



Assessment Report Of Afghanistan Renewable Energy Union (AREU)

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List of Acronyms

ADB	Asian Development Bank
ACCI	Afghanistan Chamber of Commerce and Industries
AISA	Afghanistan Investment Support Agency
ANME	Tunisian National Agency for Energy Conservation
AREU	Afghanistan Renewable Energy Union
FAIDA	Financial Access for investing in the development of Afghanistan
FIT	Feed-in Tariffs
GDP	Gross Domestic Production
IDEA	Institutional Development for Energy in Afghanistan
MEW	Ministry of Energy and Water
MoF	Ministry of Finance
PROSOL	The Tunisian Solar Programme
STEG	Société Tunisienne de l'Electricité et de Gaz
UNEP	United Nations Environment Program

Section I

Introduction

The conclusion that access to energy services is integral to overcoming poverty is nowadays widely accepted in the international community. However, still more than three quarter of the Afghan population is not connected to the electricity grid. According to the Asian Development Bank, “only about 28% of the population [in 2013] has access to electricity; and average annual per-capita use, at 195 kilowatt-hours per person, is among the lowest in the world”. Electricity imports from the neighboring countries covers for around 78% of the current electricity supply while domestic hydropower and thermal power produce the rest. To supply electricity for the entire population and meet the rapidly growing demand, Afghanistan needs to take drastic measures to boost its domestic electricity generation capacity.

Fortunately, the geography and climate of Afghanistan is favorable for renewable energy production. According to a study by the National Renewable Energy Laboratory of the United States, Afghanistan’s technical solar potential is above 220 gigawatts (GW) and technical wind potential is more than 66 GW; moreover, hydropower potential is at 23 GW. In recent years, the renewable energy sector has attracted the interest of both donor countries as well as domestic and foreign investors. According to the Renewable Energy Department (RED) of the Ministry of Energy and Water (MEW), around 5000 renewable energy projects, mostly hydropower and solar, have been implemented in Afghanistan.

Exploiting renewable energy potential of the country calls for active participation and investment of the private sector. Accordingly, encouraging private sector involvement in energy sector is one of the top priorities of the government of Afghanistan. This priority has been legally enshrined in all investment laws and policies as well as regulatory framework covering the energy sector. The door for private investment is open for both local as well as international investors.

A number of Afghan renewable energy businesses came together in 2014 establishing a business association formally known as the ‘the Renewable Energy Union’ (AREU) to collectively promote and encourage affordability and accessibility of renewable energy in Afghanistan. Registered as a union with the Afghanistan Chamber of Commerce and Industries (ACCI)¹, the AREU is non-profit and none-state organization composed of private businesses in the sector. The AREU aims to enable an environment for the better coordination and harmonization between various renewable energy actors, thus paving the way for further promotion of renewable energy technologies in the country. AREU also plans to actively get engaged in debates and policy discussions over the future of the renewable energy sector in Afghanistan.

a) Objective of this report

The Afghan German Cooperation Program “Institutional Development for Energy in Afghanistan” (GIZ- IDEA) program aims at strengthening the institutional capacity of public

¹ Established in 1993, ACCI is an independent organization that is serving the advocacy and business facilitation needs for a burgeoning private sector economy. Currently, the ACCI represents over 90% of the total Afghan businesses.

institutions and private sector companies and organizations involved in the energy sector. One of the main objectives of the GIZ-IDEA is to accelerate investment in renewable energy under one of its four components Enabling Private Investment. The long term goal is that the private sector will become an active investor and supplier of electricity from the renewable energy sources.

GIZ-IDEA commissioned this study to assess the performance of the AREU and accordingly provide recommendations on areas where AREU could benefit from external support. The findings of this study will help GIZ-IDEA, and other interested parties, for future capacity development programming for the AREU. The ultimate goal is to help AREU develop its institutional capacity and to improve performance in critical areas leading to measurable results in achieving its goals and objectives.

b) Methodology

The methodology for this study has been adapted from best practice methods recommended by the World Bank group for assessing business associations. The World Bank defines a business association as, “nonprofit and democratically guided membership organizations that finance themselves by a mix of membership dues, services fees, and subsidies from government or donors”. As per the World Bank standards, an ideal business association “combines the following characteristics: a high number and extensive coverage of dedicated membership from the SME community, a committed and visionary leadership, a democratic and efficient governance structure, sufficient financial, personnel and physical resources, and high-quality service and advocacy”.

Following the World Bank’s definition of a business association and the characteristics of an ideal one, the data collection tools were designed to assess the performance of AREU based on four aspects: 1) membership, 2) Governance, 3) Resources and 4) Advocacy and Services. The data collection tool contained both qualitative and quantitative questions. All 32 members of AREU were approached for interview and data collection; however, 24 agreed to meet and of them 20 respondents provided answers to all questions. In addition to AREU members, the AREU secretariat team was also interviewed on the performance of the association.

Moreover, the research team approached non-AREU members, who also work in the renewable energy sector, for interview. The non-members were interviewed to get a larger overview of businesses perception of the current renewable energy market as well as understanding the reasons for not joining the AREU.

In addition to renewable energy business, relevant government officials of the Ministry of Energy and Water (MEW), the Ministry of Finance (MoF) and the Afghanistan Investment Support Agency (AISA) were also interviewed. Moreover, the ACCI was also covered under this study. These organizations were asked about their relation with the AREU, how they evaluate its performance and finally overall information about current and future plans for supporting the renewable energy sector.

Five private banks were also interviewed for this study. The banks were inquired about their loan portfolios, whether they had invested in the renewable energy sector and finally if they had current or upcoming plans for supporting the sector. The USAID funded FAIDA project, which



has provided financial support to the AREU, was also interviewed to get their views on the performance of the association as well as learn about their future plans.

The list of all interviewees are attached as annex II.

c) Structure of the Report

This report has been divided into four sections. The first section provides introductory remarks on the main features of the energy market in Afghanistan, the objective of this assignment and the methodology used. The second section presents the findings of the AREU assessment. The findings have been divided along the four evaluation criteria discussed in previous pages. The third section provides some recommendations based on best practices from other countries on how to strengthen a business association such as AREU. The fourth and the last section serve a concluding purpose rounding up the main findings and recommendation together.

This report has two annexes added at the end of the report. The first annex provides a brief profile of each AREU member interviewed for this report. The second annex presents the list of people interviewed.

Section II

Assessment Findings

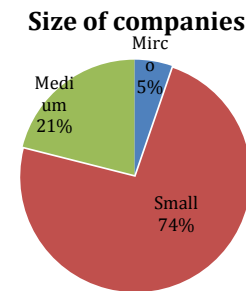
1. Membership

A committed membership base is the most important characteristic of a strong business association since it is the members who provide most of the money for operations. A strong membership base is also essential for acquiring political clout and thus influencing the political decision-making process.

