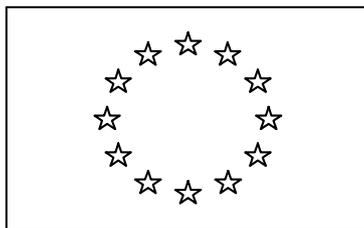


CO-OPERATION
BETWEEN
THE EUROPEAN COMMISSION
AND
THE STATE OF ERITREA

JOINT ANNUAL REPORT

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Annual report on European Commission/State of Eritrea co-operation

TABLE OF CONTENTS

1	EXECUTIVE SUMMARY	3
2	THE POLICY AGENDA OF ERITREA	3
2.1	Macroeconomic Stabilization	5
3	UPDATE ON THE ECONOMIC AND SOCIAL SITUATION	6
3.1	The political agenda	10
3.2	Peace Process	10
3.3	External Relations	10
3.4	Relations with the EU	11
3.5	The Economic and Development Agenda	11
3.6	New Humanitarian Crisis	12
4	OVERVIEW OF PAST AND ONGOING CO-OPERATION	13
4.1	Focal sectors and macroeconomic support (7 & 8 th EDF)	13
4.1.1	<i>Focal sector Infrastructure - 7th EDF</i>	13
4.1.2	<i>Focal sector Rehabilitation & recovery programme - 7th EDF</i>	14
4.1.3	<i>Macroeconomic support - 8th EDF</i>	16
4.2	Projects and programmes outside focal sectors (7 & 8th EDF)	16
4.3	Utilisation of resources for non-State actors (NSA)	17
4.4	Utilisation of envelope B	18
4.5	Other instruments	18
4.5.1	<i>European Investment Bank</i>	18
4.5.2	<i>Regional co-operation</i>	18
4.5.3	<i>STABEX</i>	18
4.5.4	<i>SYSMIN</i>	18
4.5.5	<i>Community budget lines</i>	18
4.5.6	<i>Operations in favour of refugees (Art 255, Lome Convention)</i>	21
4.5.7	<i>Humanitarian Assistance (ECHO)</i>	22
5	PROGRAMMING PERSPECTIVE FOR THE FOLLOWING YEARS	23
5.1	Integration of new EC/EU policy initiatives and commitments	24
5.2	Proposal on a review of the CSP	24
	LIST OF ACRONYMS	25
	LIST OF ANNEXES	27

1. EXECUTIVE SUMMARY

Eritrea had achieved good results in rehabilitating the economy and social infrastructure after independence in 1993, notwithstanding the huge damages after its thirty years of struggle for independence. However, it has been confronted with a major humanitarian crisis as a result of the conflict with Ethiopia in 1998-2000. This crisis has hampered and to some extent interrupted the above-mentioned process of recovery. It has also delayed the development and adoption of a long-term poverty reduction strategy. Eritrea remains one of the poorest countries in the world with a per capita GDP of \$160 in 2002.

The EC response strategy concentrates most resources of the **A-envelope (€88m)** on a short-term approach based on LRRD. It identifies the following three areas: firstly, a post-conflict rehabilitation programme, including humanitarian aid and reconstruction of social and transport infrastructure in war-affected areas. Funds from the 8th EDF will also be used to support the education sector jointly with certain Member States and the World Bank. Secondly, support for demobilisation and for the reintegration of the war-affected population, which will help restore macro-economic stability and develop the country's potential. Thirdly, sector studies are scheduled to prepare the ground for a shift towards more traditional focal sectors (transport, education and food security). The choice of this strategy remains valid and substantial progress in the first two areas is considered most important both for disaster prevention and preparedness and for peace building.

Financial performance is rated poor due partly to the effects of the war with Ethiopia (1998 to 2000) and partly since no new commitments and programming were initiated by the EU in 2001 and 2002. The removal of these negative factors should make for a more satisfactory financial performance. The short-term post-conflict rehabilitation performance indicators are considered sufficient and policy commitments roughly on schedule.

Total resources from the 9th EDF amount to €149m, of which €37m has been committed. With regard to further commitments, the programmes in the pipeline amount to €118.5m, which is €6.5m in excess of available resources. The aim is to cover this shortfall from unspent funds under the existing programmes.

Against this background, the A envelope (9th EDF and transfers from previous ones) is to be maintained. Resources in the **B-envelope** (amounting to €7.3m) will be reduced, leaving 50% of the initial allocation (€4.4m). This amount is required in order to cover unforeseen needs of a country highly vulnerable to drought-related effects.

2 THE POLICY AGENDA OF ERITREA

Upon liberation in 1991, the Government embarked upon an ambitious programme of economic liberalization and democratization that paved the way for a private sector led, export oriented and widely shared economic growth and development. This was followed by the articulation of a macroeconomic policy framework (1994) and the drafting and ratification of a new constitution in 1997. Also in 1997, the Government's investment, trade, and fiscal and monetary policies were further articulated and a national currency – the Nakfa – was introduced as legal tender.

The Government's long-term objective is to build a democratic, stable, prosperous and self-reliant nation. This is to be accomplished through a partnership of the public and private sectors including foreign direct investment. The role of the public sector will be mainly to enhance sustainable development and governance through investment in education, health services, institutional development and basic infrastructure. In commercial activities, the Government will serve as a catalyst with the view of minimising risk to the private sector and creating the enabling environment for a strong and competitive economy.

During the period 1993-1998, the Government's policy agenda was focused at the task of rehabilitating a war-damaged economy and social infrastructure, ensuring the demobilisation of ex-fighters, and the return of refugees from neighbouring countries. Significant progress was made in all of these areas.

In 1998, the Government made public its development vision formulated in a National Economic Policy Framework (NEPF) putting strong emphasis on a market-based, export-oriented economy. However, the implementation of this economic and political programme was hampered when the war with Ethiopia broke out in May 1998. Following the signing of the Peace Agreement in Algiers in 2000, the Government articulated a transitional development strategy and established priorities, taking into account the enormous damage caused by the war. This is reflected most concretely in the Transitional Economic Growth and Poverty Reduction Strategy (TEGPRS), 2001-02. The short term focus of the strategy is meeting the needs of the internally displaced (IDPs) and the drought-affected population for humanitarian assistance; achieving macroeconomic stability; rehabilitating infrastructure; assisting IDPs and refugees return home; and, demobilizing soldiers and reintegrating them into civilian life. The medium-term objectives, identified in the TEGPRS, are to be pursued by the Government for promoting economic growth and poverty reduction in the period up to 2006. These include developing exports, increasing agricultural productivity, attracting private investment, developing a strong financial sector and turning Eritrea's ports into regional transshipment centers.

Major events that were accomplished in 2003 include preparation of the i-PRSP, the National Food Security Strategy, streamlining of the budgetary process, partial demobilization and reintegration of fighters, and election of local administrative councils, and establishment of the Ministry of National Development.

The Government is currently finalizing the preparation of an i-PRSP. In July 2003, a draft i-PRSP was thoroughly discussed with donors, development partners and non-state actors. Useful comments have come from partners, and the Government has been reviewing them. The final product is scheduled to be completed by early March 2004. Upon its completion, its impact on budget will be analyzed. Another important document - Food Security Strategy is also being prepared for completion by end of March 2004. The i-PRSP and the Food Security Strategy will form important components of the Mid-term National Development Framework (MTDF) that the Government is working to produce also in 2004.

In the area of **governance and politics** and as a continuation of the decentralization process, elections of local administrative councils were completed and made operational throughout the country. A process to elect members of local assemblies has also been started and is expected to be completed in 2004.

Since the outbreak of a border war with Ethiopia, the Government of Eritrea has used its limited resources both to accommodate defense needs and to maintain a minimum of infrastructural investment and basic social services.

The Government's medium-term GDP growth strategy target is 5 – 8 percent. To achieve this target and the objectives listed in the preceding paragraph, the TEGPRS proposes a number of measures which can be grouped under four headings namely: macroeconomic stabilization, human development, private sector development and infrastructure rehabilitation. These issues are discussed briefly below.

2.1 Macroeconomic Stabilization

The Eritrean economy is currently characterized by severe macroeconomic imbalances, epitomized by an unusually high level of public expenditures necessitated by the impact of the war and the need to regain the growth momentum of the economy. Reducing aggregate public expenditure substantially and over a relatively short period of time is the key to restoring macroeconomic stability. In 1999 government expenditure accounted for 97.7 percent of GDP. In 2000 it accounted for 101.4 percent of GDP, while in 2001 and 2002, it was reduced to 77.2 percent and 85.9 percent, respectively. Public expenditure in 2003 is expected to be approximately 70.8 percent of GDP. The budget deficit (including grants) has been correspondingly high, reaching 52.2, 43.4 and 38.1 percent in 1999, 2000 and 2001 percent, respectively. In 2002 the budget deficit was 29.0 percent of GDP, and in 2003 it is expected to be approximately 25.0 percent. Government aims to further reduce public expenditures through a drastic reduction in defence expenditures. The reduction in defence expenditures is predicated upon the successful demobilization of soldiers. The first phase of demobilization has been completed with over 80,000 soldiers. However, demobilization may not move as fast as the Government would like due to the non-availability of financial resources as well as uncertainties resulting from Ethiopia's refusal to honour the binding decision on demarcation by the Eritrea Ethiopia Border Commission (EEBC). The size of the civil service will remain at the same level and civil service wages that have been frozen since 1997 would be increased in 2004 only if the resource situation permits. Locally-financed capital expenditures too will continue to be limited to basic services and on-going infrastructure projects.

