

Proclamation No. _____ 2024

Startup Proclamation

WHEREAS, the government of Ethiopia recognizes the critical role of innovation and entrepreneurship to drive economic growth and development in Ethiopia;

WHEREAS, fostering a vibrant Startup Ecosystem is essential to unlocking the full potential of Ethiopia's youth and promoting technological advancement;

WHEREAS, introducing a streamlined process and procedure to provide a targeted support can significantly enhance the success rate of Startups;

WHEREAS, it is necessary to establish a grant program, a guarantee scheme and fund of funds structure to support the Startup Ecosystem and address the financial constraints faced by Startups in Ethiopia ;

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 PROVISIONS

1. Short Title

This Proclamation may be cited as “Startups Proclamation No. /2024.”

2. Definitions

In this Proclamation, unless the context requires otherwise:

- 1/ **“Accelerator”** means a person, or a program hosted by an entity that provides an intensive, time-bound program designed to support the establishment, growth, and development of Startups.
- 2/ **“Economic Value”** means a demonstrably positive impact on the growth of the economy, measurable through one or a combination of factors including but not limited to increased efficiency and productivity, job creation, export growth and diversification, innovation, and social welfare enhancement.
- 3/ **“Foreign Investor”** shall have the meaning given to it under the Investment Proclamation No. 1180/2020.
- 4/ **“Foreign Startup”** means a Startup which is fully owned by a foreign national or jointly owned between a foreigner and an Ethiopian national.
- 5/ **“Incubator”** means a person that provides a supportive environment and resources for Startups to foster their growth and development.
- 6/ **“Innovation”** means the creation, development, and implementation of a new product, service, process, or an action that represents new solutions or a significant improvement over existing solutions.
- 7/ **“Investor”** means a person who invests capital whether in cash or in kind in a Designated Startup or a Designated Startup Ecosystem Builder and shall include Universities, Non-Governmental Organizations, and State-owned Enterprises.
- 8/ **“Ministry”** or **“Minister”** means the Ministry or Minister of Innovation and Technology;
- 9/ **“Public Company”** shall have the meaning given to it under the Capital Market Proclamation No. 1248/2021.

- 10/ **“Regulatory Sandbox”** means a legal framework that will enable testing and introduction of new products, services, and processes to the market by Startups with promoting the growth of the Startup Ecosystem.
- 11/ **“Scalability”** means the startup's capacity to grow its operations and revenue significantly with increased levels of activity, workload, expansion or demand without reasonably compromising quality, performance, efficiency, or cost.
- 12/ **“Startup”** means a person that is engaged in the creation of economic value through the introduction, adoption, transplantation, or reverse engineering of a tech or tech-enabled, innovative, scalable, and disruptive product(s), service(s), or process(es) with no or limited operating history.
- 13/ **“Startup Designation”** means a recognition provided to a Startup by the Ministry as per the definition of a Startup set forth in this Proclamation.
- 14/ **“Startup Ecosystem”** means the interconnected network of actors and organizations that provide resources, knowledge, and support necessary to foster the creation, development, and growth of Startups.
- 15/ **“Startup Ecosystem Builder”** means a person that actively contributes to the establishment, development, and sustainability of Startups and it includes Incubators, Accelerators, Co-Working Spaces, Private Equity Funds, Venture Capitals, Angel Investors, Financial Institutions, Higher Education Facilities, duly licensed Media entities, Technical and Vocational Education and Training (TVET) Institutes, Research and Development Agencies, Local and International Non-Governmental Organizations.
- 16/ **“Tech-Enabled”** means the utilization, adoption, transplantation, and integration of technology to innovate, enhance, optimize, or transform processes, products, services, or business models, leading to improved outcomes, efficiency, and innovation.
- 17/ **“Person”** means a physical or juridical person.
- 18/ Any expression in the masculine gender includes the feminine.

3. Scope of Application

- 1/ Unless otherwise expressly provided, this Proclamation shall apply:
 - a) to Designated Startups and Designated Startup Ecosystem Builders, and

b) the city administration of Addis Ababa and Dire Dawa including Federal and regional governments.

