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BUSINESS REGULATIONS REPORT

BASELINE SURVEY ON SELECTED REFORMS IN SOMALILAND

ALTAI CONSULTING

PARTNERED WITH TUSMO IN SOMALILAND



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ABBREVIATIONS

CAPI	Computer-Assisted Personal Interviews
CCS	Compliance Cost Savings
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CoC	Chamber of Commerce
ES	Enterprise Survey
SICRP2	Somali Investment Climate Reform Project II
ICT	Information and Communications Technology
IFC	International Finance Corporation
KII	Key Informant Interview
MoF	Ministry of Finance
MoTIT	Ministry of Trade, Industries and Tourism
MSME	Micro, Small and Medium Enterprises
OSS	One-Stop-Shop
SUSIP	Somali Unlocking Sectoral Investment Project
TIN	Tax Identification Number

EXECUTIVE SUMMARY

BACKGROUND

This baseline survey in Somaliland on business regulations is a study commissioned by the IFC to inform both its SICRP2 and SUSIP project, which aim to enhance private sector-led growth and competitiveness in Somaliland. The aim of the business regulations component of the project is to gather data on processes and procedures to start and operate businesses in Somaliland, and to identify primary constraints in the business regulatory environment.

The study was based on primary data collection gathered from a quantitative survey of 108 businesses and nine KIs with government institutions in Hargeisa in September and October 2020.

FIRM BACKGROUND CHARACTERISTICS

Most of the firms had male owners (81%) and 94% of them were Somalilanders. Companies could be broken down by sector of activity, size, ownership type and formality. Most (69%) of firms in the sample were formal firms. Only 31% of firms were partnerships, while the rest were sole proprietorships. The size and sector breakdown aimed to be as representative of the business population of Hargeisa. The following breakdown was achieved for informal firms:

	Micro	Small	Medium	Total
Manufacturing	0	3	2	5
Retail	16	4	0	20
Other Services	6	3	0	9
Total	22	10	2	34

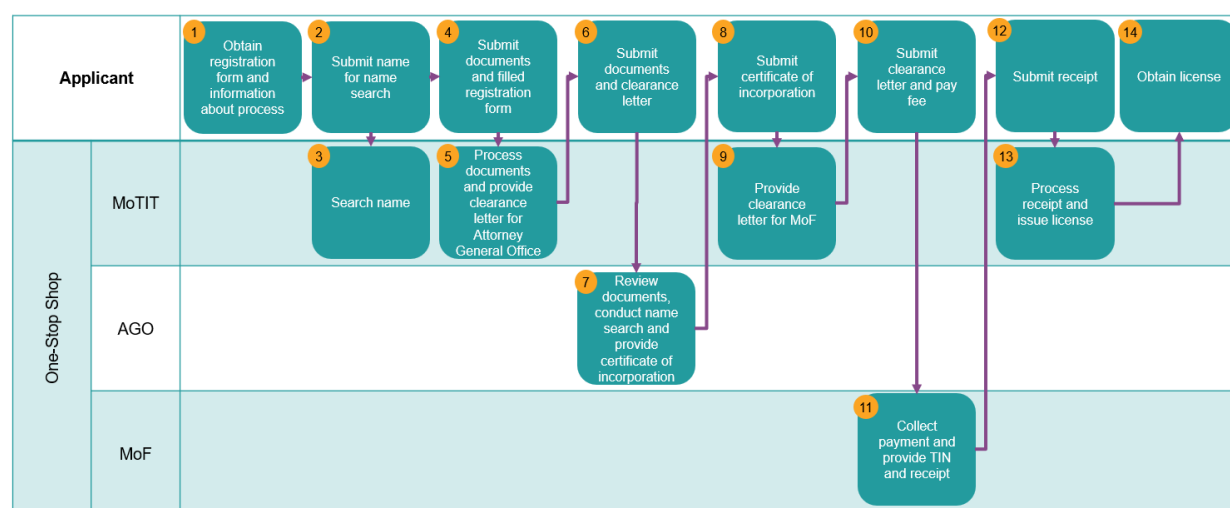
The following breakdown was achieved for formal firms:

	Micro	Small	Medium	Large	Total
Construction	0	0	1	6	7
Manufacturing	0	3	9	1	13
Logistics	0	4	3	0	7
Retail	0	0	7	0	7
Agriculture	2	5	1	1	9
Mining and Energy	0	2	6	4	12
ICT	1	7	0	2	10

Other Services	0	5	4	0	9
Total	3	26	31	14	74

BUSINESS REGISTRATION

Three types of registration exist within Somaliland: with the MoTIT, with the CoC and with the Municipality. Registration with the MoTIT is described in the 2018 Somaliland Companies Law (Law No. 80/2018) as the only mandatory and valid registration. In this report, a firm is considered formal if it registers with the MoTIT. Registration with the CoC is optional, while it is unclear whether registration with the Municipality is mandatory or not depending on whether one follows the Somaliland Companies Law (Law No. 80/2018) or the Tariff Law (Law No. 12/2000). The MoTIT created a one-stop-shop (OSS) in 2019 whereby businesses can follow all registration steps within a same location within the MoTIT. The current official registration process is mapped in the following figure:



Perceptions around the MoTIT registration process were inconclusive as about half found the process straightforward and the other half found it difficult. 74 of the interviewed firms had registered with the MoTIT. When asked to describe the process, interviewed firms also mentioned that the process took longer than it was supposed to and required multiple visits (97%) when it should only require one visit officially. Officially, the entire registration process should take two days overall, with steps 1 to 3 being conducted within the first day and steps 4 to 13 being conducted the second day.

Registration with the Chamber of Commerce was a simple process both officially and according to businesses. However, 51% of the businesses saw no significant benefit in registering with the Chamber of Commerce. Informal businesses were very unlikely to register with the Chamber of Commerce (3%). Officially, documents to submit include an ID (Somaliland ID card for local owners or passport for foreign owners), a company profile, the company's Articles of Association, and a notarized version of the share composition of the company if it is a partnership. However, the documentation needed towards the registration process was unclear as businesses from the survey submitted a varied list of different documents.

Similar conclusions were found about the registration with the Municipality. Very few (6%) respondents saw an actual benefit in registering with the Municipality. The documentation to provide was

also unclear as 56% did not provide any documentation at all and the remaining submitted a very varied list of documents.

BUSINESS LICENSING

The business licensing process is linked to the business registration process in that firms first need to register with the MoTIT before applying for a business license. The licensing process also takes place within the MoTIT OSS and the MoTIT is the only institution that is able to issue business licenses. However, sectoral permits can also be provided by the corresponding sector Ministries.

BUSINESS INSPECTIONS

Officially, two types of inspections can take place: either by the Municipality that conducts inspections prior to issuing construction permits, or by the MoTIT to ensure businesses have a valid business license and are paying their taxes. Most (60%) of the survey respondents had been inspected at least once in the past year. Reasons for the inspections varied, but informal businesses were most likely to be inspected to check for product expiry (47%), while formal businesses were most likely to be inspected to check for license validity (44%).

There is currently no legal framework associated with business inspections as the Inspections and Licensing Act is currently under development. Therefore, businesses are rarely informed of the inspection taking place (30%) or of the associated laws and regulations. While the legal framework has not yet been approved, a positive finding is that inspections are efficient as 95% of them take less than an hour, and most lead to positive results (92% for formal firms and 74% for informal firms).

RECOMMENDATIONS

While many improvements have been made on business regulations in recent years, several recommendations can be made, including:

- Clarify which institutions each firm must register with
- Develop an online registration platform
- Automate the registration processes
- Create feedback and appeal mechanisms
- Clarify required documentation
- Provide a fee schedule for Municipality-level processes

1 INTRODUCTION

1.1 BACKGROUND

The International Finance Corporation (IFC) supports two investment climate and business environment projects that seek to implement investment climate reforms to expand and strengthen the Somali and Somaliland private sectors:

- **The Somali Investment Climate Reform Project (SICRP2)**, which aims to improve the climate in which businesses operate to improved efficiency through streamlined processes, enhance transparency and accountability;
- **The Somali Unlocking Sectoral Investment Project (SUSIP)**, which aims to facilitate growth and investment in prioritized sectors by addressing sectoral gaps in policy, regulatory, administrative and institutional frameworks that inhibit private investments in Somalia and Somaliland.

Both projects aim to enhance private sector-led growth and competitiveness in Somaliland, particularly in Hargeisa and the Berbera Corridor, by targeting investment climate and business environment reforms.

1.2 BASELINE OBJECTIVES

The Baseline Survey in Somaliland on Business Regulation is a study commissioned by the IFC to inform design and implementation of Government of Somaliland reforms facilitated by SICRP2. The objectives of the business regulations component are:

- To gather data on processes and procedures for starting and operating a business in Somaliland;
- To identify the primary constraints in the business regulatory environment in Somaliland.

Note that the business regulations baseline component was completed in parallel with a separate baseline survey examining investment promotion in Somaliland. The results of the investment promotion baseline will be detailed in a separate report.

1.3 METHODOLOGY

1.3.1 OVERVIEW OF RESEARCH INSTRUMENTS

Quantitative and qualitative data were collected for the business regulations component. A quantitative survey was implemented, as well as KIs with government institutions, as shown in Figure 1. The quantitative survey was conducted between September 3rd and 20th 2020, while the KIs were conducted between October 10th and 26th 2020. A follow-up quantitative survey was conducted on the 17th of December with eight businesses to inform the IFC's Compliance Cost Savings (CCS) calculations. These eight firms were randomly selected from a list of formal firms that had participated in the main survey, that had been inspected and that had either applied for a license or a construction permit.

Figure 1: Business Regulations Baseline Instruments

Methods	Approach & Methodology
1 Business Regulations Quantitative baseline: Business Survey	<ul style="list-style-type: none"> • Close-ended questionnaire • Administered face-to-face as CAPI • Stratified random sampling • n=108
2 Business Regulations Qualitative Baseline	<ul style="list-style-type: none"> • 9 KIIs with government institutions

1.3.2 QUANTITATIVE RESEARCH

1.3.2.1 Research Tools

The survey employed a mostly close-ended questionnaire, deployed as Computer Assisted Personal Interviewing (CAPI). The questionnaire was reviewed during the training of enumerators and was piloted to ensure that all topics were covered properly and that the questionnaire was tailored to the culture of the target audiences. The quantitative tool was translated into Somali, digitized and uploaded to the CAPI platform SurveyCTO.

1.3.2.2 Sampling Strategy

1.3.2.2.1 Sampling Frame

A list of formal businesses registered with the Somaliland Ministry of Trade, Industries and Tourism (MoTIT) was shared by the MoTIT, which served as the sampling frame for the formal businesses. The MoTIT also provided a list of informal businesses not registered with the MoTIT¹, which it used to conduct their study ‘*Impact assessment of the COVID-19 crisis on the informal business sector in Hargeisa*’ in June 2020. For this exercise, the informal businesses were sampled purposively across Hargeisa. This list of businesses served as sampling frame for the informal businesses in this baseline study.

The list of formal businesses provided by the MoTIT included 965 businesses in Hargeisa. The list included the registered name, the founder’s name and gender, the type of ownership (sole proprietorship or partnership), type of company (limited by liability or limited by shares), whether it was a foreign or local business, the business objective, date of registration or renewal, and contact information.

The list of informal businesses provided by the MoTIT included 175 businesses in Hargeisa. It included the business’ name, the founder’s name, the business objective, size, and contact information.

¹ Throughout the report, formal businesses refer to those that are registered with the MoTIT, while informal firms are those that are not registered with the MoTIT. Both formal and informal firms could be registered with other institutions, including the Chamber of Commerce and the Municipality.

