



Ministry of Finance and Economic Cooperation



**Public Debt Management and Guarantee
Issuance Directive**

No 46/2017

Ministry of Finance and Economic Cooperation

February 2017

PART ONE

GENERAL

1. Issuing Authority

The Ministry of Finance and Economic Cooperation (MOFEC) has issued this directive in accordance with the power vested in it by Article 75 of the Financial Administration proclamation No 648/2001(as amended) .

2. Short Title

This Directive may be cited as the Public Debt Management and Guarantee Issuance Directive No 46/017.

3. Definition

Unless the context requires otherwise, in this directive words and expressions shall have the meaning given to them in the Federal Government Financial Administration Proclamation No 648/2009(as amended) and the Financial Administration Regulations No 190/2010. In addition to this, in this directive:

1. "Public Debt" means Financial Resource obtained from a domestic or external source through a bilateral or multilateral loan agreement.
2. "External Loan Inflow" means the amount of financial resource arising from loan/credit agreement and that is disbursed either to an account controlled by the Federal government or to pay directly to contractors, suppliers or consultants, etc.
3. "Treasury Bill" means a debt instrument of short term maturity issued by the Federal government through the central bank to raise fund needed to finance fiscal deficit.
4. "On-Lending Agreement" means an agreement signed between the Ministry of Finance and Economic Cooperation and an entity which is a beneficiary of a loan to transfer the proceeds of the loan to that entity through a subsidiary loan arrangement.
5. "Medium term Debt management Strategy" means a document setting out the debt management strategy of the government prepared every five years and reviewed annually on the basis of the data derived from the macroeconomic and fiscal framework.

6. "Debt Sustainability Analysis" means an analysis carried out to measure the liquidity and solvency of the country based on the magnitude and volume of the public debt incurred to finance the implementation of various development plans, to identify the positive and negative impacts of public debt on the macro economy of the country from the stand point of the underlying debt burden and repayment capacity of the country to guide future borrowing decisions.
7. "Public Debt Advisory Committee" means a committee established by this directive.
8. "Social Project" means a project related with the public services that the government provides to the public free of charge or at nominal charge and include education, health, potable water and road projects.
9. "Public Enterprises" means an enterprise established in accordance with proclamation number 25/1992.
10. "Ministry or Minister" means the Ministry or Minister of Finance and Economic Cooperation as the case may be.

4. Scope of application

This Directive shall apply to Public bodies as defined in article 2(15) of the Federal Financial Administration Proclamation No.648/2009(as amended) as well as to public enterprises accessing external loan through the Ministry or authorized by law to borrow financial resources from domestic and external sources directly.

5. The Objective of the Directive

The objectives of this directive are the following:

1. Ensuring macroeconomic stability that contributes to sustainable economic development.
2. To regulate the procedure of debt contracting in accordance with the powers and duties of the Ministry under the Federal Financial Administration proclamation number 648/2009 (as amended) and the Council of Ministers Regulations establishing certain public Enterprises.
3. To ensure timely disbursement of the proceeds of external loans secured under financing agreements and to make sure that direct payments made

to contractors and consultants under loan financed projects are properly registered in the central public debt database.

4. To ensure that contracting of internal and external loan is managed properly.
5. To ensure the proper utilization of the proceeds of domestic and external loan and the repayment of such loans in accordance with the terms and conditions of the loan agreement.
6. To ensure that projects financed by external loan are properly executed by the implementing agencies.
7. To establish a cohesive system with a view to ensuring that external loan enhances the country`s development objectives and brings about discernable change in this respect.

PART TWO

Loan and Guarantees

6. Compatibility of Plan and Strategy

Medium term debt management strategy and debt sustainability analysis shall conform with the macroeconomic and fiscal framework and the country`s long and short term development plans.

7. Domestic Debt

1. The Ministry shall:
 - a. ensure that loan contracted by it to finance fiscal deficit is in compliance with the macro economic and fiscal frame work, as well as with the monetary policy in place at the time of borrowing .
 - b. determine the type and value of Treasury Bill to be issued for sale to the public to finance budget deficit.
 - c. carryout the sale of Treasury Bills in collaboration with the National Bank of Ethiopia.
2. The Ministry may finance fiscal deficit through the sale of Treasury bill or by means of direct advance.
3. Government bond and other special bonds may be made available to the market only with the approval of the House of Peoples` Representatives

8. External Debt

1. The Ministry shall prepare annual and medium term external borrowing requirements and debt repayment plans, and incorporate same in the Medium Term Fiscal Framework.
2. Public bodies and Public Enterprises shall, submit to the Ministry their external borrowing need by indicating their priority in accordance with the development policies, strategies and programs of the government..
3. Public Enterprises requesting external loan shall be required to submit the feasibility study of the project and their financial statement to prove their financial capacity to repay the debt on time.
4. The Ministry shall evaluate the external borrowing request submitted to it and if it is satisfied that the request is in harmony with its debt management strategy, submits the request to external lenders and coordinates and leads the

negotiations of the financing agreement conducted to obtain the required finance.

