

PROCLAMATION No. .../2020

**PROCLAMATION TO PROVIDE FOR
START-UP BUSINESSES**

WHEREAS, it is necessary to create an innovative eco-system in Ethiopia which is able to effectively and efficiently promote innovation and job creation;

WHEREAS, it is necessary to remove barriers to entrepreneurship by easing the procedures of establishing, running, expanding and closing a business;

WHEREAS, entrepreneurs who establish Start-ups should be encouraged and supported to launch businesses which create job opportunities, and introduce innovative ways of producing goods and providing services during the establishment and subsequent phases of the Start-up company;

NOW, THEREFORE, in accordance with Article 55(1) of the Constitution of the Federal Democratic Republic of Ethiopia, it is hereby proclaimed as follows:

**PART ONE
GENERAL**

1. Short Title

This Proclamation may be cited as the “Start-up Businesses Proclamation No. .../2020”.

2. Definition

In this Proclamation, unless the context requires otherwise;:

- (1) “Advisory Group” means the technical advisory board established according to this Proclamation;
- (2) “Commission” and “Commissioner” means the Commission of Jobs Creation Commission, and the Jobs Creation Commissioner, respectively;

- (3) "Council" means the National Start-up Council;
- (4) "eco-system builder" means a person that provides support to Start-ups such as access to mentorship, link with investors, and other supports that help them realize their potential;
- (5) "entrepreneur" means an individual or group of individuals, as the case may be, who has developed the Start-up business idea and is working on the realization of that idea;
- (6) "innovation" means implementation of a new or significantly improved product, process, service, a new technology, or a new organizational method in business practices;
- (7) "innovative business" means commercial business which exists at the time of the effective date of this Proclamation and has obtained the Innovative Business Label;
- (8) "Innovative Business Label" means a label bestowed upon an eligible innovative business that permits it to benefit from the support listed out in this Proclamation;
- (9) "investor" means a person who invests part of its assets in a Start-up or innovative business;
- (10) "Ministry" and "Minister" means the Ministry of Innovation and Technology and the Minister of Innovation and Technology, respectively;
- (11) "person" means any natural or legal person;
- (12) "Start-up business" means a newly established business or a commercial company which has obtained the Start-up Business Label by virtue of this Proclamation;
- (13) "Start-up Business Label" means a label bestowed upon an eligible start-up and that permits it to benefit from the support listed in this Proclamation;
- (14) "Start-up Leave" means a leave which entrepreneurs enjoy within the scope of the application of this Proclamation;
- (15) "Start-up Scholarship" means the scholarship awarded to entrepreneurs;
- (16) "Unit" means the Start-up and Innovation Unit mentioned in this Proclamation; and
- (17) Any expression in the masculine gender shall include the feminine.

3. Scope of Application

- (1) The application of this Proclamation shall be limited to:
 - (a) Start-up businesses established as such by virtue of this Proclamation;
 - (b) Businesses which have been operational for a period of not more than five years and have obtained the Start-up label according to this Proclamation; and

- (c) Innovative businesses which have been operational for a minimum period of five years and have obtained the innovative business label according to this Proclamation.
- (2) Notwithstanding the provision of sub-Article (1) of this Article, the application of this Proclamation shall also cover eco-system builders and investors recognized as such by virtue of this Proclamation.
- (3) The application of this Proclamation shall be open to all economic sectors.

PART TWO

THE NATIONAL STARTUP COUNCIL

4. **Establishment of the National Start-up Council**

- (1) The National Startup Business Council is hereby established.
- (2) The Council shall have not less than seven and not more than nine additional ordinary members.
- (3) The Minister shall serve as the Chairperson of the Council.
- (4) The Commissioner shall serve as the Secretary of the Council.
- (5) The members stipulated in sub-Article (1) *lit.* (c) shall be nominated by the Minister and are appointed by the Prime Minister.

5. **Objective of the National Start-up Council**

The objectives of the Council shall be to foster economic growth by creating an eco-system which is conducive to the development of innovation and technology, and the creation of new jobs.

