

MISFA: A key player for Islamic microfinance institutions in Afghanistan

Microfinance Investment and Support Facility for Afghanistan (MISFA) was established in 2003 with the joint support of the Afghan government and the international community. Its initial mission was to coordinate international technical assistance and funding for microfinance institutions (MFIs) in Afghanistan. ALAIN COPPOLANI explores.



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Between 2003 and 2011, MISFA focused on conventional microfinance models, before gradually evolving towards a more locally adapted approach. Over the years, MISFA identified the cultural and religious sensitivities of the population, in particular, the prohibition of Riba. As early as 2007, internal reflections and discussions with partners such as Foundation for International Community Assistance-Afghanistan (FINCA-Afghanistan) highlighted the need to develop Shariah compliant financial solutions. These exchanges led to experiments such as the introduction of Murabahah contracts, a form of Islamic financing.

In 2011, MISFA commissioned an in-depth study to assess the real demand for Islamic financial products. The findings confirmed strong interest among the Afghan population, prompting the institution to step up its support for these alternatives. The following decade (2011-2021) thus marked a major transition, with increased commitment to the development of Shariah compliant products.

This evolution reached a decisive turning point in 2011 when MISFA supported the creation of the Mutahid-Development Finance Institution, the first institution to officially offer a Murabahah product. Approval was obtained from the Islamic Religious Council of Afghanistan and MISFA helped set up a Shariah supervisory board to ensure compliance. At the same time, other partners, including FINCA-Afghanistan, enhanced their offer of Islamic products, preparing the sector for a broader transformation.

The Afghan financial landscape underwent radical upheaval in August 2021, following the return to power of the Taliban and the establishment of the Islamic Emirate. Financial institutions including MFIs and banks, had to

Table 1: Outstanding financing by sector for MISFA partners (Mutahid-DFI, OXUS-A, FMFB-A) in March 2024 and 2025

	March 2024	March 2025
Active clients	57,983	82,710
Active Islamic financing clients	32,438	43,673
Gross Islamic financing outstanding	AFN2.18 billion (US\$31.21 million)	AFN2.93 billion (US\$41.89 million)
Number of Islamic financings disbursed (cumulative)	41,224	83,411
Amount of Islamic financing disbursed (cumulative)	AFN3.77 billion (US\$53.98 million)	AFN7.83 billion (US\$112.08 million)
Women Islamic financing clients	13,710	19,018
Proportion of women of active Islamic financing clients	35%	44%
Islamic financing outstanding (women)	AFN534.86 million (US\$7.66 million)	AFN704.23 million (US\$10.07 million)
PAR	0%	0%
Number of provinces covered	14	14

Source: Based on author's interview with MISFA (April 2025).

adapt immediately to comply with new government requirements, which called for the definitive abandonment of conventional practices in favor of a system fully compatible with Shariah law. Conventional loans were banned, forcing banks to refocus on recovering existing loans.

This abrupt transition led to financial losses for players still engaged in non-Islamic models, while accelerating the spread of Shariah compliant financial solutions. In this context of transition to Shariah compliant microfinance, MISFA played a central role in supporting partner institutions through a multidimensional approach. It has focused on three main areas: the development of Islamic products, tailored financial support and in-depth technical assistance.

MISFA has made the development of Islamic financial products a strategic priority, working closely with MFIs to develop specific instruments. Two main contracts have been prioritized: Mudarabah for wholesale financing of partner institutions and Murabahah for end-customer loans. These instruments gained crucial religious legitimacy

thanks to an official Fatwa issued by the Dar ul-Ifta in September 2022, validating the Shariah conformity of microfinance activities and enabling their legal takeover.

On the financial front, MISFA has restructured its mode of intervention, adopting exclusively Mudarabah contracts to support its partners. Substantial commitments have been made with key institutions such as Mutahid-DFI, OXUS-Afghanistan and First Microfinance Bank-Afghanistan (FMFB-A). These investments played a decisive role in the rapid relaunch of microcredit activities, while complying with the new regulatory requirements.

Technical support was the third pillar of this transition. MISFA supported its partners in adapting their internal policies, operating procedures and information systems to ensure full Islamic compliance. Specialized training programs were deployed to enable MFI teams to master the new products and processes. To guarantee the rigor of this transformation, MISFA set up its own Shariah committee to oversee the compliance of its operations and those of its partners. The normative framework

was also enriched with the addition of two standards specific to Islamic finance to the 22 pre-existing performance standards.

The results of this global strategy have been particularly convincing. Since September 2022, the Islamic portfolio of partner MFIs has recorded exceptional growth, reaching AFN2.93 billion (US\$41.89 million) in March 2025. The quality of this portfolio stands out for its remarkable performance, with a zero-risk portfolio and a 100% repayment rate. Expansion has been rapid, with the volume of Islamic loans outstanding passing the AFN2 billion (US\$28.59 million) mark in just one year, benefiting more than 20,000 borrowers.


Women's financial inclusion within this new Islamic framework has progressed significantly. The number of female clients using Islamic microfinance services rose from 13,710 in March 2024 to 19,018 a year later. This development was reflected in an increase in the proportion of women among beneficiaries, from 35% to 44% over the same period, with specific outstandings reaching AFN704.23 million (US\$10.07 million) in March 2025. To sustain these achievements, MISFA has established

strategic partnerships with specialized international organizations, notably the AAOIFI.

Despite a difficult national economic context and significant initial setbacks, this transition to a fully Shariah compliant model bears witness to the resilience of the Afghan microfinance sector and the pivotal role played by MISFA in this institutional metamorphosis. The outlook for the development of Islamic microfinance in Afghanistan is now particularly encouraging.

MISFA has its own entity; it takes its own decisions and is not controlled by the new government, which, since taking power in August 2021, continues to consider MISFA as an autonomous company. Indeed, since 2021, the chairman of the MISFA board of directors has been an international expert member of the board, and this configuration is set to continue for years to come. It is important to emphasize that MISFA is one of the few institutions in which donors invested during the 2000s, and that it has demonstrated its usefulness and relevance in recent years in the Afghan financial ecosystem, including since the change of government.

In the first half of 2025, MISFA's partners were of various types. They included microfinance institutions (Mutahid-DFI, OXUS-A) a microfinance banking institution (FMFB-A), banks (Da Afghanistan Bank, Bank-e-Millie Afghan, Ghazanfar Bank, Azizi Bank, Bank Alfalah), NGOs (Community and Enterprise Development Organization, Coordination of Humanitarian Assistance, Citizens' Organization for Advocacy and Resilience, Welfare Association for the Development of Afghanistan) and the Afghanistan Microfinance Association; other partnerships are under study, notably with Momin Afghan Microfinance Institution and Shahy Khazana Microfinance.

However, MISFA is looking for new partners, both nationally and internationally, to develop the Islamic microfinance sector in Afghanistan in an optimal and sustainable way. The funds raised will enable an ever-increasing proportion of Afghans to have access to financing in line with their religious convictions and Shariah principles, enabling them to improve their living conditions, develop their businesses and contribute to the economy of their country. 



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