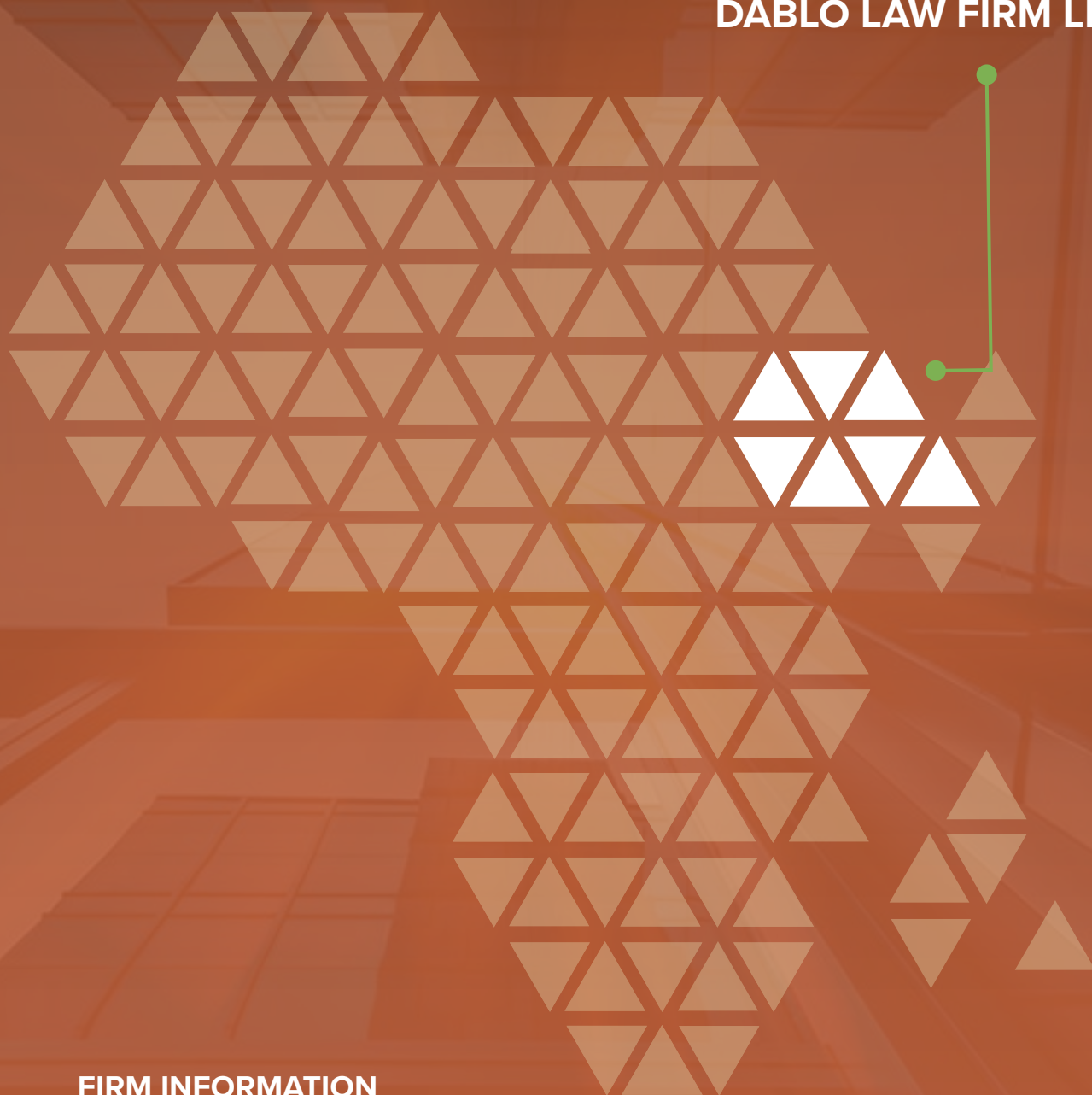




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1. SOURCES AND OVERVIEW

1.1 Main substantive ESG-related laws in Republic of the Federal Democratic Republic of Ethiopia ("Ethiopia")

1.1.1 Environmental laws include -

1.1.1.1 Environmental and Social Impact Assessment Proclamation No. 1371/2025: the proclamation establishes a mandatory framework for assessing and managing the environmental and social impacts of public and private development projects before implementation. It requires project proponents to conduct comprehensive environmental and social impact assessments ("ESIAs"), engage affected communities through public consultations, and implement mitigation measures. It also introduces strategic environmental and social assessments for public instruments like policies and strategies, mandates periodic audits and management plan updates, and imposes legal obligations for transparency, accountability, and inter-regional coordination;

1.1.1.2 Environmental Pollution Control Proclamation No. 300/2002: Establishes the legal framework for the control of pollution to protect the environment and human health;

1.1.1.3 Solid Waste Management Proclamation No. 513/2007: Provides for the proper management of solid waste to safeguard public health and the environment; and

1.1.1.4 Climate Resilient Green Economy ("CRGE") Strategy (2011): A national strategy aiming to build a green economy by reducing greenhouse gas emissions and promoting sustainable development. While influential, it is a policy document and not legally binding.

