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The role of Islamic microfinance in promoting financial inclusion: an empirical analysis of institutional determinants in Afghanistan

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ABSTRACT

This research goes deep into how Islamic microfinance institutions help increase financial inclusion in Afghan society, focusing on what it is exactly in these organizations that helps them achieve their goals of financial inclusion. The researchers analyzed data from nine Islamic microfinance institutions around the country. A log-linear regression is performed to observe how the number of active clients—the primary determinant of financial inclusion—is associated with three aspects of IMFI: the number of branches it maintains, how financially independent it is, and the amount of funding it issues. In this study, it has actually shown that the more branches an IMFI opens and the more self-sufficient it is, the more clients it is able to reach. Therefore, it's not about simply increasing the funds you are able to distribute; increasing the financing portfolio alone was not shown to increase inclusion greatly. Therefore, to increase the overall use of Islamic financial services within a country, it's simply a matter of increasing these institutions and making them self-sufficient.

Also, as can be noted, building up capacities and reaching out, particularly to rural and underserved communities, is very important. Branching out adds more doors for people who would possibly be unfurled otherwise,

INTRODUCTION

This research opted to explore the role of Islamic microfinance institutions (IMFIs) in the promotion of financial inclusion in Afghanistan. Of particular interest in this research was what exactly about IMFIs contributes to enhancing financial inclusion in the country. For this research, the authors used data from

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nine IMFIs in the country. In this regard, the team employed the use of the log-linear regression model to find the relationship that exists between the number of clients an IMFI has access to—and therefore the number of clients they serve—and the number of branches the IMFI has, its self-sufficiency (OSS), and the size of the gross financing portfolio.

Here is what they found: The more branches an IMFI has, the more people it can serve. This has a positive effect on the number of active clients. Thus, making the institution more financially sustainable has a positive effect on the number of active clients. Having more branches and making the institution more financially sustainable are all very positive indicators. Thus, making the institution more financially sustainable is a key factor to consider when making sure more Afghans are served Islamic financial services. Even the gross financing portfolio, or the size of their loans, has a positive trend. However, this was not statistically significant. Thus, even if the institution has more money, it does not necessarily translate into more people being served.

Financial inclusion is very important for Afghanistan. It is a strong driver of sustainable growth, poverty reduction, and empowerment of people. The concept is quite simple: access to credit, savings, insurance, and payment systems is to be provided at an affordable cost to all, mainly to the excluded ones, from the formal financial system. Nevertheless, in Afghanistan, many people-especially outside the urban areas-do not have access. Low incomes, coupled with limited financial knowledge and a lack of banking infrastructure, have kept a big part of the population on the sidelines, making them dependent on risky or highly priced informal alternatives.

This study drills down into how Islamic microfinance can make a difference. It analyses factors such as the branch network, efficiency, and portfolio quality and how these link up with financial inclusion. It thus identifies some useful concepts on how Islamic microfinance can make a real difference by helping those who need it most—and contributing to a stronger economy and a more inclusive financial system. The findings of this study are not only geared towards scholars but also to policymakers and financial institutions, and even others with a special interest in financial inclusion with cultural and religious sensitivity.

Islamic microfinance has emerged as a creative and culturally appropriate response to these particular circumstances facing Afghanistan. As financially inclusive services that provide interest-free loans (Qard al-Hasan), participate-in-business ventures (Mudarabah and Musharakah), and socially responsible savings products, IMFIs allow these marginalized groups to raise funds consistent with their faith. This is not simply about money; it is about helping these groups re-enter a system and society from which they have presumably been excluded.

But the actual impact of Islamic microfinance lies beyond offering appropriate products. Expansion into branches allows IMFIs to reach areas that are generally neglected. Well-trained staff coupled with efficient operations ensures that the services delivered actually impact the people. If an institution is operationally self-sufficient, it will be able to sustain itself without compromising on quality. Portfolio quality-authentic measures like Portfolio at Risk, or PAR30-assists in maintaining both the institution and the clients financially fit. While a greater financing portfolio indicates that the institution has served more people, it doesn't prove real inclusion on its own. In order to expand real financial inclusion, it needs to focus on building up the reach and sustainability of its Islamic microfinance sector, not just growing the bottom line.

