WORLD BANK OPERATIONS EVALUATION DEPARTMENT

OED REACH

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Eritrea Country Assistance Evaluation

Based on the *Eritrea Country Assistance Evaluation.*

- The Government of newly independent Eritrea quickly created a foundation for sustainable broad-based growth, but revived hostilities with Ethiopia brought significant damage, a new wave of dislocations, and the collapse of agricultural production.
- Bank assistance between FY93 and FY02 provided support to the country's overall development program and was essential to helping a new borrower emerge from its former isolation and mobilize the funding necessary for reconstruction.
- Future assistance should be focused on developing a program of multi-donor support for the critical investments and policy adjustments needed to put the country back on a path of adequate growth. The Bank should also further develop the successful collaborative model of assistance that eventually came to work well in Eritrea.

Background

When it achieved independence from Ethiopia in 1993 Eritrea, with 118 thousand square kilometers supporting a largely rural population of about four million, was ravaged by war, drought, and dislocation. The Government of the new country had broad popular support, however, and it moved quickly to build a coherent economic system, adopting policies that stressed social equity and marketoriented growth. By early 1998 the Government had managed to stabilize the economy and was laying the basis for sustainable broad-based growth. Later that year, however, a border dispute with Ethiopia escalated into war. By the time hostilities ceased in June 2000, a third of the population had been driven from their homes, agricultural production had collapsed, and direct war damage amounted to some 90 percent of 1999 GDP.

Bank Assistance

The Bank began working in Eritrea in 1992 and, with its portfolio of 9 projects and commitments of $320.4 million, it is one of the country's largest donors. The Bank moved quickly and creatively to provide resources to rebuild the economy. It was important in introducing the country to the exigencies of dealing with external financiers and in helping move the Government toward opening up to the outside world. After faltering briefly in the mid-1990s, the Bank's program went back on track and good outcomes were expected from most of the activities. The Bank has deployed its comparative advantages (reconstruction, analytical capacity, convening power) with skill, and has been rewarded by excellent cooperation from the international community, especially when it was necessary to mobilize substantial cofinancing for reconstruction.

The Bank has supported the country's overall development strategy and had no fundamental disagreements with the Government on broad issues of macroeconomic or social policy. It has assisted the Government in the two most relevant areas of economic policy formation: exploring the sources of growth (through infrastructure projects and recent ESW on exports and agriculture) and focusing on poverty reduction and equity issues (in ESW on health, education, poverty, and social sector projects). The core issue the CAE explores is how the Bank handled country relations, in addition to looking at whether the Bank pursued appropriate strategies and policies, which it largely did. In a newly emergent state that prided itself on its independence and was skeptical about donor intentions, this made the difference between a marginal Bank role and a substantive, influential one. The way that the Bank country team initially succeeded, then faltered, and then recovered trust and momentum embodies lessons on how the Bank should conduct itself in such "new borrower" situations, and the challenges of supporting country ownership.

Relations between the Bank and the Government of Eritrea fall roughly into three phases: a period of responsiveness associated with post-conflict engagement (1992-94); a troubled period of miscommunication and lost opportunities (1995-97); and a period of recovery in Bank performance (1997-00). The Bank adhered closely to what has now become corporate policy for post-conflict engagement. It rapidly engaged in a wide range of appropriate reconstruction activities and demonstrated both flexibility and innovation. The chief shortcoming is that it did not invest the resources needed to sustain the intensive dialogue and relationship building required by a new borrower. However, this must be seen in the context of the Government's strong concern about donor dominance and its early aversion to external advice. After adjustments on both sides, the Bank-Government relationship was reinvigorated and a very fruitful period of cooperation has followed. Unfortunately, many of the country's achievements since independence have been set back by the costly border war with Ethiopia.

OED rates the outcome of Bank assistance as moderately satisfactory. While it is undeniable that progress has been made towards creating an environment for growth and poverty reduction in a war-torn economy, account must be taken of the impact of the war. Today, Eritrea finds itself in even greater need of development assistance than at independence, despite a record of hard work and dedication by Government and citizenry to the country's advancement. The institutional development impact has been modest, as reforms are in their initial phase. Sustainability of the achievements is rated as unlikely, because the war has brought about severe macroeconomic imbalances and the loss of the country's main trading partner and income from transshipments, while casting a cloud over the prospects for new private investment.

Recommendations

In new countries like Eritrea, the Bank should be prepared to make an up-front investment in relationship building, to understand the particular circumstances of the country and to ensure that Bank-borrower perceptions and expectations are mutually understood. This involves establishing a resident mission or strong field presence early on; providing the management attention and budget needed for intensive client dialogue; selecting staff with the interest and communication skills to engage in open and collaborative policy and technical discussions; ensuring minimum turnover of these key persons; providing consistent field support to help the Government manage Bank procedures; and preparing ESW jointly and focusing on options rather than single prescriptions. The Bank should also be willing to try unorthodox approaches, particularly those that reduce bureaucracy or take creative approaches to capacity building.

Helping Eritrea move out of the current crisis requires close attention and thoughtful adaptation of Bank instruments; it will not be enough to take standard instruments from the shelf and expect them to yield success. As the Government's "main strategic partner," the Bank needs to provide sustained support, conceptual and material, to help the country review its post-war options and implement a strategy that can put it back on a path of adequate growth. The Bank should help the authorities identify the critical policies and investments needed over the next three years, in a form that is costed, sequenced, and backed up by a multi-donor program of support. If the Bank can exercise the same tact and responsiveness as in recent years while engaging the Government frankly on sensitive issues such as transparent budgeting, openness, and the role of the party-owned enterprises, then the partnership-oriented approach pioneered in this country will stand as a model of best practice.

Reactions of Regional Management and the Borrower

The Region concurs with the findings of the report and agrees that a multi-donor program of support, based on the Government's PRSP, should be the first priority once normal relations with donors have been restored. The Borrower felt that the CAE was comprehensive in coverage and balanced in its analysis, but found the conclusion on outcome of Bank assistance to be harsh.

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