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Rena, Ravinder and Tesfy, Ghirmai

Department of Business and Economics, Eritrea Institute of  
Technology, Mai Nefhi, Asmara, The State of Eritrea, Branch  
Manager, Fox Inc. 2600 Airport Blvd. San Jose, CA 95110, USA

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## POVERTY AND MICROFINANCE IN ERITREA – A DISCOURSE

Ravinder Rena\* & Ghirmai Tesfy\*\*

### ABSTRACT

*The poverty levels in Eritrea are alarming. In the light of the escalating nature of poverty, there is an urgent need for a poverty alleviation initiative to reduce miseries of the majority of the poor. An attempt is made in this paper to analyse the incidence of poverty in the country with a particular focus on Agriculture. It also shed a light on the agriculture sector and its crucial role in providing 75 per cent jobs to its people. The paper also delves with the microfinance institutions particularly the Saving and Micro Credit Programme and its impact in reducing the poverty. It concludes that microfinance has strong capacity to drive economic growth and poverty reduction in Eritrea.*

**Keywords:** *Poverty, Eritrea, agriculture extension, agriculture technology, Microfinance*

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### I. INTRODUCTION

As number of poor people is still large in the world, the poverty is still become a major problem. In the countries like Niger, people are badly suffering from poverty (Abena, and Sowa, 2002; Rena, 2005<sup>b</sup>). Calorie value of food is normally a base to calculate poverty. It is believed that an adult person requires minimum 2,200-2,300 calorie of food value per day, based on this, income is calculated. Any person or family is having less than minimum income, the person/family is considered living Below the Poverty Line (BPL). Economists believe that impact of growth-oriented development did not trickle down the poor. In view of this, many countries have initiated poverty alleviation programs from time to time which showed a positive result (Rena, 2006<sup>a</sup>). The case of India may be referred in this context. Poverty rate was very high in India during 1973-74 as out of the total population, 54.9 per cent people were living Below the Poverty Line (BPL). The poverty ratio in rural and urban areas was 56.4 percent and 49.0 percent respectively during the same period. Considering the seriousness of the problem the Government of India initiated several steps to eradicate poverty from the country. These inter alia, include launching of self-employment and wage-employment programs, construction of houses at free of cost etc. As a result, poverty ratio declined to 36 percent by 1993-94 further to 26 percent in 2002 (Dantwala, 1979; Bardhan, 1984; Jagdish, 2001). One of the most pathetic features of the Eritrean economy today is that a majority of its populace is living in a state of destitution while the remaining relatively insignificant minority is living in affluence (Rena, 2006<sup>a</sup>). Further, poverty, which has no geographical boundary,

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\* Department of Business and Economics, College of Arts and Social Sciences, Eritrea Institute of Technology, Mai Nefhi, The State of Eritrea. Email: [drravinderrena@gmail.com](mailto:drravinderrena@gmail.com); [ravinder\\_rena@yahoo.com](mailto:ravinder_rena@yahoo.com)

\*\*Branch Manager, Fox Inc. 2600 Airport Blvd. San Jose, CA 95110, USA. Email: [Gtesfai@hotmail.com](mailto:Gtesfai@hotmail.com)

is seen in all part of the country, rural and urban areas inclusive. Although, the incidence of poverty is much higher in the rural areas than in the urban centers, the urban slum-dwellers form one of the more deprived groups in Eritrea. The poor are those who are unable to obtain an adequate income, find a stable job, own property or maintain healthy living conditions. They also lack an adequate level of education and cannot satisfy their basic health needs (Rena, 2006<sup>a</sup>). As such the poor are often illiterate, in poor health and have a short life span (Sen, 1981). They have no (or limited) access to basic necessities of life such as food, clothing, and decent shelter. They are unable to meet social and economic obligations. They lack skills and gainful employment and have few economic assets and sometimes lack self-esteem. With a per capita income of only about \$ 230, Eritrea is considered one of the world's poorest countries. In addition, persistent food crises have left a significant proportion of the population food insecure. These circumstances reflect accumulated challenges from past decades which left the country damaged infrastructure and declined economy. The outbreak of conflict with Ethiopia between 1998 and 2000, however, created a humanitarian emergency in the south-west of the country and reduced the availability of resources to finance many of the development projects (Rena, 2004).

Eritrea is located in the Horn of Africa, bordered in the north and west by Sudan, in the south by Ethiopia and Djibouti, and in the east by the Red Sea. It has an estimated population of about 4.5 million and a total land area of some 12.2 million hectares. Its annual population growth is estimated at 2.9 percent. Eritrea has nine ethnic groups<sup>1</sup> and six administrative zobas (provinces/regions).<sup>2</sup> The country has six agricultural zones defined by climate, altitude, soils, and population density. They are: (1) The Central High Land Zone; (2) The Western Escarpment Zone; (3) The South Western Lowland Zone; (4) The Green Belt of the Eastern Escarpment of the Highland Zone; (5) The Coastal Plains Zone and, (6) The North-western Lowland zone.

