THE

INVESTMENT PARTNERSHIP

BETWEEN

THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

AND

THE STATE OF ERITREA

USAID/Eritrea
October 1997

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DEDICATION

This Investment Partnership is dedicated to the memory of Fessehatsion Ghebrekidan a faithful employee who served well both USAID and Eritrea - and to all those employees who serve in the cause of nation building.

ACKNOWLEDGMENT

Many minds and hands contributed to the development of this Investment Partnership. Foremost is the staff of USAID/Eritrea and their dedicated colleagues in the Government of the State of Eritrea and other Eritrean organizations. This Partnership is theirs.

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Table of Contents

Page

Table of Contents i
Prologue and Executive Summary ii

I. Investment Analysis
A. Land and People 1
B. Paradoxes 2
C. Political Development 3
D. Socio-Economic Situation 5
E. External Relations 12
F. GSE Strategy, Priorities and Preparedness 13
G. U.S. Foreign Policy and Eritrea 15

II. Investment Plan
A. Doing Business Differently 16
B. Investment Selection 18
C. Relationship to the GHAI 20
D. Goal of the Investment Partnership 23
E. I.O. 1: Primary Health Care 26
F. I.O. 2: Rural Enterprise 38
G. I.O. 3: Democratic Governance 50
H. Complementarity and Synergy among Objectives 60
I. Crisis Modifier 62

III. Investment Requirements
A. Resource Request and Options 64
B. Programming Options Matrices 69
1. Operating Expenses
2. Other USAID Support

Organizations and Acronyms 71

IV. Annexes
1. Agency Goals and USAID/Eritrea Objectives
2. Statistical Highlights
3. Map of Eritrea
4. Results Matrix: Primary Health Care
5. Results Matrix: Rural Enterprise
6. Results Matrix: Democratic Governance
7. Health IO: Early Implementation Zones, Subzones and Facilities
8. Health IO: USAID Implementing Organizations
9. G/DG Report on Civil Society
10. Environmental Issues
11. Parameters Cable 96 State 107495

Prologue and Executive Summary

"Never kneel down" Eritrean revolutionary motto

"Don't tread on me" American revolutionary motto

Eritrea has captured much of the world's attention, not only because it is Africa's newest nation, but also because of its determined spirit of self-reliance in a continent plagued by dependence and failure. This new government is seen as proactive and provocative; as strong-willed and stubborn; as authoritarian yet popular. Its leadership is often thought to set its sights too high, but has demonstrably achieved goals against all odds.

All countries are different, but Eritrea is unique. Its 30-year struggle for self-determination was waged in isolation. Fighting against much larger forces supported by the West and the East, the Eritrean independence movement had no choice but to rely on itself. Built on the democratic principles of self-determination and self-reliance, Eritrea today leads a trend towards African leadership.

Eritrea presents an exceptional opportunity for USAID. Here is a country which disdains dependence upon foreign aid, which insists that "partnership" be practiced and not simply spoken, and which articulates its priorities on the basis of the sovereignty of the community. Eritrea takes the rhetoric of development in the 1990s -- partnership, participation, "African-led," and accountability -- and turns it into realities. USAID, as their partner, must also find new ways of doing business. It will not be easy. The government is young, sometimes brash, and has set high goals against the realities of devastated infrastructure and limited capacity and experience in both the public and private sectors. This, along with Eritrean's strident insistence that only they own Eritrea's development, can and has led to miscommunication, equivocal dialogue, and unrealistic expectations.

USAID/Eritrea intends to meet the challenge through a mutually beneficial "Investment Partnership". USAID will participate in building the future of a country critical to a turbulent region and strategic to U.S. interests; the State of Eritrea will participate in a new form of genuine partnership with the world's most powerful nation. Moreover, Eritrea has a self-interest in an alliance with the U.S.; and the U.S. a self-interest in a stable, secular friend on the Red Sea.

Although a small and poor country, Eritrea possesses three qualities which also enhance its potential for success. Its location is strategic and historically significant for trade between the West, the Arabian peninsula, and the Horn of Africa. Its people possess a strong sense of unity, discipline and hard work, forged and tempered by the independence struggle. Its leadership is committed to enlightened self-reliance, to secular, participatory society and an open economy, and to avoid the mistakes of many failed African states before it. With this unshakable commitment, Eritrea's leadership is also having increasing regional influence.

However, the achievement of success will necessitate bridging a wide gap between vision, potential and will, and human and institutional capacity which has been severely limited by decades of neglect and war. USAID is becoming Eritrea's leading partner in bridging this gap. After a slow and difficult start, and intensive wide-ranging dialogue in the context of the President Clinton's Greater Horn of Africa Initiative, USAID/Eritrea is now pioneering a new kind of assistance relationship, a " new way of doing business" in Eritrea. This new relationship is based on an equal partnership between two sovereign nations and a set of mutual investments -- an Investment Partnership -- to meet critical, self-identified needs in the building of the new nation: primary health care services, rural enterprise, and democratic governance.

Achievements to date give reason for optimism with this new approach: USAID is now the leading professional partner of the Ministry of Health; the U.S. is now Eritrea's leading partner in the development of its judiciary, its legal and journalism professions, and its business and women's organizations. Furthermore, American investment, financial systems and entrepreneurism are sought as models by the Eritreans, and with the right legal and policy environment, will enable accelerated economic growth.

This five-year Investment Partnership will help build the capacity necessary for significant increases in Eritreans' use of primary health care services, thousands of new and expanded Eritrean enterprises, and new, strong institutions of participatory governance for all Eritreans. These will enable Eritrea to reach its ambitious goal of self-reliance in a decade. This is Eritrea's, not USAID's strategy and goal. The Investment Partnership is led by the State of Eritrea and supported by USAID/Eritrea through dialogue, institutional linkages, specialized services, training and commodities, and targeted budgetary support.

To fulfill this Investment Partnership, USAID/Eritrea requests a commitment over the five year period of at least $10 million per year in DA resources, $8 million per year of PL-480 resources, and $2 million of regional funding. USAID/Eritrea also requests some procedural latitude from the Agency to do business differently. The USAID workforce needed for the Partnership is estimated to be seven Americans and twenty-four Eritrean staff, with an annual OE requirement decreasing to about $900,000 per annum.

> "USAID has demonstrated attitudes of partnership and collaboration...USAID is doing a commendable job."
>
> President Isaias, 1996

I. INVESTMENT ANALYSIS

A. LAND AND PEOPLE

The Land*:* Located in the northeastern part of Africa on the cusp of the Rift Valley, Eritrea is strategically located next to the shipping and trading routes between East Africa and the Middle East. Eritrea is characterized by some of the world's harshest terrain. The size of England, it is sparsely populated, with only three million people dotting its expanse, two-thirds of which live in the rugged mountains and highland plateaus. On the east lies the Red Sea and the desert coastal plain. To the west of the highlands the country plunges into lowlands, a relatively rich agricultural region where many of Eritrea's crops are grown.

Lying in the northern Sahelian rainfall zone, Eritrea gets its scarce rainfall from south-western monsoons. In normal years rainfall varies from 200-650 mm annually, depending on the region. During drought, rainfall drops to as little as 200 mm in the highlands and less than 100 mm in the lowlands.

This scarcity is often compounded by the high variability and unreliability of both the total rainfall and its distribution. Almost all of the country's existing crop production areas are prone to drought. Because there are no perennial rivers, the farmers must depend on Eritrea's meager and inconsistent rainfall, or have irrigation.

Geological surveys indicate that oil and gas are to be found under Eritrea and its coastal waters. Its mountains contain deposits of gold, copper, and other minerals and metals. Eritrea's coastal fisheries are one of the few unexploited commercial fisheries in the world. The coast also has unspoilt beaches and coral reefs. Moreover, the country's two principal ports at Massawa and Assab are a lifeline for people throughout the Horn who depend on them for imports.

"What made the Eritreans so effective ... was their ability--and willingness--to learn from their own circumstances and to continually adapt ideology, politics and program to new realities."

Against All Odds, Dan Connell1990

The People*:* Eritrea is culturally, linguistically and religiously diverse. Of Eritrea's nine ethnic groups, eighty percent belong either to the Tigrinya or Tigre tribes. Although each of the ethnic groups has its own ethnic language, the country's working languages are Tigrinya and Arabic. Amharic, English and Italian are also widely spoken. The population is roughly half-Muslim and half-Christian.

One of the unique features of Eritrea is the sense of harmony, unity and purpose, despite the country's diversity. During the struggle for independence, Muslims and Christians fought side-by-side. Today, the country is in large part free of the rancor and distrust that divides people of these two religions in many other places.

Eighty percent of Eritreans are subsistance farmers. Regardless of their differences, most of them follow the same routine; one which is measured by the traditional cycle of crops and herds. Few people in the countryside enjoy government services such as health care or modern conveniences such as running water, electricity or telephones.

As much as a third of Eritrea's population dispersed during the struggle. As many as 300,000 Eritreans still remain in Sudan, many of whom are expected to return for repatriation. Of the diaspora that went to America and Europe, some have begun to return. The diaspora is important to Eritrea not only as a source of skills and experience, but also for the millions of dollars that they send home.

The Eritreans are hard working, determined and almost incorruptible. They forged a national sense of discipline and self-reliance during their independence struggle when, with no external aid, they overcame overwhelming odds.

Another major strength of Eritrea is its well-developed family and community solidarity. This too played an important role in mitigating the consequences of war, droughts and famines, and poverty in general.

B. PARADOXES

1. Unity and Secularism Amidst Religious and Ethnic Turmoil

The Horn of Africa is one of the world's hot spots. There is ethnic strife in Somalia, Sudan, Ethiopia and Saudi Arabia. Tribalism and Islamic fundamentalism are destabilizing and divisive forces throughout the region.

Yet Eritrea's leadership has emphasized the building of a stable, secular state. Perhaps the best measure of that stability and tolerance is the relative lack of acrimony between the Moslems and Christians or between the nine different tribes of Eritrea. (There are, however, occasional random acts of terrorism by an indigenous Islamic Jihad movement.) In a region torn by tribal, ethnic and religious violence, Eritrea's generally harmonious relations are remarkable.

2. Popular Participation from Authoritarian Structures

Eritrea's government may be characterized as an early transition to democratic governance. It appears as a control-oriented, single-party state which has an autocratic decision-making structure based on a military model. Yet it has popular support which is based on shared experience and sacrifice and a tradition of popular participation as demonstrated by self-governed villages in liberated areas during the independence struggle.

> "We are self reliant. It is the cornerstone of our ideology."
>
> President Isaias Afwerki
> 1994

Eritrea is steadily taking steps towards building a progressive, participatory democracy. Local elections in Eritrea's six regions are taking place and will be complete in March 1997. National parliamentary elections will be held in early 1998. The regional representatives will form the Constitutional Assembly, along with members of the diaspora, to ratify the proposed Constitution. The Constitutional Commission has held "town meetings" so that people throughout the country had a voice in this process. The leadership has chosen liberal and progressive policies and has decentralized government to shift power to the local level. Two-thirds of the army has been

> "The most crucial political challenge is getting people to see beyond their parochial ethnic and religious identities to make common cause with one another as Eritreans."
>
> Askalu Menkerios, Women's Union
> 1994

demobilized and the civil service reduced by one-third. These steps are impressive, and indicative of the progressive direction of the leadership. It may be a military structure, but they are working hard to transform it.

3. Economic Optimism Despite Dire Poverty

Eritrea is currently one of the poorest countries on earth. Despite the bitter result of war, neglect and poverty, the Eritrean people are fundamentally optimistic. They believe that their strengths -- peace, independence, vision, determination, national unity, human and natural resources -- will enable them to achieve their potential.

Although major inflows of investment are direly needed, the current construction boom, prospects for minerals and oil, potential for tourism and exports, and investor interest supports cautious optimism. The large, successful diaspora in the Mid-East, Europe and the Americas is also a major asset and potential source of investment.

4. Visionary Leadership, Yet Limited Capacity

One of Eritrea's strengths is leadership. Their leaders articulate their vision and development strategy with remarkable clarity. Proof is found in the multitude of achievements and rapid pace of change over the past six years. During this short period, the leadership has gained wide respect throughout the region.

The question remains whether the capacity and grasp of Eritreans can match the vision and reach of their leaders. There is a lack of institutional capacity, skilled workers, middle managers and trained personnel in Eritrea. Thus, there is a the risk that the pace of development will not match either the leaders' vision or the people's expectations.

5. Modern Nation Building within a Traditional Society

Traditional cultures and beliefs are central to the lives of the vast majority of Eritreans. Although there is a core of progressive, well-educated Eritreans, most of the population comes from farming and nomadic communities where the culture and mores are traditional. This traditional culture provides stability and identity, but it can also be a constraint. Men are usually more valued while women have lower status. A small group of men are usually the leaders of the communities. The vast majority of Eritrean women have modest influence in the social and political organization of their communities and are discouraged from continuing their education beyond very basic levels.

But a more modern society is sprouting in Eritrea. The liberation movement fought for a progressive ideal (equality, economic reform, end of injustice) and for control over their destiny. The progressive government has initiated mandatory education, for both sexes and all religions. Seeds of change are coming from outside as well. The diaspora, development assistance, and investment are bringing new experiences, ideas and tools.

C. POLITICAL DEVELOPMENT

1. Colonial Past

The forces that have shaped Eritrea include its importance as a trading route for more than 5,000 years, the influence of both Christianity and Islam, a millennium of invasion and colonialism by Ethiopians, Egyptians, Arabs, Turks, Italians, and the British, annexation by Ethiopia, a thirty-year struggle for independence, and a short yet intense period of nation-building.

Eritrea's strategic Red Sea coastline was seen as a stepping stone into the region by a host of foreign powers. In 1889 the Italians successfully colonized the territory when, defeated by the Ethiopians at the Battle of Adua (1896), they retreated to Eritrea.

The struggle for democracy in Eritrea was born with the conclusion of the war with Ethiopia. During the colonial period. Eritrean sentiments in favor of independence were expressed by organized political parties as early as the 1940s when Woldeab Wolde Mariam, often seen as the father of Eritrean independence, used his leading role in the Liberal Progressive Party to unite Eritrea's Christians and Muslims against colonial authority. Many political parties were formed during this period and during the years when Eritrea was governed as a British Protectorate. While it is true that one party was dominated by Muslims and the other included Eritreans loyal to the Ethiopian Orthodox Church, the desire for independence crossed religious lines and was not squashed by successive Ethiopian attempts to deploy religion as a tool of division.

Italy's defeat in the Second World War ended Italian colonization of Eritrea, with temporary administration entrusted to the British. Britain ended its administration of Eritrea in 1952 and under a UN ruling, Eritrea was federated with Ethiopia. In return for communications and military bases, Ethiopia received American military and development aid and political support. Obscured by the silence of an international community which had pledged to protect the federal agreement through the UN, Ethiopia ended federation in 1961 and annexed Eritrea with Western support, Eritrea becoming Ethiopia's fourteenth province. Eritrea remained under Ethiopian rule until the independence struggle was won.

Thus began three decades of armed struggle which, in the eyes of Eritrea's majority, reflected Eritrea's most important step towards achieving democracy.

2. Independence Struggle

The fight for independence was part of Eritrea's long search for self-determination. The liberation struggle against Ethiopia was initiated by the Eritrean Liberation Front (ELF), a movement which was quickly beset by factionalism borne of debates surrounding the means of organizing Eritrea's diverse peoples. Within only a few years, a prominent group of ELF members formed the Eritrean Peoples Liberation Front (EPLF), arguing, among other things, that the ELF's strategy of organizing people on the basis of their ethnicity would divide, rather than build, an Eritrean nation and identity. A civil war emerged, and the ELF shattered into at least five factions and was forced across the Sudanese border in defeat by the EPLF in 1982.

> "When one comes to socially transforming society...[we initially thought that it]... would come very quickly...We have been doing this for quite some time--more than a quarter century--and we have not achieved anything like what we had hoped. This has been a sobering experience..."
>
> President Isaias Afwerki 1995

With the UN failing to challenge the abrogation of the federal agreement with Ethiopia, the Eritrean movement, from the beginning, identified self-reliance as a central goal. In the late 1970s, the Eritreans learned an important lesson. Having successfully defeated the Ethiopian Army at all of Eritrea's strategic locations save Asmara and the port at Massawa, the independence forces were on the verge of victory. Suddenly, as the result of a stunning shift in regional alliances, Eritrean fighters found themselves facing huge amounts of Soviet military assistance, now Ethiopia's prime backer.

Forced to withdraw to the mountains of Sahel,

the EPLF learned important political as well as military lessons from the 1977-78 setback. Although Soviet involvement caused the perpetuation of the conflict, it was, in many ways, an important development for the EPLF, which was forced to reckon with the fact that external ideology and support were neither dependable nor advisable; in the end, the only way that Eritrea could win was to rely on its own experience.

Throughout the struggle, the EPLF demonstrated an extraordinary potential to mobilize the population, utilizing both appeals to national pride as well as tangible expressions of change. Unlike the ELF, which argued that social change in Eritrea could wait until after independence, the EPLF pursued a strategy of challenging the Ethiopian status quo while, at the same time, building a new Eritrean nation.

Central to the creation of that nation was a sense of community and responsibility to the community. The EPLF included among its ranks thousands of barefoot doctors, school teachers, vocational trainers, women's organizers and professionals. Their roles in promoting social and economic transformation were seen as equal in importance to the roles of the Front's combatants. This duality in purpose gave rise to a social contract between the EPLF and Eritrean communities which prevails today.

Genuine self-reliance evolved during the struggle as the EPLF's entrepreneurial spirit drove them to develop factories for the production of essential goods such as shoes, medical supplies including drugs and IV fluids, and sanitary napkins.

Of necessity, the EPLF was run as a centralized organization which, within the context of security imperatives demanding order and extreme loyalty, allowed room for some manifestations of democracy. The leadership was elected and policies formulated during large organizational congresses attended by elected participants from both the military and the civilian population. Out of this "guided democracy" emerged a cohesive movement linked fully and genuinely to the civilian population.

3. Building the State

The 1991 victory over the Ethiopians did not make Eritrea a “State”. It was at once the former 14th province of Ethiopia, the EPLF's liberated areas, and the Dergue-run towns and cities. Each of these existed in isolation. Rather than attempt to merge them, the EPLF and the nascent government chose to create a new system, specially designed for a new country.

> “Usually many Africans blame colonialism for their myriad of problems. It is true that colonialism had its share, but the problems witnessed in Africa during the past 30-40 years [are] the creation of Africans themselves. To solve its problems and join the developed world, Africa must first look into itself.”
>
> President Isaias 1995

Building the Eritrean state initially required both unifying and disengaging. EPLF members, many of whom had been living "in the field" for most of their adult lives, had to come together with a settled population and an enormous diaspora. A huge refugee population, most of it impoverished and exiled in Sudan, also had to be integrated into Eritrean society.

In 1991, the EPLF disengaged from the Eritrean Government and was transformed into the "People's Front for Democracy and Justice," a strong economic, social and political movement. While reducing the number of people formally under arms through an often difficult but effective demobilization program, the Government also created a National Service, which requires that all Eritreans between the ages of 18-40 undergo six months military training and dedicate one year to public works.

The Government quickly moved to create the institutions of the state and democracy, as well. A Constitutional Commission, headed by a foremost Eritrean statesman, Dr. Bereket Habteselassie, was established and has since worked to study many of the world's constitutions while forging its own out of both the experiences of others and extensive public debate in both the rural and urban areas of Eritrea.

Aware of the new nation's dependence on regional relationships, the Eritrean Government also moved to consolidate alliances and tackle regional problems. The Eritrean Government sent its own negotiators into Somalia before the UN intervention in an effort to resolve the conflict. Eritrea has been in the leadership of the revitalization of the Inter-Governmental Authority on Development, or IGAD. The Government played an important role in the IGAD-sponsored peace process on Sudan, and is today in the forefront of regional efforts to achieve a durable solution to what is now the region's most pressing problem. Most importantly, the Eritrean Government forged an effective and mutually respectful working relationship with the new Government in Ethiopia, forming a Joint Commission on economic and other affairs and coordinating on key foreign policy matters.

> "Direct rule by Ethiopia led to stagnation in Eritrea."
>
> EIU
> 1996

Chief among Eritrean priorities is consolidating the Eritrean nation while simultaneously creating the Eritrean state. Also of particular importance to Eritrea is stability, and with neighboring Sudan continuing to attempt to undermine Eritrea's new-found peace, the government cannot, in its view, provide any openings.

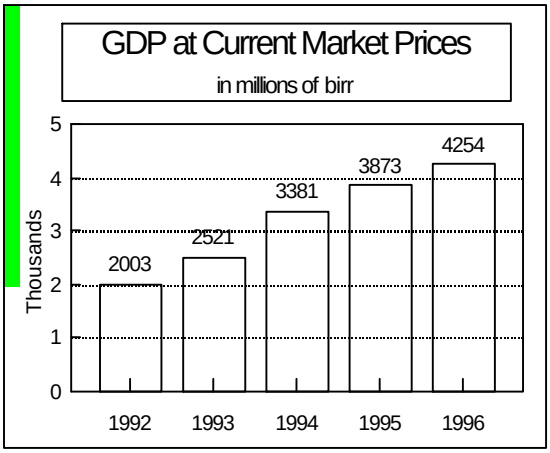
Finally, "Eritrean democracy" posits that decentralization is as important as anything else, whether it be at the level of economic development or governance. The GSE, however, demonstrates a tendency towards centralized control, such as over the internet; the dominance of the PFDJ as a political party, the continuation of some price controls on such important commodities as flour, petroleum products and some pharmaceuticals; and an expressed preference for the directed economies of South Korean and Singapore [*Eritrea Profile*, June 7, 1997].

D. SOCIO-ECONOMIC SITUATION

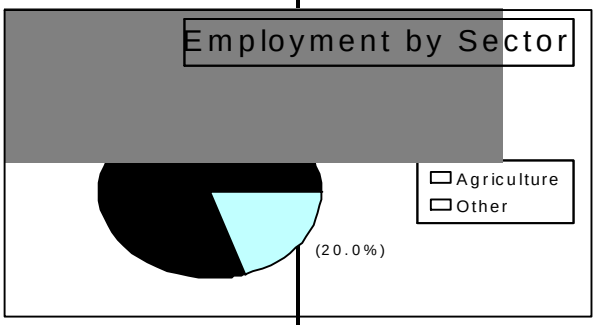
> "Frankly, I think it will be several years before we see the emergence of credible political parties in this country. Right now there is a high degree of consensus in the society."
>
> Yemane Gebreab, PFDJ
> 1996

1. Economic History

In the 1930s, while under Italian colonial rule, Eritrea was one of the most industrialized regions in Africa. Italian investment focused mainly on basic infrastructure and agriculture,



with the objective of supporting the needs of Italian settlers and exporting primary commodities such as coffee, cotton, sisal, fruit and vegetables to Italy. In the 1940s, Eritrea's export base was relatively diversified, and transit trade through the ports of Massawa and Assab became increasingly important. During the Second World War, Eritrean industry supplied East African markets when imports from Europe were disrupted.

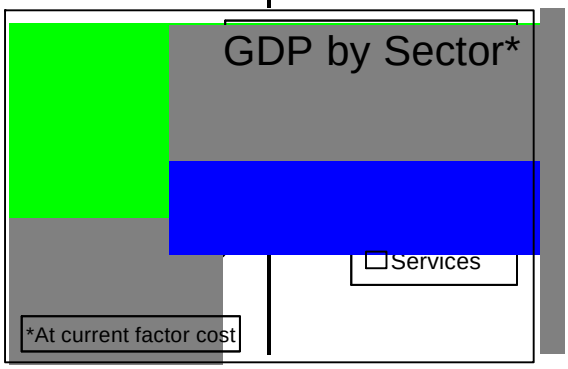


The economy entered a period of long-term decline in the 1950s when Eritrea was federated with Ethiopia. In the 1970s, the Marxist Dergue regime adopted a command economy and nationalized most private sector assets. The decline was exacerbated during the next two decades by war, neglect and drought, which consequently devastated Eritrea's economy and its private sector. Whereas in the early 1970s Eritrea earned about $100 million annually from its agricultural exports, this had fallen to under $10 million by 1992.

2. Current Situation

The Eritrean economy made a significant recovery from 1993-1996 as a result of the return to stability after the end of the independence war, the restoration of some economic infrastructure, and the improved availability of essential imports. Although Eritrea has made significant economic strides since independence, the country faces a massive task of rebuilding its economy. After averaging less than four percent since independence, real GDP growth rose 6.8 percent in 1996 and is expected by the IMF to rise by seven percent in 1997. Equally encouraging, inflation was held to 3.4 percent in 1996, down from 11 percent in 1995. Growth in domestic output can be attributed mainly to a sharp increase in industrial output, particularly manufacturing and new construction, with trade, wholesale and retail, also being leading sectors. Agricultural output remains volatile due to drought and pest infestation.

Agriculture: Though historically a trade and service economy since the time of the Italians, agriculture is the historic backbone of the rural Eritrean economy. In 1996 agriculture contributed only 9.8 percent of GDP and has suffered significant output decreases in three of the last four years. Nevertheless, agriculture remains critical to some 80 percent of the population which depend on crops, livestock and fish for income and employment. Despite its importance for employment, the contribution of agriculture to both GDP and exports is relatively small, with most agricultural exports generated from the livestock sector.



Agriculture is dominated by small-scale mixed farming which is characterized by traditional, rain fed, subsistence farming with little use of modern agricultural inputs such as

fertilizers, irrigation or tractors. Farmers depend on human and animal power to till their fields. The negative impact of these traditional agricultural practices on productivity has been exacerbated by progressive environmental degradation. Agricultural production levels in Eritrea are generally low, with average yield per hectare among the lowest in Africa.

Only 10% of the total arable land in Eritrea is currently under cultivation. In the short-run, increased land under production and agricultural productivity would significantly boost incomes and economic growth. In the longer term, however, agricultural options and the prospects for large scale production are limited by the availability of water. Expansion in this region will require appropriate infrastructure, resettlement, and investments.

Manufacturing: Manufacturing in Eritrea is concentrated in large and medium-scale enterprises which are currently government-owned. In contrast, most private firms are concentrated in micro and small-scale enterprises. Within manufacturing, the oil refinery located in Assab makes a major contribution to industrial output.

Major constraints to industrial development include inadequate infrastructure and lack of sufficient investment. The country has limited financial institutions capable of extending credit facilities to investors; they are not able to support the demand of the industrial sector. Commercial and industrial development is also hampered by the shortage of business skills, especially in planning, management, and accounting. Many enterprises suffer from obsolete equipment and insufficient imported inputs because of the shortage of foreign exchange. In spite of such problems, industry in general, and manufacturing in particular, have grown at noteworthy annual rates, respectively, of not less than 28 and 16 percent since 1991.

Income and Poverty:

SELECTED SOCIAL INDICATORS	ERITREA	SUB-SAHARA AFRICA
LIFE EXPECTANCY	46	50
DAILY CALORIC INTAKE	1,750	2,096

GDP per capita is estimated in the range of US$217-254, less than half the $490 average for Sub-Saharan Africa. Eritrea's poor social

indicators are consistent with its low per capita income: high illiteracy rates, low life expectancy, high infant and child mortality, high maternal mortality, and high rates of preventable disease.

MATERNAL MORTALITY RATES
(MATERNAL DEATHS PER 100,000 LIVE BIRTHS)

ERITREA	998
ETHIOPIA	1,000
KENYA	500

Infrastructure: Lack of physical infrastructure is one of Eritrea's major stumbling blocks to economic and private sector development. The nation's transport infrastructure needs reconstruction and expansion. Paved roads connect only a few major population centers, a prime impediment to commercial development, especially for the timely and effective marketing of agricultural goods, and to the expansion of trade. Telephones and electrical supplies reach only the major population centers. Over 80 percent of the population lacks electric power. Energy supplies are inadequate, and most people still depend on wood for fuel, exacerbating the nation's environmental problems.

> "After decades of lost growth, Eritrea has become one of the poorest countries in the world. Preliminary estimates suggest GDP per capita to be...less than half the US $350 average per capita income for Sub-Saharan African countries."
>
> World Bank 1994

However, there is progress being made on all fronts. The government is aggressively expanding the road, water, electric and telecommunications systems. For example:

♦ Road construction and rebuilding is underway on important transportation routes. The main highway between Massawa and Asmara is undergoing a much-needed rehabilitation program that will expand the capacity of this critical transportation route.

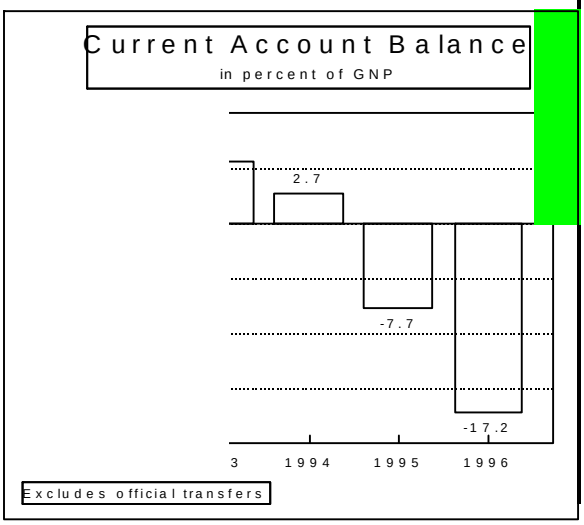
♦ In terms of the telecommunication system, a new direct dial switching system has just been introduced.

