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An Explorative Study of the Village Banking Innovation in Lusaka, Zambia

Dr. Chrine Hapompwe[1], Jacqueline Siwale[2], Nzovwa Banda[3]
[1]Acting Dean – Faculty of Arts, Education and Social Sciences: Cavendish University Zambia
[2]Lecturer & Programme Co-ordinator: Texila American University, Zambia
[3]Postgraduate Student - Department of Development Studies: Cavendish University Zambia
Email address: [1]chapompwe @ cavendish.com.zm, [2]jacquelinesiwale @ yahoo.com, [3]nb67489 @ students.cavendish.co.zm

Abstract— *Despite the Bank of Zambia recognizing the positive impact that the village banking groups are having on the country's economy, there exists no clarity on policy framework that guides the formulation of village banking innovation groups nor are socio-economic benefits known enjoyed by the members of village banking groups as well as the challenges they face. This research was, therefore, conducted to try and address this information gap by gathering information on village banking innovation groups in Lusaka, Zambia. As the research was meant to generate and contribute new knowledge to the village banking methodology, the research was grounded in the inductive research approach and followed the descriptive design. Taking into consideration the COVID 19 restrictions and the limited resources available for this research, the researcher could not research the entire population of Lusaka and therefore used the purposive sampling method. The sample selection was restricted to those with 16 years and above Lusaka residents who were also active members of one or more village banking groups and lastly were literate in the official language (English). The study had a target population of 187 Village banking groups in Lusaka but sampled only 30 groups for logistical and convenient purposes. The research was conducted using questionnaires with 104 respondents, interviews with 7 interviewees and focus group discussions with 8 groups of 12 members each. The research established that documents existed which worked as a guide on the formulation of village banking groups, guiding how many members should be in the group, how the leadership committee should be selected and how they should generally operate. It was also established that members of village banking groups did experience socio-economic benefits some of which they were able to share with the researcher such as moral support, networks that have led to business establishments and skills training as well as improvements in household income which has led to members now being able to acquire assets such as houses, cars and also able to take care of school requirements for their children. Challenges faced by the members were also identified especially arising from poor record keeping on the borrowing and savings of the group and poor loan repayment culture from the group members.*

Keywords— *Explorative Study, Village Banking Innovation, Lusaka.*

I. INTRODUCTION

Village banking is an informal methodology used in the handling or management of savings, credit, and financial transactions (Mwansakilwa, 2017). This methodology is usually practiced by groups of people belonging to the same community or social circle, with a common goal of wanting to save; have access to savings and perform financial transaction, when they come together with these in mind they become known as a village banking group. Village banking groups, whose members are usually from the low income households have membership of between 10 to 20 members (Mwansakilwa, 2017) with possibility of having up to 50 members or more (Chisenga, 2018). The members of the groups meet at agreed time intervals, for example, weekly, bi-monthly, monthly, to pool their money by way of saving and it is from this saving that the members can borrow money at an interest rate that is relatively lower than what may be offered by the traditional bank on the same borrowed amount.

The village banking methodology is said to have been developed by John Hatch in 1984. This methodology has been implemented for more than 30 years now primarily through FINCA International (founded by Hatch) and its subsidiaries (FINCA, 2021a). Hatch developed the village banking methodology to help the poor farmers of Bolivia who were unable to access bank loans due to their inability to offer collateral as well as provide guarantee that the bank loan would be paid back. As a solution to this, Hatch's idea was that the neighbors in the villages could come together and approach the banks for a loan which they could guarantee as a group and split the payment across all the members of the group, making the loan recovery easier and possible for the bank. This idea has taken on many forms, the form that is most prevalent in Zambia, Lusaka to be precise, is the one where members of the group come together and pool funds in the form of savings from which the group members can borrow at a low rate with no collateral offered. Without the collateral, the only guarantee of the loan being repaid stems from the fear of being shamed in the community for failure to repay as well as the backlash to be received from the other village banking group members.

The Nkwazi Magazine reported an estimated 15,000 village banking groups in Zambia (Muyunda, 2020) with membership from the low to medium income households. True to the reason for the creation of the village banking methodology, village banking groups, appear to be a good tool for improving people's lives by promoting savings and offering cheaper access to credit being used in business and home management among others (ibid).