An attempt is made in this paper to analyse the incidence of poverty in the country with a particular focus on Agriculture. This paper also discusses the impact of Microfinance in reducing the poverty in the country. The data mainly collected from the secondary sources such as: Government Reports, Books and articles. The data also collected from the women beneficiaries in Himburti village in Central region and the interviews are held with the beneficiaries and staff of SMCP in the Head office. The study was conducted during the period 5 January 2006 to 8 February 2006. The paper is divided into five sections. The second part provides agriculture and poverty in the country and third section deals with the microfinance and its influence in reducing the poverty. Section four presents the results and discussion and the final part provides the concluding remarks of the study.

## **II. POVERTY AND AGRICULTURE IN ERITREA**

More than 66 per cent of the population is living below poverty line. Therefore, the State of Eritrea has been working hard to alleviate poverty from the country. As a preliminary

step, National Statistics & Evaluation Office (NSEO) conducted "Household Living Standard Measurement Survey" in 2003 with a view to get an idea about the nature, extent and causes of poverty. In the meantime, three other studies on poverty were also been completed in Eritrea. They were: Participatory Poverty Assessment study, second study is on Second Demographic & Health Survey and third one is the Rural Livelihood Security Assessment study. Based on these, NSEO produced a Report under the title of "Dimensions of Poverty in Eritrea". The poverty data reveal that overall poverty ratio in the country is 66.40 per cent with rural and urban percentages are 64.64 and 70.32 respectively. The Report also mentioned about the "extreme poor" category. In Eritrea, also like other countries poverty (BPL) is calculated on the basis of money value. Accordingly, Nakfa 240 per capita per month is the BPL line and Nakfa 150 per capita per month is for extreme poor. On the other hand, any one earns less than Nakfa 240/150 per month will come in the category of poor/extreme poor. The data on poverty is depicted in the following table-1.

**Table- 1.1**  
**Incidence of Poverty (Head Count) in Eritrea**

Rural/Urban	% of Population	% of BPL population	% of Extreme Poverty (Out of total BPL Population)
RURAL	68.80	64.64	38.90
URBAN	31.20	70.32	32.65
TOTAL	100.00	66.40	36.97

**Note:** The poverty Line is Nakfa 240 per capita/month; Extreme Poverty Line: Nakfa 150 per capita/month.

**Source:** Household Living Standards Measurement Survey (LSMS) and Dimension of Poverty, National Statistics and Evolution Office, 2003

In order to alleviate the poverty, self-employment and wage-employment programs may be initiated for enhancing income of the poor. One of the strategies for implementation of self-employment program is formation of self-help groups (SHGs). After successful experiment of SHGs in Bangladesh by Prof. Mohammed Yunus, Nobel–Peace Prize winner of 2006 many countries have adopted this approach. On the other hand, wage employment program can be implemented through creation of infrastructure, which will generate employment vis-à-vis community assets will also be created.

It is to be noted that more than 75 per cent of Eritrean people depend on agriculture, fishery and animal husbandry. But contribution of these sectors to Gross Domestic Product (GDP) is around 16 percent. The reasons inter alia, include shortage of skilled man power, low investment etc. Therefore, with the increase in investment of agriculture and animal husbandry not only income of the poor will increase, share of GDP will also rise. It is also suggested that there is potential to develop agriculture in the country by extending more areas under cultivation. As out of total potential area of 2.1 million hectare of arable land, about 500,000 hectare is under cultivation at present. Once more

area are brought under agriculture vis-à-vis investment in agriculture increases, employment opportunities will increase, purchasing power of the people will increase, and hence aggregate demand will rise. Thus there will be "Multiplier Effect" in the economy (Rena, 2004).

Animal husbandry is another potential area which is having enormous scope for development as it contributes in export also, besides meeting local demand. For example, in the year 1992 altogether 1,525 live animals were exported from Eritrea which went up to 4,625 in 2003 vis-à-vis export of hides and skins also increased substantially in recent years (Rena, 2006<sup>a</sup>).

There is a growing concern (philosophy to strengthen group solidarity) in Eritrea to reduce poverty, utilizing the support of "*Mah-ber*" or "*Ogeb*" (social groups). The Group of Common Initiative of the men and women in Eritrea utilizes traditional group practices to empower members and enhance the village community. Referred to as the *Mah-ber* or *Ogeb*, these group methodology initially focused on improving farming production, building houses or *Hidmo* (mud house), transportation, and marketing, enabling members to work together to save time, reduce costs, and to share resources, infrastructure, and knowledge. Gradually, the *Mah-ber* scaled up to other activities, including school and library construction, establishing a village market, and operating a school canteen. The *Mah-ber* philosophy currently extends into microfinance initiatives, including a credit line for its members with a child or grandchild registered at the local school to obtain a loan for school fees, books, meals, and other needs to ensure that within three years all village children will attend primary school. A credit line should also provide for primary health care and other needs without collateral. The success of these microfinance programs rests in the traditional group practices embodied in the *Mah-ber*, which uses the local proverb, "You cannot clap with just one hand."