1.3.2.2.2 Sampling Design

The sampling strategy for the business regulations survey was designed to ensure that collected data was representative at the Hargeisa level. The design adopted for this survey included a stratification according to the registration status and the sector of activity. Formal businesses are defined here as those that are registered with the MoTIT, while businesses that are not are considered informal. Most (70%) of the businesses were sampled from the list of formal businesses registered with the MoTIT while the remaining 30% was sampled from the list of informal businesses. The sampled firms were randomly selected from the list of firms with the same level of formalization and sector of activity.

Sectoral stratification for the formal businesses was based on the sectoral stratification for the Enterprise Survey (ES) conducted by the World Bank in Somaliland in 2013. In the sampling frame for the formal businesses, 48% of the businesses were in the retail sector and 25% were in the 'other services' sector. Conducting the sampling according to these proportions introduced bias since many of the firms in these sectors are believed to be small and to contribute less to the economy. Therefore, the sector stratification was based on the ES sectoral stratification adjusted to be more representative of the Hargeisa economy. Adjustments were also made to include the logistics and energy sectors which were not included in the ES in 2013. The following table presents the baseline breakdown according to the sector of activity:

Sector	Sampling Frame Proportions	Enterprise Survey Proportions	Targeted Proportions	Targeted Number of Interviews	Actual Number of Interviews
Construction	2%	17%	10%	7	7
Manufacturing	5%	27%	20%	14	13
Logistics	9%	0%	10%	7	7
Retail	48%	13%	10%	7	7
Agriculture and fishing	2%	12%	10%	7	9
Mining and electricity	5%	0%	16%	11	12
ICT	4%	14%	14%	10	10
Other services	25%	17%	10%	7	9
TOTAL	100%	100%	100%	70	74

Sectoral stratification for the informal businesses was based on the proportion of each sector in the sampling frame. Therefore, the sectoral breakdown for the informal businesses was as follows:

Sector	Sampling Frame Proportions	Targeted Proportions	Targeted Number of Interviews	Actual Number of Interviews
Manufacturing	7%	10%	3	5
Retail	66%	60%	18	20
Other services	27%	30%	9	9
TOTAL	100%	100%	30	34

In addition to stratification prior to data collection, quotas were set according to the size of the business and the year of registration with the MoTIT. When setting up interviews over the phone, the enumerators asked the respondent first whether they have registered with the MoTIT in 2019. If a business on the formal list did not register in 2019, the interview was discontinued. Then, respondents were asked

about the number of employees within their firm. If the firm did not fit into the size quota, the interview was discontinued. The size quota was set so that 22% of the sample was micro-enterprises (less than 5 employees), 34% was small enterprises (5-19 employees), 30% was medium enterprises (20-99 employees) and 14% was large enterprises (100 or more employees). The size quotas are aligned with the definition of Micro, Small and Medium Enterprises (MSMEs) under Somaliland's 2019 MSME policy.

Due to the ex-post stratification, both formal and informal firms were slightly oversampled in order to fill as many quotas as possible. Therefore, 108 interviews were conducted overall, instead of the originally targeted 100. This does not pose any problem for the analysis and improves data quality overall.

1.3.2.2.3 Sample Size

A total of 108 interviews with businesses were conducted, 74 of them with formal businesses and 34 with informal businesses. The target number of interviews were assessed against validity criteria, and only valid interviews contributed to the required sample size.

Focus Box 1: Interview Validity Criteria

During the data collection, the following elements were monitored:

- Duration of interview: Interviews whose duration was below the duration threshold (determined during the training) were considered invalid and discarded;
- Random sound bites: Respondents were asked whether they agreed to random sound bites being recorded. Random sound bites were then collected on a random selection of questions within the questionnaire (through SurveyCTO Random Audio Audit feature). These must include respondent's and enumerator's voices. If not, the interview was considered invalid and discarded.

1.3.2.2.4 Non-response and Replacement Protocols

Measures were put in place to ensure that non-responses were properly referenced, that follow up calls and visits were respected in cases where no eligible respondents were present, and that replacements were always recorded.

- **Non-response procedures:** To account for non-responses, a form was finalized and completed for the respondents who do not give their consent (as asked at the beginning of the questionnaire) and/or refused to answer the survey.
- **Replacement procedures:**
 - A business was replaced for any of the following reasons:
 - The respondent refused to give his/her consent to complete the survey;
 - The firm had discontinued business;
 - The firm was a duplicated firm within the sample;
 - The firm did not fit the eligibility criteria in terms of size and sector of activity;
 - The respondent was unreachable in person or by phone (e.g., phone was switched off/out of order);
 - The interview was terminated by the respondent before the end.

- In cases where respondents did not answer the first call, enumerators conducted up to two follow up calls, each at least two hours apart. If this did not yield any results, where the company location was known, the enumerators visited the office of the registered company to seek a face to face interview.

1.3.3 QUALITATIVE RESEARCH

Key Informant Interviews (KIs) were conducted with government institutions to verify the *de jure* processes and procedures described in the documentation. Government institutions involved in the processes related to registration, licensing (particularly for the energy and ICT sectors, and investment certificates), inspections, and constructions permits were interviewed.

Tools were developed to ensure the completeness of the information. The KIs were implemented by dedicated facilitators (local researchers) with the support of note-takers. The KIs were conducted after the quantitative data collection.

The following KIs were conducted with government institutions:

Institution	Title	Name
MoTIT	Director of Planning	Barkhad Abiib Hassan
Chamber of Commerce (CoC)	Director of Registration	Suleeman Elmi Jama
MoTIT	Head of Inspection Team	Ahmed Heeban Jama
MoTIT	Director of Trade Department	Dhuuh Abdullahi Abdi
Attorney General Office (AGO)	Director of Legal Affairs	Barkhad Omer Ali
Ministry of Finance (MoF)	Head of Revenue in the OSS of MoTIT	Ahmed Abdi Ali
Ministry of Communications and IT	Director General	Ali Abdullahi Dahir
Ministry of Energy and Minerals	Deputy Director	Abdirizak Mohamed Abdi
Hargeisa Municipality	Director of Planning and Development	Ali Mohamed Nour

2 FIRM BACKGROUND CHARACTERISTICS

2.1 OWNERSHIP INFORMATION

The majority of the business owners were male (81%). Owners of informal firms were more likely to be female than those of formal firms (41% vs 3%), but formal firms were more likely to have joint male and female owners than informal firms (7% vs 0%). Most of the owners of the sampled firms were Somalilanders (94%), while the remaining were foreign nationals.

Nearly a third of firms (31%) were partnerships. A higher proportion of formal firms were partnerships compared to informal firms (39% vs 12%). Businesses in the agriculture and mining and energy sectors were more likely to be partnerships, 56% and 58% respectively, while it was very unlikely for retail firms to be partnerships (7%).

2.2 COMPANY INFORMATION

As per the sample design, most of the firms were formal firms (69%), while 31% of firms were informal. The breakdown of formal firms in terms of sectors and sizes is shown below:

Table 1: Formal Firm Sample Size and Sector Breakdown

	Micro	Small	Medium	Large	Total
Agriculture	2	5	1	1	9
Construction	0	0	1	6	7
ICT	1	7	0	2	10
Logistics	0	4	3	0	7
Manufacturing	0	3	9	1	13
Mining and Energy	0	2	6	4	12
Other Services	0	5	4	0	9
Retail	0	0	7	0	7
Total	3	26	31	14	74

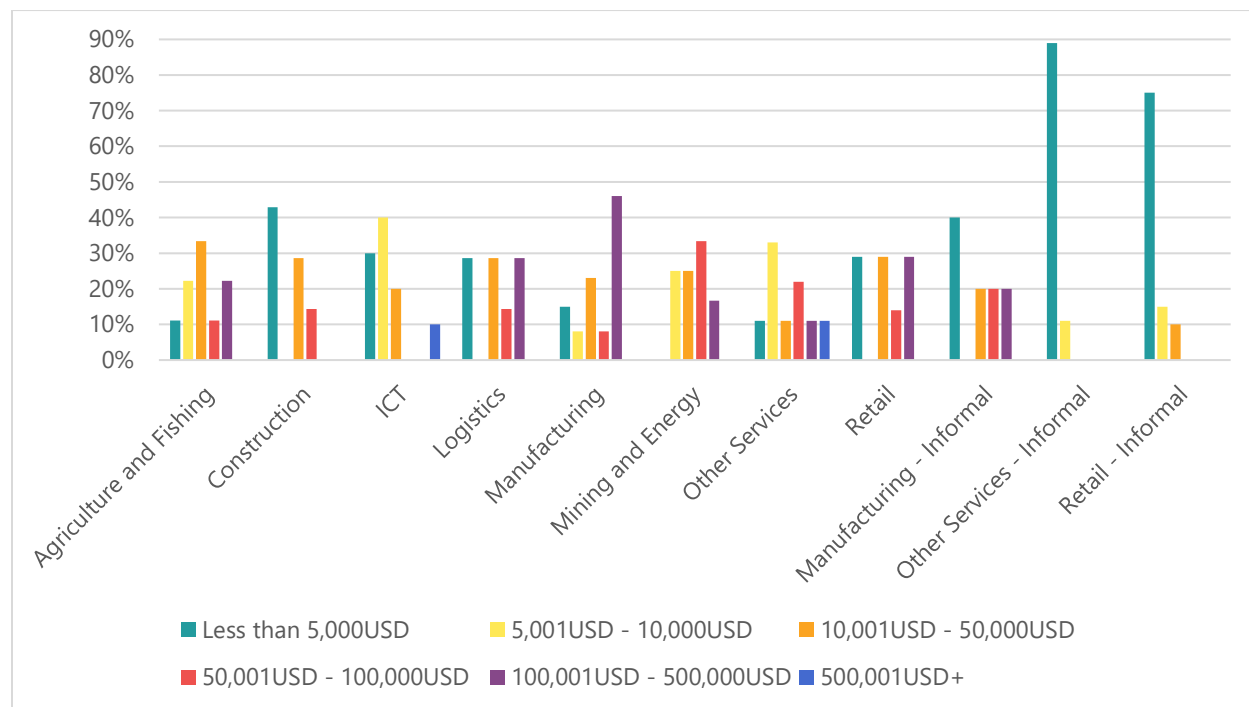
The breakdown of informal firms in terms of sectors and sizes is shown below:

Table 2: Informal Firm Sample Size and Sector Breakdown

	Micro	Small	Medium	Total
Manufacturing	0	3	2	5
Other Services	6	3	0	9
Retail	16	4	0	20
Total	22	10	2	34

Nearly all (98%) of the firms were registered in Hargeisa, and just over half of the firms started operations after 2016 (56%). Informal and smaller businesses were more likely to have a start-up capital of less than 5,000 USD. The sector breakdown in terms of starting capital is shown in Figure 2.

Figure 2: Start-Up Capital, by Sector



3 BUSINESS REGISTRATION

Businesses must consider three business registration processes in Somaliland:

- **Registration with the MoTIT:** Businesses here are considered ‘formal’ when they register with the MoTIT. According to the Somaliland Company Law (Law No. 80/2018), all firms must register with the MoTIT to operate officially;
- **Registration with the Somaliland Chamber of Commerce (CoC):** Registration with the CoC used to be mandatory but is no longer since 2018. However, firms can still register with the institution at their discretion;
- **Registration with the local Municipality:** Businesses can register with their local district Municipality. It is unclear whether registration is mandatory or not as there are contradictory legal frameworks at present.

In this section, the three different registration processes are presented as described by government institutions (*de jure* processes) and by formal businesses themselves (*de facto* processes).

3.1 REGISTRATION WITH THE MOTIT

3.1.1 OFFICIAL VIEW OF THE PROCESS

Business incorporation is governed by the 2018 Somaliland Companies Law (Law No. 80/2018). It is an amendment to an earlier Somaliland Companies Law (Law No. 25/2004) and took effect on 01 September 2018, following the World Bank’s 2012 Doing Business Report, which recommended improving the registration process through streamlining and clarifying the registration steps. In addition to the 2018 law, a business registration regulation is being drafted. The first stakeholder meeting for the business registration regulation was conducted in August 2020. As of October 2020, a validation meeting needs to be held to validate the business registration regulation before it is approved by the Minister of the MoTIT. The regulation will support the 2018 law by clearly stating the practical steps to business registration.

