ERITREA

2016

Nyende MAGIDU / n.magidu@afdb.org
Luka Jovia OKUMU / luka.okumu@undp.org

www.africaneconomicoutlook.org

ERITREA

- **Growth is projected at 0.3% in 2015, from 1.7% in 2014 and 1.3% in 2013, reflecting challenges in the business and investment environment, and a poor global economic environment.**
- **The government's commitment to strengthening public financial management and natural-resource management through the African Development Bank's technical assistance has helped to create favourable medium-term prospects.**
- **Eritrea has been promoting urbanisation but this is limited by financial capacity and a shortage of urban housing.**

Overview

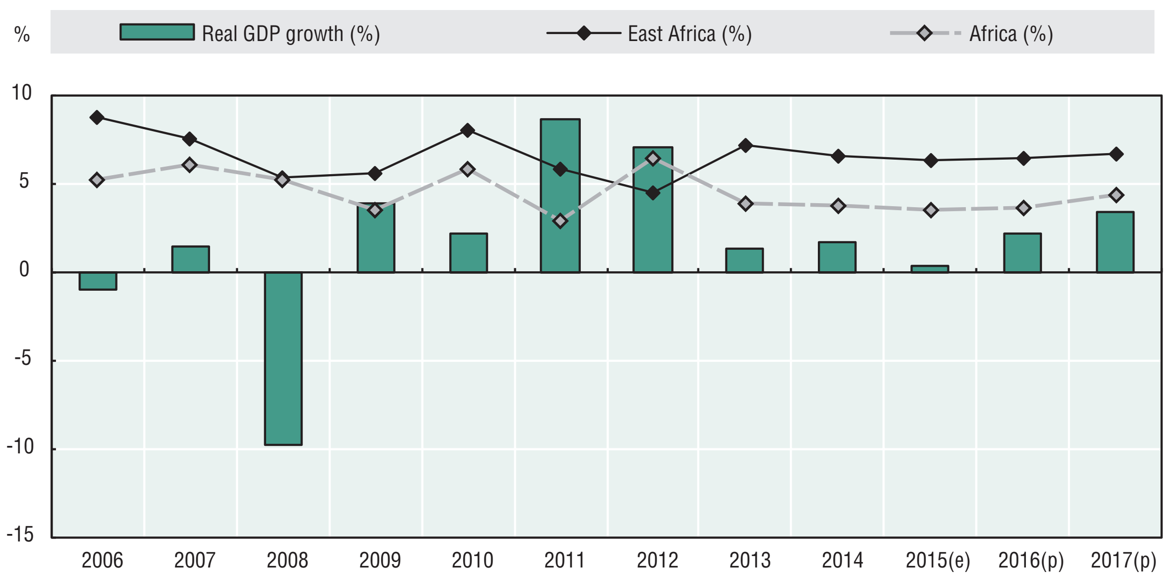
In the 22 years since independence in 1993, the Government of the State of Eritrea (GoSE) has prioritised investments in infrastructure (communication networks, energy, and water facilities); agriculture (mainly for food security); marine resources; social and other services; and manufacturing. In 2016, GoSE priorities are human-resource development; investment in machinery and equipment; transport and communication facilities; water supply; energy; and essential social services. The government is also creating an attractive environment for the active participation of local and foreign private investors. However, these efforts are being severely curtailed by unresolved border issues, the government's relatively substantial spending on security, the UN sanctions and macroeconomic instability. Real gross domestic product (GDP) growth is projected to slow from 1.7% in 2014 to 0.3% in 2015 because of slower economic activity and increasing challenges in the global market. However growth should recover in 2016 to 2.2% (Figure 1 and Table 1). Over the medium term, the government sees further prospects in improved trade with Middle-Eastern and Asian countries, additional mining activities, growth in the food sector, and the development of tourism. The GDP is heavily based on services (59.2%), with a very small manufacturing sector (6%). Agriculture, hunting, forestry and fisheries constitute 17.2% of GDP.

The budget deficit declined slightly to 10.3% of GDP in FY 2015/16 from 10.7% in FY 2014/15, and this trend will continue to 9.9% in FY 2016/17 as a result of increasing revenue from mining projects, access to more grant resources, and a reduction in unproductive expenditures. Inflation remained at 12.5% in 2015 mainly because of food-supply shocks and high foreign exchange demand. Food-crop production in 2015 was only about 50% of its 2014 level. Lower international food and oil prices in 2015 and 2016 should contain 2015/16 inflation below 12.5%.

Exports are expected to have grown in 2014-15 due to the start of mineral production at the Asmara project and gold extraction by the Zara Mining Share Company. The current account deficit is forecast to increase to 3.4% of GDP in 2015 from 2.4% of GDP in 2014 and this trend will continue in 2016 despite rising levels of both remittances and the "development and recovery tax" (a 2% tax levied on the Eritrean Diaspora). Eritrea has continued to benefit from the IMF's capacity-building institute, the East African Regional Technical Assistance Centre (E-Afritac), located in Tanzania. Moreover, Eritrea will be able to access the resources of the AfDB's Transition Support Facility (TSF), a component of the Bank's Pillar I grants window, which will further strengthen natural-resource governance, public-finance management, and data collection and analysis.

In addition to capacity-building support, the AfDB will help to strengthen institutional governance, especially in the Ministries of Finance and National Development because of their critical roles in ensuring macroeconomic stability and growth. Two projects are in preparation to support reform within the Ministry of Finance to improve public-finance management and tax and customs administration. The Drought Resilience Livelihood Support Program (DRLSP) II aims at integrating private-sector involvement into Bank projects and at developing the private sector in a decentralised environment as key components in skills development and the promotion of employment and entrepreneurship.