Despite growing in number and participation, village banking groups are still being formed as a consequence of social gatherings, in that they do not have a formalized way in which they are formed. The formation can either be classified as spontaneous, say at the end of a lunch meeting, a group of people who had met for lunch may decide to form a village banking group, or the formation may be voluntary, such as when people want to join already existing village banking groups (Vanmeenen, (2011). However, it is clear that people are motivated by many different reasons to join village banking groups. Even though the way they are formed varies, the village banking groups do have a standard structure where members are led by an elected team from among its members (Holt, 1991). The team is, at a minimum, made up of a chairperson, a secretary and a treasurer. Since the membership is usually made up of people who know each other in one way or the other, village banking groups primarily operate on mutual trust. Additionally, some groups have constitutions which act as a guide on the operations of the group.

A. Problem Statement

In 2020, the Bank of Zambia released a press statement giving its blessings to village banking groups and recognized the tremendous role they play in meeting the financial and savings needs of the local Zambian economy which cannot be satisfied by the formal banking sector (Kalamba, 2020). The Zambia National Commercial Bank (ZANACO) also recognized the role that village banking groups are playing in the local Zambian economy and therefore tailored a village banking account called the *"Village Banking Plus Account"* which allows village banking groups a more secure way of managing their money while earning interest from the bank (ZANACO, 2019). This goodwill of the phenomena from both the central bank and ZANACO is an indication of the positive impact, growth and growth potential that village banking has, and it is this recognition which necessitates the gathering of more information on village banking innovation in order to bridge the knowledge gap. Looking at the limited literature resources on village banking in Zambia, undertaking such a study on village banking methodology and village banking groups will bridge the current information gap and allow for a better conceptualization into the formation of village banking groups, what rules and regulations govern their operation, the socioeconomic value of membership in such formations as well as the bottlenecks besetting the village banking groups.

B. Objectives

- To determine the efficacy of the policy framework governing the formulation of village banking groups.
- To analyse the socio-economic value of membership in village banking groups
- To describe from the perspective of participants the challenges faced by village banking groups

II. Theoretical Review of Literature

A. Evolution of Village Banking

John Hatch, who is said to be the pioneer of the village banking methodology, developed the idea in 1984 as a way of helping the poor Bolivian farmers who were not able to access loans as they were too expensive and the farmers could not provide the collateral needed for the loans individually (FINCA, 2021c). According to Paxton, (1998) the village banking methodology is the more improved version of the informal banking methodology that was first used in what was known as the Bolivian Experiment. The methodology was designed to help the poor in the society to access financial assistance as a group but with minimal or no collateral. The groups formed by the community applying this methodology are what became known as village banking groups. Today, the methodology has evolved to many different forms, in Lusaka to be specific, the village banking groups are coming together to pool their resources also known as savings, and it is from these savings that the group members receive or get financial assistance in the form of loans at a very low interest rate.

Initially, the village banking methodology was developed to help the poor; those from the low-income households; over the years, the membership of village banking groups has evolved to also include those from the middle-income households. Further, the methodology was meant to promote financial inclusion for the unbanked in the society, but with its more inclusive membership, the working class, entrepreneurs and those with bank accounts and access to other financial services also participate in village banking groups (Muyunda, 2020).

B. Formulation of Village Banking Group

Village banking group formulation can be either spontaneous or voluntary. Spontaneous formation usually happens unplanned where a group of people decide to form a village banking group. It can also be voluntary when someone decides to join an already existing group.

According to Banda and Nyirenda (2019), the members of the village banking group, made up of mostly women, are usually people who know each other, they are said to be self-selected and belong to the same community are social circle, for example they could be workmates, church-mates, friends or relatives. In most cases, however, not all the members may be known to each other; some become members by way of recommendation from the other already existing members. This recommendation also acts in a way as a guarantee that only those with the capacity to fully participate (save, borrow and repay loans) in the village banking group become members, and it is the responsibility of the member recommending a new member not known to the rest of the group to ensure that the people they are proposing to bring on board are able to fully participate in the village banking group. This is for the group to be successful and achieve the reasons why it was created which is primarily to help create more money for the members especially through the interests generated from the loans being repaid.

