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Country Assistance Evaluation

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Acronyms

AAA	Analytical and Advisory Activities
AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CD	Country Director
CDF	Comprehensive Development Framework
CEM	Country Economic Memorandum
ECA	Europe and Central Asia Regional Office
ECDF	Eritrean Community Development Fund
EPLF	Eritrean Peoples' Liberation Front
ERC	Economic Recovery Credit
ERP	Emergency Reconstruction Program
ESW	Economic and Sector Work
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
GNP	Gross National Product
GOE	Government of Eritrea
HDI	Human Development Index
HRDP	Human Resource Development Project
HIV	Human Immunodeficiency Virus
HAMSET	HIV/AIDS, Malaria, Sexually-Transmitted diseases, and Tuberculosis
ICR	Implementation Completion Report
IDA	International Development Association
IDF	Institutional Development Fund
IMF	International Monetary Fund
ISS	Interim Support Strategy
M&E	Monitoring and Evaluation
MPP	Macro-Policy Paper
NEAP	National Environmental Action Plan
NEMP	National Environmental Management Plan
NEPFP	National Economic Policy Framework and Program
NGO	Non-governmental Organization
OED	Operations Evaluation Department
PCD	Project Concept Document
PER	Public Expenditure Review
PFDJ	People's Front for Democracy and Justice
PMU	Project Management Unit
PRSP	Poverty Reduction Strategy Paper
PP	Per Person
PSD	Private Sector Development
QAG	Quality Assurance Group
RRPE	Recovery and Reconstruction Program for Eritrea
SOE	State-owned Enterprises
SSA	Sub-Sharan Africa
TA	Technical Assistance
UCHA	UN Office for Co-ordination of Humanitarian Affairs
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children ' s Fund
UNMEE	United Nations Mission in Ethiopia and Eritrea
WFP	World Food Program
WHO	World Health Organization

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Preface

The objective of this Country Assistance Evaluation (CAE) is to review World Bank assistance to Eritrea from l992 to 2000 and assess its relevance, efficiency, efficacy, sustainability and impact. The evaluation was carried out by Operations Evaluation Department (OED) during 2001. The methodology consisted of a desk review of relevant files and literature and interviews with Bank headquarters staff, and a two-week field mission which included project visits and interviews with representatives of the Eritrean Government, the private sector, the non-governmental organizations (NGO) community, donors and resident World Bank staff. Quotations and comments attributed to Bank staff or Government officials are taken from interviews conducted during this evaluation period.

The evaluation process stressed partnership and was designed to meet Eritrea's needs as well as those of the Bank. The Terms of Reference (TORs) were finalized with a Government team; preliminary findings were discussed with the authorities and other stakeholders at the end of the mission. OED shared this report with the Eritrean authorities and their written comments are attached to this report in Attachment 1.

Laura Kullenberg was the Task Manager for this report and acknowledges with thanks the contribution of John Shilling (Consultant). This evaluation also benefited from comments of the peer reviewers: Ms. Poonam Gupta, Mr. Navin Girishankar and Mr. Anwar Shah. Anar Omarova, Kevin Lumbila, and Dinara Seijaparova provided statistical information and Norma Namisato and Janice Joshi provided administrative support.

Summary

1. Eritrea is a country of about 118 thousand square kilometers, with a population of nearly 4 million and a GNP of around US$200 per capita. In l993 Eritrea achieved independence after a 30 year war with Ethiopia. The Eritrean Government (GOE) inherited a country ravaged by war, drought and dislocation. With broad popular support, the Government moved quickly to build a coherent economic system, adopting policies which stressed social equity and market-oriented growth. By early 1998 the Government had managed to stabilize the economy and was laying the basis for sustainable broad-based growth. In 1998, 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.

2. The Bank began working in Eritrea in l992 and is one of the country's largest donors with a portfolio of nine projects and commitments of US$320.4 million. Initially, the Bank moved quickly and creatively to provide vitally needed resources to rebuild the economy. It played a major role in introducing the country to the exigencies of dealing with external financiers and in helping move the Government towards opening up to the outside world from which it had been isolated for decades. After faltering briefly in the mid-l990s, the Bank's program went back on track and good outcomes were expected from most ESW and ongoing projects. 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. Particularly notable was the Bank's leadership in emergency reconstruction (at independence and again in the wake of the border war with Ethiopia), when it managed to leverage substantial cofinancing by developing umbrella programs through which multiple donors could channel assistance.

3. The Bank has had no fundamental disagreements with the Government on broad issues of macroeconomic or social policy. It has supported the country's overall development strategy. This is substantiated in the match between the GOE's policy documents and the Bank's Country Assistance Strategy (CAS), Country Economic Memorandum (CEM), and sector studies. The Bank has assisted the GOE in the two most relevant areas of economic policy formation—exploring the sources of growth (through infrastructure projects and recent Economic and Sector Work on exports and agriculture) and focusing on poverty reduction/equity issues (in ESW on health, education, poverty, and social sector projects). In consequence, the core issue, which the Country Assistance Evaluation (CAE) explores, is how the Bank handled country relations, in addition to looking at whether the Bank pursued appropriate strategies and policies, which by and large it did. In a newly emergent state which prided itself on its independence and was skeptical about donor intentions, this is what 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.

4. Relations between the Bank and GOE can be divided into three distinct phases: (i) at independence, an initial period of responsiveness associated with post-conflict engagement (1992–94); (ii) a troubled period characterized by miscommunication and lost opportunities (1995–97); and (iii) a deft recovery in Bank performance (1997–00). The Bank adhered closely to what has now become corporate policy for post-conflict engagement. It involved itself rapidly in a wide range of appropriate reconstruction activities and demonstrated both flexibility and innovation. The chief shortcoming is that the Bank did not invest the resources needed to sustain the intensive dialogue and relationship building activities 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 advisors. After adjustments on both sides, the Bank/Government relationship was reinvigorated and a very fruitful period of cooperation has since followed. Unfortunately, many of the country's achievements since independence have been set back by its engagement in the costly border war with Ethiopia.

5. 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 an impressive 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.

6. In new countries like Eritrea, the Bank should be prepared to make an up-front investment in relationship building, in order to understand the particular circumstances of the country and to ensure that Bank/borrower perceptions and expectations are mutually understood. This involves: (i) establishing a strong field presence early on; (ii) providing the management attention and budget needed for intensive client dialogue; (iii) selecting staff with the interest and communication skills to engage in policy and technical discussions in an open and collaborative manner; (iv) ensuring that turnover of these key persons is minimized; (v) providing consistent field support to help a new Government manage Bank procedures, particularly procurement and disbursement; and (vi) 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 and/or provide creative approaches to capacity building.

7. 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. In its role as the Government's "main strategic partner," the Bank needs to provide sustained support, both conceptual and material, to help the country review its post-war options and implement a strategy which 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.

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1. Government Policies and Development Challenges

Country Background

1.1 Eritrea is a country of about 118 thousand square kilometers, with a population of nearly four million and a GNP of around $200 per capita. Eighty percent of the nation's people live in rural areas and poverty is widespread. According to Bank estimates, roughly 53 percent of the population live below the poverty line.[1] Nearly half the population is dependent on food aid, with this proportion increasing to 80 percent in years of bad harvests.[2] Eritrea's social indicators are among the lowest in Sub-Saharan Africa (SSA).[3] UNDP's 2000 Human Development Report ranks Eritrea close to the bottom[4] of its Human Development Index (HDI) (which measures a country's development by combining national income with educational attainment and life expectancy).

1.2 Eritrea was governed as an Italian colony from l889 until l941, when the British established a protectorate. In l952 the UN passed a resolution federating Eritrea with Ethiopia despite Eritrean requests for independence. The Eritreans launched an armed struggle for independence in l961, but in l962 Emperor Haile Selassie of Ethiopia annexed the country. Emperor Selassie was overthrown in l974, and the military dictatorship of Mengistu Hailemariam engaged in a brutal war with Eritrea. By May l99l the Eritrean People's Liberation Movement (EPLF) controlled all of Eritrea, while at the same time the EPLF's ally, the Ethiopian People's Revolutionary Democratic Front (EPRDF), seized power in Addis Ababa and overthrew the Mengistu regime. After a UN-sponsored referendum, Eritrea achieved full independence in l993. In l994 the EPLF dissolved itself and re-formed as the Peoples' Front for Democracy and Justice (PFDJ). The PFDJ now rules the country under the chairmanship of President Isaias Afewerki.

1.3 The neo-Stalinist policies of the Mengistu regime, coupled with war and drought, devastated Eritrea. The once-thriving private sector was nationalized and run into the ground. Such basic economic and social infrastructure as had existed under colonialism was destroyed or left to decay. The country emerged from the liberation war with enormous capital deficits and human capacity constraints, and with thousands of refugees and ex-combatants to reintegrate.

1.4 The new Government pursued policies in sharp contrast to those of the Mengistu era. By early 1998 the Government had successfully stabilized the economy and laid the basis for broad-based growth founded on market principles. During most of this period, Eritrea enjoyed close political and economic ties with Ethiopia. In 1998, however, a

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[1] The poverty line is calculated using the Cost of Basic Needs method whereby the poor are defined as those who do not have the resources to satisfy specified basic needs, i. e., minimum caloric intake and minimum amounts of non-food commodities such as clothing and housing.

[2] *Eritrea Poverty Assessment*, Report No. 15595-ER, l996.

[3] Average attendance at health facilities is less than one visit per year per person compared with 1.5 to 2 visits pp in SSA. Primary school enrollment is 57 percent in Eritrea vs. 75 percent in SSA, and enrollment for females only is only 51 percent compared to 67 percent for SSA.

[4] Ethiopia ranked a low 159th out of 174 countries rated in the HDI.

border dispute escalated into war. By the time that hostilities ceased in June 2000, Eritrea had once again been devastated: some 1. 1 million people had been driven from their homes, agricultural production had collapsed as a result of war and drought,[5] direct war damage amounted to 90 percent of 1999 GDP,[6] exports had declined by over 60 percent and real GDP growth for 2000 was estimated at minus 9 percent. With defense expenditures claiming almost 30 percent of GDP in 1998–00, external debt had by 2000 risen to 48 percent of GDP, gross international reserves had fallen to less than one month of imports coverage, and inflation had climbed to 18 percent per year.

1.5 Apart from the challenge of a second reconstruction effort, Eritrea has lost its main trading partner. In 1997, port revenues amounted to 8 percent of GDP and 20 percent of the Government budget; with the disappearance of the Ethiopian transshipment trade, these revenues had fallen to the equivalent of 1 percent and 4 percent respectively. Ethiopia also accounted in 1997 for 60 percent of Eritrea's exports (mainly manufactures) and 20–30 percent of imports (mainly foodstuffs). A major restructuring of Eritrea's external regime is now required, in an atmosphere in which both foreign and domestic investor confidence has been severely shaken. Just as the Bank's response to Eritrean independence was crucial to economic recovery at that time, so will it be now. The Bank has again led a donor effort to mobilize funding for a national reconstruction program (US$90 million from IDA and US$143.7 million from other donors). It is positioned to lead the financing of the demobilization program.

The Government's Programs and the Challenges Faced

1.6 The Government of Eritrea (GOE) outlined its core development principles prior to independence in 1993. During the liberation struggle, the EPLF leadership, in consultation with Eritreans living abroad, evolved a political philosophy based on self-reliance, equity and social redistribution. The EPLF gave high priority to genuine community empowerment, balanced development of both rural and urban areas, the creation of trained human capacity, gender equality[7] and the promotion of a market economy. These principles were confirmed in GOE's Macro-Policy Paper (MPP), issued in November 1994 and presented to a Consultative Group Meeting in 1995. GOE articulated and demonstrated a deep intolerance of corruption, with the result that there have been practically no reports of corruption involving donor funds or Government resources (crime in Eritrea, even petty crime, is rare).

[5] Grain output is expected to have fallen by 75 percent and livestock production by 30 percent in 2000, as compared with 1999.

[6] Direct war damage to roads, bridges, power and telecommunication installations, schools, clinics, water supply and sanitation facilities, factories and farms is estimated at $582 million, which is 90 percent of Eritrea's GDP in 1999.

[7] Women participated heavily in the liberation struggle; by the mid-l980s 40 percent of the EPLF's membership were women and 25 percent of its front-line fighters were female. This legacy created a strong momentum for women's active participation in public and community affairs. Women currently make up 21 percent of the national assembly, 13 percent of all ministers and nearly 50 percent of the Constitutional Commission.

1.7 Key objectives of the MPP included creating a private sector-led export-oriented economy that is technologically advanced and can compete internationally. The MPP also gives priority to human resource development and equity (education, health and social welfare). These objectives were translated into the National Economic Policy Framework and Program for 1998–00 (NEPFP), presented in April 1998 to a donor meeting in Asmara. The NEPFP, prepared exclusively by Eritreans, gave more policy and programmatic flesh to the MPP and was well received by the international community. GOE policies following independence were commendable both for their macroeconomic prudence and their emphasis on social development. Inflation was reduced from 11 percent in 1995 to about 1 percent by 1997, the fiscal deficit from 22 percent of GDP to 6 percent over the same period and foreign exchange reserves rose from less than one month of imports in 1992 to over five months by 1997. Tax revenue increased from 12. 4 percent of GDP in l992 to 16 percent in l997. At the same time, public expenditures allocated to education and health rose from 1.4 and 0.5 percent of GDP in 1992 to 4 and 3 percent respectively by 1997. Access to primary education and health care expanded commensurately; illiteracy declined from 55 percent at independence to 47 percent by 1999, while infant mortality fell from 72 to 61 per thousand by 1998. From an annual average contraction in GDP of over 1 percent per annum between 1985–93, GDP grew at an average of 7 percent during 1994–97, one of the highest rates in Africa. Progress on export growth and the privatization of state-owned enterprises inherited from Ethiopia, however, was inhibited by a lack of capital, market accessibility and entrepreneurial experience.[8]

1.8 From the outset, the GOE enjoyed strong domestic support and access to foreign assistance[9] based on the heroic reputation of EPLF resistance. Most striking to the international community was the new Government's confidence in its policies, based on years of successful administration of liberated territory, and its insistence on ownership—even at the price of foregoing external assistance. However, Eritrea faced not only physical and social devastation, extreme poverty, chronic food deficits and severe human resource capacity limitations, but it also lacked experience of dealing with the outside world, and in particular donor agencies. While admired for its independence and commitment to the welfare of its people, the Government's aversion to any sign of outside intellectual or financial interference coupled with donor difficulty in adapting to Eritrea's ownership orientation led to many instances of misunderstanding. Early relations with donors, including the Bank, were often marked by strain and miscommunication. Attention to investment planning and strategic partnership has also been uneven. The NEPFP was published in l998. Sector strategies are beginning to take shape, and in early 2002 the GOE published a full state budget.

1.9 Given its inauspicious heritage and Marxian antecedents, GOE's stated objective of relying on the private sector as the main engine of growth is notable. However, there remains concern (among the public and international community) about the ultimate role

[8] Despite Eritreans' strong entrepreneurial orientation, there has been little time to develop the skill base, contacts, and funds necessary to move into larger industries and competitive markets. The limited domestic market also inhibits efforts to develop exports on the back of local demand.
[9] External support for Eritrea was associated with the US$700 million in reconstruction support injected into post-Mengistu Ethiopia—one of the largest donor responses on record.

of the Government and the sole political party, the PFDJ in business.[10] At the time of independence, there was little private activity beyond small-scale manufacturing and petty trading. The Government inherited a number of state-owned enterprises (SOEs) from Ethiopia. Prompted by a lack of capital markets and a low level of private accumulation, GOE decided on a policy of commercialization under the umbrella of the state, leading towards eventual privatization. At the same time GOE believed it should retain control of certain strategic activities, particularly food import and distribution, so as to assure the stability of basic commodity prices in a narrow and potentially volatile market. These state monopolies were in time placed in PFDJ hands.

1.10 The border conflict with Ethiopia is moving towards resolution, with the establishment of a Temporary Security Zone patrolled by a UN peacekeeping force, and of both a Boundary Commission and a Claims Commission. The war, though, has severely compromised Eritrea's economic options, and many of the gains of the 1990s have been lost. The Government now has another generation of refugees and Ethiopian repatriates to resettle, another army to demobilize, and significant portions of the national infrastructure stock to rebuild. Dependence on foreign assistance and transfers from Eritreans abroad has increased;[11] and private sector confidence has been shaken by the war and the Government's lingering reluctance to reduce the interventionist role of the state. Diaspora and domestic voices have also been raised in support of more open governance and Government willingness to respond positively to such pressures is not yet evident. Nonetheless, the Government has demonstrated its commitment to implement a comprehensive program of economic reconstruction with almost 40 percent of the Bank's US$90 million Emergency Reconstruction Project (ERP, FY01) disbursed within six months of effectiveness.

[10] The Government points out that, "the Macro Policy Paper (1994) and the National Policy Framework and Program (1998) clearly state that the government will play a catalytic role of promoting investment and trade to induce a sustained economic growth by creating a private sector-led export-oriented economy and establishing a competitive environment. The objective is to build a broad-based sound macroeconomic policy that stresses market-oriented growth and social equity. "

[11] The Government suggests that this is essentially due to the substantial and continuing need for emergency humanitarian assistance.

