ERITREA

RURAL ENTERPRISE INVESTMENT PARTNERSHIP
Cooperative Agreement No. 661-0009-4-00-6503-00

Report On Program Implementation

November 1, 2001 –March 31, 2002

submitted by

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List of Acronyms

ACDI/VOCA	- The former Agricultural Cooperative Development International, now merged with Volunteers in Overseas Cooperative Assistance (VOCA) as ACDI/VOCA
CA	- Credit Administrator, CBER
CBER	- Commercial Bank of Eritrea
EIF	- Enterprise Investment Fund
GOSE	- Government of the State of Eritrea
NCEW	- National Confederation of Eritrean Workers
REIP	- Rural Enterprise Investment Partnership
REU	- Rural Enterprise Unit
SBA	- Senior Banking Advisor
USAID	- United States Agency for International Development

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Background

ACDI/VOCA signed a cooperative agreement with USAID for the REIP program in September 1996. Implementation began in October 1996 with an ACDI/VOCA team of three: Sandra Blanchard (ACDI/VOCA Representative); Michael A. O'Neill (Senior Banking Advisor); Gavin Olney (Enterprise Advisor). At that time, ACDI/VOCA was responsible for managing both the enterprise development and the banking components of the project. The original design of the REIP Program, with a linked assistance to borrowers and bank, was superseded during the third quarter by an agreement between USAID and the GOSE that the enterprise development with both the REU and Investment Fund would be removed from ACDI/VOCA's control and placed under direct supervision of the GOSE. The formal REIP agreement between USAID and GOSE was finally signed on September 30, 1997, the last day of Year I.

During the period from October 1, 1997 to March 31, 1998 the REIP program was modified, the Rural Enterprise Unit (REU) was redefined and commissioned and the operating criteria, policies and procedures for the Enterprise Investment Fund (EIF) were set up.

PROGRAM MANAGEMENT (November 2001 – March 2002)

Several important changes in the program orientation and management structure were implemented during this period as a result of the delays in demobilization and the departure of the ACDI/VOCA Senior Consultant.

1. **Program Design:** With the departure at the end of October 2001 of Michael O'Neill, the Senior Banking Advisor (SBA), the ACDI/VOCA component of REIP entered a new phase. The intention was to have the SBA present in Asmara on a half – time basis (in country approximately nine months out of eighteen) for the duration of the project. The assumption was that demobilization would be under way by the time that the SBA returned in late January 2002 to begin the training programs for bank credit staff. However, once again demobilization was delayed. While the bank had regained some of its credit officers, it continued to be critically understaffed. A series of intensive training modules for credit officers was not practical. When the A/V Senior Consultant arrived in Asmara in mid January, the CBER General Manager requested ACDI/VOCA to refocus the training activities to concentrate on improving the quality of feasibility studies/business plans that are submitted to CBER as part of the credit application process. The GM felt that better quality feasibility studies would significantly reduce the workload of credit officers and expedite the credit approval process.

Two business development specialists from ACDI/VOCA headquarters arrived in Asmara in March to work with the Senior Consultant to design a training program. The ACDI/VOCA team met with local consultants and business organizations and worked closely with the CBER Credit Administrator and the REU Manager in the process of designing a series of activities that would increase the skills of selected consultants to develop market-oriented feasibility studies/business plans.

The ACDI/VOCA team met with the USAID Director and the Food Security Specialist to outline the proposed changes to the program. The new work plan was approved by the CBER General Manager and then submitted with a revised budget to USAID in early April.

2. **Staffing**: For the past four years, the ACDI/VOCA Senior Consultant has resided in Asmara and has acted as the project administrator. Her decision to leave Asmara necessitated a change in the management structure and the staffing of the project. A local project coordinator was hired in March. The new coordinator will oversee all day-to-day activities of the project and liaise with USAID, CBER and other counterpart organizations. She will receive technical support from the two small business development specialists at ACDI/VOCA HQ who will be making regular supervisory visits to Asmara.

3. **CBER Equipment Purchase**: Computers and ancillary equipment were ordered for CBER HQ and for the target branches. This will complete the equipment purchases for CBER. All equipment will be sent to ACDI/VOCA HQ where it will be tested to ensure that everything functions properly before it is shipped to CBER

CBER ACTIVITIES (November 2001 - 2002)

Overview

CBER's operations still have not returned to "normal" and the delays in demobilization continue to affect the bank's operations. Twelve of the credit officers who were trained by the SBA in 1997 have been demobilized, but demobilization of additional staff seems to be stalled at least until the boundary demarcation is complete. The planned automation of the bank's operations, which would have mitigated the affects of staff shortages, has fallen behind schedule. Nevertheless, the bank is pressing ahead with the basic computer training for staff that is essential for the eventual success of the automation program. The World Bank technical assistance program at CBER is now fully underway, but it also is affected by the staff shortages and delays in the automation project.

