ERITREA

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ERITREA

- **Economic growth is projected at 2.1% in 2015, up from 1.3% in 2013 and 2.0% in 2014, reflecting improved economic activity and increased investment in the mining sector.**
- **Continued improvements in public financial management, progress towards implementation of the Drought Resilience and Sustainable Livelihoods Programme (DRSLP) and enhanced skills development have created favourable medium-term prospects.**
- **Eritrea has made an effort to promote growth, but this has been narrowly based on a sectorial strategy and is now being threatened by increasing social and territorial disparities.**

Overview

Eritrea is aiming at creating a modern, private sector-led economy (Macro Policy 1994; National Indicative Development Plan 2014-2018). Attaining this objective is, however, compromised by an inadequately enabling investment and business environment, United Nations sanctions, and overall weak macroeconomic conditions. Real GDP growth is projected to increase from 2.0% in 2014 to 2.1% in 2015, double the rate recorded in 2013, because of increasing investments in the mining sector. Over the medium term, the government sees further prospects in improved trade with Middle-Eastern and Asian countries, additional mining activities, the growth of the food sector and the development of the tourist industry. The current GDP composition is: services (59.9%), non-manufacturing (17.3%), agriculture, hunting, forestry and fisheries (16.9%) and industry (5.9%).

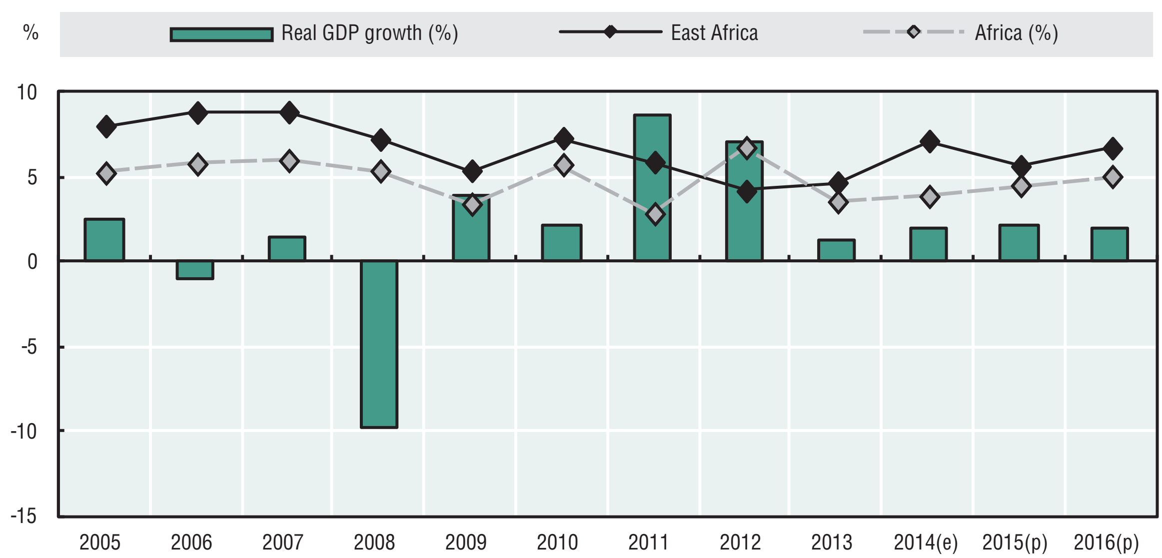
The budget deficit increased to 10.7% of GDP in 2014, up from 10.3% in 2013, but will fall back again to 10.3% in 2015 and 9.9% in 2016 as a result of increasing revenue from mining projects, access to more grant resources, and the government's continued implementation of strict fiscal rules and consolidation strategies. Inflation declined slightly in 2014 because of food-supply shocks, high foreign exchange demand, and high commodities prices on the international market. Lower international food prices and weaker oil prices in 2015 and 2016 should contain inflation at an annual average of about 12% for the period 2015-16.

Exports are forecast to grow in 2014-15, due to mineral production at the Asmara project, but the current account balance is forecast to deteriorate from 0.2% of GDP in 2014 to -1.2% and -1.5% in 2015 and 2016 respectively, partly due to decreases in both remittances and the "development and recovery tax" (a 2% tax levied on the Eritrean diaspora). Based on IMF Article IV 2009, Eritrea is a pre-decision point highly indebted poor country (HIPC) and is therefore eligible or potentially eligible for HIPC Initiative multilateral debt relief (MDR). However, no discussions on an IMF-supported programme have been initiated, although the government is engaged with the IMF's capacity-building institute through the East African Regional Technical Assistance Centre (E-Afritac), located in Tanzania, and has also agreed to participate in the African Development Bank's Transition Support Facility.