Chronology of Events

Date	*Event*	*World Bank Activities*
1952	Eritrea granted self-government as part of Ethiopia	
1961	Ethiopia dissolves federation and declares Eritrea a province (September). Liberation movement EPLF formed	
1974	Ethiopian Emperor Haile Selassie overthrown by Haile Mariam Mengistu	
1977 1977–91	Mengistu emerges as Ethiopia's preeminent military ruler Continued fighting between Eritrea and Ethiopia	
1991–93	Mengistu regime overthrown (May). EPDRF takes leadership of Ethiopia. EPLF claims victory in Eritrea	Eritrea requests Bank assistance. Bank starts CEM and prepares Recovery and Rehabilitation Project for Eritrea (RRPE).
1993	Eritrea referendum votes for independence. Eritrea joins UN	RRPE becomes effective in advance of Eritrean Bank membership.
1994	Eritrea becomes member of World Bank	CEM completed/widely shared. Internal CAS prepared (July). First CG held in Paris (December).
1995	Eritrea presents Macro Policy to first CG	RRPE suffers implementation delays.
l996		Bank strategy and ECDF project presented to Board (February). Several projects cancelled, project preparation stalls, implementation problematic. Poverty and Environment Paper produced (poorly received).
1997	GDP grows an average of 7% from 94-97	Road credit approved (April). Ports project approved (November). Health project approved (December).
1998	GOE presents NEFP at Partners Meeting in Asmara Fighting erupts between Eritrea and Ethiopia over border dispute (May)	Resident Mission established. Human Resources project approved (January). New lending halted (May).
1999	Fighting continues with heavy casualties	Export Development Study produced.
2000	Cessation of Hostilities Agreement signed (June) Peace Agreement signed (December)	Bank resumes lending and prepares multi-donor Emergency Reconstruction Program (ERP). Allocates funds from existing portfolio for emergency relief.
2000		Early Childhood Development project approved (July).
2000		CAS (Interim Support Strategy) and Emergency Reconstruction Project approved (November).
2000		HIV/Malaria/TB/STDs project approved (December).
2001	UN-Monitored Temporary Security Zone (TSZ) established (April) Claims Commission and Boundary Commission established	Financial Sector Report, Agriculture Sector Review finalized. Health and Education Sector Review ongoing. CEM & CAE missions take place (March).

2. Bank Products and Services

2.1 This CAE focuses more on country relations and CDF-related processes than is normally the case in conventional country evaluations. This is because the Bank's country program is young and has little to demonstrate in terms of outcome and impact. (Eritrea has been an independent country for less than a decade and the Bank strategy was only finalized in l996. The bulk of the Bank's operations were approved in 1997 and 2000 with a two year hiatus in new lending from l998 to 2000 due to war. Only one project has closed and three of nine projects are recent approvals). The other reason is that Eritrea is a CDF pilot country and has a highly developed sense of country ownership and independence unusual for an IDA country. The CAE's focus on the relationship between the Bank and the Government reveals important lessons about how the Bank can better support ownership and country-driven programming when working alongside a new government emerging from war and isolation. Though there are obvious implications for post-conflict practice, the Eritrea case offers lessons on applying the central tenets of the CDF and PRSP in both new and established countries.

2.2 When working with a new country emerging from years of war and isolation, the manner in which operations are conducted can be as important as the content of the operations themselves. The Government's strong sense of ownership combined with its record of self reliance, intolerance for corruption and commitment to equity and poverty alleviation made it an attractive partner. Eritrea wanted to avoid the pitfalls of aid dependence it had witnessed elsewhere in Africa, and was not shy about rejecting external assistance it felt was too conditional or donor-driven.[12] Eritrea's insistence on control was unusual for a small less development country (LDC). While this independent stance was admired, in practice many donors had difficulty adjusting to it and found the authorities to be inflexible or excessively rigid at times.

2.3 Thus, much of what the Bank was able to accomplish in Eritrea—in terms of both policy advice and lending operations—needs to be seen through the lens of how it managed its relationship with the Government, and how this evolved over time. The CAE therefore highlights the issue of country ownership. The definition of ownership used is drawn from the Comprehensive Development Framework[13] and the Wasty/Johnson framework for measuring country ownership.[14] Wasty/Johnson propose that ownership be treated as an independent variable with four dimensions (broken down by levels of intensity). According to this framework, Eritrea has achieved an unusually high level of ownership—it would earn the highest possible rating on the first three dimensions—*locus of initiative, level of intellectual conviction, expression of political will by top leaders*, and a satisfactory score on *effort toward consensus building.*

[12] In the early 1990s, some bilaterals as well as NGOs were asked to leave the country when their modus operandi was thought to be incompatible with country ownership.
[13] World Bank Comprehensive Development Framework, l999. Reference "Ownership" pillar.
[14] Johnson and Wasty, (1993), *Borrower Ownership of Adjustment Programs and the Political Economy of Reform,"* World Bank.

Country Relations

2.4 Relations between the Bank and GOE can be divided into three distinct phases:

- An initial period of responsiveness and creativity associated with post-conflict engagement (1992–94).
- A troubled period characterized by misunderstanding, lost opportunity and a number of costly mistakes (1995–97).
- A deft recovery in Bank attitudes and performance (1997–00).

2.5 ***Initial engagement***. Shortly after the liberation war ended in l991, representatives of the Provisional Government of Eritrea approached the Bank seeking assistance. In l992, despite the fact that Eritrea was not yet a member of IDA and could not borrow,[15] the Bank launched a Country Economic Memorandum which served as the basis for Government/donor consensus on the opportunities and challenges facing the emergent state. The Bank also began preparing a multi-donor Recovery and Rehabilitation Program for Eritrea (RRPE) and exercised great legal creativity in circumventing the problem of Eritrea's non-statehood. With the full cooperation of the Government of Ethiopia, the Bank extended a credit to Ethiopia, to be assumed by Eritrea once independence had been achieved, and then used a donors meeting in 1993 to cement commitments of US$82 million to complement the Bank's credit of US$25 million. These initial efforts were followed by a US$17.5 million credit for the Eritrean Community Development Fund (ECDF), a social fund-type program that secured a further US$32.2 million in donor cofinancing. The Bank's reconstruction assistance was described as "timely and innovative" in OED's 1998 report on post-conflict reconstruction.[16] In this report staff attribute the Bank's speed and flexibility to the determination of an enlightened vice-president prepared to take risks.

2.6 ***Teething problems and miscommunication***. Despite the Bank's agility in getting the RRPE approved and cofinanced, implementation on the ground proved more difficult, and the project took three years to implement—rather than the 18 months envisaged. It was during this more settled operational phase that relations with GOE began to deteriorate, due to misunderstandings and rigidities on both sides. Bank procedures were considered excessively bureaucratic and intrusive by a Government both protective of its independence and without any working knowledge of international financial institutions. Personal relations and trust were exceptionally important during these early years, as a solid institutional relationship had yet to be established. The Government came from a hard school of its own, demanded high standards from Bank staff and was not shy to voice its disappointment with staff it felt added no substantive value. The Government felt it should be the sole "locus of initiative" for formulating and implementing investment projects. It disagreed, for example, with the Bank's insistence on background studies to identify priorities when it felt the immediate needs were both obvious and urgent. Sometimes Eritrean counterparts found the Bank out of touch with country

[15] Eritrea had expected to achieve full independence in 1991, but this was delayed for two years because of the UN referendum.
[16] *The World Bank's Experience with Post-Conflict Reconstruction,* OED, June 30, 1998.

conditions and service standards.[17] While the Government can be faulted for underestimating the importance of analytical work and rigor in planning, it seems that the Bank, for its part, did not always explain the benefits of sector analysis adequately or exercise the option of working in parallel on operations and ESW in some areas. The GOE's view one this issue is illustrated in the box below.

> "From 1994–95 the Bank could have done a better job in explaining how a new country could use the Bank's resources. The sector studies should have started then. Yes, the Government resisted but it was also a matter of how the Bank presented the options. The Bank didn't say 'there is a glaring need to repair that bridge so we will do that now and meanwhile we should launch a sector study to support future work'. The concept that you could do these things in parallel was not well communicated. Instead the Bank said 'I have to do a sector study before I touch that bridge. "
>
> *Interview with a senior Eritrean official working closely with the Bank.*

2.7 While the Government's seriousness and commitment was impressive, its ambivalence to external assistance made it a challenging partner at times. Because of its lack of exposure to official development assistance (ODA) practices, the Government's expectations were not always realistic.[18] Nor was the Bank as skillful in establishing dialogue about Bank policies and their rationale as it could have been.

2.8 The Bank's internal structure also contributed to its early troubles in Eritrea. Until the 1996 Bank reorganization, Eritrea was the smallest country in a Country Department facing complex agendas in larger countries (Kenya, Uganda, Tanzania, and Ethiopia). The time and resources that the Bank Director could martial for Eritrea were limited, and no focal point for Eritrea was designated. Too much was left to individual Sector Operations division chiefs, who lacked perspective on the overall country relationship. Interviews in Eritrea suggest that a more concerted effort to train Eritreans in Bank procedures was needed, and that the lack of sufficient in-country support on procurement and disbursement procedures created conflicts that could have been avoided. These misunderstandings grew as additional projects were prepared. The waste of preparation funds and time associated with cancelled operations (Primary Education, Irrigation, Refugee Repatriation) and problem projects (Ports, Health) added to the mutual frustration.[19]

2.9 ***Recovery in the relationship***. Relations improved significantly from late 1997, when a new Bank structure and Country Director (CD) were put in place. The scope of responsibility of the CD was reduced to two active borrowers—Eritrea and Ethiopia (plus

[17] For example, project staff working on the first Health Project (to construct referral hospitals) described receiving a memo from Bank HQ which asked for specifications for the hospital parking lot when the standing hospital ran its maternity ward out of a tent and patients were too poor to arrive by private car.
[18] For example, it was reported that initially Government officials wanted to renegotiate some of the Bank's Articles of Agreement.
[19] The Government suggests that, "Early on, Bank staff failed to understand fully the needs of a newly emerging nation with limited appetite for long-drawn procedures to do business coupled with their insistence to follow standard Bank procedures. In our view, a more creative and flexible approach that is better suited to meet the pressing needs of a new client with limited knowledge and understanding of Bank practice would have been appropriate. Part of the high cost incurred on supervision missions could have been spent to open a small Resident Mission (RM) with core staff in place."

Somalia and Sudan, currently inactive). Regular telephone contact was initiated with the Bank's main counterparts. A Resident Mission, proposed in an earlier Bank strategy, was finally established in early 1998. Only task managers who could collaborate well with counterparts were retained to work on the country program. At the same time, an Eritrean staff member of the IFC returned to join the Government. Having an interlocutor familiar with the internal workings of both the Bank and the Government substantially improved the quality of dialogue between the two parties.

2.10 Substantively, the portfolio was restructured and lingering Ports and Health Projects were taken to the Board, while a number of valuable sector studies were initiated. The 1998 war slowed down many development activities. The Bank did not approve new projects during this period but continued with portfolio implementation while developing a pipeline of projects for approval once the war ended. When the Cessation of Hostilities Agreement was signed in June 2000, the Bank led a comprehensive multi-donor damage assessment and restructured its portfolio to release US$24. 9 million for the immediate needs of the war-affected.[20] It quickly approved a US$90 million Emergency Reconstruction Program (ERP) as well as operations in health and education. The ERP leveraged a further US$143.7 million from five other donors. These efforts were strongly appreciated by Government and the international community.

Bank Strategy

Pre-CAS Activities

2.11 The Bank's initial strategy was embodied in the Recovery and Rehabilitation Program (RRPE), which focused on jump-starting agriculture and small industry, piloting a social fund and repairing key infrastructure assets. Despite the clear need to build institutions and policy frameworks, the Bank did not intervene heavily in these areas. However, its choices were limited.[21] It chose to begin with an RRPE over an adjustment loan, for example, not only because it promised a swifter response—but because the Government had not articulated a detailed policy framework, and was known to be highly sensitive to conditionality.

2.12 The first CEM, initiated in l992 and finalized in 1994, represented a significant input into GOE strategic thinking. It offered an extensive description of the economy and the key economic choices the country needed to make. This was of great value to the Government and donors alike since no such economic document existed at the time. However, no further sector work was done until l996. The GOE repeatedly pressed for a

[20] While the Bank does not normally engage in relief support, the reallocation of project funds to relief filled critical gaps and represented the flexible and pragmatic approach that characterized the Bank at its best in Eritrea.

[21] The Government suggests that, "A well articulated and sound capacity building strategy and allocation of necessary T/A and skills development of local staff would have been the preferred way to go forward. Instead, Bank staff insisted on standard T/A for project preparation, implementation and monitoring/ evaluation rather than developing simultaneous local capacity with the technical support of international experts. This practice of 'business as usual' was deemed unacceptable."

Resident Mission in Asmara, but this was rejected because the lending program was too small.

Early Bank Strategy

2.13 A country assistance strategy was approved in l996 to assist Eritrea in achieving the following objectives: a) establish an enabling environment for private sector-led growth; b) strengthen physical infrastructure to support private sector development and the provision of public services; c) develop the human resource base of the country; and d) provide social fund programs for poor communities and vulnerable groups. In addition, the strategy stressed the importance of building on Eritrea's industrial and service base, (rather than relying on a low-potential agriculture sector for growth) and the need for analytical work and human capacity development to underpin this strategy. Eleven projects over three years were proposed: three single-tranche economic recovery credits (ERCs) based on a Policy Framework Paper to be prepared by GOE, a second RRPE, the Community Development Fund (ECDF), a ports project, a primary education project, a refugee reintegration project, a roads project, a health project, and an irrigation project. The strategy also proposed an ESW program including studies on human resource development and labor markets, environment, transport, the financial and services sector, private sector development and a second CEM.

2.14 Seven of the eleven projects proposed in the Bank strategy failed to materialize due mainly to changing Government priorities (the ERCs, RRPE II, the refugee, irrigation and primary education projects).[22] For projects that were approved, differences over design and implementation issues soon emerged, with the preparation of the Ports and Health projects particularly badly affected. The ECDF project, in contrast, proceeded relatively smoothly until the outbreak of the war and even then many project activities continued.

2.15 Of the sector work proposed, only the CEM and studies on the environment, exports and the financial sector were completed. Though not proposed in the strategy, a poverty assessment and agriculture sector study were undertaken, and the Bank is also supporting reviews of the health and education sectors. There has been no subsequent CAS.

2.16 In late l997/1998, the Bank program began to develop momentum; four projects went to the Board and the Bank pressed ahead with ESW tasks of undoubted value to the country's growth and equity prospects. A Resident Mission was finally established in l998 and began to provide the daily support and communication link lacking in the past. The Government, assisted by the Bank, held a Partners meeting in Asmara in l998, and presented its National Economic Policy Framework and Program for 1998–2000. However the escalation of the border conflict with Ethiopia put these activities into suspension. Instead of a new CAS, the Bank prepared an Interim Support Strategy (ISS) in late 2000 covering a 12–18 month period, which refocused efforts on immediate

[22] For example, the Government cancelled the Refugee Integration Project as it grew concerned about the possible consequences of providing refugees with special assistance not afforded the general population.

recovery and rehabilitation, but within a forward-looking framework that showed awareness of the country's institutional/policy needs and development potential.

Relevance of the CAS

2.17 The needs of the post-war environment and the country-driven nature of the Bank's program led it to rehabilitate physical infrastructure across a wide range of sectors. This "cover the waterfront" approach was an appropriate response in a post-conflict situation and a useful way to enter a new country and gain experience. Further, these Bank investments were important to Eritrea's economic recovery, and filled gaps not financed by other donors. Though several projects envisioned in the CAS were eventually dropped, this was at Government's request. Rather than a "misdiagnosis" by the Bank, this reflects the need of a new Government to respond to changing needs and adapt to lessons learned. For the most part, the Bank supported these shifts in a constructive manner, such as transforming the dropped education project into a capacity building program.

2.18 The Bank faced some constraints in terms of sector choice and strategy. The Government was firmly in charge of the foreign aid program and it directed donors to sectors or projects where it wanted them to work. For example, despite the vital importance of agriculture to the poor, the Bank was not asked to work in the sector until l998 when the Government requested it to carry out a sector study. Insisting on greater programmatic focus early on probably would have brought the Bank into conflict with a Government wary of donors trying to impose their own agenda or policies. This could well have precluded the buildup of trust that was achieved over time and later positioned the Bank to engage in strategic dialogue. While some of the projects and ESW proposed in the CAS were dropped or replaced, the overarching objectives of the CAS remained relevant and unchanged, and new projects/ESW were in line with these. Unfortunately, the progress made on CAS objectives has been overshadowed by the economic and social consequences of the recent war.

2.19 The Bank's **policy for assistance to post-conflict countries**[23] approved in l997 defined its comparative advantage as: the rehabilitation of vital infrastructure, aid coordination, advice on economic policy, institution and nation building, social sector investment and assistance to jump start the economy, including the private sector. The Bank should work where other actors were not forthcoming or where it's presence could leverage resources. It should engage early and deploy a strong field presence. Reconstruction activities should respond to opportunity and undertake what was most immediately feasible. Emergency lending procedures were to be streamlined, particularly for procurement, audit and disbursement. County teams should be provided adequate resources for the early phases of engagement.

2.20 Although the Bank didn't have the post-conflict policy at the time, it is useful to note that many of the recommendations were, before the fact, followed in Eritrea. The Bank became involved early—even before Eritrea gained formal independence.

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[23] *Post-Conflict Reconstruction: The Role of the World Bank,* April l998.

Operations were in areas of its comparative advantage; the rehabilitation of critical infrastructure, social sector development and the injection of seed capital into the private sector. The Bank leveraged significant co-financing by developing umbrella programs under which other donors could channel assistance. It modified some of its more cumbersome procedures. However, mistakes were made too. More could have been done to support institution building. While projects were compatible with country needs, the Bank did not adopt a unified approach to interacting with the Government. The different perspectives of country team members were allowed relatively free reign. This fragmented country relationships at a time the Bank should have been building a coherent and consistent dialogue with its counterparts. While the Bank provided substantial "hand-holding" in some projects (such as the ECDF), it did not provide sufficient field-based support to deal with the many problems that arose during project implementation. The Bank did not establish a field presence until l998, although GOE requested this early and often. There is also little evidence that the Bank anticipated the increased cost of doing business or made additional resources available early on.

Box 1: List of Bank Projects

Loan/Credit	*Description*	*Amount in millions (US$)*	*Approval Date*
24780	Recovery and Rehabilitation (RRPE)	25	30-Mar-93
28230	Eritrea Community Development Fund (ECDF)	17.5	29-Feb-96
29450	Road Engineering	6.3	10-Apr-97
30050	Ports	30.3	18-Nov-97
30230	Health	18.3	16-Dec-97
30330	Human Resources Development	53	15-Jan-98
34030	Integrated Early Childhood	40	27-Jul-00
34340	Emergency Reconstruction	90	22-Nov-00
34440	HIV/AIDS, Malaria, STDs and TB Control	40	18-Dec-00

Lending Operations

2.21 ***Overall performance*** The Bank is one of the largest donors to Eritrea and has a portfolio of 9 projects (with commitments of $320.4 million).[24] A total of six projects totaling US$150.4 million were approved between l993–1998, and three more have been approved since January 2001 totaling US$170 million. One project is complete (RRPE) and eight are under implementation. The ICR rating for the RRPE was satisfactory; otherwise, neither OED nor QAG has evaluated any Bank project in Eritrea (except in the context of OED's post-conflict reconstruction review). All projects in the portfolio are currently rated satisfactory in relation to their development objectives; only one is at moderate risk (Ports).