“In 2012, the World Bank conducted a baseline survey called ‘Doing Business’ to know more about businesses in Somaliland. After this study, we came to the realization that the burdens associated with business registration are actually brought by the law. Therefore, we decided to do an amendment to the law in order to simplify the process for the businesses.”²

– Government Key Informant

The registration process has vastly improved since 2012 when the registration process took a total of 29 days. In 2018, when Law No. 80/2018 was passed, the registration process was reduced to 11 days. In 2019, the MoTIT created a physical one-stop-shop (OSS) for registration within the MoTIT, whereby the registration process was further reduced to two days in total. See Table 3 below.

“Compared to the previous years such as 2012, the process is less difficult now. Previously, it used to take about a week or more to complete the registration. The different institutions were at a different locations distant from each other. We amended the business law and gathered all necessary

² KII with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

institutions for the business registration in one place (OSS). This has minimized the time spent on the process. We also took out the unnecessary steps such as the CoC.”³

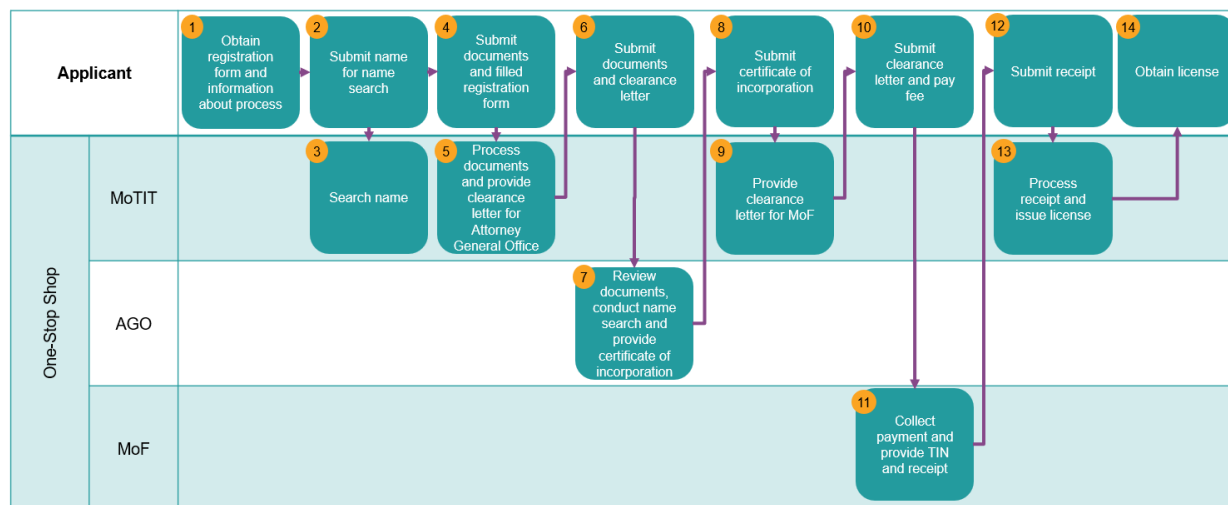
– Government Key Informant

With the creation of the Physical registration OSS, all registration steps could be conducted within the MoTIT. This had the benefit of reducing the number of journeys made by firms and the number of days spent to register their businesses. Within the OSS, all actors of the registration process, including representatives from the registration section of the MoTIT, the Attorney General Office (AGO) and the Ministry of Finance (MoF), have an office. The entire registration process is conducted over two days. The first day, the firm obtains a registration form and information about the process and submits their company name to be searched. The MoTIT manually searches the name in their database of registered firms. The next day, once it is confirmed that the company name is not a duplicate, all other steps of the process are conducted.

First, the firm submits the filled registration form and supporting documents to the MoTIT, which will then process the documents and provide a clearance letter for the AGO. The firm then provides all the documents and the clearance letter to the AGO, which then reviews all the documents, conducts its own name search and issues the Certificate of Incorporation. At this stage, the firm is officially registered, but has not yet received its license. The firm then submits the Certificate of Incorporation to the MoTIT, which then issues a clearance letter for the MoF. The firm submits the clearance letter and pays the fee to the MoF. The MoF then issues a receipt and a Tax Identification Number (TIN) to the firm, that then submits this information to the MoTIT. The MoTIT finally processes the receipt and issues the regular business license. The process is schematized in **Error! Reference source not found.** below.

Firms must submit the supporting documents both to the MoTIT office and the AGO office within the MoTIT. These include a national ID (if local owner) or passport (if foreign owner), the Article of Association (notarized if a partnership), the filled registration form and potentially a sector permit from the corresponding line Ministry (depending on the sector of activity).

Figure 3: Registration Process with the MoTIT



³ KIIs with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

Table 3: *De jure* Registration Process in 2012⁴, 2018⁵ and 2020⁶

#	Process in 2012		Process in 2018		Process in 2020	
	Step	Time (days)	Step	Time (Days)	Step	Time (Days)
1	Notarize incorporation documents	5	Obtain Information from Ministry of Trade on how to register a business	1	Obtain information and registration form from the MoTIT OSS	1
2	Open a bank account with the Bank of Somaliland and deposit the minimum capital		Register with the Somaliland Chamber of Commerce	1	Name Search and Reservation	
3	Obtain clearance from the Ministry of Commerce to incorporate with the Attorney General's Office		Obtain Permission Letter from the Line Ministry (Applicable if the Business has a line Ministry)	1	Submit form and supporting documents for verification (including notarized documents for partnerships)	1
4	Obtain certificate of incorporation from the Attorney General's Office	2	Apply for commercial license from Ministry of Trade	1	Obtain clearance letter from MoTIT Director General to register with Attorney General's Office	
5	Apply for and obtain a commercial license at the Ministry of Commerce		Provide memorandum and Articles of Association	1	Submit clearance letter and supporting documents to AGO	
6	Pay commercial license fee at the MoF		Obtain clearance from the Ministry of Trade to incorporate with the Attorney General's Office	1	Obtain Certificate of Incorporation from AGO	
7	Apply for local business license at the District Commissioner's Office and receive on-site inspection of the business premises	22	Obtain Certificate of incorporation from the Attorney General's Office	1	Obtain clearance letter from MoTIT to take to the MoF	
8	Register with the Somaliland Chamber of Commerce		Obtain clearance from the Ministry of Trade to pay the fee at In-land Revenue Department	1	Submit MoTIT clearance letter, supporting documents and license fee to MoF	
9	Pay local business license fee at the District Office		Pay commercial license fee at the MoF	1	Obtain receipt from MoF	
10	Obtain local business license from the Mayor's Office		Obtain Tax Clearance Certificate from MoF	1	Submit MoF receipt to MoTIT	
11	Purchase a company seal		Obtain business license from the Minister's Office	1	Obtain license from MoTIT	
	11 STEPS	29 Days	11 STEPS	11 Days	11 STEPS	2 days

⁴ World Bank Group, Somaliland Doing Business Report, 2012.⁵ MoTIT, Annual Progress Report January-December 2019, 2020.⁶ Ibid.

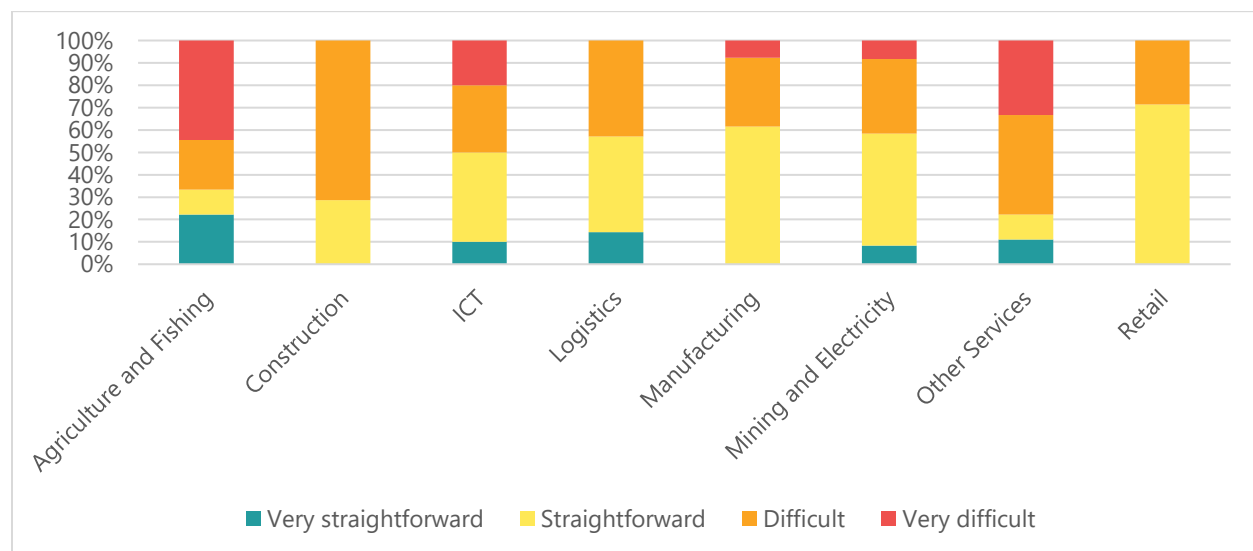
3.1.2 SURVEY RESULTS

Senior members of staff processed the registration of their companies most commonly. Nearly three quarters (73%) of the survey respondents stated that the owner of the company processed the registration for the company, followed by equal proportions (11%) by the general manager or CEO. Very rarely was the registration process conducted by a lawyer (4%) or a junior member of staff (3%). According to the follow-up survey, respondents would be willing to pay someone to conduct the registration process 46 USD a day.

The survey results did not always agree with the official efficient process presented by government documents and officials. While the official registration process is supposed to take two days on average, only 18% of respondents stated that it took two days or less. The largest share (34%) of the respondents stated that the registration process took more than two weeks followed closely by 30% who stated that it took between one and two weeks followed by 19% who stated that the registration took between three and five days. In addition, nearly half (49%) of the respondents stated that they visited the MoTIT more than three times to complete the registration process. Additionally, 23% visited the MoTIT three times, 19% twice and 7% only once. The number of visits was similar across sectors, ownership types and company sizes. According to the follow-up survey, each visit to the MoTIT costs the respondent 26 USD on average if based in Hargeisa, compared to 170 USD from Berbera.

Respondents' perceptions about the registration process were inconclusive. About half of the respondents viewed the registration process with the MoTIT as very straightforward or straightforward (49%), while the others viewed it as difficult or very difficult (51%). Businesses in the retail, logistics, manufacturing and mining and energy sectors were more likely to have a positive view on the process, while those in the construction, agriculture and other services sectors were more likely to have a negative view of the process, as demonstrated in Figure 4. Of those who thought the process was straightforward, half of them claimed so because they had personal connections with government officials or had previous experience with registering a business, while the other half said the process had actually improved. Several reasons were cited concerning the difficulty of the process, including lack of clarity about the process, the payment of unofficial fees, disorganization, and lack of commitment from the OSS staff.

