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Regulatory Frameworks for Village Banking and Financial Inclusion: Comparative Lessons from Africa, South Asia, and the Middle East

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Abstract:

Village banking is a crucial informal financial mechanism that fosters economic empowerment, financial inclusion, and poverty alleviation, particularly in low-income communities. However, the sustainability and growth of village banking groups are often hindered by governance challenges, financial risks, and inadequate consumer protection, necessitating well-structured regulatory frameworks. This study conducts a comparative literature review to analyze the financial inclusion regulatory frameworks governing village banking in Africa, South Asia, Southeast Asia, and the Middle East. The findings reveal diverse regulatory approaches, including tiered regulation models, voluntary registration systems, and digital financial service integration, which balance oversight with group autonomy. Notable regulatory frameworks, such as Uganda's Tier 4 Microfinance Act, Tanzania's tiered supervision, and Egypt's multi-agency collaboration, demonstrate the benefits of structured yet flexible governance in enhancing financial inclusion. Additionally, mobile money platforms like M-PESA in Kenya and digital record-keeping solutions in Ethiopia and Pakistan have improved financial accessibility, transparency, and efficiency within savings groups. However, challenges remain, including regulatory resistance, administrative burdens, and digital literacy gaps. To optimize financial inclusion, this study recommends the adoption of tiered regulatory frameworks, capacity-building initiatives, and enhanced regional cooperation to harmonize standards and share best practices. Future research should explore the role of emerging technologies such as blockchain and artificial intelligence in strengthening transparency, data security, and sustainability within village banking structures.

Keywords: Financial Inclusion, Village Banking, Regulatory Frameworks, Digital Financial Services, Microfinance, Developing Economies

1. Introduction

1.1 Background of Village Banking and Financial Inclusion

The term village banking was coined by John Hatch, founder of the Foundation for International Community Assistance (FINCA), in 1984, as a way for Bolivian farmers with no collateral to come together as a group to access bank loans through collective guarantee (FINCA, 2025). Today, his version of village banking still lives on in the form of village banks where groups of entrepreneurs from the low-income bracket come together to share and guarantee one another's loans (FINCA, 2025). This article will, however, not look at the John Hatch's village banking mechanism as it exists today, it will instead look at the village banking model adapted from the Grameen Banking model (Simatele, et al., 2021). This model whose objective is to promote financial independence among the poor by offering loans instead of charity encourages people to save first so that their savings or capital can be converted to loans to empower themselves and grow their money.

Village banking is an informal community savings and credit mechanism, which is practiced in groups called village banking groups, also known as savings groups, made up mostly of women, belonging to the same social circle or community, who come together to save money and offer each other credit from these savings (Mukulu & Qutieshat, 2022). For the unbanked communities, those that have been underserved by formal financial institutions, village banking is their first step towards financial inclusion as it provides them access to basic financial services, savings and (collateral free) credit, that meet their needs (Plan International, 2025). Having taken this first step towards financial inclusion, these communities now have a chance at ending poverty (SDG 1), reducing hunger (SDG 2), achieving gender equality (SDG 5), reducing inequality (SDG 10), and as a domino effect creating decent work possibly resulting in economic growth (SDG 8) (United Nations, (2022)). By creating a space where members can save frequently, village banking groups which are inherently owned and managed by their members, provide a safety net for the members helping them to meet their emergency fund needs, consumption needs and even investment needs (Jarden & Rahamatali, (2018)).

In a study investigating the impact that financial inclusion had on poverty reduction and income inequality in 116 developing countries, Omar & Inaba, 2020, found that financial inclusion significantly reduced poverty rates and income inequality. Further, they highlighted that financial inclusion aided in the achievement of the Millennium Development Goals (Omar & Inaba, 2020), and now the Sustainable Development Goals. For the unbanked, financial inclusion, through innovative methods like village banking, helps to close the savings gap that exists between the banked and the unbanked, and as

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such gives them an opportunity to raise, through savings and credit, investments funds which lead to the accumulation of wealth. Because of extreme income inequality in developing regions, poverty reduction has been slow moving, as such, there are deliberate measures being put in place globally to break the poverty cycle and lower income inequality. For example, the World Bank is working towards the eradication of extreme poverty by 2030 and to ensuring that the bottom 40% population in each country has a share of the national prosperity (Omar & Inaba, 2020). Van, Vo, Nguyen, & Vo, 2019, in their study of emerging markets in Asia, particularly in countries with low income and low degree of financial inclusion, found that there was a positive relationship between financial inclusion and economic growth. Financial inclusion results in economic activities, leading to an improved economic standing for the now financially included people who are then able to access a more comfortable or improved life style.