2.22 ***Overview of portfolio*** The Bank's first project was the **Recovery and Rehabilitation Project for Eritrea (RRPE)—**which was processed quickly and responded to the country's immediate needs. The Bank eventually simplified

[24] Additional commitments of US$65 million for two projects were approved in FY02, after completion of this report.

procurement and disbursement requirements, and Eritrean officials were introduced to international procurement procedures, a task facilitated by a cofinancing framework which established common use of the Bank's procurement guidelines. Though preparation was rapid, implementation was slower than expected, due to changes in task managers; procurement and disbursement problems; having to deal with an entire program of donors moving at a different pace rather than a single Bank project. Given these shortcomings, a resident mission with staff able to build daily working relations with the Eritrean government would have likely achieved better value for money. The project closed in l997, and its "satisfactory" ICR rating was endorsed by OED.

2.23 The **Eritrea Community Development Fund** was a social fund facility which emerged from a pilot in the RRPE. According to Government officials, the ECDF project team has enjoyed close cooperation with Bank staff and benefited from pragmatic and flexible task management throughout the project cycle. The ECDF is popular in Eritrea as it has delivered crucial services even under severe constraints during the war but there were shortcomings in subproject sustainability, community participation, and institutional development impact. Lessons to date are being integrated into phase two of the project currently under preparation (see Box 2 below).

Box 2: Building on Lessons

Lessons from ECDF incorporated into the forthcoming the Community Development Project include:

(i) ECDF has been active in soliciting communities participation, but greater efforts will be needed to ensure local ***ownership*** of the subprojects built. This includes involving communities in identifying and appraising subprojects, including strategic decisions about project location, structure, standards, etc.

(ii) ECDF has been good at providing technical training to staff and local government/line ministries. To ensure sustainability, **capacity building efforts will need to reach new groups and cover broader topics—**e. g. , beneficiary communities should also receive capacity building assistance. Line ministries and local Government need training in general project planning and management, as well as specific technical areas.

(iii) **The long term objective should be to phase out the PMU**. ECDF has always envisioned building local government capacity and hastening the process of decentralization. In Phase II, ECDF will put in place a more aggressive strategy to empower local governments, and transfer skills and responsibilities to them.

Source: Project files, interview with World Bank Task Manager.

2.24 The next set of projects encountered greater difficulty. Several proposed projects were dropped, some after significant preparation costs were incurred. For example, the **Ports Project** became mired in Government indecision and disagreement with the Bank about the appropriate strategy for port development, and was hampered by a lack of agreement over data sources to be used in forecasting port usage.[25] The **Health Project** encountered lengthy delays from a standoff in which GOE held firm to a wish to use IDA funds to build referral hospitals, while Bank staff believed the project should focus on

[25] Since the war, work on Assab Port has virtually ceased and all efforts were redirected to the Massawa Port. Some project funds were reallocated to emergency nutritional supplements, kitchen utensils, cooking stoves, agricultural inputs and transport services.

primary health care. This protracted conflict was resolved when the new CD agreed to a project which financed hospitals along with some work on primary health care. While this may seem at odds with the Bank's normal preference to invest in primary health, it is an appropriate response in some post-conflict situations.[26]

2.25 The **Primary Education Project** was cancelled at the Government's request on the eve of negotiations due to unresolved concerns about how recurrent costs would be financed. The preparation effort did not look deeply enough at the long-term cost implications, nor was there adequate agreement with Government about long-term expansion in the sector.

2.26 The **Human Resources Development Project** (HRDP) was processed rapidly after the demise of the Primary Education Project. It was an innovative way to address short-term skills gaps by bringing in Asian experts to staff government agencies while Eritrean officials were sent abroad for training.[27] The joint preparation approach was also used for the **Roads Engineering Credit** and the three most recent projects, **Integrated Early Childhood Development** (IECD), the **Emergency Reconstruction Project** (ERP) and the **HIV/AIDS-Malaria-Tuberculosis Project** (HAMSET). Detailed summaries of each project are found in Annex A.

2.27 ***Supervision*** has been generally well conducted in recent years,[28] owing in large measure to the high degree of commitment by both Government and Bank staff. Particularly commendable were the efforts made during the war, when supervision carried on despite highly adverse conditions.[29] The OED post-conflict report notes that supervision in a post-conflict/new borrower environment requires handholding assistance from Bank staff, and that this needs to be adequately budgeted for.[30] The ECDF reflects the costs of such handholding, with 13 supervision missions since April l996, at an average cost of US$131,000 per annum. Supervision costs have declined in recent years, but the intervention of the war makes it difficult to attribute this to any single cause. However, the fact that the portfolio is now well managed and that budget constraints do not appear to be impairing performance is a tribute to the improved efficiency of both

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[26] OED's 1998 study on Post-Conflict Reconstruction points out that while conventional practice may favor a focus on primary health care, in countries where conflict has eradicated basic health and education systems, a case can be made for donor assistance for hospitals and secondary and tertiary education.

[27] Since the war, activities came to a standstill because the Government could not spare staff to go abroad for training, nor were foreign experts prepared to come to Eritrea during the conflict.

[28] Many ministry and project staff expressed a desire for even more frequent supervision missions and between-mission follow up from the Bank, but were told this was not possible because of Bank budget constraints.

[29] The Country Director recalls that in June 1998 fighting was so intense that a Bank TM was forced to cancel a supervision mission and the Eritreans completed the supervision report themselves on grounds that they "didn't want to be late. " According to the CD, the Eritreans were even harder on themselves in the report than Bank staff might have been.

[30] The Bank should have invested more up-front resources, as a form of risk capital, both in products and staff field presence to build government capacity and confidence in developing the overall reconstruction program. Greater investment in "hand-holding" with the government through the first five years of reconstruction (as the Bank has done with the Eritrean Community Development Fund) might now be reaping greater rewards.

parties: the Bank, by virtue of the current continuity in supervision by capable task managers, and GOE, by virtue of growing familiarity with Bank procedures.

2.28 ***Preparation time*** for most of the Eritrea projects is short, particularly given the challenging environment. The two outliers, Ports and Health, show excessive preparation times; taking 27 and 30 months respectively to move from Project Concept Document (PCD) to effectiveness. In contrast the 1993 Emergency Reconstruction Project went from PCD to Effectiveness in only six months, while the 2001 Emergency Reconstruction Program was effective within an impressive three months. The other five projects had an average PCD-to-Effectiveness time of ten months.

2.29 ***Efficiency.*** The cost per dollar of non-risky commitments is high. Both conventional lending and TA activities show a mixed record, with considerable cost inefficiencies accruing to the Bank (high transaction costs on protracted preparation, remedial supervision, and dropped projects).[31] The outcome of the one project that has closed was rated satisfactory, and all eight projects in the portfolio appear on target to deliver significant benefits, despite delays incurred due to war. However, the ultimate impact of Bank policies and programs on the target populations may be difficult to assess in part because of the lack of basic baseline data, but also because Monitoring and Evaluation (M&E) received insufficient attention in many of the earlier projects (see below).

2.30 Several patterns emerge when looking at the projects over time. As the Bank began to engage in conventional lending, early innovation and flexibility gave way to more routine practices. New task and sector managers became more insistent on following conventional Bank approaches and timetables. Eritrean counterparts interviewed said there was too much emphasis on Bank requirements and inadequate recognition of the particular circumstances in Eritrea and GOE views. The same Government officials, for their part, admit to a certain impatience with unfamiliar requirements and, at times, an excessive focus on reconstruction at the expense of broad sector analysis. Sometimes Government demands were unrealistic, but sometimes they resulted in useful compromises. For example, the Government argued that the Bank's insistence on using international auditing procedures was unnecessary and the Bank eventually agreed that national audit standards were acceptable for its projects. Box 3 on Environmental Guidelines offers another example of the Bank agreeing to use national standards instead of imposing new ones.

2.31 A design concern common to all Bank projects is the use of Project Management Units (PMUs). Created to assure efficient project management in a climate of scarce Government capacity, PMUs pose a number of long-term risks, discussed at length in the Bank as a cross-country issue. Most importantly, PMUs risk weakening Government capacity by undermining the authority of the line ministries and drawing away talented staff by offering higher salaries and superior facilities. Nor are the skills learned inside the PMU necessarily disseminated throughout the Government. The Country Team

[31] The preparation cost of dropped projects totaled US$909,640.

acknowledges these risks and is trying to ensure that the PMUs are progressively integrated with mainstream Government activity.[32]

2.32 ***Monitoring and evaluation*** has not received adequate attention to date. This weakness reflects a general paucity of data and data gathering processes in Eritrea, as well as the normal bias against prioritizing M&E design in emergency reconstruction work. The Government admits weak M&E capacity and is keen to build up these skills. Recently approved projects have included more comprehensive M&E plans and the Government is working with OED and the Region to develop a program of evaluation capacity development. The Department of Statistics at the University of Asmara is sometimes contracted to assist in evaluating donor programs and worked with the CAE team on this evaluation.

Review of Economic and Sector Work (ESW)

2.33 ***Overall ESW performance***. OED has developed a framework for evaluating ESW based on five main criteria; relevance, quality, presentation, efficacy and effectiveness (plus additional sub-criteria). Five of the seven completed ESW reports performed well according to these criteria.[33] The reports were client initiated and enjoyed strong client involvement. They were linked to CAS objectives and to the Bank's strategic dialogue with Government. Reports were also well sequenced in relation to the country climate for investment and policy reform. The first CEM for example, dealt with overall macro economic issues which provided the platform for mutually reinforcing work on the export and financial sectors. Recommendations were by and large operationally oriented and well disseminated, though Government would like future reports to better prioritize and sequence the options presented. It is clear that the CEM and subsequent sector work contributed to the Government's strategic thinking and economic planning and represent a substantive contribution that no other donor agency has been able to make (with the exception of the poverty and environmental studies, which suffered from low client ownership).

2.34 Overall, the only significant shortcoming was in terms of "timeliness" (a sub-criterion of relevance). There was a significant gap between the first CEM launched in 1992 and the Poverty Assessment in 1996, resulting in lost opportunities for both the Bank and the Government. The low demand for Bank ESW during these years' stems from the frictions that punctuated the GOE's early relationship with the Bank, and the Government's general reluctance to invest in analytical work. However, the Bank should have made a stronger case for ESW after the first CEM as it was clear that deepening the country's knowledge base would have helped the Government make more informed and strategic choices in some sectors.

[32] The PMUs of the ECDF and Health projects now work closely with concerned line ministries, while the CDP will integrate the PMU into the Ministry of Local Government. The Minister of Health has also expressed a desire to see the PMUs for HAMSET and Integrated Early Childhood Development projects follow the same trajectory.

[33] These include the CEM, Export, Financial, Agriculture and Transport sector reports.

2.35 The Bank eventually came upon a successful formula for ESW culminating in the Financial Sector study which was prepared jointly with Eritrean counterparts and the Road Sector Development Program which is developing a transport sector strategy which will provide a basis for subsequent investment projects. These approaches are now models for future ESW.

2.36 A **Summary of ESW** produced by the Bank begins with the first **Country Economic Memorandum** (CEM) which was initiated in l992 and completed in l994. This was the first comprehensive economic report on Eritrea and was prepared by a team of 50+ experts including Bank and donor agency staff and Eritrean professionals. The CEM was highly regarded by the GOE for its scope, quality of analysis and the coherent picture it provided of the economy and options for growth. The Government's own MPP and NEPFP drew on this work, which continues to serve as the reference document for the Eritrean economy. A second CEM is due for completion in 2002.

2.37 The next two pieces of sector work, dealing with poverty and the environment, received a different reception. GOE saw no need for a poverty assessment, which it viewed as an exercise driven by the internal requirements of the Bank[34] which added little to Eritrea's stock of knowledge. Although well written and insightful, the report has had little apparent impact on GOE policy, which is well developed in this area. (Though it is noteworthy that the national census asks many of the same questions as the Poverty Assessment survey). The Environmental Strategy was initially welcomed as a tool, to help implement the GOE's own National Environmental Management Plan. However, some senior officials were uneasy about the wording of the report's title and publication was put on hold. Eight months later, the Eritrean Environmental Agency wanted to resuscitate the report, but by then the Bank felt the material was outdated. Despite this, the Bank has made many positive contributions in this sector, as summarized in Box 3.

Box 3: Sector Work on the Environment

Soon after independence, the new Government prepared its own National Environmental Management Plan, (NEMP) and the Bank provided additional funds ($30,000) to conduct participatory discussions of the NEMP throughout the country. The NEMP was published in 1995.[35] The Bank then provided a $0.5 million IDF grant to finance the preparation of environmental assessment guidelines, legislation, and training. Government guidelines now require Environmental Assessments for all projects in the country —public, private, donor financed. Although the border conflict delayed formal enactment of the enabling legislation, the draft form is generally applied. In 2000***, the Bank began to use Eritrean environmental guidelines in Bank projects, in lieu of Bank guidelines*** (albeit still subject to a Safeguards Compliance review). Three projects have been successfully processed using this approach. This experiment has helped build local institutions and generate respect for the national guidelines.

2.38 As the Government became more familiar with the Bank and investment activities got under way, the official attitude toward ESW began to shift. Analytical services are now much appreciated by the authorities, and ***the Bank is seen as one of the few reliable and influential sources of information on the economy***. Three pieces of ESW have been completed: reports on **Export Promotion**, the **Financial Sector**, and an

[34] At that period Poverty Assessments were a Bank requirement.
[35] The NEMP was accepted as a NEAP, meeting the IDA requirements of the time.

Agriculture Sector Review (with Health and Education Sector Reviews, forthcoming shortly). These reports were launched at Government's request, albeit with some advocacy from the Bank. The Financial Sector Review was done ***jointly*** by the Bank and GOE. The Government strongly welcomed this approach and one indicator of its engagement is the 25 pages of written comments it provided on the draft.

2.39 The impact of other forms of Analytical and Advisory Activities (AAA) has been mixed. The Government has in several instances profited from hands-on implementation assistance by Bank staff (ECDF, Roads Engineering, the activities of the Resident Mission), but the Bank's attempts to deploy technical assistance were often resisted by a Government skeptical of traditional forms of such assistance, particularly of the use of expatriate consultants.[36] Officials interviewed for the CAE admitted that Eritrea has come to learn that it sometimes does need more expert support than it first thought,[37]and in retrospect, the Bank may have sometimes accepted Eritrean assertions of existing capacity too easily.

2.40 Some Regional staff interviewed also felt that the Bank offered TA in too conventional a manner for Eritrean circumstances and should have been more creative in designing alternative modalities of such assistance—an assessment with which OED agrees. There is also a perception among some country team members that in order to rescue the country relationship, Bank management downplayed the importance of TA in favor of lending.

Donor Relations and Cofinancing

2.41 The Government exercises strong ownership of the international assistance program and takes the lead in coordinating donor activities. It has not encouraged formal coordination structures but informal coordination has proved feasible in a small country with a limited donor group. Information sharing appears quite adequate and there was no complaint of overlap or duplication from GOE officials or donors interviewed. The Bank assists the Government with certain aid coordination tasks such as preparing donor partner meetings and multi-donor emergency projects.

2.42 The Bank has handled its relationship with donors very well in Eritrea and has managed to finesse a difficult interface as the favored donor of a sensitive Government. Donor representatives interviewed for the CAE spoke highly of the Bank's professionalism and analytical skills, and saw the Bank as a facilitator for their work rather than a competitor. The Bank's role in bringing in donors under one umbrella program by providing a single financing mechanism for the l993 and 2000 relief/reconstruction programs was greatly appreciated, as it reduced transaction costs for donors and Government.

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[36] The Government feels that this should have been combined with a long-term capacity building program.

[37] In the RRPE, the Bank believed the GOE should hire consultants to assist with implementation. This was resisted but later Government requested a US$0.5 million IDF grant provide capacity support to the project.

2.43 This has helped the Bank achieve a high cofinancing ratio; between l993 and the end of FY01 the Bank mobilized US$268. 7 million in cofinancing against US$320. 4 million in IDA commitments, thus leveraging 84 cents on every IDA dollar.[38] Other projects with significant cofinancing include the Eritrean Community Development Fund, which leveraged US$20.1 million against US$17.5 million in IDA funds and the Ports project which received US$21 million in Italian funding and US$30.3 million from IDA.

2.44 There are several UN agencies represented in Eritrea (including UNDP, WFP, UNMEE, UNICEF, OCHA, UNHCR, FAO, WHO). The UN system committed a total of US$131.5 million to Eritrea between l994 and 1998 (slightly higher than IDA for the same period). The Bank's relationship with the UN system is collegial and cooperative. When the Bank first arrived in Eritrea, it worked through the UNDP office to organize the first CEM and emergency recovery program. There was some initial competition over whether aid coordination should be done through the Bank-led CG system or the UNDP-led Round Table, but the Government ultimately decided on a CG (which it subsequently abandoned in favor of Asmara-based Partner Meetings). The Bank regularly briefs UN agencies during important missions. The Bank's Resident Representative chairs the UN system meetings when the UNDP Resident Coordinator is out of town. There has been some programmatic carryover as well—the Bank's Human Resource Development Project, for example, expanded on a UNDP pilot initiative.

2.45 Some donors, however, note that coordination problems can occur because Bank programs originate and are managed from headquarters, while many donor programs are decentralized. The presence of a Resident Mission mitigates the concern, but does not eliminate it, and several donors believed that the Bank should delegate more authority and technical staff to the field.

