Community-based financial services: a spectrum of providers
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In recent years, stakeholders have increasingly acknowledged that formal financial institutions are not always able to address the financial service needs of the very poor, particularly those living in remote areas. Small transaction sizes, sparse populations, and poor infrastructure limit the ability of commercial banks and others to reach rural areas where many of the world’s poorest and most marginalized populations live. This paper explores the experience in Tajikistan, where a number of different types of financial service providers and civil society organizations play an important role in meeting a variety of financial service needs and market segments. It proposes that in order to increase financial inclusion, community-based providers and collective organizations are necessary to overcome high costs and cumbersome procedures required by regulated providers and thereby contribute to the development of the financial system.

Keywords: savings groups, Tajikistan, financial inclusion, vulnerable populations

The political collapse of the Soviet Union in 1989 and the civil war that followed hastened the disintegration of Tajikistan’s financial services and government-led social safety nets, contributing to increased poverty. This gap in local government structures and a legacy of distrust in the formal financial sector has been particularly damaging to people living in mountainous areas, already subject to isolation, marginalization, and deep poverty.

To fill the breach in social and financial services, the Aga Khan Foundation (AKF) created the Mountain Societies Development Support Programme (MSDSP). First, a relief and humanitarian initiative, MSDSP transitioned to become a development organization, promoting governance-strengthening programmes and community-led social services in GBAO, Rasht Valley and Khatlon Oblast. Its primary goal was to foster civic participation and community welfare. A system of local organizations, including village organizations (VOs), social unions for the development of village organizations (SUDVOs), micro-lending organizations (MLOs), and community-based savings groups (CBSGs) facilitated by MSDSP, evolved into solid civic structures that meet a range of social and financial service needs. While the purpose of and the services provided by these institutions have changed as new financial service providers have entered the market, and as a result of new government regulations introduced in 2004, civil society organizations and community-based providers continue to play an important role.

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This paper aims to provide a brief history of these organizations, the services they provide, and how an array of providers meet the varied needs of poor consumers. It is divided into two parts. The following part describes the types of organizations facilitated by MSDSP in Tajikistan and the roles they play in providing financial services – both historic and current. The second part analyses how demand is (or is not) being met and argues that a variety of providers are required to meet various financial service needs and to reach different target segments, and that each provider plays an important role in increasing access to and usage of financial services, and developing financially capable consumers.

**Village organizations**

Village organizations (VOs), comprising individual household representatives in a geographic area, usually a village, were established by MSDSP as a local governance mechanism beginning in 1998. Managed by an elected committee of volunteers, members meet monthly or quarterly to address local community needs and to advocate for improved government services.

When the first VOs were being fostered, MSDSP emphasized the need for VO members to collectively contribute (through membership fees) to support the community. In addition, when MSDSP received grant funds for community development, it provided the funds to the VOs to implement the projects. The membership fees and grant monies were combined and referred to as village development funds (VDFs).

The purpose of the VDF was to meet the needs of the community, and one of the primary needs of community members was credit. VOs began lending the VDF in small amounts, charging a low interest rate, providing convenient and accessible credit to VO members for consumption, emergencies, migration, investment in agriculture, and other business purposes. Lending money to members enabled VOs to use interest revenue to pay for community projects and/or to pay stipends to cover transportation and other costs of the VO management committee. Interest received also supported costs associated with the VO’s office space (if relevant) such as rent and electricity.

MSDSP viewed the VDFs strategically as channels to provide revenue to the VOs, contributing to their long-term sustainability. In the initial years, VDFs grew substantially (from grants and member contributions) and succeeded in meeting the small credit needs of VO members.

In 2004 the government of Tajikistan passed its first microfinance law requiring any organization providing financial services to be licensed by the National Bank of Tajikistan. This meant that public associations, such as VOs, could no longer provide credit without a licence from the government. As a result, VOs were prohibited by law to provide credit and thus were no longer permitted to generate revenue from lending. (Some particularly remote VOs still lend small amounts of their VDFs despite the law, but these amounts are negligible.)

VOs continue to use their VDFs to meet broader social development objectives in the village, particularly for infrastructure and cultural events as well as to support the
most vulnerable in the community with small grants. With the new law, however, VO members have been forced to look for credit elsewhere, and VOs themselves have to find alternative revenue sources.

