



PSD Hub Publication No.6



COMPANY REGISTRATION IN ETHIOPIA PSD Hub Publication No.6

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Contents

Introduction	5
Review of Selected Studies on Company Registration.....	13
Legislation at National and Regional Levels: A Review.....	33
Review of the Company Registration System in Ethiopia.....	47
Company Registration at Federal Level.....	51
Company Registration in Addis Ababa and the Sub-cities.....	61
Company Registration Process at Regional Level.....	71
A Comparison of the Federal, Addis Ababa and Regional Processes.	79
The Views of Other Stakeholders.....	83
A Summary of the Findings.....	91
References.....	113
Appendix.....	115

List of Tables

Table 1	Economy Characteristics (2004)	18
Table 2	Starting a Business (2004).....	19
Table 3	List of Activities and Costs for Company Registration in Ethiopia.....	19
Table 4	Laws Applicable to Businesses in Ethiopia	33
Table 5	Company Registration Requirements at the Federal Level	52
Table 6	Some Examples of the Issuing Bodies.....	53
Table 7	Renewal Fees, Including Penalty Fees for Late Renewals	54
Table 8	System Specifications at the MoTI	55
Table 9	Weaknesses of the System	60
Table 10	List of Specifications of the System	65
Table 11	Breakdown of Requests Made to the A.A Business Registration Database	68
Table 12	Fees Charged for Company Registration Business License Issuance and Renewal	75
Table 13	Forms by Region.....	76
Table 14	Number of Registered Companies by Region.....	76
Table 15	Maximum Capital Allowed to Run a Business without a Business License by Region	77
Table 16	Comparison and Contrast between the Different Registrar Centers	79
Table 17	Service Fees Charged by Different Registrars.....	81
Table 18	Feedback from the Business Community	84

List of Figures

Figure 1	List of Activities and Costs as a Percentage Point of GNI Per Capita for Company Registration in Ethiopia	20
Figure 2	Preparation of the Queries Made at the A.A. Trade and Industry Bureau on the Business Registration Database	64
Figure 3	Architectural Design of the Application System at the Addis Ababa Trade and Industry Bureau	68

List of Acronyms

AACCSA	Addis Ababa Chamber of Commerce and Sectoral Associations
BPR	Business Process Re-engineering
CTA	Customs and Tax Administration
DCCA	Danish Commerce and Companies Agency
FDRE	Federal Democratic Republic of Ethiopia
FIRA	Federal Inland Revenue Authority
GNI	Gross National Income
LLC	Limited Liability Company
MDGs	Millennium Development Goals
MoA	Memorandum of Association
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
NEPAD	New Economic Partnership for Africa's Development
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Cooperation and Development
OHADA	Organization for the Harmonization of Business Law in Africa
PRV	(Swedish) Patent Registration Office
PSD Hub	Private Sector Development Hub
SA	Societe Anonyme
SARL	Societe a Responsabilite Limitee
SIDA	Swedish International Development Cooperation Agency
SNNPRS	Southern Nations, Nationalities and Peoples Regional State
TIN	Tax Identification Number
ToR	Terms of Reference

Introduction

Background

The Government of the Federal Democratic Republic of Ethiopia (FDRE) has prioritized private-sector growth as a means of alleviating chronic poverty and bringing about economic growth—in line with international development thinking and economic good practices. Most recent examples of the global consensus around the need for creating a better economic environment include Target 12 of Goal 8 of the Millennium Development Goals (MDGs), which says: “Develop further an open, rules-based, predictable, nondiscriminatory trading and financial system (includes a commitment to good governance, development and poverty reduction—both nationally and internationally.)”.¹ The MDGs are, of course, a set of targeted measures aimed at reducing world poverty and improving millions of lives.

It is interesting to note that the working of the rules for economic activity is given such high priority. Similarly, the Commission for Africa (CfA), alias “Blair Commission”, concluded that “There has been growing recognition of the importance of what is referred to as the ‘investment climate’—and of what domestic governments, developed countries, the business community and civil society can do to enhance it.... the bulk of investment in Africa is domestic: around 80 percent against 20 percent for foreign investment. This means the focus must be on the domestic-investment climate. But getting the focus right for domestic firms will also bring more foreign investment and remittances.”

The report notes that supporting investment-climate improvement is a priority of the G8 Africa Action Plan.²

A World Bank³ report states that enhancing the investment climate can boost economic growth, especially in getting the investment climate right for agriculture, and in rural areas, which is of particular importance for rural people. The topic was also discussed during the week beginning 29 May 2005 at the World Economic Forum meeting, which was held in Cape Town, South Africa.

¹ *Sachs J. 2005, p xiii.*

² *CfA, p 229*

³ *World Bank. 2004a*

The same themes are fully supported by the comprehensive growth strategy of the Ethiopian Government. The Government is committed to developing a market-oriented economy. To that end, it has awarded an increasingly central role in economic development to the private sector. This is made explicit in Ethiopia's Sustainable Development and Poverty Reduction Program (SDPRP) and the Government's policy on Industrial Development.

The FDRE, therefore, considers its main role to be enacting legislation to promote a free-market economy by removing the obstacles that could hinder the growth of the private sector. The key planks of the strategy are the strengthening of market mechanisms and the creation of an enabling environment, including capacity building, investment promotion and reduction of disincentives. To achieve an orderly private-sector growth, a range of institutional infrastructure, including statistical and regulatory infrastructure, need to be put in place.

This is being achieved through cooperation and consultation with the private sector, particularly through one of their organizations, the Addis Ababa Chamber of Commerce and Sectoral Associations, AACCSA.

Established in 1947 AACCSA has been providing technical and advocacy services to help businesspeople in order to start, run and expand their businesses.

It avails a wide range of non-financial assistance to the private business in the country and plays a major role in voicing its concerns to the Government. It has over 7,000 registered members and is the largest and oldest chamber of commerce in Ethiopia.

The Chamber is an autonomous non-governmental, non-political and not-for-profit organization that acts on behalf of its members.

It has thus far helped members in promoting socio-economic development and in forging commercial relations with the rest of the world. AACCSA's major objective is to promote the creation of conditions in which business can thrive, particularly in Addis Ababa. The Chamber is today one of the most dynamic civil society organizations representing businesses in Addis Ababa. As such, it is active in matters of importance extending beyond its regional geographic base.

The thrust to work together to develop enabling mechanisms is also in line with the experience and research findings of several aid

and development agencies, including the Swedish International Development Cooperation Agency (Sida). During the 1990s, Sida documented some of its experiences with regard to the importance of establishing good institutional and regulatory infrastructure as a means of encouraging healthy private-sector growth. Now the Swedish Government is working with the Ethiopian Government and the Addis Ababa Chamber of Commerce and Sectoral Associations to concentrate on increasing skills and infrastructure for private sector development.

Underlining the importance of AACCSA, a letter of intent was signed with the Swedish Government in October 2004 to set up the office of the Private Sector Development Hub, operating out of AACCSA offices in Mexico Square. While opening a seminar that brought together a Swedish delegation, representatives of the Ethiopian Government and the Chamber in November 2004, H.E. Ato Fantaye Biftu, the then State Minister of Trade and Industry, had the following to say: “In order to successfully adopt a working market economy in Ethiopia, the partnership between the public and the private sector is crucial. The Ministry of Trade and Industry will take all the necessary measures to ensure that appropriate support is provided by our Government to enhance private-sector development.”

Now, AACCSA has also given its support to the Private Sector Development Hub (PSD Hub), which was set up with the help of the Swedish International Development Cooperation Agency (Sida). The aims of the PSD Hub are twofold:

- i) To coordinate and sub-contract work on private sector development-related issues and to strengthen Government-private-sector dialogue on economic development.
- ii) To coordinate and prepare, with technical assistance from international and local experts, a series of major bankable private-sector development project interventions for international support.

A key part of the regulatory infrastructure for business is to create an orderly and efficient system for company registration which would help in:

- Getting well-regulated businesses into operation;
- Having such businesses licensed; and
- Monitoring company information—including ownership, financial health, etc.

Considerable work has already been done toward improving the company-registration procedures, as part of the above-mentioned drive to increase private-sector activity, including foreign investment. Many of the people interviewed for this study said they have witnessed a marked improvement in the last two years in this regard.

The Ministry of Trade and Industry and the PSD Hub are jointly undertaking a project to further improve the company registration system, with a view to making Ethiopia adopt the universally accepted best practices in company registration. More specifically, they aim to upgrade and strengthen the capacity and functionality of the present company registration system, through more cooperation between the Government and the private sector.

Ethiopia undertakes company registration at both federal and state levels. It, nevertheless, needs to put in place a centralized way of collating data and supporting and regulating companies as well as comparing the information available nationwide.

The current project carried out in 2005 forms the first phase of the first project initiated by the PSD Hub and funded by Sida.

The project is aimed at determining whether or not the company-registration system in Ethiopia needs improvement, and, if it does, at identifying the areas that need to be improved and improving them. The objective of the project is to review the present situation in Ethiopia regarding company registration.

Its main aim is to document the current systems and practices in the country concerning company registration, thereby providing a project “baseline” and a common platform for the stakeholders participating in the future phases of the project.

Methodology

The methodology adopted for this study was holistic. The consultant held discussions with the PSD Hub, the representatives of SIPU International (Swedish Institute for Public Administration) and of the AACCSA. From the discussions it gathered that the overall aim of the present project was to improve the business environment—in particular, the regulatory environment.

As indicated earlier achieving a sufficiently streamlined business environment, which still protects businesses and the public (customers, consumers, etc.) is the key to improving productivity. In Ethiopia there are three systems: (1) business registration; (2) business licensing, including approval by sectoral regulators; and (3) trade-name registration (the last is more important in the regions that are not yet computerized).

In addition, there are related processes such as that operated by the Federal Inland Revenue Authority(FIRA), where having a taxpayer's identification number is a prerequisite to getting one's business registered in most offices, and being up-to-date on tax payments is required before a business license can be renewed.

The consultant saw it fit to first ensure that all tasks are fully covered in terms of information and other studies on the business-registration system as specified in the Terms of Reference and stressed during the meetings it had held with the representative of AACCSA.

But, since all areas are deemed to impact on the business environment and, in particular, on the regulation of entry and information, it was felt appropriate to widen this to cover business licensing, including the processes applied by sectoral ministries and regulators, trade-name registration and even some aspects of tax, where appropriate.

Site Visits and Interviews with Key Officials

This was the key method adopted to undertake the tasks mentioned above. The consultant, in particular, made it a point to visit as many company registration offices as possible within the agreed timeframe. The offices visited included the following:

- The Ministry of Trade and Industry;
- The Ethiopian Investment Commission;
- The Addis Ababa Trade and Industry Bureau;
- Two of the sub-cities of Addis Ababa: Yeka and Akaki;
- The Oromia Trade and Industry Bureau (Adama);
- The Southern Nations, Nationalities and Peoples Regional State Trade and Industry Bureau (Awassa);
- The Office of Awassa Zone;
- The Tigray Trade and Industry Bureau (Mekelle); and
- The Office of Mekelle Zone.

During the interviews, the research team applied a structured approach to understanding the systems in use—both the paper/manual systems and the IT systems and processes. In many cases, it was discovered that practice has moved further from the regulations.

Furthermore, the available literature about company registration in Ethiopia predates the systems currently in use by the Federal Government and the Addis Ababa City Administration, most of which have recently been revised. For instance, some procedures are no longer required—notably, the separate registration of trade names.

This method was used chiefly to address specific tasks as discussions with the officials at the various places also covered the purposes of the system and ways and means of improving it.

Desk Review

Several areas were subjected to desk review of the task to review the legislation at the national and regional levels and to compare and contrast the two levels in particular. A few meetings were also held in order to discuss legislation and possible pending changes to the legislation. Some study was also done toward undertaking the task, which stated that the consultant should look into international best practices and evolving standards for company registration.

More specifically, the World Bank and related institutions have done some research on international company registration. The findings of that research work have helped them develop the comparative indicators employed in the World Bank’s Business Environment database.

Further studies were conducted on the structure and the basic requirements of a variety of company registration systems of different countries, ranging from the minimalist system of Delaware, USA, (which takes only five minutes to register, online at that, with minimal requirements, privacy, flexibility and tax savings) to those identified as among the best international practices, such as Sweden.

Process-Mapping and Other Proprietary Tools

The information gathered during the visits and otherwise was compiled using proprietary reporting tools, such as the process map. This gives a structured basis for comparing one system with another. Since this is a baseline study of the existing systems, the team has given priority to documenting the existing systems in such a way that any future work

toward the development of a new system will be based on a thorough understanding of the existing systems—in particular, the IT solutions applied.

The hardware, software and communications technology used were evaluated against the following key system characteristics, so as to label them as working and valuable software:

- System security;
- Scalability and performance;
- Concurrency and correctness;
- Error-handling;
- Flexibility and extensibility;
- Vendor independence;
- Heterogeneity of system components; and
- Transparency and ease of integration.

Qualitative Surveys and Meetings Based on a Predefined Series of Questions

In addition to the key officials identified above, a wide range of stakeholders have been identified as connected to the company registration and other related systems. These are discussed here below.

- **Private sector umbrella bodies.** The Addis Ababa Chamber of Commerce and Sectoral Associations and organizations working with private-sector bodies, such as microfinance institutions.
- **Businesses.** Including companies (local and foreign), unregistered businesses, non-governmental organizations (NGOs), etc.
- **Key professionals.** Where relevant, some practitioners and others were consulted, including lawyers and company secretaries involved in company registration, etc.
- **International agencies concerned with private sector development.** For example, the World Bank and its databases and the Swedish International Development Cooperation Agency (Sida).

In order to make sure that the findings were consistent, a questionnaire was developed by the consulting team. It was, of course, aimed at eliciting pertinent information with regard to the experiences and points of view of the representatives of the businesses selected for their sizes,

geographical locations, nature of business, etc., with a view to getting a range of different perspectives.

The scope of the project did not include gathering statistically significant data that would have required a countrywide business survey. The Businesspeople Survey was administered during face-to-face meetings with businesspeople. And it was delivered to a range of businesses.

Many businesspeople were, nevertheless, reluctant to respond, because they wrongly felt that sharing information would entail something bad for them (for instance, a few of them said that the company registration and the tax system were somehow interlinked). They were, however, given assurances that there was no cause for concern and also received the survey forms through intermediaries, such as microfinance organizations.

The survey forms were used as a basis for other face-to-face meetings as well, such as those held with key professionals and high-ranking government officials. This ensured that similar and consistent information was gathered from a wide range of stakeholder perspectives.

CHAPTER 1

Review of Selected Studies on Company Registration

Many countries have a long history of business. As such, over the centuries, they were able to develop many regulations and laws to govern the workings of their businesses. These regulations and laws were initially aimed at regulating the behavior of business and at protecting the public from being unduly exploited by businesses. The need for regulating businesses is nowadays taken for granted. What all those concerned have not as yet been able to reach a consensus about is the how-to of striking a balance between regulating and stifling the business environment. In most cases, the key regulations concerning businesses relate to how difficult it is to start a business, how much flexibility a company manager or entrepreneur has to hire and fire workers, how easy it is to enforce contracts and even to close a business in an orderly way.

For the purpose of this study, the consultant considers the regulation relating to difficulties in starting a business and what regulation governs the ongoing company licensing or registration.

A leading recent publication⁴ states that, “In much of Africa, excessive regulation stifles productive activity.” The study indicates that the more regulation worldwide, the less labor productivity (measured in USD per worker). “Productive businesses thrive where government focuses on the definition and protection of property rights.

But where the government regulates every aspect of business activity heavily, businesses operate in the informal economy. Regulatory intervention is particularly damaging in countries where its enforcement is subject to abuse and corruption.”⁵ “Heavier regulation is generally associated with more inefficiency in public institutions—longer delays and higher cost—and more unemployed people, corruption, less productivity and investment. It is never, however, associated with a better quality of private or public goods.” The study also notes that poor countries tend to have the most regulation but the least ability to

⁴ *World Bank 2004b, page xi*

⁵ *Ibid, p xii ff*

enforce it, so that a lack of checks and balances in government gives space for corruption. It notes that the rich and powerful can get around cumbersome regulations, or they are not over-affected by it, whereas the poor are invariably the hardest-hit by it.

Another key paper⁶ concludes: “Countries with heavier regulation of entry have higher corruption and larger unofficial economies, but not a better quality of public or private goods. Countries with more democratic and limited governments have a lighter regulation of entry. The evidence is inconsistent with public-interest theories of regulation, but supports the public-choice view that an entry regulation benefits politicians and bureaucrats.”

As background, the paper explains that the public-interest theory of registration was developed in 1938, and suggests that unregulated markets show such failures as monopoly power and externalities. A government that pursues social efficiency counters these failures and protects the public through regulation. As applied to entry, this view holds that the government screens new entrants to make sure that consumers buy high-quality products from “desirable” sellers. Such regulation reduces market failures such as low-quality products from fly-by-night operators and externalities such as pollution. It is done to ensure that new companies meet minimum standards to provide goods or services. By being registered, new companies acquire an official approval. That, of course, makes them reputable enough to engage in transactions with the general public and other businesses. The public-interest theory predicts that a stricter regulation of entry, as measured by a higher number of procedures, in particular, should be associated with socially superior outcomes.

However, the paper’s data supports alternative theories, clustered under the heading, “The public-choice theory.” This does not see government as being so benign, and says that regulation is bound to be socially inefficient. The two main groups of theory, at any rate, are the following:

- i) The theory of regulatory capture, which states that regulation is designed and operated primarily for the benefit of industry incumbents who acquire regulations that create rents for themselves, since they typically face lower information and organization costs than do the dispersed consumers. Regulating

⁶ Djankov, Rafael La Porta, Florencio Lopez de Silanes and Andrei Shleifer, 2000. *Third draft, Paper: “The Regulation Of Entry”*, unpublished but available via World Bank

entry keeps out competitors and raises incumbents' profits. Because a stricter regulation raises barriers to entry, it leads to greater market power and profits, but does not bring any benefits to the consumers.

- ii) The “tollbooth” view, on the other hand, holds that regulation is pursued for the benefit of politicians and bureaucrats. Politicians use regulation to create rents and to extract them through campaign contributions, votes and bribes. An important reason why many of these permits and regulations exist is probably to give officials the power to deny them and to collect bribes in return for providing the permits. This stresses benefits to politicians, even if it means a considerable loss to the industry.

Both theories refer to “rent” creation and extraction through political processes. The paper’s conclusion is that the evidence overall suggests that the tollbooth theory is generally embraced by those governments that have more checks and balances and are more responsive to their voters (“better governments”). Such governments favor this theory because they tend to regulate entry less.

Politicians with more leeway to benefit themselves, nevertheless, tend to create heavy regulatory systems. And there is evidence that this leads both to more corruption and a large unofficial economy. They regulate “because doing so benefits the regulators.”

Africa is reported to have a particularly unfavorable business climate because of excessive government interference. One recent example is a study done to create an Investment Climate Facility for Africa, supported by the United Nations Commission for Africa and discussed at the World Economic Forum in Cape Town, South Africa, in June 2005.⁷

The facility aims to disburse USD 550 million in grants among African countries over a period of seven years. After its launch in October 2005, African governments that have signed up the New Partnership for Africa’s Development (NEPAD) peer review will be offered grants to study and implement improvements in government regulations and procedures affecting business.

⁷ *Business Day newspaper in South Africa, 2 June 2005: “New long-term facility to give Africa a leg-up”*

It also aims at promoting a greater political space for business through greater government responsiveness to their needs. According to the promotional literature of NEPAD, the facility could be involved in efforts directed at improving the quality of laws in Africa's judicial systems, property rights, debt collection and contract enforcement as well. It can also assist in creating an environment favorable for business by proposing changes in regulations, and by helping to lower barriers that entrepreneurs and the poor must overcome.

Studies could be undertaken into the revision of tax and property laws, financial-sector and competition law reform and customs reform. The founders argue that grants for these kinds of projects will yield longer-term economic benefits, which will assist the private sector and African governments, rather than immediate cash-flows.

