



Ethiopia's Draft Startup Proclamation

Gabriella Law Office
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Facts and Figures on Startup Ecosystem

- Ethiopia ranked top 100 on the Global Startup Index by StartupBlink
- Addis Ababa, as the only Ethiopian city, ranked among the top 500 in the global top 1,000 cities suitable for startups
- Ethiopian startups raised \$2.245 million disclosed funding in 2020, an increase from 0.65 figure in 2019.
- A 2018 research shows there are 9 active tec-hubs
- Most funding comes from international development agencies, private charities, and foundations

Government support and policies

- 2,2,2,2 strategy
 - In 2 years
 - 2,000 tech-SMEs
 - Create 20,000 jobs
 - Accrue 2 billion GDP
- A quasi-public entity was established to nurture businesses (Entrepreneurship Development Center)
- Draft startup proclamation

Challenges

- Limited ICT penetration, internet shutdown, and limited connectivity infrastructure
- Stringent bureaucracy, lack of transparency, and legal hurdles
- Limited funding and rigid collateral requirements from financial institutions
- Forex crunch
- Exorbitant taxes
- Limited business development knowledge

The Draft Startup Proclamation (DSP)

Scope of Application

- Regulates
 - Startup businesses
 - Innovative businesses
 - Ecosystem builders and investors
- Setup institutional mechanisms to nurture startups and innovation ecosystem
 - The National Start-up Council
 - Technical Advisory Board

What's a Startup and Innovation Business label

Eligibility requirement to obtain an innovative business label

1. product, process, or service of the company has to be incrementally innovative or disruptive
2. has to be scalable
3. 25% of the company owned by the entrepreneur
4. shall be at least 5 years since established
5. shall have the maximum number of employees and minimum amount of annual turn-over

Eligibility requirement to obtain a startup business label

1. Shall fulfill the req from 1 to 3 above.
2. legal existence shall not exceed 5 years
3. shall be a micro, small or medium scale company

The National Startup Council (NSC)

- DSP establishes NSC
- Accountable to the Prime Minister and chaired by the minister of the Ministry of Innovation and Technology (MiNT)
- Policy body that supports startups, innovators, and entrepreneurs through;
 - creating enabling environment
 - identifying and addressing obstacles
 - resource mobilization
 - promote understanding about startups and innovation
 - ensure transparency of allocation of the innovation fund

Technical Advisory Board

- Accountable to the NSC;
- members appointed from private and public sectors;
- decide on applications for startup business label or innovative business label;
- recommend the utilization of the innovation fund to the NSC;
- other activities to be decided by MiNT

**What is in the draft
proclamation for startups?**

Departure from existing legal requirements

1. Business license and customs and tax related duties

- Startups shall be issued with a pre-registration certificate applicable for 2 years.
- The draft proclamation lifted the obligation to be issued with a business license to commence operation
- During the period of pre-registration, a startup shall not be obliged to collect taxes including income tax and VAT
- After the two years grace period, start-ups shall be provided with;
 - Tax breaks;
 - Extended period of reporting
 - The right to act as authorized economic operator for import and export

2. Departure from employment and pension law

- Leave under employment laws are limited to annual leave, maternity leave, leave for family events, and trade union leave
- DSP introduces startup leave
 - individual entrepreneurs are entitled to startup leave from public or private employers
 - the leave is valid for 1 year, and renewable twice
 - the leave is- leave without pay
- Pension law obliges employers to contribute 11% of the salary of the employee
- Start-ups are not obliged to contribute to employees pension

3. Lax foreign currency and investment regulation

- Foreign currency regulations require being a regular recipient of remittance or Ethiopian origin foreign citizen to open a foreign currency account
 - DSP allows startups to have forex account
 - Startups are entitled to have access to credit cards
- Investors who have minority shareholders in startups have the right to be considered domestic investors;
 - allows foreign investors to invest in areas otherwise restricted for foreign investors; and
- Allows to lower foreign currency capital required from foreign investors

Innovation Fund

- Established with the objective of supporting and financing startups and innovative businesses
- Fund will be disbursed to cover costs of;
 - Startup scholarship;
 - Replacement of workers on startup leave;
 - Fees for intellectual property registration;
 - Costs for admin support (legal support during registration, costs associated with accounting and human resources);
 - provision of support for eco-system builders and investors and;
 - provision of guarantee (for 80% of loan).

Other support and incentives tailored to startups

- IP registration
 - the right to get support to register their intellectual properties
- Incentives focused on public procurement
 - put forth local content requirement on foreign contractors
 - bonus marks for startups that submit tenders for bids
- Legal sandboxes
 - provide tech assisted legal services

Incentives for eco-system builders

- Funding for incubation fees of startups;
 - shall cover infrastructure fees available for startups;
 - strengthen incubators so that they provide accounting and administrative services to labeled start-ups.
- Entitled to tax breaks

Incentives for investors

- Capital gains tax break;
- Loss carry forward;
- Expatriation of profit for foreign investors;
- Allowing debt investment and;
- Allowing share sale below the par value of the shares.

#StartupEthiopia
#JobCreationInEthiopia
#ApprovetheStartupProclamation