

ERITREA – 2004 MID-TERM REVIEW CONCLUSIONS

1. PREAMBLE

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 1992.

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 €18.5m, 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, it is proposed the A envelope (9th EDF and transfers from previous ones) be maintained. It is also proposed that the resources in the **B-envelope** (amounting to €7.3m) 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 THE PARTNER COUNTRY

Upon liberation in 1991, the Government of the State of Eritrea (GSE) embarked upon an ambitious programme of economic liberalisation and democratisation marked by the establishment of a macroeconomic policy framework (1994) and the drafting and ratification of a new constitution in 1997. During the period 1993-1998, the GSE's policy agenda focused on the rehabilitation of a war-damaged economy and social infrastructure, on ensuring the demobilisation of ex-fighters, and on the return of refugees from neighbouring countries. Significant progress was made in all of these areas. Moreover, in 1997, the GSE's investment, trade, fiscal and monetary policies were further defined, the transition to a market economy was initiated, and a national currency -the Nakfa- was introduced to replace the Ethiopian Birr as legal tender.

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 GSE formulated a transitional development strategy and established priorities, taking the enormous damage caused by the war into account. However, since the end of the war, the internal situation has not evolved as positively as initially expected, particularly following the events of September 2001 (arrest of dissidents, closure of the press, expulsion of the Italian Ambassador, etc). Indeed, the GSE's grip on the country is tight, with restrictions on civil, political and economic rights/liberties. Exit visas for men under 45 and women under 28, who have not completed their National Service, are very difficult to obtain and the political prisoners and journalists arrested in September 2001 are still detained without charge. Private media outlets are still not allowed to operate. According to HR organisations, several trials are still held secretly in the Special Courts. According to the same source, people are arrested and put in jail without charges and their families are not always informed of their whereabouts.

The GSE has explained that these are emergency measures needed to maintain discipline and vigilance in case of possible new aggression by Ethiopia, which would be abolished if the border demarcation were implemented and a lasting peace secured in accordance with the Algiers Agreement. In 2003, local elections were held in the six Zobas for the top jobs in the Administration. Only individual candidates were allowed to run, although the mere fact that elections were held may be seen as modest progress towards democracy at the grass root level.

The Political Dialogue, under Art. 8 of Cotonou, resumed in early 2003 after a prolonged impasse. Discussions on less contentious issues were held during 2003 in six formal meetings. A second round started in 2004 and more sensitive issues, such as elections, freedom of the press and detainees, will be dealt with. Finally, Eritrea has shown a remarkable commitment to the Algiers Peace Agreement and has accepted the EEBC decisions.

3. MAIN POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENTS IN THE COUNTRY

3.1. Economic situation

The Eritrean economy is currently characterised by severe macroeconomic imbalances, epitomised by unusually high levels of public expenditure due to the impact of the war and the need to regain the growth momentum of the economy. In 1999, government expenditure accounted for 97.7% of GDP. In 2000 it accounted for 101.4% of GDP, while in 2001 and 2002, it was reduced to 77.2% and 85.9%, respectively. Public expenditure in 2003 is expected to be approximately 70.8% of GDP. The budget deficit (including grants) has been correspondingly high, reaching 52.2, 43.4 and 38.1% in 1999, 2000 and 2001, respectively. In 2002, the budget deficit was 29.0% of GDP, and, in 2003, it is expected to be approximately 25.0%. The GSE aims to further reduce public expenditure through a drastic reduction in defence expenditure, which depends upon the successful demobilisation of soldiers. This procedure, however, may not be as swift as the GSE had hoped, mainly because of the instability caused by Ethiopia's refusal to accept the Eritrea Ethiopia Boundary Commission's (EEBC) binding decision on demarcation. Both domestic and external public debt has reached unsustainable levels during the five years following the outbreak of war. Uncertainty about data and lack of updated information, such as the absence of a public budget, are features of the Eritrean economy. This also makes it extremely difficult to access the sustainability of aid-financed investment projects and programmes. In several contacts with development partners, the GSE has explained that the Country had reached bankruptcy because of the drain

on the economy due to defence and national security expenditure, that funding agencies had repeatedly failed to honour their promises, and that, as a consequence, it would not have been possible to prepare a meaningful National Budget. The country was in a critical situation with widespread hunger amongst the population: the GSE had therefore reluctantly been obliged to introduce special economic emergency measures with the result that economic liberalisation was practically frozen and still has to be reactivated. At the end of 2002, the National Assembly approved an austerity budget for 2003 which was not made public. In 2003, the GSE presented donors with the outline of a process to complete an *i*-PRSP by March 2004.

