Yemen National Microfinance Policy Statement

Adopted by the Government of Yemen
Under the Direction of the
Ministry of Planning and International Cooperation

June 2007
Preface

Under the direction of the Ministry of Planning and International Cooperation (MoPIC) and with strategic support of the German Financial Cooperation (KfW), the Government of the Republic of Yemen (GoY) has launched a consultative process to develop a common understanding and vision for the role of microfinance in the country’s financial sector development.

Building upon the pioneering field work and advocacy role of the Social Fund for Development (SFD) and following up on the outcomes of the first National Roundtable for microfinance facilitated by the Consultative Group to Assist the Poor (CGAP) in June 2006, a meeting was held on April 24, 2007 to (i) introduce basic good practice principles currently driving the global microfinance industry; (ii) provide an overview of the status of the microfinance industry in Yemen; and (iii) discuss current bottlenecks to the development of the sector and define activities and priority areas for future action. The half-day meeting was attended by a group of individuals representing a range of public agencies and private sector actors operating in the sector. The outcome was overwhelmingly positive, with the key stakeholders welcoming the effort to rationalize ongoing and future support to the sector. A general consensus emerged around the need for a more sustainable approach to building an inclusive financial system in Yemen and developing a clearly articulated national policy paper and strategy to move the sector in this direction.

This document embodies the main principles driving such a vision and defines concrete strategy elements that will be needed to realize it. It builds upon the National Small and Micro Enterprise Development Strategy (SMEDS) adopted by the GoY in January 2005 by providing a dedicated microfinance policy statement expressly addressing the specific needs of the microfinance sector.

The document has been endorsed by the major donors\(^1\) who have committed to work in partnership with the GoY according to internationally accepted good practices (Annex 1: KEY PRINCIPLES OF MICROFINANCE) in the promotion of an inclusive financial sector for Yemen, and is part of an iterative process and ongoing national dialogue among the major stakeholders operating in the sector.

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\(^1\) KfW Entwicklungsbank, Consultative Group to Assist the Poor (CGAP), United Nations Development Programme (UNDP), World Bank, International Finance Corporation (IFC), GTZ, and United States Agency for International Development (USAID)
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I. Framework for Policy Statement

Microfinance and Poverty Alleviation

The GoY has identified the micro and small enterprise (MSE) sector as a key source of job creation and income generation for the poor and hence a powerful tool to combat poverty and provide for future prosperity. Access to finance for poor and low income people helps to increase household income and economic security, build assets and reduce vulnerability, create demand for other goods and services (especially nutrition, education and healthcare) and stimulate local economies.

It is widely accepted that donor financing will neither be adequate to satisfy the full demand for nor can it ensure sustainable access to financial services by poor and low-income households. In order to bridge the outreach gap and ensure the increased professionalism and legitimacy of the sector, a gradual integration of the microfinance industry into the formal financial sector is needed.

Vision for a Mature Industry

It is the vision of the GoY to build a truly inclusive financial system whereby all segments of society have permanent access to a range of financial services and products that are provided in an efficient and cost effective manner. Through the ratification of this document, the GoY strives to develop a mature microfinance industry characterized by:

- **An Enabling Policy Environment** where a supportive legal and regulatory framework exists, good practices and industry standards are promoted; where the supervisory capacity of the Central Bank to safeguard poor people’s money has been developed; and where a diversity of competing institutions and financial products is fostered.

- **A continuum of financial service providers** (i.e. commercial banks, postal savings banks, non-bank financial institutions, special microfinance banks, service companies, subsidiaries etc.) with the institutional set up and capacity skills to service the market in an efficient, market oriented and viable manner. Microfinance Institutions (MFIs) who are
committed to *good practice* principles and who provide a diversified range of demand-oriented financial services (e.g. micro credits, savings, insurance, transfer payments, *remittances*, housing, etc.) at adequate terms.

- **Financial Transparency and a Supportive Infrastructure** where specialized service providers (e.g. credit bureaus, associations, rating agencies and training institutes) support the expansion of microfinance service delivery to new and frontier markets.

- **Existence of Non-Financial Services to MSE** such as business development services (BDS) provided by specialized institutions that support the enhancement of MSE, and provide capacity building to help upgrade their skills and move them into the formal sector in a transparent manner.

