Green Bonds in Ethiopia: A new Legal frontier

Introduction

The development of Ethiopia's capital market creates an important opportunity to diversify long-term financing beyond the country's bank-dominated financing system. At the same time, the global shift toward sustainable finance has increased demand for instruments that channel capital toward environmentally beneficial projects.

Green bonds, while fundamentally debt securities, distinguish themselves through commitments concerning the use of proceeds, project eligibility, transparency and reporting. The International Capital Market Association (ICMA) Green Bond Principles (GBP), updated in June 2025, provide internationally recognized voluntary guidance emphasizing these principles. For Ethiopia, green bonds have gained particular relevance following the 28 May 2026 soft launch of the Sustainable Securities Framework by ECMA and ESX, which introduced the Sustainable Securities Guideline, Minimum Documentation Pack and ESX Guideline on Listed ECMA-Labelled Sustainable Securities. The framework supports green, social, sustainability, and sustainability-linked securities.

The Development Bank of Ethiopia (DBE) has planned to issue a green bond as part of a broader effort to diversify its funding base and reduce reliance on traditional sources of capital. The planned bond issuances come as the bank faces a funding gap following the discontinuation of a long-standing mechanism under which commercial banks, insurers and pension funds were required to purchase DBE bonds. According to the scoping Study Report of April 2025 on the Feasibility of Green and Sustainable Finance Instrument in Ethiopia, prepared by Genesis Analytics and sponsored by FSD Africa and FSD Ethiopia, the country has made significant progress in integrating green finance into its development agenda, with the Climate Resilient Green Economy (CRGE) strategy as the cornerstone of its climate policy. Despite this effort, Ethiopia's green finance landscape faces various challenges including limited private sector participation, weak credit risk mitigation mechanisms, and gaps in monitoring.

The key legal issue is therefore not merely whether green bonds can be issued, but whether Ethiopia's regulatory framework can ensure clear eligibility criteria, credible disclosure, proper management of proceeds, independent verification, continuing reporting and effective oversight. These safeguards will ultimately determine the credibility of Ethiopia's emerging green-bond market.

I. Understanding Green Bonds from a Legal Perspective

Green Bonds Are Debt Securities with Additional Commitments

A green bond does not necessarily constitute a fundamentally different legal form of debt instrument. Like a conventional bond, it creates a debt relationship between the issuer and investors and establishes obligations relating to principal repayment, interest, maturity, ranking, security and other contractual terms. The distinguishing feature lies primarily in the purpose and governance of the proceeds. A conventional bond may permit an issuer to use the proceeds for general corporate purposes, subject to the terms of the offering. A green bond, by contrast, is generally structured so

that proceeds are allocated exclusively, or substantially, to specified eligible green projects or assets.

The legal significance of this distinction is substantial because a green-bond issuer makes additional representations to investors concerning the environmental purpose of the issuance, the eligibility and selection of projects or assets, the management and allocation of proceeds, the reporting methodology, and, where applicable, the environmental impact of the financed projects. Consequently, the green designation should not be treated merely as a marketing statement. It creates an additional layer of information and compliance that must operate alongside the ordinary securities-law requirements. The ICMA Green Bond Principles identify four core components of a green bond framework: Use of Proceeds; Process for Project Evaluation and Selection; Management of Proceeds; and Reporting. The Principles also recommend disclosure of a Green Bond Framework and encourage external reviews. These principles provide a useful international benchmark for Ethiopia, although they are voluntary and should not be confused with Ethiopian law or ECMA's mandatory requirements.

II. Ethiopia's Existing Legal Foundation for Green Bond Issuance

The starting point for analysing green bonds in Ethiopia is the Capital Market Proclamation No. 1248/2021. The Proclamation establishes the statutory foundation for Ethiopia's capital-market regulatory system and ECMA's mandate. It provides the broader legal architecture within which securities may be issued, offered and traded, and empowers ECMA to regulate public offerings and trading of securities.

