An Overview of the Financial Sector and the State of Financial Inclusion in Afghanistan: Issues and Hurdles

Samiullah Danishfar[*], *Rajendra Prasad Meena*[**] *Annu Gahlawat*[***]

Financial inclusion has emerged as a crucial goal for policy-makers and industry stakeholders worldwide. Its goal is to give everyone in society access to financial services and products. Particularly those who have been historically excluded or underserved. The main purpose of this article is to analyze the State of the financial sector in Afghanistan and examine the issues and hurdles associated with achieving financial inclusion and Digital finance in Afghanistan. Last but not least highlights the significance of financial inclusion as well.

An Economic crisis in Afghanistan was pushed on by the political event of August 2021. It is essential to have a strong ecosystem for digital payments that facilitates the effective distribution of help to those who are most impacted by the crisis. The current crisis has impeded the advancement of the Afghanistan Payment System, which was established in 2011 to offer a secure and safe means for people, companies, and government bodies to undertake online financial transactions. Financial inclusion, then, is the availability and use of suitable and reasonably priced financial products and services to people from all walks of life and businesses, despite their location or financial status in society. It encompasses a broad range of financial services, including savings accounts, credit facilities, insurance products, payment systems, and investment. Affordability remains a significant obstacle for many individuals, as high transaction costs and limited income hinder their ability to access and use financial services.

Keywords: Financial Inclusion, financial sector, Digital finance, issues and Hurdles.

---

* Ph.D. Scholar, Central University of Haryana.

** Associate Professor, Central University of Haryana.

***Ph.D. Scholar, Department of Commerce, Central University of Haryana.

Danishfar, S., Meena, R.P., Gahlawat, A. *(2024),* An Overview of the Financial Sector and the State of Financial Inclusion in Afghanistan: Issue and Hurdles, *FOCUS WTO*, Vol. 26 No. 1, January-March, pp. 20-38. http://publication.iift.ac.in/focuswto_archive.asp

1 Introduction

FINANCIAL Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society in general and vulnerable groups such as weaker sections and low-income groups in particular at an affordable cost fairly and transparently by mainstream institutional players[1]. Many goals for development, such as alleviating poverty, promoting gender equality, and enhancing shared prosperity, are made possible by financial inclusion. The conventional financial sector aims of financial stability and integrity are also enhanced by financial inclusion. Over the past two decades, a lot of developing nations have begun to emphasize the role that money plays in enabling development goals and the inclusion of finance as an objective in their development agendas. However, a lot of people still struggle with financial exclusion. According to the World Bank's 2017 Global Findex database, there are still 1.7 billion adults globally, and 980 million of them are women who do not possess an account with a financial institution under regulation, which is said to be the initial step in utilizing the regulated financial system.[2]

Considering the various policy areas that cross, Obtaining financial inclusion is not as simple as achieving a policy goal. Strong coordination and collaboration between numerous public and private sector parties as well as between other economic sectors — not only the financial industry — are necessary for this. For instance, financial integrity and entry into the regulated financial sector depend on the availability of a trustworthy identity (ID) system in coordination with the financial sectors. Financial inclusion is the drive to achieve the inclusion of people who are excluded from the formal sources of financial services. The formal sources of financial services are services accessed the formal financial institutions like banks, cooperatives, MFIs, cooperatives, etc. the creditors for a lifetime and suffering from that kind of informal availabilities. Last but not to level up inclusive economic growth, poverty reduction, and social development, financial inclusion is essential. By making financial services accessible to both consumers and companies. Financial inclusion empowers individuals, stimulates entrepreneurship, and contributes to overall economic resilience.

2 Literature Review

The literature review gives information on relevant work and theoretical framework for problem solutions.

Da Afghanistan Bank of Afghanistan (2016) stated that financial inclusion is important for achieving macroeconomic policy objectives such as inclusive economic growth, the elimination of poverty, the decrease of income inequality, and the enhancement of national welfare. In June 2016, Da Afghanistan Bank formed a specialized department inside DAB to strengthen and enhance financial inclusion throughout the nation, taking into account the significance of financial inclusion as well.

Zahidi and Waqas Khan (2019) in their paper "Financial Inclusion and its Effect on Alleviation of Poverty: A Case of Afghanistan" investigated the extent of financial inclusion on poverty alleviation in Afghanistan and also highlighted the significance of financial inclusion on poverty reduction.

Maria, *et. al* (2023) in their report "Interoperability of Financial Service Providers Afghanistan" Explained the present status of the Afghanistan payment system and offered suggestions to improve financial services providers' interoperability to enable the effective distribution of funds and more long-term sustainable development outcomes in Afghanistan.

Sameer Kochhar, and R. Chandrashekar (2009) in their paper "Financial Inclusion" describe that we are at a point where we need to revisit the aims of financial inclusion. It should ensure that there is less financial disparity, enabling more people to enjoy the fruits of growth.