The World Bank has focused on taking an overview of the business climate worldwide for some years now. Its report cited above claims that a minimum of regulation is necessary. In addition, the regulatory streamlining that developed countries are undertaking at the moment can be applied in developing countries too. To start a new business, one should be registered—at least for statistical purposes as well as for tax and social security.

Australia alone has these two processes, whereas Sweden adds the requirement to register with the Labor Office. Presumably, some monitoring and reporting should be required at least for statistical purposes. Furthermore, the study cites examples where registration has been simplified to the above two principles and then handled on a streamlined electronic system. It says that this change has for instance produced excellent results for the private sector in Honduras, Vietnam, Moldova and Pakistan. Countries which are measured as taking the least time to register a business have single application forms available on the Internet.

Many developed countries have useful systems for pruning and abolishing outdated regulations — either through the automatic expiry of time, unless Parliament renews it (Australia), through a specialized advisory body's recommendation as to which laws can be streamlined (the Netherlands), or through the abolition of all laws that are not specifically requested as necessary from time to time (Sweden). All member countries of the Organization for Economic Cooperation and Development (OECD) have reviewed their business laws in the last 20

years. In contrast to them, many developing countries have business laws dating back to 1884 or 1916.

Ethiopia's company law is based on the 1960 Commercial Code whose wording is not always in keeping with contemporary international law. The reason behind this is that the wording was adapted to what drafters felt was a current situation in the country at that time and that the resulting law was possibly behind what was in force in more advanced countries even at the time.

Failure to reform the business law often emanates from inertia or lack of capacity—not necessarily because there are specific obstacles such as the outdated laws benefiting specific businesses or government interests. In some countries, specific-interest groups may be able to resist reforms. It is difficult to imagine that there are any specific groups who may be against streamlining business registration and licensing in Ethiopia.

The World Bank study states that both the costs of not reforming and the benefits of reforming are often significant. A recent World-Bank-sponsored debate on company-registration systems suggested that one of the major hidden costs is how much time an entrepreneur must take away from her or his work in performing company regulation tasks.

Easy reforms include adopting better information and an intra-governmental communications technology—to inform prospective entrepreneurs and serve as a virtual one-stop shop for company business registration.⁸ A single registration form and “silent consent” speed up the process. Ethiopia has already implemented much of this at both the federal and the Addis Ababa Trade and Industry Bureau levels. The procedures have been reduced in number. And the delivery time of registration and business licenses has been significantly lowered. Computerized systems have been introduced at both the Ministry of Trade and Industry (MoTI) and the Addis Ababa Trade and Industry Bureau. And the new systems were able to come online about a year ago. The procedures that one has to go through in order to register for tax have been streamlined at the Addis Ababa Trade and Industry Bureau. During the study, it was discovered that the SNNPRS office had already streamlined its systems, whereas the bureaus of Oromia and Tigray Regions were in the process of streamlining and hoping to finish that during the third and fourth quarters of 2005, respectively.

⁸ *Ibid.*, p xviii

Ethiopia scores well by regional standards, according to the World Bank’s Investment Climate website.⁹ The high score on the cost-to-gross-national-income (GNI) ratio may be partly accounted for by the very low GNI for the country, listed at USD 90 per capita on the World Bank’s website.

However, the actual rating should be better, as an investigation of the information suggests that this relates to the system and processes that prevailed before the recent upgrades took place.

A Snapshot of the Business Environment in Ethiopia

The Tables below provide a “snapshot” of the business climate in Ethiopia by identifying specific regulations and policies that encourage or discourage investment, productivity and growth. Key indicators are used to help measure the ease or difficulty of operating a business — which includes starting a business, hiring and firing workers, registering property, getting credit, protecting investors, enforcing contracts and closing a business.

The regional average and the average for high-income OECD-member countries are provided below for each topic for comparison. The following are figures from the World Bank’s Doing Business website, highlighting the key aspects of the Ethiopian economy and business climate.

Table 1 Economic Characteristics (2004)

Variable	Ethiopia	Regional Average	OECD Average
Region	Sub-Saharan Africa		
Income category	Low income		
GNI per capita (US\$)	90	562	25,773
Informal economy (% GNI, 2003)	40.3	42.3	16.8
Population (millions)	68.61	19.5	41.5

⁹ Website is <http://rru.worldbank.org/DoingBusiness/ExploreEconomies/BusinessClimateSnapshot.aspx?economyid=66> (various pages and queries).

Starting a Business in Ethiopia

The challenges of launching a business in Ethiopia are shown below through four measures: the procedures required to establish a business, the associated time and cost, and the minimum capital requirement. Entrepreneurs can expect to go through a total of seven steps to launch a business over 32 days, on average, at a cost that is equivalent to 77.4% of the gross national income (GNI) per capita. They must deposit at least 1,821.9% of GNI per capita in a bank to obtain a business registration number, compared with the regional average of 254.1% of GNI and OECD average of 44.1% of GNI.

Table 2 Starting a Business (2004)

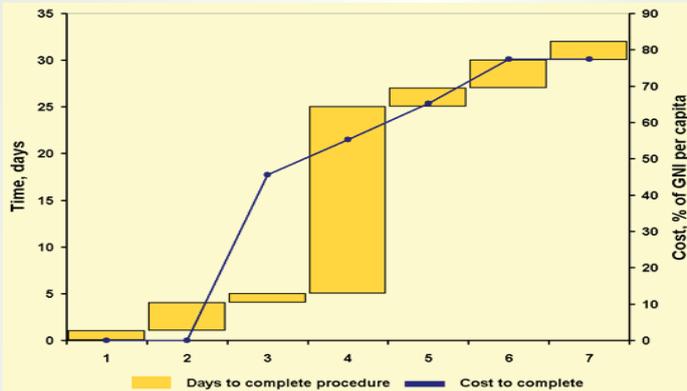
Indicator	Ethiopia	Regional Average	OECD Average
Number of procedures	7	11	6
Time (days)	32	60	25
Cost (% of income per capita)	77.4	225.2	8.0
Min. capital (% of income per capita)	1,821.9	254.1	44.1

The following table summarizes the procedures required to register a firm in Ethiopia. Again this seems to show the reality on the ground before the recent streamlining took place, despite the date (once the current report is finalized, improvements can be suggested to the World Bank data).

Table 3 List of Activities, Costs for Company Registration in Ethiopia

The Procedure (2004)	Proc #	Duration (days)	USD Cost
Check the company's name	1	1	0
The applicants submit documents for authentication	2	3	0
Sign the documents	3	1	43.70
Register with the Commercial Registry	4	20	9.38
Obtain a business license	5	2	9.56
Make a company seal	6	3	11.65
Register with the Inland Revenue Authority	7	2	0
Total	7	32	\$74.29

Figure 1 List of activities and costs as a percentage point of GNI per capita for company registration in Ethiopia



Study of Global Company Registration Systems

Reforming country registration systems is a continuous process. Some examples of leading world company-registration regimes are outlined below.

OHADA

The Organization for the Harmonization of Business Law in Africa (OHADA)¹⁰ came into being in 1997 when institutions were set up and new harmonized business laws gradually began to come into force. The 16 signatories are French-speaking West African countries. Uniform Acts on corporation and commercial laws and laws governing guarantees, sureties, mortgages, pledges and liens came into effect on January 1, 1998.

The Uniform Acts define a business as any entity that carries out business acts in a professional capacity. A business could have one of the following forms:

- Limited liability company (Société à Responsabilité Limitée/SARL);
- General and limited partnerships;
- Joint ventures; and
- Corporation *de facto* and commercial interest grouping.

¹⁰ OHADA - *passim*

Companies are registered in a Trade and Personal Property Credit Register —unless they are joint ventures. The act provides for the Common Court of Justice and Administration, headquartered in Cote D’Ivoire, to keep a national file and a regional file, added to the national Registers of Companies. A company is a contract by which two or more persons (one person, in some cases) agree to allocate assets to an activity, with a view to sharing the profits or savings that result there from. If there are more than 100 shareholders, the company is a publicly-held corporation.

The articles of incorporation and any amendments must be drawn up by a notary and sealed and witnessed, or must be drawn up in a private agreement which is then filed with a notary as the original.

The exact geographical details of the registered offices are mandatory. Only in-kind and cash contributions are allowed—that is contributions of know-how, work and services are prohibited. Also required is either a statement of legality and compliance by the founders and initial officers, or a notarized record of subscription and payment of capital. The minimum capital is FCFA 10,000,000 (currently USD 18,640) or equivalent thereto in local currency, or FCFA 100,000,000, if the company wants to sell shares to the public.

The shares may not have a par value lower than FCFA 10,000. The company becomes a legal entity only when it is registered with the Register of Companies and Liens (Registre du Commerce et du Crédit Mobilier). It also demands that companies keep accounts, including journals, general ledger, trial balance and annual-accounts ledger, and must prepare financial statements at least once a year.

Sweden

The Swedish term for a company where the liability of shareholders is limited and the company is represented by a Board and requires an auditor is “*aktiebolag*” (AB). Such a company is registered by the *Bolagsverket*.¹¹ The company can be either private or public (if public, it can offer shares to the general public). To register a new enterprise, one needs to fill out an application form in Swedish. The form, nevertheless, is available on the website, accompanied by an English description. Some other documents, too, may, however, be required, in addition to the application form.

¹¹ www.bolagsverket.se

All the information in the Company Register must be kept up-to-date, including changes to the company's name, address, Board of Directors, any increase in share capital, changes in the line of business, etc. This, too, can be done through the application forms available on the Internet, though supporting documents are sometimes required.

A company is identified by its number, issued by the *Bolagsverket*, in its dealings with officials. And this must appear on all company stationery. An *aktiebolag* becomes a legal entity as soon as it is entered into the Companies' Register. The Articles of Association, specifying the business, are a public document. As such, they are held by the *Bolagsverket*. The minimum share capital for a private company is SEK 100, 000 (USD 13,388), and SEK 500, 000 (USD 66,040) for a public company. The share register must be available to the public at the company's office, but is not registered by the *Bolagsverket*. The *Bolagsverket* checks the name and gives a registration certificate.

It also checks the Company's Register to see that there is a legally competent Board of Directors and a company auditor. Each year, an annual financial report must be approved by the general meeting of shareholders. Following that, the Board must file it and the auditor's report with the *Bolagsverket*. Interim reports, too, must be filed after six to nine months. Every company has to immediately report to the *Bolagsverket* any changes that have taken place within it—especially with regard to the Directors of its Board. In the event that a company fails to do that within a relatively short time, the *Bolagsverket* may initiate liquidation proceedings against it. For instance, if a company fails to submit its annual report within 11 months, it would be fined penalty of SEK 5,000 for one day for late filing are, and that doubles after two months reaching SEK 20,000 after four months. These amounts are doubled in the case of public companies. When submitting an application for registration, a company must also provide a bank certificate that shows the deposit of capital to pay for the shares, including any share premium. All forms can be submitted via the Internet.

According to the World Bank's website,¹² it takes a total of 16 days and costs USD 257.33 to start a business. But that was written before the last restructuring of the Swedish Patent and Registration Office (PRV) took place to create the *Bolagsverket* on July 1, 2004.

Delaware

Delaware is one of the states that constitute the United States of America. It is described as the “incorporation capital of the world.”¹³ The usual types of incorporation are Limited Liability Company (LLC), C Corporation, and S Corporation. Delaware offers privacy, tax savings (a franchise tax of USD 200 per year is all that is charged on an LLC), protection from lawsuits, flexibility, and convenience. The LLC is one of the most popular forms and is actually a combination of a corporation and a partnership.

Like a corporation, an LLC has a legal existence separate from its owners; and the owners and managers are not personally liable for the company’s debts and obligations. Like the partnership or an S corporation, an LLC is automatically treated as a pass-through entity for tax purposes.

The LLC does not pay taxes, but its income “passes through” to the shareholder, who is taxed on an individual basis, if he or she declares his or her earnings in his/her own country. Requirements for non-US citizens are minimal. And there is no public disclosure of Board Directors or shareholders.

A typical agency can handle company registration online within five minutes, for a fee ranging from USD 298 to USD 299 for an LLC, including Delaware’s one-time filing fee, the company’s one-time service fee, and one year of a registered agent’s services.

The applicant receives a Certificate of Incorporation/Formation, customizable bylaws/operating agreement, steps to obtain an individual tax ID number and preparation of an “S” election form.

The kit, delivered by courier (free on the next day within the USA or within a few days elsewhere), includes a corporate Minute Book, 20 custom-numbered stock certificates, a stock-transfer ledger, a corporate forms disk and specialized index organizers. Maintaining the company costs about USD 90 per in a year.

Australia

The following information was obtained from the website of the government-run Small Business Development Corporation of Western Australia (SBDCWA).¹⁴ SBDC’s Business License Information Service

¹³ <http://www.thedelawarecompany.com/> or see also <http://www.incnw.com/>

¹⁴ <http://www.licence.sbdc.com.au/>

(BLIS) uses the term “business license” very broadly to refer to any form of government regulation, registration, permit or approval, which applies to a business. Local, state and federal governments are responsible for regulating different aspects of business activities.

Each of the following activities—commonly associated with owning and running a small business—requires some form of business licensing:

- Registering a business name;
- Choosing a business structure;
- Working from home;
- Employing staffs; and
- Registering for taxation purposes.

In addition, businesses may need a Code of Practice. These are guidelines for the way business is conducted. They prescribe standards and other specifications a business must use. There are Codes of Practice associated with particular licenses (available from industry and professional associations).

In general, nonetheless, the Codes cut across industry sectors and relate to topics such as the environment, workplace safety, food preparation, textile labeling, and the handling of explosives and dangerous goods. Licenses are issued by a variety of agencies. Company registration can be done by a state, in the Northern Territories, either free of charge or for AU\$200 (USD 151) for a two-to-three-year period. Registering an Australia-wide company costs anywhere from AU\$950 to AU\$1,500, depending on the agent used.

Denmark

The Danish Commerce and Companies Agency (DCCA)¹⁵ is an agency under The Danish Ministry of Economic and Business Affairs. The responsibilities and activities of the agency fall within the following three main areas:

- The administration of company and enterprise legislation;
- The registration and disclosure of certain information and documents about companies, including company accounts; and
- Improving the conditions of the business community.

¹⁵ <http://www.copcap.com/>

In all these areas, the agency is involved in work at the international level concerning the administration of legislation. The agency is responsible for the administration and development of a number of legislative business acts, including Companies Act, Company Accounts Act, Commercial Foundations Act and the Act on Undertakings Carrying on Business for Profit. The agency is, furthermore, responsible for a variety of commercial laws applicable to certain types of business such as accountants, real-estate agents, authorized translators, interpreters, and restaurants and hotels as well as the Home-Service Scheme.

In its first area, the DCCA handles the registration of companies and issues a CVR number. There are three main business entities: (1) public limited company (*Aktieselskab* or A/S); (2) private limited company (*Anpartsselskab* or ApS); and (3) branch office (*udenlandsk filial*). There are no registration requirements for a representative office (*repræsentationskontor*). Many lawyers have shelf companies available to enable a fast start-up process, which may take only a day or two.

Whoever plans to establish a private or a public limited company must provide the following information:

- The date on which the company was established;
- The name and address of the company in Denmark;
- The names and addresses of the members of the top-level Management, of the Board of Directors, and the Chairperson;
- The name and address of the Accountant;
- The Articles of Association and the fiscal year in which they were written;
- The main objective of the company;
- The company's provisions for signatories (the joint Board of Directors can always bind the company legally by its signature); and
- The share capital (at least DKK 500, 000 for a public limited company (A/S), and at least DKK 125, 000 for a private limited company [ApS]).

This information must be entered into a registration form, which can be obtained from the DCCA.

A branch office can also be established in Denmark, if the parent company is registered in the EU, Switzerland, Norway, Iceland, the USA, Estonia or Australia. If the parent company is not registered in

any of these countries, it must send a statement of reciprocity along with the registration form. If a branch office is set up, however, the following information is required:

- The names and addresses of the persons authorized to sign for the branch;
- The name and address of the Manager of the branch, including his or her CVR number;
- Basic information about the parent company;
- The provisions for regulating the power to bind the parent company;
- The provisions for regulating the power to bind the branch office;
- The main objective of the parent company;
- The main objective of the branch office; and
- The capital of the parent company.

The completed registration form must be accompanied by a detailed documentation about the parent company. Registration is uniquely free, according to the 130 countries surveyed by the World Bank.¹⁶

When an applicant has submitted the requested information (registration forms are available online), the DCCA agency will register the company and issue to it a CVR number. If the requirements are met, the processing will take anywhere from one to two weeks. The DCCA will forward the CVR number to the Central Customs and Tax Administration (CCTA), as it is also necessary to register for VAT and tax purposes in a separate process with the CCTA.

It has also been possible to register online from the DCCA's webreg site since September 2001. In theory this takes only ten minutes. It requires a piece of software called E-Signer, which is in widespread use in Denmark. It involves the following four steps:

- Filling out a foundation document with basic information such as name, type of company, founding shareholders and date of foundation;
- Completing the companies' statutes from a basic formula with various variations and options to choose from;
- Either depositing the whole capital or getting verification of the capital from an accountant or bank (again with E-Signer); and
- The concluding protocol with a company address, Banker, Accountant and other information.

The requirements are an audited annual report to the CCTA and the DCCA. An Accountant should be retained in the early planning stage to give proper advice on the information required in the annual report. Company details can also be updated on the Internet, which has an improving capability.

The DCCA also has the responsibility of providing information for the public. For this, the agency keeps registers accessible to the public about public and private limited companies, commercial foundations, European Economic Interest Groupings, financial institutions (banks and insurance companies), cooperative societies, partnerships, commercial associations and a number of other enterprises with limited liabilities.

The business community and other interested parties may, for a fee, gain access via the web site www.publi-com.dk to updated information on more than 100,000 companies as well as to retrieve copies of their annual accounts.

There is an ongoing effort to improve the conditions of the business community in Denmark. The effort focuses on lightening the administrative burdens of enterprises and is focused on two main areas. One is to prevent new legislation from imposing unnecessary burdens on business. This work is carried out through extensive cooperation with the business community. The second area focuses on exploring more efficient ways for business to communicate with authorities and to comply with legislative and administrative requirements.

This is carried out primarily through the development of new tools and methods using the latest technology and establishing a range of digital services aimed at improving the services of the public sector toward business.

France

There are two main types of commercial limited liability companies in France: the SARL (*Société à Responsabilité Limitée*) and the SA (*Société Anonyme*).

The main characteristics of the SARL are that it has a minimum capital of 7,500 euros; no bearer shares are allowed; it has a minimum of one shareholder; it does not need a statutory external auditor; and no annual assembly of shareholders is necessary if there are less than 25 shareholders.

The minimum is one director (*gérant*). The main characteristics of the SA, on the other hand, are the following:

- It has to have a minimum capital of 37,000 euros;
- It has the choice of having either registered or bearer shares;
- There have to be at least seven shareholders;
- An independent Auditor is required;
- There must be an annual assembly of shareholders; and
- Its Board must have a minimum of three Directors.

A company can be set up within a few days, even within 24 hours, if an urgent incorporation is required. The pieces of information to be submitted include the following:

- The company's purpose—that is, a brief description of the activities of the company, such as import/export of manufactured goods or web-site designing;
- The company's name;
- The names of the Directors of its Board;
- At least one shareholder for the SARL, and seven for the S.A.; and
- Certified copies of the passports of the shareholders and officers.

These documents must show the name, date and place of birth and address of the bearer. In order to fully incorporate a company under the French law, the following have to take place:

- Deposit of funds representing the company's capital with a French bank;
- The bank must block the funds and issue a certificate;
- The bylaws and articles of incorporation (the statutes) must be approved by the shareholders;
- The bylaws and articles of incorporation must be filed with the Clerk of the Commercial Registry;
- Notice of the incorporation must be given in an official journal;
- A registration certificate must be issued by the Clerk; and No taxes have to be paid to incorporate.

Other costs include approximately 800 euros for various out-of-pocket expenses such as photocopying, fees for the Commercial Registry and for publication in an official journal. (The French government's website is www.minefi.gouv.fr.)

