Improving Ease of Doing Business

Medium-Term Reform Roadmap

Office of the Prime Minister - Ethiopia

July 23, 2019
Improving the ease of doing business is an integral part of the national economic competitiveness and job creation agenda.

Improving the ease of doing business advances:

- Entrepreneurship and new startups
- Formalization of businesses
- Competitiveness/productivity of local businesses
- Investment attraction and retention
- More and better jobs creation
- Transparency and accountability in public service delivery
- Efficient tax administration/domestic revenue mobilization

Vision:
Placing Ethiopia among the TOP 100 DB ranking Countries in 2021
Short-term reforms: key highlights

- 8 new laws and 40 procedural and administrative reforms were enacted in 5 months.

- Having high-level reform leadership at PMO and in each Ministries, clearly defined reform agenda and regular progress tracking mechanism helped to drive the reform agenda.

- Short term reforms focused on quick wins (laying the ground for a more ambitious medium & long term reforms).

- Some of the legal reforms were approved after the end of April deadline and will count next year.

- Reforms need to be fully implemented (as verified by the private sector) to have an impact on DB ranking.
Short-term reforms: reform achievements

1. Starting a Business
   - Company name publication requirement removed
   - Lease/rental agreement requirement removed
   - OSS at MOTI (covering tax and authentication) created
   - Legal base for the application of software replacing cash register machine created

2. Getting Credit
   - Directive to include MFIs and leasing companies in to NBE credit registry system adopted
   - Credit information system coverage expanded from 0.4% to over 5% of adult population
   - Movable properties security rights proclamation approved

3. Trading Across Borders
   - Electronic single window system piloted
   - Deferred payment; pre-arrival & advance ruling implemented
   - Number of documents required for import & export reduced by 4 (12-10 for export; 11-9 for import)
   - Risk level for both import & export improved (more yellow & green) reducing the need for physical inspection
   - E-certificate of origin implemented

4. Paying Tax
   - E-filling & e-payment on gradual expansion beyond large tax payers (2,800 e-filling, 25% medium tax payers)
   - Tax payment through banks implemented
   - Dedicated medium tax payers branch opened in A/A
   - Risk-base VAT refund system introduced
Short-term reforms: reform achievements

- Directives issued to:
  - Set time standard to connect to water (3 days) & sewerage (12 days) for commercial & industrial clients
  - Reduce time to get planning consent from 3 days to 45 minutes
  - Reduce the maximum number of days for review and approval of plan to 13 from 21 days

- Commercial benches expanded (additional 2 benches established at FFIC)

- Commercial bench procedure code enacted setting time standard for court events and introducing new case management systems

- Digitalization of majority of title deed - 77.4% scanned & 22.8% fully digitalized
- Land plot fully digitalized
- Document requirements, land transactions and disputes availed online
- Notification period on transaction reduced from 30 to 7 days
- Time to get tax clearance reduced to 1 day

- Online construction permit application platform piloted
- Registered professionals for verifying plans; inspection and supervision hired
- Effective tariff information availed online
- Working procedure revised to reduce number of documents required
Moving from short to medium-term

- **Medium and long-term reform action points slight revised** based on results and learnings so far

- As we move into medium-term action items, there is high need to focus on:
  - **Full/effective implementation** of short-term reforms
  - **Deeper and high-impact reforms** that significantly reduce time & cost (process streamlining/reengineering, use of ICT solutions etc)

- **All reforms must be implemented by 31 December, 2019**

- **Communicating reforms to all users and soliciting feedback** is vital to socialize reforms and take corrective actions, as needed.

- **Indicator on public procurement** may be included in DB score by 2020
Timeline – DB Cycle

- Commencement of focused implementation (medium & long-term reforms)
- Completion of medium-term reforms
- Reform communication to the private sector (workshops, media etc)
- Compilation of DB 2020 reform reports and evidences
- PMO to convene monthly progress update meeting with all agencies
- Ensure reforms are effectively implemented on the ground and the private sector perceives the change
- DB 2019 report launch
- Compilation of DB 2020 reform reports and evidences

Oct  
Nov  
Jan  
Feb  
Mar  
April  
May  
Jun
Regular follow up mechanism will continue to be instrumental to implement deeper and more ambitious reforms.