PART TWO

POWERS AND FUNCTIONS

4. Powers and Functions of the Ministry

- 1/ The Ministry shall implement the provisions of this Proclamation.
- 2/ For the achievement of Sub-article (1) of this Article, the Ministry shall have the following powers and functions:
 - a) coordinate nationwide efforts and oversee Government, non-government, and private sector actor activities for the implementation of this Proclamation;
 - b) promote better understanding of Startups, innovation, and their impact on the economy;
 - c) issue, renew, suspend, or revoke the Designation of Startups and Startup Ecosystem Builders in accordance with this Proclamation and any Regulation or Directives to be issued thereunder;
 - d) create the necessary organizational department responsible for the development of the Startup Ecosystem;
 - e) manage the Startup Grant Program; and
 - f) conduct an annual evaluation and issue a report on the performance of Designated Startups and Designated Startup Ecosystem Builders that are recipients of incentives through the mechanisms of this Proclamation.
- 3/ The Ministry shall design and implement capacity building programs for Startups including but not limited to:
 - a) business development;
 - b) financial management;
 - c) technology and digital skills;
 - d) team building, networking and marketing;
 - e) legal and regulatory compliance; and
 - f) any other relevant capacity building programs identified by the Ministry from time to time.

- 4/ The Ministry, in collaboration with other Government and Non-government institutions – including private sector actors- shall organize Competition and Award on Government problem-solution challenge competition at least once a year for Startups.

5. Power and Function of the National Digital Economy Council

1/ Notwithstanding the provision of Article 6 of Proclamation no. 1205/2012 the National Digital Economy Council (hereinafter the “Council”) shall have the following powers and functions to:

- a) strategically promote better understanding of Startups and the overall Startup Ecosystem and their impact on the economy;
- b) setup a framework for monitoring and evaluation of incentives provided to Designated Startups and Designated Startup Ecosystem Builders;
- c) approve a strategy and monitor its implementation to facilitate resources which are needed to create a vibrant Startup Ecosystem;
- d) ensure transparency and accountability in the disbursement of the Startup Grant provided under this Proclamation;
- e) initiate annual audits by an external auditor licensed by the Accounting and Audit Board of Ethiopia on the accounts of the Startup Grant and, as relevant, incentives provided to Designated Startups and Designated Startup Ecosystem Builders;
- f) no later than three (3) months after the end of the fiscal year, receive audited report and review audit results and ensure that the necessary actions are taken according to the recommendations thereof;
- g) cause the consolidation and publication of audited annual report to the public;
- h) ensure that the necessary enabling environment is put in place by relevant entities that encourages Startups and Startup Ecosystem Builders to participate in building a vibrant Startup Ecosystem;
- i) hold a stakeholders consultation composed of public and private sector participants at least once a year to identify obstacles that hamper the development of the Startup Ecosystem in Ethiopia;
- j) issue relevant periodic publications to advise the Government on policy matters related to Startups and Startup Ecosystem Builders;
- k) advise the Ministry on the criteria for deciding the Startup growth stage;

- l) advise the Ministry on the preparation of the necessary legal framework for the implementation of this Proclamation;
- m) review and initiate the amendment of policies and legislations related to the Startup Ecosystem; and
- n) perform other activities which are deemed necessary for the performance of its functions.

6. Digital Startup Portal

- 1/ The Ministry shall create and administer a Digital Startup Portal.
 - 1. The Digital Startup Portal shall:
 - a) serve as the single-access window to relevant information about the Startup Ecosystem in Ethiopia;
 - b) receive and process applications for Startup Designation and Startup Ecosystem Builder Designation;
 - c) serve as a platform for interaction between a Startup, the Ministry, Startup Ecosystem Builders, and other relevant institutions;
 - d) serve as a platform for announcement and application for various programs and incentives granted to a Designated Startup by the Ministry and other relevant institutions as stipulated under this Proclamation; and
 - e) receive complaints and recommendations from the Startup Ecosystem and the public.
 - 2. Notwithstanding Sub-article (2) of this Article, the Ministry may use the Digital Startup Portal to discharge other objectives as may be relevant to the conduct of powers and functions given to it under this Proclamation.

PART THREE

SECTION- ONE

SATRUP DESIGNATION

7. Eligibility for Designation as a Startup

- 1/ To be eligible for Designation as a Startup, an applicant shall meet the definitional requirement of a Startup as stipulated under this Proclamation.
- 2/ Without prejudice to Sub-article (1) of this Article, the applicant shall:
 - a) be less than five (5) years of age since establishment as an entity;
 - b) be the owner of the product, process, or service it provides or intends to provide to the market or be able to demonstrate in its application that it is the owner by a signed affidavit;
 - c) have at least twenty five percent (25%) of its capital held by the founder;
 - d) not be a Public Company; and
 - e) have a total number of permanent employees not exceeding the number to be specified by a directive to be issued by the Ministry taking into account the sector and the stages of the Startup.
- 3/ Notwithstanding Sub-article (2) of this Article an individual not legally registered as a corporate entity is eligible to apply to be designated as a Startup if the individual fulfills the elements of the definition of a Startup provided under this proclamation.
- 4/ A Designated Startup shall be granted a certificate by the Ministry evidencing its status.
- 5/ The designation certificate shall explicitly express the:
 - a) name of the Startup;
 - b) founder/s' name;
 - c) growth stage of the Startup; and
 - d) industry or sector of the economy that it is engaged in.
- 6/ The Ministry may provide other eligibility criteria through a Directive.