- **Staff shortage**: The overall staffing situation is still critical and, as discussed above, has necessitated a reorientation of the planned training program. As we have noted before, the most serious constraint facing the bank is the severe shortage of skilled staff. This has implications for the economic recovery and future development of Eritrea. As long as CBER is understaffed, it will be difficult to transition from collateral to cash flow lending for its business customers. The World Bank team already realizes that this will affect their program; it is hoped that they are in a position to address the government policies that affect bank staffing.

- **Credit Administration Department/ EIF**: The Credit Administrator has been diagnosed with a recurrence of colon cancer. He spent several months in Italy for treatment and returned in early January. His condition continued to deteriorate and he returned to Italy in early April. Credit Administration, which reviews all CBER credit applications, now has only one credit officer. The GM plans to add another credit officer to the department as soon as possible.

The confusion about the EIF application process has been sorted out. In part the confusion resulted from the CA's absence from CBER for medical reasons. Prior to his departure, the CA had sent applications to the branches for review, but the REU Manager was not aware of this. The process has now been clarified: all EIF files will be reviewed by Credit Administration; those that seem to qualify for regular CBER loans will be sent to the appropriate branch for branch review and comments. Applications that do not qualify under CBER's normal credit requirements, but are good business prospects, will be considered for EIF loans.

- **Delinquent loans**: The General Manager has appointed three credit officers to the new delinquent loan recovery team. CBER estimates that there will be war related losses of about 420 million Nakfa. However, before those loans are written off as bad debt, CBER intends to make every effort to collect.

- **Automation**: The automation of the banks by *Kindle Systems* has run into problems. It was scheduled to begin implementation in January, but the test runs have all failed. It is not clear when actual implementation of the system will begin. Despite the setbacks, CBER continues to prepare its staff for automation of the bank operations. Computer training has been progressing on schedule. Most of the staff at the Asmara branches, including the tellers, completed a basic course on computers. A more advanced course in data base management was developed during this quarter and will be implemented with ACDI/VOCA assistance next quarter.

Training Redesign

At the time that the extension proposal was submitted (April 2001), the CBER General Manager believed that demobilization would be underway shortly. Not only would bank staff be returning, but also CBER would be able to recruit new university graduates to be trained as credit and operations officers. The extension focused on training programs for credit officers to develop the skills necessary for the transition from collateral- based lending to cash flow lending. Unfortunately, demobilization has been delayed and consequently the planned training program had to be revised.

At the request of the GM and the CBER's Credit Administrator, the training activities were reoriented towards ameliorating the skills deficiencies of the private consultants who develop business plans and feasibility studies for bank clients. The studies/business plans submitted to the bank as part of the credit application process often are so poorly done that credit officers have to spend an inordinate amount of time restructuring the business plan so that it is "bankable". Given the critical shortage of credit officers, improving the quality of the feasibility studies will contribute significantly to the efficiency of the credit review process.

In March, two ACDI/VOCA HQ staff with experience in credit and small enterprise development, arrived in Asmara to assist in designing a new training program. After meeting with the Credit Administrator to get the bank's perspective on the problems with the feasibility studies, the ACDI/VOCA team reviewed selected credit applications. The major weakness that they found in virtually all of the feasibility studies was the lack of a market approach. Generally, pages were devoted to technical information with only a few

cursory paragraphs on how and where the product was to be marketed. The market was assumed rather than analyzed.

The REU Manager arranged and facilitated a series of meetings and roundtable sessions with members of the Eritrean business community and local consultants to discuss our findings. While CBER and the A/V team felt that the feasibility studies needed to be improved, most of the consultants felt that the quality of their own work was high. The problem was how to get the consultants to willingly participate in training that CBER felt they needed. It turned out to be easier than anticipated. There is a core group of consultants that is interested and eager to improve their skills and learn methods for streamlining the process of business planning. Once that core group is trained, CBER intends to recommend those consultants to their clients.