The gap between the official argument addressing the importance of private sector development and the practice of curbing its initiative is widening. The governing party, PFDJ, remains an active economic player with a quasi monopoly in many sectors, e.g. large scale public works, transport, tourism and hotels.

Eritrea benefits from duty and quota free access to the EU under the *Everything But Arms* initiative. However, given the economic situation, overall trade with the EU has decreased over the last year and exports to the EU in particular have declined dramatically (to only €3m in 2003). As part of the Eastern and Southern Africa group of 16 countries, Eritrea opened regional negotiations of an Economic Partnership Agreement, which should strengthen regional integration and tackle barriers to trade, beginning in 2004. A national EPA impact assessment study with a participatory approach will be launched in 2004 to analyse all the implications of this process, involving also NSAs.

Nevertheless, it should be noted that, despite the critical economic situation, Eritrea remains largely free of corruption, and civil servants show a high level of dedication and commitment.

3.2. Poverty

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 PPP. The UNDP Human Development Index ranks Eritrea 155 out of 175 countries in its 2003 report. During 2003 the GSE carried out qualitative and quantitative poverty assessments. The *i*-PRSP document was based on the results of these studies, which indicated that overall poverty incidence stands at 66.4%. The recent conflict and successive droughts have certainly weakened the coping mechanisms and increased the vulnerability of the population. Structural factors are also affecting Eritrea's capacity to respond to crisis.

3.3. Human Development

In the last twelve years, there has been significant progress in enhancement of human resource development in Eritrea, particularly in the Education Sector. Schools have been built and enrolment has increased substantially. There has also been a marked improvement in female enrolment now approaching 45% of the total. This is significant, particularly because there had been numerous social and cultural factors inhibiting female participation in education. To build on the progress made in the first decade of independence, the GSE has declared that it plans to increase the share of public expenditure devoted to the social sector. The GSE recognises that the sector faces significant financial and institutional capacity constraints. Demand for elementary and secondary education is high and continues to grow strongly. On the other hand, education indicators are quite modest: school enrolment ratios stand at 27% for combined primary secondary and tertiary education, against 42% for Sub-Saharan Africa. The 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. Comparison of expenditure on education as a percentage of GDP shows that expenditures in Eritrea are close to the average for sub-Saharan Africa. As a percentage of total government spending, edu-

cational expenditures have ranged from 8.8% in 1997 to approximately 6.5% in 2002, with an average of 7.4% during the period 1997-2002. Most developing countries spend about 15% of their total expenditure on education. In 2003, the GSE completed an education strategy and launched a \$200 million five-year integrated education development programme that would increase access to quality education for Eritreans.

Eritrea's health indicators are levelled with sub-Saharan averages and the GSE plans to tackle the factors that mostly contribute towards reducing the burden of diseases. Poor access to health services for rural and nomadic populations, the low number of physicians and beds, the shortage of health care professionals needed to staff hospitals, poor access to sanitation, and improved water are other issues that need to be addressed. Clinics, health centres and hospitals have been built in most parts of the country. The focus in the future will be to create and strengthen the manpower and the equipment necessary to make these facilities effective in delivering adequate health services.

Improving education and health services, therefore, continues to be one of the main priorities of the GSE. Additionally, significant progress has been made in reintegrating IDPs, people expelled from Ethiopia, demobilised 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.

3.4. Emergency Relief

According to the UNDP, under-nourishment stands at 58%, stunted and wasted children at 38% and 44% respectively. Life expectancy is 52.5 years, the under-5 mortality rate is 111/1000 and 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 on the rise. A new National Nutrition Surveillance System was developed in 2003, which will yield more precise and timely information on malnutrition – one of the biggest problems for human development in Eritrea.

Humanitarian and Food crises are becoming structural components of Eritrea's social and economic life. Conjunctural and structural causes, such as progressive impoverishment due to the consequences of the war and successively erratic climate conditions, lack of manpower and productive assets in rural areas due to conscription, inappropriate domestic policies, shaky economic situation and closure of the borders virtually eliminating regional trade, are all at the root of both the crisis and the fact that coping mechanisms are now overstretched. The GSE has not succeeded in tackling these kinds of conjunctural and structural causes.

