Eritrea

Eritrea’s economy grew by 8.7% in 2011 owing to the commencement of full operations in the gold and silver Bisha mine and to the production of cement from the cement factory in Massawa; GDP is estimated to have contracted sharply to 5.5% in 2012 because of an unanticipated drop in production at Bisha mine, a fall in remittances and a decline in the price of gold over 2011-12; the economy is expected to improve to 7% in 2013 and to grow by 6.5% in 2014, driven by gold production in the Koka and Zara mines and by copper production in the Bisha mine.

Domestic and foreign private investment is largely constrained by macroeconomic and structural constraints relating to fiscal management, state intervention and controls in foreign trade and exchange, weak and uncompetitive financial institutions, weak infrastructure and general shortages in skilled manpower.

The main driving force for economic growth in recent years has been the strong performance in the mining sector; the contribution of agriculture to the economy is minimal, though the sector engages about 80% of the workforce; therefore, policy and institutional reforms and the development of the mining sector are prerequisites to unlock Eritrea’s economic potential.

Overview

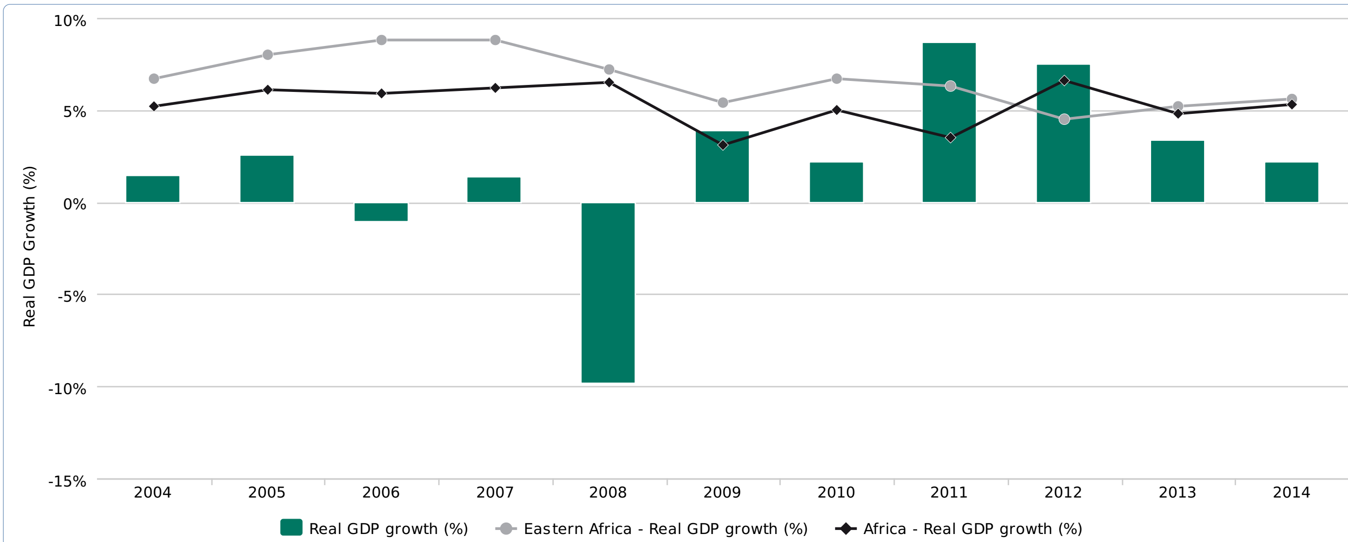
Infrastructural bottlenecks, weak foreign investment (especially in the non-mining sector) and dwindling aid inflows have remained the critical constraints to Eritrea’s economic performance since its independence in 1993. Nevertheless, the economy grew by 8.7% in 2011 thanks to the commencement of full operations in the gold and silver Bisha mine and to the production of cement from the cement factory in Massawa. Growth in gross domestic product (GDP) is estimated to have fallen sharply to 5.5% in 2012 due to an unanticipated drop in production at the Bisha mine. The decline in GDP might also be attributed to a reduction in remittances from Eritreans in the Diaspora and to the fall in the price of gold in 2011-12. Growth is expected to improve to 7% in 2013 and then decrease slightly to 6.5% in 2014, driven by gold production in the Koka and Zara mines and by copper production in the Bisha mine. Although Eritrea is on track to achieve the Millennium Development Goals (MDGs) on child health, HIV/AIDS, malaria and access to safe drinking water, slow progress has been made in eradicating extreme poverty and the achievement of universal primary education.

