

PN-ACB-125

**STRATEGY CONCEPT PAPER**

**FOR THE**

**USAID/ERITREA PROGRAM**

**REDSO/ESA**  
May 7, 1993

# USAID/ERITREA: STRATEGY CONCEPT PAPER

## INTRODUCTION

This "Strategy Concept Paper" formulates an initial programmatic framework for immediately moving ahead with: (1) the establishment of an independent Schedule "B" USAID/Eritrea mission; (2) the staffing of USAID/Eritrea; (3) the obligation of the remaining \$3.65 million of FY 93 Eritrea program funding; and (4) the design of the anticipated FY 94 & FY 95 USAID/Eritrea programs. The Concept Paper is divided into a number of Sections. The first provides a brief outline of Eritrean history and the present situation, related to a USAID program. Next the paper summarizes the factors that argue for a unique USAID presence and assistance program in Eritrea. The third section of the Paper outlines: the considerations that led to the proposed USAID/Eritrea program; the planned implementation modalities for that program; the anticipated sector focus of the program; and the management requirements of a USAID/Eritrea mission. Finally, a number of action recommendations are scattered throughout the Paper. Prompt Africa Bureau decisions on these recommendations are essential if establishment of the USAID/Eritrea Mission is to move ahead expeditiously and program implementation is to begin.

## SECTION I. HISTORY & PRESENT ERITREAN SITUATION

**A. HISTORY AND RLDC STATUS** - In May of 1991 Eritrea emerged victorious from almost 30 years of continuous warfare against the Ethiopian regime in Addis Ababa. The Provisional Government of Eritrea (PGE), following the successful completion of the first national referendum (April 23-24, 1993), declared independence from Ethiopia. It is anticipated that within a year of that declaration Eritrea will be granted U.N. and World Bank membership.

Eritrea is by all accounts and statistical measures one of the poorest countries in the world. It easily qualifies as a "Relatively Least Developed Country (RLDC)". About the size of England or the state of Pennsylvania, it's population of between 2.5 and 3.5 million people lives on a land area of approximately 48,000 square miles, most of which is not arable. There are estimated to be in excess of a million displaced people and refugees in Eritrea, Sudan, Ethiopia and other countries. The IBRD estimates GDP per capita to be below \$150 per year; life expectancy at birth is low (46 years); infant mortality rate is high (135 per 1000 live births); and average daily caloric intake per capita is 1,750. The economic and social infrastructure has been almost completely destroyed and there has been extensive disruption of economic activity in the country.

**B. THE CONTINUUM OF ERITREAN DEVELOPMENT** - The PGE, the multilaterals, and the bilateral donor community all agree that the economic development of Eritrea will move ahead, but that it will, of necessity, follow a fairly gradual and evolutionary process of learning, elaboration and expansion. The initial, ongoing phase of "Emergency Relief and Reconstruction" has already begun to shift, in some pivotal sectors, into a "Transitional Phase", which will continue until the PGE has established the basic institutional and infrastructural capacities to prioritize, plan, coordinate and support the implementation of government, donor and private sector projects and programs.

Steady progress in such capacity-building -- linked with the organization of a transparent and stable political process -- should then lead to a "Growth Phase" of the development process. This phase, if supported by the free market policies that the PGE has apparently accepted, should then lead to the establishment of a self-sustaining Eritrean economy. Notwithstanding this optimistic prognosis, it is generally accepted that it is still much too early to think of developing large scale, long-range, detailed blueprints for either international public or private sector investments or projects in Eritrea.

**C. THE PGE AND USAID** - The PGE was formed out of the victorious forces of the Eritrean Peoples' Liberation Front (EPLF). Following the end of hostilities the PGE moved quickly to take over governmental functions and declare a strong commitment to a liberal economic system and an open democratic society. The PGE has, however, been reluctant to adopt too quickly the reforms, policies and institutional restructuring that the relatively eager bilateral and multilateral donors have been advocating.

While many senior PGE officials have impressive academic credentials and a proven ability to lead an armed struggle, they come to their new positions with limited technical skills and experience in managing either a functioning peace-time economy or the international development effort that will be required in Eritrea in the immediate and near term. The institutional capacity of the PGE is extremely thin and, in fact, is already severely overburdened by the many tasks before it. The PGE leadership has also repeatedly demonstrated an excessive sensitivity to becoming too dependent on what the multilateral and bilateral donor community espouses. Yet they fully understand and appreciate that international assistance, both financial and technical, is essential if they are to succeed. Add to this equation that the PGE and the Eritrean population, as a whole, are notably favorable to a U.S. involvement in the future of their new country, and it is easy to understand that the U.S. Government and USAID have a relatively unique opportunity, at this early stage in Eritrea, to substantially and beneficially influence the long-term development process.

**D. THE MULTILATERAL & BILATERAL DONORS IN ERITREA** - The rather atypical status of Eritrea has created some unusual obstacles to the immediate provision of substantial development assistance from the international donor community. Eritrea is not, at present, a member of the U.N. family or the World Bank. It is therefore only eligible for "Emergency" or "Special" assistance from these multilateral entities. Nonetheless, a number of bilateral donors (the European Community, Italy, Sweden and the U.S.) have mobilized initial, limited, financial support to assist in Eritrea's immediate and priority needs. Many other countries have sent delegations to Eritrea to explore possibilities for support once Eritrea is accepted by the international community as an independent country. However, despite considerable dialogue between the PGE and various donor agencies the total amount of external financing available to Eritrea is still very limited.

Notwithstanding these initially mixed efforts, the major multilateral and bilateral donors have collaborated with the PGE to establish an overall framework for recovery and for the provision of external support. The initial documents for this framework are flexible enough to permit redesign, should new priorities dictate that a shift in the allocation of scarce resources among components of the program is required. The documents also take into account the limited capacities of the sector agencies of the PGE to implement activities, and therefore provides for only a two and a half year timeframe for all of the initial activities noted in the framework. The initial documents for this framework are:

1. a draft "Country Strategy Note for the UN System's Development Cooperation in Eritrea: 1993-1994"; and
2. the "Recovery and Rehabilitation Program for Eritrea (RRPE)" for the IBRD.