Being a newly established business association, currently the AREU has 32 members. Of these, 28 are registered with the Afghanistan Investment Support Agency (AISA) and the remaining 5 are registered with the Ministry of Commerce and Industries (MoCI).

a) Size & Experience of AREU members

74% of AREU members are small businesses (5-19 employees), 21% are medium sized (20-99 employees), and another 5% are micro businesses (less than 5 employees). Of the 11 businesses that disclosed their existing capital, 3 reported that their capital is up to AFN 2.5 million, 5 claimed to have a capital of up to AFN 5 million and the remaining up to AFN 10 million. Only one firm reported to have more than AFN 10 million in asset and capital. AREU does not have any member classified as a large enterprise. Considering the size of employees as well as capital, it is evident that the AREU is an association of small and medium enterprises that work in the renewable energy sector².



Almost half of the AREU members have been established in the last five years and are relatively young businesses. These businesses were established in response to the demand generated by the government and the donor community for renewable energy services. 30% of the members have over 5 years and the remaining 20% have over 10 years of experience in the field of renewable energy.

b) Skills of the AREU members

The renewable energy companies were satisfied with their access to required skills. Around 47% of their employees are skilled or semi-skilled. Of the skilled employees, 82% have

² The Afghanistan Ministry of Commerce and Industries categorizes micro, small, medium and large enterprises as following: Micro = less than 5 employees, Small = 5-19 employees; medium = 20-99 employees; and large = 100 and more employees.

either received training or acquired an academic degree from abroad, where India is the main destination for getting training on renewable energy.

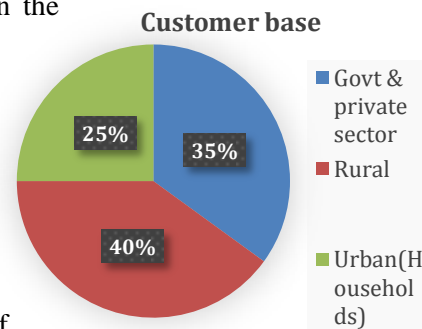
An overwhelming percentage of respondents, 90%, reported that they have easy access to the technology. Companies either have formal long-term partnership with renewable energy companies abroad or receive demand-based support. All respondents reported internet as the main vehicle for getting to know about new technologies as well as getting in contact with foreign firms and companies. The ease of access to technology shows that Afghan entrepreneurs have been able to reap the fruit of globalization by benefiting from the experience and expertise of professionals across the world.

c) Business performance and client base

With the withdrawal of international troops and reduction in foreign military expenditure as well as reduction in official development assistant in Afghanistan, the overall Afghan economy has suffered in the last two years. While the country experienced a healthy average annual GDP growth of 10% from 2002 to 2014, the GDP growth has reduced to 2.5 in 2015 (source: ADB). The economic slowdown has also negatively impacted the renewable energy sector. All firms reported high return during 2012-2014 period and sharp decline in the last two years.

The government and donor contracts in the previous years fueled the growth in the renewable energy sector; however, in the last two years the number of such contracts has substantially decreased. 22% of the respondents reported losses and decline in capital and assets. Several firms raised concern about the sustainability of their businesses, casting fear that they might be forced to shut down if the economic situation does not improve.

Currently the main demand base is from households in the rural areas where people do not have access to grid electricity. The rural market accounts for 40% of demand while the government/private sector and the urban constitute for 35% and 25% of demand respectively.



All respondents cited lack of government supervision and enforcement of standards on the market as one of the main factors hurting the renewable energy sector. In the absence of quality control and enforcement of standards on solar panels, the retail stores sell low quality or refurbished panels to customers. As these panels cost less than the standard high quality panels, most rural households opt for cheaper products without knowing the perils of using them.

The current situation hurts the market in two ways, a) it forces businesses that import high quality panels out of business by skewing the consumers towards cheaper but low quality products, and more importantly b) as the low quality products fail to generate the promised electricity and have faster depreciation rate and life-cycle, it discourages other consumers to shift to the renewable energy.

Enforcing standards on the renewable energy is one of the objectives of the AREU, as stated in the charter. All respondents also raised standardization of the market as one of the main recommendations to the government. The AREU has not yet taken any effective action in this regard, though it plans to work with the government on introducing the standards.

d) Membership Coverage of AREU

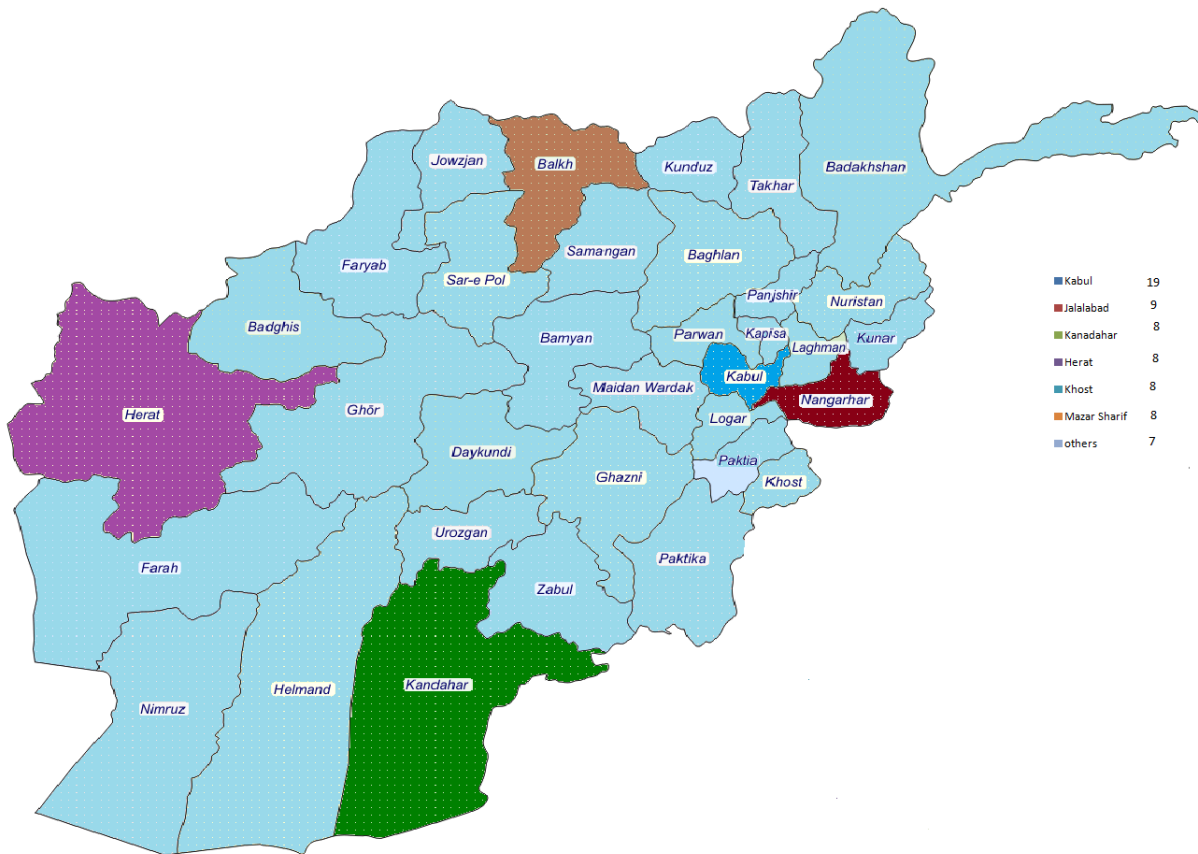
Estimating the coverage of the AREU (ratio of the members to the non-members) was not feasible due to lack of a central database containing the total number of businesses working in the area of renewable energy. However, the list of renewable energy businesses registered with the AISA shows that there are at least 23 businesses that are not members of AREU. According to this data, 54% of businesses registered with AISA are members of the AREU.³

The membership size of AREU has tripled since its establishment in 2014. Membership growth of a business association is an important factor, since it provides information on the attractiveness and success of the association. The steady AREU membership increase signals the relevance of the AREU for businesses, as more members are willing to join the association.

