IJSES

Volume 7, Issue 11, pp. 35-40, 2023.

International Journal of Scientific Engineering and Science

ISSN (Online): 2456-7361

An Evaluation of the Influence of Village Banking on Livelihoods: A Case of Mpingu Extension Planning Area in Lilongwe District, Malawi

Kukano Crispin, Peter Kantchewa

Kukano Crispin: corresponding author

Email: crispincheelo@gmail.com

Abstract— *The study assessed the influence of loans that are acquired through village banking participation in rural communities whose main objective was to evaluate the effect of village banking on livelihood in Mpingu Extension Planning Area in Lilongwe Malawi. The sample size in the study was seventy-five (75) village bank and non-village bank participants. A village bank is a type of banking that does not involve any formal institutions for people to access the services, unlike the well-known traditional banks that require a rigorous process for one to acquire the services. The research design was exploratory sequential mixed methods and purposive sampling was used to identify the participants. The research followed descriptive research which is a type of research that describes the specific characteristics of a certain population. The tools used in data search was a questionnaire and focus group interviews. The study used both descriptive and inferential methods in data analysis. The study concluded that despite members who save through village savings and loans having the potential to increase their likelihood of improving their life outcomes there are still failing to meet the outcomes. The factors such as high default rate, climate change, market failure, and COVID19 limited their enterprises which led to high default rates. Findings suggest that obtaining loans from village banks is interest-based, which means that if groups have high-interest charges, they may restrict a group of people from accessing loans from village banks. Increasing the probability of a participant not receiving loans from village bank groups was found to decrease the likelihood that the member would improve his or her livelihood. The study recommends that village savings and credit groups should follow the ROSCA model to pool more people to participate in Village banking. Further to that, the government should come up with programmes that will guide the operations and running of village banks such as the VICOBA system of Tanzania which ensures smooth running of village banks. Additionally, village bank operations should be motivated by the betterment of group members rather than profits*.

Keywords— *Village bank, livelihood, Mpingu extension savings, members*.

I. INTRODUCTION

In the past two decades' microfinance has grown into a powerful tool for poverty reduction and improvement in social inclusion. The number of MFIs like village bank has increased dramatically to thousands in the Southern African region and the World Credit Union claim almost 50,000 groups with 177 million members (WOCCU, 2009). A village bank is a group of men and women who come together to share and borrow as a group for the purpose of using such micro credits as working capital and consumer financing, and who have agreed mutually guarantee all such group borrowings. Village banks are usually a group of 30 or more people who live in an urban or rural community with incomes below the poverty line. This group of people meets weekly or monthly to build working capital, share different skills and motivate each other. Village banks are vital in poverty alleviation given that one of the indicators of Sustainable development goals is to end poverty in all populations (UN, 2016).

Besides, microfinance is widely acknowledged as an important catalytic agent for economic growth and poverty mitigation in less developed countries like Malawi (Littlefield, 2005). This model only needs no external startup capital but simply a box, keys and some financial training. At the end of each year the entire fund with interest earned is distributed among members according to the amount each has saved in the group. The groups then typically start the cycle again. Village banks provide people and their communities' access to convenient and profitable finance compared to traditional banking services. Village Banks are run by the group members themselves by electing their own leaders, selecting members, managing funds, keeping accounts and disbursing and depositing funds (Hatcher, 2014). The challenges faced in this type of microfinance may end up thwarting small-scale business growth and community participation in rural development (Khanvikar, 2016).

1.2 Background

Early village banking methods were introduced in 1983 by Professor Muhammad Yunus who regarded credit as a fundamental human right. The methodology was initiated by Grameen Bank and then developed by groups such as FINCA International through founder John Hatch. This methodology of microcredit is less formal and considered as a wider way of meeting financial services in rural areas. FINCA was founded in 1985 by American economist John Hatch and began by offering small amounts of working capital to low-income women entrepreneurs in El Salvador. In the later years, the organization expanded its operations to countries in Central America, Africa, and Asia. Among US-based non-profit agencies, there are at least 31 microfinance institutions (MFIs) that have collectively created over 800 village banking programs in at least 90 countries (Wikipedia, 2022).