The village banking groups are self-managed by the members themselves, what this means is that the group is not governed by the laws of the government or any agencies (Mining for Zambia, n.d.). The group leadership committees usually made up of the chairperson, treasurer, and secretary, leading the groups are selected from among the group members. For new groups this is usually done at the first meeting where it is also being decided on how the group will be run, how it will operate, and the rules and regulations that will govern its existence, this is further included in the groups written constitution which is supposed to be unanimously accepted and adopted by all the members. Adoption of the constitution can be done formally by way of the members signing and by so doing pledging to adhere to the constitution and all that is contained within it, it can also be informally adopted, by just becoming common practice in the village banking group, without people actually signing on it, which may eventually lead to problems especially in the period when the constitution is not being fully adhered to. Unfortunately, not all groups have written constitutions in place, seeing as village banking groups mostly operate on the trust that exists among the members, and some of the members are (currently) or have been members (in the past) of other village banking groups, the groups start to operate on common practice or on generally acceptable rules and regulations.

C. Socioeconomic Value of Village Banking Group Membership

The number one socio – economic benefit of village banking is the financial inclusion for the communities that participate in village banking groups, which includes people who were previously unbanked, which leads to other benefits like poverty reduction as well as reduction in gender-based violence on women who become financially empowered through their village banking group membership or participation.

The World Bank's definition of financial inclusion is, "that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way" (World Bank, 2018). FINCA goes further to simplify it by defining financial inclusion as, "the delivery of financial services at affordable costs to disadvantaged and low-income segments of society" (FINCA, 2021d).

According to the Policy Monitoring and Research Centre briefing document of May 2020 titled "The Impact of Savings Groups in Uplifting the Lives of Rural Women" (2020), the village banking groups are helping to bridge the financial inclusion gender gap by increasing women's access to financial products and services such as; savings, credit, payments, transaction. This applies to all the village banking groups, at the very minimum, the groups are according their members, who are mostly woman, an opportunity to save and/or borrow at a low interest rate compared to what banks offer (Pearce, 2020), as well as allowing them to transact and make payments; payments especially to each other from within the village banking group.

The financial inclusion that comes from village banking groups, brings up a lot more benefits. The village banking groups are self-regulated, which allows them to decide how many times they save, how many times they borrow, as well as at what interest they borrow. This means that the members can easily and quickly access these services at the agreed upon times and be able to "sort out" their personal or business needs without the hustle that comes with accessing such services from banks and other formal lending institutions where a lot more bureaucracy exists. That they do not have to produce collateral for their borrowings in an even greater added advantage for members of village banking groups. As reported by Muyunda, village banking is boosting entrepreneurship in Zambia (Muyunda, 2020) by providing capital or cash injection into the businesses of its members.

Village banking promotes self-empowerment of its members, majority of whom are women, to become more financially independent and thus self-sufficient by using the funds accessed from village banking to set up businesses (Pearce, 2020). This changes the household gender power dynamics in that women now too become financially contributing members of the household, allowing them the power to make decisions in the home, starting with how their money is used, be it for food, for education or any other need they may wish to attend to as opposed to waiting for their husband or male provider to decide on these. According to a survey conducted by Pearce (2020), 78% of village banking group members joined the group to save while 68% joined to have access to the affordable loans, which goes to show the benefits that majority of the members look for is more economical than social. Eighty-Six percent (86%) of the village banking group members in a survey conducted by Pearce (2020) said their lives had improved from being members, this goes to show that people are benefiting, and lives are being changed by village banking

A more focused study on Lusaka to show to what extent village banking has brought about financial inclusion would be beneficial. It would be ideal to firstly have data that show how exactly communities in Lusaka are under banked or do not have access to formally structured financial products and services. With that information at hand, it would be ideal to also research on how many of those who do not have access to the formally structured financial products and services are accessing these products and services through village banking groups. Further, a study that uses the propensity score matching (PSM) on consumption expenditure specifically for Lusaka, as was conducted by Mwansakilwa et al. (2017) on data from Eastern and Western Zambia, would be beneficial to this study. This would help determine how the lives of people have changed, and what part of that can be attributed to village banking.