Estonia

“An excellent business environment and conditions for production, liberal economic policy and low taxes have already attracted numerous companies and continue to make Estonia an exceptional location for foreign direct investment,” declares an Estonian government website.¹⁷

The legal system in Estonia is based on the Continental European civil-law model and has been influenced by the German legal system. Unlike common-law countries, Estonia has detailed codifications, and issues are solved according to the codifications. The Estonian laws are basically divided into private and public.

Generally, private laws consist of the civil law and the commercial law, whereas public laws consist of international law, constitutional law, administrative law, criminal law, financial law and procedural law.

Estonia recognizes three main types of business:¹⁸ (1) sole trader/proprietor; (2) private limited company; and (3) public limited company. Other forms of business are general and limited partnership, as well as cooperative and a branch of a foreign company. A total of six steps have to be taken to register. These are the following:

- Incorporate at the Commercial Register, either on your own, or through a broker, or by buying a shelf company. The signatures of the founding parties must be notarized. And a list of the members of the Board must be supplied, together with the telecommunications contact details.
- Register the business in the Tallinn City Court and/or in the various country courts.
- The entrepreneur presents the application and all documents to the Secretary of the Register.
- Documents are processed within 14 days, if all is complete.
- The company is registered within five days, and a notification thereof is posted to the registered address.
- The entrepreneur pays a registration fee to the Taxation Board.
- For some activities, a separate license application must be made.

¹⁷ <http://www.investinestonia.com>

¹⁸ FEU, date not given, but around 2004. Based on a paper “Company Registration Procedures in Estonia; a Comparative Study of the Danish, Estonian and the EU Procedures for Company Registration”.

For a company with a 40,000 EEK (2,556 euro) founding capital, the registration fee is 3,000 EEK (192 euro), the notarization fee 330 EEK (21 euro), and the fee for those who witness the notarization 10 EEK (0.64 euro).

Web-based “e-government” is becoming more widespread. In December 2000 a digital E-Signature Act was passed, allowing digital signatures. Project “E-Citizen” provides for digital ID and other functions, while E-Tax-Board, which was launched in October of 2000, allows users to communicate quickly and easily with the tax authorities, by filling, viewing and correcting Value-Added Tax, income tax and other returns.

Conclusion

In general, more than a minimal company regulation does not appear to benefit the economy or the development and growth of the private sector. The experiences in this regard indicate that business regulation in general is more aimed at creating some benefits for the regulators than for the public, although minimal standards of regulation are necessary. The studies done by the World Bank and other studies conclude that Africa is one of the regions with the heaviest regulation. There, of course, is a correlation between the degree of regulation and the degree of poverty within a country. Improving, reducing and streamlining regulation is likely to lead to growth and poverty reduction.

Many countries have recently streamlined their company registration systems, in the belief that this will improve the business environment and enhance their ability to compete in the global economy. In particular, the advance of ICT has permitted substantial streamlining of old systems, particularly from the manual systems of many original laws.

France and some other countries are still heavily influenced by history and legacy structures. Others, such as Sweden and Denmark, have streamlined their systems to the point where company registration forms are available on the Internet and application is fast and simple.

The minimum regulation, however, focuses on keeping good records of the businesses. The records should, of course, include the acceptable purpose of the establishment of the company, the name(s) of the company’s owner(s), and the number and constitution (Memorandum of Association and Articles of Association, company regulations, etc). Such pieces of information are needed in order to have an idea of the individual people behind a company and to contact them as and when

necessary. These pieces of information must, nonetheless, be kept up-to-date.

A number of countries seem to have of late realized the advantages of streamlining their company registration systems and that simple company registration has a competitive advantage, both in attracting foreign businesses and in encouraging their own entrepreneurs to do business at home.

Ethiopia is best positioned to draw valuable lessons from those countries that have streamlined their company registration systems. It can revise its laws accordingly, in line with its plans to introduce e-governance and the forthcoming woreda-net as well as the ever-increasing use of the Internet. It should, therefore, seize this opportunity and revise its company-registration procedures. As shown herein above, the legal systems of many countries do not differentiate company registration from business licensing or from trade-name registration as Ethiopia does. Ethiopia should follow suit and streamline these systems in line with the practices of the countries discussed above. Some of those who have participated in the present study have also suggested that the current company-registration system (including the issuance of licenses) could be substantially streamlined to make the application process simpler for all parties—that is, for both the applicants and the regulators.

It is, nevertheless, worth noting that Ethiopia has already made substantial progress in this regard. Besides, company registration does not feature as a priority on the integrated framework of the trade-related technical assistance group coordinated by the Office of the European Commission in Addis Ababa.¹⁹ The reason behind that may be the significant improvements that Ethiopia has made. There, however, is no denying the fact that the various systems still represent a burden for entrepreneurs. That in turn indicates that there is a scope for improvement. In other words, Ethiopia should streamline its various registration systems and become more competitive in the world economy.

¹⁹ December 2004. *Integrated Framework for Trade-Related Technical Assistance, Diagnostic Trade Integration Study (DTIS) Ethiopia, "Action Plan for the Prioritized DTIS Recommendations," Addis Ababa.*

CHAPTER 2

Legislation at National and Regional Levels: A Review

The National Legal Framework

As pointed out earlier, Ethiopia's legal system is rooted in the tradition of the French civil law. Even if this is not strictly applicable to Ethiopia the legal systems of most African countries were inherited from the colonial powers of the 19th century, such as the English, French, Spanish, Dutch, Portuguese and Germans. And, although each country may have made some improvements thereto, the basic structure of the inherited legal system remains. According to the World Bank (2004, p xiv), the countries which inherited the tradition of the French civil law regulate the most. "However, heritage is not destiny," notes the report, citing examples where countries have drastically improved and moved away from their heritage and adopted international best practices.

Table 4 Laws Applicable to Businesses in Ethiopia

The Constitution of the Federal Democratic Republic of Ethiopia	1/1995
The Commercial Code of Ethiopia	1960
The Civil Code of Ethiopia	1960
Investment Proclamation	280/2002
Investment Proclamation	37/1996
Investment (Amendment) Proclamation	116/1998
Investment Incentives: Council of Ministers Regulations	7/1996
Investment Incentives (Amendment): Council of Ministers Regulations	9/1996
Investment Incentives: Council of Ministers (Amendment) Regulations	36/1998
(Federal) Commercial Registering and Business Licensing Proclamation	67/1997
Commercial Registering and Business Licensing (Amendment) Proclamation	171/1999
Federal Government Commercial Registering and Business Licensing (Amendment): Council of Ministers Regulations	13-1997
Addis Ababa/Dire Dawa Administration Commercial Registering and Business Licensing (Amendment): Council of Ministers Regulations	14/1997
Southern Nations, Nationalities and Peoples Regional State Commercial Registration and Business Licensing Proclamation	82/2004
Income Tax Proclamation	286/2002
Income Tax Regulations	78/2002
Value-Added Tax Proclamation	285/2002
Stamp Duty Proclamation	110/1998

The laws pertinent to the company registration system can be summarized as follows:

A Summary of the Pertinent Provisions of the Commercial Code of Ethiopia (1960)

The Commercial Code is the foundation of business legislation in Ethiopia. Put differently, other proclamations and regulations are based on it. The sections that are pertinent to this study are contained in Article 86 ff. (“Commercial Register”). Some of those are highlighted below.

- **Article 86.** The Commercial Register consists of local registers (*Teklay Guezat*), which means “region”, as per Article 2.18 of the federal Commercial Registering and Business-Licensing Proclamation No. 67/1997) and the Central Register at the Ministry of Trade and Industry.
- **Article 87.** All entries, deletions and changes to the Commercial Register are published in the Commercial Gazette.
- **Article 88.** The entry is based on declaration and takes effect a day after entry into the Register.
- **Article 89.** The MoTI appoints people who keep registers in the *Teklay Guezats* (regions).
- **Article 90.** The Central Register is kept by the Department of the Central Commercial Register, which must collect all information from local registers. Registers must comply with the law. They also have to receive and preserve all acts, documents and notices required under Book II of the Code.
- **Article 91.** Officials are personally liable for any damage they cause.
- **Article 92.** Any person, on paying a fee, can ask for any extract from the register or for a statement that there is no entry.
- **Article 93.** The District’s (*Teklay Guezat*’s) registration number must appear on all business papers.
- **Article 94.** The term “entries” refers to all primary, subsidiary or complementary entries, alterations and deletions.
- **Article 95.** Any entry should be made upon a written statement and may be cancelled as of right (Art. 114).

- **Article 96.** A written statement is handed to a staff of the Commercial Register in three copies.

[**Note:** The Commercial Code was written long before the Constitution of the FDRE came into force. The laws that were enacted subsequently, nonetheless, make it possible to enforce that all company-registration-related pieces of information, including those collected in the regional states, are kept on a single database and that similar data are submitted by the regional Trade and Industry bureaus.]

The Federal Commercial Registration and Business-Licensing Proclamation (67/1997)

This is the main law on commercial registration and business licensing. It forms the basis for national (federal) company registration, besides being the basis for the regional proclamations, such as the Southern Nations, Nationalities and Peoples Regional States Commercial Registration and Business-Licensing Proclamation (No. 82/2004), which is outlined here below.

The Proclamation provides the same basic registration framework as the Commercial Code, according to which businesspeople must register. It applies to anyone engaged in any commercial activity other than those specified under Article 20(1) of the federal Commercial Registration and Business-Licensing Proclamation (No. 67/1997). The Ministry of Trade and Industry (MoTI) issues licenses for the following ventures:

- Import;
- Export;
- Foreign-trade auxiliary services;
- Higher education;
- Hospital services;
- Trans-regional hotel and tourist services;
- Cross-country road transport;
- Press activities, unless restricted to a particular region;
- Customs clearance;
- Courier and cargo inspection; and
- Businesses run by foreign investors, including agricultural development, industry, services and any other commercial activities permitted by law for foreign investors.

The Proclamation provides for the following three commercial registers (Art 4.1-3):

- A Central Commercial Register administered by MoTI;
- A Commercial Register, administered by the MoTI, where a person engaged in commercial activities for which the MoTI issues licenses is registered; and
- A Commercial Register administered by each regional Bureau that implements the Proclamation.

A company engaged in any commercial activity must be registered (Article 5.1). A company is required to register only once, even if it has different commercial activities in many regions. A summary registration (see Articles 105 and 106 of the Commercial Code) of a company's branches is handled at the regional level. The Proclamation provides an exception to Article 105 of the Commercial Code by allowing a principal registration without registering a trade name (Article 5.5). The MoTI has to, nevertheless, forward registration information to the Bureau of the region in which the business operates. Notices must be published in a newspaper published by the federal Government, whereas notices with regard to commercial activities limited to a region may be published in a newspaper published by the regional government (Article 8).

The first step is to check that the name is not being used by another business (Article 5.7). The founding members of a business sign their Memorandum of Association (MoA) or Articles of Association at the respective regional Justice Bureau, using standardized Memorandum of Association and Articles of Association with amendments, if required (Article 5.6), including the agreement signed by the founders/members with regard to the valuation of the contributions made in kind (Article 5.9). Then, before starting the business, a businessperson applies for a principal or a summary registration, using an application form with the necessary supporting documents (Article 6.1). The letter of application must, then, be submitted to the Micro and Small Trade and Industry Bureau or to a pertinent Micro and Small Trade and Industry Office of the concerned zone, worda or town administration. This authority either approves the application and collects the fee and issues a certificate of registration (Article 6.3), or rejects it in writing. The pertinent information must be shared by the regional bureau and the zone, worda or town bureau, as well as by the "Central Register" (Article 7.3), which

is not defined in the Proclamation. The registration of a business organization is effective from the day its registration is publicized in a newspaper (Article 9.1). The registration of public enterprises, cooperative societies, individual businesses and commercial representatives, however, becomes effective from the date of their respective registration.

Trade Names

The MoTI administers the following trade-name registers (Article 12):

- The central trade-name register;
- The trade names of the businesses licensed by the Ministry and of foreign businesses; and
- The trade names register for each regional Bureau.

In order to register a trade name, the businessperson must apply and submit a company-registration certificate and a valid business license (Article 14.2). The Bureau checks the following:

- That the name is not identical or misleadingly similar to another trade name (but not if it is the same trade name for a business “with an entirely different nature” [Article 16.2]); and
- That it is not in any way contrary to public morality or order.

Then, at the applicant’s expense, it publishes the name in a newspaper, indicating its registration (Article 14.3). There is also a “Central Trade-Name Register” (also not defined), which the bureau must inform/check if the applicant does business outside the region, or is a foreign businessperson. The notice must be published in a federal newspaper (Article 14.5).

Thirty days after publication of the newspaper, on which the announcement is placed, the bureau can issue a trade-name-registration certificate, for a fee (Article 14.6), or notify the applicant in writing of its application’s rejection (Article 14.7).

The information with regard to the company’s registration is then forwarded to the regional Bureau (Art 15). The MoTI and the appropriate regional bureau can also cancel a trade name, after consulting with the applicant for up to 30 days (Article 18).

Business License

This is issued by the MoTI or a regional Bureau, except where licenses are issued by other relevant government institutions (Art 20.1) for the following commercial activities:

- Prospecting and mining of minerals;
- Various water works services, but not the water works itself;
- Banking and insurance services;
- Air transport and other aviation services;
- Commercial activities, including the use of radio-active materials and radiation-emitting equipment;
- Repairing and maintaining arms and firearms and sale of explosives; and
- Trade in tobacco and related products.

The requirements for obtaining the licenses issued under this Proclamation can be defined in the directives issued by the pertinent sectoral government institutions (Article 20.4) and, where a commercial activity requires a certain qualification, the appropriate sectoral government institutions shall issue evidence of such qualification (Article 20.5). No one may do business without a valid business license (Article 21.1), but regional governments may set a floor capital under which a businessperson does not need a license (Article 3.2). An application for a business license should be submitted to the MoTI or to the pertinent regional Bureau (Article 22.1), together with a certification of professional qualification and statements on commercial activities, health and sanitary conditions, environmental-protection and safety measures and a signed statement by the applicant stating the business's compliance to all these (Article 22). The Regional Council can set requirements for a partial registration. The MoTI or the regional Bureau can issue a business license for a fee, or can refuse to do so in writing (Article 23).

The Ongoing Requirement/Information with Regard to Registration

If there are any changes to a registration, these must be indicated within two months of their occurrence (Article 6.2). The Register “shall be made open for the reference of third parties” (Article 8.2). The bureau or office can cancel the registration, after consulting with the businessperson by contacting him or her at his/her registered address, if the business has been closed, or there is a lawful decision that it should be closed (Article 10.1-2). The businessperson can also request for a duplicate certificate of registration, if the original is lost or damaged (Article 11).

The Ongoing Requirement/Information with Regard to Licensing

A license is valid so long as it is not, for one reason or another, cancelled. It must, however, be renewed within six months of the end of

the budget year (Article 25)—between Tir 1 and Sene 30 (Ethiopian calendar). The penalty for delay is 20 percent of the fee for each month (this has, nonetheless, been since amended). The MoTI or the regional Bureau should issue a written permit if it grants an applicant’s request for expanding or upgrading an existing industry or business (Article 24). It can also suspend or close business operations (Article 21.4) after suspending a license (Article 26), if the business has failed to maintain health and sanitary standards, environmental-protection and safety measures or product and service quality as confirmed by the pertinent business institution, or it has failed to provide any information requested by the issuing authority, or has otherwise violated the Proclamation.

The businessperson must, nonetheless, be given sufficient time to respond. If the business somehow poses any danger to public health and safety or to the national economy, the authority can temporarily close it. A business license can also be cancelled (Article 28) for the following reasons:

- If the information submitted proved to be false;
- The license is used to run another business;
- Faults are repeatedly committed;
- The business has become bankrupt or ceased to operate; and
- The owner thereof has failed to have his or her license renewed within the given timeframe.

The authority that decides to close a business must, nevertheless, give the businessperson notice in writing or, if necessary, through the mass media (Article 28.3). It should also give the businessperson about 30 days to submit a written response to the authority’s decision to close his or her business.

A businessperson who has not gone bankrupt, or has not ceased operations, can obtain a new license after one year. If someone voluntarily ceases operating one’s business, he or she should return the license. A new license can also be issued if the original is lost or damaged (Article 29), provided the damaged license has been returned, or if the business is transferred (Article 30). Temporary licenses are issued during the expansion or upgrading of existing businesses such as farms, hotel, health, education, etc.

A person with such a license is not, however, allowed to use it to sell the business or to render services (Article 31). According to Article 34.1,

the issuing office has the right to request for information as to how such a license is being used. But the nature of the information has not been specified, although Article 34.2 says that the information should be used for the authority to carry out its duties. The issuing authority can also impose penalties (Art 46) as follows:

- A fine equal to double the revenue estimated to be earned during the period that such a person operated a business without a license, and an imprisonment of three to five years.
- Intentionally using false information to get a name registered or to get a license, too, is punishable. And the punishment could consist of double the revenue estimated to have been thus earned and imprisonment for seven to ten years.
- Fines for failing to obey other provisions of the Proclamation, regulations or a public notice range from Birr 3,000 to Birr 5,000 — besides an imprisonment lasting from six months to one year.
- An official who has been found guilty of an improper activity will be imprisoned from 10 to 15 years. In the case of a bribe, the person who offered the bribe, too, will be imprisoned for as many years (Art 40). The punishment of the person who first exposes the improper act will, nonetheless, be less severe.

The Ministry of Trade and Industry has the prerogative to declare the importation or exportation of any goods to be subject to general or special licenses (Article 41). It can also require anyone who imports various machines and vehicles to maintain spare parts and service facilities, if these are not available (Article 42). Another thing that the MoTI can do, by way of encouraging healthy competition, is require that foreign suppliers use more than one agent.

As per the Investment Code, the Ethiopian Investment Commission or any regional executive body empowered to give investment permits (Article 43) shall carry out functions related to the registration of commercial activities and to the issuance of licenses (delegated under Article 25).

The Commission can also collect registration and license fees and forward these to the Ministry of Finance and Economic Development (MoFED) or to the regional Finance Bureau. Furthermore, the Commission must submit to MoTI or to the regional Bureau quarterly reports.

Commercial Registration and Licensing: Council of Ministers Regulations (Regulation No. 13/1997)

This Regulation details what is required to be submitted when applying for registration in the Commercial Register, especially for the following:

- A principal registration for a sole business person (Article 4);
- A commercial partnership and a cooperative society (Article 5);
- A share company (Article 6);
- A private limited company (Article 7);
- A foreign business organization (Article 8);
- A public enterprise (Article 9); and
- A commercial representative (Article 10).

It also specifies that the MoTI has five working days during which it should either issue a registration certificate or a written explanation as to why the application is not acceptable (Article 11). The regulations amplify the provisions of the Proclamation, including the documents required to obtain a business license and the conditions that have to be met for renewal. What is more, they apply to businesses owned by foreign investors as well. Of course, this, too, must be issued within five working days. Otherwise, the reason(s) for rejecting the application for its issuance will have to be given—within the same number of days. The regulations specify that a renewal application requires a statement regarding the payment of income tax and municipal service fees, issued by the Federal Inland Revenue Authority (FIRA) or the regional Finance Bureau (Article 20.2).

Schedule "A" gives the fees, including the following:-

Application form: Birr 2

Registration: Birr 5 for a business with a Birr-5,000 capital, and Birr 1 for a business whose capital is only Birr 1,000. Above that, up to Birr 100

Summary registration: Birr 10

Business license (issuance and renewal): Birr 25 for a business whose subscribed/authorized capital is Birr 10,000. Thereafter, Birr 10 for each additional capital of Birr 10,000—Birr 200 being the ceiling

Schedules "B" and "C" outline the forms to be used.

Update note relating to regional visits: All forms were free at the MoTI as well as at the Addis Ababa and regional Bureaus—with the exception of Mekelle (Tigray). Fees for forms were applicable at Adama (Oromia), but this was in the process of being changed. Penalties have been revised substantially after this act and stood at Birr 2,500 for being late during the study and an additional Birr 1,500 for extended tardiness.