1.1.2 Social laws include -

1.1.2.1 Labor Proclamation No. 1156/2019: Regulates employment relationships, ensuring workers' rights, occupational safety, and health standards; and

1.1.2.2 Proclamation No. 1110/2019 on the Prevention and Suppression of Trafficking in Persons and Smuggling of Migrants: Addresses human trafficking and promotes the protection of vulnerable groups.

1.1.3 Governance Laws include -

1.1.3.1 Commercial Code of Ethiopia (Proclamation No. 1243/2021): Provides the legal framework for business entities, including corporate governance principles; and

1.1.3.2 Bank Corporate Governance Directive No. SBB/91/2024: Issued by the National Bank of Ethiopia, this directive mandates banks to implement sound corporate governance practices, including risk management and disclosure requirements.

1.2 ESG disclosure requirements in Ethiopia

1.2.1 Currently, Ethiopia does not have comprehensive, binding ESG disclosure requirements across all sectors. However, specific sectors have certain obligations -

1.2.1.1 Banking Sector: The Bank Corporate Governance Directive No. SBB/91/2024 requires banks to disclose material matters regarding their organisation, including financial situation, performance, sustainability, ownership, and governance.

1.2.1.2 Environmental and Social Impact Assessment: Under Proclamation No. 1371/2025, project proponents are required to disclose detailed environmental and social information through an Environmental and Social Impact Study Report before project approval. This includes data on pollution, energy use, trans-regional impacts, mitigation plans, and community consultation outcomes. While the law does not reference international standards like Global Reporting Initiative ("GRI") or the Task Force on Climate Related Financial Disclosures ("TCFD"), it mandates sector-wide disclosure through ESIs, public participation, audits, and regular reporting, forming a comprehensive local ESG disclosure framework.

1.2.1.3 International Frameworks - while not mandated, some Ethiopian companies voluntarily adopt international ESG reporting frameworks such as -

1.2.1.3.1 GRI: offers standards for sustainability reporting; and

1.2.1.3.2 Sustainability Accounting Standards Board ("SASB"): Provides industry specific standards for reporting on ESG topics.

1.3 Compulsory versus discretionary ESG-related disclosures in Ethiopia, and the frequency of such disclosures

ESG disclosures in Ethiopia are largely discretionary, with compulsory requirements limited to specific sectors -

- 1.3.1 Compulsory: banks are required to disclose certain ESG-related information under the Bank Corporate Governance Directive; and
- 1.3.2 Discretionary: Other sectors may voluntarily disclose ESG information, often influenced by international partnerships or investor requirements.

1.4 If ESG-related disclosures are discretionary, are compulsory ESG disclosures being considered by the regulators in Ethiopia and is it envisaged that such disclosures will, at some stage, become compulsory?

There is a growing movement towards formalising ESG disclosures in Ethiopia, which include -

- 1.4.1 the International Finance Corporation (“**IFC**”) has launched an ESG program in Ethiopia to promote best practices, particularly in banking, manufacturing, and agribusiness sectors; and
- 1.4.2 the Ethiopian Capital Market Authority (“**ECMA**”) is working towards integrating ESG considerations into the capital market framework, which may lead to more compulsory disclosures in the future.

1.5 Significant private sector initiatives relating to ESG-related laws and/ or disclosures in Ethiopia

Private sector initiatives related to ESG in Ethiopia include -

- 1.5.1 IFC’s Integrated ESG Programme: aims to boost sustainable business growth and private sector investment by promoting ESG best practices.
- 1.5.2 Green Legacy Initiative: a national effort by the government involving private sector participation to combat climate change through reforestation and environmental conservation.

2. PRINCIPAL SOURCES OF ESG PRESSURE

2.1 Investor and Asset/ Investment Manager Perspectives on ESG Compliance and Influence Strategies

Although the regulation of the sector is relatively new and still developing, investors and asset managers in Ethiopia are recognising the importance of ESG compliance, namely the -

- 2.1.1 IFC’s ESG program indicates a growing demand for sustainable investment practices; and
- 2.1.2 ECMA’s initiatives suggest that ESG factors are becoming integral to investment decision-making processes.