Attracted by an anticipated reduction in production costs and the subsequent impacts on their respective economies, especially on the fiscal and balance-of-payment positions, the governments of Eritrea and Sudan have signed a Memorandum of Understanding for partnership and co-operation in the mining sector. The deal will allow for the processing of Eritrea’s gold and silver in Sudan's new gold refinery, officially opened in September 2012. Consequently, production costs for Eritrean gold and silver will decrease drastically compared to the previous practice of shipping to Europe and India for refining at a considerably higher cost. Furthermore, the government has put machinery in motion to privatise 32 state-owned manufacturing firms. This intention will not only provide fiscal space but also open up the economy.

The government of Eritrea has also amended the Mining Law, which sets the government’s share at a non-participatory 10% with an option to buy a further 30% of shares. The amendment gives the government the flexibility of considering its stake in any mining project on a case-by-case basis. In February 2013, the government adopted the liberalisation of foreign currency in order to ease the foreign-exchange shortage. This proclamation allows institutions and individuals to open foreign-currency deposits and to use foreign exchange for international transactions without limitations. Meanwhile, the attempted military coup in January 2013 appears to have been quickly put down. The country’s sole political party, the People's Front for Democracy and Justice (PFDJ), and the President, Isaias Afewerki, remain firmly in control of the country’s political and economic machinery, but threats to them are growing.

Eritrean growth in recent years has been driven by mineral resources, especially with the commencement in February 2011 of commercial mining and exports of gold and silver at the Bisha mine. Other notable mineral deposits in Eritrea include copper, zinc, nickel and chromite. By 2016, the Colluli Potash Project is expected to be up and running. The contribution of agriculture to the economy is minimal, though the sector engages about 80% of the workforce. In addition, Eritrea’s suitable endowments in fisheries and livestock development have been underutilised. Amongst the overall concerns, the following stand out: unlimited and underpaid national service; use of forced labour; drought and other natural disasters; persistent hostilities with two of its neighbouring countries over unsettled border disputes; a misalignment of the exchange rate resulting in foreign-exchange shortages; and an unfavourable investment environment. The government has recognised some of these impediments and has implemented piecemeal reforms since 2008 to address the issues, including the establishment of a free-trade zone in Massawa and the implementation of the ASYCUDA ++ system, the initiation of a privatisation programme. Overall, the introduction of macroeconomic policy and institutional reforms directed to promoting the role of the private sector and to the development of human skills is a prerequisite to unlock Eritrea’s economic potential.

Figure 1: Real GDP growth 2013 (East)



Figures for 2012 are estimates; for 2013 and later are projections.

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Table 1: Macroeconomic indicators

	2011	2012	2013	2014
Real GDP growth	8.7	5.5	7	6.5
Real GDP per capita growth	5.7	3.5	5	4.5
CPI inflation	20	17	12.3	12.3
Budget balance % GDP	-	-	-	-
Current account % GDP	-3.9	-5.7	-5.3	-6.1

Figures for 2012 are estimates; for 2013 and later are projections.

StatLink http://dx.doi.org/10.1787/888932808234

Recent Developments & Prospects

GDP growth is expected to have declined to 5.5% in 2012 primarily because the country recorded no further mining project in that year and because there was an unanticipated drop in production at the Bisha mine. The decline in GDP could also be attributed to the reduction in the remittances from Eritreans in the Diaspora and the decline in the price of gold in 2011-12. Real GDP growth is projected at 7% in 2013 and 6.5% in 2014, driven by the onset of copper production at the Bisha mine and gold production at the Koka and Zara mines. If the political and governance issues do not improve and if the government continues to postpone policy and institutional reforms designed to improve the fiscal position and liberate foreign trade and exchange regimes, the growth outlook could worsen.

The service sector dominated Eritrea’s economy in 2011 with a share of 58.9% of GDP. Growth in the sector was largely contributed to by public administration and defence, as well as by wholesale and retail trade, restaurants and hotels. The industrial sector is gradually taking a greater share of Eritrea’s economy. It contributed a 24.1% share of GDP in 2011. This was driven by the mining sector as well as by on-going construction work.

Finally, the agriculture sector accounted for only 17% of the GDP in 2011. Eritrea’s food-security situation deteriorated in 2011 due to poor rainfall in the rainy season (March-May), leading to increased imports of food, with the associated strain on the country’s balance-of-payments position. Furthermore, the United Nations (UN) Food and Agriculture Organization's Global Information and Early Warning System reported the deteriorating food-security position in the northern coastal areas of the country during the short “bahri” rainy season (November-February). Public investment and private consumption are estimated to have been the key drivers of real GDP in 2011 and 2012. The situation is projected to remain the same in 2013 and 2014. Public investments include construction work in housing (construction of foam-core apartment and commercial buildings), sports (new stadium and renovation of existing stadia), education (construction of new schools), transport (road construction), and health (ambulances and hospital equipment).

