



Tax Alert: Revised commercial code of Ethiopia

Ethiopia's Parliament has approved a new Commercial Code, which replaces the 62-year-old Commercial Code that has governed business operations since 1960. This overhaul is a welcome move by Ethiopia as the new Commercial Code is expected to be aligned to the modern business structures and operations.

The repealed Commercial Code Proclamation No. 166/1960 had comprised of six books which covered:

- Part I. Traders and Businesses
- Part II. Business Organizations
- Part III. Carriage and Insurance
- Part IV. Negotiable Instruments and Banking Transactions
- Part V. Bankruptcy and Schemes of Arrangement
- Part VI. Transitory Provisions

The new Commercial Code has repealed Articles under Parts I, II and V of the Commercial Code Proclamation No. 166/1960.

The provisions of Parts III and IV of the Commercial Code Proclamation No. 166/1960 will continue to apply pending the issuance of financial services code and subject to any clear contrary stipulations in other laws.

The new Commercial Code is expected to usher in changes in the ease of doing business, company restructuring, ownership options, bankruptcy management and board-executive management relationship. The New Commercial Code covers the following books:

- Part I. Traders and Businesses
- Part II. Business Organizations
- Part III. Bankruptcy (New provisions on bankruptcy)

Some of the key changes in the new Commercial Code include:

- 1. Ease of doing business:** The new Commercial Code is expected to facilitate speedy trade license registration and renewal service. For instance, the Memorandum of Association is the only instrument to be drawn up to establish business organizations in Ethiopia. This eliminates the Articles of Association.
- 2. One-person company:** The new Commercial Code permits the formation of a one-person company which is a business organization incorporated by the unilateral declaration of a single person. Consequently, one individual person is able to form a Private Limited Company.

- 3. Non-shareholders as directors:** The new Commercial Code removes the existing requirement that members of the Board of Directors of a Share Company must be shareholders, paving way for independent directors in line with global best practice.
- 4. Minority investors protection:** Protection of minority investors is now anchored through improved corporate transparency and disclosure, shareholders rights and board of directors' responsibility.
- 5. Supervisory board:** A company may determine to have a supervisory board in its Memorandum of Association.
- 6. Registration exemption:** Small business and persons engaged in agriculture and forestry are not obligated to be registered into the trade system.
- 7. Recognition of group companies:** This section provides for the concept of parent, subsidiary, wholly owned subsidiary and reciprocal holding of shares. It will be interesting to see the detail of this section and its potential
- 8. Website requirements:** Every share company is now required to have a website;
- 9. Virtual meetings:** The new Commercial Code permits companies to conduct meetings by video conference or other means of telecommunications; and
- 10. Bankruptcy:** The new Commercial Code has introduced various insolvency procedures other than bankruptcy including preventive restructuring proceedings, re-organization proceedings and simplified re-organization proceedings to permit attempts to revive companies in distress. The new Commercial Code also allows simplified bankruptcy proceeding for SMEs.

We will share further insights once the new Commercial Code becomes publicly available and our views on the potential impact for existing and new companies as Ethiopia continues on its path to opening up its economy.

In the meantime, if you have any specific questions on the new Commercial Code or tax in Ethiopia, please reach out to us.

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