

Income Generating Business Activities for Civil Society Organizations

Description

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The Ethiopian Civil Society Organization Proclamation Number 1113/2019(the Proclamation), done as of March 12,2019, is enacted to regulate civil society organization. This Proclamation has allowed civil society organizations to engage in income generating business activities. To regulate in detail the business engagement of civil society organizations, the Authority of the Civil Society Organization has issued Civil Society Organizations Income Generating Activity Directive Number 937/2022, done as of December 22/2022(hereafter the Directive). This brief article shall look into how these income generating companies are established and regulated.

Permission to Engage in Income Generating Business Activities

The Proclamation allows any civil society organization to engage in any lawful business and investment activity in accordance with the relevant trade and investment laws in order to raise funds for the fulfillment of its objectives. An Organization which engages in income generating may do so by establishing a separate business Organization (company), acquiring shares in an existing company, Collect Public Collections or operating its business as a sole proprietorship.

Any civil society organization first needs to have authorization in its bylaws to engage in income-generating activities. The decision to establish a business company may be passed by the governing body of a civil society organization or by a body authorized by the organization's bylaws. Funds used

for the establishment, registration and enforcement of related issues shall be covered by the civil society organization.

Types of Business Organizations

The organization may establish an independent business organization that generates income for the organization in accordance with the Commercial Code of Ethiopia Proclamation 1243/2021 and the Commercial Registration and Licensing Laws namely the Commercial Registration and Business Licensing Proclamation No. 980/2016 (as amended by Proclamation No. 1150/2019), the Commercial Registration and Business Licensing Council of Ministers Regulation No. 392/2017 (as amended) and the Directive to Provide for Commercial Registration, Licencing and Post Licensing Inspection Number 935/2022. The recognized types of business organizations are Share Company; Private Limited Company; and One Person Private Limited Company. The Proclamation allows in addition to the above, sole proprietorship.

Company name

The name of a business established by any organization must be different from the name of the organization the civil society organization establishes. Therefore, the civil society business organization can choose any name other than its name as per the legal requirements of names under the relevant laws.

Business Objectives

There is no limitation on the type of business objective the civil society business organization can engage in, as long as it is a lawful business. The only compliment the Directive has regarding business objectives is that the service provided by the business or the goods it provides should take into consideration the disabled and the community members who need special support.

Members of the Business Organization

The Directive permits two or more civil society organizations to establish a business. On the other hand, there is no restriction as to who should be a member or partner of the civil society business organization. The members could be individuals, other business organizations or civil society organizations.

Capital Contribution of the Business

The initial capital of a civil society business organization may be paid from a program or from money borrowed from a bank or from another source. This capital contribution is subject to any restrictions set by donor organizations regarding the utilization of donated money. The civil society organization must guarantee that the budget allocated as capital contribution does not affect the organization's mission and work activities. The capital allocated for the establishment of a business shall be allocated as a program or project cost. However, if the capital is found to be more than the amount allowed for program or project cost, the cost above this amount shall be charged as administrative cost.

Management of the Business Organization

The management of a business organization may take the form of a board of directors or general

manager. The staff of the civil society organization can be assigned for the double task of managing the civil society business organization. However the only restriction posed by the Directive is that when it is decided to appoint a member of the management of a civil society organization as a member of the board of directors of a business company, it should be ensured that the activities of the civil society organization will not be disrupted.

Business Profit Allocation

Unlike any ordinary commercial business, the unique nature of a civil society business organization calls for the utilization of profits disbursed for funding the civil society organization objectives. Profits from a business established by the organization as dividends or in any other way should be fully used to cover program or administrative expenses of the organization. Despite this fact, however, it is possible to spend some of the profit for the business by the decision of the body authorized by the relevant law or the by-laws of the business company, which is more beneficial to the organization. The financial statement submitted by the company should show the situation in which the profit obtained is earned and used or spent.

Formation Notification and Annual Reporting

A civil society organization that has established a business company must notify the authority within fifteen working days of the business company starting to operate. Along with the letter announcing the establishment of the business company, the business license of the organization, certifications of qualification (if any), as well as the Memorandum of association and bylaws should be submitted. Similarly an organization that has purchased shares must notify the authority of the purchase of shares within fifteen days.

Reporting of the company under which the business is based must submit a separate financial statement of the business along with the annual financial statement and performance report.

Restrictions and Incentives

There are a number of restrictions in doing business by a civil society organization. First is the use of assets and resources of any organization and business should not be mixed in any way or the assets of one should be used for the service or activities of the other. Second, an Organization engaged in income generating activities shall open a separate bank account and keep separate books of account for its business in accordance with the relevant commercial and tax laws. And three the income and resources that are acquired from income generating activities shall not be transferred or shared for the benefit of members or workers of the organization. Finally incentive wise, the Authority facilitates the situation where organizations engaged in business activities that support the government's policy and strategy get incentives.

Buying Shares, Stock from an Existing Business

Any organization can buy shares from an existing business established by another organization or from any other business. If the business finds it profitable, the civil society organization can use the profit from the shares it buys to buy more shares.

To sum up, the Civil Society Organization Proclamation and subsequent Directives are issued to allow

a civil society organization to engage in income-generating activities, in accordance with the relevant business license and registration laws. The civil society business organization carries out income-generating activities by establishing new businesses (companies), holding shares in existing businesses, collecting public contributions, or conducting business as a sole proprietorship.

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