These documents identify selected activities and areas for prompt attention of the donor community, including: (1) the provision of essential agricultural and industrial inputs; (2) the rehabilitation of crucial infrastructure facilities (energy, ports, and roads); (3) the reactivation of specific productive enterprises; (4) the establishment of a "Community Rehabilitation Fund" to enable local communities to launch labor-intensive projects to restore or expand important economic assets; and (5) the "Economic and Financial Management Program" (EFMP) aimed at strengthening the central economic agencies of the PGE (the Department of Economic Development & Cooperation [DEDC]; the Department of Finance [DOF]; the National Bank of Eritrea, as well as the Commercial Banks and other Banking institutions). In mid-March, under a unique funding arrangement between the Transitional Government of Ethiopia, the PGE and the World Bank, an IDA loan for \$25.0 million was signed to finance priority elements of the first four activities listed above as part of the RRPE.

In early April a multilateral/bilateral team of donors met with the DEDC, which is the principal planning, resource allocation and coordination department within the PGE. The following significant *guiding principles* emerged from these discussions:

- (1) Recovery, reconstruction and reintegration of refugees are urgent immediate PGE tasks, but rapid movement in long-term development is a parallel priority;
- (2) The PGE wishes to pursue an economic policy reform agenda which will lead to an IBRD/IMF Policy Framework Paper (PFP), an Adjustment Program, and eventual membership in the Special Program of Assistance for Africa (SPA);
- (3) The PGE accepts its own limitations and is willing to accept support to ensure that it can meet the requirements for such a reform process and for implementation of an extensive development process; and
- (4) Close donor coordination, which allows individual donors and agencies to exploit their comparative advantage in particular sectors, is a critical feature of the PGE's approach.

## **SECTION II. WHY USAID/ERITREA:**

**A. THE NEED FOR DEVELOPMENT ASSISTANCE** - Based on the statistical data that presently exists, the newly independent nation of Eritrea easily ranks among the poorest nations in Africa and the world. It's limited natural resource base and the semi-arid climatic conditions which prevail throughout the country condemn this otherwise promising new nation to a situation of chronic food scarcity for the foreseeable future. If Eritrea and its people are ever to progress beyond their present bleak circumstances, the U.S. Government and the international donor community must begin now to move beyond the confines of merely providing support to emergency "*humanitarian relief efforts*". The newly independent Eritrean nation is looking to this same international community of bilateral and multilateral donors to assist in the formulation and implementation of a real "*development assistance effort*" which will avert a future of continued, massive, international food and relief programs.

**B. POLITICAL IMPORTANCE OF ERITREA** - Eritrea can not only boast of being the newest independent country in a Africa but can proudly point at an outstanding potential for being the most stable and democratically oriented national entity in the otherwise politically volatile and strategically important Horn of Africa region. The Eritrean population is balanced in terms of its religious and ethnic make up. Justifiable national pride in the achievements of independence have far outweighed any immediate inclination towards Islamic fundamentalism or the domination of any particular ethnic group. Therefore, U.S. long-term interests in the region strongly support the goal of assisting the PGE's efforts to establish a model stable, democratically-oriented, sectarian state in Eritrea as soon as possible by providing a flexible USAID development-oriented assistance program.

**C. DEVELOPMENTAL AND ECONOMIC POTENTIAL** - Notwithstanding the relatively poor circumstances that confront Eritrea, this new nation and its people are unique in the developing world. This uniqueness is translated into an extremely high potential return on any economic investment that may be forthcoming from the U.S. government or the international donor community at large. Eritrea may be small and poor but its people are highly literate and have had the opportunity to learn, first hand, the harsh lessons of living under a centralized command economy. History and geography have also reinforced the natural entrepreneurial tendencies of the Eritrean population. The extensive coast line of the country and the link with Ethiopia have fostered generations of exporting and importing, as well as manufacturing and production. Eritrea has traditionally been responsible for between one quarter and one third of the industrial and manufacturing output of Ethiopia. Thus, even as an independent nation Eritrea will unavoidably continue to play an important, if not crucial, role in the development of one of the largest and most important nations in Africa, Ethiopia.

**Recommendation:** That USAID continue to provide "development assistance" to the newly independent nation of Eritrea.

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## SECTION III. USAID/ERITREA STRATEGY

A. CONSIDERATIONS RELATED TO PROPOSED PROGRAMMING MODALITIES - As part of the process of deciding what the most appropriate modalities would be for implementing the proposed USAID/Eritrea program it is essential that a number of considerations be taken into account.

1. Africa Bureau's Small Country Program Strategy - In March of 1992 the "Small Country Program Strategy" was adopted by the Africa Bureau. It presented a framework for accommodating U.S. political interest with a development presence in countries which are of "lower A.I.D. priority" while at the same time recognizing that A.I.D. has limited staff resources to maintain an acceptable level of accountability. This framework called for approving a "core" program relying on five possible options, e.g., Peace Corps Small Project Assistance; Special Self-Help Funds; Section 116A activities; ATLAS Training Activities; or P.L. 480 Food Aid. In addition to funding such a single activity in a particular sector the framework allowed for a "core-plus-one" program which would fund the core activity and a possible single additional related activity, i.e., a centrally funded training activity, etc. However, it was noted that *exceptions to the Small Country Program Strategy framework would be considered on a "case-by-case" basis.*

From the outset the Bureau has looked favorably on the idea of establishing the USAID/Eritrea program as an exception to the Small Country Program Strategy. A summary of the basis of such a conviction follows:

- a. There is a pervasive and very positive pro-U.S. PGE attitude which looks to A.I.D. to assist in the number of critical immediate and medium-term high priority sectors, so as to appropriately set the stage for later support by others in the donor community;
- b. Given the incredible history of Eritrea's successful struggle for independence, the publicly acknowledged liberal economic orientation of the PGE leadership, and the rather unique nature of the Eritrean population and its history (self reliant, innovative, entrepreneurial, lack of corruption, high level of education, fiscally responsible government, etc.), there is a generally accepted belief among the donor community that Eritrea will succeed over time in establishing a self-sustaining, market-oriented economy;

c. Eritrea's unique strategic Red Sea location in the midst of the turmoil of the Horn of Africa, provides a valuable opportunity for the U.S.G. to assist in the development of a stable, democratic, market society as an example to other nations in this troubled region while concurrently supporting U.S. political and strategic interests.