Revisions of the Company Code

The French Official Aid Agency has been supporting the Ministry of Justice in its efforts to reform the various aspects of the law, including the Business Law. A commercial law expert was supposed to provide the officials of the Ministry with advisory services for four years, in their effort to revise the Commercial Code and the Commercial Register. However, it appeared that there were many other priorities to be addressed during the time. The revision of the Commercial Code and the Commercial Register had to, therefore, be postponed for another time.

The Regional Framework

Company registration at the regional level is carried out through the regional laws. A case in point is the Southern Nations, Nationalities and Peoples Regional State's Commercial Registration and Business Licensing Proclamation (No. 82/2004). The Proclamation closely follows the structure and procedures of the Federal Commercial Registration and Business-Licensing Proclamation (67/1997).

This provides the same basic registration framework as the Commercial Code, in terms of which businesspeople must register. It applies to anyone engaged in any commercial activity other than those specified under Article 20(1) of the federal Commercial Registration and Business-Licensing Proclamation (67/1997). It provides for the following three Commercial Registers (Article 4.1-3):

- A regional Commercial Register at the regional Bureau of the Micro and Small Trade and Industry;
- A Commercial Register, administered by the regional Bureau of the Micro and Small Trade and Industry where any person engaged in commercial activities for which the Bureau issues licenses has to register; and
- A Commercial Register administered by each office of the Micro and Small Trade and Industry of the zone, woreda, town or other local administration.

In most respects, the regional Proclamation mirrors the federal Code and Proclamation. The following text highlights their differences and exceptions:

The Proclamation allows an exception to Article 105 of the Commercial Code by allowing a principal registration to go ahead without registering a trade name (Article 5.5).

The first step is to check that the name is not being used by another business (Article 5.7). The founding members of a business sign their Memorandum of Association (MoA) or Articles of Association, at the regional Justice Bureau using standardized MoA and Articles of Association with amendments, if required (Article 5.6), including the agreement signed by the founding members with regard to the valuation of the contribution made in kind (Article 5.9). Then, before starting a business, a businessperson applies for a principal or a summary registration, using an application form, with the necessary supporting documents (Article 6.1) that he or she has to submit to the Micro and Small Trade and Industry Bureau or to a pertinent Micro and Small Trade and Industry office of the zone, woreda or town administration. Information must be shared among the regional, zonal and woreda bureaus, as well as the "Central Register" (Article 7.3), which is not defined in the Proclamation—as pointed out earlier. Businesses acquire a legal personality when they register, without being publicized in a newspaper as provided by Articles 87, 219, 220, 223 or 224 of the Commercial Code. This is another exception.

Trade Name

The regional Bureau of the Micro and Small Trade and Industry shall maintain a trade name register (Article 12) and solicit information about a name before it registers it. All registration-related information is eventually forwarded to the Office of the Micro and Small Trade and Industry at the zonal, woreda or town level and to the Ministry of Trade and Industry (not clear whether it refers to that of the federal Ministry or to the regional Bureaus). The Bureau can also cancel a trade name, after consulting with the applicant for up to 30 days (Article 18).

Business License

This is issued by the regional Bureau of the Micro and Small-scale Trade and Industry—on behalf of the regional government. The pertinent piece of legislation can be found in the directives issued by the

pertinent sectoral government institutions (Article 20.2). No one is allowed to do business without a valid license. But regional governments may set a floor capital under which a person does not need a license (Article 3.2).

An application for a business license should be submitted to the Micro and Small-scale Trade and Industry Bureau Office or to the pertinent zonal, woreda or town Micro and Small-scale Trade and Industry Bureau (Article 22.1), together with a signed verification that the requirements (determined by a directive issued by a government institution appropriate for the specific license) are met (Article 22.2).

The Current Requirement/Information with Regard to Registration

If there are any changes, they must be registered within two months of occurrence (Article 6.2). The Register “shall be made open for the reference of third parties” (Article 8.2). The Bureau or Office can cancel the registration, after consulting with the business person, if the business has stopped operating or there is a lawful decision that it should be closed (Article 10.1-2). The businessperson can also request a duplicate certificate of registration if the original is lost or damaged (Article 11).

The Current Requirement/Information with Regard to Licensing

The license must be renewed within six months after the budget year has ended — between Tir 1 and Sene 30 (Ethiopian calendar). The penalty for getting it renewed later than that is Birr 2,500 for one month. Thereafter, the businessperson will have to pay Birr 1,500 for each month. The Micro and Small-scale Trade and Industry Bureau or Office of the pertinent zone, woreda or town should issue a written permit if it approves an application for the expansion or the upgrading of an existing industry or business (Article 24).

The Southern Nations, Nationalities and Peoples Regional Government Investment Bureau (Article 37) shall carry out functions related to the registration of commercial activities and to the issuance of licenses. It can also collect registration and license fees and submit quarterly reports to the regional Micro and Small Trade and Industry Bureau.

Main Differences between the Federal and Regional Laws

A detailed examination of the forms and other processes at Mekelle, Awassa, Adama and Addis Ababa as well as the federal Ministry has

shown that their main differences have to do with the number of languages used. In some cases, there are two languages on the forms: Amharic and English. In other cases, however, other languages might be used. For instance, Mekelle has some forms available only in Tigrigna. The actual information requirements do not, nonetheless, vary much.

Their other main difference relates to whether or not a taxpayer's identification number (TIN) is required. It appears that the tax authorities have requested company registration offices not to register a business or give it a license unless it can produce a taxpayer's identification number. Most have agreed to this requirement and incorporated it into their procedures. Because it was about 18-24 months ago that the Ministry of Trade and Industry streamlined its processes, it has decided to operate strictly according to the legislation. As such, it does not require a TIN, since this is not called for in the Commercial Code or in the pertinent Proclamations.

Revisions to Regional Office Frameworks

Almost all company-registration offices have either recently revised their requirements or were in the process of doing so during the visits (April–May 2005). In general, they all seem set to streamline their systems. That, at any rate, is true about those at the federal level and in Addis Ababa. And the main thing that their streamlining has focused on is the reduction of the number of forms required.

Review of the Company Registration System in Ethiopia

The Ministry of Trade and Industry undertakes seven different activities related to company registration and business-license issuance at its company registrar centers. The following section briefly describes what each activity entails. The first three are, nonetheless, considered to be the major activities undertaken by the MoTI. This study will, therefore, focus on them. Even though the study was supposed to deal with the company-registration process only, the first two activities are very much interlinked. In fact, in some cases, a person will not be able to get his or her company registered unless he or she has already obtained a business license. Of course, if his/her capital is less than the required amount, he/she can operate his/her business without a business license. Anyway, it would be appropriate to cover here all the activities, which are the following:

- **Company Registration.** This refers to the process undertaken by a willing party to show his/her interest in starting a business. It does not, nevertheless, commit the interested party to start up the business. It only shows the party's intent to start the business by securing a business license whenever he/she is ready to do so.
- **Business-License Issuance.** This has to do with the process of securing a license to operate any kind of commercial activity under the rules and regulations of the Commercial Code of Ethiopia.
- **Business-License Renewal.** This refers to the process of renewing a business license so as to continue operating a business.
- **Alteration of a Commercial Registration and/or Addition of a Business License.** This is usually done when a businessperson either upgrades or downgrades his/her field of activity. So, if there is any fundamental change within the company—that is, a change of address, change in the MoA document, etc.,—the change will have to be reflected in the company's registration and on its business license.

- **Replacement of a Commercial Registration/Business License.** A replacement for the company’s registration or for its business license is issued if and when one or both of these documents have been misplaced or lost.
- **Summary Registration.** This is done if a business person/a company has been registered before with the MoTI or by any other regional registrar office but needs to be registered in the new region he/she wants to start operating.
- **Returning a Company’s Registration Certificate/Closing a Business.** As clearly implied by the sub-title, this refers to the process that the owner of a business has to go through if and when he or she wants to close his/her business and return his/her company’s registration certificate.

For the reasons stated at the beginning of this chapter, the study looked at the processes to report its findings on the first three activities—that is, company registration, business-license issuance and business-license renewal. The three activities were studied as they were being undertaken at the federal MoTI, at the Addis Ababa Trade and Industry Bureau and at its sub-city registrar centers (at Akaki and Yeka) as well as at three regional bureau registrar centers: Adama, Awassa, and Mekele.

As stated in the methodology, to get a holistic view of the company registration process throughout the country, the above sites were selected, in consultation with the PSD-Hub and the stakeholders at the MoTI. The main reason that these sites were selected was that the stakeholders felt that they would be representative sites within Ethiopia, in terms of the number of languages spoken and the stage they were at with regard to the computerization of their processes.

Following the site visits and the process, the findings were divided into the following logical chapters in order to show their similarities and differences.

The next chapter, Chapter 4, looks at company registration at the federal level. The study examines the activities that the MoTI normally undertakes.

Chapter 5 looks at company registration in Addis Ababa and at the sub-cities. The activities undertaken by the Addis Ababa Trade and Industry Bureau and by the two sub-city registrar centers (Akaki and Yeka), too, have been incorporated into the chapter.

Chapter 6 looks at company registration at regional levels. The study reviewed the activities being undertaken at three regional centers: Oromia, SNNPRS and Tigray.

Each of the chapters gives an overview of how the registrar centers are organized and a holistic view of the three main activities undertaken by this study—that is, company registration, business-license issuance and business-license renewal. This is supported by flow charts to process-map the three activities.

In order to get a consistent and comparable output from each registrar center, the following issues were reviewed and documented at every registrar center that the study team visited:

- The technical (both software and hardware) solution, if computerized;
- The information stored (both electronically and manually) at each registrar center;
- The volume of the data stored and the potential need therefor;
- The types of businesses that need to be registered at each registrar center;
- The persons who normally use the data stored and their purposes; and
- The weaknesses of the system (wherever computerized).

CHAPTER 4

Company Registration at Federal Level

Company registration and business-license issuance and related activities were handled by MoTI and its representatives at the different levels of the government structure—that is, at the regions, zones, cities, etc.

Three types of principal company registration were handled at the federal level: sole proprietorship, private limited company (PLC), and Share Company.

They all follow the same process in getting the principal registration, except at the initial stage where the required documentation for each type of registration differed as shown below.

The required documents needed for an Ethiopian slightly differed from those required of a foreign national considered as a domestic investor. This has been highlighted below for sole proprietorship application.

The rules and requirements for both PLC and share company registration were, however, based on the same principles.

The following process describes the flow for company registration at the federal level.

Table 5 Company Registration Requirements at the Federal Level

Types of registration	Requirements to get Principal Registration
Sole proprietorship	<p>If Ethiopian</p> <ul style="list-style-type: none"> • Photocopies of an identification card • Recently taken passport-size photographs of the applicant • A photocopy of the power of attorney if application is represented by an agent • A photocopy of a document evidencing the guardianship when the application is submitted by a guardian <p>If an alien considered to be a domestic investor</p> <ul style="list-style-type: none"> • Photocopies of documents evidencing that the foreign national can be considered to be a domestic investor • Recently taken passport-size photographs of the applicant • A photocopy of the power of attorney if applicant is represented by an agent
Private limited company	<ul style="list-style-type: none"> • Photocopies of the Memorandum of Association and of the Articles of Association of the organization • Recently taken passport-size pictures of the Manager of the business organization • A photocopy of the power of attorney • A photocopy of the identification cards if an Ethiopian, or documents evidencing that the foreign national can be considered to be a domestic investor • Make sure that the company’s name is not already in use • The company’s name has to be unique—that is, no other company must not have already been registered by it
Share company	<ul style="list-style-type: none"> • Photocopies of the Memorandum of Association and of the Articles of Association of the organization • Recently taken passport-size pictures of the Manager of the business organization • A photocopy of the power of attorney • The minutes of the resolution of the subscribers of the share company and such other documents as may be associated with the resolution

Business License Issuance

The process of business-license issuance was very similar to that of the principal company registration as shown above. In fact, the only difference between the two at the federal MoTI level has to do with the business license in question.

Specific certification could be required from the appropriate government agency in order to start and run the business appropriately. This could be included in the “get all the appropriate documents to register” task on the process flow diagram.

The required documents were issued by the appropriate government agencies. This was done to certify the kind of project being proposed, as well as approve the capacity as well as capability of the project initiators.

Table 6 Some Examples of the Issuing Bodies

The Commercial Activity	The Ministry/Authority that Issues the Certificate
1. Hospitals, clinics, pharmaceuticals, etc.	The Ministry of Health
2. Horticulture, agricultural, etc.	The Ministry of Agriculture
3. Construction	The Infrastructure and Construction Works Authority
5. Management consultancy	The Ethiopian Management Institute
6. IT-related	The Ethiopian ICT Authority

Business License Renewal

Business-license renewal was one of the core activities undertaken by the company registrar at the Ministry of Trade and Industry. That was why the consultant process-mapped it and did more investigation on the activities involved in renewing one’s business license.

The study showed that one of the Ministries that were very much interlinked with company registration/business-license issuance and business-license renewal was the Federal Inland Revenue Authority (FIRA). This, nonetheless, created some confusion among the public with regard to the two Ministries. The confusion has in turn entailed some uncertainty about the overall business environment in the country.

The study showed that there were a number of interlinked processes with FIRA at the different stages of both company registration (at some company registrar centers) and license renewal (by requesting for tax returns), which was an across-the-board case. This link was not consistent across all company registrar and business-licensing centers. However, it did have a major impact on the renewal process.

The only difference noted was that a few registrars had FIRA-designated centers in the same building, which created a seamless integration between the two Ministries. For a late business-license renewal, there was a penalty fee to pay. The following table shows the amount required to pay to process the renewal of one's license.

Table 7 Renewal Fees, Including Penalty Fees for Late Renewals

Period	Penalty-free renewal
On time	Birr 50
One month late	Birr 2,500 in penalty + Birr 50 renewal fee
Two months late	Birr 1,500 (for the last month) + Birr 2,500 (for the first month) + Birr 50 (renewal fee)
Three months late	Birr 1,500 (for each of the last two months) + Birr 2,500 (for the first month) + Birr 50 (renewal fee)
	Etc. Until the penalty reaches Birr 10,000
License suspended for up to one year	

The Technical Solution Used

The Federal Bureau has an integrated company registration system that has been in use for just over a year now to undertake the different activities that are listed down at the beginning of Chapter 3 of this report.

There is a feeling that the system is now somehow stable, after an initial spell of reported bugs that had to be fixed. But there is a major technical skills shortage at the MoTI to really be confident about the current system and to extend it all over Ethiopia.

The overall feeling by the users at the MoTI is that they are relatively happy with what the system can do for them. Below here are listed down the specifications of the system as well as the major pitfalls seen by both the users and IT experts.

Table 8 System Specifications at the MoTI

Specifications	Detail of Specifications
Software specifications	<ul style="list-style-type: none"> • Developed use of the programming language known as Visual Basic²¹ with Microsoft SQL Server²² database • Uses Client/Server²³ technology • The system is currently relatively stable • Performs most of the registrar’s requirements <p>Major Pitfalls</p> <ul style="list-style-type: none"> • Performs most of the registrar’s requirements • There is no blueprint against which we could evaluate the software currently in use • The system is not used to generate unique registration numbers • Payment is not incorporated into the system • There is no support contract <p>An assessment done based on an interview held with the software developer</p> <ul style="list-style-type: none"> • There is no database-design document, and the developer could not guarantee, until recently, that the system has a unique registration number for each company registered • There is a lot of corrupt data that was initially entered into the system, as the database used was not relational database <p>(The above points are discussed in detail in table 10)</p>

²¹ Visual Basic = A programming language and environment developed by Microsoft. Based on the BASIC language, Visual Basic was one of the first products to provide a graphical programming environment and a paint metaphor for developing user interfaces.

²² SQL Server = A relational database management product from Microsoft.

²³ Client / Server =A network architecture in which each computer or process on the network is either a client or a server. Servers are powerful computers or processes dedicated to managing disk drives (file servers), printers (print servers), or network traffic (network servers). Clients are PCs or workstations on which users run applications. Clients rely on servers to either store or retrieve resources. These could be any data-using databases, files, devices, and even processing power.

Information Stored Manually or in the System

The information stored at MoTI could be divided into two categories: information stored electronically and information stored manually.

The electronic version is basically the data collected from the forms filled out by the clients when registering their companies. This also includes the documents that have to be submitted to the company registrar, so that he or she would review them before granting the applicant's request. This is not a scanned copy, or an electronic copy of the supporting documents. It is just the title of the documents that are presented at the counter together with the letter of application.

The second category comprises the copies of all the supporting documents that were used to process the application. This consists of all the forms filled out by the owners, or by their representatives, and presented at the counter together with the letter of application. Copies of all the supporting documents as well as pictures of the owners, or of the General Manager, of the company (depending on the type of company) are also kept in the manual-filing system. In fact, the first thing one has to do in order to get one's license renewed is to go to the manual-filing room and get his or her file looked for. It is only when that file has been found and sent to the appropriate team that one's application for renewal could be considered.

Volume of Data Stored and the Potential Need

The number of the active registered business licenses at the federal MoTI in the year 1997 (E.C.)—that is, the companies that had renewed their licenses in that Ethiopian year as well as those that were established during the same period—was about 18,000. In the year 1996 (E.C.), nevertheless, the active business licenses were approximately 25,000. But, overall, there were about 75,000 companies registered in the system, and about 100,000 business licenses held. It was important to do a detailed analysis of the data stored in the database to find out the main reasons behind this steep decline in the number of businesses that have renewed their licenses in order to be able to identify the main reasons for the decline.

The first analysis pointed to a new bill which was introduced in 1996. The bill stipulated that late business renewals were fined heavily. This was well documented earlier in the company registration section.

Before estimating what the true potential of the data could be, it was important to find out what were the main reasons for the major decline in number in the active registered business licenses, in order to gauge the true potential thereof. Ethiopia is one of the poorest countries in the world.

It, nonetheless, has a relatively large number of active national companies registered at the federal level. If the overall civil-service reform continued, and the business community were to be truly encouraged, this number should increase anywhere from fivefold to tenfold over the next five years. The experience of the consultant in data-storage-capacity analysis showed that the overall system design should reflect the possible maximum, and that under-estimation could be a very costly exercise in the long run.

Types of Businesses that Need to get Registered at Federal Level

Both company registration and business-license issuance at the federal level were handled by the MoTI at its head office in Addis Ababa. As outlined by the MoTI, company registration was processed mainly at the federal level, for businesses which were engaged, or were about to be engaged, in one of the following three specific areas of trade:

- International import and export license;
- Manufacturing and service giving; and
- Industrial ventures.

The company registration could be issued either for one or more of the above sub-sectors. However, the company registration certificate could also be upgraded to include more sectors once it was issued or downgraded to remove some of the sectors from the list. Either way, one had to pay a Birr-50 fee.

Users of the Data Stored in the System and the Purposes

The Ministry of Trade and Industry also provided different types of information for the various stakeholders that needed and utilized the information in their day-to-day business activities. This data was usually requested, among others, by the following:

- The Finance and Inland Revenue Authority (FIRA);
- The Ethiopian Customs Authority;
- The banks;
- The insurance companies;
- The police;
- The courts of law; and
- The public at large.

Because all the responses to these requests were done manually and no systematic data analysis was executed on the requests that came in, the consultant could not show the number of requests that came in as well as the percentage point of the ones granted.

The only thing that it could, therefore, do was make some rough estimates after holding discussions with the representatives of the MoTI and the stakeholders. Anyway, the organizations whose representatives usually queue up to obtain business-license-registration-related information were the following, in a descending order:

- The business community;
- The banks;
- The FIRA;
- The Ethiopian Customs Authority;
- The insurance companies; and
- The police and the courts of law.

Inquiries were processed free of charge, on a first-come-first-serve basis. This was usually instigated by a written inquiry from a third party that required the relevant information. In response to the written inquiry, MoTI did not collect a fee for this service.

But it could if it wanted to, as the pertinent legislation was silent on this issue. The consultant had also observed that such searches were time-and resource-consuming to the MoTI and that they could easily be improved with some help from the Internet.

From the perspective of users, the turnaround period for a request could take anywhere from one to two weeks. It was, however, heavily dependent on the channel used for the exchange of information.

For organizations such as banks, insurance companies, etc., which had to be very competitive, a lot of this information is vital for their day-to-day business operations. If the proposed system is to be designed taking this into consideration, it is possible to create an integrated online system, even with the technology already available.