5. The government may obtain loans and credits from external lenders on concessional or commercial terms to finance its development projects provided, however that social projects shall not be financed by commercial loans unless a special authorization is given by the Minister.
6. The government may not borrow in excess of the aggregate annual borrowing limit set for all types of loans. The borrowing ceiling shall be fixed on the basis of the debt sustainability analyses prepared by the Ministry.
7. Every loan contracted by the Government shall be checked against the debt sustainability analysis of the Ministry to ensure that it does not upset the concessional and non-concessional borrowing composition indicated in the analysis.
8. The Ministry shall as far as possible facilitate concessional borrowing. However, in the absence of concessional borrowing resort may be taken to non-concessional loans as long as the limit set for non-concessional borrowing is not exceeded.
9. The Ministry shall ensure that any loan obtained to finance development project shall substantially be spent on asset building. Thus, no more than 10% of the proceeds of any loan shall be allocated for secondary costs such as study, consultancy services, trainings and project administration.
10. The option to finance necessary administrative costs of development project financed by external loan out of the government's own resource should first be explored.
11. The Ministry shall ensure that the amount and type of external sovereign bonds issued for sale in foreign markets are in line with its debt management strategy; and secure the approval of the House of Peoples' Representatives for issuance of such bonds.
12. In calculating the cost of external borrowing, costs other than interest such as insurance premium and other administrative costs incidental to the loan shall be included in the total cost buildup of the loan to properly account for the entire cost of the loan.

9. Loan Guarantee

1. No Government body other than the Ministry has the authority to issue guarantee on behalf of the Federal Government for the fulfillment of obligations by public entities.

2. The Minister may issue guarantee for the performance of a repayment obligation only if the proceeds of the loan in respect of which guarantee is sought are used for projects implemented by public enterprises to which priority is given in the development plan of the government approved by the House of Peoples' Representatives.
3. Public enterprises shall, before entering in to a works contract with any contractor for the implementation of a project expected to be financed by external loan, be required to obtain a letter of clearance from the Ministry confirming that negotiations to conclude the financing agreement can proceed and a Government guarantee can be issued for the loan.
4. The Ministry may issue guarantee by letter or in any form for the repayment obligation of the principal obligor.
5. The concerned departments of the Ministry shall give their opinion on a document of guarantee before the guarantee is issued by the Ministry.
6. The Ministry shall make sure that the feasibility study of the project is properly evaluated by the borrower, require the borrower to submit its audited financial report and duly consider the relevancy of the project and the type of loan finance to be committed to the project before deciding to issue the requested guarantee.
7. The Ministry shall determine the terms and conditions of the guarantee where it is satisfied that it is necessary and appropriate to issue guarantee for the borrower's repayment obligation.

PART THREE

Sinking Fund and On-Lending

10. Sinking Fund

1. Public bodies shall communicate to the Ministry their plan to establish new sinking fund.
2. Unless otherwise provided by law no public body may establish sinking fund without the approval of the Council of Ministers.

11. On-Lending

1. On-Lending agreement shall be signed between the Ministry and the beneficiaries of an external loan where the beneficiary of such loan is a public enterprise or a non-Federal public entity.
2. Beneficiaries of an external loan accessing the proceeds of the loan through on-lending agreement shall repay the loan to the consolidated fund in due time in accordance with the terms and conditions of the on-lending agreement.
3. The on-lending agreement shall contain provisions specifying the amount of the loan, the interest rate payable on the principal, service fees, late payment interest payable in the event of the borrower's default, the grace period, the time of commencement and completion of repayment of the principal and other matters relevant to the on-lending agreement.
4. The Ministry shall maintain debt service follow up of loans transferred to beneficiaries through on-lending agreement to ensure that the loan is repaid in accordance with the repayment schedule of the on-lending agreement.
5. The concerned departments of the Ministry shall give their opinion on any draft on-lending agreement before the agreement is signed between the Ministry and the beneficiary of the loan.
6. The Ministry may determine the rate at which interest may be charged on the principal loan amount transferred to the beneficiary through on-lending agreement where the interest rate is not fixed by lenders in the principal loan agreement.