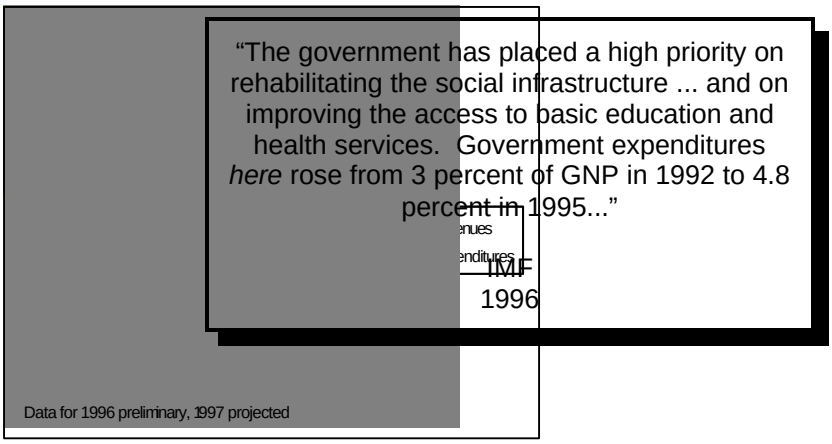
♦ In the places that electric power is available, reliability is quite good. The Electric Authority has a new 80MW power plant planned, which should begin construction soon. This will permit large numbers of new electric hook ups.

Fiscal Status: The financial operations of the Government have come under considerable pressure in the last two years. As a proportion of estimated GNP, the overall fiscal deficit (excluding grants) increased from just 10 percent in 1992 to 28.7 percent in 1995, but was brought back slightly to 26.0 percent in 1996. Although the government has been successful in increasing revenues, total expenditures have risen even faster (mainly because of rehabilitation and reconstruction outlays, and demobilization and resettlement costs). The fiscal deficit is being financed by increased borrowing from the banking system. By the end of 1995, the Government's total bank debt reached the equivalent of 22 percent of GNP.

The levels of recurrent expenditures and overall fiscal deficit are expected to remain high for the medium term. Strong expenditure pressures on the budget can be expected to continue because of expanding social services (such as increased access to education and health care). The capital budget will also experience ongoing pressure because of the increasing number of infrastructure projects which are either planned or are in the process of being implemented.

The fiscal deficit is troublesome. Without a substantial reduction of the fiscal deficit, government indebtedness will continue to grow, and private sector investment and expansion could be squeezed out.





Despite the fiscal squeeze, the authorities have been relatively prudent in their spending. The civil service was slimmed down by 10,000 workers in 1995 (thus reducing the size of government employment by one-third). Line ministries have adopted strict accounting guidelines and procedures which have been carefully designed to prevent unauthorized spending, mismanagement or corruption.

In spite of concerns about the fiscal deficit, the analytical bottom line is mild optimism. Most of the government's extraordinary postwar expenditures have been completed, including payments to martyrs' families and reintegration of ex-combattants into the economy. Revenue is expected to increase due to improved administration, coverage and collection. Informed observers are confident that the GSE will make the hard choices necessary to keep the economy on track. The IMF, for example, expects the deficit to decline by nearly half, to around eight percent of GNP during 1997.

Balance of Payments: Modest surpluses were recorded in the balance of payments in 1993 and 1994 before turning negative in 1995. The external current account deficit more than doubled in 1996 to 17.2 percent, up from 7.7 percent in 1995. This rising external deficit comes from reconstruction and rehabilitation, imports of related capital goods, and the low export base. As a consequence, Eritrea is expected to require outward-oriented policies, a prudent financial strategy, persistence with her structural reform process, and increased external

financing (which could be covered by grants and concessional loans). However, the government is looking to trade and investment to cover this gap.

External Debt: At independence, Eritrea started with no external debt. By the end of 1996, Eritrea's stock of disbursed external debt was only $42.7 million (5.6% of GNP), though they had $195.9 million dollars available on a commitment basis. All of its debt is highly concessionary, with maturity dates ranging from 18-50 years, 5-10 year interest grace periods, and highly favorable interest rates ranging from .75% to 5%.

According to an assessment by the IMF in July 1997, given the low level of existing debt stock and assuming that financing gaps are covered by grants and concessional loans, the external debt profile is expected to remain sustainable.

Investment Liscensing: The licensing environment has been liberalized in recent years, which is encouraging for private business development. Extensive reforms in 1995 were introduced in the issuance of business licenses, including trade licenses. Although there are still some licensing problems, the establishment of a more efficient Business Licensing Office has reportedly reduced the time required to obtain a license from six months to less than a day.

Tariffs: Eritrea's trade regime is considered relatively liberal. All quantitative restrictions have been eliminated and Eritrea has 12 bands of tariff rates ranging from 2-200%. The IMF has recommended a further reduction in the number of bands and limiting the maximum rate to 80%.

Natural Resources: Eritrea's natural resource endowment includes agriculture, minerals and fisheries. Though each sector should make a contribution to economic growth, no one single resource can be counted on for food security or sharply increasing economic growth.

Eritrea has proven deposits of gold, copper, potash, magnesium, zinc, iron ore and marble. Preliminary studies suggest that Eritrea has oil and gas resources. Anadarko, an American oil company, is currently surveying Eritrea's coast to identify potential oil fields. It reports the more data it collects, the better its prospects, and expects to begin drilling in 1998.

Eritrea's coral reefs, beaches and fish are some of the country's richest natural resources. The reefs and beaches are both potential tourist attractions. The coastal waters are thought to be among the most productive fishing grounds in the Red Sea, and remain largely unexploited.

3. Social and Economic Institutions

Government: Eritrea inherited obsolete institutions and weak instruments for making and managing its economic policies. However, they have made vast strides in improving their economic institutions -- such as banking facilities -- and policy-making capacity. The financial system, for example, has undergone considerable reforms, including the evolution of a legal framework which will faciltitate its effective and efficient regulation. Yet, the financial system remains rudimentary, concentrated, and largely owned and controlled by the GSE. A 1997 IMF review, for instance, urges the government to develop a competitive financial system and introduce market determined interest rates.

Eritrea does not have its own currency, but is making plans for the introduction of a new currency, the "nakfa" in 1997. Eritrea is still part of the *de facto Ethiopian Birr* common currency area which to date has constrained the scope for independent monetary policy. The lack of formal arrangements has hampered the management of liquidity and credit expansion in Eritrea. Moreover, the Central Bank of Eritrea is only now building the institutional capacity needed to formulate and conduct monetary

and exchange rate policies. As the financial authorities recognize the need for adequate financial policy prerequisites and preparations for the nakfa's introduction, the process and timing of the monetary conversion will be flexible.

The authorities have moved quickly to address their weaknesses and have placed a high priority on developing capacity through training, institutional restructuring, and new policies. Programs are underway to support the capacity of the key economic agencies such as the Central Bank, the Ministry of Finance, and the Tax Administration. The restructuring of key institutions has helped to lay the basis for implementing policies such as improved tax collection and budgetary planning. The IMF has given Eritrea high marks for its reform efforts and for its generally sound management of its economy but has also urged strengthening of reforms in several areas in order to further support private-sector led growth.

Private Sector: Although the Eritrean private sector has an impressive history, the past three decades of war have taken their toll; the Eritrean private sector is now relatively small and underdeveloped. Eritrea only has about 20 enterprises per 1,000 people. By comparison, Niger has a ratio four times larger (83/1,000). A recent study estimates that there are 55,000 enterprises in Eritrea which employ approximately 130,000 people. Most private sector businesses are small or micro-enterprises which constitute a fraction of total productive output. A small number of state-owned enterprises account for 90 percent of the nation's manufacturing output. During the past three years there was a rapid increase in private sector activity. Expatriate Eritrean and foreign businessmen crowd the hotels in Asmara. At this point there is more looking than actual investment, but the interest is encouraging. Some of the large investments underway include a proposed $240 million resort complex in the Red Sea, a 1,500 apartment complex in Asmara, and rehabilitation of the Coca Cola soft drink plant.

Eritrea's Private Sector

- The number of enterprises per capita is low for Africa
- 60% of enterprises and 76% of their employment are in urban areas
- Over 80 percent of businesses employ only one or two people
- Women own an estimated 43 percent of Eritrea's enterprises
- The proportion of manufacturing firms is low (19%), with most businesses (64%) in the trade sector

There was a significant increase in private investment in 1996. However, adequate private investment sufficient to sustain high levels of economic and employment growth, particularly in the essential export-oriented sectors, will require structural economic reforms that address the domestic and external financial imbalances; improved communications, power, and transportation infrastructure; reduced governmental role in the economy through the privatization of state-owned enterprises; liberalization of the trade and exchange system; alleviation of unfair economic advantages of the Red Sea Trading Company (the economic arm of People's Front for Democracy and Justice); faster processing of investment applications, in

> "Already ... a nascent foundation for shifting to a fast growth track is emerging."
>
> Peter Thorman, USAID Economist

particular the finalization of commitments on projects and details on customs, taxes, land allocations and foreign exchange agreements; and improved financial and banking services.

The excess liquidity in the banking system is a critically underutilized financial resource that could be tapped for investments to expand growth in the private sector.

Labor Market: The limited data available suggest a diverse labor market. While large public and private establishments have substantially expanded their employment (up from 26,277 in 1994 to 54,137 in 1996), considerable uncertainty exists about un- and under-employment. The Ministry of Labor and Human Welfare reported that job vacancies rose from 6,548 in 1995 to 11,380 in 1996, and that registered job seekers rose from more than 11,000 in 1995 to nearly 23,000 in 1996. The business community reports a healthy work ethic and no serious industrial relations problems.

Yet there are labor conundrums: an estimated 20-30 percent chronic un- and under-employment; some youth trying to avoid national service; the non-return of Eritreans travelling abroad on tourist visas; and a brain drain reflected by the prevalent non-return of those with student visas.

Eritrea is importing labor, most notably for the construction sector. Part of the explanation of the apparent contradiction -- the simultaneous import and export of labor -- requires differentiating between those seeking manual versus other sorts of occupations. Shortages of attractive professional, office and white collar positions drive qualified candidates either abroad or into voluntary unemployment while they search for jobs more consistent with their skills and aspirations.

While there are vacancies in the non-manual categories, the rewards for those positions may be disappointing. The level of private sector salaries, for example, are relatively modest. At the lower end of the 1996 base monthly salary range, messengers made as little as 140 birr, and at the upper end, top specialists and managers earned 3,000 (the exchange rate is 7.2 Birr per US$; the level of additional benefits that supplement these earnings vary depending on the employer).

Because of the lack of data, it is difficult to get a handle on the employment situation in rural areas. A USAID labor economist conducted a rapid appraisal of the rural labor market in 1996. He reported a tight labor market with a high reservation wage in areas that were surveyed. Day laborers were scarce, and employers had to pay them higher than average wages. In contrast, an appraisal in Fall 1997 found that people in rural Anseba had difficulty finding paid work, and reportedly were willing to work for almost any amount.

Non-Governmental and Community Organizations: There are both formal and informal mutual help and community organizations in Eritrea that serve both social and economic functions. In most villages the majority of the population is organized into groups. By tradition, villagers help each other solve problems on an informal level. This informal mutual help is sometimes called “wofera” in Tigrinya or “kewa” in Tigre. Some examples of help include agricultural work like ploughing, sowing, weeding, and harvesting; sharing of irrigated fields with the less fortunate; and hut building among men and washing and cooking among women. Another form called “mitias” consists of practical support the village community gives to its members who have to start a new life such as after getting married.

Besides these common informal activities, there are many other formal groups:

Traditional groups like "mahaber" (Saint's groups) and "ekoub" (savings clubs). Members of these groups usually belong to the same ethnic group or economic strata as the business of lending money requires both trust and reciprocity. The purpose of the Saint's groups is to celebrate the chosen Saint. Ekoub, which are popular among Tigrinya women, are small with 8-12 members, and emphasize savings.

Associations with identical or similar rules, which are typically affiliated with the relevant national union. Most have been formed in the past five years. Autonomous groups are the exception. Examples include women's associations, youth associations, and peasant associations. They are common, with a women's or youth association in almost every village. Typically very large (100-300 members), they render appreciable social services for the village such as building of dams, roads, clinics, and schools.

The reorganization of the Chamber of Commerce (to eliminate domination by Ethiopian-oriented interests), combined with the new American Business Council, should substantially improve the private sector's dialogue with the government, with a consequent effect on the GSE's policy implementation.

Perhaps the most powerful association is the People's Front for Democracy and Justice (PFDJ). The PFDJ has a relatively unique role for a political party. While the PFDJ is fundamentally the ruling solitary legal political party, surprisingly for a political party, it simultaneously manages powerful economic activities as well. The PFDJ has invested US$ 120 million as operating capital in key firms and sectors such as construction. The PFDJ also owns both the Housing Bank of Eritrea (the only financial institution not owned by the government) and 60 percent of the Red Sea Trading Corporation, the other 40 percent being owned individually by party members. Red Sea Trading is Eritrea's most powerful trading company. Recent allegations of corruption at Red Sea is a rare phenomenon in Eritrea; these allegations resulted in replacement of its senior management.

Development project and activity committees: There are two types of committees, those that deal with a special project such as electrification of the village, and those responsible for certain activities such as cleaning the village, distributing land, or maintaining roads.

Agricultural production groups: These are not common, and are found only in certain regions such as Gash-Barka. Usually, the groups are comprised of peasants who had been farming land which did not belong to them or which they wanted to leave for better land.

The development committees and production groups frequently lack the requisite technical and managerial skills for their far reaching responsibilities. With regard to material and financial self-reliance, there has been little outside support for these groups and their activities, so they are necessarily self-reliant.

E. EXTERNAL RELATIONSHIPS

The State of Eritrea has been very active in the Greater Horn of Africa region and Middle East, operating as a peacemaker in Somalia and Sudan and as an adversary to Yemen and, again, Sudan. The government has demonstrated to the once-adversarial Saudi and Israeli Governments that it wants and is capable of establishing mutually-respectful equal partnerships.

Most Eritreans well understand that their own stability and prosperity will derive to a great extent from the stability and prosperity of the wider region. The government has therefore been an activist and leader in the IGAD revitalization process, in favor of IGAD as a forum for regional planning and harmonization. Eritrea has been both active in and critical of the OAU, harshly reprimanding that organization for both failing to ever address the Eritrean struggle and to take bold action while, at the same time, working internally to forge alliances between and among the OAU's more forward-looking members.

Some would argue that the Eritreans have not "read the book" on international relations as they often shun protocol and what they consider the too-formal niceties of international diplomacy. They are frank and honest, sometimes counter-productively so. This attitude and practice extends into the realm of debate around foreign aid: the Eritrean Government has made clear that it will not accept foreign assistance being used as leverage to modify its behavior or positions. Given the choice, the government would (and has) decline foreign aid when it required, what in their view reflects, an unacceptable compromise of sovereignty.

Eritrea's relations with donors is therefore different than that of most African governments. It challenges any manifestation of what it considers "paternalism," and is strongly disinclined to accept aid packages simply because they include much-needed capital; if programs are supportive to Eritrea's priorities and designed in partnership, the government will both endorse and support them; if they are not, it will, as it has time and time again, choose to go it alone, often at high cost.

Relations between the government and international PVOs have been problematic. Many PVOs played an important role during the struggle, supporting a major cross-border operation from Sudan and working in real partnership with the government. Since independence, however, the government has expressed increasing frustration with the international PVOs, rendered more valid by the experience of Rwanda and Ethiopia, citing their independence, unaccountability, unwillingness to operate within the context of national policy, overhead and operating expenses, difficulty with supporting the government's programs, and tendency to foster dependency rather than sustainability. The GSE is also concerned that the assistance channeled through international PVOs makes economic planning and budgetary management difficult.

> "Certainly the country deserves to succeed, emerging favorably from almost any comparison with the rest of Africa.... Perhaps most striking of all, there is no sign of the aid dependent culture common to so many African states."
>
> Financial Times, 1996

The GSE policy for international PVOs resident in Eritrea is evolving. Current policy includes no exemption from taxation, annual audit and review, and focus in the health and education sectors.

A few local NGOs have also come in for criticism, with the government challenging the charity-based approach of many religious organizations as well as their use of relief and development programs to support evangelism. Both Christian and Muslim organizations have come under government scrutiny, with Muslim organizations of particular concern given evidence that Sudan has attempted to "infiltrate" Eritrea through these groups.

F. GSE STRATEGY, PRIORITIES AND PREPAREDNESS

National Development Objectives: The

GSE Development Strategy Highlights

♦ Human capital formation (with education and health as the key factors)
♦ Export-oriented development
♦ Development of infrastructure
♦ Environmental restoration and protection
♦ Promotion of the private sector

Eritrean Government has clearly stated that its economic and development policies are guided by the principles of a free-market economy, where the private sector is the main driving force of economic growth and the price mechanism is allowed to allocate economic resources. In the government's Macro Policy, issued in 1994, it defined and articulated the country's national development objectives and its development strategy:

- Free market economy
- Private sector led investment
- Export-oriented development of industry and agriculture
- Liberal investment code and commercial policies
- Transparent regulatory and tax regime
- Prudent fiscal policies
- Proactive government intervention to promote economic growth while meeting social obligations
- Food security (not based on self-sufficiency)

Yet, as these policies have been implemented, the government has created ambiguities in the minds of businessmen about the depth of its understanding of and commitment to the private sector. Postures such as the President's recent statement about the private sector, "...it is their duty and responsibility...to implement the government's program [*Eritrea Profile*, June 7, 1997];" the continuation of price controls; and periodic arbitrary policy changes do not support investor confidence. Clearly the commitment to the 1994 Macro Policy must be reinforced by a more consistent and vigorous support of the private sector.

Disaster Preparedness: Food shortage as a result of a major regional drought is the greatest disaster risk to Eritrea. Displacement as a result of sudden refoulement of Eritrean refugees into Eritrea from Sudan or inflow of Sudanese refugees into Eritrea is also a possibility.

"The overriding national development objective is the creation of a modern, technologically advanced and internationally competitive economy within the next two decades."

Government of Eritrea
1995

The GSE is aware of these potential disasters and has made initial efforts to address disaster preparedness through the establishment of governmental structures as the Early Warning and Food Information System (EWFIS), Eritrean Grain Board (EGB) and Eritrean Relief and Refugee Commission (ERREC). The activities of these institutional structures involve early warning, disaster assessment and response capacities which are still emerging.

The capacity of the GSE to respond to any of the disasters mentioned above would depend upon the scope and severity of the disaster. The government has realized the disaster potential, but has not yet been able to undertake a comprehensive assessment of vulnerability or an inventory of response capacity within the governmental institutions. The GSE has initiated the necessary institutional framework for both information coordination and response in the EWFIS, and needs to clearly define criteria for beneficiaries, response timetables, sectoral guidelines and operational procedures.

"I do not mean they have no contribution, but NGO funds that can finance 20 projects, are not even enough for implementation of 10 projects when they are implemented by NGOs"

Governor, Gash-Barka, 1997

The EGB program has a system for emergency grain storage and plans to increase storage capacity.

Many of the key figures in the GSE are ex-fighters in the liberation struggle and have military logistics background. Therefore, it is likely, given a disaster beyond their institutional response capacity, the GSE would mobilize line ministries, the National Service, and if necessary, the Eritrea Defense Forces (EDF) to meet relief logistic, health, sanitation and shelter needs. The government has recently tested the readiness of the National Service, a program in which all able-bodied Eritreans are obligated to do six months military training and twelve months of public service.

Given the GSE's limitations on the role of international PVOs, international organizations such as the United Nations High Commissioner for Refugees (UNHCR) --who normally contact PVOs to be the implementational partners in a disaster -- need to operate differently in Eritrea. None of the international PVOs present in Eritrea actually implement activities: they provide technical assistance, training and support to Eritrean organizations which implement. The initial responder to a disaster would not be international PVOs, but the various agencies of the GSE and local governments.

G. U.S. FOREIGN POLICY AND ERITREA

Eritrea holds a key position along a narrow edge of the Red Sea, one of the most important shipping routes in the world. Its shipping lanes and two deep water ports, as well as the size, wealth and volatility of its neighbors give it strategic importance in the Mideast and Horn of Africa region. Access to shipping routes make it the principal lifeline for humanitarian assistance to millions of people in the Horn of Africa region, especially in Ethiopia. Moreover, the current Eritrean government strongly supports secularism in the region and the Greater Horn of Africa Initiative.

U.S. security and defense agencies have demonstrated keen interest in Eritrea, given its location, strong secular leadership, and interest in security linkages. Eritrea has also gained significant bipartisan support in the U.S. Congress due to its determined self-reliance and concern over dependency. The U.S. is currently Eritrea's largest source of direct foreign investment but contributes only 2.7 percent of her imports, tied with Belgium but behind Saudi Arabia (15%), Italy (14%), United Arab Emirates (12%), Ethiopia (9%), Germany (7%), Korea and Japan (each 4%), and Sudan (3%). As an export market for Eritrea, the U.S. is the third most important (taking 7.7% of the total), behind only Ethiopia (66%) and Sudan (10%).

Eritrea also reflects American values through its determined effort to develop a stable, secular society and an open private-sector driven economy in a region characterized by political extremes, instability and collapse. As detailed in the U.S. Embassy's Mission Program Plan (MPP), the U.S. interest is to promote both the recovery and growth of a market-based economy and the emergence of stable democratic governance to underpin U.S. national security in this historically volatile region. In terms of U.S. economic interests, Eritrea's progressive and liberal Investment Code provides opportunities for U.S. trade and investment.

"U.S. national interests in Eritrea and the region are to enhance U.S. power projection capability and regional stability; guarantee free and open navigation of the Red Sea; expand U.S. trade; enhance cordial relations with Eritrea because of its important geostrategic location; and ensure Eritrea's stability through sustainable economic development, democratization and protection of human rights, privatization of business, education, and continued commitment as a secular state."

MPP
U.S. Embassy
1996

II. INVESTMENT PLAN

A. DOING BUSINESS DIFFERENTLY

This Investment Plan -- the first "Country Strategy" for Eritrea -- represents an attempt to go beyond reengineering towards a new approach in foreign assistance. This approach is based on several fundamental premises. First, many poor nations, while not, at present, perfect democracies or open economies, are demonstratively developing in a direction supportive of U.S. values and foreign policy goals and are worthy of trust and equal partnership. Second, that to be sustainable, these nations' development path must be rooted in and indigenous to them in the broadest sense (not only to one group or strata or to an elite). Third, these nations' relationships and interactions with regional neighbors is of paramount importance to their future success. Finally, while foreign assistance can provide vital inputs to fill critical resource gaps and strengthen these nations' transition, this assistance will always be stopgap and on the margins of the nation's use of its own resources and trade and investment. In fact, foreign assistance can skew their administration and direction and foster dependency, if not well woven into the fabric of the country's own self-development.

The vernacular used throughout this document reflects this approach. Since the nation's development strategy and strategic objectives must be its own and foreign assistance is at best supportive in a relationship of equality, this document is more modestly entitled a bilateral "Investment Partnership". The widespread use of the term investment partnership, rather that traditional terms such as "aid", "donor", "assistance", or "intervention" reflects both the equality of the relationship as well as the reality that these are actually investments in a sovereign nation's development with clearly defined returns to both partners.

Although often a source of frustration to donors, Eritreans' insistence on setting their own development agenda is likely to be the strongest element in determining its success. Case studies reveal that African ownership of reform programs results in performance and long-term sustainability. Broad-based participation of an array of actors and stakeholders reinforces ownership and thus sustainability. However, embracing the concept of full ownership in order to take advantage of the gains associated with it, require changes in the way USAID conducts business.

Conditionality: A main thrust of this new way of doing business is eliminating classical "conditionality" and replacing it with concept of program accountability. According to program accountability, the partner country's performance is evaluated on the basis of its own overall demonstration of commitment to reform or change, as well as on the basis of the results achieved, taking into account external factors affecting its performance. The purpose of external support is not to enforce any particular reform, but to support overall policy objectives over a longer period of time. The link between performance and assistance would continue to exist, not linked to the implementation of any particular reform, but to the results achieved as defined by

> "It's been a policy of the government not to emphasize aid programs. We believe investment would be the proper substitute for aid. Once you get in the habit [of accepting aid] you forget to look for other options."
>
> President Isaias 1996

the partner country.

The use of program accountability promotes a sense of real partnership while putting the responsibility for demonstrated results squarely in the hands of the partner country. This allows donors to shift their focus from specific policy reform measures (e.g. timetables for elimination of food price subsidies) to overall policy impact (e.g. increased agricultural production). Of course, the country's commitment is critical and usually distinguishes successful from unsuccessful reform efforts. However, few systematic attempts have been made to utilize demonstrated commitment as a threshold determining the suitability of reform assistance.

USAID/Eritrea's PL-480 Title III Agreement reflects this accountability approach. The assistance is based upon the GSE's demonstrated commitment to progressive economic policies and its Food Security Strategy. Progress will be jointly assessed annually to hold the GSE accountable and determine if continuation of the assistance is warranted.

Risks/Costs: While the benefits to "doing business differently" in terms of ownership, relevance, lower cost, and sustainability are evident, there are also risks and costs which must be carefully considered and minimized. Young governments' goals and targets are often overly ambitious. The intensive dialogue and participatory process is time consuming and host-country capacities are usually limited. Both necessitate patience, extra time and effort, and long lead times. The preferred use of local capacity and expertise with associated skepticism over high-priced technical assistance may initially result in a lower technical-quality product as well as delays.

USAID/Eritrea's low rates of expenditures over the last year is certainly symptomatic. However, benefits are already evident in several activities. The Minister of Justice has obtained high-quality "pro bono" assistance for legal reform at a fraction of the cost and much greater credibility. The Commercial Bank, not a USAID grantee, will run at lower cost and greater effectiveness a Rural Enterprise Unit with an Eritrean - European manager. The University of Asmara and the Eritrean Women's Union have worked out longer-term professional linkages with U.S. counterpart institutions.

Host country leadership and ownership also require substantial flexibility -- and a little risk **taking -- in applying donor regulations and policies, especially in the areas of procurement and reporting. Most difficult for donors, is the loss of control, particularly over short-term results; most donor governments demand a level of control over foreign assistance which is not only unrealistic in any sense, but also pre-judges the host country's capabilities and honesty. While USAID's rules and policies have not always been followed to the letter by GSE implementing ministries, the honesty, quality, and sustainability of activities in repatriation, health, and justice are without question. Nevertheless, USAID/Eritrea has not yet been able to obtain any exceptions from business-as-usual procedures and regulations.**

> "Stringent policies to stamp out nascent corruption have been introduced, and a new round of streamlining and salary scales are scheduled for the summer to increase efficiency and obviate the need for backhanders."
>
> EIU, 1996

To do business differently, USAID/Eritrea finds itself constrained by the lightly-staffed and under experienced accounting and procurement processes of the GSE and other Eritrean organizations. While honesty, cost-consciousness and the best deal are hallmarks of Eritrean operations, requisite USAID financial and procurement assessments often identify staffing and procedural weakness which then precludes, by USAID standards, host country management of funding and procurement. USAID/Eritrea is seeking solutions to this impasse through a loosening of USAID procedural requirements, shifting a share of the management burden to USAID FSN staff, and exploring possible modes of program or non-project assistance. The burdensome requirements of Global activities, Congressional notification and PL-480 Title II are further impediments to flexibility, responsiveness and host country ownership.

> "The Government's strategy for the distribution of food aid has recently undergone a change in the right direction."
>
> World Bank, 1996

USAID/Eritrea has fully considered the costs and benefits of doing business differently. The costs to USAID staff in time, effort, and even ego, are substantial. However, with close and intensive dialogue, and a keen understanding of partners, the risks and costs can be managed and are far outweighed by the benefits in sustainable development for Eritrea. This ambitious Investment Partnership -- and USAID's current role as the GSE's leading donor partner -- demonstrate the substantial benefits to this approach.

B. INVESTMENT SELECTION

Few developing countries have demonstrated Eritrea's determination and success in accelerating the transition from relief to sustainable development by rebuilding the social, political and economic infrastructure. Eritrea has shown a strong commitment to establishing an open economy and democratic institutions; it won praise from the IMF for the difficult steps it has taken to accelerate its transition through trade and investment liberalization, decentralization and streamlining its central administration, and decontrolling prices and tax reform. It is also nearing completion of a democratic constitution and local elections. Eritrea's efforts have put it into a position where it -- with key partners such as USAID -- can now focus more on completing the successful transition to sustainable development than on relief and rehabilitation.

This Investment Partnership has been developed and positioned to help Eritrea achieve its highly ambitious goal of self-reliance within a decade. This will involve, above all, building the human capital and key institutions for successful nationhood. Of particular concern are those problems which involve the most acute human need and potential for crisis: chronic food deficits, debilitating poor health and education, and limited capabilities of a new nation -- problems which are most acute in the north and west, a potential source of destabilization.

