

Microfinance in the Financial Sector

There is a **mandatory contribution** of 2% of the deposits of State Owned Commercial Banks towards the funds of the VBSP.

VBARD and VBSP use the rural network and social mobilisation capacity of mass organisations such as VWU and FU to organise savings and credit groups.

Without legal status microfinance programs of NGOs cannot access commercial sources of funds, which could be for example provided by VBARD. It is estimated that VBARD holds US\$32 million earmarked for microfinance institutions, which it cannot legally disburse.

However, there is currently **no formal funding links between commercial banks and NGOs**, with the exception of Save the Children US's initiative, which is developing a multi-stakeholder partnership between a commercial bank (the lending entity), a service company (the microfinance facilitator) and an NGO (SC/US, as technical assistance provider and financial supporter).

Some **Rural Shareholding Banks** have lent to the poor, collaborating with VWU to organise women's groups for credit purposes. Despite the high repayment rate, RSHBs are hesitant to expand such lending, as demand from other clients seems more lucrative than poor farmers.

Sources
