

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



GOVERNMENT OF THE STATE OF ERITREA

**ERITREA INTERIM COUNTRY STRATEGY PAPER (2022-2024) AND 2021 COUNTRY PORTFOLIO PERFORMANCE
REVIEW**

REPORT

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**EAST AFRICA REGIONAL DEVELOPMENT AND BUSINESS DELIVERY OFFICE
COUNTRY ECONOMICS DEPARTMENT
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AFRICAN DEVELOPMENT BANK GROUP



ERITREA

INTERIM COUNTRY STRATEGY PAPER (2022-2024) AND 2021 COUNTRY PORTFOLIO PERFORMANCE REVIEW

REVISED VERSION

ECCE/RDGE

June 2022

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ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AfDB	Africa Development Bank
AWF	African Water Facility
ARII	Africa Regional Integration Index
CEN-SAD	Community of Sahel-Saharan States
CO2	Carbon Dioxide
CODE	Committee on Operations and Development Effectiveness
COMESA	Common Market for Eastern and Southern Africa
COTS	Commercial-off-the-shelf
COVID-19	Corona Virus Disease
CPIA	Country Policy and Institutional Assessment
CPIP	Country Performance Improvement Plan
CPPR	Country Portfolio Performance Review
CR	Completion Report
CFRA	Country Fiduciary Risk Assessments
CSOs	Civil Society Organizations
CSP	Country Strategy Paper
DMFAS	Debt Management and Financial Analysis System
DPs	Development Partners
DRSLP	Drought Resilience and Sustainable Livelihood Program
RWSISPRC	Resilient Water and Sanitation Infrastructure Support Project for Rural Communities
EIDB	Eritrea Investment and Development Bank
ENDF	Ethiopian National Defense Force
EPHS	Eritrean Population and Health Survey
EPS	Eritrean People's Sovereignty
ESTAP	Eritrea Strengthening Tax Administration Project
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
G20	Group of Twenty
GDP	Gross Domestic Product
GEF	Global Environment Fund
GIR	Gross International Reserves
GNI	Gross National Income
GoSE	Government of the State of Eritrea
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HoA	Horn of Africa
HoAI	Horn of Africa Initiative
I-CSP	Interim Country Strategy Paper
ICT	Information and Communication Technologies

IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management Information System
IGAD	Intergovernmental Authority on Development
IIAG	Ibrahim Index of African Governance
ILO	International Labour Organization
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contribution
INDP	Interim National Development Plan
Kt	Kiloton
MDA	Ministries, Departments and Agencies
NSO	National Statistical Office
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PBA	Performance-Based Allocation
PFM	Public Financial Management
PFM&SCBP	Public Financial Management and Statistics Capacity Building Project
PRDM	Policy Reform Dialogue Matrix
RBF	Results Based Framework
RDGE	East Africa Regional Development and Business Delivery Office
RMS	Revenue Mobilization Strategy
SDGs	Sustainable Development Goals
SMME	Small, Medium and Micro Enterprises
SMP	Staff Monitored Program
STVET	Support to Technical and Vocational Education and Training
TSF	Transition Support Facility
TYS	Ten Year Strategy
TVET	Technical and Vocational Education and Training
UA	Unit of Account
UAE	United Arab Emirates
UN	United Nations
UNDP	United Nations Development Programme
US\$	United States Dollar
USA	United States of America
WBG	World Bank Group
WDI	World Development Indicators
WHO	World Health Organization
WTO	World Trade Organization

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CURRENCY EQUIVALENTS

March 31, 2021

UA 1	=	US\$ 1.3948
UA 1	=	EUR 1.2455
UA 1	=	ERN 21.0275
US\$1	=	ERN 15.0750

GOVERNMENT FISCAL YEAR

January to December

WEIGHTS AND MEASURES

Metric System

1 tonne	=	2204 pounds (lbs)
1 kilogram (kg)	=	2.204 lbs
1 meter (m)	=	3.28 feet (ft)
1 millimeter (mm)	=	0.03937 inch (“)
1 kilometer (km)	=	0.62 mile
1 hectare (ha)	=	2.47 acres

MAP OF ERITREA



Disclaimer: This map is for illustration purposes and use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the African Development Bank any judgment concerning the legal status of a territory nor any approval or acceptance of these borders.

1. This report presents the Bank Group's Interim Country Strategy Paper (I-CSP) 2022-2024 for Eritrea and 2021 Country Portfolio Performance Review (CPPR). An I-CSP instead of a fully-fledged CSP has been prepared because of the absence of a National Development Plan (NDP). The interim NDP (2014-2019) expired and preparation of a new NDP has been delayed by capacity gaps and COVID-19 containment measures. Drawing from the October 2021 Eritrea Country Diagnostic Note, the I-CSP 2022-2024 examines recent developments in political and socioeconomic context; highlights the structural, sectoral, and cross-cutting constraints; and articulates the strategy to inform Bank support to Eritrea over the next 3 years. The report builds on the lessons learned and development results achieved during the I-CSP 2017-2021. On 8 October 2021, the Committee on Operations and Development Effectiveness (CODE) endorsed the strategic orientation of the new I-CSP when it reviewed the Eritrea I-CSP 2017-2021 Completion Report combined with 2019-2020 CPPR. In endorsing the single Priority Area, CODE recommended that Management works closely with the authorities and other development partners (DPs) to address the country's development challenges. The I-CSP 2022-2024 is aligned with the country's development priorities, Agenda 2063, and the Sustainable Development Goals. The Strategy is also aligned with the Bank's Ten-Year Strategy, the High 5 priorities, the Strategy for Addressing Fragility and Building Resilience in Africa (2022-2026) and other Corporate Strategies.

2. The landmark peace, friendship, and cooperation agreements with Ethiopia in 2018 provided an opportunity for deepening regional integration and economic cooperation, but ongoing insecurity in the Horn of Africa (HoA) region could impede these ambitions. In January 2020, Eritrea, jointly with Ethiopia and Somalia, prepared a plan of action to consolidate peace, stability, and security and promote socioeconomic development. These developments marked a turnaround from two decades of conflict for Eritrea, leading to relative peace and stability. However, the conflict in northern Ethiopia could reverse these gains through disruption of supply and value chains and impediments to cross-border trade. Despite the low governance indicators, Eritrea recorded an improvement in the Bank's Country Policy and Institutional Assessment (CPIA) rating for the governance cluster of 2.375 (1 is very weak and 6 is very strong) in 2020 compared to 2.2 in 2018 and 2.1 in 2016.

3. Owing to decades of conflict with devastating effects on the economy, Eritrea remains classified as a transition state and low-income country with Gross National Income per capita of US\$ 880 in 2020. Eritrea's socioeconomic development has been impeded by various factors including slow progress towards higher value-added economic activities and diverse manifestations of vulnerabilities, notably susceptibility to domestic and external shocks. The structure of the economy has not changed substantially over the last three decades. The services sector accounts for the largest share of GDP, but this share has decreased from 57.4% in 1992 to 51.4% in 2021 whereas the GDP share for the industry sector has increased from 12.0% to 31.3% over the same period, largely driven by construction and mining. Manufacturing has stagnated, reflecting low value-added production as the country continues to export unprocessed products. The share of agriculture in GDP decreased from 30.6% in 1992 to 17.3% in 2021, but the sector is still the largest employer.

4. The economy recovered from a 0.6% contraction in 2020 to grow by an estimated 2.9% in 2021 following a rebound in global demand and prices for commodities. The economic contraction in 2020 was due to several factors, notably desert locust invasions and the COVID-19 pandemic, reflecting the economy's vulnerability to shocks. The fiscal deficit improved from 4.4% of GDP in 2020 to 4.0% in 2021, reflecting a recovery of public revenues and ongoing fiscal consolidation measures. The current account surplus improved to 13.5% of GDP in 2021 from 11.4% in 2020, following a gradual recovery in exports in line with the pick-up in global demand and prices for commodities. The medium-term outlook is positive, with real

GDP growth projected at 4.7% and 3.6% in 2022 and 2023, respectively. On the supply side, growth will be led by the services sector followed by industry. On the demand side, growth will be driven by recovery in private consumption as economic activity stabilizes, with positive investor sentiment increasing investment demand. The key downside risks to the growth outlook include the civil disturbance in northern Ethiopia, unsustainable debt, infrastructure bottlenecks, COVID-19, and the impact of the Russia-Ukraine conflict.

5. The total value of the Bank’s portfolio in Eritrea stood at UA 55.5 million (US\$ 77.7 million) as of end-February 2022, almost twice the 2016 value of UA 30.1 million (US\$ 42.1 million). Agriculture accounted for 62% of the ongoing portfolio, followed by education (24%), governance/multi-sector (12%) and water and sanitation sector (2%). Regarding portfolio performance, 5 out of the 12 ongoing operations require close attention for several reasons including delays in start-up, procurement, and disbursement. These systemic portfolio implementation challenges reflect capacity gaps due to limited understanding of the Bank’s procurement and disbursement rules and procedures by Project Management Units (PMU) staff. To address this shortfall, the Bank has scaled up its fiduciary training for PMU staff.

6. Creating inclusive, sustainable, and highly remunerative economic opportunities to reduce poverty and income inequality requires expanding production to diverse sectors and increasing value-addition. Eritrea’s overarching development challenge, which has persisted over the past three decades, remains the slow progress towards higher value-added production, constraining economic diversification and structural transformation. The overarching development challenge is aggravated by several underlying development challenges, notably inadequate infrastructure; low productivity in agriculture; vulnerability to commodity price shocks and climate change; and weaknesses in institutional and human capacities. The challenges have been aggravated by the COVID-19 pandemic.

7. To respond to Eritrea’s key development challenge, the main objective of I-CSP 2022-2024 is to support the country to boost economic diversification and agro-industrialization to create higher value-added formal wage employment, build resilience, and lay the foundation for structural transformation, building on past Bank support and achievements. To achieve this objective, the I-CSP proposes a single priority area “*developing quality and sustainable infrastructure to support agricultural value-chains for economic diversification and structural transformation*”. The new I-CSP will place emphasis on key enablers for agricultural value chains development to lay the foundation for agricultural transformation, economic diversification, resilient and inclusive growth, and structural transformation. In this context, the new I-CSP differs from the previous I-CSP by placing emphasis on the enablers for agro-led industrialization such as renewable energy and water for production. In tandem with guidance from CODE and the Bank’s Paper on Selectivity (Sharpening the Bank’s Strategic Focus – A Proposal to Increase the Bank’s Selectivity approved by the Board in May 2021), the Bank will focus on fewer but larger projects to maximize developmental impact. Cross-cutting themes including gender, climate change, and food security, will be integrated in Bank operations. Support to improve the institutional and regulatory frameworks will also enhance the enabling environment for private sector development and complement the infrastructure investments, which seek to de-risk private investment and finance.

8. The indicative financing for the new I-CSP is UA58.4 million (US\$81.46 million) in grants, comprising resources from ADF 15 (2020-2022) and the first two years of ADF 16 (2023-2024). The 3-year indicative operations program 2022-2024 comprises 2 projects in the energy and water and sanitation sectors. To augment Eritrea’s limited allocation, the Bank will seek complementary financing from Trust Funds; special funds, such as the Affirmative Finance Action for Women in Africa; and explore co-financing opportunities with other DPs.

9. Management hereby invites the Boards of Executive Directors to review and approve the Bank Group’s I-CSP 2022-2024 for Eritrea combined with the 2021 CPPR.

1. INTRODUCTION

1. **This report presents the Bank Group’s Interim Country Strategy Paper (I-CSP) 2022-2024 for Eritrea and 2021 Country Portfolio Performance Review (CPPR).** An I-CSP instead of a fully-fledged CSP has been prepared because Eritrea’s interim national development plan (INDP) 2014-2019 expired and the preparation of a new NDP has been delayed by capacity gaps in responsible Government of the State of Eritrea (GoSE) ministries and COVID-19 containment measures. The I-CSP examines recent developments in political and socioeconomic context and highlights the structural, sectoral, and cross-cutting constraints, drawing from the October 2021 Country Diagnostic Note ([Eritrea CDN Final](#)). The report discusses the performance of the portfolio and lessons learned; and builds on the achievements of the I-CSP 2017-2021 to articulate the strategy to inform Bank support to Eritrea over the next 3 years. The main objective of I-CSP 2017-2021 was to support the Government to accelerate inclusive and sustainable growth through a single pillar on agricultural transformation for inclusive and sustainable growth. The I-CSP 2017-2021 Completion Report, which was endorsed by CODE on October 8, 2021, concluded that whereas Bank support responded to Eritrea’s main development challenges, emphasis should be placed on accelerating economic diversification to lay the foundation for structural transformation, and an inclusive and resilient economy. CODE recommended that Management work closely with other development partners (DPs) to support Eritrea’s development, sustain support to debt management and examine options for harnessing remittances to catalyse private sector development.

2. **The main objective of the Bank’s new I-CSP 2022-2024 is to support Eritrea to boost economic diversification and agro-industrialization to create higher value-added formal wage employment, build resilience, and lay the foundation for structural transformation, building on past Bank support and achievements.** To achieve this objective, the I-CSP 2022-2024 will focus on a single Priority Area – *developing quality and sustainable infrastructure to support agricultural value-chains for economic diversification and structural transformation*. This priority area mirrors the single pillar of I-CSP 2017-2021 and allows the Bank to consolidate and build on achievements from its previous support. Nonetheless, drawing from the lessons learned and CODE’s guidance (Annex A4), the I-CSP 2022-2024 will place emphasis on key enablers for agricultural value chains development to lay the foundation for agricultural transformation, economic diversification, resilient and inclusive growth, and structural transformation. Furthermore, the Bank will strengthen its support to improving the enabling environment for the private sector by strengthening the institutional and regulatory framework, notably in the extractives sector. The I-CSP will selectively provide support in two sectors: energy; and water and sanitation. The I-CSP is aligned with the government’s priorities notably agriculture, nutrition and food security, infrastructure, and green economy; the Sustainable Development Goals (SDGs); and Vision 2063 of the African Union. The strategy is also aligned with the Bank Group’s Ten-Year Strategy (TYS) 2013-2022ⁱ, the High 5s, the East Africa Regional Integration Strategy Paper (RISP) 2018-2022, the Bank’s Strategy for Addressing Fragility and Building Resilience in Africa (2022-2026) and the Bank’s Paper on Selectivity. The strategy was prepared in consultation with key stakeholders including the Government, DPs, private sector, and civil society.

2. COUNTRY CONTEXT AND PROSPECTS ⁱⁱ

2.1 Political Context and Prospects

3. **The signing of the landmark peace, friendship, and cooperation agreements with Ethiopia in 2018 began to normalize Eritrea’s relations with neighbouring countries.** Cooperation was strengthened in advancing peace and economic integration with other countries in the Horn of Africa (HoA), such as Somalia and Djibouti. These developments and the lifting of sanctions by the United Nations (UN) marked a turnaround from two decades of conflict for Eritrea and have led to relative peace and prosperity. However, these gains could be reversed by the ongoing conflict in northern Ethiopia. Eritrea’s participation in this conflict has attracted sanctions from the United States of America (USA) and the European Union (EU). Furthermore, trade routes especially along the southern border with Ethiopia were affected, disrupting supply chains for consumer goods and production inputs. Lastly, the conflict has affected regional peace and stability, including deepening

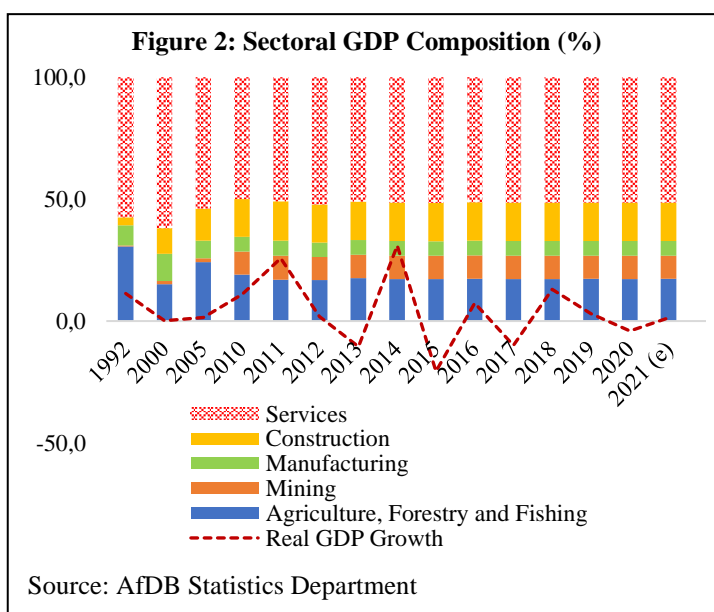
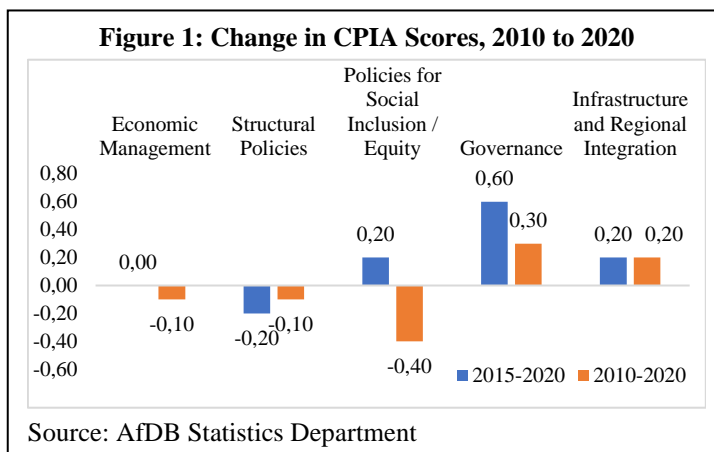
ethnic divisions, undermining social cohesion, and escalating refugee flow to neighboring countries (Annex A13).

4. Progress in improving governance has been mixed over the past 10 years.

Eritrea's overall governance scores on the Bank's Country Policy and Institutional Assessment (CPIA) showed some slightly higher improvements during the period 2015-2020 compared to the period 2010-2015 (Figure 1 and Annex A10). However, the CPIA scores on property rights and rule-based governance; quality of public administration; and transparency, accountability and corruption deteriorated over the period 2010-2020. Eritrea's ranking on the Transparency International Corruption Perception Index also deteriorated to 161 out of 180 countries (score of 22/100) in 2021 from 157 out of 180 (score of 24/100) in 2018, and below the 2021 average score for sub-Saharan Africa of 33/100. This underlines the need for greater emphasis on improving the rule of law and justice, anti-corruption mechanisms and public financial management (PFM) systems.

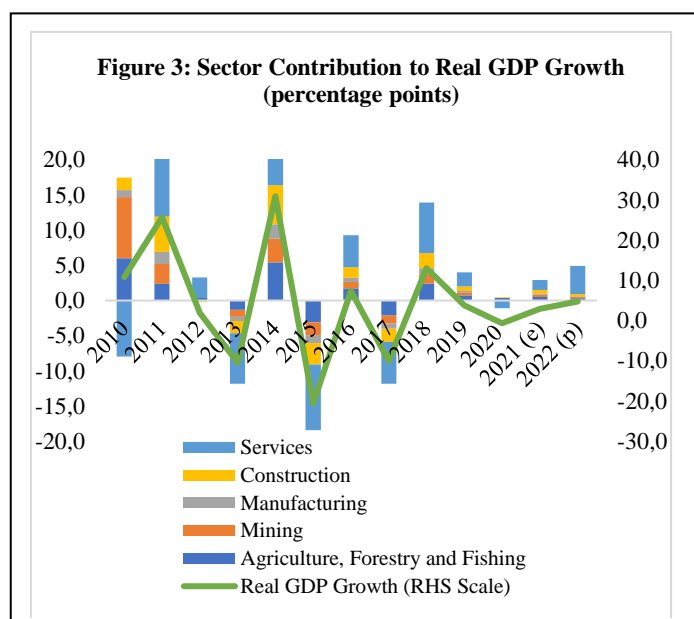
2.2 Economic Context and Prospects

5. **The structure of Eritrea's economy has only changed slightly over the past three decades in part due to conflict that devastated the economy, with the industrial sector gaining prominence, but the structural transformation process remains slow.** Eritrea is classified as a low-income country with a gross national income (GNI) per capita of US\$ 890 in 2019 and US\$ 880 in 2020 compared to US\$ 680 in 2016. The proportion of industry in GDP rose from 12.0% in 1992 to 31.3% in 2019 and is estimated at similar levels in 2020 and 2021. During the same period, the shares of agriculture and services sectors in GDP both declined from 30.6% to 17.3% and 57.4% to 51.4%, respectively (Figure 2). Growth in industry was largely driven by mining (from 0.4% to 9.6% of GDP) and construction (from 3.4% to 15.7% of GDP). The share of manufacturing in GDP declined from 8.2% to 6.0% of GDP, reflecting higher production costs, reduced competitiveness, and inadequate supply of imported raw materials due to foreign exchange shortages. In addition to the effects of the two-decade conflict, agriculture has been vulnerable to climate change (fluctuations in ocean warming and El Nino conditions in the Horn of Africa), which has affected manufacturing as agro-products are key raw materialsⁱⁱⁱ. Within the services sector, wholesale and retail trade, hotels, restaurants, transport, storage, and communications accounted for the largest share of the sector's value added but this share has dropped since 1992^{iv}. Despite the reduction in the share of agricultural employment in total employment from 70.9% in 1993 to 63.1% in 2019, the sector remains the largest employer. The share of employment in services and industry increased from 20.4% and 7.2% in 1993 to 29.5% and 9.3% in 2019 respectively.



6. Growth has been weak and volatile mainly due to adverse external and internal shocks including climate change and reduced construction activities. Real GDP growth averaged 1.8% over the period 2017-2021, which was lower than the average of 4.2% for East Africa and 2.1% for sub-Saharan Africa. Real GDP contracted by 10.0% in 2017 owing to severe drought, highlighting the country's vulnerability to climate shocks. GDP growth recovered to 13.0% in 2018 on account of increased investment in the mining and housing construction sectors and the

strong recovery in the services and agriculture sectors before moderating to 3.8% in 2019 following a severe drought and rationing of construction materials by the Government of the State of Eritrea (GoSE). On the supply side, the main driver of growth was the services sector, contributing an average of 1.1 percentage points between 2017 and 2019 (Figure 3), followed by the industry sector at an average of 0.6 percentage points. Construction (0.3 percentage points) and mining (0.2 percentage points) were the main contributors to industry sector growth while the contribution of manufacturing (0.1 percentage points) remains low due to high production costs and low competitiveness. The bulk of manufacturing is low value primary



agro-processing. Agriculture contributed an average of 0.3 percentage points to growth over the same period. On the demand side, growth was driven by private consumption. In 2020, real GDP contracted by 0.6% due to the desert locust invasion and the COVID-19 pandemic (Annex A15.1). Containment measures negatively impacted the services sector notably hospitality, tourism, transportation, and trade, and disrupted regional supply chains. Contraction in global demand and prices for commodities affected mining and the industry sector. The economy recovered and grew by an estimated 2.9% in 2021 following a rebound in global demand and prices for commodities. The recovery was led by the services and industry sectors on the supply side and private consumption on the demand side.

7. The medium-term outlook: The economic outlook is positive on account of the pickup in global demand and prices for commodities. Economic growth is projected at 4.7% and 3.6% in 2022 and 2023, respectively. A gradual improvement in global demand and prices is expected to drive a rebound in metal exports (copper, gold, ores, and concentrates) which accounted for about 51% of total exports in 2019 and 2020. Thus, industry and services sectors are expected to lead growth on the supply side. On the demand side, recovery in private consumption and positive investor sentiment are expected to boost investment demand as the economy fully opens and metal exports recover. The downward risks to the growth outlook include the COVID-19 pandemic, the conflict in northern Ethiopia, climate shocks and desert locust invasion, fluctuations in commodity prices due to limited export diversification. The Russia-Ukraine conflict has increased global food and oil prices and could stoke food shortages and inflation and affect energy generation in Eritrea (Annex A15.2), considering that Russia and Ukraine account for almost 100% of Eritrea's wheat imports and the country is dependent on fossil fuels for electricity generation.

8. Fiscal Policy: Eritrea has registered persistent fiscal deficits during 2017-2021 (except for a surplus in 2018), mainly due to weaknesses in public revenue mobilization. The national budget is dominated by recurrent expenditures, which constituted an average of 99.5% of total spending during 2017-2020. The fiscal surplus of 4.2% in 2018 (Figure 4) reflected a policy shift towards fiscal consolidation. However, owing to the COVID-19 pandemic, the fiscal position has been strained and the overall fiscal balance including grants worsened from a surplus of 0.6% of GDP in 2019 to a deficit of 4.4% in 2020, but moderated to an estimated deficit of 4.0% in 2021. This reflects increased public spending to mitigate the impact of COVID-19 amidst reduced revenues. The fiscal

deficit was mainly financed by drawing down government deposits with the Central Bank. The deficit is projected to narrow to 1.0% of GDP in 2022 and a surplus of 0.1% in 2023 (Figure 4) on the back of improved domestic revenues as the economy recovers.

9. Public Debt and sustainability: Eritrea is in debt distress, but the public debt to GDP ratio has decreased since 2017 due to fiscal consolidation efforts.

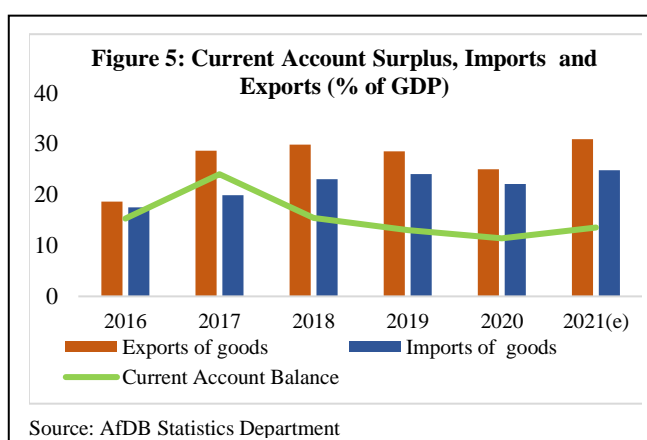
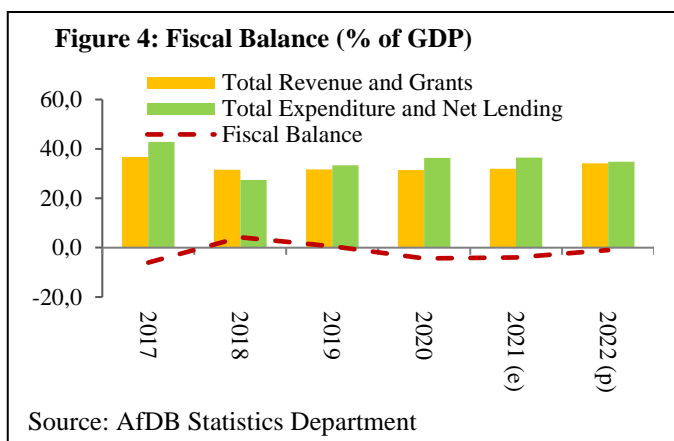
The gross public debt to GDP ratio decreased from 202.5% in 2017 to 189.4% and 185.8% of GDP in 2019 and 2020, respectively. About 67% of total public debt is domestic. This reflects the government's preference for domestic borrowing to reduce foreign exchange and rollover risks.

However, increased domestic borrowing crowds out the private sector, considering the nascent financial sector. The build-up in debt was driven primarily by fiscal deficits and high real interest rates, with real GDP growth partially offsetting the rise in debt. The debt to GDP ratio was estimated at 185.6% in 2021 and projected to reduce further to 165.7% in 2022, respectively, due to government efforts to accelerate debt servicing. The government showed limited appetite for borrowing in the face of COVID-19 induced spending and remained committed to its strategy of debt containment. While fiscal consolidation will be beneficial, debt restructuring would be necessary to ensure a gradual return to debt sustainability (Annex A11)^v.

10. Monetary Policy and Inflation: The overriding objective of monetary policy is to maintain price stability using a fixed exchange rate as a policy tool. Eritrea experienced deflation during 2017-2019, with inflation decreasing from -13.3% in 2017 to -16.4% in 2019, on account of external supply-side factors such as the low prices for imports. The temporary opening of the border with Ethiopia enabled access to cheaper consumer goods and contraband trade, leading to a reduction in consumer prices. Inflation increased to 4.8% in 2020 due to the impact of COVID-19 on supply chains. Inflation dropped to an estimated 4.5% in 2021 following the gradual easing of containment measures but is projected to increase to 6.2% in 2022 reflecting the impact of the Russia-Ukraine conflict but moderate to 3.5% in 2023, as domestic production improves. The local currency, Nakfa, is fixed at 15 per United States dollar on the official market but a parallel market exists, which reflects foreign exchange shortages.

11. External Sector: The current account surplus (including official transfers) is expected to be sustained over the medium term, but fluctuations in global demand and prices for commodities are a key risk.

The current account surplus averaged 15.9% of GDP over the period 2017-2020. However, it narrowed from 24% of GDP in 2017 to 13.0% in 2019 (Figure 5), reflecting an increase in imports amidst a slow-down in the growth of exports of copper and gold as global prices declined. Minerals (copper, gold, ores, and concentrates) constituted about 51% of total exports in 2019 and 2020. Foreign exchange scarcity impeded access to imported raw materials for domestic exporting firms, which aggravated the weaknesses in export performance. Foreign exchange shortages also held back import growth. The current account surplus further dropped to 11.4% of GDP in 2020, on account of reduced export earnings in line with reduced global demand for commodities but improved to 13.5% of GDP in 2021 reflecting the global economic recovery. The current account surplus is projected to converge to 13.5% of GDP in 2022 and 2023 reflecting gradual stability in



global demand and prices for commodities. Foreign direct investment (FDI) inflows increased from US\$ 52 million in 2017 to US\$ 67 million in 2019, with the bulk of the FDI being channelled to mining activities. Remittances constitute an essential pillar for Eritrea's resilience to socio-economic pressures and accounted for an average of 14% of GDP during 2010-2019, thereby bolstering the external current account. Consequently, total net financial flows increased from US\$ 72 million in 2016 to US\$ 276 million in 2019, driven by net private flows, largely FDI and net official flows. Eritrea was allocated 15.2 million in new special drawing rights (SDR), equivalent to US\$ 21.51 million and 0.9% of GDP. The SDRs are expected to consolidate Eritrea's gross international reserves, which were estimated at 3.1 months of imports in 2021, up from 2.5 months in 2020.

12. Private Sector and Business Environment: Eritrea's private sector is dominated by small and medium sized enterprises that are poorly linked to value chains and contribute less than 7% to GDP. The economy is dominated by the public sector with private sector activities predominantly in agriculture, industry (construction), and services sectors.^{vi} The main constraints to private sector participation are inadequate infrastructure, structural deficiencies such as state controls on license provisions, limited access to foreign exchange for importation of raw materials, rationing of construction materials, and delayed policy reforms, including in the financial sector. Access to credit is constrained by the absence of reliable secure transaction laws and robust credit information sharing. Other challenges are related to protecting minority investors, trading across borders, and enforcing contracts.

