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What is a business registration and why should I register my business?

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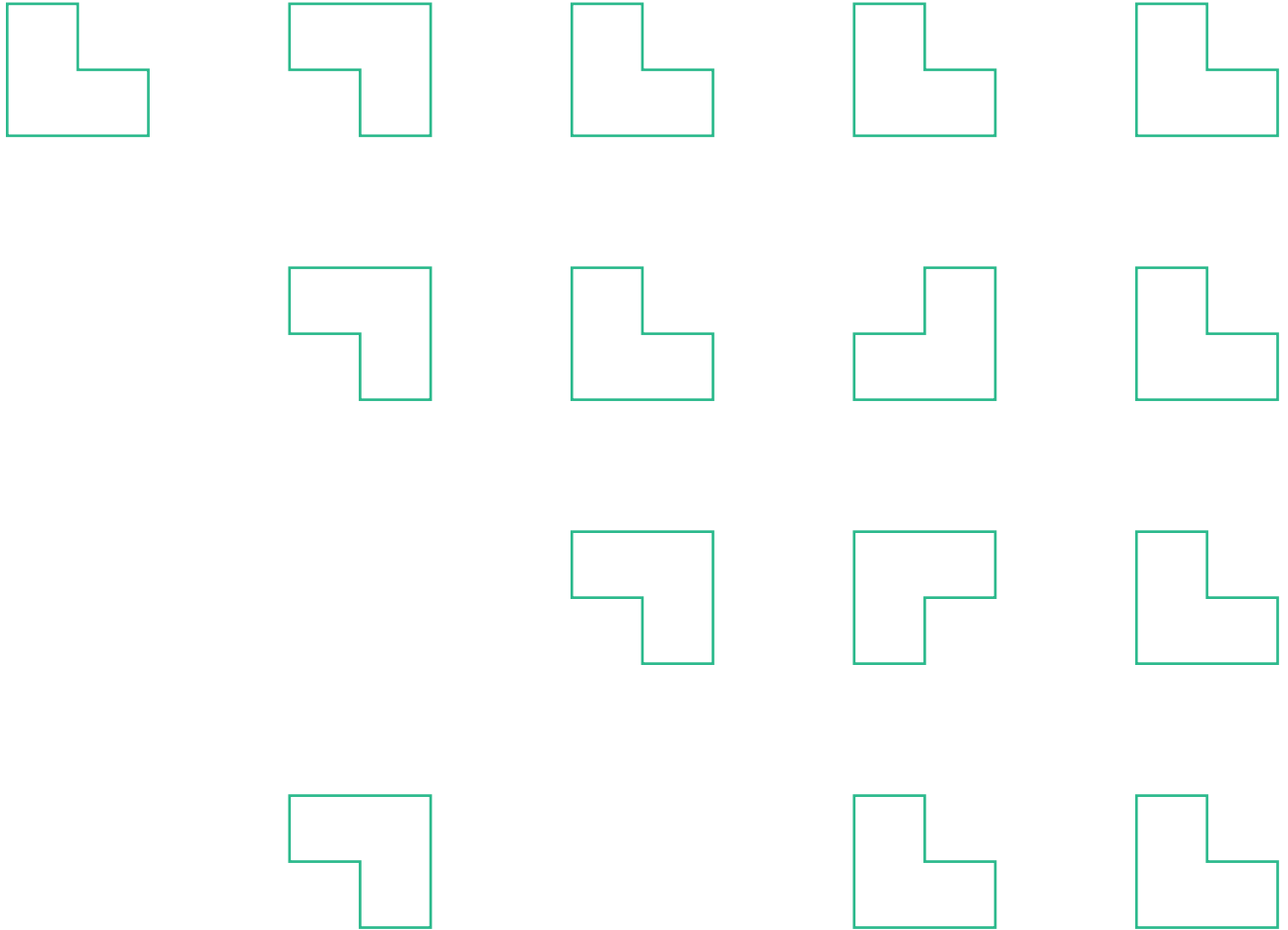
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How do I get advice and guidance for my business?

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**12.**  
Why should I keep good business records?

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# 1. What is a business registration and why should I register my business?

## The Basics

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Under the Constitution of Afghanistan, any Afghan or foreign citizen doing commercial activity or investment in Afghanistan must register themselves with the government of Afghanistan. This means that under Afghan law you are legally required to register your business.

When you register your business, you are letting your local, provincial or national level government organizations, such as the Mustofiat (tax office), Ministry of Investment & Commerce (MoIC) central and provincial offices, etc. know that you have started a business. Throughout the lifetime of your business, your registration will keep the government informed about your business and provides a way to interact with the various levels of government, partner businesses, and international organizations. This includes paying taxes, maintaining the registration of your business, complying with government regulations, doing business with other companies, receiving financial support, and participating in business and trade shows, etc.

When you register your business, you are making it a distinct legal entity. This process formalizes your commercial activity and investments. You complete a business registration by working with the relevant authorized government entities, such as Afghanistan Center for Business Registry and Intellectual Property (ACBRIP). Not only does registering your business comply with the laws of Afghanistan, but it also offers you protection and rights. A registered business can protect its business name, trademark, or inventions; have a legal representation for commercial activities; and has the right to sell products in domestic and international markets. While it may feel like a lot of work to complete the registration process, in the long run, it will give you valuable protection, rights, and respect.

## Tell Me More

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Micro and small businesses may feel comfortable in operating informally, but there are numerous disadvantages in remaining informal and not registering your business with the government. The implications of running a business without a formal registration can be:

### **Operating a Business Illegally:**

Without a formal registration, you are operating your business illegally. This is against the law and you could be subject to legal prosecution. This is a risk that you do not want to take!

### **Limited Brand Recognition and Protection:**

When you operate informally, you cannot claim the name or brand of your business as your own. The government of Afghanistan protects business names, trademarks, and intellectual property when a business owner registers them in the ACBRIP office. As an informal business, you cannot register your name or brand. Your brand will remain unprotected; any other person could copy your business's brand and register it in the government. By leaving your brand and name unprotected, you leave yourself open to the possibility that someone else might open a similar business and use your company's name. They would be able to claim all the recognition and popularity that you have already created in the market. This would be perfectly legal to do because you did not take the step of registering your company first!

### **Limited Potential to Receive Support:**

Advertisers, business partners, investors, the government, and donor organizations may not be able to work with you if you do not have a valid business license. Informal businesses lose the opportunity to benefit from financial and technical support that the Afghan government or donor organizations provide. Official registration gives a business the legal identity necessary to be recognized as a formal business and benefit from these resources.

### **Geographical Limitations:**

As an informal business, your presence will likely remain limited to the area where you started your business. You may find it challenging to expand your business to other provinces of Afghanistan using the same business name. If you do, you may be subject to government officials' scrutiny. As well, land or office providers may not rent a place to you without a business license.

Being able to access finance to run your company is an important factor in success of your company. Banks and financial institutions do not lend to businesses without a formal business registration. Microfinance institutions can lend to individuals, but the amount you can borrow is very limited and may not be sufficient to take the operations of your company forward.

### **Considerations to Consider When Registering:**

While there are disadvantages to doing informal business, you should also understand and evaluate the implications of entering the formal economy and registering your business. Before deciding to register your business, consider a number of important points:

#### **Government Taxation Reporting:**

All businesses, formal or informal, should pay taxes. Income Tax Law of Afghanistan requires businesses of all sizes to report their revenues, withhold and pay taxes, report expenses, submit an annual balance sheet, and pay tax on any profit.

However, it's important to understand that even if you do not have revenue or activity as you start a business, you must submit periodic reports to the relevant offices of the Ministry of Finance. You may face penalties for failing to report revenue or expenses as required by the law. Therefore, if you are thinking about starting a business and have not yet begun to make sales or engage in any business activity, you may consider whether you need to register your business right away. If you are not sure that you will start a business, or you think that you may start your business in the future, you may want to wait to register your business until you are ready to start. Otherwise you will still have to complete taxation reports, even though you are not making any sales.

Although one benefit of registering early is that you can claim the business name you want. Only you can decide which is the right decision, but you need to be aware of your responsibilities in completing taxation reporting once you register.

#### **Brand Protection and Legal Benefits:**

Formal businesses have the legal identity necessary to protect their brand, intellectual property, product designs, and business name. You can register these at the Intellectual Property department of ACBRIP and prevent others from

copying your brand. Your business license will allow you to take legal action in case another business or individual illegally copies your brand. Through the legal protection of having a business license and registered business name, you can expand your business nationally and internationally.

### **Business Support and Partnerships:**

Official registration of your business will allow the government, donor organizations, investors, and partner companies to engage with your business, provide your support, and buy products from you.

For example, when Roya Mayar registered her dairy business after three years of operating informally, she experienced increased interest from local businesses and donor organizations in working with her. One supermarket signed a purchase order with her that allowed her company to constantly supply dairy products to the supermarket. She received a small packaging machine from a donor organization, which had denied any financial or technical support to her company before the registration of her business.

The benefits of registering your business are numerous. When you decide to register a business, you need to evaluate your ability and interest in maintaining your business license and complying with the applicable laws.

### **Other Laws:**

**In addition to business registration requirements, the Afghan government has many other laws that regulate commercial and investment activity in Afghanistan.**

**Several laws that could impact how you run your organizations include:**

- Income Tax Law
- Labor Law
- Law on Limited Liability Companies
- Commercial Code
- Law on Commercial Contracts and Selling Property
- Partnership Law
- Non-Governmental Organizations Law

It is important to note that these laws are very detailed and you may not be able to learn them all, however, you should be aware that these areas of doing business are regulated. Seek out the help of a legal professional or talk to a trusted mentor or advisor to learn more.

## **Glossary Terms from this Section**

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**Balance Sheet** - A financial document that shows how much you have in your business and how much you owe at a given time.

**Brand** - A unique symbol, logo, or name that organizations use to set apart their product from others in the market.

**Intellectual Property** - Thoughts, ideas or practices that are private to a person or business and protected from the use of others without permission.

**Investors** - A person or organization that provides money or resources to another person or business with the goal of participating in the success (financial return) of the person or organization where they are an investor.

**Limited Liabilities Company (LLC)** – A hybrid form of business between a Partnership and Corporation made to protect liability.

**Revenue** - Money coming into the business usually from the sale of goods or services.

**Trademark** - A sign, design, or expression that is generally recognizable as a source of a specific product or service. Trademarks owners can be individuals, business organizations or any other legal entity.

## **For More Information Related to this Topic See:**

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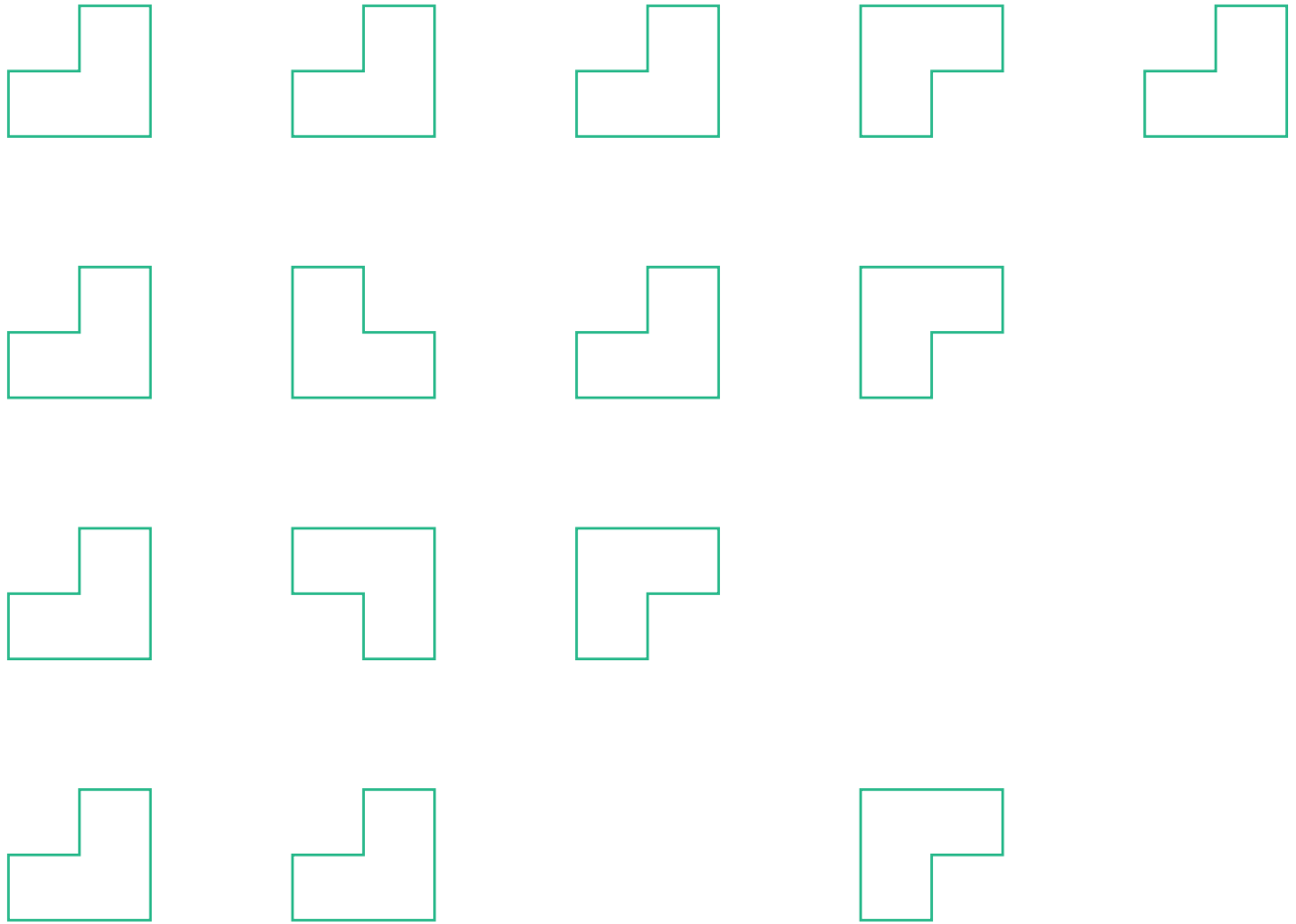
- [How do I register my business? 2. Business Formalization](#)
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- [What are business taxes? 2. Business Formalization](#)

## **Additional Tools Available**

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Business Registration Process Flow Chart

Afghan Government Business Support Quick Reference



## 2. How do I register my business?



## The Basics

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The process to obtain a business license is relatively straightforward. The nature, sector, and type of activity of your business will likely affect the number of steps you will go through to obtain a business license.