**Recommendation:** That the proposed program for USAID/Eritrea be treated as a "special case" for the next three fiscal years in the Bureau's Focus exercise and therefore be granted an exception to the Africa Bureau "Small Country Program Strategy" which limits such a program to a "Core or Core-plus one" strategy.

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2. **A.I.D.'s Congressional Earmarks** - The Africa Bureau has recently indicated that all Small Country Programs should make every effort to utilize 100% of their FY 93 funding to implement activities that will absorb a portion of the Congressional Earmarks for the agency. Although a quick reaction to this general Bureau guidance might lead to a decision to focus A.I.D.'s limited funding for Eritrea for the next three fiscal years on some particular earmark activity -- e.g., Population, Health, Child Survival, Environment, Energy, etc. -- the unique nature of the Eritrean situation strongly supports the notion that Eritrea should be an exception to this general budgeting and programming precept.

In Eritrea the imposition of such an artificial focus, at this early stage, might not only force a totally inappropriate allocation of resources, but could also result in prohibiting A.I.D. from providing an extremely valuable contribution to the PGE's efforts to rationally coordinate donor involvement in the development process. A.I.D. has a tested ability and an acknowledged experience in a variety of fields to draw on. The agency also has technical resources that perhaps no other bilateral or multilateral agency can easily call upon. In a relatively short timeframe A.I.D. can provide unbiased, initial assessments which could assist the PGE in making decisions on which donor might have the most comparative advantage to work in a particular field. In fact the PGE has acknowledged this unique A.I.D. capacity and has already requested assistance in conducting precisely this sort of short-term appraisal.

The donor community has generally accepted the fact that at present, because of the scarcity of real data, not only business and investment decisions but also decisions related to selecting the most appropriate development priorities for individual donor agencies are being held in abeyance. It is still too early for rationally making any such judgments. Based on these facts, USAID has decided to obligate the first tranche of its bilateral funding in Eritrea as a project mechanism for conducting essential studies and pilot activities with a high potential for future A.I.D. or other donor funding. Therefore any effort at this early stage to impose a rigid and an overzealous focus on the proposed USAID/Eritrea program could be counterproductive, and actually detrimental to USAID's effort to be a positive influence in the development of a rational strategy in Eritrea.

**Recommendation:** That USAID/Eritrea's program be treated as a *Focus Country* for the next three fiscal years and thereby limit the requirement to target Congressional earmarks to approximately 50% of the annual OYB levels for that period.

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**3. Conditionality, Programs vs. Projects** - The PGE experienced difficulties during initial efforts to negotiate programs with the donor community, i.e., UNHCR, Italy and USAID. USAID's unsuccessful FY 92 attempt to negotiate a sectorally based, quick-disbursing, cash transfer program with limited conditionality is a prime example of this. Clearly the PGE remains suspicious of external development blueprints including conditionality. As a result, it wants to retain control and follow a collaborative, institutional strengthening development process.

However, as the PGE has expanded contact with the donor community it has gradually modified this initial inflexible approach by adapting, somewhat, to standard donor requirements for certain operational conditionality and strengthening of institutional capacity. For example, in recent months the PGE has accepted: a condition to disbursement of an IDA loan under RRPE which calls for IBRD assistance in improving the limited financial accounting capacity of the PGE; the requirement for a contract "Management Services Arrangement" for the procurement of goods and services financed under the IDA loan; and a contract "Project Manager" financed under USAID's Technical Assistance Project (TAP). The PGE has also collaborated in and sanctioned the development of a UNDP/IBRD planning framework as a guide to the coordination of donor assistance in Eritrea. To date, this framework has been the basis for obtaining commitments of approximately \$73.0 million in "parallel financing" or "cost sharing" from the donor community for particular projectized interventions outlined in the RRPE umbrella.

Given this background of the PGE's evolving understanding of donor requirements and procedures, as well as the anticipated limited USAID staff levels in Eritrea, it appears that broad-based sector programs with policy oriented conditionality will continue to be non-starters in Eritrea for the immediate future. Rather the proposed USAID/Eritrea program should rely on specific projectized interventions in particular sectors as the modality of choice for the FY 93 to FY 95 period. Such a projectized approach will insure a clear delineation of PGE and USAID implementation and management responsibilities, while at the same time furnishing a step by step learning process of how USAID operates in country and what the probable cost of such a collaboration will be in the future. [See Annex 1 -- Programming Options -- for more discussion on the choice of assistance modalities from statutory and policy prospective.]

**B. PROGRAMMING FOCUS** - To date, A.I.D.'s efforts in Eritrea have of necessity been linked to the USAID/Ethiopia country program. Prior to FY 92 assistance to Eritrea was, for the most part, provided through OFDA and PVOs in the form of disaster relief, mainly food aid. With the establishment of an independent country with a development agenda, this disaster orientation is shifting and any USAID/Eritrea program will have to reflect these realities and this shift.

1. **The FY 92 Program** - In the latter half of FY 92 REDSO/ESA attempted unsuccessfully, to design and negotiate with the PGE an Eritrean sectoral based, quick disbursing, cash transfer program with limited conditionality. This unsuccessful initial effort provided a number of useful lessons for USAID and the PGE. Not only was the PGE extremely perplexed and unhappy about the loss of potential FY 92 funding for the Eritrea program, but they are extremely concerned that a similar loss might occur in FY 93. On the A.I.D. side the net result of this unsuccessful initial experience was a forced reorientation of A.I.D.'s programming and design efforts in FY 93 towards a more traditional projectized mode of assistance.

