

## WOMEN'S ENTERPRISE DEVELOPMENT IN ERITREA THROUGH MICROFINANCE

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### Abstract

*Women play a key role in economic growth and development, yet they are still discriminated against in economic life. Eritrea has extreme poverty and more than 66 percent of people live below poverty line. Eventually, the number of poor households in the country is high. Many are women-headed households, whose husbands died during the conflicts or who are now serving in the National Service. Women-headed households are particularly vulnerable. The Savings and Micro Credit Program (SMCP) provides major microfinance to women entrepreneurs. A small group of women and men were interviewed to ascertain their successes and problems with micro credit and enterprise development. This paper delves how the women benefited from the microfinance program and got rid of their poverty. An attempt is made to explore and analyse various other institutions that provide microfinance to the women and other beneficiaries. The paper concludes that the women entrepreneurs are considerably supported and benefited by the microfinance program.*

**Keywords:** Eritrea, Microfinance, Women entrepreneurs, poverty, economic development.

**JEL Codes:** G21, I31, O16, Q12.

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### 1. INTRODUCTION

The microfinance has been playing an important role in many developing countries of the world. The microfinance refers to small-scale financial services (primarily credit and savings) provided to people who engage in the farming, fishing and operate micro-enterprises to gain subsistence income from these activities and subsequently support the rural economy. Many of these households have multiple sources of income and carry out several small-scale income-generating activities (IGA). Above all, microfinance services help low income people to reduce risk, improve business management, raise productivity, obtain higher returns on investments, increase their incomes, and thus increase the quality of their lives (Vonderlack et al. 2001; Gema 2002; Rena 2006b).

The Microfinance is relatively a new tool used in the development process but one that is widely discussed in literature, as well as by development theoreticians and practitioners. Can microfinance solve problems that were unsuccessfully addressed with various other

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development tools? An attempt is made in this paper to discuss the impact of microfinance to reduce poverty of women entrepreneurs in Eritrea. Microfinance has proved to be a successful tool in supporting the economically active poor to improve their businesses and livelihoods. Theoreticians though have not yet reached a consensus about the effectiveness of the tool for poverty alleviation. Therefore, it is interesting to study the microfinance sector in an extremely poor country like Eritrea that has encouraged women through microfinance to set up or enhance business enterprises (Wright 2000; Gema 2002; Spring 2002).

### **Country Background**

Eritrea is located in the Horn of Africa shares borders with Sudan, Ethiopia, Djibouti, and the Red Sea. It has an estimated population of 4.5 million and a total land area of 12.2 million hectares. Its annual population growth is estimated at 2.9 percent. There are nine ethnic groups<sup>1</sup> and six administrative *zobas* (provinces/regions).<sup>2</sup> It has the per capita income of less than \$250. The economy is primarily based on agriculture including fishing, light industry, and services, including tourism. The majority of the population is involved in agriculture, but the sector contributes only 16 percent to the GDP and provides less than a third of Eritrea's merchandise exports. In the years after the war for independence, Eritrea enjoyed an average annual growth rate of 7 percent, one of the highest in Africa. Eritrea was in a de facto currency union with Ethiopia from 1993-1997, and the Ethiopian Birr was the official tender. In 1997, the Bank of Eritrea established the Nakfa,<sup>3</sup> and by early 1998, the government had managed to stabilize the economy. The outbreak of the new conflict with Ethiopia in 1998 brought this progress to a halt (Rena 2006a; Rena 2006b).

Eritrea has a long history of armed conflicts and devastating natural catastrophes. After a short time of economic development, the 1998 border conflict with Ethiopia and two years of war destabilised the efforts towards development. Furthermore, the no-war no-peace situation from 1998 to present deteriorates the economic lives of the people. To make things worse, agricultural production in 2003 and 2004 was low due to drought. In such economic and disaster contexts, it is important to assess the impact of microfinance programs on livelihoods.

Information about the microfinance in Eritrea is scarce. Studies include: Spring (2002); Stillhardt, Brigitta, Ghebru, Bissrat, Mehari Haile, Abraham (2003); NUEW (2003); CARE (2003); Savings and Micro Credit Program (2005) mainly dealt with the women entrepreneurs and their role in the economy. The studies also highlight the problems of women in accessing the credit and provide the information about the microfinance institutions and their impact on the rural people of Eritrea.

The paper has been divided into five parts. Section two discusses the women enterprise development. And section three deals with the challenges of microfinance in Eritrea. Section four provides information on the microfinance institutions in the country. The final section provides concluding remarks.

## **2. WOMEN'S ENTERPRISE DEVELOPMENT**

A comprehensive countrywide study of micro, small, and medium-sized enterprises (MSMEs) was carried out in Eritrea in 1995-1996. For the primary study, 17,030 enterprises, employing 34,773 people, were surveyed as were 3,419 enterprises for a secondary study in Asmara; major, small, and rural towns, rural localities, and large, medium, and small-villages. These data, much disaggregated by gender, are seven to eight years old but still provide a baseline for project design and implementation of new enterprises (Spring 2002:26).

