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Analysis of the ECMA CIS Directive Draft: A New Era for Ethiopian Collective Investments

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A PARADIGM SHIFT FOR ETHIOPIAN ASSET MANAGEMENT

The Ethiopian Capital Market Authority (ECMA) has circulated a draft Collective Investment Schemes (CIS) Directive dated July 2025 that is nothing short of a constitutional framework for the asset management industry. For legal practitioners and market entrants, this draft is the blueprint for how Ethiopia will mobilise retail and institutional capital moving forward.

At Hirko and Associates Law Office, we have analyzed the pragmatic shifts this directive introduces. It transforms vague statutory provisions into operational reality. Here is what this directive brings to Ethiopia's capital market.

THE CREATION OF A REGULATED FUND UNIVERSE

Previously, the concept of a collective fund was abstract. The draft directive concretizes the market by registering four specific types of schemes. First, the Public Mutual Fund Company, a vanilla share company listed on an exchange. Second, the Public Real Estate Investment Fund (REIF) , which allows the public to invest in income-generating buildings without buying physical property. Third, Alternative Investment Funds (AIFs) for sophisticated, qualified investors via private placement. Fourth, a flexible Special Designation Scheme for products that do not fit the standard mould.

For the Ethiopian market, this means product differentiation. A lawyer advising a client can now clearly map a business model—whether a REIF for a mixed-use development or a mutual fund for treasury bills—to a specific regulatory pathway.

STRICT OPERATIONAL SEPARATION OF POWERS

One of the most critical investor protections in this draft is the absolute requirement that the Operator (fund manager) and the Custodian (asset holder) be functionally independent and separately licensed by ECMA. The Custodian cannot be an affiliate of the Operator, and the Custodian's report must confirm whether the Operator followed the rules.

For the Ethiopian capital market, this eliminates the "wild west" scenario where a manager could commingle or misappropriate assets.

It introduces a system of checks and balances where one party manages the portfolio while an independent, licensed bank or custody provider physically holds the title deeds and securities. This is the bedrock of investor confidence.

THE INTRODUCTION OF REAL ESTATE INVESTMENT FUNDS (REIFS): LIQUIDITY TO THE PROPERTY SECTOR.

Ethiopia's real estate sector is capital intensive but illiquid. The draft directive provides a specific section (Chapter Four, Section Three) for REIFs. A REIF must invest at least 80% of its net asset value in "Income Generating Real Estate." It requires a licensed Property Manager and a specific Real Estate Valuation Report prepared by an independent appraiser.

For the market, this is transformative. It allows developers to unlock equity by listing property assets on the securities exchange. It allows retail investors to buy shares in a portfolio of office buildings or hotels for as little as a single unit price. The directive mandates that title deeds for the real estate must be held by the Custodian, providing unprecedented security for property investment.

ROBUST DISCLOSURE AND PERFORMANCE STANDARDS
What this brings: Transparency and the "Key Investor Information Document."

The directive mandates a Key Investor Information Document (KIID) for public funds. This is not a lengthy prospectus; it is a concise, non-technical summary that allows retail investors to understand risks, fees, and the fund's policy before signing a subscription agreement.

Furthermore, the directive imposes strict rules on performance reporting. A fund cannot present misleading historical returns. The Total Return must be presented net of all expenses, and returns for periods of less than one year cannot be annualized. For the legal and advisory community, this creates a standard of care.

FIDUCIARY OVERSIGHT AT THE SCHEME LEVEL.

Every scheme must have a Board of Directors (or equivalent) with a minimum of five voting members, a majority of whom must be independent. The Operator cannot control the Board, and the Operator cannot serve on the audit, risk, and compliance committee.

What does this bring? Professional accountability. The Board is responsible for appointing and removing the Operator and Custodian. They must ensure the fund adheres to its investment policy. For the Ethiopian market, this creates local governance jobs and ensures that a fund has a "brain" separate from its "manager" to protect unitholders during conflicts of interest, such as related party transactions.

A CLEAR ENFORCEMENT AND PENALTY REGIME

The draft imposes specific financial penalties. Operating without registration can result in fines ranging from 10% to 25% of the money raised. Late filing of ongoing disclosures can cost an Operator up to 3 million Birr. The Authority can blacklist Operators, board members, or promoters.

For the market, this signals that ECMA is not a paper tiger. It provides a clear ladder of administrative measures, from warnings to revocation.

This draft directive brings professionalism, segmentation, and stability to Ethiopia's capital markets. It moves the industry away from ad-hoc investment clubs toward regulated, licensed, and insured collective investment schemes.

The key opportunity lies in the REIF and AIF provisions, which open doors for infrastructure and real estate financing. The key obligation is the strict separation of duties between Operator, Custodian, and Board.

As this draft moves toward final ratification, market participants should review their operating models against Chapter Five (Professional Parties) and Chapter Six (Governance). The foundation of Ethiopia's asset management industry is being laid.

DISCLAIMER: This post is for informational purposes only and does not constitute legal advice. Laws and directives are subject to change. For advice on specific CIS registration or compliance strategies, please consult Hirko and Associates Law Office directly.

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