The Government of Eritrea (GoE) has been working hard for the last 16 years of independence to improve economic growth and reduce poverty, especially through a strong focus on the rural sector, particularly agriculture (GoE, 1994). As stated earlier, more than 75 per cent of the country's population live in rural areas, where agriculture is the main economic activity and where the poverty ratio is particularly high; hence, any strategy for slashing Eritrea's poverty and hunger must focus on generating rapid growth in the agricultural sector (Rena, 2005<sup>a</sup>). To this end, the government is not only continued to support poverty reductions and agriculture extension strategy but also launched a series of development and poverty reduction programs. The Government has also prepared a Food Security Strategy (FSS) in tandem with the I-Poverty Reduction Strategy Plan (PRSP) both integral elements of the national development strategy. The GoE has chosen a development strategy that promotes economic growth, and reduces poverty. Poverty reduction is Eritrea's major challenge and is therefore, placed at the top of the development agenda. Poverty is seen as more than inadequate income or lack of human development; it encompasses managing vulnerability and encouraging popular

participation to ensure inclusive growth. Gender equality constitutes a key element of the country's poverty reduction strategy. Eritrea's development strategy emphasizes people as the most valuable central resource that the country will depend for its reconstruction and development (GoE, 2004<sup>a</sup>; GoE, 2004<sup>b</sup>).

### **Emerging issues and challenges**

It is a well-known fact that Eritrea is a young nation and therefore not self-reliant in science and technology. Thus, do not make full use of science and technology to improve the quality of life of its people. As a result, the quality and value of Eritrean exports to the world markets remains very low indeed. Furthermore, the science and technology culture is poor in the country with inadequate infrastructure, poor mechanisms for the promotion of science and technology for development (Sen, 1981; Rena, 2005<sup>a</sup>). Consequently, Eritrean farmers have been facing various science and technology issues. Agricultural production involves a number of activities ranging from land preparation, planting, weeding, irrigation, harvesting, processing and preservation or storage. Each stage of the production process demands particular types of scientific and technological inputs with environmental implications. The majority of Eritrean farmers use obsolete and poorly developed science and technology in their production endeavors. Planting, weeding and harvesting are been done using mostly poorly developed technologies. Use of poor science and technology limit the amount of land available for cultivation as well as the efficiency of carrying out the production and storage processes. There is high potential and need for increasing output and productivity through improved practices (GoE, 2004<sup>b</sup>).

Poor technological capability remains one of the major constraints to Eritrean sustainable development that entails eradication of food insecurity. The lack of deliberate technological learning and implementation of technological policies that are in line with domestic economic problems and the challenges of globalization is overwhelming. If Eritrea concentrates on: i] Developing agricultural technology for meeting the increasing need for food at affordable prices; ii] Developing sustainable land management technologies for rangeland, forestland, grassland, swampland, marginal land, etc.; iii] Developing agricultural systems that conserve biodiversity within the system itself; and developing knowledge systems based on proper understanding of needs of households that depend on the ecosystem and indigenous knowledge of existing resources for their survival (GoE, 2004<sup>b</sup>). Eritrea could enable to reduce poverty, achieve food security and thus ensure sustainable development.

### **Lessons from past experiences**

Science and technology have made enormous contributions to the growth of the agricultural sector in many parts of the developing world. As a result, global food production has increased by 80 per cent since the mid-1960s. Africa, however, needs to double food production to accommodate increased population. The most successful program, which may be emulated and replicated to suit specific conditions of African countries, is the Green Revolution. The Green Revolution, which took place in Asia

particularly in India, Indonesia, Taiwan, Philippines, China and Japan during the 1960s, is a major global scientific and technological achievement towards increased food production. Improved crop varieties, irrigation, pesticides and mineral fertilizer were introduced, which contributed to substantial improvement of food production (Sen, 1981; Dantwala, 1986; Rena, 2004). With this technological advancement in agriculture it was possible to develop varieties, which have contributed to higher food production and improved the returns to costly resources used by poor farmers. As a result, increased productivity has decreased food costs, in general, and thus improved food security, particularly for vulnerable sections of the society (Ministry of Health, 1992).

The attainment of food security, especially in the developing world, is still far in sight. It is believed that about 815 million people in the world were undernourished between 1997 and 1999. Out of those undernourished, 777 million reside in the developing countries while 27 million and 11 million come from transition economies and developed countries respectively. The majority of the undernourished people in the developing countries are found in Asia (61 per cent), and 24 per cent in Africa. Food shortage in Africa is not only caused by the factors cited above. In some regions, food production has been affected by natural calamities and/or human caused disasters. In Eastern Africa, for example, poor rains and prolonged civil wars over the years have greatly contributed to food shortages. Many people are threatened by hunger: over 500,000 people in Somalia; about 5.2 million in Ethiopia; 1.5 million in Kenya; 2 million in Sudan; 300,000 in Uganda; 1.3 million in Eritrea and 120,000 in Tanzania (FAO, 2002).