D. Village Banking Groups' Constraints

The surveyed literature for this study suggests that many of the problems faced by the village banking groups come from the way funds are handled and recorded in that it is mostly manual with usually no automation (Banda, 2019).

Most of the village banking groups in Lusaka especially before the coming of the COVID 19, used to operate purely on a cash basis. This meant that the group members met at the agreed time and produced physical cash which they put together in a box, bowl, or some other kind of wide rimmed container, for transparency purposes so that all the members can see the cash and who has contributed. Those who were paying back loans also put the money (full principal plus interest or part of the principal plus interest) in the container. After this was done, the treasurer with the help of one or two members counted the money in everyone's presence after which they declare how much had been collected. Those who wanted to borrow would then be given the funds from the pool of money collected from the other members. One would assume that with this process, as elaborated above, there would be no problems such as people disputing the records by the treasurer or the secretary showing how much they have saved, borrowed or are supposed to get, but that is usually the case. And so, in their paper, Banda and Nyirenda (2019) are proposing solutions to challenges such as these in the form of electronic solutions which would be able to keep records of transactions which seem to be more reliable that the manually generated records.

Village banking groups are informal social welfare groups; they are not registered micro finance groups, therefore, they are not regulated (Munyua, 2016) by the Bank of Zambia, the Bank of Zambia may offer guidance (Assistant Director - Communications, 2020) on the confines within which the village banking groups can operate, but ultimately there is no law governing village banking groups. The researcher recognizes this as a gap; the lack of regulation by the government is also a source of challenge for village banking groups, seeing as people would easily default on the loan knowing that unless the members of the group from which they have defaulted the loan report to the police nothing much would be done about it. It would benefit this study to research how regulating the village banking groups even only in part would address some of the challenges that come from being unregulated. There have been several stories on how members of groups have defaulted on their loans, as was the case for Mrs. Regina Phiri, a pastor's wife who is alleged to have stolen about K1.7 million from village banking groups around Lusaka (Phiri, 2020). The researcher, therefore, suggests that if the village banking groups were regulated and had laws in place for instance clearly stating the consequences of would-be defaulters, people would avoid doing so.

E. Theoretical Framework

Based on the literature reviewed, microcredits are mostly governed by three theories, namely; ex-ante moral hazard theory, adverse selection theory and the strategic default theory, which are also the theories that will be used to anchor this explorative study of village banking in Lusaka, Zambia.

Moral hazard is where an individual (entity) gets involved in risky activities because of being aware that they will not bear the consequences of the risky activities as the consequences will be borne by another individual (entity) and so it is protected from the consequences Economic Times, 2021). This knowledge of not facing the consequences usually incentivizes people to act in a riskier manner, knowing that they will not have to face any consequences, it tends to have a freeing effect, what one would not normally do because of the consequences now becomes something that they would do. Ex-ante moral hazard also refers to a situation where an individual now becomes more likely to undertake risky actions because they become aware that someone else will bear the consequences of their risky action (Nickolas, (2019)); the individual purposefully gets involved in these risky actions after it becomes clear that someone else will suffer the consequences (Nickolas, 2019). For village banking groups, the theory of ex-ante moral hazard suggests or rather explains what happens when borrowers become more likely to invest or become involved in risky businesses or actions after they have borrowed from the village banking groups (Zhang, (2008)). Because village banking groups do not require collateral from the group members who borrow, the borrowers know that they will not bear any of the consequences that would arise from any loses from their risky businesses or actions as the village banking groups are not holding on to any of their property or assets which would be liquidated to cover the borrowed money plus any interest that will not be received from the defaulting borrower.

For the purposes of this explorative study, the ex-ante moral hazard theory may speak to a weakness in the formation of the village banking group or rather a weakness on the principal on which the village banking groups operate of not requiring collateral from its members but rather operating purely on trust that those who borrow will pay back what has been borrowed plus interest, when they are supposed to pay back as per the agreed group repayment schedule or programme. The theory may also explain one of the main challenges that the village banking groups face, the challenge of members not repaying their loans knowing full well that their only loss if any would only be up to how much they saved in the group as well as the social price they would pay; social price being the humiliation or embarrassment from within the society when it becomes known that they have defaulted on the agreed payments.