Such a system will, of course, make it possible for various third-party agencies requiring different kinds of information to access them in a secure manner, so long as they are available in it (the registrar's proposed system).

This is also a service that the company-registration system could provide in the long run and get some revenues there from—instead of readily providing it upon request.

Weaknesses of the System

Table 9 Weaknesses of the System

System	The Weakness of the System
Software	<p>Major pitfalls</p> <ul style="list-style-type: none"> • There were no design documents against which to evaluate the software used. Any software developed and commercially used should have at least a system architecture and database-design documents, which must be made available with the software. It was, therefore, very difficult to do a detailed analysis. This needed more time—at least the same timeframe given to do the whole project study • The system did not generate a unique registration number. This was done manually. It was, therefore, error-prone • Payment was not incorporated into the system. So this, too, was done manually. As such, it did not simplify the auditing or the generation of reports for the decision-making process • Since the warranty period had expired, there was no support contract <p>An assessment done based on an interview held with the software developer:</p> <ul style="list-style-type: none"> • Database connection was not thought of, when the system was designed • It had unresolved security issues • There was no logging status—that is, a user can be logged in more than once • There was no database-design document, and the developer could not be sure, until very recently, that the system had a unique registration number for each registered company. That, of course, meant that there were times that two companies registered with the same registration number and a lot of analysis had to be done to make the data more meaningful • There was a lot of corrupt data which was initially entered into the system, as the database used was not relational database. In other words, it was repetitive, and disjointed • The system was not flexible. That means it would be very difficult to extend or scale up this system nationwide.
Hardware	<p>The current hardware specifications at the MoTI</p> <ul style="list-style-type: none"> • Mail Server: Compaq Proliant 370 • Web Server/Database Server: Compaq Proliant ML530 • VPN Server • There was a 10-switch hub on the main floor (catalyst 2950) • The MoTI had a 64k leased line, but they were in the process of improving their leased-line speed. But what the speed of the connection would be was not decided at the time of the writing of this report • Some of the offices/systems in the building were networked. An assessment of the network infrastructure must, however, be done to guarantee that the infrastructure is not hindering the connection speed and hence the flow of data • It is also important for the MoTI to set up an infrastructure that could be used as a hub for the integrated company registration center. These infrastructures should use proper security setups. <p>Company registration hardware</p> <p>Dell power edge server Running Sql Server database</p>

CHAPTER 5

Company Registration in Addis Ababa and the Sub-cities

The Addis Ababa City Administration is divided into ten sub-cities. And each sub-city has its own registrar bureau, where it undertakes the activities listed earlier as enforced by the Ministry.

Company registration, business-license issuance and business-license renewal are done not at the Addis Ababa Trade and Industry Bureau but at the sub-cities.

The Company Registration Center at the Addis Ababa Trade and Industry Bureau handles the following:

- Prepares reports on the activities undertaken with regard to company registration and business-license issuance within the city administration and submits them to the MoTI. It also prepares performance reports.
- Responds to requests that come to it from organizations and individuals. The requests are, of course, for information on registered companies and trade operators.

Such centers support the sub-cities in using and managing the registration process as well as in using the IT system in place.

The findings are based on a visit made to the Addis Ababa City Administration Trade and Industry Bureau as well as on the visits made to two of the sub-cities: Akaki and Yeka.

The following were found out from our visits:

- Both sub-cities followed the same process for all the activities looked at — that is, company registration/business-license issuance and business-license renewal;
- The same forms were sent to the Addis Ababa City Trade and Industry Bureau; and
- The same integrated registration system used.

The findings are grouped our findings under the same title. But where things were found to be different from what was expected, we will report thereon at the end of this section.

Except for the specific areas reserved for the MoTI, a company license could be issued for all types of business to be started in Addis Ababa.

Like those issued by MoTI, the principal company registration could be done either with one or more specific sectors. The registration certificate could also be upgraded to include more sectors once it was issued, or downgraded to remove some sectors from the list. The fee one has to pay in either case was Birr 60.

The fees for company registration and business-license issuance were different at the sub-cities from the fees paid at the federal Office as shown on the process maps that follow this section. The consultant also found out that, unless a company required a temporary license to start operations, it could not be registered without at first securing a business license.

Business License Issuance

The business-license-issuance process at the sub-cities was very similar to the company-registration (principal) process as shown in the process map below. In other words, their differences were negligible. At any rate, those minor differences are highlighted by using different background colors.

One of the prerequisites to getting a business license is a tax identification number (TIN). This, nevertheless, was not a requirement at the federal level. From what the consultants gathered getting a TIN was made a prerequisite because of a directive issued by the FIRA to all those involved in the registration process. It, nonetheless, seemed like a few have already begun translating the directive into action, whereas others have defied it.

Consequently, there was as yet no uniform prerequisite in Ethiopia. At all the sub-city registrar centers in Addis Ababa, company registration cost Birr 50, whereas business-license issuance cost Birr 60 and renewal thereof Birr 50.

The Addis Ababa Trade and Industry Bureau also required businesses starting up in specific sectors to get an approval certificate from the appropriate Ministry, which was the same as the federal MoTI.

Business License Renewal

The activities relating to the business-license-renewal process at the sub-cities were the same as at the federal level.

The Technical Solution Used

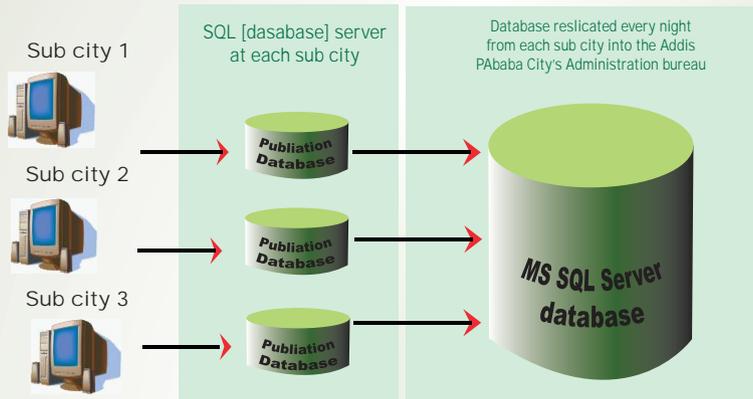
The Addis Ababa City Administration had its own integrated company/business registration system, which interlinked all the sub-cities and was replicated to the main server at its Head Office.

The project took over four years to develop. So, even though some of the functional requirements had changed and the change was incorporated into the system, the technical specification did not change during the four years. As a result, some of the most important issues in software development might have been missed. These are explained below, under the rubric “The Weaknesses of the System.” But the general feeling at the City Administration’s Bureau was that the system was somehow stable.

But, as in the MoTI, it was fraught with certain problems. The acute shortage of skills at the City Administration made it difficult to be confident about the system and to extend it all over Ethiopia.

The system developed was not at the time of the study handed over to the City Administration. There were still a few issues to be addressed. But the City Administration was hoping to get the final delivery by July/August 2005. But, from the interviews held at the City Administration’s Bureau where the main server was kept as well as where the only technical support for the system was provided for all the users, the system’s architecture was built on the following principles of architecture.

Figure 2 Architectural Design of the Application System at the Addis Ababa Trade and Industry Bureau



The main principles of the above system's architecture are the following:

- Each sub-city has its own database. As such, it can function independent of the other sub-cities. In other words, users can look up the registered businesses within their own sub-city.
- Each sub-city's database is replicated on a nightly basis to the main database server at the Addis Ababa City Administration's Bureau. The City's Administration, for its part, has a replicated database for each sub-city.
- Replicated at the City Administration's Bureau, each sub-city's database is merged into a separate database to create one main company registration business-license database that sits on another server at the City's Bureau.

The users at the sub-cities, in general, seemed to be happy about what it could do for them. Still, the consultants found it fit to list below the specifications of the system as well as the major pitfalls as seen by both the users and IT experts.

Table 10 List of Specifications of the System

Type of Specification	Detail of the Specification
Software specification	<ul style="list-style-type: none"> • The system was developed by Bizsoft plc • Used Client/Server²⁴ technology • It was developed using the programming language known as Visual Basic²⁵ with Microsoft SQL Server²⁶ database • Used the SQL server replication technology • The system was relatively stable, but some testing was still going on and the handover scheduled for July/August • Performed most of the registrar's requirements <p>Major pitfalls</p> <ul style="list-style-type: none"> • Payment was not incorporated into the system • It was not easy for users at one sub-city to search/check other sub-cities if a sole trader or a company had registered before they processed his/her application • Configuring the system was hard to do • Replication had its own problems • Replication was done one way. And no data was transferred to the sub-cities either from other sub-cities or from the main City Administration's Bureau. As a result, users were only aware of businesses registered locally • There was no support contract after the warranty • But the major problem lied in the architectural design of the system. The consultant could not be sure about its scalability and flexibility for implementation at national level since the project was not completed and there were no design documents.
(The above points are discussed in detail under the title weaknesses below)	

²⁴ Visual Basic = A programming language and environment developed by Microsoft. Based on the BASIC language, Visual Basic was one of the first products to provide a graphical programming environment and a paint metaphor for developing user interfaces.

²⁵ SQL Server = A relational database management product from Microsoft.

²⁶ Client / Server = A network architecture in which each computer or process on the network is either a client or a server. Servers are powerful computers or processes dedicated to managing disk drives (file servers), printers (print servers), or network traffic (network servers). Clients are PCs or workstations on which users run applications. Clients rely on servers to either store or retrieve resources. These could be any data-using databases, files, devices, and even processing power.

Information Stored Manually or in the System

The information stored at the City's Trade and Industry Registrar Center could be divided into two categories: those stored electronically and those stored manually.

The information stored electronically was basically the data collected from the forms filled out by the clients when they came to have their companies registered. As such, it included the documents the Registrar had to have to grant the application.

This was not a scanned copy or an electronic copy of the supporting documents, but the title of the documents which were presented at the counter for the application to be accepted. The data were stored both at each sub-city and at the City Administration's Bureau — after it was replicated.

The information stored manually consisted of all the forms filled out by the owners, or by their representatives, and presented at the counter for the application to be accepted. Copies of all the supporting documents as well as pictures of the owners, or of the General Manager, of the company (depending on the type of company) were also kept in the manual-filing system at each sub-city. In fact, the first thing one had to do in order to get his or her license renewed was to go to the manual filling room and get his/her file looked for, as it was only when that file had been found and sent to the appropriate team that it would be considered. The information was stored in Amharic.

Volume of Data Stored and the Potential Need

The number of companies registered within Addis Ababa stood at around 153,000 during the study period. About 35,000 new companies were registered in the last 10 months alone. When the requirement analysis was initially done some four years back, there were about 50,000 companies registered. The required document developed for the application anticipated the registration to grow to a maximum of 100,000-150,000. This was the basis on which the system in use was developed, but the number exceeded that limit.

The stated number of months in Addis Ababa saw a 30% increases in the number of companies registered. This could have resulted from the

backlog in unregistered businesses and the authorities' clamping down on them, or from the businesses trying to avoid renewal-penalty fees by opting for starting new companies instead.

The number of the members of the business community was forecasted to grow consistently by more than 10% for the next few years—so long as the economic climate in the country kept improving. But the consultant had to make sure that the estimate was in line with expectations and that the system was capable of handling the requirements for registration-related activities for the next 10 years at least to be a worthy return on investment (ROI).

Types of Business that Need to Register at Sub-city Level

Other than the specific areas reserved for the Office of MoTI, all other types of businesses that were to be established in the capital could be registered.

A business with a capital of Birr 5,000 or more needed to hold a valid business license to engage in any commercial activity. If its capital was less than Birr 5,000, however, a business could start operating without a business license so long as it secured company-registration certificate.

Users of the Data Stored in the System

One of the main tasks undertaken by the Addis Ababa City Trade and Industry Bureau was to handle requests that came from the private and public sectors for information on registered trade operators as well as companies. The information seekers were usually the following:

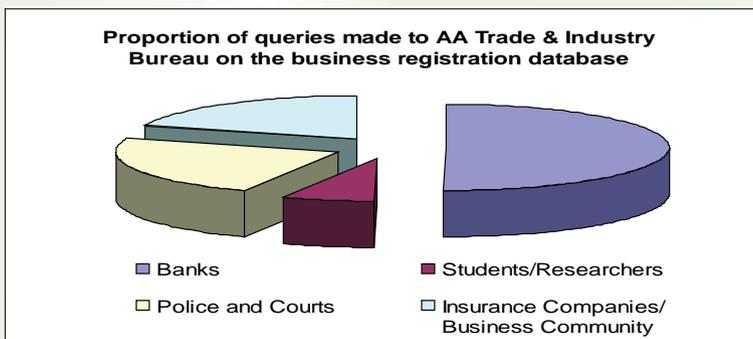
- Banks;
- Insurance companies;
- The police;
- The courts; and
- The public at large.

A breakdown of the requests that came in this year is shown in the following table:

Table 11 Breakdown of requests made to the A.A. Business Registration Database

Organizations querying the business-license registration database	No. of queries made in '97
Banks	150
Students/researchers	20
Police and courts	68
Insurance companies / The business community	60
Total requests made in '97	298

Figure 3 Preparation of the Queries Made at the A.A. Trade and Industry Bureau on the Business Registration Database



Unlike in the federal case, the business community (except for the banks) seemed to be unaware of the free services that were given by the Addis Ababa Trade and Industry Bureau. But the Bureau provided the business community with information on other registered businesses that were available in its database. This service was made available to encourage and support start-ups, partnerships, mergers and acquisitions, dealings among members of the business community by simplifying and making available to them specific information available to the authorities.

Weaknesses of the System

It has taken over four years to develop the overall ICT project. So, even though some of the functional requirements had changed and the

change incorporated into the system, the technical specification did not change during the four years. As a result, key technical-design changes that needed to be improved might have not been incorporated.

The processes followed for software design had much in common with the construction-engineering design. In the construction industry, once the design for a specific building was done, the foundations of the building would be based on the structural requirements of the building. As a result, if a foundation is built for only a four-story building, a six-story building cannot be built unless the foundations were originally constructed with this expansion in mind. The same requirements are necessary for software design. The system must have been designed with this in mind to cope with the huge increase in registered companies, as we have already reached the capacity of our system—that is, 150,000 registered licenses.

Otherwise, one could not expect the same from a system as one would expect from a building that was built on a smaller-scale foundation. In the opinion of the consultant, this was a major cause for concern with regard to the system.

The following were the weaknesses of the system both from the users' perspective and from a technical perspective:

- It was not easy for users at one sub-city to search/check other sub-cities if a sole trade operator or a company had registered before they process their application. The system would allow a user to register a trade operator/company at more than one sub-city without being detected.
- Configuring the system was not easy to do. For example, the system in the Yeka Sub-city was configured to register only Ethiopians and Americans, as the users thereof were unable to enter any other nationality into it.
- Replication had its own problems. Sometimes the system did not at all work. Other times, according to the Systems Administrator at the City Bureau, the data were not consistent when replicated.
- Replication was done one way. And no data were transferred to sub-cities either from other sub-cities or from the City Administration's Bureau. Therefore, each sub-city had information only on the businesses registered at its office.

- Payment was not incorporated into the system. It was, therefore, done manually and complicated the verification and reconciliation process, as well as the generation of reports that could be used for the decision-making process.
- There was no support contract after the warranty.
- The major problem lied in the architectural design of the system. Unless the project was completed and the consultant received the design documents, they would not be in a position to evaluate its scalability and flexibility to be implemented nationwide.
- The system ran in two languages: English and Amharic. That, however, made it hard for the consultant to implement it at the other two regional registrars in Oromia and Tigray Regional States where it did the study since these regional states use Oromifa and Tigrigna, respectively, as their languages for processing all registration-related activities.

It would be very difficult to analyze the technical feasibility of the system and its flexibility and scalability to cover the whole of Ethiopia until the project concluded and the City Administration received all the technical documents describing the system/architectural designs of the overall project.

CHAPTER 6

Company Registration Process at Regional Level

As part of the study, the consultant also looked at the company-registration process at the regional level. In order to get a good idea of the process, it consulted with the PSD-Hub, AACCA and the MoTI prior to starting the study and agreed on the selection of three regions. This section of the study is based on the findings in the three regions. The three regions were selected based on the number of languages used in their day-to-day activities of their offices. These were Oromia, Tigray and the Southern Nations, Nationalities and Peoples Regional State (SN-NPRS).

Overall, the findings showed that the three regions had very similar processes for the activities related to company registration. Tigray and Oromia were at the conclusion of the study undergoing a business process re-engineering (BPR). As a result, the study at both regions focused on what the processes would look like in the future, as opposed to what they looked. During its visit, the consultant encountered several processes that had been created to simplify and make seamless the overall change to the new streamlined process. These extra processes will, nevertheless, be removed once the streamlined process has been put in place. Then, many of the forms that have to be filled out to apply for registration and licensing would phase out. There were a number of forms that had to be filled out for each activity that the registrar undertook. The new versions of these forms were expected to be available sometime during the first week of June 2005 for Oromia. But no date was set for Tigray.

Each region was divided into zones, cities and woredas. All company-registration-related activities were, therefore, being carried out at each level of the regional government structure. For example, the Oromia Regional Administration was divided into 14 zones, 20 cities and 16 woredas. All of these handled company-registration-related activities.

There were some 50 places where company registration was processed in the Oromia Region alone.

The consultant visited Adama, Mekele and Awassa Trade and Industry Bureaus, to process-map and understand the overall registration process within the three regions.

As stated herein above, the activities undertaken by the registrars at both the Oromia and Tigray Regional States were undergoing a major business process re-engineering (BPR). The Oromia Region seemed to have reached an advanced stage of the implementation of its BPR; so much so that it has set a date on which implementation thereof will end. But the Tigray Region was at the beginning stage of the implementation of its BPR.

The SNNPRS had completed the implementation of its BPR. All state bureaus seem to follow similar streamlining processes as the federal governments' registration process. As a result, the majority of the activities are the same as the activities at the federal registrar center. The major difference between the registration processes of the three regions, on the one hand, and the process at the MoTI Registrar Center, on the other, was the fact that the three regions were not computerized and their processes done manually—as opposed to the MoTI and the Addis Ababa Trade and Industry centers.

After going through each region's activities and process-mapping the processes, the consultant noticed that the majority of the activities undertaken were very similar. So it decided to show the processes on the same process map and explain where there were differences. Because of their similarity in their processes, they also exhibited similar problems. The areas where the consultant saw major problems in registering companies are explained in detail below.

The main problems seemed to relate to the authentication of the Memorandum of Association (MoA), making sure that the company's name was unique at the federal level and getting the appropriate government certification to get a business license.

A detailed explanation of each problem is given below with examples of actual statistical details to back up the claim. Overall, the consultant found out that a sole proprietorship trade operator did not have much difficulty in getting his/her company registered, except in those cases where the business was required to secure a certificate of competence from the appropriate Ministry. This is explained in detail below. In contrast, however, the process for setting up a private limited company,

or a share company, was not so straightforward, mainly because the processes at the other Ministries were not yet streamlined with the main registration and licensing processes. The processes for setting up a private limited company or a share company were the following:

1. Getting an authenticated Memorandum of Association and Articles of Association (MOA). The main thing that the consultant noticed in the overall authentication process was that there were very few notary public offices in all the three regions that notarized MoAs. For example, in the whole of the Oromia Region, there was only one office that notarized companies with a capital of greater than Birr two million and four for companies whose capital was less than Birr two million. As a result, the authentication process usually took at least a week. The same was true about the other two regions, too. Since Oromia is much bigger than either of the two regions, the shortage, nevertheless, was felt here (in Oromia) all the more.

2. Making sure that a company's name is unique. Because there was only one center where companies and their business names could be registered and because other sites were not able to check this electronically, as it was inaccessible, the process of finding out whether or not a proposed name was already in use took months. Normally, the documents were mailed to the Ministry. If the Ministry finds out that the suggested company name was not unique, it returned the letter of application to the Office of the Registrar. Here the applicant was informed of the problem. Then the process started all over again, this time with another suggested name.