Akhil Damondaran (2020) in his paper "Financial Inclusion: Issues and Challenges "Explained the importance of financial inclusion and its challenges and identified the factors which affected achieving financial inclusion. He stated that the recent development of technology also plays a significant role in achieving and improving financial inclusion.

Prabhakar Rajiv (2021) in his paper "Financial Inclusion: Critique and Alternatives" published in Great Britain in 2021, reducing the poverty premium is a key part of reducing financial exclusion. Exclusion from the mainstream often means that consumers pay a "poverty premium" for products and services and have less choice. It can impact their ability to find a job, maintain secure housing, and stay physically and mentally healthy and resilient to changes in income and expenditure.

Carol Realini and Karl Mehta (2015) in their paper "Financial Inclusion at the Bottom of the Pyramid", profoundly convey the multiple dimensions of empowerment created by new digital financial services. According to the author, one innovative breakthrough after another, the poor are rapidly gaining access to deposit services, payments from the government, access to cash from merchants, easy ways to send money to family members, bank credit even without credit histories, life and other kinds of insurance, and ways to pay bills online for new services, such as pre-paid solar-powered electricity.

Sharit K. Bhowmik and Debdula Saha (2013) in their book "Financial Inclusion of the Marginalized" clarified that businesses require credit because they have limited resources. A lack of resources restricts the growth of street vendors. Therefore, conduct a thorough investigation into the problems related to the financial inclusion of the urban poor's marginalized group – street sellers.

Bapat (2010) observed that owning a bank account has been associated with several demographic characteristics. The status of bank account ownership was found to be significantly correlated with factors such as income, occupation, and asset holding pattern.

Ananda Setal (2021) in his book "Financial Inclusion in Emerging Markets" explained that Awareness, Accessibility and Affordability are the key factors in achieving financial inclusion.

3. Objective of the Study

The objective of the study is as follows:

1. To provide an overview of financial inclusion.
2. To analyze the financial sector, Digital financial services and the level of Financial inclusion in Afghanistan.
3. To examine the issues and hurdles associated with achieving financial inclusion in Afghanistan.

4. Research Methodology

The methodologies adopted for carrying out the study will be as follows:

4.1 Research Design

The research design acts as a conceptual structure for the data collecting, measurement, and analysis methods that will be used to address the research question.

A qualitative research design is used for this study to provide deeper insight into the issues and explore the title in a detailed way.

5. Data Collection Method

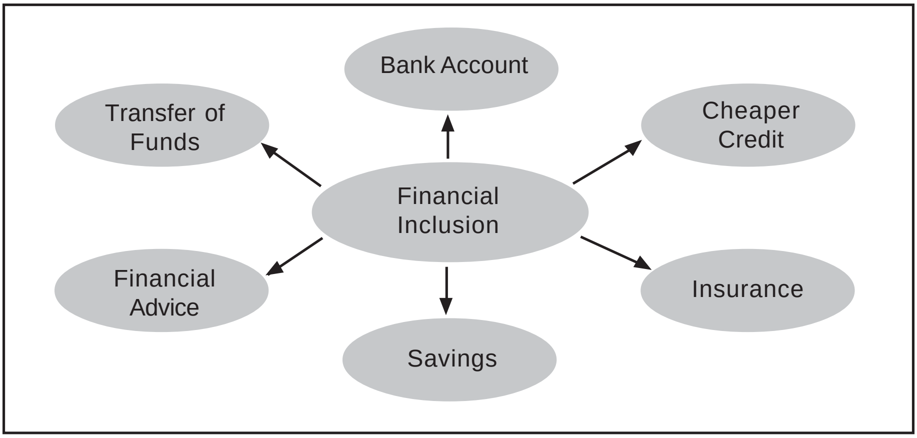
Data is collected from secondary sources. A part of the data obtained from the number of articles, research papers and reports has been published in various journals, periodicals, and newspapers at national and international levels regarding finance inclusion. The rest of the data was taken from books, the government published, Emerald Insight, IIBF Journal, IMF Reports, World Bank reports in Afghanistan circular, books, project reports, newspapers, research articles, etc.

6. Financial Inclusion

In the present era, 'Financial Inclusion' and 'Inclusive Growth' have become part of the common man's glossary as well as an important item in the development agenda of a country. Financial inclusion is one of the biggest challenges in the world economics. Enabling the availability of banking services at a low cost to a significant number of underprivileged and low-income groups is known as financial inclusion.

Resources	Definition
Reserve Bank of India (2008)	RBI defines Financial Inclusion as "process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular."
Da Afghanistan of Afghanistan (2016)	Providing and Having access to formal financial services, particularly for the underprivileged and the poor parts of society, is referred to as financial inclusion.