The second theory on which this study is anchored is *adverse selection* which refers to the inability to tell which situation or investment is more likely to be profitable over the other because of lack of sufficient information (ASSONEBB, 2019). In the case of village banking, the adverse selection theory would explain situations where the village banking group is unable to tell whether the investment that will be made by the borrower of money will be profitable or not (Batabyal, (2015)). Currently the screening of the prospective investments of the village banking group members is not done by the village banking groups, and so loans are not given to the members based on the possible profitability but based almost completely on the fact that the person getting the loan is a member of the group and have saved enough qualifying them to borrow. This, therefore, means that only the borrowers of the money from the village baking group have the knowledge of whether their investment is or will be profitable enough for them to repay the loan plus interest to the village banking group, meanwhile all the village banking group knows is that the borrower will have to somehow repay the money to the group and repay at the interest that is agreed by the group for all the loans.

For this study, the adverse selection theory appears to speak to the rules that apply to the village banking groups, these are rules that are usually created at the formation of the village banking group, that is usually at the first official meeting of just after the group has enough members to agree to set up the rules of the group. As it is, how members investment after they have borrowed seem not to be the village banking groups concern, the concern is rather that the village banking group will make some money off the members who are borrowing through the interest that they will pay. A question on this would then be, should the rules of the village banking groups be changed to make is so that loans are only being given to members based on how profitable the borrower's investment seems to be, which will in a way guarantee repayment by the borrower to the village banking group, seeing as they will be making a profit from their investment? Looking at the theory on adverse selection in this way further speaks to how the benefits of village banking groups are measured, yes, village banking is said to be a poverty alleviating tool but to what extent is it really alleviating poverty? Should it still be considered a sustainable poverty alleviating tool if challenges of repayment exist meaning that the other village banking group members do not get to benefit from the money that is lost through defaulted loans if a borrower is not able to repay their loans.

The third theory is the *strategic default theory*. This refers to the choice by a borrower to stop making payment on what they owe, this usually happens when the value of what they owe increases, based on what that money can do for them, and so it becomes more beneficial for them to default on their debt than it is to settle it (Kagan, (2020)). Therefore, for the village banking groups, the strategic default theory would apply when to the borrower the value of the money they owe to the village banking group appears to have increased in the value that they (borrowers) place on the money. This may be because the money is able to do more for them (Guiso, 2009). Therefore, it becomes a question of whether it is more beneficial to the borrower to repay the debt to the group or to use the money for something that is more beneficial to them such as buying food or some other essentials for their homes. In the village banking groups in Lusaka Zambia, this may arise due to the fluctuating value of the Zambian currency on the money market as well as based on the prices of goods and services which are also increasing especially with the depreciation of the Kwacha. The quantities of the goods that were being bought by a K1, 000.00 two or three years ago may have reduced when you compare to what the same K1, 000.00 is able to buy currently. With this in mind, the borrowers must weigh how much they lose out on if they decide to repay their loans by thinking of what else they could have used that money for; how much it would benefit them to not pay back to the village banking group what they owe. Again, this reflects on the challenges faced by village banking groups especially around non repayment of loans.

III. Methodology

The study adopted both qualitative and quantitative approaches which were descriptive and analytical in nature. A descriptive research design attempts to identify and explain the variables that existed in a given situation and describe the relationship that exist between these variables in order to provide a picture of a particular phenomenon (Cooper & Schindler, 2008). Since triangulation of research methods can overcome personal biases and limitations that stem from the use of a single method, cross-sectional quantitative and qualitative mixing methods were used (Habtamu and Adamu, 2013).

In terms of ethical consideration, permission to carry out the study was requested from the respondents and an introductory letter from the university was solicited to make it easy to collect data and carry out the study. Participants were also informed of the right to withdraw from the study or decline to any questions. Confidentiality was also guaranteed to the respondents by making sure that none of their names are mentioned in this study.