The medium-term outlook could present some risks because of the size of the fiscal and current account deficits coupled with high inflation. Improved management of these conditions and enhanced control of the exchange rate regime and public debt could attract more private investment. Thus, medium-term economic prospects will be influenced by: *i)* tensions over the border with Ethiopia, which are a basis for high security infrastructure expenditure; ii) relations and co-operation with the international community; *iii)* implementation of the regional programme on drought resilience and sustainable livelihoods under the Intergovernmental

Authority on Development (IGAD), plus capacity building under the African Development Bank's new Transition Support Facility; *iv)* increasing investments in the mining sector, and v) continued engagement with Middle-Eastern and Asian countries.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p)

Table 1. **Macroeconomic development**

	2013	2014(e)	2015(p)	2016(p)
Real GDP growth	1.3	2.0	2.1	2.0
Real GDP per capita growth	-1.9	-0.6	-0.4	-0.3
CPI inflation	12.3	11.6	12.1	12.3
Budget balance % GDP	-10.3	-10.7	-10.3	-9.9
Current account % GDP	0.3	0.2	-1.2	-1.5

Source: IMF. WEO 2014

Recent developments and prospects

Recent economic performance has been positive, driven mainly by the mining sector. Real GDP growth is projected to increase from 2.0% in 2014 to 2.1% in 2015, double the rate in 2013. Growth will further benefit from a revitalised housing and construction sector, infrastructure development, and improved financial services. Agriculture, animal husbandry and fishing remain the mainstay of the economy, with approximately 70% of the population relying on this sector for their livelihoods. The growth outlook is promising if Eritrea exploits all its opportunities for trade and opens to foreign investment other than in the mining sector. The Government of the State of Eritrea (GoSE) has placed high priority on building an efficient national government and developing its own capacities to manage policies and productively exploit the country's abundant natural resources for sustainable socio-economic development (Ministry of Land, Water and Environment, 1997). Eritrea's resources include arable land (26% of the total, but only 4% under cultivation) and minerals (copper, gold, iron ore, nickel, silica, sulphur, marble, granite and potash).

Although the majority of the population still rely on agriculture, animal herding and fishing for their survival, the sector only accounts for about 16.9% of GDP (Table 2) and about 20-30% of commodity exports (Agriculture Sector Strategy, 2014). This low contribution to GDP and exports is attributed to highly variable climatic conditions, inefficient traditional farming methods, limited resource allocation, and low profit margins. Moreover, private-sector activity, dominated by trade and services, remains weak, and access to hard currency is a major constraint. The fact that over 80% of the poor live in rural areas and depends on agriculture suggests that increasing agricultural production and productivity would have a significant impact on poverty. For this to happen would require modernising the sector through shifting away from the current farming systems and crops to semi-commercial and peri-urban agriculture; small-scale irrigated horticulture, commercial farming, and agro-pastoral spate irrigation systems based on flash flooding ("spates"). The recent AfDB Board approval of the regional on Drought Resilience and Sustainable Livelihoods Program (DRSLP) under IGAD will enable the government to strengthen greatly the resilience of communities, especially in the rural areas.

In the forthcoming National Indicative Development Plan (NIDP) 2014-2018, the government has given priority to three pillars: human resource development, infrastructure development and food security. There have already been targeted public investment programmes in education and skills development and in agricultural production and productivity improvement. The GoSE is continuing to implement the Strategic Partnership Cooperation Framework (SPCF) 2013-2016, signed with the UN system in 2013, focusing on five strategic areas: basic social services; national capacity development; food security and sustainable livelihoods; environment; and gender equity; and the advancement of women. The government is also committed to engaging with countries to the East due to its geostrategic location and cost-effective means of doing business. Moreover, its long coastline could offer maritime services to countries in East and Central Africa as well.

To buttress planning and development policies, Eritrea is considering key elements of economic management. While the initial focus is on strengthening existing institutions, selected institution building and new strategies that are more appropriate to an inclusive economy are also being introduced. Progress in eliminating many restrictive policies has been made, laying emphasis on creating favourable conditions for private-sector growth. In seeking food security, the government is also addressing social needs while rehabilitating productive infrastructures. In support of such initiatives, Eritrea could consider engaging the services of the African Development Bank under the African Legal Support Facility (ALSF), as well as seeking the support of other development partners to develop capacity in managing mining contracts in order to ensure broad-based and sustainable growth over the long term.

Progress made through structural reforms is expected to improve planning, policy formulation, and the assessment of results. Institution building in the Ministry of Finance (MOF), alongside progress in improving public financial management through institutional enhancement, and the IMF's technical assistance to the Bank of Eritrea, focusing on risk-based supervision, could boost public investment and monetary-policy management. The Ministry of National Development is strengthening the capacity for evidence-based planning and policy formulation in Eritrea through the generation and dissemination of economic and social data. In 2014, at the request of the government, the UN fielded a team of specialists to explore and establish a reliable framework for producing and managing reliable and current national data and statistics, including GDP figures and socio-economic statistics.