Macroeconomic Policy

Fiscal Policy

Thorough assessment of the fiscal policy is limited by the fact that the since the country's independence in 1993, detailed national-budget estimates are not publicly available. According to International Monetary Fund (IMF) and Economist Intelligence Unit (EIU) estimates, however, since independence, Eritrea's public finances have suffered from chronic deficits. The fiscal deficit is estimated to have remained high, at 10.3% of GDP in 2012. This is projected to narrow to 9.7% of GDP in 2013 and to 9.4% of GDP in 2014 as a result of the expected surge in the country's public revenues, boosted by receipts from the mining sector. The fiscal deficit may decline further if the privatisation programme goes ahead as planned. With limited access to external financing, the government continues to finance its fiscal deficit domestically through money printing and the issuance of Treasury Bills, which is fuelling macroeconomic imbalances. Inflation already stands at double-digit figures and the ratio of national public debt to GDP has been estimated at 126% in 2012.

Table 3: Public Finances (percentage of GDP)

	2009
Total revenue and grants	15.7
Tax revenue	-
Oil revenue	-
Grants	-
Total expenditure and net lending (a)	31.1
Current expenditure	-
Excluding interest	-
Wages and salaries	-
Interest	-
Primary balance	-
Overall balance	-15.5

Figures for 2012 are estimates; for 2013 and later are projections.

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Monetary Policy

Over at least the past five years, Eritrea's monetary authorities have adopted the policy of financing the deficit domestically through money printing without due consideration for price stability. This has led to rapid money growth and double-digit inflation. The annual rates of inflation have, however, been declining. From an average of 20% in 2011, inflation declined to 17% in 2012. Inflation is expected to ease further to 12.3% in 2013 and 2014, based on an expected boost in food production (subject to improvement in weather conditions) and on trends in international commodity prices. The government has controlled interest rates at artificially low levels, much below the inflation rate.

The national currency, the nafka (ERN), has been pegged at ERN 15.40 against the US dollar for the past decade. Despite the government's strict scrutiny and its policy against the parallel or "black" market for foreign exchange, the parallel exchange-rate market for the ERN, reportedly 50% higher than the official exchange rate, has continued to flourish. This is no doubt an indication that the domestic currency is highly overvalued. External imbalance and acute shortage of foreign exchange over the years have affected reserves adversely, estimated in 2011 by the IMF at about 2.6 months of imports. Foreign-exchange shortages are expected to ease, given the recent February 2013 proclamation by the government to liberalise foreign-currency transactions. The new proclamation allows institutions and individuals to open foreign-currency deposits and to use foreign exchange for international transactions without limitations.

Economic Cooperation, Regional Integration & Trade

Despite its strategic position, Eritrea is among the least integrated countries in the Horn of Africa and needs to move in the direction of regional integration. The measures being taken by Eritrea to reactivate its membership to the Intergovernmental Authority on Development (IGAD) are commendable. The country had suspended its IGAD membership in protest to member states' refusal to condemn and take actions against Ethiopia for sending troops to Somalia. Eritrea is, however, a member of a few regional and international organisations, including the Common Market for Eastern and Southern Africa, the African Union, the New Partnership for Africa's Development and the Community of Sahel-Saharan States. The current co-operation agreement that the UN has with Eritrea expired at the end of 2012. A new strategic partnership co-operation framework to guide the UN and other international organisations' operations in 2013-16 was signed on 28 January 2013.

In 2011, after a first set of sanctions on Eritrea in 2009, the UN imposed a second set of sanctions on the country citing evidence of its role in destabilising the Horn of Africa. In March 2013, the UN Security Council's sanctions on Eritrea were still in force and were likely to remain in place unless the Government of Eritrea responded satisfactorily to the UN's demands, when reinforced sanctions were voted by the Security Council, or made significant policy changes. The prerequisites for lifting the sanctions include recognition of the new Somalian government and release of Djiboutian prisoners of war.

On a positive note, recent steps towards opening up the economy bode well for the investment drive. There remains little prospect, however, for the currency peg to be dismantled entirely and replaced by a free-floating exchange rate. Moreover, in 2009, a free-trade zone was launched in Massawa to attract foreign investment. Within the zone, all potential trade barriers, including taxes and quotas, have been removed, and bureaucracy is minimised. Progress has also been made in the area of customs clearance thanks to the implementation of the ASYCUDA ++ system.

