

TAWSEHA

A Brief Financial Education Guide for Small Businesses in Afghanistan



**Mighty is he who has knowledge,
from knowledge the old heart becomes young**

— Abulqasim Ferdowsi

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This brief Tawseha guide is designed for micro, small, and medium enterprises in Afghanistan to learn and adopt foundational best practices of sound financial management of their businesses. To learn more about financial management, find a copy of the Tawseha's main Financial Education Booklet.



Tawseha: A Financial Education Booklet for Small Businesses in Afghanistan

How can I raise capital for my business?

When you start and grow your business, your sources of capital usually are:

 Funds from Family or Friends	Friends and family can provide you with initial capital to start your business.
 Personal Savings	You can generate capital from the revenue of your business. A well-managed business can have excess capital from its day-to-day operations. Increasing sales, improving profit margins, and managing expenses efficiently can free up funds for growth.
 Bank Financing	You can refer to a reputable bank to request financing for your business. The financing from the bank, such as a Murabaha, is usually classified as debt in the bookkeeping system of your business because you must make repayments to the bank until the full amount is repaid.
 Grants	You can look for grants from development organizations that are focused on specific social goals by supporting businesses. Unlike bank financing, grants do not need to be repaid to the grantor as long as the funding is used for the purpose agreed.

As a small business, you can receive capital from outside your business mainly as **debt** or **grant**.

When a microfinance institution provides money to your business that needs to be repaid, it is **debt**.

A **grant** is usually meant to support your business and does not need to be repaid as long as it's used for the intended purpose.

What is a Matching Grant and how does it work?

A matching grant refers to the capital provided by a development program to a business which makes its own cash or in-kind contributions toward its business plan. The purpose is for the business and the grant provider to jointly contribute toward the implementation of the business plan.

One example of a matching grant is when a development organization provides temporary funding to businesses to support them getting financing from a microfinance institution. In such a matching grant, the grants help the business make capital contributions toward the business plan to meet the microfinance institution's eligibility criteria. This kind of matching grant is provided in a time of crisis to help businesses gain access to bank financing. This kind of matching grant can be linked to a financing product that financial institutions and business support programs provide as a joint initiative.



What are the typical eligibility criteria of a Matching Grants program?

Matching grants are usually targeted toward businesses that meet certain specific criteria. Generally, a business qualifies for a matching grant if it:

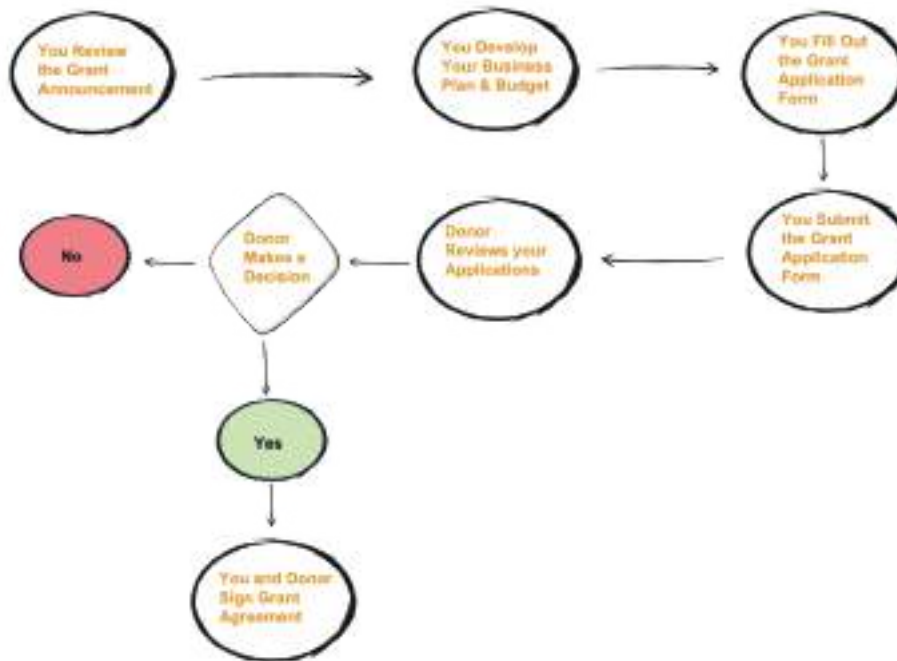
- Has a product or service that has market demand and consistently generates revenue.
- Operates as a small business in a specific location and sector as set by the provider of the matching grant.
- Provides its own capital or in-kind contribution toward funds needed to implement the business plan.
- Needs financial support to fund the business plan and meets other requirements of a financial institution.
- Uses the grant for defined purposes
- Has been an existing business with a good financial standing before being affected by a crisis or shock such as COVID19.
- Has good credit history and does not have overdue repayments on a financing from a bank.
- Shows a good and viable business plan with a reasonable budget.