The fact that the AREU does not have the exact information on number of businesses involved in the renewable energy sector, however, illustrates weakness in reaching out to new members. Increasing the membership and outreach strategy to non-members is an area that needs improvement.

Majority of AREU members mainly work in Kabul, Nangarhar, Kandahar, Herat, Khost and Mazar. Offices in the mentioned provinces cover other provinces. The following map illustrates the provinces where AREU members work. Except for three firms that only work in one province, Kabul, the remaining AREU member firms work in multiple provinces.

³ The actual coverage rate is lower than 54% because a) this figure does not include firms registered with MoCI and b) some firms that work in the area of renewable energy are registered as construction companies with the AISA; the exact number of these firms is unknown.



e) Leadership

In addition to committed members, leadership is the most important asset of a business association. Usually most decisions are delegated to office bearers (president, vice presidents, secretary general, treasurer) and the executive board of a business association. These leaders set out the general policies and strategies, and supervise the secretariat and the day-to-day operations of the association. Additionally, the office bearers represent the organization vis-à-vis government and other business associations. Therefore, the reputation, foresight and experience of the Board members are vital to the associations' success.

The AREU has an Executive Board consisting of 7 members. Mr. Kabul Khan Tadbeer is the current President of the board. All board members have businesses in the renewable energy industry and have been involved in the sector for several years. While measuring the effectiveness of AREU leadership, it is important to consider that the association is still relatively young. As such, it might not be realistic to gauge the effectiveness in terms of achieving tangible results such as influencing the government policies in favor of the businesses. Still, under the current leadership the AREU has been able to garner the support of the Renewable Energy Directorate (RED) of the Ministry of Energy and Water as well as attract financial support from outside resources. However, establishing a relationship with the

government agencies has been very much limited to the MEW-RED, while AREU needs to create a much larger network of contacts across the state apparatus in order to be able to influence government policies and plans.

2. Governance

The governance features determine the level of ownership, control, transparency and accountability of a business association. The governance structure of AREU is democratic, autonomous, and open, which makes it a suitable vehicle for representing the interests of the businesses.

- a) **Democratically Organized:** The highest decision-making body of the AREU is the General Assembly consisting of all members. The General Assembly has the following responsibilities, i) setting the vision and objectives of the association, ii) selection of the President and the Secretary, iii) approval of the charter of the association, iv) selection and removal of the executive board members, v) selection and removal of the monitoring committee, vi) approval of the annual progress and financial report presented by the executive board, and vii) approval of the annual budget. The General Assembly is organized at least once a year.

The Executive Board, whose members are selected by the General Assembly, sets the roles and responsibilities of the secretariat and supervises its functions. The board is the second highest decision-making body of the AREU.

- b) **Autonomous from the Government:** Being a non-political, non-profitable, and non-governmental organization, the AREU enjoys an autonomous status that allows it to freely set its plans and strategy without government intervention. It is highly important that AREU preserves its autonomous status over the coming years.
- c) **Open:** The membership of the AREU is open to all renewable energy firms that are registered with the government of Afghanistan. All members enjoy equal status and have the right to hold leadership positions through the General Assembly elections.

Almost all interviewed members of the AREU are so far satisfied with the performance of the organization. They understand that the association is still relatively young and would mature over time. Around 75% of respondents mentioned that they visit AREU at least once every month and are in regular contact with the secretariat of the association.

3. Resources

Financial resources allow a business association to perform advocacy work and provide services for its members. Business associations around the world have different sources of revenue such as membership fees, donations, government or donor sponsorship and charging fees for some of the services. If a business association fails to bring in the money that it spends, the organization will go out of business. Therefore, business associations have to be

innovative when seeking means to finance their activities and attain financial sustainability in the long run.

Currently, the only institutional source of income for the AREU is the monthly 1000 Afs membership fees that it collects from its members. As such, its current monthly income is 32,000 Af (32 members * 1000 monthly membership fees). AREU has also been able to receive 3 million Afs in the form of grant from the FAIDA project of the USAID.

Considering the revenue and expenditure of AREU, the organization is currently not financially sustainable. AREU has six staff on its' monthly payroll (a General Manager, an Admin General Manager, an Admin Assistant, a Finance Officer, a cook and a guard), plus it rents an office and has transportation and communication costs. The FAIDA grant has allowed the organization to sustain itself this far.

Without receiving external financial assistance, the AREU will not be able to sustain its operation with the current membership fees. It is worth noting that number of none-members interviewed mentioned the membership fees as the biggest obstacles for joining the association, while some of the existing members also shared doubts of being able to continue paying the membership fees.

Moving forward, the AREU needs to develop fundraising strategies for financing its operation. Donor funding and grants are only short-term solutions keeping the organization alive for a finite period. AREU needs a long-term financial plan. Any capacity development support to the AREA, therefore, must consider the financial sustainability as one of the main objectives.

4. Advocacy and Services

Businesses expect benefits from their membership, either directly through valuable services or indirectly through better economic policies. A business association with a well-developed capacity for interest representation and service provision will be more attractive for existing as well as potential members. In other words, the members expect services from an association in return for the membership fees that they pay. If services are deemed valuable, members would be willing to keep the membership and even pay a higher premium, but in case a value for money is not seen a business association will lose its members.

a) Advocacy Work:

The agency has so far fallen short of influencing government policies, thus scoring poorly in the domain of advocacy. In simple terms, advocacy is the act of “advocating” on behalf of a certain group in favor of or against something (or somebody). Policy advocacy of business associations is geared toward initiating new, changing existing, or abolishing outdated laws and regulations concerning business. Advocacy is also about communicating and influencing public opinion regarding business.

Except for the Renewable Energy Directorate of the MEW, the AREU does not have institutionalized working relations with any other government agency. The AREU has not yet had any meeting with the Ministry of Finance, Ministry of Commerce and Industries and other relevant government agencies. Even the relationship with the Afghanistan Chamber of Commerce and Industries (ACCI) is limited to being registered with ACCI, rather than actively utilizing ACCI as the representative of the private sector for lobbying the government for favorable policies.