2.2 Stakeholder Influence on ESG Compliance

- 2.2.1 In Ethiopia, while the formal ESG legal framework is still evolving, the attitudes and influence of non-state stakeholders such as funders, shareholders, development finance institutions (“**DFIs**”), and institutional investors are increasingly supportive of ESG compliance, especially in high-impact sectors such as manufacturing, agriculture, and banking. This shift is largely driven by international partnerships, environmental vulnerabilities, and pressure from global markets rather than binding domestic ESG disclosure laws.

2.2.2 Stakeholder Perspectives and Influence

2.2.2.1 DFIs

- 2.2.2.1.1 DFIs such as the IFC, African Development Bank (“**AfDB**”), and European Investment Bank are among the most influential ESG advocates in Ethiopia.

- 2.2.2.1.2 These institutions require robust ESG due diligence as a condition for funding. For instance, IFC’s Environmental and Social Performance Standards are now being applied in sectors like agribusiness and textiles.

- 2.2.2.1.3 Companies failing to meet ESG criteria including climate impact, human rights, or governance gaps may be denied access to concessional loans or technical assistance.

2.2.3 Commercial Banks and Lenders

- 2.2.3.1 Ethiopian banks are increasingly influenced by ESG expectations due to the Bank Corporate Governance Directive No. SBB/91/2024, which mandates transparent governance, risk disclosure, and stakeholder engagement.

2.2.3.2 Banks that wish to partner with international financiers must integrate ESG risk assessments into their lending operations.

2.2.3.3 Some local banks are adopting social and environmental screening tools to evaluate clients before issuing loans, particularly in sectors like extractives and manufacturing.

2.2.4 Although not yet driven by comprehensive domestic regulation, stakeholder influence is shaping Ethiopia's ESG compliance landscape. ESG considerations are becoming prerequisites for access to international finance, market participation, and reputation management, particularly for businesses engaging in cross-border activities or high risk sectors.

2.3 Principal regulators of ESG compliance in Ethiopia and their focus areas

Ethiopia does not yet have a single, unified ESG regulator. Instead, ESG compliance is shaped by a multi-regulator framework, where responsibility is distributed across sectoral and thematic regulators. These bodies each oversee specific components of environmental, social, and governance issues. The recent regulatory developments in finance, data protection, and environmental management signal a growing institutional commitment to advancing ESG standards, even though comprehensive, cross-sectoral ESG legislation is not yet in place. The principal regulators overseeing ESG compliance in Ethiopia include -

2.3.1 Environmental Protection Authority: oversees environmental compliance, climate resilience policy, ESIA's, and pollution control under various proclamations. Key ESG issues pressed by the authority include enforcement of mandatory ESIA's for development projects, oversight of industrial waste management and pollution control and promotion of climate resilience strategies under the CRGE Strategy;

2.3.2 National Bank of Ethiopia ("NBE"): regulates banks and financial institutions, including corporate governance, risk management, and sustainability disclosures. The national bank focuses on various key ESG issues, which include governance transparency in board structures and risk committees, disclosure of material risks, including environmental and reputational risks and promotion of sustainable finance through alignment with ESG principles;

2.3.3 ECMA: responsible for developing and enforcing capital market regulations, including ESG considerations. Key issues pressed by the authority include enforcement of transparency and disclosure obligations, development of regulations on green bonds, sustainability-linked instruments, and corporate reporting frameworks and imposition of penalties for non-disclosure and misinformation;

2.3.4 Ministry of Labor and Skills/ Labor Inspection Services: oversees labor rights enforcement and workplace safety compliance. Key ESG issues pressed by the ministry include prohibition of child labor and discrimination, monitoring of occupational health and safety, regulation of employment contracts and working conditions, especially in industrial parks and export sectors; and

2.3.5 Ministry of Finance/ Public Investment and Policy Units: coordinates ESG related fiscal policies, public-private partnerships, and climate finance initiatives. Key ESG issues pressed by the unit include integration of ESG into public procurement and public-private partnership projects, coordination of Ethiopia's participation in global climate finance mechanisms, including the Green Climate Fund and Oversight of climate budget tagging and green economy planning.

2.4 Liability and Penalties for ESG Non-Compliance: Piercing the Corporate Veil

Ethiopia does not yet have a comprehensive, unified ESG enforcement framework that mandates ESG compliance across all sectors. However, penalties and sanctions are imposed under various sector-specific laws and regulations for non-compliance with environmental, social, governance, and data protection obligations. The liability regime remains corporate-centric, with limited circumstances under which directors, stakeholders, or investors may be held personally liable through piercing the corporate veil.