In order to be proactive and shorten the process, the federal office suggested similar names that were not already in use. The company's General Manager, too, could, on his or her own initiative, take the documents to the Office of MoTI to speed up the process. It goes without saying that this can be improved by making proper use of modern technology such as the Internet as per the e-Government Strategy, following the implementation of the Woreda.Net.

3. Certification from the appropriate Ministry. According to the staffs of MoTI and of the two sub-cities, the process is part of the prerequisite to a business-license issuance, but it has major deficiencies. As stated earlier, what the staffs said was backed up by the business community. That, at any rate, was found in the survey conducted in the

two regions—Oromia and the SNNPRS—as well as in Addis Ababa. The same view was aired by the staffs at all the three regions as well. The reasons had to do with the fact that the places where one could get certification were limited in number and lacked information on how to go about getting certified. Usually, a businessperson had to travel a long distance only to be told that he or she did not meet the criteria, or that he or she did not bring with him/her all the required documents. That means he or she had to take multiple trips before he/she could finally collect his/her certificate of competence.

Unlike MoTI, the three regions did not issue a company-registration certificate with more than one specific sector. But they all allowed the company registration certificate to be upgraded to include more sectors once issued—and to be downgraded to remove some sectors from the list.

The three regions also undertook the following activities at their respective Trade and Industry Bureaus:

- They submitted periodic reports to the Ministry of Trade and Industry on the activities they undertook at the regional level in relation to company registration and business-license issuance, as well as on their overall performances.
- They handled the requests that came to them for information about company registration and business-license issuance by referring to their respective databases. As disclosed herein above, most of these requests came to them from both organizations (such as banks, the police, and the courts) and individuals.

The company registration fees and the business-license-issuance fees charged by the SNNPRS were the same as those charged by MoTI. But because both Oromia and Tigray were still in the process of implementing their BPRs, they still charged fees on the basis of the stated starting capital, even as the SNNPRS did before it began to implement the BPR.

Table 12 Fees Charged for Company Registration and Business-License Issuance and Renewal

Region	Fee charged for company registration	Fee charged for business license issuance	Fee charged for business license renewal
Oromia	Based on capital Birr 25-Birr 200	Based on capital Birr 25-Birr 200	Based on capital Birr 25-Birr 200
Tigray	Birr 50 Birr 70 for a PLC and a share company	Birr 100	Birr 50
SNNPRS	Birr 80	Birr 80	Birr 80

Business-License Issuance

The processes at the three regional offices with regard to business-license issuance were very similar to those of company registration (principal) as shown below. Whatever minor differences there were between the two at each regional office, those are highlighted by using different background colors.

As indicated, one of the requirements to getting a business license was for the company to secure a tax identification number (TIN). That, at any rate, was the case in Oromia and the SNNPRS—but not in Tigray.

The Technical Solution Used

None of the three regions had a computerized system. At each center there was one Pentium IV 2.8GHz, 256MB Dell computer, which was contributed by a project funded by USAID a few years back.

The Tigray Region was poised to develop its own company-registration system. The system envisaged was a client/server built on Visual Basic and access database.

The indications were that they aimed at a very basic system that might work for one/two clients connected over a network onto the database server. It was a much smaller application, compared to the ones at MoTI and at the Addis Ababa Trade and Industry Bureau.

Information Stored Manually or in the System

Since the processes at all the three regions were manual, the information stored at all the three regional trade and industry business-registration centers were paper-based. This consisted of all the forms filled out by the owners—or by their representatives—and presented at the counter for the application to be accepted.

Copies of all the supporting documents as well as pictures of the owners, or of the General Manager, of the company (depending on the type of company) were kept in the manual-filing system at each business registrar’s office.

In fact, the first thing that one has to do in order to get one’s license renewed was to go to the filing room and request for one’s file to be looked up in the archives room, for it was only when the file was traced and sent to the appropriate team of officials that the renewal application was considered. The forms available at each region differed slightly. But the languages used on the forms were the following:

Table 13 Forms by Region

Region	Languages used
Oromia	Oromifa, English
Tigray	Tigrigna, Amharic, English
SNNPRS	Amharic, English

Volume of Data Stored and the Potential Need

The number of companies registered in the three regions was tabulated below. As none of the three regions had a computerized system in place, the consultant could not gather up-to-date figures. The following were therefore estimations it got during visits to the three regions.

Table 14 Number of Registered Companies by Region

Region	Companies registered
Oromia	About 130,000
Tigray	About 20,000
SNNPRS	About 25,000

The economic-growth potential for Ethiopia is so high that it is expected to be more than 10 percent per annum for the next few years.

That means the country has to make sure that the volume of company registration will be compatible with the growth. The system should be capable of handling requirements for registration-and license-related activities for at least the next ten years, if it is to be regarded as a worthy return on investment (ROI).

Types of Business that Need to get registered at Regional Level

Except for the specific areas reserved for the Office of MoTI, the company registration and business-license issuance could be handled by the regional offices for all types of business that can be operated in Ethiopia. The SNNPRS accordingly registered companies which were involved in exporting coffee as well.

The minimum capital requirement for compulsory registration varied across the three regions as shown below. If a businessperson's capital fell short of the limit set by the regional registrar for a business-license issuance, he or she could get his/her company registered and start operating without a business license.

Table 15 Maximum Capital Allowed to Run a Business without a Business License by Region

Region	A business whose capital is more than the following amount has to have a business license
Oromia	Birr 5,000
Tigray	Birr 5,000
SNNPS	Birr 3,000

Users of Data Stored in the System and the Purposes

One of the main tasks undertaken by all the regional Trade and Industry Bureaus was to handle requests that came to them from the private and public sectors for information on registered trade operators as well as companies. The actual users of such information were normally the following:

- Banks;
- Insurance companies;
- The police;
- The courts; and
- The public at large.

CHAPTER 7

A Comparison of the Federal, Addis Ababa and Regional Processes

This section compares and contrasts with one another the processes of the federal, the Addis Ababa sub-cities, and the regions.

Although the majority of the activities have been streamlined at all the registration centers, they still exhibited some differences. The following tables show some of these differences in terms of pricing, the volumes of the data that the systems currently contain as well as the languages used for applications, system entries, etc.

Table 16 Comparison and Contrast between the Different Registrar Centers

Registrar	Does one need to register for TIN to get a business license?	Computerized system	Languages used	Number of companies registered
The MoTI	No	Yes	Amharic/ English	about 75,000
The A.A. Trade and Industry Bureau	Yes	Yes	Amharic/ English	about 152,000
The Regional State of Oromia (Adama)	Yes	No	Oromifa	about 130,000
The Regional State of the SNNPRS (Awassa)	Yes	No	Amharic	about 25,000
The Regional State of Tigray (Mekele)	No	No	Tigringa	about 20,000
Total				about 402,000

A total of about 402,000 companies are registered in the three regions, including Addis Ababa, which has the greatest number of companies. MoTI estimated that there were some 650,000 companies registered throughout Ethiopia. The figure looked quite large, compared with the population, the national income, other countries' registration levels and related variables. India, for example, had a population of more than fifteen times that of Ethiopia. But, as it was undergoing a major computerization program of its company registration system during this study the estimate was that there were only about 650,000 companies registered in the whole country.

In MoTI's case, a more detailed investigation of the records would have to be done to get a clear and definitive number. The investigation must look into, among other things, whether or not there were "dead files" (companies no longer operational) still listed and the relaxed control environment was allowing the business community to re-register for a number of business licenses in order to avoid paying penalty on late renewals, which were causing a significant number of duplicate registrations.

Each registrar center that the consultant visited, particularly the federal MoTI and the Addis Ababa Trade and Industry sub-city centers, had an improved streamlined process. And in the three regions was a major drive to improve the registration process. In all cases, with the exception of the SNNPRS, that had already completed implementation of its BPR, steps were being taken to improve the overall procedure.

The architects of the BPR exercise appeared to have modeled their changes on MoTI's process. For instance, the study team found out that the regional bureau in the SNNPRS had completed the re-organization and streamlining process based on that of MoTI. It stood in a good position to take the next step of computerizing its activities, unless some change was made on the process sometime in the future.

Oromia, too, was about to complete implementation of its BPR. And its company-registration process showed a close resemblance to the "blueprint" of the federal registration process.

The same could be said about Tigray, even though they had just begun implementing their BPR when the consultant visited them in May 2005.

Pricing

There is a pricing variation among the different registration and licensing centers. The following table summarizes the different rates charged by the different registrar centers for the various activities listed below.

Table 17 Service Fees Charged by the Different Registrars

Registrar	Price for company registration/ principal license	Price for business license	Price for business license renewal
The MoTI	Birr 80	Birr 80	Birr 50
The A.A. Trade and Industry Bureau	Birr 50	Birr 60	Birr 50
Oromia (Adama) (based on capital)	Birr 5-100	Birr 25-200	Birr 25-200
SNNPR (Awassa)	Birr 80	Birr 80	Birr 80
Tigray (Mekele) (based on capital)	Birr 50-70	Birr 100	Birr 50

The Oromia and Tigray Regions, which were implementing their respective BPRs, were also reviewing their pricing and should move away from the models based on the company's initial start-up capital.

It is in MoTI's best interest to encourage and drive a uniform low-pricing strategy across all the registrars' offices in Ethiopia, since doing so will result in getting the business community rolling in full gear. The drive could be initially implemented at the two regions (Tigray and Oromia) which were reportedly poised to decide on the pricing of all their registration-related activities.

A total of about 402,000 companies are registered in the three regions, including Addis Ababa, which has the greatest number of companies. MoTI estimated that there were some 650,000 companies registered throughout Ethiopia. The figure looked quite large, compared with the population, the national income, other countries' registration levels and related variables. India, for example, had a population of more than fifteen times that of Ethiopia. But, as it was undergoing a major computerization program of its company registration system during this study the estimate was that there were only about 650,000 companies registered in the whole country.

The Views of Other Stakeholders

The consultant finally saw it fit to cross check the information received from the concerned officials against the information obtained from the end users. So it compiled what businesses, professionals working with the system, and information users had to say about the process—including their suggestions. This was done by using a qualitative questionnaire prepared by the consultant and commented on by the PSD-Hub and the stakeholders at the MoTI as the basis for all the interviews. The questionnaire was prepared in English and Amharic and was used during the visits to the regions.

Views of Businesses (individuals and organizations registered and may register in the near future)

Businesspeople are obviously the main end users of such information. Their views are, therefore, crucially important. As stated earlier, however, the survey team had difficulty in obtaining the views of businesspeople, mainly because they had the notion that the registration system was closely linked to the tax system. In other words, they wrongly believed that giving information about their businesses could entail for them more income tax. There were also those who were clearly afraid of saying anything critical about the system. These politely declined to respond to a few of the questions.

The respondents were selected in such a way that a variety of experiences would be included in the exercise from the different regions visited. Thus one or two views were incorporated into it from the various types of business operating in the different sectors. The intention was to make the survey more qualitative, as the scope of the study, the timeframe given, and the voluminousness of the forms required did not permit a suitable quantitative survey.

Some 30 completed forms were eventually collected from the businesspeople in Addis Ababa, Adama, and Awassa. The findings of the survey are tabulated as follows:

Table 18 Feedback from the Business Community

Qu. #	Details
4	<p>Number of employees</p> <p>1-2: The majority (60%) of the respondents put their business at this level of employment</p> <p>3-10: Six respondents put their business at this level of employment</p> <p>11-25: Four respondents had this number of employees</p> <p>>26: Three respondents had more than 26 employees</p>
5	<p>Annual revenue (in Birr)</p> <p>0-20,000: Most respondents' businesses had this level of annual revenues. As disclosed herein above, there is a general tendency among the businesspeople to balk at giving a rosy picture of their businesses. Their responses should, therefore, be looked at with that in mind</p> <p>20,001-100,000: Six respondents indicated that their incomes were in this category</p> <p>>100,000: Two respondents said that their gross incomes were in this category</p> <p>>500,000: Two respondents indicated that their gross incomes were in this category</p>
6	<p>Sector</p> <p>Businesspeople from different sectors were questioned. To mention but a few, the merchandising (retail and wholesale), construction, hotel, vehicle maintenance, general trade, garment trade, bar, restaurant, translation and secretarial services and beauty salon sectors and/or sub-sectors were included. Most of the respondents were, nonetheless, in the services sector</p>
7	<p>Do you have a TIN?</p> <p>Every respondent said "Yes"</p>
8	<p>Have you registered for VAT?</p> <p>To register for VAT, a company's annual revenue has to be more than Birr 500,000. Two respondents had registered for VAT. The rest said that their annual revenues were less than the amount shown herein</p>
9	<p>Where was your company registered?</p> <p>All respondents had registered their respective companies in their respective districts or regions. The survey was conducted in Adama, Awassa, and Addis Ababa (including the Yeka and Akaki sub-Cities). The other regional registration offices cited were those of The Oromia (Adama) and Southern Nations, Nationalities and Peoples' Regional State (Awassa)</p>

10	<p>What would you like to find out about other companies? The respondents pointed out that they needed relevant information before establishing a joint venture with another company</p>
11	<p>Would you give this information to the Business Registrar? There was no response to this question</p>
12	<p>Do you have a business license? All of them said, “Yes”</p>
13	<p>If not, why not? As they all had business licenses, the question did not apply to any of them</p>
14	<p>If yes, where was your business license issued? At the sub-cities of Addis Ababa—that is, Bole, Yeka, Kirkos, Gulele, Akaki and Lideta. In the case of those surveyed elsewhere, their licenses were issued at Adama, Awassa, or by the Ministry of Trade and Industry and/or by the Ministry of Trade and Tourism</p>
15	<p>State the benefits that accrued to you from getting a business license and/or the inconveniences you encountered in the process No comments were given concerning the benefits that accrued or the inconveniences encountered</p>
16	<p>Are there entries on the Business License form that you consider to be irrelevant? If so, which ones are they? The only entry that the respondents mentioned was the fact that no ceiling was tacked onto the capital and that that made it possible for an applicant to fill out any figure he or she wanted to</p>
17	<p>Did you have to provide certification from another government authority to secure the business license? If so, from which authority? Depending on the sector they are involved in, some cited the Health Bureau of Oromia, others the Ethiopian Abattoirs and some six zonal offices</p> <p>Were you able to secure the certification on time? Most respondents said, “Yes.” But three of them said that it took them about three months to obtain their licenses</p> <p>How long did it take you to secure it? Where they replied, they indicated that it took them anywhere from two days to three months</p> <p>If it took you too long, what would you say was the reason? The few who responded to this question cited bureaucracy and lack of efficiency on the part of the concerned government personnel</p>
18	<p>What should be improved? They said that the process needs to be efficient and less time-consuming. There were also a few who said that it should be less bureaucratic</p>

19	<p>Have you ever renewed your license? “Yes” was the answer given by all the respondents</p> <p>If so, what, if any, were the problems that you had encountered? According to a few respondents, tax assessors levied on them lump-sum-tax and presumptive-tax rates. This is mainly because small businesses seldom use an accounting system. FIRA officials, therefore, make their own assessments, such as charging tax based on their estimate of a business’s daily sales Those who knew that the fine for late license renewal is disproportionately heavy paid right away whatever they were told to, so as not to have to pay the fine</p>
20	<p>What should be done to improve the renewal process? The following are some of the suggestions forwarded by the businesspersons surveyed:</p> <ul style="list-style-type: none"> • Repetitive questions should be avoided; • The renewal process could be streamlined to reduce the number of institutions and officials that a businessperson has to go to, as going to all of them unduly takes up the businessperson’s precious time; • The renewal process could be streamlined to reduce the number of institutions and officials that a businessperson has to go to, as going to all of them unduly takes up the businessperson’s precious time; • Penalties are very high and should be reduced; and • The process takes an unduly long time—sometimes as long as three or four days. • The license-renewal process should be managed under one roof—that is, in a virtual one-stop shop. That, according to the businesspersons, makes visits to the Ministry of Finance and to the Ministry of Trade and Industry unnecessary.
21	<p>Are there any points that you would like to add? No respondent had anything to add</p>

Views of Professionals Involved in the Registration Process

As the number of businesses, including foreign direct investment, increases in Ethiopia the demand for professional institutions that facilitate business’s interaction with the regulatory system will also increase. The institutions that normally get engaged in assisting with business registration and licensing are either accounting/auditing firms or lawyers. The consultant itself has ample experience in facilitating company and business registration for both domestic and foreign investors.

The team has also spoken to two separate commercial law firms, one of which said that it facilitates the registration of between one and four companies a month on average—the registration of both domestic and foreign investors. They added that the registration of new businesses was on the upswing. Some of the main points that arose during the discussions that the team had held with these professionals were the following:

The Size of the Firm

Clients were, in general, big companies or large foreign investors. Small businesses normally secured their business licenses on their own. And they usually operated as sole proprietors. The interest in company registration as a way of doing business was, however, reportedly on the rise, as more and more people were becoming aware of the potential benefits of a limited-liability structure, as opposed to the personal liability of a sole proprietor, partnership, etc.

Taxpayer Identification Number/VAT

The professional intermediaries/agents generally facilitated tax registration as well as company registration and business licensing.

The Registration Process

The professionals also handle registration and licensing applications and maintenance at the Ethiopian Investment Commission and at the federal Ministry of Trade and Industry. Being registered by these government bodies gives their clients the freedom to operate all over the country, whereas getting registered by a region or a sub-city limits their geographical scope of operations. All of them said that they were very satisfied with the registration process and with the speed thereof. Their comments included “They handle it very well.”

According to these people, it is easier and faster to register at the one-stop shop of the Investment Bureau. Here the whole process takes an hour or two, provided the right papers are prepared and submitted by the applicant or the intermediary. One professional noted that the MoTI sends an applicant or her/his agent to a notary public office once the uniqueness of the suggested name is cleared. It is at this office that he or she usually encounters delays. Why, because lots of files are piled up.

The notarizing office requires an appointment and sometimes slows the process by two or three days. It also has different rules regarding the Articles of Association. The MOTI and the Investment Bureau allow Articles of Association to specify that a company can decrease its share capital (companies facing bankruptcy can use this device to survive), whereas the notary public office does not allow that.

Information

The practice of “due diligence” or other information-gathering and inquiries into locally-registered businesses are fairly well established in Ethiopia. The banks are the most likely organizations that keep a full record of their clients. Most of these inquiries were, nevertheless, done at the company-to-company level—at the point of entering a transaction or a business relation. None of the professionals spoken to made inquiries at the company registration office. (NOTE: the officials at MoTI stated that they do receive written inquiries, especially from banks, and answer them free of charge). Most professional agents, with the exception of one/two, interviewed were under the impression that they would not be given any information at the registration system, although the law provided for information to be available to third parties and to the public in return for a fee. One professional informed the consultant that you would need to be a shareholder or come up with an authenticated power of attorney and a shareholder’s ID before you could be given information.

The typical examples of the pieces of information that the professionals believed should be provided by a businessperson during the process of getting his or her business registered were the following:

- The address of the main office or principal place of business;
- The names of the Directors of the Board;
- The objective(s) of the business; and
- The paid-up capital of the business.

The typical information that a company must be requested to furnish to (and substantiate for) another company before forging a business relation with it (the company) were the following:

- Its paid-up capital;
- Its recently audited books of account and financial statements;

- The names of the Directors of its Board;
- The names of its shareholders (preferably the beneficial shareholders); and
- A bank statement showing the funds available.

It was also noted that the tax system required an audited annual financial statement.

The Business-License-Issuance Process

Most of the people interviewed by the team said that getting a business licensed was normally easy. That was true especially when it came to securing a general license. General licenses were not, however, issued to foreign investors.

The Business-License-Renewal Process

The majority of the respondents said that getting one's business license renewed was an easy thing to do. Two professional intermediaries, nonetheless, informed the team that it at times involved some to-ings and fro-ings, particularly because investors must prove that they have not at all lagged behind in paying their due income taxes.