Social unions for the development of village organizations

In 2003 MSDSP sought to develop a local structure for long-term support to the VOs in the form of social unions for the development of village organizations (SUDVOs). Registered as public associations, SUDVOs are meta-organizations at the sub-district level created to support VOs, allowing MSDSP to exit from this role. SUDVOs are managed by committees that draw their members from VO leadership. Most committee members are paid a salary or small stipend. SUDVOs manage grants from MSDSP and others. In addition, they are allowed to contract with the national or local government to provide services.

Before the microfinance law of 2004 MSDSP also provided revolving funds for on-lending to VO members to contribute to the financial sustainability of SUDVOs. SUDVOs addressed the gap in credit provision that banks (because of high transaction costs from limited infrastructure reducing accessibility in remote areas) and VOs (owing to limited funds) were unable to meet. In turn, SUDVOs received interest revenue to cover operational expenses.

However, with the introduction of the microfinance law, SUDVOs, similar to VOs, were no longer legally permitted to provide credit. Therefore, SUDVOs were forced to do something else with their (formerly) revolving funds and look elsewhere to generate revenue to cover their costs.

Micro-lending organizations

The 2004 microfinance law requires organizations wishing to provide financial services (primarily savings and lending) to be licensed by the National Bank of Tajikistan (NBT) as one of the following kinds of organization, each with a different set of capital and governance requirements and regulations: micro loan fund (MLF), micro loan organization (MLO), or a micro deposit organization (MDO).

In response to the law, MSDSP supported the SUDVOs in the Ishkashim district to establish an MLO. This required, at that time, TJS45,000 (US$10,000) to meet minimum capital requirements (the minimum was soon after raised to TJS220,000 ($50,000) and in July 2011 raised to TJS890,000 ($200,000)). MLOs are only allowed to provide credit (no other financial services) and may disburse dividends to shareholders.

In September 2006 MLO Ishkashim was formally licensed by the NBT. By early 2008 MLO Ishkashim expanded its outreach into eight sub-districts in Ishkashim and Murghab districts through village cash outlets – small offices or individual officers in the sub-districts authorized to make loans less than TJS3000 ($638).

From 2008 to 2010 MSDSP supported the establishment of four more MLOs to cover the majority of MSDSP working areas. MSDSP encouraged SUDVOs to invest their revolving funds and VOs to invest their VDFs in MLOs, making them
shareholders of the MLOs. As shareholders, each SUDVO has a representative that sits on the MLO's Board and advises the MLO management within their villages or sub-districts. Dividends from the MLOs are then distributed proportionally to each of the shareholders, including the VOs (who generally invest their VDFs through the SUDVOs). These dividends provide revenue to cover the costs of the SUDVOs and VOs. In turn, the MLOs are able to provide credit that the SUDVOs and VOs can no longer offer, and the revolving funds and VDFs contribute to the growth of the MLO's capital. As of December 2012, 78 of the 106 MSDSP-supported SUDVOs invested most of their revolving funds in one of the five MSDSP-supported MLOs, contributing TJS2,500,000 ($520,800) in equity. The majority of the SUDVOs receive dividends from the MLOs, and some SUDVOs choose to reinvest their dividends in the MLO to increase their capital.

Credit provision
The MLOs' primary activity is to provide small amounts of credit. While the purpose for loans varies depending on the region and client, the most common loan purpose among MSDSP-supported MLOs is for trade or consumption purposes. For example, many clients do not have access to savings services and rely on consumption loans to smooth their income, often until remittance money arrives from family members abroad. Other typical uses include manufacturing, services, livestock, crop production, and migration. MLOs also provide loans for migration purposes, which banks do not. Loan amounts are significantly smaller than those of more formalized MFIs or banks, ranging from $200 to $1,000, compared with, for example, the First Microfinance Bank of Tajikistan whose average loan size in 2011 was approximately $2,000, while AccessBank Tajikistan was $3,000.

The role of VOs and SUDVOs
Of key importance to note is the role VO and SUDVO representatives play in the credit process allowing MLOs to substantially reduce their operational costs.
while still meeting the financial service needs in the community. In addition to their governing responsibilities, VO and SUDVO management – in particular the president and accountant – are also responsible for assessing the debt capacity of borrowers for the MLOs within their villages. MLOs rely on the credit assessments conducted by VOs and SUDVOs in order to make loans efficiently and also to reduce risk. Because VO and SUDVO representatives live among the community, they normally know the loan applicant and have informal information on the individual’s ability to repay the loan. Also, they can more easily visit potential clients to discuss the loan purpose and cash flows to verify debt capacity. VOs and SUDVOs have clear incentives to accurately assess loan applicants because if individuals default on their loans, the VOs or SUDVOs that recommend the applicant typically need to pay back the loans before receiving dividends. This results in a simpler loan process with MLOs than with MDOs or banks. Because clients obtain approval from the VO representative and SUDVO representative, only a short assessment from an MLO credit officer is required to assess the collateral (which for MLOs, as opposed to banks, can include household products such as pots and pans). Overall, the loan process (from application to disbursement) takes an average of seven days (and is often as short as 24 or 48 hours), compared with an average of about five weeks for banks.

