BANK *Of* ZAMBIA

STATEMENT ON VILLAGE BANKING/SAVINGS GROUPS

Lusaka, Wednesday (16) September, 2020 – The Bank of Zambia (BoZ) reiterates its support to village banking/savings groups as they play an important role in providing community-based financial services although informally.

It must be noted that financial services are delivered through two main avenues, formal and informal.

Formal financial service providers include banks, non-bank financial institutions, and insurance and investment firms. These institutions are licensed, regulated, and supervised by regulators in the financial sector, namely, the Bank of Zambia, the Securities and Exchange Commission and the Pensions and Insurance Authority.

Informal financial service providers include individuals or groups of people that are not licensed nor regulated by the state or financial sector regulators. Examples include chilimbas and village banking/savings groups.

Village Banking/Savings Groups

Village banking/savings groups are small savings and lending schemes organised outside the formal financial sector. As the term "village" implies, membership is usually among people who are familiar with each other and share certain commonalities through their family, friends, and community. Membership is thus by self-selection and the number of members in the group is limited. Members formulate rules and procedures to guide the governance of the group. The group is self-managed and does not involve the placement of savings/deposits or arrangement of borrowings by an individual, agent or company outside the group membership.

Accumulated savings and interest earned on loans extended to members are the main source of benefits, which are shared-out at the end of the cycle.

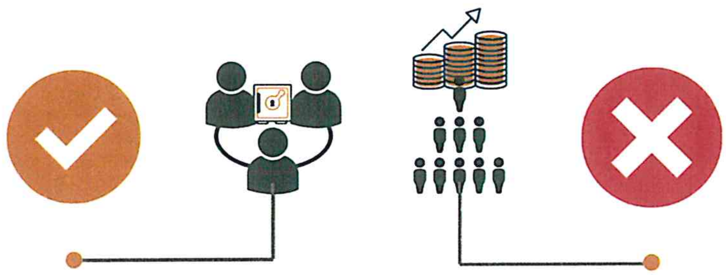
The Bank of Zambia Position on Village Banking/Savings Groups

The BoZ licenses, regulates, and supervises entities that are covered by the Banking and Financial Services Act, 2017 and these do not include village banking/savings groups. This notwithstanding, the BoZ recognises the relevant role village banking/savings groups play in communities, including transitioning their members into formal financial services and in driving the financial inclusion agenda.

Distinguishing Village Banking/Savings Groups from Money Circulation Schemes

Village banking/savings groups should be distinguished from money circulation schemes.

A money circulation scheme involves the pooling and distribution of funds by recruitment of subscribers. This is an illegal activity. One way to identify these schemes is that they tend to promise high returns or interest rates that are too good to be true. The core business model depends on the continuous recruitment of subscribers and not any meaningful underlying economic activity, which makes it unsustainable. It is thus a risky activity with no assurance that subscribers or investors will get back the money they have invested.



In a nutshell, it is an offence to:

(a) Conduct, or participate in, a money circulation scheme; or

(b) Issue a notice, circular, prospectus, proposal or other document inviting the public to subscribe to a money circulation scheme.

Members of the public are urged to be diligent and remain vigilant in their financial dealings, especially in the light of increased financial crimes as well as companies that lure people with the promise of high and unrealisable returns.

Issued by

Communications Division
Bank of Zambia
Box 30080
Lusaka
Email: info@boz.zm

BANK OF ZAMBIA
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P.O. BOX 30080,
LUSAKA.
ASSISTANT DIRECTOR - COMMUNICATIONS

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