

Norwegian Association of Disabled

**Assessment of MLHW Income Generation
Activities in Eritrea**

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Acronyms and abbreviations

| | |
|----------|--|
| CBR | Community Based Rehabilitation programme run by MLHW. |
| Ministry | Ministry of Labour and Human Welfare |
| MLHW | Ministry of Labour and Human Welfare |
| NAD | Norwegian Association of Disabled |
| Nakfa | National currency in Eritrea |
| UNDP | United Nations Development Programme |
| US AID | Agency International Development of United States of America |

0. Introduction, conclusions and general recommendations

As is shown in the background information below, this limited assessment was done during one week in August 2005. Of the main conclusions one can say that the project has been carried out faithfully in accordance to the guidelines that were prepared. There is close targeting so that the funds only benefit the specified group of persons with disabilities and their families. As far as it has been possible to verify during the short assessment, all the clients are operating relevant micro enterprises. These new enterprises are now the main source of income for the family, something that not only improves the general living situation for the family, but additionally and equally important, increases the feeling of dignity for the persons involved.

The practical operations and administrative procedures of the Revolving fund scheme are taken care of by the staff of the Ministry of Labour and Human Welfare (MLHW) and in particular of people from Community Based Rehabilitation (CBR) programme. All administrative costs are covered either by the CBR programme or by the Ministry. The loan scheme is not generating any income for the project itself and is therefore fully dependent upon the Ministry.

The future challenges in the project are related to the scale up of the activities and its future sustainability. On one hand it is recommended that the Ministry assists in creating linkages between the most successful clients so that they can benefit from financial services from traditional banks or from micro finance institutions when “graduating” from the revolving¹ loan scheme. On the other hand, it is recommended that it is looked into the options for future long term sustainability of the project. Can the Ministry continue to cover all the operational costs of the project either on its own or through external donors, or will the project have to be redesigned in order to generate income from its services to clients? Answer to these questions should be found with reasonable confidence before significant scale up and expansion are planned. In the short run it is recommended that the Ministry and NAD finalises and sign the annex to their general agreement so that there is a formal signed document that governs the activities in the project.

1. Background information and Terms of Reference

1.1 General information

The Norwegian Association of Disabled (NAD) and the Ministry of Labour and Human Welfare (MLHW) have cooperated with each other since 1994 in relation to the Ministry's Community Based Rehabilitation (CBR) program. Under a series of cooperation agreements, NAD has provided support to the CBR program with funds from NORAD and the Atlas Alliance. The CBR program aims to provide equal opportunities for disabled people and change negative attitudes of society towards disability. Currently, the CBR program is implemented in 1163 villages in 24 sub-zones (6 regions) covering 44% of the total population. More than 1.200 voluntary local supervisors work with the program at the community level. There are also 2.500 village committees that do advocacy work locally.

¹ It is recommended that the term “Revolving Fund” is consistently used for this project. The term Revolving Fund is internationally mostly used for credit interventions that are not based on strict market conditions in contrast to micro finance that generally is applied when institutions work with free market conditions.

In 2002 the MLHW initiated a pilot project to establish income generation activities as a part of the CBR program. The pilot project was initiated in three regions: Central (Maekel), Gash Barka and Dehub. It was initially a grant system under which the government purchased items (e.g. materials for setting up different types of shops, provision of donkeys and containers for transport of water, etc.) which could enable disabled people to earn an income. Income generation committees were also established to support disabled people in developing businesses in their community. In 2003, 99 individuals received support to start their own income generation activities.

With an eye to long-term sustainability, in 2003 the pilot project was expanded to Anseba region and developed further in the direction of a revolving fund scheme (RFS) with the following objectives:

- To initiate income-generating activities aimed at alleviating unemployment, impoverishment, and dependency of persons with disability.
- To enhance self-confidence and social acceptance of persons with disabilities by enabling them to earn their own income.
- To make CBR an integrated part of community development for disabled people.
- To enable disabled people to qualify for other credit programmes in Eritrea with strategies to achieve to be developed between the parties.