8. Application for Designation

- 1/ The application for Designation of a Startup shall be done through the Digital Startup Portal by filling the prescribed form and attaching documents specified under the Directive to be issued by the Ministry.
- 2/ Where an application to be Designated as a Startup is found acceptable by the Ministry, the Ministry shall register the application, and issue a certificate of Designation to the applicant; provided, however, if the application for Designation is rejected, the Ministry shall notify the applicant in writing by stating the reason for rejection within thirty (30) working days.
- 3/ Where relevant, the Ministry may call the applicant for an interview and demonstration of the product, service, or process to be undertaken by the Startup.
- 4/ An application for a Startup Designation filed with the Ministry shall be responded within thirty (30) working days.
- 5/ Subject to applicable laws, the Ministry shall have an internal grievance handling department in relation to Designation of Startups.

9. Establishment of National Designation Committee

- 1/ The National Designation Committee (hereinafter the “Committee”) is hereby established.
- 2/ Members of the Committee:
 - a) shall be drawn from both public and private sectors and other relevant entities;
 - b) shall be appointed by the Minister; and
 - c) their number shall be determined by a Directive to be issued by the Ministry.
- 3/ The Chair of the Committee shall be appointed by the Minister.

10. Powers and Functions of the National Designation Committee

1. The Committee shall:
 - a) examine the applications it has received and decide on their merits and perform other activities which are deemed necessary for the performance of its functions and submit its report to the Minister.
 - b) The details of the powers and functions of the Committee shall be governed by a Directive to be issued by the Ministry.

11. Obligations of a Designated Startup

- 1/ A Designated Startup shall:
 - a) perform its business in full compliance with laws that are applicable to its operation;

- b) strive to achieve its growth objectives;
 - c) provide information on the Startup, that is not proprietary or confidential, to the Ministry whenever requested;
 - d) provide periodical report to the Ministry on incentives received and advancement made by virtue of the incentives;
 - e) inform the Ministry of any change in its corporate or legal structure, composition, or business activity within ten (10) working days to the Ministry ;
 - f) properly utilize the incentives obtained as per this Proclamation;
 - g) maintain proper book of accounts in accordance with reporting obligations provided under the relevant laws of the country; and
 - h) fulfill any other obligation imposed on it through this Proclamation, Regulations and Directives issued pursuant to this Proclamation.
- 2/ If the Designated Startup fails to fulfill the obligations listed under Sub-article (1) of this Article, the Ministry shall notify the Designated Startup to fulfill its obligations within fifteen (15) calendar days of knowing the failure.
- 3/ The Designated Startup shall respond to the notice within a period of thirty (30) working days following receipt of the notice stipulated under Sub-article (2) of this Article.

12. Renewal of a Startup Designation

- 1/ A Startup Designation shall be valid for two (2) years from the date of issue.
- 2/ An application for renewal of a Startup Designation shall be submitted thirty (30) working days prior to the end of the two (2) years for which the Designation was valid.
- 3/ The Designated Startup shall fill the form prepared for the purpose of renewal and submit any other documents specified in the Digital Startup Portal or Directives.
- 4/ A Startup Designation given under this Proclamation shall not in any way stay valid for more than eight (8) years.

13. Suspension of a Startup Designation

- 1/ The Ministry may suspend a Startup Designation where the Designated Startup:
 - a) fails to fulfil its obligations under this Proclamation, Regulation and Directives issued there under;
 - b) fails to provide timely and accurate information upon request by the Ministry;
 - c) fails to carry out the activities for which the Designation was obtained; and

- d) engages in any other activity prohibited by law
- 2/ A Designated Startup whose Designation has been suspended by the Ministry shall not be eligible for the incentives provided under this Proclamation.
- 3/ When a Startup Designation is suspended, the Ministry shall notify the holder of the Designation in writing, the cause of the suspension and measures that it needs to take within reasonable period of time to rectify the shortcomings that led to the suspension.
- 4/ Where the defects causing the suspension of the Designation is rectified within the time prescribed under Sub-article (3) of this Article, the suspension shall be lifted and the Designation shall become valid.
- 5/ The suspension of a business license or competence certificate by a relevant Government organ shall result in the suspension of the Designation without any precondition.
- 6/ A suspension of Startup Designation by the Ministry shall not be construed as a suspension of a business license of the Designated Startup.