In general, different scholars have different perspectives on what financial inclusion is. While some believe it just refers to loan availability, others think it encompasses all services offered by banks and related financial organizations. Opening a bank account alone might not be a reliable measure of financial inclusion. Financial institutions' efforts to promote financial inclusion should focus on assisting individuals and groups in building assets and in making private or personal investments that are required for the advancement of public utilities, infrastructure, social sector services, and capacity building, among other things (Teki & Mishra, 2012). Therefore, an



Source: drishtiias.com/printpdf/financial-inclusionideal definition of financial inclusion should look at people who need and who want credit. The goal of the financial inclusion process is to develop financial products that are appropriate for society's less fortunate members.

6.1 Objectives of the Financial Inclusion

The goal of financial inclusion is to assist individuals in obtaining financial goods and services at reasonable costs, including deposits, loans, insurance, fund transfer services, and payment services. Financial inclusion aims to ensure financial sustainability, meaning that families with lower incomes may rely on having access to capital when they need it most. Furthermore, to raise awareness among the economically underprivileged segments of society about the advantages of financial services.

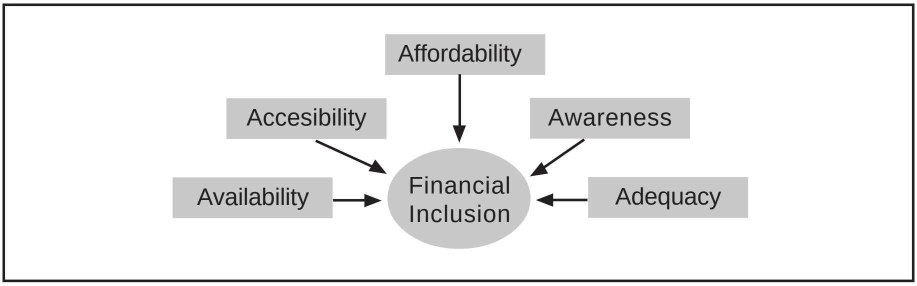
The main goals of financial inclusion are:

Economic Objectives	Social and Political Objectives
• Fair Development	• Poverty reduction
• Organizing Savings in a Bigger Market for the Financial System and	• Sustainable Development
• Managing Government Programmes Effectively reduction of poverty	• Wider inclusion in society
• Greater societal inclusion; efficient government programmes direction	• Effective Direction of Government Programmes

Financial access provides an environment where all walks of life have access to financial services and creates various opportunities for them in financial respective such as deposits, credit, micro insurance, pension, safe funds, etc.

Financial inclusion is not a short-term plan, to achieve the objectives of financial inclusion we have to keep in mind what are the areas it should address:

1. Access to fundamental financial services, such as banking, should be made available.
2. The usage of financial services should address the requirements of the poor.
3. The financial offering has to be reasonably priced and at a low cost.
4. The Quality of products and services must be enhanced.



6.2 Financial Inclusion in Afghanistan

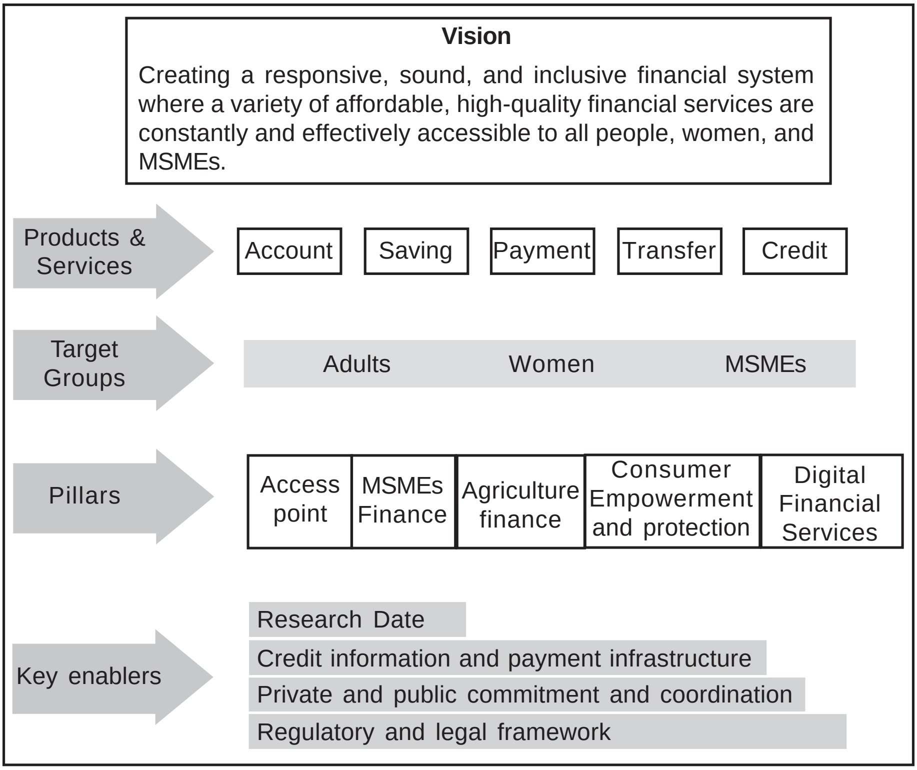
Afghanistan experienced a complicated economic crisis as a result of the political events of August 2021. The effective distribution of aid to those most impacted by the crisis depends on a strong digital payment environment. To give people, companies, and government organizations a safe and secure way to conduct digital financial transactions, the Afghanistan Payment System (APS) was established in 2011. However, the current crisis has hampered the system's development.