Through the RFS, 54 disabled persons in six regions were provided loans without interest to start small-scale income generation activities. A follow-up assessment of the RFS carried out by the regional MLHW offices confirmed that loan recipients had started to repay their loans soon after their 6-month grace period and reported that a large number of disabled people desired such financial assistance. As a result of these findings, the RFS was expanded in December 2004. The current NAD/MLHW cooperation agreement for 2005-2007 includes an annex (still in draft form) which outlines the respective roles and responsibilities of the MLHW and NAD, and provides guidelines for the administration, transfer and handling of funds, and monitoring, reporting and evaluation of the RFS. Provided available funding, it is expected that NAD will continue to support the CBR program through 2008.

The findings of an external study to be carried out in 2005 to assess income generation activities implemented by the MLHW will provide the basis for NAD's transfer to the MLHW of 2005 funding for the RFS. In addition, its recommendations regarding future strategies will be considered by NAD when preparing future funding applications to NORAD.

1.2 Timeframe and methodology

The terms of reference for the study have been mutually developed and agreed upon by NAD and the MLHW. The assessment was carried out by one Norwegian consultant with extensive experience with income generation programs and micro credit schemes. The assessment involved a review of relevant documents, a 7 day field visit to Eritrea in August, and preparation of a report. The field visit included interviews with key stakeholders at a variety of levels (national, regional, sub-regional, village, family/individual). The assessment was based on qualitative and quantitative information gathered by the consultant during the study.

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1.3 Objective of the assessment

The main objectives of the assessment were to:

- Review the administration, implementation and, where possible, results of income generation activities undertaken by the MLHW since 2002.
- Suggest adjustments to the current RFS and recommend strategies to strengthen income generation activities, enhance the use of the MLHW's resources, and achieve the greatest impact for disabled individuals and their families.

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1.4 Terms of reference

The assessment will focus on the key areas outlined below:

1. Review the administration and financial management of the program, including:
 - Status/contents of MLHW operational manual of micro credit scheme developed in 2003
 - MLHW administrative and financial procedures (e.g. bank account books, forms, systems, routines)
 - Procedures for repayment
2. Outline procedures for the selection of loan applicants, including:
 - Screening of loan applicants
 - Loan proposals and business plans prepared by the client and presented to the regional MLHW
 - Appropriateness of types of businesses selected in relation to local market factors and loan recipients' skills
3. Comment on training undertaken and/or planned in relation to the project, including:
 - Training of MLHW staff/credit officers
 - Training of loan recipients in managing their own accounts
 - Other types of training such as apprenticeship schemes and skills training
 - Credit rotation training
4. Review implementation of the project, including:
 - Operational activities at all levels (national, regional, local levels)
 - Roles of local income generation committees and loan committees
 - Advice and assistance provided by MLHW
5. Describe monitoring and reporting activities, including:
 - Follow up of loan recipients.
 - Routines for preparation of financial and progress reports
 - Monitoring of disbursements and repayment
6. Recommend strategies aimed at enhancing sustainability and impact of income generation activities, including:
 - Consider regional differences
 - The need for/feasibility of linking grant/loan recipients to micro credit institutions and the role of the MLHW in relation to this
 - Criteria for transfer of 2005 funds to the MLHW
 - How to scale up the project
 - Role of other donors (presently and with an eye to the future)

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2. Administration and financial management

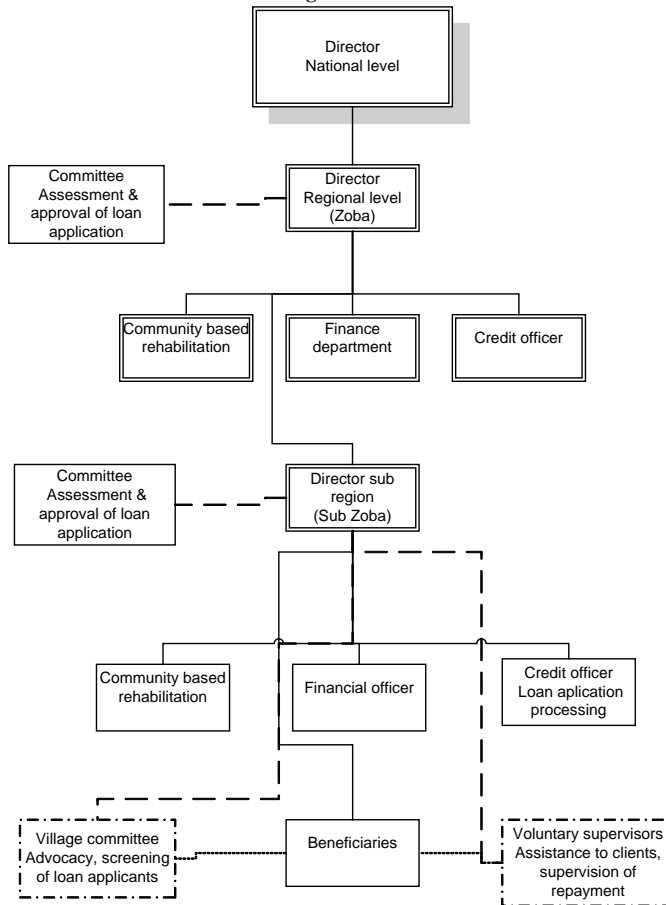
2.1 Project structure and administration

