

An Assessment of the Growth and Sustainability of Community Village Banking in the Zambian Financial Markets

Matthew Sikaluzwe Mushikiti

WSG, University of Economy, Bydgoszcz, Poland

DOI: <https://dx.doi.org/10.47772/IJRISS.2025.909000334>

Received: 04 September 2025; Accepted: 12 September 2025; Published: 10 October 2025

ABSTRACT

In Zambia, village banking services aim to extend financial access to marginalized communities outside the formal financial sector. However, concerns persist regarding their growth and sustainability due to challenges like limited capital access, inadequate infrastructure, and regulatory gaps. This study assesses the growth and sustainability of community village banking in Zambia from 2006 to 2023, aiming to identify obstacles and propose solutions. Using a documentary research design, qualitative methods, and purposive sampling, data was collected from various sources including published articles, policy papers, and national documents. The SWOT analysis approach was employed to analyze strengths, weaknesses, opportunities, and threats associated with village banking.

The findings reveal a transformative journey from experimental stages to mainstream financial service delivery, marked by increased institutionalization, innovation, and outreach. Village banking emerged as a beacon of hope, contributing to poverty reduction, gender equality, and inclusive growth. However, challenges like limited capital access, inadequate infrastructure, and regulatory gaps persist, threatening sustainability. Recommendations include strengthening regulatory frameworks, expanding financial literacy programs, fostering gender equality, enhancing capital access, and embracing technological integration. Implementation of these recommendations can enhance the effectiveness, resilience, and sustainability of community village banking in Zambia, contributing to broader economic and social development goals.

Keywords— Village Banking, Sustainability, Financial Inclusion, Growth, SWOT Analysis

INTRODUCTION

community village banking, also known as village banking, is a grassroots financial system that provides financial access to low-income individuals in rural or underserved areas through mutual support and cooperation. It is typically structured around savings and lending activities, where members pool resources through regular contributions, creating a common fund from which loans are disbursed. Unlike conventional banking systems, village banking operates outside the formal financial sector, reducing barriers for marginalized groups while enhancing accessibility (Angelow, 2016; FINCA, 2024). Leadership and administration are usually managed locally, encouraging transparency, accountability, and an alignment with community needs. The microcredit model enables small loans to individuals without collateral, supporting entrepreneurship, income generation, and improved living standards (BCP, 2023; Hapompwe, Siwale & Banda, 2021).

A unique characteristic of village banking is the group guarantee system, where members collectively guarantee loans, thereby reducing credit risk and strengthening solidarity (Deelen & Majurin, 2008; Fula, 2023). This approach fosters responsibility, promotes repayment, and reinforces social cohesion. As such, village banking contributes significantly to poverty alleviation, education, healthcare, and community development. It embodies inclusivity, self-reliance, and collaboration, making it a transformative tool for economic empowerment in underserved areas (Jamison et al., 2018; Mukulu & Qutieshat, 2022).

Growth, in this context, refers to the expansion of village banking in terms of reach, participation, and financial services offered, while sustainability relates to its long-term ability to thrive without resource depletion or systemic collapse (Mollenkamp, 2023; Basiago, 1999). In Zambia, where communities face resource scarcity, the dual focus on growth and sustainability is critical. Village banking stimulates economic growth by enabling investments in businesses and social services. However, sustainability ensures these benefits endure by embedding environmental safeguards, gender equality, and resilience against economic shocks (Cholasser, 2016; Mir & Bhat, 2022). Thus, balancing growth with sustainability is essential for long-term development.

Despite its potential, the growth and sustainability of village banking in Zambia face persistent challenges. Limited access to capital constrains the scope of services and hinders expansion (Bogan, 2012; Kalunga et al., 2023). Inadequate infrastructure, such as poor transport, electricity, and digital connectivity, further weakens operational efficiency (Daka & Mwalongo, 2020). Additionally, weak or absent regulatory frameworks expose these systems to risks of mismanagement and fraud, reducing trust and limiting participation (Anon., 2022; Chisenga, 2018).

Given these issues, there is a pressing need for research to explore obstacles and develop strategies to promote growth and sustainability in Zambia's village banking sector. The objectives of the current study are threefold: to analyse the growth of community banking from 2006 to 2023, assess its sustainability, and examine its strengths, weaknesses, opportunities, and threats. Through these insights, policymakers, financial institutions, and stakeholders can create supportive frameworks that strengthen the role of village banking as a driver of poverty reduction, inclusion, and sustainable socio-economic development in Zambia (Mashigo & Kabir, 2016; Ledgerwood, Earne & Nelson, 2013).

LITERATURE REVIEW

Financial markets are fundamental to modern economies, facilitating capital allocation and economic development. This paper explores key theories and structures that underpin financial markets and banking systems, with particular focus on their application in developing economies like Zambia.