II. **Guiding Principles for Support of the Sector**

The GoY and its partners agree to a set of basic principles that will drive the future development of the industry:

- Efforts to support the microfinance industry will be *market oriented* and should not lead to any kind of market distortions (i.e. beneficiary targeting, subsidized loan programs, interest rate caps, debt forgiveness schemes, etc.);

- The *legal and regulatory framework* will be adapted to be more supportive of an inclusive financial sector and savings mobilization (e.g. appropriate minimum capital requirements, capital adequacy ratios, maximum shareholding participation, etc.

- A clear distinction will be made between *welfare and credit schemes*, with the former being restricted to poor households that are economically inactive and unable to benefit from access to credit.
III. Current State of the Industry

Characteristics of the Market

Yemen is one of the younger microfinance sectors in the Arab States region, with the first programs initiated in 1998. By the end of September 2006, eleven MFIs supported over 31,000 active borrowers and 30,000 savers, with a loan portfolio outstanding of USD 3.2 million and a savings balance of USD 409,000. The recent growth in the sector (averaging 22.5% p.a. from 2004 to 2006) can be attributed to three MFIs who together made up 79% of recent market growth. While growth rates in Yemen have been strong relative to some of the more developed markets in the region (i.e. Jordan and Lebanon) because of its relative size, its contribution in absolute terms is still quite limited, with Yemen accounting for only 2% of total active borrowers and 1% of total portfolio outstanding in the region.

As in most other countries in the region, the microfinance industry started through the work of NGOs, which remains the predominant institutional model for service delivery in the country. While this institutional form was perfectly suitable during the experimentation and piloting phase, inherent constraints of the model related to its ownership and governance structure pose serious challenges to long-term financial sustainability. A specialized microfinance bank has been established through presidential decree; however, it is not yet operational, and a general lack of understanding and interest up until now has limited wider bank engagement to small-scale pilot initiatives among a small number commercial banks.

MFIs operating in the market are quite small with the majority of programs reaching less than 3,000 clients. 86% of all clients being served are women who are receiving average loan sizes of USD 108, 19% of GDP per capita well in line with regional averages for poverty lending. Profitability is mixed with most MFIs struggling to cover their costs and few having reached financial sustainability. Portfolio quality on the whole is fairly good with Portfolio at Risk of most MFIs within a range of less than 5%, barring localized problems in specific programs that bring the average for the industry down. There is a general adherence to good practice standards and industry norms. However, transparency remains a challenge for MFIs who experience

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2 Most of the MFIs are legally registered institutions; however, some are still programs that have yet to be transformed into institutions. And all have quite a long way to go before they possess the vision and capacity to grow and reach scale in a significant manner.
inconsistencies in the availability and accuracy of reporting data. The vast majority of MFI activity is focused in urban areas leaving the rural population with virtually no access to finance for either agricultural or agricultural related activities.

The Post and Postal Savings Corporation (PPSC), a wholly owned subsidiary of the Ministry of Telecommunications, has 200 branches and over 300,000 low-balance accounts making it arguably the largest provider of microfinance in the country. Currently PPSC offers pensions and utility payments, domestic transfer and deposit services. PPSC has expressed interest in developing a microcredit product with the proper strategic support, which could pose great promise for innovative approaches to service delivery.

**Opportunities**

While the market it still quite small and underdeveloped, there exists a solid foundation of practitioner experience upon which to build. With more than 12 million people living below the poverty line, the unmet demand for microfinance is huge. Add to that the fact that only 2.5% of the entire population has access to formal banking services and there is an enormous opportunity to adapt the products and services of the banking sector to meet these needs.

With the increased awareness of the importance of microfinance for poverty alleviation and private sector deepening among policymakers and the possibilities of donors to support the development of the industry through innovative initiatives (e.g. greenfielding, bank downscaling, NGO upgrading and transformation) the sector is well positioned to be propelled forward.