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2.1.1 Project structure

The income generating loan scheme is part of the Community Based Rehabilitation programme. This project is part of the Ministry of Labour and Human Welfare and placed under the Department of Social Welfare. Structurally the project is organised as shown below.

Figure 1 Organisational structure CBR Revolving fund scheme



As can be seen from the above chart, the project is organised in a traditional hierarchical way. However, one should note the involvement of the committees at regional, sub-regional and village level. At village level the committee is composed of villagers with respect in the

community. The voluntary village supervisor is also an important person in the structure responsible for valuable supervision both in the original CBR programme but also in the Revolving fund scheme.

2.2 Project administration

2.2.1 Status of operational manual of micro credit scheme.

The ministry has developed a set of manuals and guide lines for the project which includes

- Training manual including aspect of client training in business operations.
- Guidelines for Administration of Revolving Fund Scheme for Persons with Disabilities.
- Application form
- Contract form
- Repayment form
- Disbursement document
- Example of business plan.

In addition, standard documents for accounting vouchers, etc. are used. These documents fulfil the basic requirement for operation of a Revolving fund scheme. Each client is registered with individual accounts and files in the Revolving Fund and all disbursements of loans and repayment of instalments are done through bank operations. The client is given a bank receipt as proof of payment.

2.2.2 Administrative and financial procedures.

The pilot project supplying loans to persons with disabilities was started in 2003. Administratively and financially the pilot project was included in the general CBR programme supported by NAD. Transfer of funds from the central office to the regions was recorded as expenses. However, the relation between the region and the individual client was different. All the clients in the pilot project have signed loan documents and are required to pay back the borrowed amount. When such repayments have been done, the funds have been kept in separate bank accounts. The final treatment of these funds will be decided according to an agreement between the Ministry and the donor. The discussions regarding this matter have not been finalised.

Based on the experiences from the pilot period, new regulations were introduced from 2005. The first transfer of funds from the central office to the regions under the new Revolving fund scheme took place in January 2005. These transfers are recorded as account receivables at the central office until the regions have presented proper documentation that the funds have been transferred as loans to the clients. As per August 2005, only one region had completed this documentation and only partially. The head of the finance department at the central office expressed that he expected all these accounts to be settled by October this year. When the proper documentation has been presented to the central office and the corresponding accounts have been settled, the total amount involved in the revolving fund shall be recorded as an expense at the central office and consequently as a grant received by the regions. Each region is responsible to keep the available funds in separate bank accounts. A client ledger will be made in each region showing the actual amount outstanding among the clients. All transactions are made by bank transfer and internal vouchers are pre-numbered and of

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adequate standard. Normal procedures for more than one signature authorising transfers are implemented.

Based on the practice introduced from January 2005, the Revolving Fund is working almost as different semi independent regional funds. This is an adequate solution as long as the Revolving Fund is so closely integrated with the rest of the CBR activities. It would, however, not be a recommendable structure if the question had been to build a more independent sustainable revolving Fund. It is recommended that standardized reporting is introduced in all the regions. The same standardised report could be used for operational reporting to donors.

The project is audited in three different manners:

- The general public audit
- External private audit based on donors requirements
- Internal audit.

In addition to a general annual audit it is especially important that credit projects have regular internal audits. The fact that accounts at both central as well as regional offices are controlled by the internal audit department monthly is an important element in preventing corruption and mismanagement of funds. As far as it has been possible to verify during this short assessment, the procedures for internal auditing are satisfactory.