Figure 1. **Real GDP growth**



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

Table 1. **Macroeconomic development**

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	1.7	0.3	2.2	3.4
Real GDP per capita growth	-0.5	-2.0	-0.2	1.0
CPI inflation	12.3	12.5	12.0	11.7
Budget balance % GDP	-14.6	-10.7	-10.3	-9.9
Current account % GDP	-2.4	-3.4	-4.1	-4.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Recent economic performance, driven by private capital investments in mining and the resumption of construction, especially in the housing sector, has been positive. Real GDP growth is projected to decelerate from 1.7% in 2014 to 0.3% in 2015, reversing in 2016 and 2017. The authorities are focused on ensuring that growth transcends the mining and construction sectors to generate sufficient overall employment to contribute to generalised poverty reduction. The National Indicative Development Plan (NIDP) 2014-2018 identifies agriculture, marine resources, the extractive industries, tourism, and port services as the sectors that offer the best opportunities for sustainable economic progress and growth in the medium to the long term. It also recognises that energy, telecommunications, and human-capital deficits, as well as youth unemployment constitute critical gaps that require urgent attention. The country's gold and base metal deposits may have the potential to boost the country's socio-economic development and reduce poverty in the long run, but the exact fiscal and economic impacts are yet to be fully estimated. The key challenges for the emerging extractive sectors to overcome include outdated legislation, a limited capacity for negotiating exploration contracts, and the absence of current data. The government is addressing these challenges by reviewing the legislation, negotiating contracts, and seeking technical assistance from the African Legal Support Facility. In the medium to long term, Eritrea's economy should continue to grow, as reflected in recent proposals by the government to invest in regional rail networks, eventually linking Asmara city to the Red Sea coast.

Agriculture which accounts for 17.2% of GDP provides the majority of the population with a livelihood (Table 2) and accounts for about 20-30% of commodity exports. However, the sector has significant potential for growth, value addition, and structural transformation if problems like water scarcity, inefficient traditional farming methods, and limited public resource allocation can be resolved. The fact that over 80% of poor people live in rural areas and depend on agriculture suggests that increasing agricultural production and productivity would have a significant impact on poverty. The DRSLP will facilitate the modernisation and construction of resilient local economies. In 2015 the government also secured about USD 200 000 financial support from Qatar for combating desert locust. The Ministry of Local Government projected cultivation of more than 568 000 hectares for the 2015 agricultural programme but, due to inadequate rains, the harvest will be lower than that of 2014.

Private-sector activity, dominated by trade and services, remains weak, and access to hard currency is a major constraint. The GoSE is addressing skills shortages and mismatches, food scarcity, and the energy deficit to support the growth of the private sector. The development agenda also continues to receive support from the UN under the Strategic Partnership Cooperation Framework (SPCF) 2013-2016, reviewed in 2015 to identify implementation challenges and new priorities; the European Union; the International Fund for Agricultural Development (IFAD); and other bilateral partners. The government is also engaging with countries to the East, such as Qatar, exploiting its geostrategic location and attractive support for business-for-development.

To strengthen its planning and development policies further, as well as to reinforce economic management, Eritrea is reviewing its macroeconomic-management practices. Dismantling unattractive policies is continuing and is aimed at creating favourable conditions for private-sector growth. The government worked with the World Food Programme (WFP) to undertake a food-security and nutrition assessment in 2015. The results of this survey will be important for formulating evidence-based policies and programmes. In order to improve economic performance, the government has confirmed its participation in the AfDB's natural-resource governance project to strengthen Eritrea's capacity for efficient and effective resource utilisation. The project aims to improve the policies and legal frameworks that relate to the extractive industries sector. It will also focus on developing human resources and on the collection of essential data for efficient planning and decision-making. Institution building in the Ministry of Finance, in addition to progress made in strengthening public-finance management and the IMF's technical assistance in risk-based supervision to the Bank of Eritrea, could boost public investment and effective monetary policy management. As part of its plan to strengthen its capacity for evidence-based planning and policy formulation through the generation and dissemination of economic and social data, in 2015 the government requested the UN to design a project to support the strengthening of the National Statistical System with the production of GDP statistics as the priority.

Political and economic isolation, together with the slow progress made in pursuing an outward-looking development strategy, have undermined development efforts, while UN sanctions continue to hurt the investment and business climate. Eritrea firmly believes that the Inter-Governmental Authority on Development (IGAD) has a critical role to play in achieving regional peace and stability, and the country's commitment to participate in the DRSLP is highly commendable. This commitment provides a unique opportunity for the AfDB and other development partners to scale up support in key sectors which are likely to trigger broad-based and sustainable growth.

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

	2010	2014
Agriculture, forestry, fishing and hunting	19.1	17.2
of which fishing	…	…
Mining and quarrying	…	…
of which oil	…	…
Manufacturing	6.0	6.0
Electricity, gas and water	1.7	1.8
Construction	15.4	15.8
Wholesale and retail rrade; Repair of vehicles household goods; Restaurants and hotels	18.7	19.2
of which hotels and restaurants	…	…
Transport, storage and communication	12.0	12.3
Finance, real estate and business services	27.1	27.7
Public administration and defence	…	…
Other services	…	…
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Fiscal performance has generally remained weak, although it improved somewhat in 2015 as a result of continued expenditure restraint, better spending prioritisation and more public-revenue mobilisation, supported by a reduced dominance of Monetary policy in economic management. Domestic-resource mobilisation has been improved by the strengthening of the tax administration. According to estimates by various sources, including the IMF, increased revenue from the mining sector and conservative spending kept the fiscal deficit at about 10.7% of GDP in 2015 down from 14.6% in 2014 and this trend is expected to continue to 2017 (Table 3). According to the government, it will even improve because of the implementation of two, key projects: strengthening public-finance management systems and financial statistics; and improving natural-resource governance. Strengthening good governance for natural-resource management will build resilience and support improved economic performance.