Figure 4: Difficulty in Registering with the MoTIT, by Sector (n=74)



3.1.2.1 Initial Steps with the MoTIT

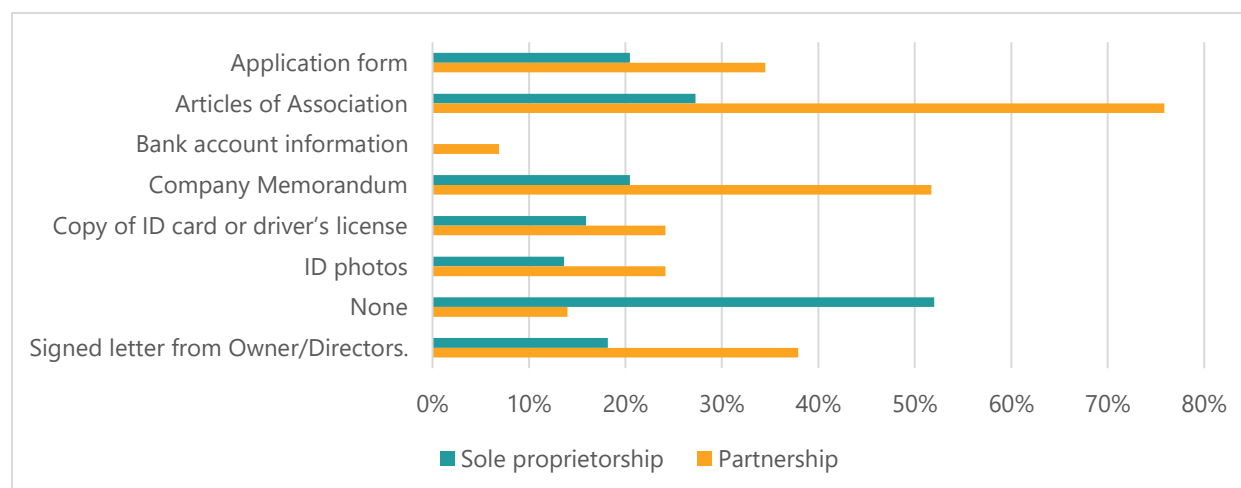
According to government officials, businesses should obtain information on the registration process from the MoTIT front desk, when in the survey only approximately a third of them did. Indeed, 34% of the formal businesses obtained information on how to register the company in person from the MoTIT followed closely by 30% of the respondents who obtained it through personal connections, 15% in person at another government agency, 14% through the Chamber of Commerce and 4% through the Municipality. Prior to registration, the clarity around the registration steps was varied as similar proportions viewed the steps as very clear (20%) and totally unclear (19%), while similar proportions viewed them as somewhat clear (30%) and not very clear (31%), potentially suggesting that the lack of clarity around the process could be due to a lack of awareness around the central point of information.

A majority of businesses got their name searched in the advertised time. After obtaining information about the process, the next step is for the MoTIT to search the name of the company. This is supposed to take less than a day, which was the case for 73% of respondents. An additional 8% stated it took two days and 4% three days.

There is a lack of clarity on which documents are required to register a business. Officially, to register with the MoTIT, the following documentation is required: a national ID (if local owner) or passport (if foreign owner), the Article of Association (notarized if a partnership), the filled registration form and potentially a sector permit from the corresponding line Ministry (depending on the sector of activity). From the survey, 88% of respondents provided an application form, 80% an Article of Association, 72% an ID, 61% ID photos, 61% a signed letter from the owners, 53% a Company Memorandum and 18% bank account information. In addition, 9% mentioned they needed to provide a membership certificate with the Chamber of Commerce. According to the follow-up survey, the average cost for document preparation was 39 USD.

All types of documents were more likely to have to be notarized if the business was a partnership rather than a sole proprietorship. According to the legal framework, only the Article of Association needs to be notarized and only if the business is a partnership. From the survey, 38% of all formal firms stated that they did not have to have any documents notarized, including 52% of sole proprietorships and 14% of partnerships. Of the businesses that submitted their Article of Association, 79% of partnerships had it notarized, compared to 40% of sole proprietorships. Of those who submitted a Company Memorandum, 70% of partnerships and 37% of sole proprietorships had the document notarized. A higher proportion of partnerships that submitted the documents had them notarized, compared to sole proprietorships, as shown in Figure 5.

Figure 5: Notarized Documents for Registration with the MoTIT, by ownership type (n=74)



The process to have documents notarized is simple. Most (61%) of the respondents who had documents notarized visited the public notary only once, 26% visited twice and 13% visited three times. The documents were notarized immediately according to 63% of respondents, within the day according to 17% of respondents, after two days according to 11% and between three days and a week by 9% of respondents. The public notary's fee was 20 USD or less according to 63% of respondents who had their documents notarized. The largest share (39%) paid a fee of 20 USD, followed by 20% who paid 10 USD and 11% who paid 50 USD.

The time it took the MoTIT to provide clearance to incorporate the business with the AGO varied depending on the sector of activity. Overall, 31% of respondents stated that it took two days, 26% said one day, 14% immediately, 9% less than three hours, 9% between three days and a week and 4% more than a week. However, these figures depended on the sector of activity. Indeed, 43% of the construction firms were provided with a clearance immediately, 57% and 43% of logistics and retail firms respectively after a day, and 56%, 46% and 42% after two days respectively for agriculture, manufacturing and mining and energy firms. According to government officials, it should only take the MoTIT a few hours to provide clearance.

3.1.2.2 Incorporation with the AGO

Nearly all respondents (96%) visited the AGO representative within the MoTIT OSS as part of the registration process. Of those who did, 86% provided the AGO with a clearance letter from the MoTIT, 52% with Articles of Incorporation, 45% with company by-laws, 37% with the Memorandum of Understanding and 13% with a form of ID. Large firms (64%) and partnerships (64%) were more likely to provide them with a Memorandum of Understanding than average.

While officially, fees should not be paid at the AGO, 30% of respondents who visited it had to pay an official fee. Larger firms were more likely to pay an official fee at this stage as 43% of large firms, 35% of medium firms, 20% of small firms and none of the micro firms paid official fees to the AGO. Of those who paid a fee, 90% paid less than 40 USD. The largest proportion (38%) paid 20 USD, followed by 29% paying 40 USD, and 24% 10 USD. In addition, 10% of respondents who visited the AGO reported paying an unofficial fee. This fee ranged between 5 USD and 25 USD.

Nearly all (79%) respondents had their business incorporated within two days of submitting their documents to the AGO. Indeed, 30% stated the process took two days, 23% one day, 21% immediately, 17% between three days and a week, and 4% more than a week. The fastest processing time was for the construction sector for which 57% of the businesses were incorporated immediately. Partnerships were also more likely to be incorporated in exactly two days (57%). Officially, the incorporation process should only take a few hours.

Businesses had to wait a significant amount of time to receive their Certificate of Incorporation. Indeed, the highest proportion of respondents (28%) received their Certificate of Incorporation between three days and a week after incorporating. This was followed by 25% who received it after two days, 24% immediately and 14% in a day. Construction (43%) and mining and energy (42%) firms were more likely to receive their certificate immediately after incorporating. For many, the process of receiving their certificate was not straightforward as 48% of respondents had to follow up with the AGO and 27% of them had to book an appointment to receive an update on the status of their certificate.

3.1.2.3 Payment at the Ministry of Finance

More than half (55%) of the respondents made only one visit to the MoF desk at the OSS. This is in line with the process as designed. However, 15% of businesses had to visit the MoF three times, 9% twice, and 7% more than three times. Construction firms were most likely to visit the MoF in the OSS once (86%).

Officially, the fee associated with the process depends on the type of license. The fee schedule is publicly available and can be found in hard copy in all land revenue offices of the MoF and the MoTIT OSS. In addition to the business license fee, all businesses must pay an additional registration fee of 400,000 SL SH (50 USD) to the MoF representative within the MoTIT OSS towards the end of the process when the license fee is paid.

“The registration fee is \$50 but it is not collected at the beginning of the registration. It is collected at the end and after the business obtains the business license. We are trying to restructure this step so that the business pays the registration fee at the start of the registration to avoid any confusion.”

– Government Key Informant

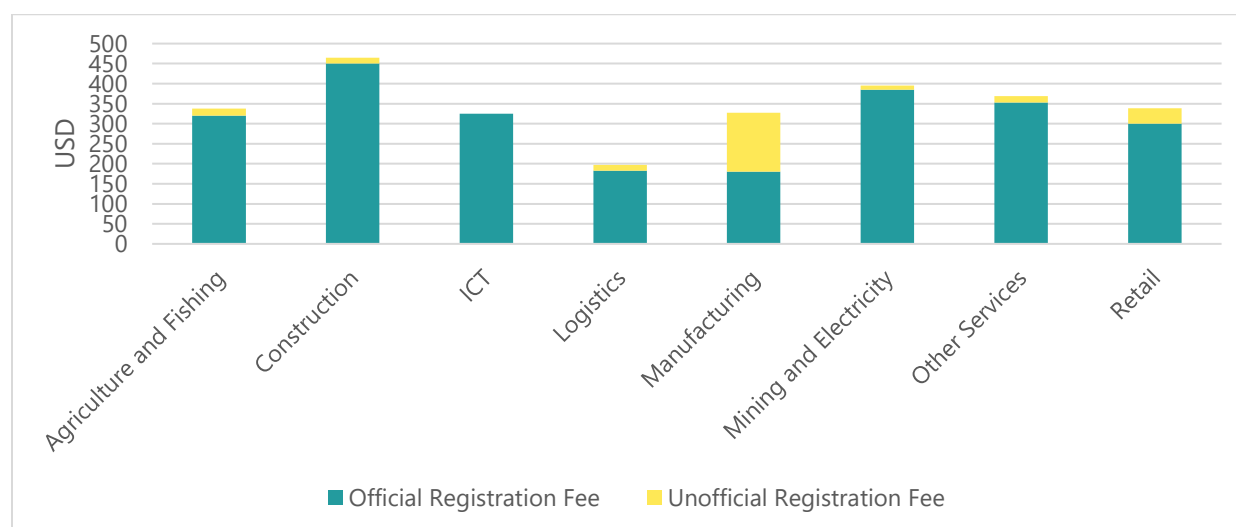
The median official registration fee was 300 USD, which includes both the registration fee and the license fee. Businesses in the construction sector paid the highest official fees with a median fee of 450 USD, followed by mining and energy firms with 385 USD and other services with 353 USD. Manufacturing and logistics firms paid the lowest fees with a median of 180 USD and 183 USD respectively. Micro and large businesses paid slightly higher official fees, with median official fees of 353 USD and 350 USD respectively,⁸ while small and medium firms paid slightly lower fees, worth 294 USD and 300 USD respectively. Partnerships also paid a higher fee (400 USD) compared to sole proprietorships (300 USD). The official registration fee was mostly (94%) paid in cash in SL SH at the OSS MoF desk, while 3% paid through mobile money and 3% paid it in cash at the MoF. Nearly all (97%) of the businesses received a receipt when paying the official fee.

Nearly a third of the respondents (32%) paid an additional fee to the official registration fee. Businesses in the retail and other services sectors were more likely to pay an additional fee, as selected by 67% of respondents in those sectors. The median additional unofficial fee was 20 USD.

⁷ KIIs with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

⁸ This finding seems surprising. However, only three micro firms were interviewed for this section of the report, so should be interpreted with caution.

Figure 6: Median Official and Unofficial MoTIT Registration Fees, by Sector (n=74)



3.2 REGISTRATION WITH THE CHAMBER OF COMMERCE

3.2.1 OFFICIAL VIEW OF THE PROCESS

Prior to 2018, registration with the CoC was mandatory for all businesses and enabled them to apply for a business license with the MoTIT. Registration with the CoC is no longer mandatory since Law No. 80/2018, so there is no associated legal framework. Registration with the CoC allows businesses to become members which offers several advantages: the CoC offers support to its members in case they have issues or complaints, it advocates for businesses and acts as a bridge between the public and private sectors, and provides businesses with an additional layer of recognition.