Most communities in Malawi have every so often faced various financial constraints with most households relying on agricultural production as a bail out to their problems. They

http://ijses.com/
All rights reserved

time and again require a loan as surety till the following harvest, yet often lack information, face exorbitant interest rates, lack collateral to enable them borrow money, and loan sharks remain as obstacles that hinder households from accessing financial resources. The approach was introduced in Malawi at the beginning of the early 1990s to give individuals a safer means of safeguarding their money and gaining access to loans. These organizations' regular saving practices enable the rural poor's ability to smooth their income. Moreover, these organizations are set up to foster and encourage a strong culture of saving in the neighborhood and to provide the rural poor with a secure setting in which to save for and receive modest loans. Members can also obtain minor loans to establish businesses that generate money.

1.3 Statement of the problem

Access to credit services is severely restricted in Malawi, especially for most rural and semi-urban people. Since microfinance institutions enable the country to generate income and advance economically, these credit services are essential to an economy like that of Malawi. Notwithstanding a few positives, village banking participation has decreased, which calls into question how effective it is at enhancing livelihoods. Additionally, even when households participate in village banking, their income is still extremely low, and overall, households or members continue to live in poverty (PDRP, 2010). Bloomberg (2022) observes that village banking and other unregulated microfinance have pushed poor borrowers into deeper debt in most developing countries. Therefore, it is on this background that the researcher evaluated the operation of village banking as there is not much information about its effect on livelihood of people in Mpingu Area of Lilongwe district in Malawi.

1.4 Objective

- To establish the levels of participation in village banking on selected beneficiaries in Mpingu area, Lilongwe

II. Literature Review

Village Banks are associations of low-income business owners that get together to share, and they have developed into the main force behind economic growth. The Village Bank of FINCA Guatemala employs Village Banking to help people get beyond poverty. Credit is still viewed as a constraint on credit availability, even when a borrower is ready to pay more. This is in contrast to moneylenders, who frequently charge up to 30% per month, but is only somewhat higher than NGO-MFIs, which typically charge less than 4% per month (Allen, 2016).

Each municipal bank is free to establish its own terms for repayment. However, Village Bank never fines borrowers for late loan repayments as this can aggravate any underlying crisis that the household may be facing. At a date chosen by the group members, which is usually about a year later, the savings and accrued interest are distributed among the members in proportion to each individual's savings. This end-of-year event, known as an "auction audit", is usually scheduled to take place when members are most likely to need money, such as at the start of the school year or before major holidays, to encourage the use of savings to meet urgent needs and discouraging their use to unnecessary expenses. After funds are disbursed, the groups usually re-form immediately and start a new cycle of saving and borrowing in the following year (Mukuti, 2015).

The language use in the village banking discussions is not limited to one language but a mixture due to diverse people. Nyimbili, Sakala and Mungala (2023) argue that teachers resorted to responding to the rigid monolingual pedagogical practices by implementing multilingual practices like translation, code-switching, and code mixing among others to enable learners to have access to knowledge. Further, Tembo and Nyimbili (2021) argue that the usage of Nsenga as an instructional language was as high due to the sociolinguistic situation in the classrooms and this lead to the teachers and learners preferring to use Nsenga as their language of instruction. Therefore, since village banking members come from different linguistic backgrounds which is not selected by design but by interest of members, it should be understood that there is no single language which should dictate the deliberations in that context. All languages can be used which are understandable by the members and due to different upbringing, others might have less proficiency hence they end up mixing languages to save their money, explain the serving procedure and teach others on how profits are made as they start and during the process.

Most Village bank loans are short-term, generally around one month, at an interest rate determined by the group, usually 5 percent per month which is on the lower side compared to lenders who regularly charge up to 30 percent per month, but slightly higher than NGO-MFIs, which generally charge less than 4 percent per month (Allen, 2018). Each village bank is able to set their individual repayment terms and conditions. However, a Village bank never fines borrowers for late loan repayment as this may aggravate any underlying crisis the household may be facing. On a date chosen by the group members, which is usually after about a year, the savings and accumulated interest are divided among the members in proportion to each individual's savings. This end year event, known as an "auction audit," is usually scheduled so as to occur when members are most likely to need money, such as at the start of the school year or before a major holiday, in order to encourage the use of savings to meet pressing needs and discourage their use for unnecessary spending. After the disbursement of funds, the groups normally re-form immediately and start a new cycle of savings and lending in proceeding year (Mukuti, 2015). When group members follow a few group formation and management principles, such as self-selection, democratic governance, open and inclusive decision-making, accurate record keeping, shared goals and commitments, savings groups are successful.