1. Background

Numerous USAID teams of specialists from REDSO/ESA and USAID/Washington visited newly-independent Eritrea from 1992-1994 to develop a bilateral assistance program. This approach and the "conditioned" program assistance proposed was roundly rejected by the new leadership as being inconsistent with its view of partnership. Nevertheless, several

specific types of projects and food assistance **were eventually negotiated. These were driven by the government's need to "fill gaps" and the types of assistance available, rather than by any overall USAID strategy.**

Consistent with its own food security goals, USAID provided large amounts of PL-480 Title II food assistance and OFDA-funded agricultural inputs to assist the post conflict recovery, demobilization of fighters, and repatriation of returnees. USAID/Eritrea also played a major role in dialogue on food security and policy and continues to support several smaller agricultural production enhancing activities.

> "As soon as we announced to privatize, there were those who asked us when we will be implementing it. Our reply to them was 'Whenever we see it fit'. They said 'No, you have to give us a time frame; otherwise if you are not going to privatize immediately we are not going to give you the help you need.' But pressure doesn't work with us Eritreans...We will do it at our own timetable and in a way that is going to be in the best interest of our country. If you want to work with us, this is our policy, if not, we are sorry we won't take orders.'"
>
> Governor, Bank of Eritrea 1997

In 1993, USAID and the Eritrean Government negotiated a broad technical assistance agreement (TAP) to provide specialized services to the new government across the board as needed. An emphasis in the areas of health, energy and governance evolved.

In 1995, USAID/Eritrea and the GSE agreed to a major health and population program which was focused on building primary health care systems in target zones of the country.

Later, in response to the GSE's expressed needs, USAID/Eritrea provided additional support under the framework of the TAP to build capacity in governance through Asmara University, the Eritrean Management Institute, Constitutional Commission, and Ministries of Justice and Local Government.

2. Options, Priorities, and Partners

In 1996 USAID/Eritrea (with REDSO and USAID/W Global and Africa Bureau assistance due to continuing staffing gaps) undertook an intensive, consultative, and iterative process with the Eritrean leadership to define a cohesive assistance strategy. As described above, USAID/Eritrea took the approach of an "investment partner" with the Eritreans in the lead; the bilateral investment partnership would be developed following Eritrean priorities and using Eritrean knowledge.

Discussions with the President's Office on the GSE's Macro-Policy indicated that **health** (in target zones) and **governance** (particularly the legal and management training and the judicial system) were indeed sectors appropriate for long-term USAID involvement. USAID would be considered the major partner with the Ministries of Health and of Justice. The GSE already had, often with other assistance, well-funded efforts in related areas such as primary and vocational education, community development, and macro-planning. Also, in view of the likely modest level of USAID budget allocations for Eritrea, USAID investment in the rebuilding of primary infrastructure, while direly needed, would not be possible although the possibilities for facilitating or leveraging other finance was not excluded.

In mid-1996 the Agency's Africa, BHR, Global

and Management Bureaus, agreed on a set of parameters for assistance to Eritrea -- although with some disagreement over the Agency's categorization of Eritrea as a "limited" transitional rather than a full sustainable development program (cable 96 STATE 107495, annexed). With these parameters, USAID/Eritrea brought together broad, primarily Eritrean "working groups" made up of relevant GSE, NGO, other donor, and private sector representatives in the two sectors selected to define specific priorities, objectives and results. It soon emerged from these groups and field consultations that the focus of USAID assistance in these sectors should be **integrated primary health care services;** and **specialized capacities for democratic governance**. Refinement and deepening of these Investment Objectives continued with USAID/Eritrea's partners and REDSO/ESA and Global Bureau assistance.

Early on, the Eritrean President himself had encouraged USAID to assist building Eritrea's nascent private sector. However, the Africa and BHR Bureaus' concerns (and the GHAI) over food security necessitated further dialogue and joint-assessment. An integrated Africa-Bureau Humanitarian Response group worked closely with Eritrean counterparts and partners to assess and suggest options for USAID investment with regard to improving food security. In the assessment of GSE priorities and needs, field realities, and other donor assistance, it was clear that raising rural incomes was key; and, further, that there was a gap in the area of marketing, trade, and, in general, agriculturally-related **enterprise.**

Based on this assessment and further consultations with the President's Office, USAID/Eritrea brought together a broad-based working group including the PFDJ (which was keenly interested in rural business and investment promotion) to confirm this premise and decide on priorities and focus. This process led to the focus on the expansion of rural-income producing enterprises with emphasis on exports and on the north and west. This new Investment Objective was then further elaborated (including a PL-480 Title III program) with Africa Bureau assistance to focus on rural banking, small to medium enterprise expansion, export and investment promotion, and selected rural infrastructure in the north and west.

> "Why not try a "new way of doing business" in Eritrea?"
>
> Gayle Smith
> GHAI, 1995

A growing concern during these discussions was full integration of the emergent Investment Objectives within the framework of the goals and principles of the GHAI. The close involvement of regionally-based GHAI advisors, concurrent with the development of the GHAI Strategy, led to the integration of crisis scenarios and a "Crisis Modifier" into the Investment Partnership to ensure adequate and flexible response to possible crises.

> "The strategy planning process has established (MOH) ownership of the project."
>
> Senior MOH Official, 1996

Eritrea's other major donors were fully consulted during the iterative processes described above. The GSE is particularly concerned over absorptive capacity and overlap among donors. USAID/Eritrea discussed its Investment Plan with major bilateral partners, Italy, Germany, Norway and Netherlands, and confirmed that no duplication, and even several complementarities existed. USAID/Eritrea also closely coordinated with the E.U. (currently in water supply/ sanitation and major roads) and with the World Bank (reconstruction, ports, social infrastructure, and education), although

collaboration has proven to be problematic. Representatives of the relevant U.N agencies (UNDP, UNICEF, WHO, UNFPA, and FAO) were also included in all working groups.

3. Agency Goals and Priorities

USAID/Eritrea's three Investment Objectives -- primary health care, rural enterprise, and democratic governance -- with their Crisis Modifier, fully support overall Agency priorities and goals. Child survival and health (including HIV/AIDS and family planning) currently represent the single largest USAID investment in Eritrea. Democratic governance has the broadest scope and the most USAID/Eritrea staffing resources. Broad-based growth through enterprise will be the largest USAID investment in Eritrea over time. Potential humanitarian needs are directly considered in USAID/Eritrea's Crisis Modifier.

As described in the Investment Objective sections, USAID/Eritrea's Investment Partnership supports four of the five Agency goals (see Annex).

C. RELATIONSHIP TO THE GHAI

USAID/Eritrea's Investment Partnership has **not only been developed within the framework of the GHAI -- it is a GHAI country strategy. The dual GHAI goals of food security and crisis prevention as well as the principles of African ownership, regional approaches, strategic coordination, linking relief to development, and change amidst instability have guided dialogue with the GSE, the analysis and assessment, and formulation of the investment plan. Indicators of achievement of these goals are monitored at the goal level.**

1. GHAI Goals

Food Security: Eritrea has a history and location as a regional trading node and a relatively limited agricultural potential. Achieving food security is not primarily a question of agricultural production, but of income from **enterprise** and its employment and exports, particularly in the less-developed rural areas. With extremely poor educational levels and health care in rural areas, attaining food security will also depend on the social services to educate and improve the **health** of consumer-producers.

Food security will also be difficult to achieve or sustain without good governance from the levels of national policy making to local administration. Three decades of development experience demonstrate that national prosperity is a function of enabling macro-policy, monetary stability, and human resource development -- all the purview of government. Accountable government also enables broader distribution of this prosperity.

> "The Government's strategy for the distribution of food aid has recently undergone a change in the right direction."
>
> World Bank, 1996

Thus, as further described in the Investment Objective sections, this Investment Partner-ship contributes to the achievement of the GHAI Food Security Goal and anticipates the following results in five years: no non-emergency food aid; full rural employment; and improved health education.

> "We can attain (food) self-sufficiency in five years if we recognize that food self-sufficiency is not attained through development of the agricultural sector alone."
>
> President Isaias 1996

Crisis Prevention: After thirty years of war, with neighbors in

conflict, and being prone to drought, Eritrea understands crisis and has developed coping strategies both nationally and at the level of individual households. The government is acutely concerned about the risks of divisiveness from ethnic and economic stratification and is striving for balanced, broad-based development, particularly in the predominantly Muslim rural lowlands. Thus, it has prioritized decentralization to local governments and infrastructure development, and has directed donor resources and private investment to historically marginalized areas. USAID/Eritrea's investments in **health** and income-producing **enterprise** are centered in these areas.

There is also an obligation or social "contract" between the new government and its citizens -- born out of the community welfare efforts of the EPLF during the struggle -- primarily in the areas of schooling and **health** services. Failure to deliver on this social contract nationally or in any particular area would also be a source of instability. The policies and representative and decentralized structure of **governance** should provide the macroeconomic stability, mechanisms for dissent and conflict resolution, fair rule of law, and capacity to mobilize that are the "sine qua non" of crisis prevention.

In the event of a crisis, the GSE has demonstrated an ability to rapidly mobilize resources to deal with problems and has developed solid surveillance systems. This Investment Partnership also includes a "Crisis Modifier" (see Section H.) to assist the GSE.

As further described in the following sections, the Investment Partnership fully supports the achievement of the GHAI Crisis Prevention Goal and anticipates the following results in five years: No ethnic-based conflicts; economic growth rate above five percent in the western lowlands; and successful management of one crisis (i.e. major drought or population influx).

2. GHAI Principles

This Investment Partnership embodies the principles of the GHAI. While the principles are evident in the three Investment Objectives, the following highlights their application:

African Ownership: Few countries in Africa **insist upon ownership of externally-assisted activities as does Eritrea. This Investment Partnership goes beyond consultation by responding directly to the priorities and policies of Eritrea's leadership and people. Moreover, the intensive dialogue over the last year has moved beyond USAID's reengineering to a partnership between equals. USAID is an investor in Eritrean programs and activities. These investments are mutually agreed upon based on the GSE's assessment its priorities and the social returns for Eritrea and USAID/Eritrea's assessment of U.S. political and economic returns within USAID priorities (and Congressional mandate).**

> "This ... is right on target, creating a clear model for the GHAI."
>
> L. Howey, REDSO/ESA/ GHAI 1997

At the operational level this also translates to streamlining the usual program design and implementation processes by following the lead of the GSE. Accountability is based upon the GSE's

> "Mission resources are programmed in an integrated fashion to maximize impact and to reflect the principles of President Clinton's Greater Horn of Africa Initiative."
>
> MPP, U.S. Embassy, 1996

own tracking and anticipated medium-term results. USAID's agreements have simplified requirements and procedures; and programs will be managed and evaluated by the GSE with USAID participation.

Five-year Benchmarks: (1) Establishment of a joint bilateral programming committee to oversee the Investment Plan; (2) Full integration of USAID assistance into the GSE budgetary process as appropriate.

Strategic Coordination: Within the USG, strategic coordination is now being initiated through a newly integrated U.S. Embassy Country Team, which exchanges ideas and information to facilitate joint programming. The Mission Program Plan (MPP) process has been expanded to ensure integrated, inter-agency planning. This Investment Partnership supports the 1997 MPP and will inform the annual plans of USIS, DOD, and PC as well as the 1998 MPP. Within USAID, consistent with Integrated Strategic Planning, substantial input to this Investment Partnership was made by representatives of BHR/FFP, BHR/OFDA, G/DG, AFR/SD, and REDSO/ESA/GHAI.

Full coordination with other donors has been more difficult. The GSE insists that donor coordination is its role alone; and donors are hesitant -- given this strong view -- to undertake any formal coordination meetings together. USAID/Eritrea has, however, experienced good coordination at the sectoral level and is making a proactive effort to collaborate with other donors through periodic consultation with the EC in Brussels, WFP, FAO, and IFAD in Rome, and IMF and WB in Washington. USAID/Eritrea is also currently leading by example, as in food assistance and primary health care.

Five-year Benchmarks: (1) Fully integrated U.S. inter- and intra-Agency planning; (2) Full-integration of USAID assistance into priority GSE programs; and (3) Coordinated planning among major donors in consultation with the GSE.

Regional Approaches: The GSE is a, if not the, leading proponent of regionalism in the Horn. Its leadership is playing an active catalytic role in the revitalization and broadening of IGAD and has an outward-looking foreign and trade policy. The political and economic bonds with Ethiopia and the joint policy with Ethiopia and Uganda with regard to Sudan are particularly strong. There is also strong political dialogue with Rwanda.

This Investment Partnership supports Eritrea's regional leadership through bilateral dialogue, support for regional GHA programs, and assistance for trade and investment. At the activity level, USAID/Eritrea supports the sale of iodized salt throughout the region and an expansion of regional trade, and looks forward **to initiating joint programming with USAID/Ethiopia.**

> "Ultimately my ideal solution--something I dream to see before I die--is a group of independent nations, Ethiopia, Eritrea, Djibouti, Somalia, perhaps Sudan creating an economic common market in the Horn which could lead to a political union of some kind and which could be a model for the rest of Africa...We want cohesion and stability and not disintegration."
>
> Isaias Afwerki, 1991

Five-Year Benchmarks: (1) Continued Eritrean leadership in an increasingly active IGAD; and (2) Increased trade and joint programs with Ethiopia and, when possible, Sudan.

Linking Relief and Development: Eritrea has already moved far in its transition. The GSE has

taken several specific policy actions to shift from relief to development, most supported by USAID/Eritrea: a policy to phase-out feeding programs and monetize all food assistance; merging the major relief and refugee agencies; and establishing local councils and administrations to decentralize rehabilitation implementation. The tough policy on international PVOs also reflects this shift from relief and dependency towards longer-term self-reliance.

A review of U.S. funded activities showed that OFDA and State/PRM funding related to the emergency (including repatriation of returning refugees) were successful in providing income-generating assets for returnees; and Emergency PL-480 Title II Food successfully evolved into the current bilateral Title III Food for Development program. Building on these, USAID/Eritrea's Primary Health Care and Rural Enterprise Investment Objectives will target the western lowlands to ensure the provision of services and opportunities to repatriated and displaced populations as well as the local communities they impact.

> "Currently, USAID programming in the three investment objective areas is building local capacity and will have mitigating effects on any potential disasters."
>
> P. Morris, BHR/OFDA/ PMPP, 1996

While there are risks of another emergency -- specifically, a major regional drought and/or a massive influx of the remaining Eritrean or new Sudanese refugees from Sudan -- the policy and institutional structures for sustainable development are now almost all in place.

Five-year Benchmarks: (1) The GSE relief agency, ERREC, phased out with emergency planning transferred to line ministries and local governments; (2) Food aid monetization effective; and (3) All remaining relief programs completed (unless required for temporary emergencies).

Change Amidst Instability: Currently, there appear to be four possible threats to Eritrea's stability. In order of likelihood: a major region-wide drought which derails development and forces regional and internal competition for food; a large-scale, destabilizing influx of Muslim Eritrean repatriates or Sudanese refugees escaping from civil war and anarchy in Sudan; a violent breakup of newly federated Ethiopia with a possible deterioration of relations; and violence by a disgruntled religious or ethnically-based faction in Eritrea, possibly with external support.

Eritrea's current national unity, the efforts of the GSE and PFDJ to broaden and deepen participation, the decentralization to regional administrations cutting across ethnic lines, and the leadership's demonstrated early warning and intelligence capabilities are an impressive guarantee against sudden destabilization. Also, should a destabilizing event occur, the Eritreans have demonstrated a singular ability to mobilize quickly and to effectively prevent disaster, as demonstrated during the 1993 drought. The U.S. Embassy and USAID/Eritrea support the GSE's decentralization effort, and its new early warning system (EFWIS). Assistance in primary health care and rural enterprise is also focused on the vulnerable western lowlands bordering Sudan. The U.S. Department of Defence is also providing training and logistical equipment to improve the Eritreans ability to mobilize effectively.

Five-year Benchmarks: (1) Regional administrations fully functional; (2) Early warning systems operational; (3) Preparedness plans established; (4) Accelerated development in the western lowlands; and (5) Effective response to a major drought.

D. GOAL OF THE INVESTMENT PARTNERSHIP

To enable Eritrea to become a food secure, democratic and leading nation in the region through key investments in primary health care, rural enterprise, and democratic governance.

By 2007, Eritrea will be a fast-growing trading center. Its citizens will be healthier and better educated with active political and civic organizations participating in a democratically-elected government. Revenues from export, tourism and extractive industries will support imports of food, capital goods, and other services. Remaining foreign assistance will be long-term loans and institutional and professional linkages. USAID/Eritrea will be transformed into a bilateral, U.S.-Eritrean commission.

The goal of this Investment Partnership is derived from and fully supports Eritrea's goal of self-reliance in a decade. This ambitious goal is achievable, given the good prospects for revenues from the oil and mineral sectors, growth in agro-based and manufactured exports, and increasing trade with Ethiopia, the Middle East, and eventually Sudan. The foundations for an open economy as well as participatory democracy are in place.

"There are three strong points to this strategy.

First is partnership with the Eritreans....

Second is the relationship with the GHAI, and the emphasis that this is a GHAI strategy....

Third is focus."

J. Bresler, AFR/DP, 1996.

It is also expected that as Eritrea grows and basic services and infrastructure improve, it will also attract increasing participation and investment from Eritreans abroad as well as emerging market capital.

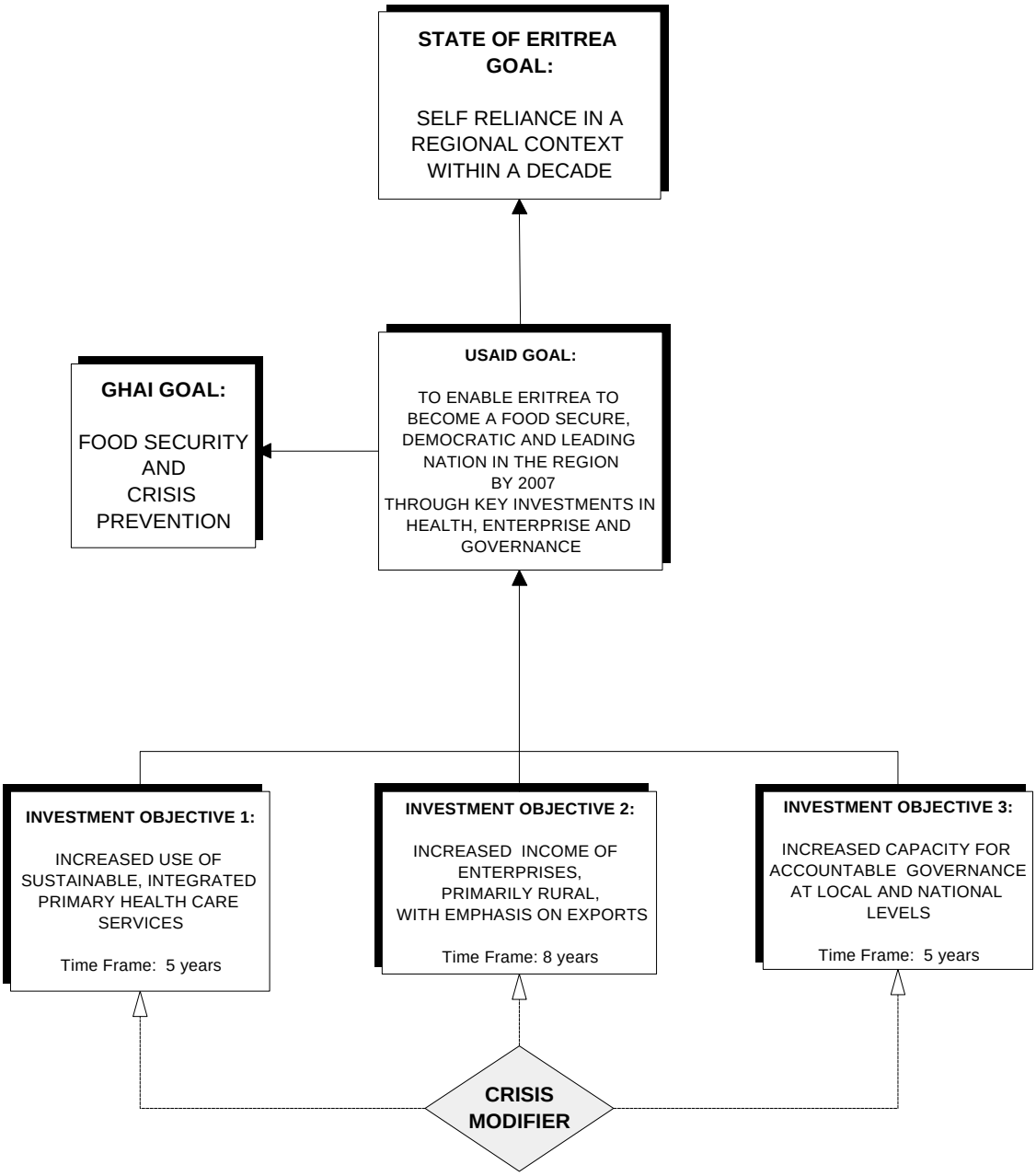
This goal is supported by Investment Objectives in three areas which are critical to its achievement: primary health care, rural enterprise, and democratic governance.

The indicators of achievement of this goal are as follows:

COUNTRY LEVEL MACRO INDICATORS	
MACRO/GOAL INDICATORS	**MEASURE**
BILATERAL PARTNERSHIP	
GSE as a Development Partner	Qualitative Assessment (Described in a narrative, with contribution from all three IO Teams, and including World Bank experience)
	% Counterpart Contribution (Unit: Measured by GSE contribution as a percentage of specified projects)
REGIONAL	
GSE Role in IGAD	Qualitative Assessment (Described in a narrative with contributions from the Embassy Political Section, GHAI Regional Advisor, and REDSO/GHAI)
GOVERNANCE	
Participation and Democratization	Qualitative Assessment (Described in a narrative by the GVN IO Team, including input from the Embassy Political Section. Will include discussion of elections and progress towards decentralization.)
Lack of Corruption	Corruption free environment in business and government (Unit: Qualitative assessment utilizing annual independent surveys and local interviews)
ECONOMY	
Overall Economic Growth	Growth rate (Unit: Annual percentage increase in GDP)
Growth of Exports	Value of exports (Unit: Annual percentage increase in exports)
State of Rural Economy	Livestock prices (Livestock are a major source of income, the major "crop" of pastoralists, and an important savings mechanism . Livestock prices and sell offs are a key proxy indicator of the health of the rural economy.) (Unit: Prices of cattle, goats and sheep in Asmara and major regional markets)
HEALTH & FOOD SECURITY	
Infant and Maternal Mortality	Infant Mortality Rate (Unit: deaths per 1000 live births) Maternal Mortality Rate (Unit: maternal deaths per 100,000 live births)
Availability of Food	Total grain available (Unit: National grain production + commercial imports + food aid)
	Cereal prices (The price of cereals directly impact the ability of people to buy food. Cereal prices are also a robust leading indicator of expectations of coming shortages.) (Unit: Prices of key grains in Asmara and major regional markets)

The achievement of the goal assumes peace and stable growth will evolve in Ethiopia and Sudan, no more than two major regional droughts, and no major world recession over the next decade.

ERITREA'S GOAL, GHAI GOALS, AND
USAID GOALS AND INVESTMENT OBJECTIVES



E. INVESTMENT OBJECTIVE 1:

Increased use of sustainable, integrated primary health care services by Eritreans

As Eritrea's leading partner in the health sector, USAID/Eritrea's investments are central to improving the health of all Eritreans. By 2002 most Eritreans will be using fully decentralized, staffed, and equipped integrated health care services which are sustained by effective information and financial management systems.

1. Opportunity Analysis

The Problem

Eritrea has an epidemiological profile that places its health status among the worst in the world. Recurrences of severe drought, epidemics of disease and displacement of populations have resulted in extremely high morbidity and mortality rates, especially among women and children.

The maternal mortality rate is estimated to be 998 per 100,000 live births (DHS, 1995). The immediate causes of maternal death in Eritrea include hemorrhage, obstructed labor, infections and eclampsia (UNICEF, 1995). Additionally, as reported by the Ministry of Health Planning and Management Bureau, fewer than 10% of all deliveries in 1995 took place in a health facility. The 1995 DHS reports that one in five births in the three years preceding the survey were assisted by trained medical personnel. Female circumcision is widely practiced throughout Eritrea and may also be a contributing factor to these high rates.

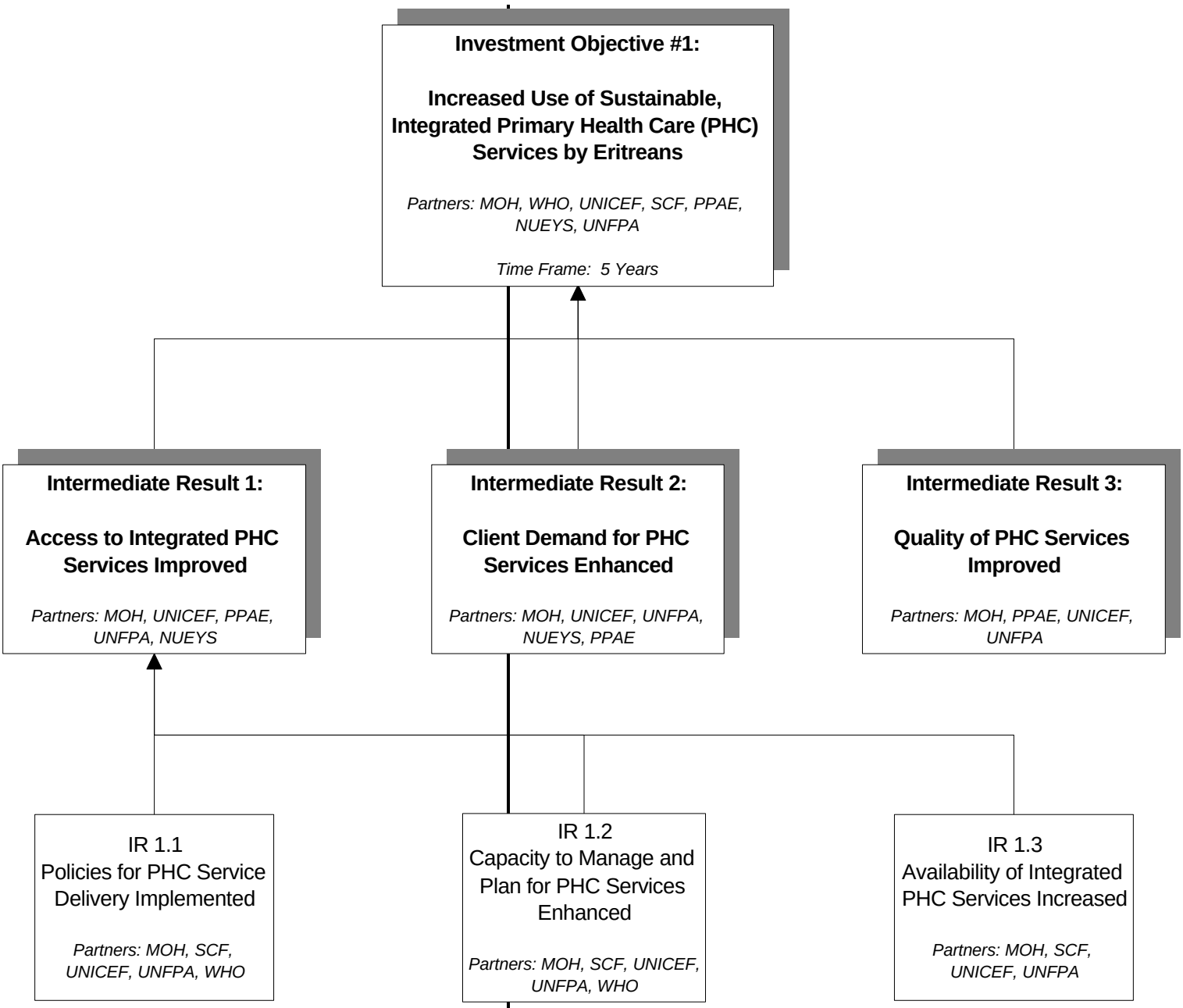
High risk fertility behavior contributes significantly to high rates of mortality and morbidity among women. A study implemented in Asmara found that 24% of women were married before the age of fifteen. Infant mortality also leads families to overcompensate, having more children than desired and spacing them closely. Eritrea's total fertility rate is 6.1. Currently 3.1% of women of reproductive age are using a modern family planning method. The annual population growth rate (exceeding 2.6%), if not reduced, will result in a doubling of Eritrea's population in 27 years (PRB, 1995).

The child mortality rate is estimated to be 136/1000 and the infant mortality rate is approximately 72/1000. Both diarrheal diseases and ARI are leading causes of outpatient visits for children and are a major cause of mortality among children under five. Malaria, endemic in the northern and western lowland regions, is also a major cause of morbidity and mortality among children. Vaccine preventable diseases, such as measles and tetanus also threaten child survival.

"The average attendance at health facilities -- less than one visit per person per year -- is low compared to even the sub-Saharan African average of 1.5 - 2 visits per person per year."

World Bank, 1996.