Eritrea's current account has been in deficit since 2004. In 2011, however, the current-account deficit fell sharply to 3.9% of GDP from 10.7% of GDP in 2010 thanks to a substantial fall in merchandise trade deficit (thanks to mining-product exports) and surplus in the service account, despite slow growth in remittances due to UN sanctions. In 2012, all components of the current account (services, factor income, current transfer and trade balances) deteriorated, resulting in an increase in the current-account deficit to 5.7% of GDP relative to 2011 position. The current-account deficit is expected to narrow to 5.3% in 2013 as a result of a continued drop in factor income and trade deficit. With the downward trend in the service account driven by a rise in the import of mining-related services as well as by the continued squeeze on remittances from the Diaspora, the current-account deficit is projected to worsen to 6.1 9% 2014.

Table 4: Current Account (percentage of GDP)

	2004	2009	2010	2011	2012	2013	2014
Trade balance	-49.6	-30.6	-26.5	-15.4	-15.9	-13.9	-13.5
Exports of goods (f.o.b.)	1	0.9	0.8	13.3	10.5	10.6	9.6
Imports of goods (f.o.b.)	50.6	31.5	27.2	28.6	26.3	24.5	23.1
Services	-4.4	1	1	1.5	0.9	0.6	0.4
Factor income	-1.4	-0.9	-0.9	-1.1	-1.3	-1.1	-1
Current transfers	54.7	21.4	15.7	11	10.6	9.2	8
Current account balance	-0.7	-9.1	-10.7	-3.9	-5.7	-5.3	-6.1

Figures for 2012 are estimates; for 2013 and later are projections.

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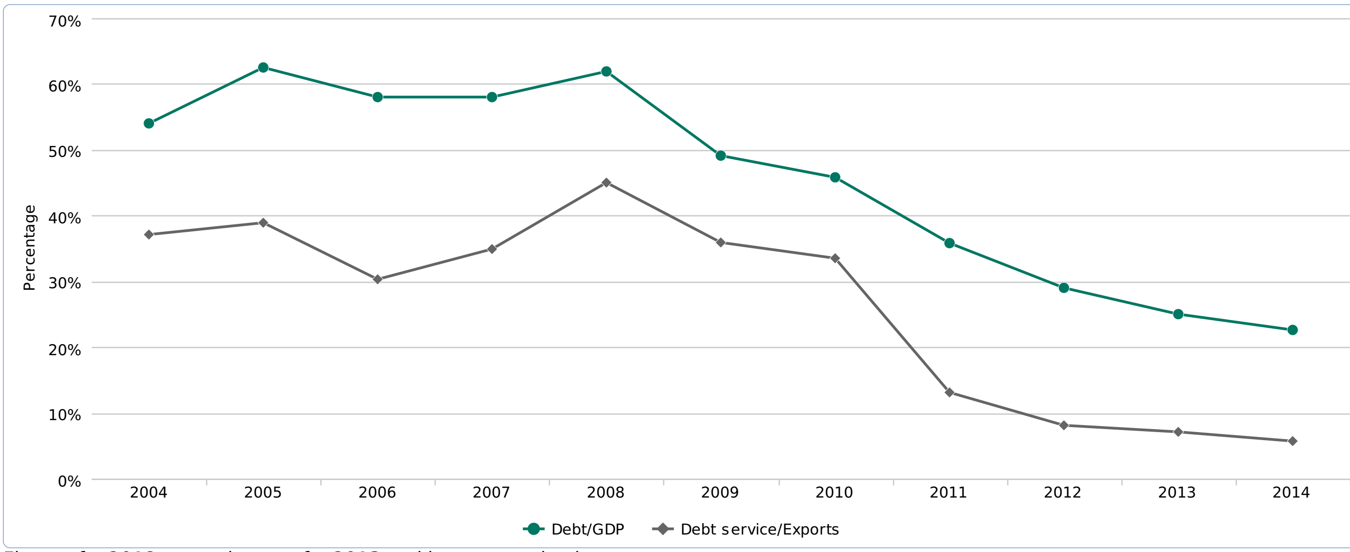
Debt Policy

Eritrea's debt has decreased gradually since 2008 but remains highly unsustainable. The country's national public debt, which stood at 145% of GDP in 2009, fell to 134% of GDP in 2011 and then to 126% of GDP in 2012 according to IMF debt data. It is important to note, however, that the real problem is the domestic debt. In 2012, domestic debt accounted for about 70% of the total national public debt. Although Eritrea is eligible for debt relief under the IMF's Heavily Indebted Poor Countries (HIPC) Initiative, its eligibility requires having an IMF Staff-Monitored Program (SMP) in place. The country has not yet indicated its readiness for the SMP and has committed to managing its debts without assistance.