Borrowers sometimes stop doing business with local banks once they become MLO clients, citing cumbersome paperwork and lengthy periods between loan application and loan distribution as key reasons for preferring to borrow from MLOs. For example, business owners located in marketplaces claim they rely on credit for working capital and cannot afford to take a risk with banks whose delays may prevent them from purchasing inventory on time. On the other hand, an individual must generally be an active member of their VO to access loans, therefore limiting access to some.

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<th>Box 2 MLO loans for business</th>
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<td>A weekly border market in Afghanistan opens for business every Saturday. There, traders from Tajikistan cross the bridge with their wares in the hope of selling to Afghan buyers. Similarly, Afghan traders bring their stock to sell to Tajik buyers. Visas are not required to conduct business at these weekly exchanges. One stall-keeper, Kalandar Kalandarov, used to be a schoolteacher but low and often delayed wages made it easier for him to ‘become my own boss’. He likes being a trader, and uses the income to supplement profits from his potato and orchard harvests. He relies on loans to finance the purchase of his stock and to cover transportation expenses. An initial loan of TJS3,000 ($626) from MLO Ishkashim helped him start the business. After paying his loan within the year, he is now on his second loan of TJS5,000 ($1,044) which has allowed him to increase the amount and variety of merchandise he can sell. Kalandarov is able to set aside savings from his profits, placing them in a bank account he opened in 2001. He uses bank savings for his children’s school expenses. Savings from his potato harvest are kept at home and used to pay for routine household expenses. Kalandarov provides a good example of the benefits of accessing multiple financial services, including those based on collective organizations, especially in rural areas.</td>
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Community-based savings groups (CBSGs)

Until 2009 MSDSP’s engagement in financial services was limited to the provision of credit. Realizing that access to safe places to save was key, MSDSP initiated its community-based savings group (CBSG) programme.

Based on tested models in Africa and South Asia, CBSGs are simple savings and borrowing associations. Under the direction of elected leaders, groups of approximately 15–25 members gather bi-weekly to manage their financial activities. After two months of training, followed by approximately seven months of close supervision, CBSGs operate with no ongoing external support. Given their small size, groups need not be licensed or regulated under current law.

In order to save, members purchase ‘shares’. Group members set a share value, ranging typically from TJS5 to 20 ($1 to 5) and at each meeting members purchase up to five shares. These shares accumulate throughout the cycle as more are purchased, and are combined to make up the loan fund. Members can borrow up to three times their total savings with loan durations of three months. Loans are small, ranging from TJS25 to 1,000 ($5 to 208), and are most commonly used for consumption purposes, closely followed by education and health. Some members borrow for trade or other productive investments but these are fewer in number because of the small loan size, although some sub-groups have formed within CBSGs to run cooperatively managed enterprises using borrowed funds from the CBSGs. Services provided meet households’ need to smooth incomes over time and manage cash flow – often in anticipation of remittances from family in Russia.

The interest rate is usually 3 per cent per month (chosen by the group) and all interest received contributes to increase the loan fund. Periodically (normally annually), the funds are divided among the members at what is called the ‘share out’, returning the savings to members plus a prorated share of earnings from loan interest and fees accumulated throughout the period. Members appreciate the transparent approach and find the annual share-out helpful to see their profits and trust that their savings are safe.

During the meetings each member also contributes TJS1 ($0.25) to a small insurance fund (referred to as the social fund), which can be used to meet the needs of group members in an emergency. The social fund typically lends money at no interest or provides grants to members when the group deems it is appropriate. Normally, the group decides ahead of time the reasons for which the social fund can be used.