There are two main entities that have the authority to issue a business license that will allow you to formally operate in the economy as a for-profit business. These entities include:

- Afghanistan Central Business Registry and Intellectual Property (ACBRIP)
- Municipalities i.e. Kabul Municipality for small businesses

The most common type of registration for very small businesses are the various local municipalities where the businesses operate. For example, shop owners or small retail businesses in Kabul City receive their business license from Kabul municipality as the size and operations of these shops are very small. While you can register a small business with the ACBRIP as well, it usually handles licenses that more mature businesses may require, such as import and export licenses. The government plans to keep ACBRIP as the ultimate and only business registration authority where other relevant government organizations will provide services from ACBRIP as the one-stop-shop for business registration.

There are other, more specialized organizations that you may need to visit, depending on the type of business you own. You may need to register your business with multiple government departments or organizations. For example, if you plan to open a restaurant, you will need to start your business registration process at the Afghanistan Central Business Registry and Intellectual Property (ACBRIP), but you will need an additional permit from the Ministry of Public Health and local municipality before ACBRIP can issue a business license. In the same manner, internet service providers need additional permits from and pay a separate fee to Telecom Regulatory Authority of Afghanistan (ATRA). A few additional examples of businesses and the need to get permit from a different government entity are:

- Foreign Currency Exchange License – Da Afghanistan Bank
- Private Hospital – Ministry of Public Health
- Private School – Ministry of Education
- Film Production Company – Ministry of Information & Culture
- Private Printing Company - Ministry of Information & Culture
- Transport Company - Ministry of Transport & Civil Aviation
- Travel Agency & Tourist Company - Ministry of Information & Culture

The sector of your business determines which government entities you will need permits from. But not every type of business will require additional licenses and registrations. For instance, a market research company for governmental or non-governmental organizations does not require an additional permit only requiring an ACBRIP business license. You will need to do research on what registrations and licenses are required for your specific type of business.

## Tell Me More

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When you start a business, you are called a for-profit entity. This means you can obtain a profit from your economic activity. This is different from other forms of organizations, such as non-profit entities that meet regulatory requirements to legally operate but they cannot obtain a profit. These are called non-governmental organizations (NGOs) and they register their organization at the Ministry of Economy. Another form of legal entity is associations or networks that are social organizations with a non-profit mission. These are registered

at the Ministry of Justice of the government. To obtain a for-profit business license, follow these steps:

### **Step 1: Research**

Registering your business is not only a legal requirement by the government but also an important business decision for you. Like any important business activity, you should prepare to do a little research beforehand. This research should include: identifying the aspects of your business that will impact the kind of registrations required (i.e. – business sector, location, etc.); decisions on your business name, brand, and structure; identifying the process of filing a registration. With this research completed, you will be able to make the decisions outlined in the next steps.

### **Step 2: Choose a Business Name**

You will want to register your business name so that another business will not be able to use it. The name you have chosen for your business is important because it is what potential and current customers will remember and connect with your business. Before you visit the licensing office, create a list of at least 10 business names that you think would work for your business. Often the business name an entrepreneur loves will have already been taken by someone else. You cannot register a business name that belongs to another individual or company. You can search on the website of ACBRIP ([www.acbr.gov.af](http://www.acbr.gov.af)) to see if the name you have chosen is taken. If you see a match, it means you cannot use that name for your business. Alternatively, you can check this at the ACBRIP office to see if the business name is available.

Once you have a business license, you can also register the names you have given your products or services. For example, Sara started a bakery business and registered the name of her bakery -- “The Kabul Bakery.” She developed a special kind of cake that she called the “Kabul Special Cake.” Sara also decided to register the name “Kabul Special Cake” so that other bakeries will not be able to use that same name that she is using for her product.

### **Step 3: Choose a Legal Structure**

It’s important to choose whether you should register your company as a sole proprietorship or as a partnership. If you have a business partner that has a share in your company, you will likely choose to get a limited liability partnership license. If you are the sole owner of your business, you will get a sole proprietor license.

### **Step 4: Choose a Location**

You are required to have a registered office for your company. ACBRIP will need proof of an address for your business at the time of registration. You may rent a place, use your own premise, or operate from a co-working space facility; it is important to have an acceptable proof of address though. Make sure you choose a location where you will operate. Changing your business address later will incur a fee and it’s better for you to choose the right address at the registration stage.

### **Step 5: Choose Business Contact Details**

You will be required to provide legal and valid identification of yourself and any partners that you may have. Also, the licensing office will require you to provide business phone numbers and contact details. These contact details will be recorded in the licensing office’s database for official use by the government officials. Many entrepreneurs choose to keep their personal and business contact details separate by having a separate business phone, email address, and social media accounts.

## **Step 6: Prepare the Required Documents**

You will need to prepare documents that show your identify, business address, shareholders' age, tax identification number, and other important aspects required by the licensing office. To help you prepare the documents before you visit the licensing office, check to have the following ready:

- Names of shareholder(s) as shown on Tazkeras or passports
- Age of shareholders should be at least 18 years
- Unique business name that is not taken by another individual or company
- Proof of address such as tenant agreement, property deed, or other similar document
- Original document bearing your Tax Identification Number as issued by the Ministry of Finance, showing no dues to the government in the form of unpaid taxes
- Bylaw of your company if you are registering as a limited liability company
- Four photos of each of the shareholders
- Sectoral permits from any relevant entities of the government where applicable
- Receipt of payments of the license fees to the nominated bank
- Educational documents of one of the shareholders for consulting and law firms

The list of needed documents may differ on a case-by-case basis, but the above should provide a good starting point.

## **Step 7: Visit the Licensing Authority**

Once you are done preparing the needed documents, you will need to visit ACBRIP main office in Kabul and its regional offices in other provinces to register your business. If you operate in a province where ACBRIP does not have an office, you may visit the nearest ACBRIP provincial office to your place of business to register your company. Upon your visit and presentation of your documents, the relevant officials will check your documents and guide you through the rest of the process.

## **Step 8: Get a Tax Identification Number (TIN)**

TIN is a number assigned by the government for a business to use when the business provides information to the government or other institutions like banks, local governments for things like paying taxes, submitting forms, opening bank accounts, etc. Sole proprietors can use their individual TIN for their business, but for other forms of a business, such as limited liability company, the business will have a separate TIN than that of its shareholders. Remember that you get a TIN from the Ministry of Finance and your individual TIN is required to check if you have any tax due to the government.

## **Step 9: Check Details of Your Business License**

After you complete any processes required by the ACBRIP offices, you will be given a draft copy of your business license for review. Make sure you check your business name, spelling of you and your partner's name, and other details before endorsing it. Once you are OK with the contents, the office will print you a valid business license.

The licenses are valid for at least one year. You can renew a business license for one, two, or three years, depending on your financial abilities and interest to keep your business license valid.

To better understand the process of registering a business, see Business Registration Process Flow in the tools sections of this question.

## Glossary Terms from this Section

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**Limited Liabilities Company (LLC)** – A hybrid form of business between a Partnership and Corporation made to protect liability.

**Profit** - Any positive amount of money left over after subtracting expenses from revenue (income).

**Shareholder** - Any person, company, or institution that owns at least one share of a company's stock.

**Sole Proprietorship** - A business that is owned and run by one individual, with no distinction between the business and its owner.

**Taxpayer Identification Number** - A number assigned by the government for a business to use when the business provides information to the government or other institutions like banks, local governments for things like paying taxes, submitting forms, opening bank accounts, etc.

## For More Information Related to this Topic See:

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- What is a business registration and why should I register my business? *2. Business Formalization*
- What are the legal requirements for my business structure? *2. Business Formalization*
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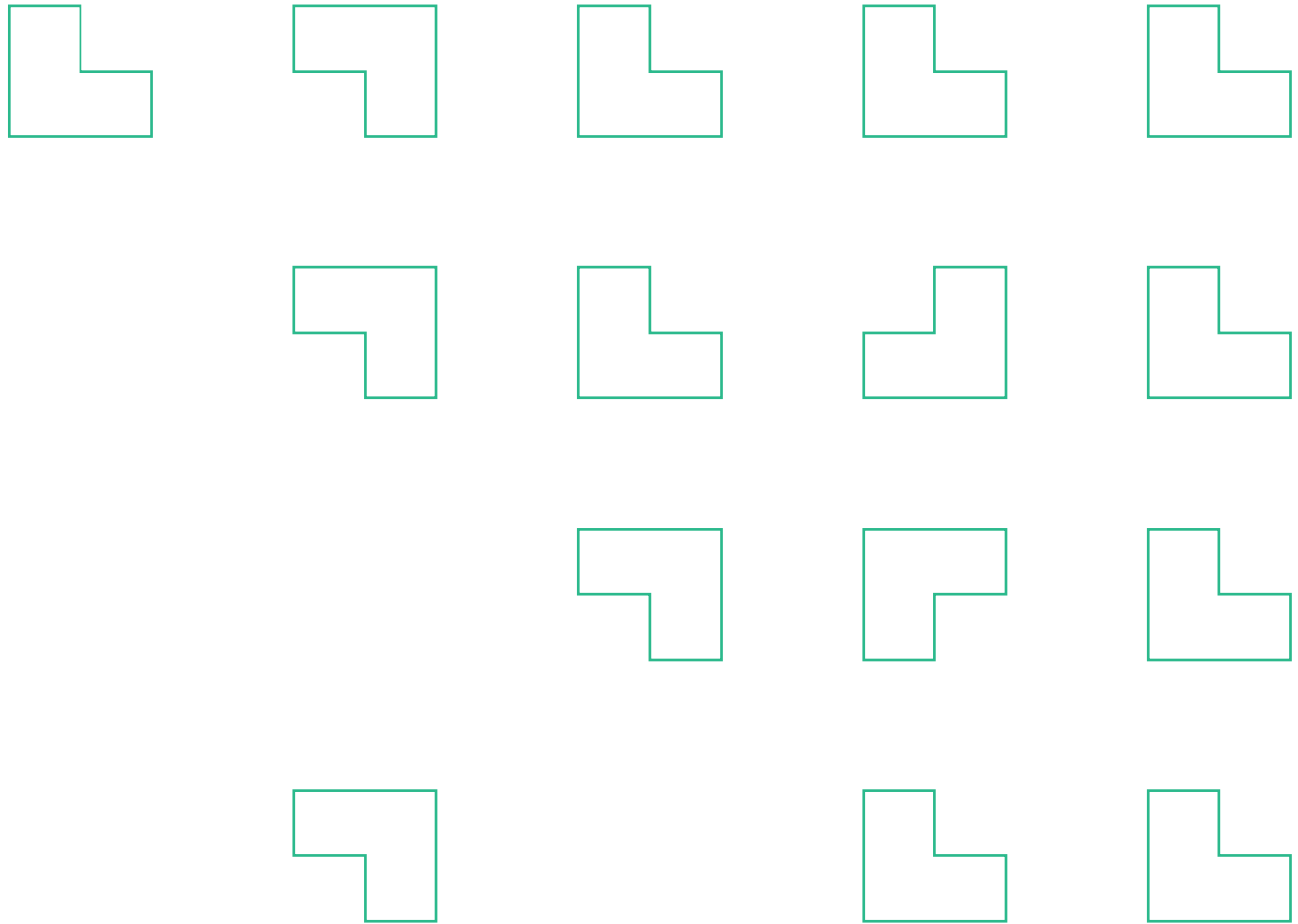
## Additional Tools Available

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Business Records Checklist

Business Registration Process Flow Chart

Common Business Registration Fees



### **3.** **What are the legal requirements for my business structure?**

## The Basics

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The main thing to think about in choosing the legal structure of your business is the matter of personal liability. If you choose to start a business and are willing to expose your personal assets to the risk of starting and being unsuccessful, you may choose to be a sole proprietor.

A sole proprietor is a simple process consisting mainly of getting a business license, opening a bank account, and complying with government regulations. Of course, the disadvantage of a sole proprietorship is that your own personal assets and the business assets are exposed to the risk that your business will be unsuccessful. If you choose to be a sole proprietor and the business fails, then even if it's the business that has failed, your personal assets may also be lost. Similarly, with a sole proprietorship, if one of your customers becomes unhappy, injured or harmed from your business and takes legal action, then the legal settlement may look not only at your business assets, but also your personal assets.

From a legal standpoint with a sole proprietorship, you and your business are wrapped up together. This is usually considered a risky approach when starting a business.