6. **Powers and Functions of the Council**

- (1) The Council shall have the powers and duties to:
 - (a) Mobilize resources which are needed to create a vibrant innovation eco-system and administer the same as innovation fund;
 - (b) Provide various supports to entrepreneurs, start-ups and innovative businesses through the resources it has mobilized;

- (c) Ensure that the necessary enabling environment is put in place which encourages eco-system builders and investors to participate in building a vibrant innovative eco-system;
 - (d) Promote better understanding on start-ups, innovation and their impact on the economy;
 - (e) Ensure that national start-up program and the innovation fund are aligned with and contribute national economic goals;
 - (f) Identify obstacles in the public and private sector that hamper innovation;
 - (g) Guide the Technical Advisory Group on applications it receives for start-up and innovative business label;
 - (h) Review decisions of the Technical Advisory Board with finality;
 - (i) Review and approve the annual plan of the Technical Advisory Board;
 - (j) Ensure transparency and accountability in the disbursement of the Fund;
 - (k) Initiate audits of support and incentives provided, review audit reports and ensure that the necessary actions are taken according to the recommendations thereof;
 - (l) Advise the Government on policy matters related to entrepreneurs, start-ups, innovative businesses, eco-system builders, investors and the Fund;
 - (m) Cause the consolidation and publication of audited annual accounts of the Fund; and
 - (n) Perform other activities which are deemed necessary for the performance of its functions.
- (2) The Council may establish committees when it finds it necessary.

7. **Meetings of the Council**

- (1) The Council shall hold its regular meetings once every three months; extraordinary meeting of the Council may be held at any time when called by the Chairman.
- (2) The presence of the majority of the members at any meeting of the Council shall constitute a quorum.
- (3) Decision of the Council shall be passed by a majority of votes of members present at a meeting; in case of a tie, the chairman shall have a casting vote.
- (4) The Council may, without prejudice to the provisions of this Article, adopt its own rules of procedure.

8. Establishment of the Technical Advisory Board

- (1) The Technical Advisory Board is hereby established.
- (2) Members of the Technical Advisory:
 - (a) shall be drawn from both the public and private sectors;
 - (b) shall be appointed by the Minister; and
 - (c) their number shall be determined in a directive.
- (3) The Chairperson of the Technical Advisory Council shall be appointed by the Minister.

9. Powers and Functions of the Technical Advisory Board

- (1) The Technical Advisory Board shall have the powers and duties to:
 - (a) Receive applications for a Start-up Business Label and Innovative Business Label;
 - (b) Decide on the merits of applications, and grant or refuse to grant the labels;
 - (c) Revoke the labels if business and financial performance targets are not met;
 - (d) Recommend to the Council on the utilization of the Fund;
 - (e) Perform other activities which are deemed necessary for the performance of its functions.
- (2) The details shall be governed by a directive to be issued by the Ministry.

10. Report of Technical Advisory Board

The Technical Advisory Board shall, at the end of each financial year, compile and submit a report to the Council giving details of its activities during that year.

11. Startup and Innovation Unit

The Ministry shall create the necessary organizational unit which is responsible for the development of the Start-up and innovation eco-system.

PART THREE
THE INNOVATION FUND

12. Innovation Fund

- (1) The Innovation Fund is hereby established.

- (2) The Innovation Fund shall be administered by the Ministry. The Council shall have supervisory role.

13. Objectives of the Innovation Fund

- (1) The objective of the Innovation Fund shall be to finance start-ups and innovative businesses thereby encouraging the creation and strengthening of innovative business eco-system in Ethiopia.
- (2) Without prejudice to the generality of the foregoing, monies out of Fund may be applied for the provision of, *inter alias*,:
 - (a) Start-up scholarship;
 - (b) Replacement of workers on Start-up leave;
 - (c) Fees that apply for the registration of intellectual property;
 - (d) Costs for administrative support;
 - (e) Incentives for eco-system builders; and
 - (f) Provision of guarantees.
- (3) The Council shall compile and maintain a national database of support financed out of the Fund and undertake any other function assigned by the Government through the Ministry.

14. Sources of the Innovation Fund

- (1) The Innovation Fund shall be collected from:
 - (a) government budget;
 - (b) loans designated for this purpose; and
 - (c) such other sums of money as may be received in the form of donations, endowments, grants or gifts from whatever source designated for the Fund
- (2) Notwithstanding the provision of sub-Article (1) of this Article, the Government may designate other sources.

15. Disbursement from the Innovation Fund

Disbursement of the Innovation Fund shall be made for projects which fulfill the requirements set out in a directive and according to the procedure established by the Council.