Despite the report in the Nkwazi Magazine in November 2020 of there being approximately 15,000 village banking groups in Zambia, the exact number of people who participate in village banking in Lusaka alone is not known. This maybe owing to the fact that village banking groups are not regulated by the central bank, the Bank of Zambia, and are not required to register their existence or membership under any existing laws in Zamia. Unfortunately, this means that there is no national database that the researcher can turn to for a more accurate record of how many village banking groups exist in Lusaka as well as how many people participate in these village banking groups. Going by the 15,000 assuming that the village banking groups were evenly distributed countrywide, which is highly unlikely owing to the varying economic activities in the different provinces, it would mean that each of the 10 provinces has about 1,500 village banking groups. Given that Lusaka has 8 districts, also assuming that the village banking groups were spread evenly among the districts, which is also highly unlikely; this would imply that each district would have approximately 187 village banking groups.

Considering the limited resources (time and financial) available to the researcher to conduct this study as well as considering the increasing COVID-19 cases in Lusaka, the researcher was unable to gather data from the entire approximation of the 1,500 village banking groups in Lusaka. Therefore, the researcher applied purposive sampling, also known as subjective or selective sampling, which allowed the researcher to tailor the sample (Dudovskiy, n.d.) using the researcher's judgment on who would best represent the bigger population of the people participating in village banking groups in Lusaka. The people selected met the sampling criteria of being 16 years and above plus being literate, so as to ensure that they are able to respond to the research questions without needing parental/guardian consent as 16 years old is the legal age of consent in Zambia (Chimfwembe, 2018).

Because it was not possible to collect responses for the research from all of the approximated 1,500 groups in the Lusaka Province alone, the researcher conducted the research in just Lusaka district using 30 village banking groups out of the approximated 187 groups in Lusaka district which accounted for 16% of the groups of the target group. Questionnaires, interview schedules and focus group discussion were used as tools while analysis was done using excel and content analyses.

IV. Findings

A. Policy Framework Governing Formulation / Existence of Village Banking Innovation

Of the 51.9% who said they were aware of existing policy framework governing the formulation of village banking groups in Lusaka, 61.8% said the existing policy was effective in the governing of the formulation of village banking groups while 38.2% said it was not effective.

Of the 48.1% respondents who said they were not aware of any existing policy framework governing the formulation of village banking groups in Lusaka, when asked if they would recommend the introduction of such a policy, 93.8% said yes while only 6.3% of the respondents said no they would not recommend the introduction of policy framework governing the formulation of village banking groups. In response to whether village banking groups should be regulated by the laws of Zambia, 44.2% of the respondents said yes while 55.8% of them said it should not be regulated by the laws of Zambia.

When asked on whether they thought there was an existing policy on the formulation of village banking groups, 6 interviewees said yes, while 1 said no. On whether they felt this policy was achieving its purposes from the 6 interviewees who had said the policy exists, 3 said yes, 1 said no and 2 said not all the time. When asked whether being a member of a village banking group had both social and economic benefits, all the 7 interviewees said yes. The following is a summary of some of the benefits that they said came with being members of village banking groups:

- Promotes economic freedom
- Helps create networks
- Enhances knowledge on savings
- Helps with saving periodically
- Helps build social bonds with others
- Moral support
- Skills learning
- Access to business capital
- Access to investment money
- Access to emergency funds
- Able to advertise your business to other members

There is currently no guiding documentation from the government of Zambia, neither are there any laws on how village banking groups should be formed or run. The respondents were asked whether they would like laws introduced for this and only about 44% said yes while the majority of about 56% said no.

In response to the specific objective 1 on the efficacy of the policy framework governing the formulation of village banking, the researcher was able to establish that there is policy framework governing the formulation of village banking groups. This was evidenced by those who said yes the policy framework did exist and said it was effective. *However, during the focus group discussion and the interview, it was established that by policy framework, the respondents were referring to the constitution templates that have been used by other groups as well as the unwritten guidelines on how village banking groups are created, the steps, procedure or processes of setting up the village banking groups in Lusaka*. Zambia must have come from somewhere such as the SILC creation guidelines that SILC groups use, those shared by organization such as CARE international (Vanmeenen, 2011).

B. Socioeconomic Benefits of Membership to Village Banking

The first question under this section was aimed at finding out whether the respondents thought village banking groups were beneficial, to which they all responded in affirmative. When asked whether they had experienced any social benefits from being a member of a village banking group, 82.7% of the respondents said yes while 17.3% responded in the negative.