2.2.3 Procedures for repayment of loans.

Each client signs a loan contract including a repayment plan. The maximum repayment period is two years including a six months grace period and monthly instalments thereafter. The loan contract specifies that if repayment is not done in due time, the guarantor will be held responsible to pay back the loan on behalf of the client, and if necessary legal measures will be taken to reclaim the defaulted amount. The regular supervision of the clients including the procedures for repayment is done by the voluntary supervisor. Normally the supervisor will accompany² the client to the local branch of the bank where the instalment is deposited to the project's bank account. A copy of the deposit receipt is delivered to the sub-regional office of the project which in its turn reports the payment to the regional office for bookkeeping.

Based on the rate of default so far this system is working sufficiently well. The reported level of late payment is low and within acceptable limits. However, it is recommended that a standardised form for repayment report should be implemented at all the regions and sub-regions. A sample of such a form is included in appendix to this report. A repayment report can easily be combined with an updated loan report. Such reports should be made monthly by all regions.

3. Procedures for selection of loan applicants

3.1 Screening of loan applicants

The guidelines for the revolving fund states that beneficiaries of the project can be: "Persons with disabilities and their families (except for the beneficiaries of other micro finance programmes) are eligible of the Revolving fund scheme." The practice so far has been that

² So far this has been practised for all payments of instalments.

clients are already part of the CBR programme before they get the opportunity to apply for loan. This is natural with the close integration between the CBR project and the Revolving fund scheme that ~~can~~ becan be seen as a component in the overall CBR programme.

This first criterion is basically to assure that the clients are part of the target group of the project. Further screening is done based on traditional accepted credit criterions which normally are three and only three in all kinds of loan and banking activities. These criterions are:

- Honesty and seriousness of applicant
- Viability of the business as assessed by expected profit and cash flow.
- Available guarantees.

The first credit criterion is applied by the involvement of local village credit committees. Presumably a local credit committee is better qualified to judge if a person is serious and honest than the staff in a loan project. The village committees know their neighbours and are normally well qualified for the task. Similar methodology is known from different projects throughout the world.

The viability of the business is assessed by the credit officer of the project. The credit officers consider the business plan and compare the information and the calculations in the plan with knowledge from similar businesses.

In addition to complying with criterion one and two (honesty and viability of the business) all applicants have to present a personal guarantor or belong to a loan group that is mutually responsible for the loan amount of the whole group. This is also a common practice in micro credit and very often seen as a check of criterion one and two. If a person cannot get a guarantor or become member of a loan group, it is reasonable to assume that the person's credibility in the community is not sufficiently good or that no guarantor finds that the proposed business plan is credible. However, one should take into consideration that persons with disabilities because of prejudice can be judged as unable to operate a business just because of their disability and not based on their potential as business operators. The advocacy work carried out by the village committees help to avoid such prejudice.

Based on the results of the pilot loan scheme it can be said that the screening so far has been done satisfactorily. All the observed clients are persons with disabilities or there is one person in the family that has a disability. Even though it has only been possible to observe a limited number of clients in their business activities, and the selected clients have not been selected randomly³, one can conclude that the majority of the clients is responsible and have viable businesses. In one region there is one case where the client initially refused to pay back the loan stating that he should be given the loan as a grant because of his situation. Such situations normally arise if prior to the approval of the loan, the conditions are not sufficiently clear, or that the client despite of the screening process did not possess the necessary personal qualifications to become a borrower.

³ Since the project is quite limited, the lack of random sampling has probably not influenced the conclusions or the assessment report.

3.2 Appropriateness of types of business in relation to local market factors and loan recipient skills.

All the observed clients have businesses that serves a local market. The distribution among the different types of business is not different from what could be expected in any micro credit project in a similar context. A summary of the different types of business activities based on information from the pilot scheme is given below.

Table 1 Summary of type of business run by clients.

| Type of business | Relative share of all clients |
|-------------------------|--------------------------------------|
| Trading | 49,18 % |
| Services | 14,75 % |
| Production | 3,28 % |
| Agriculture & farming | 31,15 % |
| Fishing | 1,64 % |

4. Training undertaken in the project.

4.1 Training of staff and credit officers.

It has neither been possible to take part in nor observe the training activities that are directed to the staff of the project. The assessment must therefore be based on the available training material, and most important upon the result achieved by the project.