According to these professionals, the Federal Inland Revenue Authority had an acute shortage of skilled humanpower. Consequently, they sometimes found it difficult to be up-to-date with regard to the information they needed to give a businessperson clearance or renew his/her license on time. These employees and businesspersons often had disputes with regard to the amount of money the latter owed the Government in the form of an income tax. As stated earlier, the Inland Revenue officers arbitrarily assessed a business's worth and said "You owe so much." If the Manager, or owner, of a company found the amount to be unreasonably too much, he or she could go to a higher-ranking official of the FIRA. Then the official might do something about it and thereby settle the dispute. Otherwise, the case went to a court of law. Consequently, there could be long delays, and large amounts of money might be required as deposit.

Certification from Other Government Agencies

As pointed out herein above, specialized businesses had to secure certification from the appropriate government body as well. For instance, there were certain businesses that had to get certified by the Ministry of Capacity Building, a process which was "very difficult." Each agency

tended to ask the applicant to produce new documents and information. The process, therefore, involved a lot of paperwork. The applicant, nevertheless, had no difficulty in knowing what information he or she had to provide the Ministry of Capacity Building with, since a list of these was available in a brochure. Still, there was no denying the fact that the process still remained time-consuming for both parties: the applicant and the processors.

The Suggested Improvements

- Keeping information up-to-date. There were forms that the representative of a business firm could fill out and thereby keep the pertinent information up-to-date. For example, in the event that a change occurred with regard to the management of the company, the name of the new Manager would have to be provided by filling out one of those forms. According to the professional intermediaries, however, the company registrars' offices did not have an adequate number of skilled manpower to monitor whether or not the companies were complying with this and to punish the ones that have failed to update the information in the files of the pertinent companies. The system was not, therefore, strictly adhered to. The paper-filing system, too, should be improved. The Ministry of Justice has recently put in place a very good filing system throughout the courts. Put differently, the court system was now computerized and has up-to-date indices. The same could be done in the company registrars' offices.
- It has been recommended that tax and business licensing/registration processes be "de-linked" from each other and that the same be done about business-license renewal or business-registration updating and tax payments, although it would not be wrong to share information.
- The penalty for a late renewal of a license was disproportionately high. It should be reduced so as to encourage companies to renew their licenses, even if it means doing so later than the due date. As it is, in the event that a businessperson finds it difficult to pay a penalty of, say, Birr 2,500 or more, he or she will have to be barred from running his/her business. That in turn means a big loss not only to him/her, but even to the community—particularly if the business is a clinic or a shop.

CHAPTER 9

A Summary of the Findings

Background

Ethiopia has prioritized private-sector growth as a means of alleviating chronic poverty and bringing about economic growth—in line with international development thinking and economic good practices. In fact, the comprehensive growth strategy of the Government of Ethiopia shows commitment to a free-market-oriented economy. To that end, the Ethiopian private sector has been awarded a central role in economic development.

This was made explicit in Ethiopia’s Sustainable Development and Poverty Reduction Program (SDPRP) and the Government’s policy on industrial development.

In all this, the Government has seen its main role as being the enactment of legislative measures to promote a free-market economy by removing the obstacles that could hinder the growth of the private sector. The key planks of the strategy are strengthening market mechanisms and creating an enabling environment.

To achieve an orderly private-sector growth, however, a range of institutional infrastructure needs to be put in place, including statistical and regulatory infrastructure. This is being achieved through cooperation and consultation with the private sector. The current project comes within this context and forms the baseline survey for a project to review the company registration system in Ethiopia.

Methodology

The consultant did its study of the current state of the company-registration system through extensive discussions with the representatives of the Ministry of Trade and Industry and the chambers of commerce—including the PSD Hub. The aim was to find out who the different role players were and how they interacted with one another. It was decided to widen the study to cover the business licensing as well as the company registration, for these are streamlined into one process in many

countries. The license-renewal process, too, is covered by the study. This process was included because the majority of the people the consultant spoke to said that there were some fundamental issues with regard to it that needed to be addressed to facilitate the development of the private sector as a whole. In order to get a holistic picture, it was also decided, in passing, to touch on the certification and tax processes which are often prerequisites to business licensing and license renewal. In many cases, these and other inter-linked processes can significantly impact the company registration and business-licensing processes.

The survey team visited and studied the company-registration process in depth at the Ministry of Trade and Industry (MoTI) as well as at the Addis Ababa Trade and Industry Bureau, and at the regional bureaus of Tigray (Mekelle), Oromia (Adama) and SNNPRS (Awassa). Two sub-cities of Addis Ababa and one zonal registrar office each in Awassa (Sidama Zone) and Mekelle (Central Zone) were also visited.

In addition to the key officials of the bureaus and offices mentioned herein above, a wide range of stakeholders were identified as connected to the company registration and the other related processes. These were the private-sector umbrella bodies such as the chambers of commerce, key professionals as well as international agencies concerned with private-sector development. For example, the World Bank's private sector teams, including their databases, were consulted.

In a bid to ensure consistency, a questionnaire was developed by the consulting team. The questionnaire was aimed at finding out the various experiences and points of view of the different businesses selected for their size, geographical location, nature of business, etc.

The study also used the consultant's proprietary tools, including its flowcharts, to provide a comprehensive overview of the systems in place and how roles and responsibilities were handled.

Best Practices/International Experiences

Many countries have built up a considerable number of business regulations and laws over the centuries, mainly to protect the public, other businesses, customers and others. Although the need for regulating businesses is widely accepted, there is as yet no consensus as to how to strike a balance between regulating and encouraging/supporting the

business community. The present study focuses on the regulation-related difficulties of starting a business and governing the ongoing licensing or registration.

A study observes that “In much of Africa, excessive regulation stifles productive activity” and goes on to note that there is a negative correlation between the amount of regulation and labor productivity (the more regulation, the less productivity). “Productive businesses thrive where government focuses on the definition and protection of property rights. But where the government regulates every aspect of business activity heavily, businesses operate in the informal economy. Regulatory intervention is particularly damaging in countries where its enforcement is subject to abuse and corruption.”

The evidence is that heavier regulation usually means more institutional inefficiency, such as longer delays, higher costs, more unemployed people, corruption, less productivity and investment, instead of a better quality of goods and services. Poor countries tend to have the most regulation and the least ability to enforce it, so that a lack of checks and balances in government gives space for corruption.

The main reason for regulation seems not to protect the public (it generally does not) or to protect the businesses already in existence by keeping out competition.

World Bank studies do concede that a minimum of business regulation is necessary, especially in starting a business. There should be a registration of companies at least for tax, social security and statistical purposes. Only Australia has these two processes, whereas Sweden adds the requirement to register with the Labor Office. There should, nonetheless, be some monitoring and reporting requirements at least for statistical purposes. The World Bank studies cite examples where registration has been simplified based on the above two principles and is handled on a streamlined electronic system. It says that these changes can be successfully applied in developing countries, even as they were in the developed countries. The changes have, of course, produced excellent results for the private sector in such countries as Honduras, Vietnam, Moldova, and Pakistan. The countries that take the least time to register a business have single application forms available on the Internet. The World Bank study states that the costs of not reforming and the benefits of reforming are often significant. According to it, one of

the major hidden costs is the time an entrepreneur must take away from her or his work in performing company regulation tasks.

Such countries as Germany and Bolivia have implemented the Private Public Partnership (PPP) model which seems to have improved the overall process and built confidence in the business community. The chambers of commerce in Germany, for instance, administer the overall company registration process, with the government regulating the overall process. The revenue thus generated is then shared accordingly between the government and the chambers.

Often the reason for not streamlining and reforming business laws has to do with inertia or lack of capacity. It is, nevertheless, difficult to identify any specific groups that may be against streamlining the business registration and licensing processes in Ethiopia. The reforms needed in this regard include adopting better information and intra-governmental communications technology to inform prospective entrepreneurs and serve as a virtual one-stop shop for company registration. A single registration form and a “silent consent” speed up the process. Many countries are following these examples, or finding other ways, to streamline their company registration systems. In particular, the advance of ICT has permitted substantial streamlining of old systems and processes that were based on cumbersome manual systems envisaged in many original laws.

The Legal and Institutional Framework in Ethiopia

Ethiopia’s legal system is rooted in the tradition of the French civil law. According to the World Bank, this, however, is the tradition that encourages the heaviest regulation of business. Since “heritage is not destiny,” many countries have, however, been able to move away from their heritage and implement the best international practices. Ethiopia, too, is on the right track and has the ability to divorce itself from the heritage it is said to have its legal systems based on.

In Ethiopia, company registration and business-license issuance and related activities are currently undertaken by the Ministry of Trade and Industry (MoTI) and its representatives at the different levels of the government structure—that is, at the federal, regional, zonal, city, etc. levels. At the federal level, for instance, both company registration and business-license issuance are handled by the MoTI and the Ethiopian

Investment Commission at their head offices in Addis Ababa. As outlined by the MoTI, company registration is processed mainly at the federal level for businesses engaged, or is to engage, in one of the following three specific areas of trade:

- International import and export;
- Manufacturing and services; and
- Industrial ventures.

The main reasons that the MoTI handles these business domains are the following:

- The geographical restrictions that are associated with the company registration in the other registrar centers; and
- The fact that getting registered at the federal level allows a business to operate throughout Ethiopia.

The main differences with regard to the legal and regulatory framework encountered at the Mekelle, Awassa, Adama and Addis Ababa city offices, on the one hand, and those observed at the federal level, on the other, relate to the ones discussed here below.

i) The minimum capital requirement: The minimum capital requirement for company registration varied from region to region, but the amount was consistent either at Birr 3,000 or Birr 5,000. Businesses with less than the stated minimum capital could get their companies registered and operate without a business license.

ii) Fees: There was disparity in the amount one has to pay for the various activities related to company registration and business-license issuance by the different regions, compared with the registrar centers in Addis Ababa and the MoTI as explained in detail earlier. The Oromia and Tigray Regions, which were implementing their respective BPRs during the study period, were also reviewing their pricings and were expected to move away from their existing models based on a company's initial start-up capital.

iii) The number of languages used: While the required information was the same in all the centers, the languages used on the forms in the different regions varied. For instance, some of the forms available in Mekelle were only in Tigrigna.

iv) Registering a company to operate throughout Ethiopia.

Except for those registered by MoTI, companies registered at other registrar centers needed to obtain a summary registration at every other region they planned to operate in.

v) TIN: A few regions required a tax identification number (TIN) as a prerequisite to obtaining a business license. But the registrars at the MoTI, the Ethiopian Investment Commission and Tigray did not.

For some years now, a process has been going on to update the Commercial Code, but it has not apparently been given due priority. The legislation needs to be updated to support the business community as a whole. Perhaps this gives the Private Sector Development Hub, the Chambers of Commerce and the Ministry of Trade and Industry an opportunity to come together and revise the legislation in such a way that it will handle a modern, streamlined and computerized system. The study has pinpointed some areas of concern, but believes that it is also important to do an in-depth analysis of the laws and the regulatory framework by getting all the stakeholders involved in the exercise. In other words, all those concerned (especially the pertinent Ministries and government bodies and the notary public offices) should be given an opportunity to air their views and points of concern so that the appropriate amendments could be made to the pertinent laws.

The findings also showed that the three regions had very similar processes for activities related to company registration and business-license issuance. The Tigray and Oromia Regions were during the study period undergoing a business process re-engineering (BPR). The SN-NPRS, nonetheless, had completed its re-organization and streamlining process. They all seemed to follow the tried and tested approach of the process at the federal level. Their main weaknesses were outlined earlier. By harmonizing registrar centers into a successful, streamlined process, the majority of the core problems facing the company registration process could be dramatically improved.

User Views and Comments

The consultant also saw it fit to cross check the information it had received from the concerned officials against the information obtained from the end users. So it compiled what businesses and professionals working with the system and the users of the information had to say

about the process—including their suggestions. That was done through a qualitative questionnaire prepared in English and Amharic as the basis for all the interviews held.

The survey was intended to be qualitative and to incorporate into it a wide range of different perspectives. Respondents were selected in such a way that the various experiences of the different regions visited would be included.

The approach, therefore, focused on getting a broad cross-section of views—including the views of the various-sized businesses from the different sectors such as retail outlets, restaurants and cafes, construction contractors, clinics, small businesses, etc.

Businesspeople are the main end users of such information. Their views were, therefore, crucially important. As stated earlier, however, the survey team had difficulty in obtaining the views of businesspeople, mainly because they had the notion that the registration system was closely linked to the tax-collection system. In other words, they wrongly believed that giving information about their businesses could somehow entail for them more income tax. There were also some who were clearly afraid of saying anything critical about the system. These politely declined to respond to a few of the questions.

The consultant had also geared a few questions toward improving business-to-business (B2B) transactions as a whole in our qualitative survey. The findings showed that the information the respondents would like to get about other companies were particularly those that would help them determine whether or not they could work with them in a joint venture or the like. Interestingly, none of them was, however, willing to answer the question, “Are you willing to provide some information about your own business?”

Respondents were, in general, evasive about the benefits that accrued to them and/or the inconveniences they had encountered during the license-issuance process. As stated earlier, they also balked at disclosing their capital, afraid that the information might be used for tax-assessment purposes in the future. With regard to the certification they needed to secure from other Ministries and government bodies such as the Health Bureau of Oromia, the Ethiopian Abattoirs, etc. the majority of them said that it took them anywhere from two to 15 days, whereas a few said that it took them up to three months.

There, however, was a consensus on one issue: securing a business license or getting it renewed, was fraught with a lot of bureaucracy and lack of efficiency and, therefore, a time-consuming process.

The responses to the questions, “What were the main problems you encountered?” indicated that the business-registration and the license-issuance processes were convoluted in the minds of most of the respondents with the taxation system. Put differently, many respondents discussed the tax assessment system in response to this question because they had experienced certain tax-related problems when they tried to have their business licenses renewed, since one had to pay the income tax one owes the Government before his/her business license can be renewed.

The following were some of the suggestions that the businesspeople surveyed forwarded toward improving the processes:

- The business-license-renewal process should be streamlined to reduce the number of institutions and officials one had to go to, as multiple appointments unduly take up the precious time of businesspersons;
- Tax collection and company registration should be handled under a virtual one-stop shop, so as to address the confusion that seemed to be prevalent among the members of the business community with regard to the two activities;
- Repetitive questions should be avoided by making sure that all the concerned governed bodies get access to the pertinent pieces of information;
- The penalty fee charged for a late business-license renewal was so high that it at times entailed undesirable consequences. So it should be reduced; and
- The business-license-renewal process usually, but unduly, took three or four days. That, needless to say, was too costly to businesspeople.

The whole process should be managed under one roof—rather than in several places. If that is done, businesspeople would not have to waste a lot of their valuable time by going to the Ministry of Finance and then to the Ministry of Trade and Industry. True, FDRE’s Decentralization Policy has made major improvements in this regard. The consultant believes that MoTI could do more. The study also surveyed a few professional institutions that facilitated business interaction with the regu-

latory systems. These institutions were normally accounting/auditing or law firms that assisted businesspersons with business registration and licensing. Once in a while, they facilitated tax registration as well. According to them, private business was on the rise in Ethiopia.

More specifically, they held the view that the economy was thriving and that the number of prospective investors was on increase. Besides, they added, more and more domestic entrepreneurs were becoming aware of the benefits that could accrue to them from a limited liability structure and the personal liabilities that were normally attendant to sole proprietorship, partnership, etc. These professional institutions preferred to get registered and secure their licenses at the Ethiopian Investment Commission and at the Ministry of Trade and Industry. Their stated reason was that doing so gives them the freedom to operate all over the country, whereas getting registered in a region or even at a sub-city did not enable them to do that. They were, in general, very satisfied with the process, though they wished that they could register at the one-stop shop of the Investment Bureau, for doing so “would further expedite the whole process.”

Many businesses wanted to gather information about other businesses. The banks were, nonetheless, the only organizations that kept a full record of their clients. Most inquiries were done at company-to-company level. And it was done at the point of entering a transaction or with a view to forging a working relation with each other. But the law clearly provided that information should be available to third parties as well as to the public at large for a fee.

The consultant, nevertheless, found out that none of the professionals it spoke to had ever gone to the company-registration offices seeking such information. In fact, a few of them said that they were under the impression that they would not be given any information, since they were neither shareholder nor could they produce an authenticated power of attorney. The officials at MoTI, for their part, stated that they did receive written inquiries, mainly from the banks, and answered those free of charge.

The business community (except for the banks), in general, seemed to be unaware of the free services that were being given by the company registrar centers—including information about other registered businesses—provided it was available in their databases. The truth of the

matter, nonetheless, was that much of the information which was once available only to the pertinent government authorities is now being simplified and made available to the public at large. Why? Because, in line with its Private-Sector-Development Policy, the Government wanted to encourage and support startups, partnerships, mergers and acquisitions, as well as dealings among the members of the business community.

According to the guiding principles of international best practices, a company-registration system must be put in place with business-to-business (B2B) inquiries in mind. And the World Bank tells us that is what the majority of the most successful company-registration systems are based on.

Accordingly, in 2005 alone requests for such information were lodged to the Addis Ababa Trade and Industry Bureau by the following organizations:

- More than 50% of them by the banks;
- About 22.8% by the police and the courts of law;
- Close to 20.1% by the business community; and
- About 6.7% by researchers.

So far as the professional institutions surveyed were concerned, however, every commercial registration system should be able to avail the following pieces of information:

- The address of the main office or of the principal place of a business;
- The names of the Directors of its Board;
- The objectives of the business; and
- Its paid-up capital, annual sales or some other indicator of size.

Some companies and their lawyers, or their other intermediaries, had already begun to directly ask their prospective business partners for such information (but they cannot substantiate it) before they forged with them any kind of business relation. The typical pieces of information that these companies normally sought were the following:

- The paid-up capital of the company;
- Its recently audited book of accounts and financial statement;
- The names of the Directors of its Board;
- The names of the shareholders (preferably the beneficial shareholders); and
- A bank statement showing the funds available.

According to the professional intermediaries the consultant spoke to, getting a business license was not a problem, particularly when what was sought is a general license. They also said more or less the same thing about the renewal process, although they noted that an investor must prove that he/she was up-to-date with the payment of his/her income tax. Actually, the main problem that these intermediaries mentioned was the fact that the Federal Inland Revenue Authority lacked an adequate number of skilled humanpower.

The study team had, however, found out that the *modus operandi* that let Inland Revenue officers assess the amount of tax a business owes encouraged a seemingly endless dispute between them and the owner of the business—to mention but one of its problems. Of course, in the event that the General Manager, or owner, of the company disagreed with the Assessor, he or she can appeal to a higher-ranking Inland Revenue official. If the General Manager, or owner, of the company was dissatisfied with what the higher-ranking official decided, he or she could still take the case to a court of law. This course of action could, nevertheless, entail for him/her, among other things, a hefty fine for the late renewal of his/her business license.

The suggestions forwarded toward solving these problems were the following:

- Although there were forms for keeping information up-to-date (especially with regard to any change in the designated General Manager of a company), the acute shortage of humanpower at the company registrars' offices made it difficult to monitor whether or not the companies were complying with it and to punish those that have failed to comply with it by submitting timely and updated information. The non-computerized filing system in some offices should and could be improved.
- The tax-collection and the business-registration processes must be "delinked," though they could continue to share information.
- In accordance with the principle "Better late than never," companies should be encouraged to renew their licenses even on a later date. To that end, the penalty fees for the late renewal of a license should be reduced. If the owner of a business loses his/her license, simply because he/she was not able to pay a late-penalty fee of, say, Birr 2,500.00 or more

(the maximum, of course, was Birr 10,000.00), it was a big loss not only for him/her but also for the country—especially if the business was a taxi, a clinic, or a shop. Besides, the closure of companies usually contributed to the already huge unemployment rate in the country.

In summary, the study has concluded that MoTI and the Ethiopian Investment Commission have made significant improvements over the last year or two prior to the study, so much so that they had received high approval ratings from the users of their services. Their processes for registering companies and issuing business licenses also improved dramatically.

The majority of the literature reviewed earlier related to the old system indicated that there was too much red tape in the business registration and licensing processes in Ethiopia, although it (Ethiopia) still compared favorably with its neighbors then, according to the World Bank's business-environment database, even before the recent upgrades took place.

The business process re-engineering (BPR) and the automation of both the Addis Ababa Trade and Industry Bureau and the MoTI have dramatically impacted these processes. The standard best practices call for streamlining the processes before trying to automate or computerize them—that is, to look into the possibility of doing that in a quick and easy manner. In the case of both the Addis Ababa Trade and Industry Bureau and the MoTI, that seemed to have been the case.