2. **The FY 93 Program that is now in place** - Early in FY 93 the Africa Bureau set aside a total of \$6.0 million in DFA funds for obligation in Eritrea. [See Annex 2 for a breakout of other assistance provided in FY 93 and before.] Of this initial DFA allotment \$2.35 million has already been obligated. The first \$350,000 was provided as a direct grant to the UNDP for a Support to the Eritrean Referendum Project (SERP). The basic criteria used to develop this grant were:

- a. a PGE request under the umbrella of the UN Referendum Assistance Programme (a "cost sharing" arrangement for a particular component of a UNDP programme); and

- b. a minimum A.I.D. management responsibility which supported this multilateral Democratization and Governance effort of the PGE.

The second FY 93 obligation was the \$2.0 million Technical Assistance Project (TAP), which followed a similarly unique Eritrean rationale in terms of design and implementation. The PGE and the multilateral donor community have made it abundantly clear that it was still too early in Eritrea to develop specific sectoral projects for donors to take on. Therefore, a specific A.I.D. project such as one focused on Agribusiness Development would have been an inappropriate response to the PGE's requirements. Such a project would have been especially inappropriate given the existing infrastructural constraints, e.g., seriously damaged roads, non-existent storage facilities, and port facilities that require extensive repair and rehabilitation.

Nonetheless, all parties are extremely interested in accessing U.S. technical assistance for a number of high priority requirements, the idea being that USAID, with its extensive experience and expertise, could best respond to the immediate requirements by provide a flexible funding mechanism which can quickly secure the technical studies and/or data required to flesh-out future USAID or other donor support for particular development activities that the PGE endorses.

Thus, the TAP was designed as a "PD&S-like" bilateral project. The TAP activity selection process not only focusses on high priority PGE requirements in which the U.S. may have a comparative advantage, but is also a formula for building a longer term working partnership with the PGE which will hopefully result in a more focussed USAID/Eritrea program in specific sectors in the near future. The possible TAP funded subprojects that are presently being considered include:

- a. A USAID review of possible Preventative Health Care activities, which would contribute to a broader donor funded Eritrean Health Sector Assessment;
- b. A USAID review of the enabling environment for promotion of business and private sector in Eritrea, which would contribute to a broader donor funded Eritrean Business/Banking Sector Assessment;
- c. A review of what is required to develop the Energy Sector in Eritrea;
- d. A baseline survey of Eritrean Marine Resources and what would be required to develop Commercial Fisheries in Eritrea; and

e. Two different proposals for collaboration between interested consortium of U.S. Universities and the University of Asmara to strengthen the PGE's ability to build up internal capacities.

3. **The Balance of the FY 93 Program (Proposed)** - With respect to the remaining \$3.65 million of FY 93 funding, it has been determined that the most expeditious mode of obligating these funds is through a TAP amendment, focussed on a few specific subprojects in priority and high potential sectors. *These subprojects will fit some of A.I.D.'s Congressionally-mandated earmarks, as well as accommodate specific components of the IBRD/UNDP strategic framework that was developed with the PGE.*

An estimated \$1.5 million of the TAP amendment will be earmarked to finance an A.I.D. contribution to the **"Economic and Financial Management Program" (EFMP)** of the RRPE. Under either a separate grant to the UNDP, or as a direct A.I.D. contract, an appropriate UN or private sector management entity will be brought in to utilize the TAP funds to strengthen the National Bank of Eritrea, the Commercial Banking system and other banking institutions in the country. Such capacity building will consist of: short-term U.S. technical assistance; training of essential staff, either in-country or with short-term specialized courses in the U.S. and other countries; and the procurement of essential equipment such as computers, software packages, etc.

It is presently anticipated that the other major component of the TAP amendment funding -- an estimated \$2.0 million -- will be used to finance a portion of the PGE's national Preventative Health Care program or to finance the procurement of essential Family Planning commodities that are urgently required by the PGE. Such support might be provided to support the Expanded Program of Immunization (EPI) or to finance the procurement of essential Family Planning/AIDS prevention related commodities. The PGE has repeatedly approached representatives of A.I.D. requesting that a portion of A.I.D.'s resources in Eritrea be allocated to such high priority Health Sector activities. They feel that A.I.D.'s experience, including the procurement of medical supplies and equipment as well as specific U.S. expertise, will be of particular applicability to the Eritrean situation. Such a sectoral orientation and focus will also fit well within the Congressionally-mandated earmarks, and is justified by the fact that Eritrea has woeful health statistics even by African standards, and a health infrastructure as yet unable to cope. [See Annex 3 for statistical summary.]

Depending on the specific requirements that are identified during an initial review of the sector, TAP funds will either be channeled through a direct A.I.D. grant to a U.N. agency (UNICEF or WHO), to an international Private Voluntary Organization (Save the Children U.K.) or through a Buy-In to one of the centrally-funded USAID health projects. Implementation will then be the responsibility of the grantee or contractor, with minimal USAID support. The funds will be used to finance the procurement of essential technical assistance, and/or vaccines, chemicals, cold chain, logistical support, condoms, etc.

Any unearmarked balance of the funding from either the ongoing TAP grant or from a TAP amendment can either be added to the general PD&S TAP resource or can be earmarked for a Post-Referendum "Democracy/Governance" assessment or some other activity which will be designed during or immediately after the Referendum in April.

**Recommendation:** That USAID/Eritrea be granted ad hoc authority to approve, with the concurrence of the REDSO/ESA Director, a \$3.65 million amendment to the TAP along the lines described above.