There is still a serious lack of coordination within the UN system which has created confusion among donors. In reality, neither the GSE nor the donors have the information necessary to calculate needs with any accuracy and indicate appropriate responses according to different target groups. The distribution of food aid might become even more of a problem due to the new travel restrictions on diplomatic missions and the UN family which have been put in place by the GSE.

3.5. Infrastructure rehabilitation

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 and there has been progress particularly in roads and power, a modest improvement in water supply, and initial progress in telecommunications. Supporting mine clearance remains one of the prerequisite to ensure access to land and to

promote development of infrastructures. As such it should be part of the post conflict rehabilitation programme.

3.6. Regional integration

Eritrea's regional integration is underdeveloped. Relations with Ethiopia deteriorated again following Ethiopia's non-compliance with certain parts of the EEBC ruling. Also, relations with Sudan remain tense. Eritrea keeps harbouring and supporting Sudanese opposition groups and often accuses Sudan of harassing Eritreans in Sudan. Relations with Yemen remain cool, which, together with Sudan and Ethiopia, signed the Sana'a cooperation protocol on which occasion they were defined by Eritrea as the "axis of belligerence". Relations with Djibouti have improved and a number of cooperation agreements have been signed. Relations with Libya remain positive. Eritrea is a member of COMESA and benefits in this framework from the Regional Indicative Programme. So far, Eritrea has not joined the COMESA FTA. Further integration will depend, inter alia, on Eritrea's relations with its neighbours.

4. STATE OF PLAY IN IMPLEMENTING THE EC COOPERATION PROGRAMME

First and foremost, it is important to stress the extraordinary combination of circumstances in Eritrea: non-accessibility under the 6th EDF (Eritrea gained Independence in 1993), the 1998-2000 war against Ethiopia (delaying the implementation of the 7th and signature of the 8th EDF), no new commitments taken by the EC following the political events of September 2001 in Eritrea (arrest of dissidents, closure of the press, expulsion of the Italian Ambassador, etc.).

The *de facto* freeze of cooperation until the signature of the CSP in November 2002 was challenged by Eritrea on the grounds of non-compliance with the Cotonou Agreement since no formal Article 96 consultation had been requested by the EU. It then took all of 2003 to slowly but steadily establish mutual trust between both partners, which was achieved only towards the end of 2003, as characterised by a more constructive dialogue. In addition, the 8th EDF was almost exclusively focussed on a BoP programme (€3m), which, although presented to the EDF Committee, was never examined by that Committee due to the *de facto* freeze.

Total resources from the 7th, 8th and 9th EDFs amount to €149m (see annexes of the JAR), of which €37m has been committed for the Nefasit-Dekemhare-Tera Imni road. With regard to further commitments, the programmes in the pipeline amount to €18.5m, which is €6.5m in excess of available resources. The aim is to cover this shortfall from unspent funds under the existing programmes.

4.1. A and B envelopes

Short-term approach: The main funding scheduled in the short term is for 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 tenders by June 2004, works are scheduled to start in the first half of 2005. The Post-conflict rehabilitation programme was presented to the NAO in December 2003. Further to this Mid-term review adaptations are foreseen. The programme could be presented to the EDF committee within three months after obtaining his formal approval. Furthermore, at the end of 2003, €3m of transfers from previous EDFs were re-allocated to education within the short-term "Post-conflict Rehabilitation" approach (see Chapter 5.1).

Support for the Government's Demobilisation 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 (€27m) was approved in September 2002 (first payment to the WB in January 2004). The second instalment of €20m is subject to progress in the programme, in particular as regards the demarcation of the border, which is difficult to predict since Ethiopia continues to refuse to accept the EEBC's ruling.

Transport was identified as an important sector for activities in the CSP. Due to a number of problems (particularly recruitment problems with long-term TAs), preparations have been significantly delayed. However, with the arrival of a TA in February 2004, it should be possible for the transport sector approach to move on. Since the GSE is strongly committed to this sector and the WB is also engaged in the road sector, synergy effects are likely.

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. 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 second half of 2004.