AREU needs to pay particular attention to advocacy work, both in terms of shaping and influencing government policies that impact the renewable energy sector as well as raising overall public awareness on benefits and potentials of sector. Almost all suggestion and recommendations of the AREU members revolves around advocacy domain. Following is the list of recommendations and suggestions of respondents:

- i. Reduction in custom duty and government taxation
- ii. Awareness raising programs
- iii. Improving the quality and standards
- iv. Provision of favorable investment terms for domestic production

In order to be able to follow and implement any of the above recommendations, the AREU needs to play a much proactive role in trying to influence the government policies in favor of the renewable energy sector. For example, to change the custom duties or reduce taxation the AREU needs to present a strong case to the Ministry of Finance (MoF) to convince them that the benefits of tax reduction outweigh its cost. Similarly, the AREU need to convince and influence the management of the Afghanistan Investment Promotion Agency (AISA) to support local production of renewable energy toolkits; for which AREU needs to prepare and present a strong business case.

For AREU to turn into a trusted and forceful business association defending and promoting the interests of the private businesses, it has to alleviate advocacy as its main priority. AREU needs capacity development in the area of advocacy and public relation management in order to be able to effectively perform its advocacy role. Hence this is an area that donor agencies could support AREU, as will be discussed section III.

b) Provision of Services:

In terms of services, the AREU relatively scores better compared to the advocacy work. Through the FAIDA grant, the AREU has organized a number of ‘Road Shows’ in Herat, Bamiyan and northern provinces where local elders and influential figures are introduced to the benefits and economic potential of renewable energy. These ‘Road Shows’ also allow the AREU to reach out to local businesses that work in the renewable energy sector for gaining membership of the organization.

Again through the direct support of the FAIDA project, the AREU also sent its members to participate in a promotional and business-to-business networking event in New Delhi, India in August this year. The event provided an opportunity for the Afghan businesses

to connect with their counterparts in India, thus opening the doors to potential future business partnership.

Enterprise services such as business advice, training programs for the members and marketing campaigns, however, are not covered by AREU. Enterprise services have proven to be extremely helpful for sustainability of business associations in other countries. As mentioned earlier, provision of such services raises the profile of the business association among the existing and potential members. Plus, business associations usually charge an additional fee for some of their services. Provision of valuable services can help a business association achieve financial sustainability.

Section III

Capacity Development Recommendations

According to Tim Dyce, the Director of Asia Pacific Enterprise Training Centre in Sydney Australia, a business association can play the part of a useful partner in improving the business environment by:

- representing to the relevant authorities the obstacles that their member enterprises face and, on their own or with the assistance of other institutions, advocating for appropriate policy, regulatory or infrastructure improvement;
- disseminating information and channeling feedback about policy and regulation to their SME members and providing a potentially supportive constituency for the successful implementation of policy and regulation;
- encouraging unorganized enterprises into the organized sector by insisting on registration as a condition of business association membership, but also voicing demand for improvements in public services as the quid pro quo for registration;
- initiating industry standards or resolving industry conflicts internally and so strengthening the private sector without need for government intervention.

Following the list of above roles that a business association should play and the guidelines of the World Bank, the AREU's capacity should be developed in the areas of i) advocacy work, ii) providing management services and iii) internal management capacity.

1. Advocacy Work

Advocacy is the most important area that AREU needs support in building its capacity. AREU has to adopt a proactive advocacy strategy to shape government policies in favor of growing the renewable energy sector in Afghanistan. As opposed to large companies, SMEs (all AREU members are small or medium enterprises) lack the power to influence

government policies or public opinion when they act individually. A business association can be instrumental in expressing the needs and problems of the whole private sector, but especially of SMEs. Lobbying and advocating for a more conducive economic environment are therefore core activities of any business association.

By actively engaging in advocacy, AREU can raise its profile among policymakers and enhance its reputation within the business community. This helps in attracting new members and raising contributions from old ones. In return, with better funding AREU can devote more resources to advocacy. Policymakers may profit from advocacy by getting access to firsthand business information and feedback on policies.

The main advocacy methods are as following:

a) Dialogue platforms:

They can take the form of institutionalized (mandatory) public-private consultations, e.g., joint committees, advisory councils, hearings, etc. All these forms allow for a formal participation and structured exchange of opinions between government officials and business representatives at regular intervals.

AREU should strive for representation in all joint committees, whose decisions are relevant for its members, i.e. meeting of the MEW, MoF and other ministries. The government of National Unity has recently established a high level committee on energy that consists of a number of ministers and deputy ministers. This committee is chaired by Dr. Qayoumi, the Senior Advisor to the President. The mandate of the committee is to propose innovative ways to increase domestic electricity generation in Afghanistan. This forum holds a particular importance for the AREU as the decisions made by this committee will have direct impact on the future of renewable energy in Afghanistan. AREU should strive to become a member of this committee, or at least participate in meetings as an observer. It is worth noting that the government will equally benefit from participation of the representatives of the private sector in such forums. The private sector has firsthand experience and knows the visible and concealed challenges and opportunities much better than government officials who are mainly concerned with policy development. As such, consultation with the private sector facilitates development of policies in line with the market realities. In this sense, involvement of private sector in the decision making process is a win-win situation where both the private sector as well as the government benefit.

In addition to participation in relevant government committees, the AREU should become an active member of the Afghanistan Chamber of Commerce and Industries (ACCI). Being the oldest business association and the representative of more than 90% of businesses in Afghanistan, ACCI is a powerful agent in shaping government policies and raising public awareness. AREU is registered with ACCI and is one of its members. However, as discussed in the previous section, AREU has not yet utilized the influence of ACCI towards achieving its vision and objectives. Active engagement with ACCI, therefore, should comprise one of the main pillars of the AREU advocacy strategy.

b) Direct advocacy:

An informal way of interest representation, direct advocacy measures can take many forms: letters, telephone calls or office visits. These measures are intended to guarantee the support of politicians on specific issues. Despite the more informal nature of these activities, AREU should make sure that the positions they present are carefully prepared and that the delegate who establishes the contact has good communication skills.

Networking- interact with other people to exchange information and develop contacts- is a proven effective strategy for direct advocacy. It is recommended that AREU organize networking sessions as well as participate in relevant events and functions to exchange information, provide briefing on renewable energy sector and build contacts. The advocacy strategy of the AREU should, therefore, detail out the methods and mechanism for direct advocacy.

c) Public relations:

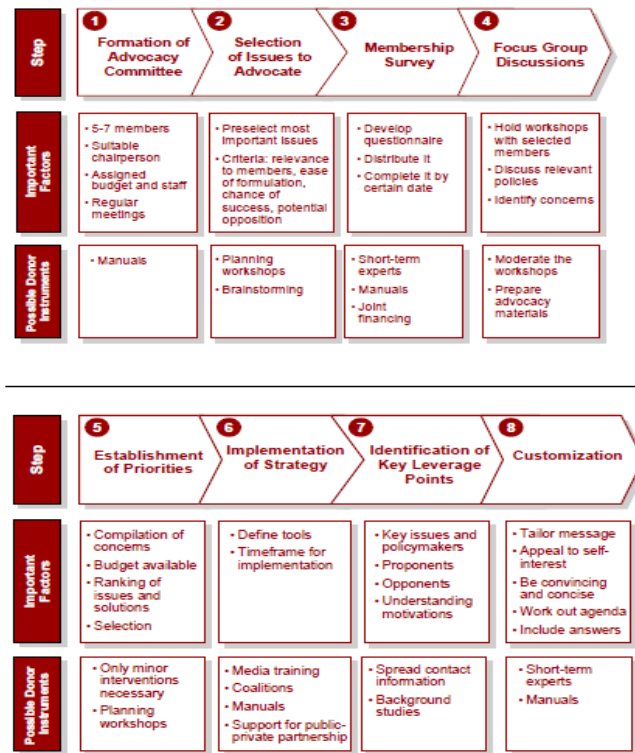
Successful interest representation requires not only the recognition by politicians but also the support of the public. AREU should therefore produce useful and easily understandable information on how new laws and regulations affect businesses, employees, investors, suppliers, and customers. Member surveys as well as external research bodies can deliver necessary background information on pressing policy issues. By publishing press kits, news releases and FAQ fact sheets and organizing live appearances on TV shows etc., AREU may use the media to convey its messages to politicians and the general public.

The social media, i.e. Facebook & Twitter, has shaken the dynamics of public relations in recent years. It allows individuals and companies alike to convey their message directly to targeted audience. Social media has proven to be the most effective medium of delivering message to the youth and youngsters. It is highly recommended that the AREU

Utilize social media to raise awareness on the benefits of the renewable energy sector. Direct interaction with the public through social media can increase the consumer base of the AREU members as well as create a mass of supporters for developing of the sector.

In order to systematically use the above discussed methods of advocacy, AREU should develop strategy best suited for its objectives and goals. The implementation of the strategy will allow AREU to fulfill the expectations of its members (listed in the previous section). The following figure illustrates the steps involved in an advocacy strategy. Each step needs to be detailed out in the narrative strategy.

Example of an Advocacy Strategy



2. Development and Management of Services

Provision of services to members is an area that AREU needs strengthening. As discussed in the previous section, providing services will raise the profile of the AREU among the members and non-members as well as provide an additional source of revenue, thus helping it achieve financial independence. Business associations in other countries usually offer some or all of the following services:

- I. Trade and Market Development
- II. Training
- III. Advice and Consulting
- IV. Information and Networking
- V. Office Facilities and Infrastructure Service

Services	Examples
Trade and Market Development	<ul style="list-style-type: none"> • Organizing product exhibitions and trade fairs • Information on prospective (export) markets • Buyer-seller meetings and subcontracting exchanges • Trade delegations • Facilitating market research • Marketing of samples and showrooms • Matchmaking
Training	<ul style="list-style-type: none"> • Management training • Technical training • Vocational training centers for staff members • Seminars and group consultancy • Development of training manuals • Training curricula and standards • Organizing legal aspects of staff training
Advice and consultancy	<ul style="list-style-type: none"> • Exchange visits and business tours • Best practice benchmarking among members • Individual counseling and mentoring • Legal services • Financial and taxation advice • Help with accountancy and bookkeeping • Quality standards and ISO 9000 • New technologies and environmental aspects
Office facilities and infrastructure services	<ul style="list-style-type: none"> • Secretarial services • Computer services • Telecommunications • Internet access • Developing and managing industrial estates • Running testing facilities • Storage and port services • Developing and supervising industry standards
Information and networking	<ul style="list-style-type: none"> • Regular business meetings • Industry clubs and committees • Website and Internet-based business contacts • Newsletters and publications • Membership directory and database • Conferences and high-level meetings • Annual report

AREU should thoroughly assess its resources- both financial and human resources- understand the context and do needs assessment in order to develop a portfolio of services to be provided. Based on such assessment, the AREU can choose the service or services that it can best offer to its members. It is recommended that instead of offering all the services at once, AREU adopt a gradual approach of starting with the few services and over time keep adding to its list of services, if needed. An encompassing and comprehensive service list can easily exhaust the organization and make it unmanageable.

To introduce an area and method of service provision, AREU should follow the following steps:

a) Needs assessment:

First, AREU needs to understand the needs of the markets and renewable energy businesses, which are potential clients. Feedback from members and other companies can be gathered by more informal means during events or in a formal ways by various representative surveys among members and non-members. Focus group discussions with relevant decision-makers will complement these instruments and provide for additional information on demand and markets.

Members always have a long “list of wishes” that cannot easily be brought in line with the business association’s resources. As such, after the needs assessment the AREU leadership should prioritize the services in terms of its importance and the availability of the service by other providers. If a service area is ranked important but there are existing established providers of the same service in the market, AREU should compare its competitiveness with that of other providers. Based on these analyses, AREU should choose the service area(s) with highest importance and the one that the organization has comparative advantage to deliver.

b) Service Development Stage:

Careful consideration must be given to the technical and human resource requirements needed for delivering the selected service(s). Therefore, a realistic, selective approach is essential for the successful implementation of service(s). Critical questions arise about the availability of staff capacity, the need to hire more staff or the skills and qualifications necessary to introduce a service.

Donors can support AREU in this phase by helping them explore underused resources and improve the skills of staff members. This may be achieved by sending in short-term experts to identify slack capacities and train staff members.

Once AREU acquire the resources and skills for delivering the service(s), it then moves to the stage of offering them. Donors can help AREU through this phase when the services are not yet established. Different instruments may be suitable during this phase. The most important are the use of short-term consultants for alleviating start-up problems, and the production of guidebooks and manuals in order to spread international

best practices. Donors may also assist AREU in marketing new and innovative services, which need time to be accepted by the often risk-averse SME owners.

c) Monitoring and Evaluation:

Systematic monitoring and evaluation are essential to improve the quality and efficiency of services. In this context, the selection of suitable indicators for monitoring purposes is very important. Possible instruments for monitoring and evaluation are the distribution of standardized questionnaires to users and participants after a service has been delivered, the appointment of a responsible quality control officer, direct interviews with selected users. Regular monitoring and evaluation will allow AREU to improve its services and achieve client's satisfaction.

3. Building the Management Capacity of AREU

To become more effective and to ensure their long-term prospects, the organizational and management capacities of AREU need to be strengthened. Better-organized business associations are more focused, enjoy greater membership participation and improve their public recognition and acceptance. They are able to fulfill their responsibilities for the whole –small and large – business community and can therefore be regarded as genuine representatives of the private sector.

Capacity building is a gradual process. Therefore, the AREU's management capabilities should also be developed incrementally. AREU will benefit from capacity development in following domains:

a) Finance

Financial transparency carries significant importance for any business association as members as well as other contributors (government, donors) want to know what the business association is doing with their money. Plus, business associations usually have to operate in a fragile financial environment; particularly in conditions of voluntary membership, membership dues have to be set at a modest level to avoid deterring prospective members and facilitate their collection. Therefore, in such conditions strengthening financial management practices is a prerequisite for all other capacity-building measures. The following aspects are particularly important:

- i. Accounting Practices
- ii. Membership fees administration
- iii. Income-generating services

b) Membership Development

The recruitment of new members and the retention of existing ones are of fundamental importance for any business association. Membership development covers marketing

efforts for new members as well as the administration of existing members (membership database, structure and payment of dues).

