

Islamic microfinance in Afghanistan: A fast-growing sector

Since the restoration of the Islamic Emirate in 2021 and the requirement to conduct all financial and banking transactions in accordance with Shariah principles, microfinance institutions (MFIs) have managed, sometimes at great effort, to restructure themselves to become profitable and offer their services and products to the population once again. In Afghanistan, the microfinance sector is seeking to tap into the country's huge customer potential, as it is estimated that only around 10% of the population of around 40 million Afghans have a bank account. ALAIN COPPOLANI explains.



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In 2024, the Central Bank of Afghanistan (Da Afghanistan Bank, DAB), has issued a specific document entitled 'Regulation on Regulating and Supervising Microfinance Institutions', which main goal is "to create, maintain and supervise a responsive, accountable, transparent and sustainable eco-system for the microfinance sector to achieve the economic well-being of the people of Afghanistan especially the poor." (Article 2).

Article 29 authorizes MFIs to provide the following Islamic products, on condition that they have been approved and certified as Shariah compliant (and exclusively in accordance with Hanafi Fiqh): Mudarabah, Musharakah, Murabahah, Ijarah Muntahia Bil Tamleek, Bai al Salam, Istisna, Wakalah, Qard Hasan and Takaful.

Another condition is that the maximum amount for a financing cannot exceed AFN1.5 million (US\$22,000) and this AFN1.5 million financing shall not exceed the total Islamic outstanding portfolio; the purpose of this measurement is to reach more clients in rural areas. DAB is also working on the development of regulation for SMEs that would allow MFIs to provide large financing based on the client demand.

In addition, all MFIs must be members of the Afghanistan Microfinance Association (AMA), a national network whose main missions are to promote a sustainable development finance sector and build an inclusive, long-lasting and responsible financial services ecosystem by strengthening the sector's scope, quality and viability.

In the second half of 2025, the AMA members institutions are: OXUS-Afghanistan, Mutahid-DFI, Hassel MFI, Momin Afghan MFI (MAMI), Shahy Khazana MFI (SKM), Lamen MFI, Aurum-

Table 1: Key performance indicators for MFIs in Afghanistan

Institution	Gross loan portfolio	Number of active borrowers	Percentage of women borrowers (in %)	Number of provinces covered (on 34)
OXUS-A	AFN1.2 billion (US\$17.8 million)	20,445	55%	14
Mutahid-DFI	AFN336.9 million (US\$4.99 million)	10,452	49%	11
Hassel	AFN147.95 million (US\$2.19 million)	129	1%	8
Momin Afghan	AFN17.03 million (US\$252, 479)	71	34%	3
Shahy Khazana	AFN9.01 million (US\$133, 578)	112	46%	1
Lamen	AFN2.71 million (US\$40,177)	6	0%	2
Aurum-A	-	0	0%	0
Sub-total	AFN1.71 billion (US\$25.35 million)	31,215	53%	14
FMFB-A	AFN1.55 billion (US\$22.98 million)	16,980	26%	14
Ghazanfar Bank	AFN20.6 million (US\$305,407)	70	39%	8
Sub-total	AFN1.57 billion (US\$23.28 million)	17,050	65%	16
Grand Total	AFN3.28 billion (US\$48.63 million)	48,265	43%	16

Source: Afghanistan Microfinance Association, 2025

Afghanistan MFI as well as three private commercial banks – the First MicroFinance Bank of Afghanistan (FMFB-A), Ghazanfar Bank and Islamic Bank of Afghanistan (joined in August 2025).

Since November 2024, the DAB has issued official licenses to some of these MFIs, enabling them to begin their microfinance activities, the most recent being Aurum-Afghanistan. A number of organizations has recently submitted their application to DAB for the establishment of an MFI. The Microfinance Investment and Support Facility for Afghanistan (MISFA) is also a key player in the microfinance sector in the country since the early of 2000s. Its role is crucial because it channels part of funds specifically assigned for the microfinance program in Afghanistan, which is then allocated to MFIs using various processes.

With well-established MFIs such as Mutahid and OXUS-A, MISFA enters into a Mudarabah contract, while for newly created MFIs such as SKM, Lamen and MAMI, MISFA provides funding based on the Qard Hasan principle. MFIs are required to spend the funds to develop their activities and client base, and they are strongly encouraged to follow MISFA's recommendations such as offering products other than Murabahah, or establishing branches in provinces where microfinance services are limited or non-existent (especially in the Southern and Western provinces).

The offering of Islamic services and products is progressively diversifying, but contracts based on the principle of Murabahah remain the most widespread among MFIs. This is due, in part, to the fact that the Fatwa authorizing this type of product is relatively recent (end of

2022) and that its application involves little risk for MFIs, which explains why the most recent ones favor it, but others are under study.

Furthermore, this product is gaining popularity among the population and is easy to implement to meet various types of contemporary needs: financing of farming equipment and intrants, solar panels, vehicles, household appliances, etc. However, MFIs are seeking to differentiate themselves from one another. For example: Hassel focuses on customers involved in agriculture and livestock, Lamen and MAMI offer Musharakah, OXUS-A offers Murabahah, Musharakah and Ijarah, Mutahid has an offer for solar panels and business financing and Aurum-Afghanistan is unique in that it is a company specializing in electronic payment services.

However, all are aware of the need to develop their fintech and digital service capabilities in order to speed up procedures, reduce costs and increase connectivity and financial inclusion across the country. The government is aware of this need, which is why the regulations on electronic money institutions have recently been revised, and DAB plans to submit the automated payment system to private sector. FMFB-A has signed a partnership agreement with HesabPay, and other MFIs are expected to follow suit, either with this operator or another.

To raise awareness, institutions advertise and use social media, but they also go door to door and rely on influential people (religious leaders, village chiefs, etc.) because, like in many countries, the sector is struggling to develop due to a lack of financial education and qualified personnel capable of explaining the products.

On this last point, MFIs are stepping up their efforts and more and more employees are enrolling in AAOIFI certification programs. To contribute to the development of the microfinance sector, AMA regularly meets with government representatives to obtain their support, and plans to organize events in Kabul and in all regions of the country, to which local and government authorities, as well as the population, will be invited.

In Table 1, as of the 30th June 2025, most of the data was already trending upward, reflecting the current vitality of the microfinance sector in Afghanistan. ☺

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