14. Revocation of a Startup Designation

- 1. The Ministry may revoke the Designation of a Startup where:
 - a) the Designated Startup terminates the business activity by its own choice, provided that a closing report be submitted by the Designated Startup;
 - b) the Designated Startup undertakes a merger or acquisition that takes it out of the definition and the eligibility requirements of a Startup under this Proclamation;
 - c) it is verified that the Designation was issued or renewed based on falsified document;
 - d) the Designated Startup utilized the Designation for an unauthorized purpose;
 - e) the Designated Startup fails to rectify defects that resulted in the suspension of its Designation within the given time;
 - f) the Designated Startup is declared bankrupt;
 - g) the Designated Startup fails to have its Designation renewed under the provisions of this Proclamation;
 - h) the Designated Startup receiving the Designation as a business entity fails to provide a renewed business license; or

- i) the commercial registration of the Startup is revoked under the relevant Proclamation.
2. The Ministry, before deciding to revoke the Designation of a Startup pursuant to Sub-article (1) (b), (c) and (d) of this Article, shall notify the Startup in writing, to submit its objection in writing, if any.
3. If the objection of a Designated Startup under Sub-article (2) of this Article is not found to be satisfactory or the Designated Startup fails to submit its objection within thirty (30) working days of receipt of the notice, the Designation shall be revoked.

SECTION-TWO

DESIGNATION OF STARTUP ECOSYSTEM BUILDERS

15. Principle

- 1/ Designation for Startup Ecosystem Builders shall not be mandatory to operate as a Startup Ecosystem Builder.
- 2/ Notwithstanding Sub-article (1) of this Article, being Designated as a Startup Ecosystem Builder is a prerequisite to be entitled for the incentives and privileges provided under this Proclamation.

16. Eligibility for Designation as a Startup Ecosystem Builder

- 1/ To be eligible for Designation as a Startup Ecosystem Builder, an applicant shall:
 - a) have a commercial registration, business license and/or an investment permit, as applicable;
 - b) have the following necessary resources to support the growth of Startups:
 - i. physical space to accommodate Startups;
 - ii. technology infrastructure;
 - iii. adequate financial resources;
 - iv. adequate equipment for innovation to enable Startups test, prototype, install, verify, or research products services or processes;
 - v. mentorship and coaching programs;
 - vi. networking opportunities; or

- vii. legal and administrative support.
 - c) be managed by persons with relevant competence on business and innovation; and
 - d) other additional eligibility criteria that may be determined by the Ministry through a Directive.
- 2/ A Designated Startup Ecosystem Builder shall be granted by the Ministry a certificate evidencing its status.
- 3/ The Designation certificate shall explicitly express the:
- a) name of the Startup Ecosystem Builder;
 - b) name of the owner/s;
 - c) types of the business;
 - d) the sector of the business; and
 - e) other particulars to be determined by the Ministry through a Directive.

17. Application for Startup Ecosystem Builder Designation

1. The application for Designation of Startup Ecosystem Builder shall be done through the Digital Startup Portal by filling the prescribed form and attaching documents specified on the platform.
2. Where an application to be Designated as a Startup Ecosystem Builder is found acceptable, the Ministry shall register the application and issue a certificate of Designation to the applicant; provided, however, if the application for Designation is rejected, the Ministry shall notify the applicant in writing stating the reason for rejection within thirty (30) working days.
3. Where relevant, the Ministry may call the applicant for an interview.
4. An application for a Startup Ecosystem Builder Designation, shall be reviewed and responded within thirty (30) working days.
5. The Ministry shall issue a Directive that will be utilized to evaluate applications for Designation as a Startup Ecosystem Builder.
6. Subject to applicable laws, the Ministry shall have an internal grievance handling department in relation to designation of Startup Ecosystem Builders.

18. Obligation of Designated Startup Ecosystem Builders

- 1/ A Designated Startup Ecosystem Builder shall:
 - a) keep its book of accounts in accordance with reporting obligation provided under the relevant laws of the country;
 - b) respect and abide by the applicable laws of the country;
 - c) fulfill the necessary competence and quality standard requirement;
 - d) create and facilitate an enabling environment for the enhancement of innovation and technology;
 - e) distribute the incentives channeled to it, on the basis of merit in a fair and efficient manner;
 - f) to the extent it is possible and without interfering with its normal operations, use the Digital Startup Portal to disclose information and announcements relevant to Startups;
 - g) not use the incentive for purposes other than the development of the Startup Ecosystem in line with the objectives they are established for; and
 - h) provide information to the Ministry on any change of its business operation or objective.
- 2/ If the Designated Startup Ecosystem Builder fails to fulfill the obligations listed under Sub-article (1) of this Article, the Ministry shall notify the Designated Startup Ecosystem Builder to fulfill its obligations within fifteen (15) calendar days of knowing the failure.
- 3/ The Designated Startup Ecosystem Builder shall respond to the notice within a period of thirty (30) working days following receipt of the notice stipulated under Sub-article (2) of this Article.
- 4/ The Ministry may develop a Quality and Standard Directive for Startup Ecosystem Builder.