Going forward, it is envisaged that increased revenue from mining activities coupled with high gold prices might mitigate debt pressure in the medium term. Despite this optimism, the UN sanctions and the temporary lull in the mining sector could aggravate debt levels in 2013. In either case, current debt levels are not sustainable and require structural policy changes directed at reducing both military and non-military public expenditure.

Figure 2: Stock of total external debt and debt service 2013



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Economic & Political Governance

Private Sector

Eritrea still remains uncompetitive in the regional and global arena because of its weaknesses in supply-side responses, its overall business environment and its foreign-exchange restrictions. Neither does Eritrea have a clearly organised regulatory system; procedures are haphazard and irregularly enforced. Additional impediments to both domestic and foreign private investment include the lack of objective dispute-settlement mechanisms, difficulty in obtaining licences, large-scale use of conscripted labour and expropriation of private assets. Similarly, government influence biases the courts in legal disputes. Shortage of a skilled workforce and the underdeveloped state of the financial sector continue to affect the cost of doing business and the associated investment risks.

It is in this context that the World Bank report *Doing Business 2013* ranks the country 182nd out of 185 countries, the same position as in the 2012 report. The report notes that it takes 13 procedures and 84 days to start a business, costs 52.3% of income per capita, and requires paid-in minimum capital amounting to 203.1% of income per capita in Eritrea, compared with 8 procedures and 34 days, costs at 67.7% of income per capita, and the required paid-in minimum capita amounting to 116 % of income per capita on average for sub-Saharan African countries.

Meanwhile, a two-day national investment conference was held in the Eritrean capital, Asmara, in December 2012. During the conference, the Minister of Trade and Industry, Estifanos Habte, revealed the government's intention to transfer to private ownership 32 manufacturing projects and several other state-owned enterprises, either through the sale of shares or on the basis of sole proprietorship. These companies include the Asmara Brewery, the Red Sea Bottlers Share Company, the Dekemhare pasta factory, the Eritrean Telecommunications Services Corporation and the National Insurance Corporation of Eritrea, which was partly privatised in 2004.

Although FDI inflows remained quite low, they have been boosted since 2009 by inflows into the mining sector. The government had, however, courted foreign investors selectively to explore underexploited resources in mineral extraction, energy, fisheries and tourism. Other sectors, such as cement and offshore oil drilling, have the potential to attract investors.

Financial Sector

Eritrea's financial system is dominated by small, state-run institutions providing a rudimentary and narrow range of financial instruments. The system consists of a central bank, the National Bank of Eritrea (NBE), four other banks, which are dominated by the Commercial Bank of Eritrea, and an insurance company, the National Insurance Corporation of Eritrea. Thus far, no local or foreign private institution has been allowed to operate in Eritrea (with the exception of foreign-exchange bureaus) despite a comprehensive Banking and Financial Institutions Act, which empowers the NBE to licence local or foreign private financial institutions. As witnessed in most African countries, there is no deposit insurance company, discount house or formal capital market.

Given the shallowness and scope of the financial sector, it can only provide basic deposit and loan services to Eritrean citizens.

Falling interest rates have destabilised banks as core lending activities do not generate sufficient income to cover operating costs at most commercial banks. The banking system is also still burdened by a high rate of non-performing loans and low profitability. Unfortunately, most Eritreans, especially the poor majority, have limited access to the country's formal financial institutions because of the challenges of meeting their collateral requirements. This is further exacerbated by the absence of documented credit history.

Public Sector Management, Institutions & Reform

In 2011, the public administration and defence share of GDP was estimated at about 28%, driven largely by military expenditure. As a result of the country's focus on the military, other sectors suffer from inadequate access to public finance. Nevertheless, public commitments have been made to finance poverty-reduction initiatives. This is especially the case in documents such as the Interim Poverty Reduction Strategy Paper. These strategies outline, amongst others, the government's approaches to address the problems of vulnerable groups. Limited budget allocations of both financial and human resources, however, inhibit the effective implementation of these strategies.

Natural Resource Management & Environment

Government measures to upgrade the environment include planting trees and terracing activities, which are performed by national-service conscripts. Acute shortages of modern energy services as well as inadequate kerosene are critical challenges in Eritrea. This leads to use of wood and charcoal for cooking purposes with its associated detrimental effects on the environment. Overall, the degree of environmental pollution is low, given the low rate of exploitation of coastal and marine resources and the low level of industrial activities.

Investment in renewable energy and expansion of the electricity sector is necessary not only for domestic purposes but also for commercial and industrial use in order to facilitate Eritrea's economic development and protect the environment.