A. Main Theories of Financial Markets

Several foundational theories guide our understanding of financial markets. The Efficient Market Hypothesis (EMH), developed by Eugene Fama in the 1960s, asserts that markets efficiently incorporate all available information into asset prices, making consistent above-average returns impossible (Downey et al., 2024). EMH proposes three forms of market efficiency: weak, semi-strong, and strong, each representing different levels of information incorporation into prices (Maverick et al., 2023).

Behavioral Finance challenges EMH by integrating psychology into financial decision-making. Unlike traditional finance theories assuming perfect rationality, behavioral finance acknowledges that human behavior often deviates from rationality due to cognitive biases and emotional responses (Hayes et al., 2023). Pioneers like Daniel Kahneman, Amos Tversky, and Richard Thaler developed this field to explain phenomena such as market bubbles and investor overconfidence that traditional theories couldn't adequately address.

Modern Portfolio Theory (MPT), developed by Harry Markowitz in the 1950s, focuses on optimizing portfolios for risk-return tradeoffs (Scott & Kvilhaug, 2023). MPT revolutionized investment management by introducing mathematical approaches to portfolio construction, emphasizing diversification to reduce risk without sacrificing returns. The theory established the concept of the efficient frontier, representing optimal portfolios offering either maximum return for a given risk level or minimum risk for a given return level.

Market Microstructure Theory examines asset pricing dynamics and market structure at the micro level, considering factors like market frictions and liquidity (Wenjuan, 2017). This approach analyzes individual transactions and interactions between market participants with varying information levels, strategies, and preferences. Market liquidity—the ease with which assets can be traded without significant price impact—is a central concept, highlighting the role of liquidity providers in facilitating efficient trading.

B. Types of Financial Markets

Financial markets comprise several specialized sectors. Money Markets facilitate short-term borrowing and lending through highly liquid, low-risk instruments like treasury bills and commercial papers (Dodd, 2012). Key participants include commercial banks, central banks, and institutional investors. While money markets offer liquidity and safety, returns are typically lower than other investments.

Capital Markets enable long-term borrowing and lending through securities like stocks and bonds (Hayes et al., 2023). These markets drive economic growth by channeling funds to businesses and governments for long-term investments. Building diversified portfolios and staying informed are essential for success in these markets, which balance growth opportunities with risks like market volatility.

Currency Markets (Forex) represent the largest and most liquid financial markets globally, facilitating currency exchange (Chen & Scott, 2022). Participants include central banks, commercial banks, institutional investors, and retail traders. Currency values are influenced by economic indicators, geopolitical events, and central bank policies. While offering high liquidity and profit potential, currency trading involves significant risks.

C. Concept of Banking

Banking theories explain how financial institutions function in economies. The Credit Creation Theory describes how banks create money through lending, effectively expanding the money supply by increasing borrowers' deposit balances (Werner, 2016). This process relies on banks' confidence that loans will be repaid, facilitating economic development through increased investment.

The Fractional Reserve Theory explains how banks hold only a fraction of deposits in reserve while lending the rest (Nevil & Kelly, 2024). This system efficiently allocates capital and enables credit expansion, though it also carries risks like potential bank runs, necessitating prudential regulations to maintain stability.

Financial Intermediation Theory emphasizes banks' role in channeling funds from savers to borrowers, bridging the gap between surplus and deficit units (Mayowa, 2020). By pooling funds from multiple depositors, banks diversify risk and allocate capital more efficiently than individual savers or borrowers could independently.

Risk Management Theories provide frameworks for banks to identify, assess, and mitigate various risks, including credit, market, liquidity, and operational risks (Dabari & Saidin, 2014). These approaches enhance financial institutions' stability and resilience through techniques like stress testing and risk-based capital allocation.

D. Banking System Structure

The banking sector encompasses various types of institutions. Retail banks provide financial services to individuals and small businesses, including savings accounts, personal loans, and mortgages (Majaski et al., 2023). Commercial banks serve businesses and corporations with services like business loans, trade finance, and cash management (Kagan et al., 2023). Investment banks specialize in financial advisory services and capital raising for corporations and governments through activities like mergers and acquisitions and securities underwriting (Kagan et al., 2023).

Islamic banking operates according to Sharia law, prohibiting interest and promoting risk-sharing (Tarver et al., 2023). Green banking focuses on environmental sustainability and social responsibility in operations and investments (Mir & Bhat, 2022).

Central banks and commercial banks have distinct but interconnected roles in financial markets. Central banks oversee monetary policy, regulate money supply, and maintain financial stability (Segal et al., 2022). They influence commercial banks through monetary policies, affecting lending activities by adjusting interest rates and reserve requirements. Commercial banks serve as intermediaries between depositors and borrowers, channeling funds to productive investments while managing risks through prudent lending practices.

E. Financial Markets in Zambia

Zambia's financial market includes both formal and informal structures. The formal sector comprises regulated institutions like banks, capital markets, insurance companies, and pension funds. The Lusaka Stock Exchange (LuSE) serves as the primary platform for trading equities, while the bond market facilitates issuance of government and corporate debt.

The informal financial sector plays a vital complementary role, especially in rural areas where formal services are limited. This includes informal savings groups (chilimba), money lenders, rotating savings associations, and informal remittance networks.