13. Financial sector: The financial sector remains small, entirely bank-based, and offering a limited range of financial services. All banks are owned by the GoSE and are a key source of deficit financing. The State-owned Eritrea Investment and Development Bank dominates the non-banking sector. Capitalization and capacity constraints continue to limit the banking sector's ability to meet the growing demand for long-term finance and related services from the public and private sectors. The Eritrean banking sector is characterized by few financial products and a high cost of borrowing, with real borrowing interest rates exceeding 9%. Digital financial services are limited as the enabling digital technology is yet to be adopted. The GoSE exerts strict control over the use of foreign currency, which has further held back financial sector development. While the regulations introduced in 2013 were aimed at relaxing currency controls, the impact has been limited. Further reforms have included the introduction of Anti-Money Laundering measures and Combating the Financing of Terrorism legislation.

14. Economic and Financial Governance: Progress in advancing economic and financial governance is slow. The quality of policies and institutional frameworks, as measured by the Bank Group's 2020 CPIA, remained low at 2.3 and below the average for Africa of 3.5. Eritrea scored highest on policies for social inclusion/equity, with a score of 2.9 (out of 6), but performed poorest in economic management, with a score of 1.6. The 2020 CPIA score was better than that of 2018 (2.2) and 2016 (2.1), but still below the African average of 3.5 in both years. The 2020 update of the Bank's Country Fiduciary Risk Assessment (CFRA, Annex A14) concluded that Eritrea's overall fiduciary risk is substantial due to: (i) the absence of an integrated computerized financial management system in the Ministry of Finance and across central Ministries, Departments, Agencies and regions (Zobas); (ii) an outdated legal and regulatory framework to address current PFM challenges and emerging reform areas; and (iii) limited human resource capacity due to the lack of qualified and experienced personnel such as accountants, information technologists and procurement specialists. The GoSE is scaling up the implementation of the recommended measures and progress made in implementing the CFRA policy actions includes: automation of the budget, accounting and debt management systems and processes; budgeting and disbursement policies such as commitment controls by the Ministry of Finance to minimize deviations between actual and planned expenditures; modernizing the Inland Revenue Department through the Bank's Eritrea Strengthening Tax Administration Project; strengthening the oversight function of the Office of the Auditor General and the Audit Services Corporation; and increased staffing levels in GoSE Ministries, Departments, and Agencies.

15. Regional Integration and Trade: Prospects for regional integration have been bolstered by the peace and friendship agreements signed with Ethiopia in July 2018. Eritrea can build on the goodwill prevailing with its neighbours to leverage regional integration for economic development, taking advantage

of its strategic location next to the Red Sea, which connects Africa with Asia and Europe. The country is a hub of transit trade through its ports of Massawa and Assab. With a population of 3.5 million, regional integration is particularly important for Eritrea to tackle the constraints of its small domestic market and to reap the potential benefits of broader access to regional and global markets. Eritrea is a member of three Regional Economic Communities (RECs), namely Common Market for Eastern and Southern Africa (COMESA), Intergovernmental Authority on Development (IGAD), and the Community of Sahel-Saharan States (CEN-SAD). Eritrea is the only African country that has not signed the African Continental Free Trade Area (AfCFTA) agreement. If signed and ratified, the AfCFTA presents opportunities for Eritrea to engage in regional and continental trade and pave the way for integration in the global trading system.^{vii}

16. Eritrea's performance in regional integration has been relatively low. According to the Africa Regional Integration Index (ARII)^{viii}, Eritrea is rated as a low performer in 2021 with a score of 0.18, 0.16, and 0.21 compared to 0.31, 0.25, and 0.43 in 2016 within the RECs of COMESA, CEN-SAD, and IGAD, respectively. These scores were also below the average of 0.37, 0.38, and 0.44 in 2019 and 0.42, 0.40, and 0.53 in 2016 for countries in COMESA, the CEN-SAD, and IGAD, respectively.

17. The Horn of Africa Initiative (HoAI) presents an opportunity to enhance Eritrea's benefits from regional cooperation and integration. This can be done by building infrastructure that would enhance connectivity with neighbouring countries and boost cross-border trade across the Horn of Africa (HoA) and beyond. The HoAI is a special initiative aimed at deepening regional integration in the subregion. It is driven by the 6 participating countries, namely Djibouti, Ethiopia, Eritrea, Kenya, Somalia, and Sudan, and is facilitated by three DPs, namely the World Bank Group, EU and the African Development Bank. The HoAI package is anchored on four pillars to achieve deeper regional cooperation and market integration in the HoA, namely: (i) Regional infrastructure connectivity; (ii) Trade and economic integration; (iii) Building resilience to climate change and other shocks, including in the region's borderland areas; and (iv) Strengthening human capital development, to address pandemics, boost skills and improve access to social services for the people of the HoA.

18. With support from the DPs, the HoAI countries have identified a package of priority projects worth US\$ 15 billion. The HoAI package includes some of the strategic projects that Eritrea stands to gain from. These include the Assab to Djibouti corridor road project that would enhance connectivity with Ethiopia and Djibouti and improve benefits from the port of Assab and the Eritrea-Ethiopia power transmission interconnector, which will greatly help Eritrea to reduce greenhouse gas (GHG) emissions associated with fossil fuel-powered generators. Other operations comprise the Project for Building Sustainable Food Systems in the Horn of Africa, which will support interventions for sustainable management of agro-pastoral land, development of climate resilient infrastructure, promotion of climate-smart innovations and technologies, supporting agribusiness development and strengthening the adaptive capacity to climate change. Effective participation in HoAI processes including policy dialogue, technical workshops, and Ministerial meetings is essential for Eritrea to realize these opportunities.

2.3 Sector Context

19. Agriculture: Despite being the main source of employment and livelihood, the agriculture sector is constrained by low productivity. Employment in agriculture (crops, horticulture, livestock, and fisheries) as a percentage of total employment was 63.1% in 2019. Arable land under cultivation, as a share of the total land area, stood at around 26% with about 75% of the population depending on rainfed agriculture. Consistent with findings of the Eritrea Country Diagnostic Note, agricultural transformation through value chain development and value addition is critical for inclusive growth and building resilience to climate change and commodity price shocks. However, the sector is experiencing declining productivity due to the application of outdated agricultural technology, inadequate access to energy and water for production, which exacerbates the impact climate change shocks on food security, and limited access to national, regional, and international markets. The country is vulnerable to climate shocks and faces a threat of food insufficiency about every five years due to severe droughts that affect 60% to 70% of the country. Excessive deforestation has resulted in soil erosion, environmental degradation, and inadequate water supplies due to semi-arid conditions. These and other constraints, highlighted in Annex A17, have affected agricultural transformation. The Five-year

Strategic Agricultural Development Plan (2019-2023) sets out the operational targets for increasing agricultural output and foreign currency earnings through exports of agricultural and agro-industrial products. The Small and Medium Commercial Farmers' Strategy (2019-2023) aims to create farm enterprises that are engaged in productive, profitable agriculture value chains, linked to domestic and international markets by 2023. Eritrea's 2021 Nationally Determined Contributions (NDC) under the Paris Agreement on Climate Change also aim to promote climate-smart agricultural practices. Harnessing these opportunities requires developing the enablers for agricultural transformation, notably infrastructure, institutional and capacity strengthening and improving the business regulatory environment to foster private sector investment and finance.

20. Blue Economy: Eritrea's Red Sea coastline is endowed with more than 300 commercial species of fish, molluscs, and crustaceans. In 2019, the total marine fisheries catch is estimated at 26,000 tonnes. Most of the catch is illegal, unreported and unregulated (IUU) fishing and includes nearly 10,000 tonnes caught by artisanal fishing and transshipped at sea to Yemen and 1,300 tonnes by unreported foreign industrial fishing.^{ix} Fishing for own consumption by fishing households amounts to 7,500 tonnes^x. In the fisheries sector, industrial production (capture) is largely in the hands of private foreign companies, which exploit Eritrean resources under very opaque conditions, and artisanal fishing is operated by rural communities along the coast. GoSE's control only spans the 8 authorized landing sites, which are largely devoid of adequate infrastructure and services. As a result, almost all landings and local fish trade is informal. The potential of fisheries resources is not fully utilized, and significant illegal fishing has led to the overexploitation of some species notably sharks and sea cucumbers. Moreover, Eritrean fisheries and coral reefs are threatened by the rising temperatures and water acidification. The underutilized infrastructure and services for artisanal fisheries hinder the development of the national and export fish market and limits the possibilities of developing value chains at national level. This is detailed in Annex A26.

21. Although tourism contributes only 1% to GDP, it is an emerging source of foreign exchange. The country's 2,234 km coastline and 350 islands in the Red Sea present an immense economic opportunity for tourism development. Foreign investors and the Eritrean diaspora have expressed interest in investing in tourism although the COVID-19 pandemic and the resulting global travel restrictions and national containment measures have reduced tourism and hospitality activities.

22. Mining has recently emerged as one of the main economic opportunities. Eritrea has recognised the mining sector as a growth pole, thus opening the sector to investors. Increased investment in copper, zinc, and potash is expected to drive growth in mining. While mining is among the government's top priorities, the legal framework needs to be updated and subsidiary regulations passed to provide incentives for private sector participation. Apart from commercially viable minerals at the Bisha Mine, potash deposits at Colluli, which is the world's shallowest potash mine, are estimated to last 200 years and have the potential to significantly boost the Eritrean economy and improve the livelihoods of its people. Potash reserve and resource deposits are estimated at 1.1 and 1.3 billion metric tonnes respectively. Colluli has a 10-year offtake agreement with EuroChem (one of the world's top fertilizer companies) to buy at least 87% of output from the first phase of development, which is expected to be completed in the medium term^{xi}.

23. Forestry provides an opportunity for green growth in Eritrea. There are three major forest/woodland types in Eritrea, namely, acacia woodlands, riverine and highland forests^{xii}. Eritrea had 1,087,000 ha of forests in 2010, which dropped to 1,055,000 ha in 2020, yielding a deforestation rate of 3%. However, plantation forest area increased from 29,000 ha in 2010 to 43,000 ha in 2020, representing a reforestation rate of 4.3%^{xiii}. The increase in plantation area is associated with the GoSE's political will as demonstrated by the launching of the greening campaign to reforest by the country's President in May 2006. According to the most recent available data, the contribution of Eritrea's forestry sector to the GDP averaged 4.7% between 2003 and 2011. In terms of trade performance, Eritrea experienced huge trade deficits of US\$ 17.6 million, US\$ 42.2 million, and US\$ 13.6 million for primary, secondary, and tertiary forest products respectively during 2010-2019. The total trade deficit for forest products amounts to US\$ 73.4 million or averaging US\$7.34 million per annum, which is a big drain on the national economy. Eritrea has a historic culture of involving communities in sustainable land

management reinforced by high political will that led to the Greening campaign Day in May 2006 and the subsequent creation of several Green Clubs around the country for land rehabilitation activities^{xiv}. With rights to land, farmers have taken up tree planting and technical guidelines to the restoration of degraded land have been developed to ensure very high survival rates for planted trees for environmental protection and food security. Indeed, as part of its NDC, Eritrea plans to increase forest carbon sequestration through reforestation.

24. Information and Communication Technology (ICT) is key but remains underdeveloped. Eritrea recognizes that harnessing the benefits of globalization requires investments in ICT infrastructure and developing the required human capacities. The National Policy for ICT covers government and education sub-sectors, although the inadequate ICT infrastructure is a key bottleneck to expanding access to ICT. As a result, the internet speed is generally slow, rendering the use of ICT -based communication media very challenging.

25. Water and sanitation: Excess demand for water remains a concern compounded by climate variability. Water demand is steadily increasing due to rising water needs for domestic, industry, agriculture, and livestock use. Population growth has further compounded this demand. The key challenges comprise weak regulatory and enforcement mechanisms for proper water allocation and use, low level of knowledge on the resources base, climate variability both within the year and over the years, catchment degradation due to unsustainable farming practices, low investment in water storage and infrastructure, and ground water depletion and pollution. Moreover, drought is a recurring phenomenon with a considerable impact on water resources. Floods lead to disasters particularly in low lying and riverbank areas. According to the Bank's statistics database, 51.8% of Eritrea's population used basic drinking water services in 2016 compared to 51.3% in East Africa, 66.3% in Africa and 87.7% in developing countries. During the same period, 11.9% of the population used basic sanitation services compared to 23.9% in East Africa, 40.3% in Africa, and 68.5% in developing countries.

26. Energy: The energy sector is critical for Eritrea's development, and the GoSE aims to scale up energy infrastructure investments to promote agricultural and industrial transformation. Over reliance on biomass as a source of energy has adversely affected other sub-sectors such as forestry and crops. The energy sector in Eritrea comprises electricity, diesel, and biomass. Over 80% of the population relies on biomass (woody biomass and sun-dried cow dung), adversely affecting forest cover, soil fertility, and thereby, worsening vulnerability to climate change. Electricity generation installed capacity is about 222 megawatts but due to aging, deterioration, and lack of spare parts and maintenance, available capacity is lower at 122 MW, with national electricity access rate estimated at 38% of the population. More than 78% of the electricity is for industrial and commercial use^{xv}. There is a spatial dimension to electricity access rates, with 76% of the urban compared to 37% of the rural population having access^{xvi}. The 2018 draft Eritrea National Energy Policy aims to (i) increase the electrification rate across the country and supply 20% of electric power demand through renewable energy sources by 2030; (ii) guide the transition away from excessive reliance on fossil fuels for power generation, to renewable energy like solar, wind, and geothermal.

27. Dilapidated transport infrastructure limits connectivity of production areas to market centres. Only 10% of the 15,000 kilometres road network is paved. The remainder comprises 23% (3,450 kilometres) engineered gravel roads and 67% (10,050 kilometres) earth roads. Road density is low at 121 kilometres per 1000 square kilometres compared to other countries in East Africa such as Kenya (277 kilometres per 1000 square kilometres). Road transport is the most popular mode due to the mountainous landscape. Water transport is anchored on two ports: Massawa and Assab. Assab principally serves Ethiopia and was, thus, affected by the long period of conflict between the two countries. Eritrea scored 8.76 points on the 2020 African Infrastructure Development Index (where 0 is lowest and 100 is best) and is among the bottom six performers on the continent. Upgrading of the national and regional transport networks would greatly enhance utilization of the ports of Assab and Massawa. Eritrea has a national airline, which flies to certain countries in Europe, Africa, and the Middle East. While the airports in Asmara, Assab, and Massawa have been upgraded to handle

both cargo and passenger traffic, the cargo facilities remain inadequate because of the limited airline connections with the rest of the world, and inadequate access to export markets or suppliers.

2.4 Social Context and Cross-Cutting Themes

28. Poverty and Vulnerability: Poverty levels and income inequality remain high, reflecting the limited progress towards inclusive growth. A quantitative analysis of poverty and inequality is limited by data constraints. About 75% of the population depends on agriculture, which contributes only 17.3% to GDP. Data from the most recent Eritrean Population and Health Survey (EPHS 2010) showed that although only 35% of the population reside in urban areas, 85% is in the fourth and fifth (highest) wealth quintiles whereas only 15% of the rural dwellers (65% of population), is in the wealthiest quintiles. The trend in urban-rural inequalities is also reflected in education attainment, literacy, employment status and quality of life. The working poor^{xvii} at purchasing power parity of US\$3.20 per day were estimated at 75.1% of total employment in 2019. The global economic recovery is expected to boost remittance inflows (a key source of livelihoods for Eritreans, which averaged 14% of GDP during 2010-2019), and reduce the severity of poverty and income inequality.

29. Youth Employment: Like most countries in Africa, Eritrea has a young population with about 69% below the age of 30 years (EPHS 2010). The International Labor Organization estimated that youth (ages 15-24) unemployment was 8.8% in 2019. Technical and vocational education and training (TVET) as a percentage of total enrolment in secondary education was estimated at only 3.28% in 2018. Youth were required to serve in the military during the Ethiopian-Eritrean conflict, which contributed to low school enrolment rates. This reflects a potential challenge to building a pool of employable skills for youth and a critical mass of technicians necessary to spur manufacturing and industrialization. Furthermore, limited economic opportunities have triggered a high exodus of Eritrean youth to neighbouring countries and beyond.

30. Health: The government has over the past two decades taken steps to support more equitable access to quality health services, focusing on primary health care. The goal was to ensure health service access to more than 60% of the population residing in a 5 km radius of a health facility and 80% within a 10 km radius. Maternal and child health services are part of the primary basic health care package given free of charge or at an affordable nominal fee.^{xviii} As a result of these efforts, there has been a notable reduction in the maternal mortality ratio from 1,700 deaths per 100,000 live births in 1990 to 515 deaths by 2015.

31. Education and Skills: Eritrea is committed to providing education for all at elementary, middle, and secondary school. The 2011 National Education Policy underlines the Government's commitment to reaching the underserved and provision of good quality education at all levels. Consequently, according to the most recent data available, enrolment at primary and secondary levels increased to 92.2% and 59.9% in 2014 from 83.7% and 52% in 2010, respectively. Since 2015, the enrolment rates at primary and secondary schools dropped reaching 68.4% and 47.7% respectively in 2018. Consistent with its commitment to the SDG4 targets, notably to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, the GoSE developed the Education Sector Plan 2018-2022.^{xix} However, the constrained supervisory capacity and skills at various levels of the Ministry of Education and the limited availability of instruction materials and financial resources affect access and quality of education. Consequently, more than half of the secondary school age children (52%) are out-of-school. Enrolment in TVET was estimated at 5% of the total enrolment in general education in 2017/18 despite some gradual increase in enrolment from 1,404 (2013/14) to 7,368 (2017/18). Social indicators are presented in Annex A8.

32. Gender: Eritrea has made progress with respect to supporting gender equality. The Bank's 2019 Africa Gender Equality Index ranked Eritrea 27 out of 37 countries with an overall score of 0.412. Across the respective categories, the country ranked 26 with respect to economic opportunities for women, 39 on women's human development, and 19 on laws and institutions relating to women's equality and wellbeing. However, although Eritrea is doing better than other countries in the region such as Somalia and Sudan, among others, gender disparities are still quite evident, especially regarding leadership and decision making, access to justice, economic empowerment and financial inclusion, education, and health. The Eritrean authorities have put in place incentives and institutional measures in

recent years to improve women's access to positions of leadership and decision making but from a low base. An example is the requirement of 30% participation of women in national, regional, and local assemblies and in community courts, sports federations, and land committees. Despite these measures, gender disparities persist. In the National Parliament, the proportion of seats held by women has remained at 22% during 2017 - 2019. Females in wage and salaried (paid employment) jobs constituted 6.7% of female employment in 2017 and 7.0% in 2019, with the rest constituting informal employment. Females are mostly represented in low-skilled and low-paying occupations. Vulnerable employment, which comprises the self-employed and other own account workers, accounted for 86.4% of total employment in 2019. Vulnerable employment, as a percent of male employment, was at 81% in 2019 and female counterparts at 93%. Vulnerable employment is expected to have worsened during COVID-19 period due to limited access to social safety nets.

33. Vulnerabilities: Vulnerabilities in Eritrea are driven by a variety of factors. The Bank's 2021 Country Resilience and Fragility Assessment (CRFA) indicated that vulnerabilities in Eritrea are driven by limited social dialogue; weaknesses in the business environment; limited political inclusiveness; security challenges; and limited capacity to manage climate change impacts (Annex A13). Despite GoSE's strong commitment to the national development agenda, institutional capacity gaps are a significant impediment to Eritrea's path to inclusive growth and sustainable development. These gaps are reflected in the lack of suitable procedures and regulatory frameworks to guide project implementation; weak managerial and technical capacities; limited coordination across sectors; and inadequate financial management and monitoring and evaluation systems. Consequently, addressing the core drivers of vulnerability and building resilience in Eritrea requires institutional capacity building, reducing the cost of doing business, and creating space for social dialogue.

34. Climate Change, and Environmental and Social Safeguards: Reliance on rain-fed agriculture amidst recurring droughts has made Eritrea extremely vulnerable to climate change. Eritrea does not yet have an integrated climate-smart agricultural policy, which limits smallholder farmers' ability to safeguard their livelihoods in the face of climate change.^{xx} Eritrea is at the highest risk of adverse climate-related impacts. According to the latest available information in 2019^{xxi}, Eritrea's carbon dioxide (CO₂) emissions were 727.2 kilotons (kt) compared to 708.8 kt in 2018. Overall, total GHG emissions are projected to grow from 1,140 ktCO₂ in 2010 to 8,183 ktCO₂ in 2030^{xxii}. This high level of CO₂ emissions largely reflects the pollution effect of burning of fossil fuels, which calls for investments in renewable energy generation. Eritrea's climate adaptation and mitigation plans are outlined in its 2021 NDC ^{xxiii}. Through the NDC, GoSE has committed to reduce its GHG emissions by 12.6% unconditionally and by 38.5% with international support by 2030.^{xxiv} Eritrea has institutional and legal frameworks for environmental management and social protection in line with sustainable development, but implementation and enforcement is hindered by limited technical capacity and financial resources^{xxv}. This calls for strengthening of institutional capacities both at the Ministry and Zoba (regional) level, updating key environmental and social strategies and plans, and increasing funding for environmental management and social protection^{xxvi} (Annex A24).

35. Civil Society Organizations (CSOs) in Eritrea are impeded by various GoSE restrictions on the civic space. These restrictions result in citizens' inability to exercise their rights to freedom of opinion and expression, peaceful assembly, religion, or belief. Despite limited space for CSOs in Eritrea, the government can be said to have a very dynamic relationship with some CSOs, especially those historically linked to liberation struggle such as the National Confederation of Eritrean workers. There are no international CSOs working in Eritrea. Eritreans in the diaspora have also formed CSOs some of which operate outside Eritrea. These are either faith-based associations, peace movements, and advocacy groups whose projects mainly focus on the physically handicapped. The common interest of these CSOs is to find constructive ways to contribute to democratization in Eritrea.

2.5 Country Strategic Framework

36. **Eritrea's national development framework is outlined in its Vision 2030, which is implemented through medium-term national development plans (NDPs).** The key objectives of the Vision 2030 (Annex A22) are investing in Eritrea's people and developing human capital; opening the private sector with a conducive regulatory environment for domestic businesses; diversifying Eritrea's economy to one that is guided by a green economy framework; and investing in infrastructure and all areas of the value chain. The main objectives of Eritrea's interim NDP 2014-2019 were to develop robust, modern irrigation-based commercial agriculture; export-oriented manufacturing; and multifaceted and highly efficient tertiary services. The preparation of the next NDP has been delayed by the COVID-19 crisis. Furthermore, GoSE indicated that it is facing challenges in coordinating inputs from various sector ministries and agencies to inform the NDP. The Bank reiterated its earlier requests to support the authorities in preparing the NDP, but GoSE is yet to take up this offer. The GoSE informed the Bank, during the I-CSP 2022-2024 consultations, that the national development priorities comprise agriculture, food security, and value-chain development; infrastructure development, notably energy and water and sanitation including a focus on water for production, among others. GoSE indicated that these priorities will be reflected in the new NDP.

2.6 Aid Coordination Mechanisms, Bank Group's Positioning and Comparative Advantage

37. **Aid Coordination Mechanisms.** The Bank Group, the United Nations Development Programme (UNDP), Food and Agriculture Organization (FAO) and the EU are the active DPs in Eritrea. The People's Republic of China (PRC), Japan International Cooperation Agency (JICA) and Arab Bank for Economic Development in Africa (BADEA) are also providing development support, whilst the World Bank and the IMF are working on re-engagement arrangements with the GoSE. The Bank will strengthen collaboration with other DPs (Annex A7) notably PRC (agriculture), JICA (water), and BADEA, EU, and UN (energy) to enhance its contribution to Eritrea's development objectives. A formal mechanism for GoSE led aid coordination is yet to be established. However, DP sector/thematic working group meetings, in which the Bank participates, are held on a quarterly basis and are mostly coordinated by UNDP as they have in-country presence. Whereas the authorities are yet to respond to DP proposals for a GoSE led multi-donor coordination forum, GoSE endeavours to bilaterally consult with various DPs operating in similar sectors to enhance coordination, eliminate duplication, and nurture complementarities including through co-financing (Annex A7). Furthermore, the GoSE through the Minister of Agriculture chairs an agriculture sector working group. However, an aid architecture anchored on a mutual accountability framework and aligned with the national development priorities will be necessary to improve aid coordination and effectiveness.

38. **Bank Group's Positioning.** According to the OECD, official development assistance (ODA) to Eritrea increased from US\$ 82.2 million in 2017 to US\$ 363 million in 2019^{xxvii} with bilateral DPs accounting for 42.3% and 81.3% of the ODA in 2017 and 2019, respectively. Between 2018 and 2019, the African Development Fund (ADF) provided 2.4% of total ODA and ranked amongst the top ten DPs in Eritrea. The United Arab Emirates accounted for the largest share (63.6%), followed by Global Fund (7.7%), UNICEF (4.8%), Global Alliance for Vaccines (3.4%) and EU (3.1%). The Bank is a member of the DP aid coordination, the agriculture, and statistics working groups.

39. **Bank's Comparative Advantage.** The Bank's comparative advantage is in infrastructure, sustainable livelihoods, and agriculture, where it invested 2.4% of total ODA in 2019. The Bank has also enhanced its operational experience in transition state countries, which is important in accompanying Eritrea to address its main drivers of vulnerability (Annex A13). The Bank plays an important role in DPs' dialogue and aid coordination through its East Africa Regional Development and Business Delivery Office (RDGE) in Nairobi, Kenya. The Bank established a Liaison Office in Asmara in 2019 and a Country Program Officer was designated and is now awaiting clearance from GoSE before joining the Office to strengthen the Bank's role, including participating in regular dialogue with the GoSE and DPs.

40. **Outcomes of I-CSP Stakeholder Consultations:** As part of the I-CSP 2022-2024 preparation process, RDGE held consultations with GoSE and other DPs in October-November 2021 and March 2022.

The stakeholders included GoSE ministries and agencies, CSOs, private sector, and DPs. The key messages from these consultations (Annex A5) underscore the need to enhance aid coordination and scale up support to the enablers for agricultural transformation notably infrastructure development to boost economic diversification and lay the foundation for inclusive structural transformation.

2.7 Strengths, Weaknesses, Opportunities and Challenges

41. Eritrea possesses numerous strengths and opportunities that could propel its socioeconomic development and lay the foundation for inclusive and sustainable economic transformation. At the same time, the country is faced with challenges and weaknesses that should be dealt with urgently to realize the national development objectives. Eritrea's overarching development challenge, which has persisted over the past three decades, is the slow progress towards higher value-added production, leading to limited economic diversification and structural transformation. The overarching development challenge is aggravated by several underlying challenges, notably inadequate infrastructure; low productivity in agriculture; vulnerability to commodity price shocks and climate change; and weaknesses in institutional and human capacities. Inadequate infrastructure reduces competitiveness whereas institutional and capacity weaknesses hold back the GoSE's ability to implement reforms necessary to improve the enabling environment for the growth of the private sector and job creation. The COVID-19 outbreak is an emerging challenge, which is expected to amplify the overarching and underlying development challenges. Nonetheless, Eritrea has some strengths and opportunities, notably its geographical location, with potential to become a regional trade hub. Annex A18 provides a detailed summary of strengths, weaknesses, opportunities, and challenges.

3. KEY FINDINGS OF THE COUNTRY PORTFOLIO PERFORMANCE REVIEW

3.1 Bank Group Portfolio

42. Size and Composition. As of end-February 2022, the total value of the Bank's portfolio nearly doubled from UA 30.1 million (US\$ 42.1 million) in 2016 to UA 55.5 million (US\$ 77.7 million), mostly in grants and spanning 12 operations. The agriculture sector accounted for the largest share (62%) of the ongoing portfolio, followed by the education sector (24%), governance/multi-sector (12%) and water and sanitation (2%). In terms of the High 5s, Feed Africa accounted for the largest share of the ongoing portfolio at 62.2%, followed by Improving the Quality of Life for the People of Africa at 37.8%.^{xxviii}

3.2 Portfolio Performance, Monitoring and Evaluation

43. Portfolio performance was negatively affected during 2020-2021 as the Eritrean authorities did not respond to Bank's communications including on portfolio monitoring and supervision. Furthermore, Eritrea closed its borders during 2020-2021 as part of its COVID-19 containment measures, which hindered physical supervision missions. This increased the share of flagged projects to over 50% due to slow procurement and disbursement, with an average portfolio rating of 2 on a scale of 1-4. Remedial actions are being implemented and the Country Program Officer (CPO) relocated to Eritrea in April 2022 to enhance dialogue and follow-up on project implementation activities.^{xxix} Assignment of a dedicated CPO and the Bank's successful mission to Eritrea in March 2022 (Annex A5) have enhanced interaction and collaboration between the Bank's Eritrea Liaison Office in Asmara and Project Management Units (PMUs), which is expected to improve portfolio implementation.^{xxx}

44. Capacity gaps also held back project implementation in Eritrea. This is attributed mainly to lack of understanding by PMU Staff of the Bank's procurement and disbursement rules and procedures. To address this shortfall, the Bank organizes periodic fiduciary training for the PMU staff to acquaint them with the Bank's procurement rules and disbursement procedures. Furthermore, the Eritrea Liaison Office's consistent follow-up, bi-monthly meetings with all project staff and routine supervisions have helped to improve the average disbursement rate of the 12 ongoing projects, from 18% in 2020 to 21.8% in October 2021 (Annex A6).

3.3 Country Portfolio Improvement Plan

45. **The Country Portfolio Improvement Plan (CPIP) focuses on key remedial actions** to accelerate project implementation including: (i) continuous training for PMU staff on Bank rules and procedures to reduce project implementation delays; and (ii) sustained periodic follow-up meetings with PMUs to deepen dialogue, share experiences and proactively resolve project implementation challenges. The detailed CPIP recommendations are presented in Annex A6.4.

4. LESSONS LEARNED

46. **The implementation of the I-CSP 2017-2021 generated important lessons that have informed the design of the I-CSP 2022-2024 (Annex A3). At the strategic level, two key lessons have been learned.** First, whereas Eritrea's overarching development challenge remains the slow progress towards structural transformation, the I-CSP 2017-2021 did not adequately address the enablers for higher value-added production such as infrastructure development, which is key for agricultural value chains development and economic diversification. The I-CSP 2017-2021's single pillar and IOP focused on supporting Eritrea to bolster institutional capacities and food security to address the drivers of vulnerability and build resilience. Going forward, to consolidate the previous gains and attain sustainable growth, I-CSP 2022-2024 will place emphasis on key enablers for agricultural value chains development to lay the foundation for agricultural transformation, economic diversification, resilient and inclusive growth, and structural transformation. Second, the challenging implementation environment during I-CSP 2017-2021, primarily attributed to drought, slow decision-making processes by GoSE, and COVID-19, necessitated flexibility in the delivery of the Bank's operations program for Eritrea to effectively respond to emerging development needs. This has highlighted the importance of more active interactions with GoSE and strengthening PMU capacities. To respond to these challenges, a dedicated CPO was relocated to Eritrea in April 2022 and fiduciary clinics will be organized annually.