19. Renewal of a Startup Ecosystem Builder Designation

- 1/ A Startup Ecosystem Builder Designation Shall be valid for five (5) years.
- 2/ An application for renewal of a Startup Ecosystem Builder Designation shall be submitted thirty (30) working days prior to the end of the five (5) years for which the Designation was valid.

- 3/ The Designated Startup Ecosystem Builder shall fill in the form prepared for the purpose of renewal and submit any other documents specified in the Digital Startup Portal.

20. Suspension of a Startup Ecosystem Builder Designation

1. The Ministry may suspend a Startup Ecosystem Builder Designation where the Designated Startup Ecosystem Builder:
 - a) fails to fulfil its obligations under this Proclamation, Regulations and Directives issued there under;
 - b) fails to provide timely and accurate information upon request by the Ministry;
 - c) fails to carry out the activities for which the Designation was obtained; and
 - d) engages in any other activity prohibited by the Ministry through a Directive.
2. A Designated Startup Ecosystem Builder shall always have a valid Designation whenever it applies for any of the incentives provided under this Proclamation.
3. When a Startup Ecosystem Builder Designation is suspended, the Ministry shall notify the holder of the Designation in writing, the cause of the suspension and measures that it needs to take within reasonable period of time to rectify the shortcomings that led to the suspension.
4. Where the defects causing the suspension of the Designation are rectified within the time prescribed under Sub-article (3) of this Article, the suspension shall be lifted, and the Designation becomes valid.
5. The suspension of a business license or a competency certificate by the relevant Government organ shall result in the suspension of the Designation without any precondition.
6. A suspension of a Startup Ecosystem Builder Designation by the Ministry shall not be construed as a suspension of a business license of the Designated Startup Ecosystem Builder.

21. Revocation of a Startup Ecosystem Builder Designation

- 1/ The Ministry may revoke the Designation of a Startup Ecosystem Builder where:
 - a) the Designated Startup Ecosystem Builder terminates the business activity by its own choice;
 - b) it is verified that the Designation was issued or renewed based on falsified document;

- c) the Designated Startup Ecosystem Builder utilized the Designation for an unauthorized purpose;
 - d) the Designated Startup Ecosystem Builder fails to rectify defects that resulted in the suspension of its Designation within the given time;
 - e) the Designated Startup Ecosystem Builder is declared bankrupt;
 - f) the Designated Startup Ecosystem Builder fails to have its Designation renewed under the provisions of this Proclamation;
 - g) the Designated Startup Ecosystem Builder fails to provide a renewed business license; or
 - h) the commercial registration or the business license of the Designated Startup Ecosystem Builder is revoked under the relevant Proclamation.
- 2/ If the designation is revoked for the reasons mentioned in Sub-article (1) of this Article, the Startup Ecosystem Builder is required to submit a necessary exit report.
- 3/ The Ministry, before deciding to revoke the Designation of a Startup Ecosystem Builder pursuant to Sub-article (1) (b), (c) and (d) of this Article, shall notify the Designated Startup Ecosystem Builder in writing, to submit its objection in writing, if any.
- 4/ If the objection of the Designated Startup Ecosystem Builder is not found to be satisfactory or the Designated Startup Ecosystem Builder fails to submit its objection within thirty (30) working days of receipt of the notice, the Designation shall be revoked.

PART FOUR

INCENTIVES FOR DESIGNATED STARTUPS

22. Establishment of a Startup Grant Program

- 1/ A Startup Grant Program (here under the “Grant”) is hereby established to support Designated Startups and shall be administered by the Ministry pursuant to a Directive to be issued by the Ministry of Finance.
- 2/ The House of People’s Representative based, on the recommendations of the Ministry of Finance shall allocate an annual budget to operationalize the Grant.
- 3/ Without prejudice to Sub-article (2) of this Article, the funds of the Grant may consist of:
 - a) contributions made by development partners; and
 - b) any other resources approved by the Ministry of Finance to be a part of the Grant.
- 4/ The Ministry of Finance shall issue a Directive as to the management, administration, and operation of the Grant.