Village banking has emerged as an important component of Zambia's financial landscape, particularly for financial inclusion in rural areas. The concept was introduced to Zambia in 2006, starting in Chongwe District and later expanding to Katete, Chama, and Mambwe districts. Village banks are formed to improve social inclusion and alleviate poverty, especially by empowering women and supporting community development. These institutions transcend economic functions to foster social cohesion and resilience through collective responsibility and knowledge sharing.

Financial markets and banking institutions are essential components of economic systems, facilitating capital allocation, risk management, and economic development. Understanding their theoretical foundations, structures, and dynamics is crucial for policymakers, regulators, and market participants. In developing economies like Zambia, both formal and informal financial structures play important roles in fostering economic growth and financial inclusion, with village banking emerging as a particularly significant mechanism for extending financial services to underserved communities.

RESEARCH METHODOLOGY

The research methodology refers to the systematic framework used to gather, analyze, and interpret data in order to achieve the study objectives. It outlines the procedures employed, justifies the chosen methods, and ensures the reliability and validity of the findings. For this study, the methodology is designed to provide a structured roadmap that enhances transparency, replicability, and credibility in assessing the growth and sustainability of community village banking in Zambia.

The study adopts a documentary research design, which is a qualitative approach relying on secondary data sources. This design is appropriate because the study's aim is to explore the historical development, sustainability, and operational challenges of village banking in Zambia without primary data collection. Sources such as policy papers, journal articles, newspapers, and government reports will be analyzed to provide a comprehensive review of the subject. This approach enables a rich synthesis of diverse perspectives and ensures that the findings are drawn from validated and contextually relevant information.

A qualitative research approach underpins the design, aligning with the exploratory nature of the study. Village banking presents complex socio-economic dynamics that cannot be fully captured through quantitative measures. Qualitative methods allow for a deeper exploration of contextual factors, challenges, and opportunities that influence its growth and sustainability. By focusing on meanings, patterns, and narratives within documents, the study is positioned to provide nuanced insights for policymakers and stakeholders.

The study employs a purposive sampling technique to select documents that are directly relevant to the research objectives. This ensures that only credible and contextually rich sources—such as financial reports, policy documents, and peer-reviewed articles—are included. Purposive sampling enhances efficiency by focusing on sources most capable of providing meaningful insights into growth trends, sustainability issues, and SWOT factors related to village banking in Zambia.

Data collection will involve gathering documents from various credible sources, while data analysis will be conducted using both content analysis and thematic analysis. Content analysis will identify key terms, concepts, and discourses within the literature, providing a broad overview of the subject. Thematic analysis

will delve deeper to uncover underlying themes and patterns, such as regulatory barriers, economic opportunities, and social challenges. Together, these methods ensure both breadth and depth in analysis.

Finally, ethical considerations are central to the study. All sources will be properly cited to avoid plagiarism and to respect intellectual property rights. Only reputable sources will be used to ensure validity, and interpretations will be balanced to avoid bias or misrepresentation. This rigorous ethical framework safeguards the integrity and credibility of the research findings.

RESULTS

Growth of community village banking from 2006 to 2023

Village banking has emerged as a transformative force in Zambia's microfinance landscape since its inception in 2006. The journey from its experimental beginnings to its current significance in 2023 reveals a remarkable evolution characterized by innovation, growth, and socioeconomic impact across rural communities.

Primitive Stage (2006-2010)

The period from 2006 to 2010 marked the primitive stage of village banking in Zambia, characterized by experimental initiatives and pilot projects aimed at testing the feasibility and effectiveness of the model. The Village Banking project first started in Chongwe District of Lusaka in 2006 and was later replicated in three districts: Katete, Chama, and Mambwe. The initiative was primarily established to help control the cost of living across various dimensions including economic, social, agricultural, and business sectors. In Katete, for example, the project was implemented in four wards: Vulamkoko, Kafumbwe, Kagoro, and Mphangwe (Hapompwe et al., 2021).

During this foundational period, village banking activities became increasingly common practice for accessing financial services among poor communities and entrepreneurs who sought to avoid the high transaction charges from mainstream banks and microfinance institutions. These early efforts helped communities gain easy access to affordable financial services such as savings and loans facilities based on trust among themselves (Kalunga et al., 2023).

Village banking operations during this stage were relatively small-scale and localized, with limited outreach. Groups of community members, predominantly women, formed village banking associations, pooling their resources and collective guarantees to access microcredit. These modest loans provided crucial capital for income-generating activities such as agriculture, small-scale trading, and artisanal production, empowering beneficiaries to improve their livelihoods (Sishumba & Mulonda, 2019).

Despite early successes, several challenges emerged during this primitive stage. Operational inefficiencies, inadequate institutional capacity, and limited financial literacy among participants hindered the scalability and sustainability of village banking programs. The absence of supportive regulatory frameworks and insufficient coordination among stakeholders created additional barriers to development and expansion.

