

Roadmap 2 Startup



A comprehensive guide to registering a business in the Kurdistan Region of Iraq



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INTRODUCTION

Interest in entrepreneurship in the Kurdistan Region of Iraq (KRI) has flourished in recent years, and a number of innovative startups across diverse sectors are thriving. As the number of individuals with creative business ideas across the Kurdistan Region grows, the challenges that many of these founders face when registering their businesses have become more apparent.

The complicated registration process in the KRI might prevent entrepreneurs from registering or even starting their business.

In light of these complexities, Orange Corners, in partnership with Five One Labs, have collaborated on this project to provide entrepreneurs with an easy to understand roadmap for the registration process here in the Kurdistan Region of Iraq.

This roadmap answers questions including the following:

- ▶ Why and when should you register your business?
- ▶ What is the process and how does it differ by type of company, including tech companies?
- ▶ What do you need to keep in mind once you have registered your business?

The report covers the registration of businesses in the Kurdistan Region of Iraq. To make this report, the researchers interviewed entrepreneurs and stakeholders mainly in the Erbil and Sulaimani provinces. In cases where the process differs between Erbil and Sulaimani provinces, the differences have been noted in the text.

This is the short print version - if you want the longer version (with case studies) please check the website at FiveOneLabs.org

Note on Methodology

To write this report, Five One Labs conducted over 25 in-person interviews with relevant stakeholders, including entrepreneurs who shared their experiences registering their businesses; lawyers who discussed the legal complexities; and local government officials who provided overviews of the process. We also accessed relevant publicly-available information and local laws and regulations to inform this roadmap. A complete list of sources can be found at the end of this guide.

This is not a comprehensive legal document, but rather a practical guide based on the experiences of real entrepreneurs across the KRI. If the research team becomes aware of any amendments to various regulations or legal processes that affect the contents of this guide, Five One Labs will update the Roadmap to reflect them.

Our Sincerest Thanks

This Roadmap would not have been possible without the support of a number of incredible entrepreneurs and stakeholders in the ecosystem of the KRI. We would like to sincerely thank all of the individuals who generously gave their time to share their experiences and answer our questions over the past several months.

In particular, we are deeply grateful to the Netherlands Consulate General in Erbil, Orange Corners, the American University of Iraq, Sulaimani Entrepreneurship Initiative (AEI) and the Chambers of Commerce in Sulaimani and Erbil. Thank you to the lawyers who supported our research, including the team at MENA Associates and Bzhy Rozh, and the entrepreneurs who gave us their time to share their stories. Last but not least, we are indebted to our two research interns on this project, Sardila Sarteep Fattah and Rozhan Saman Hama Amin.



**WHY SHOULD YOU
REGISTER
YOUR BUSINESS?**

Registration is a key step in building a successful, sustainable business in the Kurdistan Region of Iraq, but many entrepreneurs in the KRI wait before registering. Why is it important to register, and when is the right time to take this important step?

5 Reasons to Register Your Business in the KRI:



Reason 1: You'll be protected by the law.

Registering your business provides the protections that businesses get under the law in the KRI, including reserving your business name and protecting you from the liability for the debts of your company in some instances.



Reason 2: You can conduct business transactions and hire employees.

When you conclude a transaction and sign a contract in the name of your business but you are not yet legally registered, the validity of this contract is questionable and legal complications may arise. That includes employment contracts, partnerships, and contracts with the government.



Reason 3: People will trust you more.

Customers, suppliers and partners will all trust you more if they know that you are a legitimate, registered business that can fulfill your end of deals and contracts.



Reason 4: You can get investment and loans.

Investors and banks will want you to be formally registered - with formal documentation and bank accounts - before they will be willing to invest or provide business loans to you.



Reason 5: You can do business without penalties.

Once you start a business, you want to tell the world about what you're doing! Being registered allows you to market, reach customers, and expand!

WHEN SHOULD YOU REGISTER?

The Entrepreneur's Perspective

It is important to register, but when is the right time for you and your business to start the process? In the KRI, most entrepreneurs will tell you it depends on what type of business you are running, and what your circumstances are.

Some entrepreneurs we interviewed said they preferred to register as soon as they start their businesses to avoid any legal trouble. Such cases usually exist when the entrepreneur's business is linked with the Ministry of Health, or when they hope to get official contracts with the government or other large entities.

Many of the entrepreneurs we interviewed waited a year or two before registering because the cost and time was too burdensome. At an early stage, entrepreneurs often are concerned that their business will fail, or are not sure that they'll want to continue working on it. Some are worried about the expenses and time to register.

The Legal Perspective

The legal perspective is much clearer. Legal advisors, lawyers, and government employees encourage entrepreneurs to register as soon as they start their business.