In the five years since the outbreak of the war both domestic and external public debt has reached unsustainable levels. The Government is committed to restrain the growth of public debt. To this end, Government will strive to (i) maximize assistance from development partners that is provided in the form of grants, and (ii) contract new external loans only on concessionary terms. The growth of domestic public debt will be curtailed to a rate that is consistent with low inflation and a level that does not crowd out the private sector in the credit market. Government continues to discuss its macroeconomic program with IMF staff under their Article IV Consultations, though the program for the Fund's emergency post-conflict assistance has not been finalized.

3 UPDATE ON THE ECONOMIC AND SOCIAL SITUATION

Type	Indicator	2000	2001	2002	2003
Impact	Proportion of population below the national poverty line	53% (national poverty line)*	66.4	66.4**	66.0**
	Prevalence of underweight children (<5 years of age)	44%*	44%*	44.0**	44.0**
	Under-five mortality rate	114/1000*	111/1000*	110/1000**	110/1000
Outcome	Net enrolment ratio in primary education	41.42#	42.30	46.02	NA
	Primary Completion Rate	45.3	64.7	66.7	NA
	Ratio of girls to boys in:				39.28
	- primary education	0.82#	0.82	0.79	NA
	- secondary education	0.59#	0.59	0.56	NA
	- tertiary education	NA	NA	NA	NA
	Proportion of births attended by skilled health personnel	16.6%*	18.9	22.7	NA
	Proportion of 1 year old children immunised against measles	30.15*	31.92	39.28	NA
	HIV prevalence among 15-24 year old pregnant women	4% ⁻	NA	NA	NA
	Population with sustainable access to an improved water source	46%*	NA	NA	NA
	Population in millions	3.6	3.6	3.6	NA
	GDP at constant factor cost (M Nakfa)	2,996.7 α	3,256.9 α	3,218.2 α	NA
	GDP	^\$608M	^700M	690.0M	NA
GNI at PPP	^\$4Billion	\$4Billion [^]	\$4 Billion	NA	
GNI Per capita PPP	^\$ 960	\$1030 [^]	\$1030 [^]	NA	
Stock of External Debt	^\$331.9M α	\$433.7M α	\$508.5M α	NA	
Debt Service ratio (% of exports)	3.8 α	5.3 α	15.1 α	NA	
Exports f.o.b.	\$36.7M α	\$19.9M α	\$51.8M α	NA	
Imports c.i.f.	\$470.3M α	\$536.7M α	\$533.4M α	NA	
Consumer Price Index annual average increase	19.9% α	14.6% α	16.9% α	NA	

Source(s):

* = Ministry of Health, UNDP HDR 2002 / 2003

= Ministry of Education, Statistics 1999/00, 2000/01, 2001/02

⁻ = UNAIDS Country Fact sheet Eritrea 2002 update (data for urban areas only)

[^] = World Bank WDI 2002 / 3

@ = IMF World Economic Outlook 2002

+ = IMF BoP Statistics

& = Official Government Statistics

α = IMF Article IV Mission Staff Report (Jan. 2003). Data for 2002 are estimates.

! = development gateway Eritrea country profile

(<http://devdata.worldbank.org/external/CPProfile.asp?SelectedCountry=ERI&CCODE=ERI&CNAME=Eritrea&PTYPE=CP>)

[!] = Joint BIS-IMF-OECD-World Bank statistics on external debt

**MND-estimates

Poverty in Eritrea

Eritrea remains one of the poorest countries in the world with an estimated GDP per capita of US\$ 160 in 2002, equivalent to \$950 in PPP¹. The UNDP HDI ranks Eritrea 155 out of 175 countries in its 2003 HDR. During 2003 the Government carried out qualitative and quantitative

¹ Source: World Bank, World Development Report 2004.

poverty assessments (LSMS and PPA). The draft *i*-PRSP document is based on the results of these studies that indicated that the overall poverty incidence stands at 60 percent. The surveys also indicated that poverty incidence and depth are higher in rural areas, where an estimated 60% of the population live, and poverty incidence is higher in the dry and arid eastern and western lowlands that are inhabited by pastoralists. Generally, the studies increased the level of knowledge on poverty and its components, causes and effects at the level of individuals and households. In the long run, they would be useful for the Government to develop comprehensive policies and effective programs to fight the various dimensions of poverty. The recent conflict and successive droughts have weakened the coping mechanisms and increased the vulnerability of the population. Structural factors are also affecting Eritrea's capacity to respond to crisis.

Human Development

In the last twelve years, there has been significant progress in enhancement of human resource development in Eritrea. Schools have been built in many parts of the country and enrolment has increased substantially. There has also been a marked improvement in female enrolment now approaching 45 percent of the total. This is significant particularly because there had been numerous social and cultural factors inhibiting female participation in education. Likewise in the area of health, many hospitals, clinics and health centers have been established and access to health care by the majority of the population has improved. Despite such improvements, however, Eritrea's human development indicators are among the lowest in the world. School enrolments are very low at all levels. Easily preventable diseases like malaria, diarrhoea and respiratory infections are still major causes of morbidity and mortality. This is mainly because, at independence, the country's social and economic infrastructure was found in ruins and the country started from a low base. Improving education and health services, therefore, continues to be one of the main priorities of the Government.

Education and Health

To build on the progress made in the first decade of independence, the Government plans to increase the share of public expenditures devoted to the social sector. The Government recognizes that the sector faces significant financial and institutional capacity constraints. Demand for elementary and secondary education is high and continues to grow strongly. The strengths of Eritrea's education system today are its dedicated teachers, principals, administrators and pupils who achieved progress over the past years against many odds. However, average gross primary school enrolment in 2000 was only 59 percent, and average secondary school enrolment is below 30 percent (secondary school enrolment in 2000 was 28.3 percent) of the relevant age group. The even lower completion rates of these cycles reflect the system's inability to provide the country with the skilled labor it needs.

Comparison of expenditure on education as percent of GDP shows that expenditures in Eritrea are close to the average for sub-Saharan Africa. As a percentage of total government spending, educational expenditures have ranged from 8.8 percent in 1997 to approximately 6.5 percent in 2002, with an average of 7.4 percent during the period 1997-2002. The lower share of education expenditure in 2002 is in part a reflection of the increasing demands for public resources imposed by the border conflict with Ethiopia. Given the importance given to human resource development in the Government's development program, Eritrea's education sector is expected to attract more public resources and also perform better during the next several years.

In 2003, the Government completed an education strategy and launched a \$200 million five year integrated education development program that would increase access to quality education for all Eritreans of school age. Current imbalances in education funding across levels, regions, and teacher salaries, student-teacher ratios, inadequacy of learning materials and equipment are among the issues that the Government will tackle in the immediate future in the context of this program.

In the **health sector**, the focus of the Government will be on tackling the factors that would contribute most towards reducing the burden of disease namely, reproductive health care, treatment and control of common infectious diseases such as upper respiratory infections, diarrhoea and tuberculosis and control of malaria. Poor access to health services for rural and nomadic populations, low number of physicians and beds, shortage of health care professionals needed to staff hospitals, and poor access to sanitation and improved water are other issues that need to be addressed. In 2003, Government by and large completed the building of healthcare infrastructure that has been going on during the last ten years. Clinics, health centers and hospitals have been built in most parts of the country. The focus in the next several years will be to acquire the manpower and equipment that are necessary to make these facilities effectively operational to deliver adequate health services.

The Government is pushing ahead with an expanded program of immunization. The target is to achieve immunization of 90 percent of children against the common childhood diseases by end of 2004. Efforts are also underway to eliminate iodine and vitamin A deficiencies and to reduce iron deficiency. The HIV/AIDS infection rate is currently believed to be low but the Government is aware of the danger of the disease spreading quickly. The strategy is to first contain the disease and eventually totally control it. Although there have been increases in health sector expenditures, both per capita healthcare expenditures and the share of public health expenditures in GDP are below comparator countries such as Uganda and Rwanda, and roughly equal to that of Ethiopia. The government plans to develop a health sector strategy assessing the current inefficiencies in the sector. The strategy could form the basis for increasing further expenditures on health services.

Whilst Eritrea's health indicators are levelled with sub-Saharan averages, education indicators are lower: school enrolment ratios stand at 27% for combined primary secondary and tertiary education, against 42% for Sub-Saharan Africa². Illiteracy rate is quite high, standing at 70% of the population. The shortage of skilled human resources is one of the key challenges to the country's development.

Emergency Relief

2003 was not much better than the preceding four years. In fact, it turned out to be another year of unfavourable climatic conditions and Eritrea continued efforts to battle the effects of war and drought. The affected population remained the same as in 2002 – approximately 1.7 million people. The Government of Eritrea and the UN System appealed for \$163 million in humanitarian assistance in 2003. The response from donors, though slow at the beginning, reached an impressive 70% of the total CAP appeal for 2003.

According to the UNDP³, under-nourishment stands at 58%, stunted and wasted children at 38% and 44% respectively. Life expectancy is 52.5 years, under-5 mortality rate is 111/1000 and

² Source: UNESCO – 10/2002 - http://portal.unesco.org/uis/ev.php?URL_ID=5204&URL_DO=DO_TOPIC&URL_SECTION=201

³ UNDP HDR 2003.

maternal mortality is 1000 per 100,000 live births. Although the problem of HIV/AIDS is not yet as acute as in other African countries, the trend is, as elsewhere, on the rise. A new National Nutrition Surveillance System have been developed in 2003, which will yield more precise and timely information on malnutrition – one of the biggest problems for human development in Eritrea.