The poor nutritional status of Eritreans, especially women and children, increases their vulnerability to disease. Approximately 13% of infants are born with low birth weight (below 2500g). These babies contribute significantly to child deaths. Indicators relating to protein and energy status in children show that 66% of children under five years of age are stunted, 41% are under-weight and 10.4% are wasted. The majority of malnourished children are between 18 and 24 months (UNICEF, 1995). The protein-energy status of women has not been documented. It is assumed, however, that their nutritional status is very poor. Poor nutrient intake due to harmful feeding practices, low social status and poverty exacerbate this situation.



Micronutrient malnutrition is pervasive and contributes significantly to overall morbidity. A Micronutrient Deficiency Survey (MDS) conducted in 1993 found that nationally 22% of children aged 9-11 years displayed signs of iodine deficiency disorder (IDD). Iron deficiency anemia is common among women,

and vitamin A deficiency is also high.

There is growing evidence that seropositivity has increased significantly since independence. Increasing trade, cultural practices allowing men to have multiple partners, and prostitution in the ports of Massawa and Assab are important factors in the spread of HIV.

Constraints

The Ministry of Health, like the rest of the government, inherited a neglected and destroyed infrastructure in most parts of the country. Many areas are without access to basic health services. Eritrea's poor health indicators reflect the rudimentary and deteriorated health care system.

Ministry of Health capacity to respond to these formidable challenges is limited. The country does not have the number of staff required for service delivery in existing facilities, let alone newly constructed or planned facilities. Overall, there is one medical doctor for every 19,000 people, one nurse for every 6,000, one health assistant for every 4,700 and one laboratory technician for every 36,000 persons. These rates are among the worst in the world.

Access to basic health services is severely limited. UNICEF reports that 54 percent of Eritrea's hospital beds and 19 percent of its health stations are located in Asmara, which has about 16 percent of the population. It has been estimated that 54 percent of Eritreans live more than 20 kilometers from the nearest health station. Of the 2,365 villages in Eritrea, only 46% have reasonable access to primary health care services. For an estimated population of about 3 million, there are fifteen hospitals, 33 health centers and 113 health stations. Almost all health facilities inherited from the previous government, having been neglected or damaged during the war, require at least some rehabilitation.

The transport component of the health system is also weak, especially considering the difficult terrain and the harsh climate throughout much of the country. Additionally, the initiation of user fees may further limit access to health care as many Eritreans are currently unable to afford even the most nominal fees.

A more insidious constraint is the socio-cultural status of women. Specific traditional practices which are harmful to Eritrean women and girls include a preference for male children, male precedence in taking meals, early marriage and female genital mutilation.

Improving the health status of all Eritreans calls for a high degree of positive male involvement, which for the most part is currently lacking. In some Muslim and pastoral nomadic groups, women must seek their husband's permission to obtain health care for themselves and their children. Anecdotal evidence suggests that women will not give birth in health facilities for fear that their husbands will perceive them as weak. Men must be educated and mobilized to seek medical services (both preventive and curative) for both themselves and their families,

"I have been involved in the exercise (strategy planning) since it's inception. It has been a fruitful exercise for all of us. This strategy was prepared with a sense of reality as to the present health situation in the country and particularly in the focus areas, because all of the partners were physically present in the focus zones and not discussing issues from some far off office."

Senior MOH Official
1996

and to empower women to access and utilize basic health services.

Faced with the challenges and opportunities of rebuilding the health sector, Eritrea is in a position to benefit from years of expertise and lessons learned in development assistance to the health sector globally and in the region.

Opportunities

Because of USAID's experience, areas of technical expertise, resource levels and willingness to collaborate as an equal partner with the Eritreans, USAID/Eritrea has become the Ministry of Health's major donor partner.

The GSE is committed to the basic precepts of health for all adopted in the 1978 Alma Ata Declaration. The Ministry of Health upholds the principles of primary health care and recognizes the importance of new approaches such as the *Safe Motherhood Initiative* and the *Integrated Management of Childhood Illnesses (IMCI).* Eritreans demonstrate a keen willingness to learn and participate in rebuilding their nation and are highly mobilized and unified in their efforts.

In the years since independence, the Ministry of Health has worked with donors and other partners to set out a plan of action to build a decentralized health care service delivery system and to build the Ministry's capacity to manage and maintain this system. Activities have included building and renovating health facilities, strengthening the country's immunization program, equipping and training traditional birth attendants, improving and expanding water supply and sanitation systems, training health care workers, equipping health facilities and developing policies which promote health for all through improved access to quality PHC services.

During the liberation struggle, women experienced some increase in their social status. These gains offer an opportunity to impact the health status of all Eritreans as women represent an important contact for health interventions. Women are being trained in the health services professions (as nurses, community health workers, and traditional birth attendants, etc.). This will improve access to health care for women as conservative traditional cultures found in Eritrea often prohibit delivery of services by males. Women are also increasingly active in demanding health services for themselves and their families. Since independence, however, many gains have been lost as women have been expected to revert to traditional roles. Thus, it is imperative to capitalize on these gains and continue to strengthen womens' role as pivotal actors in improving the health status of all Eritreans.

GSE Policies and Priorities

The current goal of the GSE health policy is to make primary health care services available to

all citizens. To reach this goal, the MOH stresses improved quality of maternal and child health, a phased approach to decentralized management support systems (logistics, HMIS, financing, manpower), an integrated approach to service provision, and community involvement and support. The GSE's support for integration of services is geared toward daily access to a basic package of primary health care services with a focus on decreasing missed opportunities across interventions. The basic package of services includes safe delivery, family planning, antenatal care, EPI, the prevention and management of childhood diseases (e.g. malaria, diarrhea and measles), malnutrition, HIV/AIDS and other sexually transmitted infections (STIs).

> "The Government has rightly adopted primary health care as the main objective and the number of facilities and coverage of programs have increased rapidly."
>
> World Bank, 1996

The Ministry of Health's primary health care priorities include:

- Expansion of primary health care services to undeserved populations, particularly those at greatest risk of mortality and morbidity;
- Strengthening health service management systems;
- Training of all cadres of health care providers;
- Control of communicable diseases; and
- Restoration of health care facilities and construction of training facilities.

Results to Date

USAID assistance to the health sector began in 1994 with grants to UNICEF, the award of a child survival activity with Africare, and support to the Ministry of Health through a U.S.-based contractor, BASICS, in primary health care.

USAID assistance to UNICEF ($2.3 million) expanded the national immunization program through the procurement of vaccines and solar refrigerators for health stations, centers and hospitals; integrated oral rehydration therapy (ORT), Vitamin A and iron deficiency interventions with the immunization program; and expanded health infrastructure including the construction of six health stations, the procurement of vehicles for difficult-to-reach facilities, the procurement of maternity, pediatric and MCH kits as well as training health staff and upgrading training facilities. Through these efforts **"fully vaccinated" coverage for children under five has increased from 24.3% in 1994 to 33.6% in 1996.**

USAID/Eritrea , through UNICEF and OMNI, facilitated the development of Eritrea's regionally-important salt iodization capacity. As noted above, iodine deficiency disorder is a serious health threat. The GSE is committed to

increasing domestic consumption of iodized salt and becoming a major exporter of iodized salt in the region. USAID investments in this area have assisted the GSE to **increase iodization of locally produced salt from zero in 1994 to nearly 90% in 1996.**

The main accomplishment of Africare's activity in Northern Denkalia has been the **training of 41 traditional birth attendants (TBAs),** utilizing non-literacy teaching methods, in safe delivery procedures, the need for referrals, the childhood immunization schedule, the importance of breast feeding, and oral rehydration therapy. In the limited time **the trained TBAs** have been working, they **have assisted approximately 50% of home deliveries** in this extremely remote area. The second major accomplishment is **increasing EPI coverage from zero to 10%** with only six months of immunization service provision.

USAID-funded technical assistance through BASICS enabled the MOH to **develop the National Drug Policy and Treatment Guidelines, the Primary Health Care Policy Guidelines and the nursing curriculum for the College of Health Sciences.**

BASICS has also been working closely with the MOH to expedite the decentralization of health services planning and has funded and facilitated the zonal planning workshops in all target zones. Planning workshops for the Southern and Central zones will be held in early 1997. This model has been taken to scale by the MOH with support from other donors in the remaining three zones.

USAID/Eritrea, in concert with the Ministry of Health and other partners, is helping to expand family planning and other reproductive health services. Since funding through SEATS began in March 1996 **the MOH developed a national in-service family planning training curriculum and conducted the first in-service FP training** drawing twenty practitioners from Gash-Barka, Southern and Central zones. Further training will be held in 1997.

USAID/Eritrea with SEATS produced a video sensitizing health workers about the problem of maternal mortality and gave two presentations on female circumcision in Eritrea at the country's first Safe Motherhood Conference. An assessment of female circumcision was conducted as well as a review of local capacity to implement activities to eradicate this harmful traditional practice.

SEATS worked with the National Union of Eritrean Youth and Students (NUEYS) to increase access to family planning and reproductive health services to persons aged 15-35 in Eritrea. **Information regarding reproductive health was disseminated to 22,000 youth** at the national service training camp.

USAID/Eritrea has helped rebuild the Ministry of Health's National Drug Quality Control Laboratory and the Central Laboratory. Through Contraceptive Central Procurement, USAID/Eritrea made **two million condoms**

70% of Eritrean women recently reported that they want to either space or end childbearing

DHS, 1995

available and initiated the procurement of contraceptives to meet requirements for 1997.

2. Investment Objective

Increased use of sustainable, integrated primary health care services by Eritreans.

This strategy stresses increased utilization of PHC services through increased access, enhanced demand and improved quality of care for all Eritreans; and seeks value from the synergies that exist in an integrated approach to the delivery of primary health care services.

Achievement of the Investment Objective will be measured by:

- **An increase in the Modern Contraceptive Prevalence Rate from 3.1% of women of reproductive age in 1995 to 9.3% in 2001;**

- **An increase in the percent of births whose mothers were attended at least once during pregnancy by medically trained personnel for reasons related to pregnancy from 49% in 1995 to 80% in 2001;**

- **An increase in the estimate of the proportion of all cases of diarrhea in children under age five treated with oral rehydration (ORS) and/or a recommended home fluid from 38% in 1995 to 80% in 2001; and,**

- **An increase in the estimate of the proportion of households where iodized salt is used from**

0% in 1995 to 80% in 2001.

Upon completion of this strategy, it is expected that the capacity of the Ministry of Health to provide basic primary health care services through the national service delivery system will be enhanced. Interventions will be targeted to increase the demand for, access to and quality of an integrated package of basic health care services. Strategic interventions will lay the necessary foundations and build the capacity for a sustainable national health care delivery system.

Targeted Customers

While significant investment will be made at the national level (e.g. HMIS, IEC, health financing, family planning service delivery, IMCI), the three contiguous zones of Gash-Barka (focusing on 4 sub-zones), Southern/Dubab (focusing on 3 sub-zones), and Central/Makal (focusing on 3 sub-zones) have been selected as *early impact zones* for four principal reasons: 1) the three zones are in critical need of improved health services; 2) over half of the Eritrean population lives in these three zones; 3) to allow appropriate field testing of the various systems and approaches; 4) to facilitate monitoring and supervision of the activities; and, 5) to enhance USAID/Eritrea's ability to demonstrate results. Using a set of criteria jointly developed by USAID/Eritrea and the MOH, ten sub-zones and 43 service delivery sites within the zones have been selected as early implementation areas (See Annex A).

> "It will take a few years of sustained effort for commonly monitored indicators such as infant and child mortality and life expectancy to reflect improved health status."
>
> World Bank, 1996

Intermediate Results and Illustrative Approaches

This Investment Objective supports the institutionalization of the Ministry of Health's capacity to provide integrated primary health care (PHC) services. To achieve it, access to PHC services for all Eritreans must be improved. Support systems such as logistics and health information systems must be strengthened; policies which guide the delivery of health services must be in place; and health worker capacity to plan, manage and deliver integrated health services needs to be enhanced. Service delivery infrastructure must be improved, and the demand for services increased through knowledge and awareness. The quality of service delivery must also be improved through increased supervision and training and innovative approaches to service delivery.

IR1: Access to Integrated PHC Services Improved

The Government of Eritrea recognizes the importance of access to an effective integrated health care system to ensure utilization of primary health care services. Access will be measured by the implementation of enabling policies, the improved capacity of the Ministry and health workers to plan for the delivery of services; and the availability of PHC services, such as family planning, child health services, and antenatal and obstetric care.

Achievement of this IR will be judged by tracking progress against the following primary indicators:

- **An increase from 0% in 1996 to 100% in the percentage of targeted service delivery points where IMCI is offered;**
- **An increase in the percentage of targeted service delivery points offering a range of FP services to 100% in 2001 (baseline to be established); and,**
- **An increase in the percentage of deliveries in target zones that were assisted by trained medical personnel from 23% in 1995 to 60% in 2001.**

(For a complete listing of indicators please see the attached Performance and Monitoring Plan).

The Ministry of Health has created an environment conducive to the development and rational use of policy guidelines. USAID investments will further support the development and utilization of the PHC Policy Guidelines and completion and dissemination of the National Drug Policy and Treatment Guidelines.

Target: The proportion of health facilities surveyed utilizing PHC Policy Guidelines in the delivery of PHC services will increase from 0 in 1996 to 50% in 1998.

Increased health management capacity is critical to improve delivery of and access to quality services. Health management includes the collection and utilization of demographic and health statistics, an adequate logistics system, financial analysis for health care planning and financing, and manpower planning. USAID funded Eritrea's first Demographic and Health Survey in 1995 and will fully support the Ministry's efforts to build an effective health management information system. USAID/Eritrea has pioneered the use of decentralized planning methodologies which have already been institutionalized by the MOH and local government.

Target: The proportion of zones using an epidemiological profile to develop plans for service delivery will increase from 20% in 1996 to 100% in 1998.

Financial planning for sustainability is critical in order to strengthen the health management capability in Eritrea. Widespread poverty precludes much cost recovery at this time from user fees, and it is unclear how the GSE will meet growing recurrent costs. The MOH is

"This strategy will satisfy the communities, especially the vulnerable groups....the children and the women..."

Senior MOH Official

developing approaches to deal with these issues -- such as piloting pre-payment schemes using the existing grassroots investment clubs (Ekub) --but needs assistance to create financial management, cost recovery and planning systems. These systems, if carefully instituted, can strengthen the Ministry's ability to meet recurrent costs for the delivery of health care services. USAID assistance will provide technical assistance to the MOH in health planning and financing and will target the development and utilization of a Health Financing Plan.

***Target*: *By 2001, revenue for health service will equal 25% of non-wage recurrent expenditures nationally*.**

The MOH recognizes that the success of health service delivery is critically dependent on a rational logistics system, from drug policy, procurement, distribution and use of drugs, contraceptives, and supplies. The absence of even the most basic equipment and supplies, and the inconsistent and inadequate supply of drugs, contraceptives, and condoms impede the availability and delivery of quality health care. This stems from the lack of a comprehensive procurement plan, inadequate logistics, and a centrally determined allocation system for supplying drugs to the various levels of the health system. Proper equipment must be installed at each facility while simultaneously establishing a national system for the procurement of drugs and supplies, and a comprehensive logistics system. Laboratory services, in particular, must be improved through the provision of appropriate equipment and supplies as well as through proper training.

USAID investments in the health sector will include the procurement of contraceptives, technical assistance to the Central Medical Stores and health facilities in the management of health commodities, the rehabilitation of the Central Laboratory and the National Drug Quality Control Laboratory, the provision of equipment and furniture for these laboratories; and, the procurement of equipment and supplies for facilities in the early impact zones.

USAID/Eritrea also expects to work with the MOH to improve the Ministry's health logistics system. This activity will be designed with the MOH and will run for a period of two to three years. Technical assistance will help to strengthen the Ministry's ability to 1) forecast and project needs for essential drugs, health supplies, contraceptives and other commodities; 2) ensure that health facilities have adequate stocks of essential commodities; and 3) that health personnel will understand the importance of stock maintenance and management.

Target*: *By 2001, 80% of health facilities will no longer experience stock outs for 13 essential IMCI drugs.

Personnel limitations result in inadequate coverage and supervision of services, weak referrals between levels in the system and sporadic outreach services at best. The lack of skilled and trained personnel is a serious constraint to the MOH's efforts to develop

programs, staff existing health facilities and provide adequate personnel coverage for anticipated expansion. This situation will become even more urgent as health facilities increase in number and client awareness and demand for services grow.

USAID investments will provide technical assistance to the MOH in the development and use of a human resources management plan, the review and development of curricula to train health personnel in integrated PHC, family planning and reproductive health and to perform according to established MOH standards. USAID assistance has supported the development of a baccalaureate. Nursing curriculum at the College of Health Sciences, University of Asmara.

> "Eritrean communities have a higher than usual share of households headed by women -- about 45% -- as a result of the war which killed able-bodied men."
>
> World Bank, 1996

The lack of adequate facilities has severely limited access to services and has compromised the quality of services provided. USAID assistance will be utilized to rehabilitate, furnish and equip 43 health facilities, two central laboratories, and three zonal health stores. USAID assistance will enhance the capacity of the private sector to deliver primary health care services and will encourage the utilization of rural drug vendors and pharmacists in the delivery of these services, thus easing the burden of the public sector.

Target: The number of private vendors selling Eritrean Social Marketing Group condoms will increase from 0 in 1996 to 200 by end of activity in 1998.

IR2: Client Demand for PHC Services Enhanced

Despite the demonstrated benefits of health education in motivating behavior change, there is no national health education program providing a framework for information, education and communication (IEC) activities. To increase awareness and knowledge of key child health and reproductive health practices, there is a need to strengthen this sector and devote attention to substantially expanding and improving the quality of the newly initiated IEC Unit within the Ministry of Health.

USAID will provide funding for a technical advisor to the IEC Unit, assist in the creation and implementation of national, zonal and sub-zonal IEC plans, support the development of IEC materials and multi-media campaigns targeting PHC messages, and mobilize communities through work with the National Union of Eritrean Women and the National Union of Eritrean Students and Youth.

USAID supported activities place a high priority

on non-literacy teaching methods as nearly 80 percent of Eritreans are illiterate. Information on child survival and reproductive health is being transmitted through pictorial print materials, radio dramas, community theatre and other non-literate approaches.

Target: The number of women of reproductive age who know at least one modern family planning method will increase from 62% in 1995 to 80% in 2001; the proportion of adults surveyed who recognize condom use as an acceptable means of protection from HIV infection will increase from 35% in 1995 to 70% in 2001.

IR3: Quality of PHC Services Improved

Quality is essential to the successful delivery of PHC services. The availability of quality services in combination with increased demand will create a environment for sustainable use of services which will ultimately lead to improved health status for the population. Global experience has shown that investments in improving the quality of these services can greatly improve the efficiency and outcome of these interventions. Innovations in problem solving, self-assessment, supervision, support and training will be applied to facilitate quality improvements.

The Ministry of Health in partnership with USAID is currently developing a Quality Policy. At the same time and in cooperation with USAID/REDSO, MOH personnel are being exposed to quality improvement tools and the experiences of other African countries. As quality improvement models are studied and adapted to the Eritrean context, they are being promoted in the delivery of care at all levels of the health system.

Because of its interest in maximizing the efficiency of its health services, these approaches to quality are receiving tremendous enthusiasm and attention by the government. USAID/Eritrea has been asked to assist in these efforts because of its proven comparative advantage and technical expertise. This partnership will produce rapid results in achieving this objective.

> "For example, there are 54 health centers in the Region and they should have been enough. But, there are not enough health officers, there are only 313 health officers. This is half of the need."
>
> Governor, Gash-Barka, 1997

Target: The proportion of health workers in targeted facilities who have been trained in Safe Motherhood practices will increase from 0 in 1996 to 100% in 2001 , and the proportion of health facilities reporting one or more visits every three months by a supervisor will increase (baseline to be established).

Role of Partners and Other Investors

The **Ministry of Health (MOH)** is USAID/Eritrea's key partner in the design, management and implementation of priority activities. MOH commitment to this program is central to overall programmatic success. USAID/Eritrea works closely with the MOH at the central, zonal and sub-zonal levels to ensure effective management and implementation of program activities.

UNICEF is actively engaged in contributing to the reduction of illness and death among children and women. Universal child immunization (UCI), ORT and control of micronutrient deficiencies form the basis of UNICEF's program. A significant portion of UNICEF assistance to Eritrea's immunization activities, the construction of health facilities and the establishment of salt iodization plants in Massawa and Assab has been funded through grants from USAID over the past two years.

The **World Health Organization** has been most prominently working to support the National AIDS Control Program and has provided valuable support to the College of Health Sciences, the Nursing School and the EPI coverage survey. WHO and USAID, through BASICS, will take the lead to introduce and operationalize the Integrated Management of Childhood Illnesses.

UNFPA has worked closely with the GSE, the Ministry of Health and other donors to produce the Situation Analysis of Reproductive Health in Eritrea, to cosponsor the Safe Motherhood Conference and to examine cultural and traditional practices and their impact on the health of Eritrean women and children. UNFPA has also been actively engaged with family life education through the **National Union of Eritrean Women (NUEW)** and the **National Union of Eritrean Youth and Students (NUEYS).** UNFPA and USAID recently co-supported a health logistics assessment and will work with SEATS to manage the reproductive health component of the youth center recently established by NUEYS with UNFPA funding. UNFPA is also procuring the condoms and funding the packaging for USAID's 2-year condom social marketing activity with Population Services International.

BASICS and **SEATS** are partners with USAID in working with the MOH to strengthen its PHC services. **Population Services International** (PSI) is working with a local partner organization to develop a condom social marketing activity targeting the prevention and control of HIV/AIDS and other STDs.

OMNI focuses on strengthening the iodization of salt, increasing public awareness regarding the importance of micronutrient, building the capacity of the MOH to manage the national IEC program and assessing the needs for Vitamin A and iron folate supplement availability and service delivery points. BASICS, SEATS and OMNI will work with the MOH at the central level to strengthen the Ministry's capacity to manage the effective

delivery of PHC services. Implementation of BASICS' and SEATS' zonal and sub-zonal activities will take place in the targeted zones. While OMNI will also work in the three zones to increase awareness regarding IDD and other micronutrient deficiencies, activities specific to salt iodization will be implemented in salt producing areas, i.e. Massawa. The MOH has requested that PSI initially work in Assab, Massawa, Asmara and Keren.

> "the prevalence of HIV infection is higher than thought earlier, presently occurring mainly in the urban centers."
>
> World Bank, 1996

Africare and **World Vision** maternal and child health activities, funded through USAID/W as BHR/PVC Child Survival Matching Grants, support the goals and priorities of the Ministry of Health. Their programmatic efforts will benefit from investments made to the health sector by USAID/Eritrea and other donors. (See Annex B for a more detailed description.)

Peace Corps is also considering involvement in health education and is using Special Project Activity funds from USAID for sanitation and water supply.

The U.S. Department of Defense Liaison Office is a partner through coordination of Title 10 humanitarian assistance funding. In the past such support has included equipment and furnishing for non-target health facilities, training of medical personnel, and health facility engineering assessments. The DOD has also committed to drill water wells for four health centers in the Northern Red Sea Zone.

Leveraging support from donors: It is the policy of the GSE that leveraging resources is solely within their purview and discretion. Although USAID/Eritrea maintains active dialogue with in-country partners to more effectively coordinate resources and program activities, it is essential to emphasize that the GSE is in the driver's seat -- USAID and other donors respond to their requests. The role of the donor community in Eritrea is a supporting role. So, although the donor community works to respond to MOH requests and leverage resources for specific activities such as **EPI**, it is always within the context of the direction, control and mandate of the GSE.

The GSE has actively leveraged resources for national **water systems** development. Several players are involved including the Kuwait Fund for Economic Development, the Arab Bank for African Development, OPEC, GTZ and KFW as well as the European Union and JICA. UNICEF has also been involved in the development of water systems at health facilities. Consequently, USAID/Eritrea has limited involvement in the arena. The MOH recently requested, however, that USAID fund the construction of a health center (including a water system) in a remote area of the Northern Red Sea Zone. The activity will be implemented through Africare with Mission funding.

Sustainability

Central to USAID/Eritrea's and the MOH's investment strategy is the need to enhance the Ministry's capacity to plan and manage a sustainable primary health care system. USAID/Eritrea's investment package relies on the Ministry's development and delivery of PHC services and focuses specifically on effective program management; and, institution and capacity building.

The Ministry of Health's leadership ensures commitment to the program and will enhance the sustainability of project components and its overall success.

In support of the Ministry's decentralization policy, the strategy is designed to maximize involvement throughout the health care system, from the national level to the sub-zonal level. Close coordination at all levels will help to ensure that management and planning for health services is decentralized, the necessary players are involved and that issues specific to each level of service delivery are recognized and integrated into the overall plan.

USAID/Eritrea's assistance to the Ministry of Health recognizes the importance client awareness and demand for services as key to sustainable people-level impact.

While financial sustainability will not be obtained during the life of this strategy, USAID/Eritrea's investments in technical assistance, financial management, cost recovery and planning systems will provide the foundation for future financial sustainability.

> "Outside the Capital the situation is chronic, and primary health care is crucial to bringing down infant and maternal mortality rates."
>
> EIU, 1996

Critical Assumptions and Risks

In order to ensure the success of the strategy outlined above, the following assumptions have been made:

- The Government of Eritrea will maintain political commitment and support for a decentralized, integrated primary health care system;
- Adequate USAID and MOH resources will be available to achieve the IO; and,
- The GSE, donors and communities will continue their support for primary health care service.

There are certain risks which could hinder the increased use of sustainable, integrated primary health care services by Eritreans. These include:

- Large influx of refugees further straining the country's social infrastructure;

A major drought limiting national and household food security;
Religious/cultural opposition for family planning and other types of reproductive health care;
A dramatic reduction in GSE and/or donor resources/commitment for PHC;
Donor/NGO assistance overload with a lack of centralized MOH coordination resulting in duplication of services and/or gaps in assistance.

Crisis Modifier

Planning has begun in cooperation with the GSE and the U.S. Embassy's Military Liaison Office to determine how current assistance and experience can best be used and shifted to meet demands caused by a potential crisis. Because of the significance of the USAID/Eritrea investments in the sector and the geographical focus given to Gash-Barka, a zone likely to have an important role in refugee movements or drought, USAID/Eritrea will be able to play an important role in responding to these crises.
In the event of a crisis, USAID/Eritrea will take the lead in coordinating a U.S. response with the GSE, OFDA, DOD and others, and will shift resources accordingly. An action plan will be developed in the next 6-12 months in partnership with the GSE and will be available for review at that time.

3. Relationship to GHAI Goals and Principles

This Investment Objective:

- Emphasizes several key elements of the GHAI through Eritrean ownership of the strategy, a high degree of strategic collaboration among partners, and builds a platform to prevent conflict by meeting essential human needs and

providing social services in Eritrea;

- Contributes to sustained economic growth and development by enhancing the physical well-being and productivity of Eritrea's population;

- Addresses the critical health needs of all Eritreans, but especially infants and young children and the reproductive health needs of women and adolescents;

- Will help reduce population growth rates in Eritrea to levels consistent with sustainable development as well as unwanted pregnancies, child mortality, maternal mortality and STI/HIV transmission among key populations;

- Will help the Eritreans to provide integrated health care services which are responsive and accountable to all health care consumers in Eritrea.

"We are not going to build any more (clinics). Let's use what we already have."

Minister of Health
1997

F. INVESTMENT OBJECTIVE 2:

Increased income of enterprises, primarily rural, with emphasis on exports.

USAID/Eritrea has a special opportunity to be a partner in growing a new generation of private enterprise and investment in Eritrea. By 2002, Eritrea's private sector and foreign investment will begin to "take off" with thousands of new and expanding enterprises, sharply increased exports, and economic growth rates in excess of five percent in northern and western areas with consequent increases in incomes.

1. Opportunity Analysis

The Problem

Eritrea is one of the world's poorest and most food insecure countries. Even in a good year of agricultural output, half of the population require food aid, which rises to 80% during times of drought. In the short run, the country's major problem is increasing the availability of food, and the capacity of the rural population to buy food.

The income of much of the population in Eritrea, particularly in rural areas, is $217-254 per annum, far less than the Sub Saharan African average of $490. Industry is nascent and rural households have limited access to productive assets such as draft animals and land.

While many marginal rural areas are not well-integrated into the national (food) economy, trade between the center and provincial capitals is fairly efficient, although dominated by a small number of large traders. Market entry by small traders is restricted not only by the poor quality of rural roads, but also by the lack of access to reliable, low-cost transportation and limited access to investment capital.

In order to achieve food self-reliance, households must generate the income and the country must generate foreign exchange for the purchase of food and essential development inputs and consumer goods. Thus, the solution for food security will have to focus on enterprise development which will help to increase land under production and boost agricultural and non-agricultural productivity, consequently leading to increased production and exports. This will establish the foundation for sustainable improvement in rural incomes and, therefore, food security.

"Crop cultivation and animal husbandry account for 60% of rural incomes, although in the lowlands, livestock income is more important."