In order to enhance the contribution of science and technology to food production and security, five domains are a top priority: human resources development; increased investment in agriculture; establishment of appropriate institutions; formulation and adoption of appropriate policies and inter-country cooperation within and outside Africa (FAO, 1996). Additionally, exhibitions of agricultural technologies would generate some awareness to potential buyers and users of such technologies (Bhagavan, 1984; Mlawa, 1995). There is, thus, an urgent need to enhance exhibition activities of agricultural technologies in the rural areas instead of limiting them to urban areas. Such events are vital in improving the use of modern agricultural science and technology amongst farmers and hence increase agricultural production, productivity and ultimately food security (Molnar and Clonts, 1983; Rena, 2005<sup>a</sup>).

### **Improving Agricultural Production - Sustainable Development and Food Security**

Food aid in Eritrea is considered as a short-term solution. The long-term solution, however, lies in Eritrea itself, taking the initiative of building the capacities and making the policy initiatives relevant for improved and sustained agricultural productivity, production and food security (Rena, 2005<sup>a</sup>). The advanced countries and international organizations can help and assist in this direction and in various ways. In the area of international trade agricultural products from African countries often do not fetch good prices. In addition, restrictive measures are often used in global market to disadvantage

African economies. This trend must be reversed by putting in place fair trade arrangements to benefit Eritrean traders in largely agricultural products and developed countries selling largely industrial goods and services. The African Growth and Opportunity Act (AGOA) arrangements are useful positive steps towards supporting and assisting African countries to make an entry into global markets.

Cattle keeping are an important economic activity in Eritrea. However, livestock population and traditional production methods in use in much of the country contribute heavily to land degradation. Desertification due to overgrazing is common in many parts of the country. In this connection efforts are needed to develop appropriate science and technology that can improve animal husbandry so as to enhance productivity in livestock industry and enable the sub-sector to contribute significantly to the economy and food security in a sustainable and environmentally friendly manner and thus alleviate the poverty.

Further, off-farm activities contribute to development in general and food security in particular. Technology, energy, water supply, transportation, agro-processing and other rural-based activities are needed to support people's lives and production (Bhagavan, 1984; Ministry of Agriculture, 1995). Energy requirement puts a lot of pressure on the environment as large quantities of wood and trees are needed for energy generation in Eritrea. Technologies need to be developed for the rural population that will maximize the use of the available resources in an environmentally friendly manner.

### **III. POVERTY AND MICROFINANCE**

Eritrea has established Saving and Micro Credit (SMCP) Programme in 1996. It embarked many projects in different *zobas* (provinces) of the country to alleviate the poverty. It is a belief that, when microfinance properly harnessed it offers a variety of benefits to the Eritrean people especially living in rural areas. Foremost, microfinance initiatives can effectively address material poverty, the physical deprivation of goods, services, and the income to attain them. When properly guided, the material benefits of micro-financing can extend beyond the household into the community. At the personal level, microfinance can effectively address issues associated with non-material poverty, which includes social and psychological effects that prevent people from realising their potential (Rena, 2006<sup>b</sup>).

The SMCP expanded its activities to all the six regions of the country. The interest payment in SMCP, under First-tier is 16 percent per annum with simple rate of interest. Rate of interest is calculated on the basis of declining method. For example if a person borrows Nakfa 5,000 (Interest rate is 16 per cent for first installment) and repays Nakfa 4,000 then rate of interest will be calculated on Nakfa 4,000, etc. In case of Second-tier beneficiaries albeit rate of interest is 16 per cent but if it is repaid within stipulated time then 2 per cent is refunded to the beneficiary. Thus finally Second-tier beneficiary has to repay 14 per cent interest. The reason is that Second-tier beneficiary is extended much



higher loan amount than the First-tier beneficiary. The cases of beneficiaries studied are presented in the later of this article. The Annual Report of SMCP reveals that maximum amount of loan is extended under First-tier (90.8 %) and Second tier accounts only 9.2 per cent. This is a noteworthy point as group lending dominates than individual lending. The Annual Report of SMCP 2006 shows that for last several years' repayment rate was declining but in the year 2005 it went up to around 83 per cent, against 79 per cent. The noteworthy point is that from 1996 onwards more and more women beneficiaries were extended assistance from the SMCP. For example, in 1996 under first tier 30 per cent of women beneficiaries (clients) were extended credit, which went up to 40 per cent in 2006. Under Second-tier although in 1996 no one was extended the credit, but in 1997 percentage of women beneficiaries assisted was 14 which went up to 35 per cent in 2006 (SMCP,2006). That is within a span of ten years, it went up to several times. Percentage of women beneficiaries covered from 1996 to 2006 presented in Table-2.