The discussions also identified another problem. One of the reasons that feasibility studies are so light on market analysis is that there is very little reliable information on the markets for any sector of the Eritrean economy. It is very time consuming, and therefore expensive, to conduct a subsector market study. Only the largest enterprises can afford the cost of a thorough market analysis, although few seem to bother.

As a result of the discussions, the ACDI/VOCA team developed a three-pronged approach to the problem of improving feasibility studies:

- *Develop a standardized and streamlined format for feasibility studies.* The A/V team began working on this with the Credit Administrator and the REU Manager during their visit to Asmara.

- *Train local consultants, REU staff and selected bank credit officers on how to conduct a subsector market analysis.* The training will be held in the evenings and on the weekend so that some credit officers will be able to participate. The consultants and the REU staff, with assistance from volunteer sector specialists, will then undertake a total of four subsector studies. The completed studies will provide detailed market information and will be available to SME entrepreneurs, private consultants, the CBER, and donors as references to facilitate enterprise development.

- *Train local consultants, REU staff and selected credit officers in methods for streamlining feasibility studies/business plans.* Small and medium sized enterprises cannot afford the cost of feasibility studies/business plans. By introducing a standardized and streamlined format that meets the bank's requirements, the cost of feasibility studies can be reduced while at the same time improving the quality. Since many of the consultants were interested in using computer software for business plans, a follow-up seminar on software programs is planned.

One of the results of this redesign effort is apparent already. The current REU Manager has made a concerted effort to work with the ACDI/VOCA team and CBER to bring the two project components closer together. And the General Manager of CBER has realized that the REU can provide services to the bank's clients that will help reduce the risk of lending. It is in their mutual interest to work together, but it has taken awhile for that to become apparent.

REU ACTIVITIES (November 2001-March 2002)

The ACDI/VOCA team met with the REU Manager a number of times to discuss and refine the scopes of work for the volunteer assignments with REU clients. The REU Manager has identified two areas in which he would like technical assistance from ACDI/VOCA volunteer specialists: poultry and horticulture.

The ACDI/VOCA team had several meetings with Wayne Kessler, the local consultant that has assisted the REU in designing its poultry project. This project will target the nascent commercial poultry sector. As part of that effort, it was agreed that ACDI/VOCA would provide a volunteer for an initial training needs assessment to be conducted in May. Based on the recommendations of the volunteer, a training program will be developed and implemented in the areas of farm management, brooding practices, and feed mill management.

The horticulture project is still in the initial design phase. The REU contracted with a local consultant to undertake a study of the sector and to make recommendations for a plan of action. The draft study was completed in March. The ACDI/VOCA Senior Consultant reviewed it and made extensive comments on the report. Once the study has been revised and is acceptable to the REU Manager, it will be submitted to USAID for comment and approval. ACDI/VOCA has provisionally agreed to field two volunteer consultants for the horticulture project. ACDI/VOCA also has provisionally scheduled a volunteer specialist in prickly pear food technology as a follow-up to the assignment on prickly pear in August 2001.

NCEW ACTIVITIES (November 2001-March 2002)

NCEW has been given the mandate to coordinate the overall development of cooperatives in Eritrea. NCEW chairs the working group that drafted the national cooperative law and is responsible for coordinating cooperative policy. In 1997, an ACDI/VOCA cooperative law specialist, Dick Magnusson, assisted NCEW to draft a new cooperative law and then conducted training seminars throughout the country to familiarize local government officials and members of farmers' groups with the principles of cooperative organization. NCEW had requested the return of this specialist last September, but the events of September 11 resulted in the cancellation of his trip. We had planned to reschedule the consultancy for February 2002. Unfortunately, the commercial code, of which the cooperative law is a subsection, still has not been gazetted. NCEW felt that it was better to delay Mr. Magnusson's return until after the Commercial Code was enacted.

However, NCEW did want to proceed with the planned training for cooperative trainers. NCEW arranged for the ACDI/VOCA team to meet with the Minister of Agriculture to discuss the proposed training which the Minister enthusiastically endorsed.

The training will be implemented through NCEW and will employ a training-of-trainers format. It was agreed that the first step is to have a volunteer with experience in designing training programs conduct an assessment in May and then design a series of training modules that will include both classroom and field training. Tentatively, the modules will focus on the basics of cooperative organization and governance; cooperative management; record keeping and accounting; and marketing. The trainees will be drawn from the Rural Enterprise Unit, NCEW, the Ministry of Agriculture and other relevant ministries that are involved with cooperative development.