1.2 Rationale for Reviewing Regulatory Frameworks

The informal financial sector, which includes village banking, has been playing a vital role in improving African economics by providing access to finance for individuals and small businesses (Mpofu & Sibindi, 2022). This sector is usually their go to alternative when they are unable to access credit from the formal financial sector for reasons such as; information asymmetry, and lack of collateral to offer for credit. However, even when they are able to access credit from the formal financial sector, some still prefer the informal financial sector because of the flexibility and simplified administrative processes in the sector. According to Mpofu & Sibindi, 2022, because of the role that the informal financial sector plays, it is crucial to have suitable regulatory framework in place that will ensure to nurture that informal financial sector while promoting the protection of the consumers. And having a suitable regulatory framework in place will mitigate the risks associated with the flexibility and simple administrative processes of the informal financial sector. Sishumba & Mulonda, (2019) in their study found that in order to be scalable, there was need for legal and regulatory framework for the informal financial sector. They proposed that having a legal and regulatory framework in place could lead to the development of national policy which would ensure that savings such as those through informal interventions like village banking contributed to the national development. The framework could include measures or ways of handling issues such as late or lack of repayment of the loans, lack or inconsistent savings, thereby creating a conducive environment for them to operate in sustainably (Jarden & Rahamatali, (2018)) thereby allowing them to continue providing service to those underserved by formal financial institutions.

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In the state of practice report on Savings Groups and the Role of Government in Sub-Saharan Africa, Jarden & Rahamatali, 2018, found that out of the 22 Sub-Saharan African countries in their study, 20 had government initiatives in place for savings groups. These initiatives varied from national strategies, national policies, programs, laws, guidelines and financial education initiatives. Their study also found that governments through these initiatives could contribute to the impact, scalability, and sustainability of savings groups in that they created an enabling environment to operate in and encouraged the prioritization of savings, and they also improved coordination in the sector. Pensiri, (2023) in a study of savings groups in Thailand, also found that inadequate regulation, led to issues such as poor governance within the groups, and incidents of fraud, which undermined the sustainability of the groups. Arora & Robinson, (2019) in their case study found that the regulation of savings groups resulted in enhanced protection of the depositors. Regulation has also been found to generate data that could be advantageous to central banks and government entities in the creation of policies and the customization of economic and developmental strategies (Arora & Robinson, (2019)). Kartal, 2021, in a study in South Africa on the formalization of the informal financial sector found that there was resistance to the formalization at the grassroots level because they felt it would take away their flexibility and bring in bureaucracy leading to a change in how they operated.

Because village banking groups are social entities, in that they are self-selecting and self-managed by the members, the ideal regulation would take this into consideration and try to find a balance between government regulation and maintaining the autonomous nature of the groups. To achieve this balance, Mukama, 2019, highlighted that Tanzania had two kinds of regulations; self-regulation and state regulation. Under self-regulation, the groups regulated themselves using by-laws and contracts accepted by the members, they were also regulated through their own (none state) regulatory bodies such as the supervisory committees, credit committee, and loan committees (Mukama, (2019)). Under state regulation, the groups were regulated by legislation and various government bodies. However, self-regulation was the preferred mode as it was more cost effective, and it did not compromise the flexibility, nature, of the groups. Whereas the state regulation was more restrictive, and had costs attributed to it to ensure compliance on the part of the groups. Because of the associated costs for government regulation, self-regulation appeared to be the preferred model, even though it could not be enforced in a court of law which may leave the groups open to the same vulnerabilities that regulation would be trying to fix. Because of this, it is therefore imperative to ensure that there is a balance between regulation and ensuring that the groups are not losing out on money, through fees, which they could be using to sustain their operations.

Given that village banking groups are inherently self-managed, there is need for a balance between governmental regulation and ensuring that the groups still have their autonomy. Pensiri (2023) found that for regulation to be effective, regulatory framework needed to be institutionalized in a way that balanced best formal financial services practices with local values and norms which already had an effect on how the groups operated. Given the resistance at the grassroots level to regulation in the study by Kartal, 2021, they proposed that the regulatory oversight needed to aim for the integration of the formal and informal financial sector, by ensuring that the two coexisted without the formal overshadowing the informal and taking away their core purpose of existence – serving the poor and financially excluded in society.

1.3 Objectives of the Study

The objectives of this study are to:

1. Compare financial inclusion regulatory frameworks for village banking across regions.
2. Identify key strengths and weaknesses in existing policies.
3. Propose policy solutions for enhancing financial inclusion and protecting consumers.

1.4 Methodology

This research utilizes a comparative literature review methodology to scrutinize the regulatory frameworks governing village banking across Africa, South Asia, Southeast Asia, and the Middle East. The objective of this comparative analysis is to discern best practices, identify regulatory deficiencies, and offer policy recommendations aimed at enhancing financial inclusion while preserving the autonomy of village banking groups.