Afghanistan remains a challenging environment for accessing reliable, transparent, and low-cost financial services. According to 2017 Global Findex, only 15 per cent of adults had an account at any financial institution (including mobile money accounts), compared to the average of 70 per cent in South Asia. This number has fallen further in the most recent 2021 Global Findex, where only 10 percent of adults had an account. Even before the start of the interim Taliban administration in August 2021, the banking sector now suffers from structural vulnerabilities and very limited international Connectivity. De-risking by international banks has meant that international payments through banking channels have become few and far between.

However, Today, nearly 85 per cent of adults in Afghanistan are unbanked and do not own an account in any financial institution. Compared to low-income countries, this is higher on average. In actuality, Afghanistan has some of the highest rates of financial exclusion globally. Afghanistan's low degree of financial inclusion can be explained by the country's limited access point distribution, exorbitant financial service costs, and subpar financial offerings that fall short of low-income households' needs. In addition, barriers caused by security worries, cultural and religious convictions, mistrust of the financial industry, and low financial literacy rates are seen to be important causes of it. For women, all of these challenges are even more severe. Because of this, only 7 per cent of Afghan women and 23 per cent of Afghan males respectively own an account (World Bank, 2020).

FIGURE 1

FRAMEWORK OF FINANACIAL INCLUSION IN AFGHANISTAN



Sources: Da Afghanistan Bank.

6.3 An Outline of the Financial Industry and the State of Financial Inclusion in Afghanistan

Afghanistan's financial system is based on banks, and the country has made significant progress towards having a modern, well-functioning baking industry with 12 banks. Three are owned by the state, two are foreign bank branches, and seven are fully operational commercial banks. Da Afghanistan Bank oversees and regulates each of the three types of banks. 415 bank branches in the nation make up the network. Despite having branches in every province, the majority of the bank's operations are focused in its three biggest cities, Kabul, Herat, and Mazar-e-Sharif, which together comprise half of the bank's branch network. Financial inclusion in Afghanistan will require more trust in the formal financial sector brought about by updated infrastructure, enhanced accountability, and better governance.[3]

Afghanistan's financial industry is not as developed as that of other comparable nations. As of December 2018, the private credit to GDP ratio was

2.88 per cent. In 2018, the loan-to-deposit ratio was 15.45 per cent, which is less than what is typical in countries with comparable characteristics. Domestic deposits as a percentage of GDP is 18.64 per cent. In 2018, the proportion of outstanding small and medium enterprise loans to GDP was 0.17 per cent. The fact that this figure is far lower than that of other comparable nations emphasizes how little assistance SMEs in Afghanistan receive. The inadequate compatibility of the product can be the reason for the low take-up.[4]

The non-bank financial sector is very small in size with limited outreach. Six microfinance institutions (MFIs) make up the official but unregulated microfinance sector. Although it has expanded dramatically over the last ten years, the sector's market is still small. Additionally, Microfinance investment support for Afghanistan and its four partners are principally in charge of leading the activities in the microfinance industry. With five local insurance companies and two international branches functioning in the nation, the insurance business is essentially nonexistent. The main components of Afghanistan's official social protection system include the Martyrs and Disabled Pension Programme, a pension plan for law enforcement, the military, and public sector workers. Additionally, DAB regulates three electronic money institutions that are licensed in Afghanistan. Although there were 17.7 million mobile customers as of December 2018, there were 1,069,195 registered mobile wallets, of which only 50,911 were active users who made at least one transaction per month.[5]

There is just one microfinance bank in the nation that offers loans to small and medium-sized businesses. There are around 150,865 active borrowers in the microfinance sector, including the microfinance bank, with 30 per cent of them being women. 82 MFI branches were spread over 17 provinces as of the end of December 2018 (Micro view 23, AMA, Dec. 2018).

Afghanistan's informal financial services industry is still flourishing, and Afghans use them widely all around the nation. This happens against the framework of a financial sector that is regulated and has progressed from a mostly inactive banking system before 2001. Hawala, an honour-based network of money transfer providers well-known and widely accepted by Afghans, is the principal product of the informal economy.