History of Village Banking

Informal savings institutions known as village banks have an extensive and successful history, more especially in countries like India, whereby there are more than two million self-help groups with 30 million members. Presently, rural banks have grown rapidly in remote rural areas of Africa and Asia. Microcredit and microcredit can be seen as new terms in

http://ijses.com/
All rights reserved

the field of development, as they first came into focus in the 1970s. Johnson and Onuwuegbuzie (2007) observe that prior to this; the provision of financial services by donors or the government was mainly in the form of subsidized rural credit programs. The concept of village banks is well known and stated to have been started by Professor Muhammad Yunus from Bangladesh in 1983. This methodology was initiated through Grameen bank to allow that every human being has access to credit. In Malawi, the concept came along with the coming of FINCA Malawi in 1994 whereby it has grown into a very valuable microfinance institution offering access to finance and credit to masses of people who were once unable to secure loans and finance. Malawi is an agricultural-based economy with a population of about 18 million people, 85% of whom live in rural areas (World Bank, 2022).

Over 60% of the Malawian population is living below the poverty line with almost 85%of the population employed in the agricultural sector. Many people in developing countries like Malawi lack access to financial services which jeopardizes one’s ability to day-to-day operations, decreased economic activity, rural poverty, and issues of high interest. Many Malawians particularly women are into village banking and make a regular contribution to funds and savings so that they are able to save and access credit (Mweninguwe, 2017). Besides, in Malawi village banks are facing challenges since most participants in village banking do not have specialist training of conducting business so that there are able to save more money in their respective groups. Additionally, the government has not been forthwith in coming up with guidelines of operations of village banking that’s why it faces various incidences of high interest rates, high value collateral and poor skills implementation in Small and Medium enterprises. In Malawi disadvantaged groups such as women and the poor are still pegged at a disadvantage in regards to access of credit. A vast number of Malawians are still living below the poverty line with most communities being excluded in microfinance services. Studies done at Nsanje district community office stated that village banks are still keeping the disadvantaged groups like women poorer (Tembo et al, 2023). One government from the office observed that the village banks methodology is still leaving rural women in abject poverty as most of them fail to repay loans in the end selling household property to clear amounts overdue.

Village banks and Women

Mochoge (2016) notes that about 60% of Village Bank beneficiaries were women earning less than one dollar women in important family which signifies poverty level among women. Masina (2013) established that women that are in village which are groups comprising 15 to 25 people are able to contribute for their families. In these groups women are encouraged to borrow money to start enterprises of their choice in the end maximizing their income so that they can be able to save and access loan again in their respective village banks. These kinds of initiatives help to empower disadvantaged groups like women to at least make a contribution in their respective families. For instance, these groups empower women economically through pooling up resources together to ease access to credit. According to statistics, almost 70% of the worlds deprived are women and they also lack access to microfinance services. Even though women access to finance from village banks they are still not meeting the projected poverty reduction targets since they do not have technical know-how on how to run microfinance institutions. This concurs with Nation online which established that Malawian VSLAs do not have set standards that can enable poverty alleviation in deprived groups such as women and the youth (Perez, 2011).

Benefits and Advantages of Village Banks

Rural banks have a number of advantages in a developing country like Malawi since they provide with access to credit services to rural households (Koirala, 2013). These rural banks have a number of roles that include; poverty alleviation, when operating in rural areas where more formal financial services are not available (Demirgüç-Kunt et al, 2013). Furthermore, Mwangi (2011) notes that rural banks are a major area of concern for many policymakers in their efforts to fast-track growth in low-income countries.