Additionally, in the social sector, significant progress has been made in reintegrating IDPs, expellees from Ethiopia, demobilized soldiers, refugees mainly from Sudan, and war orphans. For the first time in independent Eritrea, a public sector pension scheme that would eventually incorporate private sector employees was promulgated and launched in 2003. The Government is assuming an added burden by providing pension benefits to a significant number of pensioners who served under the previous government of Ethiopia but whom the present government has abandoned

Infrastructure Réhabilitation

Eritrea is at an early stage in laying down the infrastructure for water supplies, power generation, transportation, telecommunications, schools and health services, etc. A number of infrastructure projects are underway in these and other areas. There has been good progress particularly in roads and power, some improvement in water supply and initial progress in telecommunications. If Eritrea is to grow as a knowledge economy, telecommunications and power transmission and distribution are strategic sectors that need to be emphasized over the medium term. The Government's short term priorities are to complete the reconstruction of infrastructure damaged during the border war and to continue work on on-going projects rather than start new ones. The Government is mindful of the recurrent costs arising from capital expenditures.

Private Sector Development

Whilst the Government's macroeconomic, trade and investment policies emphasize the important role of the private sector in development, progress in the sector has been slowed mainly due to the consequences of the recent border war. The private sector sustained substantial damages during the war. It also suffers from the acute shortage of foreign exchange needed for importation of capital goods and raw materials as well as the shortage of both skilled and unskilled labor. The demobilization program that is underway is expected to ease the labor shortage in the market.

To make the investment climate more attractive the Government intends to take actions over a wide front. Achieving a stable macroeconomic framework is one such action. Investing in both human and physical capital is another. The immediate challenge is to streamline and implement the laws, regulations and procedures governing private investment. To that end a number of actions have been undertaken or are planned.

First, administrative bottlenecks in accessing land would be eased. Secondly, the Government will do everything possible to increase access to foreign exchange by the private sector. Thirdly, the regulations governing the employment of foreign workers will be applied with greater sensitivity to the scarcity of skilled local manpower. Fourthly, actions will be initiated to increase access into all sectors by the private sector. Furthermore, to enhance economic growth and private sector development, lowering the costs of doing business in the country, attracting foreign investors with emphasis on the Diaspora, and improving the functioning of the financial sector are priorities of the government.

The People's Front for Democracy and Justice (PFDJ), through a Trust and on a purely commercial basis, is involved in production and trade, the proceeds of which are earmarked for social programs including support of the war disabled, families of martyrs and other "social safety net" programs and pension schemes for past public service.

3.1 The political agenda

The Government plans to effect the provisions of the Constitution that was promulgated in May 1997. Its implementation has been delayed by the circumstances derived from the war. It will, however, come into force once the new Parliament is elected and that until then the transitional legislation is still in effect.

A draft law on elections has also been ratified and an electoral commission that has been established since in January is undertaking preparatory work. Date for elections is yet to be fixed. During the same month, the Transitional National Assembly accepted the principle of political pluralism. Elections for local councils were carried out in all Zobas in 2002 and in 2003.

Full implementation of the Decentralisation Law is also essential for widening the participation in the decision-making process to local communities. While political decentralisation has taken place, fiscal decentralization is lagging behind, basically because of limitation of resources and capacity of the regions in planning and managing development activities.

Following the cessation of hostilities and the signing of the Algiers Peace Agreement, Eritrea embarked on a programme of demobilisation and re-integration. As of end of December 2003 a total of 80,000 soldiers have been demobilized thereby completing the first phase of the program. The Government intends to demobilise up to 120,000 soldiers by the end of 2004.

3.2 Peace Process

On 13 April 2002, the Ethiopia-Eritrea Independent Boundary Commission (EEBC) delivered its final verdict on the boundary delimitation, and on 8 July 2002 adopted and issued its demarcation directions. As per the agreement, Eritrea accepted the ruling in its entirety.

The UNMEE mandate has again been extended till March 2004 and expanded in order to allow it to support the logistics of the EEBC and the demining of the areas where the physical demarcation will take place.

The peace process has now entered its crucial phase. Physical demarcation was due to start in May 2003 but has not started as originally planned. This is because Ethiopia has not accepted the EEBC's verdict and continues to create obstacles to the demarcation process.

3.3 External Relations

The Government of Eritrea is committed to maintain an effective and harmonious relationship with all its partners including the EU. Accordingly, it cooperates with all partners, including non-state actors. Its guiding principle is to engage partners in areas of development where they have comparative advantages while maintaining ownership of its programmes. Eritrea is committed to the development of regional economic cooperation and integration that would enhance free trade and mobility of resources in the region. Eritrea believes that regional economic cooperation and

integration would also foster peace and stability in the region. To that extent, it is firmly committed to do its part.

3.4 Relations with the EU

Following the lifting in 2002 of the freeze of development assistance, the EU's has resumed development assistance. As a result, relations between the EU and Eritrea have improved. Both partners are committed to make the partnership effective.

In 2003, the EC continued to provide humanitarian and emergency aid and continued with the implementation of previous commitments in the area of food security. A number of significant financial decisions on EDF funds were also taken, such as the Nefasit - Dekhamare – Tera Imni Road.

3.5 The Economic and Development Agenda

In the short-run, the Government intends to tackle the pressing challenges that the country faces as a consequence of both the recent conflict and the recurrent drought. These include meeting the basic needs of the population, achieving macroeconomic stability, rehabilitating infrastructure, and resettlement and reintegration.

In the medium-term, the Government aims at developing exports; increasing agricultural productivity; attracting investment in high potential growth areas as in fisheries, tourism, construction, manufacturing and regional trade; developing a strong financial sector; and expanding and modernizing the country's basic infrastructure.

Poverty reduction and national food security are special areas of focus. However, they will be achieved only through sustained economic growth and development with regional and sectoral balance based on the country's comparative advantages. All of these will be possible only through an adequate supply of human capital and basic infrastructure in transportation, telecommunications, sea and air transportation, and transmission and distribution of power. The government will make every effort to involve development partners including the EC to participate in these endeavours. During the next five years, the Government will make investment in education and training its top priority. The recently adopted integrated national education development program will be the basis for the investment. As a second area of emphasis, Government intends to focus on expanding and improving the transportation infrastructure.

The Government is committed to redress the current macroeconomic imbalances by reducing government expenditures and the deficit, by further opening the economy to foreign investment, and by facilitating the exportation of Eritrean goods and services. In the area of trade, measures include streamlining of customs administration both for imports and exports, and continuing the reduction of import rates and excise duties in line with the requirements by IGAD and COMESA, of which Eritrea is member.

The government has started to institute a budgetary process that requires all sector ministries, regional administrations and other agencies of government to seek resources through an open and competitive process that leads to the production of consolidated budgets on an annual basis. Furthermore, government agencies are being assisted in building capacity for project planning, programming and budgeting that would improve efficiency in the public sector. This, together with the establishment of a national accounting system and a macro and sector public expenditure

review requirement, will enable the Government to manage public sector expenditures more efficiently.

Progress has been made in several other areas that have not been jeopardised by the war – labour legislation, funding for health and education, roads, power supply, water supply, telecommunications, etc. All of these have long term strategic importance. A comprehensive national environmental management plan has also been adopted and is being implemented though the pressure on scarce natural resources remains high.

The Warsay-Yikaalo campaign (launched in May 2002) for rehabilitation and reconstruction of the country mainly by relying on own resources and efforts continues. All sector ministries and regional administrations are involved in the campaign. The defence forces participate in the campaign while the process of demobilisation is going on. When completed, the demobilisation and reintegration program will release skilled and unskilled labour that is critically needed in both the private and public sectors.

At the end of 2002, the National Assembly approved an austerity budget for 2003. In 2003, the GSE also presented to donors the outline of the process to complete an *i*-PRSP by March 2004.

An IMF Article IV mission took place in January 2003⁴. Another mission for consultations is scheduled for April 2004.

3.6 New Humanitarian Crisis

The humanitarian situation and food insecurity in 2003 were basically the same as in 2002. The vulnerable population requiring emergency relief assistance was approximately 1.7 million, mainly refugees and IDPs, demobilised soldiers, drought-affected populations and the urban poor.

The continued drought worsened the humanitarian situation in the second half of 2002 and by the end of the year new humanitarian needs were arising due to failed harvests compounded by structural issues. The emergence of new humanitarian needs was presented in November 2002, when UN issued the CAP appeal for 2003 amounting to \$163M of which 2/3 concerned food items, followed by the GSE's own food aid appeal amounting to 477,000 MT of food aid for a total of \$143M. As indicated earlier, at the end of the year the response from donors covered approximately 70% of the CAP appeal.

Eritrea relies heavily on subsistence agriculture and livestock and even in normal years large part of the country's total consumption needs of approximately 600,000 MT of cereals has to be covered by imports and food aid. The harvest of 2003 covered only approximately 20 % of the total estimated consumption needs of the country and the limited resources for imports give way for a continued flow of food aid from the international community. Following the under-average harvest, though still better than in 2002, a new CAP appeal for 2004 was issued aiming at emergency humanitarian interventions for \$147M in 2004, of which 2/3 again concern food items. The needy population have been assessed by the GSE and the UN to be around 1,9 million people. The GSE did not issue a separate appeal for 2004.

⁴The mission's report is available on the internet at the address:
<http://www.imf.org/external/pubs/ft/scr/2003/cr03165.pdf>

4 OVERVIEW OF PAST AND ONGOING CO-OPERATION

4.1 Focal sectors and macroeconomic support (7 & 8th EDF)

With the signature of the peace agreement in Algiers on the 16th of December 2000, projects suspended due to the conflict were re-launched in 2001. From the total allocation of €55M for the 7th EDF, the financial status at the end of 2003 is as follows: global commitments amount to €53,097,910 (96% of the total allocation), individual commitments amount to €46,600,852 (85% of the total allocation) and total disbursements amount to €37,029,176 (67% of the allocation)⁵.

