MONTHLY LEGAL UPDATE

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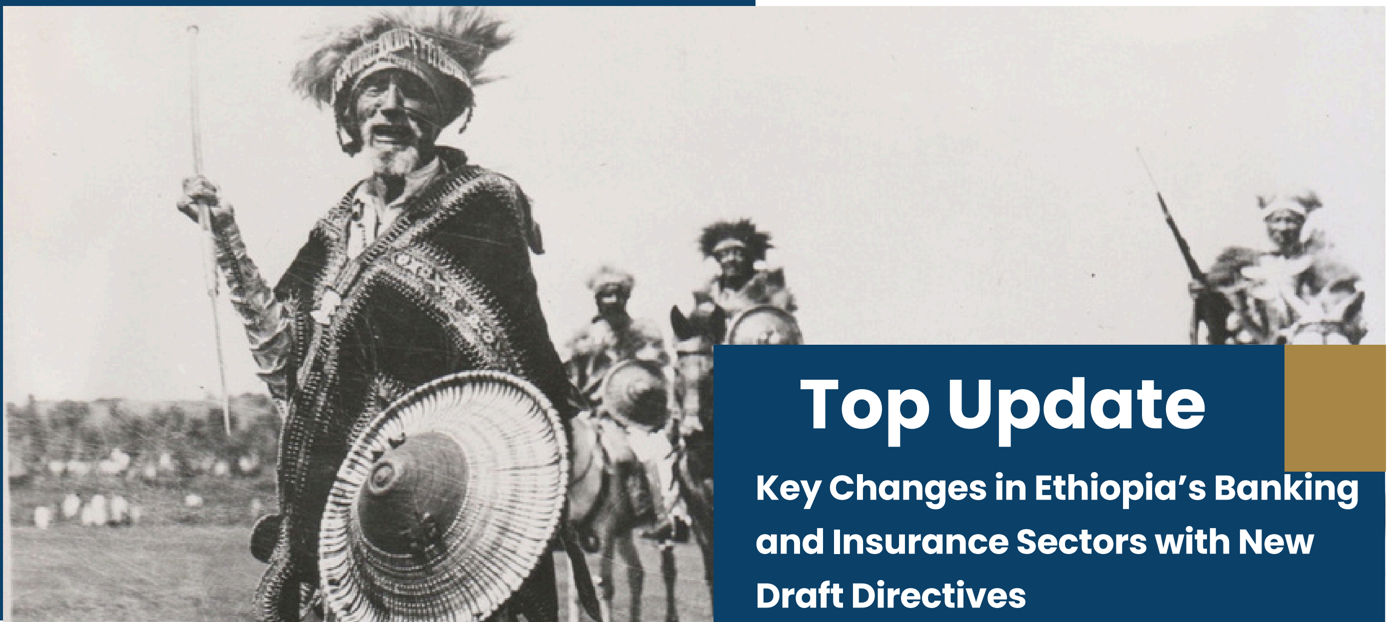
TSEGAMLAK SOLOMON & ASSOCIATES

February, 2025



This month's update is dedicated to the upcoming 129th anniversary of the Battle of Adwa! a historic victory that symbolizes Ethiopia's resilience, unity, and freedom

Top Update

Key Changes in Ethiopia's Banking and Insurance Sectors with New Draft Directives

National Bank of Ethiopia introduces new draft directives to strengthen banking and insurance sectors, enhancing governance and liquidity management.

What's Covered this Month?

Welcome to the February 2025 edition of the TSA Legal Update! This newsletter brings you key legal developments to help you stay informed and navigate the evolving legal landscape.

In this issue, we cover:

1. Notice from the Ethiopian Authority for Civil Society Organizations for organizations that were beneficiaries of the USAID Financial Aid
2. Ministry of Finance's Reward System for Reporting Illegal Goods
3. Revised Environmental and Social Impact Assessment Proclamation
4. Key Changes in Ethiopia's Banking and Insurance Sectors with New Draft Directives
5. ECMA's Mandate for Publicly Held Companies to Submit Shareholding Information

1. ACSO Restricts Activities of USAID Fund Recipients Following Suspension

On February 5, 2025, the Ethiopian Authority for Civil Society Organizations (ACSO) issued an urgent notice to all organizations that are recipients of United States Agency for International Development (USAID) funding.

This statement was prompted by recent developments regarding the suspension of USAID financial support to certain organizations in Ethiopia, impacting the operations of the organizations that rely on such funds.

The key points in the notice are as follows:

I. Monitoring and Oversight

ACSO in its urgent notice indicated that it is closely monitoring the situation and providing necessary guidance to ensure compliance with the regulations. The Authority indicated that it is continuously evaluating both national and international developments that may impact the sector and will adjust its support and oversight efforts as required.

II. Prohibition on Unauthorized Fund Transfers

organizations receiving financial aid from USAID are strictly prohibited from transferring, withdrawing, or allocating any funds or assets unless explicitly approved by ACSO or unless the transaction is directly related to ongoing regular project-related activities.