“The advantage of registering with CoC is to obtain a membership certificate. The CoC supports the businesses by becoming a voice for them. For example, if the company goes bankrupt, the CoC could write them a request letter for tax exemption since they have been in a loss.”⁹

– Government Key Informant

Registration with the CoC is a simple process: the business first obtains information about the process and the registration form from the CoC, then submits the filled registration form with all supporting documents. Documents to submit include an ID (Somaliland ID card for local owners or passport for foreign owners), a company profile, the company’s Articles of Association, and a notarized version of the share composition of the company if it is a partnership. The CoC then reviews all the documentation and provides the business with a membership certificate once the associated fee is paid. If all documentation is provided, the entire process takes between half a day and a full day, while the fee associated with the process is 200,000 SL SH (25 USD) no matter the characteristics of the business.

⁹ KII with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

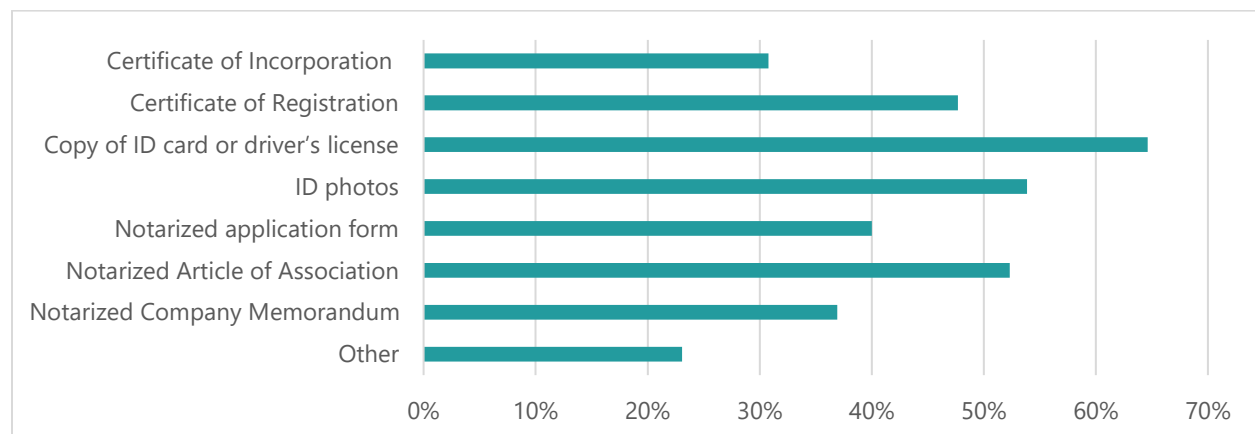
3.2.2 SURVEY RESULTS

Most (86%) formal businesses registered with the CoC while nearly none (3%) of the informal businesses did. Formal businesses in the logistics, agriculture and mining and energy sectors were most likely (100%) to register with the CoC, while businesses in the ICT and construction sectors were least likely (50% and 71% respectively). Partnerships were also more likely to register with the CoC compared to sole proprietorships (97% vs 82%).

Of those who registered with the CoC, 51% saw no significant benefit of registering with them. An additional 28% registered with the CoC because they thought it would protect the company name. Other reasons for registering with the CoC included increased access to business opportunities (9%), access to business support and development services (8%), power to lobby the government for reform (6%). 5% of the businesses still believed it was compulsory to register with the CoC. One reason for registering with the CoC, as explained in Section 4.1, may be for firms to be able to apply for a sectoral permit. According to the different line Ministry, submitting a CoC membership certificate is a requirement for applying for sector permits.

When registering with the CoC, most of the respondents provided a piece of ID (65%), ID photos (54%) and a notarized Article of Association (52%). In addition, 48% provided a certificate of registration, 40% a notarized application form, 37% a notarized Company Memorandum and 31% a Certificate of Incorporation. Documentation provided to the CoC in practice does not reflect the official stance. According to the follow-up survey, respondents spent one day and visited the institution three times while registering their business with the CoC.

Figure 7: Documentation Provided towards CoC Registration (n=65)



Nearly all (98%) of respondents paid an official fee to the Chamber of Commerce at registration. The median fee for registration with the Chamber of Commerce was 40 USD. Businesses from all sectors paid similar official fees, ranging between 20 USD for ICT businesses and 50 USD for mining and energy businesses. Larger firms paid slightly higher official fees compared to smaller ones, ranging from 30 USD for large businesses to 47 USD for micro businesses. The official fee in practice is slightly higher than the fee sourced from official documents and there is a range of fees depending on the sector and size of the business, whereas the fee is a fixed rate of 25USD according to legal documents. Only 11% of businesses paid an unofficial fee. The median unofficial fee was 25 USD for those who paid an unofficial fee.

Nearly all (95%) of businesses stated that registration with the Chamber of Commerce was renewed on a yearly basis, while the remaining said it was never renewed. Most viewed the registration process as very simple: Indeed, 74% viewed it as straightforward, followed by 17% who said it was very straightforward. Only 9% said it was difficult.

3.3 REGISTRATION WITH THE LOCAL MUNICIPALITY

3.3.1 OFFICIAL VIEW OF THE PROCESS

It is unclear whether registration with the local Municipality is mandatory or optional. The Hargeisa Municipality refers to the Tariff Law (Law No. 12/2000) as the relevant legal framework, which states that registration is “mandatory for any business to open and operationalize in Hargeisa city”. However, this Law is no longer in use and has been replaced by the Regions and Districts Self-Management Law (Law No. 23/2019). According to the Municipality, small and informal businesses are considered legal if they register with the Municipality only. Other interviewed stakeholders view small retail businesses as legitimate if they register with the Municipality only. However, according to Law No. 80/2018, only registration with the MoTIT is mandatory.

“The CoC, and the MoTIT, only register large businesses and companies such as wholesales and import/export companies. Small business owners such as the local stores register with the Municipality.”¹⁰

– Government Key Informant

The registration process with the Municipality is very simple. The business first visits its district Municipality office to obtain the registration process information and registration form. It then submits the documentation to the registration department, including the filled form, the owner's ID and the business profile. The registration department reviews the documentation, assesses the business' grade, and directs the business to the finance department. The business pays a set fee of 30,000 SL SH (3.75 USD) and is given a receipt by the finance department. The business then provides the receipt to the registration department, which provides the business with a registration slip. If the business has all the necessary documentation, the entire registration process takes approximately 30 minutes.

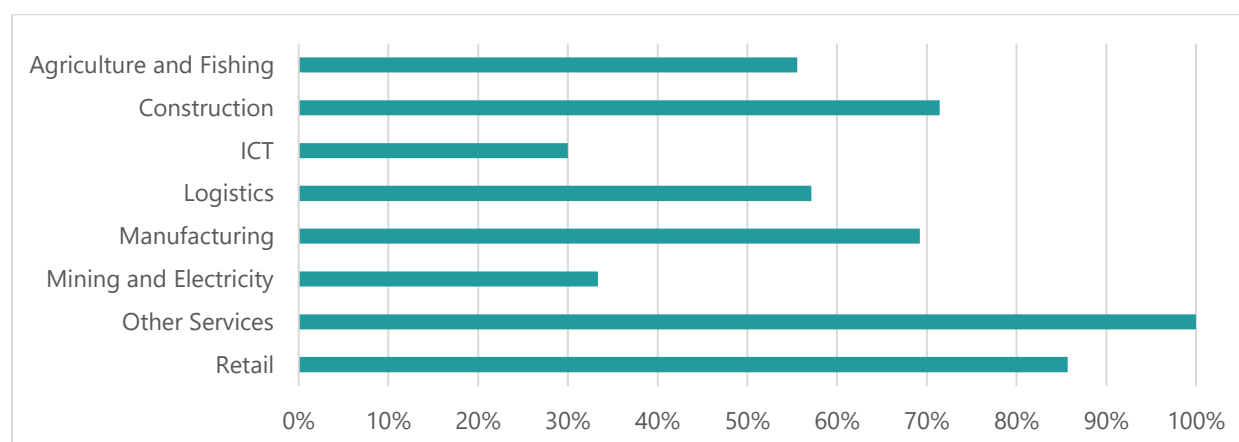
Once the business has registered with the district Municipality, it must then apply for a business license with them. The business must submit their registration slip and their tax receipts paid to both the central and the local government in the current and past years, if applicable. The documentation is sent to the main Municipality, which processes the documents. If the documentation is complete, the business license is issued within two or three days. If additional checks are required due to missing documentation or information, the process can take two to three weeks. The associated fee with the process is 12 USD.

3.3.2 SURVEY RESULTS

All informal firms within the sample registered with their district Municipality, while only 61% of the formal firms did. Formal firms from certain sectors were more likely to register with their local Municipality, such as other services (100%), retail (86%), construction (71%) and manufacturing (69%). Firms in the mining and energy (33%) and ICT (30%) sectors were the least likely to register with their local Municipality. Small formal firms were also less likely to register with their Municipality (38%) compared to medium and large formal firms (71%).

¹⁰ KILs with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

Figure 8: Formal Firms that Registered with the Municipality, by Sector (n=79)

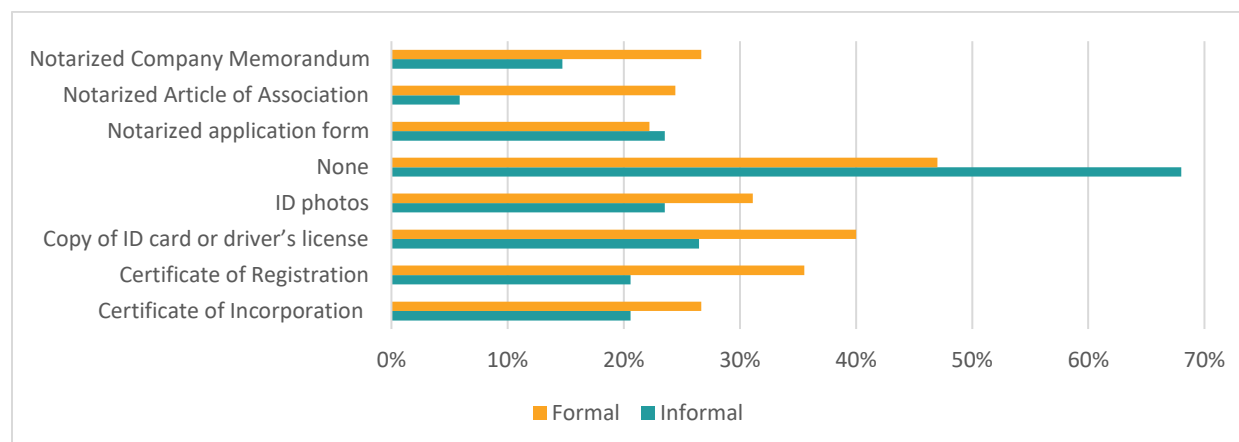


Of the informal business respondents, 30% registered with the Municipality rather than the MoTIT because they thought registering with the Municipality was mandatory. 27% said it was because the procedure was simpler, and 18% because it was cheaper. Of those who had registered with the MoTIT, 87% decided to also register with the Municipality because they thought it was mandatory. Additionally, a handful of both formal and informal respondents also mentioned that the Municipality came to their workplace to register them.

Businesses overall saw very little benefit in registering with the local Municipality. According to 61% of the respondents, the only benefit of registering with the Municipality was because registration is mandatory. An additional 33% stated that there were no benefits of registering with the Municipality. Only five of the respondents (or 6%) that registered with the Municipality saw an actual benefit in registering with the Municipality.