Eritrea's isolation and weak inclusive institutions have undermined domestic and regional peace and stability, while UN sanctions have had a negative impact on the overall investment and business environment beyond the mining sector. There is a need for continued dialogue at both the regional and international levels. Eritrea still believes that IGAD has a critical role to play in achieving regional peace and stability, and the country's commitment to participate in the DRSLP is highly commendable. Despite challenges to the development and recovery tax on the diaspora, its collection has continued though with a declining performance; private remittances are also being affected by the economic, investment and business environment. With the right policies, however, and building on the country's rich human and mineral resource potential, Eritrea could rebound as the fastest growing country in the Horn of Africa.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2009	2012
Agriculture, forestry, fishing & hunting	14.5	16.9
of which fishing	…	…
Mining and quarrying	0.0	0.0
of which oil	…	…
Manufacturing	5.7	5.9
Electricity, gas and water	1.7	1.7
Construction	15.1	15.5
Wholesale & retail trade; repair of vehicles household goods; Restaurants and hotels	20.4	19.4
of which hotels and restaurants	…	…
Transport, storage and communication	13.1	12.4
Finance, real estate and business services	0.0	0.0
Public administration and defence	29.5	28.1
Other services	0.0	0.0
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: IMF. WEO 2014

Macroeconomic policy

Fiscal policy

Tighter fiscal policies and the maintenance of strict rules of adherence to tight budget and spending priorities, supported by reduced dominance of monetary policy in economic management, have resulted in favourable fiscal outcomes. According to estimates by various sources, including the IMF, increased revenue from the mining sector and conservative spending kept the fiscal deficit at about 10.7% of GDP in 2014 (Table 3) and is expected to decline to 10.3% and 9.9% in 2015 and 2016 respectively. The government anticipates that this trend will improve further when the Integrated Financial Management System (IFMS) is fully adopted, as it will improve budgetary planning, revenue generation and management, and budget implementation.

Tax revenue, excluding grants, is projected to increase from 11.2% of GDP in 2014 to 11.3% in 2015. The government is optimistic about the impact of the mining investments as they present new opportunities to generate revenues, which, if invested in sectors like infrastructure, agriculture and fisheries, and human resource development, will have the greatest impact on the living standards of the people and on the economy. Any substantial reduction in international prices for minerals would, however, negatively affect the revenue inflows.

Revenues from the 2% development and recovery tax on the Eritrean diaspora have been an important source of government income. However, this has been declining, partly due to the UN sanctions imposed on its collection and transfer to Eritrea. To counter the effect of the decline in the inflows, the government has made investments in the mining sector, infrastructure including energy, and control of wage-bill growth its priorities. The government is also strengthening fiscal-management systems, including the customs and internal revenue divisions, to maximise revenue collections. Some subsidies, for example, on fuel have also been scrapped.

Table 3. **Public finances (percentage of GDP at current prices)**

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
Total revenue and grants	**27.1**	**18.4**	**18.4**	**18.3**	**18.6**	**18.7**	**18.7**
Tax revenue	14.6	8.3	10.2	10.7	11.2	11.3	11.5
Grants	4.1	4.5	1.9	1.2	1.0	0.9	0.8
Total expenditure and net lending (a)	**39.1**	**31.6**	**28.6**	**28.6**	**29.4**	**28.9**	**28.6**
Current expenditure	29.1	23.4	22.0	22.8	23.0	23.2	23.4
Excluding interest	25.9	20.4	19.2	20.0	20.3	20.8	21.2
Wages and salaries	11.1	8.0	7.8	8.2	8.5	8.7	8.9
Interest	3.2	2.9	2.8	2.7	2.7	2.4	2.1
Capital expenditure	12.1	8.3	6.7	5.8	6.4	5.8	5.3
Primary balance	**-8.8**	**-10.2**	**-7.5**	**-7.5**	**-8.0**	**-7.9**	**-7.8**
Overall balance	**-12.0**	**-13.2**	**-10.3**	**-10.3**	**-10.7**	**-10.3**	**-9.9**

Note : a. Only major items are reported.
Source: IMF. WEO 2014

Monetary policy

Monetary policy has been geared towards maintaining price stability. Broad money has been reduced from 119% of GDP in 2011 and 2012 to an estimated 14.3% of GDP in 2014 on account of a shift from funding the budget through printing money and the pursuit of tighter spending. Credit supply to the private sector is estimated to have increased from between 1% and 4% over the period 2009-11 to 15.8% in 2014. Food shortages caused by poor harvests put periodic upward pressure on domestic food prices. Inflation was 12% during 2012-13 and is projected to remain at 12% or slightly higher in 2014 due to food-supply shocks, scarcity of hard currency and dynamics in the global economy. Lower international food prices in 2015 and weaker oil prices in both 2015 and 2016 should help contain inflation at an annual average of 12% over 2015-16.