LITERATURE REVIEW

Financial Inclusion in Development Economics and Islamic Finance Over the Past Two Decades Financial inclusion essentially refers to creating an opportunity for people and businesses to have access to

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and utilize financial services befitting their lifestyles, such as credit, savings accounts, insurance, and the like. Not just a set of check boxes to be ticked, these are supposed to be practical, responsible, and sustainable. Yet, in many developing countries-for example, where Islam is the predominant religion-many people get left out. This omission in turn is acting as a barrier to true, inclusive economic growth. According to El-Gamal (2014), over the past few years, Islamic finance has drawn growing attention from policymakers and international development organizations as a promising pathway to broaden financial inclusion, particularly for Muslim communities. Despite this interest, there remains a lack of cross-country, user-level data capturing how financial services are actually used, as well as the differences in preferences between Muslim and non-Muslim populations.

Microfinance was initially conceived as a way to provide small loans and other basic financial services to people who were not being served by regular banks. No sooner had microfinance started to exist as a concept than it became a powerful tool for reducing poverty and promoting development around the world. But it is not all just loans. Microfinance also covers savings, insurance, and training to help people with limited incomes and small business owners get on their feet and build something better. According to Ali et al. (2020). Islamic financial inclusion in Indonesia is influenced by both demand and supply side factors. On the demand side, financial literacy is identified as the most significant driver, followed by religious commitment, socioeconomic factors, and social influence. On the supply side, human capital is the most important factor, followed by products and services, infrastructure, and policies and regulation. a key role that has been played by microfinance is in advancing financial inclusion, as it has sought to reach out to socially excluded people. In fact, given that Afghanistan has a low level of penetration in terms of a formal banking system and a restrictive attitude towards interest rates based on religious grounds, Islamic Microfinance is a golden opportunity in promoting financial inclusion.

The coming together of the microfinance model and Islamic philosophy is called Islamic microfinance. It is based upon principles of profit and loss sharing, asset allocation, and riba or interest inhibition. According to Rahman & Dean (2013), key challenges facing Islamic microfinance institutions (MFIs) include low market penetration, sustainability issues due to limited fund mobilization and high administrative costs, and concerns about their effectiveness in reducing poverty. To address these issues, the study suggests increasing bank participation in microfinance and diversifying financial portfolios, enhancing education and training, improving coordination and networking, providing technical support through waqf and zakah funds, and developing a supportive regulatory and policy framework. According to Mia (2022), although modern microfinance originated in Bangladesh, its underlying concepts existed earlier in different forms across various countries. The study highlights that microfinance plays a broader role beyond poverty reduction, contributing to entrepreneurship development, women's empowerment, and overall socioeconomic progress. It also finds that the types of microfinance institutions (MFIs) vary by region, with NGOs dominating in South Asia, non-bank financial institutions (NBFIs) in Latin America, the Middle East, North Africa, and Eastern Europe, and credit unions or cooperatives being more prevalent in Africa.

Institutional aspects such as outreach, sustainability, and scale of operation are identified in empirical literature as fundamental forces behind financial inclusion in microfinance institutions for enhancing the prosperity of clients in their respective countries. Using the model employed in this study, active clients are adopted as proxy measures for financial inclusion in institutions as primary forces for enhanced prosperity of clients in their countries of operation. This measure also represents administrative reach to clients in different geographical locations of operation for clients in various microfinance institutions for their enhanced prosperity in different countries of operation. According to Brown et al. (2016), the geographical proximity to microfinance banks significantly influences financial inclusion. Examining the branch expansion of ProCredit banks in South-East Europe between 2006 and 2010, the study finds that ProCredit tends to open branches in areas with a high proportion of low-income households. Moreover, areas with

https://doi.org/10.24191/bpjy8w72

new branches experience a greater increase in the share of banked households compared to areas without new branches, with the effect being especially pronounced among low-income households, older households, and those dependent on transfer income. Likewise, according to (Kumar, 2013), the branch network has a clear positive impact on financial inclusion. The study finds that both the proportion of factories and the size of the employee base are significant determinants of banking penetration. The results highlight the role of a region's socio-economic and environmental conditions in shaping the banking habits of the population. Additionally, convergence tests indicate that regions tend to maintain their existing levels of banking activity, showing no evidence of a narrowing gap in financial inclusion across regions.