The study estimated that women comprised 42 percent of the total labour force, while 45 percent of enterprises had no women workers and 35 percent consisted of female workers only. As the size of the enterprise increased, the proportion of women owners and workers decreased. A relatively high proportion of women were owners (81 percent), and 42 percent of all Eritrean medium and small-scale enterprises (MSMEs) were owned by women; only 1-2 percent were operated jointly by a man and woman. The rate of launching enterprises since liberation was equal for men and women. Female dominance in the manufacturing sector (66 per cent) of enterprises was "due to smaller activities such as brewing of traditional drinks, baskets and traditional broom-making, mat-weaving, and producing different kinds of snacks and juices," all mainly in the informal sector. At the industrial level, female-owned MSMEs were less prominent, except for hair salons and rental services, while in trade, "female-owned MSMEs accounted for greater than half of hotels and guest houses, restaurants and bars, tea houses, traditional drink saloons, vending food and non-food items, and retailing edibles (poultry, spices, baskets, juices, and vegetables)." More women than men owners were unmarried, and women more often were taking care of families and dependents. Two-thirds of women had no formal business training but acquired their skills through their own work experience (Spring 2002:27).

### **Constraints to Women Entrepreneurship and enterprise development**

The number of poor households in Eritrea is high. Many are women-headed households, whose husbands died during the conflicts or who are now serving in the National Service. Women-headed households are particularly vulnerable and have to deal with additional workload and social constraints, especially in the male-dominated agricultural businesses. It is reported that women share about 50 percent of the farm tasks, whereas men's share in the domestic work is minimal (Tronvoll 1998; Rena 2005). In contrast the majority of Sub-Saharan Africa, practices home-based agriculture, putting the women in a dominant position within the production system. Absence of male labor therefore has great impact on women-headed households.

Most households in the highlands practice subsistence farming, with crops such as sorghum, barley, maize, wheat, teff and dagusha. Animal husbandry and small-scale trading are also conducted. The most common animals besides drought oxen are sheep and goats. Households also keep chicken for food and egg production and some also have a donkey for transport, carrying water, grain, firewood and goods from the market. Some cows and mules are also found, while camels are mainly seen in the lowlands (Rena

2006a). In this regard, MFIs can provide credit for the rural farmers particularly women to develop poultry, floriculture, bee-making, and horticulture enterprises.

It can be said that for poor farmers with small plots, the potential of increasing the agricultural output is limited. Investment in an off-farm activity would for many peasant households be more lucrative (Spring 2002; Rena 2005). Those with the fewest agricultural assets and income are typically also least able to make up this deficiency through non-farm earnings. It should be considered as well that non-farm activities often also signify an additional burden on the already heavy workload that women do in the household (Rena 2006a). Households with more or high quality assets have good opportunities to develop their businesses. Important assets could be the educational level, the access to more arable land or a stand at the local market to sell grain or vegetables (Cheston and Lisa 2002; Sebstad and Monique 2001).

The following summarizes the problems women face in developing enterprises and entering businesses at all levels (Spring 2002; Cheston and Lisa 2002; Sebstad and Monique 2001).

1. There is a tendency to associate women with micro-level enterprises and with certain sectors (stereotypic enterprises like backyard poultry) rather than realizing that woman may be found in almost all types and at all levels (small, medium-sized, and large scale) of enterprises. There are few entrepreneurial role models for Eritrean women that are not stereotypes.
2. In planning enterprise development for women, there may be certain constraints in terms of level and sources of capitalization. Women may be fearful of credit and loans.
3. Women in all levels of business may be reluctant to discuss business practices or to mentor others. They may not admit to having few business skills and may act uninterested in business development services.
4. Fewer women are found in the agricultural and agro-business sectors, although some are in sectors that deal with agricultural commodities.

### **Objectives and Methodology of this study**

The objective of this study is to assess the possible impact of this development tool on the livelihoods of poor Eritreans. The study is based on both primary and secondary data. The primary data were collected through in-depth interviews of microfinance recipients in selected areas of Eritrea. The secondary data were collected from the journals, books, reports and publications of government and microfinance institutions (MFIs), as well as from the Internet.

This study was conducted in Anseba province of Eritrea in July 2006. The village of Hagaz and the town of Keren (capital of Anseba) were selected. Hagaz is located 25 kilometers from Keren. Altogether sixteen participants – 6 women and 10 men were studied. A Participatory Rural Appraisal (PRA) method was adopted to carry out the study.<sup>4</sup> Chambers, in his definition, described PRA as a growing techniques of Anthropological techniques which use indigenously available means and measures that exude locally available wisdom in a given set of circumstances with almost cent percent societal participation. The essential of complete participation of people in a given time and in a given circumstances ensures not only the people's participation but also in capturing the wisdom of people. However, the task is not as simple as its definition. It matters most in regard to human values and motivation. Chambers emphasized that motivate the people's participation by giving top priority to people with their own knowledge and perception in their own locality and the activities that are being undertaken by them which means, giving top priority to indigenous knowledge and wisdom, for a wise devolution of development programs (Chambers 1999). In line with this, we motivate the beneficiaries to share their experiences with us. We persuade the local thinking i.e., knowledge, sharing and attitudes towards the microfinance program.