47. **At the operational level, three key lessons have emerged:** First, successful implementation of the ENABLE Youth project required extensive assessments of a state-owned banking institution, which GoSE was not willing to sanction, leading to the cancellation of the project. Consequently, it is critical to confirm that required assessments will be permitted by GoSE prior to project approval. Sustained Bank support to project implementation is necessary, and the Liaison Office has been strengthened following the assignment of a CPO who relocated to Eritrea in April 2022. Second, the absence of national data constrains results measurement, which makes it difficult to holistically assess the contribution of Bank support to national development ambitions. Therefore, Bank support to PFM and statistics capacity building should be sustained. Third, transfer of necessary skills to government officials is key for sustainability of development interventions. In this context, embedding capacity building in operations will address the institutional and human capacity weaknesses, and accelerate project implementation. Annex A3 presents details on the lessons learned, including for the GoSE and DPs.

48. **During the presentation of the I-CSP 2017-2021 completion report to CODE in October 2021, CODE provided additional strategic guidance that has sharpened the focus of the I-CSP (Annex A4).** CODE recommended that Management works closely with other DPs to support Eritrea's development ambitions, help in debt management and restructuring and consolidate support to agricultural transformation through interventions to boost the enablers for agricultural value chains. CODE also recommended that Management should consider options for assisting other sectors such as the private sector, including SMEs notably those led by women; strengthening of the legal and regulatory framework for the mining sector; building capacity in the financial sector; and supporting the authorities to develop a framework to harness remittances for private sector development. These considerations have shaped the Bank's support under the new Strategy (section 5.2 and 5.3) through (i) the strategic shift to support the enablers for agricultural value chains, (ii) preparation of a financial sector study and a framework to harness remittances for private sector development, and (iii) strengthening mining sector institutional and legal frameworks. CODE endorsed the I-CSP 2022-2024 and 2021 CPPR on 17 May 2022 and the Committee's feedback and guidance is presented in Annex A4.

5.1 Strategy Rationale, Selectivity, Objectives and Priority Area for Bank Group Support

49. **Rationale:** Ensuring that Eritrea’s socio-economic progress benefits most of the population and remains resilient to domestic and external shocks necessitates diversifying the sources of growth to generate remunerative and higher value jobs. Findings of the CDN confirm that Eritrea’s overarching development challenge, which has remained unchanged over the past three decades, is the slow progress towards higher value-added production, leading to limited economic diversification and structural transformation. The overarching development challenge is aggravated by several underlying challenges, notably inadequate infrastructure; low productivity in agriculture; and vulnerability to commodity price shocks and climate change. Inadequate infrastructure, notably in the energy sector reduces competitiveness of domestic and export-oriented production whereas low diversification and value addition exacerbates vulnerability to commodity price shocks and climate change impacts, considering the country’s reliance on natural resources. Finally, weaknesses in institutional and human capacities constrain the GoSE’s ability to implement reforms required to improve the enabling environment for private sector development and create higher value jobs. The COVID-19 pandemic is an emerging challenge, which has amplified these challenges through economic contraction and the associated reduction in public revenues for pro-poor and growth enhancing public investments. Dialogue with the GoSE confirmed that emphasis should be placed on addressing these challenges. Therefore, this Strategy seeks to respond to some of these challenges to lay the foundation for economic diversification and structural transformation.

50. **Selectivity:** Selectivity is critical in ensuring that Eritrea’s diverse development challenges are addressed in an efficient, effective, and sustainable manner that also incorporates building resilience. Eritrea’s diverse development challenges necessitate holistic but prioritized and coordinated support from the Bank and other DPs. In this context, to ensure that Bank support is delivered through a prioritized and well-focused approach, Eritrea’s I-CSP 2022-2024 is underpinned by selectivity criteria (Box 1), which strengthens the alignment of Bank support with its Paper on selectivity.^{xxxi}

Box 1: Selectivity Criteria for the Bank’s I-CSP 2022-2024 for Eritrea

- (i) **Alignment with GoSE development priorities.** Pending the finalization of the new NDP, GoSE communicated its development priorities with the Bank, comprising agriculture, food security, and value-chain development, and infrastructure development, notably energy and water and sanitation. Consultations with stakeholders (Annex A5) in Eritrea confirmed that the Bank should support infrastructure development as a key enabler for agricultural value-chains development to boost economic diversification for resilient and inclusive growth.
- (ii) **Building on past Bank support and achievements to ensure continuity and sustainability, as well as scaling up.** The Bank has comparative advantage in infrastructure, sustainable livelihoods, and agriculture, which allows it to support GoSE in unlocking Eritrea’s potential in agricultural transformation, agro-industrialization, and lay the foundation for economic diversification and structural transformation.
- (iii) **Maximizing opportunities for partnerships with other DPs.** The Bank’s continental experience in infrastructure creates opportunities for leveraging additional resources to enhance developmental impact and maximize synergies with other DPs. For instance, BADEA has expressed interest in working with the Bank in the energy sector.
- (iv) **Mainstreaming cross-cutting themes.** Themes such as vulnerability, gender-equality, regional integration, environmental and social safeguards sustainability, climate change and green growth are critical for enhancing inclusive growth and create synergies with other DPs, maximize developmental impact, and ensure sustainability of Bank support.

51. **Main objective of the I-CSP and Priority Area for Bank support.** In line with the selectivity criteria and the findings of the CDN, the main objective of the Bank’s I-CSP 2022-2024 for Eritrea is to support the country to boost economic diversification and agro-industrialization to create higher value-added formal wage employment, build resilience, and lay the foundation for structural transformation, building on past Bank support and achievements. To achieve this objective, the I-CSP has a single Priority Area for Bank support: *Developing quality and sustainable infrastructure to support agricultural value-chains for economic diversification and structural transformation*. New Bank support under the I-CSP’s single Priority Area will be provided selectively in the following two sectors: energy and water and sanitation. This new support will complement ongoing interventions in economic and financial governance, capacity development, and skills development.

52. **The new Strategy builds on and consolidates previous gains from Bank support by sustaining focus on the Bank’s comparative advantage in infrastructure, sustainable livelihoods, and agriculture.** The approach to the new I-CSP builds on the single pillar of I-CSP 2017-2021, allowing the Bank to consolidate its previous achievements and scale-up support in line with the donor division of labor (Annex A7). This approach is necessary given that Eritrea’s main development challenges have remained unchanged, except for the emerging COVID-19 pandemic. However, the new I-CSP differs from the previous one in several areas. Considering the lessons learned at the strategic level from the implementation of I-CSP 2017-2021 and guidance from CODE, the new I-CSP will place emphasis on key enablers for agricultural value chains development to lay the foundation for agricultural transformation, economic diversification, resilient and inclusive growth, and structural transformation. Furthermore, the Bank will focus on fewer but transformative projects. Using relevant instruments such as technical and advisory services, the I-CSP 2022-2024 will strengthen the institutional, legal, and regulatory framework to catalyse private investment and finance. Support to policy reforms and capacity development will be integrated in Bank operations. Consequently, the I-CSP 2022-2024 will contribute to the realization of the objectives of Eritrea’s Vision 2030, notably diversifying the country’s economy, developing a competitive private sector, and investing in infrastructure.

53. **Alignment:** Consistent with the selectivity criteria (Box 1), I-CSP 2022-2024 is aligned with Eritrea’s development priorities (Annex A22), Africa’s Agenda 2063 and SDGs, namely, Sanitation (SDG 6); Affordable and Clean Energy (SDG 7); Decent Work and Economic Growth (SDG 8); Industry, Innovation, and Infrastructure (SDG 9); and Climate Action (SDG 13), among others. The I-CSP is also aligned with the Bank’s High 5s (Annexes A2.3 and A2.4) and dual objectives of the Bank’s Ten-Year Strategy (TYS) 2013-2022: inclusive growth and gradual transition to green growth. In line with the seventh General Capital Increase and ADF 15 commitments, the TYS areas of special emphasis particularly gender, climate change, governance, and food security will be integrated in Bank operations. Bank interventions under the new Strategy are also aligned with sector policies and strategies (Annex A1.1 and A1.2), including Bank’s Strategy for Addressing Fragility and Building Resilience in Africa (2022-2026) and Green Growth and Climate Change Action Plan (2021-2025). Consistent with the lessons learned, the Bank will apply a fragility lens in its interventions drawing from the Bank’s Country Resilience and Fragility Assessments (Annex A13), with emphasis on promoting socioeconomic inclusion, social cohesion, and building resilience to climate change shocks. Finally, I-CSP 2022-2024 is aligned with the Bank’s paper on selectivity: Bank assistance under the I-CSP’s single Priority Area will support 8 strategic priority areas under the High 5s^{xxxii}.

5.2 Expected Results of the Strategy

54. **To achieve the main objective of I-CSP 2022-2024 and the planned results, Bank support to Eritrea will be delivered through several instruments comprising investment projects, technical assistance (TA) and advisory services, and knowledge work to inform policy dialogue.** The Bank, through the African Legal Support Facility (ALSF) and Natural Resources Center (ECNR), will sustain its ongoing support to GoSE notably the development of toolkits and requisite human capacities to enhance the implementation of the legal and regulatory frameworks in the mining sector.^{xxxiii} Building on its ongoing PFM and Statistics Capacity Building operation, the Bank, will also work with other DPs to provide advisory services on public debt restructuring, should GoSE request for this assistance^{xxxiv}. Co-financing through the Horn of Africa Initiative will be explored and environmental and climate financing from international partners will also be harnessed. The key areas of Bank support under the single Priority Area and the expected results are discussed below. The Results Measurement Framework is presented in Annexes A1.1 and A1.2.

Single Priority Area: Developing quality and sustainable infrastructure to support agricultural value-chains for economic diversification and structural transformation.

55. **The objective of Bank support under the single Priority Area is to support the Government to rehabilitate and expand infrastructure.** To achieve this objective, the Bank will focus on

investments in energy and water and sanitation sectors, which are among the key enablers for agricultural transformation and agricultural value chain development, inclusive and resilient growth. Agricultural value chain development will lay the foundation for economic diversification and structural transformation. Bank financing will leverage co-financing from other DPs, such as BADEA and crowd-in special funds managed by the Bank including the Affirmative Finance Action for Women in Africa and the Africa Water Facility. Consistent with the ADF-15 commitments, Bank support to infrastructure development will pay attention to sustainability and climate resilience by considering the associated economic, social, and environmental and climate change impacts. To ensure the development of quality infrastructure, Bank assistance will seek to: i) scale back on the carbon and environmental footprints; ii) build resilience to climate change; iii) ensure compliance with labour standards and catalyse jobs creation; iv) emphasize socioeconomic viability; and v) support private sector development. Beneficiaries will continue to be integrated in project cycle activities to maximize developmental impact. Annex A1.3 presents the Strategy's theory of change.

56. The proposed infrastructure investments seek to catalyse agricultural transformation through value chain development and lay the foundation for economic diversification and structural transformation. In the energy sector, Bank interventions will support GoSE's efforts to expand access to electricity, increase the share of renewable energy into the total energy mix and cost of electricity through investments in a grid-connected solar PV power plant and rehabilitation of distribution networks. In the water and sanitation sector, Bank interventions will focus on improving access to safe water and sanitation services through the construction and rehabilitation of water supply systems (comprising water treatment plants, transmission mains, distribution networks and storage facilities), mini-irrigation schemes for agricultural production, and construction and rehabilitation of sanitation facilities.^{xxxv} Bank support to the energy and water and sanitation sectors will place emphasis on improving the institutional and regulatory framework, and operation and maintenance to improve sustainability. Consequently, Bank interventions in infrastructure will reduce the cost of production, thereby boosting agricultural productivity and value chain development and incentivizing private investment.

57. The Bank will continue to implement ongoing interventions that strengthen institutional and human capacities to build state capacity and improve the enabling environment for socioeconomic transformation. The Bank, through the ongoing PFM and Statistics Capacity Building, and Strengthening Tax Administration operations (Annex A6), will sustain support to PFM, notably revenue mobilization and expenditure management, and debt policy and management to expand the fiscal space and enhance debt sustainability. Through the ongoing Skills Development for Employability and Entrepreneurship project, support to building human capacities will emphasize training of public servants and equipping the labor force with employable skills to enhance productivity, spur entrepreneurship and value chain development in diverse sectors including agriculture, industry (notably mining), and creation of jobs. Beneficiaries will be integrated in project cycle activities to consolidate community resilience, build social cohesion, and ensure maximum benefits for the bottom of the pyramid, including marginalized groups such as women and youth.

58. Strategic Outcome 1: Improved access to electricity and better service delivery in the energy sector: Bank support to the energy sector will increase access to electricity, increase the share of renewable energy (solar PV) in the energy mix and reduce power generation costs, contributing to improvements in service delivery and sustainable energy tariffs. Enhanced supply of electricity and better energy services will lower the costs of doing business and bolster higher value-added production in diverse sectors including agricultural value chains and fisheries. Consistent with the Bank's Light-up and Power Africa Strategy (2016-2025) and the Climate Change and Green Growth Strategy (2021-2030), prioritization of renewable energy will enable Eritrea to increase resilience to climate change by reducing reliance on biomass, which is adversely affecting forest cover and soil fertility. A higher share of renewable energy in the country's energy mix will also reduce harmful GHG emissions from the burning of fossil fuels for energy generation. Increased access to electricity also comes with the associated health benefits for women and girls who disproportionately bear the burden of

collection of firewood and the adverse health impact of inhalation of smoke from biomass cooking stoves. Consequently, Bank support to the energy sector will: (i) increase access to electricity; (ii) reduce dependency on imported fossil fuels and diversify the energy mix through use of renewable Solar PV; and (iii) reduce energy sector GHG emissions. Consistent with the ADF 15 commitments, Bank interventions will support Eritrea to improve energy sector governance by building the capacity of energy sector institutions and strengthening the sector's regulatory framework.

59. **Specific outcomes:** (i) increased access to electricity by connecting 3,000 households to electricity in the target project areas by 2024; and (ii) energy system generation costs in the project region reduced from US¢18.5 /kWh in 2021 to US¢17.5 /kWh by 2024.

60. **Strategic Outcome 2: Improved access to water and sanitation services.** Bank support to water and sanitation will improve access to sustainable water supply and sanitation services in the project region. Furthermore, and in line with GoSE's ambition of developing modern irrigated commercial agriculture, investments in water and sanitation will provide water mobilization solutions for agricultural communities such as masonry dams and boreholes to facilitate irrigation. This will complement ongoing Bank operations such as the Drought Resilience and Sustainable Livelihoods projects, boost agricultural productivity notably wheat even during periods of extreme climate events, catalyse the development of agricultural value chains, and boost household incomes (Annex A1.2). Consequently, beneficiaries of Bank support will comprise the urban population in targeted towns and farming communities in rural areas, including women and vulnerable groups at the bottom of the pyramid, which is critical for building social cohesion and community resilience. Environmentally sustainable, and climate-friendly interventions will be integrated in the proposed water and sanitation operation to build resilience to climate shocks. By contributing to the mitigation of water-related risks, Bank support will lead to greater resilience to several shocks notably climate, health, and food insecurity. The Bank will work with GoSE and other DPs to support the development of a water policy and improve institutional capacities for water sector agencies, thereby strengthening sector governance. Finally, jointly with investments by GoSE and support from other DPs, the Bank's water and sanitation operation will contribute to progress towards SDG 6 (ensuring access to water and sanitation for all).

61. **Specific outcomes:** (i) access to clean water in the project region increased from 51.8% in 2016 (most recent data available) to 52.3% by 2024; (ii) access to improved sanitation facilities in the project region increased from 21.9% in 2016 to 22.3% by 2024; and (iii) distance from nearest water points in the project region reduced from 4km in 2021 to 3km by 2024.

62. **Strategic Outcome 3: Enhanced institutional and human capacities for a stronger State and improved enabling environment for the private sector.** Building on its Strategy for Addressing Fragility and Building Resilience in Africa 2022-2026, the ongoing Bank funded PFM and Statistics, and Strengthening Tax Administration operations will continue to strengthen State institutions with a focus on capacity development in economic management and PFM. Support in this area seeks to consolidate macroeconomic stability and debt sustainability and focuses on domestic revenue mobilization and expenditure management (internal audit, accountability and transparency, budgeting, and planning), debt policy and management, and the production of socio-economic statistics. This support will expand the fiscal space for poverty reducing and growth enhancing investments. This approach is in line with the Bank's Private Sector Development Strategy (PSDS) 2021-2025, which underscores the importance of strengthening institutional capacities and implementing reforms to improve the enabling environment for the private sector. Furthermore, the ongoing Skills Development for Employability and Entrepreneurship project will continue to support the development of employable skills for the youth and women for wage and self-employment. Attention will also be paid to out-of-school youth to create a cadre of agripreneurs, artisans, and other in-demand trades. Bank support will aim to: (i) expand and equip training facilities mainly at TVET level; (ii) improve the capacity of teachers and trainers/instructors through establishment of teachers' training centres; (iii) strengthening the institutional capacity of the education/skills sector including development of a TVET qualification framework, standardization of curriculum and certification, among others.

63. **Specific outcomes:** (i) improved CPIA score on the quality of budgetary and financial management from 2.63 in 2020 to 2.7 by 2024; (ii) improved CPIA score on debt policy and management from 1.0 in 2020 to 1.5 by 2024; (iii) improvement in the World Bank's statistical capacity score (overall average) for Eritrea from 31.1% in 2020 to 31.5% by 2024; and (iv) increase in TVET enrolment from 5% in 2014 to 10% by 2024, with 50% female participation notably in disadvantaged communities.

64. **Bank support will consider diverse cross-cutting issues and incorporate them into its operations as applicable.**

Resilience: A conflict sensitive approach (do no harm, prevention of grievances, and enhancing the state-building agenda, among others) and fragility lens will be applied across the project cycle to identify and address risks emerging from the Eritrea's drivers of vulnerability (Annex A13).

Gender: The gender marker exercise will be applied to all operations to inform required actions to enhance the Bank's contribution to gender equality and facilitate gender-disaggregated monitoring and evaluation, drawing from the Bank's 2020 Eritrea Country Gender Profile (Annex A23).

Climate mitigation and adaptation, Environmental and Social Safeguards: Climate change actions such as investment in renewable energy, increasing the farm area under irrigation, and promotion of climate-smart agricultural practices will be included in Bank operations to ensure quality and sustainability. All Bank operations will continue to be screened for climate risks, and environmental and social risks in line with the Environmental and Social Assessment Procedures (Annex A24) and the Bank will support GoSE to strengthen the institutional and legal frameworks for environmental management and social protection. Mitigation actions will be implemented to ensure environmental and social sustainability, projects are climate-proof and generate climate change co-benefits regarding building resilience and reducing GHG emissions. All activities will comply with the Bank's Integrated Safeguard System (Annex A25).

Youth and jobs creation: In partnership with other DPs, the Bank will work with GoSE to identify options for addressing the socioeconomic effects of COVID-19, notably on the most vulnerable groups and small businesses to reduce deprivation and income inequality. Actions to accelerate job creation, including for young men and women, will be integrated in Bank operations, consistent with the TYS objective of inclusive growth.

Institutional and human capacity development: Measures to strengthen sector specific institutional and human capacities will be embedded in Bank operations to improve sector governance. The ALSF is currently preparing technical assistance for capacity building in the mining and environment sectors to ensure sustainable utilization, crowd-in private investment and finance, and maximize benefits for Eritreans. Additional demand-driven support, including through ALSF and ECNR, will be considered in the natural resources and extractives industry, public-private partnerships (PPPs), and public debt policy and management. Inclusive development will increase community resilience and reduce socioeconomic exclusion, thereby addressing a key driver of vulnerability in Eritrea (Annex A13). The specific outcomes for cross-cutting themes are presented in Annex A1.2.

65. **Support to the private sector:** In line with the PSDS (2021-2025), the Bank will work with GoSE and other DPs to strengthen the institutional and regulatory environment for private sector development. Building on ongoing ALSF TA, the Bank will undertake a PPP diagnostic to inform a PPP framework to crowd-in private investment and finance, bolster SMEs including those owned by women, and diversify the sources of development financing. The envisaged ALSF support to the natural resources including the fisheries sector, and extractives industry will help to improve the enabling environment for private sector investment in the associated value chains, thereby expanding opportunities for SMEs. Complementary knowledge work including on the financial sector will be undertaken to inform reforms necessary to improve financial intermediation, including options for harnessing remittances for private sector development, increase access to credit for SMEs, and position the financial sector as a key driver of private sector development. These interventions will augment Bank

support to infrastructure development, which aims to reduce the cost of doing business and de-risk private sector investment and finance.

66. Overall, the I-CSP 2022-2024 will contribute to the ambitions of Eritrea's Vision 2030, notably diversifying the economy, bolstering inclusive and green growth, and catalysing private sector development. This will lay a foundation for structural transformation and build resilience to climate change, variability in commodity prices, and other shocks. These outcomes are also consistent with the strategic orientations of TYS 2023-2032 (under preparation), and the High 5s.

5.3 Indicative Lending and Non-Lending Program

67. **Lending Program: The 3-year rolling IOP (2022-2024) proposes 2 projects with a total value of UA58.4 million (US\$81.46 million) in grants.** The IOP covers energy, and water sectors (Annex A2.1) in line with the proposed Priority Area. Several instruments will be used to deliver the IOP including investment operations, TA, and advisory services. **Under the non-lending program,** the Bank will implement a focused program comprising demand-driven knowledge work to inform the identification and preparation of Bank operations and support GoSE reforms (Annex A2.2). Knowledge work will comprise a policy note on economic diversification and a financial sector diagnostic study. Complementary TA and advisory services will be undertaken to maximize the developmental impact of Bank support. As discussed in section 5.2, the Bank will explore options for supporting Eritrea to upgrade the institutional and legal framework in the mining sector to strengthen sector governance and catalyze private sector investment and finance.

5.4 Policy Dialogue

68. **The Bank will continue to work with other DPs to support Eritrea's ambition to transition to a resilient and inclusive society.** Drawing from its knowledge and experience in infrastructure development and capacity building in fragile contexts, the Bank will rally other DPs to enhance collaboration in their engagement with GoSE. The foreseen areas for policy dialogue with GoSE, DPs and other non-state actors consist of: (i) preparation of a new NDP; (ii) economic and public financial management, drawing from the Bank's CPIA and ongoing debt policy dialogue; (iii) approaches to accelerating economic diversification and private sector development for resilient, inclusive and sustainable structural transformation; (iv) portfolio management and performance (procurement, disbursement, and communication), which is critical for achieving the programmed development results; and (v) regional integration and economic cooperation including signature of the AfCFTA and enhancing participation in the HoAI. Other dialogue areas include: (vi) enhancing aid coordination and establishing a mutual accountability framework. The Bank will also work with other DPs notably the UN to support Eritrea to accelerate progress on key themes of its Vision 2030, including upholding constitutional law and respect for human rights. The Bank's Policy Reform Dialogue Matrix (PRDM, Annex A2.5) will be used to monitor the implementation of these and other reforms.

5.5 Financing the Strategy

69. **The indicative financing for the I-CSP IOP is UA58.4 million (US\$81.46 million) in grants.** This comprises UA38.4 million (US\$53.56 million) from ADF 15 (2020-2022) and UA20 million (US\$27.90 million) from the first two years of ADF 16 (2023-2024)^{xxxvi}. Opportunities for additional resources from the Regional Operations window and TSF Pillar III will be explored for eligible operations and non-lending activities, respectively. To augment Eritrea's limited allocation, the Bank will also seek complementary financing from Trust Funds, such as the Green Climate Fund/Global Environment Facility, the Africa Water Facility, and special initiatives such as the Affirmative Finance Action for Women in Africa. Co-financing opportunities with other DPs including BADEA, JICA, EU, and World Bank, among others, will also be explored. The Bank's Country Financing Parameters (Annex A21) prepared for Eritrea in 2020 are still relevant and will guide the financing of Bank operations.

5.6 Implementation Arrangements, Monitoring and Evaluation

70. **In line with the ‘One Bank’ approach, the East Africa Regional Office (RDGE) will lead the implementation of I-CSP 2022-2024, in coordination with relevant Bank Departments.** The same approach will be used across all project cycle activities to ensure that the right skills mix is deployed in the delivery of the I-CSP’s programmed activities. The Eritrea Liaison Office has been strengthened with the assignment of a Country Program Officer who will be based in Asmara. Furthermore, the Bank is implementing several measures to accelerate portfolio implementation including (i) monthly and quarterly portfolio management meetings with GoSE to identify implementation challenges and timely remedial actions, and (ii) championing regular dialogue between DPs and GoSE to address persistent communication challenges and harmonize capacity development support for maximum developmental impact. These actions will be sustained under I-CSP 2022-2024. Beneficiaries and other non-state actors including CSOs will be integrated in the delivery of the I-CSP to increase ownership and benefit from their diverse local knowledge. Jointly with other DPs, the Bank will provide capacity building support to CSOs notably in economic and financial governance, and project cycle activities, among others, to enhance their contribution to Eritrea’s development agenda.

71. **The Results-Based Logical Framework will be the main tool for monitoring and evaluating the results from Bank support to Eritrea** (Annex A1.1 and A1.2). Furthermore, CPPRs, the PRDM, and project supervision and completion reports will support the monitoring of results achieved from Bank support under the new Strategy.

5.7 Risks and Mitigation Measures

72. **Eritrea faces several risks, which could undermine the implementation of I-CSP 2022-2024 including insecurity in the HoA region, weak institutional and human capacities, macroeconomic instability, high fiduciary risk due to weak government institutions and vulnerability to economic and natural shocks.** Disruption in the peace achieved since normalisation of relations with other HoA countries is a major risk to stability in the country and the region and could undermine the successful implementation of the new I-CSP. Interruptions in value and supply chains for production inputs and other supplies due to the ongoing civil disturbance in northern Ethiopia is another key downside risk to the Strategy. Ongoing efforts by the UN, the African Union and COMESA to identify a lasting solution to the conflict in northern Ethiopia are expected to mitigate any escalations in the standoff. Other important risks include: (i) recurring climate change shocks; (ii) inadequate high-level commitment to oversee the implementation of ongoing Bank operations thus increasing the risk of grant cancellations; (iii) shortfalls in human capacity to implement ongoing and planned projects (Annex A13); and (iv) macroeconomic instability arising from high fiscal deficits and unsustainable debt levels, which have been aggravated by the COVID-19 crisis. Furthermore, Eritrea’s limited participation in regional integration initiatives including those implemented under IGAD and HoAI could constrain the country’s inclusion in regional operations. The potential risks and proposed mitigation measures are discussed in detail in Annex A16.

6. CONCLUSION AND RECOMMENDATION

6.1 Conclusion

73. **This report has presented the Bank Group’s new I-CSP 2022-2024 for Eritrea.** Consistent with Eritrea’s development priorities and building on the Bank’s previous support and comparative advantage in infrastructure, sustainable livelihoods, and agriculture, I-CSP 2022-2024 seeks to support Eritrea to address infrastructure bottlenecks for improved competitiveness and economic diversification. This is expected to lay the foundation for inclusive, resilient, and sustainable growth and structural transformation.

6.2 Recommendation

74. Management hereby invites the Boards of Directors to consider and approve the Bank Group's I-CSP 2022-2024 for Eritrea combined with the 2021 CPPR.

ANNEXES

ANNEX A1: ERITREA I-CSP 2022-2024 RESULTS MEASUREMENT FRAMEWORK

Annex A1.1 Strategic Alignment Matrix

This matrix demonstrates alignment of the I-CSP's Priority Areas with both the Government's national development priorities and the Bank's own priorities. It is not intended to assess performance of Bank support. Baseline data for 2021 are currently not available and are expected to be available during the implementation of I-CSP 2022-2024. The Bank's ongoing PFM and Statistics Capacity Building project will contribute to the generation of required data to enhance monitoring and reporting of the Bank's contribution to Eritrea's development during the I-CSP period.