The significance of this legal framework for green bonds is that the green character of a security does not remove the security from the ordinary securities regime. A green bond remains subject to the general legal requirements governing the underlying debt security, together with the additional requirements applicable to its sustainable designation based on the proposed framework of sustainable finance. Accordingly, a prospective issuer cannot simply characterize an ordinary corporate bond as "green" and assume that the sustainability label creates a separate regulatory pathway. The issuer must first satisfy the ordinary legal requirements for issuing the relevant debt security and then satisfy the applicable sustainable-securities requirements. Articles 19–24, read together with other relevant provisions of the Public Offering and Trading of Securities Directive No. 1030/2024, provide an important regulatory foundation for debt securities, including requirements relating to public offerings, registration, disclosure and prospectuses, eligibility to issue debt securities, debt-security requirements, credit ratings where applicable, transaction advisers, continuing disclosure and trading. However, the general debt-securities framework does not, by itself, address the sustainability-specific features of a green bond, such as project eligibility, use and management of proceeds, project selection, external review, impact reporting and continuing sustainability obligations. These matters require a dedicated sustainable-securities framework. In this regard, ECMA and ESX, in collaboration with FSD Ethiopia, have developed the Sustainable Securities Framework, which provides the sustainability-specific regulatory layer for green, social, sustainability and sustainability-linked securities.

The legal architecture can therefore be viewed as consisting of two interconnected levels: **Level One — General Securities Regulation** Issuer eligibility → debt-security requirements → registration → prospectus → offering → listing/trading → continuing disclosure. **Level Two — Sustainable-Securities Regulation** Green-project eligibility → use of proceeds → project selection → proceeds

management → external review → impact reporting → continuing sustainability compliance. This two-layer approach is particularly important because it prevents sustainable securities from becoming detached from the ordinary investor-protection framework.

III. Registration and Issuer Eligibility

Green Bonds Must Satisfy the Ordinary Requirements for Debt Securities

The green designation does not exempt a bond from the ordinary legal requirements applicable to debt securities. Accordingly, before structuring a green bond, the issuer should assess its borrowing authority, corporate approvals, existing financing arrangements, security or guarantee requirements, regulatory and licensing obligations, applicable credit-rating requirements, authority to undertake the underlying project, and ECMA registration and disclosure requirements. The green-bond framework should therefore complement, rather than replace, the legal analysis of the underlying debt transaction.

IV. The 2026 Ethiopian Sustainable Securities Framework

A New Regulatory Layer for Sustainable Finance

A significant recent development is the Sustainable Securities Framework jointly introduced by ECMA and ESX and soft-launched on 28 May 2026 in collaboration with FSD Ethiopia. The framework comprises the Sustainable Securities Guideline, Minimum Documentation Pack, and ESX Guideline on Listed ECMA-Labelled Sustainable Securities

It covers four categories: green, social, sustainability and sustainability-linked securities. Green bonds finance eligible environmental projects; social bonds finance specified social projects; sustainability bonds combine green and social objectives; and sustainability-linked bonds link financial or structural features to predefined sustainability performance targets rather than requiring proceeds to be used exclusively for designated projects. The framework represents an important step toward establishing a broader and structured sustainable-finance architecture in Ethiopia.

V. Use of Proceeds: The Central Legal Issue

Establishing a Legal Link Between Investors' Money and Green Projects

The treatment of proceeds is a fundamental feature of a green bond. An issuer should demonstrate that funds raised are allocated and tracked for eligible green projects throughout the bond's life. A credible framework should address project eligibility and selection, allocation and tracking of proceeds, management of unallocated funds, internal controls, reporting and external review — consistent with the four core components of the ICMA Green Bond Principles: use of proceeds, project evaluation and selection, management of proceeds, and reporting. For example, if an issuer raises ETB 25 billion to finance renewable-energy projects but materially diverts the proceeds to unrelated purposes, this may raise legal and regulatory concerns regarding its offering documents, investor representations and applicable sustainable-securities requirements.