### **3. CHALLENGES OF MICROFINANCE IN ERITREA**

The Agency for Co-operation in Research and Development (ACORD) has introduced the microfinance programme in 1994. By 2002, about 30,000 people use the services provided by Small and Micro Credit Program (SMCP). In addition, another 5,000 clients used to be involved in a scheme but have exited programs in the middle due to their socio-economic problems after paying back their respective loans adjusted with their relatives. Since the cessation of hostilities with Ethiopia in June 2000, local and international NGOs have started to provide financial services. Nevertheless, the microfinance has been dominated in Eritrea by two organizations i.e. SMCP and ACORD (CGAP 2002:7).

#### **The political uncertainty:**

- (a) Increased security risks to staff, clients, and assets;
- (b) Human resource constraints including the loss of management staff or members of support groups who fled their country; and employees who left for better jobs or educational opportunities
- (c) Increased expenses incurred to maintain a high quality portfolio that include higher administrative cost to contact and monitor clients, additional security costs, higher labor costs for training, and other costs for risk mitigating measures (CGAP 2002:5).

On the one hand, the presence of armed conflicts is a limiting factor, and on the other hand, is an opportunity for microfinance programs. Indeed, the Ethio-Eritrean border conflict has contributed to develop new clients for microfinance including: refugees and returnees, internally displaced people (IDP), landmine survivors, war widows, rape victims, and others. Also entrepreneurs who previously had access to the formal banking system can no longer afford large loans to rebuild their businesses. In the case of Eritrea some

entrepreneurs have found financial support from the MFIs while the formal banking system was being re-established. In general, MFIs must understand the new market situation and assess and modify services and procedures to correspond to the new characteristics and the transformed client base (CGAP 2002).

### **Currency and Legal frameworks**

A high inflation rate of over 25 percent in Eritrea puts restrictions on the business endeavors of the MFIs and their clients. For clients, the problem of a high inflation rate emerges and is even more accentuated when program is based on recycling funds. The legal framework that regulates the microfinance sector is not yet developed, thereby restricting MFIs, as well as clients.

## **4. THE ERITREA LANDSCAPE OF MICROFINANCE INSTITUTIONS**

There are nine microfinance institutions and one "meso-finance" institution active in Eritrea. These ten organizations target different groups and have different approaches. The "meso-finance" program: The goal of "meso-finance" is to enhance macro-economic growth through assisting private small and medium enterprises. Therefore the amounts of loans disbursed are by far higher than from MFIs. The details of this program discussed in the later part of this article.

### **REIP: A program to enhance economic development**

The Rural Enterprise Investment Partnership (REIP) is a governmental program to restore agricultural capacity. REIP focuses on strengthening the development of agriculture and agribusiness as the basis for improving rural income and food security. It finances enterprises in the southwest and along the Red Sea littoral that are suitable for irrigation, as well as for extensive rain-fed agriculture. The Rural Enterprise Unit (REU) is REIP's program planning and administration center, and is responsible for coordinating assistance to rural enterprises and facilitating linkages with the Commercial Bank of Eritrea that manages the credit component of the program.

ACORD and SMCP are the two largest microfinance programs that encompasses about 90 percent of all microfinance clients. Both work with a village-bank approach to build sustainable long-term financial institutions in the villages. They have a wide range of clients from poor peasants to petty traders to businesspeople who could take loans from formal banks.

### **SMCP: The largest MFI in Eritrea**

The Savings and Micro-credit Program (SMCP) was established as a component of the Eritrea Community Development Fund (ECDF) in 1996 and has been independently operating since 2002. SMCP is the largest microfinance program in Eritrea; and in 2006, there were 33,167 clients<sup>5</sup> (13,267 women clients) from all *zobas* (provinces). From 1996 to December 2006, the village bank savings captured Nakfa 72.34 million (USD 4.8 million) (SMCP 2006). The main objective of the SMCP is the creation of new income and employment in poor communities through the promotion of micro-scale activities.

The Tier-I loan targets clients deemed to be poor or very poor. This includes women and women led households. Under this Tier -I loan, voluntarily organized solidarity groups of 3–7 persons of at least 35 clients set up a community bank but the maximum number of clients does not exceed 105 in the village bank. In any case, if the client's number exceeds 105, they split into two or more village banks and thus develop the customers and banks. It is to be noted that the Group members (solidarity groups)<sup>6</sup> guarantee each other's loans. Clients under this particular program can access loans ranging from Nakfa 3,000 (USD 200) to 40,000 (USD 2,667) disbursed in ten progressive loan cycles. Like all Micro Finance Institute loans, SMCP loans are short term. For the first four cycles, the loan term ranges from 3 – 12 months, while loans in the next six cycles can be paid within 3 – 24 months. Indeed, the clients are required to pay the loan in monthly installments. It is observed that an off-shoot of this particular loan program (Tier-one B) SMCP introduced as an incentive to encourage clients to pay on time allows clients to borrow individually after demonstrating perfect loan repayment records in four consecutive loan cycles.