Box 3 Saving and borrowing for coal

The CBSGs in Tajikistan use loans and share-outs for many of the same purposes as groups located in South Asia, Africa, and Latin America. One use that seemed unique to Tajikistan, however, was using loans to purchase fuel. At a meeting of the CBSG, Sardara (Cold Valley), a member borrowed TJS1,400 ($293) for coal. She claimed it was easier to transport coal in September when the roads are clear than in winter when they are blocked by snow and ice. She says that coal is cheaper in September as well. Her loan will buy about 20% of her winter fuel supply. She will wait for remittances to pay for the rest of the fuel required throughout the winter.
As of December 2012 there were 2,607 CBSGs operating in MDSDP areas. Average savings per member was TJS242 ($50), and average savings per member at share-out was TJS288 ($60). To date, over 50,000 individuals have joined a CBSG. In 2012 TJS11,246,125 ($2,342,943) was mobilized in savings across groups in GBAO, Rasht Valley, and Khatlon Oblast – a substantive amount of money that used to sit idle ‘under the mattress’. The majority of CBSG members are women; in some areas, the CBSG is the only place a woman has access to financial services.

Some CBSGs have accumulated so much capital after two to three years that security of the funds is becoming a concern. MSDSP has recently piloted linking groups with a local bank (Amonatbank) for the purpose of depositing excess group funds.

Aga Khan Agency for Microfinance

At about the same time as the new microfinance law was introduced, meaning that VOs were no longer allowed to provide credit, the Aga Khan Development Network (AKDN) established the Aga Khan Agency for Microfinance (AKAM) which took over all the credit and savings activities of the Aga Khan Foundation’s local programmes, including those in Tajikistan. Initially set up as a programme of AKAM, the eventual transformation to a bank occurred in 2004, creating the First Microfinance Bank (FMFB). FMFB provides larger loans to meet the needs of micro and small enterprises, primarily in urban and peri-urban areas. At the end of December 2012 the number of loans outstanding at FMFB was just over 14,000 and the number of deposit accounts was approximately 11,500.

FMFB is currently restructuring its business to leverage its commercial banking licence and will increase its capital, extend its services to the SME and corporate
sectors, and upgrade its IT and HR capacities. This will also entail realigning the footprint of its branch network more closely with the economic potential of the country, and pruning its network of service centres in areas where it cannot achieve economies of scale. This may provide expanded opportunities for alternative financial service providers, such as MLOs, to offer services in less accessible and rural areas.

**Others providing financial services**

In addition to MLOs and CBSGs supported by MSDSP, and FMFB, others providing financial services include MFIs (MLFs, MLOs or MDOs), banks, and shopkeepers. Recently, the parliament passed a bill on credit unions but none currently exists.

**Banks**

There are 17 commercial banks (including six foreign banks) in Tajikistan; however, their branch presence is often limited to district centres. Full bank branches offer deposit, transfer, credit, foreign exchange, and remittance services, yet in MSDSP operating areas many are not full branches and thus do not offer all services. Instead, these offices are utilized primarily for remittances or government pension payments.

**MFIs**

In March 2012 there were 46 MLFs, 44 MLOs, and 35 MDOs in Tajikistan. Only MDOs are allowed to mobilize deposits, although not all do so. Five of the largest MFIs (IMON, FINCA (MDO), AgroInvest, Arvand (MDO), AccessBank Tajikistan) have branches across Tajikistan, except in GBAO because of its low population density, and none of the licensed MDOs offers deposit services in GBAO.

**Payment service providers**

Fifteen payment service providers operate in Tajikistan, both local and international, such as Western Union. Increasingly, payment services through terminals are becoming accessible. Although some providers offer airtime top-up and bill payment services, MSDSP beneficiaries use these services primarily to process remittances.

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**Box 5 Express Pay**

Operating under the law as a registered MDO (FG Vavilon), Express Pay manages 800 payment terminals, small, roadside kiosks, located primarily in Dushanbe. The company has extended its payment terminal network to 1,600 agents, often shopkeepers. While service access points are not yet broad-based enough to impact MLO clients in the near term, they could make loan disbursement and repayment more convenient to borrowers in the future.
Informal providers

Informal providers are present across MSDSP areas in the form of family members and shopkeepers who make loans or advances available on a regular basis, generally with no interest. These providers fill an important gap for cash flow management; a significant portion of the population regularly utilizes shopkeeper credit. Households save informally in gold jewellery or livestock.

Cassabozi (cash game) is practised informally among community members and within some organizations. These cash games are similar to rotating savings and credit associations (ROSCAs) where each member in a group brings the same amount of money to each meeting. At the end of each meeting, one individual leaves with all the money and at the next meeting it is someone else’s turn, until everyone has received the money.