Afghanistan set up a public credit register in 2014 and a collateral registry in 2013, both of which were completely operational. The Credit Reporting Regulation, the Regulation on Registration of Secured Charges, and the Law for Secured Transaction on Movable Property in Banking Transactions, respectively, govern each of them. Before making a loan offer, all commercial banks must check the public credit registry and get a credit report, according to a DAB circular of November 18, 2014. But only 1.3 per cent of Afghan people and businesses are identified in the World Bank's 2019 Doing Business report, which includes details on their borrowing patterns over the previous five years (Figure

1-2). As a result, there is potential to improve data collecting and improve the existing database by adding a gender segmentation.

FIGURE 1-1

PUBLIC CREDIT REGISTRY COVERAGE

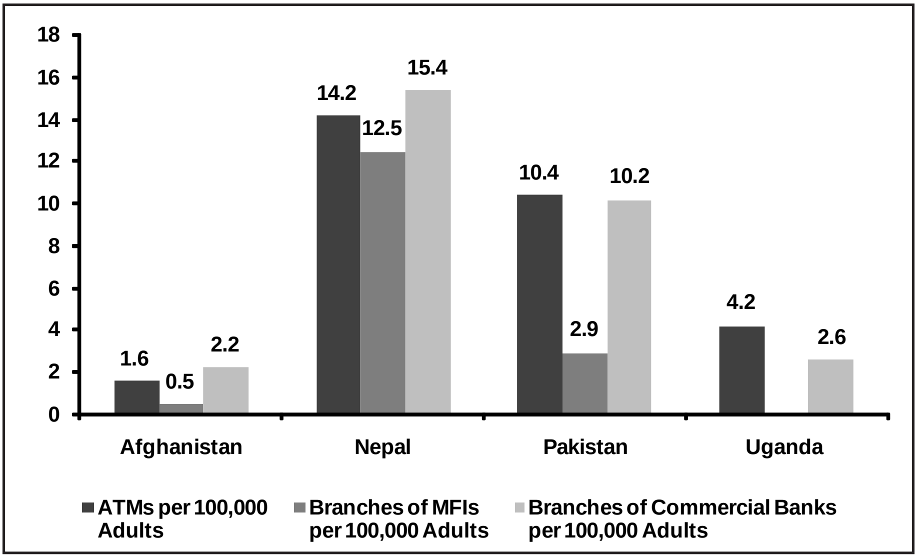
Coverage	**Credit Registry**
Number of individuals	240,227
Number of firms	6,261
Total	246,488
Percentage of adult population	**1.3%**

Source: *World Bank Doing Business, 2019.*

In comparison to its comparator countries, there are not many regulated deposit-taking institutions in Afghanistan. As of the end of December 2018, there were 2.2 commercial bank branches per 100,000 adult inhabitants in Afghanistan, compared to 15.4 in Nepal, 10.2 in Pakistan, and 2.6 in Uganda during the same time frame (Figure 1-2). Afghanistan had 1.6 ATMs per 100,000 adult population in 2018, which is significantly fewer than the rates in Nepal (14.2), Pakistan (10.4), and Uganda (4.2). Since 2013, the number of bank branches has grown relatively slowly, both in absolute terms and in terms of branches per 100,000 adult population, especially in rural areas.

FIGURE 1-2

ACCESS POINT PER 100,000 ADULTS



Source: IMF, *Financial Access Survey, 2018*.

The World Bank's Global Payment Systems Survey (GPSS) indicates that Afghanistan has a considerably smaller number of Point of Sale (POS) systems. Afghanistan has 170 POS, which is significantly less number than Pakistan (41,183). Half of the country's branch network is located in metropolitan areas, mostly in Kabul, Herat, and Mazar-e-Sharif. These locations are also home to the majority of the nation's financial access points. The nation's goal of financial inclusion depends on the growth of financial access points in rural areas.

6.4 The State of Digital Banking Service in Afghanistan

Afghanistan has a very small digital financial services (DFS) market. Currently, the national bank of Afghanistan, Da Afghanistan Bank (DAB), has granted licenses to four mobile money operators (MMOs): Etisalat (mHawala), MTN (MoMo), Roshan (M-Paisa), and Afghan Wireless (My Money). According to DAB's Non-Banking Financial Institution Supervision Department, the MMOs' reach is quite limited; through a network of just 9,828 registered agents (Table 1), most of whom are concentrated in big cities, they serve less than 1 per cent of the nation's population. Their services, which are primarily focused on airtime top-ups, bill payments, and store value accounts, are not accessible and are powered by Unstructured Supplementary Service Data (USSD). There were mobile apps and QR payment options, but very few use cases. According to Findex 2017, only 9 per cent of Afghans and 2.7 per cent of women, respectively, had received digital payments in 2017. Findex data from 2021 shows that women's circumstances improved even worse, with the percentage of them receiving digital payments dropping to 1.6 per cent.[6]