Most entrepreneurs will choose a form of business structure with "limited liability". Limited Liability is where the assets of the business are separated legally from your personal assets. This distinction becomes most important in the event that the business does not succeed. With "limited liability", the liability of the entrepreneur is limited to only the business assets. In the case of a business failure, only the assets of the business are lost. The personal assets of the entrepreneur, because they are legally separated, will not be affected.

## Tell Me More

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### Choosing the Right Legal Structure

Many entrepreneurs think about starting their business first and then, much later, they think about how they're going to structure it. Contrary to popular thought, it is important to think about the legal structure of your business early on.

Choosing the right legal structure for your business can protect your personal assets and can save you from paying unnecessary taxes. The sooner you structure your business, the sooner you can take advantage of the benefits.

### Common Types of Business Forms

**The most common business forms are:**

- Sole proprietorship
- Partnership
- Corporation
- Limited liability company (LLC)

A sole proprietorship is a very common, simple structure for a business. This structure gives the owner complete control of all aspects of the business. Many business owners in Afghanistan choose this form of a business structure for it gives them independence, flexibility, and full authority over the business. BUT, it also means that the owner is personally responsible for ALL financial obligations of the business.

A partnership is similar to a sole proprietorship, but involves two or more people. The main advantage is profits or losses are reported on the individual partner's income tax returns (i.e. the profit and loss of the individuals and the business are reported together). The disadvantage is, like in a sole proprietorship, each partner is personally responsible for the financial obligations of the business.

A corporation is a legal entity that is separate and distinct from its owners. It is created to handle the responsibilities of the organization. The main advantage of a corporation is that it reduces personal liability, because the owner, or owners of the business are not personally responsible for the financial obligations of the business. The main disadvantages are that forming a corporation is expensive and extensive record-keeping is required.

A limited liability company, or LLC, is a hybrid form of partnership that allows owners to gain benefits from both the corporation and partnership forms of business. One main advantage is that this business structure protects owners from personal liability.

There are other, more specialized forms of organizational entities. For instance, you may decide to create a non-profit organization, which in Afghanistan is overseen by the Ministry of Economy or Ministry of Justice, depending on the activities of the non-profit organization. If you want to learn about these specialized structures, you should seek expert advice or visit the relevant ministries.

### **Factors to Consider**

To decide which legal structure is best for your business, you will need to assess your situation.

First, you will want to consider legal liability. Is there a lot of risk associated with your business? If so, you may want to consider forming a corporation or a limited liability company. These will reduce personal liability and protect your assets.

You will also want to think about the tax implications of each business format, and what these implications mean for your business. Business licensing fees, tax penalty rates, and other applicable fees are higher for LLCs as compared to sole proprietors. For example, when a sole proprietor delays paying withholding taxes (i.e. wage withholding taxes), the penalty is currently 30 AFN per each working day of delay, while in the same case LLCs or partnerships have to pay 100 AFN per each working day of delay in tax payment. At any case, you need to think if the tax advantages of a sole proprietor outweigh the high risks of exposure in case the business goes bankrupt.

You should think about flexibility. Is flexibility important to you? Are you used to making all the decisions? If so, a sole proprietorship may be the best option. But if you want a partner to bear the responsibility with you and split the risk, you may think about having one or two shareholders in your business. It is important that you and your partner(s) have complimentary skills, resources, and capabilities. You should also share a common vision for the company and be able to work together. Often businesses choose a friend or family member as a partner for they believe others cannot be trusted. Trust is important in choosing a partner, but being able to work together, hold each other accountable, share resources, and fairly contribute to the business's growth are also important. If you choose to have a partner, make sure you document your ownership of the company in written form. ACBRIP requires you and your partner(s) to develop and agree to a bylaw for your company that illustrates everyone's ownership stake in the company.

Finally, you will need to consider the future needs of your business. Do you think you will sell your business one day? Do you think you'd like to see your children take over? You should be mindful of your future goals when you're deciding on a business structure.

## Glossary Terms from this Section

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**Assets** - Anything of value that your business owns.

**Income** - All the money that comes into your business from sales, service or loans.

**Liability** - When you have a responsibility to take care of something that may happen that's enforceable by law.

**Limited Liabilities Company (LLC)** – A hybrid form of business between a Partnership and Corporation made to protect liability.

**Shareholder** - Any person, company, or institution that owns at least one share of a company's stock.

**Sole Proprietorship** - A business that has is owned and run by one individual, with no distinction between the business and its owner.

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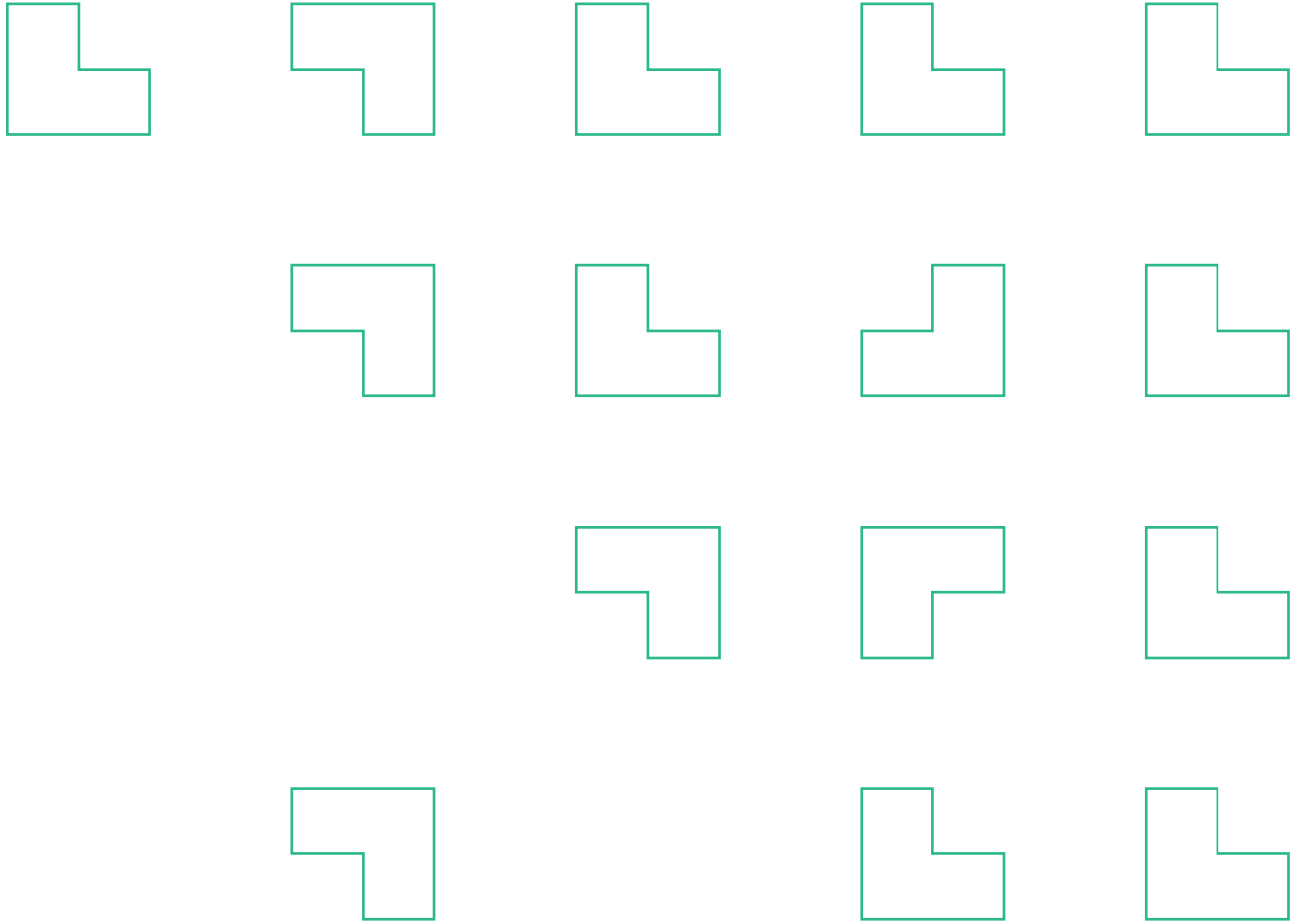
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- Are there any other registrations I should consider? *2. Business Formalization*
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## Additional Tools Available

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Business Structure Reference Sheet





## **4.** **What will I need to know before I register my business?**

## The Basics

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Deciding whether to start and register a business can be a difficult decision, especially if you are about to start and are not sure how well your business will perform. You will make a better decision if you study and consider important information that is necessary to know before you register your business.

Many small business owners operate informal, unregistered businesses. They may worry that they cannot afford the costs of registration or of paying taxes. They might be intimidated by all the rules and steps needed to register a business. It might feel like it is too difficult. For example, when Sultana and her husband were planning to start a new sports club for girls under the age of 15, they were not sure whether they would make enough revenue to pay for the operations of their company as well as comply with the costs of registering a business and maintain a valid license.

However, the smart entrepreneur who wants to be seen as a business professional will always register her business. Not only is it the legal thing to do, but registering a business protects the entrepreneur and gives her access to resources that will enable her to grow.

In Sultana's case, after some research and discussions with her cousin, who worked at a relevant government office, she decided it was worth registering their sports club because without a registration, they would not be able to receive sponsorships, build a good brand, collaborate with other sports clubs, or participate in major competitions. They found out the license fees were minimal and their revenue would be sufficient to cover the cost of renewing a license, paying taxes, and making a profit in the process. Their decision to register their business made sense because it would help their business grow and do well.

## Tell Me More

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The process of registering your business will become less overwhelming if you do research beforehand. By consulting with other business owners, visiting relevant government offices, reading online resources, reviewing applicable laws, and receiving advice from experts, the process will become less frightening and more manageable. As you go along, think about a number of key topics:

### **Registration Process:**

The registration process can take as few as one day or take many days depending on the sector you will be operating in. Consider the amount of time you will have to invest to obtain a license. For example, if you do not have your Tazkera confirmed by the Population Registration Office, the registration process may take longer as you will have to visit the office and get your Tazkera checked and confirmed before the licensing process can begin.

### **Registration Cost:**

There are different types of costs involved in the registration process. The License Fee has been dramatically reduced: it's now 100 AFN. But it's possible that you pay additional costs to other government entities if you need additional permits. The cost also depends on the sector of your business. In an extreme example, a security company has to pay 400,000 AFN for the license fee for new registration and 200,000 AFN for the renewal fee. But most registrations will not be this high!

Renewal fees are also an important cost. For limited liability companies, the renewal cost is 12,000 AFN and for sole proprietors it is 6,000 AFN for a one year renewal.

You should factor in costs of registration in your budget projections. See the Business Registration Fees annex for more details of the relevant costs as per ACBRIP's guidelines.

### **Tax Implications:**

While the Income Tax Law of Afghanistan requires individuals and businesses to pay applicable taxes on their income, when you register your business you will need to fully understand taxation rules of the government to prevent your business from having to pay unnecessary penalties. The Afghan government penalizes tax evasion and companies may lose their business license and face prosecution for not paying taxes. You should keep good records, report your revenue, pay applicable taxes, and remain compliant in order to protect your business and help it grow in the long-term.

### **Ability to Close a Business:**

It may seem strange to consider closing your business before you even start one! However, it is smart to have an exit strategy and understand ways to close a business in case your business does not perform as you expected. The applicable laws in Afghanistan, such as the Limited Liability Company Law, allows business people to close their company. You must get the approval of a majority of your shareholders and pay any due taxes before you can request to close your business.

### **Protection of Intellectual Property:**

You can save time by preparing yourself to register any trademarks, logos, product names, designs, or other intellectual property at the Intellectual Property department of ACBRIP as part of the business registration process. The Trademark Law of Afghanistan regulates the protection of intellectual property and ACBRIP has a commission that oversees the business sector and resolves any disputes.

You may extend your research and acquire specific information about your relevant sector by contacting the relevant ministries and government entities. For example, if you plan to start an internet services company, you will need to review the procedures of Telecom Regulatory Authority of Afghanistan (ATRA) for obtaining a permit. Laws, regulations, and procedures of the regulatory authorities often change. You should keep a close eye on these changes to ensure you remain compliant with the applicable regulations.

## **Glossary Terms from this Section**

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**Brand** - A unique symbol, logo, or name that organizations use to set apart their product from others in the market.

