

AFRICAN DEVELOPMENT BANK GROUP



ERITREA

INTERIM COUNTRY STRATEGY PAPER (I-CSP) 2014-2016

EARC

September 2014

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CURRENCY EQUIVALENTS

National Currency	=	Eritrean Nakfa (ERN)
1 UA	=	23.14 ERN
1 UA	=	1.51 US\$
1 US\$	=	15.38 ERN

WEIGHTS AND MEASURES

Metric System

1 Kilogramme (kg) = 2.2 pounds (lbs)

1 metric tonne (MT) = 2,205 lbs

FINANCIAL YEAR

January to December

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
APPR	Annual Portfolio Performance Review
ASDP	Agricultural Sector Development Programme
ASYCUDA	Automated System for Customs Data
AWF	African Water Facility
BOP	Balance of Payment
BWIs	Bretton Woods Institutions
CEDAW	Convention on Elimination of All Forms of Discrimination-Against Women
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CPI	Consumer Price Index
CPPR	Country Portfolio Performance Review
CSP	Country Strategy Paper
CSOs	Civil Society Organizations
DPs	Development Partners
EEBC	Ethiopia-Eritrea Border Commission
EITI	Extractive Industries Transparency Initiative
ERP	Emergency Reconstruction Programme
ESDP	Education Support Development Plan
ESW	Economic Sector Work
FDI	Foreign Direct Investment
FSS	Food Security Strategy
GBV	Gender Based Violence
GDP	Gross Domestic Product
GEF	Global Environment Fund
GSP	Generalized System of Preferences
HIPC	Highly Indebted Poor Countries
ICSP	Interim Country Strategy Paper
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
IPRSP	Interim Poverty Reduction Strategy Paper
IRDP	Integrated Rural Development Programme
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiatives
M&E	Monitoring and Evaluation
NGAP	National Gender Action Plan
NGO	Non-Government Organisation
NICE	National Insurance Corporation of Eritrea
NPG	National Policy on Gender
NPV	Net Present Value
PAR	Project-at-Risk
PFDJ	People's Front for Democracy and Justice
PFM	Public Financial Management
RBCSP	Results Based Country Strategy Paper
RWSSI	Rural Water Supply and Sanitation Initiative
UA	Unit of Account
UN	United Nations

EXECUTIVE SUMMARY

1. The preparation of the Interim Country Strategy Paper (I-CSP) for Eritrea is informed by the context analysis, assessment of the country's strength, weaknesses, opportunities and consultation with key stakeholders. The strategy is aligned with the Government of State of Eritrea (GoSE) priority and the Bank's Ten Year Strategy 2013-2022. The Government maintains its focus on the three main areas of human resource development, food security, and infrastructure development. The strategy has one pillar: **Enhancement of Skills Development and Technology, in support of Inclusiveness and Transition to Green Growth.** In addition, the Bank will support the GoSE to build resilience and capacity to deal with, and adapt to a challenging environment to promote inclusive growth and poverty reduction. It will also scale up advisory services through economic and sector work as well as assist in creating capacity and conditions necessary for the finalisation and implementation of the National Development Plan (NDP) as well as preparation of a full-fledged CSP.

2. Since attaining independence in 1993, Eritrea has been ruled under a centralised one-party political system and a major political achievement has been conducting elections at the local levels, commonly referred to as Zobas and sub-Zobas. The country also continues to experience relatively internal stability and peace. This stability, however, can be threatened if the GoSE fails to address youth unemployment, poverty, and gender imbalance in access to economic opportunities and income inequality as well as effects of recurrent droughts.

3. Eritrea's economic growth has been considered as satisfactory over the last three years. This has been possible due to huge foreign investments in the mining sector and adoption of expenditure switching and growth enhancing policies. However, this growth has not fostered opportunities for all but also has been less effective at reducing poverty and creating jobs. The country is still faced with low human capital stock and growth has not been inclusive. The negative impact of recurrent droughts is a major challenge to

people's livelihoods. Lack of social and economic statistics, and weak economic management, foreign exchange shortages are among other critical challenges in Eritrea. The Government's external environment also remains less favourable due to UN Security Council sanctions and outstanding border issues with neighbours.

4. The process of finalising the five year NDP is taking too-long but the plan is articulated around three strategic priority areas/pillars: i) human capital development; (ii) food security; and (iii) infrastructure development. The plan is articulated on the vision of creating the conditions for emergence of a modern, technologically advanced, and internationally competitive economy. Significant progress has been made in finalising the sector plans covering 2013-2017. These sector plans articulate the GoSE's development challenges, constraints and opportunities as well as the strategic directions, priorities and implementation strategies over the five years.

5. High unemployment, poverty and environmental challenges are among the main bottlenecks for inclusive growth in Eritrea. The majority of Eritrean students do not acquire specific job related skills after high school, thereby increasing youth unemployment. Lack of requisite skills is also a major disadvantage for the manufacturing firms and companies. The negative impact of recurrent droughts on people's livelihoods and gender balance has also challenged the inclusiveness agenda. Moreover, 80% of the Eritreans derive their livelihood from agriculture which is dependent on underground water. Consequently, a large proportion of the population is vulnerable and food insecurity is high with an estimated 50% of the children suffering from under-nourishment. Other challenges include governance issues and weak capacity to manage and build resilience in the rural communities. The Bank' intervention during the programming cycle will therefore seek to support development of skills while promoting greater economic inclusion and resilience in the rural communities.

6. In line with Eritrea's objectives of attaining rapid, sustainable, and widely shared economic growth and poverty reduction, the Bank Group strategy will continue to address the challenges of low skills and human resource capacity, unemployment and negative impact of recurrent droughts on the economic activities, livelihoods and gender balance. Therefore, the Eritrea 2014-2016 I-CSP is articulated around one pillar, namely, **Enhancement of Skills Development and Technology, in Support of Inclusiveness and Transition to Green Growth**. In addition the Bank Group will provide advisory services through economic and sector work and assist to create the necessary conditions for the finalization and implementation of the NDP as well as prepare a full-fledged CSP.

7. The interventions planned under the pillar have been designed to assist the country achieve inclusive growth and building resilience and capacity to deal with fundamental challenges to development. The pillar will be supported by a major project using the PBA (about UA 13 million): **Support to skills development and job creation especially among the youth in urban and rural areas with particular attention to Gender**.

8. In addition, issues of food security and building resilience will be mainstreamed, in particular through the Phase II of the regional operation of Drought Resilience and Sustainable Livelihoods Program (DRSLP). To enhance inclusiveness and transition to green growth, support is needed to strengthen capacities of rural communities to resist to water shocks and promote agricultural productivity. The Bank will initially dialogue with GoSE to prepare a program on issues of strengthening Public Finance Management (PFM), Economic Planning and management as well as gender-sensitive Statistics and Monitoring and Evaluation (M&E) while working towards the eligibility criteria for Transition Support Facility (TSF). This will create the necessary conditions for finalisation of the NDP, its implementation and design of a full-fledged CSP.

9. **Lessons from the I-CSP 2009-2011.** The Bank needs to assist the Country by providing not only program/project financing, but also scaling up dialogue on how the Bank Group can work on additional assistance programs with national authorities under an improved regional political landscape, and also how to access and catalyse other development partners resources.

10. The Boards of Directors are invited to consider and approve the proposed strategic response to GoSE's skills development and inclusive growth challenges as elaborated in the 2014-2016 I-CSP. It is recommended that the total ADF-XIII grant allocation of **UA 15** million be allocated to work programs that will enhance skills development and build resilience as an effort towards achieving inclusive growth.

1. INTRODUCTION

1.1. The last Interim Country Strategy Paper (I-CSP) for Eritrea for the period 2009-2011 was designed to support the country's National Development Plan (NDP) covering 2008-2012. The Bank Group's support was anchored on one pillar, namely, the Promotion of Human Resource Development. In this context, Eritrea used its entire ADF-12 country allocation of UA12.02 million to finance a single project, Support to Technical Vocational Education and Training Project (STVET), through a grant approved in November 2011¹.

1.2. The proposed I-CSP covering the period 2014-2016 is the Bank's new strategy that seeks to assist the Government of State of Eritrea (GoSE) in addressing its binding development challenges in a coordinated and consultative manner. The rationale for an I-CSP is based on the fact that the GoSE has not finalized its National Development Plan (NDP) yet. However, notable progress has been made in preparing sector plans of which the one for education is already at an advanced stage. Yet, Eritrea is still faced with unemployment and underemployment especially among the youth, and there is a growing skills gap as well as lack of requisite infrastructure. The lack of basic national socio-economic statistics is also a major constraint on effective public sector management. In light of this problem, the 2014-2016 I-CSP will assist the Government to address the Country's challenges as well as prepare the ground for a full CSP.

1.3. This I-CSP provides an opportunity for the Bank to assist Eritrea address some of these binding constraints. The Bank's choice of the strategic pillar for the 2014-2016 I-CSP is driven by the need to ensure continuity, so as to consolidate the achievements and successes made during the 2009-2011 I-CSP, enhance selectivity, and ensure alignment with the Country's priorities. The I-CSP also operationalizes the Ten Year Strategy (TYS) and promotes gender equality and aligns its strategic pillar to TYS core operational priority

areas of skills development and technology. In preparing the new I-CSP, the Bank has consulted the Eritrean authorities as well as development partners and institutions and organisations on the appropriate interventions it should make to assist the country beyond project financing. It also draws from the 2009-2011 I-CSP programming cycle completion exercise and the 2013 Country Portfolio Performance Reviews as well as outcomes from some analytical and knowledge products. The aim of the consultations was to assist the GoSE define its strategic options for promoting inclusive growth and improving livelihoods through self-employment creation and human resource development. They also aimed at identifying urgent gaps to be addressed to ensure completion of the National Development Plan (NDP) and its eventual implementation.

2. COUNTRY CONTEXT AND PROSPECTS

2.1 Political and Social Context

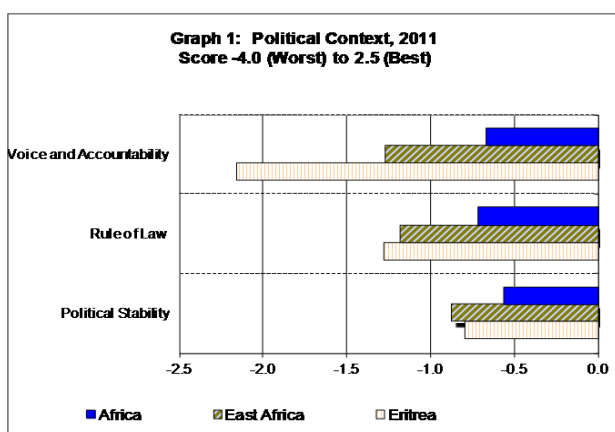
2.1.1. Political context. Since attaining independence in 1993, Eritrea has been ruled under a centralized one party political system of the People's Front for Democracy and Justice (PFDJ). A transition towards political pluralism was initiated in 1994 with the drafting of a national constitution, which was ratified by a Constitutional Assembly in May 1997. However, the constitution, which allows for multiparty democracy, has not been formally adopted yet let alone implemented. The Country's relations with its regional neighbours remain strained, particularly Ethiopia and Djibouti. The war with Ethiopia during 1998-2000 has left much suspicion and tensions between the two neighbours. Although there is no longer any overt conflict, relations between the two countries remain tense².

2.1.2. The proclamation promulgated by GoSE in 1996 has led to notable progress in local governance at the regional (Zoba) and sub-regional (sub-Zoba) levels. Local elections are now taking place. However, Eritrea has not conducted national elections since its

¹ The Government is of the view that the notion of "Fragile State" does not apply to Eritrea and has, therefore, declined to use resources under the Fragile State Facility (FSF).

² The border issue and the implementation of the Algiers Agreement, which ended the war, is at center of disagreement.

independence in 1993. National elections, initially set for 1997, were postponed to 2001, at which time they were postponed indefinitely. The GoSE has remained committed to political governance in the six regions where Governors are the political heads. However, the latest assessment of the functional performance of bureaucracies and regulatory frameworks received low scores, which reflected institutional weaknesses (Graph 1). Hence, improving a set of inclusive institutions and policies like rule of law and secure property rights is of great importance.



Source: AfDB Statistics Department using data from the WEF, 2012.

2.1.3. Recently, the GoSE has shown signs of notable change in international relations and cooperation, through facilitation and participation in key international events and observances (e.g.; the recently concluded Bank's 2014 Annual Meetings in Kigali, Rwanda, where the Eritrean Minister of Finance attended for the first time; as well as the participation in the UN Day), after a considerable period of inactivity. The GoSE's delegation to the UN General Assembly has also actively engaged in high-level side meetings throughout 2013. In addition, the UNDG-DESA High-Level Mission to Eritrea and its subsequent engagement with GoSE in 2014 is a major sign of a change. Furthermore, the GoSE submitted its second Universal Periodic Review (UPR) report, an important commitment to the implementation of the recommendations of the UPR on human rights. These developments are seen as positive indicators for confidence building between the UN and the GoSE and an important and much needed platform for the UN

and other partners to strengthen development cooperation.

2.2 Economic Context

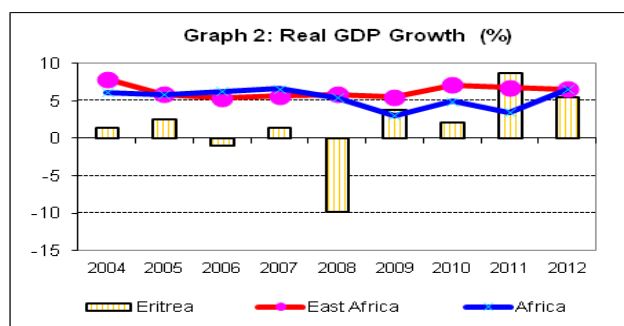
2.2.1. Recent Economic Development and Prospects. Eritrea's economy has continued to perform below potential due to various challenges including the implementation of the macro policy in a constrained environment, and deficiencies in energy and infrastructure, particularly in roads. However, the Country's economic prospects remain promising in view of Eritrea's geostrategic location and the recent increase in foreign companies investing in the mining sector. The successful exploitation of the mineral resources has the potential to boost Eritrea's socio-economic transformation and broad-based growth³.

2.2.2. Economic growth and factor drivers. **Economic growth in Eritrea has over the past three years exhibited a declining trend.** The real GDP growth rate declined from 8% in 2011 to 5% in 2012 (Graph 2, p.3). The downturn was largely attributed to major crop failures and shortages of foreign exchange, which constrained importation of intermediate goods vital for the Country's industrial base. Eritrea's key potential growth drivers include expansion of the tertiary services sector, increasing the agricultural sector productivity, and switching public expenditure towards private sector development. These considerations, therefore, underscore the urgent need for the Government to undertake the needed macroeconomic policy and structural reforms to promote broad based and sustainable economic growth.

2.2.3. Economic growth in 2011 and 2012 was largely attributable to the production of gold and silver from the Bisha mine. Under constrained fiscal conditions, projections for 2013 and 2014 put real economic growth at 8% and 6.5% respectively, well below the country's target of 10%. Against the backdrop of actions on governance issues, the mining sector has

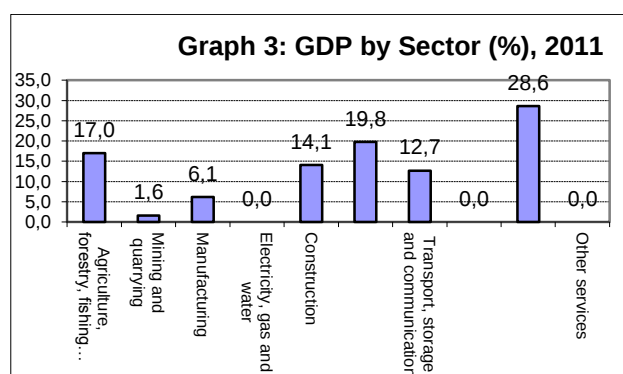
³ Several feasibility studies conducted between 2010 and 2012 confirmed the commercial viability of copper, zinc, gold, silver and high quality potash deposits. The commencement of copper output at the Bisha mine in 2013 and gold at the Zara and Koka mines in 2014 and 2015 (Annex IV) is critical for improved fiscal performance of the country.

begun to show potential to be the main engine of growth over the medium-term (Annex VIII). However, foreign direct investment (FDI), which was estimated at 28.2% of gross fixed capital formation in 2010 (compared to 8.8% for the East African Region and 13.1% for the African Region), is projected to decline on account of regional instability, governance challenges, and continued UN pressures on the mining companies.