Penalties for failure to demonstrate ESG compliance vary by sector -

2.4.1 Environmental Sector: Administrative fines, project suspensions, and revocation of environmental clearances. Criminal sanctions, including imprisonment and fines, for violations such as pollution or non-compliance with environmental permits;

2.4.2 Banking Sector: Non-compliance with the Bank Corporate Governance Directive can result in regulatory sanctions. The national bank may take administrative actions including warnings, fines, suspension or removal of board members or senior executives. Banks may be sanctioned for failure to disclose material ESG-related risks or failure to comply with governance structures;

2.4.3 Capital Markets: The ECMA imposes fines for non-compliance, including up to ETB 500,000 for unresolved complaints and up to ETB 1 million for providing false information; and

2.4.4 Data Protection Violations: the commission may impose administrative fines for Unlawful processing of personal data, Inadequate data security measures, Failure to report data breaches, The proclamation also empowers the Data Protection Commission to

impose additional compliance measures or suspend data processing operations.

Currently, there is no provision allowing regulators to pierce the corporate veil to impose direct liability on directors, stakeholders, employees, funders, or investors for ESG non compliance.

2.5 Material ESG Enforcement Actions in Ethiopia

As of now, there are no publicly documented material enforcement actions specifically related to ESG compliance in Ethiopia. However, the establishment of the ECMA and its recent directives suggest a move towards stricter enforcement in the future.

2.6 ESG Litigation Risks and Emerging Legal Exposure

Ethiopia's ESG-related litigation landscape remains nascent, with no reported material litigation cases involving claims such as greenwashing, green-hushing, or failure to disclose ESG risks as of May 2025. This is due largely to a combination of regulatory gaps, low public awareness, limited disclosure obligations, and an underdeveloped class action or public interest litigation culture. However, litigation risk is expected to rise, particularly as Ethiopia advances capital market development, environmental regulation, and ESG compliance frameworks.

While formal ESG litigation is limited, certain categories of risk are emerging or foreseeable under existing Ethiopian law -

2.6.1 Green washing: litigation risk is low but rising

2.6.1.1 Companies operating in international value chains (e.g., horticulture, textiles) face reputational and commercial risks for misleading sustainability claims made to foreign buyers or investors.

2.6.1.2 The ECMA's recent regulatory developments (2025) penalise false disclosures, which could form a basis for administrative and civil actions in the future.

2.6.2 Environmental Damage and Community Rights: Litigation risk is moderate and rising

There is moderate potential for civil suits by affected communities or non governmental organisations ("NGOs") for damages caused by pollution, deforestation, or unlicensed resource extraction. There are several public interest litigation cases by NGOs including Defend the Environment.

2.7 Key ESG Compliance Concerns in Ethiopia

Key concerns for ESG proponents in Ethiopia include -

2.7.1 lack of comprehensive ESG disclosure regulations across all sectors;

2.7.2 need for capacity building and awareness among companies and regulators; and

2.7.3 integration of ESG considerations into national development strategies.

2.8 Shareholder Activism Triggered by ESG Non-Compliance

There is no significant evidence of shareholder activism specifically targeting ESG non compliance in Ethiopia. However, as ESG awareness grows, shareholder activism may become a more prominent tool for promoting compliance.

3. ENVIRONMENTAL METRICS AND GOALS

3.1 Carbon Footprint Disclosure Requirements: Scope 1, 2 and 3 Emissions

Currently, there are no statutory requirements for organisations in Ethiopia to calculate and disclose their carbon footprint.

3.2 Emissions Reduction Targets and Enforcement in Ethiopia

Ethiopia has set specific national targets for emissions reduction through its commitments under the Paris Agreement. These are formalised in its Nationally Determined Contributions ("NDCs") and supported by national development policies, especially the CRGE Strategy. However, these targets are currently policy-based and voluntary and there is no binding legal obligation for private sector entities or individuals to meet specific emission limits, nor are there penalties for non-compliance at this stage.

Ethiopia has committed to reducing its greenhouse gas emissions by 68.8% by 2030 compared to a business-as-usual scenario, as outlined in its Updated NDCs submitted under the Paris Agreement. The country's projected emissions under a no-action scenario are approximately 401 MtCO₂e, which it aims to reduce to 125.8 MtCO₂e. These targets focus on key sectors such as agriculture, forestry (including REDD+), energy, transport, waste, and industry, and are further supported by the national CRGE Strategy, which aims for zero net emissions growth while achieving middle-income status by 2025.