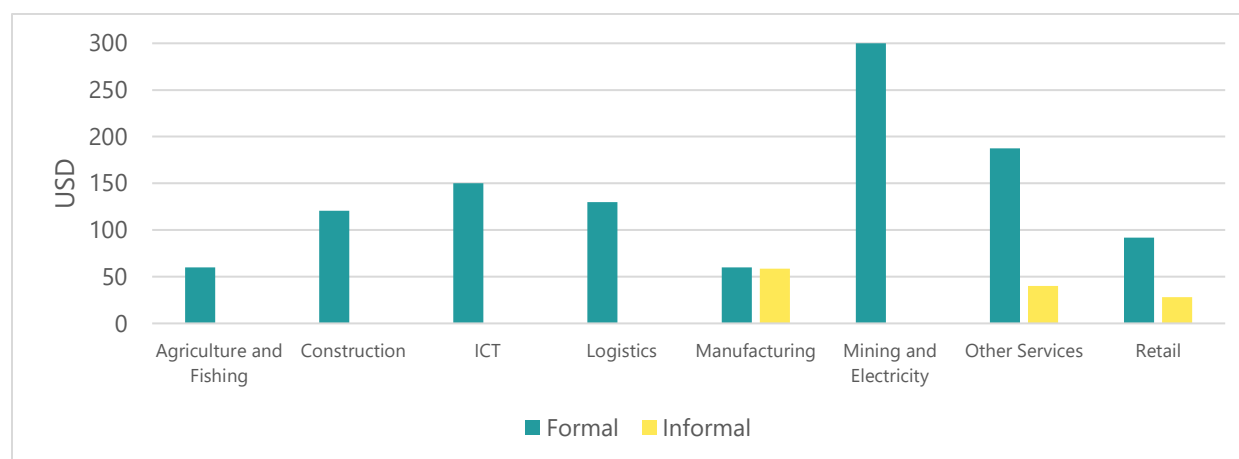
More than half (56%) of the respondents did not provide any documentation at all to the Municipality at registration. The proportion was higher for informal firms (68%) compared to formal firms (47%). In addition, a higher proportion of formal firms provided all types of documentation at Municipality registration than did informal firms, apart from an application form. However, less than half of all respondents had to submit each type of documentation, suggesting that the registration process with the Municipality and the corresponding documentation is unclear. According to the follow-up survey, respondents spent two days and nine visits on average to register their business with the Municipality.

Figure 9: Documentation provided at Municipality Registration, by Formalization (n=79)



All firms paid an official fee when registering with the Municipality. The median fee was 60 USD, but the median fee for formal firms was three times greater than that of informal firms (120 USD vs 40 USD). Informal firms paid different fees depending on the sector of activity as retail informal firms paid a median fee of 28 USD, other services 40 USD and manufacturing 59 USD. Micro informal firms also paid a cheaper median official fee than small firms (28 USD vs 55 USD). Informal firms in partnerships also paid a higher median official fee compared to informal sole proprietorships (55 USD vs 35 USD). The median official fee for formal firms also differed significantly depending on the sector from 60 USD for the manufacturing and agriculture and fishing sectors to 300 USD for the mining and energy sector. The size and ownership type of formal firms did not however impact the official fee to register with the Municipality. The official fee in practice differs substantially from the official fee mentioned in the legal framework. Indeed, the total fee should be 15.75USD (12USD for the license + 3.75USD for registration). In the survey, the median fee is nearly four times greater than that. Additionally, the range of fees is big, when it should be a fixed rate no matter the firm characteristics according to the official stance. This suggests that there is a lack of clarity concerning the fees to be paid to the Municipality.

Figure 10: Median Official Fee for Municipality Registration, by Sector (n=79)



Formal firms were more prone to having to pay an additional unofficial fee when registering with the Municipality compared to informal firms (22% vs 15%). The median unofficial fee was 23 USD and was lower for informal firms (10 USD) than for formal firms (45 USD). For formal firms, unofficial fees for partnerships were significantly higher than for sole proprietorships (median of 120 USD vs. 35 USD).

Informal firms found the registration with the Municipality more straightforward than did the formal firms. 79% of informal firms viewed the process as very straightforward or straightforward, compared to only 53% of formal firms. It was viewed as very straightforward by those who could pay extra fees, because no documentation apart from the payment was required, or because the Municipality visited the offices rather than the business visiting the Municipality. Those that thought the process was difficult thought so because of the lack of clarity around the process, the Municipality staff absenteeism, the lack of legal framework, and differing fees on a yearly basis.

4 BUSINESS LICENSING

4.1 OFFICIAL VIEW OF THE PROCESS

Companies must apply for commercial licenses with the MoTIT according to the original Somaliland Companies Law (Law No. 25/2004). There are ten different types of licenses in addition to the regular business license, namely: import, export, import and export, wholesale, clearance and forwarding, shipping, money transfer, industrial, fuel importation, and professional service licenses. The Inspections and Licensing Act is currently under development and will emphasize the role of the MoTIT in providing licenses. As of today, it has been approved at the Ministerial level, but not by Parliament.

The licensing process takes place within the MoTIT OSS. Once the business provides the Certificate of Incorporation to the MoTIT office, they issue a clearance letter to be given to the MoF, which specifies the company objective and the type of license. The business representative then goes to the MoF representative to pay the fee and obtains a receipt. It then shares the receipt with the MoTIT, that then issues the license. The fee depends on the type of license and the fee schedule is publicly available.¹¹ While the process in theory takes only 20 to 30 minutes, there are waiting times for the Minister or Director to sign the license, which can take up to two days.

For some types of licenses, sector-specific permits are an additional document required towards the licensing process. These sector-specific permits are issued by the corresponding line Ministries prior to the MoTIT registration and licensing process. The process linked to each sector permit is specific to each. The detailed procedures to obtain permits from the Ministry of Energy and Minerals, and the Ministry of Communications and Information Technology, as these are specific areas of interest for this study, are shown below:

The Ministry of Energy and Minerals issues three different permits: the Electricity Service Provider Permit, the Material Supplier Permit, and the Constructor, Installation and Building Service Permit. The Electricity Act, published in 2018, states the laws and regulations associated with the permit process. However, the Act has not yet been approved by Parliament and is not being completely complied with yet. The process to obtain the permits is simple: the business must first visit the Ministry of Energy and Minerals to obtain information on how to apply for a permit, then submit the associated documentation, which the Ministry processes in a couple of days and then provides the permit to the business. The documentation to submit includes a request letter, a company profile including the CVs of the technical team, the company's Article of Association, the notarized Memorandum of Association and the CoC certificate. No fees are associated with the process.

***"Our institution does not charge any fees at all. Our role is to review the business, the forms filled in by the business and then provide them with a permit. They get the receipt once they pay the license fee to the MoF office at the MoTIT."**¹²*

– Government Key Informant

¹¹ Note that there are several sub-categories of professional service licenses depending on the sector of activity. The license fee schedule also reflects that.

¹² KILs with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

The Ministry of Communications and Information Technology issues three different permits: the telecommunications permit, the ICT permit, and the postal permit. The Somaliland Telecommunications and Post Act, Article 51, 2020, states that businesses that want a permit from the Ministry are required to provide the necessary documents: an application letter, Articles of Association, the company profile, the CoC membership certificate and the notarized share composition document if a partnership. The process is straightforward: the company provides the necessary documents, then the Ministry issues the permit within 30 minutes and informs the businesses of the fee they will have to pay with the MoTIT.

While the role of each government institution in the licensing was clear for most licenses, one process was unclear. Indeed, for the construction license, there was confusion around whether the license should be provided by the MoTIT or the Ministry of Public Works and Housing, as described in the following quote:

“There is an overlap with the Ministry of Public Works. The overlap comes when a construction company wants to get the construction license-which falls under the service license. The Ministry of Public Works should only give the construction permit instead of the entire license. However, this Ministry provides a construction license as we provide a business license. This overlap creates a confusion for the businesses because they will have to do double payment to get these licenses sometimes. Therefore, the businesses will not be confident to register their business and they might lose faith in the government.”¹³

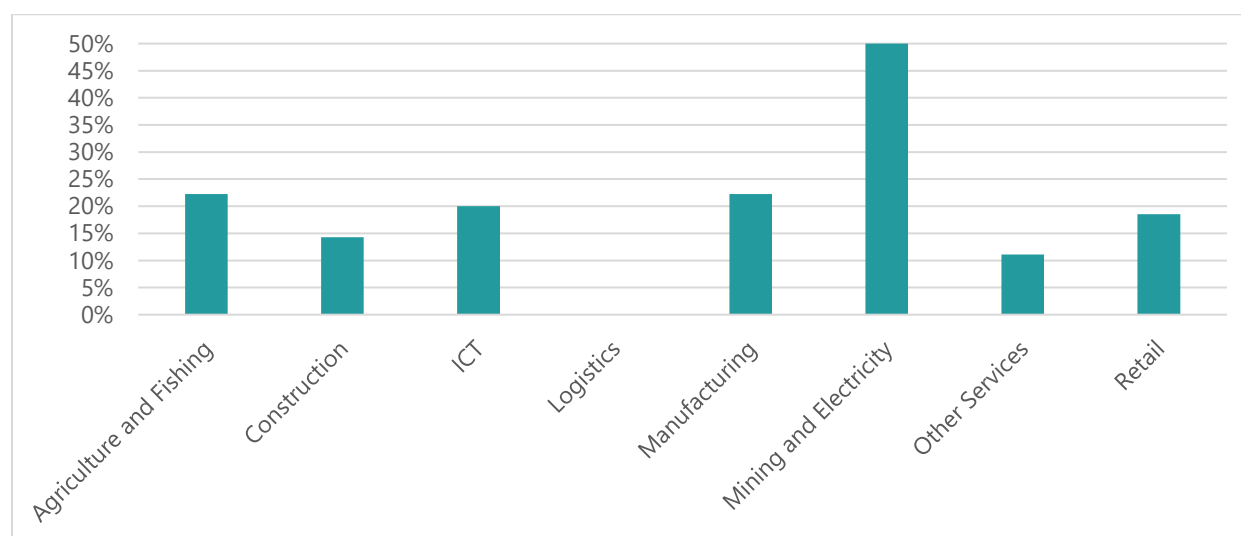
– Government Key Informant

4.2 SURVEY RESULTS

Most (81%) of businesses interviewed did not have any other license than the regular business license. Only one informal firm (3%) had a license, while 27% of formal businesses had a license in addition to the regular business license. The most common license was the mining license with five in total, followed by four from the Ministry of Health, three import and export licenses, two export licenses, two telecommunications/ICT licenses, two manufacturing license and one each of a construction license, an import license, an agricultural license and a license from the Ministry of Housing. Less than half of all firms within each sector had an additional license, as shown in Figure 11. The remainder of this section refers to firms that shared that they had additional licenses.

¹³ KILs with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

Figure 11: Companies holding Additional Licenses, by Sector (n=21)



All formal firms received their licenses from a Ministry, while the only informal firm received its import license from the CoC. Nearly half of the licenses (45%) were issued by the MoTIT, including all of the export licenses, import and export licenses, telecommunications/ICT licenses and manufacturing licenses. Most mining licenses (80%) were issued by the Ministry of Mining and Energy, while the remaining one was issued by the MoTIT. All health licenses were issued by the Ministry of Health, all construction licenses by the Ministry of Public Works and Housing, and the agricultural license by the Ministry of Agriculture. Provision of these licenses by Ministries other than the MoTIT goes against the official stance that all business licenses can only be issued by the MoTIT. Most (57%) respondents obtained their license in 2018 (19%) or 2019 (38%), while 10% obtained it in 2013 and an additional 10% in 2017.

Most businesses visited the licensing institutions three times (36%), while 9% visited the institution twice, 32% once and 23% visited more than three times. The process to obtain a manufacturing license required the most visits as it took all firms more than three visits to obtain it. The process to obtain a mining license also required more visits as it took 60% of firms more than three visits to obtain the license. According to government feedback, the process should only require one visit, which is only the case for a third of the survey respondents.

Most (36%) found out about the licensing procedure through personal connections and 32% in person at the government office that issued the license. Equal proportions (9%) also found out through the government institutions website, in person at another government institution, through a lawyer, or through a visit the government institution paid to their office.