Operational self-sufficiency (OSS) refers to an institution's capacity for self-funding through its operating revenues. This self-sufficiency is considered an extremely important factor in determining institutional financial sustainability and efficiency. Based on published studies, institutions with higher degrees of OSS are likely to have high outreach, considering their limited dependence on sources of funding and their capacity to retain their earnings for further service provision. An empirical study published in the Journal of Corporate Social Responsibility in 2021 in the region of Sub-Saharan Africa revealed that institutions demonstrating high OSS recorded better outreach, but there are studies that have shown otherwise. According to Allen et al. (2021), the expansion of Equity Bank's branch network in Kenya significantly enhanced financial inclusion, reaching 31% of the adult population between 2006 and 2015. The impact was especially strong among less-educated individuals, non-homeowners, and residents of underdeveloped areas. Unlike traditional banks, Equity Bank focuses on underserved regions and households, and its branch-level profits increased in areas with fewer competing banks. The study demonstrates that financial inclusion can be achieved and maintained through profitable banking strategies that also address the needs of marginalized populations, showing that inclusion does not have to come at the expense of bank profitability.

Gross financing portfolio size is another institutional feature which has been known to be associated with the outreach capacity of microfinance institutions. This is an indicator of the total amount of financing that has been issued and is under management and is a measure of scale. A larger portfolio is an indicator of increased financial strength, capitalization, and risk diversification. According to Rizkiah (2019), microfinance institutions (MFIs) in Bangladesh were originally established to alleviate poverty by providing credit to poor communities. This study examines how the breadth and depth of social outreach affect the financial performance of 434 MFIs in 2015 using OLS regression. The results reveal a significant positive relationship between the breadth of outreach and financial performance, whereas greater depth of outreach has a significant negative impact. These findings suggest that MFIs may be better suited to operate as non-profit entities, as an excessive focus on deeply serving the poorest clients can undermine financial sustainability. The study provides insights into how social outreach strategies influence MFI performance in a poverty-prone context.

Outreach, sustainability, and scale are also interlinkages referred to in the extant body of knowledge. Certain scholars have portrayed the existence of a "trade-off" between reaching the poorest (deep outreach) and financial sustainability; in Islamic microfinancing, the "mission drift" is more intriguing due to the zero-interest principle that necessitates the adoption of non-conventional risk-reward management paradigms in microfinancing. Within the viable Islamic MFIs with optimal cost management and diverse portfolio strategies, the possibility of joint growth consistent with the Shariah principles is also not ruled out. Including OSS and gross portfolio in the regression equation represents the simultaneous pursuit of sustainability, scale, and outreach towards reaching the goals of financial inclusion.

Afghanistan represents a unique case for examining the Islamic microfinance industry and its inclusion. Afghanistan is characterized by low access to conventional finance, a high poverty rate, and several other factors that make it difficult for conventional finance to penetrate. The Afghanistan Microfinance Association and the Da Afghanistan Bank have Islamic microfinance integration as one of the major

https://doi.org/10.24191/bpjy8w72

policies for inclusion in the country. Examples of the recent policies include the Islamic Microfinance Conference for SME Development at the Da Afghanistan Bank in 2023. According to Nafla and Hammas (2016), the study examines fifty-six banks across eight countries over a ten-year period (2003–2012), divided into three phases: before, during, and after the subprime crisis. The research compares the efficiency of Islamic and conventional banks using Data Envelopment Analysis (DEA) and employs a Tobit model to assess how determinants of financial stability affect banking solidity. The findings indicate that the stability of Islamic banks, particularly their investment activities, is largely driven by asset quality, which had a strong positive effect during the crisis. However, their performance is constrained by negative leverage and liquidity issues.