3.3 Sector-Based Environmental Disclosure Requirements

In Ethiopia, there are no comprehensive, binding legal requirements mandating companies to disclose detailed

information on water usage, waste generation, or other environmental impacts across all sectors. However, certain sector-specific regulations and international commitments encourage or require such disclosures -

3.3.1 Environmental and Social Impact Assessment Proclamation No. 1371/2025: organisations are required to measure, monitor, and disclose their environmental impacts, including water usage, waste generation, and pollution, as part of the ESIA process. The law requires sector-specific impact assessments and ongoing environmental audits, with more stringent obligations placed on high-impact sectors like mining, manufacturing, and infrastructure. These sectors must provide detailed data on resource use, emissions, and mitigation plans;

3.3.2 Environmental Pollution Control Proclamation No. 300/2002: prohibits the discharge of pollutants into the environment beyond permissible limits and requires entities to obtain permits for waste disposal, indirectly necessitating disclosure of waste generation and management practices;

3.3.3 Solid Waste Management Proclamation No. 513/2007: mandates proper handling and disposal of solid waste, with an emphasis on waste reduction, reuse, and recycling, which may involve reporting waste management practices to relevant authorities;

3.3.4 International Commitments: Ethiopia's participation in international environmental agreements, such as the United Nations Framework Convention on Climate Change (UNFCCC), implies a commitment to monitor and report environmental data, including water usage and waste generation, although these are not yet fully integrated into national legislation.

While these regulations imply certain disclosure obligations, there is a lack of standardised, sector-wide mandates for reporting environmental metrics.

3.4 Statutory Obligations for Renewable Energy and Efficiency Reporting

3.4.1 There is no statutory requirement in Ethiopia for organisations to measure, monitor, or disclose renewable energy usage or energy efficiency.

3.4.2 The CRGE Strategy promotes renewable energy development, particularly hydropower, geothermal, solar, and wind, as part of national policy. However, this strategy is not legally binding.

3.4.3 The National Electrification Program (NEP 2.0) and Ethiopia's NDCs under the Paris Agreement support renewable energy investment, but they do not mandate company-level disclosures.

3.4.4 As Ethiopia expands its energy infrastructure with World Bank and AfDB support, legal obligations for corporate energy reporting may emerge. IFC's ESG Program also promotes sector alignment with global disclosure practices.

3.5 Biodiversity Disclosure Obligations in Operations and Supply Chains

3.5.1 No statutory requirement currently exists that mandates biodiversity to be measured, monitored, or disclosed in an organisation's operations or supply chain.

3.5.2 The Environmental and Social Impact Assessment Proclamation No. 1371/2025 requires environmental and social impact study reports to include detailed assessments of a project's effects on the environment, particularly in high-impact sectors like agriculture, forestry, mining, and infrastructure. It also mandates ongoing monitoring and environmental audits to ensure compliance with approved mitigation measures.

3.5.3 The Institute of Biodiversity Conservation (IBC) under the Ministry of Agriculture leads biodiversity conservation, but corporate-level disclosure obligations do not exist.

3.5.4 Ethiopia's Biodiversity Strategy and Action Plan (NBSAP) suggests that enhanced monitoring requirements may be introduced, especially in sectors like agriculture, forestry, and extractives.

4. CLIMATE RISK ASSESSMENT

4.1 What physical climate risks have been identified in your jurisdiction?

Drought, flooding, desertification, and land degradation are the primary risks. These are recognised in Ethiopia's CRGE Strategy and the 2021 National Adaptation Plan.

4.2 Challenges of Transitioning to a Low-Carbon Economy

Ethiopia faces several transition risks as it moves toward a less carbon-intensive economy. Risks include -

4.2.1 Regulatory: stem from the anticipated introduction of stricter environmental and ESG-related disclosure laws, especially in sectors like banking, manufacturing, and agriculture;

4.2.2 Market: arise from potential trade barriers, such as the EU's Carbon Border Adjustment Mechanism (CBAM), which may affect Ethiopian exports;

4.2.3 Technological: include the high cost and limited access to low-carbon technologies and infrastructure; and

4.2.4 Reputational: pressures from international financiers demanding ESG compliance.

4.3 Statutory Integration of Climate Risks into Enterprise Governance

Ethiopian law does not currently require climate risks to be statutorily integrated into an organisation's enterprise risk management (ERM) or governance charters. While Ethiopia's CRGE Strategy and Updated NDCs emphasise national-level climate resilience, these policy instruments are non-binding and do not impose specific obligations on companies to incorporate climate risks into their internal governance or risk management frameworks. However, certain regulated entities such as banks, are required under NBE Directive No. SBB/91/2024 to disclose material risks, which may include environmental or climate-related factors, depending on the nature of their business. This requirement is sector-specific and does not apply uniformly across all industries in Ethiopia.