The Ministry has developed a general training manual that is the basis for the training of the staff. Among other issues the training includes aspects such as:

- Empowerment
- Poverty and poverty alleviation
- Causes of poverty
- Grants versus loans
- Principles of income generation
- Building a credit organisation
- Micro enterprise activities

In addition to these general issues, the manual specifies to certain details several aspects included under each main section. The skills should therefore be sufficient if the training is properly conducted and practical exercises are included.

The other point of assessing the training is to see if the work in the organisation is going on in a professional manner. In income generating activities including the operation of a loan scheme, the final result among the clients should always be a main criterion for judgment. As far as it has been observed in this assessment, the clients are running typical micro enterprises sufficient for maintaining the basic needs of a family. Based on this observation one could say that the training has been successful. However, one should bear in mind that so far the number of clients is small. It is rather easy to operate a small project but this does not necessarily mean that it is easy to scale up the activities considerably.

Normally the most common bottleneck at this stage of development of a revolving fund will be the capacity of the credit officers to handle more clients. However, in this particular revolving fund project, the number of clients is still low so there should be room for a gradual expansion of the project. It is recommended that possible future expansions are carefully

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planned and implemented according to the increased capacity of the credit officers to handle more clients.

4.2 Training of clients

All potential clients are invited to take part in a two weeks training programme. This training programme includes topics such as:

- Micro enterprise activities
- Marketing of goods and services
- Raw materials, tools and equipment
- Location of the enterprise
- Production processes
- Cost calculation
- Book keeping
- Sources of finance
- Management
- Marketing of goods and services.

As one can see the list of subject is rather comprehensive and it is seldom that a busy owner of a micro enterprise will take time to participate in such a course. In this programme the participants are given per diem for their participation so there is an incentive outside the benefit of the training.

When one shall try to make an assessment of the value of such a course during a few days visit, one faces almost formidable difficulties. How shall one quantify the benefit? Can one measure increased sale, increased profit of the business of what shall be the indicators? I think that in this situation the best criterion will be to see if the business is still in operation. This has been confirmed by observing a number of clients in their daily business activities. One small issue worth mentioning is the fact that several of the clients do maintain a simple cash ledger as instructed in the training course. This is peculiar because it is rather seldom that micro enterprises operating in the informal sector do keep daily ledgers.

4.3 Other training activities.

The income generating activities initially planned to include such activities as e.g. apprenticeship and similar training relations. No such training has, however, been included yet. Such training can be valuable but it must be carried out in a practical manner as close to the reality of a micro enterprise owner as possible.⁴

⁴ International Labour Organisation (ILO) has conducted extensive research on the value of training of entrepreneurs and micro enterprise owners. Several reports are available at <http://www.ilo.org/>

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5. Implementation of project

5.1 Operational activities

It is important when looking into operational activities that the Revolving fund scheme is not an independent project but more like a component in the overall CBR programme. This means that the Revolving fund scheme draws fully on the advantages of an already established organisation. Therefore the specific activities related to the Revolving fund are not many. In summary they can be described as:

- National level
 - Training of staff to implement the project
 - Transfer of funds to the regions
 - Accounting and auditing
 - Monitoring and supervision.
- Regional level
 - Training of potential clients
 - Approval of loans to clients. (At least in one region this is now decentralised to the sub region.)
 - Accounting. All client ledger and bank accounts shall be kept at this level.
 - Monitoring and supervision of sub regions.
 - Reporting to national level
- Sub-region
 - Advocacy work
 - Information to potential clients
 - Screening of clients and approval of loans
 - Supervision of clients and monitoring of on time repayment.
 - Send vouchers and loan documents to region for bookkeeping.
 - Maintain client files (includes CBR activities as well)
 - Assure repayment if any client is defaulting.
 - Reporting to region.
- Village level
 - Advocacy work.
 - Screening of loan applicants through the village committee.
 - Supervision by volunteer.