Political Context

The ruling PFDJ, under the leadership of President Isaias Afewerki, continues to dominate the political arena. Eritrea has never held an election for the legislature or the presidency in spite of the political pluralism enshrined in the country's 1997 constitution. There is no evidence of a regime plan towards democratisation. According to the UN Human Rights Council, between 5 000 and 10 000 political prisoners were being held in 2012, many for long periods and without trial. In addition, Eritrea records on a daily basis an increasing number of political-asylum seekers fleeing the country. High-profile asylum seekers in 2012 include four Eritrean athletes who were competing at the 2012 London Olympics in the United Kingdom (UK). The flight of the Olympians was followed by the escape of 17 members of the Eritrean national team in Kampala, Uganda, during the football tournament organised in late 2012 by Council for East and Central Africa Football Associations.

Political analysts have speculated that the dominance of the current regime will remain until at least 2015. Recent events circulated in the media, however, such as the defection in October 2012 of two pilots to Saudi Arabia with the presidential jet, the defection of Ali Abdu, Eritrean Information Minister and former presidential acolyte, and the January 2013 attempted coup – where 100 members of the Eritrean military were reported to have surrounded the information ministry and a few other government buildings – suggest that the current regime's firm hold on power is being openly threatened with associated great risk. The rebellious soldiers forced Eritrea's state-owned media to broadcast a call for the release of political prisoners and implementation of the constitution.

Given its weak democratic record, the country's ranking in most political or democratic indexes is very poor.

Furthermore, transparency of public-finance management remains limited. Since the national budget is not publicly available, the task of assessing the quality of public-finance management is difficult. The latest *Governance Matters* report states that Eritrea has made some progress in the governance indicator for political stability but has fared worse in the areas of accountability, rule of law, control of corruption, government effectiveness and regulatory quality. Transparency International ranks Eritrea 150th out of 176 countries in the corruption perception index for 2012.

Eritrean conflicts with most of its neighbours persist. Djibouti has reiterated its government's impatience with the lack of progress in finalising the country's shared border with Eritrea and the return of its prisoners of war. Nonetheless, recent events such as South Sudan's intention to help resolve the border dispute between Eritrea and Ethiopia bodes well for peace between Eritrea and its neighbours.

Social Context & Human Development

Building Human Resources

According to internationally reputable sources, notably the World Health Organization (WHO), the World Bank and the African Development Bank (AfDB), Eritrea is on track to achieve the MDGs relating to child health, HIV/AIDS, malaria, other diseases and access to safe drinking water. In contrast, slow progress has been achieved in the areas of eradicating extreme poverty and the achievement of universal primary education. The problem in the education sector can be traced to inadequate classrooms and few teachers. About 60% of the qualified staff of institutions of higher education and 30% of the qualified secondary-school teachers (mostly science and mathematics teachers) are expatriate staff. Eritrea's poverty-reduction agenda emphasises the development of human resources and this emphasis is articulated in the government's draft national development plan for 2010-13.

Since 1993, the Government of Eritrea has invested some resources in human-capital development. Seven new colleges and a hands-on management school were established in the country to boost the efficiency of public-sector employees. More resources are still required, however, given the poor and declining performance of the country on most indicators in the education sector. To this end, attainment of the MDG goal on universal primary education is very doubtful. Available statistics from the United Nations Educational, Scientific and Cultural Organization reveal that Eritrea's net enrolment rate in primary education dropped to 37% in 2011 from 50% in 2005.

Elimination of gender disparity in education is a basic human right and an important MDG target. Unfortunately, girls are under-represented at the secondary- and tertiary-education levels. According to the African Development Fund, in September 2011, girls accounted for about 41% of the secondary school population and women constituted less than 30% of tertiary-education enrolment. The reasons for the low level of female enrolment in schools at the three levels of education include: an inadequate number of schools, especially in rural areas; long distances to schools; unwillingness of parents to send girls to school; a shortage of female teachers to act as role models for girls; and early marriages.

To support technical and vocational education and training in Eritrea, the AfDB approved a grant of USD 18.65 million in 2012. The project is jointly financed with the Eritrean government, which will contribute USD 2.06 million. The project aims to increase the supply of quality mid-level technicians to the economy by targeting 50 000 students.

Eritrea's health sector requires a strategy and policies to ameliorate health-related challenges. The most prominent challenge facing the health sector is a lack of trained health personnel like doctors, nurses and midwives. It is estimated that there are one doctor and six nurses per 10 000 inhabitants, high maternal-mortality ratios due to unsafe abortions, harmful traditional practices, low levels of education and long distances to health facilities.