- Reform dashboard is developed and shared for each ministry/agency
- Official launch of the reform and establishment of

Office of the Prime Minister
Reform Champion

Ethiopian Investment Commission
Reform Coordinator

8 Ministries/Agencies
Reform Implementers
Reform task force under each Ministry/Agency

Monthly Report/meeting:
- PMO+ EIC + Implementing Ministries/Agencies

Bi-weekly follow up meeting:
- EIC + Implementing Ministries/Agencies

Weekly Report:
- Update of ongoing reform implementation by each task force
Starting a Business: Ministry of Trade and Industry

**Medium term**

- Launch an online business registration & licensing portal that:
  - Include online name reservation/approval system;
  - Linked with relevant government agencies involved in business licensing;
  - Should be a two-fold process for user (application & license)

- Reduce number of procedures from 11 to 5 and days from 32 to 4 by:
  - Merging TIN, VAT & pension registration
  - Merging issuance of business license & commercial registration
  - Eliminate/delegate MOTI to authenticate AOA & MOU

- Fully implement regulatory changes (remove lease agreement; newspaper publication of trade name & one stop shop services at all levels – both at HQ and sub-city levels)

**Long term**

- Reduce number of procedures from 5 to 2 & days from 4 to 1 (limit procedure to application for a business license & acquire VAT, TIN & business license)
Getting Credit: National Bank of Ethiopia

**Medium term**

- Effectively implement movable properties security rights proclamation through implementing legislations (regulation and/or directive)
- Introduce & operationalize collateral registry system (hardware and software)
- Effectively operationalize credit information system (allow online service to MFI lenders and capital good financing companies)
- Further expand credit information system (by adding to the database all borrowers of banks, MFIs and capital good financing companies)
- Develop & implement a credit scoring mechanism
- Include data from retailers or utility companies to credit information system

**Long term**

- Expand credit information system – considering PPP and other private modalities
Paying Taxes: Ministry of Revenue

**Medium term**
- Replace cash register machine with software for printing VAT invoice for incorporated medium tax payers in Addis Ababa
- Increase coverage of e-filling & e-payment to 100% of incorporated medium tax payers in Addis Ababa for all types of taxes (promote the use of e-filing/payment and increase taxpayer outreach)
- Introduce mobile payment & cover 30% of small tax payers for all types of taxes
- Fully automate tax payment through bank by removing requirement to bring slip to tax office
- Reduce time to obtain VAT refund by at least 90% from current average of 48.7 weeks
  - Include medium tax payers in the threshold for immediate payment or
  - Introduce deferred payment of VAT on capital purchases

**Long term**
- Replace cash register machine with software for printing VAT invoice for all tax payers
- Enforcement of a compulsory online tax filing and payment mechanism where
  - Large & medium tax payers use e-filling & e-payment with a back-up of payment through banks
  - Small & micro tax payers can use mobile payment with a back-up of payment through bank
Trading Across Boarders: Customs Commission

**Medium term**

- Fully implement ESW including electronic submission and processing and involving all agencies
- Approve & implement new customs service charges regulation
- Eliminate mandatory hiring of clearing agents for all exporters (revise regulation on clearing agent)
- Reduce physical and documentary inspection for import and export:
  - Import/spare parts: reduce red from 33.6% to 15%, increase yellow from 39% to 50%
  - Export/coffee: reduce yellow from 100% to 25%
- Reduce number of checkpoints at the Ethio-Djibouti transit route from 3 to 1
- Implement coordinated & risk-based inspection by boarder agencies (Ministry of Agriculture for coffee)
- Implementation of self-sealing of shipments for exporters at own premises
- Reduce cost of domestic transportation through competitive private sector participation
- Pilot deeper efficiency enhancing reforms on coffee & spare parts

**Long term**

- Ensure ESW covers electronic payment
- Investment in port infrastructure to improve efficiency
- Remove export bank permit procedures for major exports (pilot with coffee) by fully implementing post export audit
Dealing with Construction Permits: Addis Ababa City Administration

Medium term

- Fully implement compulsory online system including
  - Planning consent application & approval
  - Application for construction permit including submission of all required documents (neighboring consent & mortgage clearance)
  - Fee collection, follow up & issuance of construction permit certificate
- Single application regime: include application for water and sewerage connection in the application for construction permit
- Develop & implement GIS for cost estimation to connect water & sewerage
- Full implementation of new service standard issued by AAWSA which reduced time to connect to water (3 days) and Sewerage (12 days) for business and commercial clients
- Effective implementation of revised directive 1/2011 which include
  - Risk-based inspection
  - Reduce plan approval time to 13 from 21 days
  - Planning consent to 45 minutes from 3 days

