and provide a reliable benchmark for pricing municipal bonds.

## **Recommendation 5: Improve investor capacity to understand municipal bonds and evaluate their risk**

**Key finding: Investors currently have limited understanding of municipal bonds and the associated risks, which may reduce their willingness to participate in the market.**

**The issue:** A well-functioning municipal bonds market requires active participation from investors who are confident in their ability to assess the risks involved. However, stakeholder interviews conducted during this study revealed that many potential investors in Ethiopia lack sufficient knowledge of municipal bonds. This includes limited understanding of the risk-return profile of municipal bonds, uncertainty about how to evaluate credit risk associated with regional governments, and limited experience with long-term fixed-income instruments beyond government bonds.

Additionally, institutional investors such as pension funds and insurance companies, while expressing interest, have historically focused on government securities perceived as risk-free, resulting in limited internal capacity to assess the risks associated with municipal bonds.

### **Recommendation:**

Strengthen investor capacity to understand municipal bonds and evaluate associated risks through targeted capacity-building initiatives. These initiatives should aim to build foundational knowledge of municipal bonds, develop skills for risk assessment, and enhance investor confidence in participating in the market. Importantly, they should also facilitate relationship-building between investors and regional governments.

This could, for example, take the form of workshops facilitated by the ECMA, where regional governments and potential investors engage directly. During these workshops, regional governments could present their fiscal position, planned investment projects, and financing gaps. Investors would have the opportunity to discuss the types of investment opportunities that interest them, the level of risk they are willing to take, and the types of guarantees they would require. Additionally, these sessions could include discussions on the types of bonds recommended and the feasibility of each option.

## **Recommendation 6: Build awareness of municipal bonds among BoFEDs**

**Key finding: BoFEDs have limited knowledge and understanding of the characteristics, issuance and management of municipal bonds; moreover, most of them, save one, have no previous experience with debt.**

**The issue:** The main stakeholders for the issuance of municipal bonds - regions - have expressed through KIIs their unfamiliarity with municipal bonds and the process of issuing them. Despite interest in debt instruments, including bonds that are novel and perceived attractive to Ethiopia, they admit needing to fully grasp this concept and more specially to understand what it requires to be implemented. This interest stems from the need to identify alternative sources of financing pro-poor investments in regions.

### **Recommendation:**

Build the capacity of BoFEDs through an introductory course to capital markets and municipal bonds. This could take the form of a workshop during which the participants will learn about the

concept of capital markets and existing instruments, are introduced to the regulatory framework for municipal bonds in Ethiopia, followed by the basics of municipal bonds: their advantages and requirements before ending with the financial management of the proceeds, particularly around planning and budgeting, accounting, monitoring, reporting and auditing. Several country case studies should be shared and participants should be tested on their understanding of concepts through exercises.

### **Recommendation 7: Provide technical assistance to regions to develop their pipeline of eligible projects for bond issuance**

**Key finding: BoFEDs do not have an issuance list of projects that could be funded with the proceeds of the bond issuance.**

**The issue:** Due to the limited understanding of municipal bonds, BoFEDs, in their capacity as issuers, have not identified eligible projects according to the type of bonds of interest. This can be partially explained by the lack of previous experience in doing so as well as the untimeliness of this exercise. Without first mastering bonds, they cannot anticipate this stage.

#### **Recommendation:**

Provide issuers with guidance on the key components involved in launching a credible bond, specifically preparing an issuance list. This entails first defining broad categories of eligible criteria for the type of bond of interest. Second, detailing the process for project evaluation and selection, including all types of studies, alignment with the region's development plan, and guarantees or any type of collateral from the region and/or Federal government. Last, the reporting phase is of utmost importance to account for the use of the proceeds and to assess the impact of these projects. External experts can be recruited to assist the regions of Addis Ababa and Oromia during a period of time to work on their issuance list according to the investment projects in need of financing in their public investment programs as well as new projects that could be designed to meet the requirements of the bonds' characteristics.