In 2003, there were no new global commitments under the 7th EDF and the closure of one project resulted in the de-commitment of an amount of €8,756. At the level of individual commitments, 3 new individual commitments amounted to €5,379,609 while the closure of 3 commitments resulted in the de-commitment of an amount of €2,371,996. An amount of €4,325,275 was disbursed in the framework of the national programme of the 7th EDF in 2003⁶.

The NIP for the 7th EDF signed in 1994 comprises two main interventions: infrastructure – including transport and energy – and rehabilitation and recovery programmes (Short Term Programme to Aid Reconstruction and Recovery (STPARR)). The NIP also includes funding for studies in view of future cooperation.

4.1.1 Focal sector Infrastructure - 7th EDF

a) Results

Under the 7th EDF the projects in the infrastructure sector comprise the preparation and implementation of the Electrification Project in Massawa, the preparation of the Nefasit-Dekemhare-Tera Imni Road Project, as well as the Transport Sector Study. The global commitments in the infrastructure sector amount to €21,933,951, individual commitments to €21,672,387 (representing 99% of global commitments) and disbursements to €18,012,707 (82% of global commitments).

b) Progress in activities

In 2003, implementation of the 7th EDF in the infrastructure sector was marked by the progress in the implementation of the Massawa electrification project and the settlement of a claim related to the preparation of the electrification project, as well as further preparation of design and tender documents and an environment impact study for the Nefasit-Dekemhare-Tera Imni road.

The financing agreement allocating €20M for the Rehabilitation of transmission lines, substations and distribution systems in the Massawa Area (7 ERY 21) had been signed in January 2001. Three contracts (works, supply and supervision) were subsequently signed in April 2001 for a total amount of €19,216,000. The implementation of the project had commenced in January 2002 and continued in 2003 in which a total amount of €4,190,568 was disbursed. The works contractor Montreal/Siemens was granted a time extension until May 2003 to complete the

⁵ Global Commitments (previously primary commitments) correspond to the total amount appropriated following the approval of a project by the EC, Individual commitments (previously secondary commitments) are the amount legally contracted, while disbursements are funds effectively spent.

⁶ Overview of global and individual commitments as well as disbursements in 2003 under 7th EDF given in Annex 2

works. However the contractor defaulted on this date and as of December 2003, the foreseen completion date for the works on the transmission lines and substations was the end of January 2004. The EEA entered into negotiations with Montreal/Siemens with regard to installing the equipment originally foreseen for the Ghinda substation in substations in the Massawa environs. At the end of 2003, the negotiations were not yet concluded. In April 2003, a second contract was signed with Clemessey for the supply of additional equipment and materials for an amount of €365,667. The goods were delivered and the Provisional Acceptance Certificate was issued in August 2003. The completion of the works under implementation by the EEA has been subject to delays and completion will probably not take place before 2005.

Under the project for the Preparation of the Rehabilitation of Electrical System in Massawa Area Phase I & II (7.ACP.ERI.019), the claim presented by Fichtner for additional services was examined by EEA and the EC and subsequently formalised in Addendum No 1 to the original contract. The final payment for €37,649 amicably settling the claim was effected in October 2003 and the project can now be closed.

As regards the preparation of the Nefasit-Dekemhare-Tera Imni road, a contract was signed with SAFEGE in July 2003 for €69,980 who carried out an Environmental Impact Assessment Study (EIA) for this project. The study concluded that the project is environmentally sound subject to the implementation of the proposed Environmental Management Plan which describes avoidance and mitigation measures. To accommodate the results of the EIA study, an addendum No 2 to the original contract of the Design study for the Nefasit-Dekemhare-Tera Imni road (7 ERY 18/23) with BCEOM was prepared at the end of 2003 for signature in January 2004. The purpose of the addendum is to revise the tender documents primarily to incorporate the recommendations of the EIA study, but also to incorporate the new General Regulations and some technical and contractual changes that have become necessary due to the time that has elapsed since the original design. Both the EIA study and Addendum No 2 to the BCEOM contract are to be financed under the Short Term Rehabilitation and Recovery Programme described below.

c) Degree of integration of crosscutting themes

The cross cutting themes gender, environmental, institutional development and capacity building were not explicitly mentioned in the decision to allocate approximately €21M to the infrastructure sector. However, where considered appropriate, these cross cutting themes were taken into account in the project design phase. For example, the largest allocation of €20M to the project to rehabilitate transmission lines, substations and distribution system in the Massawa Electrification Project has a component of training and transfer of know-how in the context of institutional development and capacity building. On the Nefasit-Dekemhare-Tera Imni Road project, an Environmental Impact Assessment study (EIA) was carried out in August 2003, which was not foreseen in the preparatory studies.

4.1.2 Focal sector Rehabilitation & recovery programme - 7th EDF

a) Results

The Financing Agreement for the Short Term Programme to Aid Reconstruction and Recovery in Eritrea (STPARR) had been signed on 19 February 1993 (before Eritrean Independence) with a budget of €20M reallocated from what was a NIP for Ethiopia. As of December 2003, the individual commitments amounted to €16,459,787 (82% of the FA) and disbursement to €15,572,213 (representing 78% of the FA). In 2003, €97,057 was disbursed under this programme.

b) Progress in activities

- Works contract for the Installation of vehicle restraint systems for the Asmara-Massawa road (Commitment 75). The tender for works for the installation of the vehicle restraint system was launched in December 2001. The evaluation of tenders gave ground to award the works contract to ELMI OLINDO in August 2002. Despite the fact that ELMI OLINDO had a contract, they were unable to obtain a performance guarantee. Consequently, the contract was terminated in November 2002 and the individual commitment (contract) was de-committed in June 2003. In the course of 2003, the option to implement the project through direct labour with the Ministry of Public Works was examined. However, this option did not materialise and as of December 2003, the only remaining option to implement the project is by transferring it to the 9th EDF.
- Supervision services for the installation of vehicle restraint systems for the Asmara-Massawa road (Commitment 76). A supervision contract had been awarded to and signed with the consultants RRI Beller and an advance payment processed in October 2002. However, the works contract for the installation of vehicle restraint systems awarded in August 2002 was terminated (described above). Therefore the supervision consultants were not yet issued with a notice to proceed. As of December 2003, it is evident that the project cannot be implemented before the expiry of the Reconstruction and Recovery Programme (31.12.2004). The official decision on the status of the contract with RRI Beller is pending.
- Work Programme for Afforestation and Soil Conservation in Zoba Maekel (Commitment 77). The Work Programme, continuing projects funded by 1995 counterpart funds, started implementation by 1 November 2002 for a period of two years with the aim of preventing desertification and hence improve nearby agricultural activities. Project implementation has been smooth and on schedule in the first year of implementation (Nov. 2002 – October 2003). The second year implementation plan has been approved and the project is foreseen to end as planned by 31 October 2004.

From the 77 projects financed under the STPARR, 70 are closed while 3 projects are in the administrative process of closure (Commitments 35, 69, and 71). In 2003, all issues pertaining to the following project were settled and it was subsequently closed:

- Work programme for the pilot project for the rehabilitation of primary schools (Commitment 32). Justification for the expenditure under the work programme was provided in June 2003 and the work programme was subsequently closed in September 2003.

The following two projects can still not be closed due to the outstanding settlement of a dispute and the absence of justifications of expenditure:

- Supply of road painting and striping machines (Commitment 50). This project started in 1996. However, the contracting authority was not satisfied with the quality of the paint supplied and the fact that the striping machines were not operational upon arrival. 60% of the contract value of €386,382 has been paid to date. In 1998, claims from both sides led to a request to the Commission to enter into a 'good office procedure' that concluded, on 21 March 2001, that the parties' positions could not be reconciled. Even in 2003, no progress was made with regard to resolving the dispute and the matter will most likely have to be resolved in a court of law.

- Work Programme for the construction of three dams (Commitment 37) The work programme was signed in 1994 and the construction work was completed in 1998. The financial report submitted by the Ministry of Agriculture in October 1998 shows a balance of 811,164 ERN on the work programme. The work programme can only be closed once this amount has been reimbursed. The Delegation sent several reminders to the Ministry of Agriculture to reimburse the outstanding amount so that closure of the project can take place. There has not been any official reply from the Ministry of Agriculture and no progress was made in 2003.

c) Degree of integration of cross-cutting themes

One of the objectives of the Short Term Programme to Aid Reconstruction and Recovery in Eritrea (STPARR) is to strengthen the institutional infrastructure. The aim of the institutional support package is to improve the Eritrean authorities' long-term capability to identify and assess rehabilitation and recovery programmes as well as implement, monitor and evaluate them. The other crosscutting themes of gender, human rights, governance and environmental issues are not explicitly mentioned in the Financing Agreement.

4.1.3 Macroeconomic support - 8th EDF

A project document for €53M Balance of Payment support programme was prepared in 2001, but never presented to the EDF Committee, following the events of September 2001. In the meantime, the economic situation of the country has changed. According to EC procedures, BoP / Budget Support is possible only within the framework of a stabilisation and adjustment programme agreed with the Bretton Woods Institutions. Since this is unlikely to happen in the near future, during 2003 the GSE has expressed its intention to move these funds to a project in support of the Education sector. The EC responded favourably to this request.