Evolution Period (2011-2015)

The evolution of village banking from 2011 to 2015 witnessed significant strides in institutionalization, innovation, and outreach, as stakeholders collaborated to address challenges and capitalize on emerging opportunities. Recognizing the potential of village banking as a catalyst for rural development and poverty reduction, policymakers, regulators, and development partners intensified their support for scaling up and mainstreaming village banking initiatives across Zambia (PMRC, 2020).

During this period, village banking operations underwent a transformation, with greater emphasis on institutional strengthening, capacity building, and sustainability. Village banking associations formalized their structures, established governance mechanisms, and adopted standardized procedures for loan disbursement, repayment, and savings mobilization. Technological advancements, including mobile banking and digital

financial services, enhanced operational efficiency, reduced transaction costs, and improved access to financial services in remote areas (Chisenga, 2018).

The evolution of village banking also witnessed a diversification of services and products offered to beneficiaries. In addition to microcredit, village banking associations began offering savings products, insurance schemes, and financial literacy training to enhance financial resilience and promote long-term economic empowerment. Partnerships with commercial banks, microfinance institutions, and fintech startups expanded the range of financial solutions available to rural communities (Fula, 2023).

As village banking matured and gained momentum, its contribution to society and recognition in Zambia grew significantly. Beyond its immediate impact on poverty alleviation and livelihood improvement, village banking emerged as a catalyst for social cohesion, community empowerment, and grassroots development. By fostering entrepreneurship, self-reliance, and collective action, village banking associations empowered marginalized groups, particularly women and youth, to take control of their economic futures (Sichilongo & Sinkala, 2021).

Emerging Value in 2023

By 2023, village banking had become an integral component of Zambia's financial ecosystem, with a network of vibrant and resilient village banking associations operating across the country. With enhanced regulatory support, improved infrastructure, and greater public awareness, village banking evolved into a mainstream financial service delivery model, serving as a beacon of hope and opportunity for millions of Zambians striving to build better lives (BCP, 2023).

In this era of emerging value, village banking associations became more sophisticated in their operations, leveraging technology, data analytics, and social networks to enhance their outreach, efficiency, and impact. Mobile banking platforms enabled remote communities to access financial services conveniently, while digital credit scoring algorithms allowed village banking associations to assess creditworthiness and manage risk more effectively. Strategic partnerships with telecommunications companies, commercial banks, and fintech startups expanded the range of financial products and services available to village banking beneficiaries, further enhancing their financial resilience and inclusion (Mutapa & Moono, 2024). [see figure 1].

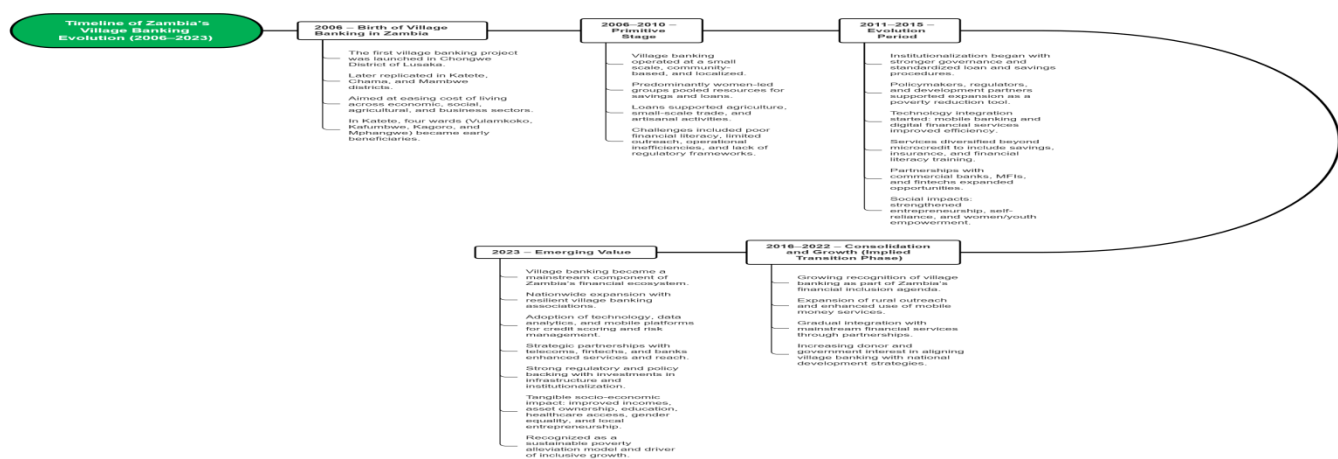


Fig. 1 Timeline of Zambia's Village Banking Evolution Source: Author (2025)

The emergence of village banking as a valuable and sustainable model for poverty alleviation and economic empowerment was reflected in its increasing recognition and support from government agencies, financial regulators, and international development organizations. National policies and strategies prioritized the expansion and institutionalization of village banking initiatives, allocating resources for capacity building, infrastructure development, and regulatory reform (Jamison et al., 2018). Furthermore, the socio-economic impact of village banking in Zambia became more pronounced and measurable, with empirical evidence highlighting its contributions to poverty reduction, gender equality, and inclusive growth. Studies documented improvements in household incomes, asset ownership, and access to education and healthcare among village

banking beneficiaries. Village banking associations emerged as key drivers of local economic development, fostering entrepreneurship, job creation, and market linkages in rural areas (World Vision Zambia, 2020).