Studies for the development of sectoral strategies and plans of action addressing the identified areas 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 May 2004. Strategic Environmental Assessments should be part of this process to ensure that the environmental consequences of the proposed policies are sufficiently addressed at the earliest possible stage of decision-making.

Utilisation of resources for non-State actors: Given the weakness of civil society, dialogue with non-state actors is limited. Governance (€7m) and Support for Civil society (€1m) were identified as non-focal sectors under the 9th EDF. The GSE has not yet requested resources in this area on the grounds of the stalemate in the Peace Process and its adverse effects on domestic affairs.

Utilisation of the B-envelope: The B-envelope (€7.3m) has not yet been used.

4.2. Other instruments

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 allocation in the 2002/2007 financial allocation linked to the Country Strategy Paper.

As regards **regional cooperation**, implementation of the Pan African Campaign Against Epizootics (PACE) started on 1 January 2001 and has continued throughout 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 were addressed during 2003. 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 have reached the second stage within the internationally recognised path to be declared free of rinderpest disease.

Eritrea has never benefited from **STABEX** funds and has never presented the requested statistical data. Also, Eritrea never benefited from **SYSMIN** funds.

4.3. Community budget lines

In December 2001, the EC had taken the decision to allocate €1.4m for the Landmine Impact Survey (LIS) from the specific Anti Personnel **Landmines budget line** (B7-661). By December 2003, 2446 communities had been visited, representing 96% of the planned fieldwork. An application for an additional €300 000 and a time extension was granted in December 2003. Under the specific antipersonnel landmines budget line (19 02 04, ex B7-661) €2 millions have been foreseen under Multiannual Strategy 2005-2007. This amount needs to be completed by the Post-conflict rehabilitation allocations to mine action.

Eritrea has received funds from the **food aid/food security budget line** (B7-2010) for some NGO projects, food aid and a TA to the Ministry of Agriculture. In addition, a Food Security Programme started in 2001 and closed by 31 December 2003. The first instalment of €5m for a foreign exchange facility was spent but the second was 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 GSE and the EC. The conclusion and the decision by the EC on this matter have been strongly disputed by the GSE. While the EC maintained that a positive outcome of the MTR was a prerequisite for release of the second instalment, the GSE reiterates that the conditions set out in the MoU have been strictly adhered to. The GSE finds that the MTR did not take facts provided by the GSE into consideration and that the mission misconceived the Government's understanding of the 2001 FSP. The GSE refrained from commenting officially on the MTR report, stating that for it to comment would have been harsh and could have jeopardised cooperation with the EC. Following the unresolved dispute the EC communicated to the GSE that the EC would look favourable on a GSE request to reallocate the €5m for free food aid. However, as the GSE strongly believed that Forex should have been allocated according to the original agreement, it refrained from requesting the reallocation.

Utilisation of the **NGO Co-financing budget line** (B7-6000) remains modest, as a result of the above-mentioned weakness of civil society - so far only two projects have been financed.

Humanitarian Assistance (ECHO): In addition to chronic problems of receding ground water levels, food supply and malnutrition, Eritrea were hit by a major drought in 2003. The effect of this on food production and water availability resulted in pockets of acute humanitarian need with malnutrition, water-borne diseases and even population displacements. In response to this situation, ECHO allocated €1.3m which provided clean water for over 215 000 people, and over 26 000 livestock. 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 continues to closely monitor the humanitarian situation.

5. PROGRAMMING PERSPECTIVES FOR THE FUTURE

5.1. Integration of new EC/EU policy initiatives and commitments

In 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 including: financing for development, environment, debt reduction, trade, fisheries, tropical forests, LRRD, conflict prevention, elimination of landmines, human rights, gender. Amongst these, statements and commitments concerning the social sectors, education in

particular, are the most relevant to Eritrea. The European Commission has a commitment to 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 Commission will integrate migration issues in the relations with Eritrea in line with May 2003 GAERC conclusions and Article 13 of the Cotonou Agreement.

During 2003, the GSE developed a new strategy on education and presented it to donors in a Round Table held on 15 December 2003. The re-allocation of €3m to education, within the short-term “Post-conflict Rehabilitation” approach (see chapter 4.1), recognises Eritrea’s strong commitment to education and takes the high priority given to education within EU development policies into account.