Businesses in rural micro-enterprises have been also been acknowledged as engines of development through which the growth goals of developing countries can be achieved. In addition, rural banks have very low operating costs because they avoid some of the costs of MFIs, such as infrastructure, transport, communication, and personnel costs. For example, in Malawi, most rural banks start with money to buy a cash register, which costs MK8, 000 which is equivalent to US$8.00. Village banks still have been vital in times of calamities like disasters and pandemics such as COVID19. During times when Covid19 cases were rampant, most formal microfinance institutions scaled down their daily operations which meant that people couldn’t easily access bank services. Therefore, village banking still operated at least normally as a result playing a vital role of allowing people to access loans and make savings easily. On other hand, study done in Kenya show various collaborations between the formal banking systems and informal banking systems have made village banking an advanced tool of banking. Thuita (2020) noted that a platform made by M-Pesa has simplified operations of village banking in Kenya to more of a modern way of microfinance other than local. Furthermore, a study at Village Community Banks (VICOBA) in Tanzania observed that microfinance has played a big role in the promotion of sustainable small-scale enterprises in the country. Moreover, the assessment observed that MFIs run by VICOBA are facing various challenges that include low output, poor markets to sale their products, lack of trust among community members and insufficient startup capital for their businesses.

Village Banking Model

Village banks are self-governing community credit and savings associations established by non-governmental organizations to provide access to financial services, build community self-help groups and help members accumulate savings (Holt, 1994). An example of a valuable village banking model is the ROSCA model which is an abbreviation for rotating savings and credit associations. This is a model that

http://ijses.com/
All rights reserved

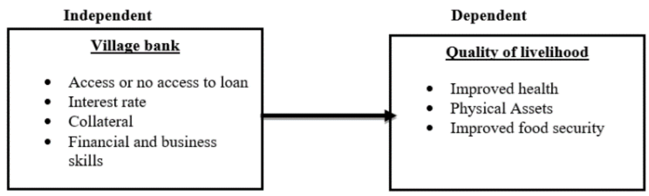
Volume 7, Issue 11, pp. 35-40, 2023.
ISSN (Online): 2456-7361

states that individuals come together and agree to meet for set periods so that they can save and borrow money otherwise also known as peer-to-peer banking. This type of banking is based on trust and it is most common in developing countries like Malawi and among other immigrant groups in advanced countries.

ROSCA model was vital in this study it identifies loopholes in terms of accountability of individuals in village banking groups. Furthermore, a ROSCA model directed this study since it can tell about individual benefits of village bank members thereby also helping the researcher to identify variations in terms of livelihood outcomes of participants in the study. Besides, this village banking model can aid in assisting to determine the level of commitment of those participating in village banks. Again, this model was vital in this study since it can establish the levels and charging of interest rates in groups that are conducting this type of microfinance. It is evident that a large number of informal microfinance institutions that have access to credit can use the ROSCA model too, to profitably to grow their business.

Conceptual Framework

A conceptual framework is a written or visual representation of the expected relationship between variables. Thus, it defines the variables needed in the study. This was the "map" of the researcher when conducting the investigation (Jabareen, 2008).) The study wanted to establish the levels of participation in village banking on selected beneficiaries in Mpingu area, Lilongwe. Literature shows that rural savings can significantly improve life in rural areas (Mohanty, Mohapatra, & Khuntia, 2013). The conceptual framework is looking at the effects of village bank on the quality of livelihood for example access or no access to loan may have effect on quality of livelihood resulting in improved health or accumulation of physical assets. The conceptual framework below represents the independent variables that influence the dependent variables in terms of establishing the levels of participation in village banking on selected beneficiaries.



Source: (Handler & Turnock, 1991)

III. METHODOLOGY

Exploratory sequential mixed methods design was used in which the researcher explored the qualitative data, analyses it and then use the findings in the quantitative phase. The second data base builds on the results of the initial data base (Creswell, 2014). In this study, the researcher first collected individual interviews and focus group data, analysed the results, developed an instrument and then administered to a sample of the population. In essence, the researcher employed a three phase procedure with the first phase exploratory, the second as instrument development and the third as administering the instrument to a sample of the population, (Delport et al, 2016).

Population

A population refers to measurement of all particular group of interest. Population can also be stated as a collection of objects or individuals where the sample for statistical estimation is drawn or the entire group that you want to draw conclusions about (Bhandari, 2020). In this study, the population was four hundred (400) village bank members at Mpingu Area operating in different small scale and medium Scale enterprises. The respondents were interviewed individually whereby a sample was taken from the total population.

Sampling

Firstly, the respondents were purposively selected from Mpingu market. The main reason for purposive sampling was to get the richest possible sample for the data (Robbins, 2009). Sixty-five (65) respondents were picked using purposive sampling in randomly. Further to that ten (10) Community Development Officers were purposively picked for interviews. Questionnaires and focus group discussions interviews were used as data collection instruments.