23. Objective of the Grant

- 1/ The Grant shall be used to cover costs associated with the establishment, implementation, development, and operation of the Designated Startups that is in the initial stages of development to be determined through a Directive by the Ministry.
- 2/ Notwithstanding Sub-article (1) of this Article, the use of the Grant for the following personal or commercial activities is prohibited:
 - a) personal expenses unrelated to the Designated Startup’s operation;
 - b) expenditures that are unrelated to the activities stated under Sub-article (1) of this Article;
 - c) commercial activities not specified in the Grant application;
 - d) repayment of personal or corporate debts;
 - e) investments activities unrelated to the objectives of the Designation;
 - f) purchase of real estate or other fixed assets which are not relevant to the establishment, implementation, development, and operation of the Designated Startup; and

g) any other activities prohibited by the Ministry and prohibited activities as stipulated in the Directive to be issued by the Ministry of Finance for the management of the Grant.

- 3/ Entities which take part in the Distribution of the Grant as per Article (24), of this Proclamation, shall not use the Grant for their own personal or commercial activities.

24. Distribution of the Grant

- 1/ The Ministry shall distribute the Grant directly to the Designated Startups, or through interested Designated Startup Ecosystem Builders who agree to undertake the Grant distribution for a management fee to be determined by the Ministry of Finance under the Directive to be issued for the management of the Grant.
- 2/ The minimum and maximum amount of the Grant distributed to a Designated Startup shall be determined by the Ministry taking into consideration the objective of the Grant stated in the Proclamation and the provisions of the Directive to be issued by the Ministry of Finance for the management of the Grant.
- 3/ A Designated Startup who has received a Grant shall not be entitled to reapply for another Grant for a period of one (1) year.
- 4/ Individual founders or co-founders with twenty five percent (25%) or more ownership interest in a Designated Startup and who has already secured a Grant through another Designated Startup shall not be eligible to apply for another Grant for a period of one (1) year.
- 5/ If a Designated Startup that has already secured a Grant is legally liquidated, the restriction under Sub-article (4) and (5) of this Article shall not be applicable.
- 6/ A Grant shall not in any way be applied for the same idea and by the same Designated Startup twice.
- 7/ At the time of Grant application, founders must disclose all Designated Startups in which they hold ownership interests or significant management roles.
- 8/ The maximum amount that can be distributed by a Designated Startup Ecosystem Builder to Designated Startups shall be determined by the Ministry, in consultation with the Ministry of Finance.

- 9/ The Ministry of Finance shall issue a Directive to determine the details of the Grant distribution to be implemented through a Designated Startup Ecosystem Builder under sub-article (1) of this Article.
- 10/ The beneficiaries and the distributing Designated Startup Ecosystem Builder of the Grant shall have a periodical reporting obligation to the Ministry regarding the distribution and the usage of the Grant on a timely basis.

25. National Credit Guarantee Scheme

- 1/ The National Credit Guarantee Scheme (hereinafter the “Guarantee Scheme”) is hereby established.
- 2/ The supervisory authority of the Guarantee Scheme shall be the National Bank of Ethiopia.
- 3/ The Government shall make an initial investment to establish the Guarantee Scheme.
- 4/ The Guarantee Scheme shall provide guarantees in respect of loans extended by financial institutions to Designated Startups, Designated Startup Ecosystem Builders, and Micro, Small and Medium Enterprises with the aim of increasing the level of credit access to Startups and Micro, Small and Medium Enterprises sector.
- 5/ Notwithstanding sub-article 4 of this Article, the Guarantee Scheme mandate to provide guarantees can be expanded when the necessary authorization is provided by the National Bank of Ethiopia.
- 6/ The funds of the Guarantee Scheme may consist of:
 - a) the initial investment amount allocated from the Government;
 - b) income generated from the proceeds of the Guarantee Scheme;
 - c) income from investments generated by the Guarantee Scheme;
 - d) grants, donations, or any kind of contributions made by development partners and related institutions; and
 - e) any other fund as approved by the Guarantee Scheme.
- 7/ The organizational structure management, administration, operation, and other particularities of the Guarantee Scheme shall be determined by a Regulation to be issued by the Council of Ministers.

26. Objectives of the National Credit Guarantee Scheme

- 1/ The objective of the National Credit Guarantee Scheme shall be to:

- a) issue credit guarantees to Designated Startups, Designated Startup Ecosystem Builders, and Micro, Small and Medium Enterprises;
 - b) invest its assets in accordance with a Directive to be issued by the National Bank of Ethiopia; and
 - c) effect payments to admitted financial institutions on claims made in accordance with the credit guarantees.
- 2/ The Guarantee Scheme shall cooperate with the National Bank of Ethiopia in exchanging information relevant to the Guarantee Scheme's objectives.
 - 3/ The Guarantee Scheme shall have the duty to annually report its performance to the National Digital Economy Council regarding Credit Guarantees extended to Designated Startups.
 - 4/ Details regarding the Guarantee Scheme shall be determined by a Regulation to be issued by a Council of Ministers.

