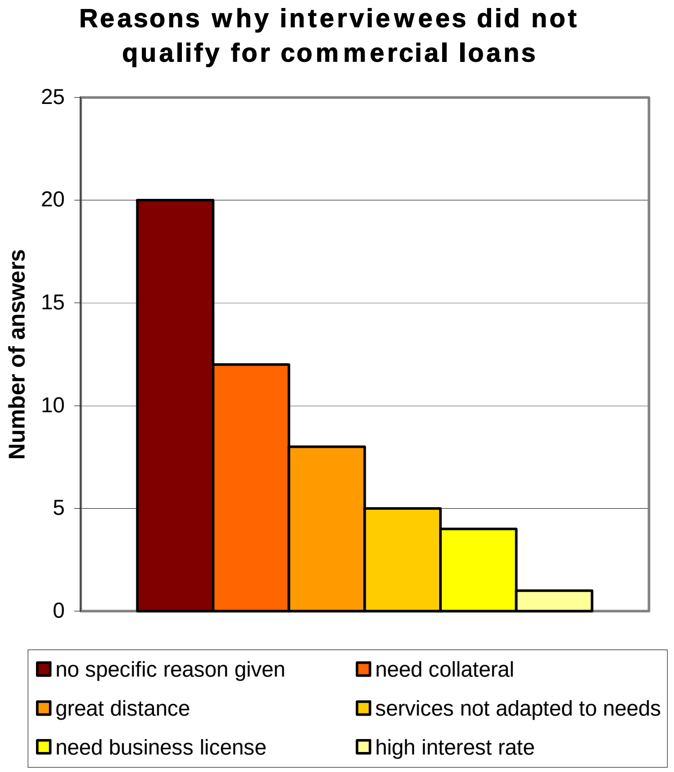


Why micro-finance?

Micro-finance aims to provide financial services to those who do not have the possibility to obtain them from the informal and the formal financial markets.

The **formal financial sector** (banks and other financial institutions) is largely urban-based and organized primarily to meet the financial needs of the modern sector. Many MFI clients do not have any experience with formal banks, or do not qualify for services (lack of collateral, lack of business license). For others, the next bank is simply too far away (see figure to the left).

Informal financial markets are ubiquitous; they are generally characterized by personal relationships, ease of access, simple procedures, rapid transactions, and flexible size and terms of loans. However, not all households have access to informal money sources. Even close family members or good friends are often reluctant to lend money. Moreover, the amounts of money available from friends and relatives are often too small to be used as a business investment.

What kind of services do clients use?

Services used	credit	savings	advice	insurance
Number of clients	47	25	23	0

(48 clients, several answers possible per client)

Number of loans	none yet	1	2	3 to 4	5 to 6
Number of clients	2	23	5	11	6

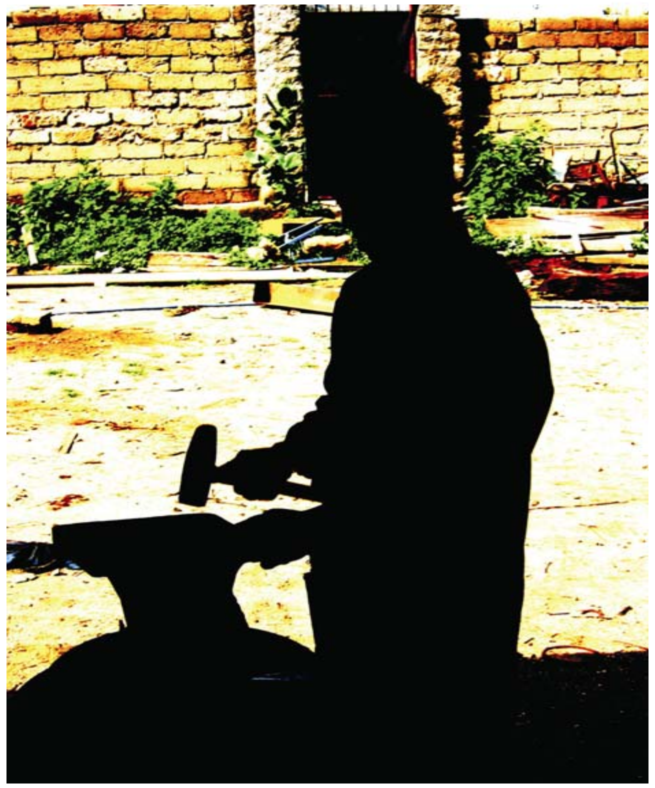
(48 clients interviewed)

Size of loans (in Nakfa)	100-1,000	1,100-3,000	3,100-5,000	5,100-10,000	>10,000
Number of clients	15	46	23	22	8

(48 clients, some with several loans)

Services used by clients

Of the various services offered by micro-finance institutions, clients mainly use credit services; savings and advisory services, including training, are also quite frequently used (see table above). Most interviewees were holding one loan at the time of the interview. However, a significant number of them had already taken 3-4 loans – a clear signal that the services offered do meet the clients' needs. It appears from this that micro-finance as an innovation is largely successful in Eritrea – as it is in many other places around the world. Most of the clients take loans of 1,100-3,000 Nakfa (appr. 80-220 USD); some of them took 5,000-10,000 Nakfa (appr. 360-720 USD) and more. (Exchange rates in 2003: 1 USD = 13.9 Nakfa).



Apprentice boy in a workshop partly financed with micro-finance loans
Picture by Sascha Kraehenbuehl, 2003

Clients' use of loan money

Livestock purchase	20
thereof:	
chicken	2
sheep/goats	9
cattle	8
donkey	1
Seed purchase	3
Land improvement	3
Equipments purchase	10
Raw materials purchase	6
Stock purchase (for shops, workshops, etc).	18
Wages / payment of employees	2

(48 clients; several answers were possible per client)

How do clients use their loans?

Clients understand very well that loan money should be invested in business-related activities. They generally invest in their fields of compe-tence. Often, the first investment is decisive for subsequent investments.

Peasant clients often invest in livestock, as this is a multifunctional asset. However, they know that livestock is a risky investment (drought, dis-eases). Small stock and cattle are more frequently invested in than chicken (see table to the left). Other agricultural investments (seeds, land improvement) are much less important.

Non-farm investment is also prominent. Loans are mainly used to purchase equipment (e.g. for small workshops), stock and raw materials (for shops or workshops). Interestingly, use of loan money for payment of salaries is hardly ever mentioned.

Investing loan money in oxen is common because they are required for ploughing. Picture by Andreas Graeub, 2003

Investment of profits

Business expansion	14
Housing and household equipment	10
Livestock	1
Savings	1
Family	1
Education	1
No profit made	18

(48 clients interviewed)

Investment of profits

The study revealed that about 60% of the clients had generated a profit from the investment they had made with their micro-finance loans (see table to the left). Often, profits were reinvested into business expansion and thus put to productive use. Some clients used the profits to improve their housing situation (some of them had had their houses destroyed during the border war) or to purchase household utensils and furniture. However, 18 clients out of 48 indicated that they had not made any profit from the loans they had received.

The study results indicate that micro-finance has the power to reduce some of the barriers to entry into business, relating to both farming and non-farming. Moreover, micro-finance also helps poorer households, including peasants, to improve income security and livelihoods despite their limited assets, and even if they are not able to invest in a non-farm activity.

Clients frequently invest profits in household equipment such as *injera* (local bread) stoves. Picture by Sascha Kraehenbuehl, 2003