As you search for grant programs, remember that each grant is different and will have its own criteria. As an example, some grants are only for women-owned businesses due to the difficulties that women usually face in starting and managing a business. In other cases, a grant may be available to businesses in a particular sector such as agriculture. To be very sure, you need to study the specific eligibility criteria of each grant program and contact the program office for more information.

To better understand the concept of matching grants, find a copy of **Tawseha: A Financial Education Booklet for Small Businesses in Afghanistan**.

How can I apply for a Matching Grant?

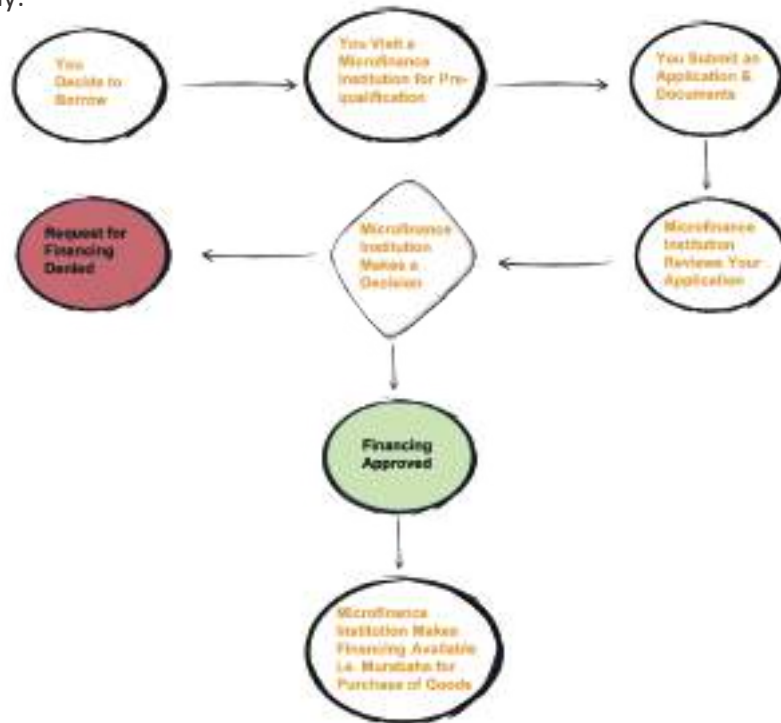
Every grant program has its own application process. However, in general, most grant programs have a number of main steps that you will find useful to know about. In a matching grant program, you will complete six main steps to possibly receive funding to support your business plan. These steps are:



For a more detailed explanation of grants and application for financing from banks, see the main booklet, **Tawseha: A Financial Education Booklet for Small Businesses in Afghanistan.**

What is a typical application process for financing like?

The below process flow provides an overview of the application process for financing. Most microfinance institutions follow a similar simple process and it's important to understand the process and prepare your business accordingly:



How to develop a Business Plan for a Matching Grants program?

Planning the growth of your business ahead of time is very important in achieving your business targets and receiving a matching grant. With proper business planning, you can:

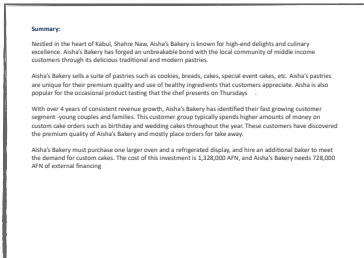
- Evaluate the success and challenges of your business today
- Evaluate potential future risks and opportunities and develop strategies for how address them
- Build a clear direction for your business in the next 1- 3 years
- Prepare your business to apply for a matching grant
- Measure your progress toward achieving your targets

A business plan is a document in which you write all the details of your plan to show to the matching grants program that your project is sound and worthy of financing. It is a simple document, like a roadmap, that describes how your business can reach its targets.

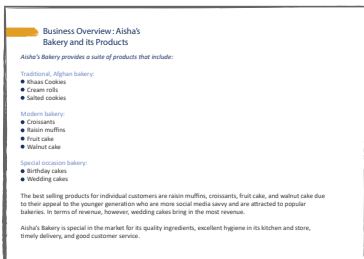
A business plan has a number of key parts that you can easily develop. These key elements include:



1. Cover Page: Include the name of your business, contact information, and date.



2. Summary: Write a few sentences about your business, your product or service, your target customer and why you need money to implement this business plan.