HesabPay and Refah Payment Services are two of the two operating payment institutions (PIs) that are also regulated by DAB regulation. These PIs presently function in 34 states and have a network of more than 24,500 agents 12 per cent

TABLE 1

NUMBER OF MOBILE MONEY AGENTS IN AFGHANISTAN

Digital Financial Services Providers	Number of Agents
M-Paisa	1,100
MTN MoMo	2,742
MyMoney	2,200
mHawala	500
HesabPay	3,000
Refah Payment Services	286
Total	**9,828**

Sources: Da Afghanistan Bank.

of whom are women that use mobile applications and point of sale (POS) systems. HesabPay, for instance, is a blockchain-based platform that offers a digital wallet solution that has already reached 400,000 people. Customers can transfer or access funds domestically via a QR code or a smartphone application, and the platform is connected with APS to function across all banks and AfPay card holders.

Almost 1.3 million cardholders, 300 branches, 2,000 point-of-sale (POS) devices, 4 MMOs, 2 PIs, and 10 licensed banks comprise this network of 378 automated teller machines (ATMs) (Table 2).

TABLE 2

NUMBER OF ATMS IN AFGHANISTAN

Bank	**Number of ATMs**
Afghan International Bank	140
Azizi Bank	89
New Kabul Bank	42
Ghazanfar Bank	10
Islamic Bank of Afghanistan	46
First Microfinance Bank	10
Afghan United Bank	24
Bank-e-Millie Afghan	17
Pashtany	8
Total	**378**

Sources: Da Afghanistan Bank.

With MMOs, a few banks have established relationships. With 43,964 clients served by six microfinance institutions (MFIs), their ability to offer services is now restricted by several issues. AliShaq and AfghanSharq are two of the 840 money service providers (MSPs) with DAB licenses that are attempting to offer their services online. A summary of the many channels that enable DFS delivery in Afghanistan can be seen in Table 3.

6.5 Digital Financial Services and Payment in Afghanistan

A crucial part of any nation's system is its payment system. An efficient payment system can promote financial inclusion, increase economic activity and intermediation efficiency, and increase financial stability. As a result, "payment inclusion" is frequently a significant requirement for better financial inclusion, even if payment services are financial services to themselves. They

TABLE 3

CHANNEL ALLOWING BANKS TO DELIVER DFS

Bank	**A bank account is required for an individual or business to use the following digital channels**		
	Cards	Apply for Smart phone	E-Vouchers
AIB	√	√	√
Azizi Bank Islamic Bank of	√	√	√
Islamic Bank of Afghanistan	√	√	√
AUB	√	√	√
BMA	√	√	√
Pashtany	√	√	√
NKB	√	√	√
Maiwand Bank	√	√	√
FMFB	√	√	√
Ghazanfar Bank	√	√	√

Sources: DAB.

also play a complementary function in almost all other financial services. Several factors hamper the effectiveness of Afghanistan's payment systems.

Despite improvements, there are still certain gaps in the legal and regulatory framework of payment systems. Because Afghanistan does not yet have a separate National Payments System Law, the DAB Act serves as the foundation for the governance, operation, and regulation of payment systems in Afghanistan. The involvement of non-banks in the distribution of government-to-person payments is further restricted by public financial management regulations.

Both the public and commercial sectors have shown commitment, but there hasn't been much collaboration among stakeholders. Government payment projects, for instance, have frequently relied on agreements that were negotiated with payment service providers, often without reference to a broad framework. The National Payments Council (NPC) is active; it could serve as a platform for collaboration between various public and commercial sector actors.

The National Payments System (NPS) and the financial industry as a whole are impacted by ICT infrastructure shortcomings, which include unstable internet and mobile connectivity. Though there is limited retail payment connectivity, the improvement and acceptance of interbank payment systems have been difficult. Infrastructure for web-based onboarding and e-Know Your Customer (KYC) is unavailable.

Financial inclusion is severely hampered by the public's lack of faith in electronic payments, as well as by the existence of a small network of access points, customized transaction account products, and other features. Payment items designed specifically with women in mind are limited. Furthermore, few Islamic financial institutions are operating in this sector, and many financially excluded people stay away from mainstream banks due to religious beliefs and the unavailability of low-cost terminals. Finally, the financial organizations have failed to meet the requirements of the e-commerce sectors in Afghanistan.

Financial institutions should be encouraged to improve their digital infrastructure and streamline their information collection processes. Through processing time reduction, better risk management, and improved customer service, lending operations become more efficient and of higher quality when automated decision-making processes are supported by statistical approaches.

6.5 The Hurdles the Gaining Financial Inclusion in Afghanistan and other Countries

Access to financial services has been identified as a crucial part of development, and greater focus is being placed on expanding financial services to low-income households. The services and financing options that are available to consumers and businesses are limited when there is no financial access. Financial services accessibility has been impacted by several variables, despite some indications that it is increasing. Barriers on the supply and demand sides have made it more difficult for Afghans to obtain financial inclusion.