12. Transferring Loan to a Project Implementing Agency

1. Where the principal loan agreement so requires the Ministry may enter into a loan transfer agreement with the project implementing agency setting out the terms and conditions in which the loan shall be utilized.
2. The loan transferred in accordance with sub article (1) of this article shall not be repaid nor registered as loan transferred under an On-Lending Agreement.

PART FOUR

Debt Sustainability Analysis, Medium-term Debt Management Strategy, and Debt Account Reporting Procedures

13. Debt Sustainability Analysis

The Ministry shall prepare annually a debt sustainability analysis based on the current Balance of Payment and the country's Monetary Policy, and taking in to consideration the repayment capacity of the country with a view to enabling planned borrowing.

14. Medium Term Debt Management Strategy

The Ministry shall:

1. Prepare medium term debt management strategy to be revised annually.
2. Ensure that the resources mobilize through loan to finance various development projects is in conformity with the Medium Term Debt Management Strategy and coordinate the process of contracting external loans.

15. Procedure for Submission of Financial Report on the Utilization of Loan

1. Public Bodies and Public Enterprises shall submit report on the utilization of loans used to finance projects implemented by them within five days from the end of each Month in the case of Public Bodies, and quarterly report within ten days from the end of the last Month of each quarter in the case of Public Enterprises, in the form provided by the Ministry or by electronic means.
2. Public Enterprises authorized by the law establishing such enterprises to borrow money directly from external lenders shall submit to the Ministry report showing the amount of the loan, the amount disbursed from each loan and the amount of repayment of principal, interest and related fees made on each loan using the form provided by the Ministry or by electronic means within the time frame stipulated in sub-article (1) of this Article.
3. Public Enterprises shall submit to the Ministry quarterly report on the amount of long term loans obtained from internal sources within ten days from the end of the last Month of each quarter.
4. The Ministry has the obligation to have loan accounts audited by the Federal Auditor General and properly account for the management of Public debts..

PART FIVE
Public Debt Advisory Committee

16. Establishment of the Public Debt Advisory Committee

There is hereby established a Public Debt Advisory Committee (herein after referred to as the "committee") which shall be entrusted with the responsibility of coordinating the management of external debt contracting by the Government and Public enterprises.

17. The members of the committee

The Committee shall be composed of the following members:

1. The State Minister of Finance and Economic Cooperation(MOFEC) or his authorized representative-----chairman
2. Debt Management Directorate Director(MOFEC)----- secretary
3. Legal Affairs Directorate Director(MOFEC)-----member
4. The representative of the National Bank of Ethiopia----- member
5. The Treasury Directorate Director(MOFEC)-----member
6. Government Bilateral Cooperation Directorate Director(MOFEC)..... member
7. International Financial Institutions Cooperation Directorate Director(MOFEC) - --member
8. Fiscal Policy Directorate Director(MOFEC)-----member
9. Ethio-China Development Cooperation Directorate Director(MOFEC)-Member
10. Budget Preparation and Administration Directorate Director(MOFEC)member
11. Any other person whose participation the Minister considers relevant to the particular discussion on the agendamember

18. Duties and Responsibilities of the Committee

1. The committee shall have the following duties and responsibilities:
 - a. To ensure that the Debt Management Strategy is consistent with the laws of the land and policies of the Government.
 - b. To prepare a manual for the calculation of the debt burden that any external loan entails, which takes in to account all costs and expenses associated with the loan.
 - c. To advise on the conditions attached to external loans to finance projects falling within the expenditure plan of the annual budget.

- d. To evaluate the impact that any external debt may entail on the burden of the overall public debt on the basis of the debt sustainability analysis.
 - e. To make recommendation on matters pertaining to the financing of any infrastructure project expected to be financed by non-concessional external loan before the works contract is signed with the contractor.
 - f. Make recommendation for negotiations to be conducted with external lenders on the terms and conditions of a loan and propose a negotiating team for the loan where it is satisfied that the loan is sustainable in accordance with the public debt management strategy..
 - g. Evaluate the terms and conditions proposed by external lenders in respect of any loan and make recommendation to the Minister on how the negotiations should be conducted.
 - h. Report to the Minister on the result of any loan negotiation proceedings and recommend any appropriate action on the basis of the result reached.
2. Notwithstanding the provisions of sub-article (1) of this Article, the Minister may, based on the proposal of the relevant departments of the Ministry, decide on any action to be taken in respect of concessional loans without the involvement of the public debt advisory committee.
 3. The committee shall develop its own internal procedure.

19. Repealed Directives

The Government Debt Management and Investment Directive No3/1999 is hereby repealed and replaced by this Directive.

20. Effective Date

This Directive shall enter into force as of the 8th day of February 2017.

Addis Ababa _____ 2017

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