3. Business Overview

- Description of Your Product or Service
- Customers Profile
- Market (competition)
- Production Process
- Sales and Marketing
- Management Team
- Milestones and Achievements

Business Growth Opportunity

Goal:
Alpha's goal in the next 2-3 years is to maintain reasonable revenue growth, improve efficiency in the bakery, and invest in its winning products (general and custom order cakes) while maintaining steady sales for the core products – daily party products such as rice-cakes, cookies, tiffins, etc.

Context:
Alpha's Bakery has found a sweet spot in the market as a go-to place for high-end, genuine passion with a steady growth in its revenue. Alpha Bakery's sales have grown at 30%, 20%, and 20% year over year in 2020, 2021, 2022, respectively. Alpha's Bakery's customer base has also steadily grown. Close to 70% of Alpha's bakery customers are repeat customers, which indicates very strong customer loyalty and retention.

In recent months, Alpha's team has raised a concern about their ability to meet customer demand for wedding cakes, birthday and anniversary cakes. The chef made a request that an additional baker be hired (and paid to be able to take orders) to accept custom cake orders to customers in a timely fashion. Usually, customers place an order a day earlier or on the day of delivery, and this puts additional demand on Alpha's Bakery's production capacity, which is already at its maximum.

Business Growth Plan:
Alpha has four challenges and opportunities to think about:

- Address her team's concerns about the maximum production capacity.
- Optimize on the increasing demand for cakes.
- Achieve the goal of maintaining strong growth.
- Improving efficiency and investing in winning products to address these Alpha business plans to:
 - Invest in a new high-capacity oven dedicated to baking cakes for custom orders and new cake products.
 - Acquire a new refrigerated bakery display.
 - Re-structure part of the kitchen to accommodate the new oven and the staff.
 - Hire an engineer to re-configure tasks to set up the oven and train the staff.
 - Plan an additional baker on-site to be able to meet the demand in making custom order cakes.
 - Plan a personal training course on cake-making for existing bakers, especially for wedding and birthday cakes.
 - Revised terms of the store to set up a shelf for more cakes.
 - Capex an promotional event and invite target customers for the cake product line.

Alpha's evaluation of the business growth plan to meet the additional demand for cake products showed there is an actual opportunity to increase sales and fulfil customer orders. The reasons are:

4. Investment Plan: What are your key business goals for the next 1–3 years that you are asking for a matching grant for? What growth opportunities have you identified and why are they important to invest in? What resources do you currently have? What resources will you need to acquire? How will the growth opportunity change your business?

Alpha Bakery's financial statements indicate a healthy financial standing. The assets in the balance sheet were purchased with funds provided by Alpha's family. Furthermore, Alpha has been able to secure the bakery without debt except for a small personal loan from a family member in 2019 that she has returned already.

Alpha's Bakery became profitable by the end of year one, and has since generated increasing revenue and profit. The income statement indicates a healthy net profit margin of 20% in 2022 and Alpha is optimistic that the increased production capacity of the new oven will only improve the profitability. She's taking into account the additional expenses required to implement the business plan, especially the salary of the additional baker that will increase fixed costs.

Alpha Bakery's financial statements can be made confidentially available for review upon request.

Financial Projection:

Item	2022 (Actual)	2023 (Projected)	2024 (Projected)	2025 (Projected)
Total Sales	3,465,303 MYR	4,136,471 MYR	4,765,456 MYR	5,136,226 MYR
Cost of Goods Sold	1,895,623 MYR	2,287,132 MYR	2,785,589 MYR	3,438,114 MYR
Indirect Costs	861,668 MYR	1,247,527 MYR	1,518,318 MYR	1,864,871 MYR
Total Cost	2,757,291 MYR	3,534,659 MYR	4,303,907 MYR	5,303,085 MYR
Gross as Percentage of Sales	85.00%	85.00%	85.00%	85.00%
Profit	668,012 MYR	551,812 MYR	461,547 MYR	372,891 MYR
Profit Margin	20.00%	15.00%	10.00%	10.00%

5. Financial Analysis: The financial projection will show how investing in the growth opportunity will lead to increased sales and profits.