4.2 Projects and programmes outside focal sectors (7 & 8th EDF)

- Livestock Promotion (7.ERY.20). All activities were finalised in 2002. The final acceptance of the works for the Massawa Livestock Centre and consequently the final report from Ministry of Agriculture are still pending.
- Technical Assistance for the strengthening of the implementation capacity for fishery quality (7 ERY 24). A Technical Assistance mission took place from March to May 2002 and resulted in a list of issues that needed to be addressed by the Competent Authorities. The implementation of the proposed measures would improve the structure, organisation, and management of the competent authorities. The closure of this project (7 ERY 24) was requested in July 2003. A follow up Technical Assistance mission took place in March/April 2003 which was organised through the Programme Management Unit of the 'Strengthening Fish Products Health Conditions in ACP/OCT countries' programme. This programme was set up to provide assistance to the Competent Authorities in the fisheries sector so as to prepare the ground for the implementation of measures enabling the inclusion of Eritrea within the List I of fish exporting countries to the EU.
- Technical Assistance for the institutional strengthening of the MoPW (7 ERY 26). €580,000 had been committed in December 2001 for the recruitment of a Technical Assistant for the institutional strengthening of the MoPW. The EC was not successful in securing the services of a TA in 2003. However, the arrival of a TA is now scheduled for February 2004.

- Sectoral studies. In August 2001, the GSE had indicated that they did not have sufficient qualified manpower to finalise and approve the ToR for the Transport Sector Study. It was subsequently decided to await the arrival of the TA for the strengthening of the MOPW (described above) to assist in finalising the project preparation for the Transport Sector Study. However, with the delay of the arrival of the TA, the final project preparation is still pending. In the meantime the preliminary results of a World Bank financed road sector study are available and these will have to be taken into account before embarking on the EC funded transport sector study.

The CSP foresaw that part of 9th EDF resources would be allocated to a sectoral study in order to prepare an EC-financed intervention in the Education sector within the 10th EDF. However, during 2002 and 2003, the GSE completed an education strategy, which was presented to Donors in a Round Table held on December 15, 2003. The GSE asked the EC to re-allocate the €53M previously allocated to Balance of Payment support in favour of Education and the EC considered the request favourably. A study to prepare the intervention will be carried out as soon as the Technical Cooperation Facility will be approved.

- National Water Resources and Irrigation Potential Study (7 ERY 17) The final technical and financial reports were submitted in October 2003. However, the work programme could not be closed due to the outstanding payment of the ex-programme manager's salary. By the end of 2003, a request for derogation to pay the deferred programme manager's salary was being examined by the EC.
- Technical assistance to the NAO (8.ACP.ERY.04) Funds amounting to €740,000 had been committed in June 2001 for the provision of Technical Assistance to the NAO Office. The initial recruitment procedure launched in July 2001 was not successful. During 2003, the NAO expressed disappointment about the recruitment procedures of EC-funded TAs. The NAO wants to recruit experts who would have their primary allegiance to the GSE and not to the EC. The EC will provide the NAO with clarification on the different recruitment mechanisms that are possible under EC Regulations.
- First Contribution to Emergency Demobilisation and Reintegration Support Programme (7ACP.ERI.027; 8ACP.ERI.010; 8.ACP.TPS.153) The Financing Agreement for €27M was signed in January 2003. The objective of the programme is the demobilisation, reinsertion and reintegration of 200.000 soldiers. The funding is partly from the 7th and 8th National Indicative Programmes, partly from the all ACP facility, TPS. An additional €20M is earmarked under the 9th EDF for a second phase upon satisfactory progress in the first phase. The programme, the total estimated cost of which is about 200 million US\$, is managed by the World Bank through a multi donor trust fund. The WB contributes 60 million Special Drawing Rights (SDR) to the trust fund while pledges have also been received from a number of bilateral donors. The programme progressed slowly during 2003, reaching only about 65.000 demobilised soldiers as of December 2003. Decisive progress towards the full demobilization and reintegration of the remaining 135.000 soldiers seems doubtful as long as the border demarcation process remains stalled.

4.3 Utilisation of resources for non-State actors (NSA)

The most important non-State Actors are the National Unions (women, youth, workers and disabled). There are also other NSAs such as business association, development NGOs and

religious groups. The CSP mentions that a specific effort will be made to integrate NSAs in the preparation and implementation of reconstruction / rehabilitation through the form most adapted to the needs of the country.

4.4 Utilisation of B envelope

Given the overall low level of commitment of the A-Envelope, discussions about the use of the B-Envelope will be held at a later stage. Meanwhile, the EC and the NAO will discuss thoroughly possible areas in which resources of the B-Envelope could be used.

4.5 Other instruments

4.5.1 European Investment Bank

The European Investment Bank had no activities or mission in Eritrea in 2003, although the GSE approached the Bank in relation to the financing of a mobile phone network. Negotiations may continue in 2004. No EIB envelope is included in the 2002/2007 financial allocation linked to the Country Strategy Paper.

4.5.2 Regional co-operation

Pan African Campaign Against Epizootics (PACE). (7.ACP.RPR.744 commitment 25, 7.ACP.RPR.744 commitment 57, 8.ACP.TPS.32 and 7.ACP.RPR commitment 72).

Implementation of the PACE programme under annual work programmes started on 1 January 2001 and has continued throughout the years 2002 and 2003. The basic activities of institutional capacity building, access and distribution of medicines and veterinary services, fight against rinderpest and control of other epizootic diseases have been addressed during 2003.

In 2003 the EC has been insisting on the PACE programme to deliver outstanding technical and financial reports, with the results that final technical and financial reports for year one and two have been finalised, leading to the decommitment and closure of the first two work programmes. As a result of the PACE programme, Eritrea obtained a certificate of freedom of rinderpest disease in 2002. Eritrea is the only country in East Africa to reach this second stage of the internationally recognised path way to be declared free of rinderpest disease.

4.5.3 STABEX

Eritrea has never benefited from Stabex funds and has never presented the requested statistical data.

4.5.4 SYSMIN

Eritrea never benefited from SYSMIN funds.

4.5.5 Community budget lines

4.5.5.1 Demining (budget line B7-661)

With the signature of a peace agreement in December 2000 and the deployment of UNMEE, the issue of mines soon had become a key priority, all the more as the establishment of the TSZ in April 2001 had opened the way for a return of refugees to heavily contaminated areas. In December 2001, the European Commission had taken the decision to allocate €1.4M for the

Landmine Impact Survey (LIS) from the specific Anti Personnel Landmines budget line B7-661. A contract was signed between UNDP and the EC in April 2002 and the project was due to start in May 2002. Following a 5-month delay experienced in the start up phase, the project progressed well in 2003. By December 2003, 2446 communities had been visited which represents 96% of the planned fieldwork. An application for an additional €300,000 and a time extension was submitted to the EC in November 2003. Following the approval of the application, the contract for the additional funds was signed by UNDP and the EC in December 2003.

4.5.5.2 Food aid/Food security (B7-2010)

Supply of Fertilisers: The EC supplied Eritrea through Euronaid and the NGO Dutch Interchurch Aid 12.000 MT of fertilisers to Eritrea in June 1999. Distribution of the fertilizers was hampered by the border war 1998-2000, however in 2002 the distribution was completed. The final report is pending but it is expected in the beginning of 2004.

Food aid: Under the official letters 48.222/2002 and 7876/2003 the EC pledged €10M free food aid directly to the GSE for implementation through ERREC. The €10M translated into 55.000 MT of wheat distributed to approximately 540.000 beneficiaries throughout the year. In 2003, the EC also awarded four relief contracts to the tune of €5M through Euronaid to four NGOs working in Eritrea. The projects concerned seed supply, oil and lentils for free distributions and well as supplementary food stuff to curb the persistent high malnutrition rates in Eritrea. The EC also supported WFP's general food distribution in Eritrea with €5M.

NGO Food Security Projects. In December 2001 the EC approved four NGO projects to be financed under the Food Security Budget Line for a total amount of €4.328.953. Implementation started for all four projects in 2002 and continued through 2003:

- Central zone and savings project (GPR/AIDCO/2000/2110/8/0), implemented by the Agency for Cooperation and Research in Development (ACORD), for an amount of €986.603. Implementation period is 36 months, which commenced on 1 January 2002. Implementation is according to plan, the project enjoys appreciation by the relevant governmental authorities and is to be considered a success.
- Seed multiplication, storage and technical training in the Gash Barka region project (GPR/AIDCO/2000/2110/9/0), implemented by Movimondo, for an amount of € 999.577. The implementation period is 24 months, which commenced on 1 March 2002. The project has experienced set-backs following difficult climatic conditions in the two years of implementation as well as capacity problems. However the project has achieved tangible results in both multiplications of quality seeds as well as training of farmers. The possibility of extending the project to enhance sustainability of the result achieved is currently being considered.
- Adari-Shitel food security programme (GPR/AIDCO/2001/0188/25/0), implemented by Gruppo Missioni Asmara (GMA), for an amount of EUR 1.271.773. Implementation period is 36 months, which commenced on 3 June 2002. Following late signature of the contract the project was from the outset delayed in relation to the agricultural season. The activities undertaken have been successful, however an administrative extension of first year of implementation for 6 months was granted by the EC to allow for full utilisation of the first payment. The project works closely with local authorities.

- Increasing agricultural production in Gadem Halib (GPR/AIDCO/2001/0188/26/0), implemented by Manitese, for an amount of EUR 1.071.000. Implementation period is 24 months, which commenced on 9 May 2002. The foreseen activities have almost all been completed by end 2003 and the project is scheduled to end by the initial contractual agreement. The NGO has carefully and successfully addressed raised questions on the sustainability of the project. The project enjoys great appreciation and participation by both the local communities and the relevant governmental authorities.

Food Security Programme 2001. The FSP 2001 went through a turbulent year, which ended by the closure of the programme by 31 December 2003 allowing for the full utilisation of counterpart funds amounting to 61,051,000ERN arising from the first instalment of €5M for the foreign exchange facility. The second instalment of €5M for the foreign exchange was facility not released following the less favourable outcome of the Mid-Term Review (MTR). The MTR assessed the implementation of the programme according to the conditions set out in the Memorandum of Understanding between the Government and the EC. The conclusion and the decision by the EC on this matter have been strongly disputed by the Government.