16. Organs of the Fund

The Council, the Technical Advisory Board and the Unit referred in Article 11 of this Proclamation shall serve as the organs of the Innovation Fund.

**PART FOUR
REGISTRATION AND CERTIFICATION
OF START-UPS AND INNOVATIVE BUSINESSES**

17. Conditions for Acquiring the Start-up Business Label

- (1) In order to acquire the Startup Business Label, the following conditions shall be met:
 - (a) The product, process or service the company wants to bring into the market shall be incrementally innovative, or shall disrupt existing production, service or market structure;
 - (b) The Start-up business shall have growth potential, and be of a scalable business model;
 - (c) Not less than one-fourth (1/4) of its capital shall be held by the entrepreneur;
 - (d) The organization shall be either a micro, small or medium enterprise; and
 - (e) The legal existence of the organization shall not exceed five years.
- (2) Notwithstanding the provisions sub-Article (1) of this Article, the Ministry shall govern by a directive the details of the conditions stipulated hereunder.

18. Pre-Registration as Start-up

- (1) Notwithstanding what is stipulated in sub-Article (1) *lit.* (e) of Article (17) of this Proclamation, an organization may be established at the stage of inception as a Start-up.
- (2) A person wishing to establish a new Start-up Business may apply for the Start-up label with the Ministry provided that it meets the conditions set out in this Proclamation.
- (3) A pre-registration is a condition necessary for registration of competence and commercial registration as stipulated in Articles 20 and 21 of this Proclamation.
- (4) Request for pre-registration and the issuance of the necessary documents shall be made through a digital platform. The Ministry shall issue a pre-registration certificate.
- (5) Certificate of registration shall be issued within a maximum of one calendar month.
- (6) Pre-registration shall be valid for a maximum period of two years.

19. Effects of Pre-Registration

- (1) A pre-registration qualifies a business to go fully operational during the period of pre-registration.
- (2) A pre-registered company shall be relieved from collecting any government levies such as turnover tax, value added tax, and income tax.
- (3) The Ministry of Revenue shall govern the details by a directive.

20. Registration of Competence of Start-ups

- (1) Government agencies responsible to issue certificates of competence shall issue simplified requirements which encourage innovation and the creation of jobs.
- (2) Request for registration and the issuance of the necessary documents shall be made through a digital platform.
- (3) Certificate of registration shall be issued within a maximum of one calendar month.

21. Commercial Registration of Start-ups

- (1) Start-ups shall undergo commercial registration immediately after the expiry of their pre-registration.
- (2) Request for registration and the issuance of the necessary documents shall be made through a digital platform.
- (3) The commercial registration of Start-ups shall be done by the Ministry of Trade and Industry.
- (4) The Ministry of Trade and Industry shall issue simplified requirements by a directive.
- (5) Certificate of registration shall be issued within a maximum of one calendar month.

22. Conditions for Acquiring the Innovative Business Label

- (1) In order to obtain the Innovative Business Label, the following conditions shall be met:
 - (a) The product, process or service the company wants to bring into the market shall be incrementally, or shall disrupt existing production, service or market structure;
 - (b) The Innovative Business shall have high-growth potential and be of a scalable business model;
 - (c) Not less than one-fourth (1/4) of its capital shall be held by the entrepreneur;

- (d) The Innovative Business shall meet the maximum number of employees and the minimum annual turnover to be defined in a directive; and
 - (e) The Innovative Business shall be a minimum five years old since its establishment.
- (2) Notwithstanding the provisions sub-Article (1) of this Article, the Ministry shall govern by a directive the details of the conditions stipulated hereunder.

PART FIVE INCENTIVES

23. Period of Incentive

- (1) Start-ups shall be entitled to the incentives provided in this Proclamation for a period of up to five years.
- (2) Innovative businesses shall be entitled to the incentives provided in this Proclamation for a period of up to three years.
- (3) Notwithstanding the provisions of sub-Article (1) and (2) of this Article, the incentives shall accrue only as long as the conditions as set out in Articles 17 and 22 of this Proclamation are fulfilled.

