

## Forms of Enterprises for Carrying Out Investment in Ethiopia

### Description

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The Investment Proclamation No 1180/2020 identifies four forms of enterprises as vehicles to run investment business in Ethiopia. These are sole proprietorship, enterprises that are established in Ethiopia or abroad, public enterprises established by relevant law and cooperative societies formed under the relevant law. The focus of this article is to see in detail these types of enterprises.

### Sole proprietorship

The Commercial Code of Ethiopia 1243/2021 (New Commercial Code) on Article 3 and 5 provides the fact that the Commercial Code provisions apply to sole traders. This form of business is conducted by physical persons and the liability is unlimited. Sole proprietors are subject to corporate income tax and not that of dividend tax.

### Enterprises Established in Ethiopia or Abroad

The form of business organizations that can be established in Ethiopia are provided on Article 174 of the New Commercial Code. These are 1/ General partnership; 2/ Limited partnership; 3/ Limited liability partnership; 4/ Joint venture; 5/ Share company; 6/ Private limited company; and 7/ One person private limited company. The liability in General Partnership is joint and several whereas in Limited Partnership some members have limited liability while others have unlimited liability. LLP are forms of partnership established with the aim of doing professionally recognized skill based business activities. The liability of the members is limited. Joint Ventures are the only form of partnerships that have no legal personality and are not known to third parties.

Companies in the form of share companies, private limited company and one person private limited company provide members with limited liability. Share companies are established with 5 or more (unlimited) members. Whereas Private Limited Companies can be established by members ranging from 2-50. Finally there is one-person private limited company which resembles a private limited company with the exception that the member is a single person.

Enterprises formed abroad or multinational companies can engage in investment in Ethiopia by registering the mother company as a branch or multinational company in Ethiopia. Here there is no need to form a new company under Ethiopian law.

### Public Enterprises Established by Relevant Law

Public Enterprises means an Enterprise governed by the Public Enterprises Proclamation No. 25/1992. Such enterprises are wholly state owned that carry on for gain manufacturing, distribution, service rendering or other economic and related activities. The Ethiopian government issued the Public Enterprises Privatization Proclamation No. 1206/2020". The aim is to enhance their competitiveness,

improve their access to capital and improve the quality and accessibility of their services. As a result private sector participation is needed for both domestic and foreign investors. The private sector can participate in public enterprises under the privatization process. Privatization has been defined in the Proclamation as “ a transaction or transactions resulting in either a sale of assets or share capital of a Public Enterprise, in full or in part, to private ownership”. Here mentioning the Ethiopian Investment Holding that is established by Council of Ministers Regulation No 487/2022 is paramount as the biggest investment hand of the Ethiopian government.

### **Cooperative Societies Formed By Relevant Law**

Cooperative societies are formed and registered in accordance with the Cooperative Societies Proclamation No 985/2016. Cooperative Societies are established by individuals on a voluntary basis to collectively solve their economic and social problems and to democratically manage the same. The cooperative society may be established to engage in production or services rendering activities or both. Any cooperative society shall not be liable beyond its total asset and it has limited liability as per Article 11 of the Cooperative Society Proclamation.

In summary the Investment Proclamation allows investors to choose from different forms of enterprises or organizations to form their investment business in Ethiopia. The choice ranges from working as a sole trader to forming a partnership or establishing a company. The investor is free to engage in public enterprises as well as cooperative societies with limited liabilities. If the foreign investor wants to register as a branch, still the investment law allows it to do so.

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### **Date Created**

July 31, 2022

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