4.4 Insurance Coverage for Climate Hazards and Anticipated Exclusions

4.4.1 Ethiopian insurers have not systematically excluded extreme weather events or climate change-related hazards from their coverage. However, the insurance sector remains underdeveloped, with a penetration rate of approximately 0.3% as of 2022, including agricultural insurance for smallholder farmers. While there is no widespread exclusion of climate-related risks, the limited scope and availability of insurance products means that coverage for such events is not comprehensive.

4.4.2 The Ethiopian government and international partners have initiated pilot programs, such as weather index-based insurance schemes, to provide coverage for smallholder farmers against climate-related risks. These programs are still in their early stages and have not yet been scaled up to provide broad protection against extreme weather events. Given the increasing frequency and severity of climate related disasters, it is anticipated that insurers may, in the future, adjust their policies to either exclude certain high-risk events or increase premiums to account for the heightened risk. However, as of now, such changes have not been widely implemented.

4.5 Climate Adaptation Strategies by State, Business and Civil Society

The country has implemented a range of climate adaptation strategies across governmental, business, and charitable sectors, namely -

4.5.1 State: at the national level, the CRGE Strategy and the National Adaptation Plan (NAP-ETH) serve as foundational frameworks, focusing on sectors such as agriculture, water, health, and infrastructure to build resilience against climate impacts. The government has also established the CRGE Facility to mobilise climate finance and coordinate adaptation efforts;

4.5.2 Business: in the business sector, initiatives like the Beautifying Sheger project aim to enhance urban resilience through river cleaning and the development of green spaces in Addis Ababa. Additionally, the Oromia Coffee Farmers' Cooperative Union has adopted sustainable farming practices to mitigate climate risks affecting coffee production; and

4.5.3 Charitable organisations: are actively supporting adaptation efforts. The Hailemariam and Roman Foundation focuses on climate-smart ecotourism and conservation in remote areas of Ethiopia. Similarly, Heifer International aims to support smallholder farmers through market-based solutions that address climate challenges.

5. INTEGRATION OF ESG INTO STRATEGY, BUSINESS OPERATIONS AND PLANNING

5.1 ESG Oversight: Board and Management Responsibilities

5.1.1 The ultimate responsibility for ESG compliance within an organisation rests with its board of directors, particularly in regulated sectors such as banking and finance. Under NBE Directive No. SBB/91/2024 on Bank Corporate Governance, the board is explicitly mandated to oversee the institution's governance framework, risk management (which may include ESG risks), and transparency obligations. The directive requires the board to establish specialized committees, such as audit and risk committees, to supervise the implementation and monitoring of compliance frameworks, including those addressing sustainability and ethical conduct.

5.1.2 Management is responsible for the execution of board-approved ESG-related strategies, ensuring operational alignment with regulatory obligations and stakeholder expectations. This includes the development and enforcement of internal controls, preparation of relevant disclosures, and reporting to the board on ESG risk and performance indicators.

5.1.3 While such obligations are formally binding only on licensed financial institutions, in practice, other sectors often adopt similar governance standards voluntarily, especially when dealing with international investors or operating in export-oriented industries. For non-financial institutions, responsibility for ESG compliance is typically embedded in corporate policies or sustainability charters

and is guided by broader governance principles under the Commercial Code of Ethiopia (Proclamation No. 1243/2021), which outlines directors' fiduciary duties and the need for sound corporate conduct.

5.2 Statutory Governance Mechanisms for ESG Oversight

5.2.1 Statutory governance mechanisms specifically related to ESG compliance are currently limited to certain regulated sectors, particularly the financial sector. The most developed framework is found in the Bank Corporate Governance Directive No. SBB/91/2024, issued by the NBE, which mandates a structured governance framework for banks and financial institutions.

5.2.2 Board of Directors: The board holds ultimate oversight responsibility, including the approval of governance frameworks and ensuring effective risk management practices. While ESG is not mentioned explicitly, material risks and ethical conduct, which are components of ESG, fall under board responsibility.

5.2.3 Role of the Board vis-à-vis Management

5.2.3.1 The board sets strategic directions on governance and risk, including ESG, and monitors compliance through regular reports and performance reviews.

5.2.3.2 Management is responsible for operationalising ESG strategies, implementing internal policies, and reporting ESG-related risks and performance indicators to the board.

5.2.3.3 In institutions subject to ESG-related donor or investor commitments (e.g., IFC Performance Standards), boards may additionally oversee the adoption of voluntary ESG frameworks like GRI or TCFD.

5.3 ESG-Linked Remuneration and Incentive Structures

No formal or widespread practice exists linking ESG compliance to executive compensation in Ethiopia.