**Table – 2**  
**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

*Note: Percentages rounded off*

*Source: SMCP (2006) Annual Report, Asmara, Eritrea*

Above table reveals that within a decade, women beneficiaries have been greatly benefited by the SMCP credit. During 1998 and 1999, due to the border conflict with Ethiopia, normal situation was disrupted hence the coverage was not high it was rather dormant (Rena, 2006<sup>b</sup>).

As evident from the table-2 that the SMCP could play an important role in meeting the financial needs of households and micro-enterprises in Eritrea. Microfinance could contribute to poverty reduction by offering adequate savings services (Beneria, and Bisnath, 1996). On the supply side, microfinance could be the best instrument to bring about poverty eradication by loosening constraints on capital, opening the door to investment, smoothing consumption over time, and meeting emergency needs for liquidity. On the demand side, empirical evidence shows that a significant segment of the

poor are savers and that the microfinance institutions could support them by looking after their savings in a secure manner and by helping them accumulate interests on their deposits. The poor will be able to deal with emergency and to make significant investment expenditures. The performances of microfinance institutions could be caught through their institutional financial viability and their outreach to the poor people. Technical, political, social factors could influence these performances, reinforcing the need to combine the strengths of Eritrean traditional behavior and modern Micro-finance approaches (Rena, 2006<sup>b</sup>). The women beneficiaries are interviewed and the summary has been presented in the following part.

### **Case Study of Women in Himburti Village**

Letekidan Fessehatsion is a 48-year old mother of 6 children who lives in the Himburti village, 35-km from Asmara. Her husband died 6 years ago. Since then she has taken the responsibility of raising her children all by herself. Facing severe poverty with the up's and downs of life, it was not easy to take the responsibility of a father and a mother at the same time. She had a small plot of land in the village. But she lacked agricultural implements as well as the man power to plough her land. She had to work in weeding and other agricultural labor in other peoples' field so that they can plough her land. This way she has lived for three years with a small amount to feed her children.

It was in 2001 that Letekidan learned about the SMCP and without any capital of her own, she obtained a loan of Nakfa 2,000 from the SMCP. With this money she has opened a small shop in her village Himburti. Within one year she fully paid back her loan on time. After two years, in 2003 she received another loan of Nakfa 5,000. She bought a colour TV set and charges 50 cents from each person who watches the TV in her house. Letekidan standard of life started to change from time to time. Within four years, Letekidan constructed a two-room house in her village. At this particular time, with the escalating of prices, it is a challenge to hold wedding ceremony which costs from Nakfa 25-40 thousand in each wedding. Despite this, Letekidan was able to get her two children married. Before she got the microcredit from the SMCP, Letekidan said, "my life was pathetic and incomparable; I didn't have a cent, and hardly any clothes. It was like heaven and hell."

Regarding the amount of credit, Mr. Gebremedhin who is a senior staff in SMCP said that "SMCP gives minimal credit at first for the benefit of women, so that they can repay it back in time. If they miss payments the interest would be doubled and this will be additional burden for them." He also stated that "If the women use their first loan satisfactorily, they can get credit which is higher than the first one."

Letekidan has a bigger plan. She has been constructing a room for her shop so that it will be on the main road inside Himburti. Since a new dam was constructed in her village, she was also planning to invest in a garden. According to Letekidan, her success was mainly because she has worked hard and knows where to invest the money and time. Besides,

she was also supporting her two grand-children, her step son and her four children. She advises other women in her village to follow her foot steps so that they will have a source of revenue.

Gabrella Habtemariam, a mother of four is a farmer in Himburti village. Divorced five years ago, she has the responsibility of caring for her children. Unlike Letekidan, Gabrella's success was accomplished within a year. She has a plot of land which she planted, different types of vegetables through the traditional way. It was in 2004 that Gabrella received a loan of Nakfa 6,000 in share with her sister-in-law, since one person alone can't get that amount of money at the same time. She had bought motor and restarted her agriculture. She advises other women in her village to follow her foot steps so that they will have a source of revenue. She advises other women in her village to follow her foot steps so that they will have a source of revenue. It was a big change and within a year she saw a significant change and harvested up to 4 quintals. Previously, Gabrella used to harvest less than one quintal when she was practicing in the traditional way of farming. It was amazing to see the changes Gabrella has achieved within a year. Now her life is sustained. She has already laid the ground to build a new home. Gabrella said, "I am able to raise my family for through the hard-work. But for sure I wouldn't have done it without the support of SMCP." Gabrella was planning to widen her agriculture.