A. Supply Side Barriers

Political Instability and Insecurity

These are the two biggest issues that could have a negative effect on financial services; instability will prevent financial institutions from growing, especially in rural areas. Improvements in the country's security and political environments are necessary for a decrease in these two threats.

Place of Living (Remote and Rural Areas)

Access to financial services is impacted by several factors, in addition to population density, rural and remote places, and population mobility. Nonetheless, according to the 2017 global findex survey, 35 per cent of Afghans stated that they didn't have a bank account because of their distance.

Bank Charges

Transactions are usually free in most countries as long as there is enough cash in the account to pay the costs of the transactions. However, several other hidden costs disproportionately impact those with modest incomes.

Terms and Conditions

People are frequently discouraged from using certain products and services by terms and conditions associated with them, for instance, minimum balance requirements and restrictions on account usage.

Level of Income

People's financial situation is always important when it comes to getting access to financial services. Financial services are difficult for extremely impoverished individuals to obtain, even when they are designed with them in mind. The community's poorer members may be excluded from group financing programmers due to discriminatory income and perception restrictions.

Type of Occupation

Many banks prefer to reject loan requests from small borrowers and unorganized businesses because they lack the expertise to assess their applications.

B. Demand Side Barriers

Gender Issues

In a patriarchal society like Afghanistan, women may not always have access to credit if they lack or are unable to hold title to assets like property and land, they must obtain male guarantees to borrow money.

Security Concerns and Luck of Trust in the Financial Sectors

Security concerns and lack of trust in the financial sectors are big issues in Afghanistan that's why financial sectors are unable to provide basic financial services to the unprivileged people in the country.

Age Factor

Financial service providers frequently ignore designing products that are suitable for older or younger potential consumers in favour of focusing on the middle segment of the economically active population.

Lack of Physical Access and Sufficient Access Point to Banking and Financial Inclusion

Afghanistan is a landlocked country in Asia where access to financial services in many regions is a big challenge for poor people. Individuals must take a long trip to reach a bank branch, which is time-consuming and expensive.

Documentation Issues (legal identity)

Ethnic minorities, women, political and economic refugees, and migratory workers are frequently denied access to financial services due to a lack of legal IDs such as identity cards, birth certificates, or written documents. According to the Global 2017 Findex statistics, 24 per cent of people cited a lack of documentation to obtain financial services.

Low Level of Financial and Digital Literacy

The need for financial services is frequently limited by low literacy, especially in the area of finance (basic math, company finance, and comprehension). Just 35 per cent of Afghans can read and write, and low financial literacy is associated with problems with consumer empowerment and protection in the country. There is also a greater chance of financial agents misusing customer cash.

Weak Commitment and Coordination

The greatest factor influencing the effective execution of a national policy to offer financial services to the underprivileged is the cooperation and dedication of stakeholders in some countries.

Psychological and Cultural Barriers

Many low-income groups have isolated themselves from society because they believe banks are uninterested in investigating their problems. However, some of the nation's Social Security payments have also been found to exhibit cultural and religious hurdles to banking. Least but not lest Religious belief played a part in not taking credits from financial sectors in Afghanistan.

7. Recommendations

Financial inclusion is still crucial and significant. It takes time to achieve financial inclusion and make ways towards this goal. There are several recommendations that policy-makers and financial sectors should take into consideration:

- The government should increase the number of bank branches in remote areas.
- Financial literacy and awareness initiatives should be held for the underprivileged and for people living in distant locations to inform them of the advantages of banking and financial services and to help them overcome poverty.
- Banks as financial product producers should focus more on products that should be simple, affordable and have the most utility.

- The Government should work on enhancing the Knowledge of people who have been marginalized and live in rural areas.
- The Government should make them aware of the advantages of having access to financial inclusion.
- Banks should do a regular survey in the village to get to know about the people's financial needs and should permit customers to offer feedback about the product service.
- Micro Finance institutions and non-governmental institutions may be permitted to do limited financial service in remote areas.

8. Conclusion

Financial inclusion is a significant part of economic development and poverty reduction in the modern world. The lack of access to basic financial services, such as saving accounts, credit, insurance, and remittance affects marginalized and underserved populations, including rural communities, women, low-income, and ethnic minorities. The important aim of financial inclusion is to promote a more inclusive financial system, which enables all individuals and businesses to participate in the formal economy and benefit from its advantages. Although financial inclusion has gained significant attention in recent years, it still faces challenges and issues in Afghanistan and other countries that limit its effectiveness and potential impact.