Data Sources and Selection Criteria

1. The study is grounded in secondary data sourced from:
2. Government regulatory documents that delineate village banking policies and strategies for financial inclusion.
3. Reports from international development organizations, including the World Bank, the International Monetary Fund (IMF), and regional financial regulators.
4. Peer-reviewed journal articles and academic studies that investigate the impact of regulatory frameworks on village banking.

The selection of literature adhered to three principal criteria:

1. Relevance to financial inclusion and village banking.

2. Comprehensive coverage of regulatory frameworks within the specified regions.
3. Availability of empirical evidence regarding the impact of regulation on financial inclusion outcomes.

Comparative Analysis Framework

1. The research adopts a structured comparative approach to evaluate regulatory frameworks, focusing on:
2. Legal structure and regulatory oversight (e.g., Uganda's Tier 4 Microfinance Act versus Kenya's SACCO Societies Act).
3. Government versus self-regulation (e.g., mandatory registration versus voluntary compliance).
4. Integration of digital financial services (e.g., the role of mobile money in Kenya, Egypt, and Pakistan).
5. Policy effectiveness in promoting financial inclusion (e.g., mechanisms for financial consumer protection and depositor security).

The comparative literature review approach facilitates the synthesis of regulatory best practices and the formulation of adaptable policy solutions to advance financial inclusion within village banking.

Justification for Methodological Choice

The comparative literature review methodology is optimally suited to the study's aim of evaluating diverse regulatory frameworks for village banking. By systematically reviewing policy documents, scholarly literature, and development reports, this methodology enables an evidence-based assessment of effective practices, identifies areas for improvement, and suggests necessary regulatory enhancements.

2. Conceptual and Theoretical Framework

2.1 Theories of Financial Inclusion and Regulation

This study is anchored on the financial intermediation theory first introduced by Gurley and Shaw in 1960; the public interest theory of regulation introduced by Pigou in 1932; and the microfinance and sustainable development theory.

The financial intermediation theory explains the role that financial intermediaries play in the economy by connecting those who have money to save and those who would like to borrow (Cassidy & Fafchamps, 2020). The savers intentions are usually to grow their saved money and so the interest that is charged on the borrowed money is what goes towards growing their saved money. Village banking groups act as financial intermediaries by bringing savers wo are looking to grow their saved money through interest from the borrowers and the borrowers who need money to meet their various needs. Because village banking is practiced in the local communities, the mechanism helps to enhance financial intermediation at the local level. Financial intermediation is enhanced when the village banking groups mobilize the savings and providing credit thus helping people who may have been previously under served by the formal financial sector to meet their different needs.

Arthur Cecil Pigou 1932, introduced the public interest theory, arguing that regulation was in response to the call from the public to make improvements or to correct unbalanced market practices (Quach, Thaichon, & Hewege, 2020) mainly for the protection of the consumers. In the case of village banking groups, the call for regulation has been to ensure that the sector in which they operate is conducive (Jarden & Rahamatali, 2018), ensuring that they operate in a sustainable manner and that the depositors money is safe from fraud and financial mismanagement (Pensiri, 2023).

2.2 Key Elements of a Village Banking Regulatory Framework

Perhaps one of the most important components of the regulatory framework was that consumers of these services, especially the savers, needed to be protected, and the risk to members minimized (Jarden & Rahamatali, (2018)) (Pensiri, (2023)). For village banking to be sustainable, people need to have confidence in the mechanism, that their money is safe, and so they keep participating, otherwise people would lose trust in the groups and opt not to join them (FinMark Trust, (2022)).

Jarden & Rahamatali, 2018 suggested that, regulatory framework could not be a once size fit all, but that regulation needed to uphold and recognize the organic nature of savings groups and their self-governance just like Uganda's Tier 4 Microfinance Institutions Act and Money Lenders Act 2016. This act did not change the nature of the groups, but rather created and environment that was supporting and enabling, allowing them to still operate informally despite being regulated. In the case of Rwanda and Madagascra, Jarden & Rahamatali, 2018, found that a key component of their regulation was that it was voluntary, the groups were able to register voluntarily and get formal recognition opening up possibilities of them being able to access formal banking services. Jarden & Rahamatali, 2018, also found that the framework needed to be very clear on the requirements, clear on things like registration of the groups, how regulation would be implements, monitored and reported on.

With the world becoming more technologically driven and automated, countries like Ghana, and Rwanda encourage the integration of digital tools in the management of the groups, as a way to enhance their accessibility and reduce any operational costs (Jarden & Rahamatali, (2018)). Integrating digital tools in their operations, village banking groups could be in a position to interact with the formal banking sector which is heavily automated.