Unlike Letekidan and Gabrella, Hadas Mehary is a mother of 7 children who support her family together with her husband. They were living through farming as their small shop hardly makes any income. In 2002, Hadas learned that the SMCP has a credit program and shared it with her husband. Her husband agreed and she had received a loan of Nakfa 2000 to revive her shop. At that time, Hadas along with her husband run a vegetable shop in the main road of Himburti. With the additional income from the new shop, she was able to repay her loan and has become the bread winner of her family. "Our life is comfortable. We built our own house and we are able to get our daughter married," said she. The SMCP encourages us to take a loan and come to see how our business is going," she adds. She has been planning to enlarge her vegetable shop into a bigger one. "Being able to sustain our selves, we are at a stage to loan others," notes Hadas.

According to Mr. Gebremdhin there are about 150 women who received loan in the Himburti village of Gala Nefhi sub-zone. Almost 75 per cent are successful but there are some women who misuse the money and were not been able to repay it. But generally the micro credit program is ceaselessly working hard to reduce the poverty in the rural Eritrea.

### **Prioritize Group Formation and Networking**

Eritrean microfinance is as diverse as the country itself and Eritrean public as well. An array of approaches have been used, ranging from traditional group-based systems, to specialized lending by banks and funded by international non governmental organizations

(NGO) and local banks financial intermediaries. Collective and cooperative support is a critical microfinance strategy at both the local level, in the form of solidarity groups (such as *Warsai Yekalo*, Development Campaign), and at the national and regional level in the form of networking groups. Collective organization has several advantages in microfinance initiatives, the foremost that they pool together human and material resources. In Eritrea, group organizing has proven itself an effective strategy for Microfinance Institute (MFI) sustainability that Eritreans are especially predisposed. Group formation for individual and community goal is a pre-existing, "homogeneous" mode of community in Eritrea that already operates in traditional celebration (building a house for free to support a community member) financial schemes (loaning from a friend or family members without charging any interest) is readily adaptable to new microfinance initiatives. The above mentioned groups have proven especially effective in the rural setting, where 75 per cent of Eritrean population reside. The relative isolation, small size, and common resources of villages engenders a mentality and approach to problems that are seen as mutual rather than individual. MFIs can utilize and support groups with regular meeting to reinforce group solidarity, discipline, and consistent repayments. It has been very effective for educating and training microfinance participants, enhancing networking and information dissemination. They are also an important participatory tool that can reduce administrative cost by giving certain responsibilities, such as loan monitoring, to the members themselves. Typically, small group size (village or sub-zone) is more effective to ensure that member genuinely know and trust each other. The support and strength of a groups in every community or villages often raises community consciousness and creates a common infrastructure to solve their own problems which are common to all, pooling local knowledge and resources for initiatives, such as bulk purchasing and transportation, collective bargaining, and common infrastructure development - i.e. water pumps, health care, and education schemes. Groups empower individuals to support each other which are traditional in Eritrean community not just financially, but also emotionally. The group impresses upon members that they are not alone to be poor or helpless, but can rely upon the support of their community, and cultivate self-esteem through contributing to each other. This non-material benefit has been an important resource, especially during individual or collective crisis.

### **Prioritize Local Knowledge and Participatory Planning eliminate poverty**

A microfinance initiative that recognises and builds upon local knowledge and tradition are more culturally compatible and hence sustainable with the local community and helps to ease the suffering of poor. People feel more familiar and comfortable with concepts that borrow from their own tradition not from the bank; this, in turn, improves MFI acceptance and outreach. Microfinance approach in Eritrea has been rooted in local culture and also a more participatory because clients are ready to identify with and thus participate in the financial decisions and actions shaping their lives as they know each other. This helps people become more invested in and committed to the sustainability of

the microfinance initiatives, assume ownership and responsibility for their development, eliminates poverty and become self-reliant.

### **Reinforce Microfinance to Advance the Eritrean Private Sector**

Microfinance and micro-enterprise are critically linked; micro-enterprise development is an essential extension of microfinance schemes. If microfinance is to have a sustainable impact on poverty eradication, it must eventually scale-up into creating a private sector of entrepreneurs who function in the formal economy. In other words, microfinance has the potential of formalizing the informal sector, empowering micro-entrepreneurs to participate and benefit from the formal economy (Rena, 2006<sup>b</sup>).

Microfinance can support initiative for direct supply and market linkages to small and medium businesses targeting promising micro-entrepreneurs in non-traditional, low volume but high value-added products in potential niche growth areas of the Eritrean economy. Such an approach could reach existing micro-entrepreneurs (*dukan*-small shop) who are seeking to graduate from the survivalist profile of micro-enterprises into a more secure and productive foothold of the formal sector of the economy. It would expose micro-enterprises to larger enterprises, grocery store with more products 'higher up the chain', encouraging forward and backward linkages with established companies. Targeted micro-entrepreneurs can potentially develop, produce, and perhaps market low-volume but higher profit products, expand, and take on additional employees, thus scaling-up. At the national and international level, Eritrean business actors can promote legislation, business services, and infrastructure to enable Eritrean micro-entrepreneurs and producers to increase market opportunities, technical know-how, and management. Government policies should encourage to the pre-empting opportunities for informal and micro-entrepreneurial initiatives to scale up into the private formal sector of the economy. Taxation schemes should be fair, progressive, and economically efficient, with particular sensitivity to the vulnerable sectors of the economy which microfinance serves and in which micro enterprises operate.