While the EC maintains that a positive outcome of the MTR was a prerequisite for release of the second instalment, the Government reiterates that the conditions set out in the MoU have been strictly adhered to. The Government finds that the MTR did not take facts provided by the Government into consideration and that the mission misperceived the Governments understanding of the FSP 2001. The Government refrained from commenting officially on the MTR report, citing that their commenting would have been harsh and could have jeopardized the cooperation with the EC. Following the unsolved dispute the EC communicated to the Government that the EC would look favourable on a Government request to reallocate the €5M for free food aid. However the Government, based on their strong beliefs that the forex should have been allocated as per the original agreement, refrained from requesting the reallocation.

Technical Support to the Ministry of Agriculture of Eritrea (AIDCO/2003/061-750). The project commenced in July 2003 for an implementation period of 2 years amounting to €1.95M. The project allocates funds to FAO, which provide three technical assistants (TA) for the Ministry of Agriculture to support reforms within the ministry. The specific objectives of the programme are (i) to support the MoA to develop its national strategy and sector policy, (ii) to enhance the monitoring and evaluation as a planning tool and (iii) to support the development of the Farmers' Advisory Services. This action is already complemented by a re-organisation of the Ministry supported by UNDP. The three TAs were recruited in the summer 2003 and arrived in Eritrea in October. Funds for studies are also available within the project.

4.5.5.3 NGO Co-financing (B7-6000)

Agricultural Training Center in Hagaz (PVD/2000/144). The project is implemented by the Comitato Europeo per la Formazione e l'Agricoltura (CEFA) for an amount of €1,042,092. The operation started in June 2000 for an implementation period of four years. In 2003 the project continued the implementation according to the agreed work programmes. The School is cooperating closely with the Ministry of Education as well as local authorities.

Strengthening the National Confederation of Eritrean Workers capacities as a provider of labour services and training during the reintegration phase (ONG-PVD/2002/021/165). The project is implemented by the NGO Istituto Sindacale Per La Cooperazione Allo Sviluppo (ISCOS) and

commenced on 1 April 2003 for a period of 40 months. Initial activities have been conducted; however the time plan is not strictly adhered to following capacity problems with the counterpart NCEW.

4.5.6 Operations in favour of refugees (Art 255, Lome Convention)

Resources had been made available in 2001 for operations in favour of refugees, under Article 255 of the Lome convention and €10M were earmarked for Eritrea. There were almost 300,000 refugees living in camps in Eritrea at the time, including more than 260,000 Internally Displaced People (IDPs), and almost 80,000 expellees. Moreover, UNHCR signed a tripartite agreement with the governments of Eritrea and Sudan for the repatriation of 162,000 Eritrean refugees, most of them displaced since the independence struggle. The Commission had started discussions with the government on the programming of these funds at the beginning of 2001, and it was agreed that the EC resources would be targeted at the rehabilitation and reconstruction of basic social services – essentially water, education and health infrastructures – for two priority target groups: the first series of operations would focus on IDPs and cover one of the main areas of return, while the other would support the reintegration of refugees from Sudan in the border region, where most of the returnees wish to settle. As demining in those areas was a precondition for a safe return, the EC and the GSE also decided to allocate resources to emergency demining in the Temporary Security Zone.

A programme to support refugees and internally displaced people in Eritrea (8.ACP.ERY.9) had been signed in October 2002. This programme is to be implemented by 3 NGOS with the following projects:

- Rehabilitation of damaged elementary schools in war-affected areas, Lutheran World Federation (€677,442) (8.ACP.ERY.9). In the course of 2003, LWF carried out and completed the rehabilitation works on 5 schools in Antore, Buko, Sheshebit, and Shilalo. The formal handing over took place in December 2003. The rehabilitation of the sixth school also originally foreseen for rehabilitation is subject to the approval of an increase in funds. As of December 2003, the request for additional funds was being processed by the EC.
- Reconstruction of water systems in favour of Internally Displaced People, Manitese (€777,847); (8.ACP.ERY.9). The opening session for the tender for the reconstruction works of the water systems took place in January 2003. Following the evaluation of tenders and award of contract, the GSE declared in March 2003 that the tender price of the successful tenderer was too high and as such not acceptable. Following several discussion on this matter, the GSE instructed Manitese in October 2003 to cancel the tender and re-tender the reconstruction works. As of December 2003, the tender for the reconstruction works had been relaunched.
- Rehabilitation of health facilities in favour of war displaced persons in Eritrea, Premiere Urgence (€718,000). The originally earmarked health facilities were rehabilitated by other agencies. Consequently, the GSE and Premiere Urgence agreed to reallocate the funds to finance a first phase rehabilitation of the Senafe District Hospital. Premiere Urgence submitted a proposal in April 2003. However, delays have occurred in the approval process on the part of the EC due to the fact that this project is administratively linked to the other two NGO projects and all changes to the programme are to be submitted and approved together.

A contract between the GSE and HALO Trust had been signed in 2002 for Emergency Mine Clearance in the TSZ (€698,380) (8.ACP.ERY.7). However, implementation of this EC funded project did not commence because HALO Trust had difficulties recruiting de-mining staff. In May 2003, HALO Trust was instructed by the GSE to cease all de-mining operations with immediate effect and to close down its operations in Eritrea. The GSE provided HALO Trust with all the necessary documents and support to re-export their equipment. As of December 2003, HALO Trust were in the process of finalising the export of equipment from Eritrea

The Financing Agreement for the Programme to support voluntary repatriation and integration of Eritrean refugees from Sudan for €6.75M (8.ACP.ERY.11) was signed in June 2003. The programme aims to provide 'Assistance to the social and economic reintegration of Eritrean returnees', targeting water supply systems, sanitation, health and education, all crucial sectors for a sustainable reintegration of the refugees. The contract between the GSE and UNHCR was signed in June 2003 and implementation of the programme began in July 2003.

4.5.7 Humanitarian Assistance (ECHO)

Several missions were fielded to Eritrea during 2003 resulting in financing of emergency interventions through NGO's to the tune of €1.3M. In addition, and as part of a wider nutritional surveillance project, nutritional assistance was provided for over 14,000 beneficiaries, mostly children. These beneficiaries were located in Anseba, Debub and north and south Red Sea zones. ECHO will continue to make contributions in Eritrea when justified according to its core mandate.

5 PROGRAMMING PERSPECTIVE FOR THE FOLLOWING YEARS

The CSP and NIP for Eritrea attempt to take into account the particular situation of the country. A two-pronged approach is proposed - "Linking relief, rehabilitation and development" logic and trying to build on the actions undertaken by the emergency and humanitarian instruments right at the moment of the crisis. In the short-term, prompt interventions to tackle remaining needs in reconstruction and peace building are foreseen. At the same time, sectoral studies are foreseen to prepare the ground for a shift into more traditional focal sectors (transport, education and food security) during the course of programming.

Short-term approach: The main interventions foreseen in the short-term are the Reconstruction of the Nefasit-Dekemhare-Tera Imni road (€37M) and a Post-conflict rehabilitation programme (€15M). The financing decision on the Reconstruction of the Nefasit Dekemhare Tera Imni road was taken in November 2003 and the Financing Agreement was signed in January 2004. Following the finalisation of the tender documents and the launch of the works tender by September 2004, works are scheduled to start in the first half of 2005. The FP for the Post conflict rehabilitation programme is being finalised to be presented to the EDF committee in September 2004.

Support to the Government's Demobilization and Reintegration Programme (EDRP) (€47M). Following the EDF committee meeting in June 2002, this support has been divided into two separate Financing Proposals: the first one (€27M) was approved in September 2002 and following the signing of the Inter Agency Agreement, the World Bank requested the first payment in September 2003. The second instalment of €20M is subject to progress in the programme and in the demarcation of the border and in an optimistic scenario, the FP could be presented to the EDF committee in the second half of 2005.

Balance of payment support/education: €53M was earmarked under the 8th EDF for a Balance of Payment support programme. Since this programme is unlikely to be implemented in the near future, the GSE expressed interest in reallocating these funds to a project in support to the Education sector. The reallocation of these funds to the education sector is discussed in Chapter 5.1.

Transport sector: In the CSP, €15M are earmarked for projects, capacity building and support through budget to the transport sector. In order to meet requirements for allocation of important funding to this sector in general and to the road sub-sector in particular, it is important to significantly strengthen the road maintenance capacity in Eritrea. Some initial discussion of allocating the €15M to fund a pilot maintenance programme as part of the "Transport Sector Approach" was held during the AOR in December 2003. The need to integrate a strategic environmental assessment into the transport sector policy is recognised. Following more detailed preparatory work, a FP could be presented to the EDF Committee in the first half of 2005. In addition, since the Installation of a Vehicle Restraint system on the Asmara Massawa road could not be implemented under the 7th EDF, a FP for this project could be prepared and presented to the EDF committee in the first half of 2005.

The **studies for the development of sectoral strategies** and plans of action in the areas identified to be focal sectors of intervention will be financed under the Technical Cooperation Facility (TCF) (€4.5M). The FP for this facility is currently being finalised and could be presented to the EDF committee in August 2004.

Governance (€7M) and Support to Civil society (€1M) were identified in the context of the negotiations with the Government as a non-focal sector of intervention under the 9th EDF. The programming of resources allocated to this area appears uncertain at this stage.