3. Comparative Review of Financial Inclusion Regulatory Frameworks

3.1 Village Banking Regulations in Africa

Village banking groups in Zambia are part of the informal financial sector, in that they are unregulated. This is despite the central bank of Zambia, the Bank of Zambia, recognizing the contribution that the village banking mechanism is making to the economy by advancing financial inclusion for the unbanked (Bank of Zambia, (2020)). The Zambia Revenue Authority (ZRA) does offer guidance on the taxation of the interest realized from village banking groups (Zambia Revenue Authority, (2023)), this however appears to be the only government regulation on village banking groups in Zambia. There may however be a need for Zambia to have regulation in place, one that balances group autonomy and government intervention. This would enhance depositor's safety and thus reduce cases of challenges faced by the village banking groups particularly the loss of depositors' money ((Lusakatimes.com, (2022); Zambia24.com, (2020); Chaile-Lesoetsa, (2020); Malunga, (2021); Hapompwe, et al., (2021); Mvula, (2023); (Jere, (2024); Sichilongo & Sinkala, (2021); Lusaka Sun, (2023)).

In South Africa, the village banking groups, or stokvels as they are known there fall, under the National Stokvel Association of South Africa (NASASA's) regulatory framework (NASASA, 2021) authorized by the South African Reserve Bank. According to the Banks Act 1990, a Stokvel is required to be a member of the NASASA or a similar body. NASASA partners with the Co-operative Banks Development Agency (CBDA) whose mandate is to develop and promote co-operative banking to broaden peoples participation in economic activities for their social wellbeing (NASANA, 2021b). NASASA also partners with the Financial Sector Conduct Authority (FSCA) who is responsible for the conduct and regulation of financial institutions to ensure consumer protection, they also offer financial education to consumers (NASASA, 2021c).

In Kenya, the village banking groups (savings and credit co-operatives) are regulated under the SACCO Societies Act, NO. 14 of 2008. The act has provisions and guidance for the licensing, promoting, regulation and supervision of the SACCOs (National Council for Law Reporting, 2012). The Sacco Societies Act, 2008. also provides for the establishment of the SACCO Societies Regulatory Authority (SASRA), the body responsible for overseeing the operations of the SACCOs. However, the societies act appears to be inadequate as SACCOs still face financial risks such as credit and liquidity issues which go on to negatively affect their stability and profit persistence (Mlawasi, Simiyu, & Atheru, (2023)).

In Uganda, savings groups are classified as tier 4 microfinance institutions, and they are regulated using the Tier 4 Microfinance Institutions and Money Lenders Act, 2016. The act was enacted by parliament to establish the Uganda Microfinance Regulatory Authority (UMRA) , the body responsible for the control, licensing, management of tier 4 microfinance institutions (The Republic of Uganda, 2016). The UMRA was set up to also restore the confidence of the consumers and investors in the microfinance industry after its reputation had been damaged by fraud experienced in the savings groups (Ministry of Finance, Planning and Economic Development, 2025). Under the Tier 4 Microfinance Institutions and Money Lenders Act, 2016, the savings groups are recognized but exempted from the regulation of the Bank of Uganda (Jarden & Rahamatali, (2018)).

Savings groups in Tanzania are regulated by the National Microfinance Policy, 2017. Under this policy, savings groups are supervised under a tiered system, because of the tiers it is also easier and clear on how groups move from one tier to the other, ensuring a smooth transition for both the borrowers and the lenders (Ministry of Finance and Planning, 2017)

The savings groups in Ethiopia are regulated by the Cooperative Societies Proclamation No. 147/1998. The savings groups are required to register and submit documents such as their constitutions, details of their members, and proof of the capital with which they will be operating (Federal Democratic Republic of Ethiopia, 1998). And despite this requirement, they still remain self-regulated, but are required to follow the rules that they set for themselves, as well as those in the Cooperative Societies Proclamation No. 147/1998.

The policies highlighted here all seem to be aimed at advancing financial inclusion for those who have been left behind by the formal financial sector, and as a result have turned to community owned and managed informal banking mechanisms. One of their biggest strengths would perhaps be that with supervision, or oversight, the savings groups would operate in a manner that guaranties their sustainability, protects depositor's moneys and garners trust from those who are not yet members of the groups. However, if a balance is not achieved between regulatory oversight and member autonomy, there is a risk of resistance from those who the regulations meant to help and protect, just as is the case in South Africa, according to the findings by Kartal, 2021, where the fear is that regulation would take away their flexibility and bring in bureaucracy. Without proper balance, the savings groups that are self-managed might lose their identity, and thus move away from the reasons(s) they were set up, having tiered regulation which recognizes the uniqueness of each group as is the case with Tanzania and Uganda helps to mitigate this. Regulation requires infrastructure and resources to ensure that it is being implements, these resources would go towards ensuring the groups being regulated understand the regulation by way of them having adequate training, resources would go towards ensuring compliance as well as monitoring of the implementation, and continued support.