The Country Environmental Profile should be updated and taken into account in the drafting of the next CSP/NIP in order to improve the integration of the environment as a cross-cutting issue and to tackle negative environmental trends in the country. As regards trade and development, the Integrated Framework has been launched in Eritrea, aiming at mainstreaming trade in the development strategies of LDCs. The GSE's negotiations of an Economic Partnership Agreement in the framework of the ESA-EC regional negotiations might require specific support in terms of capacity building for public and private sector representatives involved in the negotiations.

5.2. Change in the Country Strategy Paper (CSP)

Following the signature of the CSP in November 2002, the choice of focal and non-focal sectors remains valid and consequently no changes to the CSP strategy are envisaged. In addition, during the 2002 Annual Operational Review (in December 2003) the NAO confirmed the choice of focal and non-focal sectors stated in the CSP.

During 2003, the GSE underlined that it would be desirable to focus EC/GSE Cooperation on priority sectors of strategic importance such as transport and education and that EC support should focus on physical infrastructure projects. Nevertheless, given the country’s huge requirements related to food, the development of a Food Security Strategy must be promptly and adequately addressed and further discussed with the GSE.

6. PERFORMANCE APPRAISAL

6.1. Criteria I: Country’s financial performance

EDF:

- Calculated number of years to complete EDF commitments 6.18
(total EDF country allocations – current commitments) / average of commitments for the last 5 years
- Calculated number of years to complete EDF assigned funds 29.64
(total EDF country allocations – current assigned funds) / average of assigned funds for the last 5 years
- Calculated number of years to complete EDF payments 42.56
(total EDF country allocations – current payments) / average of payments for the last 5 years
- Level of utilisation of the 9th EDF A and B envelopes 25.89% / 0.00%

Community budget lines

Rate of assignments/payments of projects financed from Community budget lines 46.3% / 27.9%

6.2. Criteria II: Country's sectoral (and macroeconomic) performance

The events described in chapters 2 and 6.3 have severe adverse effects on the country's performance.

However, 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 although severe exploitation of the scarce natural resources still persists.

During the next five years, the GSE plans to make investment in education and training its top priority. The recently adopted integrated national education development programme will serve as a basis. As a second area of emphasis, the GSE intends to focus on expanding and improving the transport infrastructure.

For the "Short-term post-conflict rehabilitation" and the "Demobilisation/Reintegration" approach, the two Intervention Frameworks (IF) and the indicators, as attached to the CSP, need to be updated as a number of assumptions have significantly changed since 2001. Furthermore, an IF for the transport sector has to be drafted. Preparations on these issues are under progress.

With regard to the performance indicators as presented in the IF for the Demobilisation/Reintegration sector, Eritrea has not fully achieved the targets. While the GSE remains committed to keeping the peace process on track, Ethiopia's refusal to accept the final and binding EEBC's decision has significantly slowed down progress in demobilisation as well as hampering trade (main former partner was Ethiopia) and sustainable growth. The GSE had reduced its initial target of 200 000 units to be demobilised by the end of 2003 to 65 200 and actually managed to demobilise 62 400 by that date. A national mine action programme is being set up, which in 2003 deployed its first de-miners. Trade with Ethiopia has not yet resumed.

With regard to the short-term "Post-conflict rehabilitation" approach, a significant rehabilitation effort has been undertaken by the GSE together with the support of donors since the end of the war in 2000. Schools, hospitals/health centres, water points, etc., have been rehabilitated, as have a number of roads. However, despite this rehabilitation effort, the GSE estimates that 1.9 million drought and war-affected people are still in need of assistance. Acute malnutrition among children, despite slight improvement last year, is still high, together with chronic energy deficiency among mothers. Existing difficulties were worsened by the severe drought that affected the country in 2002. Due to delays in the demarcation of the Eritrea-Ethiopia border, some 58 000 persons are still living in camps. These Internally Displaced Peoples (IDPs) will require further comprehensive assistance in emergency food, shelter, water, basic health services and the provision of household items. More than 105 000 refugee returnees have not been reintegrated and are still dependent on assistance. Furthermore, well over 430 000 people who serve the IDPs and refugee returnees as a host population are also in need of continued assistance. The GSE estimates in its Integrated Recovery Programme the resources required to address the abovementioned needs at around 125 million for the period 2004-2006.

