

Challenges Affecting the Sustainability of Village Savings and Loan Associations in peri Urban Zambia

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ABSTRACT

This study explores the key challenges affecting the sustainability of Village Savings and Loan Associations (VSLAs) in urban Zambia, with a focus on groups operating in Msisi Compound, Lusaka. VSLAs continue to play an important role in supporting financial inclusion and livelihoods, particularly in low-income communities. However, their long-term sustainability is often influenced by a range of operational and socio-economic challenges.

The study used a mixed-methods approach, combining quantitative data from group members with qualitative insights from key informants. The findings show that loan repayment challenges remain a concern, with 10.94% of respondents reporting delays or non-repayment. In addition, low financial literacy, economic hardship, and limited access to external support were identified as key barriers. About 27% of respondents indicated that they had not received any form of support, while awareness of existing policies remained uneven across groups.

The study also found that reliance on manual record-keeping contributes to inefficiencies and increases the risk of errors, while gaps in leadership and communication affect group coordination. These challenges, if not addressed, may limit the long-term sustainability of VSLAs.

The study recommends strengthening financial literacy, improving record-keeping systems, enhancing leadership capacity, and expanding access to support services. Addressing these issues will be important in ensuring that VSLAs continue to serve as effective tools for economic resilience and community development.

INTRODUCTION

Village Savings and Loan Associations (VSLAs) have become a common feature in many low-income communities, providing an accessible way for people to save money and access small loans. In Zambia, these groups are widely used in both rural and urban areas, particularly where access to formal financial services is limited (Bbabbi & Qutieshat, 2022).

While VSLAs have shown positive outcomes in supporting livelihoods and improving financial access, their long-term sustainability is not always guaranteed. Many groups face practical challenges that affect how they operate over time. These include difficulties in loan repayment, limited financial management skills, weak record-keeping systems, and inconsistent external support.

Economic conditions also play a role. In urban settlements such as Msisi Compound in Lusaka, households often face financial pressures that can affect their ability to save regularly or repay loans. In addition, differences in leadership and group dynamics can influence how well members work together and manage group activities. Although a number of studies have highlighted the benefits of VSLAs, less attention has been given to the challenges that affect their sustainability, particularly in urban settings. Understanding these challenges is important for improving how these groups are supported and managed.

This study therefore examines the key challenges affecting the sustainability of VSLA groups in Msisi Compound, with the aim of identifying areas that require improvement to support long-term group performance.

LITERATURE REVIEW

This section investigates existing literature on the sustainability of Village Savings and Loan Associations (VSLAs). The focus is on financial management, social cohesion, leadership, and long-term sustainability. The investigation is structured as global, regional, and local for the purpose of highlighting key trends and gaps, relevant to this study.

Global Perspective

Community-based financial models similar to VSLAs exist across different parts of the world, as Rotating Savings and Credit Associations (ROSCAs). These informal systems provide access to savings and credit for individuals who are excluded from formal financial institutions (Zou & Abrahams, 2023). Studies show that participation in such groups can improve household financial stability by encouraging disciplined savings and investment. For example, Ajija and Siddiqui (2020) found that ROSCAs in Indonesia support asset accumulation, while Ibrahim

(2021) also observed that similar groups among African immigrants in the United States serve as financial safety nets.

Social cohesion plays an important role in the functioning of the VSLA groups. Trust and strong social ties help ensure that members meet their financial obligations (Chiteji, 1999). Governance structures are also important, because effective leadership and accountability systems support transparency and group stability (Besley et al., 1993).

However, these models face challenges with long-term sustainability. Issues such as inconsistent participation, fluctuating membership, and external economic pressures can weaken group performance (Abebe et al., 2022). Recent studies shows that digital financial tools may help address some of these challenges by improving record-keeping, transparency, accountability and efficiency.

Regional Perspective

Studies around Africa gives further insight into the sustainability of VSLAs. Research in countries such as Ghana, Malawi, and Uganda shows that VSLAs improve access to savings and credit, although these benefits do not always translate into sustained income growth (Ksoll et al., 2016). And studies in Zanzibar highlight increased financial access but also identify challenges such as loan defaults (Members failing to pay back loans) and leadership transitions (lacking succession plans on leaders), (Anyango et al., 2007).

Research in Nigeria indicates that VSLAs strengthen financial independence and community support systems, particularly among women (Oxfam, 2021). However, some studies lack quantitative evidence, limiting their ability to assess long-term sustainability.

Leadership and governance challenges are also common across regions. Weak record-keeping, limited training, and poor leadership structures have been linked to financial mismanagement and reduced participation. Studies in Uganda and Tanzania highlight the importance of leadership in ensuring accountability and maintaining group performance (Jackson, 2016; Allen, 2006).

Overall, while regional studies confirm the financial benefits of VSLAs, they also show that sustainability depends on a combination of financial management, social cohesion, and effective leadership.

Local Perspective (Zambia)

In Zambia, VSLAs have been widely studied as tools for improving financial inclusion and household welfare. Mwansakilwa et al. (2017) found that participation in VSLAs contributes to

increased savings and asset ownership. However, the study did not fully explore financial management practices such as budgeting and internal controls.