27. Obligation of National Credit Guarantee Scheme Beneficiaries

- 1/ All beneficiaries of the Guarantee Scheme shall be obliged to repay the full amount of the loan according to the terms and conditions of the loan agreement.
- 2/ Beneficiaries shall utilize the loan for the specific purposes stated in the loan application.

28. Prohibition

- 1/ Beneficiaries of the Guarantee Scheme are prohibited from using the proceeds of the loan for expenses not related to what has been authorized by the loan agreement.
- 2/ Intentional or negligent default to repay a loan that is guaranteed under the Guarantee Scheme is strictly prohibited.
- 3/ Beneficiaries who intentionally defaulted on repayment under the Guarantee Scheme shall not be allowed to benefit from the Guarantee Scheme for the period of ten (10) years.
- 4/ Consequences related with intentional default and failure to repay loan shall be determined by the Regulation to be issued by the Council of Ministers.

29. Tax Incentive

- 1/ A Designated Startup shall be a beneficiary of the incentives specified under the relevant Investment Incentives laws.

- 2/ Notwithstanding Sub-article (1) of this Article, a Designated Startup, before the expiration of its Designation period, shall be entitled to a five (5) year:
 - a. income tax exemption;
 - b. exemption from income tax on dividend distributed to shareholders; and
 - c. exemption from withholding tax.
- 3/ The exemptions granted under Sub-article (2) of this article shall be applicable to all Designated Startups regardless of the geographical location the Startup is situated in.
- 4/ For the purpose of Sub-article (2) of this Article, the five (5) year's period shall start to count from the date the Designated Startup applies for the exemption and treatment provided under Sub-article (2) of this Article.
- 5/ Any form of grant, incentive, gift, donation, or similar type of contribution to a Designated Startup with no possibility of equity or conversion to debt shall be considered, for the purpose of the Income Tax Proclamation, as a non-income proceed and shall not be taxed.
- 6/ Foreign nationals employed by a Designated Startup shall be exempt from employment income tax for five (5) consecutive years any time before the expiration of the Designation period.
- 7/ The application for eligibility to tax exemption shall be verified by the Ministry.
- 8/ Details about tax exemption shall be determined by a Directive to be issued by the Ministry of Finance.

30. Loss Carry Forward by Startups

- 1/ A Designated Startup who has incurred a loss within the period of income tax exemption under Article (29) of this Proclamation shall be allowed to carry forward such loss for half of the income tax exemption period after the expiry of such period.
- 2/ If a Designated Startup has a loss for a tax year, the taxpayer shall carry the amount of the loss forward to the next following tax year and the loss shall be allowed as a deduction in computing the taxpayer's taxable income for the following year.
- 3/ The loss to be carried forward in accordance with Sub-article (1) and (2) of this Article shall only be carried forward for two (2) years.

31. Loss Carry Forward by Investor

An Investor that has invested money in a Designated Startup in return for equity and subsequently lost money in the Designated Startup should be eligible to deduct one hundred percent (100%) of the loss incurred on its own financial statement.

32. Duty Free Privilege for Designated Startups

- 1/ A Designated Startups may import duty free capital goods necessary for its operation for up to four (4) years since its designation as a Startup.
- 2/ For the implementation of Sub-article (1) of this Article, a Designated Startup shall submit, the list of capital goods to be imported duty-free and get approval of same from the Ministry of Finance.
- 3/ If a Designated Startup entitled to duty-free incentive buys capital goods from a local manufacturing industry, the duties and taxes paid on inputs for the manufacturing of such goods shall be refunded by the Customs Commission.
- 4/ The Ministry of Finance shall determine the details of how the refund under Sub-article (3) of this Article is dealt with by a Directive.

33. Duty Free Privilege for Designated Startup Ecosystem Builders

- 1/ A Designated Startup Ecosystem Builder may import duty free capital goods necessary for the establishment of a new facility or the expansion or upgrading of an existing facility for up to four (4) years since its designation as a Startup Ecosystem Builder.
- 2/ For the implementation of Sub-article (1) of this Article, a Designated Startup Ecosystem Builder shall submit, the list of capital goods to be imported duty-free and get approval of same from the Ministry of Finance.
- 3/ If a Designated Startup Ecosystem Builder entitled to a duty-free incentive buys capital goods from a local manufacturing industry, the duties and taxes paid on inputs for the manufacturing of such goods shall be refunded by the Customs Commission.
- 4/ The Ministry of Finance shall determine the details of how the refund under Sub-article (3) of this Article is dealt with by a Directive.