Tier-I loans range from US\$100 to US\$1,000. The second tier loan is an individual loan program. Clients eligible under this loan program can access loans ranging from Nakfa 40,000(USD 2,667) to 150,000 (USD10, 000) disbursed in six different loan cycles. Each loan is granted based on best performance and full repayment of previous loans. Loan term under this program ranges from 3 – 36 months. Most loans under this program are given to people owning small enterprises and persons with some exploitable skills for working capital and investment capital needs. Unlike in the group loan (Tier-I), for any one to be eligible under this loan program, collateral/cosigners are a requirement. The second tier loan program has a unique advantage of creating job opportunities (Rena, 2006b). Tier-II clients receive larger amounts (US\$1,000 to US\$10,000) to invest in business development (CGAP 2002). Tier-II clients do not have to have a business plan or collateral. However, a loan is only handed out after SMCP's staff has checked the economic performance of a business (SMCP report 2005).

Table 1 explains the women clients in Tier-I and Tier-II during the period 1996-2006. It is important to note that the women clients have consistently increased both in total and percentage over a decade. In 1996, under the Tier-I, 30 percent of women clients were extended credit, which then increased to 40 percent in 2006. Under Tier-II, no one was extended credit in 1996, but in 1997, female clients were 14 percent that then increased to 42 percent in 2004 and then declined to 35 percent in 2006. It may be because of the escalating situation with Ethiopia over the border conflict.

**Table 1**  
**Women clients covered under SMCP 1996-2006 (numbers and percent).**

Year	Tier I		Tier II	
	Number	Percent	Number	Percent
1996	441	30	0	None
1997	718	30	1	14
1998	1,513	28	2	6
1999	1,711	30	5	14
2000	1,793	30	71	29
2001	3,812	37	333	36
2002	4,597	40	529	36
2003	5,506	40	636	39
2004	6,646	43	700	42
2005	8,211	41	857	38
2006	10,176	40	1,109	35

**Source: SMCP Annual Report, 2007**

**Note: Percentages rounded off**

#### **Field Study in Hagaz and Kerern**

In 2006, the SMCP has 4,807 clients in Anseba province out of which 1,406 are women. Almost half of the clients (about 2,500) are from Keren town. They lacked collateral and business licenses that constrained small trading and agribusiness. In Anseba province the loan recovery rate was 86 percent. Several case studies from the interviews provide data on the successes and problems of the program.

One client who is 37 years has four children and a husband who works in national service for \$30 per month. She received a SMCP loan, and states the following. "We never had an idea of such a service, but there was a meeting in our village, and then they gave us five days training and distributed the money. I took Nakfa 5,000 (USD 333) and invested in handcrafts manufacturing pottery (traditional *zebena* used for coffee ceremony). I employed four girls to help me to design and manufacture. I now have a good business, and I sell most of my goods in Asmara with the help of one employee. The market in Asmara is better than Keren. I repaid the loan now and am planning to take a Tier-II loan and enlarge my business."

Another women client is 43 years and has five children; her husband is an employee in an office in Keren and earns Nakfa 1,000 (USD 67) per month. She is a grain-trader and highlights the quick distribution of money: "I am happy because after applying, they gave me the money quickly; it was a nice startup capital." The small entrepreneurs of Keren are typical Tier I clients, have to start with a loan of about US\$ 100, and after timely repayment they successively receive higher amount of loans up to US\$1,000. In addition to the limited amount of money, she also stated: "Everything is fine. But I want more money. Unfortunately I am torn by the regulation that the loan amount is on increasing basis. It would be better if they had a longer repayment period of 6 months or more. You have to



buy and sell the items first, before you can generate an income." She mentioned the loan amount as her only criticism of SMCP: "When I started business it was adapted to my capacities, but now I need more money."

The risk-averse strategy and the focus on savings the SMCP applies constitute some restrictions for the members of the credit association. Clients who have taken loans are not happy with the short repayment period since they do not encourage members to invest in income generating activities with longer gestation times. Moreover, the fact that the operating cycle of a savings group does not exceed one year also discourages long-term investment.

The majority of interviewees as part of the SMC program put more than a thousand Nakfa in their savings account. These figures prove that the savings service is highly valued. One 31 year old woman noted: "I can easily withdraw money; it is like I am taking it from home." She has two children and her husband is in national service 400 Km away. She was living in a poor condition before she acquired the loan. Now, she is a tailor and has a good income; she bought three more machines and employed three people.

Farmers in the program strongly criticized the interest rate (16%) as high, while women entrepreneurs in Hagaz and Keren, said that neither the interest rate nor the repayment rate was a problem. One said: "The interest rate is okay. I do not feel it. The accesses to the money are good and also that I can pay back the money on much extended time." Concerning the interest rate as well as the repayment period small entrepreneurs seem to differ significantly from local farmers who are now participants.

A woman from Hagaz who received a Tier II loan is 33 year old and has three children. In 2005, she was given Nakfa 25,000(USD 1,667) to expand her grocery business. The activity generated good income, so within a year she repaid the entire loan amount. She then applied for Nakfa 40,000(USD 2,667) as second cycle loan to expand her business. She earns average Nakfa 5,000 (USD 333) per month.

Another woman from Hagaz who is 39 years old with one child and a husband who is in the military and her new group has only three women, all taking Tier-I loans. Along with the group members, she was allowed Nakfa 3,000(USD 200) in 2005. With this amount she started a sheep and goat rearing business. But due to family problems, she could not manage them properly. As a result, she could not do the business well or repay her loan. She asked a relative, who lives in abroad to help her repay the loan. She noted that she was not interested in taking future loans because the interest was high.