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2. Proposed FY 94 & FY 95 Program - The Africa Bureau has provided indicative annual budgets of approximately \$6.0 million for FY 94 & 95. Although it is still early in the process of solidifying the final strategic framework for Eritrea, initial discussions with the PGE and members of the donor community have supported the idea of concentrating USAID's limited resources on a few high priority sectors. Thus, based on A.I.D.'s comparative advantage and as part of the overall RRPE umbrella, a portion of the original TAP funding will be utilized to finance focused sectoral reviews related to: the Business Enabling Environment; Preventative Health Care; and/or Democracy/Governance. If these reviews indicate that there are appropriate activities in these sectors that fit within USAID/Eritrea's manageable interest, the initial FY 93 TAP amendment funded activities can logically and relatively easily be expanded into separate fullfledged bilateral projects in FY 94 & 95. *Both USAID/Asmara and REDSO/ESA consider it important to maintain a program balance between the Productive Sector of the economy and Social Sectors such as Preventative Health Care.*

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The design of sectoral bilateral projects will require substantial REDSO/ESA involvement and appropriate contract expertise. Such REDSO efforts will focus on gathering sufficient technical and institutional baseline data and on developing appropriate Eritrean models of implementation, i.e, one that is not dependent on significant USDH staff. Thus, the initial reviews for such project designs will begin as early as the summer of FY 93, under the TAP. Then in FY 94 PD&S funding can be used to finance PID design teams. Depending on how fast such design efforts move, USAID/Eritrea might opt for incremental funding of one or two projects over a few years, or fully funding one project in FY 94 and another in FY 95. Under either scenario it is reasonable to expect that the entire \$12.0 million which has been notionally earmarked for Eritrea could be obligated in a timely manner.

In addition to this rather traditional yet extremely focussed bilateral DFA program, it is probable that Eritrea -- for the near and medium term -- will continue to require food aid and food security issues will remain in the forefront of PGE and USAID planning efforts. Although current food grain availability and expected relief deliveries during 1993 should more than meet the estimated food grain requirements for the year, USAID will have to be prepared to provide supplemental foods (CSM, oil, or possibly pulses) if needed for targeted feeding programs during 1993. In the following years, as part of a strategy to strengthen long-term food security in Eritrea, USAID food imports should increasingly be used to support Food-for-Work and/or Cash-for-Work development activities such as: soil and water conservation; road construction; and/or Maternal & Child Health (MCH) programs.

The World Food Programme (WFP) is seen as a useful conduit to support such developmental food aid activities. WFP is planning to support Department of Agriculture soil and water conservation programs with Food-for-Work and "In-Kind" support to the local production of weaning foods. Also Catholic Relief Services (CRS)/Ethiopia presently has a small Eritrea component under its FY 93 Title II regular program, which was to have been implemented through the Eritrean Catholic Secretariat (ECS). However, issues arose between the ECS and PGE authorities and the ESC program has not been implemented as planned. Nonetheless, it is expected that these issues will be resolved in the near future and that ESC's program will be implemented. Therefore, USAID/Eritrea will need to consider future Title II support for the ECS program and/or the WFP, focussed on Food-for-Work/Cash-for-Work and MCH interventions.

**Recommendation:** That USAID/Eritrea develop, with the concurrence of the REDSO/ESA Director, an ABS budgeting request of \$6.0 million for FY 94 and for FY 95 along the lines described above.

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**3. Anticipated Management Requirements** - Given Eritrea's unique recent history and the political sensitivities of the PGE, it would be a serious mistake if A.I.D. were to attempt to directly link either the management or the budget of the USAID/Eritrea program with the ongoing USAID/Ethiopian program. Such a linkage would not only run counter to the establishment of an independent U.S. Embassy in Asmara, but it would also insure an extremely cumbersome and bureaucratic project design and implementation modality for this new USAID program.

On the other hand, a REDSO/ESA managed and supervised USAID/Eritrea program is an equally unacceptable alternative for transacting the business of a USAID/Eritrea program. If an A.I.D. program is to be a positive and successful undertaking in Eritrea it is essential that at a minimum USAID/Eritrea should have a continuous, relatively high-level, representative on the ground in Asmara. Periodic TDY visits from a variety of REDSO/ESA technical staff will be able to provide essential support but cannot serve as a substitute for unbroken USAID/Eritrea and PGE interaction and communication.

Therefore, in order to support the expeditious design and longer term implementation of the program that is outlined in this paper, it is imperative that the Africa Bureau immediately formalize the assignment of a senior Foreign Service Officer to be the A.I.D. Representative for Eritrea and establish a Schedule "B" USAID/Eritrea mission. The A.I.D. Representative should be delegated standard approval authorities for such a program, with the concurrent approval of the REDSO/ESA Director.

In addition to the assignment of an experienced, senior Foreign Service Officer, USAID/Eritrea will require the following minimum expatriate staff to manage the implementation of the program that is outlined in this paper: a U.S. PSC Food For Peace Program Monitor, either O.E. or program funded; a TAP-funded PSC TAP Project Manager; and possibly another project-funded PSC to manage specific TAP amendment subprojects. The actual design of such new subprojects will determine whether USAID/Eritrea will require additional expatriate or Eritrean staff.

There is a distinct possibility that USAID, USIA, and the U.S. Embassy will establish some sort of joint operational unit in Asmara, Eritrea in the future. The modality of any such joint operation will be a determining factor in deciding exactly what types and numbers of support staff USAID/Eritrea will require. For the present USAID/Eritrea requires a minimum locally-hired, O.E. funded support staff, including: an assistant GSO; an accountant; a driver; a secretary; and office maintenance and security personnel.

Until a decision is made on the details of a possible future joint operation in Asmara, USAID/Eritrea will continue to rely on the U.S. Embassy facilities in Asmara, Eritrea for direct charge purchases and monetary exchange facilities. In addition, there is an immediate requirement for a 3 to 4 month contract with a retired (or LWOP) A.I.D. GSO or Executive Officer to insure the timely completion of a number of essential tasks related to the establishment of USAID/Eritrea, i.e., setting up houses for expatriate staff, possibly moving the USAID office, setting up a procurement and storage system for office supplies, etc., and training the locally-hired assistant GSO and staff.

Other than these particular requirements, USAID/Eritrea as a Schedule "B" mission will be dependent on REDSO/ESA for most other support functions including all the normal Controller functions (from REDSO/RFMC) and Contracting, Legal Advisor Commodity Management, and Project Development. However, as noted above, REDSO will make every effort to insure that the future USAID/Eritrea program is designed so as to minimize USAID management and operational responsibilities for any new projects.