PART FIVE

STARTUP FUND OF FUNDS

34. Establishment of Startup Fund of Funds

- 1/ The Startup Fund of Funds (hereinafter the “Fund”) is hereby established as a Share Company by the Government of Ethiopia in partnership with the private sector and may include Foreign Investors.
- 2/ The total ownership of the shares of the Share Company by the Government and Government-owned entities shall not exceed Thirty percent (30%) of the Fund of Funds capital.
- 3/ The Government’s interest of the Fund of Funds shall be held by the Ethiopian Investment Holdings (EIH).
- 4/ Notwithstanding Sub-article (2) of this Article, and in the event there is insufficient interest from the private sector, the Government’s ownership of the Fund of Funds can be increased to whatever amount is needed to establish the Fund.
- 5/ Notwithstanding Sub-articles (1) and (2) of this Article, and if there is no interest from the private sector, including from Foreign Investors, the Fund of Funds shall be established as a fully Government owned fund by the Ethiopian Investment Holding pursuant to Article (9) of Regulation No. 487/2022 of Ethiopian Investment Holdings.
- 6/ the Fund of Funds shall be managed by a private fund manager who shall be competitively selected by the board of the Fund of Funds.
- 7/ If the Fund of Funds is fully owned by the Government, Ethiopian Investment Holdings shall establish a mechanism to determine the private fund manager.
- 8/ Without prejudice to the provisions of this Article, the relevant provisions of the Commercial Code and any other relevant legislations shall be applicable on the establishment of the Fund of Funds.

35. Purpose of the Fund of Fund

The purpose of the Fund of Funds shall be to invest its capital on other Funds that invest on Startups.

PART SIX

REGULATORY ISSUES

36. Regulatory Sandbox

- 1/ With the objective of fostering innovation and promoting the growth of the Startup Ecosystem, the Ministry may establish and implement a regulatory sandbox framework that will enable testing and introduction of new and innovative products, services, and processes to the market by Startups.
- 2/ The Ministry may issue a Directive to determine additional eligibility criteria, application process, and other additional conditions applicable for participation in the regulatory sandbox.

37. Competency Certificates

- 1/ In cases where a certificate of competence is required as a prerequisite to obtain a business license, a Designated Startup shall be allowed to fulfill such certificate of competence within four 4 years of Designation.
- 2/ Government agencies which are responsible to issue certificate of competence shall issue an appropriate competency requirement which encourage Startups.
- 3/ Sub-article (1) and (2) of this Article shall not be applicable on sectors related to public health and national security.

38. Work Permit

- 1/ Subject to the applicable laws on work permit, a foreign national opting to join a Designated Startup located in Ethiopia, shall be entitled to a work permit valid for three (3) year.
- 2/ A foreign national opting to join a Designated Startup shall be entitled to expedited work permit process.

39. Foreign Startups

- 1/ The minimum capital requirement stipulated under Article (9) of the Investment Proclamation No. 1180/2020 shall not apply on Foreign Startups and Foreign Startup Ecosystem Builders who establish or invest on Startups in Ethiopia.
- 2/ Foreign Startups and Foreign Startup Ecosystem Builders shall be entitled to all the incentives provided under this Proclamation.

- 3/ Notwithstanding Sub-article (2) of this Article, Foreign Startups shall not be entitled to the Grant program provided under Article (26) of this Proclamation.
- 4/ Details about the registration and licensing of Foreign Startups and Foreign Startup Ecosystem Builders shall be determined by a Directive to be issued by the Ethiopian Investment Board.

PART SEVEN

MISCELLANEOUS

40. Inapplicable Laws

No law or customary practice, inconsistent with this Proclamation, shall have effect with respect to matters governed by this Proclamation.

41. Power to Issue Regulations and Directives

- 1/ The Council of Ministers may issue Regulations necessary for the implementation of this Proclamation.
- 2/ The Ministry may issue Directives necessary for the implementation of this Proclamation and Regulations issued pursuant to Sub-article (1) of this Article.

42. Effective Date

This Proclamation shall enter into force on the date of its publication in the Federal Negarit Gazette.

Done at Addis Abeba, On the #nd Day of ##### 2024.

TAYE ATSKESILASSIE

PRESIDENT OF THE FEDERAL

DEMOCRATIC REPUBLIC OF ETHIOPIA