Long term

- Eliminate site inspection through full implementation of GIS for cost estimation to connect water & sewerage
Registering Property: Addis Ababa City Administration

**Medium term**

- Digitize 100% of title deed records
- Reduce number of procedures by 2 through:
  - Merging ownership verification & price evaluation
  - Merging stamp duty & capital gain tax payment
- Launch online property transaction & registration services including
  - Application, document submission, payment, follow up & transfer title deed
- Continue updating publication on land dispute & transaction
- Effectively implement revised service standard (reduce time for property transaction to 16 from 52 days)
- Effectively implement agreement between Ministry of Revenue & Land Registration & Information Agency to reduce the number of days to get tax clearance (procedure no. 3) from 14 days to 1 day

**Long term**

- Enforce 100% compulsory online property registration services
Getting Electricity: Ethiopian Electric Utility

Medium term

- Introduce compulsory online application and follow up/tracking to get electricity connection
- Introduce automated tool to measure frequency & duration of interruption
- Develop GIS to eliminate site visit
- Reduce the time it takes for connection by 75% (current average: 60 days Vs 15 in Rwanda).
  - Outsourcing connection and installation work to private companies or alternative mechanism to achieve above target
- Effectively implement the revised procedure which:
  - Reduced number of documents required for applying for connection
  - Reduced number of days for connecting to electricity

Long term

- Implement GIS and replace site visit
- Allow for compensation to customers where outages exceed a certain cap
Protecting Minority Investors: Federal Attorney General

Medium term

- Approval of the Commercial Code by the Parliament (with new/modern rules that enhance protection and participation of minority shareholders)
  - Revise provisions on disclosure, director liability, shareholder right, corporate transparency, ownership & control
- Develop procedure for evidence rule to allow access to supporting documents/discovery by minority investors
- Approval of consolidated arbitration, mediation and conciliation law encompassing substantially all aspects of alternative dispute settlement
- Revise the civil procedure code/enact alternative legislation that regulates the maximum number of adjournments and limits the same to unforeseen and exceptional circumstances in civil matters (including commercial cases)
- Ratify the NY Convention on Recognition and Enforcement of Foreign Arbitral Awards

Long term

- Position Addis Ababa as Commercial Arbitration Hub in Africa (lead reform on New York Convention, Apostille Convention and other international commercial rules)
Resolving Insolvency: Federal Attorney General, Federal High Court

Medium term

- Approval of the Commercial Code by the Parliament (with new/modern rules on bankruptcy and reorganization procedures including commencement of proceedings, management of debtor's assets, reorganization proceedings, creditor participation and recovery rate)
- Reduce time for resolving insolvency from 3 years by 50% through assigning specialized bench

Long term

Effectively implement the new insolvency law regime by:
- Enacting secondary legislation (regulation or directive that sets fees for insolvency practitioners as well as modalities and standardized forms for procedures
- Development of insolvency regulator
- Licensing insolvency practitioners
Enforcing Contracts: Federal First Instance, High and Supreme Courts

Medium term

- Implement full court automation at FFIC, FHC, FSC covering:
  - electronic case assignment system to reinforce random process
  - electronic case management system that serves both judges and lawyers (needs to be robust and comprehensive to count for DB)
- Online publication of commercial case judgments at all levels (FFIC, FHC, FSC)
- Reduce time to settle a commercial case (filling-trial-judgement-enforcement) by at least 40% (current average: 530 Vs 230 in Rwanda)
  - Increase the number of commercial benches and judges
  - Implement streamlined procedures in commercial benches (assistant judges, special secretaries etc.)
- Full implementation of commercial bench proceeding code in commercial benches (at all levels of court system)

Long term

- Reduce time to settle a commercial case by at least 60% (current average: 530 Vs 230 in Rwanda)
- Fully automate court process – include online complaint lodging, electronic fee payment etc.
Cross Cutting Reforms: Multi-Agency (including Ministry of Innovation and Technology, Ethio Telcom etc)

**Medium term**

- Create enabling legal and infrastructural/system framework for:
  - National ID: vital to consolidate/verify data, create trust and simplify application requirements
  - E-payment: core for full automation of all e-platforms
  - E-signature: core for full automation of all e-platforms

**Long term**

- E-payment, signature and ID implemented
- System interface among agencies: Ministry of Trade and Industry, Ministry of Revenue, Customs Commission, National Bank of Ethiopia, Addis Ababa Construction Bureau, Addis Ababa Land Administration, Courts etc
- Reliable access to power and internet in all government agencies
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