24. Start-up Leave

- (1) An individual entrepreneur of a new Startup who is an employee of a private or a public organization may enjoy the right to Start-up Leave.
- (2) The right stipulated under sub-Article (1) shall be valid for a period of one year and is renewable twice.
- (3) The right stipulated under sub-Article (1) of this Article may be granted to not more than three (03) entrepreneur shareholders and full-time employees in the relevant Start-up.
- (4) The individual who intends to invoke the right stipulated under this Article shall obtain prior written permission which acknowledges that the individual is on a Start-up Leave.
- (5) Notwithstanding the provision of sub-Article (4) of this Article, the employer, whether public or private, shall not have the right to oppose the application by its employee to enjoy a Start-up Leave.

- (6) Notwithstanding the provision of sub-Article (5) of this Article, the employer, whether public or private, shall have the right to get replacement for the employee who is on a Start-up Leave. The expenses shall be borne from the Fund.
- (7) The details shall be governed by a directive to be issued by the Ministry.

25. Effects of Startup Leave

- (1) A Start-up Leave shall entitle the entrepreneur to maintain his employment relationship.
- (2) Notwithstanding the provision of sub-Article (1) of this Article, the entrepreneur shall not be entitled to any remuneration from the employer.
- (3) In the case of entrepreneur from the public sector, the entrepreneur on a Start-up Leave shall continue to enjoy privileges including housing facilities made available by his employer for the entire period of the Start-up Leave.
- (4) At the end of the Start-up Leave, an entrepreneur on a Start-up Leave shall enjoy the right to resume his employment relationship. For entrepreneur from the private sector, such period shall not extend beyond two years from the date the entrepreneur has started to enjoy the Startup Leave.
- (5) The entrepreneur on a Start-up Leave shall have on his own initiative the right to request the termination of the Start-up Leave.
- (6) The details shall be governed by a directive to be issued by the Ministry.

26. Startup Scholarship

- (1) An entrepreneur may benefit from a Start-up scholarship for a duration of up to three (03) years. Only three (03) shareholders and full-time employees in the relevant Start-up may benefit from the scholarship award.
- (2) An entrepreneur shareholder of several Start-ups shall not be eligible to benefit from more than one Start-up scholarship.
- (3) The funds allocated for the Startup scholarship shall be drawn from the Innovative Fund.
- (4) The details shall be governed by a directive to be issued by the Ministry.

27. Registration of Intellectual Property Rights

- (1) Start-ups and innovative businesses shall be entitled to get support to register their intellectual property rights nationally.

- (2) Start-ups and innovative businesses may get support to register their intellectual property rights internationally.
- (3) The expenses which may arise from the registration as per sub-Article (1) and (2) of this Article shall be drawn from the Innovative Fund.

28. Administrative Support

- (1) Start-ups and innovative businesses shall get administrative support. Such support shall include the provision of:
 - (a) Legal support during registration; and
 - (b) Accounting, human resources management and other related assistances.
- (2) The administrative support stipulated under sub-Article (1) of this Article shall in particular have the mission of advising applicants for the Startup Business Label on the administrative procedures to be carried out as well as the means of access to finance and training.

29. Tax-Related Incentives

- (1) Start-up and innovative businesses shall be entitled to:
 - (a) tax breaks;
 - (b) extended tax reporting period; and
 - (c) act as Authorized Economic Operator which facilitates operations at customs.
- (2) The details shall be governed through a directive to be issued by the Ministry of Revenue.

30. Retirement and Health Insurance Incentives

- (1) Start-ups shall not be obliged to pay their legal contribution to the national retirement and health schemes with regard to their employees. These contributions shall be covered from the Fund.
- (2) The details shall be governed through a directive to be issued by the Ministry.

31. Guarantee Incentives

- (1) Start-ups and innovative businesses shall enjoy guarantee incentives; the cost shall be covered from the Fund.

- (2) A labeled start-up obtains a guarantee of 80% of the amount borrowed as part of its search for financing from financial organizations.

32. Financial Incentives

- (1) Start-ups and innovative businesses shall have the right to open ForEx account.
- (2) Start-ups shall be provided a technological credit card to finance the online services required for their businesses.
- (3) The details shall be governed by a directive to be issued by the National Bank of Ethiopia.

33. Public Procurement

- (1) As part of strengthening the integration of national sub-contracting capacities for start-ups, the Government shall have the obligation:
 - (a) To introduce a mechanism whereby foreign contractors use national sub-contracting by Start-ups in contracts for the provision of goods and services; and
 - (b) To introduce the inclusion, in the specifications of calls for tenders and consultations of national public contracts, of a bonus clause in favor of tenderers using sub-contracting provided by national start-ups.
- (2) The details shall be governed by a directive to be issued by the Ministry of Finance.