Priority Area: Developing quality and sustainable infrastructure to support agricultural value-chains for economic diversification and structural transformation			
Eritrea National Development Priorities			Bank's Corporate Policies
<p>Vision 2030: The key objectives (i) investing in Eritrea's people and developing human capital; (ii) opening the private sector with a conducive regulatory environment for domestic businesses; (iii) diversifying Eritrea's economy; and (iv) investing in infrastructure and all areas of the value chain.</p> <p>Eritrea Priorities 2020-2024: The country's development priorities underpinning the new NDP are agriculture, food security, and value-chain development; infrastructure development, notably energy and water and sanitation including a focus on water for production.</p> <p>Sustainable Development Goals: No Poverty (SDG1); Quality Education (SDG 4); Gender Equality (SDG5); Clean Water and Sanitation (SDG 6); Affordable and Clean Energy (SDG 7); Decent Work and Economic Growth (SDG 8); Industry, Innovation, and Infrastructure (SDG 9); Climate Action (SDG 13)</p>			<p>Ten-Year Strategy 2013-2022:</p> <p>(i) Operational priorities: Infrastructure Development and Governance and Accountability.</p> <p>(ii) Areas of special emphasis: Support to fragile states; gender, climate change, agriculture, and food security</p> <p>High 5s: (i) Light up and Power Africa; (ii) Feed Africa; (iii) Improve the quality of life for the people of Africa.</p>
Country Sector/Thematic Strategy			Bank Sector/Thematic Strategy
<p>2018 Eritrea National Energy Policy, which aims to (i) increase the electrification rate and supply 20% of electric power demand through renewable energy sources by 2030; (ii) guide the transition from reliance on fossil fuels to renewable energy (solar, wind, and geothermal).</p> <p>2019 National Agriculture Development Policy and Strategy: covers rural energy, research, extension services, forestry and wildlife, soil and water management, livestock/ crop production.</p> <p>Strategic Agricultural Development Plan (2019-2023): sets operational targets for agricultural, horticulture and livestock output, and agro-industrialization.</p> <p>Small and Medium Commercial Farmers Strategy: aims to create farm enterprises engaged in productive, profitable agriculture value chains, linked to domestic and international markets by 2023.</p> <p>Education Strategic Plan (2018-2022): focuses on (i) education access and equity all levels; (ii) quality and relevance of education; and (iii) institutional capacity building.</p>			<p>Bank Group Strategy for the New Deal on Energy for Africa (2016-2025): (i) scale-up access to clean energy; (ii) improve affordability, reliability, and energy efficiency.</p> <p>Regional Integration Strategic Framework (2018-2025)</p> <p>Bank Group Policy on Water 2021</p> <p>Bank Group Strategy for Economic Governance in Africa (2021-2025)</p> <p>Bank Group Strategy for Agricultural Transformation in Africa (2016-2025): investing in infrastructure, notably energy and water for production</p> <p>Bank Group's Strategy for Addressing Fragility and Building Resilience in Africa (2022-2026).</p> <p>Bank Group Climate Change and Green Growth Strategy (2021-2030)</p> <p>Bank Group Gender Strategy (2021-2025): investing in Africa's women to accelerate inclusive growth</p> <p>Bank Group Strategy for Jobs for Youth in Africa (2016-2025): (i) integration and (ii) innovation</p> <p>Bank Group Regional Integration Framework Paper (2018-2025) and East Africa Regional Integration Strategy Paper (2018-2022)</p> <p>Bank Group Private Sector Development Strategy (2021-2025)</p>
Country Development Results/Indicators			Planned Bank's interventions & Resources
Indicator	Baseline (2019*)	Target (2024)	Generic areas of interventions or instruments
Energy			
Proportion of population with access to electricity	38%	43%	Investment:
Energy generation capacity (MW)	122	127.2	...of which sovereign operations
Electricity consumption per capita (kWh)	101.20	120	
			58.4
			58.4

Water and Sanitation		
Percentage of population using improved water services	51.8% (2016)	52.3%
Percentage of population using improved sanitation facilities	11.9% (2016)	12.3%
Percentage of the population practicing open defecation	32.9% (2016)	32.5%
Institutional and human capacity development		
Infrastructure maintenance framework in place (Y/N)	No	Yes
GDP share of government budget allocated to education	1.45% (2017)	1.5%
GDP share of government budget allocated to health	4.1% (2018)	4.4%
Domestic revenue to GDP ratio	13.1% (2020)	13.9%

Capacity building and Technical Assistance (ongoing):	6.5
Knowledge work	0.1
Total Bank Resources	65

Annex A1.2 Performance Matrix

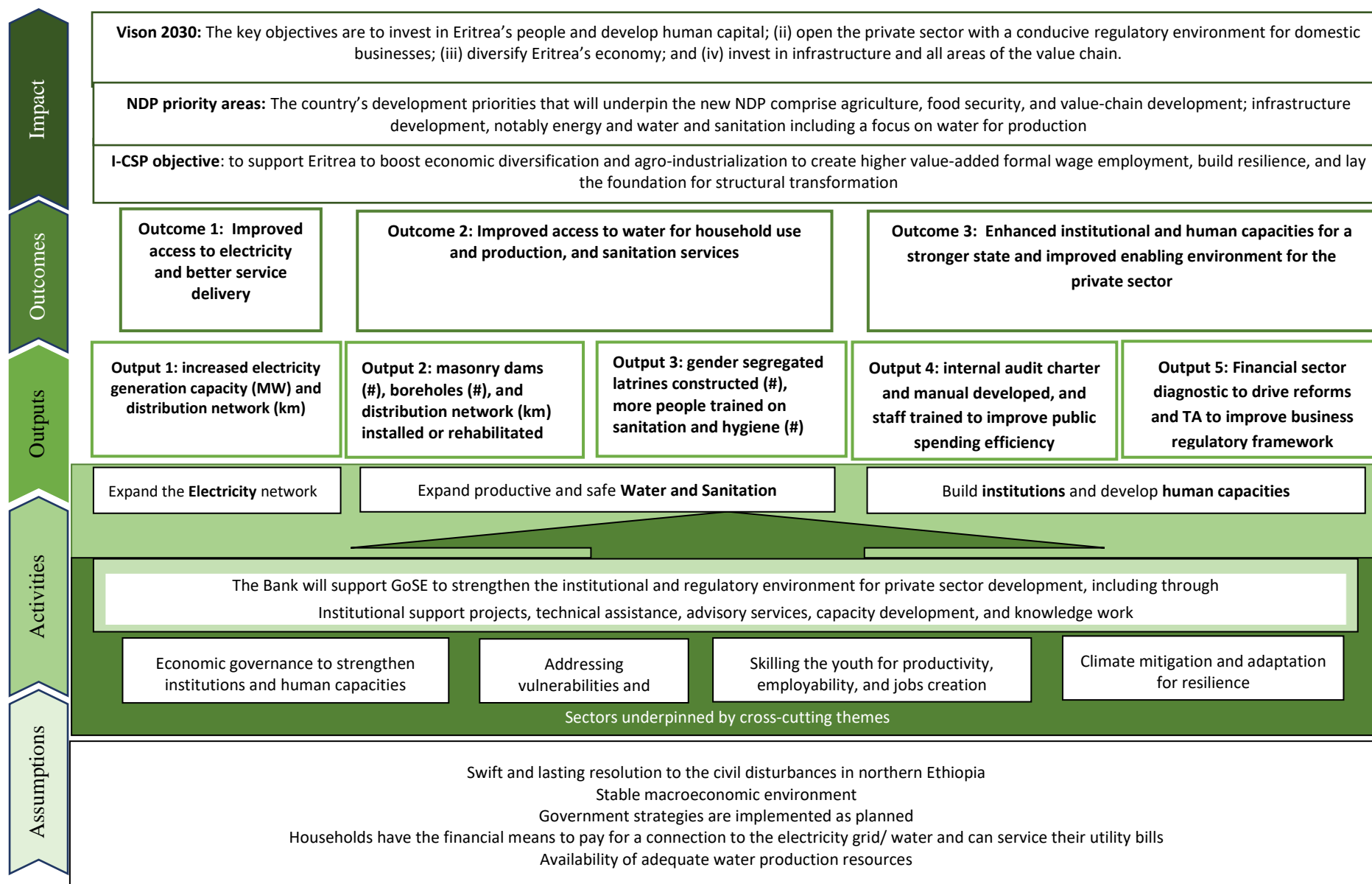
The performance matrix measures a wide range of results that should be regularly tracked during the I-CSP 2022-2024 period. This does not only include operational results that will be delivered by the projects approved in the previous period, but also other essential elements of the I-CSP including cross-cutting issues, financial leveraging, harmonization, portfolio performance. Baseline data for 2021 are currently not available and are expected to be available during the implementation of I-CSP 2022-2024. The Bank's ongoing PFM and Statistics Capacity Building project will contribute to the generation of required data to enhance monitoring and reporting of the Bank's contribution to Eritrea's development during the I-CSP period.

Performance Area	Monitoring indicators	Baseline (2019) *	Target (2024)	Source of Verification
Operational results				
	Priority Area: Developing quality and sustainable infrastructure to support agricultural value-chains for economic diversification and structural transformation			
Outcomes	Improved access to electricity and better service delivery in the energy sector <ul style="list-style-type: none"> Households connected to electricity in the project region Energy system generation costs in project region GHG emissions reduction in the energy sector 	0 (2021) US¢18.5 /kWh (2021) 0 ktCO2e/year (2021)	3,000 (at least 45% women) US¢17.5 /kWh 6 ktCO2e/year	Project implementation reports (IPR)/ project completion reports (PCRs),
	Improved access to water and sanitation services <ul style="list-style-type: none"> Access to clean water in project region (% of population) Access to improved sanitation facilities in project region (% of population) Distance from the nearest water source in project region (kilometres) 	51.8% (2016) 21.9% (2016) 4km (2021)	52.3% 22.3% 3km	IPR/PCR, UN SDG reports
	Agricultural transformation and value chain development <ul style="list-style-type: none"> Average annual household income (US\$) in the project region Wheat production per 0.5ha of land irrigated using masonry dams (quintals) 	224 3	350 12	IPR/ PCR

	Enhanced institutional and human capacities for a stronger State and improved enabling environment for the private sector Quality of budgetary and financial management CPIA score Debt policy and management CPIA score Building human resources CPIA score World Bank's statistical capacity score for Eritrea (overall average) Enrolment in TVET	2.63 (2020) 1.0 (2020) 4.0 (2020) 31.1 (2020) 5% (2014)	2.7 1.5 4.5 31.5 10% (50% females, notably from disadvantaged communities)	CPIA CPIA CPIA CPIA Statistical Capacity Indicators World Bank Group data
Outputs	Energy Training guidelines and manuals for the Eritrea electricity sector governance framework developed (Y/N) Structure of the Energy Regulatory Authority and implementation plan developed (Y/N) Solar energy plant constructed (MW) Power distribution medium voltage network rehabilitated and newly constructed (km)	No No 0 0	Yes Yes 5.2 0.5	IPR/ PCR
	Water and Sanitation Water Storage facilities constructed/rehabilitated (#) Masonry dams to facilitate irrigation constructed (#) Boreholes constructed (#) People trained on sanitation and hygiene (#) Distribution network/mainlines installed/rehabilitated (km) Gender segregated latrines constructed (#) Water Points/Kiosks Constructed	0 0 0 0 0 0 0	8 50 13 104 (at least 50% women) 50 500 (at least 45% for women) 13 (at least 50% operated by women)	IPR/PCR
	Institutional and human capacity development Internal Audit charter, standards, and strategic plan to align with international standards established (Y/N) Internal audit oversight operating procedures manual developed (Y/ N) Officials trained on internal audit oversight functions (#) Medium-term debt management strategy developed (Y/ N) Disclosure framework for debt statistics developed (Y/ N) Debt management procedures and operations manual developed (Y/ N) Staff trained on loan negotiation and contract management (#) Staff provided with statistical training (#)	No No 0 No No No 10 0	Yes Yes 60 (at least 20% are women) Yes Yes Yes 30 (at least 30% women) 12 (at least 20% women)	MOF's Annual Performance Reports/ IPR/ PCR

	TVET school instructors trained	57	180 (at least 40% women)	
	Toolkits to support the implementation of the legal and regulatory framework for the mining sector (Y/N)	No	Yes	
	Financial sector diagnostic study, including framework to harness remittance for private sector development (Y/N)	No	Yes	
Cross-Cutting Issues				
Jobs created	Direct jobs created through Bank projects (#)	24	98 (at least 45% women)	IPR/ PCR
	Indirect jobs created through Bank projects (#)	2,250	3,950 (at least 45% women)	
Climate change & green growth	Climate-proof projects (% of lending operations)	85	100	IPR/ PCR/ AfDB Climate Finance Reports
	Climate finance allocation (% Bank Portfolio)	35	40	
Gender	Women in project regions equipped with skills (%)	0	At least 45% 100% 1 (all projects categorized) Yes	IPR/ PCR
	Gender Marked Projects (% of projects appraised relative to 2017)	50%		
	Average Gender Marker ratio (score)	0.2		
	Gender focussed energy and water and sanitation studies/strategies developed through projects (Y/N)	No		
Financial leveraging	Amount of co-financing (UA million)	0	5	IPR/ CPPR reports
Portfolio performance	Projects flagged for implementation challenges (%)	50%	35%	Portfolio Dashboard/ CPPR reports
	Overall portfolio performance rating (1 to 4)	2.5	3	
	Time from approval to signature (months)	2.3	<2	
	Time from approval to first disbursement (months)	9	6	
Sustainability and capacity building	Projects with embedded capacity building components (%)	58.3%	65%	IPR/ PCR/ CPPR reports
	Number of fiduciary clinics conducted (#, one per year)	1	3	
Knowledge work/policy advice	ESW produced (#)	1	2	Country Economist
	Policy Dialogue Notes prepared (#)	0	1	
Development harmonization	Working groups in which AfDB participates (#)	0	3	Country Economist/ Procurement Officer/ IPR/ PCR
	Joint Development Partner Missions (#)	0	3	
	Projects using country systems (% of AfDB projects)	0	20%	

Annex A1.3: The Strategy's Theory of Change



ANNEX A2: INDICATIVE LENDING/NON-LENDING PROGRAM AND CONTRIBUTION TO THE HIGH-5S

Annex A2.1 Indicative 2022-2024 Lending Program

Project	Sector	Year	Cost (UAm)	Indicative GMS Category ¹	Sources of Funding					Associated High 5
					ADF-15 PBA	ADF-15 TSF I	ADF-16 PBA	ADF-16 TSF I	Trust Funds/SIF/Regional Operations window	
Priority Area: Developing quality and sustainable infrastructure to support agricultural value-chains for economic diversification and structural transformation										
Eritrea Renewable Energy and Last Mile Connectivity Project	Energy	2022	38.4	GEN II	23.4	15				Light Up and Power Africa
Resilient Water and Sanitation Infrastructure Support Project	Water and sanitation	2024	20.0	GEN II			10.0	10.0		Feed Africa and Improve the Quality of Life for the People of Africa
	Total		58.4							

Annex A2.2 Indicative Non-lending Program

Activity	Year	Cost (UAm)	Sources of Funding					Associated High 5
			ADF-15 PBA	ADF-15 TSF I	ADF-16 PBA	ADF-16 TSF I	Trust Funds/SIF/Regional Operations window	
Policy Note on Economic Diversification	2022	AfDB staff						All High 5s
Financial Sector Diagnostic Study	2023	0.1					√	All High 5s
		Total	0.1					

¹ The Bank Group's corporate Gender Marker System target is of 5% GEN I (with Gender equality as the principal objective), 40% GEN II (gender outcomes), GEN III (gender outputs), GEN IV (marginal gender elements). With deliberative efforts to include a local content component, creating jobs, and training opportunities for women, accompanied with significant Gender Action Plans (at least 45% of the total project budget targeting gender mainstreaming activities in the Gender Action Plans), the Eritrea portfolio can target and reach 2 GEN II projects (100%) in new I-CSP 2022-2024 lending program.

Annex A2.3 I-CSP IOP alignment with Bank Group's High 5s and Cross-Cutting Priorities

Priority Area description	Activity	Year	Type	Amount (UAm)	Cross-Cutting Priorities	Associated High 5s
Developing quality and sustainable infrastructure to support agricultural value-chains for economic diversification and structural transformation	Lending Operations					
	Energy infrastructure (Eritrea Renewable Energy and Last Mile Connectivity Project)	2022		38.4	Gender; food security; youth employment; climate mitigation and adaption, environmental and social safeguards; governance and institutional and human capacity development	Light-up and Power Africa
	Water and sanitation infrastructure (Resilient Water and Sanitation Infrastructure Support Project)	2024		20.0	Gender; food security; youth employment; climate mitigation and adaption, environmental and social safeguards; governance and institutional and human capacity development	Improve the Quality of Life of Africa
	Non-lending					
	Policy Note on Economic Diversification	2022		AfDB staff		Improve the Quality of Life of Africa
	Financial Sector Diagnostic Study	2023		0.1		Improve the Quality of Life of Africa

Annex A2.4: Alignment of the I-CSP (2022-2024) Results with the High 5 Priorities

Priority Area	Expected Outputs in 2024	Expected Outcomes in 2024
Light Up and Power Africa	Energy Training guidelines and manuals for the Eritrea electricity sector developed Solar power plants constructed (MW) Power distribution medium voltage network constructed (km) Power distribution low voltage network constructed (km)	Households connected to electricity in the project region, with at least 45% women including female headed households Public institutions connected to electricity in the project region Income generation activities connected to electricity in the project region
Improve the Quality of Life for the People of Africa	Water Water Storage facilities constructed/rehabilitated (#) Masonry dams to facilitate irrigation constructed (#) Boreholes constructed (#) People trained on sanitation and hygiene (#) – at least 50% women Distribution network/mainlines installed/rehabilitated (km) Gender segregated (gender sensitive infrastructure) latrines constructed (#) Water points/kiosks constructed	Access to clean water in project region (% of population, 50% being women) Access to improved sanitation facilities in project region (% of population, 45% being women) Distance from the nearest water source in project region (kilometres)
Improve the Quality of Life for the People of Africa	Institutional and human capacity development Internal Audit charter, standards, and strategic plan to align with international standards established (Y/N) Internal audit oversight operating procedures manual developed (Y/ N) Officials trained on internal audit oversight functions (#), at least 30% women Medium-term debt management strategy developed (Y/ N) Disclosure framework for debt statistics, reporting and publication of quarterly service report developed (Y/ N) Debt management procedures and operations manual developed (Y/ N) Staff trained on loan negotiation, contract management (#), at least 30% women Staff provided with statistical training (#), at least 20% women TVET school instructors trained	Quality of budgetary and financial management CPIA score Debt policy and management CPIA score Building human resources CPIA score World Bank's statistical capacity score for Eritrea (overall average) Enrolment in TVET

Reform/Activity to be supported	GCI-VII and/or ADF-15 high-level commitment (for ADF-15 commitments indicate pillars plus objective and objective code)	High-5s alignment	Bank department in charge	Expected timeline for completion of reform(s)	Key expected results and timelines	Support Instrument (PBO / Bank staff advice / ESW / Technical Assistant TA)	ESW and/or TA required? Purpose, Cost, Timeline	Status/progress & key milestones achieved	Comments
Financial Sector Development									
Reform Eritrea's financial sector to increase access to credit for micro, small and medium enterprises (MSMEs).	PILLAR 2 - Governance, institutions, and human capacity for inclusive growth. Objective 4: DRM and fighting corruption and illicit financial flows. At least 7 RMCs supported to strengthen their ability to mobilize domestic resources by MTR; and 11 by 2022 with the aim to increase Tax/ GDP by 10%. (G9) Objective 21: Cross-Cutting Areas - Private Sector Development -- Gender: increase the productivity and growth of women's SMEs: Provide support to women-owned / managed SMEs in 10 countries to improve their productivity. (P4)	Improving the quality of life for the people of Africa	PIFD	31/12/2023	1) Financial Sector Development Plan, including options for harnessing remittances to catalyze private sector development developed by March 2023. (2) Customized financial products like credit guarantee scheme for MSMEs developed by September 2023. (3) Average lending interest rate reduced from 18% in 2019 to 13% by 2024 (4) Share of credit to MSMEs increased from about 10% in 2019 to 15% by 2024	ESW	Yes, ESW required. ESW title: Financial sector technical support. ESW cost: UA 59,081. Funding to be secured. TA Timeline: March - March 2023	Initial consultations held with the authorities in 2020 indicated that this TA was a priority. The national authorities approved the proposed study (Financial Sector Diagnostic) and Terms of Reference but did not provide their No Objection on the selected international consultants. All considered national consultants were not suitable for the task. Dialogue with the authorities is underway to agree on a way forward to facilitate implementation of the study.	Purpose of ESW: to support the Central Bank of Eritrea to develop a financial sector development plan.
Public Financial Management (PFM)									
PFM Reforms to strengthen debt management, and transparency and efficiency in public spending	PILLAR 2 - Governance, institutions, and human capacity for inclusive growth. Objective 1: Debt management: Better manage and mitigate the risk of debt distress: Support ADF countries' debt management capability using PBOs and technical assistance in 4 countries by MTR and 7 countries by 2022(G3). Objective 2: Debt transparency: Improving	Improving the quality of life for the people of Africa	ECGF	31/12/2024	(1) Medium-term debt management strategy prepared by 2024 (2) Debt management procedures and manuals developed by 2024 (3) Internal Audit Charter, standards, and strategic plan to align with international standards established by 2024. (4) Internal audit oversight operating procedures manual developed by 2024.	Institutional Support Project	ESW not required	Debt management software (DMFAS) has been installed and staff training undertaken. Data migration completed and annual debt reports are being generated. Consultations with the authorities are ongoing to agree on a TA to support the internal audit oversight functions.	Objective of the intervention is to support GoSE to enhance sound public debt management, and transparency and efficiency in public spending. Goal of the TA is to support the Internal Audit of Eritrea to promote effectiveness and efficiency in the internal audit

	<p>data collection, development, and publication on debt, including from non-Paris club members, with the World Bank and IMF: Provide assistance to at least 10 African statistical offices and other relevant agencies by 2022, including 4 by MTR(G7).</p> <p>Objective 3: Public financial management: At least 15 ADF countries supported to strengthen PFM through ADF financed projects by end 2022(G8).</p>				<p>(5) Quality of budget and financial management CPIA score improved from 2.63 in 2020 to 2.7 by 2024.</p> <p>(6) Debt policy and management CPIA score improved from 1.0 in 2020 to 1.5 by 2024.</p>				oversight functions to ensure improved budget planning and execution oversight in the public sector.
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Annex A2.5 Policy Reform Dialogue Matrix for Eritrea

ANNEX A3: LESSONS LEARNED

Level	Lessons learnt	How the lessons informed the I-CSP
Strategic Level	At the strategic level, two lessons have been learned. First, the Bank has responded to Eritrea's main development challenges including capacity shortfalls and limited agricultural transformation. The strategy pillar and IOP aimed to support Eritrea to address the drivers of vulnerability and build resilience. However, to consolidate the previous gains and attain sustainable growth, emphasis should be placed on supporting Eritrea to accelerate economic diversification to lay the foundation for structural transformation, and an inclusive and resilient economy including through the development of agricultural value chains. Second, the Bank has exercised flexibility in responding to emerging development needs including drought during the I-CSP 2017-2021 period, although delays in project implementation due to slow decision making processes by GoSE, weaknesses in project management capacity, and the COVID-19 pandemic have impeded the realization of development results. Consequently, and as is the case in comparable countries, Eritrea's transitional state environment highlights the importance of applying a fragility lens, drawing from the Bank's CRFA, in the design and delivery of future IOPs. I-CSP 2022-2024 has applied a fragility lens by focusing on interventions that consolidate previous Bank support in addressing the core drivers of vulnerability (section 5.2).	The lesson learned on capacity shortfalls and limited agricultural transformation informed the priority area of the 2022-2024 I-CSP (chapter 5).
Operational Level	At the operational level, three key lessons have emerged: (i) Bank-funded projects should be kept simple in terms of technical options as the national institutional and technical capacities are not yet ready for complex projects. Sustained Bank support for project implementation is necessary, and the Liaison Office has been strengthened following the assignment of a Chief Country Program Officer who will be based in Asmara (section 5.6). (ii) Absence of national data and statistical information constrains results measurement, and this makes it difficult to holistically assess the contribution of Bank support to national development ambitions. Therefore, Bank support towards institutional and capacity building as well as statistical operations should be sustained to enhance capacities to collect and analyse data and information using the internationally recommended standards for evidence-based policy making. Furthermore, the Bank needs to ramp up its knowledge products to deepen country policy dialogue. The other lesson learned is: (iii) transferring of necessary skills to government officials is key for sustainability of development interventions. In this context, embedding capacity building in operations will address the institutional and human capacity weaknesses, and accelerate project implementation.	In response to the lessons learned, chapter 5, proposes strengthening human and institutional capacity. It is proposed that Institutional and human capacities will be embedded in Bank operations to improve sector governance. Additionally, the project design will during the I-CSP 2022-2024 will not be complex.
Government	Key lessons are: (i) recruiting and retaining suitably qualified staff is vital for project implementation and sustainability. Government needs to explore measures to prevent high staff turnover, especially the youth, within the implementing agencies. High turnover undermines the objective of capacity building; and (ii) timely submission of quality procurement	Institutional and human capacities will be embedded in Bank operations to improve sector governance (Chapter 5). This will also address the risks of staff turnover. Additionally,

	<p>applications can contribute to expediting the processing of these requests. It is important that the responsible Ministries, Departments and Agencies (MDAs) closely monitor projects and ensure that procurement activities are implemented efficiently. Assigning dedicated procurement staff to PMUs is equally important.</p>	<p>the presence of a Country Program Officer in Asmara and a local consultant will provide technical backstopping to the PMUs (Annex A6.2).</p>
Development Partners	<p>A key lesson for DPs is that a formalized aid coordination mechanism is an important enabler of aid coordination and harmonization. For example, the World Bank, Japan International Cooperation Agency (JICA) and the EU have expressed willingness to partner with the Bank to co-finance operations that will emerge from the ongoing Groundwater Assessment, Aquifer Mapping and Well Development Project. The Arab Bank for Economic Development in Africa (BADEA) has also approached the Bank to co-finance an operation in the energy sector. The expected outputs include: i) 14 production wells in priority locations for which distribution networks will be laid under the investment project; and ii) maps indicating appropriate locations for drilling wells for the remaining locations. A formalized aid architecture, led by GoSE, will expand the opportunities for joint planning, co- and parallel-financing, and program supervision.</p>	<p>The Bank will work with the development partners to enhance coordination of proposed interventions including on strengthening of the institutional and regulatory environment for private sector development (Chapter 5).</p>

ANNEX A5: FINDINGS OF STAKEHOLDER CONSULTATIONS

The Task Team for Eritrea's I-CSP 2022-2024 in coordination with the Eritrea Liaison Office, organized consultation meetings with GoSE and Development Partners active in Eritrea (EU, JICA, IMF, UNDP, World Bank and UNFPA) during October-December 2021 and March 2022. The following are the key messages emerged from the stakeholder consultation meeting.

No.	Focus Discussion Point	Key Messages
1	Focus Area for the I-CSP 2022-2024	The Government agreed with the I-CSP 2022-2024 focus on a single Priority Area – developing quality and sustainable infrastructure to support agricultural value-chains for economic diversification and structural transformation. The authorities agreed with placing emphasis on developing the energy and water infrastructures as enablers for agricultural value chains development to lay the foundation for agricultural transformation, economic diversification, and structural transformation. The authorities reiterated that most of the sectors are in dire need for support. However, there is need to prioritize support to energy and water sectors to catalyze agricultural transformation and industrialization. The energy requirement is urgent considering the capacity and associated power rationing, which increases the cost of production and reduces competitiveness. The Government confirmed that it has undertaken feasibility studies on the energy sector which will inform the proposed energy project
2	Implementation and lessons learned.	The slow project implementation progress is in part due to human capacity gaps. It is therefore important to embed capacity building in the design of projects. The relocation of the CPO to Asmara in April 2022 will enable the Bank to follow up closely with the authorities and other stakeholders to accelerate project implementation.
3	Areas of Potential Partnership	During the I-CSP consultations, development partners underlined the need for partnership and co-financing related development interventions. The development partners expressed interest to collaborate with the Bank in both water and energy projects, the key enablers of agriculture transformation.
4	Aid Coordination	The consultations underscored the need for a formal aid coordination forum involving government and development partners. There was consensus that aid coordination meetings could be regularized building on the existing development partners forum.
5	Ensuring ownership in project identification and design	Extensive consultations during project identification and design are critical in enhancing ownership and accelerating project implementation. The relocation of the CPO to Asmara in April 2022 will enable the Bank to scale-up its interactions with diverse stakeholders in Eritrea during project cycle activities.
6	Capacity building to promote gender equality.	The Government is committed to promoting gender equality. However, capacity building is required to enable Government to design and implement the required legal frameworks.
7	Debt Management and Restructuring	Eritrea is in debt distress, and most of the debt is domestic. The Bank has provided support to enhance debt management including the installation of the DMFAS software and training of staff to use the software. The authorities acknowledged that debt restructuring would be necessary to achieve debt sustainability. However, GoSE indicated that the Bank will be notified in case Eritrea needs support to restructure its

		debt. The IMF and World Bank expressed readiness to work with the Bank to support GoSE to ensure debt sustainability, should the authorities request for such support.
8	Access to updated data	Development partners are discussing with Government on possibility of conducting a population census. The country has not done a population census for more than ten years. The census will provide access to demographic and other socioeconomic data essential for monitoring various indicators including on gender and other operational activities.










ANNEX A6: PORTFOLIO PERFORMANCE REVIEW

Annex A6.1 Ongoing Portfolio







#	Project name	Window	Ind. GMS Category	App. Date	Signature Date	Final Disb. Date	Amt. Approved (MUA)	Amt Disb. (MUA)	Disb. Ratio	Age (yrs)	Status
1	Drought Resilience and Sustainable Livelihoods (DRSLP) V	ADF Grant	GEN II	26/11/2019	19/12/2019	31/12/2025	15	0.1	0.48%	1.2	Ongoing
2	Drought Resilience and Sustainable Livelihoods (DRSLP) V	TSF Grant	GEN II	26/11/2019	19/12/2019	31/12/2025	2.5	0.1	2.90%	1.2	Ongoing
3	Drought Resilience and Sustainable Livelihoods Programme-IV	TSF Grant	GEN II	24/01/2017	05/04/2017	31/07/2022	2.4	1.2	51.04%	4	Ongoing
4	Drought Resilience and Sustainable Livelihoods Programme-IV	TSF Loan	GEN II	24/01/2017	05/04/2017	31/07/2022	3	2	67.8%	4	Ongoing
5	DRSLP II	ADF Grant	GEN II	26/11/2014	06/05/2015	31/12/2022	5.8	1.7	30.1%	6.2	Ongoing
6	DRSLP II	ADF Loan	GEN II	26/11/2014	06/05/2015	31/12/2022	5.8	4.1	70.4%	6.2	Ongoing
7	Groundwater Assessment, Aquifer Mapping and Well Development	ADF Grant	GEN III	18/11/2016	03/04/2017	31/03/2022	0.5	0.1	15.60%	4.2	Slow Disbursement
8	Supplementary Financing - Groundwater Assessment, Aquifer Mapping and Well Development	TSF Grant	GEN III	26/09/2019	01/11/2019	31/03/2022	0.5	0.1	12.30%	1.4	Ongoing
9	Skills Development for Employability & Entrepreneurship	ADF Grant	GEN II	03/03/2015	06/05/2015	30/06/2022	5.9	1.3	21.9%	5.9	Slow procurement







10	Skills Development for Employability & Entrepreneurship	ADF Loan	GEN II	03/03/2015	06/05/2015	30/06/2022	7.6	0	0.03%	5.9	Slow Disbursement-
11	Strengthening Tax Administration Project (ESTAP)	TSF Grant	GEN III	19/06/2019	20/08/2019	31/12/2022	2	0	2.28%	1.6	Slow disbursement,
12	PFM and Statistics Technical Assistance and Capacity Building	TSF Grant	GEN III	04/07/2016	10/10/2016	31/12/2021	4.5	1.4	30.4%	4.6	Slow Disbursement
Total							55.5	12.1	21.8%		

Notes: prior to July 2019, Eritrea was rated moderate risk of debt distress and thus eligible for loans and grants from the Bank. After July 2019, Eritrea was categorized as being in debt distress and is thus only eligible for grants from the Bank.

Table 1: Eritrea Portfolio Performance at Glance				
Indicator	2016	2019	2021	Indicator
Portfolio value (UA million)	38.4	68.4	55.5	
Overall Portfolio Rating (Scale 1-4)	3	2.8	3.05	
Number of operations flagged red in the dashboard (%)	N/A	50	41	
Time laps-approved to signature (Months)	3.8	2.3	1.7	
Time laps-approval to first disbursement (Months)	5.1	5.8	9	
Cumulative disbursement rate	25.1	32.3	21.8	
Average age of portfolio	2.3	4.2	3.8	
Size of investment projects (UA million)	12.6	10.6	12.2	
Projects manged from East Africa (%)	33	67	100	

Annex A6.2 Country Portfolio Improvement Plan and Implementation Status

Challenge	Actions	Responsibility	Timeframe	Status as at October 2021	Traffic lights
1. Mastering Bank procurement, disbursement and FM policies and rules	Experience sharing between projects during, quarterly project management meetings and focused sensitization sessions on the Bank's procurement and disbursement rules and procedures. Also conduct fiduciary clinic.	AfDB	Continuous.	Project Officials trained on Bank's disbursement procedures and the procurement rules in September 2021. The next fiduciary clinic is planned for by end of first quarter of 2022	
2. Updated Proc. Plan, Improved Efficiency and Transparency in Procurement Process: Evaluation Report (ER), Bidding/ Request for Proposal Documents;	Updated PP each semester. Adhere to Proc. Plan and submission of good quality of documents. Timely Bank response within 14 to 21 days. CPO and Liaison Officer to monitor and report delays;	Gov EAs ADB	September 2021 All projects have updated Procurement Plans	All projects have updated procurement plans	
3. Contract Management (timely delivery and installation of procured items)	Enforcement of contract provisions; Keep written communications to suppliers; Opinion and intervention of lawyers if needed; Inspection before Delivery; Timely payment and Contract extension or Closure;	Gov EAs	Continuous	Majority of contractors are not based in the country. Adapted arrangement for managing contracts with abroad based enterprises or firms.	
4. Private auditors have limited knowledge of Bank standard audit requirements	Sensitization workshop targeting private auditors in the Country including the Supreme Audit Institution	Gov EAs	Continuous	Sensitization workshop targeting private audit firms was held in Asmara in August 2019 where the External Audit Requirements for Bank-financed Operations and Revised Standard Audit Terms of Reference were presented. Plans are underway to build the capacity of the Supreme Audit Institution to audit projects as well.	
5. Ageing operations	Restructure/ Revisit operations in time and avoid strictly going beyond 7 years	Gov EAs	Continuous	No single project is currently aged. Most aged project is now 6.5 years.	
6. Enhance coordination between different Ministries and Gov. Institutions	Project Steering Committee (PSC) should comprise staff from all Gov. Institutions that have a say Quarterly/ Semester Portfolio Meetings led by MoF	Gov EAs	August 2022	The quarterly project management meeting has proven to be a useful platform to bring different sector ministries together to enhance coordination. Participation of the Ministry of Finance has been critical too.	