The currency has been pegged at ERN 15.38 (Eritrean Nafka) per USD since 2005. Strict government controls of the foreign-exchange market and a reduction in remittances have resulted in an overvalued Nakfa, foreign-exchange shortages and a growing parallel market. The government relaxed some foreign-currency transactions in early 2013 and took modest steps towards liberalising the economy. In addition, potentially important institutional reforms on risk supervision, regulation and reporting by financial institutions are underway to strengthen financial stability and mitigate financial risks. It is, however, unlikely that the currency peg will be dismantled in favour of a free-floating exchange rate in 2015/16. Moreover, the relaxation of the foreign currency regime and of controls on declaration and accountability has not delivered the desired impact on private-sector operations. The government needs to improve the business environment and dismantle all controls in the foreign-currency market to encourage private-sector investment.

Economic co-operation, regional integration and trade

Eritrea has placed a high priority on regional integration. Consequently, it belongs to various regional trading blocs including the Common Market for Eastern and Southern Africa (COMESA), the Community of Sahel-Saharan States (CEN-SAD), and the Inter-governmental Authority on Development (IGAD). However, relations between the Eritrean and the Ethiopian governments have remained at "no-peace-no-war", with no improvement expected any time soon.

The trade balance is projected to worsen from -5.0% of GDP in 2014 to -5.8% of GDP in 2015 (Table 4) due to higher growth in imports than exports. However, the major concern is that exports have been highly variable, from 1% of GDP in 2006 to some 15.1% of GDP in 2012, then down by 1.7% of GDP in 2013 before improving marginally by 2.4% of GDP in 2014. UNCTAD's 2014 Report indicates that in 2012-2013 Eritrea's merchandise exports were mainly primary products (e.g.

food and agriculture; minerals, metals and ore), accounting for about 86.9% of the total, while manufactured goods represented only 9.7%. Trade with other developing countries represents only 11% of the total, compared to about 87% with the United States and Canada. Imports are mainly manufactured goods, accounting for 60.8% of the total, compared to 38.5% for primary goods.

The GoSE continues to engage with the international community. In 2014, Eritrea participated in the African Development Bank Group's Annual meetings in Kigali, Rwanda, the Annual Meetings of the IMF and World Bank Group and the UN General Assembly. A side event was organised at the 2014 UN General Assembly during which Eritrea showcased its performance in the Health MDGs. Since 2013, the government has submitted a Universal Periodic Review (UPR) of human rights to the UN and demonstrated its commitment to ensuring that the recommendations are implemented. UN delegations have also been welcomed into the country to discuss pertinent development issues with senior government officials.

Eritrea has skilled people with experience in entrepreneurship, commerce, and international trade. Added to its strategic location in relation to the countries of the Middle-East and Asia, this should offer significant opportunities. However, the country is still less competitive than East African countries, while the 2014 World Bank Logistics Performance Index (LPI) ranks Eritrea at number 122 out of 160 with a score of 2.08 out of 5, reflecting a deterioration since the 2012 rankings of 2.11 and 2010 of 1.70. Trade challenges to address are in customs management, infrastructure, and logistical competence.

The industries which contribute to foreign currency earnings include: *i)* mining projects; *ii)* fisheries at a limited scale due to infrastructure gaps, including energy supply and cold storage facilities; and *iii)* the manufacturing industry. This last is comprised of about 200-300 medium-sized enterprises representing 80% of industrial GDP and presently operating at very low capacity utilisation (26% on average), mainly in the textile/leather and associated food sub-sectors. The rest are small and micro-enterprises. Taken together, their contribution to foreign earnings is limited due to constraints in: *i)* capacity and unavailability of qualified technical manpower; *ii)* poor quality or in some cases unavailability of raw materials; *iii)* lack of maintenance; and *iv)* shortage of energy. The first constraint can be explained by factors such as unattractive wages and brain-drain.

Table 4. **Current account (percentage of GDP at current prices)**

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
Trade balance	-29.2	-10.3	-4.6	-5.5	-5.0	-5.8	-5.2
Exports of goods (f.o.b.)	1.0	10.0	15.1	13.4	15.8	13.5	12.0
Imports of goods (f.o.b.)	30.3	20.3	19.7	18.9	20.8	19.2	17.2
Services	-2.2	1.5	0.9	0.6	0.5	0.4	0.2
Factor income	-0.7	-1.1	-1.3	-0.9	-0.8	-0.7	-0.6
Current transfers	28.6	10.5	7.3	6.1	5.4	4.9	4.1
Current account balance	**-3.6**	**0.6**	**2.3**	**0.3**	**0.2**	**-1.2**	**-1.5**