IV. FINDINGS

During the interviews with the participants, it was discovered that the majority of respondents were aware that that active participation provides room for further investment. For example, one participant explained why it was important to enhance active participation by complying with the group constitution as follows:

Village banking constitution compliance helps in her managing the village banking group and also make the groups committee to execute their duties well.

In line with this opinion, one participant mentioned that there was need to enforce the village bank constitution which will help in realigning members who drift away from what is expected. Implied in the above views is an assumption that addressing the challenge of Village banking constitution was a precondition for effective participation in village banking besides village banks are self-managed groups that elect their own leaders, select their own members, create their own bylaws, do their own bookkeeping, manage all funds, disburse and deposit all funds, resolve loan delinquency problems, and levy their own fines on members who come late, or miss meetings, or fall behind in their payments. All this require a constitution.

Level of participation village banking

The study asked members to state the level of participation and duration of which they have been members of a village bank.

From the responses shown in Figure 1, it was revealed that the majority of respondents (51%) have been members of the group for 1 to 3 years. 28.1% reported that their group membership lasted 3 to 5 years. 13.5% were found to have been members of village banking groups for less than one year. While 7.2% said their village bank

http://ijses.com/
All rights reserved

International Journal of Scientific Engineering and Science
Volume 7, Issue 11, pp. 35-40, 2023. ISSN (Online): 2456-7361

membership is more than 5 years. This suggests that the members of the village banking groups in Mpingu EPA have sufficient experience of being a member of village banks.