Tax revenue, excluding grants, is estimated to increase to 11.3% of GDP in 2015/16, slightly up from 11.2% of GDP in 2014/15. The fiscal stance is expected to remain tight in 2015 and 2016. The government is continuing to curb expenditure on less productive purchases and on infrastructure development, while remaining optimistic about mining investments and the opportunities they potentially represent for public-revenue generation. Such new incomes could be invested in infrastructures, agriculture and fisheries, and human-resource development, with corresponding positive impacts on living standards and on the economy, generally. However, any substantial reduction in prices on the international minerals market would have negative effects on public revenues because minerals are the largest export.

Meanwhile, remittance inflows and revenues from the 2% development and recovery tax on the diaspora are projected to decelerate in 2015 and 2016, partly reflecting the impact of renewed UN renewed sanctions on the collection of the tax and other financial transfers. Given the limited room for fiscal and monetary policy adjustments to reduce vulnerabilities, the proactive pursuit of structural reforms to improve revenue flows is under consideration by the GoSE. The government has already increased investment in the mining sector, reduced the energy-supply deficit, and tightened control of recurrent expenditures beyond public-sector wages. It is also strengthening fiscal-management systems to maximise revenue collections.

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

	2006/2007	2011/2012	2012/2013	2013/2014	2014/2015(e)	2015/2016(p)	2016/2017(p)
Total revenue and grants	**24.3**	**15.3**	**14.6**	**14.7**	**18.6**	**18.7**	**18.7**
Tax revenue	11.9	8.3	8.2	8.4	11.2	11.3	11.5
Grants	3.1	1.2	0.5	0.4	1.0	0.9	0.8
Total expenditure and net lending (a)	**39.6**	**29.5**	**28.6**	**29.3**	**29.4**	**28.9**	**28.6**
Current expenditure	29.1	22.8	22.7	22.9	23.0	23.2	23.4
Excluding interest	25.9	19.9	19.7	19.8	20.3	20.8	21.2
Wages and salaries	11.0	8.2	8.2	8.2	8.5	8.7	8.9
Interest	3.2	2.9	3.0	3.1	2.7	2.4	2.1
Capital expenditure	11.0	6.7	5.8	6.4	6.4	5.8	5.3
Primary balance	**-12.2**	**-11.2**	**-11.0**	**-11.5**	**-8.0**	**-7.9**	**-7.8**
Overall balance	**-15.3**	**-14.1**	**-14.0**	**-14.6**	**-10.7**	**-10.3**	**-9.9**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The current monetary policy objective is to reach and maintain price stability while relaunching economic growth. The old Nakfa currency notes were replaced in 2015 and restrictions on cash withdrawals from banks were imposed, actions which are likely to reduce the money supply. Already, broad money has been reduced from 119% of GDP in 2011 and 2012 to an estimated 14.3% of GDP in 2014 through a shift from funding the budget through printing money to the pursuit of external grants and concessional loans. The government limits domestic debt instruments exclusively to fiscal-policy requirements and for emerging and unforeseen financing needs. In 2015, construction and private consumption are expected to moderate due to low credit provision and a less buoyant labour market. Food shortages caused by poor harvests in 2015 put upward pressure on domestic food prices. Inflation was 12% during 2013-14 and is projected to remain the same, or slightly higher in 2015 due to food-supply shocks, scarcity of hard currency and the dynamics of the global economy. Food-crop production in Eritrea in 2015 is estimated at about 50% of the 2014 level. Lower international food prices in 2015 and weaker oil prices in both 2015 and 2016 should help contain inflation at an annual average below 12.5% over 2015-16.

Important institutional reforms to risk supervision, regulation and reporting by financial institutions are underway to strengthen financial stability and mitigate financial risks. However, the currency peg of Nakfa at 15.38 to one USD remains in place and is unlikely to be dismantled in favour of a free-floating exchange rate in 2015/16. The government needs to improve the business environment and dismantle all controls in the foreign-currency market to encourage private-sector investment.

Economic co-operation, regional integration and trade

Eritrea remains a strong proponent of economic co-operation and regional integration and is strategically located with easy access to Middle Eastern and other Arab countries. Its neighbours in East and Central Africa are important trade partners and the country has joined various regional trading blocs including the Common Market for Eastern and Southern Africa (COMESA), the Community of Sahel-Saharan States (CEN-SAD), and the Inter-governmental Authority on Development (IGAD). However, the regional geopolitics in the Horn of Africa have reduced the volume of business between Eritrea and its neighbours, contributing to the sub-optimal performance of the economy. Djibouti and Ethiopia continue to accuse Eritrea of undermining stability because of the border conflict; in 2015, they again urged international community to tighten the UN sanctions imposed on Eritrea.

The trade balance is projected to remain at -8.9% of GDP in 2015 and 2016 with a marginal improvement in 2017 (Table 4) due to controls on the growth of imports. Exports, mainly of merchandise, account for about 65.7% of the total, while manufactured goods represent only 8.2% and unallocated items make up 26.1%. This structural imbalance poses a major hurdle to increasing the share of exports, especially to developing countries that account for 33.8% of the total, againstabout 63.7% with the United States and 2.5% with European Union. Imports are mainly of manufactured goods, accounting for over 60% of the total. To benefit from regional co-operation and integration, Eritrea will need to undertake a wide range of reforms, including to policies and institutions that aim to broaden and deepen the Private sector, while promoting human-capital development and harmonising policies and practices with regional blocs, such as the East African Community (EAC) and COMESA.