The financial sector in Afghanistan stands at a critical juncture, grappling with various challenges that impede the progress of financial inclusion. Despite lots of efforts to establish a robust financial infrastructure, the nation faces significant hurdles that hinder widespread access to financial services. Issues such as political instability, security concerns, and a lack of technological advancements pose formidable obstacles to the development of a comprehensive financial ecosystem. However, at the moment there is a gap in the state of financial inclusion between policy aspirations and on-the-ground realities, with a considerable portion of the population remaining underserved. Overcoming these challenges needs determination efforts from government bodies, financial organizations, and international stakeholders to address systemic issues and implement inclusive policies. Strategies that incorporate innovative technologies, financial education initiatives, and targeted interventions in conflict-affected regions are essential for fostering a more inclusive financial landscape.

Finally, a collaborative approach that integrates the public and private sectors, alongside a commitment to address underlying socio-economic issues, will be crucial for advancing financial inclusion in Afghanistan. By navigating these challenges and capitalizing on emerging opportunities, the country can strive towards a more inclusive and resilient financial sector that contributes to broader economic development and social stability.

Conflict of Interest

The author declares that they have no conflict of interest.

NOTES

[1] Financial Inclusion in India – The Journey so Far and the Way Ahead (Shri S. S. Mundra, Deputy Governor - 19 September 2016 - at the BRICS Workshop on Financial Inclusion in Mumbai).

[2] Findex database.

[3] FINCA Afghanistan, Mutahid, Oxus, IIFC Group, Exchanger Zone.

[4] Source: FAS - IMF 2018.

[5] DAB.

REFERENCES

1. Chakrabarti, M. (2013), Role of Regional Rural Bank in Financial Inclusion: An Empirical Study on West Bengal State in India, *National Monthly Refereed Journal of Research in Commerce & Management*, Vol. 2(8), pp. 51-62.
2. Chakarbarty, K.C. (2012), Empowering MSMEs for Financial Inclusion and Growth: Issues and Strategies, In U. Kapila (Ed.), 1991-2011 Two Decades of Economic Reforms Towards faster, Sustainable and More Inclusive Growth, pp. 329-342, New Delhi: Academic Foundation.
3. Chakrabarty, K.C. (2013), Financial Inclusion in India: Journey So far and way forward, Financial Inclusion Conclave, Lecture conducted from CNBC TV18, 6 September, New Delhi.
4. Dev S.M. (2006), Financial Inclusion: Issues and Challenges, *Economic and Political Weekly*, 14 October, pp. 4310-4313.
5. Kusalakshi Raghurama, A. (2014), Financial Inclusion in India: Policy Initiatives Challenges, *International Journal of Scientific Research,* Vol. 2(3), p. 64.
6. Leeladhar V. (2005), Taking Banking Services to the Common man-Financial Inclusion.
7. Ministry of Finance (2014), Pradhan Mantri Jan Dhan Yojana: A National Mission on Financial Inclusion, Department of Financial Services, pp. 1-41
8. Swamy, V. and Lakshmi, V. (2009), Role of Financial Inclusion for Inclusive Growth in Indian Issues and Challenges.

9. SHAILLA DRABOO (2020), Financial Inclusion and Digital India: A Critical Assessment, Vol. 55, Issue No. 17, 25 April.

10. Chattopadhyay, Sadhan Kumar (2011), Financial Inclusion in India: A Case-Study of West Bengal, Munich: Department of Economic and Policy Research.

11. Karmakar, K.G., Banarjee, G.D. and Mohapatra, N.P. (2011), Towards Financial Inclusion.

12. Ananda Setal (2021), Financial Inclusion in Emerging Markets.

13. FRANCISCO G. VILLARREA (2017), in his book, Financial Inclusion of Small Rural Producers.

14. Prabhakar Rajiv (2021), Financial Inclusion: Critique and Alternatives.

15. Carol Realini and Karl Mehta (2015), Financial Inclusion at the Bottom of the Pyramid.

16. Sharit K. Bhowmik and Debdula Saha (2013), Financial Inclusion of the Marginalised.

17. Ananda Setal (2021), book "Financial Inclusion in Emerging Markets"

18. Aslin Demirguc Kuntetal, book The Global Findex Database.

19. Sameer Kochhar, R. Chandrashekar (2009) book Finanacial Inclusion.

20. DBTM (2020a): DBT Applicable Schemes and Services, Direct Benefit Transfer Mission.

21. Gomathy, M. (2015), An Overview of Financial Inclusion and Rural Development in India", *IOSR Journal of Business and Management (IOSRJBM)*, Vol. 17 No. 8, pp. 06-11.

22. Goyal, C. (2008), Financial Inclusion in the Northeastern Region of India with Special Reference to Assam, *The ICFAI Journal of Applied Finance*, Vol. 14 No. 12, pp. 54-64.

23. Gunther, J.W. (1997), Geographic Liberalization and the Accessibility of Banking Services in Rural Areas, Technical Report, Federal Reserve Bank of Dallas, Dallas, TX.