A 48-year widow with 6 children lives in the Keren town. Facing severe poverty, she had a small plot of land where she started a poultry business. In 2003, she heard about the SMCP, and, without any capital of her own, obtained a loan of Nakfa 3,000(USD 200) from the SMCP. With this money she opened a small shop, and within a year paid back the loan on time. After two years, in 2005 she received another loan of Nakfa 5,000 (USD 333) to sell vegetables and employed her daughter. Her profits were Nakfa 45- 75 (\$3-5)

per day. As a result, her standard of living started to change, and three years later constructed a two-room house. Before she got the microcredit from the SMCP, she said, "my life was pathetic and incomparable; I didn't have a cent, and hardly any clothes. It's like heaven and hell."

SMCP data shows that the repayment rate among the women is as high as 90 percent in both the Tier-I and Tier-II where as in the case of men; the rate is less than 70 percent. There is a client drop out rate of less than eight percent.

### **Men Beneficiaries in the field study**

Six men beneficiaries were selected from Hagaz. They have taken the Tier-I loan and complain that they do not get the money in time, which can have bad consequences in agriculture, where timing is very crucial.

A man from Hagaz village, who is 52 years old with five children and a wife. He is a farmer and all the family assists him in the farming. He has less than 2 hectares of land. He said that "The money should be at hand at the right time. Farmers are seasonal producers. You need to receive the money in time, because if a field is not weeded at the right time, the production will be lower. Last year (2005) we received the money in August that was too late" He further stated that "I did not take loans from the bank because I did not have a business to invest the money and to pay back the money would have been difficult because of the remoteness of the Hagaz village. The best thing is the possibility to receive money, because this is not easy in this remote area. They gave us money with the simple confidence that we can repay it. I suggest everybody to repay the loans in time. If they do so, there would be more money in our village bank."

The other farmer who is 47 years old and has three children with wife said that "they understood the crop failure and didn't give us a hard time, they didn't push us to repay and it become a big problem for other potential farmers who take loan from the SMCP" He also revealed that "the money given was not sufficient to buy the agricultural seeds and other equipments."

Another client 49 years old who has two children and wife said that "In SMCP the interest rate is a bit high (16 percent) and the repayment period is just one year that is a bit too short. I like the group collateral (solidarity group) system. If I am not present at a monthly meeting, the other group members can pay my share" He was not happy because the amount taken was not paid by him and depends on his group and they insist him to pay the money.

Another client who is 47 years old and has three children and wife said that "the interest rate is high. I spend all my money for the repayment of the loan. Because I'm the head of the family I would have to attend the monthly meetings. In fact, I am afraid to go there, because last year agriculture was very bad they should extend our repayment period for a year or so"

Another man who is 45 years old has one child taken the loan and purchased sheep and goats and he graze them for few weeks or months and sell them for higher prices He is happy that he paid the loan back without any problem.

Another farmer client who is 55 years and has four children and wife he expressed the concern "The program doesn't include all of the poorest but parts of them. Working labor is the most important asset. The poorest with labor force are included. Excluded are old people, disabled people and women-headed households with children" He invested the money in agriculture but struggling to repay the money due to the poor harvest.

The other four men beneficiaries were selected from Keren. A man who is 47 years old married but no children. He started barber saloon and gets good money for his family maintenance and paid the entire loan.

Another man who is 46 years old has two children and wife started a small bakery where he prepares the *Ambesha* (local big -bread) and sells in the shops and thus make good money and repaid the loan.

Another client who is 48 years old has five children and wife has started a small shop. But he was not happy because the money was not sufficient for his shop needs. He drinks the money that he earns was misused and could not pay the loan. His group members are forcing him and took some belongings from his home.

Another client who is 53 years old has three children started a small shop in the grain market in the town. He said that "I was expelled from Ethiopia in 1999 and I came empty -handed. But now I look like a citizen who has been here for the last 25 years. I have a good standard of living". "The SMCP helped me to cope with the crises. After displacement I took the third loan of Nakfa 10,000(USD 667). This money helped me to reach my former level of business that I was doing while I was in Ethiopia". He makes the profit of Nakfa 75-100(USD 6-7) and trying to other business with the help of his family members. It is to note that most of the wives in village areas do not have jobs except helping their husbands in the farming activities and taking care of the houses.

Table 2 provides the overall activities and performance of SMCP in all the six regions of Eritrea. As of December 31, 2004 it had 43 percent of women in Tier-I and 42 percent in Tier-II. The active clients under the first tier loan program spread over 207 village banks. It can be noticed that the number of cumulative village clusters increased from 81 in 1996 to 595 in 2004. The table further explains that the SMCP has outstanding balance loans of Nakfa 35.88 million in the Tier-I and Nakfa 34.48 million in the Tier-II during the period 1996-2004. The number of active clients has also increased considerably from 1,470 to 15,602 during the same period. According to the SMCP the number of clients increased to over 35,000 by the end of 2007. This indicates that the SMCP has extended its operations in all the six regions of the country. The rate of interest charged by SMCP is found to be

constant i.e. 16 during the eight year period. The inflation in Eritrea has sharply increased from 3.7 to 25 percent during 1997-2004. However, the SMCP did not make any steps to reduce the rate of interest to encourage its clients. Therefore, many clients expressed their concern that the interest rate in SMCP is very high, which will even deter the involvement of some potential clients in the program.