Source: AfDB Statistics Department, African Economic Outlook, March 2013.

2.2.4. Economic Structure. The economy continues to be dominated by the public sector. The contribution of the agricultural sector is relatively small (17% in 2011) and has been declining in recent years while the industrial sector, dominated by mining sector, has remained low (Graph 3). The private sector (outside the agricultural sector) plays a limited role and is mostly concentrated in the services and trade sub-sectors. Growth of the private sector has been constrained by fluctuations in energy supply, a shortage of technically skilled labour, and uncompetitive local production.

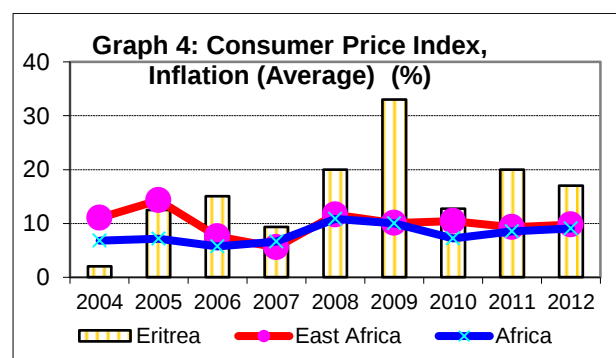


Source: AfDB Statistics Department, 2013.

2.2.5. Diaspora remittances have been an important source of Eritrea's capital inflows, accounting for 16% of GDP in 2008. It is estimated to have drastically declined to 7.2% in 2012. The sharp decline in remittances was due to: (1) UN sanctions, which were imposed on

the transfer of proceeds of the "Recovery tax"; (2) The suspension of importation of consumer goods, which the authorities considered to be a misuse of scarce foreign exchange resources, and (3) weak governance structures and practices. In spite of their sharp decline, remittances remain a vital source of financial capital inflows for Eritrea's longer-term economic development, including financial, real estate, and energy sectors development, among others. Thus, the Government needs to come up with a new remittances policy that will maximize the mobilization and efficient allocation of these transfers so that they contribute to promoting greater inclusive growth and development.

2.2.6. Macroeconomic Management. The lack of basic national socio-economic statistics is a major constraint on macroeconomic management in Eritrea. Monetary policy stance has mainly been aiming at accommodating fiscal deficits. As a result, broad money supply sharply increased to 119% of GDP in 2011 and 2012, while the annual growth rate averaged 20% during the same period. Credit supply to the private sector grew at much lower rates, ranging between 1% and 4% over the period 2009-2011. Inflation, which grew at double digit rates over the last decade, declined from about 20% over the 2008-2011 period to about 17% in 2012 (Graph 4) to an estimated 13% in 2013.

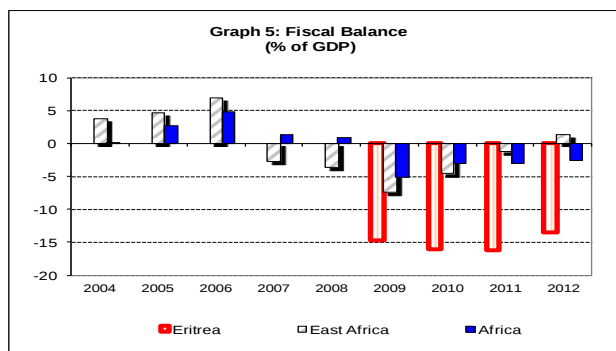


Source: AfDB Statistics Department, African Economic Outlook, March 2013.

2.2.7. Annual inflation is likely to remain high due to scarcity-induced food price increases. However, lower international food prices should help contain annual inflation between 13% and 14% in 2014-2015.

2.2.8. Fiscal management is constrained by the absence of a Medium Term Expenditure

Framework (MTEF), and lack of transparency in the flow of basic public financial information including the budget. However, estimates from various sources indicate a continued decline in the overall fiscal deficit (after grants) from about 17% of GDP in 2011 to an estimated 13% in 2012 (Graph 5). The soaring of the fiscal deficit from the 2009 to 2011 period was due to a slowdown in economic activity, which resulted in lower tax revenues and an increase in public investments in the mining sector.



Source: AfDB Statistics Department, African Economic Outlook, March 2013.

2.2.9. Medium-term projections of fiscal performance indicate that Eritrea's public deficit will continue to decline due to anticipated revenue increases from the mining sector and privatization program. However, the Central Bank's monetary policy stance of accommodating fiscal deficits will continue to deprive the private sector of the much needed credit.⁴ The GoSE needs to take policy measures, including enhancing its domestic revenue base and broadening development assistance.

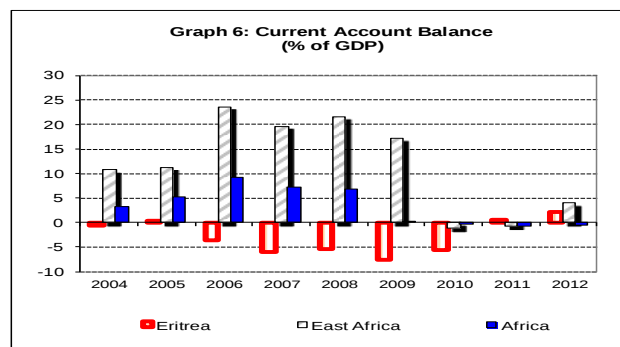
2.2.10. National Debt: Eritrea's public debt stood at 105% of GDP in 2013⁵. Domestic debt was estimated at 85.9% while external debt at 25.2%. The country's disbursed and outstanding external debt to official creditors steadily declined from about 62% of GDP in 2008 to an estimated 29% in 2012, in sharp contrast to an average of 10.5% for sub-Saharan Africa over the last five years. Debt service as a ratio of exports steadily declined from about 35% in 2007 to an estimated 13% of GDP in 2011, compared to 11% for Africa in 2011.

⁴ The 2008 IMF analysis of fiscal deficit financing indicates that about 54% of the funding came from the Bank of Eritrea.

⁵ IMF estimates.

According to the IMF, Eritrea is classified as a pre-decision HIPC potential beneficiary⁶. It was advised that the GoSE takes actions to seek external debt relief as well as devise a plan for domestic debt reduction. The GoSE has, nonetheless, to-date not committed to concluding an IMF Staff Monitored Program.

2.2.11. The External Account improved substantially in 2011 and 2012, mainly as a result of the coming on stream of gold production and exports⁷. Merchandise exports registered a dramatic increase from US\$ 19 million in 2010 to US\$ 414 million and an estimated US\$ 377 million in 2011 and 2012 respectively. This improvement was largely attributable to a substantial rise in international gold prices in 2011 and 2012, which improved the terms of trade index from 24 in 2010 to 202 and 309 in 2011 and 2012, respectively. Merchandise imports also increased by an estimated 29% and 6% in 2011 and 2012, respectively, on account of increased imports of mining machinery and equipment. The current account improved from 0.5% of GDP in 2011 to 2.1% in 2012 mainly due to the increase in mining sector export revenues (Graph 6). These developments have provided a massive jolt to the Eritrean economy, with positive real GDP growth prospects in 2014.



Source: AfDB Statistics Department, African Economic Outlook, March 2013.

2.2.12. Exports are projected to continue growing steadily in 2013 and beyond, driven by new production from the Bisha copper, Koka gold mining plants, and improvement in

⁶ In the context of fiscal consolidation discussions, a 40% public debt-to-GDP ratio is often recommended as the prudent limit that developing and emerging market countries should not exceed over the long-term.

⁷ Eritrea is considered to have the lowest ratio of exports to GDP in the world, i.e. about 1% (2009), according to IMF estimates.

strategic infrastructure, especially roads. The Government is, however, confronted with the challenge of how to raise the required foreign exchange to meet the costs of importing mining machinery and equipment (Annex VIII). The Government will not be able to draw on the surplus in the service account as this is expected to shrink with increases in mining sector services costs. In light of these challenges, the Government needs to identify and develop alternative sources of foreign exchange.

2.2.13. Gross foreign reserves continued to improve, with goods and services imports cover up from 1.6 months in 2008 to 2.6 months and 3.8 months in 2011 and 2012, respectively. However, per capita official development assistance in 2010 was estimated at US\$ 30.1, compared to US\$ 42.1 for Africa, while per capita direct foreign investment (FDI) in the same year was estimated at US\$ 10.6 in contrast to US\$ 50.5 for the continent⁸. On balance, attracting FDIs is crucial for Eritrea's economic diversification and growth. This is because FDIs are a conduit for not only financial services, but also new technology and expertise and world markets, especially for manufactured goods. However, to attract more FDIs, Eritrea needs to improve governance, denationalize the economy and strengthen its external sector through diversification of the export base.

2.2.14. Exchange Rate Policy. The GoSE has, since 2005, adopted a fixed exchange rate regime. However, there is a parallel foreign exchange transactions operated by licensed foreign exchange bureaus. The official exchange rate of the national currency, the Nakfa, has been pegged at 15.38 units per US Dollar since 2005. The parallel market exchange rate has consistently exceeded the official rate by a wide margin. In 2013, the parallel exchange rate was three times higher than the official rate. Over time the combination of foreign exchange scarcity and accelerating inflation has resulted in the overvaluation of the official exchange, which developments have constrained private sector activity.

2.2.15. Recently, the Government has embarked on economic policy reforms directed at removing foreign exchange market

restrictions to ease pressure on scarce foreign exchange resources. In February 2013, the Government introduced a proclamation law, which legalizes the opening of foreign currency deposit accounts by both government institutions and Eritrean citizens.⁹ The Government has further instituted a privatization program by encouraging nationals to proactively invest in economically viable sectors likely to promote jobs creation. The Government also expects these reforms to generate the required foreign exchange for promoting rapid, inclusive and sustainable economic growth and development.

2.2.16. Financial Sector. The Eritrean financial system remains under-developed with shallow money and capital markets that offer a limited range of financial products and services. There are currently, four banks, with branches of commercial banks located throughout the country. The non-bank sector is dominated by the state-owned EDIB¹⁰ that has limited capacity to meet the demand for term -finance and related services from both public and private sectors. The cost of borrowing money is still high, with real interests around 7-12%.¹¹

2.2.17. The 2010 Financial Sector Integration study on the Three Regions of Africa reported that Eritrea's financial sector remains weakly developed because of its low level of integration with the COMESA region financial system. Eritrea's financial sector is not integrated into the sub-region's financial system because the Country has yet to fulfill the macroeconomic stability precondition for COMESA membership. As a result, Eritrea has not succeeded in attracting adequate investment capital into sectors with high potential for employment creation and spurring regional economic transformation through spillover effects. The GoSE will need to implement financial policy reforms to promote a

⁹ The new law allows institutions and individuals with foreign currency accounts to use their foreign currency for international transactions without restrictions.

¹⁰ Eritrea Development and Investment Bank is Government owned and is mandated to provide loans to both public and private projects.

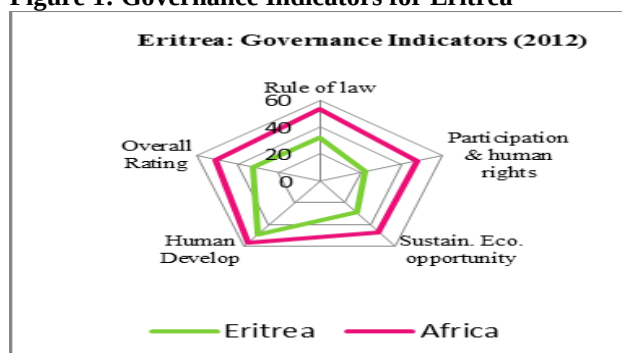
¹¹ If not subsidized, the interest rates could be 30% depending on the use of the money being borrowed.

⁸ AfDB African Statistical Yearbook.

deeper, efficient and more inclusive financial sector.

2.2.18. Governance. The latest Eritrea CPIA and other rankings highlight significant governance challenges. Institution building is still in the early stages with low performance indicators of participation and human rights (Figure 1). In the 2012 assessment, Eritrea ranked 49th out of the 52 African countries and 45th out of the 46 countries in Sub-Saharan Africa, and 175th in the World. The transparency of public finance management also remains a challenge. Since the national budget is not publicly available, the task of assessing the quality of public finance management remains a big challenge. This notwithstanding, the GoSE has recently instituted measures towards more decentralized governance, with the result that the Zobas now have budgetary autonomy and authority to formulate and implement development policies and programmes specific to their regions.

Figure 1: Governance Indicators for Eritrea



Source: Country Profile, African Development Bank, 2013

2.2.19. Information from various global governance surveys¹² still indicates a downward trend in the Eritrea's governance indicators. For instance, Worldwide Governance Indicators for 2012 reported little improvements in the Country's governance indicators on political stability and absence of violence and control of corruption, but deteriorations in the voice and accountability, rule of law, government effectiveness, and

regulatory quality.¹³ Moreover, the Transparency International Report ranked Eritrea 150th out of 180 countries surveyed, in the Corruption Perception Index (CPI) of 2012, above Burundi, Sudan, and Angola.

2.2.20. The trend in the AfDB and World Bank's CPIA ratings for Eritrea shows the need for improvement in the areas of economic management and structural policy reforms. The 2012 assessment indicates the Government's increased focus on improving policies for social inclusion and equity (Annex VII). Underpinning this result is also the significant focus on improving the building of human capital resources amidst weak governance in the entire region. In contrast, the CPIA ratings for the financial sector, regional integration, equity in the use of public resources and trade restrictiveness have not changed much. The specific challenges in these policy areas have been elaborated in preceding sections of this paper and will inform the Bank's policy dialogue with GoSE.

2.2.21. Public Financial Management. Some improvements have been noted, including compliance with some of the international best practices such as Chart of Accounts and computerization of the payment system. Weaknesses, however, still remain in budgeting, quality reporting, and access to information. Limited capacity due to lack of appropriately qualified and experienced personnel such as accountants, procurement officers are among the major contributors to PFM weaknesses. However, the GoSE has embarked on a capacity building program to improve and strengthen public financial management. In addition, an IMF-designed chart of financial accounts, computerization of the in-land revenue and customs divisions, and enforcements has received technical support from various institutions including Afritac in Tanzania. These initiatives will need to be sustained and broadened.

¹² The GoSE has raised some fundamental methodological questions on the methodology used, the interpretation and the validity of the results of some of these global surveys, as they do not involve the participation of the government and other stakeholders on the ground. The GoSE has therefore expressed its strong reservations on the conclusions of these surveys.

¹³ The Worldwide Governance Indicators (WDI) are a research dataset summarizing the views on quality of governance provided by a large number of enterprises, citizens and expert survey respondents in industrial and developing countries.

2.2.22. The **private sector** in Eritrea is small, under-developed, and continues to be constrained by lack of skilled labour and limited infrastructure, particularly in energy and roads. Private sector development has also been hampered by a weak legal and judicial framework, especially in terms of law enforcement. For example, enforcing contracts takes about 95 days. The judicial system is still faced with limited capacity and the legal system is in transition. Key challenges in enforcing rule of law have driven many people into informal sectors. Overall, these challenges have curtailed the growth of both formal and informal trade along the border areas, thereby, lowering the potential regional spillover effects.

2.2.23. Competitiveness. In 2012 World Bank Doing Business Report, Eritrea was ranked 182nd out of 185 countries (Annex XI). Its ranking dropped further to 184 in 2013 and was 43rd out of 46 Sub-Saharan economies. Consequently, Eritrea's competitiveness is currently rated low on key important elements notably business environment and trade facilitation. For instance, the Logistics Performance Index (LPI)¹⁴ has ranked Eritrea at 147 with a score of 2.11 in contrast to an average of 2.46 for SSA (Annex XV).

2.2.24. To improve the country's business climate, the GoSE is making efforts to develop human skills and major physical infrastructure, including the establishment of the Massawa free trade zone¹⁵. The GoSE has recently embarked on a program to mobilize investment resources for the mining, energy, fisheries and tourism. Two investment conferences were held in August and December 2012 to mobilize national investors. The resource mobilization program is aimed at covering 32 manufacturing firms, 13 hotels, the Eritrean Telecommunications Corporation (EriTel) and the Government's

remaining shares in the National Insurance Corporation of Eritrea (NICE).¹⁶

2.2.25. The current Mining Law gives the government the right to acquire a 10% non-contributing stake in all mining operations and also the option to buy a further 30%. To maximize dividends from its mining stake, the GoSE is considering amending the Law to allow the terms of the mining agreement to vary on a case-by-case basis. However, Eritrea has not yet joined the *Extractive Industries Transparency Initiative* (EITI). The GoSE is of the view that the activities are still at infancy stage¹⁷.

