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The 2022 Global Philanthropy Environment Index Ethiopia

Expert: Kidist (Kidy) Ibrrie Yasin¹

Institutional Affiliation: Indiana University Lilly Family School of Philanthropy

Edited by the Indiana University Lilly Family School of Philanthropy

QUICK FACTS

Legal forms of philanthropic organizations included in the law: Association, Cooperative, Endowment, Foundation, Society, Trust, Religious Institution, Traditional Institutions (such as *Equb* and *Edir*)

Generally, philanthropic organizations (POs) in Ethiopia under the 2019 Ethiopian CSO law are classified into two broad groups: Local and Foreign. Under these two broad groups, the subclassifications include Board-led Consortium, Board-led Organizations, Charitable Organization, Charitable Committee, Charitable Endowment, Charitable Trust and Others, Mass-based Association, and Professional Association.

Five main social issues addressed by these organizations: Basic Needs, Food, Water and Sanitation, Youth and Family

The primary causes that civil society organizations CSOs in Ethiopia support are: social empowerment, humanitarian assistance and relief, poverty reduction, capacity building, and health and education.

Average time established by law to register a philanthropic organization: 31-60 days

Average cost for registering a philanthropic organization: USD 100

Government levels primarily regulating the incorporation of philanthropic organizations: Central/Federal Government, State Government

¹ **Author's Disclaimer:** The information provided in the Ethiopia Country Report are primarily based on the "Philanthropy in Ethiopia" paper written by the author. This paper is in the process of publication and will be publicly available soon. The paper will provide more details about the philanthropic landscape in Ethiopia including conceptual definitions and practices of philanthropy in the country, Ethiopian diaspora giving, and examples of giving by high net worth individuals.

THE 2022 GLOBAL PHILANTHROPY ENVIRONMENT INDEX

If an organization is operating in only one regional state, it is governed by the region's own CSO law if it has one, or by the 1960 Civil Code if the region does not have its own CSO law (Council on Foundations, 2020). However, most CSOs formally registered in the country operate at the multi-regional level and therefore are governed by the country's federal CSO law (Council on Foundations, 2020).

Philanthropic Environment Scores:

Year	Ease of Operating a PO	Tax Incentives	Cross-Border Philanthropic Flows	Political Environment	Economic Environment	Socio-Cultural Environment	Overall Score
2022 GPEI	3.87	3.55	3.60	3.90	2.80	4.00	3.62

Source: Indiana University Lilly Family School of Philanthropy, 2022 *Global Philanthropy Environment Index*

Key Findings

I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

The three indicator questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration; (B) operations; and (C) dissolution.

Question One: To what extent can individuals form and incorporate the organizations defined?

Score: 3.8

The law permits individuals to act collectively through unregistered groups such as religious institutions and traditional mutual-aid institutions (such as *Edir* and *Equb*) that can be formed without registration. Depending on the type of CSO, an individual, group of people, or organizations can form CSOs. The new 2019 CSO law clearly shows the responsibilities of the Agency for Civil Society Organizations and the rights and responsibilities of CSOs. Although the country experienced a significant improvement in regulatory laws concerning CSOs, there are some issues in implementing the law. My interviewees mentioned some inconsistency in the information they hear from different departments of the Agency for Civil Society Organizations, which governs POs. These inconsistencies sometimes take unnecessary time and energy in the formation as well as functions of CSOs. In contrast to the restrictive 2009 CSO law, the 2019 CSO law calls on all CSOs to contribute to the democratization process and promote their members' rights. However, if CSOs are established by foreign citizens residing in Ethiopia, they cannot lobby or influence the political or electoral process unless they have special permission (Council on Foundations, 2020).

Question Two: To what extent are POs free to operate without excessive government interference?

Score: 3.8

Under the 2019 CSO law, Proclamation No. 1113/2019, the CSO administering body, the "Agency for Civil Society Organizations (ACSO)" is expected "to create a conducive environment for the full exercise of freedom of association in accordance with the stipulations of the FDRE Constitution and international agreements ratified by Ethiopia; ensure maximum public benefit by supervising whether organizations carry on their activities in accordance with their registered objectives; build the capacity of organizations to enable them to accomplish their objectives effectively; foster the culture of philanthropy and volunteerism in the society; encourage and support organizations to make sure that they have internal governance systems which ensure transparency, accountability, and participation; put in place mechanisms to strengthen positive working relations between organizations and the government; support the civil society organization self-regulation and self-administration system" (Federal Negarit Gazette No.33, 2019 p.11011). This shows that the current law for CSOs in the country is enabling, with minimal interference in their activities. However, in practice, these enabling laws and regulations for CSOs can have complications because of the current political instability that the country is experiencing. Sometimes the internet is purposely blocked to stabilize political hostility, which in turn affects the operation and communications of CSOs.

Question Three: To what extent is there government discretion in shutting down POs?