3.2 Village Banking Regulations in South Asia

In Bangladesh, community-based savings groups which operate as co-operatives are regulated under the Cooperative Societies Act, 2001. Which is the body to which all co-operatives receiving money as deposits and offering credit to members must belong and ensure to adhere to the rules and regulations of the Cooperative Societies Act 2001 (Islam & Ahmed, 2022). This regulation is in place to ensure accountability, transparency to all members which would go on to prevent fraud or misappropriation of the funds.

The self-help groups in India are regulated using the National Rural Livelihood Mission (NRLM), which acts as a guide for their implementation (Ministry of Rural Development, 2017). The NRLM which is monitored by the Ministry of Rural Development provides administrative oversight to the groups, guiding on how they should operate to ensure compliance. The NRLM also guides on which federations the groups belong to and who monitors and implements the NRLM at what level, such as the District Mission Management Units at the district level. The groups are also guided on the coordination with the government, banks and other institutions. The NRLM also offers guidance on the capacity building trainings that the groups need to enhance their financial management skills; a very necessary skill to ensure borrowed money is put to good use. Further, the NRLM also guides on the compliance of the groups y guiding on how monitoring, reporting and auditing will be done.

The Rotating Savings and Credit Associations also known as the Chit Funds, in India, are regulated by the government through the Chit Funds Act, 1982, which was enacted to ensure transparent operations and the protection of participants (Republic of India, 1982). The act provides for the commencement of the Chit Funds, by stating that they cannot commence without registration under the act or without the government giving their prior sanction for the commencement. The act also requires that participants' details, how much they contribute and other terms necessary for the operation of the Chit Funds. Other than these, the act also provides guidance on things like when people should borrow, what kinds of record they should keep and most importantly, how the participants are protected.

The savings groups known as the Cheetu, in Sri Lanka, are regulated by the Cheetu Ordinance No. 61 of 1935, which provides legal guidance on issues to do with formation, operations, duties of the group managers, creation and adoption of the groups constitutions called agreements (Laws of Sri Lanka, 2014). The ordinance also sets out the terms and conditions that the group manager must agree to and adopt at the time of formation, if the group is to be recognized as a Cheetu under the Cheetu ordinance. Sri Lanka also has the Samurdhi prosperity programme which has a component of savings and credit through the Samurdhi community-based banking societies. Until 2024, the societies were under the regulation of the Samurdhi Act No.1 of 2013, and this did not include oversight from the government (Economynext, 2024). As of 2024, these societies began to be subjected to government audit and supervision, which was a move aimed at maintaining the transparency in their operations as well as to increase the confidence that the public had in them (Economynext, 2024).

The savings and credit cooperatives (SACCOs) in Nepal are regulated by the Department of Cooperatives, specifically under the Cooperatives Act, 2017 (Nepal Law Commission, 2017). The Cooperatives Act, 2017, provides guidance on the registration of the SACCOs, in terms of what documentation needs to be submitted. They also stipulate the areas within which the SACCOs are supposed to operate in called working areas. Once registered the SACCOs are expected to adhere to the compliance and supervision requirements contained in the Cooperatives Act, 2017, such as them maintaining an internal control system, and submitting regular reports. In the event that the SACCOs wish to make an investment, the Cooperatives Act, 2017, guides on the prohibitions, such as they cannot invest in company shares.

The regulations available in Bangladesh, India, Sri Lanka, and Nepal seem to share the common goal of ensuring that the savings groups are operating in a transparent and accountable manner, and thus ensuring that the depositors' funds are protected. The inclusion of the Samurdhi societies in Sri Lanka under the government oversight is also a demonstration of the efforts that the governments are putting in to promote financial inclusion, ensure that the groups are sustainable, through accountability, and thus are able to continue to provide a service to the members which in turn advances economic growth.

3.3 Village Banking Regulations in Southeast Asia

The savings and loan cooperatives in Indonesia are regulated by the Law No. 25 of 1992 on Cooperatives (Republic of Indonesia, 1992). According to Law No. 25 of 1992, once the cooperatives get registered, they become recognized as business entities, and are required to adhere to conditions under the law such as submitting annual reports, submitting to oversight (Republic of Indonesia, 1992). The Law No. 25 of 1992, appears to strike a balance between government regulation and group autonomy, such that despite submitting to this oversight, the cooperatives are still self-managed, as the authority on how they operate sits with the members and their elected executive board (Republic of Indonesia, 1992). The Law No. 25 of 1992 also provides for the dissolution of the cooperative, giving guidance on the liquidation process all the while ensuring that members are protected.