The history of village banking in Zambia since 2006 demonstrates its transformative potential as a tool for poverty alleviation, community empowerment, and inclusive growth. From its primitive beginnings to its emergence as a valuable and sustainable model for financial inclusion and development, village banking has evolved in response to changing socio-economic dynamics and stakeholder priorities. Looking ahead, sustaining and scaling up village banking initiatives will require continued commitment, collaboration, and innovation from all stakeholders as Zambia strives to build a more inclusive, equitable, and prosperous society. [see table 1].

Sustainability of community village banking in Zambia

Going public represents a significant milestone in a company's evolution, offering both transformative opportunities and substantial challenges. The decision to transition from private to public ownership through an initial public offering (IPO) requires careful consideration of various factors that can impact a company's future trajectory.

Primary Motivations for Going Public

The most compelling reason companies choose to go public is capital acquisition. When companies go public, they sell ownership shares to the public in exchange for cash, providing substantial funding that can be directed toward research and development initiatives, capital expenditures, or debt reduction (Balasubramaniam, James & Kvilhaug, 2024). This influx of capital enables companies to pursue growth strategies that might otherwise remain out of reach.

Beyond financial resources, IPOs generate significant publicity, introducing the company's products and services to broader audiences. This heightened visibility can translate into expanded market share and customer base. Additionally, IPOs serve as effective exit strategies for founding individuals and early investors. Many venture capitalists leverage IPOs to realize returns on successful startups they helped launch (Balasubramaniam, James & Kvilhaug, 2024). Should a company require additional capital after its IPO, it can conduct a secondary public offering, introducing new shares to investors to secure further funding for continued growth and development.

Challenges of Public Ownership

Despite the numerous advantages, going public introduces significant complexities. One of the most demanding aspects is the regulatory landscape. Public companies must comply with the Securities Exchange Act of 1934, which mandates regular financial reporting—a particular challenge for newly public companies. These organizations must also navigate rules and regulations monitored by the Securities and Exchange Commission (SEC) (Balasubramaniam, James & Kvilhaug, 2024).

Table 1: Evolution of Zambia's Village Banking (2006–2023)

Stage & Period	Key Characteristics	Activities & Innovations	Challenges	Socioeconomic Impact
Primitive Stage (2006–2010)	Experimental phase; pilot projects in Chongwe, Katete, Chama, Mambwe	Community savings groups; small-scale, women-led associations; trust-based loans for agriculture, small trade, and artisanal work	Limited outreach; poor financial literacy; lack of regulation; operational inefficiencies	Provided first affordable financial services to rural poor; improved livelihoods through income-generating activities
Evolution Period (2011–	Institutionalization and scaling-up	Formalized governance; standardized loan & savings procedures;	Sustainability concerns; need for stronger capacity	Expanded services (savings, insurance, financial literacy);

2015)		adoption of mobile banking & digital services; partnerships with banks, MFIs, fintechs	building	improved rural financial access; boosted entrepreneurship, women/youth empowerment
Emerging Value (2023)	Mainstream financial inclusion tool; nationwide coverage	Leveraged technology (mobile platforms, digital credit scoring, data analytics); stronger regulatory support; strategic partnerships with telecoms, fintechs, and banks	Need for continuous innovation & regulatory adaptation to keep pace with demand	Tangible improvements in income, assets, education, healthcare access; promoted gender equality, inclusive growth, and rural entrepreneurship

Source: Author (2025)

The costs associated with these regulatory requirements can be substantial and continue to increase as new investor protection measures are implemented. These expenses include generating financial reports, audit fees, maintaining investor relations departments, and supporting accounting oversight committees.

To enhance resilience, diversification of income sources for village bank members is crucial. Encouraging members to engage in a variety of economic activities can mitigate the risks associated with reliance on a single income source. Additionally, establishing linkages with formal financial institutions can provide village banks with more robust financial support systems, including access to larger pools of capital and better risk management mechanisms (see table 2).

Another challenge is the limited scope of village banking operations. While village banks can effectively address the needs of small-scale entrepreneurs and households, they often lack the capacity to support larger business ventures or significant community projects. To expand their impact, it is essential to explore ways to scale up village banking operations. This can involve forming networks or federations of village banks that can pool resources for larger projects or negotiate better terms with external financiers.