World Bank, 1996

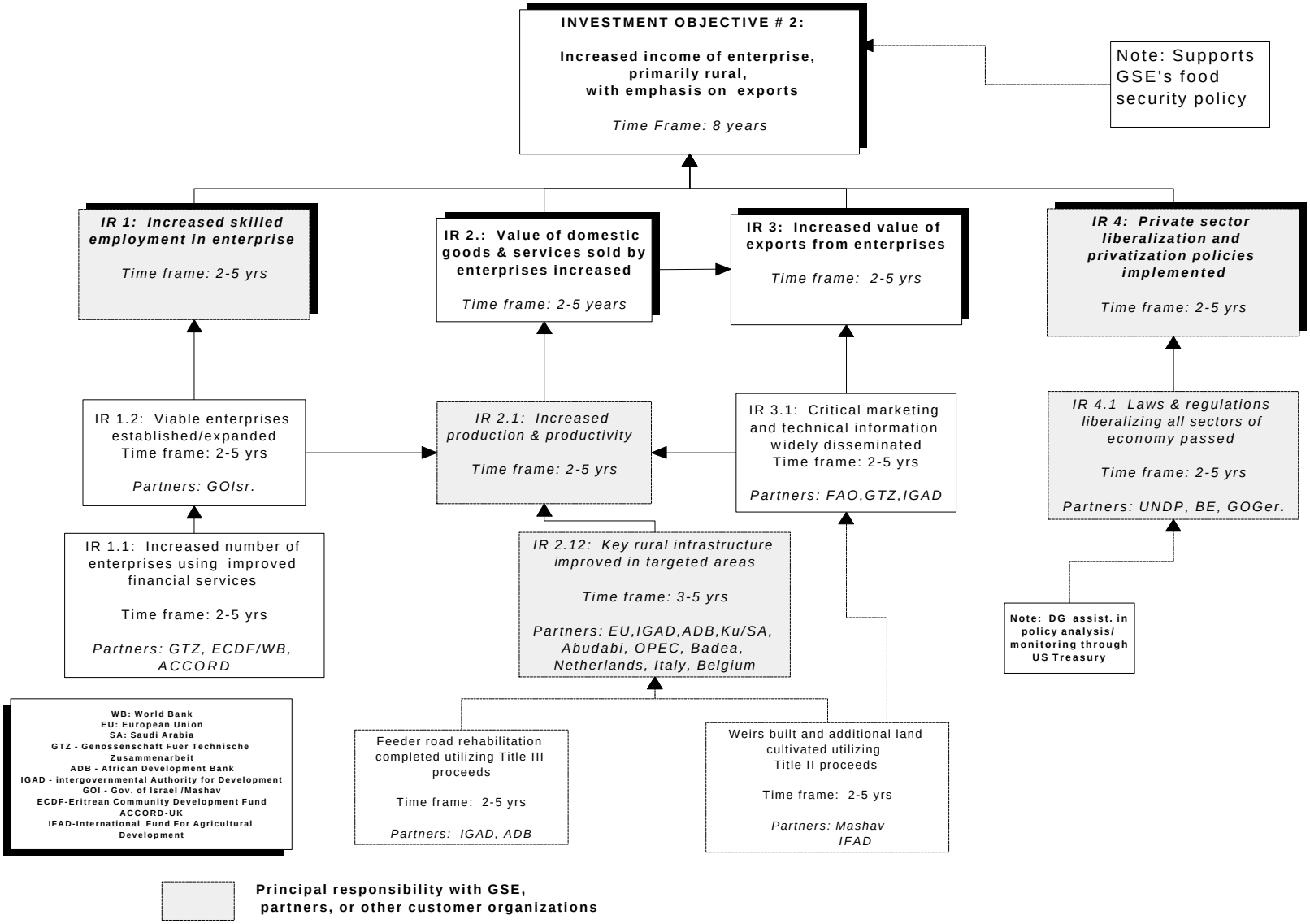
There are fundamentally two types of rural economy in Eritrea, the central highlands and the lowlands. The central highlands, which are crowded and lack sufficient rainfall to be a source of agricultural growth, contain sixty percent of Eritrea's population. The lowlands, partly along the Red Sea littoral, but more importantly in the southwest of the country, near the borders of Ethiopia and Sudan, are suitable for irrigation as well as extensive rainfed agriculture and livestock, but are largely underpopulated. Land here is commercially farmed much more extensively, although management and technology need considerable upgrading. Outside of the few towns where small traders and services are prevalent, most of the enterprise in these areas is currently subsistence farming and pastoralism.

Constraints

The major constraints to expanding enterprise in Eritrea can be divided into five categories:

Financial Services: Lack of access to financial

services is a major constraint to enterprise, especially in rural areas. Eritrea's limited financial system currently consists of three banks, one insurance company and some donor/NGO funded credit schemes. The government-owned Commercial Bank of


INVESTMENT OBJECTIVE # 2:
Increased income of enterprise, primarily rural, with emphasis on exports
Time Frame: 8 years
Note: Supports GSE's food security policy
IR 1: Increased skilled employment in enterprise
Time frame: 2-5 yrs
IR 2.: Value of domestic goods & services sold by enterprises increased
Time frame: 2-5 years
IR 3: Increased value of exports from enterprises
Time frame: 2-5 yrs
IR 4: Private sector liberalization and privatization policies implemented
Time frame: 2-5 yrs
IR 1.2: Viable enterprises established/expanded
Time frame: 2-5 yrs
Partners: GOIsr.
IR 2.1: Increased production & productivity
Time frame: 2-5 yrs
IR 3.1: Critical marketing and technical information widely disseminated
Time frame: 2-5 yrs
Partners: FAO,GTZ,IGAD
IR 4.1 Laws & regulations liberalizing all sectors of economy passed
Time frame: 2-5 yrs
Partners: UNDP, BE, GOGer.
IR 1.1: Increased number of enterprises using improved financial services
Time frame: 2-5 yrs
Partners: GTZ, ECDF/WB, ACCORD
IR 2.12: Key rural infrastructure improved in targeted areas
Time frame: 3-5 yrs
Partners: EU,IGAD,ADB,Ku/SA, Abudabi, OPEC, Badea, Netherlands, Italy, Belgium
Note: DG assist. in policy analysis/ monitoring through US Treasury
WB: World Bank
EU: European Union
SA: Saudi Arabia
GTZ - Genossenschaft Fuer Technische Zusammenarbeit
ADB - African Development Bank
IGAD - intergovernmental Authority for Development
GOI - Gov. of Israel /Mashav
ECDF-Eritrean Community Development Fund
ACCORD-UK
IFAD-International Fund For Agricultural Development
Feeder road rehabilitation completed utilizing Title III proceeds
Time frame: 2-5 yrs
Partners: IGAD, ADB
Weirs built and additional land cultivated utilizing Title II proceeds
Time frame: 2-5 yrs
Partners: Mashav IFAD
Principal responsibility with GSE, partners, or other customer organizations

Eritrea (CBER) dominates the financial sector. The second major bank is the Housing and Saving Bank, which is owned by the Peoples' Front for Democracy and Justice (PFDJ). A development bank is being established for longer-term financing. Although the CBER has several rural branches and has plans to broaden its range of services and to expand from its urban base into rural areas, the rural areas in the target region are barely served by formal financial institutions at the present time. Despite numerous problems, the CBER is a well-run bank, somewhat more conservative than commercial banks in most African countries, with a broad and performing loan portfolio. It currently has an excessive liquidity (a deposit loan ratio of 5:1). Its problems include: staff shortages; archaic policies, procedures, authorities and fee structures, limited computerization; and limited outreach into rural areas.

Information: The years of war, drought, and Ethiopian rule have led to isolation from the dynamic changes going on in international markets, even though there is a strong trading tradition in Eritrea (horticultural exports reached $100 million in the early 1970s). Lack of information on regional and foreign markets, new technologies, structures for organizing individual producers into associations serving the needs of agriculture for both inputs and marketing services, prices in local markets, and new markets and investment opportunities are a major constraint to enterprise development and growth.

Business Skills: Many of the new enterprises will be formed by returning refugees and by ex-fighters. The ex-fighters, in particular, have a broad variety of technical and managerial skills, but limited experience in accounting and running a business. The private sector in Eritrea has been so suppressed by war and by the socialist policies of the Derg, that basic business skills (such as accounting, marketing, inventory control) are in short supply.

Infrastructure: Certainly one of the most critical constraints to economic growth in the target region is the rebuilding and expansion of rural roads, catchment dams, and other public works. Much infrastructure was destroyed or has deteriorated. Current transport costs, particularly from the high potential areas in the southwest, are quite high. Water is a limited resource and is not well-managed. Catchment dams need to be repaired and irrigation canals cleaned out or rebuilt.

Agricultural Inputs: The markets for fertilizer, seeds and equipment in the commercial agricultural sector are largely undeveloped. Although the Ministry of Agriculture (MOA) runs a tractor leasing program which it intends to privatize, the commercial agricultural sector is severely underserved and the agricultural sector in general is virtually unmechanized. There are almost no rural dealers in spare parts for farm machinery or irrigation pumps.

Opportunities

> "It is likely that achieving food security through increased export earnings may be a more viable prospect than achieving food self sufficiency through domestic production."
>
> World Bank
> 1994

The GSE is determined to take advantage of the country's location and historic trade linkages and has developed an economic growth strategy that will not only increase national income but also improve the incomes of Eritreans. This outward-looking and determined strategy can produce economic growth rates well in excess of 5% per year.

In the past, Eritrea was a major exporter to the Middle East, and, to a lesser extent, to Europe. In 1965 alone, Eritrea exported bananas worth US$45 million to Saudi Arabia. Prior to the liberation war, Eritrea factories produced textiles, shoes, soaps and detergent, leather goods, and canned goods which found ample markets in Ethiopia, Sudan, the Gulf States and Europe. Although much of this industry remains largely intact, processing equipment is outdated, and the markets have shifted to other suppliers.

> "But the real hindrances to investment are the low capital base and the lack of management skills."
>
> EIU, 1996

While the lack of any investment in the past thirty years has diminished the supply and availability of production (agricultural and industrial) inputs, and subsequently output, the existing business mentality and private interest in rebuilding a vibrant economy serves as a solid base to support a significant level of enterprise development and expansion.

USAID has a comparative advantage in strengthening enterprise and thereby can provide key inputs to help expand enterprise and output, and consequently raise rural incomes. Initially it is expected that the greatest potential for enterprise development in the target region will be in agriculturally- related activities.

Conditions that are favorable to rural investment include:

♦ The GSE's long-term vision and development strategy gives significant weight to export-led growth through agricultural development and expansion, the privatization of state-owned corporations, and foreign investment.

♦ Demand for horticultural products in the Gulf States area appears to be strong, and Eritrea is geographically positioned to be a strong competitor in the Gulf States' market.

♦ The financial system's current excess liquidity can meet enterprise development and expansion demand (production supplies, equipment and spare parts).

♦ Electrical power is adequate in the main towns and the GSE is committed to improving infrastructure, roads, air and sea ports, irrigation facilities, and building micro-dams throughout

the highlands.

♦ Eritreans have a strong national pride, work ethic, and a high level of entrepreneurship, with 43% of enterprises managed by women.

Results To Date

USAID/Eritrea has had experience over the last few years with a variety of enterprise-related support: reintegration of returnees, demobilization of fighters, micro-credit, small enterprise development, pest management, irrigation schemes, and trade and investment missions.

The micro-credit program was a pilot activity with demobilized women and women heads of households. With a modest investment, **55 micro-enterprises have been started or expanded in 1996.** So far, the **repayment rate is 100%.**

> "In this predominantly rural country therefore, opportunities for and ability to participate in trading and service activities appear to make a critical difference."
>
> World Bank, 1996

Assistance to returning refugees composed of prepared land, agricultural hand tools, tractor services, seeds and livestock has **provided 1,700 families with the means of beginning a new life** in Eritrea. The appearance of a **variety of shops for goods and services** in early resettlement sites indicates that new enterprises are forming with consequent income growth.

The provision of tractors with accessories for use by returnees and demobilized fighters at five settlement sites and a commercial farm has led to additional **land under cultivation with demonstrably increased production** at these sites.

Locust control training was highly effective and resulted in the **early identification of a potential locust upsurge and early aerial spraying, preventing a devastating crop loss in 1995.** An integrated pest management training program and the ongoing research on biological control of locusts also promise similar impact.

A PL-480 Title II PVO investment is successfully **building a 4000-hectare irrigation system in a remote, food deficient region**. Popular participation by the resident population and the deployment of a contingent of National Service Youth by the Ministry of Defense attest to the **commitment of the resident communities** and the GSE.

USAID support is also improving **water resource and a large agro-industry investments**. It also enabled the **first Eritrean investment mission to the U.S. and horticultural trade mission to Saudi Arabia.**

Thirty-five metric tons of PL-480 Title III wheat helped **alleviate a food crisis, build reserve**

stocks, and provided 45.6 million *Birr* for rebuilding rural roads (approximately 200 kilometers).

2. GSE Policies and Priorities

The GSE's Macro Policy states that the objective of the development strategy is the establishment of an efficient, outward looking, private sector led market economy, with the government playing a proactive role to stimulate private economic activity. It views the key to achieving its economic goals as rebuilding its manufacturing, agro-industry, export and finance capability.

The GSE's Food Security Strategy stresses that food security is not self-sufficiency and that the nation's food supply will be secured through a combination of increased domestic production and commercial imports purchased with export revenues and income from non-agricultural employment. The policy commits the GSE to attain food security at the national level in a decade. The GSE's approach to improved food security, poverty alleviation, and agricultural development is based on increasing incomes by:

- Agricultural diversification
- High value and export products
- Improved farming practices and natural resource conservation
- Small scale irrigation
- Revitalization of services and light industry
- Building necessary infrastructure

Several intensive sessions with a multi-sectoral working group and consultations with the President's Office emphasized that increasing rural incomes would depend on accelerated growth of enterprises with income and employment multipliers in rural areas. Accelerated growth of enterprise depended on technology transfer and training, marketing linkages, rural infrastructure and access to credit. Due to other GSE programs and investments, it was jointly decided to focus USAID's investment on agriculturally-related enterprises from the small to medium-scale in three under-served regions. This focus would fill a broad gap between large investments and micro-credit in rural areas. Thus, this Investment Objective is a major contribution to the GSE priorities.

3. Investment Objective

Increased income of enterprises, primarily rural, with emphasis on exports.

This Objective focuses on economic growth in

rural Eritrea primarily through rural-based enterprises. It is centered on developing service, production, processing and marketing enterprises, with particular emphasis on high value agriculture. As such, the Investment Objective fits squarely within the GSE's long-term vision and development strategy.

The Investment Objective will positively impact small holders and the incomes of the poor through growth of and investment in small to medium enterprises, and consequent increased employment and rural wages, reduced transport costs, and increased demand for rural services. Multipliers of increased rural incomes and demand for manufactured goods, and services, should lead to a significant "spread effect".

> "Eritrea has a relatively sophisticated, although now dilapidated, industrial capacity. Processed foods, soft and alcoholic drinks, textiles and leather goods, construction materials, metal, glasswork and petroleum products are all produced locally."
>
> EIU, 1996

The Objective focuses on enterprise growth in the north and west of Eritrea, from Om Hajer in the far southwest, through the towns/cities of Teseney, Barentu, Akurdet, Keren, and north of Massawa. This "growth corridor" serves as the marketing channel for the largest expanse of agricultural and pastoral land in the country, and is the site of the single largest enterprise, the Alighidir Cotton Scheme. Much of this region has high agricultural (including livestock and fisheries) production and potential for irrigation. It also faces Sudan and thus is the main resettlement area for returning refugees from Sudan.

Over the medium-to-long term, the increased production and productivity will result from the acceleration of investment and growth of enterprises in the target region. Small holders, the poor and returning refugees in the targeted rural areas will be positively affected by decreased prices, increased employment and rural wages, and improved infrastructure. This Objective contributes to enhancing national income and food security through generating additional foreign exchange and household income. Increased production and incomes should result in nutritional benefits as well, which will have a cross-over effect on the primary health care investment objective.

Achievement of the Objective will be measured in terms of annual gross income and equity of assisted enterprises, as well as the "multiplier effects" in terms of rural incomes and employment associated with the growth of these enterprises. The measure of equity for assisted small enterprises, without formal financial management systems, will be assets listed on loan applications. Once the baselines have been established, it is projected that gross income and

equity will increase by at least ten percent per annum. The multiplier effects should cause similar increases in additional rural income and employment and will be measured by surveys and proxie indicators.

Over the life of the project, the expected returns for our investment include:

! Over 2,000 enterprises will have received assistance.

! Employment at assisted enterprises will increase by at least 50%.

! Income generated from assisted enterprises will increase by more than 30%.

! Owner equity at assisted enterprises will increase by over 50%.

! The volume of trade transported in the targeted region will increase by 100%.

! The value of exports from assisted enterprises will total more than $10 million (about 10% of current annual national exports).

! Foreign investment in targeted areas will reach $12.5 million.

! The government will have divested or privatized 37 state-owned enterprises.

> "Women in Eritrea have had more secure access to land and other productive assets than is common elsewhere in developing countries."
>
> World Bank, 1996

Customers

Enterprises in the program's target regions will range from community-based smallholder associations and entrepreneurs and associated marketing, input, and service enterprises to larger, more formalized businesses with external investment. These include:

- Banana and horticulture grower associations;
- Ex-fighter/returnee settlements involved in extensive rain-fed agriculture of staple food crops, with potential to develop sesame production for export;
- The Alighidir Cotton Scheme: 2,500 ex-fighters and returnee farmers;
- Urban processing, marketing, and services businesses supporting rural enterprise and employment;
- Service businesses established to support larger extractive industries or other foreign direct investments;
- Micro-entrepreneurs who establish a business through group-lending intermediaries.

There are three categories of assisted enterprises: those receiving financial services, those receiving direct assistance, and those receiving indirect assistance due to the facilitation of external investments. Each assisted enterprise will be screened for environmental impact and mitigation measures. By 2002, it is expected that 2,600 enterprises will have received direct financial and other services.

Intermediate Results and Illustrative Approaches

IR1: Increased skilled employment in assisted enterprises

A higher rate of skilled employment in enterprise is expected to improve the business planning, management, technical performance and production output which will result in higher incomes of the enterprise. Increased income of an enterprise will also allow it to employ additional skilled labor. USAID/Eritrea is not entirely accountable for this IR since the GSE and other donor partners have primary responsibility. Planned activities include business skills development and the identification and expansion of entrepreneurial potential.

Training related to obtaining credit will increase the skill level of entrepreneurs which improves their ability to make good business decisions. Women will particularly benefit from these programs due to their known discipline in loan repayment. Farmer associations and cooperatives will provide opportunities for business and vocational training for their members. Several NGOs have ongoing business and vocational training programs in the target areas.

This IR directly supports the GSE's food security strategy which calls for the creation of "... non-agricultural employment opportunities and raising the purchasing power of the people". The bulk of the responsibility for improved skills among the target population rests, however, with the GSE.

Achievement of this IR will be measured through a review of applications for repeat loans and surveys which show *increased employment of skilled personnel in a given enterprise.*

IR2: Value of domestic goods & services sold by assisted enterprises increased

With an increase in value of domestic goods and services sold, enterprise income will increase and contribute to achievement of the Investment Objective. To achieve this IR, production and productivity of enterprises will be raised through technical assistance and technology transfer as much as through business training and the improved access to financial services.

The financial system in Eritrea is very immature as would be expected in a young country. The country's two banks have limited outreach in rural areas. No other credit lending financial institutions exist. Addressing the internal constraints of the major commercial bank (CBER) at the central office will permit the CBER to branch out further and faster into the rural areas, and make improved and more varied financial services available to a larger customer population. Improving the financial services of

the major commercial bank will also permit that institution to compete if and when foreign commercial banks open branches in Eritrea.

Well tailored credit and savings facilities that are easily accessible and responsive to the needs of individual enterprises will be essential to increase production and productivity. Lending to women will increase due to the greater accessibility of financial services and by newly-recruited female loan officers.

Enterprises that can benefit from financial services, business training, technical assistance and technology transfer range from welding shops and small food processors to packaging and transport enterprises in the target areas. On the coast, fishermen who wish to obtain financing for better fishing equipment and boats or to set up marketing links have equal access to the financing, training and technical services.

Increased agricultural production and productivity will be achieved in target areas through the provision of irrigation technology, improved products and production practices, more available inputs at lower cost, and new marketing outlets.

PL-480 Title II resources in the form of monetized proceeds will contribute to the achievement of this IR in areas where spate irrigation is appropriate. The improvement of secondary roads as a result of PL-480 Title III monetization will reduce transport costs for goods and services to target areas, which will positively affect quantity and quality of goods sold.

Progress towards this IR will be tracked through the review of bank records and loan applications which provide information on the enterprises financial statements and, as necessary, area surveys.

IR3: Increased value of exports from enterprises

Considerable scope for exports exists for products from the manufacturing and agricultural sectors. Leather and leather goods, yarns, fabrics and clothing could find regional and international markets. Many agricultural products such as oilseeds, fruits and vegetables, flowers and spices are good export products. Horticultural products are expected to be a

major component of exports generating much needed foreign exchange to procure production inputs and staple foods that are not sufficiently produced domestically.

Initial activities will focus on improving the quality and quantity of horticultural export products (e.g. banana, bell pepper, water melon, sweet melon and tomato) and the expansion of export marketing opportunities in the Gulf States. Fisheries, particularly processing and marketing, also offer considerable potential for the development of export markets. At the local level, increasing exports from enterprise **will produce more income opportunities and employment as well as upstream and downstream linkages to other enterprises. A preliminary marketing trial in Jeddah showed promising results for the improved Eritrean banana. Critically needed technical and marketing information will be more available to enterprises focusing on exports, as well as improved trade related financial services.**

> "Because of the small size of the Eritrean economy, significant economic growth and transformation can only take place if Eritrea exploits all opportunities for export of goods and services and is open to foreign investment."
>
> World Bank, 1996

The achievement of this IR directly supports the GSE's food security strategy by focusing on "..high value crops, livestock and fisheries in order to encourage exports". Tracking the *value of export sales from the assisted export businesses* will indicate progress towards achievement of this IR.

IR4: Private sector liberalization and privatization policies implemented

Liberalization of the private sector and the privatization of state-owned enterprises are key to the development of a dynamic economy and to the achievement of this Investment Objective. The main responsibility for actions towards this IR rests with the GSE, although USAID/Eritrea supports it through dialogue, institutional linkages, and its Democratic Governance Investment Objective. The enactment of improved monetary and fiscal policies will create the enabling environment for a vibrant private sector led economy. Rapid privatization of state-owned enterprises will encourage private investment which will benefit from improved and reliable financial and technical services.

The achievement of this IR will be measured by the *implementation of simplified licensing procedures* and of the *privatization of state-owned enterprises.*

Role and capacity of partners and other investors

The following are partners in the Investment Objective:

The National Confederation of Eritrean Workers (NCEW) has been actively working to establishing a cooperative association and a draft of cooperative laws for private sector development in Eritrea. The implementation of the policy would be the legal basis for establishing cooperatives. The cooperatives would be running viable enterprises which would lead to attaining increased income.

European Union (EU) is working with the Ministry of Construction on upgrading and rehabilitating primary and secondary roads. The EU is also financing a feasibility study of secondary road rehabilitation in Eritrea.

Eritrean Community and Development Fund (ECDF) is a multi donor financed five year program (IDA, Netherlands, Italian, Belgium) under the trust fund of the WB. The Fund and local community also share the total cost of socio-economic infrastructure as well as micro-credit activities in the areas of agriculture and traditional crafts.

ACCORD has been involved in designing a micro-credit and savings program which has been going on since 1994.

World Vision (WV) is providing micro credit to female ex-fighters and households headed by women to establish small scale enterprise and small scale irrigation activities.

African Development Bank (ADB): The ADB

is supplying the MOC with heavy road construction machinery which enables the MOC to upgrade its capacity to execute programs focused to improve key rural infrastructure in the target region.

Intergovernmental Authority on Development (IGAD) is in the process of coordinating financial assistance to its member countries (including Eritrea) to rehabilitate transportation and communications infrastructure.

IFAD in cooperation with a Belgium grant of $5.3 million, has loaned $12.7 to the GSE for the rehabilitation and expansion of spate irrigation systems in Sheib and Labka.

Canadian Foodgrains Bank is supporting ERREC in developing a household food security monitoring system.

The new **American Business Council** provides a forum for discussion of issues and investment information for U.S. businesses currently or potentially investing in Eritrea.

The activities supported by the institutions listed above have a significant role in the overall accomplishment of this Investment Objective.

> "However, our policy of privatization didn't start now. It is something that has been going on since liberation. The first step of privatization the government took after liberation was the returning of houses to their proper owners."
>
> Governor, Bank of Eritrea, 1997

Sustainability

The GSE's vision for economic growth centers on a vibrant private sector in a competitive, open economy with active trade and export. Private sector initiative is the hallmark of this Investment Objective and the pillar of the sustainability of the results to be achieved. This commitment to the private sector includes the privatization of state-owned corporations and contributes to the sustainability of the support to rural enterprises.

The upgrading of support services will create greater demand for services and increased responsiveness on the part of the service providers. Although provided initially through the Commercial Bank, the impetus for these activities is based upon private sector initiative, and will benefit from the liberal investment policies of the GSE. Trade linkages within the region are good and are expected to increase significantly within the time frame of the planned activities.

Rural financial services are expected to be sustainable because they result from improved banking efficiency and standards, policies and procedures. The automation of record keeping and the empowerment of branch managers will also improve sustainability. The GSE's soon to be finalized banking proclamation will enable the privatization of the banking system.

> "We are encouraging companies to aim at export-oriented production. According to our current policy any one who exports goods from Eritrea can expect to keep the dollar she/he makes."
>
> Governor, Bank of Eritrea, 1997

Entrepreneurs who will have transformed their enterprises through technology upgrading and/or managerial improvements -- including the establishment of sound business plans -- are likely to prosper and will continue to look for ways to improve their operations technically, financially and managerially. Key rural infrastructure will be maintained by local administrations (i.e. rural roads) or by benefiting communities (i.e. diversion weirs).

Critical Assumptions and Risks

The following assumptions have been made:

♦ A favorable macroeconomic policy remains in place and structural policies are implemented;
♦ Privatization polices are implemented, particularly in the areas of agricultural inputs and agricultural services;
♦ Investment rules for both foreign and domestic investors continue to attract external investment;
♦ The foreign trade and exchange regime remains liberal with limited tariffs, no export taxes, and no quantitative restrictions.
♦ CBER and/or new banks will establish a capital investment fund to provide for equity capital build-up, and foreign exchange for the start-up or expansion of larger enterprises;
♦ The highway from Keren to Teseney is rebuilt and the Ministry of Construction can implement needed road improvements in the target region;
♦ Land tenure and long-leases are ensured and expeditious;
♦ Telecommunications in key rural towns are improved;
♦ The GSE will be able to bring additional electricity generation on line in the target region as demand increases;
♦ Ground water aquifers are adequate to support significant expansion of agribusiness activities in the target region.

Crisis Modifier

Two types of potential crises are considered in this Investment Partnership: a major region-wide drought and a large population displacement (either the return of Eritreans from Sudan and/or an influx of Sudanese into

Eritrea).USAID/Eritrea maintains close contact with the GSE (ERREC and the Ministry of Agriculture) and with UNHCR on these contingencies. With the likely imminent downsizing of the UNHCR, USAID/Eritrea will soon initiate its own contingency planning exercise (using a recent UNHCR-ERREC Contingency Plan) with the Embassy Country Team. It is anticipated that representatives from BHR/FFP and OFDA will be invited to participate in this planning exercise. Should either crisis scenario occur, USAID/Eritrea will work closely with the Embassy Country Team, USAID's BHR/OFDA and BHR/FFP, other donors, and the GSE to coordinate response.

Drought and its Effects on Food Security: USAID/Eritrea's response to a serious region-wide drought could include the diversion of the local currency generated under PL-480 Title III planned for road rehabilitation, for the purchase and distribution of additional domestic food grains from Ethiopia. Other near term alternatives could include the utilization of DA funds which can be diverted to transport or other services and commodities in an emergency, and the authority to transfer a maximum of 15% of PL-480 Title II funding to Title III. Modifications to ongoing or planned assistance to enterprises would be determined by the magnitude of the crisis and the assistance required, in close consultation with the GSE, USAID/W and other partners.

The most severe threat would be if the regional drought seriously affected the best agricultural production areas in Ethiopia and the mechanized farming area in Eastern Sudan concurrently. As in 1983, this scenario would be a regional disaster. Ethiopia and Sudan would also need to import significant amounts of staple food and Eritrea could not meet any of its needs from regional surpluses. Consequently, food aid imports would be needed in all three countries. This scenario would probably bring assistance under this objective to a halt, and USAID in collaboration with the Embassy and the GSE and the international donor community would move into a disaster mode, with a disaster declaration for OFDA funding of large-scale massive food imports. The GSE has taken actions (with German, EU and WB assistance) to improve the capacity of its ports and primary road networks thus improving emergency import and distribution capacity.