## **IV. RESULTS AND DISCUSSION**

In order to identify the kinds of investments that have the greatest impact on agricultural growth, in turn driving broader growth and poverty reduction, a deeper understanding of the linkages between agriculture, economic growth, and poverty reduction is needed (IFPRI website). If the broad-based agricultural growth is the key means by which Eritrea can halve its incidence of poverty. More specifically, within the agricultural sector, growth in staple crops and livestock should be given priority because of their superior capacity to contribute to poverty reduction. Increasing national staple food availability by 50 per cent by 2015 would significantly help to reduce poverty in Eritrea; achieving this goal, however, depends on reducing the productivity gap between the range of traditional and modern technologies adopted in the country to date. Achieving sustainable agricultural growth will also require supporting investments in roads and other market

conditions. More than 50 per cent of the country's poor people live in the food deficit area, where the staple food availability per household is half the national average level. Given the extreme nature of the poverty and food security challenge in these areas, however, growth in staple foods alone would not be a sufficient remedy. A balanced agricultural growth strategy that could provide both increased food availability and income levels appears to be a viable option.

People in rural areas of Eritrea need the infrastructure and the means for transporting farm inputs and outputs – implements, fertilizers, seeds, wood, water and farm produce. They require technological skills to start and maintain small-scale industries, such as those based on agro-processing. They also need to acquire skills to sustain production systems, for example, repair of agricultural equipment, maintenance of irrigation systems, and use of low-cost building materials and conservation of the environment. All these activities call for concerted efforts to generate, adapt and utilize specific types of technologies.

Microfinance has been considered as a means to poverty eradication<sup>3</sup>, and not an end in itself. Savings services not only provide a valuable financial assistance to low-income Eritreans, but they also strengthen institutional self-sufficiency, membership commitment to microfinance initiatives, and build a sense of discipline, self-esteem, and well being. When funds are internally generated rather than borrowed from or granted by external sources, MFI members become more invested and participatory in the prudential administration of savings towards credit and other MFI services. If MFIs are to have a sustainable impact on poverty eradication, they must be efficient, financially viable institutions that can develop the financial leverage to expand outreach at a sustainable level. Adequate attention must be given to business practices to make MFIs financially sustainable in a reasonable timeframe. Thus, the leaders of Eritrean microfinance institutions should stress that practical and efficient operation is essential in achieving self-determined development, as well as accountability to clients as well as donors.

However, microfinance is not a universal remedy for poverty and related development challenges, but rather an important tool in the mission of poverty eradication. Poverty is a multidimensional problem, embedded in a complex and interconnected political, economic, cultural, and ecological system. Owing to poverty's large scope and multiplicity of actors, there is no single guaranteed approach to its eradication (Gema PKM Indonesia, 2002). Within this system, solutions are as multifaceted as the causes. Hence, systems' perspective is critical in creating an enabling environment for sustainable poverty eradication. Problems and solutions are not isolated phenomena, but occur within an interconnected system in which actors and actions have the reciprocal consequences. In other words, poverty eradication is a complex mission and requires commitment, cooperation, and cohesion at all levels of development - individual, household, community, national, and global (UNECA website). On the other hand, microfinance alone does not improve roads, housing, water supply, education and health services; it can play an important role in making these and other sustainable contributions to the

community. As microfinance becomes more widely accepted and moves into the mainstream, the supply of services to the poor may likewise increase, improving efficiency and outreach, while lowering costs. This, in turn, can have a multiplier effect on people's standard of living. As explained earlier in the case study, perhaps the greatest contribution of microfinance is that it empowers people, providing them with confidence, self-esteem, and the financial means to play a larger role in the development process. The potential of microfinance far exceeds the micro-level, scaling-up to address macro-problems associated with poverty eradication.

Microfinance training is also an investment capable of reducing recurring costs and improving operational efficiency, sustainability, and outreach. Well-trained staff cultivates a sense of ownership and investment in the MFI mission that transfers to the client base, creating client loyalty, trains the basic management, book-keeping, and marketing and ensures that microfinance funds invested into productive income-generating initiatives (UN website). The rationale of this approach was that the direct provision of such goods and services is likely to relieve absolute poverty more immediately than alternative strategies, since growth strategies usually fail to benefit the intended target and the productivity and income of the poor depend in the first place on the direct provision of health and education facilities. In the same vein, there is no guarantee that increased income will be spent on essential services, since households vary in their ability to spend wisely and effectively. They may irrationally prefer 'better' consumption goods that contribute less to family welfare than other goods that might serve as inputs to higher productivity. Efforts to reduce poverty may therefore not likely to succeed in the long run unless there is greater investment in the human capital of the poor. Improvement in education, health, and nutrition directly address the worst consequences of being poor. There is an ample evidence that investing in human capital, especially in education, shelter, and social services increase the productivity of the poor and also attacks some of the most important causes of poverty.