Nonetheless, government efforts, with the support of donor agencies such as the WHO, the United Nations Children's Fund (UNICEF), the United Nations Population Fund and the United Nations Development Programme (UNDP), are yielding encouraging health outcomes, in particular with regard to maternal and infant mortality. For example, according to World Bank, WHO and UNICEF statistics, the infant mortality rate in 2011 was 46 deaths per thousand live births while the under-five mortality rate was 68 per thousand live births, down, respectively, from 86 deaths per thousand live births for infant mortality and 141 per thousand live births for the under-five mortality rate in 1990. Similarly, the maternal-mortality rate fell to 240 deaths per one hundred thousand live births in 2010 from 880 deaths per one hundred thousand live births in 1990. At the current pace, Eritrea is very much on track to achieve MDG 5 to improve maternal health.

According to UNDP sources, there are on-going efforts by the government to upgrade workplace-based HIV/AIDS policy and programmes. These programmes address HIV/AIDS in the workplace in order to reduce its incidence and improve the living conditions of the target populations through awareness-raising programmes, and preventive and care-support measures to ward off an HIV/AIDS pandemic.

Poverty Reduction, Social Protection & Labour

Eritrea is one the world's poorest nations with an estimated annual GDP per capita of USD 482. Data sourced from the UNDP reveals that about two-thirds of the country's population are living below the poverty line. The same source reveals that on average, Eritrean women are poorer than their male counterparts and that the incidence of poverty is higher in rural areas (about 65%) than in urban areas like Asmara (slightly more than 50%). Other key socioeconomic and demographic indicators are also dismal: for example, low standards of living and income, and inadequate basic social services in health, education and social protection.

The government conscription programme, tagged by the Eritrean human rights organisations as "slave labour", continues unabated by the government. The programme involves the permanent engagement of about 400 000 men and women between the ages of 18 and 40-45 who are held under military discipline for about USD 12 a month. While the conscripts are supposed to be engaged for no more than 18 months, available information in the media has revealed that not less than tens of thousands Eritreans involved in the programme have remained mobilised for a decade or more. This indefinite conscription for a pittance is cited by the majority of Eritrean asylum seekers as the main trigger for fleeing the country.

The poor living conditions of the Eritrean people are further confirmed by the UNDP's Human Development Index (HDI) and the Global Hunger Index (GHI) developed by the International Food Policy Research Institute. At an HDI score of 0.351, the UNDP ranked Eritrea 181th out of 187 countries in 2011. According to the 2012 GHI, Eritrea is one of the three countries in the world with extremely alarming GHI scores. The other two countries are Burundi and Haiti. Accordingly, the government, with the assistance of development partners, implemented some programmes aimed principally at alleviating poverty. These include: Youth Employment and Skills Development (UNDP); the Anseba Local Development Project (United Nations Capital Development Fund; the UNDP and Belgian Survival Fund; Improving Fishing Communities' Livelihoods to Enhance National Food Security (UNDP, WHO and other donors); and the Eritrea HIV/AIDS/STI, TB, Malaria and Reproductive Health Project (International Development Association).

Gender Equality

The Eritrean government's commitment to gender equality is very visible in the labour and land-reform proclamations. The Labour Proclamation, effective since November 2001, provides for the legal protection of women in employment and specifies equal opportunity and maternal-protection benefits for women, while the Land Reform Proclamation (1994 and 1997) gives every citizen the right to use land without discrimination on the basis of gender, religion or ethnicity. Consequently, women have gained equal rights and the opportunity to access land for farming, building houses, and businesses both in rural and urban areas. Women make up 30% of the workforce, and are very active in the informal sector. Eritrean women controlled about 40% of all small- and medium-sized enterprises. Maternal mortality rates, due partly to potentially harmful traditional practices, are declining, but education levels remain low. Distances to health facilities and the cost of transport are also factors preventing pregnant women from seeking health care. Notwithstanding, Eritrean society remains traditional and patriarchal, and men retain privileged access to education, employment and the control of economic resources. According to the Social Institutions & Gender Index, Eritrean women have access on average to only 9% of available loans from commercial banks due to lack of collateral.

In partnership with government and donor agencies, an NGO, the National Union of Eritrean Women (NUEW) is playing a considerable role in empowering Eritrean women and fostering their participation in the movement for national liberation and social justice. Currently, the NUEW is considered to be the main organisation solely responsible for the advancement of gender equality in the country. NUEW activities include: providing skills training and supporting women to be a productive and creative national workforce; conducting seminars and workshops on issues such as gender awareness, women's legal-rights literacy and women's and land rights; conducting research on women's issues and disseminating relevant information; embarking on income-generation activities such as horticulture, the Water and Donkey Project and the Handicraft Project; and supporting victims of the war, especially women and children, by providing basic materials and counselling. Capacity constraints and lack of access to adequate resource allocations, however, are key challenges limiting the performance of the organisation.