As per the time of the assessment the loans were distributed in the following manner:

| Region | Number of clients |
|---------------|-------------------|
| Maakel | 19 |
| Dehub | 15 |
| Gash Barka | 31 |
| Anseba | 30 |
| South Red Sea | 13 |
| North Red Sea | 15 |

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5.2 Roles of income generating committee and loan committee

As shown in the organisational chart on section 2.1 of this report, there are committees at three different levels: region, sub-region and village. At village level, the role of the committee is to screen the applicants and make sure that the ones who are recommended to have their applications approved are trustworthy persons with the sufficient potential for running a micro enterprise. At the sub-regional level the role of the committee is to assess the applications, consider all relevant information and to pass a recommendation for final approval to the region that shall take the final decision. However, at the region that was visited during the evaluation this has been modified so that the final decision regarding approval or rejection of a loan is taken by the committee in the sub-region. This present situation is a better organisation as one can hardly see how a committee at the region relatively far from the local context can make a better decision than the one taken in the sub-region. It is recommended that similar procedures are implemented in all regions if it has not already been done.

5.3 Advice and assistance provided by MLHW.

The whole Revolving fund scheme is closely integrated with the CBR programme and as such run by the Social Welfare Department of the Ministry. The head of department is actively involved in the scheme and has detailed knowledge of the situation sometimes even knowing individual clients. It is therefore difficult to describe the situation, as if the Revolving fund scheme was a semi independent operation supervised and assisted by the Ministry. Contrary the Revolving fund scheme is fully integrated with the other activities of the CBR programme.

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6. Monitoring and reporting activities

6.1 Follow up of loan recipients.

The loan recipients are supervised by a CBR volunteers at the village level. The CBR volunteer may sometimes be employed by another public entity or just be a trustworthy member of the community. The CBR volunteers coordinate ~~with CBR~~with CBR employees such as the credit officers and other staff persons in CBR as relevant. The level of supervision observed is very close. One supervisor informed that regular supervision is done twice a week and as minimum once a week. Such close supervision is much more than what is normal in micro credit organisations with more commercial focus. Close supervision can definitely be an advantage to the client giving positive incentives and encouragement to develop the micro enterprise. On the other hand it may leave an impression that the client is not seen as fully capable of running the business and therefore need very close supervision.

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6.2 Routines for preparation of financial and progress reports.

All accounting shall now be taken care of at the sub-region level and the corresponding reports prepared there as well. The financial report from the Revolving fund scheme can be simplified as there is neither operational cost nor income in the scheme. All costs are covered by the CBR programme and the scheme does not generate any income. At present very detailed reports are prepared specifying the exact activity of the client. It is recommended that these very specific reports are replaced by a standardised form that make a summary of the status of applications, active clients, loan amounts and business activity. Such a form can easily be combined with a repayment report. Both reports shall be made monthly at each sub-region and be consolidated at the region level and finally at the national level. An example of such a report form is included as an appendix to this report.

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6.3 Monitoring of disbursements and repayment.

All disbursements and repayments of loans are done through bank operations. Before disbursement is done, the necessary documents such as loan contract, repayment plan and disbursement voucher are prepared. The disbursement is then done in two different ways, in kind and in cash. If the loan is to cover purchase of tools, equipment or animals, the client is accompanied to the market or a relevant store. The client selects the items and payment is done by the project. The part of the loan that is to cover the need for working capital of the client is handed over to the client by check or in cash.

Repayment is equally closely monitored. Normally the voluntary supervisor will accompany the client to the bank where the instalment is done. A copy of the receipt is given to the sub-regional office which sends the copy to the region for bookkeeping.

7. Recommendations – strategies aimed at enhancing sustainability and impact of income generation activities.

7.1 General considerations

When considering the issue of strategies one shall take into consideration that sustainability can at least be considered at two different levels:

- The micro level or the individual client.
- The institutional level.

At the micro level of the client the activity should be considered sustainable if the client is able to continue her or his business and contribute in a positive way to cover the needs of the family. Based on such a criterion, and as far as it has been possible to verify during this short assessment, the income generating activities through the pilot loan scheme has achieved sustainable results. Several of the clients maintain that they now are able to maintain themselves with their own business income and that they don't need any additional support. In this perspective the project is a success.

On the other hand when considering institutional sustainability, the project will be sustainable as long as the government maintains its commitment to the project. Under the present project design, the project is not generating any income on its own. All costs are covered by the CBR programme and the continuation of the Revolving fund scheme depends totally on the continuation of the CBR programme or if the Ministry decides an alternative way to cover the operational cost of the project.