2.46 **Eritrea is a CDF pilot country**, and in l998 an initial round of meetings were held with GOE and donors around the matrix exercise. However, the process stalled because of the war and has not been revived. A UN-sponsored Common Country Assessment (CCA) and UNDAF[39] exercise provided some degree of matrix-type planning, though on a smaller scale than the CDF. While donors generally express support for the CDF, the Government commented that it does not presently see the exercise as adding much to their own processes of formulating strategies and selecting partners because its policies already embody CDF and PRSP principles. Officials cite examples such as the National Economic Policy Framework and Programme which was prepared entirely by Eritreans. The entire Cabinet spent a full day discussing the NEPFP with donors and the Government is now updating the plan to reflect the impact of the recent conflict. Officials point out that all ministries are preparing five-year expenditure programs at a sectoral level based on a process of local level consultation. While the NEPFP does not contain specific performance benchmarks, the Government has agreed

[38] By way of comparison, the Bank's West Bank and Gaza program is considered highly successful in leveraging funds—between FY94 and the end of 2001 it mobilized US$541 million in cofinancing/parallel funding against US$326 million in Bank commitments—a ratio of 1.66/1. However, because of its political profile WBG attracts significantly more resources than could be expected of Eritrea and in this light Eritrea's ratio of .83/1 is quite impressive.

[39] Country Cooperation Framework and UN Development Assistance Framework, respectively.

to use the CDF matrix to help it track the implementation of CDF principles. An IPRSP was launched in mid-2002. Despite the GOE's lack of engagement in the CDF as a specific exercise, the country has been a good performer in some CDF areas (particularly ownership). OED concurs with the CDF Secretariat's general assessment of Eritrea in its September 2001 progress report.[40]

2.47 The IMF has held regular Article IV consultations in Eritrea but currently has no program in the country. A US$5 million Emergency Post Conflict Assistance Program under negotiation was subsequently abandoned by the Government. In commenting on Bank performance, IMF staff noted that the Bank did an excellent job in moving quickly once the border war was over: "fighting stopped June 15, 2000 and by September the Bank had put together a relief and reconstruction program (ERP) and had donors sitting around a table and making pledges. "

2.48 To date, IFC has had a relatively small program of activities, as summarized below (see Box 4).

2.49 Bank collaboration with NGOs has been minimal in Eritrea. This is due mainly to the Government's approach toward NGOs and the fact that the few NGOs allowed to operate in Eritrea work mainly in relief. As a result of the border war, GOE has invited the participation of more international NGOs in relief work, but this may prove to be a temporary measure.

Box 4: IFC in Eritrea

Eritrea became a member of IFC in l995. Given the nascent state of the private sector in Eritrea, IFC's initial focus was on technical assistance. Eritrea was also part of IFC's Reach program, designed to establish a presence in frontier markets, under which a number of investments in the small enterprise sector were identified. Unfortunately the conflict with Ethiopia intervened and IFC has been able to invest in only one company, a $2 million bus assembly project. IFC is evaluating a small number of other potential investments now that the conflict has ended.

IFC's technical assistance program continued throughout the conflict. With the help of donors, a total of nine TA projects totaling roughly $600,000 have been approved since l985—including a feasibility study for a cement plant in Massawa, a Fish Industry Development Assistance Project, a Marble and Granite Manufacturing Project, a Banking Study and a Chamber of Commerce capacity building project. IFC has also organized visits of Eritrean delegations to Italy and the US to facilitate the formation of joint ventures and other commercial partnerships. It is, however, too early to evaluate the impact of these investments.

Source: IFC staff, CAFTG.

[40] CDF: *Meeting the Promise? Early Experience and Emerging Issues*, World Bank Report, September 2001.

3. Development Impact of Bank Assistance

Relevance, Efficacy, and Efficiency

3.1 The Bank's assistance to Eritrea has been relevant. It brought in vitally needed resources to reconstruct the economy after two devastating wars (through the RRPE, the ECDF and latterly the ERP), and it did so quickly and creatively, within the parameters of the Bank's Post Conflict Policy.[41] It has played a major role in introducing the country to the exigencies of dealing with external financiers. Bank ESW has contributed materially to the development of the policy framework enunciated in the Government's NEPFP, and has addressed its advice to areas of high strategic importance: the work on exports and the financial sector, and planned work on information technology development are compatible with a need to promote private sector-led industrialization and exports—while the review of rural development options explores what can be done to protect and enhance equity among the poor rural population as the country searches for sources of comparative advantage and growth.

3.2 The objectives of GOE and the Bank have been compatible: poverty alleviation through encouraging market based growth, supported by strengthening infrastructure, improving access to education and health services, protecting the environment and, promoting equity (including gender equity). Progress has been achieved in all of these areas. Bank assistance has also supported Eritrea's ability to achieve the IDG targets, particularly in the areas of health, education and poverty reduction. The Bank's corporate policies are reflected in the Country Program's emphasis on promoting growth, human development, private sector development, environmental sustainability and financial management. Despite some early difficulties, Bank assistance has ultimately been in line with the processes of the Comprehensive Development Framework. Valuable lessons were learned by both Government and the Bank in the area of country ownership, and the working relationship that has emerged embodies many features of best practice.

3.3 The Bank's efficiency record is mixed. It was very successful in leveraging co-financing and reducing donor transaction costs through its umbrella programs. Preparation and supervision costs were appropriate in relation to most activities, but between l995 and 1997 significant resources were wasted on false starts, dropped projects or delays due to poor design, communication and/or insufficiently swift adjustment to changing realities.

3.4 The efficacy of Bank projects during the l998–00 period was inevitably diminished as thousands of people were sent to the war front and the country became preoccupied with the conflict. New operations were frozen, and implementation of many projects slowed down.

[41] The Post-Conflict Policy had not been developed in l992, but was fully in place when the Bank resumed lending in 2000.

Outcome, ID Impact, and Sustainability

3.5 The ***outcome*** of the Bank's assistance is moderately satisfactory. The portfolio is very young and only one of nine projects is closed (with a satisfactory rating).[42] While Government and Bank staff anticipate positive results from the lending and ESW initiated to date (much fairly recent), many of Eritrea's development gains since independence have been set back by war. While the economic and social policies pursued by the Government and supported by the Bank were sound, clearly the country would have been much further along the development path if not for the war. In terms of the war's impact on CAS objectives, private sector development has suffered from the loss of investor confidence, infrastructure has been built but will need to be reconstructed in war-damaged areas, and while social fund programs have been successful, the need for such safety net programs has increased. Progress on human capacity development is expected with the completion of the health, education and HRDP projects, though benefits could have been realized sooner had these projects not been interrupted. In the aftermath of the war, the resources required to get Eritrea back on a path of acceptable growth have increased considerably while the options for doing so have diminished, especially in view of the loss of its main trading partner and income from transshipments.

3.6 ***Institutional Development (ID) impact*** has been modest. The Bank could have made a more concerted effort to focus comprehensively on knowledge and capacity constraints earlier on. The Human Resource Development project would have been a major step forward if not delayed by war. Making a stronger case for analytical work would have enriched the country's knowledge base, improved the quality of "ownership," and helped the Government better navigate difficult policy choices. Though some progress has been made in integrating PMUs into national structures, this process is not yet complete. However, on the positive side, the practice of associating Eritreans with the preparation of ESW and lending operations should create capacity in national institutions, as should the intensive dialogue and supervision afforded to current operations. The Bank's willingness to adopt Eritrea's accounting and environmental standards will help legitimize and institutionalize these systems in the long term.

3.7 ***Judgments about sustainability*** are complex. The Government's commitment to the implementation of the Bank program and the recent record on joint project preparation, supervision, and ESW are promising. Until the war, Eritrea had shown itself to be financially prudent and cognizant of operation and maintenance requirements and other recurrent costs of projects. However, the costs of the war have changed the economic landscape and greatly reduced the resources available to Government, which make the sustainability of many of the achievements unlikely.

[42] This rating would likely have been downgraded if the project had been evaluated in the aftermath of the 1998 war, as infrastructure provided would have been damaged in conflict areas.

4. Attribution

Bank Performance

4.1 The Bank has on the whole deployed its comparative advantages (emergency reconstruction, analytical capacity, convening power) with great skill, and has been rewarded by excellent cooperation from the international community. There are no signs that Bank assistance has crowded out other donor efforts—rather, the Bank's presence has attracted substantial cofinancing and reduced transaction costs by offering other donors timely, well-designed projects and providing an efficient framework for disbursement. While Bank staff did not always have the interpersonal skills to work effectively in Eritrea, lessons were learned and GOE officials interviewed repeatedly praised the Country Team for its competence and responsiveness. Not surprisingly, staff and consultants interviewed claimed a great deal of satisfaction from working on the Eritrea program.

4.2 Inevitably the Bank's substantial effort has strained GOE capacity. The number and frequency of Bank missions absorb a great deal of the valuable time of senior officials. When missions were productive this was accepted. However, the frequent, unproductive missions associated with some early projects were irritating to Government, not least because they compromised the productivity of the few key decision makers.[43] However, the role of the Resident Mission and the Resident Representative has been constructive in streamlining communications with Government.

4.3 The Bank initially incurred considerable cost inefficiencies through high transaction costs on protracted preparation, remedial supervision, and dropped projects. This was due in part to Bank missteps in relationship building, country presence and implementation support, but also to inexperience and occasional rigidities on the part of the Government. The Bank's mixed record in providing effective knowledge and capacity building must also be seen alongside the Government's early aversion to classical TA and studies carried out by foreign consultants. There were missed opportunities in both lending and ESW support early on, but Government enthusiasm for ESW has increased markedly since l997/8. Once the dialogue was restored, the Bank might have engaged the Government more on sensitive policy issues such as the development of a transparent budgeting system or the role of the party in the business sector.

4.4 The Bank did not have a post-conflict policy to guide its efforts in Eritrea. However, if measured against the current policy, the Bank was, in effect, largely in compliance, though it could have done better in some areas. Post-conflict work with a new borrower is very resource-intensive. Some tasks require constant interaction with the clients/project participants—and thus a presence on the ground. One issue the Bank should have addressed at the outset was programming its administrative budget to ensure that sufficient staff time, management attention and field support were given to new

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[43] In 2000, the Bank dispatched 133 staff or consultants to Eritrea. Each mission meets with the same handful of overstretched Government officials, as do most the other donor missions.

operations. Three of the early projects (the RRPE, Ports, and Health) faltered in part because the Bank did not have a field presence**.**

4.5 In sum, despite some shortcomings, the Bank demonstrated the important role it can play in countries like Eritrea, which are war-torn, with few NGOs, immense development needs, a small private sector, and donors amenable to working in a coordinated framework. The Government's appreciation of the Bank's role was acknowledged in a recent interview by President Isaias Afewerki.

Box 5: Press Interview with President Isaias Afewerki on September 19, 2000

"The World Bank… is the single most important actor in the majority of the programs. The work relations we have established over the years are exemplary. I don't think the Bank has made concessions elsewhere as they have made with us. They authorized us to write our own programs and assured us they would come to extend their helping hand where and when we need it. This mutual understanding bore fruit…. We are implementing many development programs jointly with the Bank in an atmosphere of cooperation and understanding…. Nothing could be more exemplary… we never said we'll do everything on our own and we never said we didn't want any outside assistance although we believe the focus should be on self-support. I would conclude therefore that the exemplary working relationship we have established with the World Bank is very constructive and is worth copying. "

Counterfactual

4.6 Counterfactual analysis is difficult as data is inadequate and few comparator countries stand up to detailed comparison. Employing a with/without analysis, it is clear that the Bank has made a difference. The Bank is one of the largest donors to Eritrea and provided US$320.4 million in ODA to Eritrea in the 1993–01 period. These funds have, with a few exceptions, been spent strategically, on inputs with economic growth potential or human welfare and poverty benefits—and without any apparent leakages. The cofinancing leveraged before Eritrea was formerly accorded international recognition as a country would probably not have been channeled to Eritrea at that time, in those amounts, if the Bank had not spearheaded the preparation of the RRPE and organized a common financing mechanism for early assistance. Human suffering would also have been greater had the Bank not decided to reallocate project funds to fill serious gaps in the UN relief effort in 2000. It is difficult to envisage any other donor producing the CEM or comparable quality sector studies. The Bank's comparative advantage in policy dialogue is acknowledged by both donors and the Government. In Eritrea this is an important "space" that would not be fully occupied if the Bank were not there.

Borrower Performance and Exogenous Challenges

4.7 The Government has clearly demonstrated its dedication to Eritrea's development. It performed well under very challenging conditions and its seriousness and hard work are often cited by the international community as a model of country commitment and ownership. Before the 1998–00 war, Eritrea was in the top quartile of Bank borrowers in terms of implementation and had a high Country Policy and Institutional Assessment (CPIA) rating. Field staff showed great stamina and resourcefulness by carrying on with project activities during the war, despite the shortages of manpower and supplies.

Corruption is officially discouraged and widely held to be virtually non-existent. The Government has been very conscientious about costs and often negotiated Bank project budgets down to the lowest feasible minimum.

4.8 However, the war has undermined many of these accomplishments. With over one quarter of the country's population displaced by war and drought, many of the gains of the 1992–98 period have been eroded. While no time series data on poverty exists, it is certain that poverty rates have soared in the aftermath of the war. Real growth turned negative in 2000, and is not expected to reach pre-conflict levels for several years. Some sources of growth, such as trade and port services to Ethiopia, will be lost for an indefinite period. The Government's privatization and PSD support efforts have slowed, investors have shied away from Eritrea, and many local entrepreneurs who had invested before the conflict suffered substantial losses and face difficulties in resuming production and export activities.[44] Enabling legislation in a number of important areas has also been delayed by the Government's preoccupation with the war.

[44] One component of the ERP is aimed at easing some of this pressure by providing special credit lines and partial debt forgiveness.

5. Lessons and Recommendations

Lessons

5.1 Eritrea is probably one of the few IDA countries that has fully internalized the ownership principles of the CDF and PRSP, particularly country ownership. For this reason it is a good case study on how to support country-driven approaches, particularly when working alongside a new government emerging from war and isolation. Lessons include:

i. It is important to ensure that the borrower's and the Bank's views are mutually understood**.** When the Bank respected GOE perspectives and worked with officials in a spirit of openness and flexibility, relations were good. When the Bank was seen to be driven by internal concerns at the expense of country priorities, relations quickly deteriorated, projects did not progress, and time and money were wasted.

ii. The Bank can be quite opaque to new borrowers and its business practices can seem invasive. It is important that the client fully understands the rationale for Bank rules and procedures, and not just their detail. Conversely, the Bank should invest time in understanding the realities faced by new borrowers and local ways of doing business. Where possible the Bank should build on existing national standards and regulations so that they endure once the project is over.

iii. ESW is most effective when it is demand-driven and jointly prepared, and produces a *menu* of options the authorities can chose from—while also providing guidance on sequencing and implementation.

iv. Frequent changes in task managers were a feature of all troublesome projects in the portfolio. The Bank should ensure that the selection and rotation of key staff in new countries such as Eritrea is carefully managed**.** Relationship-building goals should be made explicit, rewarded, and protected from corporate delivery pressures. Staff turnover should be minimized to allow relationships to develop.

v. In countries with a strong sense of ownership and little capacity, the Bank often has to choose between being more interventionist, or standing back and allowing countries to make mistakes for the sake of ownership. This was a difficult trade-off in Eritrea. Part of the challenge is to communicate professional judgments and conduct policy dialogue in a way that is appreciated and understood by the client and builds rather than diminishes national capacity. Bank staff cannot be expected to necessarily possess these skills innately, and may need training in new areas such as communication, marketing and negotiation.

5.2 In sum, post-conflict situations require strategic forethought and unconventional approaches. In countries like Eritrea the Bank should be prepared to make a significant up-front investment in capacity support and relationship building. Doing so effectively may require the following:

- Establishing a strong field presence early on.

- Providing the management attention and additional budget needed for effective, intense dialogue.
- Hiring staff with the interest in/skills to understand client perceptions and engage in policy and project-related discussions in a way that builds partnership and capacity
- Providing ongoing field support to help clients understand and respond to Bank procedural requirements, particularly in relation to procurement and disbursement.
- Ensuring PMUs are planned with an explicit exit strategy, thereby avoiding the problems caused when PMUs deprive working ministries of talented staff and compete with them for prominence.

Recommendations

5.3 Although the Bank's instinctive wish to support an active and committed borrower is appropriate, the significance of weak capacity has to be recognized and provided for. Eritrea is in a serious crisis, requiring intensive attention and close listening/adaptation to the emerging situation—not an environment in which standard Bank instruments or best-practice projects can be taken from the shelf and expected to succeed. Building on the strong partnership now established with Government, the Bank should therefore:

- Assist the authorities to develop **a time-bound, concrete program of critical investments and policy adjustments** to be pursued over the coming three years with multi-donor support. This program would recognize the constraints to development associated with war devastation, geographical factors, social fragmentation, governance challenges, and policy weaknesses.

- Further **develop the successful collaborative and demand-responsive model of Bank assistance**, by associating Eritreans with the preparation of lending operations and ESW as a matter of course, by explicitly decentralizing appropriate authority and task management to the Resident Mission, by deploying disbursement and procurement expertise in the RM to build Government implementation capacity.

- Ensure that **simple, robust and implementable M&E systems are built into all future Bank operations**.

5.4 If the Bank can exercise the same tact and sensitivity as in recent years while engaging frankly on sensitive issues such as transparent budgeting, openness and the role of the party in business, then the partnership-oriented approach pioneered in this country will be seen to be vindicated and should stand as a model of best practice.

Summary of Bank Projects in Eritrea

1. Eight Bank-financed projects are under implementation-the most recent[45] was approved on July 27, 2000 just after the Cessation of Hostilities Agreement was signed. Prior to the conflict Eritrea's project implementation performance was ranked in the top quartile among the Bank's borrowers, Recovery and Rehabilitation Project for Eritrea (RRPE).

Approved:	3/30/93
Amount:	US$25 million IDA, $75.4 million others
Closed:	3/31/97
Performance:	ICR: Satisfactory

2. The initial preparation for this project was led by the UNDP during the period at the end of the war. In l992 the transition government of Eritrea requested Bank involvement, which was a problem because Eritrea was not yet a Bank member (pending the UN sponsored referendum). On consultation, the Bank determined it could participate if the loan were technically made to Ethiopia and passed on to the autonomous region of Eritrea, with Eritrea's agreement to assume full responsibility for the liability upon independence. The Bank conducted the appraisal of the project in December 1992 and set up a common structure for donor disbursement through cofinancing arrangements.