Population Displacement from Sudan: The political situation in Sudan could force the estimated 125,000 Eritreans in Sudan camps and even a greater number of Sudanese to cross the border into Eritrea, initially in the western lowlands. The extent to which the GSE would need logistical and commodity assistance to respond would dictate how the activities under this Objective would be modified. These activities would assist the GSE and UNHCR (in collaboration with State/PRM) to establish temporary camps and meet food, water, shelter, and health needs for both returnees and refugees. The GSE currently has (thanks to PL-480 Title III) a nascent food stock. However, this will require close monitoring. The magnitude of

such a crisis, the capability of the GSE and the availability and timing of international community assistance would determine the magnitude of modification of ongoing/planned activities.

USAID/Eritrea and the Embassy closely monitor and will carry out contingency planning on these two crisis scenarios. USAID/Eritrea will make another attempt to increase FEWS presence in Eritrea and will continue to help strengthen the GSE's early warning system (EFIWS) and the regional early warning network. With the downsizing of WFP **and UNHCR in Asmara, the U.S. Mission's role in crisis monitoring and response has increased. Modifications to the Investment Objective under either crisis scenario could range from minor shifts in funding and delays in I.O. implementation to a complete shut-down of all development activities. In such cases, USAID/Eritrea would request replacement funds to compensate for the funds allocated to crisis resolution. During the hiatus, performance measurements towards IRs would be modified or interrupted as appropriate to the magnitude of the crisis and new results related to emergency activities would be developed as appropriate.**

Eritrean Food Security Strategy Objectives

Increasing agricultural production

Creating non-agricultural employment

Establishing food reserves

GSE, 1996

4. Relationship to GHAI Goals and Principles

This Investment Objective contributes squarely to the goals of the Agency and the GHAI. As explained earlier, the rural enterprise approach is expected to lead to increases in agricultural production, to higher incomes in rural areas from increased production, improved productivity, and better employment, and to greater foreign exchange

earnings (from exports) to import food -- all primary to broad-based economic growth and food security at the national and household level.

This approach, focused as it is in poor areas adjacent to Sudan, will also enhance socio-economic and political stability through production that is less drought-prone, income and employment "multipliers", as well as strengthened urban-rural linkages and intra- and inter-regional trade -- all important factors in crisis prevention.

This Investment Objective is also responsive to the GHAI principles. It is fully Eritrean "owned", building on Eritrean institutions with minimal external management and derived from explicit GSE priorities. It is strategically coordinated, both filling a large gap in Eritrean and other donor programs and providing a linkage between "grassroots" programs (e.g. PC, DOD, NGO, UNHCR) and larger trade and investment initiatives (e.g. Department of Commerce). It promotes regional business, trade and investment linkages, and will help stimulate a "frontier" rural economy.

With regard to relief and development, small enterprise development is an important linkage by providing income and employment opportunities for the displaced as well as longer-term sustainable, economic growth. Finally, with its focus on the poor northern and western areas which are both adjacent to Sudan and drought-prone, this Investment Objective recognizes potential sources of instability and seeks to eliminate them, while also contributing to overall national economic growth.

"Private foreign investment is envisaged to pick up slowly while Eritrea's social and economic infrastructure is being rebuilt and the policy reforms are intensified."

IMF
1996

G. INVESTMENT OBJECTIVE 3:

Increased capacity for accountable governance at local and national levels.

Well-targeted capacity building investments from USAID will help Eritrea to establish the systems of accountable governance. By 2002, Eritrea will have active, elected local and national assemblies, a democratic constitution with judicial review, a legal code and functioning rural courts, streamlined and decentralized government, and expanding business, special interest, and community organizations.

1. Opportunity Analysis

The Problem

Eritrea's determination to achieve a new kind of nation -- with a clear eye to the many failed states in Africa -- is a special asset in building from scratch its societal and governmental structures. While the goal of democratic government is unequivocal, Eritrea's leadership, with strong popular support, is similarly determined that the formation of this government be on its own terms, in its own way, and on its own timetable.

Although local participation was a hallmark of the struggle, the transition from a military structure to national civilian government has been the paramount challenge. Some elements of the transition have been difficult. Military demobilization, while generally expeditious and well-managed, caused disenchantment among some ex-fighters. The transitional government still bears elements of an authoritarian, centralized military style of operation.

Notwithstanding the difficulties experienced in transition, the structures and processes of civilian government are beginning to materialize: new institutions defined by the constitution (representative legislature, presidency, courts), the new decentralized local electoral assemblies and administrations, and the new streamlined and limited role of central government.

Political discourse, though, remains dominated by the PFDJ. This is, in large part, due to the unity forged during the struggle, but also is due to the concern over the ethnic and religious conflict prevalent in the region. External threats (terrorism from Sudan) also affect the political process.

Despite the democratic influences of British rule, the Federation and an active and involved diaspora, Eritrea remains a fundamentally traditional society. The pace and development of progressive democratic governance will be tempered by the range of traditional culture, custom, and law and the need to incorporate several ethnic identities, languages, and religions. The leadership's concern over preserving the sense of national unity forged by the struggle is also important.

Poverty is a fundamental problem. While building itself and a democratic process, the government will also have to promote accelerated economic growth to provide incomes for its people and revenues for its own costs. Furthermore,

"I believe the current administration strongly believes in democracy, even though, it only had military experience and takes longer to be exorcized from that discipline. Had I not believed that this administration has democratic beliefs, I would not have marched with it."

Dr. Bereket, University of North Carolina 1996

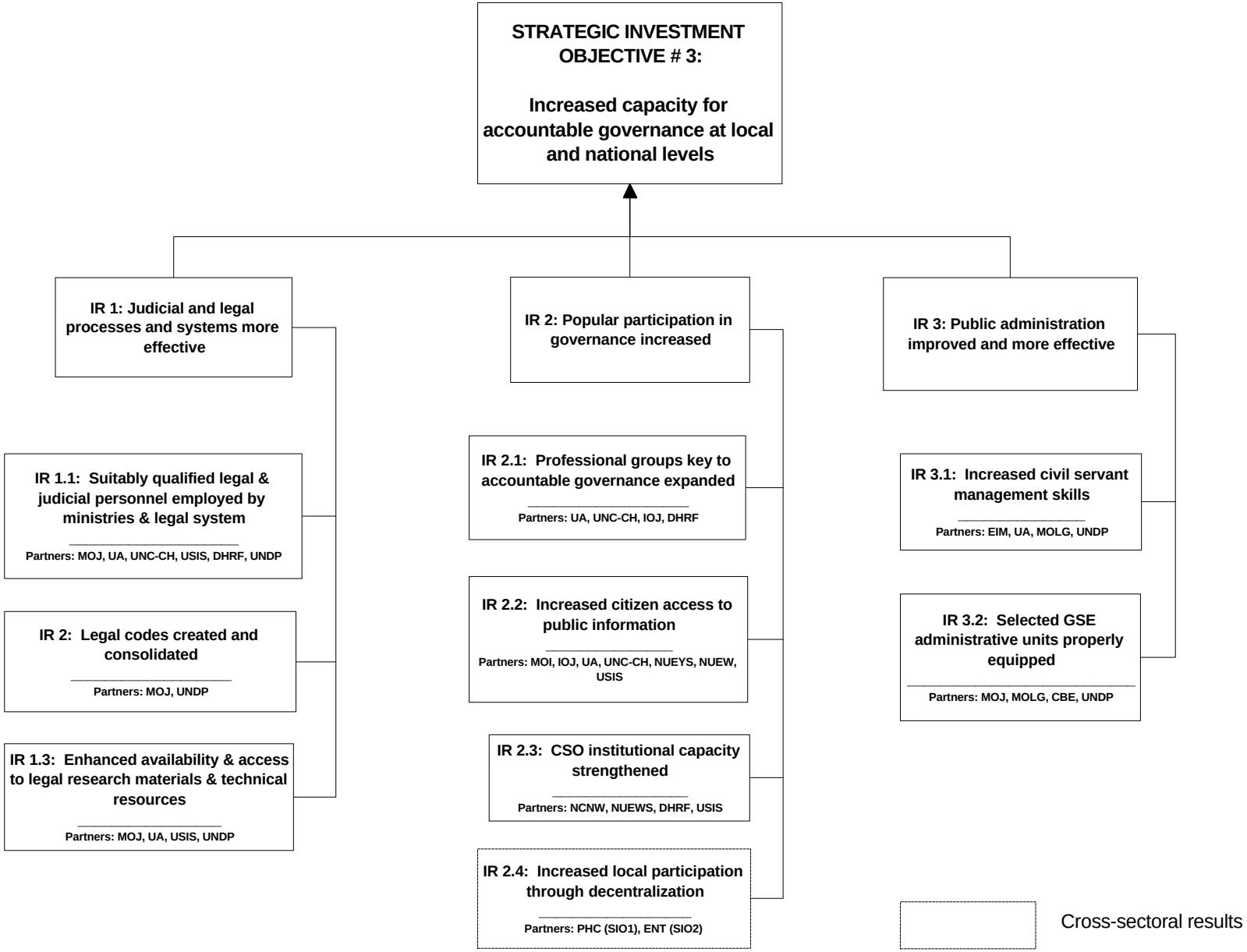
"If this isn't going to be a country we can be proud of, then it was all a waste of time."

Hagos Ghebrehiwet, PFDJ 1996

the struggle established a "social contract" between the leadership and the people. The evolving new government has to fulfill that contract by ensuring that food, education, health services and basic infrastructure are soon widely available.

Constraints

Eritrea is severely constrained by a lack of capacity to develop accountable governance. Capacity represents the combination of human resources and democractic institutions without which the ability to develop self-directed and self-reliant development policies becomes untenable. This lack of capacity is prevalent in


STRATEGIC INVESTMENT OBJECTIVE # 3:
Increased capacity for accountable governance at local and national levels
IR 1: Judicial and legal processes and systems more effective
IR 2: Popular participation in governance increased
IR 3: Public administration improved and more effective
IR 1.1: Suitably qualified legal & judicial personnel employed by ministries & legal system
Partners: MOJ, UA, UNC-CH, USIS, DHRF, UNDP
IR 2: Legal codes created and consolidated
Partners: MOJ, UNDP
IR 1.3: Enhanced availability & access to legal research materials & technical resources
Partners: MOJ, UA, USIS, UNDP
IR 2.1: Professional groups key to accountable governance expanded
Partners: UA, UNC-CH, IOJ, DHRF
IR 2.2: Increased citizen access to public information
Partners: MOI, IOJ, UA, UNC-CH, NUEYS, NUEW, USIS
IR 2.3: CSO institutional capacity strengthened
Partners: NCNW, NUEWS, DHRF, USIS
IR 2.4: Increased local participation through decentralization
Partners: PHC (SIO1), ENT (SIO2)
IR 3.1: Increased civil servant management skills
Partners: EIM, UA, MOLG, UNDP
IR 3.2: Selected GSE administrative units properly equipped
Partners: MOJ, MOLG, CBE, UNDP
Cross-sectoral results

the judicial and legal system, in popular participation in accountable governance, and in public administration.

The judicial and legal system

Eritrea inherited a mix of jurisprudential traditions from its colonial past as well as from the diverse traditional legal practices developed by the various ethnic and religious communities. Still another jurisprudential tradition developed from rough codes of conduct and methods of adjudication used by the EPLF during the war. Eritrea's current, formal legal system is largely based on civil law, as well as customary and Islamic sharia law. Ethiopian codes, themselves largely a result of the transplantation of Continental law, were received *en masse* by Eritrea with certain modifications.

The entire judiciary, like nearly all governmental institutions in Eritrea, was systematically dismantled by the Derg (the Ethiopian Marxist Government) to the extent that both physical infrastructure and personnel were removed to Ethiopia. The Eritrean court system, known for its efficiency, fairness and independence until the middle of the Federal period in the 1950s had almost totally disintegrated.

There is but a handful of formally educated, licensed lawyers in Eritrea. Further exacerbating this situation is the fact that during the war there was but a modicum of formal education -- at any level -- available to the Eritreans. This left a dearth of educated citizens at the conclusion of the war with the 20-to-30-year age group most severely affected. While the High Court judges are generally experienced, the more recent appointments to the bench at the lower levels, especially the village level where most people have direct contact with the judiciary, have been almost wholly untrained.

The Eritrean judicial system is lacking in basic tools. Access to information and legal resources is limited. The Ministry, the courts, and the University of Asmara law program are critically short of essential research tools including books, computers, and copiers. The lack of administrative technology plays a significant role in the timeliness of the administration of justice and in interfering with the judicial process. Word processing and dictating capabilities are necessary to improve the decision-making process through information management and dissemination, and to facilitate transparency and consistency.

Popular participation in accountable

governance

The growth and level of participation of civil society is limited, in part, by the lack of an enabling environment due to several factors. The first is a pre-independence history in which civil society and extra-governmental association was suppressed. Second is the presence of a singular national unity and identity that is so strong and so pervasive as to have the effect of suffocating the development of civil organizations. Eritrean nationalism, independence, national development, civil society, and the EPLF are all synonymous in the minds of the people. Interrelated with these factors is a rather centralized government and a lack of constitutionally-rooted legislation. Finally, there exists the GSE's desire to maintain rather close control over civic organizations to ensure they operate in accordance with Eritrea's development goals and security concerns.

> "...the number of civil servants we had in Eritrea, close to 50,000 was almost in the ratio of one civil servant for every seventy Eritreans. We had decided to cut the number. The government's policy is to have a small, highly efficient and well paid civil service."
>
> Governor, Bank of Eritrea, 1997

The government's commitment to decentralize government functions and the emergence of groups organized around functional interests counter this situation. Also, the government has stated a commitment to constitutionally protect rights of organization, assembly, and speech. Even so, the support for the central government and the PFDJ is so pervasive, it can only be expected that an expansion of the enabling environment will be incremental.

Even given an enabling environment, Eritrea faces other impediments to increased popular participation, including the lack of groups and institutions considered key to accountable governance. They include second and third tier groups organized around functional, sectoral, and general public interests such as lawyers, journalists, public administrators, and political scientists. These groups offer capacities essential to good governance, the rule of law, and the transition to a market economy. Other groups, such as labor organizations, student and youth and women's unions are operating in undefined spheres and their ability to independently engage the state remains largely untested.

Indigenous Eritrean CSOs also lack management, organizational, and service delivery capabilities, thereby inhibiting their ability to fulfill their mandates.

Public administration

Good governance depends in part on a public service that is efficient and responsive, and public-sector management is essential for the success of policy reforms. Sound macroeconomics and decentralization depend on an effective civil service. Eritrea's ability to

implement policy reforms is seriously constrained by the lack of capacity in the public sector.

Eritrea inherited its current civil service structure from the Ethiopian regime. Many of the senior administrators were Ethiopian and fled the country at liberation. Many have now been replaced by ex-fighters. There is a significant gap between the existing skills of the civil service and what is needed in the Eritrean public-sector. Shortcomings are apparent in financial, personnel, and technical management, as well as the capacity to carry out clerical and computer-based activities at middle and lower levels of administration.

Opportunities and Results to Date

With Eritrea's first constitution now ratified, its first local elections completed, and national assembly elections planned for early 1998, Eritrea is on the path towards democratic governance. With its push for economic liberalization and a democratic and accountable government, the GSE presents a promising opportunity for a sound investment.

Movement towards participatory democracy is necessarily tempered by caution. Unstructured political activity or populism could increase ethnic and religious divisions and erode national unity. Rebuilding a nation and restarting an economy demands discipline and firm decision making. The scale and pressing development needs and the lack of human and institutional capacity to deal with them leads to decisive action by a relatively small leadership group. Strong authority at this stage may well be necessary to maintain hard-won unity and to deliver on its social contract. Nevertheless, the leadership places highest priority on the development of capable national and local administration, the legal and judiciary system, and participatory community action. Political pluralism and civil society are at this point secondary, although the constitution-making process, unions, and national women's, youth, and other community and business organizations provide a solid beginning.

> "Stringent policies to stamp out nascent corruption have been introduced, and a new round of streamlining and salary scales are scheduled for the summer to increase efficiency and obviate the need for backhanders."
>
> EIU, 1996

There is currently an opportunity to support the

leadership's commitment to develop decentralized accountable governance. Eritrea's extraordinarily participatory constitution-making process demonstrated this commitment. With this determination and commitment to democratic principles, the success of Eritrea's transition to accountable governance will depend largely on the rapid development of lawyers, administrators, professors, council leaders and village judges and their codes and courts, training institutes and university programs, local councils and administrations, electoral board and information services. The GSE has sought U.S. and other assistance to build this domestic capacity through support for training, computerization and communications, books and publications, travel, and start-up costs of organizations such as the Constitution Commission.

Results to Date

The results to date of USAID/Eritrea's investments in accountable governance, while modest, demonstrate the opportunity for the achievement of significant results in the future.

USAID investments contributed to the **drafting of the new Constitution** (ratified in May 1997). It also supported a **broad civic education and outreach effort to vet the proposed constitution with the entire population.**

Another result was the establishment of the first U.S.-Eritrean university linkage which is working toward **building the faculties of law, public administration, journalism, and political science**. U.S. law professors in conjunction with Eritrean colleagues have **developed a curriculum for the University of Asmara Law Faculty**. A curriculum for a bachelor **degree program in political science** has been prepared in conjunction with Eritrean partners. Also the **first certificate program for working journalists** was initiated at the University of Asmara. USAID/Eritrea has also initiated a broad array of support programs for the University including procurement of books and computer equipment to **strengthen the libraries, computer center and the Department of Social Sciences**. A second university linkage for Eritrea's new management institute is also being finalized.

USAID/Eritrea has been a central partner of the Ministry of Justice, providing for the **establishment of a law center** and supplying books, furniture and legal resources. Funding has supported the **translation of the Ethiopian legal codes from English and Amharic into Tigrinya.** USAID/Eritrea funded a study tour in the U.S. for the Minister of Justice and her legal advisor to assist the MOJ in developing a **plan for legal reform.**

USAID/Eritrea investments are also building the capacity of the Central Bank which will **enable the introduction and**

> "Until Eritrea has its own currency, however, capital will continue to flow to Ethiopia, attracted by higher interest rates."
>
> EIU, 1996

management of Eritrea's own currency this year.

A linkage between a foremost U.S. women's organization and the National Union of Eritrean Women has been established which will **develop the management and educational capacity of Eritrea's major women's organization.**

2. GSE Priorities

In November, 1994, the government issued its "Macro Policy" which laid out its aspirations and macro-policy framework for "...development and democracy." In order to expedite movement toward democracy, the GSE established, by proclamation, a 50-person constitution committee which promoted broad participation in the writing of the document and encouraged substantive debate among Eritreans, both in and outside of the country. Chapter 2 of the constitution, *National Objectives and Directive Principles*, specifies these national priorities: National Unity and Stability; Democratic Principles; Competent Justice System; Competent Public Service; and Economic and Social Development. The government has been moving deliberately to devolve central authority and to open up the political arena. Central to the government's agenda is the strengthening of local administration at the district and regional level. Currently, the central Ministry of Local Government manages the entire local government system.

Local governments are supported through a combination of taxes and user fees and are supplemented by central government funding. Local governments are empowered to solicit constituent contributions for projects such as building schools and clinics. Local governments, however, are underfinanced, understaffed, and undertrained. The GSE has restructured local government by de-emphasizing ethnic-linguistic divisions and establishing boundaries which conform to distinguishable development zones.

3. Investment Objective

Increased capacity for accountable governance at local and national levels.

This Investment Objective addresses capacity building primarily in three areas: (1) the legal and judicial system, (2) popular participation, and (3) public administration. Within these three areas, both human and institutional capacity will be increased.

The Investment Objective will: (1) build on USAID's strengths and relationships here in Eritrea, (2) address the critical capacity areas that the GSE and USAID/Eritrea can reasonably expect to impact, and (3) build on, and remain consistent with, GSE's priorities and the consensus reached during early working sessions which included representatives of the Ministries of Local Government, and of Justice, the Office of the President, the Constitution Commission, the Universities of Asmara and North Carolina at Chapel Hill, and the National Union of

Eritrean Youth and Students. The highly participatory process in selecting this Investment Objective will go a long way to ensuring success.

Achievement of this Investment Objective will be measured through specific events and conditions in the area of capacity for accountable governance. The investment objective will look to the following indicators:

- **Extent to which key civic organizations are better able to serve constituents.**
- **Degree to which selected public institutions of governance are better able to fulfil their mandated role.**
- **Degree to which the rule of law is strengthened through legal training.**

> "In my opinion these are the economic lessons we can learn from Singapore. However, I have also read if it is true that Singapore has an authoritarian government. My opinion in this regard is that economic and political freedoms should go hand in hand. We can not sacrifice one for the other."
>
> Governor, Bank of Eritrea, 1997

Intermediate Results and Illustrative Approaches

Three Intermediate Results will be necessary to achieve this Investment Objective:

- *Judicial processes and systems more effective;*
- *Popular participation in accountable governance increased; and*
- *Public administration improved and more effective.*

USAID/Eritrea anticipates that, as the GSE progresses in its democratic transition, its implementation of accountable governance will likely evolve. Because the GSE is new and lacks governance experience, flexibility in USAID's program design is essential.

Through achievement of the intermediate results, Eritrea *will build the capacity* needed to implement accountable governance. Capacity in the Eritrean context is the combination of skilled human resources and enhanced institutions that will facilitate the achievement of Eritrea's development goals.

IR1: Judicial processes and systems more effective

As Eritrea prepares to enter a new phase of accountable governance under notions of constitutionalism, the need for capable and competent rule of law becomes critical.

Operating under the constraints of severely diminished capacity and limited resources, the Ministry of Justice is challenged to fulfill its mandate to provide Eritrea with the legal and

judicial system necessary to support Eritrea's development goals. Among its responsibilities are the requirements to coordinate the education and practice of lawyers, establish courts and control court processes, draft and codify laws, provide legal education, and provide legal opinions to the various ministries and agencies.

The Ministry must address human resource development, administrative technology, and legal resources. The lack of trained human resources dedicated to the administration of justice is a substantial problem at every level and reduces the effectiveness of the entire judicial system. Few personnel hold law degrees and many personnel require specialized training. Eritrea currently has no established standards of professional conduct or an effective bar association to guide and regulate the conduct of attorneys and judges.

Efforts are underway to substantially reform the Eritrean codes so as to reflect an Eritrean context, to ensure the codes conform to the new constitution, and to meet the jurisprudential and legal needs anticipated to arise in the face of Eritrea's development activities and transition to a market-oriented economy.

USAID/Eritrea is taking a capacity-building approach to rule of law development which is linked to simultaneously addressing structural reform and legal system strengthening. Structural reform is addressed through activities that support constitutional restructuring of the judicial system, legal code drafting and reform, and improved judicial processes. Legal system strengthening is addressed through activities that include support to improve legal training for law students and judges, and enhanced judicial research materials and technical resources. As opportunities arise, USAID/Eritrea will also assist the MOJ to strengthen the demand side of the rule of law, including constituency building and access improvement.

INDICATORS

- ***Court management***
- ***Courts presided by trained judges***

IR2: Popular participation in governance increased.

The idea that democracy can only be strengthened when there exists a vibrant, dynamic and pluralistic civil society is difficult to dispute. The challenge is to identify and strengthen those areas of civil society that present the greatest return on investment while also recognizing that the breadth and scope of civil society is directly related to the Eritrean conception of the normative relationship between government and civil society.

This Investment Objective looks, then, to both formal and informal associations whose interests may be economic, professional, cultural, educational, or civic. USAID/Eritrea will work with Eritrean organizations to expand and strengthen those professional groups considered key to accountable governance; to broaden the participatory base in civil society by working to

"Capacity for effective governance is a necessary precondition for democracy and, as such, 'building capacity for effective governance' could be the program objective, with the goal of democracy following."

Participant, USAID Strategy Working Session

increase citizen access to public information; and strengthening CSO organizational capacity where possible. It will also work to increase local and cross-sectoral participation in governance through association and local government capacity building in the health and rural enterprise investment strategies.

INDICATORS

- ***Access for women***
- ***Extent to which public policies changed consistent with CSO advocacy***
- ***Extent to which development funds are utilized by CSOs in pursuit of development objectives***

IR3: Public administration improved and more effective.

Capacity building in Eritrea's public sector involves specific initiatives directed toward improvement of the capacity of the public sector to design and implement policies necessary for Eritrean development. USAID/Eritrea and the GSE will collaborate to focus on capacity in the public sector which will support good governance in Eritrea by facilitating accountable public sector management through bureaucratic transparency, sound fiscal management and public financial accountability, and a responsive civil service.

USAID/Eritrea will support the GSE to work toward an improved, more effective public administration, at local and national levels, through activities designed to increase civil servant management skills; to properly equip selected administrative units; and to improve fiscal and monetary management, especially at the national level. As well, other USAID/Eritrea investments, through a cross-sectoral approach in Health and Rural Enterprise, will strengthen the ability of decentralized government to assume a more prominent role in the delivery of local public services and in the management of local natural resources.

INDICATORS

- ***Local government delivery of health services***
- ***Public expenditure per public-sector employees***
- ***Inflation held below 10%***

Targeted Customers

Just as this investment objective reaches across all three levels of governance, it also reaches three groups of customers and even, ultimately, the Eritrean citizens themselves. IR 1, Judicial processes and systems more effective, addresses the judicial and legal system and will impact local, national, and regional levels. Customers of this IR include the Ministry of Justice, the courts, legal practitioners, and the Eritrean citizens. In fact, virtually all elements of society, including foreign investors, that stand to benefit from the strengthened rule of law will be ultimate customers of IR 1. IR 2, Increased

popular participation, seeks to increase participation in development of accountable governance and will reach CSOs, such as professional groups, the university, and associations, as intermediate customers. Ultimate customers will include citizens with increased access to, and participation in, accountable governance. IR 3, Improved, more effective public administration, will increase capacity for accountable governance by addressing the needs of intermediate customers, such as civil management skills at local government levels and monetary and fiscal management within the Central Bank. The ultimate customers -- citizens -- will realize more responsible and accountable government services.

> "Most Eritreans are enjoying greater freedom and security than they ever dared to hope for. Many would deeply resent a government that put concern with (relatively abstract) human and civil rights ahead of basic freedom and security. Repression and fear are not abstractions but all too concrete memories."
>
> ***Rights after Liberation,* Calhoun and DeLargy, 1996**

Role of Partners and Other Investors

Although there are a number of other donors working in related areas, USAID will be in the vanguard of those supporting accountable governance in Eritrea. It is a tribute to the U.S.'s reputation and to USAID's comparative advantages.

USIS is also actively involved in democracy and governance activities in Eritrea, and is USAID/Eritrea's closest implementing partner. USIS, closely complementing USAID/Eritrea's activities, is working under a Sub-Theme titled, "Building Democratic Institutions." In large part, USIS activities are working toward the development of a "healthy civic society" with emphasis on: (1) strengthening the University of Asmara, (2) support for the Constitutional Commission, (3) support for the Ministries of Education and Information to develop civic education programs, and (4) support for NUEYS, NUEW, and the Eritrean Teachers Association to strengthen their organizational capacity and promote the development of indigenous NGOs in Eritrea. Other USIS activities in democracy and governance include a citizen exchange program through the Freedom House NGO Development Program, the Humphrey Exchange Program, and the International Visitor Program.

State Department Section 116(e) funds are managed through the Democracy and Human Rights Fund Committee to finance small, short-term, high impact activities which target civil and political rights, rule of law, development of civil society organizations, and development of democratic principles and institutions.

The Ministry of Justice has received some assistance from the **Norwegian and Canadian** governments for rehabilitation of the courts. The **ODA and the Finnish government** have provided support for general curriculum development in the Ministry of Education (although the USG was specifically asked for support to civic education). The Ministry of Information has received some small amounts of assistance from a number of **NGOs** for short-term journalist training. The Ministry of Local Government obtained support from **UNDP** for a study of qualifications and training needs for the civil service.

Norway provided approximately six million dollars for assistance to the police force for facilities improvement and personnel training, and election assistance for the 1993 Referendum.

Sustainability

Sustainability is at the crux of this accountable governance investment and is a particular concern of the GSE and USAID/Eritrea. The GSE intends to be self-reliant in ten years and understands that only with greatly increased governance capacity will this goal be realized. On the other hand, the GSE is wary of heavy external support for institutions which may not be sustainable, and is thus, commendably prudent in expenditures whether supported by external or domestic resources. The GSE understands that democracy cannot be learned in one course or institution, or realized through one election; it can only be built by a nation that understands and is committed to democratic principles. The GSE has been and continues to be very prudent in expenditures on any new programs or institutions due to their recurrent cost obligations. All USAID investments under this objective are geared either towards long-term capacity building for effective governance, or towards promoting Eritreans broad participation in and understanding of government.

Critical Assumptions and Risks

The development of capacity for accountable governance in Eritrea will be impeded if the government does not continue with its stated plans; namely, if elections do not take place as planned; if political expression is neither allowed nor facilitated; or, if a free-market economy with liberal investment rules is not allowed to develop**.** USAID/Eritrea will also be closely watching the development of an enabling environment for civil society and broad-based political participation.