The SACCOs and Self-Help groups in Philippines are regulated by the Cooperative Development Authority (CDA) using the Philippine Cooperative Code of 2008 (Republic Act No. 9520) which provides guidance on the organization of the groups, their registration for legal recognition, how they operate and finally how they are regulated (Congress of the Philippines, 2008). For a group to be formally recognized, they must register with the CDA, which is responsible for the groups' registration, monitoring, compliance. Under compliance, the CDA conducts audits of the groups, including social and performance audits to ensure that they are financially health and making a positive impact on the society (Congress of the Philippines, 2008). The Philippine Cooperative Code of 2008, also acknowledges the autonomy of the groups, by explicitly stating that they are self-controlled (Congress of the Philippines, 2008). Through the Philippine Cooperative Code of 2008, the groups are entitled to tax breaks on transactions with members of the groups (Congress of the Philippines, 2008).

The savings initiative in Vietnam, the hui and the tontine, which are ethnic savings schemes are regulated under the Decree No. 19/2019/ND-CP of the Government on tontine (The Government, 2019). Decree No. 19/2019/ND-CP outlines the guidance for the formation, participation and management of the groups by outlining the laws they should adhere to, the qualities of the eligible participants, and the kind of agreements they can have, as well as how disputes should be handled. The Decree No. 19/2019/ND-CP, also emphasizes that the groups are meant to uplift or improve the lives of the members and not to be misused through fraudulent activities, which attract penalties and even criminal prosecution.

The Community Organizations Development Institute (CODI) a government institution in Thailand provides oversight to the community savings and credit initiatives. CODI assists with the setting up of groups, providing capacity building training and facilitating networks among groups for them to learn best practices from one another thus enhancing their capacity and sustainability (Community Organizations Development

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Institute, n.d.). Despite providing this oversight, the groups still remain autonomous, operating based on the mutually agreed upon rules, which should of course meet the standards required by CODI.

The regulations in Southeast Asia appear to be striking a balance between the government regulation and group autonomy, by recognizing and upholding the groups' self-governance. The tax breaks offered I the Philippines are sure to encourage even more transparent practices.

3.4 Village Banking Regulations in the Middle East

In 2017, following the AFI Global Policy Forum (GPF) in Sharm El Sheikh, initiatives to formalize and regulate the savings group in Egypt begun (Bassiouny, Abdelkader, Walbey, & Smet, 2021). This was done to enhance financial inclusion especially among women in Egypt, as a way to support their economic empowerment seeing as they make up majority of the population participating in the informal savings initiative – savings groups – and so the formalization is a way to address the limitations such as size of the loans. The formalization was also to increase the security and the transparency of the groups as a way to achieve inclusive development, financial security as per the Egypt vision 2030. The regulation of the savings groups in Egypt appears to be a collaborative work among the bodies such as the Central Bank of Egypt (CBE), National Council for Women (NCW), Egyptian Money Laundering and Terrorist Financing Combating Unit (EMLCU), National Telecom Regulatory Authority (NTRA) (Bassiouny, Abdelkader, Walbey, & Smet, 2021). The CBE has the overall authority over the savings groups, the NCW promotes women's empowerment, the EMLCU ensures that anti-money laundering laws are adhered to, while the NTRA facilitated the use of digital financial services for the savings groups. The groups remain autonomous even with this formalization, they still have control over their meetings, their internal rules through their constitutions, their membership and contributions. However, they have to adhere to the laws, and requirements such as record keeping and submitting to the monitoring of the bodies in charge of regulating them.

4. Comparative Analysis of Regulatory Strengths and Gap

4.1 Best Practices in Village Banking Regulation

The regulations reviewed in the section above have shown that several countries are indeed working to advance financial inclusion to empower the communities left behind by the formal financial institutions using the village banking model. The regulations have also

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shown that some countries are striking a balance between the formal government regulation and the informal internal regulation thus acknowledging the autonomous nature of the groups.

The regulations appear to be well defined, however the Ugandan and Tanzanian models stand out because of their tiered models, ensuring that groups are not treated the same across the board but rather allowed to adhere to regulation that applies to their level. Having tiered model also creates a clear path for the groups to follow as they pass through the different regulatory tiers which also shows their growth trajectory.

Egypt's regulatory frameworks foster collaboration between government agencies, allowing for the groups to receive assistance from different expertise in a centralized manner. Through partnerships with the Central Bank of Egypt and other regulatory bodies, savings groups receive support for capacity building, financial literacy, and access to digital tools. This collaborative approach enhances transparency and scalability. In Thailand, the model allows for networking between different groups which creates an environment for them to learn best practices from one another.

India's National Rural Livelihood Mission (NRLM), emphasizes financial education and capacity building to improve the financial management skills of village banking members. In the Philippines, the Cooperative Development Authority conducts audits, including social audits, to ensure that cooperatives operate transparently and sustainably.