The literature, therefore, provides a strong theoretical and empirical basis for the model used in this research. The use of a logarithmic transformation of the variables reflects the elasticity of inclusion with regard to the institutional variables, enabling a proportional analysis of change. The number of active clients (financial inclusion) will increase with the number of branches, the measure of operational self-sufficiency, and the measure of the gross portfolio. This hypothesis is in line with the literature on conventional and Islamic microfinance. The Afghan example, in turn, provides a chance for analysis of the hypothesis, developed in the literature for the conditions in other developing states, in an Islamic finance sector with a set of specific dynamics and challenges.

Even with the existing literature surrounding microfinance and financial inclusion, the empirical research within the Islamic microfinance institutions has been scant. Few studies have sought to quantify the pace of inclusiveness influenced by the capacity and sustainability of Islamic microfinance institutions. The research provided in this thesis will help bridge the knowledge gap by providing evidence in the case of Afghanistan, a country that needs Islamic finance both as a cultural imperative and as an economic opportunity. The study on institutional outreach, sustainability operations, and scaling in finance sheds light on the responses in the case of Islamic microfinance that have the potential to drive economic growth. The study, therefore, may have implications in the case of Afghanistan and any study conducted on the topic of inclusive finance in countries that are largely populated by Muslims.

It is seen from the literature review that financial inclusion through microfinance is affected by various aspects of operation, as well as context, of branch expansion or portfolio expansion for sustainability of branch self-sufficiency. Islamic microfinance extends a sense of universal ethics and religion, and there is a possibility of blending financial inclusion and religious ideologies of justice for all. The proposed model is appropriate for incorporating all these dimensions, and it is an excellent empirical model that can measure and evaluate the impact of Islamic microfinance institutions in promoting financial inclusion in Afghanistan. Emphasis on the contextual dimensions in global as well as country-specific aspects of Afghanistan has helped in creating an impact on the performance in achieving financial inclusion in Islamic microfinance.

METHODOLOGY

This section provides an overall description or outline of the procedures undertaken in this study to address the problem spelled out earlier for the basis of the effect of Islamic microfinance providers on financial inclusion in Afghanistan. Specifically, this includes an account of the kind of research design used within this paper, the sources or kind of data used for analysis, variables assessed or quantified within the context of this subject of interest, and the kinds of quantitative techniques resorted to for analysis or assessment for the justification or basis for the kinds of assumptions made within this work done.

https://doi.org/10.24191/bpjy8w72

Research Design

This study employs a quantitative research design to conduct the empirical investigation into the impact of Islamic microfinance on financial inclusion in Afghanistan. Quantitative methods are ideal for analyzing the relationships between the operational/institutional characteristics of microfinance institutions and their client outreach outcomes, which include active clients as a proxy measure for financial inclusion. In this study, a cross-section of Afghan microfinance institutions is used to examine the outcomes of branch expansion by IMFIs, operational sustainability, and the volume of portfolios on active clients.

Data Source and Sample

The data used in this study is from the report of the Afghanistan Microfinance Association (AMA) MicroView 2.1 Report 2025. This report provides data from licensed microfinance institutions concerning their operations. The data is from nine microfinance institutions registered with the IMF. The data chosen is based on the performance of the nine microfinance institutions.

The variables captured in the dataset include:

(i) Active clients – the overall number of clients being served by the organization (dependent variable).
(ii) Business segments – Active branches, measuring the spread of business.
(iii) Operational Self-Sufficiency (OSS) - percentage measure.
(iv) Gross portfolio: This refers to the total outstanding financing portfolio. It indicates the size of operations.

Despite the fact that the data is representative of only nine organizations, this is a representative sample of the Afghan microfinancial sector by scale, type of activity, and includes microfinancial organizations of Islamic type.