Current GSE policy constrains the evolution of a polictically active civil society, creating concern about potential concentration of economic and political power in the hands of the State and the PFDJ, which may result in undemocratic outcomes later. While the Embassy and USAID/Eritrea will monitor this, it is necessary to recognize that the government is demonstrably committed to participatory governance through the creation of democratic institutions (constitution, parliament, independent judiciary, etc.) and through an

arduous process of decentralization of power. The critical assumption is that the democratic commitment, tendencies, and practices demonstrated by the government and civil society to date will be reinforced and expanded.

USAID/Eritrea is confident that it will be expanded due to: (1) the GSE's progressive actions in critical areas: decentralization, privatization, and constitution-making; (2) the solid USG - GSE bilateral relationship and consequent collaboration, dialogue, and planning; and (3) the demonstrated honesty and integrity of GSE officials made apparent over several years of working together.

Notwithstanding the steps taken by the Eritrea government to facilitate the transition to accountable governance, Eritrea faces threats beyond its immediate control; most notably the destabilizing influence of Sudan. Sudan has been strongly linked to the threat to Eritrea's internal stability caused by fundamentalist activities of the Islamic Jihad. Efforts to contain the terrorist activities of groups such as the Jihad may, unfortunately, have impact on other non-terrorist groups. For example, laws that restrict external funding and restrictions on religious-based development activities may be imposed with the intention of limiting the support for, and ability of, the Jihad to operate. Such laws and restrictions, however, may have the effect of constraining the ability of legitimate organizations to operate as well.

4. Relationship to GHAI Principles and Goals

This Investment Objective directly supports the Agency goal of building sustainable democracies. It also supports the other Agency goals of broad-based economic growth, and stabilizing population and protecting human health, by facilitating the devolution of decision-making and planning, increasing the capacity of the government to manage and implement, and encouraging the development of an enabling environment for commercial and civil society development.

This Investment Objective contributes to the GHAI goals of food security and crisis prevention by building the capacity of governmental and civic organizations which deal with planning, services, law, and generally, good governance. It also fully supports the GHAI principles.

The move to accountable governance is clearly Eritrean-owned and led by Eritrea. The EPLF, now the PFDJ, has sustained a vision of democratic governance since its inception. Today, the GSE speaks credibly of building a decentralized and accountable democratic government. USAID/Eritrea is helping to build the capacity Eritrea needs to meet its vision.

This Investment Objective was developed through, and will utilize, strategic coordination across bureaucratic boundaries. To a large extent, its success will depend on strategic coordination. Implementation will depend on the efforts of the GSE, the U.S. Embassy, USIS, and other bilateral and multilateral organizations.

> "The new government restructuring has become fruitful...to my surprise, we have not yet found any complaints of misunderstanding among the ministries and the administration."
>
> Governor, Gash-Barka, 1997

In a region torn by war and famine, Eritrea has the potential, and likelihood, to stand as a model for nation building in the Greater Horn. Eritrea, through streamlined and decentralized government and civic mobilization, is determined to deal with those factors that have contributed to conflict in the Horn such as ethnic diversity, disproportional economic development, religious conflict, and dictatorial regimes.

With a focus on decentralization and increasing the capacity for accountable governance, the local and regional governments of Eritrea will be better poised to simultaneously address the needs of relief and the goal of development. Specifically, USAID/Eritrea will target particular local entities to strengthen their abilities to deliver services. For example, in Gash-Barka -- which is dealing with the return of refugees from Sudan -- USAID/Eritrea's investments cross sectors and help build local government capacity for service delivery while also planning for crisis as well as longer-term development.

> "Noting the fact that the Eritrean women's heroic participation in the struggle for independence and the values and ideals generated by such struggle will serve as an unshakable foundation for our commitment and struggle to create a society in which women and men shall interact on the bases of co- mutual respect, fraternity and equality."
>
> Draft Constitution 1996

H. COMPLEMENTARITY AND SYNERGY AMONG OBJECTIVES

Nation-building is the unifying common element among the three Investment Objectives, or, more specifically, completing a transition from devastation to stable economic and political growth. Building health services, rural enterprise, and participatory governance are each necessary and complementary elements of this effort: effective health services enhance productivity in enterprise and government; growing enterprises create the income to sustain health services and government; and good governance ensures adequate health services and an enabling environment for enterprise. Integrating themes and synergies include the following.

1. Social Contract

During the struggle for independence the EPLF made concerted efforts to ensure basic social services, agricultural commodities, and local governance in liberated areas. The new government has likewise been explicit in its pledge to ensure adequate health and education, basic economic infrastructure, and participatory government for all the people of Eritrea. Not fulfilling this "social contract" would undermine the government and stability of the country. However, the government's current resources and capabilities are limited.

This Investment Partnership will facilitate fulfillment of the social contract by helping: to deliver effective primary health care services, to stimulate the growth of primarily rural enterprises; and to build the systems of governance, each a necessary, but not sufficient condition for fulfilling this social contract.

2. Capacity Building

Decades of neglect and struggle devastated Eritrea's institutions and human resource base. The gap between the leadership's vision and goals and the capacity of the public or private sector to achieve them is vast. Severe capacity constraints limit the achievement of end results, particularly within a government who insists on leadership of the investment process. Across the board, be it the central ministries, youth or womens' associations, commercial undertakings, or local government and communities, a major effort is necessary to build the basic absorptive capacity necessary for implementation. This Investment Partnership emphasizes capacity building through institutional linkages and overseas, local and on-the-job training.

The end results of the Investment Objectives for health, enterprise, and governance will only be achieved in later years after long and intensive efforts at capacity building in the early years.

3. Women

Thirty percent of Eritrean independence fighters were women. Forty three percent of Eritrea's enterprises are owned by women. The new constitution will ensure a minimum of thirty percent of legislative representation to women. The State of Eritrea's commitment to full rights and participation by women is unequivocal.

This Investment Partnership reinforces and will help fulfill that commitment across all three Investment Objectives. Maternal health and women's education is a particular emphasis of the Primary Health Care Objective. Women's access to credit and business promotion is a specified target of the Rural Enterprise Objective. The Governance Objective, with the strong female leadership of the Ministry of Justice and national women's union ensures attention to women's legal rights and literacy training. Women are a major theme of this Investment Partnership.

4. Financial Sustainability

The fact that Eritrea is starting from scratch offers a unique opportunity. Furthermore, its leadership has learned from the legacy of generally profligate, unsustainable development projects throughout much of Africa. As the

struggle was won by optimal use of limited resources, so too the new government appears to be acutely conscious of the costs of development and the revenues necessary to support them.

Financial sustainability is a fundamental part of each Investment Objective. Integrated services, information systems, and cost recovery are central to effective primary health care services. Credit and credit management (and later equity shares) are necessary to expand enterprise as well as infrastructure in rural areas. Monetary and fiscal management are essential to good governance. Financial Sustainability is a core concern of the GSE, and thus of this Partnership.

5. The North and Western Lowlands

The northern and western areas of Eritrea adjacent to Sudan not only offer some of the greatest potential for agriculturally-based economic growth, but also the greatest risk of destabilization from radical Islamic fundamentalism and spill-over of the civil war in Sudan. Many of these areas are fertile and accessible, but generally underpopulated and underdeveloped.

This Investment Partnership is focused on those areas. In particular, all three Investment Objectives target Gash-Barka, Eritrea's western region: the investments will help to build its health care system, its nascent, agro-based enterprises, and its new structures of local government. The region will increasingly receive a larger share of USAID/Eritrea's time and resources, and USAID/Eritrea is considering establishing a "branch office" in the regional capital, Barentu.

3. Policy Formulation

While the GSE has defined and formalized a clear, broad national policy framework, the development of sectoral policies is in active process. The GSE is also guarded in its policy-making process to ensure full internal consensus and truly indigenous policy process free from specific external pressure or influences.

Nevertheless, USAID/Eritrea has played and will continue a supportive role in the GSE's policy formulation and implementation. Each Investment Objective has a policy element although not as a result for which USAID is accountable (it is and should be an Eritrean process). USAID/Eritrea supports inputs to sectoral policy formulation in several ways and with linkages across the Investment Objectives.

Dialogue has been the most important aspect of this support. Discussions with USAID/Eritrea, USAID/Washington, and USAID-supported conferees contributed to the GSE food aid monetization policy as well as the recent policy on International NGO's. Dialogue is also an aspect of GSE sectoral policy formulation in the areas of health, law and finance as well as privatization and investment.

USAID-supported specialists contibute to cross-cutting policy formulation in commercial law, health finance, and bilateral legal agreements. USAID-funded institutional linkages, training and specialists in each Investment Objective contribute to the policy processes in primary health care, HIV/AIDS management, health and legal education, ethics in journalism, commercial credit and banking, monetary management, enterprise promotion, and women's rights.

I. CRISIS MODIFIER

This Investment Partnership assumes that over the initial five-year planning period, Eritrea will face a crisis. The potential for various types of crises is discussed in the previous Section C. Currently, the most likely are a major drought throughout the region (especially in Ethiopia) and a large displacement of population (and possibly antagonists) from Sudan into western Eritrea. The worst case would be a combination of both. As discussed earlier, each Investment Objective is building capacity to respond to and mitigate the effects of such crises. An effective primary health care system, robust and expanding enterprises, and stronger participatory national and local government will improve response to and the mitigation of crises.

However, responding to a major drought or refugee influx would severely strain Eritrea's governmental and non-governmental capacity and resources. The recent decision by UNHCR to substantially downsize its operations due to the impasse over refugee repatriation from Sudan compounds the situation. USAID/Eritrea must help ensure preparedness for and augment emergency response. Planning is incorporated into the Primary Health Care and Rural Enterprise Investment Objectives. Actual response, however, would involve temporary modification of each Investment Objective.

For example, the three public health physician/advisors funded by USAID/Eritrea and currently working under I.O. 1 could be temporarily assigned to work with response teams. USAID-funded pharmaceuticals, equipment, or vehicles could be similarly shifted. Under I.O. 2, credit funds, food grain shipments, and/or local currencies could all be shifted to respond to the crisis. Shifting PL-480 Title II resources into the current Title III Program may also be requested. Similarly, USAID/Eritrea I.O. Teams and staff resources -- perhaps augmented by OFDA resources -- would have to shift their attention and efforts to the crisis situation. During this period, progress towards achieving expected developmental results would have to be curtailed.

Thus, this Investment Partnership includes a "Crisis Modifier" which would be triggered by a cable to USAID/Washington explaining the crisis, USAID/Eritrea's and others' response to it, and requesting a suspension in the achievement of selected developmental results, while proposing an alternative set of humanitarian results. Triggering the Crisis Modifier would be done in close consultation with the GSE, with the U.S. Ambassador and other involved agencies (e.g. DOD), and USAID's Bureau of Humanitarian Response (FFP and OFDA). The Crisis Modifier would also help ensure that the assets and resources of all of U.S. respondents were closely coordinated under the leadership of the GSE and U.S. Ambassador.

> "The GSE would have to stretch its institutional capacity to meet relief needs in the event of a disaster and would have to borrow staff from non-affected areas."
>
> P. Morris, BHR/OFDA/ PMPP, 1996

In the area of primary health care, the effect of the Crisis Modifier would be greatest. Either a severe food crisis, epidemic, or population displacement will require additional health services. Staff and commodities and equipment would likely be taken from on-going programs to meet immediate relief needs. In the case of a large population displacement, the staff constraints may be longer-term and require greater modification of the Primary Health Care Investment Objective.

The rural enterprise investments are targeted in the western lowlands which would be the area most impacted by both drought or a population displacement. An influx of returnees or refugees with minimal community claims and negligible material goods will put a strain on the economic networks. Displacement or food crisis in this

area will exacerbate the already low production and purchasing power that is in the target areas. The Rural Enterprise Investment Objective will have to be flexible to shift credit and technical assistance resources to meet immediate needs.

The democratic governance investments would be impacted directly by a crisis: a large disaster will tax the capacity of all levels of government, especially the Gash-Barka regional administrations, and even civic organizations involved in a relief effort. In addition, if the GSE meets the material needs for relief (e.g. food purchases) out of operating expenses, all the governing structures will be budgetarily affected, thus slowing the capacity building effort.

III. INVESTMENT REQUIREMENTS

A. RESOURCE REQUEST

USAID assistance to Eritrea is financed from the Development Assistance (DA) and PL-480 Food Assistance, and from PVO Grants. The operational year budget levels from the DA account was $8.5 million in 1996. PL-480 assistance was about $10.0 million including both Title II and Title III.

1. Development Assistance

The Investment Partnership outlined in preceding sections describes a five-year country program with a DA funding level of $50.0 million, with an additional $2.0 million in PVO grants. This represents an annual DA budget of approximately $10.0 million. This is the base investment scenario. In addition, the accompanying tables and narrative outline a low level scenario of $35.0 million, or $7.0 million per year per USAID/Washington parameters (96 STATE 107495).

Table 1 presents the funding requirements for the Investment Objectives at the base and low level scenarios. Funding at the full $10 million a year base level will allow complete implementation of the Investment Partnership. The reduced funding scenario will result in a major change in the Partnership.

Reduced Funding Scenario: A reduction in OYB to $7.0 million DA for each year could only be accommodated by the phasing out of an Investment Objective with a modest reduction of activities and results in the other two objectives. The Rural Income (I.O.2) and Primary Health Care (I.O.1) Objectives must be preserved near to current levels. These two Objectives are immediate priorities of the GSE, they are broad and deep needs which require significant resources, and they represent USAID/Eritrea's early commitments to the GSE.

Table 1
DA Funding Requirements
By Investment Objective
($ Millions)

Investment Objective	Base Scenario	Low Scenario
I.O.1-PHC	19.5	16.0
I.O.2-ENT	23.2	19.0
I.O.3-GVN	7.3	-0-
TOTAL	**$50.0**	**$35.0**

The Democratic Governance Objective(I.O.3) has a substantial pipeline and could be phased-out on that pipeline while still acheiving some significant results for the next two or three years. Also, the achievement of this Objective is "staff-intensive"; with reduced program resources would no longer be a cost-effective allocation of USAID/Eritrea's staffing resources. In phasing out the Democratic Governance Objective, USAID/Eritrea would likely maintain a Democracy Fellow to work collaboratively with the Embassy and USIS on DG activities and issues for as long as possible.

> "Involvement in several key sectors is the only way to significantly impact the twin priorities of food security and good governance, to fulfill the role as a full development partner, to leverage a range of other donor resources, and to realize the promise of the Horn of Africa Initiative in Eritrea."
>
> USAID/Eritrea, ABS, 1996

Within the Primary Health Care Investment Objective (I.O.1), the $700,000 annually

planned for population activities would have to be eliminated. Though undesirable, this would have somewhat less impact because $1 million in unanticipated, FY96 Regional funding for HIV/AIDS activities was allocated to Eritrea and used to contribute to population objectives. This extra funding would lessen the impact for this reduction in funding for population activities.

Within the Rural Enterprise Investment Objective (I.O.2), the most important activity is expanding rural financial institutions and, specifically, improving credit outreach to rural enterprises. If required, as much as a $500,000 reduction in this Objective would be borne by reducing the studies and promotional activities in U.S. investment and rural infrastructure which are less central to acheivement of the Investment Objective. This would involve a proportional reduction in results.

Table 2
Resource Requirements, Base Scenario
(in $ millions)

Investment Objective	FY97	FY98	FY99	FY00	FY01	TOTAL
I.O.1 PHC						
DA	3.5	5.0	4.0	3.5	3.5	19.5
PVO Grants	--	1.0	--	1.0	--	2.0
I.O.1 Total	**3.5**	**6.0**	**4.0**	**4.5**	**3.5**	**21.5**
I.O.2 ENT						
DA	5.2	3.5	4.5	5.0	5.0	23.2
Title III	6.0	5.0	--	--	--	11.0
Title II	2.0	2.0	2.0	2.0	2.0	10.0
I.O.2 Total	**13.2**	**10.5**	**6.5**	**7.0**	**7.0**	**44.2**
I.O.3 GVN DA Total	**1.3**	**1.5**	**1.5**	**1.5**	**1.5**	**7.3**
Total DA Funding	10.0	10.0	10.0	10.0	10.0	50.0
PVO Grants	--	1.0	--	1.0	--	2.0
Title II & III	8.0	7.0	2.0	2.0	2.0	21.0
Grand Total	**18.0**	**18.0**	**12.0**	**13.0**	**12.0**	**73.0**

2. PL-480 Food Assistance

Eritrea has not yet been able to meet more than two-thirds of its cereal consumption requirements from domestic production. In drought years only about 30 percent of food needs come from domestic sources. As a result of its low per capita food production,

Eritrea has relied on food aid to meet its aggregate food needs. Over the 1985-1994 period, Eritrea received annually between 38,000 to 300,000 metric tons of food aid which assisted between 92,000 and two million people each year. Increased food production, improved food utilization and higher rural and export incomes are needed to reverse this trend.

The GSE aims to eliminate its dependence on food aid. Its food aid policy evolved over the past several years from widespread free distribution of food at the end of the war to a more recent policy of full monetization. There has also been a steady improvement in the transparency of actions related to food aid. The GSE food security strategy is largely aimed at ensuring immediate food access to the most food insecure population while attempting to minimize the negative impact of food aid in terms of dependency and market disincentives.

> "We have a unique opportunity to have a full 'sustainable development' program with a 'limited assistance' workforce."
>
> Anders-Peasley Memo 1996

PL-480 Title II agricultural commodities and 202(e) dollar grants remain a viable development resource for Eritrea at least in the short term. Modest allocations of each and in tandem may be agreed upon on a multi-year basis provided a "middle ground" is agreed upon with the GSE, USAID and Title II Cooperating Sponsors who are eligible to receive PL-480 Title II commodities and support grant monies to implement development activities.

The development impact of PL-480 Title II activities on enhanced food security in Eritrea is naturally stronger if the activity fits well with the host country's stated strategy, is integrated within USAID's investment objectives, has strong and effective USAID oversight, and is fully integrated with Development Assistance (DA) activities. All of these are operative in Eritrea.

USAID/Eritrea has had intensive dialogue with involved GSE officials and interested PVO Cooperating Sponsors to help establish an environment suitable for all partners to achieve their shared objectives. An operational model of successful cooperation between a U.S. PVO Cooperating Sponsor and the GSE is the PL-480 Title II Africare Bada Activity. Its lessons learned to date provide an understanding and common ground between the GSE's and USG's legislation and policies regarding food aid. Already, Africare has developed a solid, trusting relationship with its counterparts and has maintained its organizational integrity by playing a crucial, value-added role in the PL-480 Title II activity's implementation.

The recently announced GSE policy on the role of NGOs may now enable U.S. PVOs to access additional PL-480 Title II resources to support this Investment Partnership.

The objective of USAID's PL-480 Title III assistance is to support implementation of the GSE's Food Security Strategy. First, the program will improve food availability and accessibility in rural areas for residents and returnees. Second, the program will generate local currency proceeds for the costs of

rebuilding a secondary roads network (which is important for food security and for political and economic integration). Third, the program will enable scarce budgetary and foreign exchange resources to be directed to public investment for reconstruction rather than be used for imported food for consumption.

> Somehow, the logic of food assistance remains entangled in obsolete rules and regulations that cumulatively contribute to perpetuate dependency. Bureaucratic inertia, very strong agricultural lobbies in the food surplus countries in the north, and traditional donor-recipient relationships may offer at least partial explanation of this state of affairs."
>
> President Isaias, Address to World Food Summit, 1996

The proceeds from monetization of food commodities under PL-480 Title III will be allocated in its entirety to the Ministry of Construction for the rehabilitation and construction of secondary roads in Gash-Barka, Anseba, and Northern Red Sea zones. However, if requested by the GSE, USAID/Eritrea may also agree to other recipient agencies for rebuilding of other rural infrastructure to improve food security.

USAID/Eritrea proposes a five-year $19.0 million program (comprised of $11.0 million in PL-480 Title III food bilateral grants and $10.0 million in PL-480 Title II PVO grants).

3. Operating Expense and Personnel Requirements

USAID/Eritrea is one of the Agency's few new country programs; the office of the USAID Representative was only officially established in FY95 with three FTEs. The workforce and operating budget levels for the current and next fiscal years reflect the establishment of a new program rather than the consolidation or contraction prevalent in other USAID programs.

A formal Management Assessment in January, 1995, conducted by a team of experienced USAID specialists remains valid and its recommendations provide the basis for planned workforce levels. USAID/Eritrea intends to maintain lean operations below the "Present Course" Assessment's recommendation (4 USDH, 6 USPSCs, and 28 FSNs). To effectively and accountably operate and implement three Investment Objectives, USAID/Eritrea requests only four USDH FTEs, three USPSCs and twenty-four FSNs. USAID/Washington approved this level in the parameter-setting review (cable 96 STATE 107495).

1996 was the critical period for the establishment of USAID/Eritrea. By January, 1997, a USDH Representative, Supervisory and General Development Officers and Program Officer, a USPSC Executive Officer and Project Manager, a TAACS Health Advisor and two Fellows were finally at post along with 22 FSNs. This workforce level will not change substantially through 1998.

USAID/Eritrea has also embarked upon an ambitious training and team-building effort focusing on its Eritrean FSN staff. At least six FSN staff per year participate in USAID or other formal training programs outside of Eritrea (two-to-three FSN staff in the U.S.). USAID/Eritrea is also considering a several-year arrangement with a U.S. management consultancy to provide regular, intensive management skill and team building training. Investment now in the Eritrean FSN staff will enable more rapid "Eritreanization" of USAID/Eritrea.

By 1999 the operations, program, grantees/contractors and necessary systems

should be well-established, strong working relationships and acceptable procedures established with new government, and FSN employees well-trained and capable of management responsibilities. Thus, in 1999 the USPSC level would be able to be decreased as the FSNs, intermediaries, and government take greater responsibility for activity management. Therefore, annual OE requirements which peak at over $1 million in FY96-97 with the maximum US and FN workforce on board, will begin to decline in FY98. After FY98, requirements should begin to decline to the $900,000 range. At these staffing and OE levels, USAID/Eritrea will have the leanest ratios of staffing and OE relative to program level of any USAID office in Africa.

A reduction to an OYB level of $7.0 million in DA will not substantially affect the staffing or OE needs through 1999 for two reasons: a funding pipeline has built up due to the newness of staff and counterparts (a new government and new FN staff unfamiliar with development assistance or USAID standards and procedures); and a "critical mass" of experienced USDH and USPSC staff is necessary to establish effective operations with all the assessment, training, dialogue, reporting, and negotiations this entails. For the next few years, the staffing and OE levels are more related to the lack of FSN and host country capabilities, than to changes in OYB levels. However, at the $7.0 million level reduced funding levels, USAID/Eritrea would begin to reduce its staff in its Democratic Governance Investment Objective team in 1998.

> "You've got a heads-up start on being the best Mission in the Agency on teamwork."
>
> L. Beyna, MSI 1997

4. Other USAID Support

In view of its lean staffing, USAID/Eritrea must draw on considerable technical and operational support from USAID/Ethiopia, REDSO/ESA and USAID/W for the success of this Investment Partnership.

I.O.1 (Primary Health Care) will require periodic technical assistance from the REDSO/ESA PH office and the Global Bureau, Center for Population, Health and Nutrition. Joint programs with USAID/ Ethiopia are also possible.

I.O.2 (Rural Enterprise) will require some support from the regional GHAI office at REDSO/ESA and AFR/SD, and BHR/FFP in regional agriculture and marketing, microenterprise development, financial systems, and trade promotion. Coordination and greater collaboration with USAID/Ethiopia will also be important.

I.O.3 (Democratic Governance) will need some technical assistance from the Global Bureau's DG Center and the Africa Bureau's SD Office.

Substantial operational support will be necessary in three critical areas: administrative and procurement support from the Executive Office and Regional Contracting Office at USAID/Ethiopia and financial management support from the Regional Financial Management Center at REDSO/ESA. This support will enable a lean workforce and OE level and more expeditious Eritreanization of USAID/Eritrea.

B. PROGRAMMING OPTIONS MATRICES

Table 3
Resource Requirements, Low Level Scenario
(in $ millions)

Investment Objective	FY97	FY98	FY99	FY00	FY01	TOTAL
I.O.1 Health						
DA	3.0	4.0	3.0	3.0	3.0	16.0
PVO Grants	--	1.0	--	1.0	--	2.0
I.O.1 Total	**3.0**	**4.0**	**2.5**	**3.5**	**2.5**	**18.0**
I.O.2 Rural						
DA	4.0	3.0	4.0	4.0	4.0	19.0
Title III	6.0	5.0	--	--	--	11.0
Title II	2.0	2.0	2.0	2.0	2.0	10.0
I.O.2 Total	**12.0**	**11.0**	**6.5**	**6.5**	**6.5**	**40.0**
I.O.3 DG						
DA Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total DA Funding	7.0	7.0	7.0	7.0	7.0	35.0
PVO Grants	--	1.0	--	1.0	--	2.0
Title II & III	8.0	7.0	2.0	2.0	2.0	21.0
Grand Total	**15.0**	**15.0**	**9.0**	**10.0**	**9.0**	**58.0**

Table 4
USAID/Eritrea Staffing Plan
Base and Low Scenarios (Full Time Equivalent)

Operating Expense Funded	FY96 Actual	FY97 Base	FY97 Low	FY98 Base	FY98 Low	FY99 Base	FY99 Low	FY00 Base	FY00 Low	FY01 Base	FY01 Low
US DH	3	4	4	4	4	4	4	4	3	4	3
FSN DH	0	0	0	0	0	0	0	0	0	0	0
FSN PSC	20	22	22	22	22	22	22	22	22	22	22
US PSC	1	1	1	1	1	0	0	0	0	0	0
Subtotal	24	27	27	27	27	26	26	26	25	26	25
Program Funded											
FSN PSC	0	1	1	2	1	2	1	3	1	4	1
US PSC	1	2	2	2	1	2	1	1	1	0	0
Subtotal	1	3	3	4	2	4	2	4	2	4	1
GRAND TOTAL	**25**	**30**	**30**	**31**	**29**	**30**	**29**	**30**	**27**	**30**	**26**

Table 5
Operating Expenses Projections
($ thousands)

	FY97	**FY98**	**FY99**	**FY00**	**FY01**	**TOTAL**
Base Level	$1,100	$950	$900	$900	$900	**$4,750**
Low Level	$1,100	$950	$850	$850	$850	**$4,600**

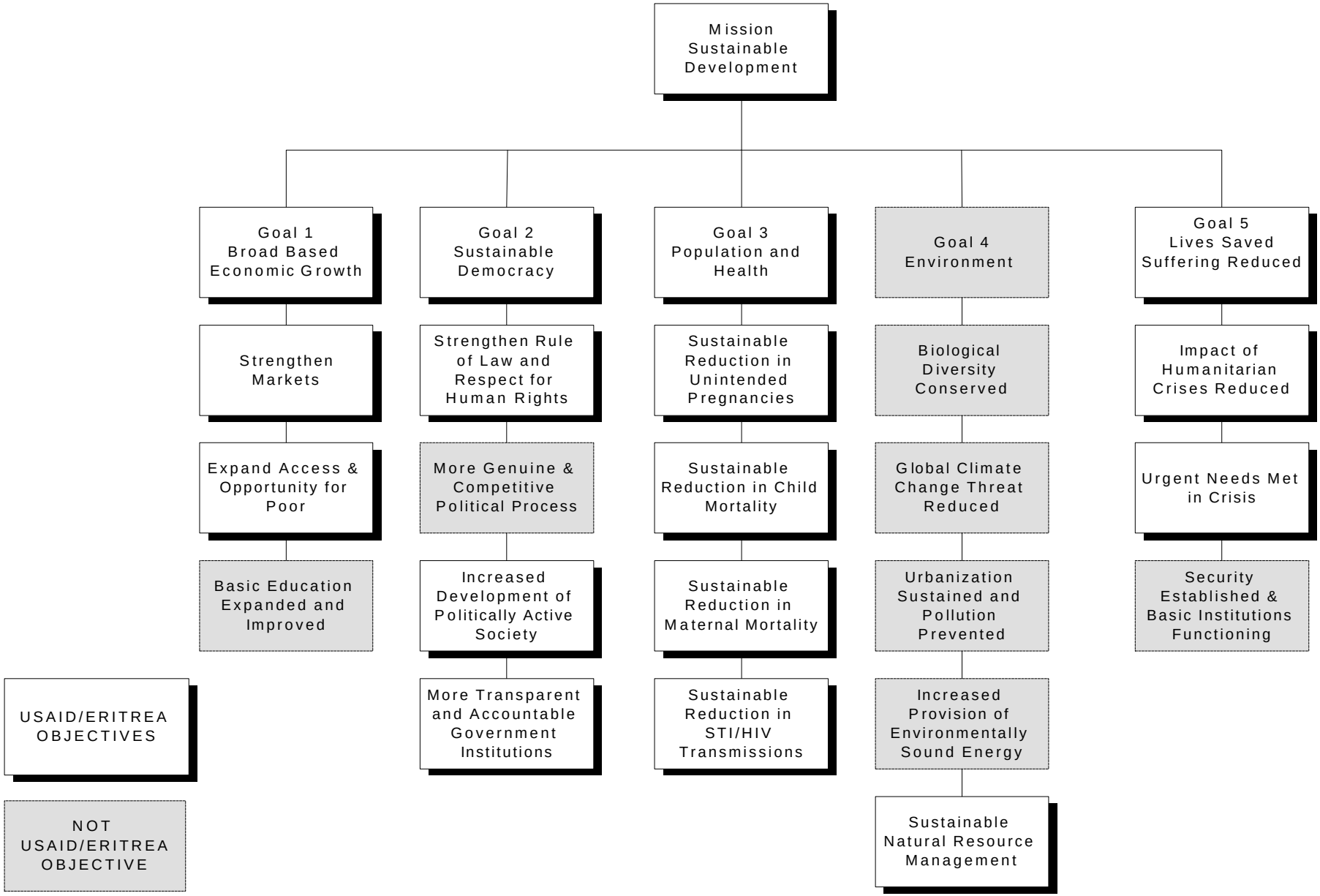
ORGANIZATIONS AND ACRONYMS

ADB	African Development Bank
BASICS	Basic Support For Institutionalizing Child Survival
BHR	Bureau of Humanitarian Response
CBER	Commercial Bank of Eritrea
CS/MHP	Child Survival/Maternal Health Project
CSO	Civil Society Organizations
DHS	Demographic and Health Survey
DOD	U.S. Department of Defense
EC	European Community
ECDF	Eritrean Community Development Fund
EDF	Eritrean Defence Force
EGB	Eritrean Grain Board
ELF	Eritrean Liberation Front
EPI	Expanded Program on Immunization
EPLF	Eritrean Peoples Liberation Front
ERREC	Eritrean Relief and Rehabilitation Commission
EU	European Union
EWFIS	Early Warning and Food Information System
FAO	Food and Agriculture Organization - United Nations
GHAI	Great Horn of Africa Initiative
GSE	Government of State of Eritrea
GTZ	German Agency for Technical Co-operation
IDA	International Development Agency
IDD	Iodine Deficiency Disorder
IEC	Information, Education & Communication
IFAD	International Fund for Agricultural Development
IGAD	Inter Governmental Authority on Development
IMCI	Implementation of the Integrated Management of Childhood Illness
IMF	International Monetary Fund
IO	Investment Objective
IR	Intermediate Results
MASHAV	Center for International Cooperation, Ministry of Foreign Affairs, State of Israel
MOA	Ministry of Agriculture
MOC	Ministry of Construction
MOE	Ministry of Education
MOH	Ministry of Health
MOLG	Ministry of Local Government
MPP	Mission Program Plan
NCEW	National Confederation of Eritrean Workers
NGO	Non-Government Organization
NUEW	National Union of Eritrean Women
OAU	International for African Unity
OFDA	Office of Disaster Assistance
OMNI	Opportunities for Micronutrient Interventions
OPEC	Organization of Oil Exporting Countries