A legal advisor from the Chamber of Commerce (CoC) mentioned in an interview that the Chamber of Commerce exists to protect the rights of private business owners. If business owners do not register in their local CoC, then the CoC cannot protect them and ensure their rights are protected.



THE REGISTRATION PROCESS

Step 1: Determine your company type:

▶ **Limited Liability Company (LLC)**

is a company with anywhere between 2 and 25 shareholders. The minimum capital requirement for an LLC is 1,000,000 IQD. In this case, a person or a company can register together to reduce liability.

▶ **Joint Stock Company**

is a company with at least five shareholders. The shareholders' liability for the company's debts shall be in the amount of the nominal value of the shares they hold.

▶ **Sole Proprietorship (Individual Project)**

is a company that is owned by a single person as he/she is the owner of the capital of the company. The minimum capital required to open this type of company is 500,000 IQD.

▶ **Solidarity Company (Limited Partnership)**

is a company where each partner owns shares of the capital. You can have anywhere between 2 and 25 partners. The minimum capital required for the company is 500,000 IQD. In a Limited partnership, partners are liable based on the number of shares they have.

▶ **Simple Companies**

are formed by between two and five people, each of whom contributes to the capital of the company with a cash or business share, and the liability of the partners is unlimited to some extent. The Companies Law requires that a Memorandum of Association be authenticated by the public notary (al-Kateb al-adl).

Step 2: Reserve your name by registering online:

- 1 You or your lawyer** should **register for an online account** at <https://www.crkrq.org/en/>. You only need to input your name and a copy of your government ID. It will take 1-2 days to check the validity of your ID. After you receive an email confirmation, you can proceed to the next step.
- 2 Fill out the form:** Once you have an activated account, you must fill out the details of your business in an online form. You must submit the form and then your application will be sent to the Chamber of Commerce to get the appropriate approvals.
- 3 Proceed with seven approvals for name registration:** Your name is sent to and approved by the following: the company registration office, Erbil Chamber of Commerce, Sulaimani CoC, Duhok CoC, Statistics Department (CR), the manager of the Statistics Department (DR), and then to the manager overseeing all of the Chamber of Commerce offices in Erbil (FCC). If the name is rejected by any of the offices, the business owner has to resubmit an application.
- 4 Proceed with name acceptance:** Your name is now accepted and you will receive an email with an identification number (code) that will represent your business from that point on. You will also get an approval email from the Director of Company Registration to confirm that you have completed this step. Your name will be reserved for six months to give you time while you are completing the rest of the registration process. If you wait longer than six months to complete the process, your name will become available for someone else to register as their own.

Expert Tip

According to Daban Najmadeen, the Relations Department Coordinator at the Sulaimani Chamber of Commerce, when an entrepreneur goes to the Chamber of Commerce to register his or her business' name, he or she should come with a list of 20-15 potential name options. The name you want for your business might not be available, so by bringing a list of names you can check the availability of all the options at once and save yourself from unnecessary trips back.

Step 3: Upload 5 supporting documents to the CRK website.

These support documents are described below:

- 1 **A Capital Deposit Certificate from a commercial bank:** To do this, you must deposit at least 1,000,000 IQD (in the case for LLCs), and pay a fee of about 50,000 IQD to the bank, although this may differ from bank to bank.
- 2 **Support letters from the Kurdistan Bar Association and Kurdistan Accountant and Auditors Syndicate.** In order to get these documents, you will need to sign a one-year contract with a certified lawyer and accountant and pay a fee.
- 3 **Articles of Association and minutes of the General Assembly meeting.** You have to upload your Articles of Association, which explain the regulations for the company's operations and its purpose. Later on, you will receive an email along with the Articles and the minutes to be printed and signed as explained below under step 4.
- 4 **Inspection form.** The Companies Registrar may inspect the premises of the company before issuing the certificate of incorporation.
- 5 **The IDs/ passports of the shareholders and the authorized manager (Chief Executive Officer).** In addition, the website will require uploading a photo for each shareholder and either:
 1. A certificate of nationality (jinsya) + the CEO's Iraqi ID (hawiya)
Or
 2. National card (karty nshtmany), the CEO's passport and residence card if he/she is a foreigner, information ID (karti zanyary), and a photo of the person.
- 6 **Required licenses from the ministries related to your business.** Each business must go to the government ministries that are related to their business activities. For each ministry, you must obtain letters of approval and the required licenses to begin operation.

Step 4: Apply online for a certificate of registration.

Once you receive an email from the General Directorate for Company Registration, you will need to visit the Company Registrar and provide all of the originals of the following items and copies stored on a flash drive for review:

- 1** Capital Deposit Certificate from the bank,
- 2** A year-long contract with a lawyer from the Kurdistan Bar Association, along with the support letter,
- 3** A year-long contract with an accountant from the Kurdistan Accountant and Auditors Syndicate, along with the support letter,
- 4** Licenses from related government ministries (if applicable)

If you are a company with shareholders, you will also need:

- 5** Establishment contract (Articles of Association) between the shareholders or a statement of incorporation,
- 6** The minutes of the General Assembly meeting, and
- 7** Personal IDs of all the shareholders.