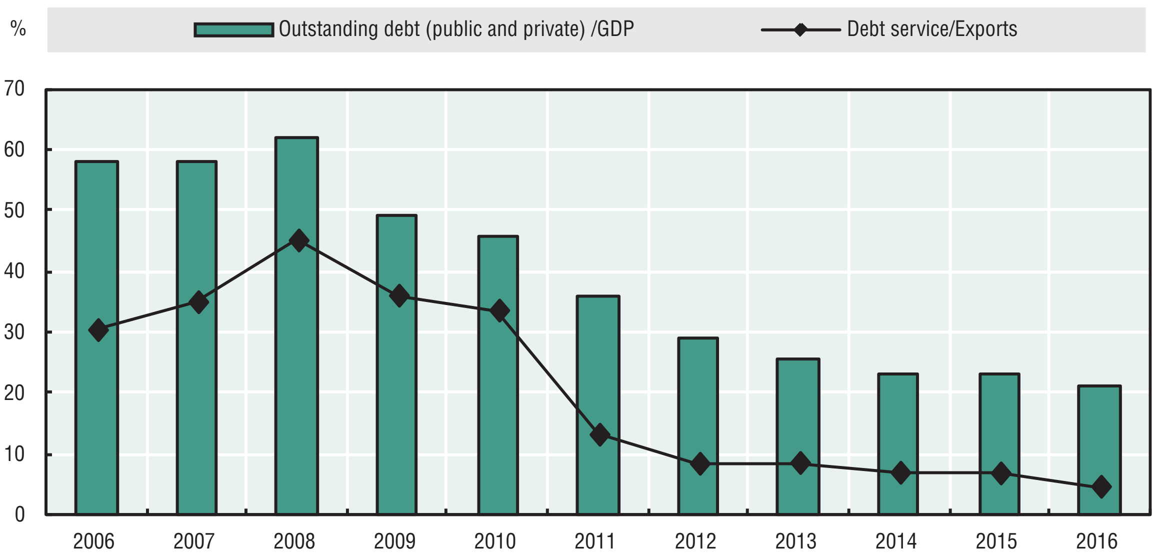
Source: IMF. WEO 2014

Debt policy

Debt levels have not improved substantially despite the government's fiscal consolidation strategies, more revenue from the mining sector, and emerging strong preference for grants over loans. Based on IMF staff projections and reports by the national authorities, the level of the public debt will remain high at 105.8% of GDP in 2015, a slight fall from 108.1% in 2013. At the end of 2014, the central government's domestic debt stood at 83.9% of GDP and its external debt at 21.9%. The high domestic debt is attributed to UN sanctions' impact on the collection of the development and recovery tax from the diaspora. Although Eritrea is classified as a pre-decision

HIPC potential beneficiary, according to the IMF, the GoSE has so far not committed itself to concluding an IMF *Staff Monitored Program* that would have given Eritrea the opportunity to reduce its external indebtedness through the HIPC and MDR mechanisms.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source : IMF (WEO & Article IV)

Economic and political governance

Private sector

The private sector remains small and underdeveloped. It is thus critical to promote it through policy reforms and public-private partnerships for enhanced economic growth and service delivery. The continued dominance of the public sector in the economy, inadequate domestic and foreign private investment, and trade challenges, all suggest that immediate attention should be paid to creating an enabling environment for private-sector development. In the 2015 World Bank report on the Ease of Doing Business in countries world-wide, Eritrea is placed last and has been among the bottom ten countries for each of the last five years of the survey. According to the report, an entrepreneur in Eritrea needs an average of 84 days to open a business, 59 days to get electricity; and 59 days to import goods, costing USD 2 000 per container. In highest-ranked Singapore, it takes just 2.5 days to open a business, 31 days to get electricity, and 4 days to import goods, costing USD 440 per container.

Progress in the privatisation of some state-owned enterprises, announced in 2012, has been slow, limiting the inflow of private capital beyond the mining sector. The offer of shares in the Eritrean Telecommunications Corporation (EriTel), the National Insurance Corporation of Eritrea (NICE) and the Asmara Brewery to domestic investors has not created a visible impact in the economy.

Improvement in the overall implementation of the privatisation process will require addressing deficiencies in energy, communication and property rights. Equally important is a sustainable macroeconomic dynamic built on a sound and effective fiscal management, sustainable balance of payments deficits, and a sustainable public debt.

The government says it is committed to improving the overall business environment, driven by the conviction that an efficient business climate can reduce poverty by fostering inclusive economic growth and job creation. The start of five-star flight services by Qatar Airlines to Eritrea indicates a commitment to opening the country for stronger business ties and facilitating greater market-oriented commercial development. Eritrea has also commenced a programme to reduce export and import lead-times by strengthening its computerised systems for on-line submission of documents and monitoring business volumes. The government is to switch to a fully electronic customs system in anticipation of participation in a number of markets, while customs administration generally is being improved.

Financial sector

The financial sector in Eritrea comprises the central bank, two commercial banks, one development bank, and one insurance company. With the exception of the commercial bank (the Housing and Commerce Bank of Eritrea), the government owns all financial institutions. The commercial banks and the insurance company dominate the financial market. With more than 85% of the domestic market, the Commercial Bank of Eritrea covers all sectors of the economy. Domestic macroeconomic challenges, coupled with unattractive fiscal and monetary policies, have stifled the development of the financial system. Based on 2014 UNCTAD calculations, gross domestic savings represent only 6.3% of GDP, among the lowest in sub-Saharan Africa.