34. Access to Legal Sandboxes

Government bodies may depending on the nature of the innovation and its contribution to the national economy create within their jurisdiction access to regulatory sandboxes for start-ups and innovative businesses.

35. Incentives for Eco-System Builders

- (1) Eco-system builders are recognized as businesses. The details shall be governed by a directive to be issued by the Ministry of Trade and Industry.
- (2) An eco-system builder which supports businesses that have obtained the start-up business label shall be eligible to get:
 - (a) funding for the incubation fees of start-ups; and
 - (b) Tax breaks.
- (3) The funding stipulated in sub-Article (2) shall, *inter alias*, cover the following:

- (a) cope with the costs induced by support in the creation and growth of Start-ups;
 - (b) ensure the operating costs of the infrastructure made available to them; and
 - (c) strengthen incubators so that they provide accounting and administrative services to labeled start-ups.
- (4) Notwithstanding the provisions in sub-Article (1), (2) and (3) of this Article, eco-system builders operating outside of Addis Ababa shall enjoy higher incentives.

36. Incentives for Investors

- (1) Investor supporting businesses that have received the start-up label shall be, *inter alias*, eligible to:
- (a) Tax break on capital gain;
 - (b) Carry forward loss for angel-investors;
 - (c) Facilitation of expatriation of capital gain for foreign investors;
 - (d) Allowing debt investment; and
 - (e) Allowing selling a share below the price of acquisition.
- (2) Start-ups with minor foreign shareholders shall be considered as local companies.
- (3) The Ethiopian Investment Commission in conjunction with the Investment Board may reduce with regard to start-ups the minimum investment capital set for foreign direct investment.
- (4) The National Bank of Ethiopia shall by directive govern the development of angel investment, venture capitals and private equity funds.
- (5) Except for those items listed under sub-Article (4) of this Article, the details shall be governed through a directive to be issued by the Ministry of Revenue.

PART SIX
OBLIGATION

37. Obligations on Start-ups and Innovative Businesses

- (1) Start-ups and innovative businesses shall be obliged to:
- (a) Achieve growth objectives and the minimum jobs it promised to create;
 - (b) Keep its book of accounts in accordance with existing practice; and
 - (c) Provide information on any change of its operation.

- (2) The Start-up business label and the innovative business label shall be withdrawn in the event of a breach of the provisions of sub-Article (1).
- (3) The Start-up Label and the innovative Business Label shall be removed from the company that no longer meets the conditions stipulated in this Proclamation.
- (4) A decision according to the provisions of this Article shall be made only after giving the concerned party to give its reasons for not meeting its goals.
- (5) The procedure for removing the Start-up label and innovative business label shall be governed in a directive.

38. External Monitoring and Evaluation

- (1) The Council shall at least once in every three years, conduct an evaluation of start-ups and innovative businesses which have enjoyed support through the mechanisms of this Proclamation.
- (2) For purposes of sub-Article (1) of this Article, the Council may appoint a qualified person to act as its agent.
- (3) In undertaking monitoring and evaluation under sub-Article (1) of this Article, the agent of the Council shall have the power to inquire into any of the activities of the start-up or innovative business.
- (4) An officer or employee of start-up or innovative business which is the subject to the process of monitoring and evaluation under this Article shall supply such documents, reports or information as the agent of the Council may request.

39. Double Funding

Beneficiaries of financial incentives shall have the obligation to ensure that their projects do not enjoy double funding.

PART SEVEN

MISCELLANEOUS PROVISIONS

40. Inapplicable Laws

Any law which is inconsistent with this Proclamation shall not be applicable with respect to matters provided for in this Proclamation.

41. Powers to Issue Regulations and Directives

- (1) The Council of Ministers may issue regulations for the implementation of this Proclamation.
- (2) The Ministry may issue directives for the implementation of matters arising from this Proclamation and Regulations thereunder.

42. Effective Date

This Proclamation shall enter into force as of the date of its publication in the Federal Negarit Gazeta.

Done at Addis Ababa, this _____ day of _____, 2020.

Sahlework Zewdie

President

of the Federal Democratic Republic of Ethiopia