**Challenges and Obstacles to Growth**

**Retail Level**

The pioneering efforts of the Social Fund for Development (SFD) and the United Nations Development Program (UNDP) over the last 10 years have been critical for developing a foundation for the industry by creating demonstration models for service delivery based on good practices. However, in spite of the progress that has been made, capacity at the retail level continues to be the main constraint to the further growth of the industry, characterized by:
- **Limited capital and institutional base among NGOs**: weak governance and ownership structures, limited management capacity and human resource base; limited branch structures, operating systems and technologies for reaching remote rural areas; and lack of readiness to transform into formal financial institutions;

- **Limited transparency**: lack of accurate, standardized and comparable information on the financial and social performance of MFIs);

- **Limited engagement by commercial banks**: lack of vision, institutional capacity and know-how to efficiently serve the new target clientele;

- **Limited product diversification**: Credit primarily for enterprise activities, with no options for consumer loans (i.e. school fees, housing, medical bills), payment services, money transfers or insurance services. Depository services are available nationally through the PPSC, however, in isolation from a broader range of financial services.

**Micro and small enterprise (MSE) Level**
Microfinance efforts generally focus on supply side issues, building up the channels and mechanisms for sustainable service delivery, based on the assumption that the demand is there and can be fully realized. However, MSEs in Yemen face a range of challenges in optimally utilizing financing opportunities owing to their informality, geographic remoteness and in the case of many women culturally rooted beliefs about institutionalized borrowing and isolation from the public sphere:

- **Aversion to formal financial services** owing to a lack of credit culture and a general distrust of banks and interest bearing financing;

- **Limited resources** for labor, skills and capital that effectively restrict scale and quality of operations;

- **Limited Market knowledge or understanding of market trends** makes it difficult to transcend local markets and access a regional or global base;
• **Weak financial and managerial skills** reduce competitiveness and limits evolution into higher value markets.

**Policy Environment**
Most of SFD’s work, as well as that of other donors, to date has fallen outside of the formal financial sector, leaving many MFIs operating in an ambiguous legal and regulatory environment with limited options for transformation. While this has not prevented NGOs from effectively operating in the sector so far, there are a number of specific issues that will become increasingly problematic as the industry begins to increase outreach and take a more sustainable approach to development:

• **Lack of adequate legal and regulatory structures** to support the formation of non-bank financial institutions (NBFI), specialized banks or microfinance companies greatly restricts the opportunity to pioneer more sustainable models of service provision (via private equity participations and debt and/or savings mobilization).

**Industry Support Services**
Donor efforts have focused on piloting new programs, and providing direct capacity building on basic microfinance principles and practices directly to nascent MFIs. While this is appropriate in the early developmental stage of the sector, as the microfinance industry matures, MFIs will increasingly need to source out their services directly from the private sector rather than relying on donors and government agencies for necessary technical assistance. Currently there is a:

• **Lack of adequate supportive infrastructure** such as training institutes, rating agencies, accounting or auditing services, or credit bureaus to promote a vibrant microfinance sector.

**IV. Roles of Stakeholders**
In carrying out the vision stated in this document, the various actors will work to compliment private sector interventions and accelerate innovative market solutions, acting upon their comparative advantage when determining their respective areas of support.
The Government of Yemen, through the Ministry of Planning and International Cooperation (MoPIC), will stimulate the development of the financial sector via a conducive credit environment and market oriented financial policies that protect poor people’s saving. It will work with relevant bodies to pass legislation necessary to reduce barriers to entry for investment opportunities.

- **The Social Fund for Development (SFD)** will continue to support its microfinance portfolio working to consolidate, upgrade and transform existing programs into sustainable MFIs. In addition, it will continue to lead the sector by playing a facilitation role, helping to disseminate lessons learned as well as to coordinate, create synergies and provide linkages for the various stakeholders in the sector. The SFD will create and serve as the Technical Secretariat a Steering Committee that will coordinate various stakeholder activities and assure their compliance with the guiding principles of the National Microfinance Policy Statement.

- **The Ministry of Finance (MoF)** will commit to creating a sound policy and regulatory framework, which will allow for the financial market to develop via *greenfielding*, *downscaling* and *upgrading* as well as through the establishment of other specialised leaders (e.g. leasing or consumer lending agencies).

- **The Central Bank of Yemen (CBY)** will commit to creating adequate supervisory capacity to support the soundness of a range of institutions operating in the banking sector.

- **The Social Welfare Fund (SWF)** will abstain from direct provision of microfinance and will focus its efforts on capacity building of beneficiaries (training, financial education, etc.) and linking them with professional microfinance providers.