Eritrea's re-engagement with the international community has continued. In 2015, it was fully represented in the African Development Bank Group's Annual meetings in Abidjan and at the Annual Meetings of the World Bank/IMF. It also actively participated in the UN General Assembly and other strategic meetings, summits, and conferences. It also hosted several missions and foreign dignitaries such as the Emir of Qatar and the German Minister of Economic Co-operation and Development. It hosted international meetings and conferences, such as African Youth United for Peace and Sustainable Development and Fighting Against Imperialism; and commemorated World Food Day, World Poverty Day and Women's International Day. The International Organisation for Migration (IOM) council has admitted Eritrea as a new Member State in 2015. The GoSE has also accepted 92 of 200 recommendations arising from the United Nations Human Rights Council Universal Periodic Review (UPR). Eritrea is part of a Saudi Arabiuan-led alliance against the so-called Islamic State (ISIS).

Despite its strategic location in relation to the countries of the Middle-East and Asia, Eritrea faces major challenges to closer economic co-operation including low quality trade and transport-related infrastructure – such as ports, railroads, roads and information technology – and lack of transport competitivity. The 2014 World Bank Logistics Performance Index global rankings place Eritrea at 156th out of 160 countries with a score of 2.08 out of 5, a decline from 2.11 in 2012 but an improvement on 2010's score of 1.70, which placed the country second last (ahead only of Somalia).

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

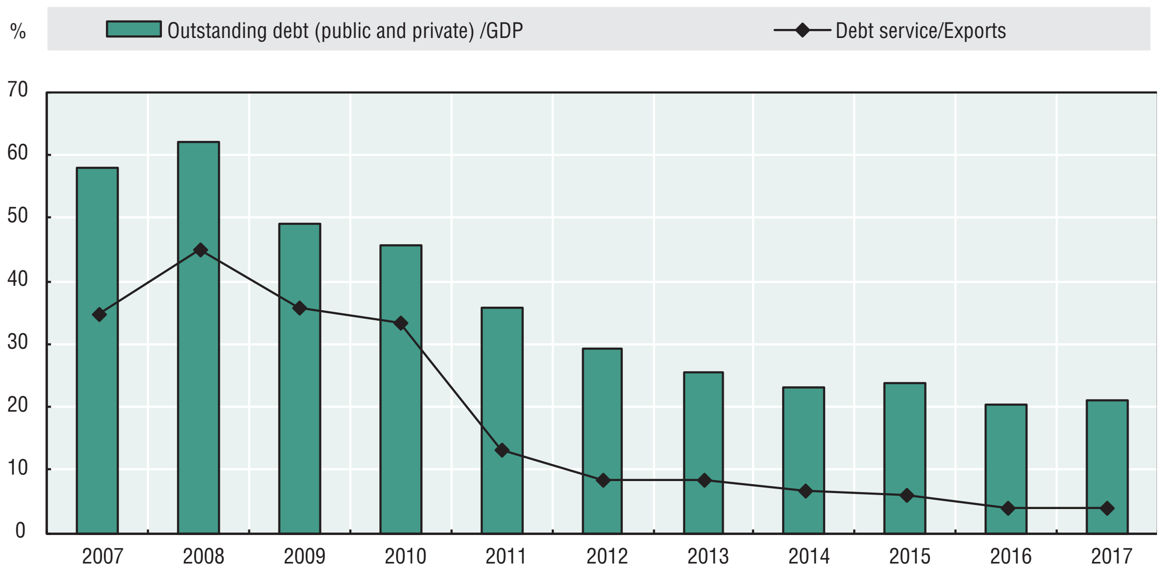
	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Trade balance	-24.2	-4.6	-5.5	-6.1	-8.9	-9.2	-8.2
Exports of goods (f.o.b.)	1.1	15.1	13.4	15.2	11.4	9.7	9.6
Imports of goods (f.o.b.)	25.3	19.7	18.9	21.3	20.3	18.9	17.7
Services	1.2	0.9	0.6	0.5	0.5	0.4	0.2
Factor income	-0.5	-1.3	-0.9	-0.7	-0.4	-0.3	-0.2
Current transfers	16.4	4.7	4.3	4.0	5.4	5.0	3.6
Current account balance	**-7.2**	**-0.2**	**-1.4**	**-2.4**	**-3.4**	**-4.1**	**-4.5**

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

The GoSE's aim is to reduce the public debt-to-GDP ratio to sustainable levels through continuous implementation of fiscal consolidation, switching to concessional borrowing strategies, and a preference for external grants. Fiscal data available, together with estimates from the IMF, put the public debt at 105.8% of GDP in 2015, some 3.0% lower than its 2013 level. The bulk of the domestic debt is from the banking institutions, which account for over 75% of the total. The debt has been incurred to fund infrastructural developments in key sectors such as energy, the development of mineral extraction, education, health and public works in order to enhance productivity and support economic growth. The renewed UN sanctions, however, will affect revenue mobilisation from Eritreans in the diaspora.

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



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

The private sector is still small and dominated by informal activities. An inadequately educated workforce and a less-than-attractive business and investment environment tend to restrain growth in the private sector. Eritrea was placed at the bottom of the 2015 World Bank's *Doing Business* report. Starting a business is a challenge, mostly due to bureaucratic complexities. Once established, the development of an enterprise is compromised by inefficiencies in energy supplies, cumbersome customs and fiscal regulations and the difficulty in obtaining and keeping skilled personnel.