A spectrum of service providers

AKDN’s work in Tajikistan presents a good example of a systems approach to supply of financial services, where FMFB, the MLOs, and CBSG initiatives work collaboratively embedded in a larger dynamic of local customs, regional trends, and available options. Collective organizations such as SUDVOs and VOs are critical to this system, providing the original foundation for MLOs, and increasing the efficiency of credit delivery. CBSGs also provide much-needed financial services as well as contributing to significant social capital within communities building on the collective model. While excess demand still exists, both for more of existing services such as credit, and for services not yet widely available such as insurance and broader access to deposits, MSDSP’s efforts have contributed substantially to facilitating increased access. The following analyses the role of various actors in the financial market system demonstrating the need for a multitude of providers and support systems.

Role of CBSGs

Currently CBSGs are the only accessible provider of savings services in many of the areas in which MSDSP works. For example, during recent civil unrest in GBAO, CBSGs were the only financial service providers operating and the only place to access cash as banks and others ceased operations for over one month.

CBSGs meet the need to save and lend small amounts regularly; however, there is still a need for longer-term savings for university education and retirement. While some of the local banks offer long-term savings, these services are often inaccessible, charge fees, require a minimum balance, or are unknown to many community members.

Financial capabilities. While loans and savings services are generally the most valued services, basic financial management and goal-setting skills are also developed through participating in CBSGs – skills that serve people well in managing their resources. CBSGs also help develop relationships between group members and banks. Many members open bank accounts after joining a CBSG. Group accounts
Deposit aggregators. CBSGs are successful, efficient collectors of small savings that benefit the group and at the same time result in collective savings large enough for banks. In fact, banks may consider using CBSGs to aggregate small deposits into usefully large sums that banks would find economically beneficial to collect.

Role of MLOs
In many cases, the MLOs are the only proximate, accessible credit provider for MSDSP beneficiaries, other than CBSGs. The MLOs, grounded in social missions, and founded on the VO and SUDVO community structures, exist to respond to the needs of the community’s development objectives. However, they are not able to meet all requests for credit in the districts in which they operate. Longer duration loans for agriculture and sustainable leasing products are also in demand.

Role of SUDVOs/VOs
Although no longer actively lending money, SUDVO and VO elected representatives are still very much integrated in the provision of financial services in their communities as MLO shareholders, credit capacity assessors on behalf of the MLOs, and CBSG facilitators. This is an advantage in that SUDVO and VO representatives are part of the community and can assess the community members’ credit needs and debt capacity.

Role of AKAM
For those clients whose credit needs exceed what is available from the MLOs and who qualify for bank loans, FMFB provides another option for somewhat less poor

Box 6 CBSGs: an added benefit – deposit collectors for banks
Lailiev Rahimjon, Manager of Amonatbank branch in Roshtqala district, is a firm supporter of CBSGs. His branch currently receives deposits from 55 groups. Three have opened simple demand accounts and 52 have time deposit accounts. A total of TJS500,000 ($104,167) is now on deposit at his branch. Typically, groups make three to four deposits per cycle. A bank employee visits CBSG leaders in person, often as part of routine rounds distributing government pensions, and together with group leaders develops a plan for future deposit-making. Groups use the service to deposit surplus funds (those not lent out to members) for safekeeping. Mr Lailiev knows the CBSG programme well as his wife is a member. He believes the CBSGs are an efficient way to aggregate deposits. To ensure members are protected from fraud, he requires two co-signers plus the treasurer to sign off withdrawals. One group reported that the bank was actively anticipating their deposit for immediate redistribution of pension checks in the community.

Source: Interview with Mr Lailiev Rahimjon, September 2012 and Zarrin CBSG

are also opened, normally with two members as signatories, for safekeeping of excess liquidity of the group.
clients to access larger amounts of credit for operating an enterprise. FMFB could also play a role in wholesaling loans to the MLOs to increase their capital. This would help to expand the MLOs without waiting to fund growth only through net earnings.

The need for continued development

While CBSGs, MLOs, and banks meet various financial service needs of the communities where MSDSP works, gaps still remain.