4.2 Common Regulatory Challenges

Despite the regulatory models being well designed and the groups having access to expertise in the different necessary areas, this study has revealed some challenges. In Kenya, for example, despite the SACCOs being regulated by the well-designed SACCO Societies Act (2008), issues such as credit risk and liquidity instability still remain which maybe due to inadequate enforcement and supervision (Mlawasi, Simiyu, & Atheru, (2023)). There was some resistance to regulation from the local communities especially in regions where regulatory frameworks appeared to impose administrative burdens. In South Africa, stokvel members expressed concerns that formal regulation may reduce the flexibility and autonomy that make informal savings groups attractive (Kartal, (2021)). And in cases where regulation is not strong enough or accepted by the groups being regulated, the members' money continues to be at risk.

4.3 Role of Digital Financial Inclusion in Village Banking

Digital financial inclusion is the use of digital technology to provide affordable financial services to people without access to formal financial services (World Bank Group,

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2024). For digital financial inclusion to be a success, users must have access to compatible devices, they will also need retail agents who are able to convert electronically stored money to actual cash, and they will need a user friendly digital transactional platform (World Bank Group, 2024). Most importantly the services being offered via the digital technology needs to be able to meet the needs of the intended users. Some countries have been incorporating digital technology in their village banking groups operations because of the access that it gives the members of the village banking groups at usually a lower cost than physical bank transactions as well as at a reduced risk because the people transacting are not carry around cash with the (World Bank Group, 2024).

In Kenya, digital platforms like the M-PESA have provided an alternative to formal bank transacting for the savings and credit groups which has been benefiting the rural and low-income population who have limited access to the formal financial institutions (Hove & Dubus, 2019). While platforms like M-PESA have been a good alternative, there may still be need to address social-cultural barriers in its usage, because the update have been influences by factors such as education, wealth and rural-urban location. The unbanked population, made up of mostly women and rural communities, were also found not to be fully utilizing the savings feature of M-PESA which may affect its effectiveness in advancing financial inclusion (Hove & Dubus, 2019).

Through a mobile application, savings and credit groups in Ethiopia have been able to digitize their records, which is a more secure way of keeping data than having physical records (Mengistu, 2022). The use of the application has also resulted in reduced errors in the records, transparent operations in the groups as members have access to their financial information in real-time which has also enhanced trust within the groups. For inclusivity, the application has a multiple language option making it so that a lot more people can use it. However, the successful use of the application depends on the digital literacy of the groups' members, particularly those entrusted with capturing their records (Mengistu, 2022).

The ROSCAs of Pakistan are also making use of digital platforms for their record keeping, as a result reducing errors in the records and making the transaction information easily accessible to the members, thus improving transparency and trust within the groups (Mehmood, et al., 2019). Because the digital platform is remote, it allows members of the groups to make transactions from where they are without physical proximity. To combat the low levels of digital literacy, this platform uses icons which are easy to identify, making it easier for people to use despite their digital technology literacy (Mehmood, et al., 2019).

Other than the issue of low levels of digital literacy and people not using the digital platforms to their full potential access to technology and infrastructure presents challenges.

This is because the target population may not have the money needed to buy compatible telephone devices. Given the location, such as rural, access to the necessary infrastructure also presents a challenge as infrastructure is not easily accessible in these areas. Another challenge is that, if not properly regulated with regards to the service providers ensuring user safety, the use of digital platforms may open up the users to cyber attacks putting their money and personal information at risk.

As seen, the use of digital technology for village banking groups presents some opportunities. Transacting becomes easier, once the literacy barrier is crossed, transactions can be performed with easy from anywhere provided the user has connectivity to the digital platform. This also makes it a cheaper option by cutting out the transportation costs as well as time costs that would be incurred in the case of a physical visit to a financial institution. It presents a more efficient way to save money and even keep track or a record of the savings and any transactions that the user may have. In Ethiopia, the digital platform has life insurance built in (Mengistu, 2022) showing that there is great potential for innovative ways to get useful products out to users on the digital platforms. Most importantly, it advances financial inclusion to people who may not have access to traditional financial institutions due to their being located in far places.

5. Policy Recommendations and Future Directions

5.1 Building an Inclusive and Sustainable Regulatory Framework

After the review of policies, and articles on the regulation of village banking groups, the writer recommends; deliberate protection for depositors, maintaining groups autonomy, legal recognition of the groups, tiered regulation, and capacity building.

Regulatory framework should have clear statements on the need to ensure that depositors, and members of village banking groups will be protected. Working together with law enforcement, clear punishments should be put in place for those who are found setting up village banking groups for fraudulent activities. There is need to provide legal recognition to groups, this will give them access to formal financial services while still maintaining their autonomy. Allowing them to make some internal decisions such as when meetings will be held, how much money a member can save, and who they can admit to their group. Lessons can be drawn from Uganda's Tier 4 Microfinance Institutions Act, which offers voluntary registration while preserving the informal nature of savings groups (Jarden & Rahamatali, (2018)). The legal recognition would also enhance member and prospective member confidence because it gives some assurances that the law will visit those who do not use village banking groups for their intended purpose (Pensiri, (2023)).