If the loan scheme in the future should face a situation where the project would have to cover their cost through income generating from the loan services to the clients, the whole strategy would have to be redesigned. A price policy in relation to clients must be prepared and the operational and administrative procedures streamlined to serve the needs of the clients. If one compares the situation to ordinary micro credit organisations on a few basic indicators one would find significant differences.

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Table 2 Micro credit organisation indicator compared to RFS

| Indicator | Micro credit best practice | MLHW Revolving fund scheme |
|----------------------------------|----------------------------|---|
| Clients per credit officer | 300 | 10-30 |
| Support staff per credit officer | 1 | The number of support ⁵ staff in RFS is high but the comparison is not totally relevant. The support staff also carries out duties related to the other components of CBR. |

If one takes into consideration the potential of the present project based on the available loan capital from NAD to the Ministry as transferred to the regions in January this year, the total amount is 1.956.000 nakfa. With an average loan amount of 10.000 nakfa per person one would have a total number of clients of 196. This means that based on efficiency indicators from traditional micro credit organisations one would need less than one credit officer and less than one support person for the whole project. This would of course be impossible but it illustrates the challenge of organisational redesign that would be necessary to bring the loan scheme into a sustainable independent function.

7.2 Regional differences

At present there have not been observed any systematic structural differences in the Revolving fund scheme. Some administrative procedures may vary from one sub-region to another but that is not significant. The observed differences are related to clients' activities. As is natural the micro enterprises of the clients vary from one place to another based on local market perspectives. In towns and urban areas the predominant activity is different kinds of shops and trading, while in rural areas agriculture and farming dominate. The observed differences are as expected and there does not seem to be any need for changed practice.

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7.3 Linking grant/loan recipient to micro credit institutions and the role of MLHW in relation to this.

Under the present guidelines the clients can receive a maximum of two loans from the project. This may be adequate to a number of clients but the more successful clients with the potential to grow their businesses to become a medium sized enterprise would normally need additional sources of funding. It is therefore recommended that the Ministry looks into this issue to find viable options for this category of clients. One option is to organise loan groups that are linked to a financial institution. The Ministry has already designed such a system and it was mentioned that it was already working in Gash Barka region. However, since we were visiting the area on a Sunday we could not get the travel permit needed for foreigners to enter the area. For that reason it was not possible to reach the region and no assessment has therefore been done of that particular operation.

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Another option would be to make an alliance with existing bank and micro finance institutions enabling successful clients to establish business relations with such institutions. In this context the Revolving fund scheme should consider its present policy regarding interest payment and repayment time. At present loans from the Revolving fund scheme is interest

⁵ The normal calculation of this ration in micro credit organisations is to divide the staff in two groups. Credit officers in one group and all other staff members (managers, accountants, volunteers, etc) in the other. In an efficient micro credit organisation the number of credit officers compared to all other staff shall be higher or the same as the number in the group of "all others". Since the comparison is not very relevant in this situation, a detailed analysis has not been carried out.

free. The repayment conditions are favourable with 6 months grace period and 18 months repayment period thereafter. The repayment time does not vary with the business activity of the client but is standardised. If the Ministry aims at linking the most successful clients with traditional bank and microfinance institutions, it would be advisable to consider adjusting the conditions of their loans to become more similar to what are normal market conditions in Eritrea. This would be particularly important in relation to those clients who are given a second loan and it is recommended that the Ministry consider making the terms of the second loan more similar to loans from established micro finance institutions in Eritrea.

7.4 Criteria for 2005 funds to the MLHW

In addition to the general agreement between the Ministry and NAD, a particular annex covering the Revolving fund scheme has been drafted but not yet signed. As such one can say that the activities are carried out of good will from both parties. However, it is recommended that this process is formalised and that the annex related to the Revolving fund scheme should be signed.

A second issue is the final use of the funds from the pilot scheme. Based on information from the financial department, no final agreement has been reached regarding these funds.

It is recommended that NAD looks into these two above mentioned issues before next transfer is done.