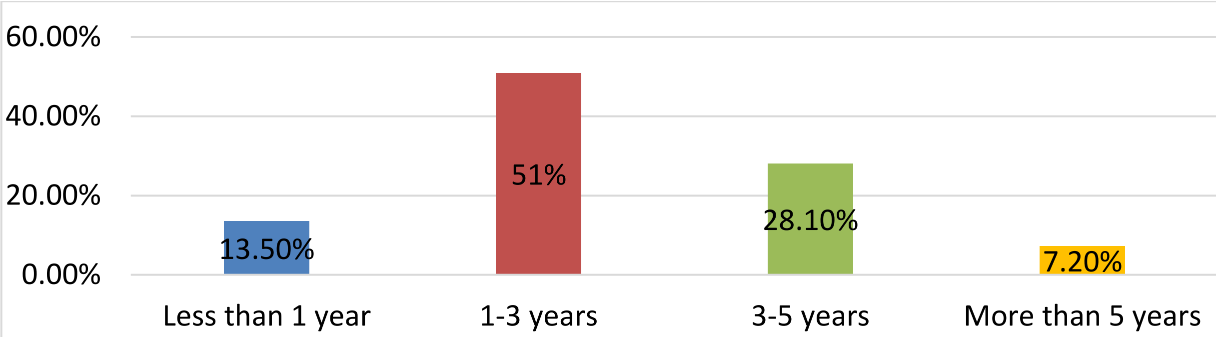


Figure 1. Membership Duration in Village Bank

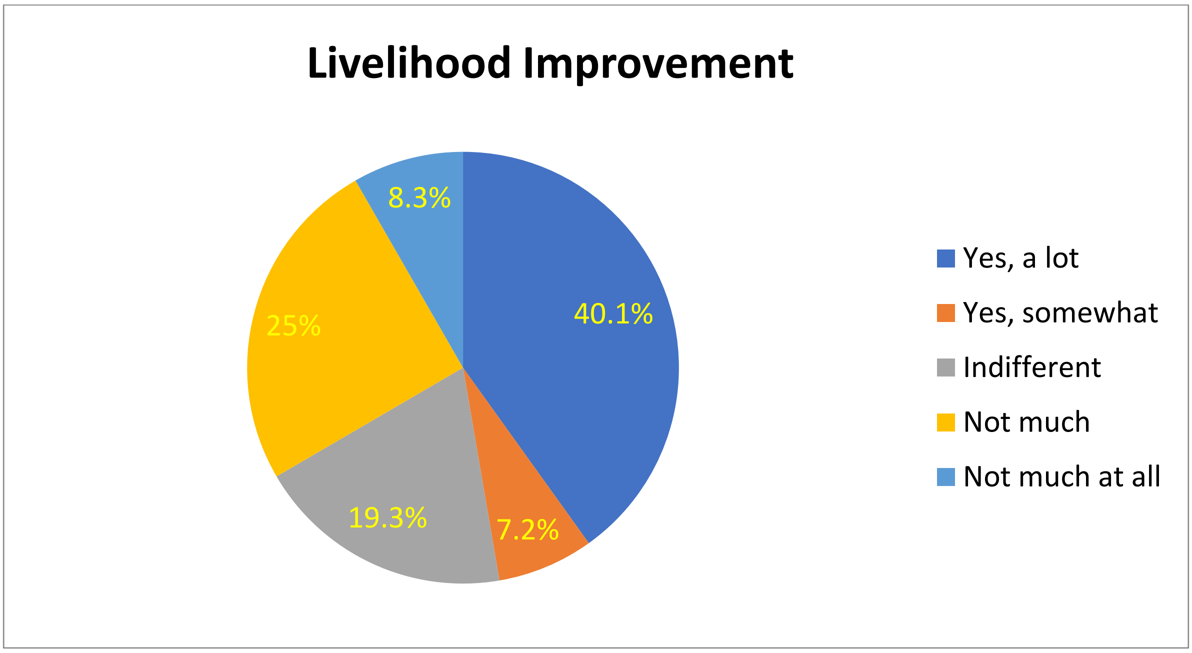


Figure 2. Participation in the village bank contribute to improvement in the livelihood

The purpose of this question was to find out that saving with Village banks contributed to improving the livelihood of members. 40.1% of respondents acknowledged that saving with their groups allowed them to significantly improve their livelihoods. 7.2% said village banks had somewhat improved their livelihoods and 19.3% respondents were indifferent. However, 8.3% of group members surveyed felt that they did not realize any improvement in their livelihood through saving with their groups while 25% felt not much being convinced with the improvement since there was high default rate and some fled with the money for the group as shown in Figure 2 above. These results suggest that savings with VSL groups contributed reasonably to the improvement of members' livelihoods.

V. Conclusions

The study on knowledge based on findings shows that most of respondents were knowledgeable on Village banking. However, high default rate on loan repayment was due to dry spells for those who invested into agriculture. Therefore, they made losses which affected repayment of the principal and interest rate of the loan. Furthermore, for those who were involved in other businesses were heavily affected due to COVID19 and they had no market for most of commodities since policies restricted them from gathering in market places. Despite respondents having knowledge in so many areas but they were limited by those factors. It led to high default rate on loan repayment.

Furthermore, on effect of village banks on livelihoods; study revealed that assets acquired due to Village bank results show that village banks in Malawi do not have the capacity to enable their group members to build permanent houses, buy motor vehicles, land and televisions, but only enable them to have domestic animals. The capacity for most of respondents to afford going to private hospitals was low due to limiting factors such as low returns from their enterprises in business venture which led to high default rate. It was evident that lack of market, climate change and COVID19 limited the operation and

http://ijses.com/
All rights reserved

Volume 7, Issue 11, pp. 35-40, 2023. ISSN (Online): 2456-7361

profitability of enterprises. These factors contributed to failure to meet bills, despite being a VSLA member most of them failed to meet their bills such as pay hospital bills, school fees for their children.

On other hand**,** the factors that limit participation in village banks show that value of collateral prevented them from joining village banks, and had a negative attitude towards that the high interest rate was a limiting factor for their participation in village banks. Many members did not join village banks because of the high fees a new entrant has to pay before joining the group.

Recommendations

- There is a need for the Government of the Republic of Malawi through the Ministry of Gender and Community Development to come up with programs that can guide the creation, operation and management of Village Banking groups to sustain their existence through the promotion of economic freedom for the majority of the semi-urban and rural masses, who do not have access to formal financial services. A good example is the Village Community Banking (VICOBA) programme which is community-based system in Tanzania that provides mutual support and encouragement to empower community members to work together to create sustainable development.
- Participants should engage in more complex income-generating activities such as mobile vending and hairdressing saloons in order to increase their monthly group savings.
- Village banks should strive for the betterment of their members and not for profits to narrow the gaps in livelihood and improvement outcomes.