Having tiered regulatory framework will ensure that groups of different sizes and status are treated differently and subjected to different levels of monitoring and ensuring that the administrative burden is proportional to the group. This will also enhance and help track the scalability of the groups who as they grow will move through the different tiers of regulation. This can be seen even in the Tanzania framework which allows for different levels of oversight based on the size and operational capacity of the groups (Ministry of Finance and Planning, 2017).

For regulation to be effective, there is need for the groups being regulated to understand what is required of them as well as how they will be regulated. To achieve this, capacity building is being recommended, this will not only improve governance of the groups, but also ensure that they adhere to what is required of them resulting in the effective implementation of the framework.

5.2 Enhancing Digital Financial Services in Village Banking

Digital technology positively aids village banking with the reduced transaction costs, improved access to money, and increased transparency by making transaction information easily accessible.

Digital platforms like M-PESA in Kenya have shown the capacity to enhance financial inclusion for the rural and low-income populations by providing them access to banking services without needing to physically go to a financial institution. Expanding and encouraging other regions to make use of digital technology for their village banking would therefore enhance efficiency in their operations and participation. The use of digital technology also opens up opportunities for the use of digital identity, which is a useful feature for people who may not have their national identification, further advancing financial inclusion seeing as the lack of national identification is no longer a barrier. If properly regulated, digital platform presents a much safer way to transact, the regulation for these platforms should therefore ensure to have measures against cyber security threats for the safety of use information and money. Capacity building on the safe use of digital platforms would also help fight against any possible cyber security of fraud risk.

5.3 Strengthening Regional and International Cooperation

Strengthening regional and international cooperation can help to harmonize the village banking regulations, making it so that groups are able to share knowledge and best practices on similar issues. This would also help to standardize the regulatory framework across regions especially for those that share similar cultures, which is a big factor considering that village banking groups are a social construct.

Standardized regulatory framework would allow for easier cross boarder collaborations between groups, this would boost economic activities which may even result in a positive impact on the countries involved in the collaborations. With standardized regulation, governments can work out policies developed using a wider pool of expertise ensuring that the members of the groups are well protected. This would also result in transparency, and help generate comparable data across the region which would attract investors. All of this would be attractive to developmental and multinational agencies. Some of whom are already working at advancing financial inclusion, and providing capacity building in financial literacy, providing funding as capital for groups which are linked to the organizations, and also offering technical assistance where needed.

6. Conclusion

This study undertook an examination of regulatory frameworks governing village banking groups across diverse regions, including Africa, South Asia, Southeast Asia, and the Middle East. The literature review revealed that countries such as Egypt, Tanzania, and Uganda have developed innovative regulatory models. These models, characterized by tiered regulation and collaborative governance, effectively balance formal oversight with the autonomy of the groups. The primary objective of these models is to enhance financial inclusion by promoting transparency, scalability, and sustainability. Furthermore, digital financial services, particularly mobile money platforms like M-PESA in Kenya, have been identified as transformative tools that significantly improve access to savings and credit for financially excluded populations, especially those residing in rural and low-income areas.

A consistent theme identified in the analysis is the necessity for regulation that supports the sustainability of village banking groups without compromising their autonomy. Excessive regulatory oversight poses the risk of imposing administrative burdens, which can lead to decreased participation, as evidenced by the resistance to regulation observed in South Africa. Conversely, insufficient regulation exposes groups to vulnerabilities such as fraud, financial mismanagement, and erosion of depositor trust, potentially resulting in diminished participation. Effective regulatory frameworks, exemplified by Uganda's voluntary registration model, underscore the importance of tailored approaches that safeguard depositors while preserving the self-managed, community-oriented nature of these groups.

Future research should focus on the integration of emerging technologies, such as artificial intelligence (AI) and blockchain, into village banking operations. These technologies hold the potential to offer innovative solutions for enhancing transparency, data security, and record-keeping. AI could be utilized to analyze financial behavior

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patterns, thereby demonstrating scalability and sustainability, and to predict the creditworthiness of members, facilitating informed membership vetting processes. Additionally, AI could be instrumental in detecting fraudulent activities, thereby ensuring the security of funds and fostering trust among current and prospective members within the village banking model. Blockchain technology, with its decentralized and tamper-proof ledger system, could further enhance trust within savings groups by ensuring secure and immutable transaction records. Research in these areas may contribute to the long-term sustainability of village banking groups while advancing financial inclusion on a broader scale.

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