Based on consultations with the business community, the GoSE has promised to address constraints such as lack of trust in the legal system, access to land tenure, adequate physical infrastructure and regulatory and labour issues. It has set up an investment centre to identify and address existing constraints as well as to monitor progress. To enhance dialogue a national private-sector forum involving companies in the mining sector is being organised by the Ministry of Energy and Mines. The success of this initiative will be extended to other sectors.

Structural reforms and systematic strategic support to key sectors are needed to ignite and sustain rapid productivity growth. In particular, it will be critical that improvements in public investment management systems are accompanied by efforts to ensure that resources are allocated to the key sectors. In this respect, the government is committed to reducing the energy deficit and facilitate the process of accessing affordable investment capital through the Eritrea Development and Investment Bank (EDIB). The recent commencement of frequent flights to Asmara by the Flydubai airline is also an indication of the commitment to attract foreign investment and enhancing connectivity. Eritrean Airlines also began new flights to Port Sudan in 2015.

Financial sector

Eritrea's financial sector remains underdeveloped, mainly due to an unattractive business and investment climate. The sector consists of the central bank, two commercial banks with 28 branches across the country, one development bank, and one insurance company. Few of the operations in these institutions are automated. Recent actions taken to deepen the sector include the introduction of a new cheque system for individual citizens (non-traders) to enable them to hold current accounts. Old national currency notes in circulation, the Nakfa (ERN), have also been replaced through the banking system and restrictions imposed on the amount of cash customers can withdraw from the banks at any one time, while the use of cheques is encouraged. A number of initiatives are being considered to create opportunities for borrowers to obtain affordable loans through the development bank. Eritrea ranks low in Africa in terms of loan access and lack of collateral often prevents small businesses from accessing credit. Globally, Eritrea stands at 185 in the ranking of 189 economies in the ease of getting credit.

The relatively small size of Eritrea Development and Investment Bank (EDIB) as an alternative source of financing to bank lending has also limited the rate of private-sector growth. Moves toward capitalising the EDIB, although still far from being implemented, would help deepen private sources of capital and give potential investors better access to less costly capital for deepening private investment.

Money and capital markets are non-existent, so open-market operations are not possible in monetary policy management. Currently, commercial banks are required to set aside 20% of their deposits as reserves.

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

Public sector management, institutions and reform

Over the past four years, the GoSE has initiated gradual structural reforms with the aim of promoting economic diversification, food security, human development and poverty reduction. This is to be achieved through the development of energy supply, building up the private sector and efficient national government, while enhancing the national capacity to manage policies with support from the AfDB and other development partners. Assessments of existing gaps in financial governance and implementation of public-finance management, as well as the preparation of related action plans are underway in the Ministry of Finance (MoF) departments of Treasury, Budget and Fiscal Planning, Inland Revenue and Customs. The government has also continued to show interest in the IMF's assistance in developing institutional and human capacity. The IMF's E-AFRITAC is providing support to the Central Bank and MoF while the United Nations Developmen,t Programme (UNDP) is helping MoF to strengthen its capacity in fiscal planning and budget, treasury management, and customs. These initiatives are intended to address some of the challenges faced by these institutions and the implementation of the medium-term expenditure framework (MTEF).

The MoF is the key institution in driving the key reform endeavours designed to strengthen Public Expenditure Management (PEM), particularly those with implications for national economic development. In this regard, the MoF, with the assistance of the AfDB and the UNDP, recently embarked on a capacity building project. Its primary objective is to strengthen the Budget and Fiscal Planning and Treasury departments by improving the functionality of computerised recurrent and development budget processing and Treasury systems. The ultimate aim is an Integrated Financial Management Information System (IFMIS). Through the electronically generated fiscal reports of line ministries and other institutions, this system will strengthen the capacity of the MoF to verify expenditures on a timely basis. However, a major challenge is the low skills base of the Treasury Department, with only 14% of its employees holding basic university qualifications and above. Support has also been provided to the Inland Revenue Department to strengthen the Eritrea Tax Administration System.

Natural resource management and environment

The stated goal of the GoSE is to develop appropriate knowledge and technologies for sustainable and integrated management of natural resources. A number of relevant sectorial legal frameworks already exist in Eritrea, including land, water, forestry and wildlife, fisheries, and mining laws.There is however, no legislation specifically covering overall environmental management. The National Environmental Management Plan for Eritrea, 1995, lays out a strategy for action for conservation activities.The Mining Law sets the government's share in mining firms at a minimum 10% non-participatory interest with an option to buy a further 30% of the shares. It mandates the Ministry of Energy and Mines to license agencies and administer, regulate, and co-ordinate all energy and mining activities in the country.

The main environmental concerns relate to degradation of the soil, forest and water resources partly resulting from the growing mining sector and climate change. In addition, the current energy situation is characterised by lack of access by two-thirds of the population to modern commercial energy and their consequent reliance on biomass fuel use and dependence on imports for all modern commercial energy supplies. These include refined petroleum products for the transport, industrial and domestic sectors, as well as for electricity generation, which is wholly based on oil-burning plants. Lack of access to modern energy supplies not only aggravates poverty but also contributes to its perpetuation. Improving the living conditions of the Eritrean people, particularly the rural poor, will thus require providing them access to affordable, cleaner and sustainable energy.