Regulatory challenges also pose a threat to the sustainability of village banking. The informal nature of these banks often means they operate outside the purview of formal financial regulations, which can lead to issues such as lack of consumer protection and financial oversight. Developing a regulatory framework that recognizes and supports the unique nature of village banks is essential. Such a framework should aim to protect members' interests while providing the flexibility needed for village banks to operate effectively. Community village banking in Zambia offers a promising pathway toward sustainable economic and social development. By providing access to financial resources, fostering community cohesion, and empowering marginalized groups, village banks can drive significant positive change. However, realizing the full potential of village banking requires addressing the economic, social, and environmental challenges that threaten its sustainability. This involves continuous capacity building, promoting gender equality, integrating environmental sustainability into financial practices, and developing supportive regulatory frameworks.

The sustainability of community village banking in Zambia is not guaranteed but can be achieved through concerted efforts from all stakeholders, including community members, NGOs, government agencies, and international partners. By building on the strengths of the village banking model and addressing its challenges, Zambia can ensure that these community-driven financial institutions continue to thrive and contribute to the country's broader development goals.

Swot Analysis

SWOT Analysis is a strategic planning tool used to identify and evaluate the Strengths, Weaknesses, Opportunities, and Threats related to a business or project. This method is crucial for understanding both internal and external factors that can impact an organization's success and sustainability. In the context of

assessing community village banking in Zambia, SWOT Analysis helps provide a comprehensive overview of the sector's performance and potential challenges.

The study aims to examine the growth and sustainability of community village banking in the Zambian financial markets from 2006 to 2023. The first objective focuses on analyzing the historical growth of community banking, charting its evolution and identifying key milestones and trends over the decades. This historical perspective is vital for understanding how community village banking has developed and adapted to changes in the economic and regulatory landscape of Zambia.

Table 2: Sustainability Challenges and Strategies for Village Banking in Zambia

Challenge/Focus Area	Description	Proposed Strategies/Recommendations
Income Source Diversification	Over-reliance on single income sources increases vulnerability of members.	Encourage multiple economic activities to spread risk and enhance resilience.
Limited Operational Scope	Village banks mainly serve small-scale entrepreneurs; lack capacity for large projects.	Form networks/federations of village banks to pool resources and negotiate better terms with financiers.
Regulatory Challenges	Informal operations outside formal financial oversight; limited consumer protection.	Develop supportive regulatory frameworks that protect members while maintaining flexibility.
Social & Development Role	Village banks promote access to finance, community cohesion, and empowerment of marginalized groups.	Enhance capacity building, promote gender equality, and strengthen social cohesion.
Environmental Sustainability	Current models do not fully integrate environmental considerations.	Incorporate environmentally sustainable practices into financial operations.
Stakeholder Engagement	Sustainability requires collaboration across different actors.	Mobilize community members, NGOs, government agencies, and international partners for support.

Source: Author (2025)

The second objective assesses the sustainability of community village banking, looking into factors that influence its long-term viability, such as financial stability, governance structures, and community support. Finally, by conducting a SWOT Analysis, the study seeks to identify the strengths that have driven success, the weaknesses that need addressing, the opportunities for future growth, and the threats that could undermine the sector. This comprehensive analysis will provide actionable insights for stakeholders to enhance the effectiveness and resilience of community village banking in Zambia.

Village banking has emerged as a vital financial mechanism in many developing countries, offering a lifeline to those in remote and underserved areas. In Zambia, this grassroots financial model has garnered attention for its potential to foster sustainable economic development and financial inclusion. This SWOT analysis examines the strengths, weaknesses, opportunities, and threats of village banking systems in Zambia.

Strengths

Strong Community Engagement and Trust

One of the primary strengths of village banking in Zambia is its foundation in community trust and social relationships. These financial groups operate on principles of mutual accountability and shared responsibility.

"We have never insured this money, but we trust each other. Each person that comes here is recommended by a longtime group member, and we visit each member's home, so we transact purely based on trust" (Rainz, 2023).

This trust-based system ensures high rates of participation and compliance, creating financial communities that are resilient despite operating outside formal banking structures.

Accessibility and Financial Inclusion

Village banking provides essential financial services to populations typically excluded from the formal banking sector. About 2 billion people across roughly 450-500 million households in the global South depend on forest landscapes for their livelihoods, yet up to 80% of rural smallholder populations remain "unbanked" (BCP, 2023).

Village banks bridge this gap by offering accessible financial services with minimal barriers to entry. The simplified processes and local management make these services appropriate for communities with limited financial literacy or formal documentation.

Adaptability and Innovation

Village banking groups demonstrate remarkable adaptability in the face of challenges. The 'Dare to Discover' savings group provides a compelling example:

"Before COVID-19, business was normal, as we frequently met to conduct our monthly transactions. The pandemic brought about devastating realities, as we could not meet as before, and most of our businesses came to a standstill." Despite these challenges, the group identified new opportunities—producing face masks, selling hand sanitizers, and diversifying into multiple business ventures (World Vision Zambia, 2020).

Impressive Growth and Returns

The financial performance of well-managed village banking groups can be substantial. BCP's pilot project in Mwanya Chiefdom showed that between August 2020 and August 2021, twenty village banking clubs increased their savings by an impressive 494%, growing from ZMW50,000 (approximately US\$2,500) to ZMW293,937 (approximately US\$15,000) (BCP, 2023).