**Table 2**  
**The Performance Indicators of Savings and Micro Credit Program (July 1, 1996-December 31, 2004)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Number of Village Banks (VBs)	25	39	76	85	88	146	162	191	207
No. New VBs established	25	14	37	9	3	58	16	29	16
No. of Cumulative village Clusters	81	107	246	285	290	519	552	561	595
Avg.No. of Active Clients per VB.	59	61	72	68	68	71	71	72	73
Balance of Loans Outstanding Tier I	1,316,100	3,778,367	8,902,521	9,184,808	9,259,712	17,617,584	23,037,580	34,043,292	35,888,089
Balance of Loans Outstanding Tier II	0	66,107	515,625	582,108	2,658,224	14,052,734	29,961,806	35,403,875	34,481,746
No. of active loans (Tier I&II)	1470	2380	5504	5815	6187	11229	12,961	15396	17267
Effective Interest Rate (Tier I)	16	16	16	16	16	16	16	16	16
Inflation(during the period ) (Tier I)	-	3.7	9.5	9.0	14.6	14.6	14.6	25	25
Real effective interest rate (Tier I)	16	0.120	0.060	0.06	0.01	0.01	0.01	-0.07	-0.07
Effective Interest Rate (Tier II)	14	14	14	14	14	14	14	14	14
Inflation (during the period ) (Tier II)	-	3.7	9.5	9.0	14.6	14.6	14.6	25	25
Real effective interest rate (Tier II)	14	0.099	0.041	0.046	-0.005	-0.005	-0.01	-0.09	-0.09
<b>TIER I</b>									
No. of Active Clients	1470	2373	5477	5779	5942	10304	11492	13765	15602
No of Loans Disbursed (Tier I)	1685	3808	9005	4391	2744	9206	11520	11588	10728
<b>TIER II</b>									
No.of Active Clients	-	7	27	36	245	925	1469	1631	1665
No.Loans Disbursed (Tier II)	-	7	33	46	259	1040	1016	721	658
Total No. of Women Beneficiaries;% (Tier I)	30	30.26	27.62	29.6	30.18	37	40	40	42.6
Total No. Women Beneficiaries; % (Tier II)	-	14.29	6.45	14.29	29	36	36	39	42.04
Portfolio in Arrears over 30 days	0.00	1.15	2.04	7.12	5.96	2.71	7.5	21.55	20.58
Portfolio in arrears over 1 day	0.00	1.28	2.09	7.48	6.33	3.37	9.36	26.47	24.34

Source: SMCP Annual Report, 2005.

### **The Agency for Cooperation in Research and Development (ACORD)**

ACORD, established in 1976, is a consortium of international NGOs in the North, as well as by other NGOs and UN organizations like United Nations Development Program (UNDP) and World Food Program (WFP) and to provide its members with operational capacity to address poverty issues resulting from the drought in sub-Saharan Africa.

The ACORD<sup>7</sup> mainly functions in the areas such as micro credit, HIV/AIDS awareness campaign, and livelihood and conflict management. It works in 526 villages (out of 979) of zoba Debub (southern province) i.e. it covers 54 percent of the villages in the zoba. It enables the poor people to improve their livelihood through credit facilities. In 2002, it is reported that it has 8,795 clients, out of which 43 percent are women. The numbers of loans were 2,840 out which 49 percent were disbursed to women (ACORD 2004).

The first loan of any member cannot exceed Nakfa 5,000(USD 333). The savings have to equal at least 5 percent of the amount of the loan requested. After successful repayment of the loan a member can get further loans and higher amounts of money. Loans can be used for any economic investment from fattening sheep to digging a well. The interest rate for loans is 14% per year, on declining bases. This system favors early repayment, because the interest rate is significantly below 14% if the loan is repaid after a shorter period than a year.

### **The microfinance programs of Vision Eritrea and HABEN**

The Community-based Savings and Credit Association (CSCA) was originally based on a program design of the British CARE Internationals. CARE International-Eritrea is funded by USAID. It proposed an 18-month pilot program to build up the capacities of two Eritrean NGOs, VISION ERITREA and HABEN, to establish viable community-managed savings and credit associations (CSCAs). The program supported the two local NGOs to work in several communities in each of these *zobas*: the Gash Barka, Northern Red Sea and Maekel (central province), HABEN was only responsible for the latter. CARE International-Eritrea trains VISION ERITREA and HABEN staff to implement all aspects of the project. Before the training, CARE arranged a visit of these two NGOs to a CSCA program in Uganda(CARE 2003: 1). It has the total customers of 248 out of which 233 are women. The operations are mainly conducted in the zoba Gash Barka and Northern Red Sea areas. The amount of loan disbursed was Nakfa 466,537.50(USD 31,102).

### **Manitese: Microfinance as complementary service**

The Manitese development program assists women to improve their skills in handicraft production. The microfinance section of Manitese only provides loans to the participants of their business creation. During 2000 and 2003, Manitese started projects for women in Gash Barka and Northern Red Sea that focus on the specialization and improvement of local handicrafts production. Manitese also organizes start-up programs on the specialization and improvement of local handicrafts that can serve as a source of income for the trained women, most of whom are illiterate. Manitese provides these women with a center where they can work and benefit from the daily exchange of personal knowledge

and ongoing training. In addition, Manitese supports the women clients by purchasing raw materials, establishing a central store near the center, and helping clients to find markets to sell finished products (Manitese 2003).