**Profit** - Any positive amount of money left over after subtracting expenses from revenue (income).

**Shareholder** - Any person, company, or institution that owns at least one share of a company's stock.

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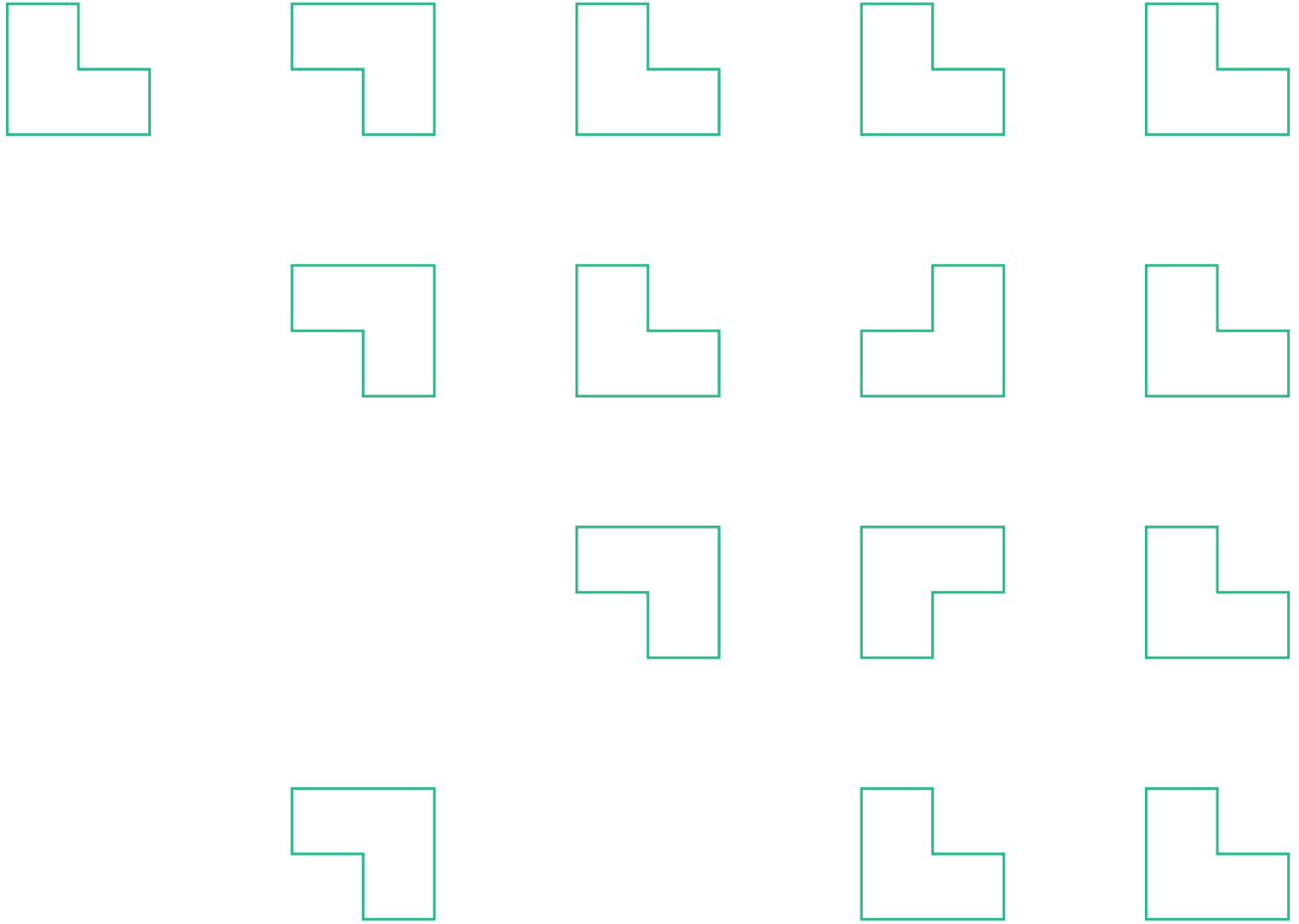
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- [What are business taxes? 2. Business Formalization](#)

## Additional Tools Available

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[Business Registration Process Flow Chart](#)

[Common Business Registration Fees](#)



## 5. What kind of certifications, licenses, or permits do I need?

## The Basics

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For many types of businesses, owners need to be mindful of regulations that may affect the type of business being created. When you go from making a product that you may have been doing as a hobby and now move into a real business, you may find yourself considering regulations, licenses and permits. For instance, let's say that for many years you have been well known for making a terrific Baghlawa and after much thought and consideration you've now made that the focus of your new business. When you made Baghlawa for your friends and family you were not likely thinking about health codes and safety issues while in your own kitchen at home. Once you have become an actual business, you will be expected to comply with health regulations for food production. This is more serious in urban centers where the Ministry of Public Health has stronger monitoring and oversight.

In general, certifications, licenses and permits will be determined by your type of business when you register your business with the government. There may be permits you will need only when you start your business. For instance, you will need to get a construction permit from Kabul Municipality when you begin to build a factory or retail store in the industrial parks area.

When you are starting a new business spending time and doing your homework on what regulations, permits and licenses are needed will be an important investment that will pay off by saving you time, money, and energy in the long run. If you treat these matters responsibly during the formation of your business, this could help you open as scheduled and not delay the opening of your business. Finally, and more importantly, doing your homework early can save you from having to make costly changes last minute in order to be compliant.

## Tell Me More

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ACBRIP issues sectorial licenses based on permits that you obtain from relevant entities of the government that oversee or regulate the work of the relevant sector. Some entities have additional fees that you have to pay to get the permit, before you can have a business license issued at ACBRIP. For example, if you plan to start an agribusiness to process dried fruits and supply to the market, you will likely need to get a permit from Ministry of Agriculture, Irrigation, and Livestock (MAIL) before you can get business license from ACBRIP. In this case, MAIL will assess your technical capabilities and resources before issuing a permit.

In a similar example, Da Afghanistan Bank (DAB) regulates all companies and businesses that operate in the financial sector. All of the deposit-taking banks in the country have passed a thorough licensing process at DAB and have paid licensing fees in order to qualify to open a bank. For other businesses, such as an export company, you will need to register your company in the customs office before you can export or import any products. Businesses in the mining sector, such as marble processing plants, receive permits from the Ministry of Mines and Petroleum.

If you need to find an appropriate location to conduct your business outside of your home, there may be environmental restrictions as to where you can set up your firm. Environmental regulations primarily aim to protect the environment from any harm and have strict guidelines for businesses that produce harmful waste. For example, a dairy company that produces yogurt may not be allowed to operate in a residential area as dairy production produces smell that residents of an area may not like. Usually, production companies are encouraged to operate out of the industrial parks, even though, they have limited space for new companies. When you start a new business, it is in your long-term interest to choose an appropriate location even if there is no specific regulation in place to guide your work. This will save your time and money especially if you have to invest in construction of your factory.

In general, the following entities may be involved in the process of giving additional permits for different sectors:

- Ministry of Agriculture, Irrigation, and Livestock (MAIL)
- Ministry of Mines & Petroleum
- Ministry of Higher Education
- Ministry of Justice
- Kabul (or another) Municipality
- Telecom Regulatory Authority of Afghanistan (ATRA)
- Afghanistan National Standard Authority (ANSA)
- Ministry of Finance (i.e. Customs Office)
- Small-, Medium-, or Large-Taxpayers' Office

It's important to do your homework to identify the various regulations, licensing requirements, and permits that you will need to operate your business in a responsible and legal manner.

## For More Information Related to this Topic See:

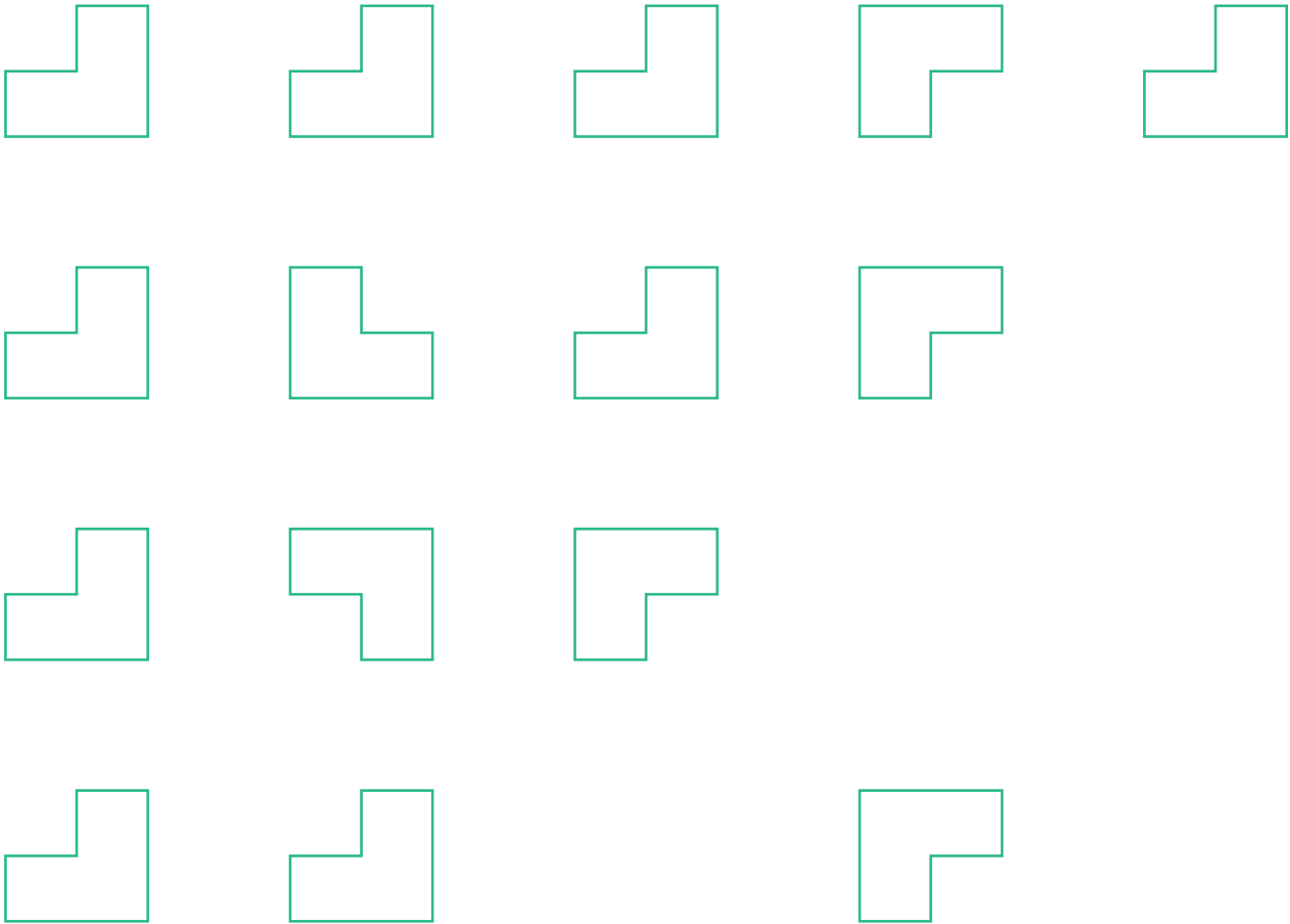
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- What is a business registration and why should I register my business? *2. Business Formalization*
- How do I register my business? *2. Business Formalization*
- What are the legal requirements for my business structure? *2. Business Formalization*
- What will I need to know before I register my business? *2. Business Formalization*
- Are there any other registrations I should consider? *2. Business Formalization*

## Additional Tools Available

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Afghan Government Business Support Quick Reference



## 6.

**Are there any other registrations I should consider?**

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## The Basics

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Registering your business with the government is a mandatory activity. There are other organizations that provide voluntary registration and membership to small, medium, and large businesses. Usually these entities are called Business Membership Organizations (BMOs), and their structure is based on a board of directors, a management team, and a large group of members. The purpose of the BMOs is to create a community of businesses that share common goals, advocate for their rights, suggest policy formulation to the government, and offer support services to the members. When you register your business with these organizations, you qualify to receive certain services and connect with many other entrepreneurs.

## Tell Me More

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Non-mandatory registration of your business is usually an optional activity and you can be selective in which entities to become a member of. The common benefits of becoming a member of these organizations is that you can:

- Receive news and updates about business opportunities, conferences, exhibitions, and similar programs as a member
- Participate in policy advocacy process for your sector with the purpose to improve government's response and support to your sector
- Get introduced to and network with other business people and potentially enter into buying and selling agreements
- Receive technical and business training through programs that the membership organization may organize
- Ask for specific information and advice from the management of the membership organization without having to pay additional fees

There are numerous organizations that you can register your business with. A few examples of these organizations include:

- Afghanistan Chamber of Commerce and Industry (ACCI)
- Afghanistan Chamber of Mines and Industry (ACMI)
- Afghanistan Women Chamber of Commerce and Industry (AWCCI)
- Afghan Women Business Federation (AWBF)
- International Chamber of Commerce (ICC) – Afghanistan

These are not the only ones though. There are dozens of other sectoral membership organizations, such as Afghanistan Builders' Association, The Carpet Union, etc. that are more focused on a specific sector. Members of the sector-based associations and unions come from a specific sector and share similar challenges and objectives.

When you choose to register your business in any of the membership organizations, consider the following key questions:

- What is the cost of registration on an annual or monthly basis? Usually the cost includes annual membership fees that you have to pay up front to become a member.
- What benefits and services does a membership organization provide that help your business perform bet-

ter, increase its revenue, or grow beyond a certain size? The details of the services are usually presented to you at the time of registration and you can search for their services on the internet.

- How much time do you have to commit to keep your membership active? As an entrepreneur, you usually do not have much time to spare. Make sure you do not sign up to a membership organization just for the sake of having a membership and not contributing. The less you participate in their meetings and gatherings, the less you will benefit from their services.
- What is the reputation of the membership organization among the business community and how happy are other businesses from their membership?
- Does your business really need membership in these organizations? You must fulfill an important purpose by joining a membership organization and have a plan to benefit from their services.

In general, assess your decision to become a member of these organizations and make sure to have a purpose in mind before beginning the registration process. Usually you will need to fill out a form about your business and key individuals and pay the membership fee to become a member, a business association or membership organization.

## Glossary Terms from this Section

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**Board of Directors** - A recognized group of people who jointly oversee the activities of an organization.