Like any business activity, Alpha's Bakery's business growth plan requires investment of capital and time. Alpha's budget for the business growth plan will require 1,130,000 MYR over a period of six months. The breakdown of the costs is as follows:

No.	Item	Cost (MYR)
1	High-capacity convection oven & trolleys	400,000.00
2	Refrigerated bakery display	40,000.00
3	Material and labor costs for re-structuring the kitchen	48,000.00
4	Decor installation and training cost - engineer's fee	120,000.00
5	Professional photography for custom cake product line	12,000.00
6	Storefront remodeling and shelving costs	160,000.00
7	Engineer a promotional event	16,000.00
8	Printing cost for new materials	100,000.00
9	Salary of the new baker	60,000.00
10	Contingency	40,000.00

Alpha has responsibly used the bakery's profits, and has retained about 30% of the annual profits as working capital for reinvestment in the business. As of December 31, 2022, Alpha's bakery has 600,000 MYR in cash and another 200,000 MYR in account receivable, or money owed from customers. Alpha expects to use more of the bakery's profits for this investment in the next six months, and will be able to contribute a total of 600,000 MYR toward the project as her contribution without paying the business's cash flow order pressure. In her calculations, she'd need additional funding of 728,000 MYR.

Total project cost (1,130,000) - Alpha Bakery's contribution (600,000) = Funding Needs (728,000 MYR)

6. Funding Request

How much capital do you need? What will you invest the capital on? How much money are you able to provide from personal savings or through your existing business profit? Who else is providing funding for your business plan such as a microfinance institution? Your business plan does not need to be long, but it should briefly describe each of the key elements above.

For a complete case study and a sample of a simple business plan, see Module 3 of the main booklet, **Tawseha: A Financial Education Booklet for Small Businesses in Afghanistan.**



What is Bookkeeping and why is it important in managing my business?

Bookkeeping is a system that records, stores, and references day-to-day financial transactions of your business in an organized way. Essentially, financial transactions include all the money coming in and going out of your business:

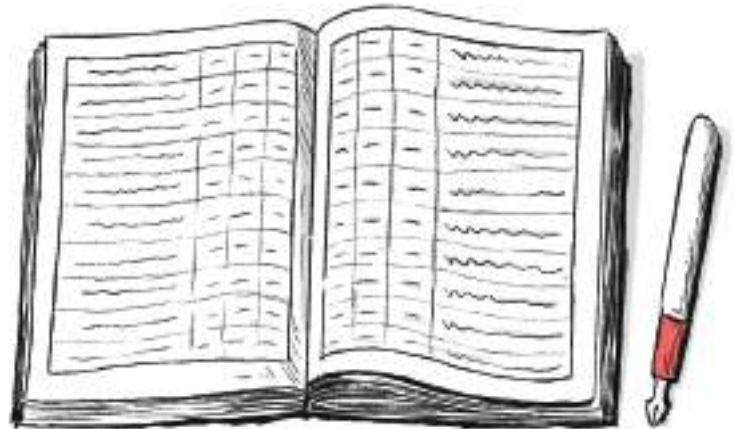


Money going out: rent, salaries, inventory, raw materials, supplies, etc.