3. Project objectives were to finance essential imports needed for reconstruction programs in agriculture, industry, roads, energy, ports, telecommunications, water supply, social infrastructure, institution building and community rehabilitation. The community rehabilitation pilot project (constructing health centers, schools, water control, micro-credit support) was later up scaled to become the Eritrean Community Development Fund (described below).

4. The Bank processed the RRPE quickly and because of the post-war situation, it modified procedures to speed up disbursement. By bringing in a variety of donors through co financing arrangements, the Bank it was able to establish a single set of procurement procedures used for all funds. Through project implementation experience Eritrean staff learned how to handle internationally competitive bidding and procurement. The project also strengthened the private sector, which carried out most of the local construction.

5. The ICR rated the project outcome as satisfactory, its institutional impact modest and its sustainability likely—ratings endorsed by OED, except for Borrower Performance which OED found was highly satisfactory rather than satisfactory.[46] As a result of the project agricultural production increased, 84 private enterprises were able to resume commercially viable operations, while the public enterprises assisted saw a rise in capacity utilization from 40 percent to 80 percent. Targeted ports, power plant,

[45] Integrated Early Childhood Development Project.
[46] Had the project been rated after the conflict, it may have been downgraded as infrastructure in conflict zones would need to be repaired.

telecommunications and water supply systems were upgraded. One hundred and ten community rehabilitation projects provided schools, health centers, and minor irrigation works which benefited roughly a million people spread over all nine regions of the country. Though implementation was slower than anticipated, RRPE was well regarded by the Eritrean officials and members of civil society with whom the CAE mission spoke. It met high-priority needs and leveraged considerable financing from other donors. The project was processed in just eight months from PCD to Effectiveness.

6. OED's ICR review draws three broad lessons: (i) IDA's procurement and disbursement procedures need to be made more flexible and simple; (ii) rehabilitation efforts in war-torn countries like Eritrea require an early and continuing presence in the country to deal with implementation issues; and (iii) the TA component would have benefited from greater realism in assessing the borrower's receptivity and absorptive capacity.

Eritrean Community Development Project (ECDF)

Approved:	2/29/96
Amount:	US$17.5 million IDA, US$49.7 million Total Project Cost
Performance:	DO and Implementation Progress rating: Satisfactory (2/17/2001)
Closing:	12/31/2001

7. This project was based on the pilot community rehabilitation component of the RRPE. It follows the lines of a classic social fund and its goals were to finance community-initiated subprojects to rehabilitate social and economic infrastructure and improve the income generating capacity of poor households. It stressed local participation in decision making as well as efficient and cost-effective service delivery. Bank and Government officials each had strong views on how to structure the project based on their own experiences. The Bank suggested a study tour of other Bank-supported social fund projects, but the Government had neither the time nor the staff to pursue this option. However, after approval, several Eritrean officials were able to visit Bank-supported social funds, though at that point they focused more on implementation issues than design lessons.

8. The ECDF project had five components: building local schools and primary health care centers, improving local roads, providing safe drinking water, and introducing micro-credit. The project was run by a Project Management Office located within the Ministry of Local Government in Asmara, and had six Regional Offices, all of which were to some extent embedded within the Local Government structure. For example, the General Manager of the ECDF was the Director General for Regional Affairs in the Ministry of Local Government and the project's Regional Offices were headed by Regional Chief Executive Directors. Community assemblies worked with representatives of local government to select priority projects. These proposals were processed through the project structure and approved by the ministry concerned to ensure that proposals were consistent with ministry plans and that there was capacity to implement the projects, (which were largely executed by private contractors). Community groups were often responsible for substantive tasks such project monitoring, and managing water distribution and micro-credit allocation and collection.

9. The Government conducted a comprehensive assessment of the project in l999 as part of its contribution to the ICR and Government, OED and regional Bank staff participated in an intensive learning ICR in 2001. The main findings of the mission will be incorporated into phase II of the project (the Community Development Fund). The project achieved effective delivery of small-scale infrastructure under difficult conditions and contributed to the expansion of the private sector contracting industry, which is now able to take on larger projects. The project introduced new practices such as participatory beneficiary assessments. Monitoring and evaluation was weak as was sector and cross-sectoral coordination. Attention to sustainability issues (financial and institutional) and community participation in decision-making and implementation should be strengthened. Despite its shortcomings, the ECDF has been a popular project in the country. It has leveraged significant cofinancing from bilateral donors and is recognized by Government and donors for having made an important and timely contribution to the Eritrea's post-conflict needs.

10. While the border conflict has reduced the number of completed subprojects, the ECDF has been notable in its ability to react to crisis. Project staff were able to get things done despite a severe shortage of labor, gasoline, capacity, and materials—all of which were war related. This agility and resourcefulness is commendable. However, because strategy often gave way to short-term problem solving, the project never developed a clear vision of how it would relate to local government. Social Funds are justified as transitional structures to provide services while national capacity is being strengthened. However, now that a decentralization policy is in place, the Government feels Phase II of the project should focus on strengthening local government structures and develop an exit strategy. Thus, the CDP will focus on shifting PMU responsibility and capacity to local governments.

Primary Education Project

Approved:	Dropped at negotiations
Amount:	US$50 million IDA

11. This project was part of the post-war drive to restore essential infrastructure. The Government placed a high priority on education and constructing primary schools. The Bank joined the Government in preparing this project. However, neither side adequately examined the overall sector needs and the capacity to cover recurrent costs of newly constructed schools. The President of Eritrea grew concerned about constructing more schools given these constraints and the fact that there were other programs building primary schools. The Government decided to withdraw the project on the eve of negotiations. This was an unfortunate loss of time and money. The government has acknowledged responsibility for its own shortcomings in preparing this project. Interviews with Bank country staff also revealed a perception that the project was too Bank-driven from the outset and that sectoral issues were not well thought through.

12. The Government gives the Bank team good marks for their cooperation but in retrospect comments that it wished the Bank would have argued more forcefully for sector work, despite the Government's initial reluctance. The view expressed by one high official is that ESW in education would have led to a more balanced approach in the sector. However, this may have been difficult for the Bank to do at the time, given the

Government's lack of interest in sectoral studies, particularly those seen to delay investment. Eventually, the project led to the design of the Human Resources Development project (see below).

Human Resource Development Project (HRD)

Approved:	1/15/98
Amount:	US$53 million IDA
Closing:	7/31/03

13. This project replaced the cancelled primary education project. It builds on a small UNDP pilot initiative which had reached the end of its funding. The project's objectives were to improve the capacity of Government institutions to perform their functions by addressing the country's shortage of professional manpower. It took a strategic approach—the plan was to recruit foreign specialists (mainly from Asia) to fill positions in Eritrea's civil service, university and teacher training institutes, while at the same time sending 500 BA+ level Eritreans abroad for training, with the expectation they would replace the foreign experts on return. This was a creative project well designed to Eritrea's policies and resources (Human Resource Development is one of the Government's highest priorities as expressed in their Macro Policy Statement and National Development Plan). The project moved from PCD to effectiveness in just nine months, and was housed in the University of Asmara, under management of the President of the University.

14. The project was undercut by the border conflict. The risks of the war made it very difficult to recruit foreign experts. And the government could not spare its own civil servants to study abroad. At the end of the conflict, US$20 million in undisbursed funds were reallocated to emergency relief.

15. Since then the remaining elements of the project have been restructured. Eritreans will be trained in South African Universities rather than Europe or the United States, resulting in project savings. Funds have also been used to integrate skilled Eritreans evicted from Ethiopia and to attract others from the Diaspora. The Government admits that the University of Asmara was not the optimal location for the project but argues that the original project targets will still be met or exceeded, even with the reduced budget. Recent Bank supervision mission's reports that the HRD National Plan has been more successful in reaching the University and teaching institutions than in assisting civil servants, and that efforts should be stepped up to address this crucial group, particularly staff in the Ministry of Local Government.

Health (Referral Hospital) Project

Approved:	12/16/97
Amount:	US$18.3 million IDA
Closing:	6/30/03

16. The Ministry requested the Bank to fund referral hospitals, which it saw as the most glaring unfilled gap in the country's health system. Existing hospitals were over 50 years old and barely functional, and primary health care had sufficient coverage by other donors. The Bank's initial preference was to invest in primary rather than secondary

health care. A long standoff ensued, and there were frequent changes in task managers and multiple Bank missions before the two parties could reach agreement (Ministry staff estimated there were 15 missions and 5 TMs during the duration of the project).[47]

17. The Government argued that the Bank was rigidly following an orthodoxy that did not make sense in the Eritrean context, particularly as primary health care was well funded by other donors and the needs for secondary care were so acute. Eritrean staff also complained that the Bank's approach was out of tune with the service standards in the country. For example, staff cited one instance of receiving a memo from the Bank regarding space requirements for a hospital car park. Given that the standing hospital ran its maternity ward out of a tent, this was seen as further proof that the Bank did not understand Eritrea’s needs very well. This was an early project and the experience soured relations between the Government and the Bank, so much so that it was several years before the Government asked for another Bank project (except for the ECDF, no projects were approved between l994 and the end of l997).

18. The government was on the verge of dropping this project when the new Country Director arrived in 1997 and agreed to move forward with the hospitals along with some assistance in primary health. Once the compromise had been reached, the project moved relatively quickly to approval. However, because the preparation period was so protracted, design work began late, and implementation has been slow. The border conflict contributed to further delays, and construction is only partially complete on the hospitals. The PMU and Ministry of Health's unfamiliarity with Bank procurement and disbursement procedures also contributed to the delays. The project took 27 months from PCD to effectiveness (15 months from PCD to appraisal) and US$586,000 to prepare.

19. Undoubtedly, the lack of a clear agreement on sector strategy compromised project preparation. While sector strategies need not be excessively complicated or used to delay project investment, they are important to establish the relative priorities within a sector, even where the overall need is obvious. The problem was that the Eritreans understood sector work to be a prerequisite to investment—i.e., that the Bank's approach was to study first (up to two years) and fund later. This was not viable for the Government facing post-war pressures to deliver basic services to a deprived population. In this situation the Bank needed to find ways to support essential sector work concurrently with a rapid response to emergency reconstruction needs. A Health Sector Strategy is now being prepared in the Ministry with Bank assistance. It will look at a range of recurrent cost and service level questions as well as detailed priority setting.

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[47] Project and Ministry of Health staff interviewed during the CAE said of the frequent missions “after awhile no one wanted to see the mission at all. . . no one wanted to even talk to them. . . we were getting nowhere. ”

Ports Project

Approved: 11/18/97
Amount: US$30.3 million IDA, $21 million Italian Trust Fund
Closing: 6/30/02

20. This the only project currently rated as “at risk. ” The project's objectives were to rehabilitate and upgrade the country's two ports of Massawa and Assab. The project took 30 months to process (10 months from PCD to Appraisal and 16 months from Appraisal to Approval). Disputes during preparation slowed completion of the final designs and delayed implementation, which was further delayed by the border conflict. Not only did the conflict reduce the manpower and attention the Government was able to give to the project, it greatly changed the project's physical requirements. Loss of traffic to Ethiopia reduced the importance of the port of Assab, and remaining resources were redirected to the port in Massawa.

21. The project faced a significant procurement dispute: the Government wanted bidders to have a minimum of eight years experience in producing the port cranes need for the project. The Bank Task Manager provided language for the bidding documents requiring competing firms to supply a "list of cranes produced in the last 8 years." The low bidder submitted a list which covered the last eight years, but the list showed that it had only been producing cranes for the last three of those years. Eritrea rejected the bid. However, the Bank’s Procurement and Legal units ruled that the language did not disqualify the low bidder, since the company had in fact, produced a list of cranes produced over the last 8 years. While the Bank acknowledged the TM had given bad advice, it was legally bound to accept the bid and the Government reluctantly agreed. The cranes have not performed up to specifications, further adding to dissatisfaction with the Bank’s support on this project.

22. This project, together with the health project described above, are seen by Government as emblematic of the difficulties of working with the Bank.

Road Engineering Project

Approved: 4/10/97
Amount: US$6.3 million IDA
Closing: 12/31/01

23. The objectives of this project are to develop a strategy for the roads sector, identify priority projects and conduct preliminary engineering for the priority projects so that they could be executed quickly once funding was available. Additional goals were to build capacity within the Road Transport Construction Department for contract administration, and force account maintenance and construction. The project was prepared in close coordination with government agencies and is regarded as an excellent model of cooperation. This had to do both with the TM’s operating style and the growing mutual understanding between the Bank and government officials about how to work together on projects.

24. The priority setting work established a program for road construction as funds became available. And the up-front design work meant that when road projects were approved, they could begin quickly without having to return to the drawing board to do the engineering design work. The government strongly prefers this approach (the project was in part designed to avoid previous problems in the health and port projects, where approval took an excessively long time). Its longer-term impact will depend on Eritrea's ability to raise the construction funds needed. The EU intends to concentrate significant resources on the transport sector, but its approval process is slow and has been further complicated by the conflict.

Integrated Early Childhood Development Project

Approved:	7/27/00
Amount:	US$40 million IDA
Closing:	12/31/05

25. The objectives of this project are to promote healthy development of children under six, to expand access of this group to health services, to improve the health and nutrition of children in primary schools and to support orphans and children in hardship circumstances. It is was the first of the new round of development projects approved after the border conflict subsided. It began as a series of presentations organized by the Bank on early childhood development. As officials became more interested and convinced of the importance of addressing childhood development in a holistic and coordinated manner across several agencies, they asked the Bank to help them develop a project. This process led to strong national ownership and contributed to rapid preparation of the project once objectives and design were agreed. (It is noteworthy that it was possible to appraise and negotiate this project during the period of the conflict) Technical experts from the Government, the Bank, and specialized agencies reached early agreement on the goals and the means to carry out the project. This was commendable given the circumstances and the number of agencies involved.

Eritrea Emergency Reconstruction Project

Approved:	11/22/00
Amount:	US$90 million IDA, US$143.7 million others[48]
Closing:	12/31/02

26. This Bank-led multi-donor program was in response to the Government's request for emergency support to rebuild infrastructure, assist displaced and drought-affected populations and provide balance of payment support for essential imports. It was prepared remarkably rapidly—moving from PCD to effectiveness in six months. At the Government's request, the Bank again (as with the earlier RRPE project) assisted by coordinating the all donors into a single project using Bank procedures.[49]

[48] EU US$50 million, Italy US$58. 7 million, Denmark US$11 million, France US$3 million, AfDB US$21 million, GOE US$24 million.
[49] EU and AfDB will follow parallel financing due to their slower approval processes.

27. The program has five components including supply of agricultural inputs, infrastructure reconstruction, bank loans to support private sector development, community level infrastructure and micro-credit, and import support. Project preparation and initial implementation has moved smoothly in most respects, (the Central Bank has complained of delays in disbursements of the funds for restructuring private sector debt). Some have expressed concern that the Bank has resumed lending so soon after the conflict but most praised the Bank for moving quickly. The Bank's position is that early support will help to fortify a post-conflict atmosphere, and that signing loan agreements itself is an indication of peace as makes it very costly for either side to resume the conflict.

HIV/AIDS, Malaria, STD, Tuberculosis Project (HAMSET)

Approved:	12/18/00
Amount:	US$40 million IDA
Closing:	3/31/06

28. This project was developed in close coordination with the Government and with other donor agencies to address a set of interrelated health problems. It will address HIV/AIDS, malaria and tuberculosis-three of the major infectious diseases the Government is most concerned about. HIV/AIDs incidence is estimated to be 3.2 percent in Eritrea but this could rise sharply given the large-scale mobilization of the war and its attendant economic hardships. Malaria is a major problem in the lowlands, accounting for approximately 28 percent of patient admissions. Tuberculosis accompanies overcrowded living conditions and poor hygiene. HIV positive populations are much more vulnerable to tuberculosis, malaria and associated STDs.

29. The project has several components including human resource development, strengthening the health care system, information and advocacy, and research. Project preparation involved extensive participation of line ministries, local government administration, community organizations, and NGOs. The project also received input from external partners such as WHO, UNHCR, Italian Cooperation, UNICEF, USAID and others.[50]

30. This project benefited from constructive dialogue. At first, the Government was concerned primarily with malaria. During initial discussions, the Bank underscored the importance of addressing the other diseases at the same time, and presented convincing data on the large potential economic losses and burdens on society from AIDS, and the related risks of STDs and TB. The project was expanded accordingly. It took one year to move from PCD to effectiveness and involved several rounds of consultations. In addition to an open design process, the project also has a solid M&E system—unlike earlier projects in the portfolio. An extensive project launch was completed in March in Eritrea with President Isaias Afewerki participating.

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[50] Only UNAIDS expressed dissatisfaction with collaboration thus far. Its primary concern was that its role in the project had not been clearly spelled out, and that UNAIDS considerable experience and technical input might be overlooked, which was particularly distressing since the World Bank is a member of the UNAIDS effort.