In order to address some of these issues, large-scale public programmes for soil and water conservation and reforestation are underway. For example, in collaboration with the UN, the GoSE is constructing micro and check dams, as well as implementing tree planting and other sustainable environmental conservation measures. The GoSE has also regularly mobilised various communities and students to engage in these and other environmental sustainability improving activities, such as building soil bands and terracing slopes of hills.

With regard to energy supply, Eritrea has a high and largely unexploited potential for renewable energy sources such as and vast unexpressed energy needs from a widely dispersed population. Access to electricity is still limited to 38% of the population for the country as a whole, but ranges from 8% in rural Eritrea to 98% in Asmara, the capital city, compared to the sub-Saharan Africa rate of rural electrification (13%). Eritrea's per-capita electricity consumption, which stood at 55 kWh in 2009, shows nearly four-fold increase since 1991, though this is among the lowest even by sub-Saharan African standard, where the average is 450 kWh and that of the world is now over 2100 kWh. Solar technology offers promise but suffers from low uptake.

Eritrea has been aware of the energy-poverty nexus, and the GoSE has been aggressively addressing the issues. Energy is the first infrastructure basis for comprehensive development. Hence, the government is working to consolidate its strategic approach towards a Comprehensive Energy Development Plan. This would enable streamlining energy usage in the productive sectors, develop the generation, transmission, distribution and consumption capacity of the nation in phases. It would also be used to harness the country's indigenous sources through the introduction of appropriate technologies and assure the right mix of energy sources for the sustainable development. Since natural resource wealth will remain important for Eritrea's growth prospects, better integration of the mineral sector into development and macroeconomic policy would help trigger broad-based growth and development.

Political context

Though a transition toward multiparty politics was initiated in 1994 and a Constitution ratified in 1997, Eritrea is a one-party state ruled by the People's Front for Democracy and Justice (PFDJ). Local elections have been conducted in the sub-zones of Serejeka, Gala-Nefhi and Berikh, but no national elections have taken place. Drafting of a new constitution was announced in 2014, but there is scant information on the progress made in implementing this initiative. In 2015 the GoSE reported a review of the procedures and the organisational structure of the Ministry of Information to improve the work of the media. Regional tension and instability, and international isolation remain major development obstacles. The Commission of Inquiry on Eritrea Report released in 2015, alleged wide-spread human rights violations in the country, and while this infuriated the government, it has chosen to continue engaging with the UN system on the issue of human rights. The border tension between Eritrea and Ethiopia remains unresolved and it continues to influence public-sector budgetary allocations away from socio-economic sectors. Similarly, the UN sanctions continue to impact negatively on the country's development progress, situations that are detrimental to lasting peace, stability and sustainable development in the Horn of Africa region in the long term. The GoSE has also announced the prioritisation of budgetary allocations in 2016 to human-resource development that will include implementation of the new salary system following completion of the ongoing study to identify the professional and physical capacity within the country and preparing related implementation plans.

Social context and human development

Building human resources

Eritrea's Human Development Index (HDI) for 2014 and 2015 is 0.381, which is in the low category, positioning the country at 182nd out of 187 countries and territories. This is below the average of 0.493 for the low human-development group countries and the 0.502 average score for sub-Saharan Africa. However, the capacity development component of the 2015 Ibrahim Mo Index of African Governance indicates that Eritrea has improved from 44.5% in 2013 to 46.5% in 2014, making it number 48 out of 54 countries.

Substantial progress has been made in achieving the education Millennium Development Goals (MDGs) targets. Education is provided free at all levels including secondary and tertiary. The net enrolment ratio (NER) in elementary school rose from 30% in 1993 to 81% in 2013. The annual growth rate during that period was 5.5%. Given this trend, the NER is projected to have increased to 85% by 2015. Over the next five years the transition rate from middle school (Grade 8 leavers) to secondary education is projected to reach 66%. The number of students enrolled in secondary education is projected to increase from about 100 000 to 156 492 students (an increase of 56.5%) raising the gross enrolment ratio from 31.5% to 43.3%. The total enrolment of females is expected to increase substantially, over the five year period. The net enrolment ratio at secondary level is expected increase from 23.2% to 35%, an increase of 52.2%. The gender parity index is expected to improve from 0.74 in 2010/11 to 0.95 in 2015/16.

Significant progress has also been made in achieving health MDG targets. The infant mortality rate has dropped from 58 per 1 000 live births in 2000 to 37 in 2012 and that for under-fives to 50 per 1 000 live births in 2013. The maternal mortality rate fell to 380 in 2013, while visiting health centres during pregnancy has increased from 19% in 1991 to 93% in 2013 and delivery by skilled birth attendants increased from 6% in 1991 to 55% in 2013. The Eritrea 2014 Health MDG Report and 2015 MDG Report indicate that the HIV prevalence for the general population was 0.93% in

2010. World Health Statistics indicate that the incidence of malaria was 1 282 per 100 000 people in 2012. Immunisation and vaccination of children and adolescents against killer diseases like tuberculosis, diphtheria, pertussis, tetanus and measles is estimated at 90%. Life expectancy at birth increased from 48 years in 1990 to 63 years in 2014. These health outcomes are attributed to the government's design and rigorous implementation of innovative policies.

Poverty reduction, social protection and labour

Reliable data and information on poverty are still generally unavailable, as no census has been carried out in Eritrea to date. As of 2015, the population was estimated by the Ministry of National Development of Eritrea at 3.6 million. Based on the Eritrea Population and Health Surveys done in 1995, 2002 and 2010, the poverty level, as measured by the Unmet Basic Needs (UBN) approach, has fallen from 66% in 2003 to a projected 58% in 2015, according to MDG Report for Eritrea, 2015. In 2010, 65% of the population lived in rural areas and 80% depended on subsistence agriculture for their livelihoods. As of 2015, the population living in rural areas has increased to 69%.