**Recommendation:** That a new USAID/Eritrea Mission be established as a schedule "B" Post, with a minimum staffing of: one senior U.S. Foreign Service Office to be assigned as A.I.D. Representative to Eritrea; three U.S. Personal Services Contractors; and with a minimum FSN support staff of six.

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## SECTION IV. PERORATION

The PGE is depending on USAID to play a significant and influential role in Eritrea's future development strategy. However given USAID's rather difficult recent history in Eritrea and the probable funding and staffing limitations that a new USAID/Eritrea program will be subjected to, such a responsibility will not be easily discharged. Nonetheless, if USAID is to succeed in generating an appropriate development program in Eritrea, it is absolutely essential that the Africa Bureau move expeditiously to establish a USAID mission in that soon to be independent country, along the lines proposed in this paper. To do anything less will frustrate the legitimate aspirations of the Provisional Government of Eritrea and the Eritrean people.

### CLEARANCE:

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W. North, Deputy Director, USAID/Addis Ababa  
F. Fischer, Director, REDSO/ESA  
B. Odell, Deputy Director, REDSO/ESA  
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December 10, 1993

MEMORANDUM

TO: See Distribution

FROM: Fred C. Fischer, Director, REDSO/ESA

SUBJECT: ERITREA PROGRAMMING OPTIONS

As part of the recent REDSO/ESA Annual Workload Scheduling Conference a special Eritrea programming session was held. During this session it was agreed that REDSO/ESA/PDPS would develop an "Options Paper" to outline the programming options for the obligation of the estimated \$6.0 million in FY 93 funding which the Bureau has indicated will be available for activities in Eritrea. These funds include the roughly \$1.0 M to be obligated under a restructured Technical Assistance Project (TAP) and a package of assistance of approximately \$5.0 M to be obligated in FY 93 and disbursed over a one to two year period.

I. ASSUMPTIONS:

Given the history of AID's attempt to obligate an Eritrea Program it is essential that any effort to design a program with FY 93 funds take into account the following:

- A. To the maximum extent possible, the activities and the implementation modalities that are chosen will be "non-conditional", in view of Provisional Government of Eritrea (PGE) sensitivities;
- B. The management requirements of the activities will have to be at the absolute minimum or program funding will have to be provided to contract for necessary management and monitoring;
- C. The activities will have to be "quick disbursing" and short-term results oriented to be in keeping with overarching rehabilitation and reconstruction objectives;
- D. Although the PGE will have to be intimately involved in the design and approval of the activities, the implementation, financing and oversight responsibilities of the PGE will have to be at the absolute minimal level because of the PGE's limited capacity and experience; and
- E. Any new PAIP or PID for the subject activities will require AID/W review and approval and, in that USAID/Ethiopia is still a category "B" mission, REDSO/ESA concurrence in the final

design documentation will also be required. Presumably the approval of the final PAAD or PP will be delegated to the field with REDSO/ESA concurrence.

- F. The recent GC Legal Opinion requiring "generation" of local currency and subsequent "programming" under import financing programs (except for public sector imports not for resale) applies to all non-projectized assistance funded from whatever source.

## II. MODALITIES FOR FUNDING THE ACTIVITY:

In order to assist in the process of selecting a programming modality an outline of the various funding options and their respective pros and cons is provided below. Where appropriate past experience in Eritrea has been cited so as to assist in the process of selecting a modality which is most appropriate for the present Eritrean situation.

### A. NON-DFA FUNDING

1. Sub Sahara Africa Disaster Assistance provision/Appropriations Act. The possibility of drawing upon the special FY 93 \$100 million appropriation for disaster assistance, rehabilitation and recovery by "trading" scarce DFA for Ethiopia may be an option. Non-project assistance conceptually might be easier under this legislation since "notwithstanding" provisions could be construed as obviating the requirement for classic DFA NPA "conditionality". However, the latest interpretation of this new statutory provision seems to apply a "basic human needs" test to any use of the \$100 million, be it under the projectized or non-projectized modality. So, sectoral/developmental conditionality in the DFA vein might not be a problem, but can industrial revitalization in a post civil war Eritrea (the most recently articulated purpose of our assistance) fit this "human needs" test? The argument would have to be made that jobs in the modern sector are crucial to the well being of Eritreans as a whole, and fits squarely within the meaning of "rehabilitation" and "recovery" (key points of emphasis in the legislation).

A recent budget allocation/program management agreement between AFR and FHA suggests that up to \$25 million is being held in reserve, against which an Eritrea program conceivably might make a claim. However, there is also an indication that the high costs of the Somalia food airlift may have oversubscribed this account already.

The prospects of getting a favorable AID/W ruling on this question are unclear, but a) the possibility of a DFA/Africa Disaster Assistance "swap", and b) resolving the definitional questions, should be actively pursued.

If the answers to a) and b) above are positive, the "notwithstanding" language of the Sub Sahara Africa Disaster Assistance provision could simplify and accelerate project design, since the full panoply of DFA statutory/policy mandates might not necessarily apply. A project activity funded from this source could finance the procurement of technical assistance and/or substantial commodities, if the TA and commodities were justified by and tracked to a specific reconstruction end-use. Given Assumption F. above, only public sector imports could realistically be financed under this source if the non-project assistance modality was used.

2. Horn of Africa Recovery Act/1992. This authority was considered but considered not useful since its principal effect is to permit DFA (and DA) assistance to PVO's and international organizations "notwithstanding" country prohibitions such as the Brooke Amendment. An Eritrea program would need more relief from normal DFA rules than the Horn of Africa legislation would provide.

#### B. DFA FUNDING

DFA can be used in either a Non-Project or a Project modality. Each has its own particular requirements in terms of design analysis, implementation, and monitoring. Much of the up-front analysis can be initiated relatively quickly (indeed, much has already been done for the aborted FY 92 effort) by REDSO or AID/W technical staff, or the mission can utilize direct AID technical assistance contracts financed with FY 93 PD&S funding. Both of these alternatives provide the benefit of immediate action which can engage the PGE in program development effort while, at the same time, providing badly needed/wanted technical assistance. These alternatives will also begin the process of demonstrating AID's ability to produce something relatively concrete and provide a means of beginning a networking process with the PGE.