Microfinance initiatives in Eritrea could offer more than just material benefits; they could also address issues associated with "non-material" poverty, which includes social and psychological effects that prevent people from realizing their potential. Microfinance initiatives individually and collectively empower people (such as *Warsai Yekalo* project). A steady income, a savings account, training, and the discipline to honor loan repayments usually raise the self-esteem and status of clients, in societies where they are often treated as second-class citizens due to their poverty level. MFIs often utilize microfinance groups to provide training in financial management, legal rights, business management, as well as other support services. Principles of collective organization and solidarity empowered people to bargain for higher wages, better work conditions, health services, child-care, and common forms of insurance to protect their lives and livelihoods (Rena, 2006<sup>b</sup>).

MFI participants, especially women, are often empowered to speak out more, assume leadership roles, and address issues beyond their workplace, such as domestic violence.

For many women, the group is the first opportunity to meet formally with other women to discuss problems and develop joint action. The groups serve as a channel of information. For example, members may tell each other about counseling services that have been established for women victims of violence and alcohol addicts. Many women participants could experience a change in their household and community status. Some already experienced an increase in financial responsibilities when their husbands noticed that they are involved in lucrative activities (UN website).

Mechanisms should be created for the exchange of knowledge and experience among regional and sub-regional Eritrean microfinance practitioners, including the use of the Internet, dissemination of written material, field level practitioner exchanges, and best practice workshops. Regional coordinating committees and sub-regional conferences can bring together microfinance policy makers, leaders, and representatives from bilateral, multilateral and intergovernmental development partners to access and compare microfinance progress among each region and it also ensures complimentary rather than competing policies.

To actually break the vicious circle in which the poor finds himself, the government must make reaching-the-poor a priority. This can be done through the establishment of schools, provision of shelter through housing schemes and/or rent control, provision of scholarship, for the children of the poor and setting up of medical centers in both rural and urban areas. Though, in the government of Eritrea has embarked some poverty eradication programs but it is too early to assess the outcome of these programs.

## **V. CONCLUSION**

The study examined the microfinance and poverty reduction in Eritrea. Most of the poverty alleviation policies in Eritrea are directed towards agriculture in rural areas. Though laudable, many of the programs have not achieved desired results. The main reason for this is that the poverty alleviation program is not well focused. Their targeting was poor and duplication was excessive. There was also the non-involvement of the people for whom the programs are designed (the poor). No wonder then that those who benefited from these various programs were the non-poor; they were the rich and the powerful. This is not surprisingly, brought frustration, disillusionment and discouragement to the poor and inevitably, discontent and resentment. The implementation of the Poverty Reduction Strategy did not help matters as it enhanced massive diminution in living standard and the exacerbation of poverty.

In the light of the escalating nature of poverty in the country, there is an urgent need for a poverty alleviation initiative to reduce the miseries of the vast population of the poor. Such an initiative should be well-articulated and short-term targeted through microfinance. Thus, it is suggested that the government poverty alleviation program should be restructured if not re-designed and should be centered on the 'basic needs' approach. This approach emphasizes the importance of separating generalized increases



in income from the more significant attainment of the requirement for a permanent reduction of poverty through the provision of health services, education, housing, sanitation water supply and adequate nutrition.

To conclude, there is a fundamental linkage between microfinance and poverty eradication in that the latter depends on the poor gaining access to, and control over, economically productive resources, which includes financial resources. For the resource-poor Eritrea, survival often depends on subsistence agriculture and/or small income-generating activities at the home or in the local marketplace. In many instances, micro-enterprises rather than formal employment create an informal economy that comprises as much as 75 per cent of the national economy. Yet the lack of saving and access to finances creates a state of perpetual scarcity, a poverty cycle that restricts people's potential to improve their livelihoods. As mentioned earlier, the lack of financial services is not the only limiting factor in income generation: other pervasive social, economic, and political barriers also play a key role. Within this complex system, however, there is a clear need for better microfinance services for Eritrea's poor, which can play a key role in poverty eradication.

### *Notes*

1. Eritrea has nine ethnic groups. They are: Tigigna, Tigre, Saho, Afar, Bilein, Hidareb, Kunama, Nara and Rashaida. All these ethnic groups have their own languages and cultures.
2. The six Administrative regions in Eritrea are: Anseba (Keren capital), Debub (Mendefera), Gash Barka (Berentu), Maakel (Asmara), Northern Red Rea (Massawa), Southern Red Sea (Asseb).
3. It is evident in Bangladesh, more than 6 million people benefited from microfinance and rise above poverty line. It has shown a tremendous progress in many developing countries like India and Kenya, Uganda etc.

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