To achieve a significant increase in membership, the AREU should therefore develop a precise strategy for the recruitment and the retention of members. AREU should conduct marketing and awareness campaigns on regular basis. AREU can also make consistent use of branding techniques and logos, e.g., by issuing membership certificates.

c) Internal Organization

A well-structured workflow and division of responsibilities between executives and staff members are crucial for the efficiency and success of a business association. If the secretariat is strong and well organized, it may become the main vehicle to deliver outputs and relieve voluntary representatives from day-to-day activities.

The current organizational structure of AREU is insufficient for achieving its vision and objectives. AREU has one general manager, three admin and finance staff and two cleric positions. AREU does not have a single program, marketing and business development positions which are necessary for any business association. As part of the assessment on provision of services, AREU needs to thoroughly analyze its capacity needs in order to be able to achieve its mandate.

Section IV

The way forward

The conglomerate of the Afghanistan renewable energy businesses in the form of the AREU is a sincere attempt by the private sector for expanding the market for renewables in Afghanistan. The favorable geographic and weather condition of the country for renewable energy turns investment in this sector attractive. Afghanistan is the home to a number of rivers that stems from mountains of Afghanistan and flows to the neighboring countries; receives plenty of solar power in form of sunshine on average 300 days a year; and the Western and Northern parts of the country get steady blow of wind that at some areas and during certain seasons exceeds 13 meters/second at the height of 50 meters. In sum, Afghanistan is an optimal land for investment in the renewable energy. The establishment of AREU is indeed a positive signal from the market to tap into this sector.

The biggest challenge facing the sector, however, is cost. Being the poorest country in Asia, majority of Afghan consumers do not have the purchasing power to invest in renewable energy. It is worth noting that renewable energy is almost universally subsidized across the world. Countries like the United States, Germany, and India among others provide cheap credit, tax-cuts or direct subsidy to households for investing in renewable energy. For example, the German government's subsidies to wind, solar and other renewable energy producers have grown to USD 26 billion a year since 1991. Comparatively speaking, the German renewable energy subsidy is larger than the entire Afghan economy. Based on the experience of other countries, the only way for expanding the market and creating demand is to provide some sort of incentive for the consumers, such as cheap credit or downright subsidizing it.

Not only the government of Afghanistan does not subsidize the market nor provides incentive structure for consumers, it levies 2.5 custom duties on imported products and takes income taxes from the renewable energy businesses, even further increasing the final cost of the products for the consumers. All interviewed respondents cited government taxes as one of the reasons for high cost of renewable energy toolkits.

At the face of current financial constraints that the Afghan government faces (almost all of the government development budget, the entire security bill and half of the administrative budget is already dependent on the foreign aid), the likelihood of renewable energy subsidization by the government is dim. However, the government can provide incentive to the businesses by removing import custom duty and giving tax-holidays to the firms that work in the renewable energy sector. Like majority of countries, the government of Afghanistan can also introduce feed-in tariffs (FITs) that guarantee the generators of renewable electricity a certain price per kWh at which electricity is bought and also sufficiently attractive to stimulate new investments in the renewables sector. A combination of incentive package such as tax-cuts and FIT will encourage the private sector to invest in renewable energy.

The donor community, on the other hand, can play a major role in decreasing the economic barriers facing the renewable energy sector. Having financial resources at their disposal, the donor community can directly support the Afghan consumers, particularly those in the rural areas, to get access to renewable energy. It has been long proven that access to electricity is crucial for both basic improvements in quality of life and for being able to develop a robust modern

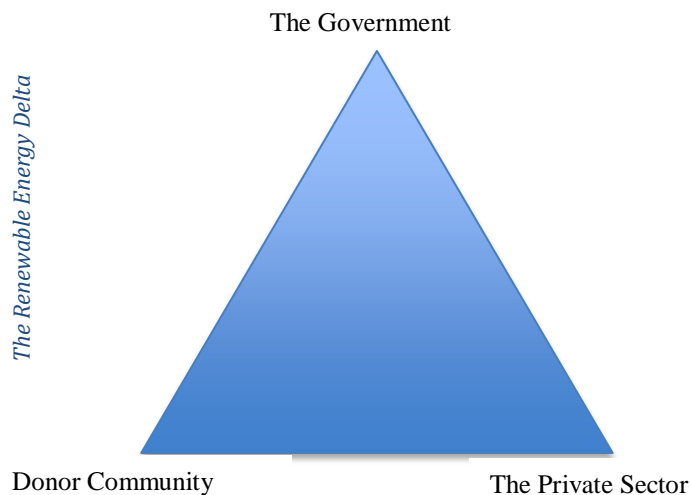
economy. Hence any assistance to the sector by the donor community will directly contribute to poverty alleviation and overall economic growth, which is the main objective of majority of donor countries that provide official development assistance to Afghanistan.

To effectively exploit the potentials of renewable energy sector in Afghanistan, it is important that the government, the private sector and the donor community work together to develop innovative mechanisms for expanding the sector in Afghanistan. The government can create a fertile enabling environment by easing regulations and enacting favorable policies for the sector. The donor community can facilitate the transfer of technology to the country, introduction of best practices, and provision of grants and capital for investment. Last but not least, the private sector, including renewable energy businesses as well as private banks, will be the ultimate implementer of projects as well as co-financiers.

The African-EU Energy Partnership (AEEP) is great example where donor countries and the developing countries jointly work together towards increasing access to energy for the residence of Africa. The 2020 target of the AEEP is to increase the access to modern and sustainable energy services to at least an additional 100 million Africans. It is worth noting that private sector involvement constitutes as one of the main objectives of AEEP both for fund raising and investment as well as implementation of renewable energy projects.

Through its Africa-EU Renewable Energy Cooperation Programme (RECP), the AEEP helps stimulating the market for renewable energy in Africa, with a special focus on private sector cooperation and the promotion of attractive enabling conditions. The RECP will initiate, from 2014 onwards, a new and structured set of activities aimed at triggering joint business development between African and European private sector. Through the provision of market identification, identification of project opportunities and mobilization of stakeholders, as well as matchmaking and dialogue events, the RECP will stimulate market uptake for renewable energy in Africa (AEEP report)

A triangular cooperation and coordination among the government, the donor community and the private sector, ‘the renewable energy delta’, can pave the way for Afghanistan to exploit its renewable energy production potentials. Provision of technical assistance and capacity development services to AREU will not be effective if the demand side is not created. No matter how strong AREU becomes, without strong demand and purchasing power for renewable energy it will not be able to sustain its operation and justify its existence. At the same time, the government will not be able to meet its objective of using renewable energy as one of the main sources of power in Afghanistan without the support of the private sector. Government policies have to meet the requirements of the private sector and be attractive enough to make investment in the sector justifiable by the market. Finally, the objective of making Afghanistan a self-sustained economy as envisioned by majority of donor countries will be hard to realize until majority of Afghans lack access to one of the basic necessities of the modern life, electricity. To increase the effectiveness of donor contribution in the sector and creating value for money, the donor agencies should work closely with the government and the private sector.