5.1 Integration of new EC/EU policy initiatives and commitments

During the recent years, the EC and the EU undertook a series of commitments, both at policy level and as a result of adherence to internationally-agreed initiatives. These relate to diverse sectors / areas: financing for development, environment, debt reduction, trade, fisheries, tropical forests, Linking Relief Rehabilitation and Development (LRRD), conflict prevention, human rights, gender, among others. Among these, statements and commitments concerning the social sectors – and education in particular - are the most relevant to Eritrea. The European Commission has a commitment towards the European Parliament to allocate 35% of its resources for development cooperation to social sectors. The Commission is also highly involved in the implementation of the “Education for All” Fast-Track Initiative. The CSP foresaw that studies would be financed via the 9th EDF, so as to support the GSE in developing a strategy for the sector in view of future support.

However, during 2003, the GSE developed a new strategy and curricula and presented it to Donors in a Round Table held on December 15, 2003. Development partners welcomed this exercise of coordination and a number of them expressed interest to evaluate a future support. The GSE also expressed its interest in shifting the €53M presently allocated to Balance of Payment (BoP) Support⁷ to Education. The EC responded positively to this request.

A feasibility study will be carried out once the “Technical Cooperation Facility” is available to the NAO and the Delegation and will indicate areas and modalities of intervention, as well as timeframe and a timetable of expected commitments and disbursements.

5.2 Proposal on a review of the CSP

The Government has underlined during 2003 that it would be desirable to focus EC/GSE Cooperation on priority sectors of strategic importance (such as transport and education) and that the EC support should focus on physical infrastructure projects.

Additionally, the GSE indicated that it doesn't consider governance and involvement of civil society as a priority in the present context.

The GSE has stated that it may decide that Transport remains a focal sector under the 10th EDF. In order to meet requirements for allocation of important funding to this sector in general and to the road sub-sector in particular, it is important to strengthen significantly the road maintenance capacity in Eritrea. Some initial discussion of funding a pilot maintenance programme as part of the “Transport Sector Approach” for which 15M€ is earmarked in the 9thEDF NIP was held during the AOR in December 2003.

⁷ The GSE indicates that it is unlikely that it will enter an IMF-agreed staff monitored programme, since it lacks the necessary resources (Forex) to sustain it during the stabilisation period. It is thus unlikely that the conditions will be fulfilled for a disbursement of the EC funds presently allocated to BoP any time soon.

LIST OF ACRONYMS

APL – Anti-personnel Landmines budget line
BoE – Bank of Eritrea
BOP – Balance of payment
CAP – Consolidated Appeal for Emergency (launched by the UN System)
CSP – Country Strategy Paper
EC – European Commission
ECHO – European Commission Humanitarian Office
EDA – Eritrean Demining Agency
EDF – European Development Fund
EDRP – Emergency Demobilisation and Reintegration Programme
EIB – European Investment Bank
EMAP – Eritrean Mine Action Programme
EPLF – Eritrean People Liberation Front
ERN – Eritrean Nakfa
ERP – Emergency Reconstruction Programme
ERREC - Eritrean Relief and Refugees Commission
EU - European Union
GDP – Gross Domestic Product
GSE - Government of the State of Eritrea
ICRC – International Committee of the Red Cross
IDPs – Internally Displaced People
IMF – International Monetary Fund
LIS – Landmine Impact Survey
LDCs – Least Developed Countries
MoA – Ministry of Agriculture
MoPW – Ministry of Public Works
NAO – National Authorising Officer
NGO – Non Governmental Organisation
NIP – National Indicative Programme
OAU – Organisation of African Unity
PACE – Pan African Campaign against Epizootics
PFDJ – People’s Front for Democracy and Justice

RAO – Regional Authorisation Officer

SAF – Structural Adjustment Facility

STPARR – Short Term Programme to Aid Reconstruction and Recovery

TEGPRS – Transitional Economic Growth and Poverty Reduction Strategy

TSZ – Temporary Security Zone

UN – United Nations

UNDP – United Nations Development Programme

UNMAS – United Nations Mine Action Service

UNMEE – United Nations Mission to Ethiopia and Eritrea

WB – World Bank

WFP – World Food Programme

WTO – World Trade Organisation

LIST OF ANNEXES

- Annex I** Overview of disbursement in 2003 in the framework of co-operation between Eritrea and the EC
- Annex II** Status of Programmable and Non-Programmable Funds within 7th EDF (December 2003)
- Annex III** Status of Programmable and Non-Programmable Funds within 8th EDF (December 2003)
- Annex IV** Status of Budget Line funds (December 2003)
- Annex V** Forecast of global commitments for Eritrea (2004-2007)
- Annex VI** Forecast of disbursements for Eritrea (2004-2007)
- Annex VII** Overview of 9th EDF programme and available funds
- Annex VIII** Chronogram of activities under the 9th EDF

**Overview of disbursement in 2003 in the framework of co-operation
between Eritrea and the EC**

Source of Funds	Disbursement [EURO]	
7th EDF (Annex II)		4.325.275
National indicative programme (NIP)	4.325.275	
8th EDF (Annex III)		6.554.985
National indicative programme (NIP)	0	
European Commission Humanitarian Office (ECHO)	1.259.783	
Emergency assistance in favour of refugees	5.295.202	
Regional co-operation (Annex II)		186.615
Regional Indicative Programme (RIP)	186.615	
Budget Lines (Annex IV)		16.938.035
NGO co-financing (B7 6000)	341.689	
Food Security (B7 2010)	16.596.346	
Total		28.004.910

Status of Programmable and Non-Programmable Funds within 7th EDF (December 2003)

Total Financing Agreements: 67.757.578
Amount committed: 60.411.656

Date (OLAS): December 2003

Number	Source of funding	Title	F.A	Committed in contracts as of December 2003	Disbursed as of December 2003	Balance on contracts as of December 2003	Still available for commitment December 2003	Disbursed in 2003
7.ERY.01	ECHO	ECHO/ERI/ART254	708.218	708.218	708.218	0	0	0
7.ERY.02	Refugees	Rehabilitation programme for Eritrea	3.700.000	2.851.135	2.750.674	100.461	848.865	0
7.ERY.03	EIB	Project telecommunication Eritrea	8.000.000	8.000.000	8.000.000	0	0	0
7.ERY.04		Comesa general trade Bulumbayo	0	0	0	0	0	0
7.ERY.05		Study on irrigation potential	0	0	0	0	0	0
7.ERY.06	NIP	Massawa electrification feasibility	142.707	142.707	142.707	0	0	0
7.ERY.07	NIP	Transport sector study	311.244	311.244	311.244	0	0	0
7.ERY.08	NIP	Preparation water study	47.467	47.467	47.467	0	0	0
7.ERY.09	NIP	Aerial survey and stereoplotting	55.000	41.826	41.826	0	13.174	0
7.ERY.10	NIP	Reconstruction crash programme	54.045	54.045	54.045	0	0	0
7.ERY.11	NIP	Preparation short term programme	97.931	97.931	97.931	0	0	0
7.ERY.12	NIP	Short term Prog. Aid Reconstr. & Recov.	19.800.000	16.459.787	15.572.213	887.574	3.340.213	97.057
7.ERY.13	NIP	Remosa short-term	7.095	7.095	7.095	0	0	0
7.ERY.14	Refugees	Study needs returnees in irrigation	52.104	52.104	52.104	0	0	0
7.ERY.15	Refugees	Malaria control project	669.346	669.346	669.346	0	0	0
7.ERY.16	Refugees	Small scale irrigation western lowlands	490.000	490.000	286.716	203.284	0	0
7.ERY.17	NIP	Water sector study	4.500.000	2.213.466	2.095.527	117.940	2.286.534	0
7.ERY.18	NIP	Preparation Nefasit road upgrading	750.000	750.000	726.702	23.298	0	0
7.ERY.19	NIP	Preparation Massawa electrific.	400.000	397.542	389.042	8.500	2.458	37.649
7.ERY.20	NIP	Livestock promotion support	1.200.000	1.184.403	1.027.920	156.482	15.598	0
7.ERY.21	NIP	Rehabilitation electr. Massawa	20.000.000	19.828.067	16.221.285	3.606.782	171.933	4.190.568
7.ERY.22	ECHO	ECHO/ERI/254	1.040.000	1.040.000	1.040.000	0	0	0
7.ERY.23	NIP	Extension preparation Nefasit road	275.000	201.000	179.901	21.099	74.000	0
7.ERY.24	NIP	TA to the Ministry of Fishery	127.420	114.271	114.271	0	13.149	0
7.ERY.25		TA to the Ministry of Public Works	0	0	0	0	0	0
7.ERY.26	NIP	TA to the Ministry of Public Works	580.000	0	0	0	580.000	0
7.ERY.27	NIP	Emergency demob & reintegr. Support	4.750.000	4.750.000	0	4.750.000	0	0
TOTAL			67.757.578	60.411.656	50.536.235	9.875.420	7.345.922	4.325.275

Regional projects

7.RPR.744 / 8.TPS.32	Pan African Campaign against Epizootics	1.329.310	1.107.000	581.285	525.715	222.310	186.615
TOTAL		1.329.310	1.107.000	581.285	525.715	222.310	186.615

Projects in Bold are open

Source of funding

NIP: National Indicative Programme
ECHO: European Commission Humanitarian Office
Refugees: Emergency assistance in favour of refugees (Art. 255 Lome Convention)
EIB: European Investment Bank - Risk capital

Status of Programmable and Non-Programmable Funds within 8th EDF (December 2003)