**Revenue** - Money coming into the business usually from the sale of goods or services.

## For More Information Related to this Topic See

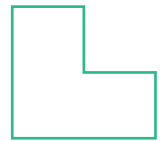
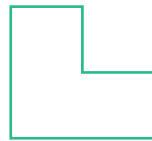
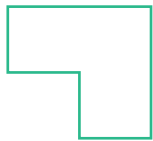
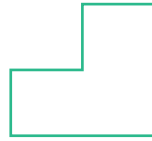
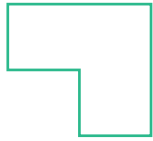
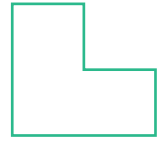
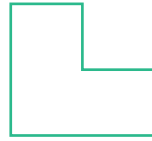
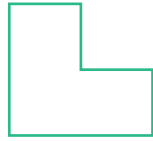
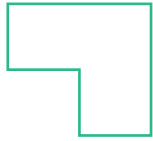
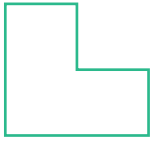
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- What is a business registration and why should I register my business? *2. Business Formalization*
- How do I register my business? *2. Business Formalization*
- What are the legal requirements for my business structure? *2. Business Formalization*
- What will I need to know before I register my business? *2. Business Formalization*
- What kind of certifications, license, or permits do I need? *2. Business Formalization*

## Additional Tools Available

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Afghan Government Business Support Quick Reference



## 7. What are business taxes?

## The Basics

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Every business must pay taxes. Taxes are used by the governments of the town, city or country to pay for the services all people need. These may be roads, hospitals, police, street lights, water, schools, garbage removal or other services that make our lives safer and better. Taxes are usually based on the value or income of the business or the value of the property.

Be sure to understand the interpretation of Income Tax Laws of Afghanistan as it applies to your business. You can keep your business license valid for as long as you pay your tax obligations to the government. Many businesses with a vision to grow purposely plan for the taxes they expect to pay with as much accuracy as possible. You can easily plan for and manage your tax obligations if you are aware of the different taxes your business must withhold and pay to the government.

## Tell Me More

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Businesses in Afghanistan are subject to Income Tax law. The government updates these laws periodically and so it is important to keep yourself abreast of any recent changes. The best way is to stay in touch with the Small Taxpayers Office or Medium Taxpayers Office (depending on the size of your company) who work under the umbrella of the Ministry of Finance that administers the overall revenues of the government.

Reporting your revenue and expenses to the government is required by the Income Tax Law. At the end of each month, quarter, and year, you have to submit certain reports to the government that have tax implications for your business. The government of Afghanistan has set penalties and fines on businesses that do not report and pay taxes on time. When you are diligent about and aware of the taxation requirements, you can easily remain compliant and keep your business running. Study the Taxation Guideline tool to learn detailed information about the different taxation requirements.

**There are five types of taxes that you need to be aware of and pay close attention to:**

### **Employee Tax Withholding**

When you pay salaries to your staff, you are required to withhold part of your staff's salary and pay to the government. There are different tax brackets and your staff may fall into one or more of these categories. Refer to the Tax Guideline tool for reference to the different brackets and to the Tax Calculation Sheet to find the amount of tax you need to pay for each level of salary.

### **Rental Tax Withholding**

Rental tax is paid to the government based on a certain percentage of the monthly rent to the building you use for your business.

You may be able to negotiate with the landlord of your building at the contracting stage for you to withhold the require tax amounts from the rental payments. Businesses that do not withhold and pay the rental tax to the government still have to pay such taxes even when they have not withheld anything from the rental payments to the landlord.

### **Contractor Tax Withholding**

Contractor tax is paid to the government, based on a percentage of a payment to a subcontractor. If the value of the contract per year is less than 500,0000 AFN, you do not need to withhold any amount but must report the payment to government within 10 days after the end of the month in which the payment was made. For subcontractors with a valid business license, you are required to withhold 2% and for those without

a valid business license, you are required to withhold 7% of the payment and pay to the government.

### **Business Receipts Tax Return**

The revenue that you receive from different business customers is subject to government taxation. For example, when you receive a payment from a business customer into your bank account, you will be required to pay 4% of that to the government. Some business customers withhold 2% from your payment and pay it to the government on your behalf. The remaining 2%, you will need to pay directly to the government yourself. Be sure to obtain a copy of the tax receipt for your records.

### **Annual Income Tax Return**

At the end of the year, businesses are required to submit a detailed report to the government on your revenues and expenses. The tax offices of the government provide the formats and templates for these reports for free. These forms are basically a Balance Sheet, an Income Statement, tables, and schedules with a few minor differences. Having your financial statements ready will help fill out these forms easily and submit them to the government. In general, the government requires businesses to pay 20% of their net profit after deducting expenses from their taxable revenue.

The different government offices have working relationships and legal obligations to ensure businesses pay their taxes. Business licensing offices and tax offices are well connected. You can keep your business license valid when you meet your tax obligations. The best way to manage taxes is to be aware of it and pay the taxes to the government as soon as they are due to avoid penalties.

## **Glossary Terms from this Section**

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**Accounts Payable** - Money owed by a company to its creditors.

**Balance Sheet** - A financial document that shows how much you have in your business and how much you owe at a given time.

**Expenses** - Money paid out of the business to pay for an item or service.

**Financial Statements** - Formal records of the financial activities of a business that includes a balance sheet, income statement, and cash flow statement.

**Income Statement** - A financial document showing the difference in revenue (income) and expenses.

**Revenue** - Money coming into the business usually from the sale of goods or services.

## **For More Information Related to this Topic See:**

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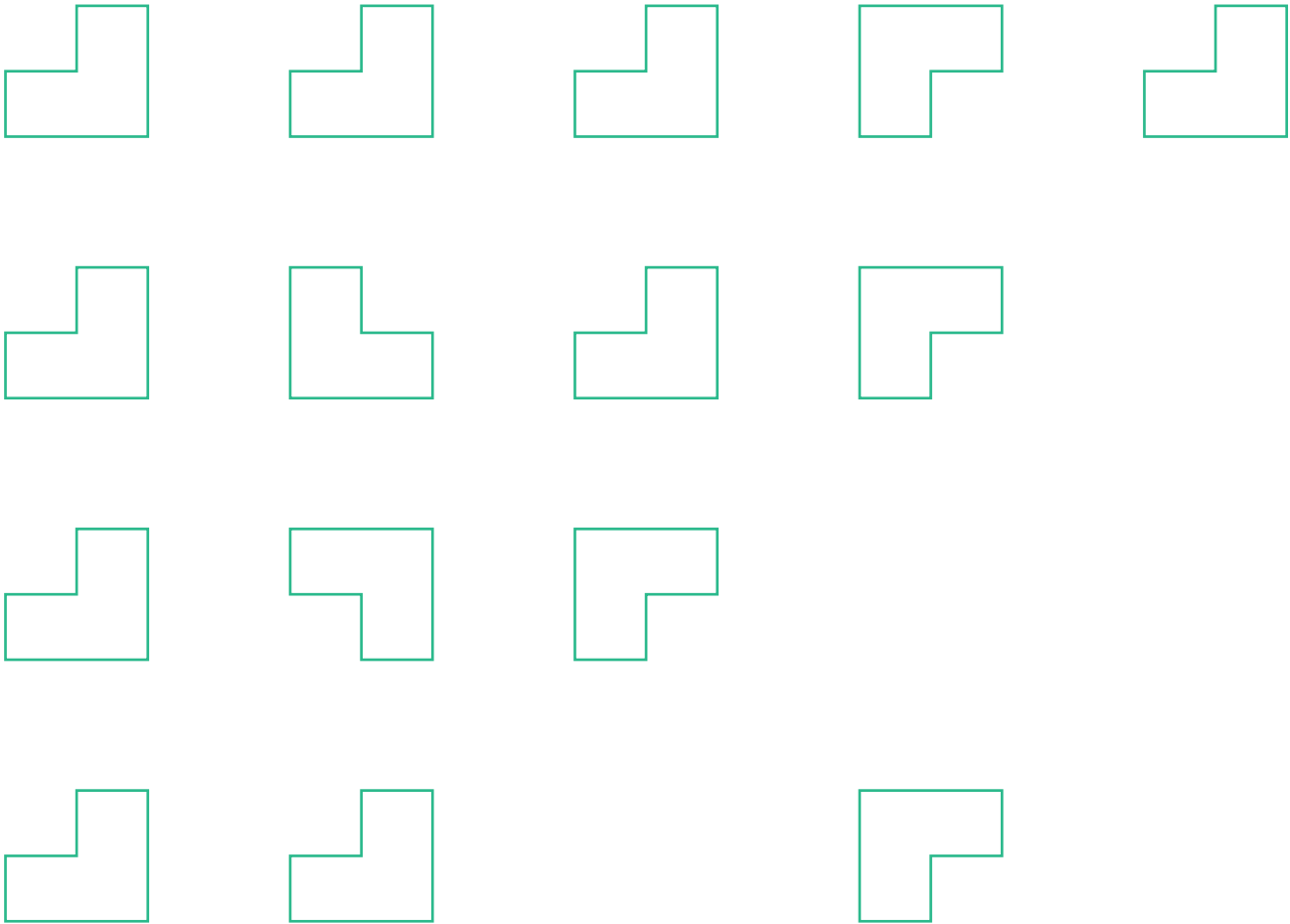
- Can I manage the amount of taxes I need to pay and plan for my tax expenses? 2. *Business Formalization*

## **Additional Tools Available**

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Taxation Guideline

Tax Calculation Sheet



## 8. What are contracts?

## The Basics

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A contract is simply a promise (or promises) put into writing. A contract formalizes whatever understanding and expectation the parties have when they make the contract. Though most legal systems recognize that a contract may be simply words and handshakes of agreement, or a “verbal contract”, these are very difficult to enforce and doing so may require a very complex legal process. Most entrepreneurs rely on a written contract to confidently conduct business and reduce misunderstandings that may naturally occur with oral agreements. You will find that in almost every business relationship, you are also dealing with an agreement of some kind and most of them come with some sort of written document so that both parties are clear about their respective roles and expectations.

For example, when you hire an employee, the job description that you create for that employee is a form of an informal agreement. When you purchase materials, inventory, or services from another business, it is likely that this purchase will be documented in some way. When you sell your products or services, you will also want to document the agreed-upon expectation with your customer.

The level and complexity of contracts and agreements will also be different for every kind of business. If your customers are other businesses, it is likely that more of your business relationship will be in the form of contracts and agreements. If your business is dealing mostly with individuals, your need for written contracts and agreements may not be as critical. Your advisory board or shareholders may be helpful in directing you about the need for contracts and agreements in your business.

## Tell Me More

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In Afghanistan, the Law on Commercial Contracts and Selling Property provides legal provisions and sets privileges and responsibilities of contracting parties. A contract is an agreement between two or more parties that creates an obligation to do or not do particular things. The term “party” can mean an individual person, company, or other legal entity. No matter who the parties are, it’s a legal requirement that contracts must contain the following essential elements, without which a contract will be considered void:

**Offer or Intent:** This refers to one or all parties’ intention to commit to a certain activity that is specifically defined in the contract.

**Mutual Agreement:** This means all parties have the same understanding about what is being covered by the contract. Each party either promises to perform an act that the party is not legally required to perform, or promises to abstain from performing an act that it is legally entitled to perform. The mutual agreement to the offer of the contract is an important element of a valid contract.

**Purpose:** This is details of the transaction that can include a movable or immovable good, material or non-material asset, services, or any other work that is not against the applicable laws of Afghanistan. The purpose of the contract should be feasible, clear, valid, and legal.

**Reason:** The contract must elaborate why the parties engage in entering into an agreement and record the benefits that the parties receive from the agreement, to the extent possible to define.

**Duration:** A contract has a beginning and an end. You should ensure to date a contract when you sign it and be clear about when the contract will end.

While the above are the very minimum requirements for a contract to be valid and enforceable, you may include additional elements to a written agreement. Remember that when you agree to an activity verbally, it could still be enforceable in case of a dispute, but usually verbal agreements are not as valid as written ones. Good entrepreneurs always prefer written agreements to verbal and informal contracts that may or may not be enforceable.

For example, Semin ran a clothing company and wanted to organize a product launch event at a hotel in Herat. She explained her requirements such as venue design, food items, lighting, parking needs, decoration, etc. to a local hotel that had a large hall for the launch event. Both parties seemed to understand the needs and prices. Semin was very focused on organizing the new collection of clothes, preparing the agenda, inviting guests, designing her promo video, etc. On the day of the event, two things went wrong. The hotel had another event and could not give enough parking space to Semin's guests. Three of her important guests had to leave the venue as they could not find a space for their vehicles. Also, the food items that she had ordered were changed. Apparently, the hotel's chef had combined menus of the two events to make his job easy. Semin was very mad at the hotel's management. She complained to the hotel's owner but the dispute continued for weeks as there was no written contract in place as a reference. Semin's event was not as great as she expected. She could not get compensation for there was no contract in place.

In a similar way, many other entrepreneurs have gotten themselves into disputes for they have made verbal commitments and have not put their commitments in writing. Whether or not it's required, a written agreement becomes your proof of what was agreed upon, and it prevents someone from forgetting or changing the story later. Writing the contract down also makes the parties focus on the essential points, and come to a definite agreement.

You can create your own contract if there is much at stake or if the matter is complex, but you may want to use a lawyer. Your best money may be spent up front in preventing any potential legal problems, rather than battling it out in a lawsuit later. If the amount at stake in your business contract is moderate or the terms are simple, you may use a legal form that both sides understand.

## Glossary Terms from this Section

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**Advisory Board** - A group of people who provide strategic advice to the management of a corporation, organization, or foundation.