2.2.26. Regional Integration and Trade. Economic cooperation and regional integration are critical for peace, food security and inclusive growth in Eritrea. Eritrea is currently a member of COMESA, CEN-SAD, NEPAD and IGAD. It has also signed bilateral investment agreements with Italy, Netherlands, Qatar and Uganda. Eritrea participates in the COMESA regional financial integration programme. Eritrea's proximity and strategic location to the Middle East, Saudi Arabia, Arab Emirates, Yemen, Israel and East and Central Africa economic area is an enormous advantage. While the country is easily accessible because of its long coastline and ports, its major ports of Massawa and Assab are still under-utilized by some regional countries in the Horn of Africa. This has limited the potential impact of these ports on economic growth, domestic revenue generation and job creation. Nonetheless, GoSE has initiated trade and investment strategies to enable the country to access the potential regional market of over 400 million people through the development of airport at Massawa.

2.2.27. However, Eritrea is still confronted with several significant challenges, which need to be redressed if the country is to take advantage of these opportunities. Eritrea's trade with COMESA members is still low, accounting for only 20% (UNCTAD). The country also continues to face power and water supply shortages, foreign exchange shortages, and low

¹⁴ The Logistics Performance Index (LPI) by World Bank other assessments on business environment and trade facilitation efforts. It provides insights on the cost of logistics to country competitiveness and sources of those costs.

¹⁵ Proclamation No. 115/2001.

¹⁶ EriTel and NICE offered ordinary shares of 4.5 million at a price of US\$ 50 a share and 1.3 million US\$ 7.0 per share respectively.

¹⁷ The signing of the EITI is an indicator of Transparency and Accountability in the exploitation of natural resources.

skills and human resources capacity. Addressing these bottlenecks is necessary to create a business environment that will promote private sector growth.

2.2.28. The state of transport, energy, water and port infrastructure is poor and, therefore, requiring urgent remedial action plan. The 2013 Africa Infrastructure Development Index ranks Eritrea 47 out of 53 countries surveyed in terms of infrastructure development due to poor road networks, water and sanitation, energy, and ICT deficiencies. These deficiencies translate into high costs of doing business, which stifle private sector development and impede national and regional connectivity. The direct and indirect effects of these problems are low investment productivity and economic growth in Eritrea. For instance, the EPHS for 2010 indicate that access to improved water source stood at 58% while 70% of households are without modern toilet facilities. The Action Plan for Integrated Water Resource Management (2009) provides the implementation framework for addressing such challenges.

2.2.29. Drought is a frequent phenomenon in the Horn of Africa in general and in Eritrea in particular. In recent years, it has occurred in 2003, 2008, and 2011, and has had a considerable adverse impact on food security and nutrition in Eritrea. Insufficient water resources and geographical features such as mountains and rocks have undermined the country's food security and nutritional programmes, which has in turn increased children malnutrition, estimated at 50% (EPHS, 2010). Eritrea has less than 10% of the arable land currently under irrigation. The available water resources hardly cater for 15% of the population's requirement. In 2011, only 106,498 MT of sorghum and 11,315 MTs of pearl millet were produced, which was almost a half of the quantity produced in 2006.

2.2.30. Yet, agriculture and pastoralism are the main sources of livelihood for about 80 percent of Eritrea's population. Interventions in agriculture will significantly contribute to poverty reduction, food security and accelerate inclusive growth, through enhanced rural productivity and incomes. This will further build resilience among the rural communities

and facilitate the process of transitioning to green growth.

2.3. Social and Cross-Cutting Issues

2.3.1. Poverty and Social Inclusion. Social indicators have improved, but poverty and gender inequality is still a challenge. Eritrea has recorded some improvements in social indicators and MDGs over the past years. According to the Africa Research Institute, UNDP (Box 1), Eritrea is on course to achieving six of its eight UN Millennium Development Goals (MDGs) but faces challenges in maintaining steady progress towards realizing its MDG 1 and MDG 2. Health indicators show that maternal mortality stood at 204/100,000, HIV/AIDS prevalence at 0.6%, while young people's knowledge about HIV/AIDS was at 90%, and malaria is almost non-existent (EPHS, 2010). Based on projected maternal mortality ratios, Eritrea was ranked fourth after Rwanda and two other African countries in 1990, 2008 and 2015.

Box 1. Eritrea's progress towards the MDGs

On track to be achieved

MDG 2: Universal primary education
MDG 3: Promoting Gender equality and empowering women
MDG 4: Reducing child mortality
MDG 5: Improving maternal health
MDG 6: Combating HIV/AIDS, malaria, and other diseases
MDG 7: Ensuring environmental sustainability

Unlikely to be met (Off-Track)

MDG 1: Eradicating poverty and extreme hunger
MDG 8: Develop a Global Partnership for Development

Source: Africa Research Institute, UNDP (2012)

2.3.2. However, key challenges remain. The country's HDI remains low: Eritrea was ranked 181st out of 187 countries in the 2012 Human Development Index (HDI). Estimated at 0.351, the 2012 HDI was below the average of 0.466 for countries in the low human development group and 0.475 for countries in SSA (Graph 7, p.9). The low HDI score is attributed to Eritrea's high levels of poverty and weak growth redistribution strategies, especially their low impact in improving the rural majority's share in the country's GDP.

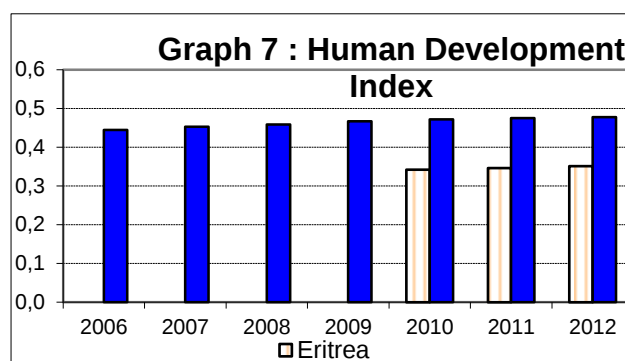
2.3.3. Skills development in Eritrea is critical in improving the employability of the labour force, especially the youth and women. Skilled human resources are one of the

major challenges faced in the country. About four in every ten women and two in every ten men (that is, 38% of women and 15% of men) are illiterate. Similarly, total enrolment in TVET institutions decreased from 5,217 in 2007/08 to 4,012 in 2009/10. However, following implementation of reforms, there has been a significant improvement in the enrolment of 16% during the period 2010/11.

2.3.4. Despite the notable progress made in tertiary education enrolment that of female youths, particularly in technical-vocational institutions, remains low, thereby reducing their opportunities to participate in broad-based growth initiatives. Moreover, only 36.6% of female students enrolled in intermediate technical and vocational schools in 2010/11 and 38.4% in the post-secondary level technical and vocational schools. The Gender Parity Index (GPI) was 0.89, 0.77, and 0.71 for elementary, middle and secondary levels, respectively. This highlights the fact that the deficit of female students increases with levels of education. With a young population of nearly half of the population, Eritrea could reap a substantial demographic dividend through investing in improving skills and human resources and addressing the gender gaps in the system.

2.3.5. Gaps in the educational and skills supply, structural problems in the educational system, the weak technical capacity and the misalignment of skills supply and demand are the major challenges. These constraints place an enormous development burden on a country that is still recovering from the effects of the war and is lowly ranked in terms of the UN Human Development Index.

2.3.6. In this regard, the GoSE has given top priority to youth training and education to curb unemployment and under-employment with the view to promoting inclusive and sustainable socio-economic development. In particular, the TVET sub-sector aims to produce semi-skilled and skilled intermediate level technicians who will meet labour market demand and also improve productivity.



Source: AfDB Statistics Department using data from the UNDP Databases, 2012.

2.3.7. Furthermore, two in every ten working women and four in every ten working men (22% of women and 42% of men) are engaged in small-scale, mostly rain-fed agriculture production (**2010 EPHS**). Almost the same proportion of employed men and women (23% of women and 24% of men) are engaged in small-scale trading and services businesses. Moreover, about 60.3% of the population is below 25 years of age. Yet, over 54% of the men, particularly the youth, are either unemployed or under-employed in the seasonal agricultural work. Consequently, lack of job opportunities coupled with the dwindling of economic activity has resulted into emigration, especially the high and low skilled youth. For instance, it is estimated that about thousands of the youth have left the country for work and better income in Europe, Sudan, South Sudan and Middle East, South Africa and Italy.

2.3.8. The GoSE has formulated a framework for skills development and job creation.¹⁸ However, assistance is needed to ensure that these initiatives translate into tangible results. The Bank's on-going projects in TVET & higher education (Annex I (B)) offer some lessons and opportunities, particularly in skills for enhancing employment generation.

2.3.9. Gender. To redress the country's gender imbalances, the GoSE has ratified and passed several legislations which cover, among others, land legislation and gender based violence and under age marriage.¹⁹ The GoSE has also

¹⁸ Education Sector Development Plan 2013-2017; Skills Training Programme for Adults and Youth, 2010.

¹⁹ The legislations that the Government has ratified and passed include: land legislation, prohibition of female genital mutilation, Gender Based Violence and under age marriage.

instituted various policy initiatives. Through the National Union of Eritrean Women (NUEW), the Government approved a National Policy on Gender (NPG 2004), and the National Gender Action Plan (NGAP 2003-2008). The latter articulates separate strategies for female education and gender awareness and a data collection system for the effective monitoring and evaluation of the plan implementation.

2.3.10. Some noticeable progress has been made in closing the gender gaps, particularly in enhancing the position of woman in certain areas. Notable ones include progress in improving the skills capacities of women and their achievements in general education. NUEW has also initiated a program for providing “**hard infrastructure**” through establishing resource centres in each sub-region. The NUEW and GoSE have also instituted measures to establish Gender Units and designate Gender Focal Points in all government ministries.

2.3.11. However, some challenges remain in gender and youth inequalities in economic participation. The 2008 Gender Profile supported by the Bank and EPHS (2010)²⁰ reported considerable challenges. For instance, the proportions of males and females in the 15-64 years currently in formal employment are 61 and 15% respectively. The majority of females are engaged in informal and unregulated micro and small business activities with low and unpredictable financial returns. This suggests that women empowerment is still limited. The low returns on informal female economic activities have contributed to stalling progress in MDG1 and overall development in Eritrea.

2.3.12. Updating the 2008 Gender Profile, the collection of comprehensive gender-disaggregated data, and building human and institutional capacities will ensure that gaps are properly identified in various areas with an associated action plan. The Bank intends to work closely with GoSE in this area.

3. STRATEGIC OPTIONS

3.1 Country Strategic Framework

3.1.1. Government Development Agenda.

The GoSE is in the process of finalizing the five-year National Development Plan (NDP) around three strategic priority areas/pillars: (i) human capital development; (ii) food security; and, (iii) infrastructure development. The vision of the GoSE is to create the conditions for the emergence of a modern, technologically advanced, and internationally competitive economy. Notable progress has been made in finalizing the sector plans. Most sector plans, covering the period 2013-2017, have been completed, in particular for education, agriculture, energy, water, sanitation and environment. The sector plans have been submitted to the Ministry of National Development for consolidation into the NDP.

3.1.2. The sector plans articulate GoSE’s development challenges, constraints and opportunities as well as the strategic directions, priorities and implementation strategies over the five-year period (2013-2017). The sector plans place continuous emphasis on attaining the country’s MDGs and poverty reduction goals. It should be noted that the Education and Human Development sector planning is the most advanced.

3.1.3. To promote human capital development, the GoSE has prepared the **Education Sector Development Plan (ESDP 2013-2017)** and Strategy. The latter highlights the GoSE’s commitment to the development of the sector and the critical role education and skills is expected to play in promoting an inclusive socio-economic development in Eritrea. The main objectives are the expansion of technical and vocational education and training; the promotion of education and skilled work force for the labor market, and the achievement of gender parity. Similarly, agriculture, environment, water and natural resources are other sectors with strategic plans that inform the Government’s development agenda.

3.1.4. However, the process of finalizing the NDP is taking longer than initially anticipated, mainly due to capacity and statistical information issues. There is a dire need for capacity building, particularly in the areas of

²⁰ Eritrea Population and Health Survey (2010) provide interesting findings on several topics including education, health, and employment.

public finance management (PFM), economic planning, as well as gender-sensitive statistics and monitoring and evaluation (M&E).

3.2. Aid Coordination, Alignment and Harmonization

3.2.1. The GoSE is strongly committed to self-reliance. In this respect, it has a policy of limiting reliance on foreign assistance arguing that a sovereign country's development should not be based on aid, but investment from development partners (DPs). Eritrea's strained relations with some regional and international community have led it to adopt a strategy of keeping these countries and international organizations at arm's length.²¹

3.2.2. Besides the AfDB, the UN agencies²² and EU are the main multilateral development partners still operating in Eritrea. The Government of Japan (JICA), China, European Union and FAO provide technical assistance. The Eritrean Development Partners Forum (EDPF), comprising of DPs with a presence in Asmara meets quarterly to share information on developmental issues. The forum is supported by technical working groups. However, DPs have yet to harmonize their procedures, programs or funding in line with the Paris Declaration.

3.2.3. The GoSE does not participate in aid coordination and harmonization meetings. Its policy restricts Government institutions and agencies from dealing directly with DPs. This has resulted in low interventions in the most critical sectors (Annex IX). The Bank will, therefore, take this reality into account in its interventions, while making an effort to scale-up its assistance and advisory services in addressing urgent challenges in critical underserved sectors.

3.3 Strengths and Opportunities; Challenges and Constraints

3.3.1. Strengths and Opportunities. Eritrea is endowed with commercial deposits of several mineral resources including gold; potash and rock salt, which have been confirmed by recent mineral explorations (Annex VIII). Moreover, the Government's mining law provides attractive and competitive benefits and incentives to investors²³. The emergence of this sector as a new source of growth, if properly managed should enable the Government to diversify the economy over the medium term so as to build resilience and improve peoples' livelihoods²⁴. The Bank as a trusted partner of Eritrea will therefore continue to engage the Government in the utilization of the African Legal Support Facility (ALSF), with a view towards ensuring that the country's resources are exploited with substantial benefits accruing to the majority of the population.

3.3.2. A potential area for diversification is investing in the development of the Assab and Massawa ports as hubs for transit trade to serve the needs of COMESA and other land-locked countries. In this connection, the country has developed the Massawa Free Trade Zone (FTZ), and approached international firms to manage investments in the ports and shipment sectors.

3.3.3. Eritrea's geostrategic location and long coastline offers further investment opportunities in trade logistics industry, which is still in a nascent state. The recently built Massawa international airport, located in the North of the Red Sea region, has the potential to support increased high-value seafood trade. The extensive coastline also has enormous potential for promoting niche tourism based on the mountain valleys surrounding Asmara, the beautiful coastline, and historical sites, among others. This location also explains the country's

²¹ In 2011, the World Bank closed its offices in Asmara.

²² A strategic partnership co-operation framework between the GoSE and the UN, covering 2013-2016 was concluded in January 2013. In addition to food aid and emergency reconstruction, the UN system focuses its assistance on the social and agricultural sectors.

²³ The government's stake in any mining project is set at 10% with an option to buy a further 30%, compared to other countries in the region, such as Egypt (50%) and Sudan (60%).

²⁴ The library of Congress Federal Research Division indicates that countries such as South Korea, Germany, South Africa, China, and Italy are pursuing investment opportunities in Eritrea.

continued close engagement with Middle East countries despite UN sanctions.

3.3.4. Challenges and Constraints. The Eritrean economy continues to face the following challenges that are increasingly undermining inclusive growth and job creation.

(i) **Skills and human resources gaps.** At the moment, the greater part of Eritrea's public and private sectors are faced with insufficient human capital, which is seriously constraining the country's economic and social transformation. In this context, well-targeted public investments in skills and human resources development are critical to improving the capacity for generating additional livelihood opportunities while addressing the youth unemployment challenge.

(ii) **Low agricultural productivity.** Eritrea's agricultural sector which has faced aggravated effects of climate change presents significant challenges with direct effects on poverty, growth and MDGs outcomes. In sum, yields from this sector are quite low resulting in poor nutrition and small and unpredictable incomes which is largely attributed to fragile land coupled with frequent droughts and water shocks. The new strategic plan (2013-2017) emphasises soil and water conservation, and technological inputs to boost agricultural productivity. This indicates not only efforts to improve productivity but also reflects resilience and sustainable use of land. There is need for the country to develop its capacity in this particular area because of its central role in improving human development and promoting inclusive and green growth, while contributing to closing the gender gap. Indeed, interventions in enhancing agricultural productivity and incomes will contribute to poverty reduction, food security, nutritional improvement and, thereby promoting sustainable economic growth.