Total Financing Agreements 23.386.109
Amount committed: 21.642.256

Date (OLAS): December 2003

Number	Source of funding	Title	F.A	Committed in contracts as of December 2003	Disbursed as of December 2003	Balance on contracts as of December 2003	Still available for commitment December 2003	Disbursed in 2003	Disbursed as of December 2003
8.ERY.01	ECHO	ECHO / ERI / ART254 / 1999 / 01	1.564.607	1.564.607	1.564.607	0	0	0	1.564.607
8.ERY.02	ECHO	ECHO / ERI / ART254 / 1999 / 02	526.781	526.781	526.781	0	0	0	526.781
8.ERY.03	ECHO	ECHO / ERI / ART254 / 2001 / 01	6.931.341	6.697.199	5.514.826	1.182.373	234.142	560.783	4.954.043
8.ERY.04	NIP	Technical Assistance to NAO	740.000	0	0	0	740.000	0	0
8.ERY.05		Support to Eri emergency reconstr.	0	0	0	0	0	0	0
8.ERY.06		Support to Eri emergency reconstr.	0	0	0	0	0	0	0
8.ERY.07	Refugees	Temporary Security Zone Mine clearance	698.380	698.380	553.906	144.474	0	553.906	0
8.ERY.08	ECHO	ECHO / ART254 / 1999 / 01 (cont.)	1.750.000	1.750.000	1.049.000	701.000	0	699.000	350.000
8.ERY.09	Refugees	Progr. Support refugees & IDPs	2.175.000	1.455.289	1.108.960	346.329	719.711	1.108.960	0
8.ERY.10	NIP	Emergency demob & reintegr. Support	2.250.000	2.250.000	0	2.250.000	0	0	0
8.ERY.11	Refugees	Support voluntary repatriation & reint	6.750.000	6.700.000	3.632.336	3.067.664	50.000	3.632.336	0
8.ERY.12		ECHO / ART254 / 1999 / 01 (cont.)	0	0	0	0	0	0	0
8.ERY.13		2nd contribution to Emerg. Demob	0	0	0	0	0	0	0
TOTAL			23.386.109	21.642.256	13.950.416	7.691.840	1.743.853	6.554.985	

Projects in Bold are openSource of funding

NIP: National Indicative Programme

ECHO: European Commission Humanitarian Office

Refugees: Emergency assistance in favour of refugees (Art. 255 Lome Convention)

Forecast of global commitments for Eritrea (2004-2007)

Country: ERITREA

Unit AIDCO	EDF	Sector Title of project/programme	2004												2005		2006	2007	Total 2004-2007	
			JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	1° sem	2° sem				
	EDF 9	Post conflict rehabilitation																		
C/5		Post conflict rehabilitation programme											15,00							
C/7		Rehabilitation Nefasit-Dekem-Tera Rd																	15,00	
C/5		UN/GSE Integrated recovery programme														10,00			10,00	
C/7		Rural feeder road rehabilitation															10,00		10,00	
C/5		School mapping exercise														3,00			3,00	
C/5		Education														30,00			30,00	
		s/total focal sector																		
C/7	EDF 9	Transport																		
		Vehicle restraint system Asm-Mass Rd																3,00	3,00	
		Transport sector approach: projects, capacity building																15,00	15,00	
		s/total focal sector																		
C/5	EDF 9	Non focal sector activities:																		
C/5		Demobilisation/Reintegration (2nd)																20,00	20,00	
C/4		Support to governance																7,00	7,00	
C/4		Support to civil society																1,00	1,00	
C/1		Technical Cooperation Facility (TCF) (incl. sector wide studies in CSP)										4,60							4,60	
		s/total non focal sector activities																		
Total											4,60	15,00	0,00				61,00	38,00	0,00	118,60

Forecast of disbursements for Eritrea (2004-2007)

Country: ERITREA

Unit AIDCO	EDF or BL	Sector Title of project/programme	2004			2005		2006	2007	TOTAL 2004-2007	Comments
			1° sem	2° sem	Total	1° sem	2° sem				
C/7	EDF 7	Short term prog. to aid reconstruct. & recovery	0,20	0,04	0,24					0,24	
C/7	EDF 7	Rehab transmission, substations & distrib Massawa	1,75	0,64	2,39	1,30				3,69	
	EDF 7	TA the strengthening of the MOPW	0,15	0,15	0,29	0,15	0,15			0,58	
	EDF 8	TA to the NAO's Office				0,15		0,15	0,15	0,45	
C/4	EDF 8	Temporary security zone-mine clearance (HaloTrust)				-0,50				-0,50	Reimbursement of advance
C/4	EDF 8	Support refugees & internally displaced people	1,04	0,00	1,04	0,23	0,16			1,43	Subject approval of Rider No1
C/4	EDF 7&8	Emerg.demobilisation & reintegration support programme	13,50		13,50	13,50				27,00	
C/4	EDF 8	Support to the voluntary repatriation and reintegration		2,63	2,63		0,44			3,07	
	EDF 9	Post conflict rehabilitation									
C/5		Post conflict rehabilitation programme				0,5	2,5	4	4	11,00	
C/7		Rehabilitation Nefasit-Dekem-Tera Rd					6	9,5	9,5	25,00	
C/5		UN/GSE Integrated recovery programme					2,5	5	2,5	10,00	
C/7		Rural feeder road rehabilitation						3	3	6,00	
C/5		School mapping exercise					1,5	1,5		3,00	
C/5		Education					10	15	5	30,00	Following timeframe FS
C/7	EDF 9	Transport									
		Transport sector approach: projects, capacity building, support through budget					2,5	5	5	12,50	
		Vehicle restraint system Asmara-Massawa Rd.					1	1	1	3,00	
	EDF 9	Non focal sector activities:									
C/5		Demobilisation/Reintegration (2nd)						10	10	20,00	
C/4		Support to governance (media, justice etc.)								0,00	
C/4		Support to civil society								0,00	
		Technical Cooperation Facility (TCF)				0,35	0,35	0,7	0,7	2,10	
		Budget Lines									
F/5	B7 2010	Food Security	0,58	0,7	1,28					1,28	
	B7 6000	NGO co-financing		0,22	0,22					0,22	
F/4	B7 661	Fight against personnel landmines	0,24	1,16	1,4			0,2		1,60	Subject approval project 2004
Total			17,46	5,54	22,99	15,53	27,25	55,05	40,85	161,66	

OVERVIEW OF 9th EDF PROGRAMME AND AVAILABLE FUNDS FOR ERITREA

Project/Programme	EURO
As foreseen in NIP (indicative amounts)	
Rehabilitation of the Nefasit-Dekemhare-Tera Imni road	37.000.000 **
Post conflict rehabilitation programme	15.000.000
Demobilisation and reintegration programme (2nd contribution)	20.000.000
Support to governance (media, justice etc.)	7.000.000
Support to civil society	1.000.000
Transport sector approach: projects, capacity building	15.000.000
Sub-Total 1	95.000.000
Project/programme proposals (indicative amounts)	
Vehicle restraint system Asmara-Massawa Road	3.000.000
Technical Cooperation Facility (TCF) (including sector wide studies mentioned in CSP)	4.600.000 ***
Education	30.000.000
UN/GSE Integrated Recovery Programme	10.000.000
Rural/feeder road rehabilitation	10.000.000
School mapping exercise	3.000.000
Sub-Total 2	60.600.000
Total	155.600.000
Funding shortfall	-6.600.000



Under the concentration sector "Post-conflict rehabilitation" (€45m), the two programmes foreseen (rehabilitation of the Nefasit-Dekemhare-Tera Imni road, €37m, and short-term rehabilitation, €15m) amount to €52m, thus exceeding the indicative allocation by €7m. This difference was foreseen to be covered by transfers from previous EDFs.

Available funds	EURO
7th EDF (transfer)	8.000.000
8th EDF	53.000.000
9th EDF	88.000.000
Total	149.000.000

Chronogramme of activities in the framework of EC-Eritrea Cooperation 9th EDF

Title of project /programme	EURO	2004				2005				2006			
		1	2	3	4	1	2	3	4	1	2	3	4
Rehabilitation of the Nefasit-Dekemhare-Tera Imni road	37.000.000	[Implementation bar from Q1 2004 to Q4 2006]											
Vehicle restraint system on Asmara-Massawa road	3.000.000	[Preparation bar from Q3 2004 to Q2 2005] ● [Implementation bar from Q2 2005 to Q4 2006]											
Transport sector approach: projects, capacity building, budget support	15.000.000	[Preparation bar from Q3 2004 to Q1 2005] ● [Implementation bar from Q1 2005 to Q4 2006]											
UN/GSE Integrated Recovery Programme	10.000.000	[Preparation bar from Q4 2004 to Q1 2005] ● [Implementation bar from Q1 2005 to Q4 2006]											
Rural/feeder road rehabilitation	10.000.000	[Preparation bar from Q1 2005 to Q2 2005] ● [Implementation bar from Q2 2005 to Q4 2006]											
School mapping exercise	3.000.000	[Preparation bar from Q4 2004 to Q1 2005] ● [Implementation bar from Q1 2005 to Q4 2006]											
Education sector	30,000,000 + 23,000,000 under 10th EDF	[Preparation bar from Q1 2004 to Q1 2005] ● [Implementation bar from Q1 2005 to Q4 2006]											
Demobilisation and reintegration programme (2nd contribution)	20.000.000	[Preparation bar from Q2 2005 to Q3 2005] ● [Implementation bar from Q3 2005 to Q4 2006]											
Post conflict rehabilitation programme	15.000.000	[Preparation bar from Q3 2004 to Q1 2005] ● [Implementation bar from Q1 2005 to Q4 2006]											
Support to governance (media, justice etc.)	7.000.000	[Implementation bar from Q1 2004 to Q4 2006]											
Support to civil society	1.000.000	[Implementation bar from Q1 2004 to Q4 2006]											
Technical Cooperation Facility (TCF)	4.600.000	[Preparation bar from Q2 2004 to Q3 2004] ● [Implementation bar from Q3 2004 to Q4 2006]											

Legend

- Preparation (feasibility, tender documents, FP)
- Tender and evaluation
- Implementation
- Financing decision taken
- Not Yet defined