1. NPA: All NPA modalities focus on and are justified by sector "conditionality". This is seen as the major stumbling block in initiating such a program, in the near future, in Eritrea. Nonetheless, the options available include the following:

- a. Cash Disbursement/Cash Transfer: The initial FY 92 attempt to program an activity for Eritrea was focussed on policy development and relied on the modality of a Cash Disbursement to provide badly needed FX to buy commodities needed to rehabilitate the Productive (public) Sector of the economy. The option of using a Cash Disbursement to service eligible debt was not viable because Eritrea has no debt.

An NPA Cash Disbursement also requires that there be a positive assessment of the recipient government's ability to manage the dollar funds in a manner that is acceptable to AID.

An assessment was completed in Eritrea and it was determined that existing PGE procedures were unacceptable to AID in terms of providing funding directly to the PGE. Therefore, the final drafts of the proposed FY 92 Cash Disbursement documents contained Conditions Precedent to the disbursement of funds which required the PGE to have entered into a contract with a banking firm, acceptable to AID, which would issue Letters of Credit for procurements from the Special Dollar Account established with AID funds. Such Letters of Credit would not be issued without prior approval of AID.

Finally, the proposed FY 92 Cash Disbursement documentation provided substantial discussion and elaboration about the existing and proposed PGE system for the allocation of Foreign Exchange in Eritrea. This is required in that Bureau guidance requires that the justification for the use of Cash Disbursement is heavily based on the existence of a market-based, transparent FX allocation system.

Notwithstanding the above, the proposed FY 92 Cash Disbursement program was unacceptable to the PGE because of a reluctance to accept any "conditionality". Since manifest host country commitment to some sort of (sectoral) policy or institutional reform, often expressed as "conditionality", is the primary focus of an NPA Cash Disbursement program, the proposed FY 92 program was never obligated. Should a decision be made to revisit this option in FY 93 it would be necessary to review existing PGE procedures and practices to determine what modifications would be required prior to initiating any NPA Cash Disbursement program.

- i. One-year Public Sector Cash Disbursement:  
Notwithstanding the obstacles noted above, one option considered was a "one-year Cash Disbursement Program" which would reward previously achieved positive policy or institutional initiatives of the PGE. Such an option might be acceptable to the PGE in that they would not be required to do anything other than what they have already done.

Perhaps as a preamble in the Program Agreement, AID and the PGE might express some notionally held medium or long-term perspective on development objectives in Eritrea, in the context of a specific sector. The focus of the Program and targets of assistance, would be the Productive Sector, with proceeds being used for general public sector imports. This option would be quick disbursing, if the commodities were not resold, and require no generation of local currencies. Such a program would presumably require up-front analysis to determine that significant sectoral policy initiatives have been accomplished.

- ii. **One-year Private Sector Cash Disbursement:** A possible variant of a Productive (public) Sector-oriented Cash Disbursement would be a Private Sector-oriented Cash Disbursement. However, existing NPA guidance requires "generation of local currencies" from any private sector-directed assistance, and in the absence of adequate mission management capabilities and a viable PGE budget system such a variant would appear to be precluded and unworkable.
- iii. **Limitation:** Please note that such a one-year Cash Disbursement program contradicts the new, finalized AFR Bureau NPA Guidance. The Acting RLA, Mary Alice Klienjan, has advised against such a program since a retrospective approach would appear to change the purpose from "development" or sectoral policy reform to balance-of-payment to support. Therefore, before moving ahead with a decision to design a one-year Cash Disbursement program, it is essential that GC/AFR be engaged in a discussion to determine if such an activity could be approved by the Bureau given the special circumstances in Eritrea. GC/AFR is likely to strongly object, and the only possibility would be an appeal to AFR Management.
- b. **Commodity Import Program (CIP):** The option of designing a Sectoral Policy Reform program which would be disbursed as a formal CIP was also discussed during the initial programming exercise in Eritrea. In addition to the PGE's reluctance to accept any conditionality, a number of major inhibiting factors in the use of such an implementation modality in Eritrea exist. These include the intensive AID management burden imposed by such requirements as: (a) 50/50 shipping; (b) AID forms and certifications; (c) detailed AID monitoring and approval procedures; and (d), of late, the strong preference/expectation to use CIPs to promote a "Buy America" policy. (This latter point would be a special problem in Eritrea where the knowledge about, use of, and requirement (on an immediate basis) for U.S. products is limited, at best).

As with Cash Disbursement method discussed above, CIPs can be organized either as Private Sector or Public Sector activities:

- i. **Private Sector CIP:** As with Cash Disbursements, any Sectoral Policy Reform program which would be disbursed as a private sector-directed CIP would most probably be unworkable in Eritrea in FY 93 due to the L.C. generation requirements, and the absences of sufficient mission staff to monitor and manage such a program. Therefore, such a private sector CIP was determined to be an inappropriate programming option for Eritrea at this time.

ii. Public Sector CIP: On the other hand a Sectoral Policy Reform program which would be disbursed for public sector imports was considered a distinct possibility for Eritrea. On closer examination, however, there are few if any advantages of a CIP over Cash Disbursement: both require sectoral, development-oriented up-front analysis, program conditionality, and impact assessment under DFA rules now in force. A formal CIP, with AID personnel taking on much more of the assistance "management" role, would allay concerns over the weak (or non-existent) institutional capabilities of the PGE, but increase the demand of "in-house" AID staff resources. Assuming, however, that we get over the "conditionality" impasse, this appears to be a workable option, but is getting all the necessary process in place worth the effort?

c. Project Assistance: A project approach, expanding on a smaller scale Technical Assistance Project (TAP) under design, may fit the relatively unique requirements of the Eritrean situation in FY 93. The design of such a project could be initiated almost immediately during the initial REDSO/USAID sector reviews that have been scheduled for December through February. These could be supplemented by studies and design work begun under either a PD&S funded series of direct AID contracts or the TAP itself. NOTE: The latest estimates are that the life-of-project funding level for TAP may be \$2.0 million. Thus there would be up to \$4.0 million for this possible TAP II FY 93 activity.]