Although the GoSE enacted a comprehensive Bank and Financial Institutions Act, permitting the licensing of private financial institutions, including foreign banks, no other local or foreign private financial institution has been allowed to work in Eritrea (except the foreign exchange bureaux). Money and capital markets are non-existent, so open-market operations are not possible in monetary policy management. Currently, commercial banks are required to set aside 20% of their deposits as reserves.

Privatisation could inject private equity into the system and foster the development of a stock market (assuming state-owned enterprises are privatised through the stock market). Extractive industries also provide opportunities for attracting private-equity firms. It is expected that there will be many more mining investment opportunities as the global demand for minerals increases.

Eritrea actively participates in regional integration initiatives, but is still unable to meet the pre-condition of attaining macroeconomic stability due partly to weak financial capacity and underdeveloped financial infrastructure. While several institutional and risk factors contribute to the financial-development gap, the government considers trade finance as critical in facilitating international trade, and therefore necessary for economic growth. However, it will require improving regulatory frameworks to attract private capital in the commercial banks to close the financial-demand gap.

Public sector management, institutions and reform

Eritrea is making progress in policy reforms, currently emphasising the adoption of strategies that promote growth, food security, and poverty reduction. This is to be achieved through infrastructure rehabilitation and building an efficient national government, while developing national capacity to manage policies with support from the African Development Bank and other development partners. The government has also continued to show interest in the IMF's assistance to develop institutional and human capacity. The IMF's E-AFRITAC is providing support to the Central Bank and MOF while UNDP is helping MOF to strengthen its capacity in fiscal planning and budget, treasury management, and customs. These initiatives are intended to address some of the challenges faced by reform of these institutions and adoption of the medium-term expenditure framework (MTEF).

To strengthen Public Expenditure Management (PEM) further, institutional checks backed by a sound legal framework have been designed. According to MOF, verifications are made to ensure that expenditures are within approved amounts; spending ministries prepare timely monthly fiscal reports; accounts are closed at the year-end after reconciliation; and no carryover is permitted. A system of internal and external audit and Treasury inspection is in place to ensure a corrupt-free PEM system. For the long-term, the GoSE has indicated to the African Development Bank areas for further improvement in order to have a fully integrated financial management system to facilitate the implementation of the MTEF.

The Government Accounts Division produces reports showing the economic composition of government expenditure. However, the reports do not yet conform to the coding system of the IMF's government Finance Statistics (GFS) manual. Another related weakness is that the functional composition of government expenditure only comprises three broad categories: administrative and general services, economic services and social services.

Natural resource management and environment

A number of sectorial legal frameworks for natural resource and environmental management exist in Eritrea, including land, water, forestry and wildlife, fisheries, and mining laws. There is however, no approved law for environmental management. The National Environmental Management Plan for Eritrea, 1995, lays out a strategy for action for conservation activities. The Mining Law sets the government's share in mining firms at 10% non-participatory interest with an option to buy a further 30% of the shares. It mandates the Ministry of Energy and Mines to license agencies and administer, regulate, and co-ordinate all energy and mining activities in the country.

The current main environmental concerns relate to the degradation of land, forest and water resources, and threats posed by the growing mining sector. In order to address some of these issues, large-scale public programmes for soil, water conservation and reforestation are underway. In collaboration with the UN, the government is constructing micro and check dams, as well as implementing tree planting and other sustainable environmental conservation measures.

There is significant demand for clean energy: 80% of energy needs are met by wood fuels, while 88MW of electricity is generated from diesel/heavy oil fired plants. According to the World Bank's (2014) report tracking progress on sustainable energy, Eritrea's electrification rate was estimated at 30% and the access deficit at 3.2 million people, whereas the access deficit to nonsolid fuel represented a similar number. The share of biomass in the total final energy consumption was estimated at 73% and primary energy intensity at only 12.1%.

Potential exists for developing generally unexploited alternative energy technologies, such as: solar and wind generated power, solar cookers and biogas. Improved wood stoves have been introduced, but need to be scaled up not only to contribute to improved living conditions of the rural women, but also to improve the health and wellbeing of households, and reduce bio-mass fuel consumption, while improving conservation of the vegetation cover of Eritrea. The challenge will be to integrate conservation measures into agricultural production systems and improve the incentives for farmers to simultaneously adopt these technologies directly on their cultivated land while strengthening community management of the natural resource base.

Political context

Although Eritrea still operates a one-party system, the People's Front for Democracy and Justice (PFDJ), with no national elections, there have been elections in the sub-zones of Serejeka, Gala-Nefhi and Berikh. During the 2014 Independence Day celebrations, the President of Eritrea announced that a new constitution would be drafted.

However, regional tension and instability, and international isolation remain major development obstacles. The UN sanctions continue to impact negatively on the country's development progress. Efforts to address these challenges, rather than imposing continued isolation, could be a more promising international prescription for dealing with the risks they represent for Eritrea and the region. At the African Union (AU) and the UN, which are important platforms for dialogue, the country is represented by permanent representatives. The border issue between Eritrea and Ethiopia needs to be resolved and its impact on the region eliminated. This is a condition for lasting peace, stability and development to return in the Horn of Africa region.