References

[1]. Allen, B. S. (2018) Savings groups and Dynamics of Inclusion: state of practice report. The SEEP Network [Online] Available athttp://seepnetwork.org/files/galleries/SEEP_State-of-Practice_Savings-Groups-and-the-Dynamics-of-inclusion_20180925.pdf Accessed on 13th March, 2022

[2]. Allen, H. (2016) Village Savings and Loans Associations in Africa-Program Guide version 1.6 [online], 5(40) Available from www.vsl.net Retrieved on January 10, 2022.

[3]. BP Koirala Institute of Health Sciences (2013) Conceptual and theoretical framework [Online] Available at http://www.slideshare.net (Accessed on January 5, 2022)

[4]. Bhandari, L. P. (2020). Task-based language teaching: A current EFL approach. *Advances in Language and Literary Studies*, *11*(1), 1-5.

[5]. Creswell, JW 2014. *Research design: Qualitative & quantitative, and mixed approaches*. 4th Edition. California: Sage.

[6]. Delport, CSL, Fouche, CB, Strydom, H & De Vos, AS 2016. *Research At Grassroots: For the social sciences and human service professions* (4th Ed.) Pretoria: Van Schaik.

[7]. Demirgüç-Kunt, A., Klapper, L. F., & Singer, D. (2013). Financial inclusion and legal discrimination against women: evidence from developing countries. *World Bank Policy Research Working Paper*, (6416).

[8]. Holt, A. W (1994). "Entrepreneurship Development ProgrammeA social science Journal, page 5 – 10, Tophill Press.

[9]. Jabareen, Y. (2008). A new conceptual framework for sustainable development. *Environment, development and sustainability*, *10*, 179-192.

[10]. Johnson, B., Onuwuegbuzie, A. , & Turner, L. (2007). Toward a definition of mixed methods research. Journal of Mixed Methods Research, 1(2), 112–133.

[11]. Khanvikar, A. (2016) Challenges faced by Microfinance Institutions. Harper Collins, London

[12]. Masina, L. (2013) Village Banking Empowers Poor Malawi Women. Voice of America News. May 9, 2013. [Online] Available at: http//www.voanews.com/articleprintview/1657768.html. (Accessed on 4 January, 2022)

[13]. Mohanty, D. Mohapatra, K. and Khuntia. (2013) A Study in two villages of Mahakalapada Block, Odisha. [Online] Available at http://www.ijcmas.com [Accessed 11 January, 2022]

[14]. Mweninguwe, R. (2017). Funding matters. *D+ C, Development and Cooperation*, *44*(7/8), 34-35.

[15]. Mochoge NW (2016) Efects of village savings and loans on rural women livelihood outcomes among women groups in Kisii County. (Masters' thesis, University of Nairobi, Kenya)

[16]. Mwangi, J. M. (2011). *The role of savings and credit cooperative societies (saccos) in financial intermediation in Nairobi county* (Doctoral dissertation, University of University).

[17]. Nyimbili, F., Sakala, B. and Mungala, R. (2023). Pedagogical Practices Teachers use to teach Cinyanja in Monolingual Tumbuka Secondary Schools of Chasefu district in Eastern province of Zambia. *Journal of the Educational Research Association of Zambia,* 1(1): Pp 45-59 *Available at https://erazambia.org/journals/index.php/files*

[18]. Perez, F., Gonzalez, C. J., & Aaronson, X. (2011). Village banking development model: FINCA Costa Rica. *Journal of Business Research*, *64*(3), 316-324.

[19]. Robbins, D. (2009). *Understanding research methods: A guide for the public and non-profit manager.* Boca Raton: Taylor & Francis.

[20]. Tembo, K. A., Tembo, M., & Ndengu, D. M. (2023). Determinants of youth unemployment in agribusiness employment opportunities in Northern Malawi.

[21]. Tembo, G., M. & Nyimbili, F. (2021). "The Practicality of using Indigenous Language (Nsenga) as Medium of Instructing at Grade 1-4 in Selected Primary Schools of Petauke District" *International Journal on Studies in English Language and Literature (IJSELL), 9(10): pp. 1-10. doi: https://doi.org/ 10.20431/2347-3134.0910001.*

[22]. Thuita, J. K. (2020). *Effects Of Foreign Aid On Economic Growth In Kenya* (Doctoral dissertation, Kca University).

All rights reserved