Challenge	Actions	Responsibility	Timeframe	Status as at October 2021	Traffic lights
7. Sustainability of results	Engage Zobas and other relevant Government Institutions at early the project preparation stage so they take partial/full responsibility during construction and operating including maintenance (MOUs)	Gov EAs	Continuous	This was taken into consideration in the project design. In each of the Zobas, focal persons were identified from the line Ministry and appointed to take partial responsibility during construction of the production wells.	
8. Enhanced partnership for co-financing	Explore possibilities of co-financing with partners including UN system, Arab funds and Chinese Trust Funds (AGTF);	Gov EAs ADB	Continuous	Already five partners (Italian Cooperation, World Bank, European Union, GEF, JICA) have been identified and have expressed interest in co-financing.	
9. Succession Plan for public project management	Allow young generation to be prepared/ trained/ coached through internship and mentoring programs	Gov EAs	August 2022	Young staff are employed within all projects though will limited expertise. Need to initiate formal program of training of graduated. Agriculture projects teams including youth attached to projects have been trained by a private firm in Nairobi in July and August 2019.	
10. Weak internet services	Getting assistance from international organizations present in country like FAO, ICRC	Gov EAs ADB	July 2022	Since January 2020, Bank Liaison Office has arranged access to internet for projects including virtual meeting using UNDP facilities. However, the major challenge remains at the line Ministry where internet services are often unavailable and if not, of extremely low speed.	
11. High turnover of Task Managers	TMs should be based in the region and serve for a minimum term of 3 years. Proper hand-over mechanism involving GoSE and project Team	ADB	Sept. 2022	All Projects have TMs based in East Region since at least at least 18 months.	
12. Improving national ownership of projects by using more and more Country Systems	Undertaking reforms or streamline public procurement, public financial management. Standardize project staff appointment and remuneration scale	ADB	June 2022	Country systems, where they exist are seemingly weak or poorly developed. It will require significant support and piloting if they are to be adopted.	

Annex A6.3 Results of Survey on Portfolio Quality

The 2021 CPPR was carried out by the Bank in consultation with the Government and PMUs. The consultation process involved discussions with project management teams, task managers and DPs. Deliberations focused on issues affecting portfolio performance, assessment of the status of implementation and preparation of the Country Portfolio Improvement Plan (CPIP).

Issues Identified. One major constraint, which has been derailing project implementation is inadequate skills and experience in project implementation and use of Bank rules and procedures. The other issues that are currently being closely monitored include: slow procurement (inadequate understanding of procurement rules and procedures), financial management (slow absorption of resources thus delaying submission of disbursement requests); institutional environment (government leadership or commitment) and poor access to internet due to acute power shortage in Eritrea (slow response to critical communications, delayed processing of bidding documents and disbursement justifications).

1 Country Portfolio Improvement Plan

The Country Performance Improvement Plan (CPIP) focuses on issues identified during the stakeholder consultations, which include measures to ensure that: (i) there is adequate understanding and application of Bank rules and procedures; (ii) the Bank and Government continue to periodically follow-up and monitor project implementation; (iii) the Bank and Government continue the periodic follow-up meetings with PMUs to deepen dialogue, share experiences and be proactive in resolving project implementation challenges and; (iv) there is enhanced coordination of external partners, liberalizing access to internet to facilitate smooth and rapid communications between projects and the Bank's teams, and promoting national partnership to facilitate smooth implementation of projects. It also calls for continuous training to familiarize PMU staff with the Bank's rules and procedures and reduce project implementation delays. The new CPIP, with details of these recommendations, is presented in Annex A6.

2. Assessment of the Portfolio

2.1 Risks to Portfolio Management

2.1.1 Apart from absence of sufficient awareness of the Bank's procurement and disbursement rules and procedures, no other major portfolio management risk was encountered in the implementation of the projects. The regular meetings with project management staff provide an opportunity for sharing lessons and experiences in applying the Bank's procurement and disbursement rules and procedures thus enhancing the capacity to effectively implement projects without any delays. The Project management staff continue to consult regularly with the Bank on portfolio issues to proactively resolve any potential problems. This was possible due to the initiative of the Eritrea Liaison Office to hold periodic meetings with all project staff in one forum to discuss problems, share experiences and provide clarity on the Bank's procurement, disbursement and reporting requirements, including timely submission of audit reports and quarterly reports.

2.1.2 However, potential risks remain in relation to the persistent power shortages and absence of reliable internet access in Eritrea that is affecting timely preparing of procurement documents. The short gap measure of allowing the Project Management staff to use the Bank's Eritrea Liaison Office to use the available power and internet access to prepare project related procurement documentation has ensured minimal interference with project implementation progress. Also, strong follow-up mechanism was put in place to ensure that Project Management

teams timely execute action plans agreed upon during supervision missions. Therefore, the prolonged power outages and absence of internet access in PMU offices have not significantly affected Bank-funded projects.

Annex A6.4: 2021 Country Portfolio Improvement Plan

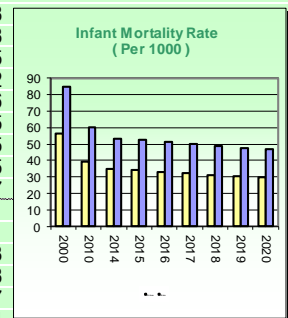
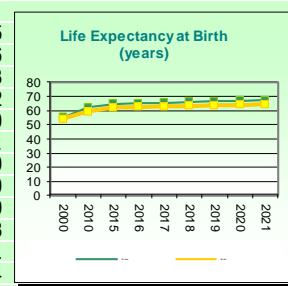
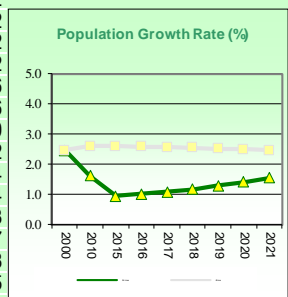
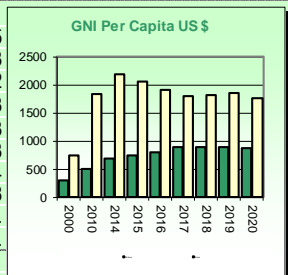
Challenge	Proposed Action	Responsibility	Timeframe
1. Enhance PMU staff understanding of Bank procurement, disbursement and Financial Management rules and procedures.	Conduct quarterly project management meetings and focused sensitization sessions on the Bank's procurement and disbursement rules and procedures.	AfDB/EA/MoF	Continuous
2. Improve on contract management by ensuring timely delivery and installation of procured items.	Enforce contract provisions by keeping written communications with suppliers, conduct inspection before delivery and ensure timely payment and contract extension or closure;	PMU/EA	Continuous
3. Reduce delays in preparing and submitting financial statements to auditors	Train project accountants to enhance skills to prepare timely financial statements for project managers review and clearance.	AfDB/PMU	July 22
4. Improve capacity at the project level to undertake M&E tasks	Continuously sensitize project managers to prepare quarterly progress reports	AfDB/PMU	Continuous
5. Project staff not familiar with the Banks environmental and social safeguards rules	Conduct training to PMU staff on the Bank's environmental safeguard rules	AfDB/PMU	April 22
6. Weak internet access at PMU and Sector Ministries limiting communication required for project implementation progress.	Continue to ensure that PMUs have access to internet from Bank's Eritrea Liaison Office as a permanent solution is sought.	AfDB/PMU/EA	Continuous
7. Inadequate skills and experience at PMU	Ensure competitive recruitment or nomination of competent and skilled project staff.	PMU/EA	Continuous

ANNEX A7: DONOR MAPPING

	Capacity building & Institution support	Sector budget support	PFM Investment climate	Education	Health HIV/AIDS	Other Health	Agriculture	Food Security Development	Water sector	Energy Sector	Transport	Telecommunications
African Development Bank	+		+	+			+		+	+		
EU	+									+	+	
IFAD							+	+				
UN System	+			+		+		+		+		
China, People's Republic				+			+					+
BADEA										+		
JICA				+					+			

ANNEX A8: COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Eritrea	East Africa	Africa	Developing Countries
Basic Indicators					
Surface Area ('000 Km²)	2021	118	6,228	30,064	96,535
Total Population (millions)	2021	3.6	385.3	1,371.7	6,518.3
Urban Population (% of Total)	2021	64.8	28.8	44.3	51.2
Population Density (per Km²)	2021	35.7	66.0	46.7	69.3
GNI per Capita (US \$)	2020	880	957	1 767	4 843
Labor Force Participation *- Total (%)	2021	76.8	71.5	61.9	58.3
Labor Force Participation ** - Female (%)	2021	70.2	65.3	53.3	44.4
Sex Ratio (per 100 female)	2021	100.5	99.4	99.9	106.8
Human Develop. Index (Rank among 189 countries)	2019	180	...	...	...
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-19	...	34.2	34.1	...
Demographic Indicators					
Population Growth Rate - Total (%)	2021	1.6	2.6	2.5	1.2
Population Growth Rate - Urban (%)	2021	3.8	4.5	3.6	2.2
Population < 15 years (%)	2021	40.7	41.1	40.1	27.2
Population 15-24 years (%)	2021	19.0	20.7	19.3	16.2
Population >= 65 years (%)	2021	4.5	3.0	3.6	7.6
Dependency Ratio (%)	2021	82.4	79.1	77.6	54.6
Female Population 15-49 years (% of total population)	2021	23.9	24.6	24.3	25.0
Life Expectancy at Birth - Total (years)	2021	67.0	65.8	64.1	71.2
Life Expectancy at Birth - Female (years)	2021	69.3	67.8	65.9	73.4
Crude Birth Rate (per 1,000)	2021	28.7	32.5	32.2	19.4
Crude Death Rate (per 1,000)	2021	6.7	6.4	7.7	7.3
Infant Mortality Rate (per 1,000)	2020	29.7	37.5	46.6	29.7
Child Mortality Rate (per 1,000)	2020	22.4	36.0	47.5	39.8
Total Fertility Rate (per woman)	2021	3.9	4.2	4.2	2.5
Maternal Mortality Rate (per 100,000)	2017	480.0	444.2	475.7	231.0
Women Using Contraception (%)	2021	13.6	41.1	38.3	59.1
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-19	7.1	18.0	38.1	138.5
Nurses and midwives (per 100,000 people)	2010-19	132.7	85.3	106.5	254.6
Births attended by Trained Health Personnel (%)	2010-20	34.1	55.4	64.4	79.3
Peop. Using at least basic drinking water services (% of Pop.)	2016	51.8	56.1	69.3	88.2
Peop. Using at least basic sanitation services (% of Population)	2016	11.9	25.6	41.9	74.0
Percent of Adults (aged 15-49) Living with HIV/AIDS	2020	0.5	2.5	3.0	...
Incidence of Tuberculosis (per 100,000)	2020	81.0	168.6	193.2	149.0
Child Immunization Against Tuberculosis (%)	2019	97.0	81.1	81.0	88.0
Child Immunization Against Measles (%)	2019	99.0	76.5	71.9	84.9
Underweight Children (% of children under 5 years)	2010-20	39.4	14.0	16.8	13.8
Prevalence of stunting	2010-20	52.5	29.5	31.9	...
Prevalence of undernourishment (% of pop.)	2019	...	22	17.7	10.4
Current health expenditure (% of GDP)	2019	4.5	4.1	5.1	5.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2011-21	68.4	104.2	103.0	101.8
Primary School - Female	2011-21	63.1	102.1	101.0	100.8
Secondary School - Total	2011-21	47.7	36.3	52.7	72.5
Secondary School - Female	2011-21	45.4	36.5	50.8	72.2
Primary School Female Teaching Staff (% of Total)	2010-21	39.0	44.8	50.5	63.6
Adult literacy Rate - Total (%)	2010-20	76.6	65.7	68.2	84.5
Adult literacy Rate - Male (%)	2010-20	84.4	74.8	72.4	88.5
Adult literacy Rate - Female (%)	2010-20	68.9	60.2	61.4	80.5
Gouvenment expenditure on Education (% of GDP)	2010-20	...	4.2	4.8	3.7
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2018	6.8	13.5	8.2	11.3
Agricultural Land (as % of land area)	2018	75.2	51.2	37.8	37.8
Forest (As % of Land Area)	2020	10.4	22.1	22.6	31.7
Per Capita CO2 Emissions (metric tons)	2018	0.2	0.2	1.1	3.4



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

last update :


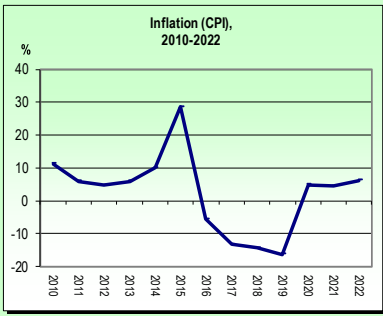
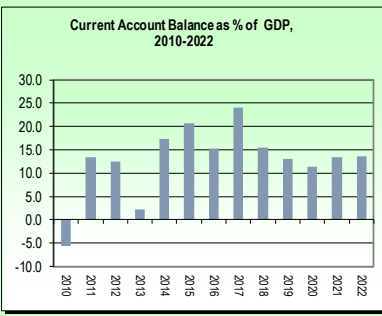
April 2022

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

Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

** Labor force participation rate, female (% of female population ages 15+)

ANNEX A9: SELECTED MACROECONOMIC INDICATORS

Indicators	Unit	2010	2017	2018	2019	2020	2021 (e)	2022 (p)
National Accounts								
GNI at Current Prices	Million US \$	1,617	3,037	3,073	3,112	3,121	...	...
GNI per Capita	US\$	510	890	890	890	880	...	...
GDP at Current Prices	Million US \$	2,117	1,904	2,006	1,982	2,083	2,271	2,568
GDP at 2010 Constant prices	Million US \$	2,117	2,439	2,756	2,862	2,844	2,927	3,063
Real GDP Growth Rate	%	2.2	-10.0	13.0	3.8	-0.6	2.9	4.7
Real per Capita GDP Growth Rate	%	0.6	-11.0	11.7	2.5	-2.0	1.3	2.9
Gross Domestic Investment	% GDP	9.3	8.7	2.9	5.0	7.4	8.0	7.0
Public Investment	% GDP	...	1.0	0.7	1.8	1.7	1.6	1.8
Private Investment	% GDP	...	7.7	2.3	3.2	5.7	6.4	5.1
Gross National Savings	% GDP	4.3	16.7	19.0	18.8	18.6	...	...
Prices and Money								
Inflation (CPI)	%	11.2	-13.3	-14.4	-16.4	4.8	4.5	6.2
Exchange Rate (Annual Average)	local currency/US\$	15.4	15.1	15.1	15.1	15.1	15.1	15.1
Monetary Growth (M2)	%	16.1	...	...	...	...	...	...
Money and Quasi Money as % of GDP	%	185.9	...	...	...	...	...	...
Government Finance								
Total Revenue and Grants	% GDP	...	36.8	31.6	34.0	31.5	32.5	34.3
Total Expenditure and Net Lending	% GDP	...	42.8	27.4	33.4	36.0	36.5	35.3
Overall Deficit (-) / Surplus (+)	% GDP	-16.0	-6.0	4.2	0.6	-4.4	-4.0	-1.0
External Sector								
Exports Volume Growth (Goods)	%	-10.2	30.5	8.9	-14.5	-8.4	10.1	6.1
Imports Volume Growth (Goods)	%	-22.8	-10.8	14.7	5.4	-0.6	4.9	8.7
Terms of Trade Growth	%	-9.9	-6.9	-5.2	13.1	4.3	-1.0	2.2
Current Account Balance	Million US \$	-119	456	310	258	237	306	347
Current Account Balance	% GDP	-5.6	24.0	15.4	13.0	11.4	13.5	13.5
External Reserves	months of imports	4.6	2.8	2.6	2.0	2.5	3.1	...
Debt and Financial Flows								
Debt Service	% exports	29.6	11.8	11.4	11.3	12.4	8.6	6.7
External Debt	% GDP	72.8	70.9	64.4	61.7	58.1	53.7	47.6
Net Total Financial Flows	Million US \$	161	80	83	265	61	...	...
Net Official Development Assistance	Million US \$	162	79	84	266	61
Net Foreign Direct Investment	Million US \$	91	55	61	67	74
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Source : AfDB Statistics Department: African; IMF: World Economic Outlook, April 2022 and International Financial Statistics, April 2022;

AfDB Statistics Department: Development Data Portal Database, April 2022. United Nations: OECD, Reporting System Division.

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

Last Update: May 2022

Annex A10: Trends in Eritrea's Country Policy and Institutional Assessment scores by Clusters and Criteria, 2004-2020

Clusters / Criteria	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2018	2020
Overall CPIA	2.5	2.5	2.4	2.4	2.4	2.4	2.3	2.1	1.9	2.0	2.1	2.1	2.1	2.2	2.3
Economic Management	2.2	2.0	1.8	2.0	2.2	1.8	1.8	1.7	1.5	1.5	1.8	1.7	1.7	1.8	1.7
Monetary Policy	2.0	2.0	1.5	2.0	2.0	2.0	2.0	1.5	1.5	2.0	2.0	1.5	2.0	2.0	2.0
Fiscal Policy	2.5	2.0	2.0	1.5	2.5	2.0	2.0	2.5	2.0	1.5	2.0	2.0	1.5	2.0	2.0
Debt Policy	2.0	2.0	2.0	2.5	2.0	1.5	1.5	1.0	1.0	1.0	1.5	1.5	1.5	1.5	1.0
Structural Policies	2.3	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.2
Economic Cooperation, Regional Integration and Trade	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.3	2.0	2.0	2.0
Financial Development	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.3	2.0	2.3	2.3	2.0
Business Regulatory Environment	2.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.3
Social Inclusion/Equity	3.0	3.4	3.3	3.3	3.3	3.3	3.3	2.9	2.3	2.4	2.7	2.7	2.8	2.8	3.0
Gender Equality	3.0	3.5	3.5	3.5	3.5	3.5	3.5	3.0	2.8	2.8	2.8	2.8	3.3	3.3	3.3
Equity of Public Resource Use	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.5	1.3	1.3	1.5	1.5	1.5	1.7	1.8
Building Human Resources	3.0	4.0	3.5	3.5	3.5	3.5	3.5	3.5	3.0	3.3	4.0	4.0	4.0	4.0	4.0
Social Protection and Labor	2.0	3.5	3.5	3.5	3.5	3.5	3.5	3.0	1.8	1.9	2.1	2.1	2.2	2.2	2.2
Environmental Policies and Regulations	4.0	3.0	3.0	3.0	3.0	3.0	3.0	2.5	2.5	2.5	3.0	3.0	3.0	3.0	3.5
Governance	2.5	2.6	2.4	2.3	2.3	2.3	2.2	2.0	1.7	1.9	1.9	1.9	2.0	2.2	2.4
Property Rights and Rule-based Governance	3.0	3.5	3.5	3.0	3.0	3.0	2.5	2.5	1.9	1.9	2.0	2.0	2.0	2.1	2.4
Quality of Budgetary and Financial Management	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.5	1.4	2.1	2.3	1.9	2.1	2.1	2.6
Efficiency of Revenue Mobilization	2.5	2.5	2.5	2.5	2.5	2.0	2.0	2.0	2.3	1.5	1.9	2.3	1.9	2.3	3.0
Quality of Public Administration	2.0	3.0	2.0	2.0	2.0	2.5	2.5	2.0	2.0	2.3	2.3	2.1	2.3	2.8	2.4
Transparency, Accountability and Corruption in the Public Sector	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.2	1.5	1.3	1.3	1.5	1.5	1.5
Infrastructure and regional integration										2.1	2.1	2.1	2.1	2.1	2.4

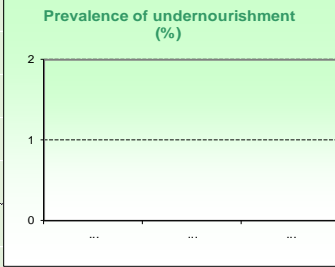
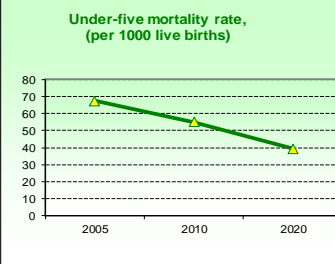
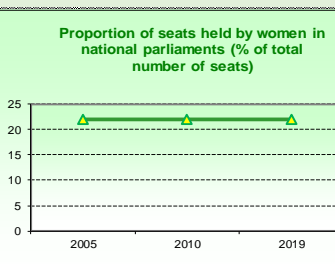
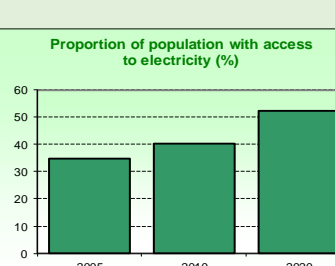
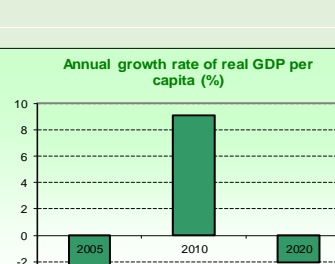
Source: African Development Bank Group.

ANNEX A11: ARRANGEMENT WITH THE IMF

Considering Eritrea's debt and fiscal challenges, diversification of development financing sources including catalysing private sector investment and finance remains key. However, this requires government reforms to improve economic competitiveness and create an enabling environment for private sector development. Reforms including commitment to an IMF Staff Monitored Program (SMP) are necessary to advance the country's access to debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. It is imperative that the country engages in debt restructuring to ensure a return to debt sustainability. During I-CSP 2022-2024 preparation mission (October – December 2021), the IMF and World Bank expressed readiness to work with the Bank to support GoSE to ensure debt sustainability, should the authorities request for such support (Annex A5).

The IMF and the World Bank started working on re-engagement arrangements with the GoSE after lifting of the international sanctions in November 2018. On July 22, 2019, the Executive Board of the International Monetary Fund concluded the consideration of the 2019 Article IV Consultation with State of Eritrea. Under Article IV of its Articles of Agreement, the IMF has a mandate to exercise surveillance over the economic, financial and exchange rate policies of its members to ensure the effective operation of the international monetary system.

ANNEX A12: ERITREA'S PROGRESS TOWARD ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS

	2000 ¹	2010 ²	2021 ³	
Goal 1: End poverty in all its forms everywhere				Prevalence of undernourishment (%) 
Proportion of population living below the international poverty line of US\$ 1.90 (PPP) per day	...	...	...
Proportion of population living below the national poverty line (%)	...	...	...
Employed population below the international poverty line of US\$1.90 per day, aged 15-24 (%)	56.1	57.6	53.9	
Employed population below the international poverty line of US\$1.90 per day, aged 25 and over (%)	51.9	53.8	50.3	
Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture				Under-five mortality rate, (per 1000 live births) 
Prevalence of undernourishment (%)	...	...	...
Proportion of children moderately or severely stunted (%)	43.0	52.5	...	
Agriculture orientation index for government expenditures	...	...	...
Total official flows for agriculture (Millions of Constant 2018 US\$)	20	8	11	
Goal 3: Ensure healthy lives and promote well-being for all at all ages				Proportion of seats held by women in national parliaments (% of total number of seats) 
Maternal mortality ratio	804	567	480	
Proportion of births attended by skilled health personnel (%)	28.3	34.1	...	
Under-five mortality rate (deaths per 1,000 live births)	67.5	55.1	39.3	
Malaria incidence (per 1,000 population)	9.8	26.3	44.8	
Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all				Proportion of population with access to electricity (%) 
Proportion of children and young people at the end of primary achieving a minimum proficiency level in: Reading (%)	...	...	...
Proportion of children and young people at the end of primary achieving a minimum proficiency level in: Maths (%)	...	...	...
Gender parity index of trained teachers, primary (ratio)	0.8	1.0	1.0	
Total official flows for scholarships (Millions of Constant 2018 US\$)	...	0	4	
Goal 5: Achieve gender equality and empower all women and girls				Annual growth rate of real GDP per capita (%) 
Proportion of seats held by women in national parliaments (% of total number of seats)	22.0	22.0	22.0	
Proportion of women who make their own informed decisions regarding contraceptive use (% of women aged 15-49 years)	...	...	...
Proportion of women who make their own informed decisions regarding reproductive health care (% of women aged 15-49 years)	...	...	...
Goal 6: Ensure availability and sustainable management of water and sanitation for all				
Proportion of population using safely managed drinking water services, (%)	
Level of water stress: freshwater withdrawal as a proportion of available freshwater resources (%)	11.2	11.2	11.2	
Total official development assistance for water supply and sanitation (Millions of Constant 2018 US\$)	5.0	7.0	3.5	
Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all				
Proportion of population with access to electricity (%)	34.7	40.2	52.2	
Proportion of population with primary reliance on clean fuels and technology (%)	6.0	8.0	9.0	
Renewable energy share in the total final energy consumption (%)	74.7	81.1	73.7	
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all				
Annual growth rate of real GDP per capita (%)	-2.4	9.1	-2.0	
Unemployment rate, (aged 15-24) (%)	
Unemployment rate, (aged 25 & over) (%)	
Proportion of youth not in education, employment or training (%)	

Sources : ADB Statistics Department Database;

United Nations Statistical Division, Online Database on Sustainable Development Goals (<https://unstats.un.org/sdgs/>).

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

¹ Latest year available in the period 2000-2005; ² Latest year available in the period 2006-2010; ³ Latest year available in the period 2011-2021

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Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	2000¹	2010²	2021³	Manufacturing value added per capita (constant 2015 US\$)
Manufacturing value added per capita (constant 2015 US\$)	41	31	40	
Manufacturing employment as a proportion of total employment (%)	...	...	...
Carbon dioxide emissions from fuel combustion (millions of tonnes)	0.6	0.5	0.8	
Total official flows for infrastructure (Millions of Constant 2018 US\$)	16	18	6	
Goal 10: Reduce inequality within and among countries				Proportion of urban population living in slums (%)
Labour share of GDP (%)	41.7	41.6	41.3	
Total assistance for development (Millions of current US\$)	349	161	265	
Remittance costs as a proportion of the amount remitted (%)	...	...	7.1
Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable				
Proportion of urban population living in slums (%)	
Number of deaths due to disaster (number)	...	...	...
Direct economic loss attributed to disasters relative to GDP (%)	...	...	...
Goal 12: Ensure sustainable consumption and production patterns				
Domestic material consumption per capita, coal (tonnes)	
Domestic material consumption per capita, natural gas (tonnes)	...	...	...
Electronic waste generated, per capita (Kg)	0.2	0.3	0.6	
Goal 13: Take urgent action to combat climate change and its impacts				
Number of deaths and missing persons attributed to disasters per 100,000 population	
Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies (%)	...	...	...
Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development				
Coverage of protected areas in relation to marine areas (Exclusive Economic Zones) (%)	...	...	0.000
Average proportion of Marine Key Biodiversity Areas (KBAs) covered by protected areas (%)	0.0	0.0	0.0	Debt service as a proportion of exports of goods and services (%)
Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss				
Forest area as a proportion of total land area (%)	9.2	9.0	8.7	
Forest area annual net change rate (%)	...	-0.3	-0.3	
Red List Index	0.93	0.92	0.89	
Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels				Internet users per 100 inhabitants
Unsentenced detainees as a proportion of overall prison population (%)	
Proportion of children under 5 years of age whose births have been registered with a civil authority (% of children under 5 years of age)	...	...	...
Goal 17: Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development				
Proportion of domestic budget funded by domestic taxes (% of GDP)	...	...	...
Volume of remittances (in United States dollars) as a proportion of total GDP (%)	0.0	0.0	0.0	
Debt service as a proportion of exports of goods and services (%)	4	
Internet users per 100 inhabitants	0.2	0.6	1.3	

Sources : ADB Statistics Department Database;

United Nations Statistical Division, Online Database on Sustainable Development Goals (<https://unstats.un.org/sdgs/>).

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

¹ Latest year available in the period 2000-2005; ² Latest year available in the period 2006-2010; ³ Latest year available in the period 2011-2021

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ANNEX A13: ERITREA RESILIENCE NOTE

1. COUNTRY CONTEXT

1.1. Eritrea is a country in the Horn of Africa bordered by the Red Sea to the northeast and the east, by Sudan to the west and northwest, by Ethiopia to the south, and by Djibouti to the southeast. It gained independence from Italy in 1941 after which it was administered by Great Britain for a period of 10 years. In 1952, the United Nations conferred on Eritrea the status of an autonomous region within the Ethiopian federation. Ten years later, Ethiopia's full annexation of Eritrea as a province triggered a violent 30-year struggle for independence that ended in 1991 with Eritrean rebels defeating Ethiopian government forces. In a 1993 referendum, Eritreans overwhelmingly voted for independence. Its capital and largest city is Asmara and is the seat of government and state institutions. It is divided into six administrative regions called 'zobas', which vary in size, population and socioeconomic conditions.

1.2. Eritrea has a total surface area of 117 600 km² and a population of 5.2 million. Its population density is just 117 people per square mile (45 people per square kilometre), ranked at 154th in the world. About 70 per cent of Eritreans are under 35 years old. Its population comprises of nine ethnic groups, each with its own language and cultural heritage. Its ethnolinguistic composition includes the Tigrinya, the Tigré, the Saho, the Kunama, the Rashaida and the Bilen, amongst others. The Tigrinya and Tigré languages are the major indigenous languages in Eritrea. In addition, Arabic and English are widely understood. In terms of religion, about one-half of Eritrea's population is Christian – principally Eritrean Orthodox, Roman Catholic and Protestant. Islam and African traditional religions are also practised.

1.3. Although the Constitution allows for multi-party politics, the People's Front for Democracy and Justice is the nation's ruling and only authorised party. Isaias Afwerki has been the country's President since its independence in 1993. As president, he is head of state and of government and commander-in-chief of armed forces. He also presides over the legislature and the State Council – the executive branch of the government that consists of cabinet ministers, regional governors and other officials. A constituent assembly ratified a new constitution in May 1997, but it is yet to be fully implemented. Anticipated parliamentary and presidential elections have not yet been held. A 150-member Transitional National Assembly, an interim legislative body established in 1997, remains the de facto legislature.