Score: 4.0

The 2019 CSO law describes in articles 6 (17), 45(2), 50(2), 60(1n), 70(2), 83, 84(1&3) the conditions for voluntary and involuntary terminations of CSOs in the country. For example, CSOs may need to submit some documents such as their statement of account to dissolve their organization. The Agency for Civil Society Organizations can involuntarily terminate the activities of the CSOs if they violate the law or if they fail to correct said violation.

II. Domestic Tax and Fiscal Issues

The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.

Question Four: To what extent is the tax system favorable to making charitable donations?

Score: 3.6

Compared to the 2009 CSO law, the 2019 CSO law shows improvements for fiscal incentives. For example, CSOs are exempt from income tax on grants and membership fees (Council on Foundations, 2020). Both individuals and business entities can deduct up to 10 percent of their taxable income donated to Ethiopian charities and societies (Council on Foundations, 2020). However, these tax incentives are low compared to the incentives in other parts of the world, such as the U.S.

Question Five: To what extent is the tax system favorable to POs in receiving charitable donations?

Score: 3.5

CSOs are exempt from income tax on grants and membership fees, but CSO income from economic activities is subject to the same taxes as income generated by business entities (2019 CSO Proclamation, Article 64). Also, when CSOs sign a written agreement with the government regarding their financial, humanitarian, or administrative provisions to the public, the organization may obtain an exemption from the customs duty on imports (Council on Foundations, 2020). CSOs may also be exempt from customs duties if they meet certain criteria such as if the CSOs are working on service delivery and relief activities (Council on Foundations, 2020; International Center for Not-for-profit Law (ICNL), 2010). CSOs are also subject to either the VAT or the turnover tax, based on the value of their annual transactions.

III. Cross-Border Philanthropic Flows

The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.

Question Six: To what extent is the legal regulatory environment favorable to sending cross-border donations?

Score: 3.0

No information is known to be available on if or how Ethiopians donate to international POs working in other parts of the world and if they get tax benefits.

Question Seven: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

Score: 4.2

The previous 2009 CSO law strictly limited foreign funding receipts, especially to those CSOs working on advocacy and electoral issues. However, the 2019 CSO Proclamation eliminated all the restrictions and now CSOs can receive unlimited amounts from foreign funding. In fact, more than 90 percent of CSO funds in Ethiopia come from international sources (Yasin, 2020). Also, foreign grants are not subject to VAT or similar taxes (Council on Foundations, 2020).

IV. Political Environment

The four indicator questions in the next three sections concern the political context, economic conditions, and socio-cultural characteristics that influence the environment for philanthropy.

Question Eight: To what extent is the political environment favorable for philanthropy?

Score: 3.8

Under the new 2019 CSO law, one of the responsibilities of the Agency for Civil Society Organizations, the governing body for CSOs, is to cultivate a culture of philanthropy and provide a space where POs can flourish. Therefore, the Agency for Civil Society Organizations has eliminated any law in the old proclamation limiting the sector's growth and impact. This shows the current government understands the importance of CSOs to societal development. The government, on many occasions, has also called on CSOs to participate in the country's development process. However, the country's general political condition is unstable and this could seriously limit the practical development of the sector in the country even though the law that governs the sector is favorable.

Question Nine: To what extent are public policies and practices favorable for philanthropy?

Score: 4.0

The current government supports and promotes the development of POs through favorable laws and policies. The Agency for Civil Society Organizations also provides frequent training to build the capacities of the CSOs.

V. Economic Environment

Question Ten: To what extent is the economic context favorable for philanthropy?

Score: 2.8

The country is experiencing political instability that is affecting its economic environment. This political instability coupled with COVID-19 has implications for the funds and functions of CSOs. Most of the donations that CSOs in Ethiopia receive are from international sources. Therefore, when the country goes through political instability, it also affects access to foreign funds. Also, COVID-19 decreased economic growth in different parts of the world, which in turn decreased funds to CSOs in many parts of the world, including in Ethiopia.

VI. Socio-Cultural Environment

Question Eleven: To what extent are socio-cultural values and practices favorable for philanthropy?

Score: 4.0

Based on Hofstede's cultural dimensions (please refer <https://hi.hofstede-insights.com/national-culture> to learn more about the dimensions), Ethiopians are considered to have a collectivist culture, as they tend to think more in terms of "we" rather than "I." The country is also rich in associational life within community-based organizations such as *Edir* (burial as well as self-help services), *Equib* (credit associations), *Mahabers* (social/religious associations), and *Debo* or *Wenfel* (agricultural labor groups) (Flemmen & Zenebe, 2016; Pankhurst & Mariam, 2000; Yasin, 2020). However, the term philanthropy is not known or used in the country (Yasin). The common term used to express formal nonprofit organizations is "Civil Society Organizations (CSOs)" (Yasin, 2020). Ethiopians also do not consider CSOs to be the primary providers of public goods, as they consider it to be the government's primary role to provide these goods (Yasin, 2020). Ironically, society also feels that the government is not yet fulfilling this duty, and the government does not give much to CSOs, except to a few domestic CSOs working on causes pertaining to orphanages, the elderly, and mental illness care centers (Yasin, 2020). One of the reasons could be the recent history of formal philanthropy in the country, which was started in the 1960s and boosted in the 1970s and 1980s when the country experienced its worst two famines, which resulted in a high international inflow of humanitarian support (Yasin, 2020). The country has historically experienced hostile CSO regulatory laws that limit its development (Yasin, 2020). Because of a few corrupt CSOs, there is also a generalized belief that CSOs do nothing for the poor but only profit their managers and staff who get paid large salaries by collecting money in the name of the poor. However, the sector has been growing both in number and impact in recent years because of: improved awareness about formal CSOs, the society's general tendency to help one another, and the current government's support of encouraging the sector through favorable laws and policies.