**Donor Agencies** in the country shall acknowledge the need for capacity building support in their funding strategies at all levels of sector development, ranging from direct technical assistance to new and existing MFIs to building relevant supervisory capacity within the formal financial sector. Efforts will focus on new product development, penetrating frontier markets (particularly rural lending) and the piloting new models for service delivery. Financial support to
intermediaries (via refinancing and equity) will be based on private investment criteria and should be structured in such a way as to encourage and or ensure the eventual phasing in of private capital.

**Direct Service Providers** (financial and non-financial) will commit to providing a diverse range of market oriented, cost efficient products and services to poor and low-income clients. Non-bank financial institutions will strive for financial sustainability and increasingly tap sources of private sources of funding (capital markets and deposits). Banks entering the market will use their own funds to capitalize new microfinance portfolios and will dedicate necessary human resources to add microfinance to the bank’s product offerings.

V. **Key Strategy Elements**

In order to develop a more inclusive financial system in Yemen a range of activities is needed at all levels of the sector to spur competition, increase outreach, diversify client services and facilitate financial independence. However, it is important to prioritize these activities based on the current level of development of the sector in order to ensure appropriate actions that will have the greatest impact.

Currently the microfinance sector in Yemen can be said to be in an expansion phase where the business model for microfinance has been established and generally accepted. Focus must now shift from experimentation to market growth, with short-term goals aimed at supporting new and existing retail providers scale up their operations on a sustainable basis. As the market develops and becomes more integrated into the financial sector, medium term goals will be appropriate.

**Short Term Goals (1-2 years) Support to Expansion Phase**

- Support NGO consolidation and transformation into specialized *non-bank financial institutions* (NBFI) under existing and/or new legal framework. Technical assistance should focus on the managerial, technical and financial skills (including good governance, strategic management, new product development) needed to scale operations and make the transition into professionalized service providers;
• Increase transparency in the sector by mainstreaming standardized and comparable financial reporting by MFIs that can be used by regulatory bodies, donors, and potential investors;

• Pilot new commercial models of service delivery including bank downscaling and greenfielding of specialized bank and non-bank financial institutions that can be scaled up and replicated. Opportunities to engage the Postal Savings Bank should be further explored as an effective mechanism for increasing rural access to microfinance on a massive scale;

• Develop an adequate regulatory environment for microfinance through circulars clearly defining the activity and categories of service providers to bring current applied practices in the industry in line with the existing legal framework;

• Develop a new law or amend the existing banking law to allow for transformation and greenfielding deposit taking banks and to cover specialized microfinance banks created through exceptions;

• Create a specialized microfinance unit in the Central Bank to act as a monitoring, coordinating and supervisory authority for the industry;

• Build up the business service environment for MFIs such as auditing and accounting firms and ICT providers through information sharing and training opportunities to raise awareness of the specific requirements of the microfinance industry.

• Encourage linkages with business development services (bargaining, pricing, market standards and specifications, product development) and technical skills training for micro enterprise clients;

Medium Term Goals (2-5 years) Support to Consolidation Phase
• Address long-term human resource constraints by developing and/or upgrading private sector service providers that can provide demand oriented, cost efficient training for MFI staff at all levels of operations from loan officers to management and executive levels. Training should focus on adequate credit technologies such as alternative collateral and should include strategic management planning, financial management, market research, product development, credit analysis, risk management, etc. Existing bodies such as the Institute of Banking studies should be considered for strategic support;

• Support research and development initiatives aimed at promoting more client-responsive and cost effective services among MFIs, including the use and adaptation of new technologies, existing transfer and payment mechanisms, etc.

• Promote rating agencies (either through capacity building of exiting firms or the establishment of new ones) or self-regulating mechanisms to facilitate private sector funding of MFIs;

• Support the development of credit information for MFIs through the establishment of a private sector credit bureau;

• Create a national Network or Association for MFIs that can act as a storehouse of knowledge for the sector, facilitating information exchange and promotion of industry standards and developments among its members. The Small and Medium Enterprise Development Unit (SMED) of the Social Fund for Development could consider playing this role in order to meet the changing needs of the sector;

VI. Moving the Vision Forward

Establishing a Steering Committee
A Steering Committee will be established under the guidance of The Social Fund for Development to facilitate the development of a detailed action plan for realizing the national policy statement articulated in this document. The action plan will build upon the priority areas
identified and will define key activities to be undertaken, identifying indicative resources needed, timeframe for completion, and lead agency responsible for its implementation.