Variables

This section describes the variables used in the study to analyze the effect of Islamic microfinance on financial inclusion. The dependent variable, active clients, is used as a proxy for financial inclusion because a higher number implies that more people, especially the underserved, like rural residents, have access to financial services. The independent variables are branches, proxying geographic coverage and expected to enhance access to the service; operational self-sufficiency, which is a measure of the institution's ability to cover costs with operational income and maintain sustainable operations; and gross portfolio, proxying the total capacity to lend and hence the possibility of reaching more active clients.

Dependent Variable

Active Clients: This is an indicator for financial inclusion, and large numbers of active clients are a sign that many people have access to financial services.

Independent Variables

(i) Branches: Signifies the territorial coverage of the bank. However, a higher number of branches should enhance access to banking services.
(ii) Operational Self-Sufficiency (OSS): This calculates the ability of the institution to generate enough income to sustain its operations.

https://doi.org/10.24191/bpjy8w72

(iii) Gross Portfolio: When the total portfolio of the bank is larger, it implies that it has the ability to lend

Analytical Framework

The study employs multiple linear regression to estimate the relationship between operational characteristics of IMFIs and the number of active clients. The regression model is specified as:

$$\ln(\text{ActiveClients}_i) = \beta_0 + \beta_1 \ln(\text{Branches}_i) + \beta_2 \ln(\text{OSS}_i) + \beta_3 \ln(\text{GrossPortfolio}_i) + \varepsilon_i \quad (1)$$

Table 1. list of Variables

Symbol	Variable	Description
$\ln(\text{ActiveClients}_i)$	Log of Active Clients	Measure of financial inclusion for institution *i*
$\ln(\text{Branches}_i)$	Log of Branches	Geographic outreach of institution *i*
$\ln(\text{OSS}_i)$	Log of Operational Self-Sufficiency	Financial sustainability of institution *i*
$\ln(\text{GrossPortfolio}_i)$	Log of Gross Financing Portfolio	Total financing capacity of institution *i*
ε_i	Error Term	Captures other unobserved factors affecting inclusion

Source: Afghanistan Microfinance Association (AMA), Annual Report 2023

Estimation Method

The estimation method is ordinary least squares in Stata, ideal when the dependent variable is continuous. The study will assess:

(i) Coefficient strength and direction: Measures the strength of each independent variable on the number of active clients.
(ii) Significance of Statistics: Checked for 5% significance using t-statistics and p-values.
(iii) Model Fit: Tested through R-squared and Adjusted R-squared, indicating the percentage of the variation in active clients that their operating features can explain.
(iv) Overall significance of model: Tests of model significance were conducted with an F-test.

Assumptions and Limitations

1. Linear relationship: Assumes independent variables have linear effects on active clients.
2. In dependence of observations: Each institution is treated as an independent observation.
3. Normality of residuals: Residuals are assumed to be normally distributed.
4. Sample size: A small sample of nine institutions may provide limited generalizability.
5. Data scope: Data are on an institutional level; individual customer characteristics are not considered, such as income, education level, and gender.

Justification of Methodology

Quantitative regression analysis facilitates the testing of hypotheses about the effect of operational and institutional factors on financial inclusion. Data at the institutional level helps ensure the emphasis is on the sustainability, efficiency, and outreach capacity of IMFIs, which are key to extending financial access in a culture-sensitive nation such as Afghanistan.

https://doi.org/10.24191/bpjy8w72

EMPIRICAL ANALYSIS AND FINDINGS

In this section, the discussion will be on the results of this research, in relation to the relationship between the operational features of Islamic microfinance institutions and the effects of these features on the number of clients in Afghanistan. The discussion will also look into the findings obtained from the regression analysis, especially in regard to the impact exerted by the features on the number of clients, as well as the discussion providing information pertaining to the features that impact the number of clients in Islamic microfinance institutions.

The result of the empirical analysis conducted on the linear regression model testifies that this tool provides in-depth explanations for the institutional and financial drivers underlying the outreach of IMFIs in Afghanistan. The model tries to determine the operating, financial, and infrastructure features represented by the number of branches, OSS, and the gross financing portfolio on the number of active clients, representing the proxy for financial inclusion. It can be remarked that the higher number of active clients reflects better outreach and performance of IMFIs in reaching the financially excluded sections of the communities they serve. Regression analysis results can be pictorially represented by the following table.