## 5 | Appendix

### List of Reviewed Regulations and Legal Documents

| Category                                          | Document Name                                                          |
|---------------------------------------------------|------------------------------------------------------------------------|
| <b>Federal Constitution</b>                       | Federal Democratic Republic of Ethiopia Constitution                   |
| <b>Capital Market Proclamations</b>               | Capital Market Proclamation 1248/2021                                  |
| <b>Federal Debt Management Legislation</b>        | Public Debt Management and Guarantee Issuance Directive No. 46/2017    |
| <b>National Bank of Ethiopia Proclamations</b>    | National Bank of Ethiopia Proclamation 1359/2025                       |
| <b>Development Bank of Ethiopia Proclamations</b> | Development Bank of Ethiopia Regulation No. 83/2003                    |
| <b>Regional State Constitutions</b>               | Somali Regional State Constitution                                     |
|                                                   | Oromia Regional State Constitution                                     |
|                                                   | Afar Regional State Constitution                                       |
|                                                   | Amhara Regional State Constitution                                     |
| <b>City Administration Charters</b>               | Addis Ababa City Administration Charter                                |
|                                                   | Dire Dawa City Administration Charter                                  |
| <b>Financial Administration Proclamations</b>     | Federal Financial Administration Proclamations                         |
|                                                   | Amhara Regional State Financial Administration Proclamations           |
|                                                   | Oromia Regional State Financial Administration Proclamations           |
|                                                   | Harari Regional State Financial Administration Proclamations           |
|                                                   | Tigray Regional State Financial Administration Proclamations           |
|                                                   | Addis Ababa City Administration Financial Administration Proclamations |
| <b>Government Bond Legislation</b>                | Government Bond Proclamation No. 262/1969                              |
|                                                   | Government Bond Proclamation No. 531/2007                              |
|                                                   | Government Bond Proclamation No. 867/2014                              |

|                                 |                                                    |
|---------------------------------|----------------------------------------------------|
|                                 | Government Bond Proclamation No. 937/2016          |
|                                 | Government Bond Proclamation No. 994/2017          |
|                                 | Special Government Bond Proclamation No. 1211/2020 |
|                                 | Directive No. MFAD/TRBO/001/2022 on Treasury Bonds |
| <b>Tax and Duty Legislation</b> | Stamp Duty Proclamation No. 110/1998               |
|                                 | Stamp Duty (Amendment) Proclamation No. 612/2008   |
|                                 | Federal Income Tax Proclamation No. 979/2016       |

## List of Stakeholders Interviewed for Key Informant Interviews

| Stakeholder Group                              | Entity                                                                    | Designation of individuals interviewed     |
|------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------|
| <b>Regulators and Infrastructure Providers</b> | Ethiopian Capital Markets Authority                                       | Director General                           |
|                                                |                                                                           | Senior Capital Market Advisor              |
|                                                |                                                                           | Senior Capital Markets Legal Advisor       |
|                                                | Ethiopian Securities Exchange                                             | Chief Executive Officer                    |
|                                                |                                                                           | Chief Operating Officer                    |
|                                                |                                                                           | Senior Strategy Advisor                    |
| Government Institutions                        | National Bank of Ethiopia                                                 | Chief Research Officer                     |
|                                                | Ministry of Finance                                                       | Head of Debt Analysis Team                 |
|                                                |                                                                           | Advisor                                    |
|                                                |                                                                           | Senior Legal Expert                        |
|                                                | Ministry of Planning and Development                                      | Senior - Urban Finance System Improvement  |
| <b>Potential Investors</b>                     | Public Servants' Social Security Agency                                   | Deputy Chief Executive Officer, Operations |
|                                                | Private Organization Employees Social Security Fund Administration Agency | Chief Executive Officer                    |

|                             |                                 |                                                        |
|-----------------------------|---------------------------------|--------------------------------------------------------|
|                             | Zemen Insurance                 | Chief Executive Officer                                |
|                             | Commercial Bank of Ethiopia     | Director of SME Credit                                 |
|                             | Bank of Abyssinia               | Senior Treasury Officer                                |
|                             | C40 Cities                      | City Advisor                                           |
| <b>Regional Governments</b> | Addis Ababa City Administration | Representative from Finance Bureau                     |
|                             | Sidama Regional State           | Head of Regional State Planning and Development Bureau |