(iii) **Fragile regional peace and stability, and international isolation** remain major development challenges for Eritrea. For several years, the region has been plagued by cross-border conflicts. In this context, continuations of UN sanctions are likely to start manifesting their full negative impact on the flow of foreign direct investments and Eritrea's fiscal position.

(iv) **Macroeconomic management and governance challenges.** The Government's objective of attaining "rapid, sustainable, and widely shared economic growth and poverty reduction through self-reliance" will face challenges if the macroeconomic management constraints are not adequately addressed. In particular, there is need for continued improvement in PFM in key areas such as national economic planning, medium term expenditure framework (MTEF), annual budgeting, financial management & accounting, investment planning and procurement.

(v) **Weakness of infrastructure services.** The Government has invested in infrastructure including roads, energy, telecommunication etc. However, there are some deficiencies in energy coupled with limited road network that need to be addressed in order to boost trade and other businesses as well as enhance competitiveness. Clean water supply and sanitation access need to be strengthened to enable the country to meet its long term objectives. The water needs of Eritrea are almost entirely met from ground water resources. In the present situation, ground water development and management is the most viable solution.

(vi) **Weak statistical capacity and M&E system.** The lack of socio-economic statistics is one of the main challenges in the finalization of the NDP and its implementation. At the core of this problem is the weak relationship among stakeholders in the national statistics system (that is, producers, users, and partners). This problem is attributed to inadequate operational frameworks for compiling, coordinating, and distributing national statistics for facilitating the formulation and implementation of the NDP. The lack of credible national statistics data base has also prevented the development of a robust M&E system. Support is needed to update data on economic and social sectors, and formulate a statistical Master Plan, Statistical Act, population & social statistics, and preparation of national accounts.

3.4 Country Portfolio Performance Review and Bank Positioning

3.4.1. The Bank Group's activities in Eritrea have so far been primarily limited to project support. For several years, the Bank's strategic

engagement with GoSE has focused on improving human capital and livelihoods. For instance, the ongoing support to TVET and Higher Education Development projects are among the areas in which the Bank has comparative advantage as they form part of its skills development and technology core operational areas. In this context, numerous activities were conducted (cf. Annexes I B & C). The Bank's engagement contributed to its positioning as a reliable and credible player in this area in Eritrea. As a trusted partner, the Bank will continue to engage the Government through the development of knowledge products on competitiveness and productivity in selected sectors like agriculture as already demonstrated in the social sectors (section 3.4.2 and 3.4.3). This initiative will be explored in close cooperation with the Bank's Development Research Department (EDRE).

3.4.2. History of Bank Group intervention in Eritrea. To-date, the Bank Group has financed 10 projects and a study valued at a cumulative commitment of UA101 million, of which 33% was in ADF grants and the rest in ADF loans.²⁵ Setting the Bank apart in Eritrea is its growing assistance in addressing some of the most binding constraints, with the Bank's East Africa Regional Resource Centre (EARC) increasingly conducting dialogue with GoSE on key strategic issues. In summary, the social sector has the largest share of the net commitments (about 43%), in support of 3 operations in the education sector. Agriculture and infrastructure sectors accounted for 29% and 7% respectively. The remaining 21% was committed to the financing of an Emergency Reconstruction Project (ERP), the Economic and Financial Management Program (EFMP)²⁶ and the Emergency humanitarian relief to victim of the 2002 drought. In comparison with the support from other DPs, the Bank's role remains crucial in terms of allocation of resources in strategic areas, especially in the education sector (Annex IX).

²⁵ Excluding an ADB Grant (UA 2, 0 million) approved in 2009 for an Emergency Food Assistance Project during the 2008 drought.

²⁶ The ERP, completed in 2003, involved among others rehabilitation works, the financing of one teacher training institute, and the construction of 6 junior secondary schools

3.4.3. The Bank's on-going portfolio comprises two projects, both in the education sub-sector with a net cumulative commitment of UA 24.92 million. Both projects have been approved during the last I-CSP period covering 2009-2011: (i) Support to Higher Education Development Project (SHEP), approved in April 2010 for UA 12.9 million, is financed with ADF 11 allocation and (ii) Support to Technical and Vocational Education and Training Project (STVETP), approved in November 2011 for UA 12.02 million is funded from ADF 12 resources.

3.4.4. Portfolio monitoring and evaluation. During the process of preparing the I-CSP, the Bank engaged with the GoSE and conducted a country portfolio performance review (CPPR) for the two on-going projects. The supervision mission conducted in April 2014 concluded that the execution of both operations was satisfactory, with an implementation progress (IP) rating of 2.77 for SHEP and 3.00 for STVETP. However, there are some challenges including procurement, disbursement, delays in submission of audit reports as well as timely release of counterpart funds (see discussions in 3.4.7). Globally, the portfolio performance is satisfactory with an overall rating of 2.75 for SHEP and 3.00 for STVETP. The average disbursement rate stands at 73.6%. There is no project at risk and no ageing project. The average age of the portfolio is 3.1 years (Annex I (B) for details). Some capacity gaps were however noted, in relation to poor execution of conditions embedded in the procurement of equipment for technical schools (Annex VI) as well as operational issues that reduced effective program implementation without, however, jeopardizing the expected development outcomes.

3.4.5. Bank Group performance. The on-going operations financed during the last I-CSP period are well aligned with the pillar of the strategy and meet the development objectives of the country. The monitoring of the projects during the period has been enhanced by Bank regular supervisions. The good performance of the portfolio is partially attributed to the tight follow up by the same task manager during the last two years. The Bank has also provided training in 2013 on procurement and financial

management in order to build project PIUs capacity.

3.4.6. Government performance. The performance of the Government in the implementation of Bank's projects is quite good. The implementation is progressing and some good results were achieved on the two projects. However, the weak capacity and the insufficient mastery of Bank rules and procedures are causes of delays in the implementation of the projects. Notable challenges faced by the GoSE also include limited supervision due to the geographical features that make access to project sites costly and time consuming, weak M&E system, as well as limited coordination. However, the GoSE has strict activity implementation rules and follows up the use of funds and there is value for money audit. The Bank provided in September 2013 training on Bank procedures that shall contribute to enhance the knowledge and the capacity of the Project Management Units (PMUs).

3.4.7. Country Portfolio Improvement Plan. In order to address the portfolio issues, a Country Portfolio Improvement Plan (CPIP) has been prepared and agreed with the GoSE. The CPIP outlines four key challenges: (i) insufficient knowledge of the Bank's rules and procedures for procurement and disbursement; (ii) delays in the procurement process; (iii) delays in the submission of audit reports to the Bank, and; (iv) delays in the payment of counterpart funds. Regarding Bank's rules and procedures, the issue has been addressed by providing in-country training to the TVET and Higher Education Project Management Unit teams in September 2013. This process will be sustained. For each of the challenges, the Government and Bank have agreed on a set of measures and their performance indicators that will be used to monitor and evaluate the project management performance (Annex VI).

3.5 Results and Lessons from the Implementation of the 2009-2011 I-CSP

3.5.1. Results achieved. The project completion (PCR (ADF/BD/IF/2012/216; 23 November 2012) and portfolio performance review (2013) revealed satisfactory results from past Bank's interventions in Eritrea (Annex I

(B) and XII). As an illustration, these are: (i) Improvement in health indicators, as a result of the provision of good quality of water provided to an estimated 5,500 women in Gellalo, thereby reducing the burden of collecting water; (ii) Enhancement of the learning environment, through: (a) the completion of 80 elementary level classroom, 120 middle level class room, and 25 special needs classrooms, and, (b) significant improvement in the student-text book ratio by the supply of 400,557 text books for elementary schools and 2,475,952 volumes of text books for middle schools.

3.5.2. In addition, the likelihood of achieving the development outcomes from the on-going operations is high. Some key performance results so far achieved from implementing the I-CSP 2009-2011 are: (i) Enhancement of national capacity for teaching, research and service at the country's 7 Higher Education Institutions (HEIs) which has so far increased to 2,000 the number of students graduating every year; (ii) Rehabilitation of 2 HEIs and expansion of physical infrastructure, including 4 engineering laboratories; (iii) Enrollment of 205 teaching staff for post graduate training under different training modalities (training in-country and abroad, and distance learning); and, (iv) Procurement of equipment for 3 existing technical schools.

3.5.3. Lessons learnt. Key lessons from the implementation of Bank's interventions under the 2009-2011 I-CSP are summarized in Box 2, and taken into account in the current I-CSP.

4. BANK GROUP STRATEGY

4.1. Rationale and Strategic Selectivity

4.1.1. Eritrea has experienced on average satisfactory economic growth, but is faced with a major issue of inclusiveness, with high unemployment and poverty exacerbated by environmental challenges. Between 80-85% of Eritrean students leave high school without specific job related skills, thereby increasing the number of unemployable people annually. Low educational and skills levels act as a barrier to effective entry into the labour market and economic growth. The review carried out by the

Ministry of Education reports²⁷ that companies and manufacturers claim that they do not have the required numbers of skilled workers and technical personnel needed for increased production. In this context, enhancing human capital development is viewed by the GoSE as an overarching priority, particularly the technical vocational education and training (TVET) component.

4.1.2. The inclusiveness agenda is also challenged by the negative impact of recurrent droughts on the economic activities, livelihoods and gender balance. Agriculture is the main-stay for the population. According to the EPHS Report (2010), about 80% of the Eritrean population derives their livelihood from agriculture, which is highly dependent on underground water. However, like most countries in the Horn of Africa, Eritrea is recurrently affected by droughts, which is a major threat to food security, nutrition and the livelihood of the majority of the population.²⁸ The recurrent droughts affect the availability of food and increases water shocks, thus increasing women's social and economic vulnerabilities, as well as exposing them to other risks, such as violence. In Eritrea, it is estimated that women contribute up to 60% of household labour. This is very significant in food production and food security. Rural women with adequate access to sources of food production are better able to improve their household's food security and nutrition.

4.1.3. The Bank engagement in Eritrea has for the past several years emphasized project financing in the education sector. Some notable results have been achieved, but major challenges still remain. Gaps in the skills supply have strongly weakened the technical capacity of the labour force in the country both in formal and informal sectors.

4.1.4. In line with the Bank's Ten Year Strategy, this I-CSP will endeavor to build on the gains achieved so far, by providing a platform for enhancing selectivity around one

core operational area "skills development and technology", while providing a range of support in the areas of special attention including food security, gender and resilience building. The main objective is to effectively assist the country in addressing the urgent gaps in terms of inclusiveness and transitioning to green growth, while preparing the ground for the finalization of the NDP and the preparation of a full-fledged CSP.

Box 2. Lessons from Implementation of the 2009-2011 I-CSP

Sustainability and Ownership. Future Bank support will endeavour to involve active participation from the immediate users of the project services.

Knowledge work, capacity building and country dialogue. Eritrea faces major development challenges. The GoSE is committed to addressing them. There is a dire need for assistance. Yet, the country is relatively isolated. The Bank will need to go beyond project financing and diversify the use of the instruments at its disposal to effectively assist in addressing the country challenges. Beyond financing, this will require a mix of analytical work, capacity building and country dialogue. These will need to be sustained over time and involve trust, mutual respect and confidence building.

Baseline data and result indicators. Eritrea lacks appropriate data in most sectors. Future Bank's interventions should ensure at an early stage of project preparation that appropriate measures will be in place to address this major gap.

Monitoring and Evaluation. The M&E Frameworks are still weak. The Bank should engage with the GoSE and explore ways of assisting in building capacities with the view to putting in place an adequate M&E system both globally and at the project level. This will also ensure that appropriate conditions are created for the implementation of the NDP.

CPIP. Agreed CPIP actions should be realistic and focus on achievable targets within a given timeframe, in order to enhance portfolio performance.

4.1.5. The strategic thrust of the Eritrea I-CSP 2014-2016 is informed by the context analysis, assessment of the country's strengths and weaknesses, challenges and opportunities, and consultation with key stakeholders, in particular the Government, development partners and beneficiaries of Bank's interventions. The I-CSP is also aligned with the GoSE's priority national and sectoral development objectives and strategies, the Bank's Ten Year Strategy and the Regional Strategy Paper (RISP) for the Eastern African Region. It is also aligned to the Agriculture Sector Strategy (2010-2014) and the Bank's Human Capital Strategy for Africa (2014-2018). Other considerations include the

²⁷ Ministry of Education, Sub-Sector Review Report on Technical Vocational Education and Training (TVET).

²⁸ For instance, food insufficiency tends to increase the number of children (estimated at 50% of the population in 2010) with stunted growth and chronic malnutrition.

need to continuously build on the Bank's past achievements and comparative advantages, as well as lessons from the implementation of past operations.

4.1.6. Stakeholder consultations. To ensure proper alignment with the GoSE's national development priorities and maximization of synergies, the process of preparing this I-CSP has involved several rounds of consultations initiated in 2011/2012, with national authorities, development partners in Asmara, and institutions mandated to link the private sector actors with the Government (Annex XIV).

4.1.7. Key outcomes include: (i) the recognition of the Bank's role in assisting to addressing the challenges of Eritrea, demonstrated by the Bank's sustained engagement in developing human capital in line with the priorities of the country; (ii) the need to build trust and confidence and for the GoSE to take steps in information disclosure, so as to enable the Bank to enhance its assistance towards addressing the major challenges of the country; (iii) the need for the Bank to remain engaged and to scale up its knowledge and advisory services; (iv) the need for the Bank to sustain the dialogue with the GoSE on the various financial products and advisory services available in the Bank Group; (v) the need for the Bank to work closely with the GoSE on the preparation and implementation of a capacity development program in support of PFM, Economic Management and Planning, Statistics and Monitoring and Evaluation, with the view to ensuring appropriate conditions for the completion and implementation of the NDP; and, (vi) the Bank will closely work with relevant UN agencies on statistics, agriculture and food security, education, capacity development issues and gender (Annex IX).

4.1.8. I-CSP Objective and Strategic Pillar. The Bank Group's interim country assistance strategy for the period 2014-2016 will focus on a single pillar, namely, **Enhancement of Skills Development and Technology, in Support of inclusiveness and Transition to Green Growth.**

4.1.9. Despite the significant progress made, the still weak human capital development and its linkage to the needs of the labor market is a

key impediment to employment creation and inclusiveness of growth and poverty reduction. Investing in skills development is an effective way to implement the Government's inclusive development policies as well as poverty reduction.

4.1.10. The rationale for the pillar includes the need to: (i) consolidate the gains achieved in the Bank's sustained engagement in human capital development by addressing outstanding urgent challenges; (ii) engage dialogue on key country challenges and provide capacity building advisory services to assist in creating the appropriate conditions for the finalization of the NDP and its implementation while paving the way for the Bank's full-fledged CSP; and, (iii) contribute to a gender-balanced inclusiveness, improved livelihood and building resilience, especially by mainstreaming gender and food security issues.

4.2 Bank's Indicative Resource Envelope

4.2.1. The I-CSP will cover the entire ADF-13 cycle. Available internal Bank resources include mainly: (i) ADF-13 PBA amounting to UA15 million (mix of loan and grant). Eritrea will receive 50% in form of grant and the remaining 50% in form of loan; and, (ii) Regional Operation (RO) window for eligible operations. With respect to the latter, it should be noted that the GoSE has expressed strong interest and made a formal request to participate in the second phase of the regional Drought Resilience and Sustainable Livelihood Program (DRSLP-II) covering 2014-2018, as an effective way to build resilience and address the recurrent drought issues and food insecurity. In this regard, the GoSE has confirmed its commitment to use UA 1.5 million representing 10% of the country's PBA for this purpose. Eritrea may also be able to benefit from the Bank's Transition Support Facility (TSF), to which end the GoSE will need to submit a written request to the Bank indicating their interest to qualify for TSF support. The Bank will then undertake an eligibility assessment on the basis of its revised operational guidelines. Furthermore, to help build capacities and prepare the ground for the future, the use of dedicated Trust Funds will also be explored such as Climate Change and the African Water Facility (AWF), to improve knowledge and experiment pilot operations.