VI. What Should Qualify as a Green Project?

The Importance of Eligibility Criteria and a Green Taxonomy

A credible green-bond market requires clear criteria for determining eligible projects. Nigeria's SEC Green Bond Rules provide a useful model, covering areas such as renewable energy, clean transportation, water management, energy efficiency, waste management, sustainable land use, biodiversity and green buildings, while allowing additional categories to be approved by the Commission. For Ethiopia, eligible categories could similarly include renewable energy, energy efficiency, sustainable transport, climate-smart infrastructure, water and waste management, green buildings, forestry, biodiversity and climate adaptation. The framework should, however, remain sufficiently flexible to accommodate emerging technologies and innovative projects that demonstrably deliver environmental benefits. The objective should be to balance regulatory certainty with technological flexibility.

VII. Disclosure and Prospectus Requirements

Sustainability Disclosure as an Extension of Investor Protection

Disclosure is a core mechanism of securities regulation and investor protection. Under Ethiopia's Public Offering and Trading of Securities Directive, public securities offerings are subject to registration and disclosure requirements. For green bonds, these conventional disclosures should be supplemented with sustainability-specific information, including the environmental objectives, eligible projects, selection criteria, use and tracking of proceeds, material risks, external review, reporting obligations, and relevant performance indicators. The underlying legal principle is straightforward: any information concerning the green characteristics of a bond that could reasonably influence an investment decision should be disclosed clearly, accurately and sufficiently to enable investors to assess the associated risks.

VIII. The Role of the Transaction and Legal Adviser

Green-bond transactions involve multiple participants, including the issuer, transaction adviser, legal adviser, auditor, independent reviewer, environmental consultant, rating agency where applicable, ESX, ECMA and investors. The Transaction Adviser supports registration, compliance and transaction documentation, while the legal adviser should assess the issuer's corporate authority, regulatory compliance, green-bond documentation, financial and sustainability disclosures, proceeds-related obligations, and any restrictions under existing financing arrangements. Accordingly, green-bond transactions require legal advisors to address not only conventional debt and securities-law issues, but also the legal implications of sustainability commitments and ongoing reporting obligations.

IX. Independent Verification and Greenwashing

Greenwashing — presenting an issuer or financial product as environmentally beneficial without adequate factual or regulatory basis — is a significant investor-protection risk in sustainable finance. Because sustainability representations may influence investment decisions, misleading green claims may raise serious securities law and disclosure concerns. Independent external review is therefore an important safeguard. Kenya, through the CMA's Policy Guidance Note for Green Bonds, requires external verification of the green characteristics of an issuance, alongside requirements concerning disclosure, use and management of proceeds, and reporting. Nigeria similarly requires independent assessment or certification by a professional authority or person approved or recognized by the SEC. South Africa's JSE Green Bond Segment also requires independent

assessment of project selection and use and management of proceeds, which may take the form of a second opinion, certification, verification or rating. These approaches support a clear allocation of responsibility: the issuer remains responsible for the accuracy of its disclosures; independent reviewers provide additional assurance; and the regulator retains supervisory responsibility. Ethiopia can strengthen investor confidence by maintaining this clear separation of responsibilities within its emerging sustainable-securities framework.

X. Post-Issuance Reporting and Impact Disclosure

A green bond should not be regulated solely at the point of issuance. Its green designation must remain credible throughout the life of the bond through continuing reporting and accountability. Issuers should periodically disclose the allocation and remaining balance of proceeds, projects financed, project implementation, environmental objectives, relevant key performance indicators and, where measurable, environmental impact. South Africa's JSE Green Bond Segment provides a useful model, requiring post-issuance reporting beginning one year after listing and addressing the actual use of proceeds and, where possible, environmental impact against disclosed KPIs and benchmarks. Nigeria similarly requires annual reporting on projects financed, amounts allocated, eligible sectors and expected environmental impact. For Ethiopia, the key lesson is clear: continuing disclosure and impact reporting should be integral to the green-bond lifecycle, not merely an issuance-stage requirement.