The microfinance component is one part of this holistic approach. The women are provided with an interest-free credit. The repayment period for the loans is 10 to 12 months but the repayment rate was less than 75 percent. Manitese does not make any profit because the money is paid into a revolving fund and does not have any interest (Manitese 2003). Since Manitese does not have manpower and infrastructure to run the microfinance program, it works with the National Union of Eritrean Women (NUEW). After a year, the clients left the program, and they are supported by the NUEW. The Manitese project mainly aimed at women entrepreneurs because of which it has been amalgamated with the NUEW.

### **MOA: The microfinance component of an agricultural project**

The Ministry of Agriculture (MoA) operates an agricultural development (microfinance) project in the Emni Haili of zoba Debub (southern region). One component provides microcredit to farmers. The project area is characterized by mixed farming systems, but crop and livestock yields are low. The main constraints on productivity are land degradation (poor soil fertility), high population density, and lack of inputs (e.g. good-quality seeds, fertilizers, and pesticides). Irrigation activities have not been introduced and there is a lack of adequate drinking water. In a process of trying to identify the needs of the local people, men and women farmers were approached to identify major problems. Irrigation and drinking water were identified, as well as crop input supply and training.

The MoA formulated the main objectives that included strengthening consciousness on gender issues and empowering women in various income-generating activities. To achieve these objectives, a women's program that included a training and credit service was implemented. Most of the women in the project area do not own any resources except of their labor. There is an acute shortage of credit especially for those women wanting to undertake various food production activities, such as sheep or goat breeding and poultry rearing.

Every year about 45-60 women are trained for 20 days in home economics (food and nutrition, health and sanitation, mother and child care), gardening, and animal husbandry. Immediately after the training, the loan is given to those who want to start or enlarge their businesses. Another 30 women who request a loan from the project also get credit after receiving a three day orientation and training about the aim and objectives of the credit and related subjects. The primary beneficiaries are 300 women who are directly provided with credit. The money then circulates as a revolving fund that contains a total of Nakfa 900,000(USD 6,000) and distributed among the clients.

### **National Union of Eritrean Women (NUEW): A credit and savings program**

The NUEW was established in 1979 during Eritrea's liberation struggle. The NUEW is administered by its Headquarters in Asmara (national capital), as well as by regional

offices in all six zones. It has membership of over 200,000 and gets income from monthly membership fees, grants and projects and fund-raising activities by members. Since 1999, NUEW has continued to enhance the role of women by raising their political consciousness through literacy campaigns, credit programs, English lessons, and other skills training. (NUEW 2003).

In 1995, the NUEW initiated a microfinance program, but after the 1998 war, there were problems. Most of the members were located in Gash Barka and Debub that were badly affected due to which the program has been stopped until now. In 2000, it started a new program with the United Nations Development Project (UNDP) in Maekel where 400 clients (mostly rural) were involved. The budget was about US\$150,000. Its objectives are to encourage women economic self-reliance, to improve their business knowledge, and to provide credit for income generating activities. All mentally and physically able women between 18 and 60 are potential clients, but there is a focus on poor women headed households, displaced women, and women who live in remote areas (NUEW 2002). The improved standard of living of families, that includes food security, health care, access to education, and safe and secure housing.

Originally the program planned to provide its services in four sub-zobas in Maekel province with 87 clients in each sub-zoba. Participants are organized into groups of four to six women, all from the same village. The groups are self-organized and function as collateral groups through trust and agreed upon amounts for regular. All the members must be the breadwinners in their households (NUEW 2002). Beneficiaries of the program are engaged in different income generating activities.

The loan size ranges between Nakfa 500(USD 33) and 5000 (USD 333) with an interest rate of 12 percent. In the second round an amount up to Nakfa 5,000(USD 333) is possible. The repayment rate is 12 months, but for agricultural activities, the period can be extended to 18 months.

### **International Medical Corps (IMC): The microfinance and community health program**

The IMC microfinance program is small and closely linked to its Mobile Clinics and Community Health Programs. The Eritrean refugees, who come from Sudan and residents of host communities gain access to microcredit. Eventually, they establish and promote small income generating activities and receive other related support. Village Credit Committees were formed in the sites of Aklat, Dressa and Ali Gider. The local communities formed the credit groups (IMC 2003).

The individual loan size ranges between 3,500 and 5,000 Nakfa, The group loan instead goes up to Nakfa 15,000 (USD1,000). In June 2003 the IMC disbursed a total amount of Nakfa 269,500 (USD 17,967). One quarter of this amount was handed out to women (25 percent). The interest rate for loans with less than six months repayment period is 8 percent, for loans of more than six months duration the interest rate is 12 percent. The IMC

has disbursed 297 loans, 49 group loans and 248 individual loans. The IMC is satisfied with the repayment rate. By the end of March 2003 the overall repayment percentage for the three sites was calculated as 94 percent. The 6 percent default represents businesses that were rescheduled because of market changes. For these clients the repayment period was extended so that the business cash flow was not affected and a business collapse could be avoided (IMC 2003).