III. Consequences for Non-Compliance

Any unauthorized transfer of funds or assets to third parties will result in legal action by the ACSO. organizations are strongly reminded of their obligation to comply with this notice to avoid potential legal repercussions.

2. Ministry of Finance Issued a Directive on Information about Illegal Goods and Rewards

The Ministry of Finance has issued a new directive aimed at encouraging public participation in combating illegal trade activities in Ethiopia. The directive establishes procedures for the provision of information regarding illegal goods, their registration, maintenance, and the payment of rewards to whistleblowers and law enforcement officers involved in reporting or seizing illegal goods.

These are goods imported or exported in violation of Ethiopian Customs laws, such as contraband, misdeclared or undeclared goods, goods imported under duty-free or tax incentives and used for unauthorized purposes, or goods temporarily imported as tourist goods but not re-exported within the specified time frame.

The directive emphasizes the need to reward individuals who assist the government by providing reliable information on illegal activities, such as the trafficking of contraband, illegal movement of precious stones, fraudulent trading, and other illicit actions that affect public health, government revenue, and the formal business sector.

Key Points of the Directive:

I. Whistleblower Protection:
A key feature of the directive is the confidentiality guaranteed to whistleblowers. Individuals who provide information about illegal goods are given a confidential code, ensuring their identity is protected. Legal consequences are outlined for any staff or officer found leaking such confidential information.

II. Information Submission and Registration:
Whistleblowers can report illegal activities via various channels, including phone, email, or in person. Once information is provided, it must be

recorded in an official Information Registry. The directive also allows for the establishment of electronic systems for managing this information. Additionally, detailed forms must be completed by the whistleblower within 15 days of providing information.

III. Verification of Information:
Information provided by whistleblowers is subject to verification by the Customs Commission. If the information leads to the seizure of illegal goods, the whistleblower may be eligible for a reward. However, no reward is given if no action is taken based on the information provided.

IV. Seizure and Disposal of Illegal Goods:
Law enforcement agencies are responsible for seizing suspected illegal goods upon receipt of credible information. These goods must then be delivered to the Customs Commission for proper documentation and disposal. Rewards are contingent upon the proper disposal of goods, including sales or collection of additional duties and taxes.

V. Reward Payment Conditions:
The directive specifies that a reward can be granted to a whistleblower or law enforcement officer once certain conditions are met. These conditions include the seizure of goods following verified information and the collection of any necessary duties and taxes.

3. Parliament Enacted the Revised Proclamation on Environmental and Social Impact Assessment

On February 5, 2025, the Ethiopian Parliament enacted the revised Environmental and Social Impact Assessment (ESIA) Proclamation 1371/2025, marking a significant shift towards strengthening environmental governance and promoting sustainable development. This updated legal framework is designed to enhance environmental accountability, ensure social inclusivity, and align Ethiopia's practices with global environmental standards. Major changes include:

Stricter ESIA Procedures and Sustainable Development

A key enhancement of the revised proclamation is its stricter enforcement of ESIA procedures, mandating comprehensive environmental and social risk assessments for all development projects before they can be approved. This requirement applies to major infrastructure, industrial, and agricultural initiatives, ensuring that they adopt sustainable practices that minimize deforestation, pollution, and soil erosion.

Community Engagement and Transparency

Another notable change is the emphasis on community engagement and transparency. The new provisions require project developers to actively involve local communities, addressing their concerns and fostering open dialogue. This approach aims to reduce social tensions, build public confidence, and support inclusive development that benefits all stakeholders.

Increased Penalties for Non-Compliance and Sustainable Practices

The revised ESIA framework also increases penalties for non-compliance, urging industries and investors to adopt more eco-friendly technologies and responsible resource management practices. These measures are intended to support Ethiopia's climate resilience objectives while safeguarding biodiversity and improving public health outcomes.

4. Key Changes in the Financial Sectors with the Introduction of Three New Draft Directives

The National Bank of Ethiopia (NBE) has introduced three draft directives that promise to reshape the landscape of Ethiopia's banking and insurance sectors. These directives target the licensing and supervision of banking operations in Special Economic Zones (SEZs), reserve requirements for commercial banks, and corporate governance within the insurance sector. Below, we break down the key provisions and their potential impact on these industries.

I. Directive on Licensing a Bank Branch to Operate in Special Economic Zones

This directive regulates the establishment of bank branches in SEZs, which are designed to attract investment and diversify the economy. Banks must secure a license from the NBE before operating in SEZs. Unauthorized operations are prohibited. Banks will be required to offer foreign exchange services and meet strict financial criteria, such as a market share of at least 2% of total banking assets and a non-performing loan ratio under 5%.

The directive also mandates that banks comply with these requirements continuously. Banks already operating in SEZs must meet these standards within a year, either relocating or closing if non-compliant.

II. Directive on Reserve Requirements (9th Replacement)

This directive outlines new reserve requirements to ensure liquidity and stability in the banking system. Banks must maintain a daily reserve of 5% of their reserve base, with an average of 7% over the reserve maintenance period, which runs from the first Thursday of the month to the first Wednesday of the next month.