Capital needs

MLOs have developed a good reputation for catering to the poorer people in a community, and clients have fewer costs (transportation, paperwork, fees, etc.) borrowing from an MLO than a bank. However, the demand for these services is much higher than the MLOs currently have the capital to meet. In response to a high number of loan requests, MLO managers often limit loan sizes in favour of more people receiving credit as opposed to a smaller number of individuals receiving the requested amount. While MLOs do not financially gain from lending smaller amounts to more people, this keeps them true to their social mission.

Currently, MLOs are dependent on external grants and retained earnings to expand lending operations. Providing either debt or equity to the MLOs presents a good opportunity for impact investing, particularly for social investors interested in reaching remote rural communities where banks and MFIs cannot generally reach.

Deposit services

MLOs cannot mobilize deposits from individuals or from CBSGs. MLO clients and VO members thus store cash either in their homes or in CBSGs. MLOs have a great opportunity to take advantage of the trust they have built with their clients and others in the community by offering savings services. In order to do so, however, MLOs must transform into micro deposit institutions (MDOs). This requires a minimum capital of TJS equivalent to $800,000. While transforming five MLOs into independent MDOs may not be financially wise given each MLO’s potential market and return on investment, consolidating some of the MLOs into a single MDO might be appropriate. This would allow them to mobilize deposits, providing a much-needed service to the community while at the same time providing additional capital to the MDO for lending to meet excess demand.

Capacity development

As shareholders in an MLO, the SUDVO management committees participate in the governance of the MLO and provide oversight to management. While SUDVO elected representatives generally have a strong background in community mobilization and governance, they have limited experience and expertise in providing formal financial services. While many have had experience with the revolving funds
in the earlier days of SUDVOs, few have had experience with the professionalization and higher standards required to manage an MLO.

Furthermore, MLO managers are often elected from the SUDVO representatives. This means both the governance and management of the MLOs is drawn from these organizations. For the MLOs to be profitable and grow, capacity building in areas such as credit management, management information systems, human resource management, and strategic planning, for both MLO governing bodies and management, is needed. In addition, experienced managers may need to be brought in. Since the current pay is relatively low and the incentive to hold the job is linked directly with community activism and power, MLOs may find it difficult to attract the necessary skills for these management positions or to have external staff accepted by the community.

Financial education
Despite high overall literacy levels, financial literacy among targeted beneficiaries is low and is likely to hinder the uptake of the available products from both formal and informal providers. Low financial literacy (and awareness of available products) prohibits beneficiaries from effectively comparing various product terms and offers. Returning migrants are often not aware of the options available for saving. To expand financial inclusion, including financial education initiatives in coordination with MLOs, MDOs, and banks, which also have an interest in increasing financial literacy and awareness, would be useful.

Conclusion
Altogether, the variety of financial service providers and support organizations that exist to meet the needs of MSDSP supported communities has resulted in a substantial increase in access to and usage of financial services. While gaps still exist, the Tajikistan experience provides a possible model for other countries to replicate. Building on the foundation of community groups such as VOs and SUDVOs, and ensuring that the system has collective financial service providers such as CBSGs, contributes to a financial system that works better for the poor.

What makes this system work is the ability of both MLOs and CBSGs to provide services in remote areas at a fraction of the costs of more formalized providers. The existence of SUDVOs and VOs works extremely well to increase efficiency, reduce operational costs for the MLOs (by requiring less time to assess clients) and help to manage risk since the SUDVO and VO representatives vouch for the borrowers. This is a good example of aligning incentives – a key consideration when facilitating market systems that work better for the poor. The MLOs have an incentive to work closely with the SUDVO and VO representatives to support their credit activities. And, since the management and governance structures are drawn from the SUDVO/VOs, these organizations want to see the MLOs succeed and expand to further meet their social mission. The SUDVO/VOs, as shareholders of the MLOs, have very clear incentives to only recommend good borrowers and/or to work with
the MLO staff and the rest of the community to ensure borrowers repay – otherwise, their dividends are reduced.

In addition, it is important to acknowledge the varied financial service needs of the poor, and thus the need for a variety of financial service providers – both community-based and within the formal financial sector. By leveraging each other and working together to identify appropriate target segments and roles for each provider, financial inclusion can be increased. For example, the ability of CBSGs to efficiently collect very small savings from individual members and aggregate these deposits into useful sums for banks to collect and then intermediate, represent approaches that could be capitalized on by stakeholders everywhere interested in increased financial inclusion.

This paper recognizes the emerging awareness that the financial service needs of poor people, like those of the not-so-poor, are many, and argues that increasing financial inclusion requires a multitude of market actors working together to make the system work better for the poor.