The Steering Committee will receive administrative and technical support from KfW and/or CGAP who will provide the Secretariat with ongoing guidance for this process. For detailed information about roles and responsibilities of the Steering Committee see Annex 3 for a complete Terms of Reference.
## Annex 1: KEY PRINCIPLES OF MICROFINANCE

1. **Poor people need a variety of financial services, not just loans.** In addition to credit, they want savings, insurance, and money transfer services.

2. **Microfinance is a powerful tool to fight poverty.** Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks.

3. **Microfinance means building financial systems that serve the poor.** Microfinance will reach its full potential only if it is integrated into a country’s mainstream financial system.

4. **Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people.** Unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from donors and governments.

5. **Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services.**

6. **Microcredit is not always the answer.** Other kinds of support may work better for people who are so destitute that they are without income or means of repayment.

7. **Interest rate ceilings hurt poor people by making it harder for them to get credit.** Making many small loans costs more than making a few large ones. Interest rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people.

8. **The job of government is to enable others to develop financial services, not to provide them directly.** Governments can almost never do a good job of lending, but they can establish a supportive policy environment.

9. **Donor funds should complement private capital, not compete with it.** Donor subsides should be temporary start-up support designed to get an institution to the point where it can tap private funding sources, such as deposits.

10. **The key bottleneck is the shortage of strong institutions and managers.** Donors should focus their support on building capacity.

11. **Microfinance works best when it measures—and discloses—its performance.** Reporting not only helps stakeholders judge costs and benefits, but it also improves performance. Microfinance institutions (MFIs) need to produce accurate and comparable data on financial performance (for example, loan repayment and cost recovery) as well as social performance (for example, number and poverty level of clients being served).
Annex 2: GLOSSARY OF TERMS

**Downscaling:** Formal financial institutions that offer a microfinance window. Source: Calmeadow

**Greenfielding:** Greenfield or greenfielding refers to starting a new microfinance organization where none existed before. Source: ACCION

**Inclusive Financial System:** Is one that offers the majority of the population sustainable access to a range of financial services suited to their needs. Source: UN Blue Book

**Microenterprise:** A small-scale business in the informal sector. Microenterprises often employ less than 5 people and can be based out of the home. Microenterprise is often the sole source of family income but can also act as a supplement to other forms of income. Examples of microenterprises include small retail kiosks, sewing workshops, carpentry shops and market stalls. Source: ACCION

**Microfinance Institution (MFI):** A financial institution - can be a nonprofit organization, regulated financial institution or commercial bank - that provides microfinance products and services to low-income clients. Source: ACCION

**Non-Bank Financial Institution (NBFI):** Non-monetary financial institutions, classified into government and private sectors, with or without quasi-banking functions. They are primarily engaged in long-term financing for the expansion and modernization of productive ventures and, to a minor extent, for facilitating short-term placements in other financial institutions. Non-bank financial institutions include: (a) Investment House; (b) Financing Company; (c) Investment Company; (d) Securities Dealer; (e) Securities Broker; (f) Pawnshop; (g) Lending Investor; (h) Fund Manager; (i) Mutual Building and Loan Association; (j) Non-Stock Savings and Loan Association; (k) Private Insurance Company; (l) government non-bank financial institutions; and (m) Venture Capital Corporation. Source: Bangko Sentral ng Pilipinas

**Portfolio at Risk:** Measurement of the total outstanding balance of loans past due - not late payments or payments not yet due - divided by the active portfolio. A more rigorous manner of assessing portfolio quality than portfolio past due/ delinquent portfolio. Source: ACCION

**Remittance:** Money sent by expatriate migrant worker to family in home country; A payment in cash, check or electronic transfer. Source: ACCION

**Transformation:** In a microfinance context, transformation refers to the process by which a nonprofit community organization or an NGO becomes a regulated financial institution. Source: ACCION

**Transparency:** The degree of a financial institution/ MFI's openness as determined by a sequence of financial information-gathering and testing. A transparent microfinance organization gathers and reports accurate financial information on its own, to be verified and analyzed by external parties. These external authorities ensure that the MFI's performance complies with appropriate industry standards. Source: Calmeadow
Annex 3: TERMS OF REFERENCE FOR STEERING COMMITTEE

1.1 Purpose

A Steering Committee (SC) will be established to lead and guide the process moving forward to ensure the achievement of concrete outcomes upon which to build.