List of People Interviewed by the CAE Mission

Ministers, Government Officials,
Directors of PMUs

Dr. Woldai Futur
Economic Adviser
Macro-Policy and Economic Coordination

Ato Akberom Tedla
Secretary General
Eritrean Standards Institution

Ato Kidane Tsegai
Director General
Ministry of Local Government

Dr. Iyob Tecle
Director, PMU, Ministry of Health

Ato Gebremichael Menghistu
Director, PMU/ERP
Ministry of Finance

Ato Efrem Fitwi
Project Coordinator, ECDF

Ato Fessihaye Tesfay
Project Coordinator
Ports Rehabilitation Project
Ministry of Transport & Communications

Ato Stifanos Habte
Director General
Ministry of Transport & Communications

Ato Adam Tesfamariam, Secretary General
Eritrean Chamber of Commerce

Ato Sirak Kifle, Chairman
Eritrean Chamber of Commerce

Ato Habteab Tesfatsion, Director General
Ato Kidane, Project Coordinator
Roads Sector Engineering Project
Ministry of Public Works

Ato Abraha Asfaha
Minister
Ministry of Public Works

Mr. Saleh Meki
Minister of Health

Ato Teckie Beyene
Governor
Bank of Eritrea

Ato Fessihaye Tedla
Director, Environment
Ministry of Land, Water & Environment

Ms. Wunesh Woldeselassie
Project Coordinator
Early Childhood Development

Ms. Luul Ghebreab
President
National Union of Eritrean Women

Ato Gebriel Fassil
Director General
Treasury
Ministry of Finance

Dr. Giorgis Tesfamichael,
Director
National Statistics and Evaluation Office

Embassies, Bilateral and Multilateral
Organizations, and NGOs

Mr. Govert W. Visser
First Secretary
Embassy of The Netherlands

Ms. Vibeke Mortensen
First Secretary
Royal Danish Embassy

Mr. William Garvelink
Director
USAID

Dr. Sergio Palladini
Director Italian Cooperation

Ms. Rosemary Nabatanzi
Rep. of Oxfam

Dr. Berhane W. Michael
Director Haben Eritrea – NGO

Mr. Simon Nhongo
UN Res. Coordinator

Mr. Farid Siddiqui
Techeste Ahderom
UNDP Evaluation Team

UN Heads of Agencies Meeting
UNHCR, FAO, OCHA, UNDP, UNICEF, UNAIDs

Dominique Methiot
Technical Advisor
Joint UN Program on HIV/AIDS

Mr. Rainer Baudendistel
Honorary Consul General of Switzerland

World Bank

Emmanuel Ablo
World Bank Representative

Oey Astra Meesook
Sector Director

Laura Frigenti
Country Program Coordinator

Simon Thomas
Sr. Transport Economist

Peter Dewees
Lead Environment Specialist

Mathew Verghis
Sr. Economist

Francis Colaco
former Country Director

Lili Liu
Sr. Country Economist

Peter Miovic
former Lead Economist, East Africa

Wendy Schreiber Ayres
Consultant, AFTTR

Marylou Bradley
Operations Officer

Giovanni Daniele
Investment Officer
IFC

IMF

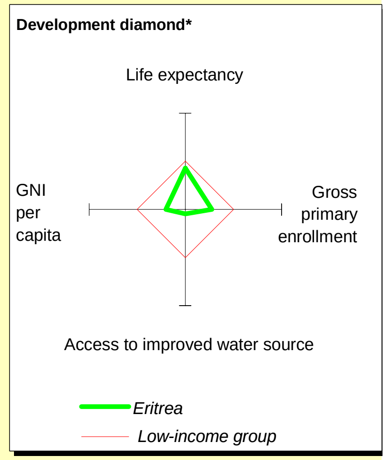
Mr. Scott Rogers
Deputy Division Chief, East Africa Div. II

Annex C: Statistical Tables

Note: The above tables reflect information that was current at the time the report was sent to the Committee of Development Effectiveness (CODE), September 2002.

Annex Table 1: Eritrea at a Glance

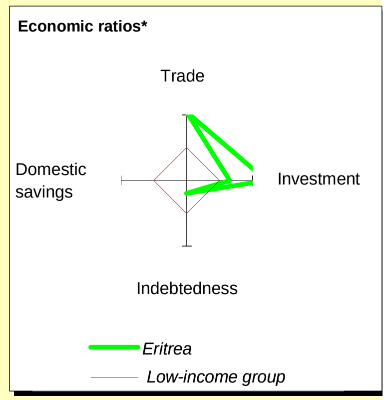
POVERTY and SOCIAL	Eritrea	Sub-Saharan Africa	Low-income
2000			
Population, mid-year *(millions)*	4.1	659	2,459
GNI per capita *(Atlas method, US$)*	170	480	420
GNI *(Atlas method, US$ billions)*	0.72	313	1,030
Average annual growth, 1994-00			
Population *(%)*	2.7	2.6	1.9
Labor force *(%)*	2.7	2.6	2.4
Most recent estimate (latest year available, 1994-00)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	19	34	32
Life expectancy at birth *(years)*	51	47	59
Infant mortality *(per 1,000 live births)*	61	92	77
Child malnutrition *(% of children under 5)*	44	..	..
Access to an improved water source *(% of population)*	7	55	76
Illiteracy *(% of population age 15+)*	46	38	38
Gross primary enrollment *(% of school-age population)*	53	78	96
Male	59	85	102
Female	48	71	86



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

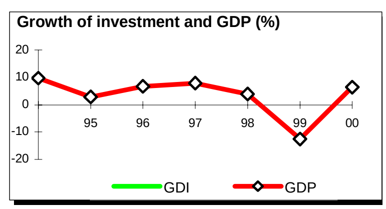
	1980	1990	1999	2000
GDP *(US$ billions)*	..	..	0.56	0.61
Gross domestic investment/GDP	..	..	54.6	51.3
Exports of goods and services/GDP	..	..	11.7	22.7
Gross domestic savings/GDP	..	..	-39.9	-27.0
Gross national savings/GDP	..	..	38.0	41.4
Current account balance/GDP	..	..	-36.4	-17.5
Interest payments/GDP	..	..	0.5	0.7
Total debt/GDP	..	..	43.1	49.4
Total debt service/exports	..	..	1.8	1.3
Present value of debt/GDP	..	..	26.1	..
Present value of debt/exports	..	..	70.7	..

	1980-90	1990-00	1999	2000	2000-04
(average annual growth)					
GDP	..	3.2	-12.6	6.5	9.3
GDP per capita	..	0.4	-15.1	3.7	6.6
Exports of goods and services	..	-7.0	-35.8	13.5	18.9

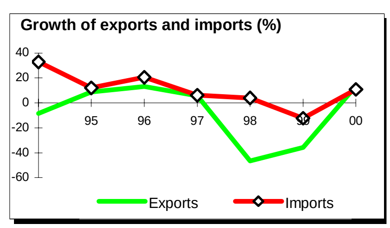


STRUCTURE of the ECONOMY

	1980	1990	1999	2000
(% of GDP)				
Agriculture	..	19.2	17.1	..
Industry	..	29.4	29.2	..
Manufacturing	..	25.8	14.9	..
Services	..	51.5	53.7	..
Private consumption	..	..	81.6	..
General government consumption	..	..	58.3	..
Imports of goods and services	..	..	106.3	86.1



	1980-90	1990-00	1999	2000
(average annual growth)				
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	..	..	..
Imports of goods and services	..	10.7	-12.3	10.7



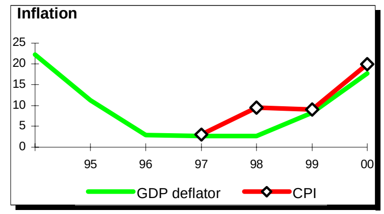
Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Eritrea

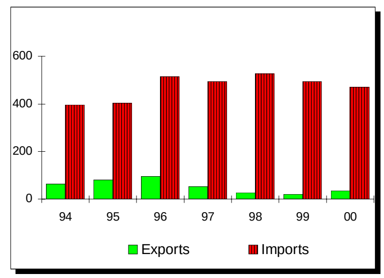
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices	..	..	9.0	19.9
Implicit GDP deflator	..	..	8.2	17.7
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	..	39.9	34.1
Current budget balance	..	..	-15.0	-34.3
Overall surplus/deficit	..	..	-78.1	-67.6



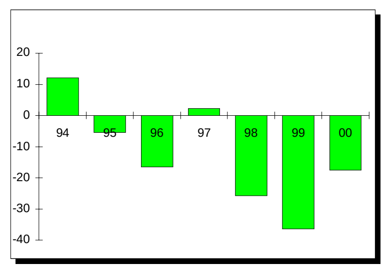
TRADE

	1980	1990	1999	2000
(US$ millions)				
Total exports (fob)	..	..	20	35
n.a.	..	..	..	..
n.a.	..	..	..	..
Manufactures	..	..	..	..
Total imports (cif)	..	..	495	471
Food	..	..	89	117
Fuel and energy	..	..	34	42
Capital goods	..	..	..	..
Export price index *(1995=100)*	..	..	..	..
Import price index *(1995=100)*	..	..	..	..
Terms of trade *(1995=100)*	..	..	..	..



BALANCE of PAYMENTS

	1980	1990	1999	2000
(US$ millions)				
Exports of goods and services	..	..	66	138
Imports of goods and services	..	..	597	523
Resource balance	..	..	-532	-386
Net income	..	..	6	..
Net current transfers	..	..	322	289
Current account balance	..	..	-205	-107
Financing items (net)	..	..	225	128
Changes in net reserves	..	..	-20	-22
Memo:				
Reserves including gold *(US$ millions)*	..	..	53	37
Conversion rate *(DEC, local/US$)*	..	..	8.5	9.8



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US$ millions)				
Total debt outstanding and disbursed	..	..	242	300
IBRD	..	..	0	0
IDA	..	..	53	84
Total debt service	..	..	4	3
IBRD	..	..	0	0
IDA	..	..	0	0
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	..	..	108	50
Private creditors	..	..	0	0
Foreign direct investment	..	..	0	0
Portfolio equity	..	..	..	..
World Bank program				
Commitments	..	..	0	170
Disbursements	..	..	20	32
Principal repayments	..	..	0	0
Net flows	..	..	20	32
Interest payments	..	..	0	0
Net transfers	..	..	19	31

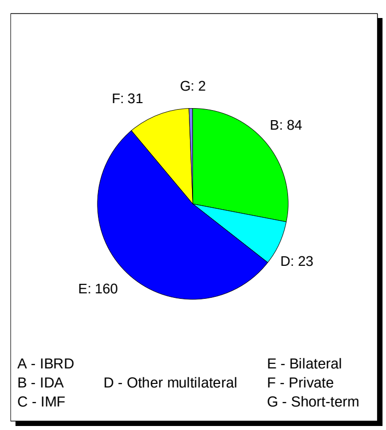


Table 2: Eritrea Social Indicators

	Latest single year			*Same region/income group*	
	1970-75	*1980-85*	*1993-99*	*Sub-Saharan Africa*	*Low-income*
POPULATION					
Total population, mid-year (millions)	2.1	2.7	4.0	642.8	2,417.1
Growth rate (% annual average for period)	2.6	..	2.7	2.6	1.9
Urban population (% of population)	12.2	14.8	18.4	33.8	31.4
Total fertility rate (births per woman)	..	7.3	5.6	5.3	3.7
POVERTY					
(% of population)					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita (US$)	..	..	200	490	420
Consumer price index (1995=100)	..	..	..	131	138
Food price index (1995=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Share of income or consumption					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	2.9	1.7	1.2
Education (% of GNI)	..	..	1.8	4.1	3.3
Social security and welfare (% of GDP)	..	..	..	..	..
Net primary school enrollment rate					
(% of age group)					
Total	..	..	30	..	..
Male	..	..	32	..	..
Female	..	..	29	..	..
Access to an improved water source					
(% of population)					
Total	..	..	46	55	76
Urban	..	..	63	82	88
Rural	..	..	42	41	70
Immunization rate					
(% under 12 months)					
Measles	..	..	55	57	64
DPT	..	..	56	59	70
Child malnutrition (% under 5 years)	..	..	44	..	..
Life expectancy at birth					
(years)					
Total	45	46	50	47	59
Male	43	44	49	46	58
Female	46	48	52	48	60
Mortality					
Infant (per 1,000 live births)	..	94	60	92	77
Under 5 (per 1,000 live births)	..	192	105	161	116
Adult (15-59)					
Male (per 1,000 population)	..	..	484	499	288
Female (per 1,000 population)	..	..	431	453	258
Maternal (per 100,000 live births)	..	..	1,000	..	..
Births attended by skilled health staff (%)	..	..	21	..	..

Source: 2001 World Development Indicators CD-ROM, World Bank.

Table 3: Eritrea - Key Economic and Social Indicators, 1990-00

Indicators	*Eritrea*											*Eritrea Average*	*SSA Average*	*Low Income Average*	*Benin Average*	*Central African Republic Average*	*LAO PDR Average*	*Mauritania Average*
	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*1990-2000*	*1990-2000*	*1990-2000*	*1990-2000*	*1990-2000*	*1990-2000*	*1990-2000*
GDP growth (annual %) *	..	..	..	-2.5	9.8	2.9	6.8	7.9	3.9	0.8	-9.0	3.8	3.0	3.8	4.9	3.2	6.5	4.4
GNI per capita, Atlas method (current US$) **	..	..	..	..	180.0	180.0	200.0	230.0	210.0	200.0	170.0	170.0	480.0	420.0	380.0	290.0	290.0	370.0
GNI per capita, PPP (current international $)**	..	..	870.0	840.0	920.0	950.0	1000	1050	1050	1040	950.0	950.0	1560.0	1990.0	980.0	1210.0	1530.0	1650.0
Agriculture, value added (% of GDP)	..	..	28.7	12.7	16.1	11.2	9.8	9.3	16.1	17.1	..	15.1	17.7	26.8	36.3	48.4	56.8	26.6
Manufacturing, value added (% of GDP)	..	..	12.6	13.8	12.3	14.4	15.0	15.6	14.1	14.9	..	14.1	15.6	18.6	8.2	10.4	13.9	11.0
Services, etc., value added (% of GDP)	..	..	52.0	66.6	64.9	66.2	62.8	61.2	56.5	53.7	..	60.5	50.8	42.3	50.0	31.3	24.5	43.0
Exports of goods and services (% of GDP)	..	..	20.1	34.0	28.3	29.9	31.7	31.1	16.0	10.1	..	25.1	28.3	21.3	16.4	16.7	21.7	42.5
Imports of goods and services (% of GDP)	..	..	56.7	73.7	81.4	87.7	92.0	90.1	87.7	92.1	..	82.7	29.0	23.6	28.8	24.9	35.2	54.0
International tourism, receipts (% of total exports)	..	..	..	..	..	33.8	34.5	44.3	31.3	42.7	..	37.3	5.5	6.9	5.7	2.7	8.3	3.0
Current account balance (% of GDP)	..	..	-4.4	11.2	12.1	-5.4	-16.5	-5.6	-35.0	-43.5	..	-10.9	..	..	-4.9	-4.7	-6.6	-0.2
Total debt service (% of exports of goods and services)	..	..	..	..	..	0.1	0.0	0.1	1.6	1.9	..	0.7	13.3	21.3	6.9	10.5	6.6	24.9
Gross international reserves in months of imports	..	..	..	..	..	..	..	..	..	..	..	..	2.4	2.8	3.7	6.6	1.8	2.6
Gross domestic savings (% of GDP)	..	..	-31.3	-24.6	-35.4	-38.6	-31.0	-18.1	-40.4	-43.0	..	-32.8	16.1	20.6	4.2	3.2	11.5	7.6
Inflation, consumer prices (annual %)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	9.0	3.9	34.2	6.1
Current revenue, excluding grants (% of GDP)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Expenditure, total (% of GDP)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Overall budget deficit, including grants (% of GDP)	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Population, total	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.0	4.1	3.6	581.3	2234.9	5.5	3.3	4.6	2.3
Population growth (annual %)	..	2.6	2.6	2.6	2.6	2.6	2.7	2.8	2.8	2.8	2.6	2.7	2.7	2.0	2.9	2.0	2.5	2.8
Urban population (% of total)	15.8	16.1	16.3	16.6	16.8	17.1	17.4	17.7	18.1	18.4	18.7	17.2	31.2	29.7	38.4	39.2	20.8	50.9
Illiteracy rate, adult total (% of people ages 15 and above)	57.0	55.9	54.9	53.8	52.8	51.7	50.6	49.5	48.3	47.3	46.2	51.6	44.1	41.7	66.1	60.1	57.7	60.6
School enrollment, primary (% gross)	..	..	46.4	50.9	53.6	55.8	53.4	..	53.0	..	..	52.2	75.9	93.1	69.6	59.6	108.2	77.7
Immunization, DPT (% of children under 12 months)	..	..	..	28.0	36.0	35.0	46.0	60.0	60.0	56.0	..	45.9	51.6	74.5	80.6	48.7	41.9	38.0
Improved water source (% of population with access)	..	..	..	..	..	..	..	..	..	..	46.0	46.0	52.0	73.0	56.5	59.5	64.5	37.0
Sanitation (% of population with access)	..	..	..	..	..	..	..	..	..	..	13.0	13.0	55.0	42.5	21.0	30.5	35.0	31.5
Life expectancy at birth, total (years)	48.9	..	49.7	..	..	50.4	..	50.8	..	50.4	..	50.0	48.9	58.6	52.8	46.1	52.2	52.4
Mortality rate, infant (per 1,000 live births)	81.4	..	71.9	..	..	66.0	..	62.0	..	60.4	..	68.3	96.8	82.1	94.0	97.9	102.1	96.2

* Average growth for comparator countries is least-squares growth rate.
** Data for comparator countries refer to 2000.
Source: World Bank SIMA/WDI/GDF database as of 01/08/2002.

Table 4a: External Assistance to Eritrea

Net receipts from donors, CY93-00
(US$ million)

Donors	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*Grand Total*
DAC Countries,Total *of which*	**33.3**	**95.8**	**94.5**	**127.3**	**74.1**	**96.5**	**81.1**	**119.5**	**722.1**
Japan	-	0.1	0.7	2.0	12.4	15.6	0.4	0.4	31.6
Denmark	0.7	0.8	6.9	4.4	4.6	11.3	9.3	11.0	49.0
United States	4.0	9.0	5.0	15.0	12.0	17.2	11.5	39.5	113.2
Italy	10.2	14.9	16.2	27.8	12.7	26.3	32.3	18.8	159.2
Multilateral ,Total	**17.9**	**49.3**	**49.1**	**28.7**	**25.7**	**38.5**	**49.7**	**54.9**	**313.8**
AfDF	-	-	-	-	-	6.6	5.1	1.0	12.7
Arab Countries	-	-	-	-	0.8	5.5	8.6	4.1	19.0
UNDP	1.6	3.0	3.3	7.7	6.7	8.7	3.9	2.2	37.1
EC	0.0	1.5	24.8	8.0	7.5	5.9	6.0	5.8	59.5
IDA	**2.4**	**16.0**	**5.2**	**2.9**	**3.8**	**6.7**	**19.2**	**31.2**	**87.4**
ALL Donors,Total	**52.0**	**157.3**	**148.9**	**159.0**	**116.6**	**166.6**	**149.4**	**183.6**	**1133.4**

Source: Geographical Distribution of Financial Flows to Aid Recipients, 2002, OECD.