Failure to meet the reserve requirements will result in penalties calculated based on the NBE’s Standing Lending Facility rate plus 3 percentage points. Banks must also submit monthly reports on their reserves, with penalties for late submissions.

III. Directive on Insurance Corporate Governance

This directive addresses corporate governance in the insurance sector, focusing on board composition, risk management, and sustainability.

Insurance companies must have a board of at least nine directors, with one-third independent and at least two female directors. This follows the standard set for banks recently. The directive also mandates the disclosure of conflicts of interest and requires a risk management model with a chief risk officer reporting directly to the board.

Sustainability must be integrated into the company’s risk management strategy, assessing its impact on capital adequacy and liquidity. Non-compliance can result in penalties, including the suspension or removal of executives.

5. ECMA’s Notice for Publicly Held Companies to Submit Shareholding Information

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ETHIOPIAN CAPITAL MARKET AUTHORITY

The Ethiopian Capital Market Authority (ECMA) has issued an important regulatory notice that requires all publicly held companies with more than 50 shareholders to submit comprehensive shareholding information by March 10, 2025. This directive, in line with the Public Offer and Trading of Securities Directive No. 1030/2024, which became effective on November 13, 2024, aims to increase market transparency and investor protection. The directive is part of a broader initiative to integrate existing securities into Ethiopia's regulated capital market framework.

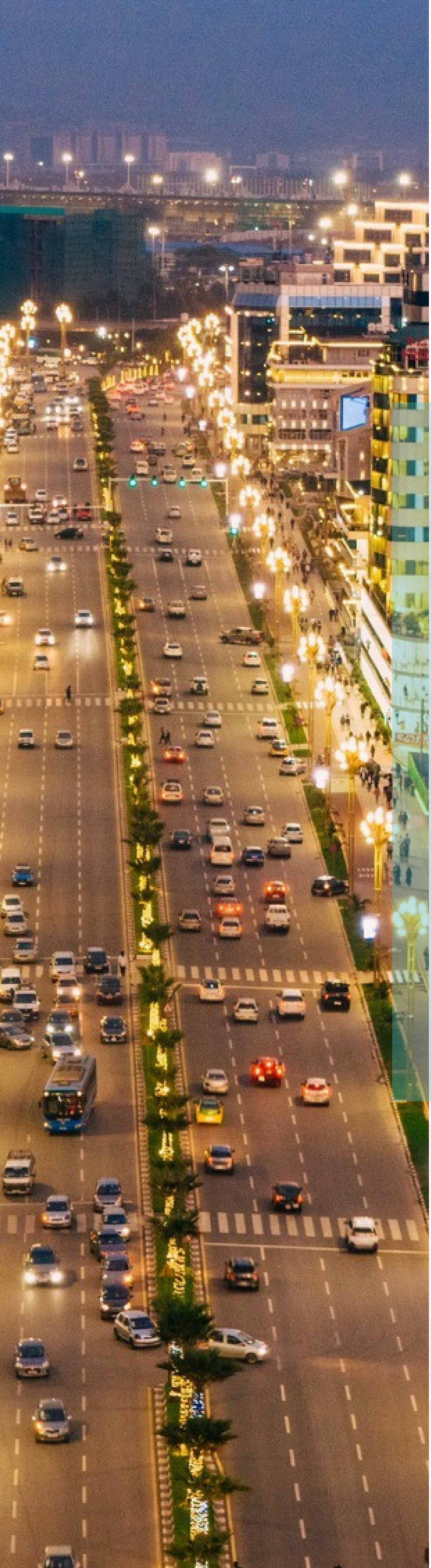
Notably, companies that fail to meet the March 2025 deadline will face regulatory consequences, as any share issuance will be treated as if it occurred after the directive’s effective date. This could hinder a company’s ability to engage in future capital-raising activities and may lead to sanctions under the new regulatory regime.

Implications of Non-Compliance

The new mandate has significant implications for companies that fail to comply with the submission requirements. Notably, any company that does not submit the required shareholding information by the March 10, 2025, deadline will face a scenario where any share issuance after the directive’s effective date will be treated as if it were initiated post-directive. This could result in a loss of regulatory standing and prevent the company from accessing the capital market for future securities - offerings. Therefore, affected companies must act swiftly to avoid the risks associated with non-compliance, particularly as they navigate the complexities of the newly regulated market.

Registration of Existing Securities and Penalties for Non-Compliance

Beyond submitting shareholding details, companies are also required to register their existing securities with ECMA by November 13, 2025, to remain in compliance with the directive. Furthermore, any ongoing or new public offers must be registered with ECMA prior to issuance, in accordance with the Authority's established rules and procedures. Companies that fail to adhere to these registration requirements will face penalties as stipulated in the relevant Proclamation and Directive. To comply with these obligations, companies must submit their verified shareholding information in both hard and soft copies to ECMA’s designated offices and email addresses.



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