**Assets** - Anything of value that your business owns.

**Shareholder** - Any person, company, or institution that owns at least one share of a company's stock.

## For More Information Related to this Topic See:

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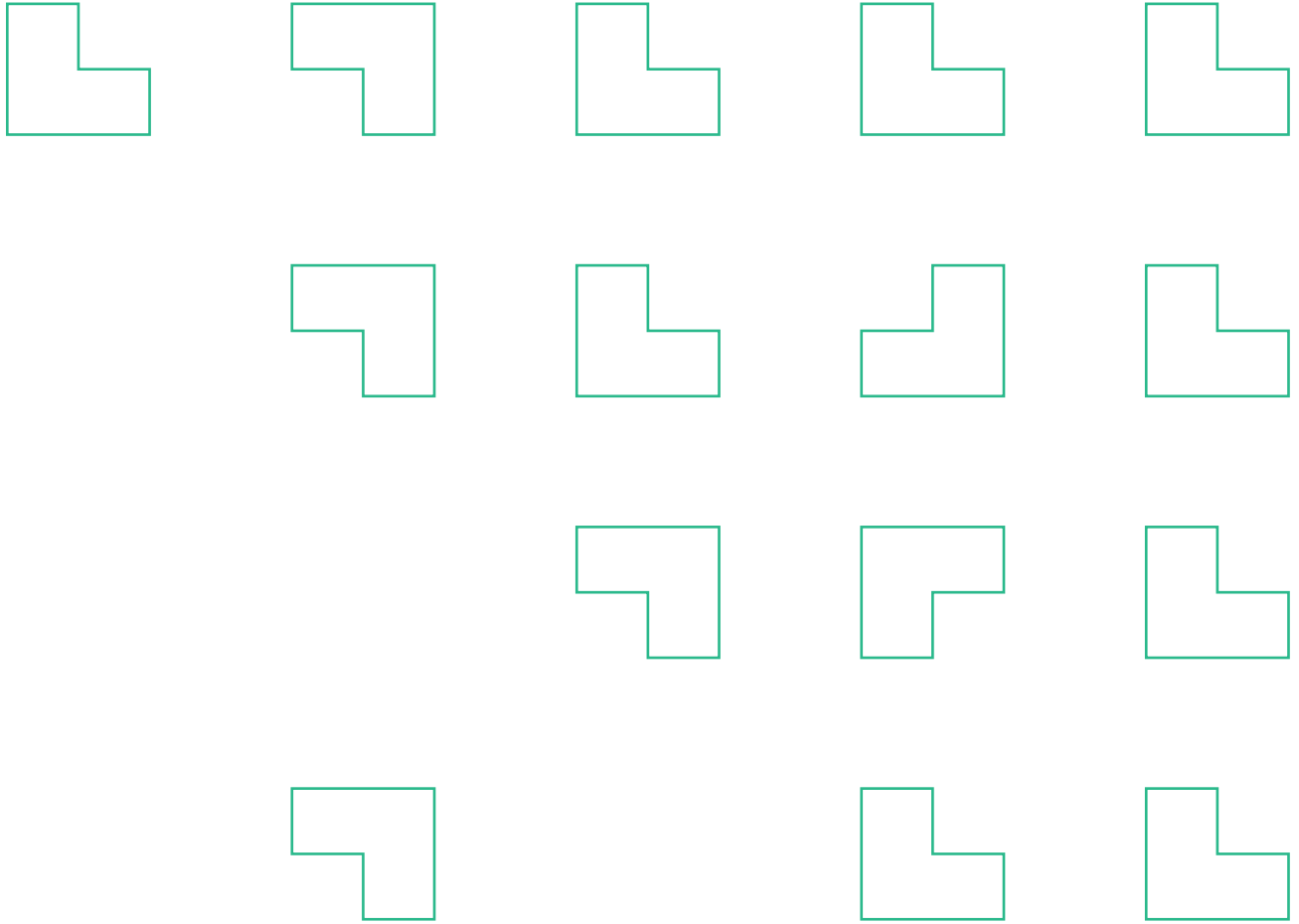
- How should I use contracts in my business? 2. *Business Formalization*
- How do contracts differ in the Afghan legal context? 2. *Business Formalization*
- What kinds of advice and guidance may I need from outside my business? 2. *Business Formalization*
- Why should I keep good business records? 2. *Business Formalization*

## Additional Tools Available

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General Contract Template





## 9. How should I use contracts in my business?

## The Basics

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There are several places where a contract will be useful and in most cases, necessary:

Transactions for purchasing or selling products and services, such as:

- Sales of your business' products or services
- Buying raw materials or supplies
- Purchasing advertising, printing marketing materials, signage
- Buying services like taxation service, bookkeeping, legal advice
- Purchasing or leasing equipment needed to operate the business
- Lease, rental or purchase agreement for a place to operate your business

Formalizing relationships with people, such as:

- Employment agreements with key employees
- Shareholder agreement with your investors
- Consulting agreements with short-term experts

## Tell Me More

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When you are dealing with other businesses, banks and suppliers, you may have to sign contracts and legal documents.

Even though you may trust the person you are dealing with it is important to put things in writing so that there are no misunderstandings, especially as time goes on and your memory and attention may be focused on other things.

Though it may seem like a lot of extra work, when you are dealing with contracts and legal documents you will need to get a lawyer involved. Lawyers will result in even extra expense but it is money well spent to get legal advice. A cost-effective way to get legal advice is to hire a lawyer to design key contract templates for you so you have a strong basis for your contractual arrangements. For example, a lawyer can design Employment Contract, Investment Agreement, Non-Disclosure Agreement, Supplier Contract, Purchase Order Format, etc. that you can repeatedly use as you go along. You may alternatively ask a fellow business owner to either share her templates with you or help you develop yours. Despite these, you will need to understand contracts well and learn to modify contracts as per the nature of each transaction.

There are likely several times when you will encounter legal documents and contracts.

For example, if you are renting a building or a store, the lease document is a legal document that will be critical in setting the arrangements for you to conduct your business in that location. Usually property dealers will provide the agreement format, but you also have a direct written agreement with the property owner.

If you borrow money from a bank most likely the loan will be made by having you sign a loan document, a legal document that will be very important to understand, so remember, anytime you are being asked to sign a contract, you should ask an attorney to review it for you, before you sign it. Contracts are usually complicated, and it is important to have someone who is trained in dealing with contracts take a look at the contract so that he or she can help you understand what it means.

A few examples of cases where you will need to sign a contract are as follows:

- Purchase goods or services from other companies, especially if it's a long-term relationship where the purchases happen multiple times in a year.
- Import or export goods where you have to go through the customs office. You might also need invoices, payment receipts, and proof transfer of funds.
- Recruit employees, whether short- or long-term, in your company. This should set the terms and conditions, such as compensation, working hours, scope of work, for employees or consultants that work with you.
- Build a business relationship with other companies where both sides provide goods or services in return for something of value from the other. It's commonly the case in Afghanistan where companies sign memorandum of understand (MoU) and list each party's responsibilities for a specific period of time.
- Borrow or lend money to another company or individual. This will ensure the repayment time, lent amount, and mode of payment are set up front, avoiding any potential disputes in the future.

In case of disputes, you may initially try to come to a resolution through mutual discussion and negotiation. When this fails, you can try mediation by a trustworthy mutual friend or contact that all parties accept as a mediator. As a last resort, you may appeal to the relevant courts, but understand that getting a decision from the courts is a very time consuming and costly process. You will need to compare the benefits of taking a case to the court against the time and resources you will spend on go through the process. Before taking a case to the court, you may consult with a knowledgeable lawyer and do an assessment of whether you have a good chance of getting a favorable decision.

## Glossary Terms from this Section

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**Mediation** - Intervention in a dispute in order to resolve it.

## For More Information Related to this Topic See:

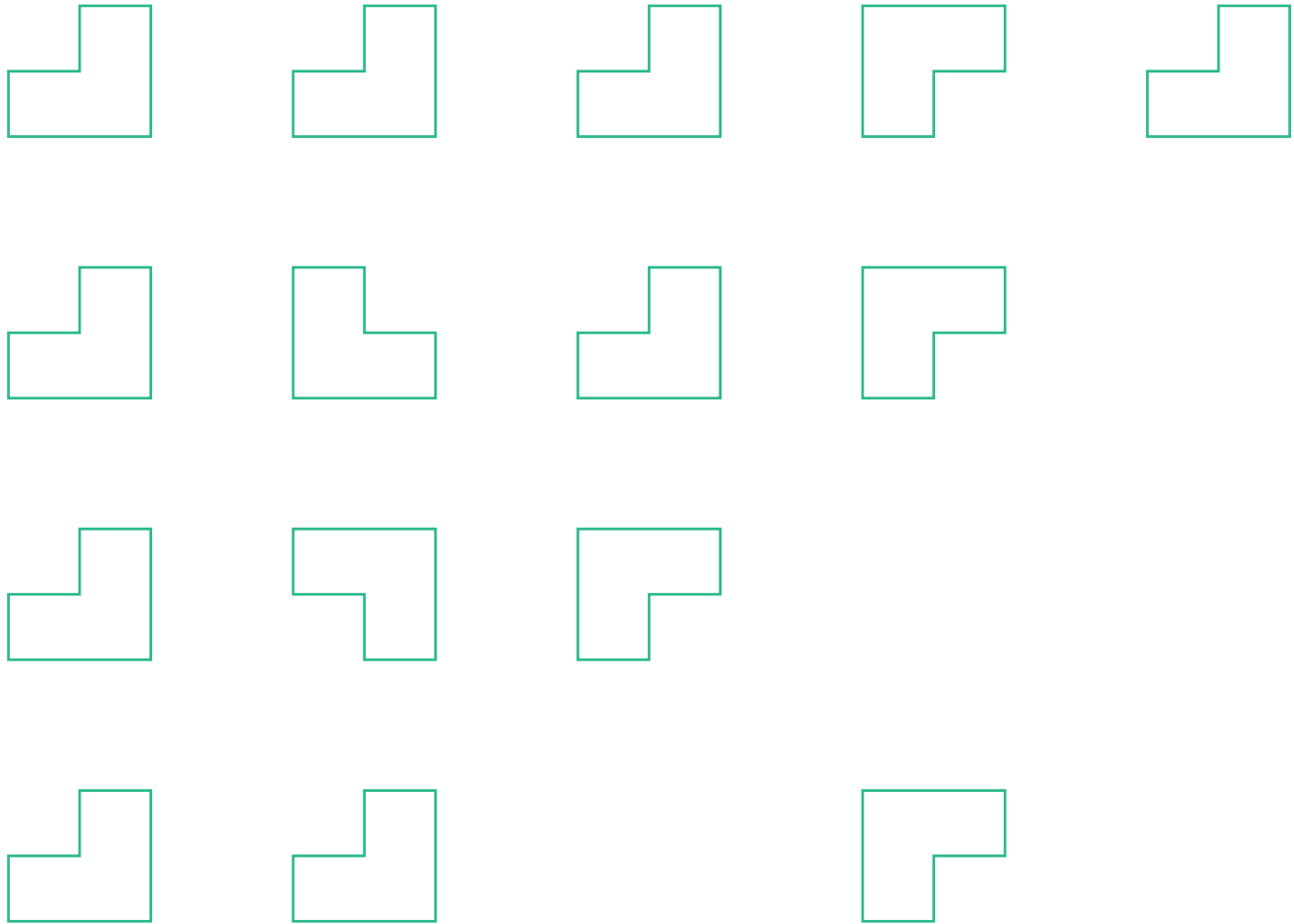
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- What are contracts? *2. Business Formalization*
- What kinds of advice and guidance may I need from outside my business? *2. Business Formalization*
- Why should I keep good business records? *2. Business Formalization*

## Additional Tools Available

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General Contract Template



## 10.

### What kinds of advice and guidance may I need from outside my business?

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## The Basics

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Outside advice and guidance often changes during the lifetime of the business. It is important to seek input from others regarding these important parts of your business. A business has many functions and throughout its lifetime, it needs expertise in various fields that the business owners or managers cannot always qualify to provide. The concept of “outsourcing” is common among progressive entrepreneurs who focus on what are good at and seek external advice and guidance in areas that they do not specialize. There are time, quality, and cost benefits to seeking external advice.

For example, when you plan to clear your taxes and update your business license, you might not be expert in accounting, finance, and taxation systems. You may try to learn these on your own but the process can be long, ineffective, and subject to serious mistakes. Instead, you may decide to focus on your core business and let tax experts take care of your taxation obligations. That way you can earn much more by doing what you are good at, while the tax experts can organize your finances and pay your taxes in much less time and with much higher quality.

## Tell Me More

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**There are numerous areas that you might need external advice and guidance for:**

### **Legal**

An attorney is knowledgeable in business matters and experienced in working with entrepreneurs like you. Even though you may have a friend or family member who is an attorney, it’s important that you use an attorney with specific experiences in helping entrepreneurs launch their businesses. You may find it helpful to consult with an attorney about:

- Selection of the best legal form for your business.
- Completion and filing documents needed to register your business.
- Drawing up agreements with investors and co-founders.
- Filing documents needed to protect you from others who may want to use your business name and or brand identity, trademarks, etc.

### **Financial**

A financial advisor may be helpful in assisting you in understanding important financial aspects of your business, such as:

- Setting the prices that you will charge in your business based on your costs of making or delivering your products and/or services
- Setting up an accounting and bookkeeping system so you will be able to accurately track and manage the financial side of your business

- Collaborate with your legal advisor to determine, with tax planning in mind, the best legal form for your business

## **Technology**

Even if you think your business is very simple and not complicated, it's likely you will need some technological advice. It is much better to know and implement your technology needs at the early stage of your business than it is after your business gets more complicated. It is likely to be disruptive to have to add on technology at a later stage.