Providing recommendations for strengthening the renewable energy sector falls beyond the objective of this paper. It suffices to mention that the government of Afghanistan and the donor community in coordination with the private sector should learn from the success stories of other capital-constrained developing countries that have been able to invest in renewable energies, and introduce innovative projects in Afghanistan. Renewable energy businesses and the private banks have always been integral parts of any innovative solution. The Afghan banking sector has experienced healthy development over the last decade, although the banking sector is still in development processes. Majority of banks have capital deposits ready to be invested in sound business opportunities. However, due to high risk of loan default the banks charge a high interest

rate, around 15-18%, and often give loans for short period of time. Thus private banks usually look for short-term investments with high return for approving loans such as housing projects that has high return and can be completed within few years. Even though investment in renewables is not risky as it has a guaranteed return in the long run, the slow return of capital makes it unattractive for banks; and at the same time the high interest rates makes it unattractive for renewable businesses. Unsurprisingly, none of the AREU members have so far received bank loans.

The donor community and the government of Afghanistan can remove the existing obstacles facing the banks and the renewable energy businesses. One solution is to provide banks with grants to be solely used for giving long-term loans with short interest rate to renewable energy businesses and/or the consumers. By shifting the loan default risk from the bank to a donor, banks would become interested in investing in the renewable sectors. By decreasing the interest rate and increasing the loan period, such schemes will also encourage businesses and the consumers to apply for loans. The case study in Box 1 presents a success story from Tunisia where an innovative program involving the government, a donor and the private sector- both private banks and the renewable businesses- resulted in over 50,000 families accessing hot water.

Box 1. A Case Study of a Successful Renewable Energy Promotion Project in Tunisia

The Tunisian Solar Programme (PROSOL) – a joint initiative of the Tunisian National Agency for Energy Conservation (ANME), the state utility Société Tunisienne de l'Electricité et de Gaz (STEG), the United Nations Environment Programme and the Italian Ministry for the Environment, Land and Sea – provides an example of solar thermal market development.

Financial and fiscal support combines a capital grant qualifying for a VAT exemption, customs duty reduction and a bank loan with a reduced interest rate. Repayment of the loan is organized through the regular utility bill of the state electric utility STEG, with local banks receiving support that allows them to finance SWH projects with reduced interest rates.

This arrangement has generated direct financial benefits for the end users, when comparing the size of the monthly installments for a SWH system to the earlier electricity bills. A complementary interest rate subsidy was available during the first 2 years (2005-2006) of the programme, reducing the interest rate of the loan to 0 per cent to the final end user. This support was removed in 2007 and annual interest rates for loan repayment have been 6.5 per cent.

The government provides a subsidy of 20 per cent of the system cost or \$75 per square meter, while customers are expected to finance a minimum of 10 per cent of the purchase and installation costs.

Over 50,000 Tunisian families now get their hot water from the sun based on loans amounting to more than \$5 million in 2005 and \$7.8 million in 2006 – a substantial leverage to PROSOL's initial cost of \$2.5 million. With installed surface of the programme reaching 400 000 m², the government has now set a more ambitious target of 750,000 m² for the period 2010-2014, a level comparable to much larger countries such as Spain or Italy. As of 2008, PROSOL helped avoid 214,000 tonnes of cumulative CO₂ emissions. Jobs have been created as 42 technology suppliers were officially registered and at least 1000 companies installed the systems.

(Excerpt taken from UNEP report 'Green Economy: Developing Countries Success Stories').



Over the last decade, developing and capital-constrained countries have been able to introduce innovative ways to invest in renewables and provide access to electricity to the public, particularly those in rural areas with no access to power grid. All successful projects have found ways for increasing the purchasing power of consumers and providing incentive packages to the investors. The main task for the government of Afghanistan, the donor community and the private sector is to introduce schemes for overcoming economic barriers for renewable investments. The stakeholders have the opportunity of learning from success stories around the globe and adapt it to the context of Afghanistan.

Annex 1: A Brief Profile of Renewable Energy Companies

Nam of Company	Name & position	Phone #	Year busines s started	Startup capital	Current capital	No of employees		Market area	Company imports raw material from	Target Audience	Area of work
						Skilled	Unskill ed				
Taufiq Amini Solar Company	M. Rafiq Amini - President	0799060217	2011	\$ 10,000	\$ 500,000	7	16	Herat, Badghiz, Deh Khundi, Jalalabad, Kabul, Cheghcheran	Pakistan, Iran, China	80 % rural area	Solar
ETC	Sayeed Farzad Alawi-GM	0785558050	2005	\$ 1 Million	Decreased (figures not given)	8	7	Covers 70 % of Afghanistan	Germany, Poland, Iran and Pakistan	Govt and private sector	Solar off grade system
Barg Engineerin g Company	Sayd Najib	0799211224	2004	\$ 15,000	\$ 400,000	3	2	Only Kabul	China, Korea, Taiwan	Private sector (household s)	Re electronic devices (safety fuse, LED light bulbs)
Kabul Rohani	Zalmai Bakhtyar - Vic President	0700295334	2004	\$ 20,000	\$ 50,000	4	8	Covers 80% of Afghanistan	70 % from India, Germany, USA, Denmark	Govt and private sector	Solar (invertors and batteries)
Farah Gastar	M. Dawood Sultani	0781252470	2010	\$ 150,000	Decreased (figures not given)	5	5	Herat Kabul Ghazni Farah, Jalalabad	90 % from China	Private sector	solar water pumps(solar)
Koshar	M. Ishaq	070099080	2006	\$ 20,000	\$ 600,000	5	4	Panjshir,	From	Govt and	Solar

Pamir Construction Company	Mohammadi-VP	7						Kapisa, Bamyan, Dehkhundi	Afghanistan (hydropower production company) China, Pakistan	private sector	Hydro solar hot water
Ikhlas Sultani	Sediqullah - Sales Manager	0785220475	2010	\$ 200,000	Increased figures not given	4	4	More than 25 provinces	Taiwan, Korea, China, USA, Thailand	Rural area	Solar Panel (solar)
Qaderdan Rural Technology & Development	Habib ul Rahman Qadardan	0744121280	1992	\$ 180,000	\$ 1 million	5	7	Almost all provinces	China, Japan, USA	Rural Area	Solar + wind energy (turbine, water boiler)
PanelTech	Mohammad Amiri-president	0799304878	2004	\$ 400,000	Decreased (figures not given)	7	3	Kabul and Mazar	Afghanistan	Private Sector	Distributors or Solar products
Stroke Renewable Energy	M.Shafiq Barakzai - President	0700604074	2012	\$ 150,000	\$ decreased	6	4	Kabul, Jalalabad, Kandahar	China	Govt	Solar (solar Panels)
Bakhtar Bastan	Kabul Khan - President		2005	\$ 20,000	\$ 50,000	4	8	Kabul, Khost, Kandahar and herat	India, Germany, Denmark USA	Govt and private sector	Solar inventors & batteries