7.5 How to scale up the project

Before any considerable scale up of the project, one should consider the long term strategies for institutional sustainability of the project. Will the CBR programme continue to cover all the operating costs of the project? Is there a willingness and possibility that the Ministry itself could cover the operating cost? Adequate answers on those two questions are considered to be of vital importance before any considerable scale up is considered. There is no reason to scale up a project if the sustainability could not be assured within reasonable margins.

If future sustainability based on the present project designed is reasonably sure, then one can plan for a scale up and the project be magnified. The project is already well targeted and focusing directly people with disabilities. As the targeting is well done, it is not really relevant to argue that the project due to the lack of market conditions of the loan terms is causing serious market distortions on a macro economic level. The project should more be seen as a “bridge” to the traditional financial system enabling a vulnerable target group to take part in productive activities. Under such a “bridge” perspective it is recommended to use a multi component strategy for future activities.

- Increase the amount of loan capital so that more clients can be reached.
- Limit the number of loans to each client. The existing policy of maximum two loans to each client seems to be adequate.
- Prepare a “graduating” system whereby successful clients can get access to traditional bank services or microfinance services.

7.6 Role of other donors

At present the Ministry is working with a number of donors to its different activities. Two of these donors are supporting the Revolving fund scheme financially but to a more limited degree than NAD. Since the Ministry has several years of experience in working with multiple donors and the accounting system is capable of maintaining separate accounts, it is

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not seen as a problem that several donors are supporting the project. However, one should make sure that the same standardised reports can be used to all donors. This would minimise administrative work and make sure that all donors get the same information. The report format included in appendix 8.2 might serve as an example of such standardised operational information. It has also been mentioned that in addition to the two present donors supporting the Revolving fund scheme, USAID has expressed their possible interest in supporting the project indicating a possible contribution of USD 465.000 to the Revolving fund scheme. Because of limited time, it has not been possible to verify this information from USAID.

8. Appendix

8.1 Summary of recommendations

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| Recommendation | Implemented |
|---|-------------|
| To finalise and sign the annex covering the RFS activity to the general agreement between NAD and MLHW | |
| Define the final use of funds financed by NAD to the pilot RFS | |
| Introduce standardised reporting in all regions | |
| Implement standardised donor reporting. | |
| Formalise final approval of loans to be done at sub region and not region. | |
| Consider to adjust the conditions for a second to loan to be closer to general loan conditions in Eritrea. | |
| To create links between RFS and ordinary banks and micro finance institutions to enable successful clients of RFS to graduate into ordinary finance services. | |
| Maintain the maximum number of loans to each client to be two loans as it is today. | |
| Prepare a detailed plan before the expansion of the programme. | |
| Increase the amount of loan capital to reach more clients. | |
| To assure long term institutional sustainability of the project either by the MLHW or by other solutions. | |

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8.2 Example of standardised operational reporting

Example of repayment report and loan report

Repayment report

| Year | Month | | | | Region | | | | Sub region | | | | Total | |
|---------|-------------------------|---|-----------------|---|-----------------|---|------------------|---|------------------|---|-------------------------|---|---------------------|---|
| Clients | On time (0 days delay) | | 1-10 days delay | | 1-20 days delay | | 20-30 days delay | | 30-60 days delay | | More than 60 Days delay | | Re-scheduled loans* | |
| | # | % | # | % | # | % | # | % | # | % | # | % | # | % |
| Number | | | | | | | | | | | | | | |
| Amount | | | | | | | | | | | | | | |

*Rescheduled loans are all loans where the client has been given a longer period to repay the loan.

On time repayment in good micro credit activities shall be above 95%.

Application and loan report

| Year | Month | | | Region | | | Sub region | | | Active loans | | |
|----------------------------|------------|-----|-------|-----------|-----|-------|---------------------|-----|-------|--------------|-----|-------|
| | This month | | | This Year | | | Since project start | | | | | |
| Applications | Women | Men | Total | Women | Men | Total | Women | Men | Total | Women | Men | Total |
| Number received | | | | | | | | | | | | |
| Number approved | | | | | | | | | | | | |
| Amount approved | | | | | | | | | | | | |
| Average amount approved | | | | | | | | | | | | |
| Business categories | | | | | | | | | | | | |
| Trading & shops | | | | | | | | | | | | |
| Craft production | | | | | | | | | | | | |
| Services | | | | | | | | | | | | |
| Husbandry & agriculture | | | | | | | | | | | | |