Social context and human development

Building human resources

Eritrea's HDI for 2013 is 0.381, positioning it at 182nd out of 187 countries and territories. This is below the average of 0.493 for the low human-development group countries and 0.502 for sub-Saharan Africa.

Net primary school enrolment increased by 88% from the 1990s and reached 37% in 2012. Primary completion increased in 2013 to 31% from 17% in 1994 and the government is committed to implementing Education for All programmes. The Gender Parity Index was 0.81, 0.80 and 0.74 at elementary, middle, and secondary levels respectively for the 2011/12 school year. The participation of girls and women in technical-vocational education and training is also low. Only about 36.6% of the students enrolled in intermediate technical and vocational schools in 2010/11 were female. While it is true to say that girls who enrol in secondary education are likely to complete it and go on to post-secondary, it is also important to note the huge barriers (e.g. cultural practices, long walking distance, early marriages etc.) to girls' education at the lower levels of education.

Eritrea has recorded improvements in other social indicators and MDGs. The infant mortality rate has dropped from 58 per 1 000 live births in 2000 to 37 in 2012 and that for under-fives to 50 per 1 000 live births in 2013 (WHO, 2014; UNICEF, 2014). The maternal mortality rate fell to 380 in 2013, while visiting health centres during pregnancy has increased from 19% in 1991 to 93% in 2013 and delivery by skilled birth attendants increased from 6% in 1991 to 55% in 2013. The Eritrea 2014 Health MDG Report indicates that the HIV prevalence for the general population was 0.93% in 2010. World Health Statistics indicate that the incidence of malaria was 1 282 per 100 000 people in 2012 (WHO, 2014). Immunisation and vaccination of children and adolescents against killer diseases like tuberculosis, diphtheria, pertussis, tetanus and measles is estimated at 90%. Life expectancy at birth increased from 48 years in 1990 to 63 years in 2014. These health outcomes are attributed to the government's design and rigorous implementation of innovative policies.

Poverty reduction, social protection and labour

No census has been carried out in Eritrea to date and official statistics on the prevalence of poverty in the country are limited. As of 2014, the population was estimated at 3.5 million (National Statistical Office, 2014). Based on anecdotal evidence, poverty is still widespread in the country where 65% of the population lives in rural areas and 80% depend on subsistence agriculture for their livelihoods.

The Ministry of Labour and Human Welfare (MoLHW) has been implementing several programmes to support disadvantaged sections of the population. MoLHW fully supported placing 5 426 orphans with host families (79.5% of which were female-headed) during 2009-2012 of whom 48.3% (2 621 orphans) were females. Further, the MoLHW supports 5 457 persons of whom 4 557 (83.5%) are females with diverse disabilities through either the provision of a cash living allowance or catering for institutionalised centres. The ministry also runs orthopaedic workshops that manufacture and freely distribute appliances and prostheses to the disabled. The ministry imports wheelchairs, crutches and other supportive materials (70.6% of the beneficiaries were females).

The government continues to support the families of fallen fighters through the "martyrs' fund", under the MoLHW and social safety nets remain based on extended family networks. Reinforced by institutional arrangements and programmes under the MoLHW, Eritrean society is historically supportive to the elderly and handicapped. Solidarity within families and communities is generally strong. Given the narrow tax base, remittances from Eritreans in the diaspora remain an important source of investment finance and income to a large number of communities. A law introducing a state-organised pension system was approved in 2005, but has not been implemented.

Gender equality

Promotion of gender equality in Eritrea has a strong historical background dating back to the struggle for independence, when an estimated 25% to 30% of the fighting force were female. Subsequent initiatives have been put in place to ensure gender balance further. The 2003 Eritrean National Education Policy is premised on the principle of equality between men and women. Furthermore, the government has also passed legislation related to gender-sensitive issues such as land legislation, prohibition of female genital mutilation, gender-based violence, and underage marriage, as well as representation in political platforms. Affirmative measures to preserve one-third of seats in elected bodies at various levels continue to be applied. Women now occupy 37.7% of positions in the local courts, 20% of ministerial posts, and in 2012, the ratio of women to men in higher government jobs was 26.7%. Overall, 42% of civil-service employees were female in 2013.

In general, access to health services by females has greatly improved, but is still unequal in some parts of the country. Heterogeneity in female literacy rates across Zobas is also significant. Overall, enrolment in adult literacy programmes has fallen due to the increasingly literate population, but the female enrolment and completion ratios have remained high, above 90%, enabling them to read and understand women rights and engage in economic activities. The government has introduced a National Policy on Gender (NPG 2004), the National Gender Action Plan (NGAP 2003-2008), a separate strategy for female education, a gender awareness strategy of the communities, and an initiative to strengthen collection of disaggregated data for effective monitoring. Eritrea adopted a Female Circumcision Abolition Proclamation in 2007.