Thematic analysis: Structural transformation and natural resources

Eritrea, part of the Arabian-Nubian Shield, possesses a geological setting that is favourable for both the exploration and the production of minerals. Notable mineral deposits in Eritrea include gold, silver, copper, zinc and potash. Others are nickel and chromite. In 2011, activities in the mining sector picked up with the onset of commercial mining and exports of gold and silver at the Bisha mine operated by Canada's Nevsun Resources Ltd. According to Capitaleritrea news records, the Bisha mine is expected to produce 30.05 million grams of gold, 266.48 million grams of silver, 332.93 million kilogrammes of copper, and more than 450 billion grams of zinc over its 10-year mine life. Another landmark milestone is the Colluli Potash Project being run by South Boulder Mines, an Australia-based company. The potash project is expected to commence production of potash in 2016. In addition, the UK's Andiamo Exploration Ltd. (gold) and the Chinese Beijing Donia Resources Co. and Land Energy Group and many others are very active in the sector. In 2012 and for the foreseeable future, the mining sector was and will be the main driver of the country's economic growth.

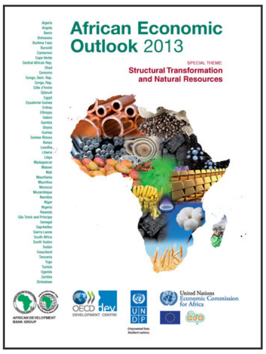
Contrary to expectations, the 2009 and 2011 UN Security Council sanctions imposed on Eritrea have not had a negative impact on operations and investments in the mining and agriculture sector. While the 2009 sanction consists of an arms embargo as well as asset freezes and travel bans on a number of Eritrean political and military leaders, the 2011 sanction requires international companies operating in the country's mining sector to ensure that funds from the sector are not used to destabilise the region. It also demands that member states ensure that no illicit means are used to collect the 2% "Diaspora tax" that Eritrea levies on its citizens working abroad.

Hitherto, the government's stake in any mining project has been 10% with an option to buy a further 30% of shares. Recent negotiations by the government-owned Eritrean National Mining Corporation for a 50-50 profit share on the Colluli Potash Project with the Australia-based South Boulder Mines may, however, further scare investors due to policy uncertainty. The government's desire for a 50-50 profit share at Colluli may be connected to the high profit potential and the low capital cost of the project. This unprecedented transaction implies that contracts with investors can now be negotiated on a project-by-project basis. Overall, however, there has been limited value addition to Eritrean natural resources. The majority of Eritrea's mineral and other tradable commodities are exported in their raw form. The country is therefore foregoing numerous economic and social opportunities that can be derived from the local processing of natural resources.

Recognising some of these impediments, the government has implemented plans to put in place far-reaching measures to address the issues. For example, the agreement signed in 2012 with the neighbouring Sudan's Gold Refinery will cut production costs for gold and silver refinery, currently shipped to foreign countries in Europe and Asia at huge expense.

The contribution of agriculture to the economy is minimal, though the sector engages about 80% of the workforce. In addition, Eritrea's suitable endowments in animal husbandry and livestock have not been profitably harnessed. The main obstacles lie in: infrastructure constraints; the absence of modern techniques and equipment for farming; and inadequate rainfall and resources for expansion and investment. With modern production techniques and the development of irrigated agriculture, high investment returns can be obtained. Investment opportunities abound in dairy and meat products, live-animal exports, hides, skin and leather exports, horticulture and cash crops such as coffee, cotton and flowers. Presently, crops grown in Eritrea include wheat, sorghum, lintels, beans, millet, barley and teff.

Another sub-sector with good but unexplored potential is fisheries. While the maximum yield is around 80 000 tonnes, only 14 000 tonnes are currently being traded. Meanwhile, analysis of the evolution of GDP in a longer-term perspective has revealed that the share of the agriculture sector in GDP, which stood at 15.1% in 2000, increased to 17% in 2011 with significant fluctuations recorded between the two periods. Similarly, the industry share of GDP grew marginally from 23% in 2000 to 24.1% in 2011. Two main items that drove the industry expansion are the mining and construction sub-sectors. The services sector remains the mainstay of Eritrea's economy, accounting for more than half of GDP throughout the period. Its contribution to GDP has however followed a downward trend from 61.9% in 2000 to 58.9% in 2011. Overall, structural transformation driven by natural resources is a prerequisite to unlock Eritrea's economic potential.



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