Problems and Issues

The major problems facing the registrar offices on a day-to-day basis when they registered companies and/or issued and renewed business licenses could be categorized into two: institutional and technical problems.

Institutional Problems

These were problems whose underlying causes were the policies and processes in place. **The Company registration system should be driven with the business community in mind.** Company registration systems should not be just about regulating businesses, but must also be driven with business-to-business (B2B) inquiries in mind. According to the World Bank, most of the successful company-registration systems were based on B2B inquiries as one of the key requirements.

Post-registration support is needed. The MoTI should do everything it can to support the members of the business community once they obtained their licenses. The experiences of a few members of the business community suggested that much remained to be done, when it came to getting certified by other appropriate Ministries. Depending on the business sector a businessperson is interested in, he/ she has to have the go-ahead of the pertinent Ministry or authority to become operational once he/she has secured a business license. Since very little follow-up or support was provided by MoTI in this regard, many members of the business community were, however, unduly frustrated by the process. After all, being registered, in and of itself, did not enable a business to start operations right away. There were certain issues that needed to be addressed before it could do that. For instance, it had to secure the plot of land it needed and make sure that it has met certain requirements—including those that have to do with sanitation, labor, health, education, etc.

Getting a Memorandum of Association and Articles of Association authenticated. The main problem that the team noticed with regard to the overall authentication process was the fact that there were very few notary public offices that authenticated MoAs in the three regions. For example, in the whole of Oromia Region, there was only one office that provided this service for companies with a capital of more than Birr two million, and four if the capital was less than Birr two million. As a result, the authentication process usually took at least a week. The same was more or less true about the other two regions. Since Oromia is the biggest of them, however, the shortage was felt here (in Oromia) all the more.

Certification from the appropriate Ministry. According to the staffs of the MoTI, the two sub-cities in Addis Ababa, as well as the survey respondents in the three regions, and the professional intermediaries, some of the prerequisites to obtaining a business license had major deficiencies. Major among these were the following:

- The places where one can get certified in each region were limited in number; and
- There was lack of information as to how to go about getting certified.

For instance, a business person traveled a long distance only to be told that he/ she did not meet the criteria or that he/she did not bring with

him/her all the required documents. That means the businessperson ended up doing multiple trips to collect his/her certificate of competence. At times, businesspeople found themselves compelled to repeat certain tasks that they had already undertaken, or submitting the same documents twice and providing the same information again.

Penalty fees. The penalty fees that one had to pay for a late renewal of a business license ranged between Birr 2,500 and Birr 10,000. Many among the public as well as the staffs at the different registrar centers, nevertheless, said that these fees were too high. All the people with whom the team discussed the issue had invariably suggested that these fees be reduced so that businesspeople could have their business licenses renewed, in accordance with the principle “Better late than never.” Their argument was that, if the businesses had to close because they found it difficult to pay the late-renewal penalty fees, they would not be the only losers but the country, too, especially in the case of such businesses that operate in the health and education sectors.

The inconsistency of the procedures. The next major issue with regard to the business-license-issuance process was that there were certain inconsistencies about it. It goes without saying that a lack of uniformity adversely affected the overall strength of the information that the business community was being provided with. It also weakened the information provided by MoTI to the public at large.

i) TIN. The study showed that not all business-license-issuing bodies had accepted this as a prerequisite to obtaining a business license, since it was not provided in the Commercial Code or in the other pertinent Proclamations. For instance, the MoTI, the Ethiopian Investment Commission and the Tigray Trade and Industry Bureau did not require an applicant to hold a TIN. All the sub-cities in Addis Ababa, as well as the registrar bureaus of Oromia and the SNNPRS however required a TIN as a prerequisite for obtaining a business license. The experience of the consultant was that TIN registration required a minimum of 24 hours. So the overall process had to take this extra period into account.

ii) Getting certified by the appropriate Ministry. Except for the Ethiopian Investment Commission, all other registrar centers required this as a prerequisite to obtaining a business license.

iii) Pricing. There was a pricing variation among the different registration and licensing bureaus in the country. Even within Addis

Ababa, the federal MoTI and the Addis Ababa Trade and Industry Bureau had varying pricing strategies.

The Ethiopian Investment Commission was probably the only institution that gave an investor an investment license, a company-registration certificate and a business license within 24 hours. If the investor was setting up a PLC or a public shareholding company where the need for MoA became a key requirement, however, some delay was inevitable, mainly because the MoAs of such companies had to be authenticated by a notary public office.

Technical Issues

The company registration process in Ethiopia was also characterized by a lack of technical solutions to the problems it faced or by the inappropriateness thereof. The following section summarized these issues so that some thoughtful steps would be considered as an overall solution to the problems that the company-registration system was plagued by throughout Ethiopia.

Making sure that the proposed company name is unique. Because there was only one Register of companies and business names and it was inaccessible to those who wanted to check these electronically, the process of finding out whether or not a proposed name was unique could take months. Some regions mailed the documents to the federal MoTI. Then, if the suggested company name was already listed in the database, the application got returned to the office of the registrar. Following that, the applicant was informed of the problem, and the process started all over again, another name suggested. In order to be pro-active and shorten the process, the MoTI usually suggested similar names that were not being used.

The General Manager of the company, or his/her representative, could also take the initiative and take the documents to the federal MoTI to speed up the overall process.

One could easily get two licenses at different registrar centers in the same line of business. Because the different systems that existed were not integrated, one could easily obtain a license in the same sector under two registrar centers. Even the integrated system deployed within the sub-cities of Addis Ababa seemed to have left some room for improvement in this regard.

Payment systems not integrated. The payment systems at both MoTI and at the Addis Ababa sub-city registrar centers were not integrated

with the company-registration systems. As a result, the cashier re-recorded some of the data already captured by the registration system, which was time-consuming and error-prone. What was more, such everyday jobs as auditing, reporting and the possibilities of data-mining and forecasting were consequently more complicated.

Appropriate reports not easily generated. Most of the reporting was still done manually, even though the data was extracted from the systems deployed. The system deployed at the Addis Ababa Trade and Industry Bureau seemed to provide some reporting functionality, but could still do with some improvements to support the kind of statistical analysis that needed to be done, in order to keep track of the overall business environment with a view to supporting the business community as a whole.

Inaccurate statistical data. Because of the weaknesses of the systems that were in place, some valuable statistical data were not being analyzed, or were being analyzed inaccurately. For example, the MoTI estimated that some 650,000 companies were registered throughout Ethiopia. Even India, whose population was more than fifteen times that of Ethiopia, was then undergoing a major computerization of its company registration system at the moment. The ToR, nevertheless, estimated that about 650,000 companies were registered in India, country-wide.

Copies of the documents needed at the time of registration could be scanned and stored electronically. The business-license-renewal process could be easily improved by using digital copies of the information needed at the time of registration. Technology could also be utilized to keep user identifications, such as digital photos and signatures as well as a scanned copy of all the documents needed to register the business license initially, so that when the license is being renewed, it could be done with minimal information from the user as well as with maximum checks to make sure security is not compromised.

Scalability is not properly thought of. A project of this nature cannot afford to be limited in its scalability, as the total number of companies registered in Ethiopia was very low. The Addis Ababa registrar system had passed its limit of 150,000 registered licenses, which was initially estimated in the requirements document some four years back. So, even as it would be unwise to add more floors on a four-story building constructed on a foundation designed for only a four-story building, registering more companies using such a system would be unwise.

Otherwise, what could happen to it eventually is anybody's guess. The situation is very risky and worrisome. But, as the system has never been officially handed over, we could not see the architectural document that would have given us an idea of the scalability of the system developed.

Very little thought has gone into the extensibility of system. Trying to extend the functionalities of the system by adding onto it new modules in order to support the functionalities of the overall system, or to extend it so that it can be used country-wide will be a complex, risky task to undertake.

Integration with other applications will be relatively complicated and time-consuming. As the design was not component-based, or as the application was not following a layered architecture, trying to integrate it with other applications will prove to be a very cumbersome task.

System-security issues. It seemed like the system was not built with the organizations' security in mind. It was, however, crucially important for this sort of system to exhibit security as one of its key features. The system that MoTI had in place fell short of this. So, such simple things as being able to log on to the same system twice in a stretch were not allowed. No documentation was available for the procedures to enforce specific security rules, either.

No maintenance/support contracts. Once the warranty period expired, there was no contingency plan in the form of a support contract with the firm that developed the software. That, of course, exposed the overall operations of the registrar offices to an unnecessary risk, in the event that the system breaks down.

Systems are not easily configurable. Configuration parameters were the values that allowed one to modify the behavior of application without changing any code. These values controlled how the parts of the application looked or acted. String messages, IP addresses, user interface layout measures and the maximum number of objects in a cache memory were sample configuration parameters commonly found in software applications. Property files and XML document files were often used to organize application configuration parameters. Usually these configuration files were read by an application when it first starts up.

The system, nonetheless, was not easily configurable—that is, most of the parameters that should be independent of the programming code were actually in the code. That, needless to say, made it extremely difficult to run the system under a different setup. Some of the minor things with regard to which the system should have been configurable are the following:

- What language to run it in;
- What database to connect it to; and
- The connection pool to make sure that we are using a fixed number of connections to minimize performance issues.

Architectural/database-design documents. There were no design-documents against which to evaluate the software developed and was at the time in use. Any software developed and commercially used should come at least with a system architecture and database-design documents. So, in this case, it was very hard to do a detailed analysis of the overall application, unless one went through the source code and did a line-by-line code examination. Doing this, nevertheless, took up a lot of time.

The Way Forward

Overall, there were some encouraging signs. If utilized the momentum that was set by all the regions, as well as the experiences which already existed at the federal as well as at the Addis Ababa Trade and Industry Bureau, could have a much more integrated and streamlined process that could be supported by experienced manpower, with the backing of the latest ICT developments in the country or internationally. Registration can be changed and simplified considerably through advances in information and communications technology. The original laws were written for manual systems. As such, they were cumbersome. The new systems can, however, be streamlined and reorganized completely, in accordance with the laws written in terms of the new paradigms.

Ethiopia has the opportunity to have a close look at the universally accepted best practices and to revise its systems and laws accordingly. What is more, the Government of Ethiopia has already drawn up a plan to introduce e-governance, and, based on that plan it is pushing for the implementation of a *woreda-net*. Furthermore, the use of the Internet is increasingly becoming widespread among Ethiopians. The Government in general and the Ministry of Trade and Industry in particular—with

some help from the chambers of commerce and donor organizations—should, therefore, seize this opportunity and revise the pertinent procedures. It could also review the multiple processes involved in Ethiopia for company registration, business-license issuance and trade-name registration and possibly streamline them into one process, in line with international best practices. Thus the policymakers could make registration much simpler for all the concerned parties: the applicants and regulators.

Institutional Improvements to Consider

The following are the key points that MoTI needs to consider in order to resolve some of the issues observed by the study team at the institutional level:

- The company-registration system should be driven with business-to-business (B2B) inquiries in mind.
- The MoTI should do more to support the members of the business community even after they have gone through the process of getting their companies registered. More specifically, the MoTI should make sure that all their business needs are accommodated.
- The MoTI should take the initiative of streamlining the company registration processes and prevail upon all the interlinked institutions and agencies to concert their efforts to that end. The institutions that the MoTI should approach with this initiative must, of course, be all those that are involved in the certification of competence and the notary public offices.
- The business-license-renewal process should be streamlined to reduce the number of different institutions and officials that businesspersons have to see, as doing so takes a lot of their precious time. Tax collection and company registration, too, should be handled by a virtual one-stop shop, so as to address the confusion that is currently prevalent among the members of the business community with regard to the two activities.
- The MoTI could also take appropriate measures aimed at addressing the variation in the pricing strategies of the registrar offices throughout Ethiopia. Of course, in doing so, it should opt for the lowest rate and thereby encourage and promote the business community. MoTI could start doing that at the two regions that are about to decide on their pricing of all their registration-related activities: Tigray and Oromia.

- The late-business-renewal-penalty fees should be affordable to the majority of the members of the business community. As argued earlier, it is better to have businesspeople get their business licenses renewed late than forcing them to close their businesses by making these fees too high. After all, if a company goes out of business, it is not only its owner that will be adversely affected by the closure but also the country.
- The MoTI must also make sure that consistent and across-the-board framework of procedures is put in place, in accordance with the guiding principles on which international best practices are based, given the fact that it has the following advantages:
- It will help improve the registration and license-issuance procedures;
- It will make it easy to put in place an integrated computerized registration system throughout Ethiopia;
- It will strengthen the information given out to the public;
- It will help to channel information that is accurate, reliable and consistent to all the registration centers;
- It will help facilitate the conditions necessary for data-mining, so as to frequently analyze new trends;
- A timely analysis and proper understanding of the trends within the business community will in turn help create an environment that is more conducive to the business community as a whole;
- It will enable one to look into such issues as the archiving of “dead files” and the pros and cons of relaxing control, in terms of addressing the problem of duplicate registration; and
- Since Ethiopia’s economy is expected to grow by about 10 percent per annum for the next few years, it will help to accordingly raise the volume of company registration.

It goes without saying that Ethiopia has already made substantial progress and improvements. According to the participants of the survey conducted by the team, nonetheless, more could be done to adopt international best practices and thereby make its business environment more competitive in the world economy. That, of course, would go a long way in encouraging both foreign and domestic entrepreneurs.

Technical Solutions to Consider

The following are the key technical points that the MoTI needs to consider in order to resolve some of the main issues observed by the study team:

- Develop a strategy for a single online integrated system, using the woreda.net infrastructure in such a way that it is accessible to all the registrar centers in the country;
- Improve the security measures that are currently in place to identify registered businesspersons—that is, scan the original document and introduce the use of digital images and signatures;
- Create an integrated online system whereby the business community and third-party agencies can access different kinds of secure information. The company-registration system could also provide this service for the banks, insurance companies, etc., and generate some revenues for itself;
- Integrate the payment module so that statistical and audit reports can be generated easily;
- The system should have a number of reporting and data-mining tools, to generate reports that would allow management to make quick decisions.
- The system should easily be configurable, so that different registrar centers can use it with their specific configured requirements, such as language, etc;
- The system-development team needs to give a longer warranty and a support/maintenance contract, as it is an important part of the company-registration process; and
- All the appropriate documents need to be passed on to MoTI. These documents should include the architectural design, the database design, the functional requirements, etc.

Since all distributed systems share some basic characteristics, they also have some common challenges. Using international best practices, the technical consultants deal with the challenges that are commonly faced by every system architect. A software of this nature must exhibit the majority of these characteristics, so as to be labeled as a working and valuable software. Appendix 3 gives an outline of the general software-development points to consider before trying to implement this sort of project.

Ethiopia has the opportunity to take a close look at the universally accepted best practices and revise its systems and laws accordingly. In fact, the Government of Ethiopia has plans to introduce e-governance and is creating a woreda-net. Furthermore, the use of the Internet is on the rise in the cities and towns. The Government should, therefore, seize this opportunity and develop a company-registration system, by

streamlining its current systems, consulting with the stakeholders and backed by the latest ICT solutions that are currently available in the country. It is high time that it did so, given the sorry state that the current systems throughout the various registration centers are in.

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APPENDIX

Generic Technical Software Development Tips to Consider

The following ten technical tips are some of the key system requirements, the technical designers (Architects) building these sorts of application need to consider before embarking on the development phase. Software applications of these size and complexity need to exhibit the majority of these key characteristics, if not all, so as to be labeled as a working and valuable software.

1. Three-tier or n-tier Architecture

Three-tier architecture allows you to separate the graphical user interface (GUI), the business logic (where all business rules happen) and data access (where data is stored). You can also provide highly optimized data indices and retrieval methods, and provide for replication, backup, redundancy, and load-balancing procedures specific to your data's needs. Separating code into the three-tier architecture increases the scalability of your application; so does placing data on a dedicated process, host, or series of hosts. Should the system need to talk to another application, we can even go further and look at the n-tier architecture model, by abstracting the components that need to interface with the other application.

2. System security

Distributed systems exist to share valuable resources among specific parties. It is one of the most important requirements to ensure that these resources are not shared with or modified by anyone else. Finding ways to share information securely over communication channels is the primary key challenge for the company registration system.

3. Scalability and performance

Experience tells us that most system stakeholders want to believe that system use will grow exponentially over time as more business relations are solidified and users begin to see the subtle genius of the concept. Whether this is true is irrelevant.

The danger is that it could be true. And as demand for system resources increases, supply must also increase without negatively impacting performance. The solution must be scalable. Scalability is a measure of the extent to which system usage can increase without negatively impacting its performance.

4. Concurrency and correctness

Providing reliability is not just a matter of ensuring that the system does not crash. An equal measurement of a system's reliability is the extent to which it operates consistently. Regardless of load, time of day, and other factors, the system must always keep itself in a valid state and behave in a predictable way.

The integrity of a system's data is not hard to achieve in most distributed applications, because they rely at some point on a database management system (DBMS) that guarantees such integrity. The state and behavior of a running application, however, is the responsibility of its designer and developers.

Ensuring that any logic-intensive application will run correctly in all situations is a complicated task. This is because servers in distributed systems must provide access for shared resources to various clients, often concurrently. It is the responsibility of each service implementer to ensure that information updates are coordinated and synchronized across all client invocations. To address this, each distributed component should have a detailed state model and be tested thoroughly.

5. Error handling

Dealing with error conditions in distributed systems is a real challenge. This is because the failures that occur do not crash the entire system. A part of the system fails, and it is up to the other components to detect the failure and take appropriate action. And since certain types of failures cannot be detected easily or at all, individual components need to be overly suspicious of errors when interacting with each other. Fault tolerance is a key measure of system reliability. This term refers to the degree to which the system can detect and recover from the independent failures of its components.

It will be the responsibility of the built application components to detect any application-level failures and recover from them (by masking) whenever possible.

6. Heterogeneity of system components

Computer hardware and software comes in seemingly infinite varieties and you never find two components from different vendors that are exactly alike. This is true for computers, networks, and software products, as well as the applications built on top of them. The nature of a distributed system prevents us from making bold predictions about when and how various services and applications are going to be implemented, where they will need to run, or how they will need to be extended. After all, a key benefit of the distributed model is that the system can grow incrementally over time.

As a result, one of the key attributes that these sorts of software should employ is to abstract differences in communication channels and data representations through the use of standards and protocols. Separating the application-level and transport-level communication aspects is a key element. To do this, protocols and data formats must be agreed and adhered to.

7. Flexibility and extensibility

Shortsighted is the architect who believes he or she can predict the future requirements placed on his or her system. A key design goal for all distributed systems is to maximize system flexibility and make extending functionality as painless as possible. The system should be better prepared to handle modifications and extensions to its capabilities in the future. When functionality needs to be changed or extended, one should expect to reuse existing components rather than building from scratch.

8. Vendor independence

The system that is built does not exist in a vacuum. Hardware, operating systems, middleware, and networking products all play a role both in enabling and limiting the capabilities of the system. A well-designed system is one that operates in the context of hardware and software vendor implementations, but is not tied to it.

An open system is one in which components can be implemented in different ways and executed in a variety of environments. If the system is really open, the decisions made by your product vendors are much less of a threat to it over time. This can be essential to the longevity of the system and your reputation as its creator.

9. Transparency

Transparency in its many forms is a design goal that can make your system easier to use and more flexible. The principle is that the distributed nature of the system should be transparent to its users as well as to developers of individual applications. This is done to maximize the scalability and flexibility of the system.

10. Use of XML

XML, the eXtensible Markup Language, is not actually a language in its own right. It is a meta-language used to construct other languages. An XML-based infrastructure enables high levels of component reuse and interoperability in our distributed system. It also makes our system interfaces cleaner and more understandable to those who must maintain and extend it. Since XML is an industry standard, it can be deployed widely in our systems without worry about vendor dependence. XML also makes sense from the standpoint of systems integration, as an alternative to distributed object interaction. It allows data-level integration, making the coupling between our application and other systems much looser and enhancing overall architectural flexibility.