The GoSE has published new civil and penal codes and associated procedures to replace the respective transitional codes that were enacted immediately after independence. The Ministry of Justice is finalising a commercial code. The new legal codes are designed to enhance the supremacy of law and are in conformity with the traditions and norms of the Eritrean people, and in line with the aspirations and objectives of the long struggle for independence, according to the government.

Working with local and external development partners, the GoSE continues to support the families of fallen fighters through the "martyrs' fund" under the Ministry of Labour and Human Welfare (MoLHW), while the social safety nets remain based on extended family networks. In 2015, the Eritrean National War-Disabled Veterans Association indicated that it extended loans of over 23 million Nakfa (about USD 1.5 million at the official exchange rate) to members in Tenessei, Goluj, Haikota and Forto-Sawa sub-zones for income support. Reinforced by institutional arrangements and programmes under the MoLHW, Eritrean society is historically supportive to the elderly and handicapped. Solidarity within families and communities is very strong. Given the relatively small direct support from the government, remittances from Eritreans in the diaspora remain an important source of income to a large number of communities. A law introducing a state pension system was approved in 2005, but has not been implemented.

Gender equality

The GoSE has declared that it recognises and upholds equality of opportunity between men and women, girls and boys, in all spheres of life. This has created a strong momentum to increase the participation of women in public and community affairs. While gender equality and empowerment have continued to receive increased attention in recent years, challenges persist. Eritrea's 2015 AfDB Gender Equality Index ranks the country at 27th out of 52 jurisdictions, mainly due to the low share of women in leadership positions, and low participation of women in technical subjects in higher education. Before the adoption of the 1997 constitution, the Law Reform Proclamation No.1/1991 repealed all discriminatory clauses in the colonial penal and civil codes and enacted new gender-responsive laws. In the post-transitional phase, Labour Proclamation No. 118/2001 provides legal protection to women in formal-sector employment.The government has prepared a new National Policy on Gender (NPG 2015) and a National Gender Action Plan (NGAP 2015-2019), whle a strategy for female education, a gender community awareness strategy, and an initiative to strengthen collection of disaggregated data for effective monitoring complete a set of gender-sensitive initiatives. A Female Circumcision Abolition Proclamation was adopted in 2007. Eritrea ratified the UN Convention on the Rights of the Child (CRC) in 1994, the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1995, the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and

Political Rights and the African Charter on Human and Peoples' Rights in 1999. The Protocol to the African Charter on Human and Peoples' Rights on the Rights of African Women (The Maputo Protocol) was ratified and introduced into law in 2012 and the country submitted its first Country Report on the African Union's Solemn Declaration on Gender Equality in Africa in 2014. As a result of affirmative action initiatives, women have made positive gains in the higher echelons of politics and public decision-making spaces. Women currently account for 22% of National Assembly members, 24% of government ministers, 17% of Governors at the regional level, and 22.5% % of community court judges.

In spite of the existence of these legal and regulatory frameworks, there is still much progress to be made. For example, there are no female ambassadors or consuls-general in the diplomatic corps and, while 23% of community court judges are women, the figures fall to only 11.4% and 10.5% in the High Court and Regional Courts, respectively. At the Zoba Assembly, women constitute 28%, less than the recommended 30% quota.

Since women constitute about 60-80% of Eritrea's agricultural workforce, the Ministry of Agriculture (MoA) developed a Five Years Gender Mainstreaming Policy and Strategic Action Plan (2014-2018) aimed at ensuring women's equitable participation and access to and control over resources and benefits. The primary goal of the GoSE's green-growth agenda for women aims at enhancing household food utilisation, energy and labour-saving technologies, as well as the proper utilisation of agricultural products. As part of the green-growth agenda, some 32 985 rural women will be trained in the maintenance and use of energy-saving technologies for household food conservation and use; while farmers and staff will be provided with short-, medium- and long-term training. The government has provided eco-friendly technologies to alleviate the burden of rural women and reduce biomass fuel consumption to conserve the vegetation cover. It is estimated that one megawatt of solar energy generation has been installed to serve households, health centres and water-supply systems in rural areas. Also, improved energy stoves known locally as *adhanet mogog* have been popularised and distributed widely across the country. The smokeless stove has other relative advantages including increased thermal efficiency from 7% to 25% and a 50% reduction in fuel wood consumption.

Women's economic empowerment programmes in Eritrea are managed primarily by Ministries, Departments and Agencies (MDAs). The main actors are the National Union of Eritrean Women (NUEW), the Ministry of Labour and Human Welfare (MoLHW), the Ministry of Local Government, the Ministry of Agriculture and the Savings and Micro-credit Programme (SMCP). The NUEW's micro-credit scheme targets poor and marginalised women, especially female-headed households (FHHs) to promote the economic empowerment of women and sustain their livelihoods. The MoA collaborates with the EDIB to extend loans to women farmers. The MoLHW's micro-credit programme targets war widows, demobilised soldiers and families hosting HIV/AIDS and war orphans. Some 26.5% of MoLHW's 5 219 recipients are women. The SMCP, which is an autonomous government institution supervised by the Ministry of National Planning (MoND), is the largest micro-credit institution in the country. SMCP's objective is "To promote the development of the private sector in Eritrea by encouraging the establishment and expansion of micro and small enterprises". Women make up 40% of SMCP's clients. Through saving and micro-credit programmes at the zoba and sub-zoba levels, women organise themselves in groups and receive loans to enable them to engage in agricultural activities and trade. For example, in the Tsorona sub-zone, over 250 women engaged in agriculture and trade accessed micro-credit in 2015.