Table 2. Results of the Linear Regression

Variable	**Coef.**	**Std. Err.**	**t-value**	**p-value**
ln(Branches)	1.169247	0.54636	2.14	0.085*
ln(OSS)	6.930291	2.905793	2.38	0.063*
ln(Gross Portfolio)	0.5694795	0.3032235	1.88	0.119
Constant	-38.58871	11.22995	-3.44	0.019**
R-squared			0.898	
Adjusted R-squared			0.837	
F-test (3,5)			14.71	
Prob > F			0.0065	
Root MSE			1.2107	

***p < 0.01, *p < 0.05, p < 0.1

Source: Author’s estimation using Stata 18, based on data from Islamic Microfinance Institutions in Afghanistan.

The model has a very impressive explanatory power of 0.898, meaning that about 89.8% of the variation in active clients is explained by the three independent variables. The F-statistic is 14.71, with a p-value of 0.0065; hence, the overall model is statistically significant, meaning that the finally selected independent variables may have a joint meaningful influence on financial inclusion levels.

The coefficient of ln(Branches) is positive, 1.169, and significant at 10%, which shows that an increase in the number of branches leads to higher outreach. This implies that a 1% increase in branches leads to a 1.17% increase in the number of active clients. This result highlights the importance of the geographical outreach of Islamic Microfinance Institutions, which in turn leads to better access to financial institutions, particularly in rural Afghanistan, due to the lack of access to financial institutions because of security, infrastructure, and mobility issues.

The coefficient for the variable ln(OSS) is positive (6.93) and significant at the 10% level of significance. This implies that institutions with higher levels of operational self-sufficiency have more

https://doi.org/10.24191/bpjy8w72

active clients. A 1% difference in OSS leads to a 6.9% difference in the number of active clients. This implies that institutions that are more financially sustainable are better equipped to ensure an ever-expanding number of active clients because they generate revenues from sources not entirely dependent on external funding.

The coefficient of ln(Gross Portfolio) is positive (0.569) and not significant (p-value of 0.119). Although it is positive, it shows that as the size of the funding portfolio of the institution positively affects outreach, its non-significance may infer that having a bigger outreach program does not necessarily translate to increased outreach. This may show that while credit spread is very important, its effectiveness lies in its targeting strategies.

The constant term (-38.5887) is negative and significant at the 5% significance level, indicating that without the effect of branches, OSS, and the financing portfolio, the base level of active clients would be substantially low. This reiterates the significance of institutional factors in determining the magnitude and effectiveness of financial inclusion initiatives.

DISCUSSION

The results pertaining to the empirical model highlight different important issues with respect to the functioning and performance of Islamic microfinance institutions in Afghanistan in an attempt to enhance financial inclusion.

Firstly, the positive and significant effect of branches indicates the importance of institutional presence to reach the financially marginalised sections of society. Branch presence is still a significant factor in geographical accessibility, which is a concern for countries such as Afghanistan, where there is limited availability of banking channels in remote regions. Microfinance institutions in the Islamic sector, with a greater presence in terms of branches, can offer Islamic microfinance services to distant people, thus improving financial inclusion, which is in line with international microfinance literature and indicates geographical presence to be a major factor in client acquisition and preservation.

Secondly, the significant and positive relationship between operational self-sufficiency and active clients draws particular attention to the significance of financial sustainability in reaching clients effectively. Those microfinance institutions that are operationally self-sufficient are better equipped to support their operational costs through their earned revenues and are in better positions to sustain service delivery in order to attract new active clients. This finding is in agreement with previous studies conducted in other developing countries that showed higher innovation and sustainability in self-sufficient microfinance institutions with respect to reaching new clients.