Similarly, the 'Dare to Discover' group raised K28,000 (US\$1,400) from various ventures, enabling them to open a grocery store, share profits with members to start individual businesses, and support children's education (World Vision Zambia, 2020).

Weaknesses

Limited Regulation and Financial Security

Village banking groups typically operate outside formal financial regulations, which creates potential vulnerabilities. Without formal oversight, these systems may lack standardized safeguards against financial mismanagement or fraud.

As one participant explained about the risks: *"We usually lend [in pairs], so if I contribute money to my partner, after six months she has to contribute to me. But my partner disappeared soon after getting the money. I think it was about 15,000 kwacha [\$1,210]"* (Rainz, 2023).

Insufficient Capital for Larger Investments

The pooled resources of village banks are often limited by the financial capacity of their members. This constraint can restrict the size of loans available and limit the ability to finance larger entrepreneurial ventures or significant community investments.

Variable Financial Literacy Levels

While some village banking initiatives incorporate financial education, many members still struggle with basic financial concepts and business management skills. World Vision's intervention in Jamba village recognized this weakness, providing "capacity-building training in village banking for selected women" and mentorship through the Empowered World View program to address "beliefs and cultures that perpetuate poverty" (World Vision Zambia, 2020).

Dependency on External Support

Many village banking groups initially rely on external organizations for setup, training, and ongoing guidance. This dependency can create sustainability challenges if support is withdrawn before groups have developed sufficient independent capacity.

Opportunities

Integration with Digital Financial Services

Technological advances offer transformative potential for village banking systems in Zambia. As BCP (2023) notes: *"Technological advances in mobile and blockchain technology offer the opportunity to better connect people and groups, create digital banking identities, and safely pool resources at scale."*

These technologies can enhance security, improve record-keeping, facilitate remote transactions, and expand the reach of village banking to more isolated communities.

Expanded Financial Products and Services

Village banking groups have opportunities to diversify beyond basic savings and loans. As noted by BCP (2023): *"VLSGs offer a definitive pathway to introduce other financial products and services such as micro-insurance schemes and funeral cover for members."*

Considering the significant costs families face for funerals and healthcare, these expanded financial services could significantly improve quality of life and financial resilience.

Climate Finance and REDD+ Integration

Climate financing mechanisms like REDD+ provide sustainable funding sources for village banking initiatives. BCP's model demonstrates how carbon offset revenues can support community-driven financial inclusion:

"As part of BCP's benefit-sharing agreement with communities, funds from REDD+ carbon offsets, sold by BCP on behalf of Chiefdoms, are distributed semiannually to Community Forest Management Groups (CFMG). These funds, which are managed by the CFMGs, are subsequently invested in different community development projects and livelihood projects" (BCP, 2023).

This integration of climate and financial goals creates sustainable, locally-owned development pathways.

Enhanced Gender Empowerment

Village banking offers significant opportunities for women's economic empowerment. The success of women-led groups like 'Dare to Discover' demonstrates how these financial mechanisms can transform gender dynamics and economic power structures in rural communities.

Threats

Economic Volatility and External Shocks

Village banking systems face threats from broader economic instability, including inflation, currency devaluation, and market disruptions. The COVID-19 pandemic illustrated how external shocks can disrupt meeting schedules, income-generating activities, and loan repayment capabilities.

Competition from Formal Financial Institutions

As formal banks expand their reach, they may attract members away from village banking groups, particularly wealthier or more financially literate participants. The Bankers Association of Zambia acknowledges village banking's value but expresses concerns: "We appreciate the ideas that women are coming up with to empower themselves, but we are worried that this money is not safe, if it is not in the bank" (Rainz, 2023).

Risk of Default and Group Dissolution

The trust-based lending model faces threats from default risks that can erode group cohesion and financial sustainability. Without formal enforcement mechanisms, groups rely heavily on social pressure and community relationships to ensure repayment.

Inadequate Policy Support

While some progress has been made in recognizing informal financial systems, village banking still operates in a policy environment that often favors formal financial institutions. Without appropriate regulatory frameworks that acknowledge their unique characteristics, village banks may face challenges to long-term legitimacy and growth.

Village banking in Zambia represents a powerful example of community-driven financial inclusion that addresses gaps left by formal banking systems. Its strengths in community engagement, accessibility, adaptability, and impressive returns are balanced against weaknesses in regulation, capital limitations, variable financial literacy, and external dependencies.

The future of village banking in Zambia will depend on how effectively these systems can capitalize on opportunities in digital technology, expanded financial services, climate finance integration, and gender empowerment, while mitigating threats from economic volatility, institutional competition, default risks, and policy limitations.

As Denny Kalyalya, governor of Zambia's central bank, observed: "*Banks have to shape up and come up with products that will suit the needs of the people. If you don't innovate, you will be overtaken. At the end of the day, women have to put money somewhere*" (Rainz, 2023). This acknowledgment from formal financial authorities underscores the vital role village banking plays in Zambia's financial landscape and the importance of supporting its continued development and evolution [see table 3].