- **A technology advisor may be helpful by helping you to tackle things such as:**
- Setting up a computer network to connect the different parts of your business
- Selection of and connection to internet and telecommunication providers
- Selection of technology equipment, for instance, computers, smart phones and telephone systems
- Development of your digital presence such as websites, social media, emails, etc.

## **Marketing**

There is a lot to think about when it comes to marketing so an outside marketing advisor may be very useful. Because you have likely been working on your business idea for a long time, you may think the value and attractiveness of your product or service is obvious. However, your potential customers do not have the same familiarity as you do so it will be critical to develop a sharp and effective marketing strategy to create awareness interest and importantly purchase of your product or service, so a marketing advisor from outside your business may bring fresh ideas and perspectives.

### **An outside marketing advisor can help you:**

- Choose the name for your company
- Develop a brand image for your products and services
- Set up a marketing plan and budget
- Design your website, marketing materials, and visual elements for how outsiders see your company and its products, e.g., stationery, business cards, signage, etc.

## **Human Resources**

In most cases the creation of a new business begins with one person with an idea and a lot of the early work on the business is done alone or with only one or two others so the need for someone with a human resources expertise may not be apparent. However, even before the business is launched an outside human resources adviser can help you to:

- Set up a plan for recruiting employees

- Identify job functions you may need
- Create job descriptions and performance measurements for employees
- Set wages, salary and benefits so that you will be competitive in your local employment market

**When you first start your business, you will likely be responsible for almost all the tasks involved in running your business. But, as your business grows, you should seek advice from specialists and experts, such as:**

**Lawyers** are highly trained in dealing with complex business issues and because so much business today is affected by legal considerations such as contracts, agreements, regulations, and procedures, it is a good idea to have a lawyer that you can contact.

The hourly fees that lawyers charge may seem high, but the advice they are able to provide generally outweighs the cost. When it comes to finding a lawyer, you should ask other business people for referrals. Just because a person is a lawyer does not necessarily mean they are a good fit to help you with your business. For instance, a lawyer who specializes in divorce would probably not have much experience working with business agreements and contracts.

### **Accountants**

While you are likely to set up a basic bookkeeping system to keep track of money, expenses, and taxes, there may be times when you will need to talk to an accountant. For instance, you may want to have an accountant prepare your tax returns, since special treatment of certain expenses could benefit your company. You may also want to talk to a financial planner. A financial planner can help you with your own personal financial goals and they know how to best take advantage of the fact that you own a business.

### **Insurance Providers and Advisors**

You want to consider contacting an insurance specialist, to learn about the different types of insurance that are available to help you deal with risk. Traders and exports, for example, might need insurance to deal with the risk of their goods being damaged during transportation. Insurance specialists work with businesses on a regular basis and can provide advice that is critical to the success and life of your business.

### **Government and Chambers of Commerce**

There are organizations that are focused on helping businesses succeed. They often offer free advice and are worth seeking out.

The regional offices of Ministry of Investment and Commerce (MoIC) and other entities, such as provincial offices of the Ministry of Agriculture, Irrigation, and Livestock (MAIL) can guide you and help you find the needed information. At times, the officials can direct you to other organizations that can provide support. Other entities that can provide guidance are chambers of commerce and business membership organizations. Some of these include Afghanistan Chamber of Commerce & Industry (ACCI), International Chamber of Commerce & Industry (ICC) Afghanistan, Afghanistan Women Chamber of Commerce & Industry (AWCCI), Afghan Women Business Federation (AWBF), The Women's Center (TWC) at the American University of Afghanistan (AUAF, etc. Chambers of commerce are organizations operated by professionals who know about the needs of small business owners and may also put on events for entrepreneurs like you to meet on a regular basis to network, share ideas, and support each other in making their businesses successful.

You may need business advice that helps you strategize growth of your company. Business consulting companies in your area with the right experience and knowledgeable team may be able to help.

## Glossary Terms from this Section

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**Brand** - A unique symbol, logo, or name that organizations use to set apart their product from others in the market.

**Expenses** - Money paid out of the business to pay for an item or service.

**Marketing Plan** - A document that outlines a company's marketing goals and all the business activities that will be done to reach those goals.

**Marketing Strategy** - The outline of how you will create your brand, establish relationship with key customer target market groups, design products/services, and communicate product/service benefits.

## For More Information Related to this Topic See:

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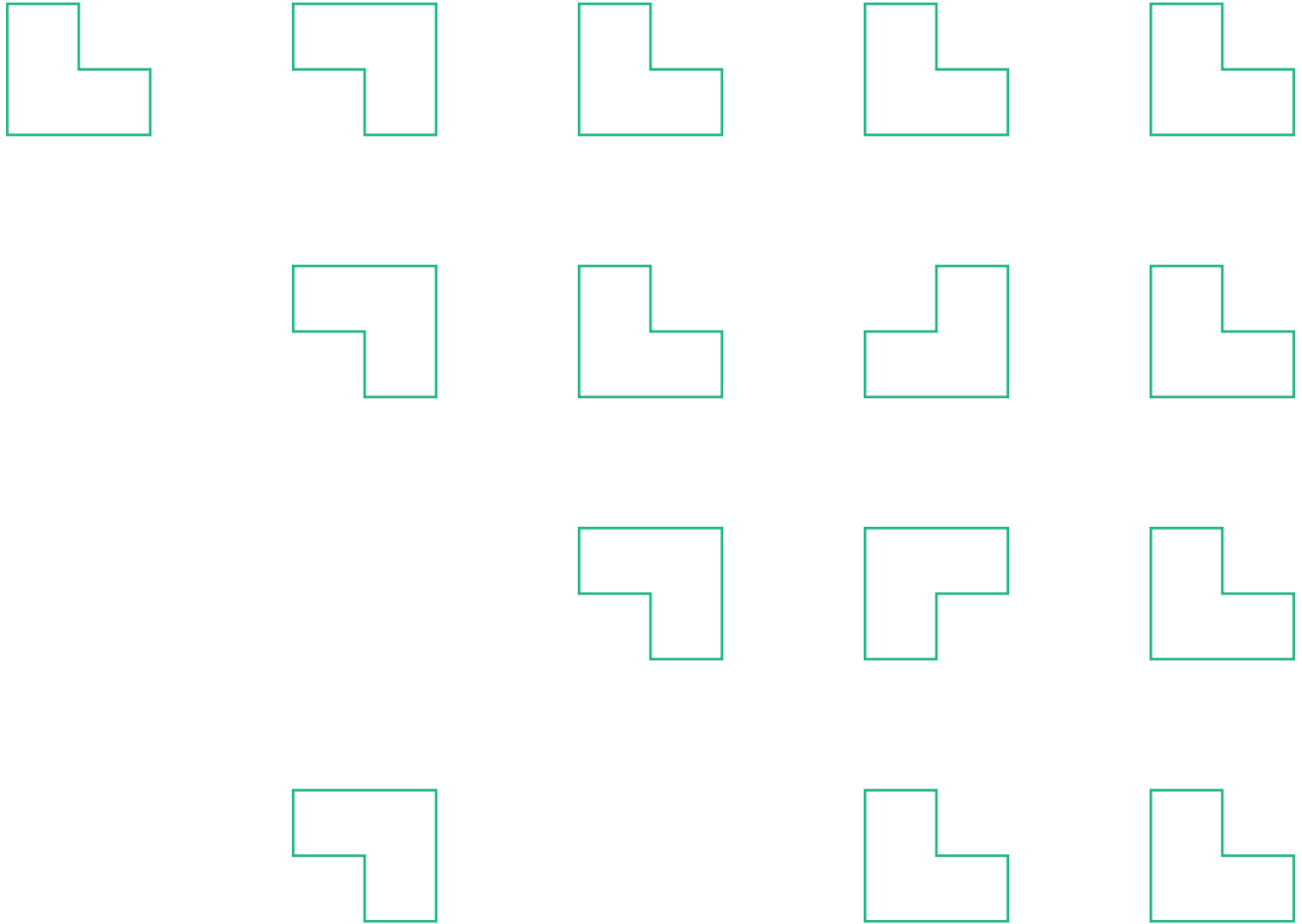
- How do I get advice and guidance for my business? 2. *Business Formalization*

## Additional Tools Available

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Afghan Government Business Support Quick Reference





## 11.

**How do I get advice and guidance for my business?**

## The Basics

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It is not unusual for an entrepreneur starting a business to feel that they may be alone and isolated at the early stages, but there are some ways to get others to share their experience, skills and insights. You can reach out to others who have either more or different experience in your industry for advice. You can also connect with people who work in other businesses or industries to get an outside point of view.

You may choose to have formal or informal relationships with advisors. Some of the types of advisory relationships you might create are:

- Have a Board of Advisors
- Set up a Board of Directors
- Seek the help of Mentors and Coaches

An Advisory Board is a group of people who provide strategic advice to the management of a corporation, organization, or foundation. An Advisory Board has an informal relationship to the company and its owner and does not have the authority to make decisions for the company. Having an Advisory Board is an extremely helpful tool for an entrepreneur as it gives her a team of knowledgeable people from whom she can seek advice.

A Board of Directors is a recognized group of people who work together to oversee the activities of an organization. A Board of Directors often has the authority to take actions on behalf of the organization. A Board of Director's power might be determined by laws or by the authority that the company gives to them. Usually publically owned companies or large companies have a Board of Directors. For smaller companies, a Board of Directors is usually not necessary. But if the company grows large, they may consider creating a Board of Directors to provide more oversight and accountability to the company's actions.

Perhaps the most useful support an entrepreneur can seek out is a mentor or coach. A mentor is usually a more experienced person who can give advice and guidance to the entrepreneur over a wide variety of topics. Ideally, the entrepreneur will have a long-term relationship with their mentor or mentors. A coach is someone who can help the entrepreneur with a very specific skill or task. For example, an entrepreneur may look for a coach to help her become more comfortable speaking in public. Another example might be a coach who could give the entrepreneur advice as she negotiates her first bank loan. The coach may not necessarily be more experienced in the entrepreneur's business, but they are more talented in a particular skill. For example, Habiba did not know how to set up her Facebook page, but she was able to get coaching on how to do it from her teenage daughter!

## Tell Me More

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Being able to get advice and guidance for your business can have excellent positive impact on the growth of your company.

There are a number of useful ways you can do this.

### **Mentors and Coaches**

Over time, it is likely you have met and developed relationships with people you recognized as having achieved high levels of success and accomplishments. This aspirational performance does not have to be financial--it may be, for instance, being a recognized and passionate teacher, or a religious leader.

To find a mentor, think about these people who you recognize for achievement and especially for the qualities and values you want to adopt or to practice in your business.

A prospective mentor does not have to be someone exactly matched up to specifically your kind of business, in fact, it is unlikely and rare for a mentor to be a perfect fit. Remember, it is the potential mentor's qualities, values and importantly, their outside perspective, that's a benefit to you.

So, think broadly about what you're looking for when finding a mentor, and think about people who already know you, even if their familiarity to you is not directly related to you as being an entrepreneur.

### **Business People in Your Community**

You may often reach out to business people and entrepreneurs in your network for advice and guidance. The business person you seek advice from does not have to be in the same sector as you are but rather have experience of doing business in Afghanistan or elsewhere so you can share a topic and receive a fresh perspective. More often than not you will get good ideas for your business just by talking to other business people. You need to proactively reach out to your network of business people and maintain your relationship positive and collaborative.

### **Business Membership Organizations**

One benefit of being a member of a business association or network is that you get to meet dozens of other entrepreneurs and businesses in your community. Some organizations, such as Afghanistan Women Chamber of Commerce and Industry (AWCCI), have experienced business people on their board of directors or their management team that can help you get useful advice. Being a member will allow you to reach out to other members and meet them for guidance.

### **Board of Advisors**

A board of advisors is established to help you in meeting whatever challenges you might encounter so the members of your board of advisors may change as your business changes. There is no exact formalized structure or legal requirement in setting up a board of advisors but here are some general guidelines.

#### **Who should I invite to my board of advisors?**

The advantage of a board of advisors is that you can change the members according to the needs of your business. In the early stages of your business, you may want to include advisors with connections to prospective customers or important business relationships. As your company grows, you may wish to include someone who has experience in production, or other matters related to expansion of the business.

#### **How often should a board of advisors meet?**

Have a regular schedule of meetings where all advisory board members meet with you as a group. It is a good idea not to schedule these meetings frequently in as much as your advisors are likely to be successful and very busy professionals, executives, or entrepreneurs themselves. In the early stages of your business a monthly meeting might be helpful but as your business grows you may want to think about having the entire board of advisors meet every few months.

Ask members of your board of advisors if, in between regular meetings of the full board of advisors, they would be willing to chat with you individually on an as-needed basis as may be necessary based on a challenge you may be facing at the time.

### Do I have to compensate my board of advisors?

It is likely that those who you seek to serve on your board of advisors will be doing so because they want to help you succeed and will be doing so without the expectation of significant compensation, however you should make the experience of serving on your board of advisors as comfortable and pleasant as possible. You could hold your advisory board meetings at a nice restaurant where you and the company pay for dinner, or you may wish to give advisory board members small but thoughtful gifts for their participation such as a ticket to a concert by the Afghanistan National Institute of Music (ANIM) or subscription to a local magazine.

### How long does a member serve on my board of advisors?

Because the need for outside advisors will change as your business changes you will want to be able to easily change members of your advisory board. Advisory board members expect their involvement will usually be short-term in nature but it's advisable to make this clear from the beginning so that you and your advisory board members have clear expectations about their time commitment.