VII. Future of Philanthropy

These questions are used to provide a general picture of the future of philanthropy in this country, as well as recommendations to improve the philanthropic environment.

Current state of the philanthropic sector

As discussed in the last section of the index questions, Ethiopians, like people in many other African countries, practice giving in more informal ways. For example, individuals feed the children of widows, give money and manual labor for people organizing celebrations or experiencing bereavement for their close friends, neighbors, and members in their community, and mutual-help groups (Yasin, 2020). The formal CSO sector has a recent history; however, Ethiopian society has a long and entrenched culture of giving to each other since the beginning of its history, as informal mutual aid was a crucial mechanism for poverty relief and protecting society from the evils of historical wars (Pankhurst & Mariam, 2000). One of the reasons the formal CSO sector is underdeveloped is its recent history; the sector was started in the 1960s and boosted in the 1970s and 1980s when the country experienced its worst two famines and the associated international inflow of humanitarian support (Yasin, 2020). Until recently (circa early 2018), the country also experienced hostile CSO regulatory laws that limited its development (Yasin, 2020). Given the history of marginalization, the civil society sector remains underdeveloped in the country. Yet, the sector has been growing both in number and impact in recent years as a result of favorable laws and Ethiopia's culture for giving and association.

Three major recent events affecting the philanthropic landscape between January 2018 and December 2020

1. Election of Prime Minister Abiy Ahmed Ali in April 2018.
2. The new and relatively very enabling CSO Proclamation that started the discussion for the revision of the CSO law in place since 2018 and formally enacted in March 2019.
3. The growing use of domestic mobile fundraising by local CSOs in the country.

Future development trends in the philanthropic landscape

The deep-rooted interdependence and culture of mutual assistance in Ethiopian society, coupled with the current government's support of the civil sector through fiscal and regulatory policies, will enable the sector to flourish. Hopefully in the years to come, the civil sector will increase in size and impact. Mobile fundraising is also a trending strategy used by many local CSOs that will presumably increase local fundraising.

Three key recommendations to improve the environment for philanthropy

- In addition to enacting improved regulatory laws, further investigation into improving the implementation of the laws that create an enabling regulatory environment must be conducted to ensure that the benefit from these laws can be maximized.
- There is a need to further create awareness within the society about the roles and importance of CSOs in the national development of the country and their ability to solve social problems. Awareness will increase local donations as well as need-based local philanthropic causes, rather than relying mostly on international funds.
- To increase the transparency and accountability of the CSO sector, and thereby increase the trust that society has in these organizations, there needs to be proper public reporting of the

activities and expenses of these organizations. This will increase the public's view of the sector, thereby increasing CSO accountability, transparency, efficiency, and effectiveness.

VIII. Philanthropic Response to COVID-19

These questions are used to provide a general picture of the philanthropic response to the COVID-19 pandemic in this country and recommendations for improving cross-sectoral collaboration.

Areas where the nonprofit sector and philanthropy are playing a role in responding to COVID-19

The CSO sector is responding to COVID-19 mainly by providing sanitation materials (such as masks, soaps, and hand sanitizers), providing food to the most vulnerable in society and supporting women and children who are affected by domestic violence.

Innovation and new trends in the nonprofit sector and philanthropy related to COVID-19 responses

Some international organizations in the country, such as World Vision, support many CSOs in the country in their work, especially targeting COVID-19 and its negative impacts. Therefore, collaboration within the CSO sector is a new trend.

Impact of COVID-19 on the philanthropic environment

COVID-19 brought both challenges and opportunities for the CSO sector in Ethiopia. The challenges are the economic downturn and the associated decrease in the funds the CSOs receive, as well as the limitations imposed on physical movements that limit access to vulnerable beneficiaries that need the sector's support. The opportunities include collaboration and improved networking among CSO sectors in the country. The CSOs' governing organization, for example, provides Zoom training to the CSOs that build their capacity, as well as improving the networking and collaboration between CSOs.

Anticipated impact of COVID-19 on the philanthropic environment in 2021

It is expected that the funds available to CSOs will decrease, but there will likely be greater collaboration and networking among CSOs.

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