Table 3: SWOT Analysis of Village Banking in Zambia

Strengths	Weaknesses	Opportunities	Threats
Strong community trust & engagement – built on mutual accountability and social relationships (Rainz, 2023).	Limited regulation & financial security – lack of formal oversight increases risks of fraud and mismanagement.	Integration with digital financial services – mobile and blockchain can improve security, record-keeping, and outreach (BCP, 2023).	Economic volatility & external shocks – inflation, devaluation, and crises like COVID-19 disrupt activities.

Accessibility & financial inclusion – provides essential services to unbanked rural populations excluded from formal banks (BCP, 2023).	Insufficient capital – limited pooled resources restrict larger loans and investments.	Expanded financial products – scope to introduce micro-insurance, funeral cover, and healthcare financing (BCP, 2023).	Competition from formal institutions – banks may attract wealthier members, raising safety concerns (Rainz, 2023).
Adaptability & innovation – groups pivoted during COVID-19 by producing masks, sanitizers, and diversifying businesses (World Vision Zambia, 2020).	Variable financial literacy – many members struggle with financial management; reliance on training (World Vision Zambia, 2020).	Climate finance integration – REDD+ and carbon offset revenues can fund village banking and community projects (BCP, 2023).	Risk of default & group dissolution – defaults undermine trust and sustainability.
Impressive growth & returns – some groups achieved 494% savings growth in one year (BCP, 2023).	Dependency on external support – reliance on NGOs and partners for setup and capacity building.	Gender empowerment – women-led groups like <i>Dare to Discover</i> show strong transformative impact.	Inadequate policy support – policy bias towards formal banks limits legitimacy and growth.

Source: Author (2025)

CONCLUSION

The main aim of this study was to assess the growth and sustainability of community village banking in the Zambian financial markets, focusing on three specific objectives: analyzing the growth of community village banking from 2006 to 2023, assessing its sustainability, and examining the strengths, weaknesses, opportunities, and threats associated with this model.

The analysis of growth from 2006 to 2023 demonstrates a remarkable transformation in Zambia’s microfinance landscape. During the primitive stage between 2006 and 2010, village banking initiatives were largely experimental, implemented as pilot projects to test feasibility. These early efforts targeted rural poverty reduction by introducing village banking in selected districts, where communities—particularly women and marginalized groups—gained access to small-scale financial services. Despite operational inefficiencies and limited outreach, these initiatives laid the foundation for future growth. From 2011 to 2015, village banking evolved through greater institutionalization, the adoption of standardized procedures, and the integration of technology. Associations expanded their services to include savings, insurance schemes, and financial literacy training, enhancing both resilience and empowerment. By 2023, village banking had become a central component of Zambia’s financial ecosystem, benefiting from regulatory support, improved infrastructure, and strategic partnerships. Leveraging digital platforms, these associations demonstrated sophistication in operations, with measurable contributions to poverty reduction, gender equality, and inclusive growth. National policies began prioritizing the institutionalization of village banking, embedding it in broader development agendas.

The sustainability of village banking in Zambia is evident in its role as a grassroots financial mechanism for remote and underserved populations. By stimulating savings and lending practices, it fosters financial inclusion, women’s empowerment, and community cohesion. However, sustainability is challenged by economic, social, and environmental factors. Economically, village banking supports investments in income-generating activities but faces threats from mismanagement, high interest rates, and limited oversight. Strengthening financial literacy and governance is essential for responsible lending. Socially, village banking empowers women and strengthens communities, yet cultural and gender-related barriers can hinder

participation. Addressing these through gender-sensitive approaches and inclusive dialogue is crucial. Environmentally, while village banking indirectly promotes sustainable practices, integrating environmental education can ensure alignment between financial goals and ecological sustainability.

The SWOT analysis of community village banking highlights both achievements and areas of concern. Strengths include deep community trust, accessibility for underserved populations, and tailored financial products that enhance resilience. Weaknesses arise from limited regulation, inadequate financial literacy, insufficient capital, and risks of default. Opportunities lie in expanding financial inclusion, empowering women and youth, adopting digital financial services, strengthening partnerships, and leveraging climate finance for sustainable development. However, threats such as economic volatility, competition from formal banks, regulatory gaps, and social-cultural challenges could undermine progress.

Based on these findings, the study proposes several recommendations. Strengthening regulatory frameworks will enhance oversight, transparency, and accountability. Expanding financial literacy programs is vital to empower members with the knowledge required for informed decision-making. Promoting gender equality through inclusive approaches will encourage broader participation and leadership by women. Enhancing access to capital through linkages with formal financial institutions will expand the scope of services. Finally, embracing technological integration will streamline operations, improve security, and expand outreach.

Therefore, by implementing these recommendations, stakeholders can reinforce the resilience and sustainability of community village banking in Zambia. In doing so, village banking will continue to serve as a transformative tool for poverty alleviation, economic empowerment, and inclusive development, contributing significantly to Zambia's broader economic and social goals.

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