### **HABEN: Small-scale microfinance programs for the extreme poor**

HABEN, one of two local NGOs is involved in microfinance, as well as emergency relief, helping people affected by the war in the Southern zone (Debab) and Gash Barka. In the Southern Zone, the program is based in Senafe, a small town, about 40 kilometers from the Ethiopian border. Because of its geographical location, the town and the surrounding villages were very badly affected by the war. Besides the severe bombing, a lot of households were looted and subjected to violence. Women especially were victims of sexual and gender-based violence. In the religious and traditional society of rural Eritrea, women who were abused by these crimes are excluded from the community and were divorced from their husbands. With the loss of their social network, they became vulnerable and struggle to survive. HABEN<sup>8</sup> started the "Emergency Response to Sexual and Gender-Based Violence Program". The original goal was to help victimized women, but this was difficult because the social and religious background hindered women from talking about the crimes committed by the Ethiopian soldiers. These circumstances led to the present design in which the most vulnerable women (usually household heads) are targeted.

HABEN runs a similar program in Ali Gider, close to Tessenei where many refugees from Sudan live, and where HABEN, UNHCR and the International Medical Corps try to secure their survival. The HABEN programs are limited for example, in 2003; there were only 231 women clients.

### **The impact of microfinance on secure and insecure poor microfinance members**

Loan money is invested in the business-related spheres like livestock and production, whereas the potential surplus is invested in the other related spheres of action such as: housing, education, medicines, as well as in also in family and social networks (expenses for weddings and funerals) (Tronvoll 1998; Seep Network 2000). That the loan money is strictly invested in business-related activities can mainly be explained with the programs interests that their clients invest money in integrated business development activities. The pressure of MFIs is probably not necessary because the clients understand that the loan has to be repaid and that only the surplus should be invested more freely. This procedure functions without serious problems for small entrepreneurs. The problem with the farmers is that they all invest in livestock. In contrast to their confidence in these investments the study shows that investing in livestock is risky! Generally, it is observed that investment in agriculture is insecure and poor smallholder households find it difficult to improve their income through agriculture. Most of the farmers interviewed invested the loan money in livestock; few clients purchased agricultural inputs. The example of one villager in Hagaz



is the only MFI member interviewed who succeeded in improving her standard of living through constant investment in agriculture.

## **5. CONCLUSION**

Currently, microfinance is a highly accepted and recognized development tool. While microenterprises are an important source of income for many poor households particularly women entrepreneurs, they are only one part of their overall livelihood systems. Microfinance is, as this study has shown, more than just credit and can play an important role beyond enterprise development in supporting the livelihoods of the poor. The concept of livelihoods is a broader one than that of enterprise development. It considers a mixture of resources, activities and capabilities that enable individuals and households to pursue their economic goals. In reality, resources within households are fungible and it is important to recognize, that clients will use microfinance services for a variety of purposes. The women clients in Eritrea invest in enterprises or find new businesses. By providing money when it is needed, microfinance helps the women clients to reduce their vulnerability and expand their business options. The study indicates that there are mixed feelings over the functioning and SMCP system as a whole. Some women have benefited while others are still not. Microfinance in Eritrea has not been able to help very poor women people climb out of poverty, although it may reduce their vulnerability. Most of the microfinance institutions including the SMCP provide training to their clients for proper management of the credit, but are less successful in providing business skills and markets.

To conclude, the role of microfinance in reducing vulnerability for the women clients and their households point to continued donor investments in microfinance programs. Microfinance services contribute to building assets, diversifying income sources, and strengthening coping mechanisms for the women clients. Thus, microfinance has potential to assist has both poor women and small-scale women entrepreneurs.

## **End Notes**

1. Eritrea has nine ethnic groups. They are: Tigriana, Tigre, Saho, Afar, Bilein, Hidareb, Kunama, Nara and Rashaida. All these ethnic groups have their own languages and cultures.

2. In 1996, Eritrea was restructured from ten administrative regions into six. The new political map is now divided in 6 regions, 55 sub-regions and 651 villages/area administrations. The six Administrative regions in Eritrea are: Anseba (Keren capital), Debub (Mendefera), Gash Barka (Berentu), Maakel (Asmara), Northern Red Rea (Massawa), and Southern Red Sea (Asseb).

3. Eritrean currency Nakfa was introduced on 8 November 1997. The present exchange rate for 1 USD is 15 Nakfa.

4. The author visited these two areas with the help of SMCP staff. The staff provided all the necessary information and help in conducting this study.

5. In addition to the Tier-I and Tier-II, SMCP has started 'instant loan program' in 2006 for the government and private employees. The total clients were 4,874. It is included in the total figure of 33,167.

6. Solidarity groups are the 3-7 group of people, who cooperate among themselves by giving guarantee for each other members' loans.

7. Due to the Government policy, the ACORD closed its operations in 2006. The microcredit programs of the ACORD are merged with the SMCP in April 2007.

8. Donors support HABEN, the Bureau for Population, Refugee and Migration (BPRM), Norwegian Church Aid (NCA) and CORDAID. These programs started in 2001 and were designed for two years. But in summer 2003, HABEN decided to keep both programs running. Due to the Government policy, HABEN was also closed its operations in 2006.

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