After all the documents are reviewed, you must pay the fee and finish the process. The registration fee is dependent on the capital of your business. After the fee is paid, you will get a certificate by email within one to three days!



Step 5: Provide the Company Registrar Office with all supporting documents to finalize the registration process.

At this point you are a legally registered business! You can now get an official CEO ID at the Chamber of Commerce, complete the process of opening your bank account, and make a company stamp.

To make a company stamp, you will need to go to the Asayish and provide:

- 1** A certified copy of the company's registration papers
- 2** The personal IDs of all the shareholders (Asayish code included)
- 3** Your stamp shape and design
- 4** The signed contract for your office

Keep in mind that for some industries, the CEO or manager might have to meet some education or experience requirements to be accepted by the Company Registrar and CoC. For example, if it is a highly specialized field such as a pharmaceutical or engineering company, the CEO should be a doctor or an engineer respectively.

If you have finished all of these steps, congratulations, you have officially registered your business!



REGISTERING A TECH BUSINESS

Entrepreneurs launching technology businesses often face additional obstacles than those of traditional businesses because:

- ▶ There is a lack of a legal framework for registering and running online or technology businesses.¹
- ▶ Tech businesses do not specifically fall into any one legal category.
- ▶ Many tech companies operate with innovative business models, which can be more challenging to understand relative to more traditional businesses.
- ▶ Some tech businesses operate across sectors, which means that founders can go back and forth between ministries when trying to register and obtain the relevant approvals.

So what can you do? A number of local entrepreneurs have found a way to legalize their tech business, their suggestions for registering include:

- ▶ **Suggestion 1: Registering an office.** Because you need a need a physical location to officially register any business, you can register your tech-business as an office. This is the smallest type of business that allows small amounts of production as long as it is legal and it is not food. This would be the least expensive choice, but this could negatively impact the entrepreneur's ability to receive equity investments in the future due to the fact that it is not officially a company.
- ▶ **Suggestion 2: Having a company with a sub-project.** An entrepreneur can register as a company and then list his or her tech service, software or application as a product or project of that company. This still requires opening a physical location, even if this is not necessary to run the business. There is still the possibility that the government will not recognize the business model and deny the registration, which would prevent an entrepreneur from even opening a physical location.
- ▶ **Suggestion 3: Registering outside Kurdistan.** Doing so then legally opening a branch in the KRI would help facilitate investment in the business, as many international investors require registration outside of Iraq to legally protect their investments.

¹For the purpose of this Roadmap, technology businesses include mobile applications, e-commerce sites, website-based businesses and software as a service (SaaS) businesses.

INTELLECTUAL PROPERTY

First, it is important to understand that the law can protect how you express certain elements of your business idea that are unique to you and your business (i.e. a name, logo, unique formula, or design); however, it can't stop someone from using parts of the idea if they wanted to.

Although you cannot always prevent someone from taking elements from your idea, it is important to understand how the law does protect new and innovative ideas from theft. The KRG does this through a variety of intellectual property (IP) laws. IP laws are crucial to economic growth as they would provide inventors with an incentive to create and develop. Such IP laws are not fully developed or implemented in Iraq and the KRI; however as the economy is developing, new amendments are being made to improve the existing laws².

Iraq is a member of the World Intellectual Property Organization (WIPO) and the Paris Convention for the Protection of Industrial Property.³

Entrepreneurs can therefore file for:

The most common forms of IP options are described in more detail below:

- ▶ **Trademarks/Service marks** protect a name or symbol that links your product with your business.⁴ This includes things such as personal names, logos, figurative elements and colors (such as a logo), or marks directly linked to your business are eligible to be registered as trademarks.⁵ Currently, you can get trademark protection for your business in Erbil.⁶
- ▶ **Patents** protect inventions of tangible things. This can include highly specialized or technical inventions, scientific breakthroughs, and other inventions. Obtaining a patent is one of the most difficult forms of IP rights to get.
- ▶ **Copyrights** protect various forms of written and artistic expression. This includes written works (books, poetry, etc..), movies, art, or other creative works. The Ministry of Culture and Youth is responsible for copyright protection in the KRG.

² This information has been obtained through interviews with entrepreneurs and lawyers.

³ Amereller, Florian, Stephan Jager, and Ahmed S. Al-Janabi. "LEGAL GUIDE TO DOING BUSINESS IN IRAQ." Amereller.com. N.p., 2014.