Other studies highlight the importance of accurate financial records in improving access to formal financial services. Chileshe et al. (2019) found that groups with strong financial documentation were more likely to access credit and integrate with formal institutions along the way.

Social cohesion is often seen as important in how savings groups function. In many cases, trust and good relationships among members make it easier for people to save regularly and repay loans on time (Mercy Corps, 2020). When members understand and support each other, the group tends to run more smoothly. Leadership also matters in this process. Groups with active and transparent leadership are more likely to manage their finances well and maintain accountability. However, much of the existing research has focused on short-term outcomes. There is still limited understanding of how financial practices, social relationships, and leadership come together to influence the long-term sustainability of VSLAs, particularly in the Zambian context.

Summary of Literature Gaps

The literature shows that VSLAs contribute to financial inclusion and economic empowerment, but challenges remain in sustaining these benefits over time. While financial outcomes are well documented, less attention has been given to how financial management, social cohesion, and leadership interact to influence sustainability.

This gap is particularly evident in integrated programmes such as those implemented by A2HealthZ. Therefore, this study seeks to examine how these factors influence the sustainability of VSLA groups in Msisi Compound, Lusaka District.

METHODOLOGY

This study used a mixed-methods approach to explore the challenges affecting the sustainability of Village Savings and Loan Associations (VSLAs) in Msisi Compound, Lusaka. Both quantitative and qualitative methods were used to capture not only measurable trends, but also the experiences of group members.

The study involved 21 A2HealthZ VSLA groups with a total of 300 members. Using Slovin's formula, a sample size of 174 participants was determined. Participants were selected using proportionate random sampling to ensure that each group was represented. In some cases, community volunteers helped identify respondents where access was difficult.

Data were collected using structured questionnaires, key informant interviews, and focus group discussions. Questionnaires were used to gather information on financial practices, challenges, and group performance. Interviews and group discussions helped provide more insight into issues such as loan repayment, leadership, and group coordination.

In addition, VSLA records, including financial books and meeting minutes, were reviewed to support the findings.

Quantitative data were analysed using descriptive statistics such as frequencies and percentages, while qualitative data were analysed thematically to identify common challenges. Ethical considerations such as informed consent and confidentiality were observed throughout the study.

RESULTS AND DISCUSSION

The findings show that although VSLA groups are active, several challenges affect their ability to sustain operations over time. One of the main issues raised by respondents relates to loan repayment. About **10.94%** of participants reported delays or cases where loans were not repaid on time. This creates pressure within the group, as it affects the availability of funds for other members and can lead to disagreements.

Financial literacy also emerged as a concern. Some members indicated difficulties in managing contributions, understanding loan terms, or planning their finances. These gaps can affect how members use loans and may contribute to repayment challenges.

Another issue identified was the reliance on manual record-keeping. While this is common in many groups, it increases the chances of errors and makes it difficult to track financial transactions accurately. In some cases, weak record-keeping was linked to misunderstandings among members and reduced transparency.

Limited access to external support was also highlighted. Although some groups reported receiving training and financial literacy support, about **27%** of respondents indicated that they had not received any form of support. In addition, awareness of policies related to VSLAs was not consistent, with some members unaware of available support mechanisms. This suggests that existing programmes may not be reaching all groups equally.

Economic conditions within the community were another important factor. Many respondents reported that financial pressures, such as household needs and unstable income, affected their ability to save regularly or repay loans. These challenges are common in urban informal settlements and can directly influence group performance.

Leadership and group coordination also played a role in how challenges were managed. In some groups, weak leadership and poor communication made it difficult to address issues such as loan defaults and record-keeping. Where leadership was more active, groups were better able to manage these challenges and maintain stability.

Overall, the findings show that the sustainability of VSLA groups is influenced by a combination of financial, organisational, and external factors. Addressing issues such as loan repayment, financial literacy, record-keeping, and access to support will be important in strengthening the long-term performance of these groups.

CONCLUSION

This study examined the key challenges affecting the sustainability of Village Savings and Loan Associations (VSLAs) in Msisi Compound, Lusaka. The findings show that while these groups continue to provide important financial support to their members, several issues limit their long-term effectiveness.

Loan repayment challenges, gaps in financial literacy, and reliance on manual record-keeping were among the main concerns identified. These factors can affect transparency, reduce trust, and limit the availability of funds within the groups. In addition, uneven access to external support and low awareness of existing policies further weaken the overall impact of VSLAs.

Economic pressures faced by members also play a significant role, as many households struggle to maintain consistent savings and loan repayment. At the same time, differences in leadership and communication within groups influence how these challenges are managed. Groups with stronger leadership structures were generally better able to maintain coordination and address internal issues.

Overall, improving financial literacy, strengthening record-keeping systems, enhancing leadership capacity, and expanding access to support services are important for sustaining VSLA activities. Addressing these challenges will help ensure that VSLAs continue to serve as reliable tools for financial support and community resilience in urban settings.

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