1.4. Agriculture is the mainstay of the country's economy, and accounts for the livelihoods of about four-fifths (nearly 80%) of the population and a large proportion of Eritrea's exports. Small-scale cultivation and traditional pastoralism are the main forms of agricultural activity. The sector is however constrained by climatic conditions, soil erosion, and the uneven surface of the plateau. It was disrupted by the long period of warfare leading to independence. Currently, staple grain products include sorghum, millet, and an indigenous cereal. Pulses, sesame seeds, vegetables, cotton, tobacco, and sisal are also produced. Among the livestock raised are sheep, cattle, goats, and camels. The sector only produces a small share of the country's total output and accounts for 20% of the Gross Domestic Product. Mining also accounts for 20% of the economy. The country is rich in natural resources such as granite, gold, copper, zinc, potash, and basalt. Numerous other minerals have been identified, including feldspar, gypsum, asbestos, mica, and sulfur. The proximity to the oil-rich Arabian Basin has occasionally raised expectations of discovering petroleum in Eritrea, but intermittent exploration since the days of Italian rule has failed to produce results.

1.5. During the last few years, the vision of the Government of Eritrea was reflected in the National Indicative Development Plan (NIDP) (2014-2018). The NIDP laid emphasis on human capital development and strong civil service as critical pre-requisites for planning and economic development. Self-reliance has been at the core of the country's long-term development strategy. In recent years, there has been a demonstrable shift in approach, including efforts to establish partnerships with countries in the region and the international community at large. Following the Joint Declaration of Peace and Friendship between the Prime Minister of Ethiopia and the President of Eritrea, the Government of Eritrea began a "national reprioritization exercise" in the context of peace, to set new priorities and a new national development plan. In January 2019, it announced five priorities, referred to as 'RoadMap'. The priorities include agriculture, health and nutrition, education, water and capacity building. The strategic programs in the roadmap aim at creating macro-economic growth and stability, effective reorganisation through institutional, organisational and administrative consolidation, and the strengthening of the political process of nation-building.

1.6. According to official data reported to the World Health Organisation (WHO), the COVID-19 Pandemic has had a comparatively minimal impact on Eritrea in terms of confirmed cases and loss of life. Between 3 January 2020 and 23 March 2022, the country registered 9723 confirmed cases and 103 deaths. On 27 March 2020, the Government of Eritrea closed all educational institutions. On 2 April it imposed a nationwide lockdown with mobility exemptions for essential medical, critical development and security services. Those restrictions were eased during the third quarter of 2020 only to be reinstated in the fourth quarter due to a rise in the number of cases. The pandemic limits the ability of the health sector to provide essential services while simultaneously attending to a sharp rise in COVID-19 patients.

1.7. Communities experienced difficulties in accessing needed services due to the suspension of public transport. The COVID-19 response increased pressure on already stretched water supply, sanitation and waste management services. The stringent guidelines imposed ('stay-at-home' orders and closure of businesses and service sector enterprises) entailed hardships for citizens' daily lives; especially those already living at a subsistence level. Furthermore, private sector enterprises that were closed shouldered the additional burden of paying salaries to their employees while forfeiting revenues – due to a government directive designed to ensure income for employees. Fortunately, to date the pandemic has been well contained and the country has been able to continue to provide essential services.

2. RECENT POLITICAL DEVELOPMENTS

2.1. A two-and-a-half-year border war between Eritrea and Ethiopia that erupted in 1998 ended under UN auspices in December 2000. Hostilities, which killed an estimated 100,000 people, initially began over the control of Badme, a border town in Tigray. A subsequent 2007 Eritrea-Ethiopia Boundary Commission (EEBC) demarcation was rejected by Ethiopia. In fact, although the UN backed Commission awarded Badme to Eritrea in 2002, it is still occupied by Ethiopia. More than a decade of a tense “no peace, no war” stalemate ended in 2018 after the newly elected Ethiopian Prime Minister accepted the EEBC’s 2007 ruling, and the two countries signed declarations of peace and friendship. The two countries quickly re-established diplomatic and economic ties, telecommunication lines, trade, tourism, and the free movement of people through their borders and resumed flights between the two countries. These steps were followed by a peace agreement with Somalia and rapprochement with Djibouti. Following the July 2018 peace agreement with Ethiopia, Eritrean leaders engaged in intensive diplomacy around the Horn of Africa, bolstering regional peace, security, and cooperation, as well as brokering rapprochements between governments and opposition groups.

2.2. In November 2018, the UN Security Council lifted an arms embargo that had been imposed on Eritrea since 2009, after the UN Somalia-Eritrea Monitoring Group reported they had not found evidence of Eritrean support in recent years for Al-Shabaab. Raised expectations of a reorientation of Eritrean political and economic arrangements stemming from the Ethiopia-Eritrea peace deal have been met with caution from the administration, as evidenced by President Isaias’ recent call for a “patient appraisal of the unfolding reality.” In fact, since the peace agreement, the early optimism has been hampered by domestic challenges in both countries. Prime Minister Abiy Ahmed of Ethiopia is preoccupied with internal instability and disputes exacerbated by the return to Ethiopia of ethno-nationalist opposition leaders and their armed groups. On his part, President Isaias Afwerki of Eritrea is focused on domestic security and the possible spill over from the unrest in Ethiopia (see Section 3).

3. IMPLICATIONS OF THE CONFLICT IN NORTHERN ETHIOPIA ON ERITREA

3.1. The Tigray People’s Liberation Front (TPLF) and Ethiopian National Defense Force (ENDF) have been engaged in an armed conflict since November 2020. This followed the TPLF’s decision to hold regional elections in defiance of the Federal Government which considered the election illegal. It was precipitated by an alleged surprise night-time assault by the TPLF on a major ENDF base in Tigray, a region of Ethiopia close to its southern border.

3.2. In April 2021, following an assessment that the TPLF threat has been thwarted, the Government of Eritrea in a letter to the UN Security Council announced that “Eritrea and Ethiopia have agreed – at the highest levels – to embark on the withdrawal of Eritrean forces and the simultaneous redeployment of Ethiopian contingents along the international boundary.”² It is believed that the deployment of Eritrean troops to Northern Ethiopia was in pursuit of its national security interests, to prevent any TPLF attack on its border territories. It also sought to prevent the TPLF from firing missiles towards Asmara, as was the case in November 2020. The withdrawal effort will potentially reduce tensions with political actors in northern Ethiopia and constitute a vital step towards the resolution of the conflict.

3.3. On 28 June 2021, the Government of Ethiopia declared a unilateral ceasefire in the northern Ethiopia after the TPLF retook Mekelle, the regional capital, following nearly eight months of conflict. The declaration of immediate, unilateral ceasefire came shortly after the Tigray interim administration, appointed by the federal government after routing TPLF forces, fled Mekelle and called for a truce to allow desperately needed aid to be delivered. In response, the TPLF demanded the complete withdrawal of Eritrean troops as a prerequisite for ceasefire talks with the Ethiopian Government. It threatened to drive Eritrean troops out of the region and even advance into Eritrean territory, towards its capital, Asmara, to exact revenge. Eritrean troops who had been sent to Tigray in support of the ENDF were reported to have been withdrawn from three major towns—Axum, Adwa and Shire—the day after Mekelle fell to the TPLF, although where these troops were redirected to remains unclear. Poor communication networks within Tigray have been a constant constraint on understanding of the conflict as electricity and telecommunications were disrupted throughout the region.

² <https://shabait.com/2021/04/16/letter-of-eritreas-ambassador-to-the-un-to-current-president-of-unsc/>

3.4. Ensuring peace and stability in northern Ethiopia is considered a point of unity between the Ethiopian Prime Minister and the Eritrean President. Eritrea is not expected to engage directly in northern Ethiopia during the period of ceasefire. At the same time, chances of TPLF fighters entering Eritrea are slim, given that such a move would provide a convincing reason for the Eritrean President to commit troops for active engagement in northern Ethiopia. Relations between Eritrea and the TPLF have been strained for more than two decades following the Eritrean–Ethiopian war of 1998–2000.

3.5. The conflict in northern Ethiopia has had far-reaching implications on regional peace and stability and its long-term impact is significant. The international community decries large-scale human rights abuses by all parties to the conflict which has also led to thousands of deaths and forcibly displaced over two million people. It has deepened ethnic divisions, undermining social cohesion and escalating refugee flows including about 60,000 who have fled to Sudan since the outbreak of the conflict.

3.6. The conflict and the attendant sanctions threaten the political and economic situation of Eritrea. It followed a period of relative peace and normalization of diplomatic relations between Eritrea, Ethiopia, Djibouti, and Somalia in the aftermath of the 2018 landmark peace, friendship, and cooperation agreements with Ethiopia. The renewed cooperation strengthened Eritrea's economic integration with other countries in the Horn of Africa and ended economic isolation. The heightened vigilance by Eritrea along its border with Ethiopia to preserve the country's peace and security could imply a diversion of resources from productive sectors of the fragile economy to finance military expenditures and the disruption of trade routes especially along its Southern border with Ethiopia. Ethiopia's Ministry of Trade and Industry estimates that the closure of factories and mining sites in northern Ethiopia since November 2020 was costing the Ethiopian economy around \$20 million per month. While there is currently no similar data on the economic impact of the conflict on Eritrea, the conflict poses a risk to Eritrea's economic outlook in the medium term.

4. OVERVIEW OF ERITREA'S COUNTRY RESILIENCE ASSESSMENT

A 2021 assessment of Eritrea's resilience by the AfDB indicates that pressures in the country are driven by institutional capacity gaps, shortfalls in service delivery, especially in the energy and water sectors, as well as climate change impacts, among others. These pressures partly reflect the fact that Eritrea is a relatively young nation compared to most African nations which gained independence in the 1960s. The country is therefore dealing with the challenges of institutional building which require time to address. Despite its challenges, the GoSE has demonstrated a strong commitment to its national development agenda. Strengthening institutional capacities will enable GoSE to fast-track inclusive growth and sustainable development. Key reform actions include strengthening procedures and regulatory frameworks to guide project implementation; building managerial and technical competencies; improving the business climate; supporting climate change adaptation; enhancing coordination within and across sectors; and strengthening financial management and monitoring and evaluation systems. Consequently, institutional capacity building across key sectors, should be central to development cooperation. The outcome of the assessment of the country's capacities and pressures across seven dimensions are summarised below.

4.1. In terms of **Inclusive politics**, the assessment indicates that progress has been made to open up the political space in Eritrea in recent year. Consolidation efforts to expand the political space with improve participation, particularly of opposition groups. Patriarchal stereotypes also limit the extent to which women and youth participate in political processes. While there have been policy and institutional reforms to fight corruption, results are gradually being noticed. The 2018 signing of the peace agreement with Ethiopia is triggering positive dynamics in the country regarding political inclusion and stability.

4.2. Regarding **Security**, the Eritrean Police Force has a solid capacity to maintain law and order. The army's capacity to defend the country from external aggression has been reinforced following the lifting of an arms embargo by the UN Security Council in 2018. The risk of crime is, however, considerable. Since the 2018 peace agreement with Ethiopia, efforts have been made to bolster regional peace, security, and cooperation. There is hope that the dividends will be felt at the grassroots level over time. The conflict in northern Ethiopia adds to Eritrea's security concerns and worsens humanitarian challenges in the Horn of Africa.

4.3. In terms of **Justice**, the assessment points that Eritrean law guarantees the independence of the judiciary. The lack of human and material capacity of the courts undermines their ability to render justice and maintain independence effectively. Access to justice for less privileged Eritreans and impunity for others, remains a challenge. In 2020, the Ministry of Justice was designing a strategy to improve the quality of judicial service delivery and efficiency in access to justice. Effective implementation will strengthen judicial independence, curtail impunity, and ease access to justice.

4.4. Regarding **Economic and Social Inclusiveness**, Eritrea's rapprochement with Ethiopia led to the resumption of economic ties, with further avenues for socio-economic development. Although improvements in the ease of doing business are visible, poverty and inequalities persist as the country ranks 180th over 189 in the 2020 Human Development Index. Eritrea demonstrated extraordinary resilience to the COVID-19 pandemic with few cases and no more than ten deaths in 2020. Still, the containment measures led to the erosion of gains in service delivery, particularly in the provision of healthcare, education, water, sanitation, and nutrition.

4.5. In terms of **Social Cohesion**, progress has been achieved in advancing women's rights with 22% of parliament seats held by women in 2020. Still, there is room for improvements to attain gender equality as cultural factors and unequal access to economic opportunities constrain women's socio-economic empowerment in rural areas. The normalisation of Eritrea-Ethiopia relations was followed by the resumption of cross-border activities, allowing the free movement of people. However, COVID-19 containment measures included the suspension of public transport and movement restrictions. There is hope that the government's increased international diplomatic engagements will eventually translate into the easing of restrictions on freedom of expression, association and assembly.

4.6. Eritrea is exposed to **Externalities and Regional Spill Over Effects** of the conflict in northern Ethiopia, terrorism and violent extremism in Somalia, political uncertainty in Sudan, and violent conflict in Yemen. It is also vulnerable to potential escalation of tensions between Nile Basin countries over control of scarce water resources. Notwithstanding, since the Joint Declaration of Peace and Friendship between Eritrea and Ethiopia, the government has improved its relations with its Horn of Africa neighbours and boosted regional integration in East Africa.

4.7. **Climate change, environmental** risks, and natural hazards such as droughts, floods and desert locust infestation pose a severe challenge to Eritrea's development priorities and threaten the livelihoods of 80 percent of the population who depend on subsistence agriculture and pastoralism. The country faces Africa's highest level of food insecurity and extreme malnutrition. COVID-19 restrictions constrained its efforts to combat the desert locust outbreak. Adaptation measures, including ecologically sustainable and climate-resilient agriculture, integrated water management, dissemination of climate risk information, and promotion of alternative livelihoods, will strengthen resilience.

5. OTHER DEVELOPMENT CHALLENGES FACING ERITREA

5.1. Despite the Government's strong commitment to Eritrea's development agenda, institutional capacity gaps are a significant impediment to Eritrea's path to inclusive growth and sustainable development. These gaps are reflected in the lack of suitable procedures and regulatory frameworks to guide project implementation; weak managerial and technical capacities; limited coordination across sectors; and inadequate financial management and monitoring and evaluation systems, all of which affect the ability to quantitatively demonstrate development impact.

5.2. The Country Policy and Institutional Assessment (CPIA) for 2019 (released in 2020) confirms Eritrea's weak institutional capacity, with a score of 1.5 for economic management, 1.2 for structural policies and an overall score of 1.9. Regarding economic management, the 2019 scores demonstrate that the country's struggles in the areas of monetary and exchange policy, fiscal policy and debt policy. Concerning structural policies, the country is weak in the areas of trade, financial sector and business regulatory environment. Eritrea also suffers from corruption, ranking 160th out of 180 countries in Transparency International's 2020 Corruption Perceptions Index, with a score of 21/100.

5.3. The last available household survey was undertaken in 1996/97 and reported a 70% poverty rate. The country's ranking on the United Nations Development Programme's 2020 Human Development Index (180th out of 189 countries) indicates that more needs to be done to improve human development outcomes, including through inclusive and sustainable structural transformation.

5.4. Efforts need to be doubled to improve the business environment for private firms, both domestic and foreign. It is ranked 189th out of 190 countries in the now defunct World Bank's 2020 Ease of Doing Business Report – only better than Somalia. Although its ease of doing business index increased from 20.92 score in 2016 to 21.6 score in 2020, growing at an average annual rate of 0.80%, much remains to be done to improve the business climate. United Nations sanctions negatively affected private sector development and undercut its potential for wealth creation and poverty alleviation. There is hope for improvement following the peace agreement with Ethiopia, the lifting of sanctions and re-engagement with the international community.

5.5. Eritrea faces food and nutrition security challenges. While it could not be included in recent rankings due to lack of data, Eritrea scored poorly (33.8) on the Global Hunger Index in 2014. Being heavily dependent on food imports, Eritrea is also severely affected by variations in international food prices, which continue to have detrimental effects on rural net food buyers and other vulnerable people. Subsistence farming fails to meet the needs of Eritrea's growing population because of repeated droughts, dwindling arable land, overgrazing, soil erosion, and a shortage of farmers due to conscription and displacement. The government's emphasis on spending on defence over agriculture and its lack of foreign exchange to import food also contribute to food insecurity.

5.6. Eritrea has been among the leading refugee producing countries in Africa. As of 2017, it accounted for the ninth largest refugee population in the world. Since gaining independence in 1993, Eritreans have continued migrating to Sudan, Ethiopia, Yemen, Egypt, or Israel in search for better protection of fundamental human rights and political freedom as well as educational and job opportunities. According to the UNHCR, at the end of 2018, about 600,000 Eritrean refugees were registered worldwide. It is estimated that about 30 per cent of the Eritrean population, live outside the country. By April 2020, an estimated 148,981 Eritrean refugees were registered in Ethiopia, the majority residing in overcrowded camps in Tigray and Afar. This figure does not include

unregistered refugees and migrants that informally move to Ethiopian cities and towns. Addressing the push factors of forced displacements is critical to inclusive development in Eritrea, to ensure that no one is left behind.

6. SOURCES AND OPPORTUNITIES FOR RESILIENCE IN ERITREA

6.1. Despite legitimate criticisms relating to issues around political inclusion and governance, Eritrea's governance architecture has been able to drive the process of nation-building and the maintenance of law and order. Decentralised entities headed by elected regional and local assemblies exercise the responsibility of administering public affairs. Apart from insecurity in border areas stemming from the risk of spill over of conflicts in neighbouring countries, they have been able to maintain law and order internally.

6.2. Eritrea's agricultural potential, and dividends from its efforts to improve access to education and promote human capital development, are important sources of resilience that the country can leverage to accelerate inclusive growth and sustainable development. The agricultural potential of Eritrea, its water dams and irrigation infrastructure are instrumental in the development of the country. While agriculture is already among the mainstays of the Eritrean economy, unlocking its full potential will provide employment and considerable amount of national income. It will also save hard currency through import substitution.

6.3. Eritrea's relatively strong human capital is another source of its resilience that can nonetheless be further strengthened. As levers for economic development and poverty eradication, education and human capital formation are national priorities for Eritrea. To this end, Eritrea has made great strides in improving adult literacy – doubling the literacy rate over the last 20 years – in large part because of its successful adult education programs. The overall literacy rate was estimated to be almost 74% in 2015. However, more work needs to be done to raise female literacy and school attendance among nomadic and rural communities.

6.4. The Government of Eritrea prides itself for fostering social harmony which is critical to the country's resilience to social and political instability. Social harmony has been an important element in strengthening national unity especially in times of adversity. This was evident during the struggle for independence and post-war reconstruction. The Government also prides itself for instilling a sense of patriotism among the diverse population of the country. Its efforts to create an 'imagined community' through a common national identity partly explains why there's been limited internal threats to peace and security which are important for the realisation of national development goals.

6.5. Remittances constitute an essential pillar for Eritrea's resilience to socio-economic pressures. Eritrea's large diaspora has been a source of vital remittances, providing 30% of the country's GDP annually since it became independent. Remittances therefore constitute an important part of the economy and source of foreign exchange. They supplement the domestic incomes of many individuals and households in the country. A global post-pandemic economic recovery will boost remittance inflows and mitigate the severity of poverty and income inequality.

6.6. Eritrea's strategic location and natural access to the sea provides an opportunity to the country to compete with its neighbours as a major centre of maritime commerce in the Horn of Africa. The normalisation of relations with Ethiopia can allow the latter to regain access to Eritrean ports which was lost since the Ethiopia-Eritrea border war broke out in 1998. This can generate revenue for the government to finance its development priorities. Ambitions of becoming a giant in maritime commerce would however require significant port infrastructure development and internal reforms.

7. CONCLUSION

7.1. Despite efforts made in recent years to foster the socio-economic development of Eritrea, significant development challenges and structural vulnerabilities persist. The country remains vulnerable to political, social, economic and environmental shocks which constrain its ability to fully unlock the potential of its peoples. The 2021 resilience assessment of Eritrea showcases the need to scale up efforts to among others, improve political participation and access to justice for the less privileged, curtail impunity of senior officials, alleviate poverty, address bribery and corruption, mitigate externalities and regional spillovers, and strengthen adaptation to climate change.

7.2. The foregoing and other challenges facing Eritrea need to be addressed via the implementation of policy and sector-based strategies and public investments consistent with the country's development plans (roadmap of five priorities) and attendant global, and regional development agendas. In addition, working with Eritrean authorities to enhance access to information and the availability of relevant, comprehensive, and disaggregated data that is constantly updated to reflect the realities on the ground; and mobilising internal and external funding should be critical for addressing vulnerability and building resilience in Eritrea.

7.3. In a country where agriculture accounts for the livelihoods of nearly 80% of the population, there is an absolute need for economic diversification. Sudden unforeseen shocks in the agriculture sector could potentially weaken the resilience of the largely agrarian population. While developing and promoting the productive sectors of the economy, there is a need for more investments

in climate-smart agriculture. Supporting agricultural value chain development should be an essential part of efforts to curb poverty and create wealth at a community level in Eritrea.

7.4. Under ADF-15, the African Development Bank committed to mainstreaming and resolving forced displacement and migration issues. Therefore, it is imperative for stakeholders in the Humanitarian-Peacebuilding-Development nexus to work with the Government of Eritrea to design interventions that prevent and address the push factors of forced displacement in Eritrea – a leading refugee producing country.

7.5. Institutional capacity building, improvement of the business climate, of economic governance and of public financial management, and enhancement of social dialogue are also paramount. Without interfering in the country’s political processes, international stakeholders – civil society, private firms, multilateral organisations, and bilateral donors, should responsibly engage the Government of Eritrea to fully capitalise on the economic opportunities presented by its recent emergence from international isolation. Finally, tackling the development challenges of Eritrea will not be possible without unlocking the potential of women.

Table A1. Contribution of the IOP 2022-2024 to addressing Eritrea’s constraints to building resilience

Project	Sector	Fragility Drivers to be Addressed
Eritrea Renewable Energy and Last Mile Connectivity Project	Energy	<p>1. Sector-specific Drivers</p> <ul style="list-style-type: none"> ✓ The Power Generation and Substations/Distribution Network components will ease pressures around limited energy generation, transmission, and distribution capacity as well as rehabilitation and maintenance constraints. ✓ The Last Mile Connection component will expand electricity supply to households and public institutions and therefore ease pressures around limited access to energy. ✓ By strengthening the technical capacity of the Eritrean Electricity Corporation (EEC) and the Ministry of Energy and Mines, the Technical Assistance and Capacity Building component will address the challenge to weak institutional capacity and dependence on costly foreign expertise for maintenance and attendant high operational costs. <p>2. Country-wide Drivers</p> <ul style="list-style-type: none"> ✓ Generally, improved access to clean energy will contribute to building resilience against poverty, unemployment, shortfalls in service delivery and climate change impacts. ✓ The project will improve the business environment in Eritrea, which will in turn lead to job creation and poverty alleviation. It will enhance service delivery in education and healthcare thanks to improved energy access to schools and hospitals. It will also address climate change impacts by reducing dependence on biofuel and thermal energy, which are harmful to the environment.
Resilient Water and Sanitation Infrastructure Support Project	Water and Sanitation	<p>1. Sector-specific Drivers</p> <ul style="list-style-type: none"> ✓ The Water Supply Infrastructure component will ease pressures around limited water supply transmission and distribution capacity as well as limited storage facilities. ✓ The Sanitation component will address the challenge of inadequate public hygiene facilities in schools and markets as well as poor sanitation and high-risk hygiene behaviours and associated public health risks in rural communities. ✓ The Project Management and Capacity Building component will ease pressures around weak institutional capacity for system operation and water service delivery as well as poor community water management. <p>2. Country-wide Drivers</p> <ul style="list-style-type: none"> ✓ Overall, the project will expand access to clean water for households and production and improve sanitation and hygiene in rural and urban communities in Eritrea. ✓ The project will ease the pressures of malnutrition, food insecurity, gender inequalities (considering the water-fetching role of women and adolescent girls, and their high vulnerability to health risks associated with poor hygiene), public health risks, environmental degradation and climate change impacts – particularly droughts.

Table A2. Contribution of IOP 2022-2024 to building resilience to climate change

Project	Sector	Climate Change Risks and Impacts	How the project will support resilience building
Resilience Water and Sanitation Infrastructure Support Project	Water and Sanitation	<ul style="list-style-type: none"> • Frequent and severe droughts have led to a drop in the water table, and decreased recharge of underground aquifers, leading to reduced water availability. • Reduced water table and poor recharge of ground water has especially affected rural areas where up to 96% of the population depend on ground water for water supply. • Due to a combination of droughts and over pumping, ground water table in many places (Mogoraeb, Bisha and Adi-Nfas areas) have declined by about 5m over the last 10 years. High temperature and reduced rainfall have also reduced water availability in hard rock aquifers around Dbaruwa area • Mean annual rainfall has decreased by 20-50%, resulting in reduced water availability for domestic, livestock and irrigation use. • Reduced rainfall has resulted in decreasing stream flow in almost all river basins, but especially in Gash, Mereb and Anseba River basins. This has, in turn, reduced availability of water from fresh water sources. • Climate change is projected to further reduce surface and groundwater resources in most of the dry regions, leading to increased competition for water among different users, further exacerbating climate change pressures. 	<p>The project aims to develop climate-resilient water supply infrastructure including installation of water supply transmission and distribution pipelines and storage facilities.</p> <ul style="list-style-type: none"> • Provision of water storage infrastructure (boreholes, water pans, etc.) will improve availability of water for domestic, livestock, irrigation, and industrial use. • Developing of water supply infrastructure for irrigation purposes will improve availability of water for crop and livestock production, leading to improved food security. • Increased water supply will help address the risk of water-related conflicts, thereby building resilience. • Climate-proofing of Bank's water and sanitation investments will enable the established water and sanitation infrastructure withstand physical climate risks such as heavy floods. <p>The project also aims to install ablution blocks in public places including schools and market centers and sensitize rural communities on hygiene and sanitation</p> <ul style="list-style-type: none"> • Provision of sanitation facilities will help guard against outbreak of infectious diseases, which are common in Eritrea, especially during periods of extreme weather events
Renewable Energy and Last Mile Connectivity Project	Energy	<ul style="list-style-type: none"> • Biomass (firewood, charcoal, and agricultural residues) accounts for 83% of energy supply in Eritrea. • The excessive dependence on biomass has significantly contributed to the clearing of forests and woodlands, resulting in heavy land degradation and reduced resilience of forest and woodland ecosystems (exposure to soil erosion). This has also resulted in reduced forage and water resources due to reduced recharge of underground water resources as noted above. • Moreover, the resulting land degradation has increased erosion, leading to loss of top, fertile soil, thereby confounding low agricultural productivity • Eritrea generates up to 95% of its electricity from fossil fuels. This makes it not only vulnerable to fluctuations in international oil supply and processes but also results in high emissions of greenhouse gases 	<p>The project aims to (1) connect households, public institutions, and income generation activities to electricity; (2) install solar energy to the grid.</p> <ul style="list-style-type: none"> • Increasing generation from renewables (solar energy) and connection of new customers to electricity will reduce emissions associated with use of fossil-based fuels for lighting and electricity generation at household, SME, and public institution level • This will contribute significantly to enabling Eritrea to reduce CO2 emissions from fossil fuels by 12.0% by 2030 unconditionally and by 38.5% by 2030 conditionally as outlined in the country's Nationally Determined Contributions • Reduced demand for biomass fuels due to the connections will reduce pressure on woodlands, and thereby reduce land degradation, allow the woodland ecosystems to recover and be more resilient to climatic change.

ANNEX A14: FIDUCIARY RISK ASSESSMENT

The updated Country Fiduciary Risk Assessment (2020) indicated that the Government capacity to initiate, formulate and implement key economic and financial governance reforms initiatives in order to bolster economic development remain weak especially in the areas of fiscal planning, budgeting, treasury functions, and accounting and reporting across MDAs including internal and external oversight. The glaring disconnects between the budget and treasury functions in the Ministry of Finance continue to limit exchange of fiscal data which is perquisite of the enhancement of fiscal discipline and budget transparency. The Office of the Auditor General (OAG) continues to suffer from audit backlogs due to shortage of skilled manpower, use of traditional manual approaches in data analysis that leads to poor time management in audit assignment and limitations in proper implementation of ISSAI guidelines among audit teams. The assessment concluded that overall fiduciary risk is substantial and the PFM reform process to address the risks is on-going, albeit at a slow pace.

The government has demonstrated commitment towards improving and modernizing public financial management functions including building the requisite institutional capacity in Ministries, Departments and Agencies (MDAs). The new Debt Management and Financial Analysis System (DMFAS) has enabled digitalization, reconciliation, validation of debt data which has facilitated the timely production of accurate, reliable and useful reports on the overall Government indebtedness. The Integrated Financial Management Information System (IFMIS) Readiness Study that was conducted with the support of Bank financing has provided a basis for the introduction of a new IT-based information system. The new system will facilitate seamless exchanges of fiscal data between the budget and treasury departments, will support government efforts towards improving the financial management processes as well as increase transparency and accountability of the use of public financial resources thereby enhance the quantity and quality of public service delivery. The IFMIS will form the foundation for the introduction of a Medium-Term Expenditure Framework (MTEF) that would enhance the government's ability to formulate a national budget underpinned by strategic resource allocation, as well as providing for greater in-year budgetary predictability for spending agencies.

The Government is taking further steps to modernize the revenue administration practices through review of business processes and computerization of inland tax administration functions using Bank financing. A new Public Procurement Law and Public Asset Management Law and Regulations has been drafted to further strengthen the regulatory framework. Collaborations with AFROSAI-E continue to provide guidance, support and experts to promote the adoption and consistent use of standard audit approaches and application of CAATs by training auditors across the organization. However, lack of access to reliable internet across MDAs and the Local Governments (Zobas) remains a challenge to the entire reform process.

Assessment of Eritrea Public Procurement System: An interim procurement regulation developed around 1994 in local language is in use in Eritrea to ensure a minimum follow up on public procurement processing and expenditures on the ground in the absence of consolidated public procurement legal and regulatory framework. Currently, as part of the reform initiatives, Ministry of Finance and National Development, with the support of the Bank, is well underway in the preparation of draft Public Procurement Proclamation and Regulations.

The draft Procurement Proclamation is prepared based on the United Nations Commission on International Trade Law (UNCITRAL) model law on Procurement of Goods, Construction and Services with Guide to Enactment. The draft legal framework prescribes open competitive bidding as the default method for procurement of goods, works and consultancy or other services by procuring entities using public funds. The Public Procurement Law is supported by more detailed Public Procurement Regulations and a professional code of ethics. Development of standard solicitation documents, manuals and implementation guides are the next course of action.

On public procurement execution side, majority of government offices have Procurement Units, but the structures, staff capacity building activities, regulatory follow up and monitoring mechanisms, etc., need to be strengthened. As part of implementation of the procurement proclamation, a lot of interventions are widely expected.

The domestic market in Eritrea is characterized by limited supply capacity and government procurement requirements are centrally managed and handled through Hidri Distribution Company as a provisional arrangement to bridge the demand and supply gaps.