Table 4b: World Bank Commitment by Sector, FY93-02

Sectors	*1993*	*1996*	*1997*	*1998*	*2001*	*2002*	*1993-2002*
Infrastructure*			6.3	30.3			36.6
Education/HNP				71.3	80.0		151.3
Multisector**	25.0	17.5			90.0	65.0	197.5
Grand Total	**25.0**	**17.5**	**6.3**	**101.6**	**170.0**	**65.0**	**385.4**

*Infrastructure includes Transportation.

**Multisector includes Economic Policy, Finance, Social Protection, and Law & Public Admin.
Source: Business Warehouse as of 07/31/2002.

Table 4c: Eritrea - Official Development Assistance and Official Aid - Commitments (US$ m)

Donors	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*Grand Total*
Canada	0.8	5.0	5.3	3.9	1.7	1.2	0.0	0.9	18.8
France	-	6.6	0.5	3.7	1.6	0.5	5.1	2.3	20.3
Switzerland	-	3.1	3.7	8.6	1.1	0.9	1.8	1.6	20.8
Sweden	-	-	3.5	3.0	2.6	6.2	4.1	5.4	24.8
Japan	-	0.1	0.7	17.0	14.4	1.4	0.5	5.2	39.3
AfDF	-	-	-	8.0	11.5	31.7	1.5	-	52.7
Norway	4.3	9.3	21.2	5.7	1.8	5.6	5.2	4.0	57.1
Denmark	-	0.6	0.7	17.3	0.5	-	-	41.9	61.0
Netherlands	-	7.1	6.9	21.8	0.9	6.3	5.6	13.2	61.8
Germany	11.1	28.6	29.4	13.9	9.1	9.3	2.1	3.7	107.2
United States	6.0	20.9	12.1	14.3	26.2	29.0	10.6	20.4	139.5
Italy	25.0	16.8	18.1	47.6	25.5	6.2	18.9	31.1	189.2
IDA	**25.0**	**-**	**-**	**17.5**	**54.9**	**53.0**	**-**	**170**	**320.4**
Multilateral ,Total	17.9	75.1	64.9	37.5	80.7	100.1	15.0	68.3	459.5
EU Members,Total	39.8	66	66.1	116.8	43.5	31.9	37.6	101.3	503.0
DAC Countries,Total	51.8	106.5	114.2	169.3	89.3	70.1	55.5	134.2	790.9
ALL Donors,Total	**70.8**	**198.6**	**264.6**	**206.8**	**172.1**	**190.2**	**72.8**	**208.1**	**1384.0**

Source: Geographical Distribution of Financial Flows to Aid Recipients, 2002, OECD.

Table 5: Eritrea - The World Bank Financing and Co-financing

Project ID	Project description	Approval date	*World Bank financing* Net commit. (US$M)	Disburse-ment (US$M)	*Cofinaning* Amount (US$M)	Origin	*Total financing* Net commit.+Cofinancing (US$M)
Multisector							
P000770	Eritrea Economic Recovery	3/3/1993			23.0	EU	
					24.3	Italy	
					4.5	Netherlands	
					6.5	Denmark	
					5.5	Germany	
					9.1	SIDA	
					2.5	UNDP	
			24.9	**25.8**	**75.4**		**100.3**
P039264	Community Development Fund	2/29/1996			20.1	Bilateral Agencies*	
			17.5	**15.6**	**20.1**		**37.6**
P044674	Emergency Reconstruction	11/23/2000			21.0	ADB	
					50.0	EU	
					11.0	Denmark	
					3.0	France	
					58.7	Italy	
			91.0	**38.8**	**143.7**		**234.7**
Population, Health and Nutrition							
P043124	Health Project	12/16/1997			3.5	NORAD**	
			18.3	**5.4**	**3.5**		**21.8**
P065713	HIV/AIDS, Malaria, STDs, & TB Control	12/18/2000	40.0	0.8			
P050354	Human Resources Development	1/15/1998	53.0	28.7			
P068463	Integrated Early Childhood Project	7/28/2000			5.0	Italy	
			41.0	**1.4**	**5.0**		**46.0**
Infrastructure							
P034154	Ports	11/18/1997			21.0	Italy	
			30.3	**14.4**	**21.0**		**51.3**
P044651	Road Engr. Credit	4/10/1997	6.3	5.7			
	TOTAL		**322.3**	**136.6**	**268.7**		**591.0**

* Unidentified, ** Norwegian Agency For Development Cooperation.

Source: The World Bank, Business Warehouse as of June 28, 2001, and The World Bank's ICS, Loan Kiosk, as of May 9, 2001 for disbursements.

Table 6: Ratings for Eritrea and Comparator Countries

a: Ratings

Country	*Evaluated Loans (million of dollars of net commitments)*		*Satisfactory Outcome (percent of net commitments)*		*Institutional Development Impact (% of net commitments)*		*Likely Sustainability (percent of net commitments)*	
	Total	**Adjustment**	**Total**	**Adjustment**	**Total**	**Adjustment**	**Total**	**Adjustment**
Before 1991								
Bankwide	202728	34555	72	68	34	38	54	56
SSA	31781	8033	58	52	22	20	..	..
Eritrea	**..**	**..**	**..**	**..**	**..**	**..**	**..**	**..**
Benin	391	45	92	100	36	0	66	100
CAR	356	130	23	12	1	0	3	0
Lao PDR	187	40	75	100	30	0	67	100
Mauritania	339	137	67	100	35	15	29	33
1991-1999								
Bankwide	76267	42112	86	91	48	51	68	72
SSA	10204	6474	78	82	29	29	45	47
Eritrea	**24**	**..**	**100**	**..**	**0**	**..**	**100**	**..**
Benin	148	95	92	100	15	0	89	100
CAR								
Lao PDR	141	60	86	67	57	0	60	67
Mauritania	90	52	88	100	41	41	75	100

* Ratings for countries are summarized by fiscal years of project approval.
Source: Bank's internal database as of 06/05/2001.

b: Ratings for the Active Portfolio

Country	***# Proj***	***Net Comm Amt***	***% At Risk***	***% Commit at Risk***
Bankwide	1494	99089	16	14
AFR	363	14657	19	20
Benin	8	118	0	0
CAR	3	45	67	62
Eritrea	**8**	**283**	**13**	**11**
LAO PDR	9	204	33	50
Mauritania	13	294	8	4

Source: World Bank Business Warehouse as of 01/08/2002.

Table 6c: Eritrea: World Bank Project Ratings, FY93-02

Proj ID	*Project Name*	*Commit. ($m)*	*Approval date*	*ARPP exit year*	*OED*				*SUPERVISION*		
					Outcome	*Sustain.*	*ID impact*	*Quality at entry*	*Latest risk rating*	*Latest DO*	*Latest IP*
Multisector*											
P000770	ERITREA ECON REC REC	25.0	3/30/1993	1997	S	LIK	MOD	S	Low Risk	S	S
P039264	COMMUNITY DEVELOPMENT FUND	17.5	2/29/1996		Project was closed on 12/31/2001				Low Risk	S	S
P044674	EMERGENCY RECONSTRUCTION	90.0	11/22/2000						Modest Risk	S	S
P058724	CULTURAL ASSETS REHABILITATION	5.0	7/6/2001						Low Risk	S	S
P073604	EMERGENCY DEMOBILIZATION AND REINTEGRATION	60.0	5/16/2002						n. a.	n. a.	n. a.
Education/HNP											
P043124	HEALTH PROJECT	18.3	12/16/1997						Modest Risk	S	S
P050354	HUMAN RES.DEV	53.0	1/15/1998						Low Risk	S	S
P068463	INTEGRATED EARLY CHILDHOOD PROJECT	40.0	7/27/2000						Modest Risk	S	S
P065713	HIV/AIDS, MALARIA, STDs& TB CONTROL	40.0	12/18/2000						Modest Risk	S	S
Infrastructure**											
P044651	ROAD ENGR. CREDIT	6.3	4/10/1997						Substantial Risk	S	S
P034154	PORTS	30.3	11/18/1997						Modest Risk	S	S
	Total	**385.4**									

*Multisector includes Economic Policy, Finance, Social Protection, and Law & Public Admin.

** Infrastructure includes Transportation.

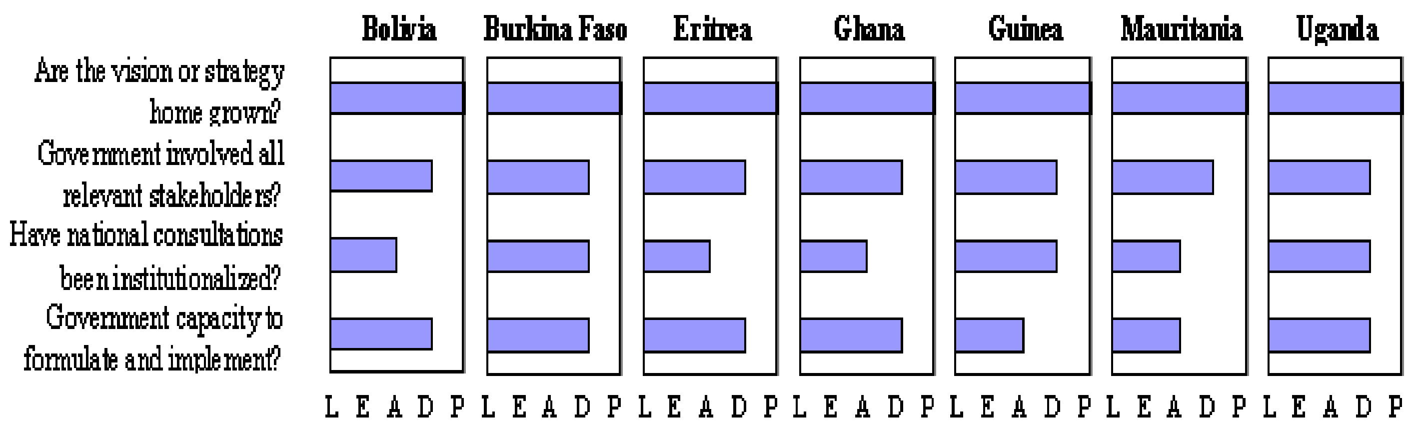
Source: Business Warehouse as of 07/31/2002.

Table 7: Selected ESW List for Eritrea, FY93-02

Report Title	*Report #*	*Report Date*
Economic and Sector Reports		
Education and Training Sector Note	24448	07/08/2002
Poverty Assessment	15595	06/13/1996
Options and Strategies for Growth	12930	11/10/1994

Source: Image Bank online database, World Bank.

Table 8: Progress on Ownership in Eritrea and Comparator Countries



L: Little or No Action; E: Elements Exist or Being Considered; A: Action Has Been or Being Taken;
D: Largely Developed; P: Substantially in Place

Source: CDF, *Implementation Experience in Low- and Middle-Income Countries. Progress Report,* April 26, 2001.

Table 9: Eritrea - Millennium Development Goals

Indicator	*1990*	*1995*	*1999*	*2000*
1. Eradicate extreme poverty and hunger				
Population below $1 a day (%)	..	..	..	..
Poverty gap at $1 a day (%)	..	..	..	..
Percentage share of income or consumption held by poorest 20%	..	..	..	..
Prevalence of child malnutrition (% of children under 5)	..	43.7	..	..
Population below minimum level of dietary energy consumption (%)	..	..	65	..
2. Achieve universal primary education				
Net primary enrollment ratio (% of relevant age group)	24.1	30.8	33.9	..
Percentage of cohort reaching grade 5 (%)	82.6	70.5	..	..
Youth literacy rate (% ages 15-24)	60.9	65.7	69.3	70.2
3. Promote gender equality				
Ratio of girls to boys in primary and secondary education (%)	81.6	79	78.2	..
Ratio of young literate females to males (% ages 15-24)	68	71.7	74.7	75.4
Share of women employed in the nonagricultural sector (%)	37.1	..	..	..
Proportion of seats held by women in national parliament (%)	..	14.7	..	..
4. Reduce child mortality				
Under 5 mortality rate (per 1,000)	139.6	110.3	..	102.9
Infant mortality rate (per 1,000 live births)	81.4	66	..	59.6
Immunization, measles (% of children under 12 months)	18	58.4	88.2	..
5. Improve maternal health				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	1100	..	..
Births attended by skilled health staff (% of total)	..	21	..	..
6. Combat HIV/AIDS, malaria and other diseases				
Prevalence of HIV, female (% ages 15-24)	..	..	..	..
Contraceptive prevalence rate (% of women ages 15-49)	..	8	..	..
Number of children orphaned by HIV/AIDS	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	272	..
Tuberculosis cases detected under DOTS (%)	..	..	12	..
7. Ensure environmental sustainability				
Forest area (% of total land area)	16.2	..	..	15.7
Nationally protected areas (% of total land area)	..	5	5	..
GDP per unit of energy use (PPP $ per kg oil equivalent)	..	..	..	..
CO2 emissions (metric tons per capita)	..	..	..	..
Access to an improved water source (% of population)	..	..	..	46
Access to improved sanitation (% of population)	..	..	..	13
Access to secure tenure (% of population)	..	..	..	..
8. Develop a Global Partnership for Development				
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	3.9	4.9	7.3	7.9
Personal computers (per 1,000 people)	..	..	1.5	1.6
General indicators				
Population	3.1 million	3.6 million	4.0 million	4.1 million
Gross national income ($)	..	647.4 million	791.8 million	696.2 million
GNI per capita ($)	..	180	200	170
Adult literacy rate (% of people ages 15 and over)	46.4	51.1	54.8	55.7
Total fertility rate (births per woman)	6.5	6	..	5.4
Life expectancy at birth (years)	48.9	50.8	..	52
Aid (% of GNI)	..	21.6	19.2	25.3
External debt (% of GNI)	..	5.3	32.6	44.8
Investment (% of GDP)	5.4	19.3	39.1	38
Trade (% of GDP)	76.9	117.6	102.3	101.8

Source: World Development Indicators database, April 2002.

Table 10: Eritrea - Bank Management, CY94-02

Year	*Vice President*	*Country Director/Coordinator*	*Resident Representative*
1994	Edward Jaycox	Francis Colaco	..
1995	Edward Jaycox	Francis Colaco	..
1996	Callisto Madavo	James Adams/Oey Astra Meesook	..
1997	Callisto Madavo	Oey Astra Meesook	..
1998	Callisto Madavo	Oey Astra Meesook	Emmanuel Ablo
1999	Callisto Madavo	Oey Astra Meesook	Emmanuel Ablo
2000	Callisto Madavo	Oey Astra Meesook	Emmanuel Ablo
2001	Callisto Madavo	Melanie Marlett	Emmanuel Ablo
2002	Callisto Madavo	Makhtar Diop	Emmanuel Ablo

Source: The World Bank Group Directory.

Guide to OED's Country Evaluation Rating Methodology

This methodological note describes the key elements of OED's country assistance evaluation (CAE) methodology.[51]

CAEs rate the outcomes of Bank assistance programs, not Clients' overall development progress

2. An assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If an assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, OED rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same

4. By the same token, an unsatisfactory assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

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[51] In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

5. OED measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

Evaluation in Three Dimensions

6. As a check upon the inherent subjectivity of ratings, OED examines a number of elements that contribute to assistance program outcomes. The consistency of ratings is further tested by examining the country assistance program across three dimensions:

(a) a *Products and Services Dimension*, involving a "bottom-up" analysis of major program inputs -- loans, AAA, and aid coordination;

(b) a *Development Impact Dimension*, involving a "top-down" analysis of the principal program objectives for relevance, efficacy, outcome, sustainability, and institutional impact; and,

(c) an *Attribution Dimension*, in which the evaluator assigns responsibility for the program outcome to the four categories of actors (see paragraph 4. above).

Rating Assistance Program Outcome

7. In rating the outcome (expected development impact) of an assistance program, OED gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. OED's task is then to validate whether the intermediate objectives produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

9. OED utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

Highly Satisfactory:	The assistance program achieved at least acceptable progress toward all major relevant objectives, <u>and</u> had best practice development impact on one or more of them. No major shortcomings were identified**.**
Satisfactory:	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified**.**
Moderately Satisfactory:	The assistance program achieved acceptable progress toward *most* of its major relevant objectives. No major shortcomings were identified.
Moderately Unsatisfactory:	The assistance program did *not* make acceptable progress toward *most* of its major relevant objectives, *or* made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Unsatisfactory:	The assistance program did not make acceptable progress toward *most* of its major relevant objectives, *and* either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Highly Unsatisfactory:	The assistance program did not make acceptable progress toward *any* of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

Sustainability can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

Comments from the Government and OED's Response

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دولة إرتريا
مكتب الرئيس

The State of Eritrea
Office of the President

July 29, 2002

Ms. Laura Kullenberg
Task Manager
Operations Evaluation Department
The World Bank

Re: ERITREA- Country Assistance Evaluation

Thank you for sending the draft Country Assistance Evaluation Report dated May 19, 2002. We have reviewed the referenced report and our comments are as follows:

General

Overall, the draft is comprehensive in the coverage of the main subjects and provides balanced analysis of the main issues faced in the formulation and implementation of the Bank's Country Assistance Program in Eritrea. The report is concise, yet it tends to be repetitive in several sections.

Generally, it provides a well-reasoned and balanced expose of World Bank's assistance to Eritrea from 1992-2000 and gives generally accurate assessment on its relevance and efficiency. It also gives a critical look at the way the Bank does business in a new client country and draws lessons of experience for the Bank's future engagement with new countries. On the other hand, on sustainability and impact of the country assistance program, its conclusion is harsh and lacks sound basis to support it.

We do not have much disagreement on what is said in the report on the overall country/bank relations and the challenges faced. In particular, the conclusion on how the Bank should have dealt with a new country emerging from years of conflict and isolation, lacking knowledge of the Bank's internal procedures and was skeptical of donors intentions is basically sound.