The required documentation and inspection processes were unclear as documentation provided by firms varied significantly and the inspection participation requirement was inconsistent. The main documents provided to obtain the license included an ID (64%), an application form (55%), a notarized Article of Association (50 Certificate of Incorporation and Certificate of Registration and ID photos (36% each) and a notarized Company Memorandum (23%). Inspection prior to license issuance depended on the type of license. Close to 55% of firms did not get inspected prior to license issuance. 67% of firms applying for an import and export license were inspected, 60% for the mining license, and half for each of the telecommunications/ICT license and manufacturing license.

The median license fee was 300 USD and 82% received a receipt. In addition to the official fee, 23% of respondents had to pay an unofficial fee. This was most common for the mining and energy license (60%)

and the manufacturing license (50%). The median unofficial fee was 40 USD. The main reason for paying the unofficial fee was to “ease the process”.

According to 86% of respondents, licenses are renewed on a yearly basis. This is in line with the information government institutions shared. The following documents were cited as being needed for the renewal process: ID (50%), Certificate of Registration (36%), application form (27%), ID photos (27%), notarized Article of Association (23%), notarized Company Memorandum (18%), Certificate of Incorporation (18%) and the expired license (18%).

More than half of the respondents (55%) viewed the licensing process as straightforward or very straightforward, but the perceived difficulty of the process depends on the type of license. All respondents who had an import license, export license, import and export license and telecommunications/ICT license viewed the process as straightforward or very straightforward, while all those applying for a manufacturing license viewed it as difficult or very difficult. The reasons for thinking the process was very difficult were the unofficial fee and the lack of clarity of the process. Level of difficulty varied for the other types of licenses. Only 23% of respondents were also provided with a license from their local Municipality.

5 BUSINESS INSPECTIONS

5.1 OFFICIAL VIEW OF THE PROCESS

Officially, several government institutions may conduct business inspections:

- **The Municipality conducts inspections during the construction permit process** to ensure that the information shared by the business on the site is correct.
- **The MoTIT conducts inspections according to the original Somaliland Company Law (Law No. 25/2004), which states that all businesses should have a business license.** Business inspections are conducted to ensure that all businesses operate legally within the country by having a business license, a unique name and logo, and by paying their taxes.

The MoTIT started conducting inspections in 2018, but the Inspection and Licensing Act is currently still with Parliament. As of now, only Article 92 in the original Somaliland Company Law (Law No. 25/2004) states that businesses should not refuse to cooperate with the inspection team or they will face a fine. As of now, business inspections are solely conducted to ensure that businesses have their updated license and that taxes are being paid. The process takes a maximum of 10 minutes. As of now, there are no penalties for businesses if they do not have a valid license. However, if they do not have a valid license, they are provided with information about the registration and licensing process and the inspectors follow up with them to check that they have applied for a license. Because of the lack of legal framework, there is no appeal process, but there will be with the new regulation.

“Business inspections are carried out in order to make sure the business is run in a straightforward manner, the business owner is fulfilling his/her responsibilities such as renewing the license once it expires, and ensuring that the taxes and all legal fees are being paid.”¹⁴

– Government Key Informant

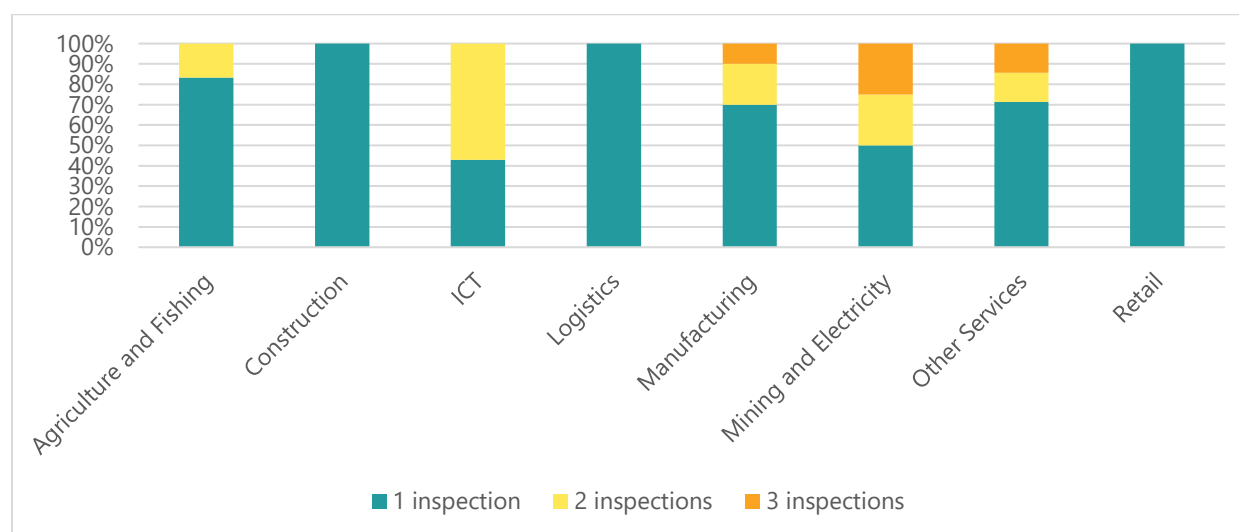
5.2 SURVEY RESULTS

More than half of the respondents (60%) reported receiving a government inspection, including 56% of informal firms and 62% of formal firms. All types of informal firms were as likely as each other to be inspected. However, formal firms in the construction (29%) and mining and energy (33%) sectors were the least likely to be inspected, while those in the logistics (86%), other services (78%) and manufacturing (77%) sectors were most likely to be inspected.

Of those who had been inspected, 82% of firms had been inspected only once in the past year, while 14% had been inspected twice and 5% three times in the past year. Therefore, a total of 80 inspections have been conducted over the sample of 65 firms. All informal firms were inspected only once. Formal firms in the ICT sector were the most likely to be inspected twice (57%). Smaller formal firms were also more likely to be inspected more than once as was the case for 67% of micro formal firms and 47% of small firms, compared to 10% of medium firms and none of the large firms.

¹⁴ KILs with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

Figure 12: Inspections conducted on Formal Businesses, by Sector (n=46)



Reasons for inspections were varied, the most common reason being to check license validity (41%), followed by checking for product expiry (18%) and checking premises and checking income and taxes (14% each). However, the likelihood of the reason for inspection was different depending on whether the firms was formal or informal. The main reasons for inspection for informal firms were checking for product expiry (47%), checking for license validity (32%), checking premises and checking income and taxes (11% each). On the other hand, the main reasons for formal firms were checking for license validity (44%), checking income and taxes (15%) and checking premises (13%).

Most (84%) of inspections were conducted following license issuance. Nearly all (95%) of inspections were conducted ex-post for informal firms, compared to 80% for formal firms. Formal firms in the ICT and mining and energy sectors were more likely to be inspected during the licensing process than ex-post compared to firms in other sectors, 36% and 29% respectively.

Only 30% of the respondents were informed that they would be inspected prior to inspection. Those in the mining and energy sector were informed about the inspection 86% of the time. Of those that were informed, 46% were informed a day prior to the inspection, 17% more than a month before and 13% between a week and a month prior.

Only 38% of the businesses were told which aspects of their business would be inspected, with similar proportions for informal (42%) and informal (36%) firms. The mining and energy (86%) and the ICT (64%) sectors were more likely to be informed of the aspects of their business that would be inspected. Most of the firms were not informed about the laws and regulations under which the inspections were being conducted, more so for informal firms (84%) than for formal firms (52%). However, 38% of formal firms were informed about the laws and regulations under which the inspections were being conducted by government agencies at the time of inspection.

“Businesses/companies were made aware of the inspection process in 2019 and have adapted to the system and procedures ever since. Businesses are also made aware of their rights during this process. For example, if a business owner is late on payments, he has the right to request a certain period of time in which he/she can be prepare the money and make the payments.”¹⁵

¹⁵ KILs with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

The Municipality conducted the inspections of informal businesses in 89% of cases. In addition, 16% were inspected by the police and 11% by the revenue department. The Municipality was also the main inspector of formal firms (52%), followed by the MoTIT (41%), the revenue department (26%) and the police (13%). This goes against the official stance as the MoTIT is the institution that is officially supposed to conduct inspections. In addition, the mining and energy firms were inspected by the Ministry of Mining and Energy, while those in the ICT sector were inspected by the Ministry of Telecommunications. Most of the time (73%), government agencies coordinated their inspections, although inspections on formal firms were less coordinated than on informal firms (69% vs 84%). Inspections were least coordinated for the mining and energy firms (86% of cases).

In most (66%) of cases, the owner engaged with inspectors, followed by a general manager (15%), junior member of staff (10%) or CEO (8%). For informal firms, junior members of staff never engaged with the inspectors and the owner was even more likely to engage with them (74%). Most inspections are short in duration. For 95% of informal firms, the inspection lasted less than an hour, while for formal firms, it lasted less than an hour for 66% of firms and between an hour and half a day for 28% of them.

Overall, during the inspection, the main aspect that was checked was the validity of the business license (55%). The safety of the premises (19%), company financial information (11%) and number of employees (11%) were sometimes checked. The main aspects checked for informal businesses were the product expiry (53%), validity of the business license (42%) and the safety of the premises (16%).

The result of the inspection was positive in 92% of cases for formal firms and 74% of cases for informal firms. For informal firms, the results were only negative for retail firms (45% of retail firms). In 60% of cases, the alleged violation was expired products. In only one of the cases (10%) did the inspector provide feedback in writing. Most of those who had a negative result (70%) had to pay a fine, 20% faced no penalty and 10% had to pay for the license. Only one firm tried to appeal with the MoTIT.

A few (15%) of the respondents had to pay an unofficial fee during the inspection. The fee ranged between 10 USD and 50 USD. The median fee for informal firms was 12 USD and 20 USD for formal firms.

6 CONSTRUCTION PERMITS

6.1 OFFICIAL VIEW OF THE PROCESS

Article 13 of the Somaliland Urban Land Management Law (Law No. 17/2001) and its amendment in 2008 clearly define the Municipality as the institution that provides construction permits. The process to obtain a construction permit is: the business submits the documentation which includes the IDs of the owners and notarized ownership documents. The Municipality then reviews the documentation, ensures that Municipality taxes have been paid and verifies the land area by visiting the site and recording the GPS coordinates. Once of the verifications are made, the Municipality notifies the business through an SMS to inform them to come and collect their construction permit. The process takes one or two weeks. The registration fee is 40 USD, the fee for site verification is 12 USD and an additional land tax is added to this, which depends on the land size. A receipt is provided for each.