Elements	Average Capacity Development Score	Initial Risk Assessment	Mitigation measures	Residual Risk
1. Budget 1.1 The Budget sub-system capacity is adequate to plan (formulate) budgets for programs and/or projects 1.2 The Budget sub-system capacity is adequate to execute budgetary control of programs and/or projects	1.09 1.10 1.08	Substantial Substantial Substantial	- finalize NDP - Enhance Macro-economic & Fiscal Framework to strengthen monetary and fiscal policies and financial services oversight. - Enhance tools for revenue forecasting to increase budget integrity - adopt a programme-based budget system with a Medium-Term Expenditure Framework (MTEF) -streamlining budget procedures, improvements in the classification and recording of public spending; reconciliations; development of manuals and update of regulations -training of budget holders to develop, monitor, and measure their results - modernize the Inland Revenue Department - Ensure full implementation of internationally recognized budget and accounting classification through the use of the GFSM (2001) & COFOG	S
2. Treasury 2.1 The Treasury sub-system capacity is adequate to manage the inflow of resources and disbursements of aid funds. 2.2 The Treasury Single Account (TSA) is an appropriate and reliable way to administer aid funds	1.45 1.40 1.50	Substantial Substantial Substantial	- Procure and implement IFMIS to link budget and treasury modules. - Consolidate TSA platform improvements with increased automation (IFMIS) for reconciliations including donor financed projects and Agencies / SOEs operated bank accounts - consolidate the use of the DMFAS.	S

Elements	Average Capacity Development Score	Initial Risk Assessment	Mitigation measures	Residual Risk
3. Accounting Recording and Reporting 3.1 The Accounting sub-system capacity is sound, and capacity is adequate to record program and / or project transactions and to provide the basis for comprehensive and timely financial reporting (account for their progress and financial status) 3.2 Financial Management information systems (FMISs) have flexibility to accommodate specific reporting requirements of programs and projects and have procedures in place to ensure timeliness and quality of information produced. 3.3 The Financial Accounting sub-system has an integrated Fixed Assets module for the proper recording and control of assets purchased with program / project funds. 3.4 The Accounting sub-system maintains up to date records of the country's borrowings; and the accounting systems are secured against deliberate	0.98 0.63 1.45 0.60 1.62 0.60	Substantial High Substantial High Moderate High	-Define / develop and implement the roadmap for adoption of IPSAS cash as the government's GAAP and Reporting framework with the roll-out of the Financial Regulations. -develop a roadmap to move to reporting government consolidated financial statements using IPSAS cash basis - Implementation and deployment of IFMIS to Zobas; - implement rigorous financial reporting by all budget entities to ensure annual government accounts are prepared and finalized in the required statutory timeframe. -consolidate the use of the DMFAS.	S

Elements	Average Capacity Development Score	Initial Risk Assessment	Mitigation measures	Residual Risk
manipulation of data and/or accidental loss of or corruption of data. 3.5 The Accounting systems are secure against deliberate manipulation of data and/or accidental loss of or corruption of data.				
4. Internal Control 4.1 The Internal Control sub-system capacity is adequate to control the financial operations of programs and projects. 4.2 Competition, value for money and controls in procurement are adequate. 4.3 The Internal Audit function capacity is adequate.	0.90 1.06 0.80 0.85	Substantial Substantial Substantial Substantial	-Enhance the Internal Audit practice framework, establish an IA charter, a strategic plan to align with international standards - establish IA code of Conduct or Ethics - develop a risk-based annual audit programs, establish a risk management policy & manual, - build a skill mix through the recruitment of specialized expertise in IT internal auditors to enhance capacity for IT audits -Training and capacity enhancement of internal auditors and audit committees (at MoF and MDAs) -creating a platform for sharing findings with other control entities - Finalize the review of the Procurement Legal Framework and related reforms	S
5. External Scrutiny and Audit 5.1 The SAI has the level of “independence” needed to enable it to fulfill effectively its functions.	1.3 1.0 1.60	Substantial Substantial Moderate	enact Audit Law to provide full independence of the OAG (jurisdictional and financial) -OAG to ensure 100% coverage of central government expenditures and over 80% of overall expenditures -Fully deploy and operationalize the existing audit tool (TeamMate) within OAG -OAG to put a mechanism to ensure implementation of audits recommendations	S

Elements	Average Capacity Development Score	Initial Risk Assessment	Mitigation measures	Residual Risk
5.2 The SAI has the capacity to meet its audit mandate			<ul style="list-style-type: none"> - OAG to continue building its capacity for IT audits to further audit through the IFMIS system. - scale up performance audits - help establish a professional body of accountants and auditors in Eritrea - publish OAG annual audit reports annually - lead the platform of exchange amongst control entities of GoSE, - Scale-up external audit functions at Zobas. 	
6. Overall Fiduciary Risk	1.14	Substantial		S

Risk Assessment based on the average development score

Between 0 and 0.75	High - H
Between 0.76 and 1.50	Substantial - S
Between 1.51 and 2.50	Medium - M
Between 2.51 and 3.00	Low - L

ANNEX A15.1: COVID-19'S IMPACT ON THE ERITREAN ECONOMY

COVID-19's Impact on the Eritrean Economy: Response Measures and Building Resilience

1. Introduction

The first case of COVID-19 in Eritrea was registered on March 21, 2020. But the Government and the population expected the disease to cause limited social and economic disruption, given the country's relative isolation. This turned out not to be the case, with the COVID-19 outbreak causing massive disruptions across the country. The Government has since crafted strong measures to combat the pandemic. As of 20 February, 2022, Eritrea had registered 9687 COVID-19 cases and 103 deaths.

2. Transmission Channels of COVID-19: Impact on Eritrea Economy

COVID-19 has affected the Eritrean economy through three main channels: the negative impact of the global pandemic on commodity prices was reflected in those for zinc and copper, which are Eritrea's leading exports (they have since recovered); reduced tourism due to restricted travel and cancellations of hotel accommodation; and lower foreign direct investment as prospective firms postponed their plans. Eritrea has strong trade links with countries such as China, South Korea, and Spain, the top three destinations for its zinc exports, whose economies were affected seriously by COVID-19. Notably, the global economic slowdown in the aftermath of COVID-19 reduced FDI, thereby affecting investments in the mining sector and infrastructure, which are leading contributors to growth, employment, and foreign exchange earnings in Eritrea. Following the COVID-19 outbreak, travel volumes to and from Eritrea have been reduced as prospective tourists suspended their bookings, which undoubtedly has affected the budding tourism sector.

3. COVID-19 Response Measures

The Government implemented a National Response Plan in accordance with the WHO guidelines in early 2020. Since April 2020, containment measures included a national lockdown, subsequently replaced by selected standard operating procedures (SOPs). All citizens were required to stay at home except those engaged in indispensable developmental and security tasks. Trading activities and transactions apart from those related to food production and supply, pharmacies, and banks, were banned. An emergency fund was established in 2020 to solicit voluntary contributions to support the most vulnerable groups in the country. Containment measures were eased in March 2021 and the economy was fully reopened as new infections subsided. Eritrea is the only country on the African continent that has not yet started vaccinating its citizens against COVID-19 within the scope of a national campaign. This is of concern given the prevalence of new variants of the COVID-19 pandemic that could easily reach the country. In view of the foregoing, The COVID-19 pandemic has revealed the extent of Eritrea's vulnerability, notably in the provision of healthcare. It also illustrates that the pursuit of an isolationist approach could have severe consequences when it comes to resolving global pandemics.

4. Building Economic Resilience in Post COVID-19 Eritrea

The easing of containment measures will support the economic recovery but a risk-based reopening approach, which considers sector specific and/or spatial vulnerabilities, will assist in containing future spikes in COVID-19 infections. The Government, in conjunction with its development partners will continue to strengthen the health system by ensuring adequate training to health workers, availability of critical medical supplies and acquiring COVID-19 vaccines for the population. Building economic resilience requires accelerating economic transformation by scaling up investments in areas that are enablers for agro-industrialization and value chain development. These include skills development, access to technology, credit, and markets. A financial sector diagnostic study to inform a road map for financial sector development will be necessary in this regard. The Bank is ready to work with the authorities to respond to these development challenges.

Source: Eritrea Country Diagnostic Note, 2021

ANNEX A15.2: IMPACT OF THE RUSSIA-UKRAINE CONFLICT ON THE ERITREAN ECONOMY

I. Main Transmission Channels and Impact

1. **Wheat prices:** The share of Ukraine and Russia in Eritrea's total wheat imports is estimated at 21% and 79% respectively, with the country's total wheat imports were estimated at USD 7 million in 2020. Higher wheat prices because of the conflict will increase the import bill, thereby affecting the fiscal and current account balances, and further upsurge inflation (projected at 4.2% in 2022 before the Ukraine-Russia crisis) considering that Eritrea is gradually recovering from the price shocks induced by desert locusts and COVID-19 containment measures.
2. **Oil prices:** Updated data on oil imports are not available but based on 2015 data, oil consumption constitutes 71% of total energy consumption in Eritrea. Thus, oil price hikes will increase inflation and affect energy generation due to the country's dependence on heavy fuel oils. Higher energy prices will affect production including in the mining sector (accounts for 31% of GDP) and slowdown the economic recovery.
3. **Potash and fertilizer prices.** Russia and Belarus are major exporters of fertilizers and the sanctions on these countries will increase international prices of fertilizers. Although Eritrea's benefits from the fertilizer shortage and uptick in prices are largely expected in the medium term, these developments could catalyze the required investments to harness the country's potash reserves, which are estimated at 1.3 billion metric tonnes.

II. Impacts on the Eritrea Economy

4. **Potash production:** The conflict presents an opportunity for Eritrea to accelerate the implementation of the potash project at Colluli mine, which has a 10-year offtake agreement with EuroChem (one of the world's top fertilizer companies). Accelerating potash mining could ease the impact of rising international food and oil prices on the Eritrea's fiscal and current account balances. Dialogue with GoSE revealed that additional investments are still required to harness Eritrea's potash production potential, and thus, benefits from potash mining are expected to be realized in the medium-term.
5. **Investment:** The impact on foreign direct investment (FDI) flows to Eritrea is not clear. FDI increased from USD 44 million in 2013 to USD 47 million in 2014, despite the 2014 Ukraine-Russia crisis. A similar trend was observed in 2007-2009 and FDI rose from USD 7 million in 2007 to USD 39 million in 2008 and further to USD 91 million in 2009 following the onset of the global financial crisis.
6. **Public Debt:** Eritrea's public debt to GDP ratio was estimated at 175.6% in 2021 down from 184.7% in 2020 due to government efforts to accelerate debt servicing. External debt constitutes 30% of public debt, limiting the impact of exchange rate depreciation on debt servicing costs. However, considering the likely higher fiscal burden of increased global food and fuel prices, meeting the country's debt service obligations could require expenditure reprioritization, possibly leading to a reduction in poverty reducing and growth enhancing public spending. the domestic component could be constrained.
7. **Financial markets:** While there is no updated information on short term capital flows, the impact through this channel is likely to be insignificant because of Eritrea's limited integration in the global financial system.
8. **Climate change impact:** The high prices of oil could lead to the prioritization of investments in renewable energy notably geothermal, solar, and wind, contributing to a reduction in greenhouse gas emissions. Eritrea currently depends on fossil fuel powered generators with high greenhouse gas emissions.
9. **Poverty and vulnerability:** Rising food and oil prices, which will increase transport costs, are expected to severely impact the extreme poor and vulnerable groups in Eritrea. Poverty is already high, with 77% of the total population classified as living in extreme poverty with a purchasing power parity of USD1.90 per day in 2021. Based on 2019 estimates, vulnerable employment, which comprises the self-employed and other own account workers accounted for 86.4% of total employment.

III. Policy responses

10. Information on proposed response measures is not yet available. However, the fiscal and monetary authorities are expected to carefully monitor the pass-through of rising global food and oil prices to domestic prices and implement appropriate policy responses. Considerations for food, oil, and energy subsidies to offset the prices increases will increase the fiscal deficit, which was projected at 0.6% of GDP in 2022 before the Ukraine-Russia crisis.

ANNEX A16: RISKS AND MITIGATION MEASURES FOR THE I-CSP 2022-2024

RISK CATEGORY	RISK DESCRIPTION	RATING	MITIGATION MEASURE	RISK OWNER
Country's political and governance context	<ul style="list-style-type: none"> Conflict in northern Ethiopia and spill over effects on Eritrea destabilizing economic activities including project implementation. 	Medium	<ul style="list-style-type: none"> Constant monitoring and arbitration by the African Union, and other regional bodies to resolve the political governance issues 	Government
	<ul style="list-style-type: none"> Potential political disagreements affecting the sustainability of the peace agreement (Ethiopia and Eritrea) 	Medium	<ul style="list-style-type: none"> UN Agencies and Bilateral partners are encouraging continuing dialogue and providing support to resolve election disputes, election funding, management, and constitutional reforms. 	Government, UN, and Bilateral Partners
	<ul style="list-style-type: none"> Inadequate high-level commitment to oversee the implementation of the Bank's ongoing projects leading to cancellation 	Low	<ul style="list-style-type: none"> Bank to ensure that there is constant engagement and dialogue at a high level to oversee project implementation progress. The proposal to establish the high-level multi-sectoral steering committee will enhance the government's commitment. 	
Macroeconomic	<ul style="list-style-type: none"> Heightened vulnerability to macroeconomic shocks due to an undiversified economy and export base/markets 	Low	<ul style="list-style-type: none"> Government has prioritized agriculture and nutrition including value chains development and supporting infrastructure (energy and water) as key enablers for economic diversification and resilience. 	Government
	<ul style="list-style-type: none"> Limited capacity to mobilize public revenues 	Low	<ul style="list-style-type: none"> Bank and other DPs have sustained support to enhance revenue mobilization by broadening of the tax base through modernization of tax collection to improve compliance. DPs are keen to support government to improve the business regulatory environment to attract private investments and finance, diversify the sources of development financing, and stabilize the public debt. 	Government/AfDB/DPs
	<ul style="list-style-type: none"> Macroeconomic instability arising from high fiscal deficits and unsustainable debt levels. 	Low	<ul style="list-style-type: none"> African development Bank Group, the African Union and World Bank will continue to dialogue with GoSE including under the HOAI to enhance its participation in regional integration initiatives. 	Government/Bank/DPs
	<ul style="list-style-type: none"> Limited participation in regional integration initiatives including those led by IGAD and HOAI could constrain the country's inclusion in regional operations. 	High		
Sector strategies and policies	<ul style="list-style-type: none"> Some key sectoral policies, legal instruments, and strategies, notably in infrastructure, human capacity development, and environmental management among others still have gaps 	Low	<ul style="list-style-type: none"> DPs will intensify dialogue with the GoSE to ensure gaps in the development of sector policies and strategies are addressed. DPs will need to speak with one voice to realize this dialogue. The Bank will continue to address institutional weaknesses as part of the capacity development 	AfDB/DPs/Government

RISK CATEGORY	RISK DESCRIPTION	RATING	MITIGATION MEASURE	RISK OWNER
Environmental and social	that need to be addressed. <ul style="list-style-type: none"> Eritrea is vulnerable to climate and environmental risks. 	High	<ul style="list-style-type: none"> interventions in all its programs and projects. The Bank will mainstream climate adaptation and mitigation and environmental protection actions in all its projects. 	AfDB /Government
Fiduciary and value for money	Government institutions and systems are weak. The Bank's Fiduciary Risk Assessment rates Eritrea's overall fiduciary risk as substantial.	High	<ul style="list-style-type: none"> The Bank is supporting capacity development activities to improve financial management and procurement functions All Bank funded operational risks are assessed on a project-by-project basis to determine the level of risk and inform the choice on whether Bank systems and procedures or Country systems will be applied. 	AfDB /Government
Capacity of implementing entity	Institutional and human capacity to implement development programs is limited. This includes weaknesses in legal and regulatory frameworks and shortfalls in project management skills, which reduces the pace and efficiency of project implementation.	Low	<ul style="list-style-type: none"> The Bank includes capacity development activities in its operations, where learning-by-doing is encouraged. In the short-term, the Bank' Liaison Office in Asmara which has been strengthened by allocating a country portfolio officer and a local consultant is expected to support local portfolio management and monitoring. 	AfDB /Government

ANNEX A17: AGRICULTURE POTENTIAL AND CONSTRAINTS

Eritrea is confronted with several development challenges amidst strong potential for socio-economic transformation. The overarching development challenge remains the slow progress towards higher value-added production, contributing to limited economic diversification and structural transformation. The underlying challenges are aggravated by inadequate infrastructure; low productivity in agriculture; vulnerability to commodity price shocks and climate change; and weaknesses in institutional and human capacities. Consistent with findings of the Eritrea Country Diagnostic Note, agricultural transformation through value chain development and value addition is critical for inclusive growth and building resilience to climate change and commodity price shocks. However, the agriculture sector is experiencing declining productivity due to the application of outdated agricultural technology, inadequate access to energy and water for production, which exacerbates the impact climate change shocks on food security, and limited access to national, regional, and international markets.

Inadequate infrastructure, notably in the energy sector reduces competitiveness of domestic and export-oriented production whereas low diversification and value addition exacerbates vulnerability to commodity price shocks and climate change considering the country's reliance on natural resources. Additionally, inadequate water and sanitation and electricity infrastructure in rural disproportionately increase the burden of the population especially women's unpaid domestic tasks (collecting firewood and water from distant places), reducing the time devoted to developing agriculture and paid work outside the home. Improved access to water and renewable fuel through infrastructure development is expected to significantly reduce women's burden and improve their lives and the welfare of the households.

Investment in irrigation infrastructure is linked to improved agricultural production, incomes, food security, and nutrition along the agricultural value chain by raising agricultural productivity and improving agricultural market access for poor and marginalized communities especially in arid and semi-arid regions. In this respect, the new strategy of developing irrigation infrastructure is expected to increase the productivity of traditional high-value crops and small livestock directly and indirectly by constructing irrigation schemes and rehabilitating existing schemes. By lowering the transactions costs, irrigation infrastructure will boost net returns to agricultural production. The expansion and rehabilitation of power infrastructure is expected to support post-harvest processing and value addition by promoting agro-processing businesses and improved storage thereby strengthening of market linkages between farmers, processors, rural and urban consumers, and export markets.

In Eritrea, strong potential for agricultural value chains development exists in crop production (bananas, cereals, oil seeds), livestock (beef and dairy), and fish, among others, but this is held back by inadequate infrastructure (energy and water for production), and limited access to improved technology (including improved seed varieties and fertilizers) as well as poor access to input and product markets because of weaknesses in institutional and human capacities. Addressing these infrastructure bottlenecks is expected to improve competitiveness, economic diversification and resilience which will gradually catalyse private investment and finance including in the agriculture sector. Agriculture and fishing; mining, notably beneficiation; and tourism have potential to drive economic diversification and structural transformation. However, harnessing this potential requires addressing infrastructure bottlenecks, notably in energy and water as well as weaknesses in institutional and human capacities.

The main policy and strategy frameworks for the agricultural sector comprise the 2019 National Agriculture Development Policy and Strategy, the Five-year Strategic Agricultural Development Plan (2019-2023), and the Small and Medium Commercial Farmers Strategy (2019). The 2019 National Agriculture Development Policy and Strategy covers rural energy, agricultural research, extension services, forestry and wildlife, soil and water management, livestock, and crop production. The Five-year Strategic Agricultural Development Plan (2019-2023) establishes the operational targets for increasing agricultural output and foreign currency through exports of agricultural and agro-industrial products. The Small and Medium Commercial Farmers Strategy (2019) seeks to promote the creation of farm enterprises that are engaged in productive and profitable agricultural value chains and linked to domestic and international markets.

ANNEX A18: STRENGTHS, WEAKNESSES, OPPORTUNITIES AND CHALLENGES

<i>Strengths</i>	<i>Opportunities</i>
<ul style="list-style-type: none"> • Strategic geographical location as a gateway to the Red Sea and Europe, making the country a natural hub for trade and business • Availability of commercially viable minerals at Bisha mine, and high-quality potash at Colluli • Population dividend from a large and growing population if harnessed productively 	<ul style="list-style-type: none"> • Access to COMESA, CEN-SAD, and IGAD markets is an opportunity for diversifying export markets and could catalyze economic diversification and value-chain development • Tourism potential is high, supported by a long seacoast, hot water springs, wildlife, high mountains, hot desert, and islands
<i>Weaknesses</i>	<i>Challenges</i>
<ul style="list-style-type: none"> • Low productivity in agriculture, which leads to food insecurity • Inadequate infrastructure (power, roads, ICT, and irrigation), which increases the costs of production and reduces efficiency consequently affecting competitiveness • Limited diversification of production, which increases vulnerability to domestic and external shocks, and holds back the creation of high- quality jobs • Mismatch between the skills demanded by the economy and the available skills resulting into unemployment and underemployment • Limited availability of data, which constrains evidence-based policy making • Nascent private sector whose contribution to economic development is constrained by several factors including limited access to credit and shortage of foreign exchange 	<ul style="list-style-type: none"> • Slow progress towards higher value-added production, leading to limited economic diversification and structural transformation • Vulnerability to external shocks related to the climate change, commodity price volatility and pandemics such as COVID-19 • Unsustainable levels of public debt • Weaknesses in institutional and human capacities

ANNEX A19: IMPLEMENTATION OF THE INDICATIVE PROGRAMME

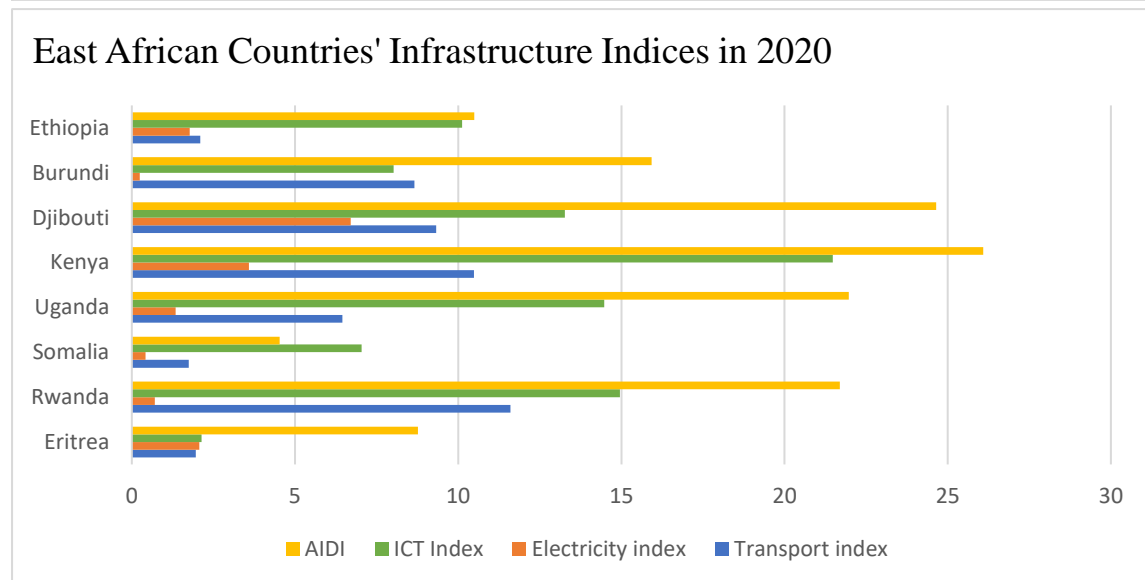
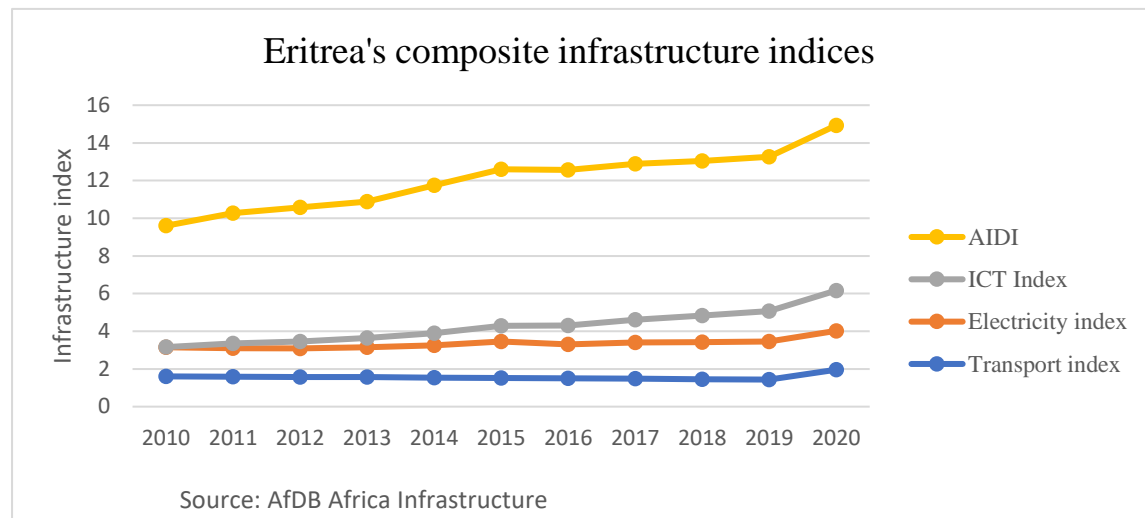
Annex A19.1 Implementation of the indicative operational program I-CSP 2017-2019

	Sectors/operations	Planned Year of Approval	Planned Amount in million UA	Window	Remarks	Amount Approved in million UA
1	Drought Resilience and Sustainable Livelihood Support Program	2019	10.0	ADF/TSF	Approved in 2019	17.5
2	Enable Youth and Skills Development Project	2019	10.0	ADF/TSF	Approved in 2019	13.1
3	Resilient Water Sanitation and Infrastructure Support Project	2019	5.0	ADF grant	Not approved by 2019 but included in IOP 2022-2024	0.0
Unprogrammed Operations						
4	Strengthening Tax Administration Project (ESTAP)	N/A	N/A	TSF	Approved in 2019	2.0
5	Supplementary Financing - Groundwater Assessment, Aquifer Mapping and Well Development	N/A	N/A	TSF	Approved in 2019	0.5
	TOTAL PORTFOLIO		25.0			33.1

Annex A19.2: The indicative operational program I-CSP 2020-2021

	Planned Approval Year	Amount (UA million)	Window	Status	Sector	High 5
Food and Nutrition Security Resilience Program	2020	15	TSF & Regional Envelope	Eritrea did not confirm its interest in the project, and thus, was not considered in the regional operation	Agriculture	Improve Quality of Life
Resilient Water and Sanitation Infrastructure Support Project for Rural Communities	2021	15	ADF PBA	Background study is still on-going and expected to be completed in 2022, following which the project will be prepared for approval in 2024	Water Supply and Irrigation	Improve Quality of Life
Total		30				

ANNEX A20: AFRICA INFRASTRUCTURE DEVELOPMENT INDEX FOR ERITREA



ANNEX A21: ERITREA COUNTRY FINANCING PARAMETERS

Items	Parameters	Remarks
Counterpart funding and Cost Sharing: Limit on the proportion of individual project cost that the Bank may finance.	Up to 100%	Considering Eritrea's public investment needs as articulated in Interim National Development Plan and its debt distress position (see Chapter II), the Bank Group will need to provide up to 100% ADF financing for some transformative operations, based on justifications provided by the Country Team. Justifications will be based on the following criteria: (i) Eritrea's commitment to implement its development program; (ii) public resources allocated to the sectors targeted by Bank Group financing; and (iii) fiscal deficit and debt sustainability.
Taxes and duties: Are there any taxes and duties that the Bank Group would not finance?	None (except for import duties and taxes for which projects are exempted in Eritrea)	Eritrea's tax and duty rates are considered reasonable, and the tax regime is progressive. The applicable import duties are levied in line with international customs systems. Implementation of the income tax legislation is consistent with several best practices and tax policy and administration reforms to boost domestic revenue mobilization have been implemented under the RMS. Consequently, the Bank Group could consider financing sales taxes associated with project expenditures for its operations on a project-by-project basis, if satisfied that the tax system has a reasonable level of tax and duty rates and taxes and duties do not constitute a significant share of project costs or are not specifically directed at Bank Group-financed projects, activities or expenses.
Recurrent Costs: The limit that would apply to the overall number of recurrent expenditures that the Bank Group may finance.	Bank Group financing can cover up to 100% of recurrent costs, but special attention must be paid to government policy to ensure fiscal sustainability.	In general, recurrent costs account for less than 25% of total project costs for ongoing operations. These costs, which include training expenses, project related workshops, studies, are short term and thus incurred only during project implementation. The Bank Group's expectation is that GoSE will continue to cater for recurrent expenditures following project completion. In this context, Bank Group financing for recurrent costs will continue to be determined by project specific considerations on a project-by-project basis, remain short-term and cover expenditures critical to project implementation. Nonetheless, project teams will continue to support the authorities to identify options for maintaining similar recurrent expenditure levels following project completion to maximize the operations' developmental impact, while preserving fiscal sustainability.
Local Currency Costs:	Yes, subject to the fulfilment of the two conditions	The high share (69%) of infrastructure related agriculture sector operations in the Bank Group's ongoing portfolio and indicative operations program implies that operations will continue to include activities with large local cost components. Consequently, the Bank Group will sustain financing for local costs if two conditions are satisfied: (i) financing requirements for the government's development program exceed its own resources and expected domestic borrowing; and (ii) financing of foreign expenditures alone would not enable the Bank Group to achieve the desired development impact.
Provisional expenditures of infrastructure projects	Yes, subject to the fulfilment of the four conditions	The Bank Group currently does not finance provisional expenditures of infrastructure projects. However, these expenditures will be eligible for financing if the Bank Group is satisfied that they: (i) are a core part of the project/ program during appraisal; (ii) represent a small portion of the project/program costs, which cannot be financed by the executing agency; (iii) contribute to the realization of the project/ program development objectives; and (iv) can be supported on a sustainable basis by the executing agency after the 3-year transition period.

Note: The Bank Policy, *Policy on Expenditure Eligible for Bank Group Financing*, contains additional eligible costs such as project vehicle purchase, severance payment, leased costs, food, bank charges, and late payment penalties. For these costs, staff are referred to the Policy or Management guidance.

ANNEX A22: ERITREA'S DEVELOPMENT PRIORITIES

Eritrea's Vision 2030 seeks to guide Eritrea's rapid, inclusive and sustainable development during and beyond the transition to a democratic system of government. The Vision has 4 overarching themes, namely, **human capital development, inclusive economic growth, green economy promotion and environmental protection and upholding constitutional law and respect for human rights**. The Vision recognises that most of the goals in Eritrea's macro-policy drafted in 1994 have never been implemented. As such, it recognises the importance of a framework to transform the economy through rapid socio-economic recovery and sustainable growth during transition and beyond. Vision 2030 has the objective to lead Eritrea towards peace, freedom and economic development in accordance with its constitution, and accelerate that journey. The main objective of Eritrea's Vision 2030 is to transform from the country's challenging situation by implementing the following.