Thirdly, the positive but insignificant correlation between the gross portfolio and outreach to clients indicates that having more financing volume does not directly result in financial inclusion. Rather, other aspects like product offering diversification, micro-enterprise financing, or trust-building community ties become crucial. In the case of Islamic microfinance, Sharia observance elements such as risk-sharing, riba prohibition, or sound lending practices imply that while expansion of the financing portfolio is required, it must occur in tandem with sound governance and community reputation in order to confirm distribution of funds to the target population.

The high R-squared value also indicates that the variation in outreach for Afghan IMFIs is explained to a great extent by institutional capacity. However, the small sample size used, which amounts to only 9 observations, requires caution in interpreting these results. While the results provide useful insights, a larger data set over time would enhance statistical power and external validity.

https://doi.org/10.24191/bpjy8w72

These findings also have policy implications. The positive association between OSS and outreach implies that donors and government support to financial institutions should focus not only on providing capital but also on building management capacity and enhancing financial independence. The importance of branches underscores the role of geographical decentralization and building financial infrastructure in rural areas.

On the other hand, all results suggest that outreach of Islamic MFIs and, therefore, financial inclusion in Afghanistan can be fostered not only by financial size but also by institutional sustainability and physical accessibility.

CONCLUSION

This analysis sought to examine the determinants that can affect financial inclusion with the help of Islamic MFIs. Regression analysis was used to examine the data. From the analysis conducted, it was confirmed that branches, self-sufficiency, and gross financing portfolio are totally vital determinants that take an active part in forming active customers.

These findings show that outreach (branches) and financial sustainability (OSS) have positive effects on clients. This suggests that outreach and financial sustainability can play a crucial role in bringing about inclusiveness if the institutions have the ability to sustain themselves and provide better banking services to their customers, especially the unbanked individuals.

Although within the gross financing portfolio, there is also a positive outcome, it is not significant. However, this indicates that the size of operations within lending is not a guarantee for inclusiveness. However, for successful outreach operations, it depends on the ability of such institutions as well as the need for Shariah compliance and stability.

From a policy viewpoint, these results reinforce several strategic issues.

(i) Distribution of Branches: Efforts should be directed towards improving the infrastructure of IMFIs, especially in rural areas, with the intention of enhancing the accessibility of the disadvantaged classes of the population.
(ii) Financial Sustainability: Development of internal revenue sources and managing costs should be the main concerns, making an institution less dependent on external resources.
(iii) Institutional Capacity Building: The above institutions will benefit greatly from the training on the principles of Islamic finance, governance, and managing customers.
(iv) Inclusivity of Regulatory Frameworks: Value-maximizing policymakers ought to establish a supporting framework that is compliant, like Sharia-compliant finance, which is likely to promote complementarities in microfinance.

From the results obtained by running the regression analysis, it is confirmed that the contribution of capacity, sustainability, and outreach towards financial inclusion is fundamental for Afghanistan through Islamic microfinance. Considering that Afghanistan is presently undergoing a rebuilding process for its financial system, Islamic microfinance could turn out to be a useful instrument for achieving this objective for the country. Future research could further enhance these findings with additional data at hand and a factor like DFIs having to be integrated.

Meanwhile, as a result of strengthening and supporting policies, the role of I-MF in building a change towards inclusive and sustainable development in the Afghan economy, which is a resilient economy, is quite tangible.

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CONFLICT OF INTEREST STATEMENT

The author declares that there is no conflict of interest regarding the publication of this paper.

AUTHORS' CONTRIBUTIONS

The author designed the study, wrote the manuscript, supervised the project, reviewed the manuscript, and collected and analyzed the data.

AI GENERATIVE DECLARATION

The author declares that generative AI tools were not used in the creation of this article, except for text paraphrasing and cross-checking references. The author assumes full responsibility for the accuracy, integrity, and final content of this work.

RESEARCH ETHICS STATEMENT

The author declares that this study did not involve any human biological samples or data, or animal subjects. Consequently, formal ethics committee approval and informed consent were not required for this research.

DATA AVAILABILITY STATEMENT

The data supporting the findings of this study are available from the corresponding author upon reasonable request, subject to institutional and ethical requirements.

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