Consistent with the principles and norms of the DFA, an expanded project could meet a number of the urgent nation-building efforts in critical sectors, complementing the more general support approach of the \$1.0-2.0 million TAP. Arguably, American technical assistance and training opportunities--supported by limited commodity/equipment assistance--is the most critical need for Eritrea at this juncture. A larger TA-style project would also complement a World Bank R&R and/or structural adjustment effort, which was not a likelihood at the time the stalled FY 92 program was conceptualized.

While having a sectoral focus and a credible analytical basis, such a project would still have a relatively short timeframe of, say, two to three years, sufficient to provide "high impact" assistance to Eritrea.

As in the case of TAP, any follow-on projectized effort also would have to be designed so as to allow for minimum mission management and/or oversight. Thus arrangements and funding would have to be worked out for the hiring of a U.S. PSC and support staff, for an institutional contractor, or for the granting of a substantial portion of the project funds to an acceptable and experienced U.S. PVO. Such an arrangement has

staffing, cost and timing implications which would require PGE concurrence from the outset.

It is conceivable that the entire amount of \$6.0 million earmarked for Eritrea in FY 93 could be absorbed in a larger TA-style project, obviating any NPA assistance at all.

### III. Conclusions:

Considering all the options presented above, the most viable at this juncture include short-term Cash Disbursement or CIP assistance to the public sector or a technical assistance/training/commodities project (call it "TAP II") implemented over the medium term. The last option is probably the most appealing given the sensitive state of our relationship with the PGE and the unlikelihood the a "non-conditional" NPA can be negotiated with Washington.

It is feasible to think of designing such a limited bilateral projectized effort in the spring of 1993 and obligating the initial tranche of funding in the last quarter of the FY. Such a projectized effort would therefore be in place relatively quickly and could be an ideal, non-threatening, introduction to the PGE on how to work with USAID specifically and the international donor community in general. This could all take place while the PGE was overseeing the 1993 Referendum and the transition to a more permanent Eritrean national identity.

#### DISTRIBUTION:

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**SUBJECT: USAID ASSISTANCE TO ERITREA IN FY 91, 92, AND 93**

FY 91

Food Assistance for commodity, ocean freight, and ITSH was \$60,692,000 total. It financed 100,000 MT cereals, 7,900 MT Veg. Oil, and 12,100 MT Supp. Food for a total of 120,000 MT food aid. This was all emergency assistance. (Source: Ato Mamo Berhan, USAID FFP Office)

Through USAID/Ethiopia project: War Victims \$208,396 for prosthetics for Asmara Workshop through ICRC. (Source: Dr. Carmela Abate, USAID Project Implementation Office)

OFDA funded:

CRS operational costs of food aid \$617,491.

CRS seed purchase \$765,819.

(Source: Wendy Fenton, USAID-OFDA Officer)

FY 92

Food Assistance for commodity, ocean freight, and ITSH was \$23,257,000 total. It financed a total of 75,000 MT food aid. This was all emergency assistance. (Source: Ato Mamo Berhan, USAID FFP Office)

Through USAID/Ethiopia project: Orphan Assistance \$250,000 through grant to UNICEF. (Source: Dr. Carmela Abate, USAID Project Implementation Office)

OFDA funded:

CRS operational costs of food aid \$360,711.

CRS seed purchase \$38,883.

(Source: Wendy Fenton, USAID-OFDA Officer)

FY 93 (planned)

PGE requested 43,000 MT food aid. Two cables discussing Eritrea's food needs are attached.

The first cable (Addis 00780) dated 2/4/93 recommends zero regular food aid for relief distribution, but then in paras. 2, 11.C, and 12 talks about the need for supplemental food which in paras. 2 and 11.C is estimated at 5-7,000 MT and then in para. is estimated at "up to" 15,000 MT.

The second cable (Addis 01279) dated 2/25/93, summarizes the 1992 harvest estimates and 1993 food balance estimates. It uses a 2.5 million population figure for Eritrea which it says is ERRA's figure. World Bank has used the figure of 3.5 million for Eritrea's population and FAO/WFP estimate is 3.3 million. The Referendum exercise is reported to be designed to collect limited census type statistics and it is hoped will give everyone a better fix on the actual population of Eritrea. In the meantime, USG may be on weak ground basing estimates of food need on 2.5 million population -- Addis 01279 provides no firm basis for this.

OFDA funded locust control activity in Eritrea will cost an estimated \$300,000. (Source: Wendy Fenton, USAID-OFDA Officer)

DFA:

\$2,000,000 TAP  
\$350,000 Referendum Support  
\$3,650,000 TAP amendment  
\$6,000,000 Total DFA in FY 93.

STATISTICAL SUMMARY

The following statistics, in comparing Eritrea with Sub-Saharan African countries as a whole, illustrate the severity of the problems:

	<u>Eritrea</u>	<u>Sub-Saharan Africa</u>
Per Capita Income	\$70 to \$150	\$330
Life Expectancy	46	52
Infant Mortality/1000	135	109
Population per Doctor	48,000	24,000
Adult Illiteracy	80%	58%
Daily Calories/Person	1,750	2,096

In a drought year, Eritrea produces only about 20 to 30 percent of its grain needs. In a good rain year, Eritrea produces about 80 percent of its grain needs. Malnutrition stunts the growth of well over half of Eritrea's children.

Deforestation and soil erosion are at an advanced stage in most of Eritrea and especially on the sloping lands.

The Anti-Developmental Nexus: The developmental problems outlined above form a nexus -- they reinforce each other, making each other worse. For the existing land productivity, the population is already too high. Continuing population growth and the return of up to 1.0 million Eritrean refugees will put even more pressure on the land. This will lead to further erosion, thus reducing further the productive base. Lower productivity will reinforce poverty and malnutrition. And so the vicious cycle continues. Such a nexus is typical of Africa, but what is different in Eritrea is the advanced stage of it.