Thematic analysis: Sustainable cities and structural transformation

Eritrea is in the Horn of Africa and has an area of 122 000 km^2. Its eastern border is on the Red Sea with a coastline of 1 212 km. The population was estimated at 3.6 million in 2015, of which

69% live in rural areas (65% in 2010). The country was divided in 1991 into six administrative regions: Debub, Maekel, Gash-Barka, Anseba, Northern Red Sea (NRS) and South Red Sea (SRS). The administrative centres of theregions are emerging as cities and towns.

Historically, urban development in Eritrea began with modern planned towns and cities during the Italian colonial period from 1890 to 1941. Asmara, the capital city located in the Maekel region, was planned to be an industrial town, while Massawa and Assab, in the NRS region and SRS region, respectively, were planned as port towns. Mendefera, in Debub, and the remaining towns were planned as military garrisons, mining centres (Gash-Barka and Anseba), and agricultural towns (Debub). These urban centres had no significant growth during the period of British rule (1941-52) or the Ethiopian regime (1952-91). At independence, the new government started the reconstruction and rehabilitation of urban facilities, as well as the expansion of road networks and other communication infrastructure to promote and deepen urban development. There are international airports at Asmara city and Massawa. The University of Asmara was reorganised in 2004 into seven colleges, two of which are in Asmara and the rest in the Maekel, Debub (two colleges), Anseba, and NRS. Other urban facilities and infrastructure are either under reconstruction or are being expanded.

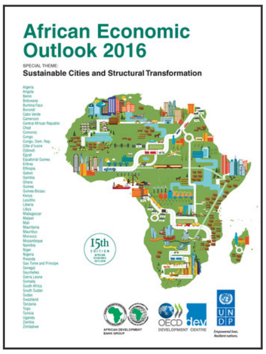
According to the Eritrea Population and Health Survey (EPHS) 2010, the population size is highest in Debub, followed by Maekel, Gash-Barka, Anseba, NRS, and SRS. Asmara city has an estimated population of 650 000. The next most populated town is Keren (located in Anseba) with over 100 000 inhabitants, while the rest of the cities have fewer than 100 000 inhabitants. Overall the NRS and SRS regions are significantly less urbanised compared to the other regions. According to the NIDP 2014-2018, policies are balanced and focus on both urban and rural areas through the development of key facilities and infrastructure, such as housing, energy, water, roads, education, and health in an environmentally sustainable manner. These are planned to be developed along with productive sectors such, as agro-processing, manufacturing, tourism, and commercial agriculture. The economy is still largely public-sector driven and investments in economic infrastructure remain the responsibility of the GoSE. Land is publicly owned and is allocated by the government, whatever the use to which it is to be put or by whom.

From independence to 1997, annual GDP growth averaged 5.4%. Poverty fell from 70% in 1995 to 64% in 2002 and is projected to have fallen further to 58% in 2015. Urban poverty, however, increased from 36% in 1995 to 39% in 2002 but is projected to fall back to 30% in 2015. While urban poverty could be declining, it is still high. There are also reports of serious housing shortages particularly in Asmara, which is resulting in households' relocating to places outside the city. The situation is, however, less clear in other urban centres because of lack of data.

According to the NIDP 2014-2018, household access to clean and adequate water is presently estimated at 65% while only 38% of the population has access to electricity, ranging from 8% in rural Eritrea to 98% in Asmara, compared to the sub-Saharan African rate of rural electrification of 13%. Eritrea's per-capita electricity consumption was at 55 kWh in 2009, among the lowest in sub-Saharan Africa, where the average is 450 kWh, whereas the world average is over 2 100 kWh. Eritrea relies heavily on biomass and imported fossil fuels, although there are efforts to expand and encourage the use of alternative sources of energy such as solar and wind energy, as well as energy saving tools such as modern cooking stoves. Some 68% of households use firewood, straw and sawdust for cooking and 17% use kerosene.

Piped water is mainly accessible in urban areas; 84% of households in Asmara, 64% in other towns and 36% (all from public taps) in rural areas use piped water. In urban areas, 26% of households (33% in other towns and 16% in Asmara city) depend on tanker trucks to deliver their water. The rural-piped public-tap usage has doubled since 2002 and there is an overall effort to improve access through increasing the number of protected water sources, as well as the construction of micro-dams near urban centres and enhanced environmental conservation activities. For solid-waste disposal, 45% of households in urban areas and 0.5% of rural households use closed public containers, while 35% of urban households and 99% in the countryside dumped their solid waste and garbage randomly. However, 70% of households (35% in towns and 90% in rural areas) were without toilet facilities in 2010, compared to 74% (39% urban and 96% rural) in 2002.

Urban development strategy in Eritrea has two components: city planning and residential planning, which are a part of the NIDP 2014-2018. The GoSE's policy on housing aims at improving the livelihood of the entire population by ensuring that all households have access to adequate and affordable housing. Urban planning is designed to expand the current regional centres, as well as emerging trading centres such as Agordat and Tessenei in Gash-Barka region.



From:
African Economic Outlook 2016
Sustainable Cities and Structural Transformation

Access the complete publication at:
https://doi.org/10.1787/aeo-2016-en

Please cite this chapter as:

African Development Bank/OECD/United Nations Development Programme (2016), “Eritrea”, in *African Economic Outlook 2016: Sustainable Cities and Structural Transformation*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/aeo-2016-19-en