Evaluation grid

Criteria	Increase allocation	Maintain allocation	Reduce allocation
Financial performance commitments assignments			6.18 29.64

payments			42.56
Short-term post-conflict rehabilitation sectoral performance indicators sectoral policy commitments		<i>sufficient roughly on schedule</i>	
Demobilisation/Reintegration sectoral performance indicators sectoral policy commitments			<i>insufficient delayed</i> but due to Ethiopia's refusal to accept the final and binding border ruling

6.3. Utilisation of the A-envelope

With regard to future commitments, the programmes/projects in the pipeline amount to €18.5m in 2004-2007, including Education (€30m), 2nd Instalment Demobilisation programme (€20m), Transport sector (€18m), Post-conflict rehabilitation programme (€15m), Support for governance (€7m) and civil society (€1m), and the Technical Cooperation facility (€4.5m). A 2nd Instalment for Education (€23m), initially scheduled for commitment in 2007) will depend on the absorption capacity within the Education Sector and on how quickly funds from the 1st Instalment are disbursed. Given Eritrea's commitment towards Education and the intended close cooperation with the WB, Education is likely to become one of the focal sectors in the future and the 2nd instalment could be financed from the 10th EDF. Taking into account Eritrea's vast immediate rehabilitation needs, the above-mentioned €23m will be used within the scope of the short-term "Post-conflict rehabilitation" approach.

The amount reserved for the 2nd Instalment for the Demobilisation programme (€20m) as well the €8m in support of governance and civil society is ready to be committed immediately but this is subject to progress on border demarcation.

6.4. Utilisation of the B-envelope

The B-envelope (€7.3m) has not yet been used. Half of the initial allocation should be maintained (€4.4m) as an emergency reserve available in response to cover unforeseen needs of a country highly vulnerable to drought-related effects.

7. SPECIAL CONSIDERATIONS

For the assessment of Eritrea's performance in implementation over the last years, the financial criteria applied in terms of financing decisions and payments need to be viewed in the light of the specific circumstances. Eritrea's border conflict with Ethiopia, followed by the ongoing post-conflict situation and the continued uncertainty regarding border demarcation has not provided an easy environment for development cooperation. In addition, the events of September 2001 (arrest of dissidents, closure of the press, expulsion of the Italian Ambassador, etc.) and the subsequent strained relations between the EU and Eritrea, resulting in the 'de facto freeze' on EC development cooperation from late 2001 until November 2002 (signature of the CSP), or even later, to mid 2003 after Commissioner Nielson's meeting with President Isaias in Asmara, have had a negative impact on Eritrea's financial performance and for programme preparation. By adopting Council Conclusion 12098/03, the General Affairs Council meeting on 13/10/2003 officially stated that 'development cooperation in Eritrea is neither blocked nor frozen'.

These factors must be taken into account if financial indicators such as financing decisions and payments are to be used to evaluate Eritrea's performance. It should also be noted that GSE and EC development cooperation significantly improved during 2003, leading to the first

joint annual report in December 2003 (on cooperation in 2002) and the signature of the Financing Agreement for the Nefasit-Dekemhare-Tera Imni road in January 2004.

Although in principle justified based only on past financial performance, the political consequences of a reduction of Eritrea's A-envelope in the course of the MTR process would be significant. Eritrea would undoubtedly point to the EC's unilateral and *de facto* freeze of development cooperation between 2001 and 2003. Moreover, a reduction of Eritrea's resources would risk being perceived as evidence of EC favouritism towards Ethiopia, notwithstanding its refusal to accept the ruling of the Boundary Commission.

Eritrea's commitment to developing education, the clear interest and support of DPs in this sector, including the intended close cooperation with the WB, and the high priority for education within EU development policies must be kept in mind. Therefore, EC intervention in this sector would appear to be appropriate.

The NAO stated that the GSE wishes to maintain the focal and non-focal sectors of the CSP. This view is shared by the Delegation and HQ.

8. CONCLUSIONS

In the light of the above analysis and taking in account the special considerations, it is proposed that:

- the country strategy for Eritrea, as contained in the CSP and NIP should be maintained;
- in all available resources, €8m, in the A-envelope of the 9th EDF NIP of Eritrea should be maintained;
- the funds available under the B-envelope should be decreased by €2.9m, leaving €4.4m available.