4.3 Indicative Bank Assistance Program

4.3.1. The indicative work program is informed by the strategic thrust of the I-CSP pillar comprising of both lending and non-lending operations and covering the ADF 13 cycle.

4.3.2. Lending operations. The I-CSP pillar will be supported by a major project using the bulk of the PBA allocation (about UA 13 million): **“Support to skills development for job creation”**, especially among the youth in urban and rural areas with particular attention to gender. In addition, issues of food security and building resilience will be mainstreamed, in particular through **Phase II of the DRSLP**. Indeed, rainfall variability increases the vulnerability of the country to shocks and threatens livelihoods and food security situation. To enhance inclusiveness and the process of transition to green growth, support is needed to strengthen capacities at various levels to ensure effective management of water resources for improved food security and livelihoods.

4.3.3. Table 1 presents the Bank’s Indicative Lending Program 2014-2016 for Eritrea.

Table 1: Indicative Lending Program (in UA million)

Operation	Indicative Amount (UA)	Source of Funding
Skills Development for Job Creation	13	ADF-13 PBA
Drought Resilience and Sustainable Livelihoods	To be confirmed but estimated at UA12.65 million	Regional Window

4.3.4. Given the huge gaps in economic management to ensure effective implementation of the I-CSP, as well as preparing the ground for the compilation of the National Development Plan (NDP) and preparation of a full CSP, the Bank will actively engage in dialogue with the GoSE in developing a capacity building program which can eventually be supported by an institutional support project. The potential areas include PFM, economic planning and management, Statistics, collection and use of gender-sensitive socio-economic data and Monitoring and Evaluation (M&E).

4.3.5. Non-Lending Operations. The Bank will scale up its technical assistance, and advisory services to respond to emerging country demand for knowledge work to prepare the ground for completion of NDP and preparation of a full- fledged CSP. In this regard, Table 2 presents an indicative Bank’s non-lending activities.

Table 2: Indicative Non-Lending Program

Economic Sector Work (ESW)	Indicative Time Frame
Human Capital Development and Opportunities for Job Creation	2014/15
Up-dating of the 2008 Bank’s Gender Profile and generating gender-disaggregated data	2015
Statistical capacity building and Preparation of statistical master plan	2015
Support for Groundwater Resources Assessment and Mapping for Eritrea.	2016

NB: While funding remains to be determined, proposals for securing grants from Korea and other bilateral trust fund have already been submitted.

Key Expected Results

4.3.6. Result 1: Improvement of skills and employability of the labor force. The Bank will emphasize the development of skills required for employment in support of public and private sector development. In this respect, the Bank will achieve this result through increasing access and improving equity to TVET and build capacity and curriculum development for the TVET. Specifically, the support will lead to the establishment of one TVET school for technical commercial studies and another one for agricultural studies. This intervention will also provide skills training to adults who graduated from literacy programs and who lack vocational skills for self or wage employment; youth who are formal school drop-outs and who need vocational complementary elementary education and could not continue their education but need skills for employment. All these will be executed with special attention to gender rebalancing. The work programs will build on previous and on-going interventions in higher education and TVET.

4.3.7. Result 2: Enhancing resilience of institutions and communities for improved livelihoods, inclusiveness and sustainable development. The Bank will assist in investing in the requisite skills and technology to help

build resilience in the rural communities to address the negative impact of the recurrence of drought on food security and livelihood, through the DRSLP-II. Specifically, skills training at agricultural schools will create more opportunities and enhance women and youth involvement in alternative income generating activities. This will benefit a large portion of the population, notably marginalized groups, deriving their livelihood from subsistence agriculture and rural activities (about 70% of the population which are highly vulnerable and food insecure).

4.3.8. Result 3: Promoting gender equality.

Concerns for gender balance will cut across all Bank's interventions in the context of this I-CSP, particularly in the areas of skills development, building resilience and assisting in putting in place gender-sensitive socioeconomic data and M&E frameworks at the global and project levels. In particular, the Bank's support will create the necessary skills among women, thereby contributing to improve the gender parity index especially at the higher level of education. It will build resilience among women, given the fact that women are greatly involved in the agriculture. The updated gender profile and associated action plan will provide a deeper understanding of the level of economic empowerment of women and steps towards effectively addressing the gaps.

4.3.9. Result 4: Improved public sector planning and management. The Bank will actively and initially engage in dialogue with the GoSE in capacity development and policy issues, particularly with the view to assisting the GoSE in creating the appropriate conditions for the finalization of the NDP and its implementation. The approach will initially consist in preparing a capacity building program aimed at addressing urgent PFM gaps, particularly in the context of the Bank's new approach to building resilience and assisting countries in transition. The intended program will also aim at putting in place a platform for collecting and making available key gender-disaggregated socio-economic data for effective decision making by key Government institutions.

4.3.10. In this context, the Bank's support will contribute to improving the quality of national

development planning, medium term expenditure framework (MTEF) preparation, annual budget preparation, expenditure audit and controls, accounting and reporting, as well as compliance with international procurement practices. Bank support will also build statistical capacity and formulation of a statistical master plan and Act or legal framework.

4.4 Monitoring and Evaluation

4.4.1. The lack of macro, sector and household socio-economic data and statistics is a key constraint on the GoSE's capacity to plan its development programmes and also monitor and evaluate their performance. The Government has, therefore, requested the Bank to assist in developing the country's human and institutional capacity to produce the requisite social-economic statistics to feed into an operational M&E system. The support to be provided as well as proposed Bank operations will ensure that baseline data are made available. The support will ensure the finalization of the NDP and strengthen M&E framework for effective implementation.

4.4.2. Performance indicators for monitoring and evaluating the outcomes and outputs of programs implementation are spelt out in the I-CSP Result-based Framework matrix in Annex 1. Due to weak institutional capacity at the NSO and key sector statistics units, progress on the I-CSP implementation and results will be based on quarterly reports. The NSO and sector statistics units will be responsible for preparing these reports. The Bank will assist in the process as appropriate.

4.4.3. With respect to social indicators, the MDG targets, which are assessed in Eritrea Population and Health Surveys, will guide the monitoring of program outcomes. Bank interventions will also facilitate improvement in the coordination of M&E system activities, including timely compilation of data on social performance indicators.

4.5 Country Dialogue

4.5.1. The planned ESWs will feed into improving significantly the quality of the country dialogue, thereby providing a solid platform for the Bank and the GoSE to engage on policy issues, beyond simple project

financing in one sector, which has prevailed over the last several years. The main issues for dialogue are summarised as follows:

4.5.2. Governance issues. The Bank will engage with the GoSE in economic and financial governance issues, in line with the Governance Action Plan 2014-2018 “GAP 2”. In addition, given the booming mining sector, the Bank will also endeavor to explore ways of initiating an early dialogue with the Authorities on the Extractive Industries Transparency Initiative (EITI) and providing any relevant available advisory services. This engagement will be sourced through the ALSF and ANRC.

4.5.3. Capacity building. This dialogue will particularly emphasize: (i) the finalization of the NDP and the creation of the appropriate conditions for its implementation; (ii) the preparation and implementation of a capacity development program, aimed at addressing urgent gaps on the basis of a programmatic approach; (iii) the prospects for Eritrea in the context of the revision of the FSF putting more emphasis on transition and building resilience; and, (iv) putting in place gender-sensitive statistics and M&E systems.

4.5.4. Improving macroeconomic data and gender sensitive statistics urgently is critical for effective planning, budgeting and economic management. The formulation of a Statistical Master Plan and Act would provide a clear framework. The preparation and implementation of the planned capacity development program would be an effective vehicle for sustained dialogue. Strengthening the human resource and institutional capacity, particularly the process of adopting a robust medium term expenditure framework (MTEF) would be an important initiative for operationalizing the NDP and linking it with the annual budget formulation process. The MTEF will provide a three-year rolling framework to meet the country’s long-term objectives in a consistent and systematic manner.

4.5.5. The Bank will engage with the GoSE in developing human resource capacity among key institutions, including the investment centre, Treasury and budget departments in the Ministry of Finance, etc. Overall, the sustained dialogue on capacity building issues and

associated interventions are expected to result in improved public sector management and the creation of an enabling environment for implementing policies towards greater inclusiveness and transitioning to green growth.

4.5.6. Major development challenges and policy issues. Besides the main areas of focus of this I-CSP, the Bank will broadly engage with the GoSE on some of the country’s key challenges and priorities. Potential areas would include infrastructure, climate change and management of natural resources, including water. The objective is to provide advisory services in some areas of the Bank’s comparative advantage that are relevant to the country and prepare the ground for the development of some possible niches in the context of the subsequent full CSP.

4.5.7. Donor coordination and resource mobilization. Given the major challenges faced by Eritrea, its relative isolation from the international community is a key constraint to effectively addressing them. There is an urgent need for the country to initiate dialogue with the UN on critical outstanding issues that are a result of the second round of sanctions imposed on the Eritrea. The Bank will closely coordinate with the other development partners present in Asmara, and will advise on ways of broadening the support base. On the political front, the Bank will assist in developing partnership with relevant institutions like African Union (AU) and United Nations (UN) and IGAD. On the economic front, the Bank will seek ways of collaboration with multilateral institutions like the EU, the IMF and the World Bank.

4.6 Potential Risks and Mitigation Measures

4.6.1. Risk 1: Political and Governance Risks are relatively high, given the unresolved border issues with some of its neighbors. As mitigating measures, the role of continental and regional bodies such as the AU and IGAD will be crucial. The recent positive signs towards international relations and cooperation, particularly with the UN, demonstrated by the GoSE will need to be sustained. The strong interest expressed by the GoSE in the DRSLP-II also provides a window of opportunity to

advance the regional agenda for addressing some of the challenges.

4.6.2. Risk 2: Inadequate public and private sector capacity is a major risk. The country's strategic interventions could outstrip its capacity to implement and manage the investment programmes. The GoSE has embarked on a programme of building the capacity of the public and private sectors to deliver the government's development programs. Drawing from its earlier support to Eritrea's projects, the Bank will forge partnership with UN system to support GoSE's capacity development efforts.

4.6.3. Risk 3: Macroeconomic risks. Prolonged policy reform inertia by the Government may deepen macroeconomic problems. The Bank will take the opportunity of its country dialogue to provide support as appropriate, including in its approach to donor coordination issues.

5. CONCLUSIONS AND RECOMMENDATION

5.1. Despite satisfactory GDP growth rates experienced in recent years, Eritrea is confronted with daunting development challenge of ensuring inclusiveness and green growth, characterized in particular by high levels of unemployment and poverty (particularly the youth and women), as well as food insecurity linked to a large extent to the recurrent droughts in the Horn of Africa. In this context, the infrastructure and skill gaps in the labor market and the need to build institutional and human capacities as well as resilience constitute major issues to urgently address.

5.2. The GoSE is committed to addressing them, and has endeavored to prepare a five-year National Development Plan (NDP). Significant progress has been made in completing most sector plans, notably in the area of human capital development. However, the process of finalizing the NDP is constrained by the weak human and institutional capacities and statistical system, compounded by the relative regional and international isolation of the country.

5.3. Overall, the Bank's past interventions in the country have been satisfactory, but will need to be enhanced in order to effectively assist the country in addressing its development

challenges. In line with the Ten Year Strategy, the Bank has therefore endeavored to prepare this Interim Country Strategy Paper (I-CSP) to build on the gains achieved so far, by providing a platform for enhancing selectivity around one core operational area "skills development and technology", while providing a range of support in the areas of special attention including food security, gender and resilience building. The main objective is to assist Eritrea towards inclusiveness and transitioning to green growth, while preparing the ground for the finalization of the NDP and the preparation of a full CSP.

5.4. This I-CSP covering the period 2014-2016 is articulated around a single pillar, namely, **Enhancement of Skills Development and Technology, in Support of inclusiveness and Transition to Green Growth.**

5.5. The Boards of Directors are invited to approve the proposed Eritrea I-CSP for the period 2014-2016.

Annex I (A): I-CSP Results-Based Framework for Eritrea (2014-2016)

Results-Based Framework for the Bank Group Interim Country Strategy 2014-2016 for Eritrea

Country Development Goals	Issues Hindering the achievement of Country Development Goals (Sector Issues)	Final Outcomes Expected by the End of I- CSP (2016)	Intermediate Outputs Expected by Mid I-CSP (June -2015)	Final Outputs Expected by the end of I-CSP (2016)	AfDB Interventions expected to be ongoing during the I-CSP period (New and On-going)
Pillar I: Enhancement of Skills Development and Technology in Support of Inclusiveness and Transition to Green Growth					
1.0. Human resources development through skills development and job creation	1.1. Shortages of qualified national higher education staff. 1.2. Inadequate teaching and learning resources. 1.3. Inadequate infrastructure for teaching and research. 1.4. Low participation of females in higher education institutions. 1.5. High dependence on expatriate staff in higher education institutions.	1.1. Increased transition to higher education from 1,500 in 2014 to 4,000 by 2016, of whom 1,200 are female. 1.2. Improved quality of higher education & increased knowledge of students: Build adequate capacity for teaching and research at the higher education institutions by 2016. 1.3. Reduced inequities in the provision of higher education: Increase the proportion of female students in higher education institutions from 29.5% in 2013 to 35% in 2017. 1.4. Increased sustainability of the higher education system by 2016.	1.1. Increase the number of qualified national staff from 363 to 450, of whom 130 are female. 1.2. Upgrade infrastructure of 2 higher education institutions. 1.3. Provide teaching and learning materials to 2 higher education institutions. 1.4. Maintain the policy of preferential access to higher education in favor of female secondary graduates. 1.5. Increase proportion of higher education that is nationals from the 58% in 2013 to 65% in 2016.	1.1. Increase the number of qualified national staff from 363 in 2014 to 550 by 2016, of whom 160 are female. 1.2. Upgrade the infrastructure of 4 higher education institutions. Provide teaching and learning materials to 2 higher education institutions. 1.3. Maintain the policy of preferential access to higher education in favor of female secondary graduates. 1.4. Increase the proportion of national higher education staff from 58% in 2014 to 75% by 2017.	<u>Proposed:</u> 1.0. On-Going Operations: 1.1. Support to Higher Development Education Project (UA 12.9 million). Support to Technical and Vocational Education and Training Project (UA 12.02 million). 2.0. New Projects planned for the I-CSP (2014-2016). 2.1. Skills Development for Job Creation (STVET II) (UA 13million). 3.0. Non-lending Operations 3.1. Tracer study in the TVET sub-sector 3.2. Human resource development and opportunities for job creation
2.0. Enhancing resilience for improved livelihoods, inclusiveness and sustainable development	2.1. Inadequate capacity to improve food security and low access to pastoral production infrastructure 2.2. Inadequate capacity to manage water and conserve soils in rural areas. 2.3. Inadequate amount of hay and prosopis feed. 2.4. Inadequate water harvesting infrastructure	2.1. Improved alternative livelihoods promoted. 2.2. Improved resilience among the rural communities 2.3. Increased water availability and accessibility (i.e. reduced water shocks). 2.4. Improved market infrastructure such as market enclosures, holding grounds etc.; 2.5. Improved communication systems in pastoral areas 2.6. Improved markets and its associated storage and processing	2.1. Total number of dams constructed or rehabilitated increased from 74 to 100 by 2015 2.2. Number of people and livestock accessing water; 2.3. Amount of hay and prosopis feed produced and stored 2.4. Irrigable land increased from 3,225 Ha to 5,000 Ha by 2015 2.5. Number of food secure households in	2.1. Number of dams constructed or rehabilitated; 2.2. Total number of people and livestock with access to water; 2.3. Improved and sustainable livelihood of the rural population. 2.3. Range land developed and rehabilitated. 2.4. Total number of markets with improved storage and processing	<u>Proposed:</u> 2.1. Drought Resilience and Sustainable Livelihood Programme (Regional Operation – UA 12.65 million)