### Board of Directors

While a board of advisors can bring a lot of flexibility and freedom in the way they operate and how they may benefit your business, a board of directors has a specific legal responsibility in their role in your business.

Investors whose money is at risk when they put it into your business. As the one who is starting the business and creating your corporation or limited liability company, you have a lot of freedom about who will be on your board of directors. In some cases, a bank or individual who is making a substantial investment in your business may require they become a member of your board of directors so they can be informed about how your business and their investment is doing.

Though most entrepreneurs will select people they know well to serve on their board of directors it's a good idea to also think about your board of directors in terms of how they may contribute, not only money but also their own expertise, skills and importantly, their contacts, connections and relationships that may be valuable to your company.

## Glossary Terms from this Section

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**Advisory Board** - A group of people who provide strategic advice to the management of a corporation, organization, or foundation.

**Board of Directors** - A recognized group of people who jointly oversee the activities of an organization.

**Limited Liabilities Company (LLC)** - A hybrid form of business between a Partnership and Corporation made to protect liability.

## For More Information Related to this Topic See:

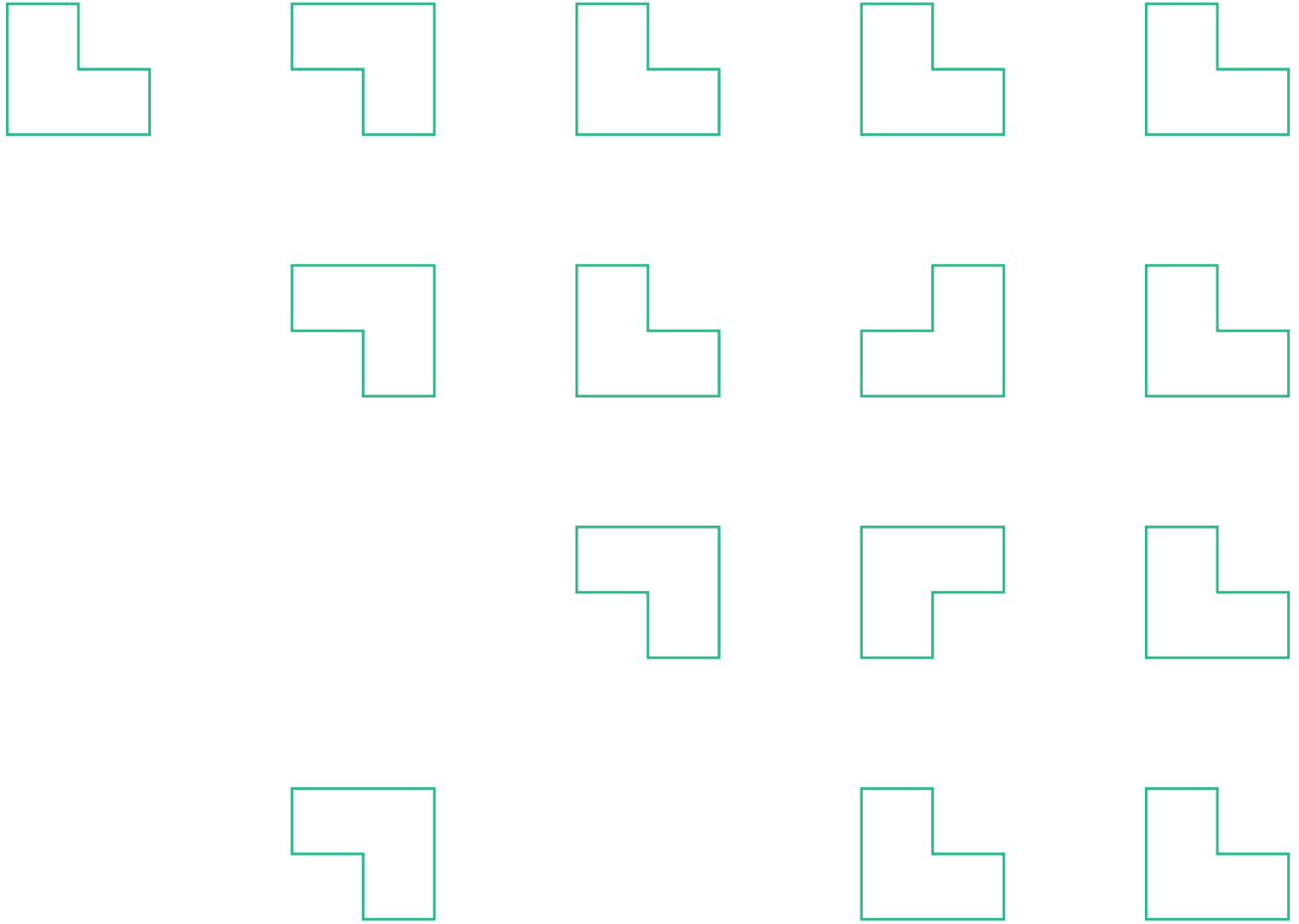
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- What kinds of advice and guidance may I need from outside my business? 2. *Business Formalization*

## Additional Tools Available

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Afghan Government Business Support Quick Reference



## 12.

**Why should I keep good business records?**

## The Basics

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Most business experts and successful business owners agree with this well-known business rule: “you can’t manage what you don’t measure”. The premise of this rule is very simple: you need good records of all kinds—not just financial—in order to know how your business is doing. The importance of good business records plays a role in helping you manage your business in several different areas within your business. (See the Financial Management section for more details on managing business records.)

### **Employment**

When you hire people to work in your business it’s critical to keep accurate records of each employee’s earnings and payments to them for their work, and in many cases, the taxes that you pay based on their employment. When you keep good employee records about the amount of money you spend on labor you will also see a benefit by understanding the cost of labor in your business operations. You will be able to make better decisions about managing the cost of labor, and importantly, how it may affect the profitability of your business.

In some cases, good business records about your employees may be a government requirement so keeping good records will keep you in compliance with governmental regulations. For instance, you need to keep records of tax payments on behalf of your employees to ensure that tax officials account for these expenses when you submit an end-of-year report.

### **Marketing**

It is very likely that you will be spending a lot of money on marketing and promoting your business, especially at the beginning when your potential customers may not be aware of your business. When you keep good records to keep track of how much money you spend on the various marketing activities, you can compare those records with sales that may occur because of those marketing activities. By doing this, you will get a better idea of where to spend money for future marketing efforts.

### **Production and Operations**

Whether you are producing a product or providing a service, you will want to keep good records about the costs and the quality of your company’s production. You will likely find that as your company grows you will learn more efficient production methods, product delivery, service, and your performance may improve, but to know that things are really improving you will need to be keeping good records.

Similarly, you will want to keep records about the quality of your products and services so that you know when to make changes to maintain or improve the level of quality that your customers expect. You cannot maintain good quality unless you keep good records; keep in mind that quality is often the main reason a customer will decide whether to continue as your customer.

### **Finance**

When we think about good records we most often think about them in terms of financial and accounting records. This kind of record keeping is how you “keep score” about how your business is doing. Because financial records and accounting systems are based on well-accepted methods and ways of measuring things, your financial record keeping is also a way to compare your business to others.

Good financial record keeping is also very important if you are interested in having outsiders invest in your business or if you are going to a bank for a loan. These outsiders will be expecting good record keeping as a way for them to decide to invest in your business or to provide a loan.

## Tell Me More

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As a responsible and organized entrepreneur, you must keep track of important information. This means keeping track of money coming in and going out of the business, but it also means keeping records on other things that affect your business, such as:

**Employee Records:** For every one of your employees, you should keep a current record of what she or he is paid, the application form from when she or he applied to work for you, as well as her or his training history, attendance, and time off. Be sure to save any reports that you have written up about the employee's performance. You may also want to have a record of whom you should contact in case of an emergency at work.

**Inventory:** If you are making a product and use ingredients or raw materials, you will need to keep track of how much of the materials you are using, as well as information about where you get these raw materials. This becomes even more important if you open additional operations that are far away from your "main" location.

**Equipment:** If you are using equipment to make your product or provide your service, it is important to keep a record of all purchases of equipment and any maintenance that is needed to keep the equipment in good shape.

**Marketing Materials:** If you are creating brochures or ads, it is a good idea to keep copies of your ads and promotional materials. You can then reuse the ones that seem to work well.

**Production Records:** If you are making a product, you will want to keep track of how much of the product you make. Sometimes you will find it is important to keep track of this down to the hour or at least by the day.

**Sales Records:** You will want to keep track of how many products or services you sell each day. If you are selling more than one product or more than one service, you will want to keep track of each of these items so you know what is selling best.

**Customer Records:** You might want to keep a list of your best customers and their buying history. This is helpful when you are doing promotions or you want to share a new product with your customers. Depending on your business, you might even want to record some personal facts about your customers, like their birth date or clothing size. This allows you to provide very personalized service.

**Business Contacts:** You will want to keep a good record of all your vendors and other business contacts. As you meet more and more people, your network will grow. Not only are these lists helpful with your marketing, but you never know when you might make a connection that will be helpful in the future.

## Glossary Terms from this Section

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**Expenses** - Money paid out of the business to pay for an item or service.

**Marketing** - The process of reaching your customers and showing them why they should buy your product or service.

**Vendors** - People or organizations that provide products or services used to operate a business.

## **For More Information Related to this Topic See:**

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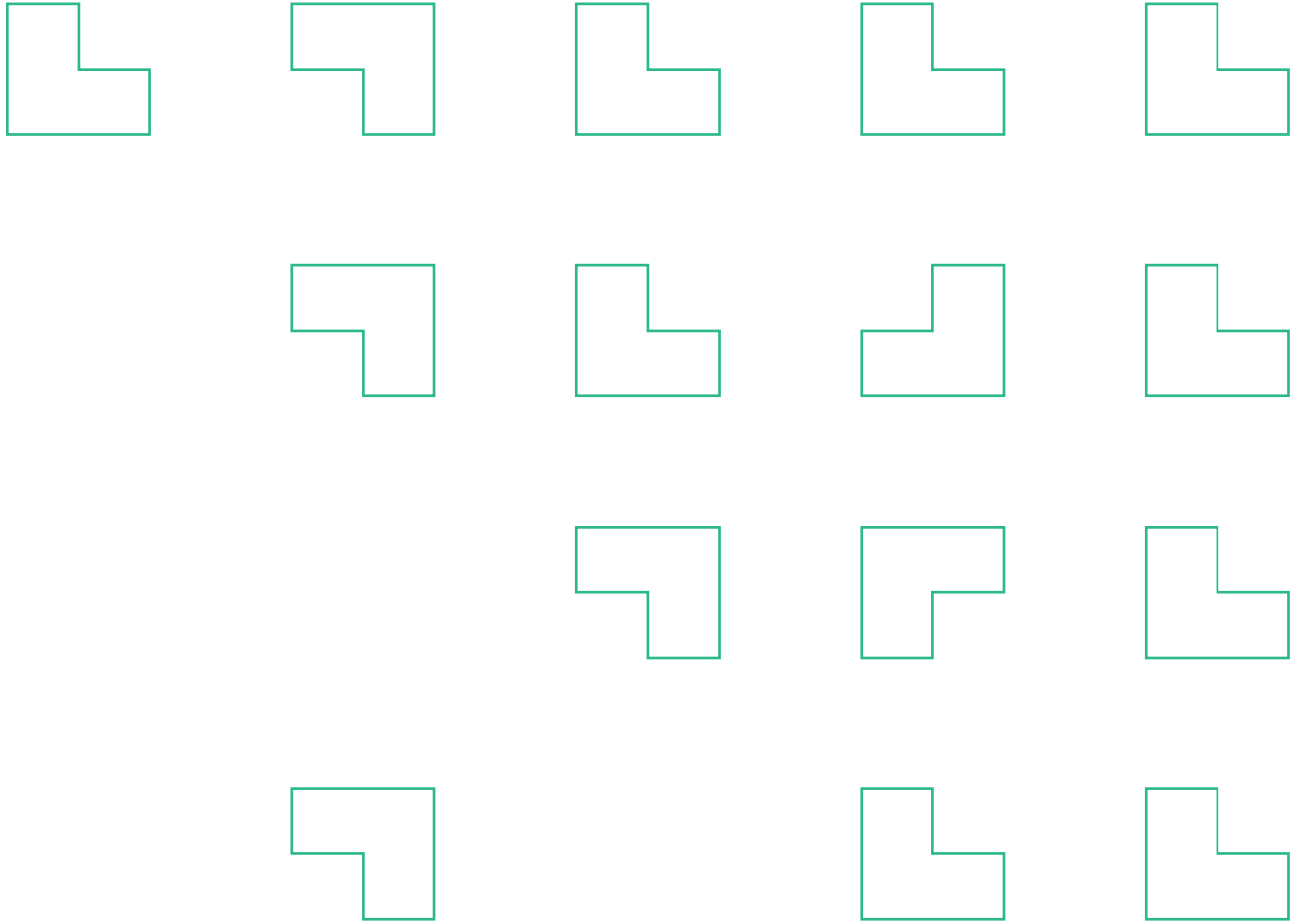
- What are financial statements and why do I need to use them? *12. Financial Management*
- Where can I get help to create and maintain my financial statements? *12. Financial Management*
- What kinds of advice and guidance may I need from outside my business? *2. Business Formalization*
- How do I keep track of my inventory? Why is this important? *11. Bookkeeping*
- How do I track sales? *11. Bookkeeping*
- Why should I keep detailed records? *11. Bookkeeping*

## **Additional Tools Available**

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Business Records Checklist





# Tools