⁴ "What Is IP Law?" Default, 2019, www.aipla.org/about/what-is-ip-law.

⁵ "COALITION PROVISIONAL AUTHORITY ORDER NUMBER 80 AMENDMENT TO THE TRADEMARKS AND DESCRIPTIONS LAW NO. 21 OF 1957." Coalition Provisional Authority, April 2004.

⁶ "Abu-Ghazaleh Intellectual Property (IP) Handbook." AGIP, 2018.

As you consider the ways that you would like to protect your business, you should also consider the time and resources that it takes at each step to protect your idea. Even if you were to protect your idea through available IP laws, consider that **it will cost you money to enforce the patent or trademark in case of infringement - and is sometimes difficult or even impossible to enforce.** Keep in mind, you can keep your business safe by protecting trade secrets through good management practices.

We recommend that you don't wait to secure IP rights before you start your business. Keep in mind that in some cases, it is more beneficial to put the product in the market sooner, rather than waiting for long periods of time (possibly years) for a patent. By putting your business in the market sooner, you can have a strong first mover advantage compared to your competitors. If you wait too long to implement your idea, someone may come up with an alternative solution and could beat you to the market.

**YOU ARE RUNNING
A BUSINESS -
NOW WHAT?**

So, you managed to register your business, and now you want to know what's next? After you start officially operating your business, there is still a lot to think about. Three things that are often overlooked by new entrepreneurs include the following: paying taxes, changing business activities, and corporate social responsibility (CSR).

Changing Business Activities

Changing or adding to your business activities is something you might consider as you grow your business and expand your reach. As you learn more about your market and new opportunities, it could be the case that you add to your business activities. Take, for example, a restaurant that initially sells cooked food, but eventually decides later to import and sell ingredients as well. This would constitute a change of business activities, which would need to be reported to the Company Registrar's office.

In order to do this, you will need to do the following:

- ▶ Prepare the minutes of the board meeting during which the addition/change of the activity is approved.
- ▶ Go to the Companies Registrar and get permission from the administrator and a competent ministry (if required).
- ▶ Once the prior approval is obtained, the next step will be paying the fees to the Registrar.
- ▶ Visit the Chamber of Commerce to notify them of the change and pay the due fees.

Taxes

All companies that are registered should pay taxes. These taxes are taken as a percentage of the business's net income, and are paid to the government in order to provide services to the public.^{7,8} The Ministry of Finance issues instructions every year - make sure to comply!

Corporate Social Responsibility (CSR)

According to Investopedia, corporate social responsibility is a “business model that helps a company be socially accountable...Companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.”⁹

Companies participate in CSR activities for a variety of reasons.

- ▶ **To help others:** You might personally care about social impact, which makes CSR an important mission for you alongside your business.
- ▶ **Business purposes:** It's possible to “do well by doing good.” Companies who make social impact part of their mission may benefit from good publicity, more customers, or a positive image in the community because of their CSR work.
- ▶ **Legal requirements:** In the KRI, there are specific laws in place that are intended to help protect people and the environment from harmful business practices. According to the Ministry of Natural Resources, the environment is protected under three laws: 1. the Law of Environmental Protection and Improvement; 2. the Oil and Gas Law; and 3. production-sharing contracts.¹⁰ These laws put measures in place to ensure that big companies are being transparent to the public about their business practices and environmental impact.

Even if you are a new business, you should start thinking now about how the work you do can positively impact your community, environment, or specific causes. CSR is important for big and small businesses alike!



⁷ Aqrawi, Omar . Personal Interview. August 27th, 2019.

⁸ Rozh, Bzhy. Personal Interview. August 3rd, 2019

⁹ Chen, James, “Corporate Social Responsibility.” Updated Oct 2019 ,27. <<https://www.investopedia.com/>>

¹⁰ “HEALTH SAFETY ENVIRONMENT.” KRG Ministry of Natural Resources, mnr.krg.org/index.php/en/the-ministry/health-safety-environment.

CONCLUSION

Congratulations again on taking the steps to register your business! It is hard work, but it will pay off as you launch or grow your business. By legally registering, you are now protected by the law and can conduct business without penalties.

We understand that the registration process can be complex, and because of this, we advise that once you are ready to register, you do two things:

First, **consult a lawyer** who would be able to support you with your specific business, as there may be additional specific requirements for your case.

Second, **reach out to other entrepreneurs** who have gone through the process, as getting advice from someone may make the process easier to understand. And if you don't know any entrepreneurs, don't worry! You are welcome to join the Five One Labs community at any time!

We hope that this document has answered a number of key questions that you may have about why, when and how to register, and has shed light on the experiences that other entrepreneurs in the KRI have gone through while registering their businesses. Because the process of registration may change over time, make sure to keep an eye on (FiveOneLabs.org) for updated versions from the Five One Labs team!