- ✓ Investing in Eritrea's people and developing human capital to help recover, re-integrate, and build a healthy, stable, productive nation that strives for inclusive national growth.
- ✓ Opening up the private sector with a conducive regulatory environment for domestic businesses and FDI. Introducing privatization reforms for a large number of Front-owned companies, entities, and assets including vast areas of land.
- ✓ Diversifying Eritrea's economy to one that is guided by a green economy framework.
- ✓ Investing in infrastructure and all areas of the value chain; increasing local production through manufacturing, local value addition, technology inputs and exports with a medium to long-term goal of creating jobs and a positive trade balance

Eritrea's Vision 2030 focuses on 7 pillars: **Green economy, Food security, Basic infrastructure, Priority sectors (Agriculture & Forestry, Sustainable Tourism, Trade, Manufacturing, Renewable Energy, Mining), Investing in the people, Land ownership & city masterplan, and Peace and security**. The vision aims to build the green economy with the aim of upscaling climate change action and protecting local ecosystems, natural resources, and hence Eritrean livelihoods and food security for the long-term by reducing the consequences of climate change and environmental degradation dramatically. Food security is regarded as the most fundamental pillar in Eritrea's Vision 2030. One fundamental goal of Vision 2030 is to safeguard the right of all nationals residing in Eritrea to be free from hunger, food insecurity and malnutrition. **In infrastructure**, Vision 2030 aims to ensure that all people in Eritrea have access to clean and safe water for household consumption throughout the country. Access to electricity (energy infrastructure) is regarded as a fundamental aspect of economic growth. Housing, health and ICT infrastructure are also considered fundamental in Vision 2030 with wireless public hotspots in schools, colleges, universities, libraries, hotel lounges, and city parks identified as flagship projects. **The priority sectors are anchored on** value chains, value addition and diversification. **The pillar on Investment in the people** emphasises reintegrating displaced people, improving institutions for higher education (tech hubs, vocational training centres and innovation) and women participation (gender equality).

Eritrea's Vision 2030 will be implemented by both public and private sectors, to bring a grand national economic vision to fruition. An Eritrea Business and Investment Board (EBIB) would serve as a One-Stop-Shop during transition with the aim to fast-track Eritrea's economic development by streamlining business and investment related processes and enabling accelerated private sector growth. The Eritrea government will provide national leadership while adhering and safeguarding constitutional law, maintaining order, providing public services, providing national security, and economic assistance while the private sector will be an important performer in advancing effective multi-stakeholder participation towards the development of standards and norms on economic recovery, re-integration, business, trade, and human rights.

The 2030 targets for Eritrea's Vision is to have a leading green economy in Africa (to be a young groundbreaking green economy and green trade hub in Africa and the world market), eliminate hunger, food insecurity and malnutrition, ensure 100% access to clean and safe water for all Eritreans, expand sustainable power infrastructure with renewable energy bias, increase investment in human capital, expand housing and ICT infrastructure, increase women participation in the economy, integrate peace & security and development and develop city masterplans.

ANNEX A23: BANK'S ERITREA GENDER PROFILE

ERITREA GENDER ANALYSIS, EQUALITY, INEQUALITY AND BANK'S STRATEGIC AREAS OF INTERVENTION IN ECONOMIC EMPOWERMENT FOR WOMEN

Institutional and Policy Frameworks

The Eritrean National Legal Framework promotes gender equality and provides exceptional protection and rights for women through various proclamations. In general, gender equality is granted by a strong legal and institutional basis. There has been a shift in positive change in women's role in the society which had been valued less due to traditional patriarchal attitudes. This change has been triggered by the significant role played by Eritrean women struggle for independence of the country with women constituting 30% in the liberation army. The perspective of social justice and gender equality, of the government of the state of Eritrea (GSE), emboldened by women's contribution in the making of their country created a conducive atmosphere for gender equality, stipulated in its policies and programs. However, even with this progress and the commitments made by the government towards achievement of gender equality and closing in of the identified gender gaps in various sectors of the economy, discrimination, and inequalities across a range of sectors persist. For example, Eritrea ranks 40th out of 54 African countries on the gender component of the Ibrahim Index of African Governance, with increasing deterioration evident, although higher levels of equality are seen in areas such as labour force participation with parity in equal pay for equal work, equal rights of land ownership between men and women and equal intrahousehold asset ownership between husbands and their wives as compared with political empowerment³. The country's ranking on the United Nations Development Programme (UNDP) Human Development Index remains low (0.44) and places Eritrea 178th out of 189 countries. This is due to the impact of the war and sanctions, widespread rural poverty, and the dependence of about 65-70% of the population on agriculture, most of who are women from male and female headed households practicing small scale farming. Eritrea scored poorly (33.8) on the Global Hunger Index in 2014⁴ with women and children being the most affected (IFAD, 2020).

National Union of Eritrean Women (NUEW) is the national umbrella organization that advocates for the rights of women and social and economic empowerment to move towards gender equality in the different sectors of economic and social development. Physical consultations with key Development Partners particularly the UNDP, The President of NUEW, The Head of the Department of Social and Economic Empowerment and the Head of the Division of Economic Empowerment in NUEW revealed that other sub-national and community level organizations work on agenda focusing on women empowerment and gender equality under the leadership of NUEW. NUEW has been involved in many initiatives and projects on women empowerment in Eritrea and has membership all over the country from grassroots to the national level with representation at grassroot level through village committees. Key informant interviews with NUEW secretariat indicated that the union is involved in several programs across the country to empower women and achieve gender equality between men and women:

- 1) Capacity building in gender analysis, gender budgeting, gender mainstreaming from the national to the village level
- 2) Capacity building in leadership and decision making for women
- 3) School based programs to empower girls at the grassroots level
- 4) Implementation of a program in on land, water, and soil conservation through preparation of composite, climate smart agricultural practices and biodiversity conservation. This program is implemented with support from the ministry of Land, Water and Environment in connection with UNDP through the Ministry of Finance and national Development

³ African Development Bank Group (2020). Eritrea Country Gender Profile. This document can be accessed for more detailed analysis of inequalities across a range of economic sectors in the country.

⁴ IFPRI, 2018.

- 5) Microcredit program, for women, development of operation manuals to guide their women economic empowerment programs, education programs for children and food and nutrition security programs
- 6) Program on use of traditional stoves that utilize less fuel wood thus leading to better health for women and girls, environmental conservation and saving the amount of time spent on collecting firewood with improved education access for girls and utilization of time saved from fuel wood collection for women to engage in income earning activities for economic empowerment.

Additionally, NUEW has implemented a pilot project involving use of 10 solar powered mills along the coastal areas (Southeast of the country) moving women out of the traditional grinding of sorghum using stones to modernized and mechanized grinding thus saving them time and energy, reducing labour intensity burden due to manual labour used in stone grinding. Women are therefore able to spend more time in productive activities leading to economic empowerment.

The Effects of COVID-19 on Eritrean women's Empowerment and Gender Equality

A UNFPA & UNDP (2021) policy brief ⁵, reports that the global COVID-19 pandemic places new risks and challenges towards achieving gender equality and women empowerment in Eritrea just like any other Least Developed Country. It could reverse the gains made towards meeting SDG 5 to Achieve gender equality and empower all women and girls. In Eritrea, the pandemic has exposed the vulnerability and even systemic weaknesses in socio-economic and political institutions that should safeguard women and girls' rights. In Eritrea, as is the case in other African states, most girls and women carry the burden of care, including family responsibilities. Before the containment and lockdown measures were instituted, most women were active in the informal sector, especially in the food sector. However, the lockdown has forced them to temporarily close their business and survive on their bare minimum wage. While the lockdown measures are crucial in limiting the spread of COVID-19, they will have and already have had devastating impact on women and girls, especially in vulnerable communities and remote rural areas where even access to vaccines and maternal and child health care services have been limited by the lock down. Other risks faced by women in Eritrea include: domestic violence and exploitation, especially for girls, teenage and underage pregnancies, poor economic well-being, limited access to information linked to the pandemic by women especially in rural areas, exclusion of women from covid-19 response planning and decision making leading to marginalization of women and girls, increased burden of unpaid care work due to gender stereotypes and gender roles and responsibilities, low agricultural productivity due to closure of the informal sector where women get money to support their farming activities, and closure of schools which has affected girls' school attendance and also exposed them to more cases of early marriages and under age pregnancies (UNFPA & UNDP, 2021).

Entry Points for Engagement by AfDB in Women Economic Empowerment Initiatives in Eritrea

The bank's strategic areas of intervention for Eritrea are aligned to the high 5s priorities of improving the quality of life for the people of Africa and the bank's Gender Strategy for 2021-2025 which are enshrined within the three main pillars to support women empowerment and gender equality. The Bank's Country Sector Strategy Paper of 2019 - 2022 is also aligned with the five-year Eritrea's Strategic Agricultural Development Plan of 2019-2023 and these strategies are both in line with several SDGs including SDG4 on Quality Education, SDG5 on Gender Equality, SDG6 on Water and Sanitation and SDG8 on Decent Work and Economic Growth.

According to the Africa Gender Index Report for 2019 (AfDB and UNECA, 2020)⁶, the report identifies 5 thematic areas that need to be addressed to close the gender gap and promote gender equality. These areas

⁵ UNFPA & UNDP (2021). Covid-19 and Gender: Building Forward Better on Gender Equality and women Empowerment in Eritrea: Policy Brief number 1.

⁶ AfDB and UNECA (2020). Africa Gender Index Report 2019.

are aligned to AfDB's Strategy for Engagement in Eritrea for 2021-2025 program. These areas include, education and health, young women (youth) employment, agriculture (access to agricultural and mobile technology, entrepreneurial information and training, quality seeds and other farming inputs, quality and timely extension services, linking women farmers to global and regional value chains, markets and market linkages, provision of gender sensitive infrastructure to address the needs of women in remote areas; climate smart agricultural practices, climate change resilient technologies and clean energy through the proposed Bank energy project (to address climate change related shocks and risks through provision of water and renewable energy and biodigester systems to reduce the constraints faced by women in their productive, reproductive and processing of food from agricultural value chains. Furthermore, investing in gender sensitive equipment and mechanized technology in all areas of agro value chains including blue economy value chains where the potential for empowering Eritrean women is still untapped through fisheries, seaweed, and sea cucumber farming⁷ will further act as enablers to women's economic empowerment); and representation of women in decision making forums in political, economic, and local community level institutions. According to the 2018 Eritrea National Policy, 20% of the aimed renewable energy sources by 2030 should benefit Eritrean women, reducing their labour and time poverty constraints associated with productive and reproductive work, therefore allowing them to engage and participate more in more economically viable, profitable, and productive agricultural value chains for livelihood diversification, achievement of food security in Eritrea and overall economic empowerment and gender equality.

The country's national development priorities in agriculture, food security, value chain development, infrastructure development, energy, water and sanitation facilities are thus aligned with the bank's priority areas of intervention in economic transformation and diversification, building an inclusive and resilient economy to cope with different shocks, and development agricultural value chains with simplified designs/less complicated designs aligned also with the need to address the gaps and challenges faced by Eritrean women in economic empowerment initiatives which are in turn both aligned to the bank's gender strategy for 2021 – 2025. Investing in agriculture, infrastructure – energy, water and sanitation and roads will increase Eritrean women's economic and social livelihood diversification activities. It will also enhance the role of Eritrean women in cross border trade through establishment of One Stop Border Posts (OSBS) with simplification of cross border trade materials packaged to meet the needs of low literacy levels of women, establishment of gender sensitive infrastructure at border posts to reduce cases of gender-based violence and through removal of Non-Tariff Barriers (NTBs) for regional integration of Eritrean women into AfCFTA when the Eritrean government becomes a signatory member to the AfCFTA.

AfDB's collaboration, and cooperation with national and grassroots associations such as the National Union of Eritrean Women (NUEW), which is part of the ruling party and the current government to collect information on the situation and needs assessments are of the utmost importance. The GoSE has mandated the NUEW to work as the machinery for the advancement of gender equality⁸

Empowerment and active participation of women in the post COVID-19 decision-making are vital as leaders tend to bring their own experience to the table and reduce the space for a more diverse and rich experience from all walks of life and wealth. Women also prioritize basic needs such as clean and safe water and health care in their political decision-making to make better spending choices that benefit the whole family. Women are generally more likely to prioritize a broader interpretation of economic reconstruction. As noted during consultations with development partners, there is need for AfDB to build a collaborative engagement with development partners already having base in Eritrea and engage with the government of Eritrea ministries for the African Development Bank Group to be able to implement its strategic activities in Eritrea and achieve women economic empowerment and gender equality.

⁷ UN WOMEN (2021). Women's economic empowerment in the Indian Ocean Rim: Progress and challenges

⁸ NUEW Strategic Action Plan 2016-2020

In conclusion, such strategic initiatives will involve dialogue with the Government and NUEW on gender issues and to document gender transformative actions and commitments to be addressed by the government and NUEW. Within the bank's strategy for the GoSE, technical support to build the capacity of public/state officers in the various ministries in gender mainstreaming will be important and will facilitate the development of gender-sensitive policies, strategies, and plans⁹. This will include developing and planning of gender sensitive budgets, to allow the allocation or reallocation of resources to gender responsive and transformative programs and projects and to build the capacity of women in the bank's key priority areas of support for Eritrea. Additionally, this will require developing Monitoring & Evaluation of operations including the collection and analysis of data disaggregated by sex (which is currently missing) to monitor and understand the impacts of the gendered operations of the African Development Bank Group on the quality of life of women, youth and men in Eritrea and identify gender disparities and the necessary policy, institutional and socio cultural transformative actions to be taken to close the gender gaps already identified and existing in Eritrea (AfDB, 2020).

⁹ Such support will build on the work of some international agencies and non-government organizations. The UN agencies and Norwegian Church Aid have a longstanding relationship with NUEW and have funded many capacity building activities in Eritrea.

ANNEX A24: ERITREA'S ENVIRONMENTAL SAFEGUARDS

Eritrea is endowed with natural resources such as minerals, riverine forests, marine and coastal ecosystem, rich flora and fauna, and arable land that Eritreans rely on as sources of livelihoods. Despite having natural resources, it is still facing challenges of negative climate impacts caused by its geographic location, climate induced droughts, and flooding, land degradation, over exploitation of natural resources, pollution, locust infestation, loss of biodiversity, ground water depletion and deforestation leading to expansion of desertification. For instance, the forest cover in Eritrea is still less than 1% and this is due to over reliance on biomass as the primary source of energy, overgrazing, unregulated expansion of agricultural land, forest fires, expansion of settlements and severe droughts. These challenges are largely attributed to climate change, urbanization, and unsustainable development.

Rainfall patterns remain erratic and unreliable. Upto 70% of the land is classified as semi-arid receiving rainfall of below 350mm while the rest of the country registers rainfall of just over 600mm per annum. Average temperature varies between 25°C to 31°C in lowlands and 21°C in the highlands. An increase in the mean temperature by 1.7°C in the last couple of years is clear evidence of global warming.

The Eritrean Government is already making steps in ensuring that environmental, social and climate aspects are mainstreamed in Country development plans, programs and projects. Eritrean Ministry of Lands, Water and Environment provides the main institutional framework responsible for mainstreaming environmental safeguards. Some of the existing legal frameworks for managing environmental risks in place include National Environmental Management Plan; Eritrean Environmental Protection, Management and Rehabilitation Framework, National Biodiversity Strategy and Action Plan; National Adaptation Plan of Action; National Environmental Law and Procedures, Forestry, Wildlife, Conservation and Development Proclamation among others. However, the key policies and strategies like the National Environmental Management Plan for Eritrea (1995) and the National Environmental Impact Assessment Procedures and guidelines (1999) are outdated as they do not reflect the current environmental and social conditions and challenges facing the Country. Other notably important instruments such as the Land Use Classification Plan and State of Environmental Report are unavailable, yet they are key in providing baseline information for future environmental research and planning. In addition, implementation of these key environmental, social and climate safeguards' instruments continue to be hindered by inadequate financial resources and limited technical capacity.

ANNEX A25: BANK'S INTEGRATED SAFEGUARDS SYSTEM

Mainstreaming environmental and social issues in the Eritrea

The Bank's Integrated Safeguards System (ISS) provide for, among others; assessment of the strength of country systems for environmental and social (as well as climate change) management to ensure that the priorities identified in the CDN will be implemented in line with Bank environmental and social assessment procedures and operational safeguards. In addition to the analysis/assessment of the strengths of the country systems for environmental and social management, the general objectives for mainstreaming E&S issues Eritrea Project Priority areas should include:

- Describing the environmental and social profile of the country or region, including important trends.
- Analyzing the links between environmental and social issues and strategic development goals, such as poverty reduction.
- Identifying key environmental and social management challenges and risks in the country or region, as well as risks to country or regional program priorities and options.
- Identifying opportunities to tackle these challenges at a strategic level.
- Assessing the country or region's environmental and social policies and relevant institutional capacity (country systems).
- Updating key national environmental, social and climate policies, procedures, and guidelines.
- Identifying opportunities to support and strengthen country or regional capacity to manage environmental and social risks.

Using the instrumentality of In-country legislations and policies and the Banks's Integrated Safeguards Systems Operational Safeguards (AFDB ISS OS), provided the basis for application of various Environmental and Social Impact Assessment (ESIA/ESMP) Environmental and Social Management Plans and Resettlement Action Plan (RAP) instruments for mainstreaming environmental and social (E&S) safeguards operations to ensure quality and sustainability. In general, the implementation of the ISS and its associated instruments for mainstreaming environmental and social safeguards enables the Bank to (i) promote social and environmental benefits associated with its financed operations, (ii) protect against harmful environmental and social effects of these operations, (iii) pursue a more sustainable approach to development which can generate benefits in terms of environmental security and human well-being, and (iv) manage project environmental and social trade-offs in the best interest of respective country development goals. In effect, the ISS is one of the tools which the Bank uses to promote the well-being of its true clients, the people of Africa.

ANNEX A26: FISHERIES AND MARINE ENVIRONMENT

Eritrea has a 1,200 km coastline on the Red Sea and its Exclusive Economic Zone (EEZ) covers 78,500 km² with a wide variety of habitats (coral reefs, sea grass beds, mangroves). The marine biodiversity is extremely rich and the resources exploited by fisheries include more than 300 species, several of which are classified as vulnerable on the IUCN Red List. The last oceanographic surveys conducted in 1998 estimated the maximum sustainable catch (MSY) at 60-80,000 tonnes per year, including 25-50,000 tonnes of small pelagics.

Fishing catches have fluctuated wildly over the past 30 years and were officially 5,565 tonnes in 2020¹⁰. Industrial fishing is carried out by foreign trawlers without the number of licenses granted being known, and the catches of artisanal fishing are not officially recorded. According to a recent study¹¹ total catches are around 26,000 tonnes, i.e., 35% of the admissible potential (RMD), including catches from IUU fishing (11,100 tonnes) and self-consumption by fishermen's households (7,500 tonnes). According to this study, only 6,700 tonnes of fish would be available for national consumption, excluding imports.

The population practicing artisanal marine fishing is not known, but the survey conducted by BS&E in 2019 indicates that 75% to 90% of the 90,000 households living in the two coastal administrative regions practice fishing for commercial or subsistence purposes. Fresh sales are allowed in only 8 landing sites managed by the Ministry of Marine Resources. The low capacity of refrigeration rooms and ice production leads fishermen to preserve their catches by drying and salting.

Environmental challenges: the Red Sea is subject to the effects of global warming with risks of coral bleaching. Threats of oil pollution are very high, due to the imminent risk of oil leakage (1.1 million barrels) from the Safer oil storage unit (FSO) anchored off the port of Hodeida¹². Other sources of pollution include brine discharged from desalination plants and ballast water discharged from ships.

Fisheries challenges: Eritrea is faced with systematic IUU fishing, both by foreign industrial vessels and artisanal fleets. These illegal activities benefit from the weakness of monitoring, control and surveillance means, but also find a structural cause in the low absorption of the national market and the difficulties of marketing in Eritrean ports

The opportunities lie primarily in the very high and relatively intact marine biodiversity, which is a factor in the resilience of ecosystems. For example, several coral species found only in Djibouti and Eritrea appear to be resilient to a sharp rise in water temperature. The relative abundance and diversity of sea cucumber species in Eritrea offers the potential for the development of commercial and restocking farming. The diversity of habitats and species, particularly in the reef areas, is an asset for the development of tourism, favoured by a relatively pollution-free environment.

The policy and legal framework for fisheries is in line with the principles of sustainable fisheries management, and marine biodiversity offers the potential for diversification of well-managed artisanal fisheries under management plans as provided for by the current law. This development would allow the creation of jobs in the fisheries sector but also in modern processing chains with high added value for export.

¹⁰ FAO FishStatJ, accessed on 29 March 2022

¹¹ BS&E. 2019. Fisheries Resources Management Programme (FRMP). Baseline Study Report on Eritrean Fisheries Resources. June 25, 2019. Bureau of Standards & Evaluation (BS&E). National Higher Education and Research Institute

¹² Statement by the Eritrean Minister of the Environment at the Biodiversity Summit on 30 September 2020. <https://shabait.com/2020/10/14/our-environment-is-always-worthy-of-attention/>

The fisheries potential (MSY) is not fully exploited, even if IUU fishing is taken into account. Small pelagic resources are relatively abundant and can make a greater contribution to food security and protein intake at national level. The rehabilitation of existing port infrastructures could be an opportunity to develop new services in support of artisanal fishing and to optimise the value chains according to the types of products caught.

Blue Economy: Eritrea's Red Sea coastline is endowed with more than 300 commercial species of fish, molluscs, and crustaceans. In 2019, the total marine fisheries catch in Eritrea was estimated at 26,000 tonnes. The majority of the catch was illegal, unreported and unregulated (IUU) fishing. However, research shows the Eritrean fisheries sector is exploiting only 13% of its possible potential harvest. The number of artisanal fishers is very small and does not exceed 3,500 people (0.1% of the total population). Trade of fish and fishery products is limited, with imports estimated at USD 280,000 and exports about USD 158,000 in 2020. Fishing contributes to about 0.1% of the national GDP and 10% of the agricultural sector. The very low annual per capita fish consumption decreased from 3 kg in 2,000 to 1.2 kg in 2017. Industrial production (capture) is largely in the hands of private foreign companies, which exploit Eritrean resources under very opaque conditions, and artisanal fishing is operated by rural communities along the coast. GoSE's control only spans the 8 authorized landing sites, which are largely devoid of adequate infrastructure and services. As a result, almost all landings and local fish trade is informal and significant illegal fishing has led to the overexploitation of some species notably sharks and sea cucumbers. Eritrean fisheries and coral reefs are threatened by the rising temperatures and water acidification. Other sector-specific constraints range from legislative to technical and investment-related such as low institutional capacity, shortage of technical expertise, lack and inadequate infrastructure and services for artisanal fisheries, limited market opportunities, understaffed cooperatives, limited investment capital and isolated fish landing sites and markets.

ENDNOTES

- ⁱ The new TYS 2023-2032 is being designed to sustain and expand achievement under its predecessor (TYS 2013-2022) to build resilience and emergency preparedness within the context of Africa's perennial development challenges. Key areas for success under the TYS 2023-2032 will include: i. a continent characterized by strong, equitable, robust and sustained economic growth; ii. financial stability to support growth; iii. structural transformation and integration, with increased diversification and productive economies dominated by manufacturing and services; iv. skills development, quality jobs and decent livelihoods for the youth; v. increased security and stability; vi. increased competitiveness in the global economy; vii. increase resilience and capacity to rebound from crises.
- ⁱⁱ This chapter has been informed by the Bank's 2021 Country Diagnostic Note (CDN) for Eritrea ([Eritrea CDN Final](#)).
- ⁱⁱⁱ In 2018, the Notre Dame Global Adaptation Index (ND-GAIN) ranked Eritrea 178th out of 181 (with a score of 29.5), indicating a great need for investment and innovations to improve readiness to respond adaption needs. Eritrea is the 11th most vulnerable country and the 3rd least ready country.
- ^{iv} The share of wholesale & retail, restaurants and hotels dropped by 10 percentage points to 11.4 % in 2019 relative to 22.1 in 1992. This means, the importance of this sub-sector reduced by close to half (48%) over the same period.
- ^v There is no officially released DSA report on Eritrea and the analysis of external debt sustainability is based on the available indicator on debt service to GDP ratio and on debt dynamics conducted by the Bank in coordination with the IMF training institute in 2020 which indicated that the Eritrea's external debt ratio is in breach of sustainable levels.
- ^{vi} The main private sector products include date palm fruits, banana, wheat, sorghum, millet, and sesame, most of which are traded with limited value addition. The potential for higher value added production exists but requires addressing key impediments such as inadequate infrastructure, structural deficiencies like state controls on license provisions, limited access to foreign exchange and credit.
- ^{vii} Eritrea's top 5 export destinations are China, Republic of Korea, India, United Arab Emirates, and Singapore and the leading import sources are United States, China, Saudi Arabia, Egypt, and Italy. The main imported products are sugar molasses and honey, wheat and flour, cereals, and vegetable fats and oils, whereas the leading exports comprise ores, gold, copper, vegetables, crustaceans, and molluscs and aquatic invertebrates. According to the Observatory of Economic Complexity, the highest complexity of Eritrea's exports (based on the product complexity index) are machinery for preparing tobacco; silver, unwrought or semi-manufactured, silver powder; men's or boy's shirts; men's, boys underwear, nightwear, not knit or crochet; and zinc ores and concentrates.
- ^{viii} ARII uses a 95 percent confidence interval from the mean to identify countries' performance as low, average, or high. Under linear conditions, a score below 0.333 is classified as low, a score between 0.334 and 0.667 is classified as average, and a score above 0.668 is classified as high. Eritrea was among the least integrated African countries and it lies in the bottom six in the free movement of people, infrastructural, macroeconomic and trade dimensions.
- ^{ix} [file:///C:/Users/NRD3744/Downloads/Binyam_Final_RP_ECD%20\(2\).pdf](file:///C:/Users/NRD3744/Downloads/Binyam_Final_RP_ECD%20(2).pdf)
- ^x BS&E. 2019. Fisheries Resources Management Programme. Baseline Study Report on Eritrean Fisheries Resources. June 25, 2019. Bureau of Standards & Evaluation Consultancy Service
- ^{xi} <https://www.tesfanews.net/danakali-eurochem-binding-offtake-agreement-full-colluli-potash-eritrea/>. Dialogue with GoSE revealed that additional investments are still required to harness Eritrea's potash production potential, and thus, benefits from potash mining are expected to be realized in the medium-term.
- ^{xii} Government of Eritrea. 2002. *National Action Plan to Combat Desertification and Mitigate the Effects of Drought*.
- ^{xiii} FAO. 2020. Global Forest Resources Assessment 2020: Main report. Rome. <https://doi.org/10.4060/ca9825en>

^{xiv} May 15 has since been established as the National Afforestation Day.

^{xv} According to the 2021 Eritrea CDN, about 90 percent of the installed generation capacity is from two diesel power plants, Hirgigo (I and II) and Belaza. Hirgigo is the main power plant in Eritrea, located along the red sea in Massawa Area. There are six units of low-speed diesel engine generator fuelled by heavy oil in Hirgigo power plant.

^{xvi} <https://trackingsdg7.esmap.org/time>

^{xvii} Working poor are working people whose incomes fall below a given poverty line due to low-income jobs and low family household income.

^{xviii} United Nations Population Fund (UNFPA), COVID-19 & Gender: Building Forward Better on Gender Equality & Women Empowerment in Eritrea, 2021.

^{xix} The 2018-2022 plan places emphasis on providing quality and relevant education by addressing: (i) access and equity of education at all levels; (ii) quality and relevance of education and (iii) institutional capacity building. Expanding the education infrastructure to meet the growing demand is also a key focus area for the plan. Expanding the education infrastructure to meet the growing demand is also a key focus area for the plan.

^{xx} Access to irrigated land is still difficult; seeds are not yet adapted to rainfall variation, while incentives for the adaptation of climate smart agricultural practices and modern technologies adoption are not yet in place.

^{xxi} <https://ourworldindata.org/co2/country/eritrea>.

^{xxii} State of Eritrea (2018). Nationally Determined Contributions to the UNFCCC.

^{xxiii} <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Eritrea%20First/NRC%20Eritrea.pdf>

^{xxiv} On adaptation, the country acknowledges agriculture and water sectors as the most vulnerable to climate change and aims to promote climate-smart agriculture as a viable adaptation measure. The focus of the I-CSP on supporting the enablers for agricultural transformation will contribute to building resilience of Eritrea's agriculture sector to climate change.

^{xxv} The GoSE recognises that natural resources play an important role in economic development as citizens rely on ecological goods and service for their livelihoods.

^{xxvi} Other key actions include streamlining environmental and social management and cooperation between various government agencies and creating partnerships with other development actors working on environmental and social safeguards.

^{xxvii} Latest data point available at OECD Statistics (<https://stats.oecd.org/>).

^{xxviii} The ongoing operations are financed from the African Development Fund grant (49%) and the Transitional Support Facility grant (11.9%), African Development Fund loan (24%) and TSF loan (5%). Prior to June 2019, Eritrea was rated at moderate risk of debt distress and thus eligible for loans and grants, in line with the ADF guidelines.

^{xxix} From May 2019 to October 2021, a total of 19 supervision missions were undertaken for 12 operations and there were no Problematic Projects (PP). One operation –Skills Development for Employability & Entrepreneurship, approved in March 2015, was rated as a Probably Problematic Project (PPP) in July 2021. The project is at risk of cancellation before completion mainly due to slow procurement. Procurement delays were exacerbated by COVID-related national restrictions, which impeded the travel of international consultants to Eritrea and their support to planned activities. Steps have been taken to closely monitor the implementation progress of this project through regular follow-up meetings with the project management team. Consequently, procurement activities have been accelerated, which have improved its implementation progress.

^{xxx} Support from project supervision missions, continuous desk supervision and day-to-day monitoring and follow-up with Government authorities, stakeholders and beneficiaries involved in projects execution has also helped to improve implementation.

^{xxx} Sharpening the Bank’s Strategic Focus – A Proposal to Increase the Bank’s Selectivity approved by the Board in May 2021.

^{xxx} **Light up and power Africa** (increase utility-scale renewable energy; strengthen transmission and distribution systems; scale up decentralised renewable energy solutions; and strengthen the sustainability of sector and power utilities and enhance energy efficiency). **Feed Africa** (strengthen agricultural value chains). **Improve the quality of life of people of Africa** (support integrated water resource management and expand water supply, sanitation and hygiene services; accelerate access to finance for women and youth; and build skills for jobs and expand economic opportunities for youth).

^{xxx} Through the ALSF, the Bank has supported GoSE to review its legal and regulatory frameworks and identified key gaps, including the absence of toolkits, and inadequate capacities for inspectors/ monitoring and evaluation. The needs will be considered under I-CSP 2022-2024.

^{xxx} During the Bank’s mission to Eritrea in March 2022, GoSE acknowledged that debt restructuring will be necessary to achieve debt sustainability. However, GoSE indicated that the Bank will be notified in case Eritrea needs support to restructure its debt.

^{xxx} Other interventions will include construction and rehabilitation of sanitation facilities, building public-private partnerships (PPPs) in the water sector and strengthening capacities in sector ministries and beneficiary communities to enhance quality services delivery and sustainable utilization of the water resources.

^{xxx} An indicative UA10 million (US\$13.95 million) from the last year of ADF 15 (2025) will be utilized in 2025. Eritrea receives the minimal allocation for each ADF cycle comprising UA 15 million from the ADF Performance-Based Allocation and UA 15 million from Transition Support Facility resources.