	2.5. Inadequate markets with absence of storage and processing facilities. 2.6. Low diversified production and low incomes and food insecurity among the rural communities	facilities 2.7. Improved agricultural productivity 2.8. Sustainably managed pasture/range lands	selected zobas. 2.6. Number of children underweight. 2.7. Number of markets constructed with improved storage and processing facilities.	facilities; 2.5. Improved communication systems in pastoral areas; 2.6. Total number of markets constructed with improved storage and processing facilities	
3.0. Promoting gender equality	3.1. Gender inequity in acquiring skills and technical training 3.2. Inequity in economic empowerment 3.3. Inadequate understanding of the impact of intervention in productive sectors on female individuals	3.1. Reduced gender inequities in skills development and technical training; 3.2. Number of youth and women provided with alternative sources of livelihood; 3.2. Better understanding of gender issues in the country	3.1. Reduced gender inequities in acquisition of technical skills. 3.2. Reduced vulnerability among women and improved economic participation. 3.3. Increased number of youth and women with alternative sources of livelihood	3.1. Economic empowerment 3.2. Gender profile updated	3.1. Proposed: This is to be mainstreamed in all Bank operations planned for the I-CSP (2014-2016) 3.2. Non-lending Operations Updating of the gender profile 2008 for Eritrea
4.0. Statistical Capacity Building	4.1. Weak National Statistical System 4.2. Weak interaction between data collectors and users 4.3. Absence of gender-sensitive statistics and M&E systems. 4.4. Delayed finalisation of the National Development Plan (NDP)	4.1. National Strategy for the Development of Statistics for Eritrea (NSDS) 4.2. Statistics Act for Eritrea 4.3. Basics economic and social statistics produced and shared out on timely basis 4.4. Improved allocation of resources and programme implementation.	4.1. National Strategy for the Development of Statistics 4.2. Household Survey report and Poverty Report 4.3. Basic economic statistics, CPI and GDP estimates	4.1. National Service Delivery Survey (NSDS) report 4.2. Statistics Act prepared 4.3. Economic and Social Statistics available for effective decision making 4.4. Poverty Report prepared 4.5. Statistical Master Plan designed and approved 4.6. Gender sensitive statistics available 4.7. Monitoring and Evaluation systems 4.8. Finalisation of the NDP	4.1. Proposed: Capacity building support 4.2. Non-lending Operations Statistical capacity building and preparation of Statistical Master Plan.
5.0. Public Financial Management (PFM)	5.1. Absence of program budgeting 5.2. Weak reporting on public spending by Government agencies 5.3. Absence of MTEF as a tool for planning and budgeting	5.1. Adoption of program budgeting 5.2. Improved reporting on efficiency and effectiveness in public expenditure 5.3. Adoption of the MTEF as a tool for planning and budgeting 5.4. Improved human resource	5.1. Institutionalize the program budgeting gradually in the key sectors including Ministry of Finance 5.2. Preparation of quarterly reports on public spending by the line	5.1. Program budgeting utilized by key sectors 5.2. Quarterly reports prepared on public spending by line ministries 5.3. Existence of MTEF and its rollout to key sectors	5.1. Proposed: Capacity building Support

	5.4. Limited human resource capacity 5.5. Less competitive procurement	capacity in public financial management 5.5. Strengthened and established efficient and procurement systems that promote transparency, equity and increased economic and value for money	ministries 5.3. Adopt MTEF and a rollout approach to selected sectors 5.4. Conduct capacity building and provision of equipment for effective public sector management 5.5. Review of the procurement laws and regulations; bidding documents etc.	5.4. Staff trained and equipment provided e.g. computers, printers, internet connection etc. 5.5. Strengthened institutional capacity in procurement with its corresponding systems.	
6.0. Governance issues in the mining sector	6.1. Weak transparency and accountability systems in the mining sector	6.1. Effective utilisation of resources from the mining sector.	6.1. Dialogue initiated with the national authorities on the EITI and provision of any other related advisory services	6.1. Dialogue initiated with the national authorities on the EITI and provision of any other related advisory services	6.1. Proposed: Capacity building Support

Annex I (B): Bank's On-going Operations and Performance Indicators.

Project Name	Project Data						Performance Assessment				Rating			Risk	
	Window	Approv. Date	Disburs. Deadline	Approved Amount (UA m)	Disburs. Amount (UA m)	Disburs Rate (%)	Fulfillment conditions	Procurement performance	Financial performance	Activities and works	IP	DO	Overall rating	Age Years	PAR
1. Support to Higher Education **	ADF Grant	28 April 2010	31 Dec 2016	12.90	10.07	78%	3.0	2.5	2.75	2.75	2.77	2.67	2.75	4.0	NON PP/ NON PPP
Project Name	Project Data						Performance Assessment				Rating			Risk	
	Window	Approv. Date	Disburs. Deadline	Approved Amount (UA m)	Disburs. Amount (UA m)	Disburs Rate (%)	Outcomes & outputs	System & procurement	Compliance with Covenants	Execution & financing	IP	DO	Overall rating	Age Years	PAR
2. Vocational & Tech. Educ. Training***	ADF Grant	30 Nov 2011	31 Dec 2016	12.02	8.27	69%	3.00	2.33	3.00	3.00	3.00	3.00	3.00	2.4	NPPP
TOTAL				24.92	18.34	73.6%								3.1	

Source: ADB Data Base

** Project rated in SAP:

- 0 = highly unsatisfactory
- 1 = Unsatisfactory
- 2 = satisfactory
- 3 = highly satisfactory

*** Project rated in IPR (Implementation Progress and Results Report):

- 1 = highly unsatisfactory
- 2 = Unsatisfactory
- 3 = satisfactory
- 4 = highly satisfactory

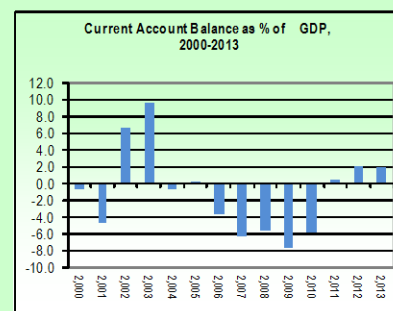
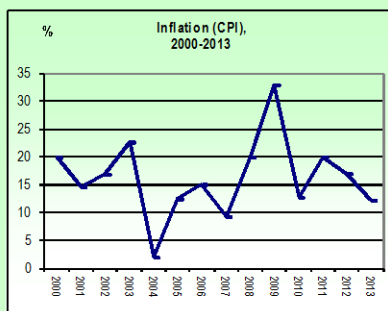
Annex I (C): History of Bank Group Operations (31 March 2014)

Project Name	Amount Approved (UA)	Date of Approval	Date of Signature	Date of Effectiveness	Closing Date	Amount Disbursed (UA)	Amount Cancelled (UA)	Net Commitment (UA)	% Disbursement	Status
Agriculture & Rural Development										
1. Central Highlands Horticulture	8,500,000	12-Dec-96	29-May-97	29-sept-98	28-Feb-05	8,217,882	282,118	8,217,882	100%	Completed
2. National Livestock Development	10,024,000	19-nov-97	16-Feb-98	17-sept-98	30-Sept-06	10,024,000	-	10,024,000	100%	Completed
3. Fisheries Infrastructure Develop.	11,500,000	19-nov-97	16-Feb-98	24-nov-98	30-June-06	11,261,558	238,442	11,261,558	100%	Completed
Sub-total	30,024,000					29,503,440	520,560	29,503,440		
Multi-sector										
4. Emergency & Reconstruction Program.	19,900,000	10-May-01	30-May-01	16-Aug-01	31-Mar-08	19,900,000	-	19,900,000	100%	Completed
5. Economic & Financial Management program	1,070,000	17-Jun-98	6-Apr-99	7-Apr-00	31-Dec-02	944,750	125,250	944,750	100%	Completed
6. Hum. Relief to Victims of 2002 Drought	333,607	2-Apr-03			31-Dec-04	139,290	194,317	139,290	100%	Completed
Sub-total	21,303,607					20,984,040	319,567	20,984,040		
Urban Development										
7. Asmara Infrastructure Study	1,930,000	14-Dec-00	5-Feb-01	2-Jun-03	31-Mar-07	1,853,741	76,259	1,853,741	100%	Completed
Sub-Total	1,930,000					1,853,741	76,259	1,853,741		
Social Sector										
8. Support to Educ. Sector -ADF Loan	13,600,000	10-nov-04	02-Mars-05	30-Jun-05	30-Dec-11	13,558,687	41,313	13,558,687	100%	Completed
Support to Educ. Sector -ADF Grant	5,030,000	10-nov-04	02-Mars-05	30-Jun-05	30-Dec-11	5,030,000	-	5,030,000	100%	Completed
9. Support to Higher Education	12,900,000	28-Apr-10	27-May-10	27-May-10	31-Dec-16	10,066,584	-	12,900,000	78%	On-going
10. Vocational & Tech. Educ. Training	12,020,000	30-nov-11	15-Dec-11	13-Apr-12	31-Dec-16	8,265,974	-	12,020,000	69%	On-Going
Sub-Total	43,550,000					36,921,245	41,313	43,508,687		
Transport Sector										
11. Recovery & Rehab Program	5,530,000	11-sept-96	08-nov-96	24-nov-97	31-Mar-01	5,430,260	99,740	5,430,260	100%	Completed
Sub-Total	5,530,000					5,430,260	99,740	5,430,260		
Grand Total	102,337,607					94,692,726	1,057,439	101,280,168		

Annex II: Selected Macroeconomic Indicators for Eritrea

Eritrea Selected Macroeconomic Indicators

Indicators	Unit	2000	2008	2009	2010	2011	2012	2013 (e)
National Accounts								
GNI at Current Prices	Million US \$	623	1,237	1,478	1,786	2,329	...	...
GNI per Capita	US\$	170	250	290	340	430	...	...
GDP at Current Prices	Million US \$	706	1,380	1,857	2,117	2,609	3,108	3,531
GDP at 2000 Constant prices	Million US \$	706	726	755	771	838	884	946
Real GDP Growth Rate	%	-3.6	-9.8	3.9	2.2	8.7	5.5	7.0
Real per Capita GDP Growth Rate	%	-6.9	-12.5	0.9	-0.8	5.5	2.4	3.9
Gross Domestic Investment	% GDP	22.0	...	...	...	...	...	...
Public Investment	% GDP	16.9	...	...	...	...	...	...
Private Investment	% GDP	5.1	3.8	2.2	2.7	2.5	...	...
Gross National Savings	% GDP	21.4	7.2	1.7	3.7	10.8	12.6	11.4
Prices and Money								
Inflation (CPI)	%	19.9	19.9	33.0	12.7	20.0	17.0	12.3
Exchange Rate (Annual Average)	local currency/US\$	9.6	15.4	15.4	15.4	15.4	15.4	...
Monetary Growth (M2)	%	17.1	15.2	10.1	...	...	...	...
Money and Quasi Money as % of GDP	%	140.9	134.0	109.7	...	...	...	...
Government Finance								
Total Revenue and Grants	% GDP	45.9	...	...	...	...	...	...
Total Expenditure and Net Lending	% GDP	85.5	...	...	...	...	...	...
Overall Deficit (-) / Surplus (+)	% GDP	-39.6	...	-14.7	-16.1	-16.2	-13.5	-12.5
External Sector								
Exports Volume Growth (Goods)	%	3.2	31.3	26.1	26.1	20.8	21.0	21.0
Imports Volume Growth (Goods)	%	-27.8	-19.9	-9.7	21.1	10.8	19.2	13.0
Terms of Trade Growth	%	0.5	-38.0	-19.6	2.9	754.3	53.3	0.7
Current Account Balance	Million US \$	-4	-75	-141	-119	14	66	70
Current Account Balance	% GDP	-0.6	-5.5	-7.6	-5.6	0.5	2.1	2.0
External Reserves	months of imports	0.8	1.9	2.5	2.8	2.3	2.0	...
Debt and Financial Flows								
Debt Service	% exports	9.3	45.0	35.9	33.5	13.1	8.1	7.1
External Debt	% GDP	46.6	61.9	49.1	45.8	35.8	29.0	25.0
Net Total Financial Flows	Million US \$	185	138	148	160	159	...	...
Net Official Development Assistance	Million US \$	177	143	144	161	163	...	...
Net Foreign Direct Investment	Million US \$	28	0	0	56	19	...	...



Source : AfDB Statistics Department; IMF: World Economic Outlook, October 2012 and International Financial Statistics, October 2012;

AfDB Statistics Department: Development Data Portal Database, March 2013. United Nations: OECD, Reporting System Division.

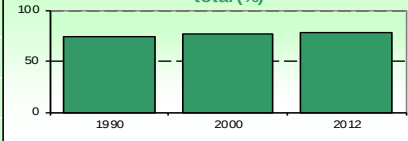
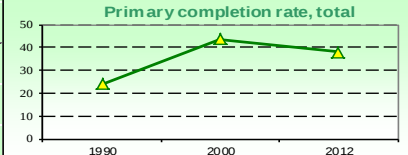
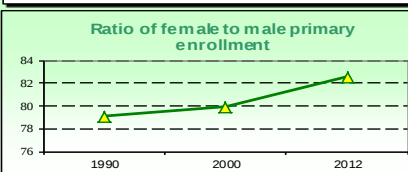
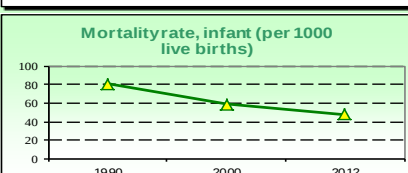
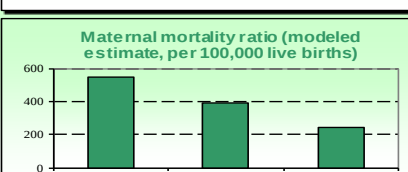
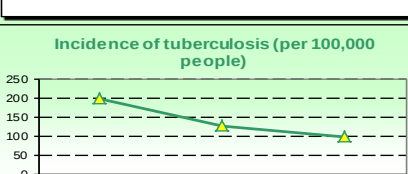
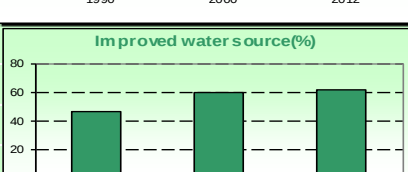
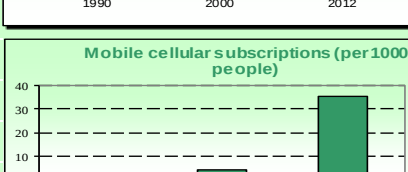
Notes: ... Data Not Available (e) Estimations

Last Update: May 2013

Annex III: Progress -Toward Achieving the Millennium Development Goals

Eritrea

PROGRESS TOWARD ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS

	1990 ¹	2000 ²	2012 ³	
Goal 1: Eradicate extreme poverty and hunger				Employment to population ratio, 15+, total (%)
Employment to population ratio, 15+, total (%)	73,4	76,6	77,9	
Malnutrition prevalence, weight for age (% of children under	36,9	34,5	...	
Poverty headcount ratio at \$1,25 a day (PPP) (% of population	...	...	...	
Prevalence of undemourishment (% of population)	71,8	75,1	65,4	Primary completion rate, total
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	...	69,5	86,7	
Literacy rate, adult total (% of people ages 15 and above)	...	52,5	67,8	
Primary completion rate, total (% of relevant age group)	24,0	43,5	38,0	
Total enrollment, primary (% net)	26,5	48,4	35,6	Ratio of female to male primary enrollment
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	...	22,0	22,0	
Ratio of female to male primary enrollment	79,1	79,9	82,6	
Ratio of female to male secondary enrollment	72,8	56,2	78,1	Mortality rate, infant (per 1000 live births)
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	58,0	96,0	99,0	
Mortality rate, infant (per 1,000 live births)	81,2	59,0	48,0	
Mortality rate, under-5 (per 1,000)	115,4	79,5	62,8	Maternal mortality ratio (modeled estimate, per 100,000 live births)
Goal 5: Improve maternal health				
Births attended by skilled health staff (% of total)	20,6	28,3	...	
Contraceptive prevalence (% of women ages 15-49)	7,5	10,0	17,3	
Maternal mortality ratio (modeled estimate, per 100,000 live bi	550,0	390,0	240,0	Incidence of tuberculosis (per 100,000 people)
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Incidence of tuberculosis (per 100,000 people)	198,0	126,0	97,0	
Prevalence of HIV, female (% ages 15-24)	...	...	0,3	
Prevalence of HIV, male (% ages 15-24)	...	...	0,1	
Prevalence of HIV, total (% of population ages 15-49)	1,1	1,0	0,6	Improved water source(%)
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP \$ of GDP)	1,8	1,0	0,7	
Improved sanitation facilities (% of population with access)	10,0	13,0	14,0	
Improved water source (% of population with access)	46,0	60,0	61,0	Mobile cellular subscriptions (per 1000 people)
Goal 8: Develop a global partnership for development				
Net total ODA/OA per capita (current US\$)	46,2	61,3	30,1	
Internet users (per 1000 people)	...	11,6	53,7	
Mobile cellular subscriptions (per 1000 people)	...	4,6	35,3	
Telephone lines (per 1000 people)	5,4	9,1	10,3	

Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

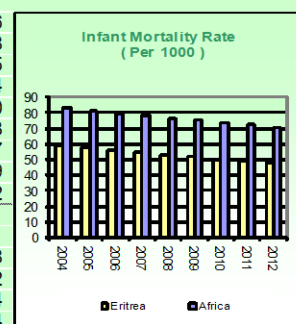
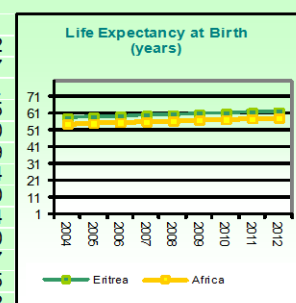
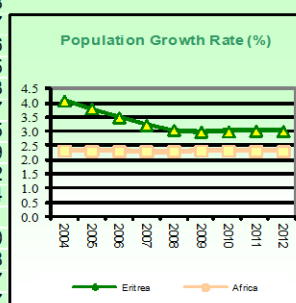
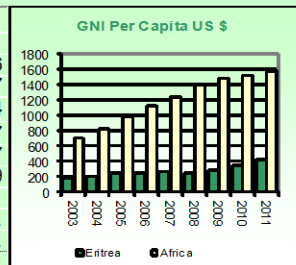
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Annex IV: Comparative Socio-Economic Indicators

Eritrea COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Eritrea	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km²)	2011	118	30,323	98,458	35,811
Total Population (millions)	2012	5.6	1,070.1	5,807.6	1,244.6
Urban Population (% of Total)	2012	22.6	40.8	46.0	75.7
Population Density (per Km²)	2012	46.0	34.5	70.0	23.4
GNI per Capita (US \$)	2011	430	1 609	3 304	38 657
Labor Force Participation - Total (%)	2012	48.4	37.8	68.7	71.7
Labor Force Participation - Female (%)	2012	48.6	42.5	39.1	43.9
Gender -Related Development Index Value	2007-2011	0.459	0.502	0.694	0.911
Human Develop. Index (Rank among 187 countries)	2012	181	...	...	...
Popul. Living Below \$ 1.25 a Day (% of Population)	2005-2011	...	40.0	22.4	...
Demographic Indicators					
Population Growth Rate - Total (%)	2012	3.0	2.3	1.3	0.3
Population Growth Rate - Urban (%)	2012	5.4	3.4	2.3	0.7
Population < 15 years (%)	2012	41.5	40.0	28.5	16.6
Population >= 65 years (%)	2012	2.5	3.6	6.0	16.5
Dependency Ratio (%)	2012	78.9	77.3	52.5	49.3
Sex Ratio (per 100 female)	2012	97.3	100.0	103.4	94.7
Female Population 15-49 years (% of total population)	2012	25.4	49.8	53.2	45.5
Life Expectancy at Birth - Total (years)	2012	62.0	58.1	67.3	77.9
Life Expectancy at Birth - Female (years)	2012	64.2	59.1	69.2	81.2
Crude Birth Rate (per 1,000)	2012	34.8	33.3	20.9	11.4
Crude Death Rate (per 1,000)	2012	7.3	10.9	7.8	10.1
Infant Mortality Rate (per 1,000)	2012	48.0	71.4	46.4	6.0
Child Mortality Rate (per 1,000)	2012	62.8	111.3	66.7	7.8
Total Fertility Rate (per woman)	2012	4.3	4.2	2.6	1.7
Maternal Mortality Rate (per 100,000)	2010	240.0	417.8	230.0	13.7
Women Using Contraception (%)	2012	17.3	31.6	62.4	71.4
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004-2010	5.0	49.2	112.2	276.2
Nurses (per 100,000 people)*	2004-2009	58.0	134.7	187.6	730.7
Births attended by Trained Health Personnel (%)	2002-2010	28.3	53.7	65.4	...
Access to Safe Water (% of Population)	2008-2010	61.0	67.3	86.4	99.5
Access to Health Services (% of Population)	2000	...	65.2	80.0	100.0
Access to Sanitation (% of Population)	2008	14.0	39.8	56.2	99.9
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2011	0.6	4.6	0.9	0.4
Incidence of Tuberculosis (per 100,000)	2011	97.0	234.6	146.0	14.0
Child Immunization Against Tuberculosis (%)	2011	99.0	81.6	83.9	95.4
Child Immunization Against Measles (%)	2011	99.0	76.5	83.7	93.0
Underweight Children (% of children under 5 years)	2002-2011	34.5	19.8	17.4	1.7
Daily Calorie Supply per Capita	2009	1 640	2 481	2 675	3 285
Public Expenditure on Health (as % of GDP)	2010	3.5	5.9	2.9	8.2
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-2012	46.6	101.9	103.1	106.6
Primary School - Female	2010-2012	42.1	98.4	105.1	102.8
Secondary School - Total	2010-2012	32.6	42.3	66.3	101.5
Secondary School - Female	2010-2012	28.6	38.5	65.0	101.4
Primary School Female Teaching Staff (% of Total)	2011	40.6	43.2	58.6	80.0
Adult Literacy Rate - Total (%)	2010	67.8	67.0	80.8	98.3
Adult Literacy Rate - Male (%)	2010	78.7	75.8	86.4	98.7
Adult Literacy Rate - Female (%)	2010	57.5	58.4	75.5	97.9
Percentage of GDP Spent on Education	2006-2008	2.1	5.3	3.9	5.2
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2011	6.8	7.6	10.7	10.8
Annual Rate of Deforestation (%)	2000-2009	0.3	0.6	0.4	-0.2
Forest (As % of Land Area)	2011	15.1	23.0	28.7	40.4
Per Capita CO2 Emissions (metric tons)	2009	0.1	1.2	3.1	11.4



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

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May 2013

UNAIDS; UNSD; WHO; UNICEF, WRI, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available.

Annex V: Progress towards Achieving the MDGs

Table 4: Progress Towards achieving the MDGs			
	1990¹	2000²	2011³
Goal 1: Eradicate extreme poverty and hunger			
Employment to population ratio, 15+, total (%)	52.3	51.8	51.8
Malnutrition prevalence, weight for age (% of	35.1	27.2	26.7
Poverty headcount ratio at \$1,25 a day (PPP)	49.2	64.4	...
Gini Coefficient	...	...	43.7
Prevalence of undernourishment (% of	16.0	9.0	6.0
Goal 2: Achieve universal primary education			
Literacy rate, youth female (% of females ages	62.5	60.5	65.3
Literacy rate, adult total (% of people ages 15	55.4	54.8	60.8
Primary completion rate, total (% of relevant	...	76.8	79.2
Total enrollment, primary (% net)	...	66.5	62.1
Goal 3: Promote gender equality and empower women			
Proportion of seats held by women in national	...	7.0	7.0
Ratio of female to male primary enrollment	83.5	84.3	91.0
Ratio of female to male secondary enrollment	77.8	80.5	88.1
Goal 4: Reduce child mortality			
Immunization, measles (% of children ages 12-	44.0	37.0	71.0
Mortality rate, infant (per 1,000 live births)	125.5	103.7	89.9
Mortality rate, under-5 (per 1,000)	210.1	170.0	144.9
Goal 5: Improve maternal health			
Births attended by skilled health staff (% of	33.0	35.2	...
Contraceptive prevalence (% of women ages	13.4	12.6	14.6
Maternal mortality ratio (modeled estimate,	1100.0	980.0	840.0
Goal 6: Combat HIV/AIDS, malaria, and other diseases			
Incidence of tuberculosis (per 100,000 people)	139.0	180.0	133.0
Prevalence of HIV, female (% ages 15-24)	...	...	2.3
Prevalence of HIV, male (% ages 15-24)	...	...	0.8
Prevalence of HIV, total (% of population ages	4.0	3.7	3.6
Goal 7: Ensure environmental sustainability			
CO2 emissions (kg per PPP \$ of GDP)	2.6	1.2	0.8
Improved sanitation facilities (% of	36.0	33.0	31.0
Improved water source (% of population with	50.0	56.0	58.0
Goal 8: Develop a global partnership for development			
Net total ODA/OA per capita (current US\$)	1.9	4.2	13.0
Internet users (per 1000 people)	...	13.0	284.0
Mobile cellular subscriptions (per 1000	0.1	67.1	551.0
Telephone lines (per 1000 people)	3.7	7.5	6.6
Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports,			

Annex VI: Country Portfolio Performance Improvement Plan (CPIP) 2013

Thematic Issues	Problems identified	Measures Recommended	Measurable Indicators	Party Responsible	Time frame	Expected Outcomes
1) Procurement and Disbursement	Insufficient knowledge of the Bank's rules and procedures for the procurement and disbursement	Systematize capacity building programmes: a). Provide training to PMUs every 2 years b). Launch of fiduciary clinics c). Familiarization visit of PMUs to Bank Regional Resource Centre, etc.).	a). Bank organizes at least one training session in Eritrea on a biannual basis b). All new projects are launched by a team always including a procurement & a disbursement experts c). PMU team undertakes a familiarization visit to Bank Regional Resource Centre during project first year	AfDB	a). Every 2 years b). When needed c). At project first year	• Mastery of Bank procedures by PMUs • Projects comply with the procurement plan
		Close monitoring and annual updating of the procurement plan (PP)	100% of projects submit to the Bank the updated procurement plan no later than January 30 of the current year. The procurement plan is monitored at each supervision mission fielded by the Bank.	AfDB	Continuous	
		Include a procurement expert in the supervision at least once a year and per project	A procurement expert participates at least in one supervision mission a year and per project	AfDB	Continuous	
	Delays in the procurement process	Improve the quality of procurement documents submitted by PIUs	Reduction in the number of procurement documents rejected for non-compliance with Bank procedures	Govt./PMU	Continuous	
		Comply with standard timeframes for procurement documents processing and contracts approval at country level	For each contract, the procurement timeframe does not exceed the overall timeframe allotted for the process in the procurement plan (PP) by one month	PMU	Continuous	
		Comply with standard timeframes for documents approval (no-objection) at Bank level		AfDB	Continuous	

Thematic Issues	Problems identified	Measures Recommended	Measurable Indicators	Party Responsible	Time frame	Expected Outcomes
2) Project external audit	Delay in submission of audit report to the Bank	Start early the process of recruitment of the auditor	For all projects the recruitment process of auditors is completed and the contract signed before the end of the fiscal year to be audited.	PMU	Continuous	Timely submission of all audit reports to the Bank
		Submit audit report 6 months after closing of fiscal year	All project audit reports are submitted to the Bank 6months after the closing date of fiscal year			
3) Project Counterpart funds	Delay in payment of the counterpart funds	Ensure counterpart funds are planned every year in the national budget	For each project the counterpart funds are effectively planned in the national budget	PMU/GoSE	Annually	Timely payment of counterpart funds
		Follow up and ensure payments are effected timely as planned	For each project payment of counterpart funds is effected as planned			

Annex VII: CPIA Ratings 2009-2011 (0-5)

Year	A. Economic Management			B. Structural Policies			C. Policies for Social Inclusion / Equity					D. Public Sector Management and Institutions					Overall Country Performance Rating
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
	Macroeconomic Management	Fiscal Policy	Debt Policy	Regional Integration and trade	Financial Sector	Business Regulatory Environment	Gender Equality	Equity of Public Resource Use	Building Human Resources	Social Protection and Labour	Environmental Policy & Regulations	Property Rights & Rule Based Governance	Quality of Budgetary & Financial Management.	Efficiency of Revenue Mobilization	Quality of Public Administration	Transparency, Accountability & Corruption in Pub. Sector	
2012	1.5	2.0	1.0	2.0	2.0	2.0	2.8	1.3	3.0	1.8	2.5	1.9	1.4	2.3	2.0	1.2	2.27
2011	1.5	2.5	1	2	2	2	3	2.5	3.5	3	2.5	2.5	1.5	2	2	2	2.2
2010	2	2	1.5	2	2	2	3.5	3	3.5	...	...	...	...	...	...	...	2.4
2009	2	2	1.5	2	2	2	3.5	3	3.5	...	...	...	...	...	...	...	2.4

Annex VIII: Eritrea Estimated Mineral Resources Potential and Output

Project/Deposit	Estimated Potential As at 2012	Output Planned Estimates			
		2011	2012	2013-2015	2016-2021
		Oxides		Supergene	Primary
Bisha Gold Mine is located 150 km west of Asmara. It is owned and managed by Bisha Mining Share Company (BMSC), a joint-venture between Eritrea's National Mining Corporation (ENAMCO) and Canada's Nevsun Resources Ltd. Construction started in September 2008 and commercial production of gold started in February 2011. The mine is described as a low-cost high grade gold producer for the first two years (2011 and 2012) and a high grade copper concentrate and zinc producer for the remaining mine life (12 years). The State of Eritrea has a free carried 10% interest plus an additional 30% paid participating interest in BMSC. Within the exploration license there is a satellite deposit, Harena, and several other geological anomalies that have yet to be tested. Bisha Phase II –Copper Concentrator project involves the construction of a copper floatation plant which will produce a concentrate containing approximately 30% copper together with gold and silver as by-products. Annual concentrate production of approximately 260,000 tons p.a will be transported by road to a new port at Massawa. The phase II Concentrator and associated infrastructure are scheduled to be completed in 2013.	Gold 1.14 million oz	919,000 oz		90,000 oz	127,000 oz
	Silver 11.9 million oz	1,590,000 oz		3,775,000 oz	7,166,000 oz
	Copper 821 million lbs	---		538,000,000 lbs	283,000,000 lbs
	Zinc 1 billion lbs	---		-----	1,373,000,000 lbs
The Asmara Project is approximately 111 square km in central Eritrea, located immediately to the north, south and west of Asmara. It has four deposits: (i) Debrarwa copper-gold-silver-zinc VMS deposit; (ii) EmbaDerho copper-zinc-gold-silver VMS; (iii) AdiNefas zinc-copper-gold-silver VMS; and (iv) the Gupo Gold deposit. Sunridge Gold, a Canadian mining company completed a pre-investment feasibility study in May 2012. The study indicated high economic viability with NPV of US\$ 555 million and IRR of 27%. A feasibility study is scheduled for completion in Q2 2013 on all four deposits. Full production will commence on the third year of operation. Annual production over the 13 years mine life is estimated at 26,000 tons copper, 65,000 tons zinc, 24,000 oz gold, 787,000 oz silver. In July 2012 the GoSE entered into agreement with Sunridge Gold Corp, which has been undertaking exploration of the project area, acquiring 40% interest in the project. Output is anticipated to start by 2016.	Gold 1.0 million oz	-	-	-	TBD
	Silver 28 million oz	-	-	-	TBD
	Copper 1.3 billion pounds	-	-	-	TBD
	Zinc 2.5 billion pounds	-	-	-	TBD
Kodadu is an extension of Asmara Project. Exploration for gold by Sunridge started in January 2013.	Information not available				
Mogoraib North and Hurum is a joint venture between ENAMCO and the Australian mineral exploration company, Chalice Gold. Work is at an exploration phase.	Information not available				
The Zara Project contains the Koka gold deposit. It is owned and operated by the Zara Mining Share Company (ZMC), which was originally established as a joint venture between ENAMCO (40%) and Chalice Gold Mines Limited. Chalice Gold subsequently sold its shares to China's SFCO Group, which is a subsidiary of the Shanghai Construction Group. The Planned mine production will average 104,000 oz per year for the seven year mine life period. Development of the Koka deposit was planned for 2012 with production planned to start in late 2013 or early 2014.	Gold 760,000 oz	---	---	208,000 oz	452,000
Colluli Potash Project: The South Boulder, an Australian mining company is undertaking a definitive feasibility study on the high-quality Colluli Potash Project. South Boulder made a proposal to ENAMCO for a 50-50 profit sharing joint-venture. A second scoping study indicated the potential for the production of about 1 to 2 million tons annually. Production could start in 2016 or sooner.	Potash 194 million ton				

Sources: (i) Mining Review.com and Mine Web.
(ii) Asmara Geo-congress Journal, 2011.