“If any urban area is to be constructed, a construction permit should be sought from the local government. Unless the Municipality authorizes the construction of the area, nothing can be done.”¹⁶

– Government Key Informant

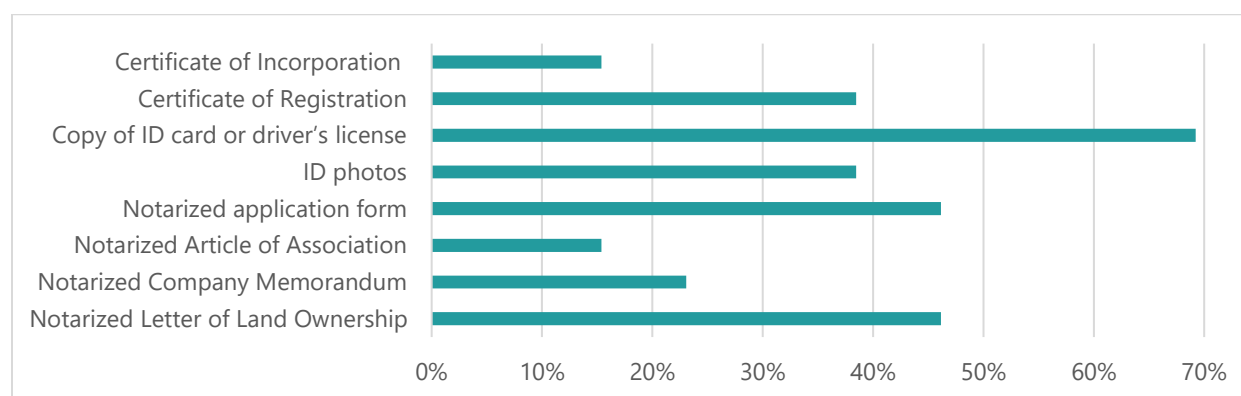
6.2 SURVEY RESULTS

Only 13 respondents (12% of sample) had applied for a construction permit before. Most (12 of them) were formal businesses. Of these, 85% learned about the process to acquire a construction permit from the Municipality’s department of land and public works. One business learned about the process from personal connections, another from the Ministry of Public Works and Housing, and another from the Ministry of Livestock. In 62% of cases, the owner processed the permit application. In 69% of cases, the business had to visit the Municipality more than three times to process the application. Nearly all (92%) of the businesses obtained their permit from the Municipality, while only one business obtained it from the Ministry of Public Works and Housing.

The only piece of documentation the respondents agreed on providing to apply for the permit was a piece of ID (69%). This was followed by an application form and a notarized letter of land ownership according to 46% of respondents respectively, and ID photos and a certificate of registration according to 38% of respondents. This is somewhat in line with the information provided by the government, which is that a piece of ID and proof of land ownership should be provided. The construction permit process took on average 11 person-days and seven visits to complete, according to the follow-up survey.

¹⁶ KIIs with Government Institutions, Hargeisa, 2020.10.10 – 2020.10.26

Figure 13: Documentation Provided for Construction Permit Application (n=13)



The median processing fee was 400 USD, but ranged from 12 USD to 1,800 USD. These findings are difficult to compare to the fee expressed by the government as the breakdown by land size was not shared during the data collection. However, we can interpret the range of fees as being dependent on the land size. 38% of the respondents were provided with a fee schedule for the processing fee. A significant amount (62%) were also subjected to an additional unofficial fee to “facilitate the procedures”. The median unofficial fee was 100 USD and ranged between 10 USD and 150 USD. Other costs towards acquiring construction permits were substantial, as the average cost for document preparation was 1,043 USD and the cost of external consultants was 1,275 USD, according to the follow-up survey.

More than half (54%) of the respondents thought the process to obtain a construction permit was either straightforward or very straightforward. However, 23% of them viewed the process as very difficult. Reasons for the difficulty included the Municipality requesting unofficial fees, needing the Mayor to sign the permit and the length of the process.

7 CONCLUSION AND RECOMMENDATIONS

7.1 SUMMARY OF KEY FINDINGS

7.1.1.1 Registration with the MoTIT:

- The OSS process seems to function as described, according to both the government officials and the firms. However, the process is lengthier than advertised and requires more visits than expected as 49% of the firms visited the MoTIT more than three times (compared to two *de jure*) and the 34% said the process took more than two weeks (compared to two days *de jure*).
- The name search is a quick process (less than a day for 73% of respondents). The notarization process is both quick (as 61% visited only once and the notarization process was immediate according to 63% of respondents) and cheap (less than 20USD according to 63% of respondents).
- Obtaining clearance from the MoTIT takes longer than the expected few hours, and the issuance of the Certificate of Incorporation is a long process lasting several days.
- Documentation required at each step is unclear, as well as which documents need to be notarized.

7.1.1.2 Registration with the CoC:

- The process is simple (only 9% said the process was difficult) and the unofficial fees are low compared to the other registration processes (40USD on average).
- The benefits of registering with the CoC are unclear (51%). One purpose may be to obtain the Certificate in order to apply for sectoral permits. There is lack of clarity as to the benefits both for firms and government institutions.

7.1.1.3 Registration with the Municipality:

- It is unclear for which firms registration is mandatory, both for the government and for firms. Most firms see little benefit in registering with the Municipality (94%).
- The documentation to provide is very unclear as 56% of the firms did not provide any documentation at all.
- Fees are four times higher than mentioned by the Municipality itself (60USD on average compared to 15.75USD).
- Many firms view the process as difficult because of the lack of clarity, Municipality staff absenteeism, the lack of legal framework and changing fees from year to year.

7.1.1.4 Business Licenses:

- Officially, the MoTIT is the only government institution able to issue business licenses. Line Ministries are however able to issue corresponding sectoral permits.
- In practice, it is unclear which government institutions provide which licenses as line Ministries also provided license according the survey of businesses.

7.1.1.5 Business Inspections:

- Inspections are very widespread (60%) and fast.

- There is a lack of legal framework, which means that there is no process for scheduling inspections. Firms are not informed of the upcoming inspection (70%), are not told which aspects of their companies are being inspected (62%), or of their rights. Some firms are still being penalized (11%) but there is no legal framework to support this.
- The Municipality is the main inspector, both for informal (89%) and formal (52%) companies, when the MoTIT is meant to be the main inspector (only 41% for formal firms).

7.1.1.6 Construction Permits:

- Only 13 businesses applied for a construction permit.
- It is unclear which documentation was needed to apply for a construction permit.
- Fees were wide-ranging (from 12USD to 1,800USD) and the reasons for varying fees are unclear.

7.2 RECOMMENDATIONS

While many improvements have been made to the business regulation processes over the past few years, some recommendations to further increase their efficiency can be suggested to the government and their partners:

- **Clarify which institutions each firm must register with:** It is still unclear which types of firms need to register with which institutions. The legal framework should be clarified and the information should be made easily accessible to businesses (online for example). Clarifications should be made at two levels:
 - MoTIT and Municipality: There are disagreements between government institutions over which firms should register with the MoTIT and which should register with the Municipality.
 - CoC: It is unclear what the benefits are of registering with the CoC. Now that obtaining a CoC certificate is no longer a requirement in the formal registration process, there is some confusion over the benefits of registering with the CoC. There is also some confusion over whether a CoC certificate is mandatory in order to obtain sectoral permits. The role of the CoC should be clarified in the legal framework for the licensing process and made easily accessible to firms.
- **Develop an online registration platform:** All registration and licensing processes are currently conducted in person, which hinders the efficiency of the processes by increasing the time spent on the process and the frequency of visits to concerned institutions. Registration and licensing with the MoTIT in particular are only conducted at the MoTIT OSS in Hargeisa, which complicates the process for businesses that are based elsewhere. An online platform for MoTIT procedures should be considered.
- **Automate the registration processes:** Currently, each government institution manually enters firm information at different steps of the process. This has potential for fraud and human error. By automating the process, government institutions would gain time and have access to clean lists of businesses, which could be shared across institutions.
- **Create feedback and appeal mechanisms:** None of the processes described in this report offer feedback or appeal mechanisms for businesses to share their issues or concerns with the processes. Creating an anonymous feedback mechanism would allow the government to address issues that businesses have identified themselves, in order to address them and better support them. An appeal mechanism should also be considered when refining the legal framework for inspections.

- **Clarify required documentation:** Across all processes, various documentation is submitted by firms at the time of application, suggesting that the documentation officially required is unclear. Government staff should be trained on the required documentation and information about the required documentation should be made easily accessible to firms.
- **Provide a fee schedule for Municipality-level processes:** Fees for Municipality-level processes such as registration and application for construction permits are wide-ranging. Unofficial fees are also particularly common and high within the Municipality. Therefore, the fee schedule should be clarified and the Municipality staff trained on conducting the processes appropriately.

ANNEXES

ANNEX 1: COMPLIANCE COSTS

The calculation of compliance costs for the business regulations will serve as baseline figures for the IFC and the Government of Somaliland to measure any reduction in the cost of business regulations in Somaliland due to reforms undertaken during the SICRP2 program. The following tables present the data collected during the baseline survey, while can be used to calculate the compliance costs baseline.

Registration with the MoTIT

Variable	Baseline	Data Source
Number of Firms Registered in 2019	1,139 firms	MoTIT database
Average Official Cost	300 USD	WB-ICR BR survey, 2020
Average Unofficial Cost	20 USD	WB-ICR BR survey, 2020
Average Employee Daily Rate ¹⁷	46 USD	WB-ICR Follow-up BR survey, 2020
Average Number of Person-Days	9 person-days	WB-ICR BR survey, 2020
Average Number of Visits	4 visits	WB-ICR BR survey, 2020
Average Travel Cost per Visit from Hargeisa ¹⁸	26 USD	WB-ICR Follow-up survey, 2020
Average Travel Cost per Visit from Berbera ¹⁹	\$170	Local knowledge
Average Printing Cost ²⁰	39 USD	WB-ICR Follow-up survey, 2020
Average Number of Visits to Notary ²¹	1	WB-ICR BR survey, 2020
Median Notary Fee ²²	20 USD	WB-ICR BR survey, 2020

¹⁷ Assumption: the average employee daily rate is the same for all business regulations procedures.

¹⁸ Assumption: the average travel cost per visit from Hargeisa is the same for all business regulations procedures.

¹⁹ Assumption: the average travel cost per visit from Berbera is the same for all business regulations procedures.

²⁰ Assumption: the average printing cost is the same for all business registration procedures.

²¹ Assumption: the average number of visits to the Notary is the same for all business regulations procedures.

²² Assumption: the median notary fee is the same for all business regulations procedures.

Registration with the CoC

Variable	Baseline	Data Source
Number of Firms Registered in 2019	958	CoC database
Median Official Cost	40 USD	WB-ICR BR survey, 2020
Average Unofficial Cost	4 USD	WB-ICR BR survey, 2020
Average Number of Person-Days	1 person-day	WB-ICR Follow-up BR survey, 2020
Average Number of Visits	3 visits	WB-ICR Follow-up BR survey, 2020

Registration with the Local Municipality

Variable	Baseline	Data Source
Median Official Cost	60 USD	WB-ICR BR survey, 2020
Average Unofficial Cost	22 USD	WB-ICR BR survey, 2020
Average Number of Person-Days	2 person-days	WB-ICR Follow-up BR survey, 2020
Average Number of Visits	9 visits	WB-ICR Follow-up BR survey, 2020

Business Licensing

Variable	Baseline	Data Source
Number of Licenses Issued in 2019	1,587	MoTIT database
Median Official Cost	\$300	WB-ICR BR survey, 2020
Median Unofficial Cost	40 USD	WB-ICR BR survey, 2020
Average Number of Person-Days	1 person-day	WB-ICR Follow-up BR survey, 2020
Average Number of Visits	3 visits	WB-ICR BR survey, 2020

Construction Permits

Variable	Baseline	Data Source
Number of Construction Permits Issued in 2019	8,675	Hargeisa Municipality database
Median Official Cost	400 USD	WB-ICR BR survey, 2020
Median Unofficial Cost	100 USD	WB-ICR BR survey, 2020
Average Cost of Document Preparation	1,043 USD	WB-ICR Follow-up survey, 2020
Average Cost of Additional Consultants	1,275 USD	WB-ICR Follow-up survey, 2020
Average Number of Person-Days	11 person-days	WB-ICR Follow-up survey, 2020
Average Number of Visits	7 visits	WB-ICR BR survey, 2020

ANNEX 2: BASELINE QUANTITATIVE QUESTIONNAIRE

ANNEX 3: BASELINE KII GUIDELINES

ANNEX 4: COMPANIES LAW (LAW No. 25/2004)

ANNEX 5: AMENDED COMPANIES LAW (LAW No. 80/2018)

ANNEX 6: URBAN LAND MANAGEMENT LAW (LAW No. 17/2001)

ANNEX 7: TARIFFS LAW (LAW No. 12/2000)

ANNEX 8: OFFICIAL LICENSE FEES