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RGM	Engr Qayum	0781300098	2011	Not given	Decreased	25	35	Kabul	Turkey, India & china	Govt and private sector	Solar(boilers, water pumps)
Afghan Sun Energy for Today	Ahmad Wali Haidari - Country Manager	0786612000	2015	Not given	-	2	4	Qandahar, Herat, Kabul	China	Govt	Solar (Water pumps, rooftops, solar parts)
Afghan wind Solar	Muhammad Asif	0785955716	2001	\$200,000	Increased but figures not given	4	6	Mazar, Jalalabad, Kunduz, Kandahar, Herat, Farah, Oruzgan, Khost	USA, China, India,	Govt and private sector	Solar (solar battery, Solar chargers, invertors)
Paikar Renewable Energy	Abdal Moqeen	0799233611	2014	\$ 50,000	Decreased	5	5	Almost all area of Afghanistan	70 % from China, Pakistan, India	General	Solar energy products
Zaib Pamir	Engr Zaib Pamir- President	0700613641	2002	Not given	Not given	4	9	Cheghchran, Taliqan, Jalalabad, Kabul	China	Rural area	Solar (water pumps)
Rana Afghan Micro Hydro Power	Ahmad shah - President	0788299799	2012	\$ 25,000	Increased	30	10	Jalalabad, Kabul, Kunar, Laghman	Afghanistan	Govt	RE products (cables)
Moon Style Construction	Fouzia Hariri - President	0785650033	2015	Not given	Not given	5	6	Kabul, Baghlan, Ferozkoh	Distributors	Local households	General RE products



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Infoexpress solar power	Attaullah Safi	0777284655	2012	Not given	Increased	5	5	Kabul, Mazar, Helmand, Qandahar	China turkey	Rural area	Solar (solar Water pumps)
Bashiri Machinery Ltd	Habibullah Bashiri - President	0798400400	1998	Not given	Increased	5	8	Kabul, Kandahar, Farah, Ghazni	China, India Turkey, Thailand	General plus rural area	Solar (solar water pumps)
Bakhtar Bastan	Kabul Khan - President	0700220102	2004	\$ 20,000 \$ 50,000		4	8	Covers 80% of Afghanistan	70 % from India, Germany, USA, Denmark	Govt and private sector	Solar (invertors and batteries)



Companies that are not member of AREU

Wahid Qudratzai Company	Wahid Qudratzai	0785349734	2002	\$ 1,000,000	\$ 15,00,000	4	9	Covers 90 Afghanistan	China, Japan, India	Rural	Solar (solar Panel)
Aria wind solar company	M.H Taufiqi- President	0799599590	2010	\$ 50,000	Not given	-	-	-	-	Rural	Solar and win
Afghan Shams Solar Energy	Hedayatullah	0799311678	2015	not given	decreased as our business is new	6	4	Central Afghanistan	Russia, Iran, China, Pakistan	Rural	Solar energy equipment & Solar Stove

Annex II: List of People Interviewed

No	Organization Name	Name of Interviewee	Designation	Comments
1	Kohsar pamir contstraction company	Ishaq Mohammadi	Managing director	
2	Panel Tech Engs Company	Muhammad Amiri	GM	
3	FArah Gastar Company	M. Dawwod Sultani	Vice President	
4	Zularistan Energy for Afghanistan	Wahdat Qahar	GM	
5	NovinSimia Gr oup	Muhammad Jafar Alemi	CEO &President	
6	Aria Wind Electricity Power Provider company	M.H Taufiqui	President	
7	Global Infrastructure Consultant, LLC	M. Shoaib Sahibzada	President	
8	Bashiri Company LTD	Habib Bashiri	GM	
9	Barg Engineering company	Sayed Mohammad Hassan Anwari	Vice president	
10	Stroke clean energy for 21st century	Muhammad Shafiq Barakzai	President/ MD	
11	ETC	Engr. S Farzad Alawi	GM	
12	Afghan Wind Solar Energy	Abdul Hamid	President	
13	AFG sun energy for today	Ahmad Wali Haidari	Chairman &Chief Executive	
14	Info Express	Attah ullah Safi	CEO	
15	Bakhtar Bastan.com	Kabul Khan	President	



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16	Kabul Rohani Company	Zalmai Bakhtyar	Vic President	
17	Qaderdan Rural Technology and Development Workshop	Habib Ur Rahman Qadardan	Managing Director	
18	Ikhlas Sultani . Ltd	Sediqullah	Sales Manager	
19	Moon Style Construction.Co	Fouzia Hariri	President	
20	Rana Afghan Micro Hydro power ACR conductor	Ahmad shah	President	Interviewed via phone
21	Zaib Pamir Engineering Company	Engr. Zaib	President	//
22	Paikar Renewable Energy	Abdul Moqim Paikar	Managing Director	//
23	Towfiq Amini Solar	M. Rafiq Amini	President	//
24	AREU	Kabul khan Tadbir	Director AREU	
25		Abdul Rashed Rahimi	GM AREU	
26	Afghan Custom Department	Saif-Ur-Rahman Raufi	Tariff & Valuation Research Analysis Expert	
27	Ministry of Energy and Water	Amanullah Qalib	Director of Renewable Energy	
28	Afghanistan Chamber of Commerce & Industries	Alhaj Khwaja Shah	Director Members Relation	
29		Khalqudin "Ajmal" Sharifi	Union & Association Registration Manager	
30	Bakhtar Bank	Ahmad Samim Momand	Credit Manager	
31	New Kabul Bank	Nadia Sahab	Chief Documentation Relation Officer	



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32	Afghanistan Commercial Bank (ACB)	Wali Ahmad Jamshidi	Marketing Manager	
33	Azizi Bank	Muhammad Tariq Koshan	Senior Credit Officer	
34	Maiwand Bank	Asad Killedar	Chief Credit Officer	
35	USAID-FAIDA	Daniel Mooney	Chief of Party	
36	USAID-FAIDA	Ahmad Wali Pathan	Enterprise Component Team Leader	

Annex III: Results of the Bank Survey

No	Bank	Person interviewed	Position	Interest rate	Mortgage ratio	Type of loan	Incentive package for RE
1	Afghanistan commercial Bank (ACB)	Wali Ahamd Jamshidi	Marketing Manager	15-25 %	60-150 %	Short and medium term	No
2	Maiwand bank	Asadullah Killedar	Chief Credit Officer	15-20 %	200 %	Short and medium term	No
3	Bakhtar Bank	Ahmad Samim Momand	Credit Officer	12-16 %	200 % (negotiable)	Short and medium term	No
4	Azizi Bank	Muhammad Tariq Koshan	Senior Credit Officer	15-20 %	300 %	Short and medium term	No
5	New Kabul Bank	Nadia Sahab	Documentation Relation Officer	Since 2011 the bank stopped granting loan			