5.4 Operational Integration of ESG Compliance Across Sectors

ESG integration into day-to-day operations is still developing but is gaining traction, particularly among companies engaged in international trade or supported by development finance institutions. In procurement and supply chains, export-oriented firms in sectors like textiles and coffee (e.g., Oromia Coffee Farmers' Cooperative Union) implement environmental and labor standards to meet global buyer requirements. Organisational policies often include basic occupational health and safety measures, as required by the Labor Proclamation No. 1156/2019, while some firms

offer wellness programs and health insurance, especially within industrial parks. Companies such as Safaricom Ethiopia integrate diversity and inclusion into HR policies and stakeholder engagement strategies. Large employers increasingly adopt ESG-aligned codes of conduct and sustainability goals, often as part of donor-funded programs like IFC's ESG Integration Initiative.

5.5 Determining ESG Materiality for Disclosure and Reporting

There is no statutory definition or measurement for determining ESG materiality across sectors. ESG disclosures, where made, are largely voluntary and materiality is typically determined by international frameworks adopted by companies such as GRI, SASB, or IFC Performance Standards, especially in export-driven or donor-supported industries. In the banking sector, the National Bank of Ethiopia's Directive No. SBB/91/2024 requires disclosure of material information but does not specify how ESG materiality should be assessed. As such, there is no market-wide accepted materiality test, and assessments are made on a case-by-case basis.

5.6 Board and Management Adaptation to ESG Oversight Requirements

Boards and management, particularly in the banking sector, have begun adapting to ESG oversight by establishing governance and risk committees as required under NBE Directive No. SBB/91/2024, which includes ESG-related risks within broader risk management duties.

In other sectors, adaptation is largely voluntary and driven by investor expectations or donor requirements, with some organisations appointing ESG focal persons or aligning internal reporting with international standards like GRI or IFC Performance Standards. Overall, ESG oversight remains sector-specific and evolving.

5.7 Data Security and Privacy Requirements for Organisations in Ethiopia

Organisations are now legally required to establish systems to ensure data security and the privacy of personal data, under the Personal Data Protection Proclamation No. 1321/2024. Key Requirements include -

5.7.1 Legal Obligation: data controllers and processors must implement appropriate technical and organisational measures to secure personal data from unauthorised access, alteration, loss, or disclosure;

5.7.2 Privacy by Design and Default: systems must be developed with built-in data protection safeguards;

5.7.3 Notification of Breach: organisations must notify the Ethiopian Personal Data Protection Commission and, in certain cases, the affected data subjects if a data breach occurs;

5.7.4 Data Subject Rights: these include the rights to information, access, rectification, erasure, objection to processing, and data portability; and

5.7.5 Data Protection Officer (“DPO”): Certain organizations (e.g., those processing large volumes of sensitive data) must designate a DPO to ensure compliance.

This is a binding legal requirement applicable to all organizations that process personal data within Ethiopia or of Ethiopian residents, even if the processor is located abroad.

5.8 Cybersecurity Risk Management Requirements for Organisations

Under the Personal Data Protection Proclamation No. 1321/2024, managing and monitoring cybersecurity risks is explicitly required as part of ensuring data security and protection. The specific provisions include that the proclamation mandates data controllers and processors to adopt state-of-the-art technical and organizational security measures proportionate to the risk. These include -

5.8.1 access control mechanisms;

5.8.2 encryption;

5.8.3 data backup and recovery systems;

5.8.4 regular risk assessments; and

5.8.5 security audits and vulnerability testing.

Additionally the Information Network Security Administration, through its mandate under the Computer Crime Proclamation No. 958/2016, issues guidelines and can conduct inspections or require reporting on significant cybersecurity incidents.

5.9 Compliance with Global Data Protection Standards (e.g. GDPR)

Ethiopia’s Personal Data Protection Proclamation No. 1321/2024 does not explicitly require organisations to comply with foreign regulations like the GDPR. However, the following key points are worth noting -

5.9.1 Extra-Territorial Application: the Ethiopian law does apply to foreign entities processing the data of individuals residing in Ethiopia;

5.9.2 Data Transfers: International data transfers are only permitted to countries with adequate data protection levels, comparable to Ethiopia’s standards, or under appropriate safeguards; and

5.9.3 Alignment with International Norms: Although not mandated, the Proclamation is inspired by the GDPR,

and companies operating internationally may adopt GDPR compliant systems to align with both local and international expectations.