1.2 Principles

The Steering Committee is guided by a commitment to the development of a mature microfinance industry in Yemen as an integrated part of the financial sector. This includes support to:

- The promotion of a mix of self sustaining, high performing microfinance providers with the capacity to enhance or innovate in their performance, products, growth, and outreach;
- An enabling operating environment (policies, regulations, legislation, and enforcements);
- A supportive physical infrastructure in and outside the industry (e.g. rating agencies, credit bureaus, insurance companies, leasing companies, training facilities, business development services, etc.); and
- Vibrant representational bodies (networks, associations)

The strategies agreed upon have been informed by internationally accepted good practices in the field of microfinance as well as the country’s relevant policies and strategies.

1.3 Membership

1.3.1 Membership Requirements:

The partners of this initiative will each nominate a representative to serve on the SC. The nominated representatives should possess decision-making authority within their respective agencies and be willing to take an active role in promoting and advocating the sustainable development of the microfinance sector in Yemen.

1.3.2 Composition and Formation

The membership should include key stakeholder actively engaged in the sector including:

- Ministry of Planning and International Cooperation (MoPIC), Co-Chair
- United Nations Development Programme (UNDP)
- Social Fund for Development, SMED Unit, Technical Secretariat
- Central Bank of Yemen (CBY)
- Ministry of Finance (MoF)
- Ministry of Trade and Industry
- Ministry of Labor and Social Affairs (MoLSA)
- KfW
- IFC
• USAID
• MFI NGO representative (NMF)
• Commercial Bank representative (Tadhamon International Islamic Bank (TIIB) or Al Awal)

1.4 Role
The Steering Committee is responsible for ensuring the drafting of an Action Plan with detailed activities, indicative resources needed, timeframe for completion, and lead agency responsible for its implementation; and ensuring that it is ratified along with the National Microfinance Policy Statement. The Steering Committee will also monitor progress made on Action Plan implementation and will be responsible for ensuring an ongoing information exchange and dialogue around microfinance sector development.

1.5 Technical Secretariat (TS)
To expedite program arrangements and ensure the necessary level of substantive and logistical support to Steering Committee activities the Social Fund for Development’s SMED Unit will play a vital role as the Technical Secretariat informing and guiding the process forward. The TS will be responsible for:

• Setting the agenda and determining the substantive content of meetings;
• Documenting all meeting proceedings and ensuring that outcomes are captured in relevant action documents (i.e. Action Plan and Implementation Monitoring Matrix);
• Preparing and circulating all required documentation to facilitate decision making;
• Arranging meeting venues, recording and distributing minutes.

1.6 Meetings
The TS in coordination with the SC Chairs will identify a schedule of meetings, to ensure forward motion on the Action Plan and regular exchange on industry programming developments. Initially there may be the need for regular more frequent meetings as SC members are oriented and the Action Plan is being drafted. Once the Policy Statement and Action Plan have been ratified and a monitoring matrix has been developed, quarterly meetings should be sufficient for providing a venue for regular updates on implementation activities, challenges, obstacles and achievements to date. The TS will ensure that SC members are aware of the schedule of meetings with sufficient time to arrange their schedules accordingly. Documents should be provided at least one week in advance.

Due to the advocacy nature of this body, it is imperative that members be available to attend meetings when necessary. If a member is unable to fulfill this obligation, the Co-chairs shall select a substitute, representing the same sector. This substitution will be done in good faith and only after every effort has been made to time and announce meetings in such a way as to allow for maximum attendance by regular members.

The Steering Committee will seek to achieve consensus on key decisions where possible. When consensus is not possible, decisions will be made according to a simple majority vote of all eligible members.
1.7 Technical Support

The Steering Committee will play a critical role in the successful implementation of the Project through its oversight function and general advocacy and coordination role. As such it is important to ensure that the members possess a solid understanding of the needs and workings of a mature microfinance industry and that the Technical Secretariat is equipped to carry out its guiding function. Technical support to both build a common base of understanding among SC members of the priorities of the sector (e.g. through targeted discussions on key substantive areas, exchange visits, and participation in regional and/or global training opportunities) and facilitate the action planning process will be needed and will be provided preferably by a donor with a local presence at the National level and with relevant financial sector expertise.