Our comments, therefore, dwell on a few points raised in the report where a wide ranging assertions and conclusions are made without credible facts to support them or where we felt that the report failed to grasp the specific context and reality on the ground. As a result, some sections need revision and a few sections require more explicit statements to support the conclusions. Our specific comments are as follows:

Executive Summary

The text of the Executive Summary is fairly clear and provides balanced assessment of the Bank's assistance and assesses its relevance, efficiency, sustainability and impact. The conclusion (page 21) on the relevance of Bank assistance, the compatibility of the objectives of the GOE and the Bank and the Bank's efficiency record should be reflected in the executive summary.

Main Text

Para 3.5 page 22: "*In the aftermath of the war, the resources required to get Eritrea back on a path of acceptable growth have increased considerably, while the options for doing so have diminished*" The report is not clear whether it is the mobilization of resources or economic growth options that has diminished. Para. 7 repeats the same assertion that the country has reduced options.

Para 1.8 Last sentence "*the GOE has yet to publish a full state budget*". This has actually been done in early 2002.

Para 1.9 "*However, there remains concern (among the public and international community) about the ultimate role of the government - and the sole party in business*" The Macro Policy Paper (1994) and the National Policy Framework and Program (1998) clearly state that the government will play a catalytic role of promoting investment and trade to induce a sustained economic growth by creating a private sector led export oriented economy and establishing a competitive environment. The objective is to build a broad based sound macroeconomic policy that stresses market oriented growth and social equity.

Para 1.09 "*the GoE inherited a number of state-owned enterprises from Ethiopia*." There is more than that; the once thriving private sector, which prior to Ethiopian control of Eritrea, was dynamic and dominant in the economy was crippled and such basic economic and social infrastructure were destroyed. Essentially, the new Eritrean government inherited a devastated economy ravaged by war and drought and the Stalinist policies of the Mengistu regime. The country emerged from the liberation war with enormous capital deficit and human capital constraints and with thousands of returning refugees and ex-combatants to reintegrate into the society. It is, therefore, appropriate that the nature and context of what the government of Eritrea (GoE) inherited at independence should be noted so that the reader appreciates the starting point.

Para 1.10: "*The war, has severely compromised Eritrea's economic options*". Eritrea's initial and promising growth was disrupted and many of the macro-economic gains reversed due to the outbreak of a border conflict with Ethiopia in May 1998. However, since the cessation of hostilities and particularly during 2001-02, the economy is showing signs of revival and notable progress towards restoring macro stability has been achieved, investor confidence is beginning to grow, and private investment in a number of key sectors is gradually increasing and the economy is showing signs of recovery. The demobilization and re-integration program is also a key step toward restoring macro economic and fiscal balance and reintegrating combatants into productive sector of the economy, it is expected to further reinvigorate the economy.

Para. 1.10: "Dependence on foreign assistance has increased". This is essentially due to the substantial and continuing need for emergency humanitarian assistance (which is a short-term phenomenon) necessitated by the growing needs of the internally displaced, deportees from Ethiopia and returning refugees from the Sudan. Given the enormity of the problem, we believe, we have managed to avert a humanitarian crisis.

Para 1.10: " *... the government's reluctance to reverse the interventionist role of the state".* This is incorrect. Without exception, all sectors of the economy are open to the private sector. The GoE's growth strategy hinges upon the promotion of a private sector led, export-oriented economy.

Footnote on page 5: "*In the early 1990's some bilateral as well as NGOs were asked to leave the country when their "style" was thought to be incompatible with country ownership.* It is more substantive than style- it involved the desire by some NGOs to undermine the respective role of the line ministries in formulating and implementing policies and development projects and tendencies to engage in activities not consistent with their stated mandates.

Para. 2.5: "*While the government can be faulted for underestimating the importance of analytical work and rigor in planning*". The country emerged from the liberation war with enormous infrastructure damage and human capital constraints and with thousands of refugees and ex-combatants to re-integrate. Our view is that early on, Bank staff failed to fully understand that government's pressing desire (demand) to focus on priority investments in rehabilitation and reconstruction works which at the same time create more jobs works and also to meet the urgent needs of the thousands of returning refugees from the Sudan and re-integration of ex-combatants. On the other hand, Bank staff insisted on carrying out elaborate economic and sector works which were known to take long time to complete. The Bank also failed to demonstrate the strong linkages between analytical work and policy and investment in a post-conflict situation based on best practice elsewhere. Furthermore, a more balanced approach of processing sector work and investment projects in parallel would have been a more acceptable solution.

Para 2.7: "*The time and resources that the Bank director could martial for Eritrea were limited and no focal point for Eritrea was designated.*" Looking at the amount spent on Bank supervision missions to Eritrea, it is hardly reflective of limited budgetary resources. Early one, Bank staff failed to understand fully the needs of a newly emerging nation with limited appetite for long drawn procedures to do business coupled with their insistence to follow standard Bank procedures. In our view, a more creative and flexible approach that is better suited to meet the pressing needs of a new client with limited knowledge and understanding of Bank practice would have been appropriate. Part of the high cost incurred on supervision missions could have been spent to open a small Resident Mission (RM) with core-staff in place. We felt that the Bank was not being responsive to GoE request of opening a

Resident Mission in Asmara to build strong relationship, create better understanding of the particular situation of Eritrea as well as increase effectiveness of project implementation. These objectives were largely achieved with the opening of a RM in 1998.

Para. 2.19: The report could perhaps elaborate on the consequences of delays in establishing RM – slowness in responding to government request for a closer communication and the lack of sector specialists (education and health and procurement) stationed in the Bank's field office and consequent long delays in project implementation.

Box 2: "*Given the resources injected into multiple missions and changing staff, it is hard not to conclude that a RM with staff able to build working relations with the GoE would have achieved better value for money*". This statement accurately reflects our views on the subject.

Para. 2.10 "*Despite the clear need to build institutions and policy frameworks, the bank did not intervene heavily in these areas. However, its choices were limited* ". A well articulated and sound capacity building strategy and allocation of necessary T/A and skills development of local staff would have been the preferred way to go foreword. Instead, Bank staff insisted on standard T/A for project preparation, implementation and monitoring/evaluation rather than developing simultaneous local capacity with the technical support of international experts. This practice of "business as usual" was deemed unacceptable.

It is incorrect to suggest that the GoE was known to be sensitive to conditionality per se. It objects, nevertheless, to unrealistic conditionality that limits our options and also compromises country ownership of policies and programs. Conditionality copied from programs/projects in other countries without the benefit of explaining its relevance and applicability to the realities in Eritrea's is surely challenged. On the other hand, well-articulated policies and supporting investment programs linked with clear and realistic conditions that are presented in a form of a proposal and presented to the government for discussion and negotiations have been discussed openly and agreements reached. Once such agreements are reached, the agreed conditions as stipulated in the agreements are complied with and implemented.

Para 2.13 "*seven of the 11 projects proposed in the CAS failed to materialize due mainly to changing government priorities*". The CAS is supposed to be a living document that adjusts to changing and evolving circumstances, particularly in a new country where available resources are limited coupled with substantial rehabilitation and urgent needs of returning refuges from Sudan and re-integration of demobilized combatants. The change in priorities is, therefore, reflective of the constantly evolving urgent needs of the population and the government trying to respond to meet the growing needs within the limits of available resources. Our sense is that adjustments should have been made in the projects proposed in the CAS to reflect changing government priorities and evolving realities on the ground. Instead, the Bank staff adhered to projects proposed in the CAS in inflexible manner.

Para. 2.21: "*The Bank simplified procurement requirements*.." In actual fact, lack of common understanding and clear expectation on procurement procedures was the cause of recurring frustrations. Despite repeated requests by the government early on, Bank staff did not introduce their counterpart national staff to the Bank's procurement and disbursement procedures and this has contributed to slow progress in project implementation.

Para 2.23: "*The Ports project became mired in GoE indecision about the appropriate strategy for port development*". This does not tell the whole story. The preparation effort did not look deep enough into the various strategic options in port development based on best practice elsewhere, adjusted appropriately to the realities in Eritrea.

Para 2.38: "*Bank's attempts to deploy technical assistance were often resisted by a government skeptical of traditional forms of such assistance, particularly of the use of expatriate consultants.*" The government does not object to the deployment of technical experts; what it objected to was Bank staff's insistence and total emphasis on technical assistance (TA) to fill the skills-gap prevalent in planning, implementation and monitoring which should complement a well formulated capacity building plan that has long-term perspective. Our view was that TA is acceptable as a short-term instrument to fill in the skills gap consistent with a long-term capacity building program. Establishment of PMUs and associated costly TA components of long duration were prescribed as standard Bank instruments to fill in skills gaps in management and implementation of Bank financed projects. The government's strategy is to use TA to complement long-term capacity building measures of staff training and skills development. TA in well-defined, time bound and cost sensitive manner has been and continues to be well received and utilized effectively.

Box 6: It is fitting to include the quotes provided therewith as part of the main text. "*We will never say we will do everything on our own and we never said we did not want any outside assistance although we believe the focus should be on self support*". This reflects our guiding principles on technical assistance and external support.

Para. 2.45: "*An IPRSP is planned, again without much enthusiasm on the part of the government officials interviewed, who tend to view it as a Bank driven exercise*". We have just launched the I-PRSP that is country- owned, results-oriented and long-term in perspective. The I-PRSP will be prepared through a participatory process that provides for opportunities for dialogue with key national stakeholders (including civil society organizations, private sector) and development partners. On July 7, 2002, a meeting held with representatives of the relevant government ministries and development partners endorsed the concept paper, the institutional approach and preparation process proposed. The government is committed to the process and objectives of the I-PRSP.

Para. 2.48: "*Bank collaboration with NGOS has been minimal in Eritrea. This is due mainly to the government's ambivalent attitude towards the NGOS. The few NGOS were allowed to operate work mainly in relief*". The government is clear on what the role of NGOs should be in Eritrea. In emergency and humanitarian situation, several NGOs possess the requisite skills and experience and organization skills and aptitude (areas in which they have comparative advantage) to provide needed support to meet emergency humanitarian needs, which we have been able to use effectively. On the other hand, their skills and experience are generally not suited for long-term rehabilitation and development works. If they, however, possess the expertise and experience to work in development works as effectively and to the extent that NGOs are willing and able to operate in support of government's long-term vision and their programs fit with the overall country priority and strategy, we welcome their support.

Para. 2: " *The Bank played a major role in introducing the country to the exigencies of dealing with external financiers.* Although Bank financing was instrumental to leverage additional resources from development partners, it sounds rather self-serving to pronounce it the way it is stated in the report.

Para. 5: "*OED rates the outcome of Bank assistance as moderately satisfactory*". The OED report correctly notes that the country emerged from the liberation war with enormous capital deficit, devastated infrastructure, weak private sector, severe human capital constraints, weak institutions and with thousands of refugees and ex-combatants to reintegrate. At independence, the new Government of Eritrea concentrated on rebuilding the war-ravaged economy, on establishing the legal, social and institutional framework and pursued policies and strategies that promote private sector led rapid economic development.

During the first seven years (1992-7), we created essential regulatory framework that is private sector friendly, improved the capacity of the health and education sectors,) and restored and expanded essential transport and communication services, restored the productive capacity of the economy (particularly in agriculture, fisheries, tourism, construction). As a result, investor confidence was growing and private entrepreneurs responded to new investment opportunities in the services, construction and other sectors and this led to a rapid economic growth during the referenced period.

Although macro economic instability had resulted from the war, we have been able to not only restore social and economic services by completing reconstruction and rehabilitation works, but also to steer the economy toward sustainable growth and development. There are signs that our economy is rebounding back and showing some sign of vitality.

These are significant accomplishments and the Bank's financial support and technical advice have made significant contributions to this positive outcome. Therefore, we feel that the conclusion on the outcome of Bank assistance is harsh and unbalanced and the report should reflect this positive and satisfactory outcome of Bank assistance.

We appreciate the opportunity to provide comments on the draft report. It is our hope that, to the extent possible, our comments and observations will be reflected in your revised report.

Sincerely yours,

Woldai Futur
Economic Advisor

OFFICE OF THE PRESIDENT
ERITREA

OED's Response to Government Comments

OED appreciates the Government's overall assessment of the CAE—that it offers a comprehensive and balanced assessment of country/Bank relations and the challenges faced. Specific comments on individual paragraphs have been given full consideration and the text has been amended or footnoted as appropriate.

The basis of the ratings for outcome and sustainability and OED's response to the Government comment that "Bank staff adhered to projects proposed in the CAS in [an] inflexible manner" are as follows:

OED's methodology assigns a "moderately satisfactory" **outcome** rating to a country assistance program which "achieved significant or acceptable progress toward a majority of the major relevant objectives, but failed to address—or did not make acceptable progress toward—at least one major relevant objective." The outcome rating is not a judgment of Bank or Borrower performance. It is an objective measure of whether or not all the goals of the country assistance program in Eritrea over the past decade were achieved: significant progress was made toward many of these goals, but not all of them.

Sustainability measures the likelihood that the development benefits of the country assistance program will be maintained. Though the Government's commitment and involvement in Bank-funded investments augured well for long-term sustainability, the war brought about severe macroeconomic imbalances and constrained prospects for new private investment. Especially severe is the country's loss of its main trading partner and of income from transshipments. At this stage, sustainability is rated as unlikely.

OED agrees that the CAS should have flexibility, but its purpose nonetheless is to provide a clear statement of what the Bank proposes to do in a given country. The CAS is prepared after substantial dialogue with Government and thorough analysis of country conditions, needs, and the comparative advantage of Bank assistance. Once the CAS has been submitted to the Bank's Executive Directors for approval, Bank management is expected to ensure that it provides a framework for subsequent country programs. In practice, seven out of the eleven projects proposed in the 1996 Bank strategy failed to materialize due to changing government priorities. For the most part, the Bank supported these shifts in a constructive manner, such as transforming the dropped education project into a capacity building program. We would argue that this represents a very high degree of flexibility on the part of the Bank, not a rigid adherence to the CAS.

Management Action Record

Major Monitorable OED Recommendations Requiring a Response	*Management Response*
Eritrea Country Assistance Evaluation.	
• The Bank should assist the authorities to develop **a time-bound, concrete program of critical investments and policy adjustments** to be pursued over the coming three years with multidonor support. This program would specifically recognize the constraints imposed by the war and its current consequences	• Agreed. As soon as relations with donors are back to normal, the Bank will agree with the Government and other donors on such a program of support. We envision this program to be based on the Government's PRSP.
• Further **develop the successful collaborative model of Bank assistance**, by associating Eritreans with Bank ESW as a matter of course, by explicitly decentralizing appropriate authority and task management to the Resident Mission, by deploying disbursement and procurement expertise in the RM to build Government implementation capacity.	• Agreed. The Bank's ESW program is driven exclusively by the stated needs of the Eritreans themselves. The program is quite robust and responsive to the most critical areas as identified by the Government. The Africa Region as a whole is further decentralizing task management, disbursement and procurement functions. Eritrea will certainly benefit from this. During the coming FY, an operations officer will be placed in the resident mission to assist the authorities with overall portfolio management.
• Ensure that **simple, robust and implementable M&E systems are built into all future Bank operations**.	• Agreed. Building M&E systems into future (as well as into ongoing) operations is one of the top priorities for the country team.

Chairperson's Summary
Committee on Development Effectiveness (CODE)
Meeting of December 8, 2003

1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness met on December 8, 2003, to discuss the *Eritrea: Country Assistance Evaluation (CAE)*.

2. **Background.** The Bank began its work in Eritrea in 1992 and is today one of the country's largest donors. In its introduction, OED shared the highlights of its CAE which included that: (a) the Bank had moved quickly and creatively to provide the vital resources needed to rebuild the economy; (b) had played a critical role in helping a new borrower deal with external financiers and mobilize funds for reconstruction; and (c) that the Bank had engaged in those areas in which it had a comparative advantage (reconstruction, analytical capacity, and convening power) and had deployed its resources appropriately resulting in excellent cooperation from the international community. OED recommended that the Bank develop a time bound program of high priority investments and policy adjustments using the successful collaborative model of assistance for Eritrea to date. OED noted that it would be important to place such assistance within the constraints to development associated with reconstruction, social fragmentation, and governance challenges.

3. The Chair representing Eritrea thanked OED and noted that the Government broadly concurred with the CAE's findings and conclusions. He noted that the CAE held useful lessons learned from both the sides of the borrower and the Bank on engaging with donors and especially noted the flexibility of the Bank, including in its acceptance of local standards for certain aspects of project implementation. He especially emphasized the critical role of the private sector for the success of an export-oriented strategy and called on the Bank Group to enhance the role of IFC in the country assistance program.

4. **Main Conclusions and Next Steps**. The Subcommittee welcomed the CAE and thanked both OED and Management for their participation. Members overall agreed with the findings and recommendations of the CAE but also identified a number of areas they believed required more focus, including more recent developments in the country. Management will prepare a Transitional Support Strategy (TSS) in the second quarter of CY04 which will include an update on these developments.

The following points were raised.

5. **Fiscal transparency and macroeconomic management.** Management welcomed the report but believed that the report could have placed more emphasis on the fiscal challenges facing the government including: (a) weak macroeconomic management, fiscal transparency and the need to make clearer the choices involved in the allocation of fiscal resources; (b) financial sustainability; and (c) an analysis of the implications of Eritrea moving from post-conflict state to a stage where it is eligible for HIPC funding. The lack of an IMF program in the country was an important element of the macroeconomic situation, and this was also noted in the CAE. The Chair for Eritrea noted that the Government was moving ahead with reconstruction and addressing the problem of displacement of people but that this was a huge challenge that takes time. He also underlined the high level of country ownership of the reforms.

Recent developments. The Subcommittee agreed with both Management's and OED's views that the recent developments in the country—including worsening macroeconomic conditions, the need for greater budgetary transparency, the slow progress in demobilization, and continued tense relations between Eritrea and Ethiopia—needed to be included in the Bank's ongoing discussions with the country. It was agreed that the upcoming Transitional Support Strategy (TSS) will present an update on these areas.

Rosemary Stevenson
Acting Chairperson
CODE Subcommittee