ORS	Oral Rehydration Salt
ORT	Oral rehydration therapy
PC	Peace Corps
PFDJ	People's Front for Democracy and Justice
PHC	Primary Health Care
PHN	Public Health & Nutrition
PL-480	U.S. food assistance public law
PSI	Population Service International
PVO	Private Voluntary Organization
SEATS	Service Expansion & Technical Support
STATE/PRM	Office of Population, Refugees, and Migration
STD	Sexually transmitted diseases
STI/HIV	Sexually transmitted infections/AIDS
TBA	Traditional Birth Attendant
UCI	Universal child immunization
UNC	University of North Carolina
UNDP	United Nations Development Program
UNFPA	United Nations Fund for Population Activities
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Educational Fund
USAID/W	United State Agency for International Development/Washington
USG	United State Government
USIS	United State Information Service
WB	World Bank
WFP	World Food Program
WHO	World Health Organization
WVRD	World Relief Development

V. ANNEXES

ANNEX 1: AGENCY GOALS AND USAID/ERITREA OBJECTIVES



ANNEX 2: STATISTICAL HIGHLIGHTS

POPULATION

Population (1995)		3.0 - 3.5 million
Population Density (1995)		28 persons/sq km
Population Growth Rate (1995)		3.0%
Population Distribution (1995)	Rural	80%
	Urban	20%
Ethnic Groups:	Nine major ethnic groups, each with its own language, of which Tigrinya (50%) and Tigre (31%)	
Official Language:	Tigrinya, Arabic, English	
Religions:	Christian, Muslim, Traditional	

HEALTH

Infant mortality rate (1995)		72 per 1,000 live births
Under 5 mortality rate		135 per 1,000 live births
Maternal mortality rate		998 per 1,000 live births
Fertility Rate		6.1 births per woman
Children Fully Immunized (1993)		14%
Life expectancy at birth (1995)		46 years
Access to safe water:	Rural	7%
	Urban	44%
Access to sanitation (1994)	Rural	Less than 1%
	Urban	48%
Population per doctor (1995)		28,000
Population per hospital bed (1995)		10,000

EDUCATION

Net school enrollment (1995)	Primary	47%
	Junior secondary	22%
	Senior secondary	14%
Adult literacy rate	Male	25 - 30%
	Female	10 - 15%
	Total	20%

ECONOMY

GDP per capita (1996)		US$217-254
Annual average growth rate (1996)		6.8%
GDP by sector (1996)	Agriculture	9.8%
	Industry	27.4%
	Services	62.8%
Principal exports:	Raw materials, manufactured goods, food, live animals	
Principal markets:	Ethiopia, Sudan, Saudi Arabia, Italy	
Currency:	Ethiopian Birr	USD1 = EB 7.2

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ANNEX 4: INVESTMENT OBJECTIVE #1, PRIMARY HEALTH CARE, PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
STRATEGIC OBJECTIVE # 1: INCREASED USE OF SUSTAINABLE, INTEGRATED PRIMARY HEALTH CARE SERVICES BY ERITREANS									
Modern Contraceptive Prevalence Rate	**An estimate of the proportion of women of reproductive age who are using (or whose partner is using) a modern contraceptive method at a particular point in time.[1]** **Unit: percent** **Data source: DHS** **Responsible: SEATS, USAID/E**	**3.1**	**1995**			**5.4**			**9.3**
Prenatal Consultation during Pregnancy	**Percent of births whose mothers were attended at least once during pregnacy by medically trained personnel for reasons related to pregnancy** **Unit: percent** **Data source: DHS** **Responsible: USAID/E**	**49**	**1995**			**60**			**80**
ORT Use Rate	**An estimate of the proportion of all cases of diarrhea in children under age five treated with oral rehydration salts (ORS) and/or a recommended home fluid.** **Unit: percent** **Data source: DHS** **Responsible: BASICS, USAID/E**	**38**	**1995**			**60**			**80**
Iodized Salt Use Rate	**An estimate of the proportion of households where iodized salt is used.** **Unit: percent** **Data source: Targeted household survey** **Responsible: OMNI**	**0**	**1995**			**40**			**80**

[1] Indicators with DHS as a data source will be measured with a comparable survey at mid-term (1998) and in 2001.

ANNEX 4: INVESTMENT OBJECTIVE #1, PRIMARY HEALTH CARE, PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
Intermediate Result # 1: Access to Integrated PHC Services Improved									
Facility-Based IMCI Coverage	**The percentage of targeted service delivery points where IMCI is offered.[2]** **Unit: percent** **Data source: Facility survey** **Responsible: BASICS**	**0**	**1996**		**2**	**10**	**40**	**80**	**100**
Facility-Based FP Coverage	**The percentage of targeted service delivery points where a full-range of FP services (according to MOH guidelines) are offered. Full-range is defined as 3 methods at a health station, 4 methods at a health center and 5 methods at a hospital.** **Unit: percent** **Data source: Facility survey** **Responsible: SEATS**	**5%**	**1996**		**10**	**25**	**40**	**60**	**80**
Safe Delivery Coverage	**The percentage of deliveries assisted by trained medical personnel** **Unit: percent** **Data source: DHS** **Responsible: USAID/E**	**23**	**1995**			**40**			**60**
Knowledge of location of Emergency Obstetric Services	**The percentage of adults in two targeted communities with knowledge of the location of emergency obstetric care services.** **Unit: percent** **Data Source: Community Survey** **Responsible: SEATS**	**TBE**	**1998**						

[2] Within the context of this strategy, the Ministry of Health has designated three zones as Early Impact Zones. Forty-three health facilities within these three zones will be targeted for the early implementation of new practices, such as IMCI and Safe Motherhood.

ANNEX 4: INVESTMENT OBJECTIVE #1, PRIMARY HEALTH CARE, PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
Intermediate Result 1.1: Policies for PHC Service Delivery Implemented									
Health Facility Policy Utilization	The proportion of health facilities surveyed utilizing PHC Policy Guidelines in the delivery of PHC services.[3] Unit: percent Data source: Facility survey Responsible: BASICS	0	1996			50			75
Intermediate Result 1.2: Capacity to Manage and Plan for PHC Services Enhanced									
Human Resource Management	National Health Human Resources Development plan developed and adopted. Unit: Y/N Data source: Plan development and adoption Responsible: BASICS	No	1996			Yes			
Decentralization of Zonal Financial Management	The proportion of zones receiving budget allocations for the implementation of PHC plans. Unit: percent Data source: Zonal Survey Responsible: BASICS	0	1996			33	50	75	100
Cost Recovery for Health Care Services	The proportion of revenue for health service as compared to non-wage recurrent expenditures. Unit: percent Data source: MOH budget survey Responsible: BASICS	16.5	1994		18	20	22	23	25
Zonal Planning	The proportion of zones using an epidemiological profile to develop plans for service delivery. Unit: percent Data source: Zonal Planning document survey Responsible: BASICS	33	1996		67	100			

[3] Utilization of PHC Policy Guidelines to be defined by BASICS.

ANNEX 4: INVESTMENT OBJECTIVE #1, PRIMARY HEALTH CARE, PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
Intermediate Result 1.3: Availability of Integrated PHC Services Increased									
Couple-Years of Protection (CYP)	An estimate of the protection against pregnancy provided by family planning services during a period of one year, based upon the volume of all contraceptives sold or distributed free of charge to clients during that year. Unit: couple-years of protection Data source: MOH/Central Medical Stores Distribution Records Responsible: SEATS	5900 CYP MOH only	1996		14,600 MOH only				
Social Marketing Outlets	The number of social marketing outlets selling Eritrean Condom Social Marketing Group (ECSMG) condoms.[3] Unit: number Data source: ECSMG distribution records Responsible: ECSMG/PSI	0	1996		120	200			
Drug supply	An estimate of the proportion of targeted health facilities not experiencing stock outs of 13 essential drugs listed on the IMCI list. Unit: percent Data source: Facility survey Responsible: BASICS	TBE	1997			50	60	70	80
Intermediate Result # 2: Client Demand for PHC Services Enhanced									
Knowledge of ARI Practices	The proportion of children under three with cough and rapid breathing who were taken to a health facility or provider. Unit: percent Data source: DHS Responsible: BASICS, USAID/E	37	1995			50			70
Knowledge of Maternal Complications	The percentage of adults in two targeted communities who are knowledgeable about maternal complications of pregnancy and childbirth Unit: percent Date Source: Community survey Responsible: SEATS	TBE	1998						

[3] The ECSMG is the partnership formed by PSI for the development of the condom social marketing activity in Eritrea.

ANNEX 4: INVESTMENT OBJECTIVE #1, PRIMARY HEALTH CARE, PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
Knowledge of FP Methods	The proportion of women of reproductive age who know at least one modern family planning method. Unit: percent Data source: DHS Responsible: BASICS, USAID/E	62	1995			70			80
Knowledge of HIV Preventive Practices	The proportion of adults surveyed who recognize condom use as an acceptable means of protection from HIV infection. Unit: percent Data source: DHS Responsible: ECSMG/PSI, USAID/E	35	1995			50			70
Intermediate Result #3: Quality of PHC Services Improved									
Provider Performance of IMCI	The proportion of patients in targeted facilities diagnosed by the health care provider who are prescribed treatment in accordance with the national policy (regarding diarrhea, malaria, and ARI). Unit: percent Data source: Facility survey Responsible: BASICS	TBE	1997						
Extent of Supervision	The proportion of target health facilities with personnel reporting one or more visits every three months by supervisor. Unit: percent Data source: Facility survey Responsible: BASICS, SEATS	0	1997			30	40	50	60
HMIS Feedback	The proportion of target facilities receiving feedback on HMIS reports in a timely manner. Unit: percent Data source: HMIS Report survey Responsible: BASICS	0	1996		20	40	60	80	100
Training Coverage	Proportion of health workers in target facilities who have been trained in Safe Motherhood practices. Unit: percent Data source: Training records Responsible: SEATS	0	1996		10	20	40	80	100

ANNEX 4: INVESTMENT OBJECTIVE #1, PRIMARY HEALTH CARE, PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
Appropriate Treatment of Obstetrical Complications	Percent of women admitted with hemorrhage, eclampsia, septic shock, or obstructed labor who are treated according to guidelines established in Safe Motherhood Protocols. Unit: percent Data source: Facility records survey Responsible: SEATS	TBE	1997			50	70	80	100

ANNEX 5: INVESTMENT OBJECTIVE #2, RURAL ENTERPRISE (ENT), PERFORMANCE MONITORING PLAN

Performance	Definition	Baseline	1998	1999	2000	2001	2002

		Value	Year	Actual	Target	Target	Target	Target	Target

Investment Objective #2: Increased income from primarily rural enterprises, particularly those emphasizing exports

Gross income of	***Increases in gross income of assisted enterprises***	TBD	1997	TBD	7%	7%	7%	7%	7%

Equity in assisted	***Increases in assets of assisted enterprises***	TBD	1997	TBD	10%	10%	10%	10%	10%

Amount of trade	***Increases in the quantity of goods transported over***	TBD	1997	TBD	20%	20%	20%	20%	20%

Economic multiplier	***Increase in income and employment in rural areas***	Case	1997	TBD	5%	5%	5%	5%	5%

I.R.1: Employment in assisted enterprises increased

Number of	***Annual percentage increase in number of workers in***	TBD	1997	TBD	10%	10%	10%	10%	10%

I.R.2.: Value of domestic goods and services sold by assisted enterprises increased

Value of domestic	***Annual percentage increase in sales by assisted***	TBD	1997	TBD	10%	10%	10%	10%	10%

I.R.3: Value of exports from assisted enterprises increased

Value of export	***Cumulative value of export sales by assisted enterprises***	TBD	1997	TBD	$15	$25	$1,000	$3,000	$6,000

I.R. 4: Private sector liberalization and privatization implemented

Divestiture of state-	Number of state-owned enterprises privatized or divested	0	1997	TBD	5	10	20	30	37

Business licenses	Annual percentage increase in the number of licenses issued	TBD	1997	TBD	None	10%	25%	50%	10%

I.4.1: Laws & regulations passed liberalizing all sectors of economy

ANNEX 6: INVESTMENT OBJECTIVE # 3: GOVERNANCE (GVN) PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
STRATEGIC OBJECTIVE # 3: Increased capacity for accountable governance at local and national levels									
Extent to which key civic organizations are better able to serve constituencies.	Increase in ability of key civic organizations. Unit: Qualitative Assessment Data Source: Selected key CSOs (National Union of Eritrean Women, National Confederation of Eritrean Workers). Frequency: Annual	Q.A.	TBD	Q.A.	Q.A.	Q.A.	Q.A.	Q.A.	Q.A.
Degree to which selected public institutions of governance are better able to fulfil mandated role.	Increase in ability of selected public service institutions of governance measured by improvement in units trained, equipped, and utilizing effective information systems. Unit: Percentage increase based on weighted measurement. Data Source: Ministry of Justice, University of Asmara, Central Bank Frequency: Annual								
Degree to which the rule of law is strengthened through legal training.	Lawyers formally trained, either through university education or professional in-service training. Unit: Percent increase in formally trained lawyers. Data Source: Ministry of Justice Frequency: Annual								

ANNEX 6: INVESTMENT OBJECTIVE # 3: GOVERNANCE (GVN) PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
Intermediate Result 1: Judicial processes and systems more effective									
Court management* *Developed in accordance with the MOJ plan for legal and judicial reform.	New case management procedures developed and followed. Unit: Yes/No, in accordance with MOJ Plan for Reform Data source: MOJ, (NCSC) Frequency: Annual Responsible:	NO	1996			New procedure developed			
	New case management procedures followed. Unit: percent of selected courts* following new case management procedures Data source: MOJ, (NCSC), TBD Frequency: Responsible: *formal government courts. Does not include informal adjudication, customary law courts, or Sharia courts.						10%	20%	40%
Courts presided by trained judges* *Developed in accordance with MOJ plan for legal and judicial reform.	Formal training in adjudication and court management* Unit: percent of total judges Data source: MOJ, UNC-UA, USIS Frequency: Responsible: *formal government courts. Does not include informal adjudication, customary law courts, or Sharia courts.	25% (est.)	1996			Trng program establ'd	30%	40%	55%
Intermediate Result 2: Popular participation in governance increased									
Access for women* *This is associated with USAID/Eritrea efforts toward strengthening civil society and civil society organizations, including public administration capacity, and organizational strengthening of the women's union.	Women elected to public office Unit: percent of total elected body Data source: MOLG, National Assembly, NUEW, Electoral Commission Frequency: with elections Responsible:	0	1996	TBD	30%	30%	35%	35%	35%
	Women in management positions in selected CSOs (TBD) Unit: % of total management staff Data Source: MOL, selected CSOs, NUEW, UNDP Frequency: annual Responsible:	5% (est)	1996	TBD	10%	12%	15%	17%	20%

ANNEX 6: INVESTMENT OBJECTIVE # 3: GOVERNANCE (GVN) PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
	Women in mid-level public administration Unit: % of total mid-level staff Data source: MOL, MOLG, National Statistics, NUEW Frequency: annual Responsible:	1% (est)	1996	TBD	2%	3%	5%	7%	10%
Extent to which public policies changed consistent with CSO advocacy* *Related to efforts to strengthen CSO organizational and management capabilities.	Measure of the ability of CSOs to impact public policy decisions. This is a ratio of public policies made consistent with selected CSO advocacy to total public policy positions advocated by selected CSOs. Unit: percent Data source: selected CSOs, TBD Frequency: annual Responsible:	TBD	TBD		05%	07%	10%	20%	30%
Extent to which development funds are utilized by CSOs in pursuit of development objectives.* *Linked to efforts to strengthen CSO organizational and management capabilities. Also influenced by extent of delegation of governmental authority to implent development activities.	Measure of increased civil society participation in development activities. All development activities are controlled and coordinated by GSE. This measure looks to the level of participation by CSOs as well as the extent of decentralization (through delegation) by the GSE. Measure is the ratio of development funds allocated to CSOs to total development funds. Unit: percent Data source: selected CSOs, UNDP, Office of Macro-Policy Frequency: annual Responsible:	TBD	TBD		TBD	TBD	TBD	TBD	TBD

ANNEX 6: INVESTMENT OBJECTIVE # 3: GOVERNANCE (GVN) PERFORMANCE MONITORING PLAN

Performance Indicator	Definition and Units	Baseline		1997		1998	1999	2000	2001
		Value	Year	Actual	Target	Target	Target	Target	Target
Intermediate Result 3: Public administration improved and more effective									
Local government delivery of health services* *This cross-cuts with SIO activities in the health portfolio. It also relates to activities intended to increase the capacity of public administration units at local level.	An estimate of the capacity of selected local governments to deliver health services. Measured by improvement of health indicators dependent upon local government service delivery (TBD). Unit: TBD Data source: USAID/Eritrea PHC (SIO1), MOLG, MOH Frequency: Responsible:	TBD	1996		TBD	TBD	TBD	TBD	TBD
Public expenditure to public sector employee.* *Measure of efficiency related to impact of training programs in public sector administration. As public sector administration becomes more efficient and productive per civil servant, there is expected to be a commensurate decrease in the number of civil servants needed. This is consistent with the GSE desire to reduce the size of the civil service.	Index of public expenditure per public-sector employee Unit: Ratio of Nacfa government expenditure/public-sector employee Data source: MOLG, Budget Office, Commission for Personnel Affairs, World Bank Frequency: annual Responsible:	TBD	1996		TBD	TBD	TBD	TBD	TBD
Inflation held below 10% with new currency	GSE monetary management to hold rate of inflation to less than 10% per year following introduction of new currency in July/August 1997 Unit: Percent Data source: MOF, CBE, World Bank, IMF Frequency: annual Responsible:	12% (est.)	1997		<10%	<10%	<10%	<10%	< 10%

ANNEX 7: PHC Early Implementation Zones, Subzones, and Health Facilities

Zone	Subzone	Referral Hospital	Health Center	Health Stations
1. Southern (Pop. 630,027)	1. Tzerona (43,660)	Adi Caieh Hospital	Tzerona	-Genzebo
	2. Segeneiti (38,302)		Segeneiti	-Hadida -Hebo** -Gheneseba
	3. Areza (59,149)	Mendefera Hospital	Areza	-Maydima -Ziban Debri -Adi Gulti
2. Central (Pop. 491,566)	1. Mainefhi (42,185)	Mekane Hiwot Hos.	Mainefhi	-Adi Gebray -Himbirti -Ketemawlie
	2. Serejeka (51,575)		Serejeka	-Embaderho -Adi Sheka -Geshnashim
	3. Northern Asmara (10,000)		Edaga Hamus	-Central -Edaga
3. Gash Barka (Pop. 513,977)	1. Dige (41,883)	Agordat Hospital	Keru	-Deret -Dege -Tekreret
	2. Mansura (47,211)		Mansura	-Migrah -Duluk -Gerger
	3. Gogne (42,805)	Barentu Hospital	Tokumbia	-Augaro -Shilalo -Dassie
	4. Goluj*	Tessenei Hospital	Goluj	-Gergef -Tebeldia -Omnihager***

(1) Population Estimates--Source, MOH, Eritrea
*Refugee Resettlement Area
**Catholic NGO
***Health Center, behaves like a health station
Last revised 24 July 1996

ANNEX 8: PHC/USAID Implementing Organizations

BASICS support is designed for a period of three years (9/1995-9/1998) and focuses largely on critical system and capability-building activities with the Ministry of Health. Areas of technical input under BASICS include (1) assisting the MOH to assess planning needs, develop guidelines and manuals for decentralized health planning, conducting training workshops for health personnel at national, zonal and sub-zonal levels; (2) long-term technical assistance to work with the MOH to establish a Health/Management Information System; (3) working with the MOH to strengthen health system training through updating teaching curricula, sponsoring health personnel for mid and short-term overseas training and building in-service training into project activities.

SEATS TA is schedule for two years (3/96-12/98) and will emphasize improving the quality of and access to reproductive health services, particularly family planning services. SEATS will work closely with the MOH at the central, zonal and sub-zonal levels to improve the management and delivery of FP/RH services. Specific activities include: FP/RH training for health workers; clinical service provision, awareness campaigns, procurement of clinical equipment and furniture for health facilities; and, management training. SEATS will also work with the National Union of Eritrean Youth and Students, the National Union of Eritrean Women and the Planned Parenthood Association of Eritrea.

Activities outlined in the OMNI Scope of Work will begin in early 1997 and will run for a period of two years. For this period, OMNI will work towards three primary objectives: (1) strengthening the IEC unit in the MOH in terms of message development and transmission through a spectrum of media with an initial focus on micronutrient and other nutrition messages; (2) providing TA to the IDD Task Force for universal salt iodization to include quality assurance and control systems, improved salt production, distribution, monitoring and examination of Sustainability requirements; and, (3) assisting with an assessment of vitamin A and iron folate supplement availability and existing delivery systems and assure appropriate treatment and prevention measures for micronutrient deficiencies are in place.

There is a critical need for AIDS prevention interventions in Eritrea. Effective STD/AIDS prevention programs, a major component of reproductive health, are lacking and required. Population Services International (PSI) will work with a local partner for a period of two years to develop a condom social marketing project in four primary locations: Assab, Massawa, Keren and Asmara. Geographic target areas were selected by the MOH on the basis of information which points to these areas as high-risk for HIV transmission, particularly Assab and Massawa. Project condoms will be introduced initially in these locations progressing later into the more rural areas of the country. An estimated five and a half million condoms will be marketed over three years to Eritreans at risk of contracting STDs, including HIV. The project features high-impact communication campaigns, distribution strategies for both urban and rural areas, and a pricing strategy that will deliver affordable condoms to low-income Eritreans and employ profit margins appealing to private sector distributors. The MOH will work closely with PSI and their partner organization to ensure the effective design and implementation of this private sector activity.

Other partners include two BHR/PVC Child Survival Matching Grant recipients: Africare (10/94-9/97) and World Vision (6/96-9/99). All project activities will be implemented

through the MOH, in close coordination with the zonal and local medical officers.

Africare assistance to the MOH is intended to strengthen MOH capacity to provide curative and preventive health services to the sub-zones of Northern Denkalia and Araeta. Africare will focus on improving primary health care in curative facilities in two locations of the sub-zones. The project will also include technical assistance and commodities for provincial and local health staff to train community-based health workers and introduce preventive maternal and child health services.

World Vision will work in the Anseba region to enhance the delivery of EPI, growth monitoring, nutrition, antenatal care, CDD, ARI and malaria messages and services to infants, children under 5 years of age and women of child bearing age. Activities will include: updating the technical skills of the Zonal Health Office to plan, deliver, monitor and evaluate their Child Survival activities and assisting the under served and previously unreached communities through participatory rural appraisal (PRA) exercises. World Vision will also work with the voluntary health workers, health communities and TBAs to encourage the utilization of child survival messages and services at the community and household levels.

ANNEX 9: G/DG Report on Civil Society

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ANNEX 10: Environmental Issues

Eritrea's environment is severely degraded. A century ago thirty to forty percent of the country was covered by forests -- today it is less than one percent. The Eritrean government is taking steps to conserve the existing forests, and to reforest large parts of the country which are subject to soil erosion. Over 60 million trees have been planted with a survival rate of 50 percent. The loss of habitat from deforestation resulted in the disappearance of most large mammals and wildlife. Since independence, however, there has been an increase in the migration of birds through Eritrea.

An American ornithologist in 1992 recorded 13 orders, 41 families and 109 species of birds migrating through Eritrea. The U.S. Department of Interior's Fish and Wildlife Service is presently supporting Eritrea to conduct studies on elephants, which have also recently returned to Eritrea for feeding after years of absence. Action (a British NGO) is working with the Ministry of Agriculture to develop a forestry management plan, and intends to do an aerial survey of heavily forested regions.

Eritrea has a 1,200 kilometer long coastline with 300 offshore islands. There is a variety of marine life including the rare dugong (sea cow) and green turtle. There is also a rich abundance of coral reef along the coastline. The Ministry of Marine Resources is developing an environmental assessment and management program with the assistance of the UK's Overseas Development Administration and funding from the World Bank's Global Environmental Facility.

The disposal of sewage, solid industrial waste and contaminated water poses serious health problems for Eritreans. The lack of sewage treatment facilities results in contaminating underground water supplies. Raw sewage is also damaging the coral reefs and seabeds. Soil erosion and land degradation are also problems, preventing expansion of farming. Decreased soil fertility and loss of natural vegetation is also a problem from poor farming techniques and lack of water. A number of European donors an d NGOs are active in assisting the GSE with these problems.

To meet its environmental needs, Eritrea issued in 1995 a National Environmental Management Plan with European assistance. It aims at eliminating waste of natural resources, and advancing conservation practices to protect resources and natural habitats. The government's recent restructuring has established a new Ministry of Environment, Land and Water Resources and appointed the country's leading expert in this field to head this ministry.

Due to the previous and ongoing assistance of other donors in the environmental area, the GSE does not believe that direct USAID assistance is needed in the environmental arena and has not requested any. However, USAID/Eritrea is actively involved in environmental fora and assessment and mitigation of the environmental impact of its investment activities.

The Primary Health Care and Democratic Governance Investment Objectives will have positive effects on the environment through improvements in public health education, public administration and the legal system. Activities under these Objectives have no environmental impact. The Primary Health Care Objectives involves some minor construction or rehabilitation of health facilities, but this impact will be minimal. It may, however, also involve improving water supply

at some health stations including drilling of water wells which could have an impact on the water table. However, the extent of this activity is so minimal that it is not foreseen at this time as constituting a significant environmental impact.

The Rural Enterprise Investment Objective will involve activities which may have significant environmental impact, but also offer opportunities to strengthen the GSE's monitoring and management systems through mitigating measures. The Technical Assistance component of the Rural Enterprise Investment Partnership qualifies for a categorical exclusion as determined under the "Initial Environmental Examination" granted in September 1996. With regard to the Rural Enterprise Unit and Fund, funded activities must observe basic precautions. Enterprises funded under this program will have their planned activities evaluated to ensure that they are based on environmentally sound practices, and that they have no substantive adverse environmental impact.

For the PL-480 Title II supported Bada Irrigated Agricultural activity, an Environmental Impact Assessment has been completed for the irrigation system component. With regard to the use of pesticides at the project site, a risk/benefit analysis will be conducted. A watershed management plan will outline a system to monitor flood regimes, salinity changes, sedimentation and erosion effects, pollution potential, biological changes, socio-economic and health impacts, and ecological imbalances.

Environmental officers from AFR/SD and REDSO/ESA are contributing to the development of environmental screening mechanisms and verification and monitoring plans.

ANNEX 11: Parameters Cable 96 State 107495

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