Annex IX: Matrix of Development Partners Coordination

Key Development Partners and Areas of Intervention

Development Partner	Operational Framework and Funding	Areas of Focus
African Development Bank Group	US\$37.38 million for the Interim Country Strategy Paper 2009-2011	Higher Education and TVET in the Education sector
Islamic Development Bank	US\$200,000 to cover the period 2013-2017	Elementary education
World Bank	No WB Program in place since 2009.	Not Applicable.
EU	Country Strategy Paper (2009-2013). Euro 122 million for 6 years.	Food security/Rural development, livestock production, marketing and pricing, road infrastructure, regional connections and capacity building.
IFAD	Four Year Plan. Annual allocation estimated at US\$ 15-16 million.	Rural development, food security, crop and livestock production and irrigation.
UN System	The Strategic Partnership Cooperation Framework (SPCF) 2013-2016. About US\$ 188 million is the indicative resource package.	The strategic priority areas are: (1) Basic social sectors (education, health and social protection); (2) National capacity development; (3) Food security and sustainable livelihoods; (4) Environmental sustainability; (5) Gender equity and advancement of women.
Norway	Strategy Paper (2009-2010). US\$ 10.0 million annually	Capacity building, health, and education and political dialogue
IMF	No Fund Program in place.	Article IV Consultation Report.
China, People's Republic	Telecommunications Project US\$ 20 million + Cement Factory US\$ 40 million.	Telecommunications, industry, education and agriculture for food security.

Source: AfDB, UN and Government

Annex X: World Bank Ranking of Eritrea on Indicators for Business Development (2012)

Item	2011 Rank	2012 Rank	Status - Improvement (▼)
Ease of Doing Business	180	182	▲
Starting a business	182	183	▲
Dealing with licenses	183	185	▲
Registering property	178	181	▲
Getting credit	177	180	▲
Protecting investors	111	117	▲
Paying taxes	121	146	▲
Trading across borders	165	165	▶
Enforcing contracts	47	51	▲
Closing a business	183	185	▲

Annex XI: World Bank Ranking on Ease of Doing Business (2012)

Eritrea and Comparators (out of 185)

Business Indicator	Eritrea	Oman	Rwanda	Kenya	Ethiopia	Tanzania
Ease of doing business rank	182	47	52	121	127	134
Starting a business	183	73	8	126	163	113
Dealing with construction permits	185	59	98	45	53	174
Getting electricity	93	54	49	162	94	96
Registering property	181	18	63	161	112	137
Getting credit	180	83	23	12	104	129
Protecting investors	117	100	32	100	128	100
Paying taxes	146	10	25	164	103	133
Trading across borders	165	49	158	148	161	122
Enforcing contracts	51	107	39	149	50	36
Resolving insolvency	185	77	167	100	117	129

Source: World Bank Doing Business 2012

Annex XII: Summary of Bank Group Intervention within the Human Resources Development Sector

1.Support to Education Sector (ADF Loan UA 13.6 million/ADF Grant UA 5.03 million):

1.1 **Project objective:** The objective of the project was to support Eritrea's Education Sector Development Plan (ESDP) through improved access and quality education at the elementary, middle-level and special needs education, as well as secondary education. The project also provided capacity building in support of the education sector in general, and for institutions involved with the implementation of the ESDP, i.e. the Ministry of Education and the Project Management Unit (PMU).

1.2 **Realized Project Outputs:** The PCR (ADF/BD/IF/2012/216; 23 November 2012) reported that the major outputs and outcomes of the project were attained satisfactorily with an overall rating of 3. To improve **accessibility at basic education** the following outputs were realized: construction and furnishing of 80 elementary classrooms, 120 middle level classrooms and 25 special needs classrooms and one girl's hostel has reached about 90% of completion (May 2012). Textbooks, sports and fine arts equipments were also procured. In terms of capacity building the skills of 1,449 teachers were upgraded through in-service training. These facilities have benefited an additional 11,250 pupils annually (average classroom size of 50 pupils per classroom). To improve **accessibility to secondary education**, 132 new classrooms were constructed, furnished and equipped (6,600 students will benefit annually) and two secondary schools rehabilitated. 86 secondary schools were supplied with laboratory chemicals, charts and models; and 20 schools were supplied with 40 workshops. 25 schools equipped with 25 computer laboratories (750 sets of computers and 750 computer chairs). Reference materials distributed to all secondary schools as per the need of each school. Reference and library books as well as teaching aids have been delivered to 50 schools and 16 multipurpose rooms have been constructed.

1.3 **Realized Project Outcomes:** The PCR reported that the project had contributed towards improved accessibility of students at appropriate age at elementary, middle and secondary education. In terms of net enrollment rate (NER), there has been improvement from 40%, 10.5% and 13.6% in elementary, middle and secondary levels respectively in 2001 to 56.7%, 34.7% and 15.7% respectively by 2011. The PCR also reported that the project had contributed towards reducing the repetition age in elementary and middle level from 23% in 2001 to 11.3% and 10.9% in 2011 respectively and at the secondary level from 29% in 2001 to 10.6% in 2011. In terms of student/teacher ratio there has been an improvement in elementary, middle and secondary levels from 45.1, 56.1, and 54.1 respectively to 41.1 in elementary level and 43.1 in both middle and secondary levels.

2. Higher Education Development Project (UA 12.9 million, effective: May 2010)

2.1 **Project Objective:** The objective of the project is to contribute to human capacity building for teaching, research and service at the country's seven higher education institutions. The project has three main components: (i) **Staff Development:** This component aims to support the GoSE's efforts to build national capacity for teaching, research and service at the country's 7 HEIs; (ii) **Technical Assistance:** This component will assist in efforts to improve the capacity of HEIs through technical assistance to augment the staffing of the HEIs; (iii) **Rehabilitation and expansion of physical infrastructure.**

2.2 **Planned Outputs:** (i) 260 junior faculty staff trained by 2014, including 75 overseas training; 85 local training; and 100 distance learning. (ii) All female junior faculty staff to be trained by 2014. (iii) Provision of technical assistants between 2010-2014 (190 in year 1; 187 in year 2; and 20 in year 3 (iii) the establishment of 3 engineering and 8 agriculture sciences as well as 2 computer labs, library and 2 lecture halls built and grounds improved by 2014.

2.3 **Planned Outcomes:** (i) Seven higher education institutions adequately resourced between 2010 and 2014; (ii) increase the ratio of qualified staff that are nationals from 37% (2009) to over 90% by 2014; (iii) increase ratio of qualified higher education national staff that are female from 13% (2009) to at least 25% by 2014.

3. Support to Technical Vocational Education and Training Project (STVET)

3.1 **Project Objective:** To support the development of high quality middle level technical and vocational skills in the Eritrean economy.

3.2 **Planned Outputs:** (i) Expanding equitable access and quality of TVET through rehabilitating 3 existing government and 3 private technical schools; (ii) Upgrading pedagogy skills of 180 instructors of whom 30% are female and training of 20 managers and 4 directors of TVET institutions and 4 PMU staff; (iii) establishment of PMU.

3.3 **Planned Outcomes:** (i) **Public TVET institutions at the intermediate level strengthened in terms of physical facilities, related equipment and skilled staff:** (a) Improve the ratio of qualified instructors in technical schools from 70% (male) and 20% (female) in 2010 to 70% (male) and 30% (female) by 2016; (b) improve student/text book ratio from 1:10 to 1:1. (c) 3 institutions to be upgraded and equipped. (d) Improve the annual number of TVET graduates from 750 (40% female) in 2010 to 1300 (45% female) by 2016.

(ii) Increase the number of students enrolling and graduating from TVET institutions by gender: (a) increase the ratio of students enrolled in grades 8 and 12 for TVET programs from 4.7% (40% female) in 2010 to 6% (45% female) by 2016; (b) improve the ratio of students completing TVET from 80% (40% female) in 2010 to 90% (45% female); (c) increase the number of female students in technical schools from 40% in 2010 to 45% in 2016.

(iii) The Directorate of TVET and institutions strengthened to perform coordination and policy making role within the skills and training sector: (a) undertake two tracer studies and competency tests; (b) improve the number of trained instructors from 47 (10% female) to 180 (30% female); (c) train 20 TVET managers of whom 10% are female.

Annex XIII: Doing Business in 2011 and 2012 (Rank)

Country	2011 Rank	2012 Rank	Status- Improvement (▼)
Central Africa			
Cameroon	35	34	▼
Central African Republic	50	51	▲
Chad	51	50	▼
Congo, Dem. Republic	46	47	▲
Congo	49	49	►
Equatorial Guinea	31	35	▲
Gabon	32	38	▲
East Africa			
Burundi	45	39	▼
Comoros	30	33	▲
Djibouti	37	40	▲
Eritrea	46	48	▲
Ethiopia	9	13	▲
Kenya	10	11	▲
Rwanda	4	3	▼
Seychelles	12	10	▼
Somalia	0	0	►
South Sudan	0	0	►
Sudan	20	19	▼
Tanzania	16	17	▲
North Africa			
Algeria	23	26	▲
Egypt	11	12	▲
Libyan Arab Jamahiriya	0	0	►
Mauritania	35	34	▼
Morocco	13	9	▼
Tunisia	3	4	▲
Southern Africa			
Angola	40	42	▲
Botswana	5	5	►
Lesotho	22	23	▲
Madagascar	24	20	▼
Malawi	21	24	▲
Mauritius	1	1	►
Mozambique	18	21	▲
Namibia	7	7	►
South Africa	2	2	►
Swaziland	15	16	▲
Zambia	8	8	►
Zimbabwe	38	41	▲
West Africa			
Benin	42	44	▲
Burkina Faso	28	28	►
Cape Verde	17	14	▼
Côte d'Ivoire	39	38	▼
Gambia	25	27	▲
Ghana	6	6	►
Guinea	47	47	►
Guinea-Bissau	49	45	▼
Liberia	29	29	►
Mali	26	25	▼
Niger	41	43	▲
Nigeria	19	18	▼
Senegal	31	30	▼
Sierra Leone	27	22	▼
Togo	32	36	▲

Source: AfDB Statistics Department using Data from Doing Business World Bank

Annex XIV: Consultations with Stakeholders

Consultations with Stakeholders

The engagement with Eritrea national authorities is a continuous process and has preceded the mission which informed the strategic focus and the potential areas of engagement. In this context, several engagements have been made and the recent 10 days validation mission from March 31st to 10th April 2014 is one of the consultations made. Prior to that, there was a preparation mission that visited Asmara in July 2013 and engaged the stakeholders for 10 days. In these missions, meetings were attended by Ministers and technocrats of 12 public sectors, and development partners including UNDP, UNFPA and UNICEF. The mission team initially met with the Minister of Finance and his team to determine the strategic focus of the Bank's new strategy. The teams that were met appreciated the initiatives by the Bank to engage the national authorities on forging way forward on the critical development challenges of the country. In order to reach a consensus on the critical areas of intervention, Ministry of Education authorities made half a day presentation on the sector strategic objectives, achievements and critical challenges. Similar detailed discussions were also made by Ministry of Finance, Ministry of Agriculture, Ministry of Water and Environment, Ministry of National Development, National Union for Eritrean Women (NUEW), UNDP, UNFAP and UNICEF. The choice of this approach in the design of this strategy is embedded in the need to create a strong partnership, ownership and a better understanding of the critical needs of the country for effective and improved welfare of the people.

At the end of the engagement on strategic issues, key findings, concerns, needs were expressed and consensus was reached on: (i) the country's challenges and opportunities as presented in the I-CSP; (ii) the assistance strategy proposed by the Bank Group, focusing on education, public financial management (PFM), water and sanitation and agricultural particularly on the drought resilience programme; (iii) the need to support statistical development particularly on economic and social sectors; (iv) topics for economic studies and technical support focusing on the education sector, gender profile and statistical master plan, Act etc.

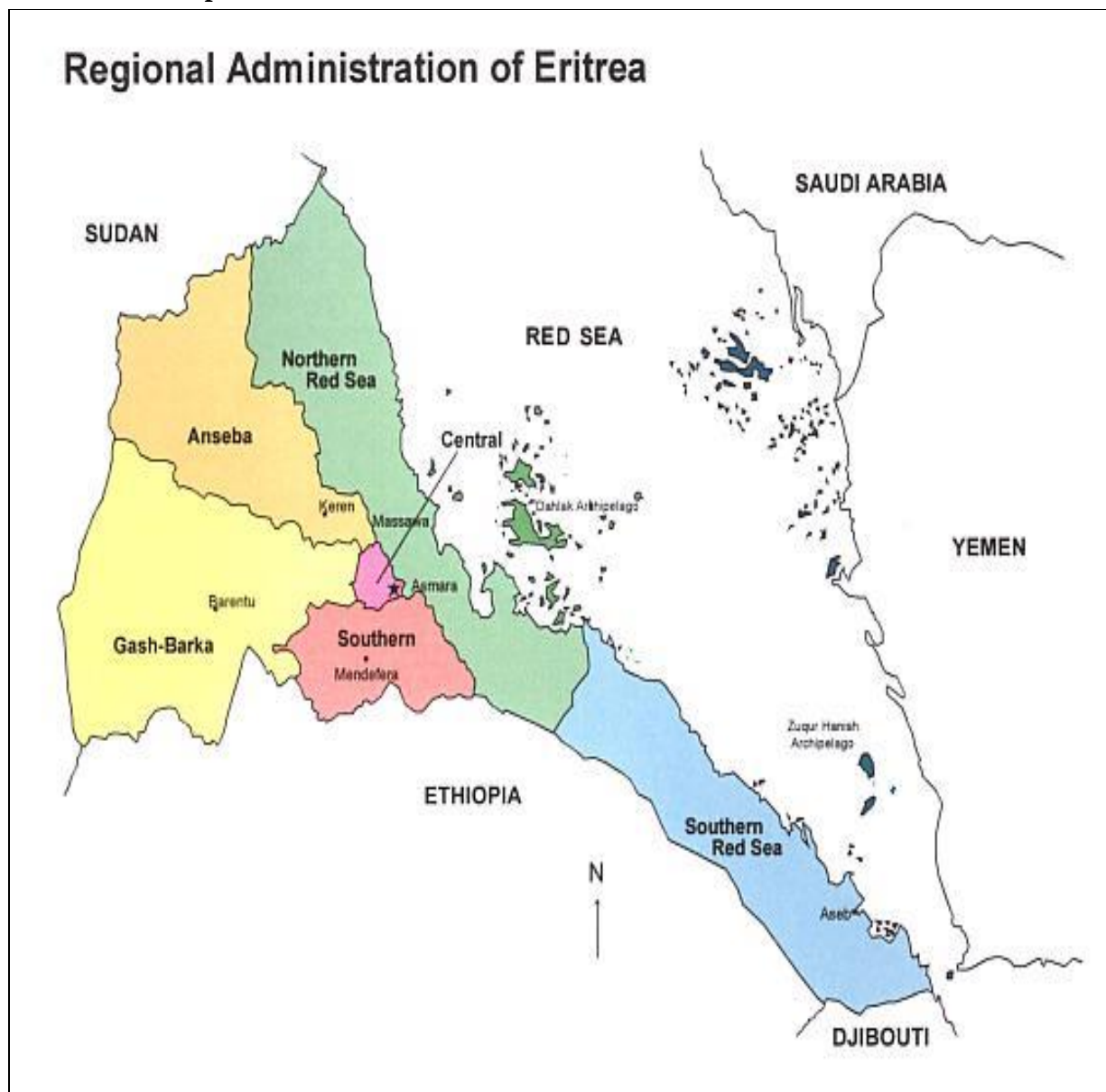
The mission team also acknowledged that generally there is low capacity in the public sector but also in other institutions working closely with Government. They called for support in the development capacity within national ministries as well as sector level. It was underscored that human resource constraint severely limits development prospects especially in generating the required data to support the planning, public financial management, absence of statisticians and planners at the sector level.

The macroeconomic instability and policy uncertainty is critical in the promotion of private investment in a country and therefore it is a priority for Eritrea to ensure that stability. Economic diversification needs to be promoted in areas of trade, agriculture, tourism and fishing, in an effort to expand the economic base and employment opportunities for the growing population.

Annex XV: Logistics Performance Index for Selected Countries 2012

Country	LPI Rank	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Eritrea	147	2.11	1.78	1.83	2.63	2.03	1.83	2.43
Chad	152	2.03	1.86	2.00	2.00	2.00	1.57	2.71
CAR	98	2.57	2.45	2.09	2.33	2.70	2.48	3.33
DRC	143	2.21	2.10	1.96	2.23	2.17	2.35	2.38
Sudan	148	2.10	2.14	2.01	1.93	2.33	1.89	2.31
Zimbabwe	103	2.55	2.31	2.20	2.67	2.27	2.50	3.27

Annex XVI: Map of Eritrea



This map is provided by the Government of State of Eritrea, 9th April 2014 during the I-CSP validation mission.

Annex XVII: References

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