6. FINANCE

6.1 How Financiers Apply ESG Ratings in Ethiopia

In Ethiopia, reliance on ESG ratings by local financiers and investors is still limited, as the domestic ESG ecosystem remains underdeveloped. However, international debt providers, equity investors, and DFIs such as the IFC, AfDB, and Proparco, often require externally developed ESG assessments or the adoption of internationally recognised frameworks like the IFC Performance Standards or Environmental and Social Action Plans (ESAPs) as a condition for financing. Local banks and private equity firms typically rely on donor-led ESG due diligence tools or internal risk assessments, especially when co-financing with DFIs. As Ethiopia’s capital markets develop under the ECMA, reliance on ESG ratings is expected to grow.

6.2 Top ESG Rating Agencies in Ethiopia

Ethiopia does not have local ESG rating agencies.

6.3 Ensuring Consistency in ESG and Financial Reporting in Ethiopia

There is currently no statutory requirement or standardised framework that mandates consistency between financial and non-financial ESG reporting. As a result, most organisations, especially outside the regulated financial sector, do not yet apply structured approaches like the double-materiality principle used in the EU. However, organisations that are engaged with international investors or DFIs often ensure consistency by aligning their ESG disclosures with frameworks such as the IFC Performance Standards, GRI, or SASB, which encourage integration of sustainability risks into financial reporting. In the banking sector, the National Bank of Ethiopia’s Directive No. SBB/91/2024 requires disclosure of all material information, which may include both financial and relevant ESG risks, but stops short of prescribing a unified reporting methodology.

6.4 Role of Green and Social Bonds in Ethiopia

These instruments are not yet in active use in Ethiopia’s nascent bond market. ECMA may introduce frameworks as the capital market evolves.

6.5 Role and Outlook of Sustainability-Linked Bonds in Ethiopia

6.5.1 Sustainability-linked bonds (“SLBs”) do not yet play a significant role in Ethiopia’s financial market. There have been no recorded issuances of SLBs by Ethiopian entities, and the domestic capital market

infrastructure for such instruments is still in its early stages.

6.5.2 However, momentum is building. The Ethiopian government, with support from international partners like the United Nations Development Programme, has committed to mobilising up to US\$2 billion in green financing by 2030. This initiative includes exploring instruments such as green bonds, carbon credits, and debt swaps to fund climate resilience and sustainability projects. Additionally, Ethiopia is developing its green capital market infrastructure, as highlighted in recent conferences and discussions aimed at establishing frameworks conducive to green bond issuance.

6.6 Key Barriers to Sustainable Bond Adoption in Ethiopia

The use of social bonds, green bonds, and sustainability-linked bonds in Ethiopia is currently limited due to several structural and institutional challenges, which includes -

6.6.1 first, the country's nascent capital market infrastructure, with the Ethiopian Securities Exchange (ESX) only recently established, means there is no established regulatory or operational framework to support the issuance, trading, and verification of such instruments;

6.6.2 second, there is a lack of national green finance guidelines or taxonomies, which are essential to standardize what qualifies as a green or social investment;

6.6.3 third, local investors and issuers have limited awareness and technical capacity in structuring and evaluating ESG-linked debt instruments; and

6.6.4 fourth, foreign exchange constraints and sovereign risk perceptions limit international investor appetite, which further affects demand and pricing.

6.7 Assurance and Regulation of Green Bond Verification in Ethiopia

Ethiopia does not have a formal regulatory framework governing the assurance and verification processes for green bonds. The National Bank of Ethiopia has yet to establish specific guidelines or requirements for green bond issuance and verification.

7. TRENDS

Material trends related to ESG Compliance and disclosure in Ethiopia

Ethiopia is experiencing significant developments in ESG compliance and disclosure, driven by both domestic initiatives and international support, which include -

7.1.1 Regulatory Advancements: the NBE is spearheading efforts to integrate climate risk into the financial sector's regulatory frameworks. This includes embedding climate-related financial risks into supervisory practices and enhancing climate risk management capabilities across financial institutions. The NBE's strategic initiative aims to align Ethiopia's financial system with national climate objectives and international sustainability standards;

7.1.2 International Collaborations: the IFC has launched the Integrated ESG program in Ethiopia, targeting the banking, manufacturing, and agribusiness sectors. This program promotes ESG best practices to boost sustainable business growth and attract private sector investment;

7.1.3 Public Procurement Reforms: the Ethiopian Parliament ratified the Federal Public Procurement and Property Administration Proclamation No. 1333/2024, which expands ESG requirements in public procurement. This legislation mandates the establishment of an electronic public procurement system and governs various procurement modalities, including ESG considerations; and

7.1.4 Capacity Building and Awareness: organisations like SGS Ethiopia are providing ESG KPI verification and assurance services, aiding companies in aligning with international ESG standards. These services are crucial for companies seeking to meet global investor expectations and enhance their ESG performance.