Below is a summary of some of the social benefits of being a member of a village banking group according to the respondents:

- Social skills enhanced by the obligation of meeting people
- Friendships are created
- Become better at conflict resolution
- Business networks are built
- Business ideas are shared
- Market place for skill, products, and services
- New skills are learnt such as financial management and entrepreneurial skills
- Promotes equality, by anyone despite gender being eligible to be in the leadership committee and everyone having access to money

In response to the question on whether the respondents had experienced any economic benefits; 78.8% responded yes, they had, while 21.2% responded no. Some of the economic benefits of being a member of a village banking group according to the respondents are summarized below:

- Access to saving facility
- Access to loans at a low interest rate
- Loans have flexible payment plan
- Access to business capital
- The savings work as an extra income
- Savings are shared with dividends at the end of the saving and borrowing cycle
- Encourages financial discipline and financial planning
- Some have bought plots and cars

  In closing this section of the questionnaire, the last question was whether the respondents' household income had improved as a result of being a member of village banking groups to which 89.4% said yes their household income had improved while 10.6% said no there was no improvement in their household income.

C. Village Banking Groups' Constraints

In response to whether the respondents had personally faced any challenges because of being a member of a village banking group, only 26.9% said yes while 73.1% said no. Those who responded yes to having personally experienced some challenges because of being members of a village banking group provided the following as some of the challenges faced:

- Being forced to borrow by the group when money remained unborrowed
- Short repayment period being strenuous
- Late loan repayment – charged penalties
- Loans become expensive overtime because of compounded interest on them
- Difficulty in understanding the village banking concept of borrowing and loan repayment
- Friendships ended when people did not repay loan on time
- Mistrust of the leadership committee
- As a money custodian, a responded was tempted to use some money for personal needs
- Borrowed money not being received on time
- Lack of proper budgeting – borrowing with no clear plan
- COVID-19 has put a strain on personal income making it difficult to repay loans or save
- Failure to pay because of family emergency

On whether the village banking group had faced any challenges that were common to all the members and affecting the smooth running of the village banking group, 55.8% said yes while 44.2% said no. Those who responded with yes provided the following challenges as being common to the whole group and affecting the smooth running of the village banking group:

- People delaying repaying or not repaying their loans at all
- Loan interests too high
- Loan interests too low
- Leadership committee not working hard enough because they are not given any incentive by the group
- Leadership committee members acting like they are above the law of the group
- Poor record (saving and borrowing) keeping
- People refusing to borrow but opting only to be saving
- Saved money not being enough to meet all the members' borrowing needs

The last question in this section was on whether the respondents thought government regulation would help reduce any of the challenges identified above to which 47.1% responded yes while 52.9% responded no.

V. Conclusion

Following the objectivity of this explorative study, the findings in this regard were that there is neither policy documentation nor a legal framework governing the formulation / operations of village banking groups from the Government's side. However, there exists self-created constitutions from groups that have existed before and these in a way act as guiding documents on how village banking groups should be formed and operated. On the other hand, respondents indicated experiences of social and economic benefits bordering on rise in income levels, liquidity and that some have been able to acquire assets like land, houses, cars including being able to take their children to better schools. However, respondents also lamented existence of pressing challenges in village banking groups. Some of the challenges identified were those that came with members not paying back their loans on time or not paying back at all. This worked against the very existence of village banking groups as they grow their money through the repayment of loans by the members at an interest and so when people choose not to pay, they are not growing the money of the group. The other challenge was the poor record keeping for the savings and borrowings that have been happening in the village banking groups. This results in people not getting the correct amounts of what is owed to them, and for others it may result in them getting more than what they should get. Among other challenges that came out during the research were that the members of the village banking group did not know the rules of village banking groups something that should be a requirement especially when someone is joining village banking groups as they should receive trainings on what is expected of them and how village banking groups run.

VI. Recommendations

(a) There is urgent need for the Government of the Republic of Zambia through the Bank of Zambia to enact legislation which will govern the formulation, operations, management and administration of Village Banking groups in order to sustain their existence and maximise their socio-economic value to the country as a whole as they potentially offer lucrative job and business opportunities.

(b) With the policy framework put in place as proposed in "a" above, most of these challenges will be overcome as capacity building trainings can be offered to both prospective and bona fide members of the groups in order to expand their business acumen and curb moral hazard phobia.

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