XI. Listing and the Role of the Ethiopian Securities Exchange

The Ethiopian Securities Exchange (ESX) provides the institutional platform for listing and trading securities. The 2026 Sustainable Securities Framework, including the ESX Guideline on Listed ECMA-Labelled Sustainable Securities, extends sustainability requirements into the listing environment. In this framework, ECMA is responsible for registration and regulatory oversight, while ESX is responsible for listing and market requirements. The issuer remains responsible for continuing compliance and disclosure, while investors rely on the information disclosed to make investment decisions and monitor the performance of the sustainable security. South Africa's JSE provides a useful comparative model through its Sustainability Segment, which covers green, social and sustainability bonds and imposes requirements relating to use of proceeds, external review and post-issuance reporting. For Ethiopia, the key principle is that sustainable securities should be regulated consistently throughout their lifecycle — from issuance and listing to continuing disclosure and compliance.

Key Legal Challenges for Ethiopia

Despite the progress under the 2026 Sustainable Securities Framework, Ethiopia's green-bond market may face several challenges, including developing a clear green taxonomy, building verification capacity, ensuring post-issuance monitoring, improving investor awareness, deepening market demand, coordinating regulatory requirements, strengthening enforcement, and keeping compliance costs proportionate.

Recommendations for Ethiopia

- ECMA should establish clear green-project criteria reflecting Ethiopia's environmental and development priorities while allowing technological innovation.

- The framework should clearly regulate external reviewers' eligibility, independence, competence, methodology, conflicts of interest and responsibilities.
- Green-bond disclosures should form part of the prospectus, enabling investors to assess financial, environmental and project risks, use of proceeds, verification and compliance obligations.
- Issuers should establish mechanisms for tracking, allocating and reconciling proceeds, managing unallocated funds and maintaining appropriate internal controls.
- Issuers should provide periodic reports on the allocation of proceeds and, where measurable, environmental outcomes using appropriate key performance indicators.
- The framework should provide clear consequences for material non-compliance, including corrective disclosure, remedial measures, withdrawal of green status, suspension and applicable sanctions.
- Ethiopia should develop domestic expertise among lawyers, investment advisers, auditors, environmental professionals, rating agencies and independent reviewers to strengthen the sustainable-finance ecosystem and reduce reliance on international service providers.

Conclusion

Ethiopia's emerging sustainable-securities framework, supported by Capital Market Proclamation No. 1248/2021, the Public Offering and Trading of Securities Directive No. 1030/2024 and the proposed 2026 Sustainable Securities Framework, provides a foundation for developing a credible green-bond market.

The regulatory architecture should be understood as a two-layer framework: the general securities regime governs the underlying debt security, while the sustainable-securities framework addresses the additional obligations arising from its green designation. African experience, particularly from Kenya, Nigeria, South Africa and Morocco, shows that effective green-bond regulation requires more than an issuance framework. It requires clear eligibility criteria, transparent disclosure, independent verification, effective proceeds management, continuing reporting and meaningful enforcement. Ethiopia should therefore adapt these tested principles to its own legal, institutional and environmental context.

The success of the market should be measured not by the volume of bonds labelled green, but by their environmental integrity, transparency and accountability. Ultimately, a green bond should not be green merely because it is labelled as such. Its environmental character must be supported by a credible legal framework, transparent use of proceeds, independent assurance and continuing accountability. These are the foundations upon which investor confidence and Ethiopia's sustainable-finance market will depend.

Disclaimer: This Legal Insight is intended for general information and discussion purposes only and does not constitute legal advice. The application of the legal and regulatory requirements to a particular green-bond transaction will depend on the identity and legal status of the issuer, structure of the issuance, nature of the underlying projects, offering method, listing arrangements and the requirements applicable at the time of issuance.

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