The creation of National Union of Eritrean Women (NUEW) has provided a mechanism for mobilising women to participate in development initiatives. As of 2014, the union had 300 000 members in the country with offices in all the 6 Zobas, 56 sub-Zobas, village levels, and in the diaspora. A unique story is the involvement of Eritrean women in the diaspora in fund-raising for the construction of training centres for women in 5 Zobas and 11 sub-Zobas. The Union is also developing the skills of women in rural areas, empowering them economically through micro-finance and creating markets for their products. The presence of the NUEW at all levels makes it effective in outreach, sensitisation, and community mobilisation, although women often face challenges in ensuring that all policies are gender sensitive, especially when it comes to economic empowerment.

The government's saving and micro credit programme provides credit in all six administrative regions to help women establish small and medium enterprises and thus improve their incomes and their families' economic conditions. These are in addition to other micro-credit programmes specifically targeting women by NUEW, the Ministry of Local government, MoLHW, the National Confederation of Eritrean Workers (NCEW) and local governments in some regions. During 2009-12, MoLHW gave ERN 137.5 million in loans/credit. The women beneficiaries constituted 24.2% and satisfactory results have been registered in Gash-Barka.

Promoting access to decent jobs for women will require a combination of actions, ranging from macro-economic policies and regulatory frameworks to labour-market policies and targeted interventions directed at disadvantaged groups of young people and women.

Thematic analysis: Regional development and spatial inclusion

Eritrea comprises six regions (zobas) and three major physiographic zones: the Western Lowlands, the Central and Northern Highlands, and the Eastern Lowlands/Coastal Plains. Most of the Western Lowlands and Coastal Plains experience hot and dry climatic conditions. According to the Population and Health Survey Report (2010), the Highlands are relatively cool, flat and endowed with fertile soils suitable for crop farming and therefore densely populated with an estimated 50-60% of the population. At the same time, this region is characterised by a high incidence of poverty estimated at 83%, compared to the lowlands with 52%; 62% of urban dwellers and 69% of people in urban areas are living in poverty, according the Agricultural Sector Policy, 2002.

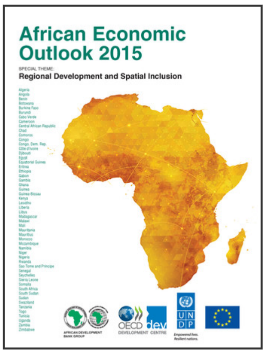
Mineral-rich rocks cover 60-70% of Eritrea's land surface. Economic activities, urbanisation, and human settlement are determined by the presence of natural resources, climatic conditions and proximity to the coast, but the level of infrastructure development, colonial history, and the effects of the wars of independence also play a role. Major industrial and economic activities are concentrated in the central highlands (especially in the capital city of Asmara where 80% of the enterprises are located) and the port city of Massawa. Debub, Gash-Barka and Anseba regions are the major food producers. Additionally, with increasing investments in the mining sector, non-agricultural economic activities are spreading to the Gash-Barka (Bisha mine), Anseba (Zara mine), and the Southern Red Sea (Colluli potash mine) regions.

There are marked differences between the major geographical zones and disparities within zobas and sub-zobas. Infrastructural investments have been prioritised to link the regions and improve facilities, but progress is slow. The 2013 Africa Infrastructure Development Index ranks Eritrea in terms of its deficiencies in road networks, water and sanitation, energy, and ICT at 47th out of 53 countries surveyed. The Eritrean Population Health Survey (EPHS) (2010) also reveals inadequacies in that access to improved water source stood at only 58%, while agricultural production is constrained by inadequate water supplies and available water resources hardly satisfy 15% of the population's requirements. These deficiencies translate into high costs of doing business, which stifle economic growth, investment productivity, and business development. They also impede national and regional connectivity. Moreover, about 65% of Eritrea's population remains vulnerable to shocks from environmental degradation, a harsh climate, and food insufficiency. The chances of drought occurrence have increased from once in every 6-8 years to once in every 2-3 years, according to the project data on drought resilience and sustainable livelihoods 2014-20.

In Eritrea, land belongs to the government, which allocates it for cultivation on a seven-year rotational basis. This practice has resulted in farmland fragmentation, especially in the highlands, low productivity, and deforestation due to limited private investment on land. It has also created tensions between the government and the population. While there are no visible ethnic tensions over land and territorial issues, conflicts between villages over grazing rights, especially in highland areas are evident. Raids on livestock, land encroachment and grazing rights in lowland areas together with the impact of climate change have led to mutual distrust among communities.

Public policies on territorial development are contained in various government sectorial plans, programmes and projects including: the Education Development Strategy 2013-2017; the Agriculture Development Strategy; and the Technical and Vocational Education Training Project 2010-2016. A National Development Plan (NDP) 2014-2018 was under finalisation at the end of 2014.

The NDP would provide an overarching framework for territorial and other development aspects, implying that evidence-based and highly co-ordinated interventions for territorial development are currently lacking. An NDP, supported by appropriate and reliable socio-economic data would be an important foundation for effective strategies for territorial development, poverty reduction, social justice and equity.



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