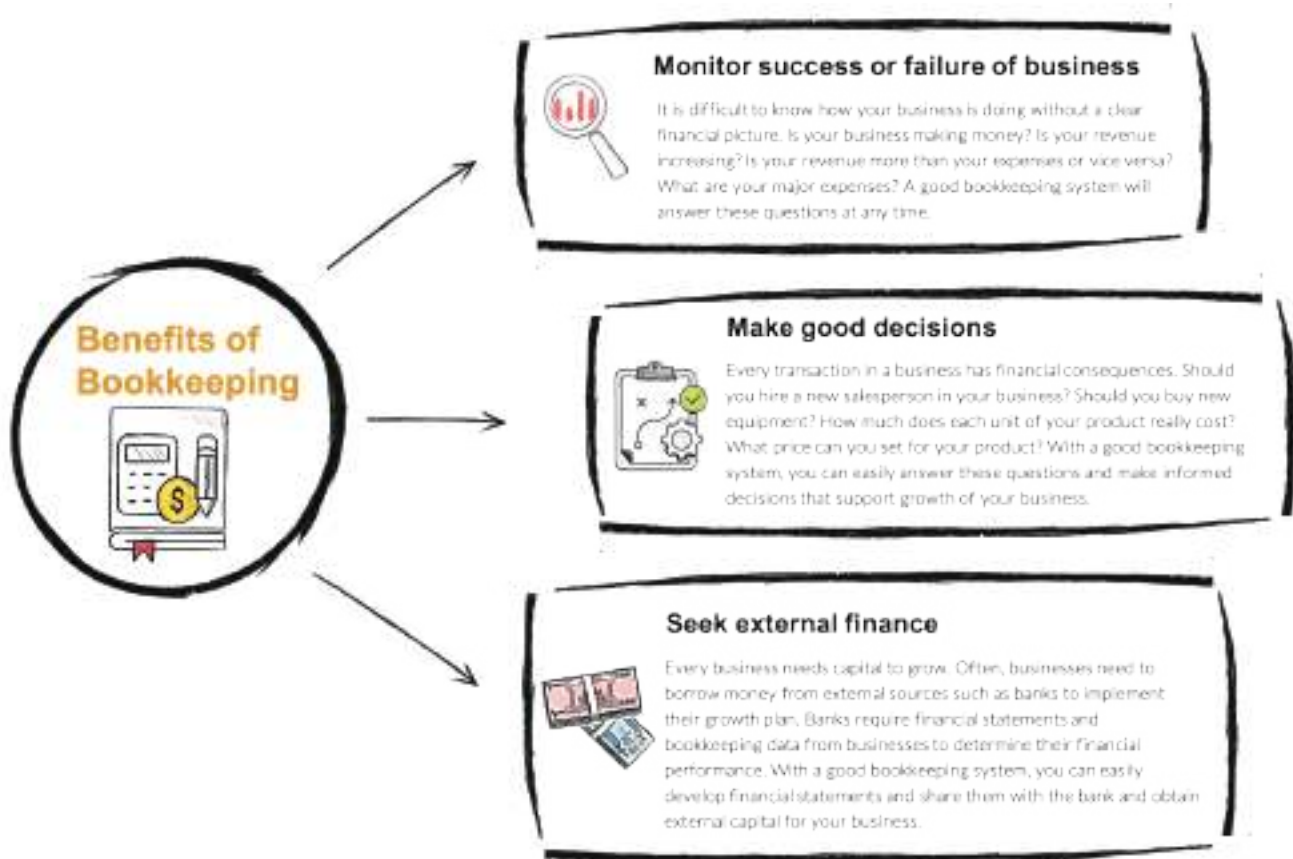


Money coming in: sale of products or services, receiving financing from a bank, or collection receivables

With good bookkeeping, you can see a realistic picture of your business's financial health by looking at daily, weekly, monthly, and yearly reports. For example, if you are selling mobile phones in the market, you can use your bookkeeping system to track sales of your mobile phones every week. This information will help you plan your inventory ahead of time. If you sell more in one week, you will need to increase your inventory to meet market demand the week after.



With good bookkeeping, you can:



What Bookkeeping best practices are especially useful for small business owners?

If you would like your business to remain sustainable and steadily grow, you need to build your business on strong foundations, and principled bookkeeping is a good place to start. Consider these seven principles of bookkeeping in your day-to-day business activities:



Separate business and personal finances: Separate business expenses from personal ones because your business is a separate entity from you as an individual



Review your numbers: Schedule weekly or monthly reviews of your business's financial reports to catch and fix errors, reconcile your books, note irregularities, evaluate targets, and set a direction for the next period.



Maintain Accurate Records: Accurately record all financial transactions to ensure your bookkeeping remains an accurate reflection of your business's financial health.



Documentation: Keep documents and proof of business transactions by saving and filing all documents such as receipts, invoices, contracts, bills, etc.



Timeliness: Record transactions promptly, whether it's daily, or weekly to prevent errors.



Verification: Trust your employees, suppliers, and buyers but verify everything for yourself to ensure your business remains protected from loss of funds, assets, or goodwill in the market.



Compliance: Adhere to relevant accounting standards and tax regulations, and maintain compliance with tax authorities to avoid penalties and legal issues.

What resources are there to support my business?

This brief booklet is part of a series of technical assistance activities of the AMAD program for micro, small, and medium enterprises in Afghanistan. To learn more about financial management of your business and resources for accessing finance, see the main booklet:

Tawseha: A Financial Education Booklet for Small Businesses in Afghanistan



For more information about the AMAD matching grant program, please visit:



AMAD Program

Email: grants@amad.af

Web: www.amad.af

About Tawseha

Tawseha is a brief financial education booklet designed for micro, small, and medium enterprises in Afghanistan to learn and adopt foundational concepts and best practices of sound financial management of their businesses. The purpose of Tawseha is to help businesses access external finance so they can grow their businesses and thus retain and create jobs in the Afghan economy.



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