



The State of Eritrea



MILLENNIUM DEVELOPMENT GOALS REPORT

Asmara, July 2005

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FOREWORD

The Millennium Development Goals (MDGs) represent a consensus among nations, including Eritrea, on a core agenda for development. They comprise eight global objectives, each with one or more quantitative targets, which the developing countries plan to achieve by 2015. These objectives encompass the reduction of poverty and the elimination of extreme hunger, improvements in health, education, gender equality, the environment and other aspects of human welfare and global partnership for achieving the targets.

Monitoring progress is one vital aspect of the MDGs campaign. This is done at two levels. At the international level, the UN Secretary General reports annually to the General Assembly on the global status of the MDGs. At the country level, nations are expected to prepare a MDGs report once every three years. The purpose of such country reports is to raise awareness about the MDGs and targets among all stakeholders, including the general public, civil society, and the media. Moreover, it is intended to help political leaders and decision-makers to direct development policies and strategies toward the resolution of one of the most critical issues of our time, the reduction or elimination of poverty. As crucial an issue poverty reduction is, however, it is Eritrea's strong belief that it can be addressed effectively only in the context of an overall development strategy and not in an isolated fashion. The Eritrean MDGs Report was prepared in this context.

I am pleased to present this first Millennium Development Goals Report (MDGR) of Eritrea. The Ministry of National Development (MND) guided and managed the preparation of the Report, which began in April 2004. The key economic and social sector ministries also participated fully in the work thereby contributing to the quality of the Report. Helpful comments on the draft Report were also received from the UN country offices. The UN Country Team (UNCT) provided the Government with financial support for preparing the Report and closely worked with the MND and the other key stakeholder ministries in this endeavour.

The MDGR was set out to achieve three objectives: (1) to determine Eritrea's benchmark vis-à-vis the MDG indicators and targets, (2) to provide a road map leading to the achievement of the targets by the target year, 2015, and (3) to indicate, in broad terms, the resources requirement for achieving the MDG targets.

Establishing the benchmark involved the comparison of the status of various indicators between two periods: the period 1993-95 and that of 2001-03. Such a comparison drew on a number of existing surveys and other previous works, including the 2002 Demographic and Health Survey (DHS), the 2003 Poverty Assessment comprising the Living Standards Measurement Survey (LSMS) and the Participatory Poverty Assessment (PPA), the Rural Livelihood Security Assessment, and the 2003 Food Security Strategy (FSS).

The choice of a three-year period was dictated by the fact that not all data on the major indicators were available for any single year. In some cases, data were not available for the base year. On the whole, however, available data has been, with qualifications made whenever appropriate, adequate for assessing Eritrea's progress towards the achievement of the MDGs. Once Eritrea's benchmark was established for each of the MDG indicators, linear projections were then made on whether or not these goals would be achieved by 2015.

The projections could be made, however, only after the global MDG targets had been adopted to the Eritrean situation. As is well known, most of the global MDG targets are to be achieved over a span of 25 years, with 1990 as the base year and 2015 as the target year. Starting, effectively, in 1994, the mid-point of the 1993-95 base period, Eritrea has only 21 years, in which to achieve the global targets by the global target year of 2015.

Most of Sub-Sahara Africa finds the MDGs very ambitious. The financial resources required to achieve them are huge, and given current capabilities, beyond the reach of most African countries. Their human and institutional capacities are nowhere near what they need to achieve the MDGs. Their social, economic and physical infrastructure is at such low level thereby constraining the productive capacity of their human resources and limiting trade and regional integration. Far too many countries are in, or just coming out of, ruinous conflict of one sort or another. All these factors are major contributors to the low growth that most African economies have been, and still are, experiencing. And yet, economic growth is an absolute necessary condition for poverty reduction.

Eritrea is no stranger to the realities of Sub-Sahara Africa. Having achieved formal independence in 1993, it is the youngest sovereign state in Africa and the second youngest in the world. At independence, it inherited a devastated economy and infrastructure, a large exiled population and an empty treasury. The Government began in earnest to rehabilitate and reconstruct the nation and the economy. Its efforts paid dividends. For the period 1993-1997, the economy grew by 7.4 %, inflation was kept at below 5%, and Eritrea had accumulated foreign reserves that cover seven months of imports.

As Eritrea's economy was just moving toward sustainable development, Ethiopia unleashed another destructive war on it in 1998. The country also suffered from successive droughts during the last five years. Perhaps the single most important constraint to its development today is the no-peace no-war status imposed on it by Ethiopia's refusal to abide by the decision of the Eritrea-Ethiopia Boundary Commission and the inaction, which is tantamount to silence, of the international community in enforcing the decision of the Commission. The inaction does not come free either. It is costing the international community well over US \$200 million annually to monitor the Peace Agreement; resources that could well have been used for development.

Despite these challenges, it is encouraging to note that Eritrea is projected to achieve eight of the ten targets by 2015. We realize, of course, that this is no cause for celebration for three reasons. First, Eritrea is off-track in two crucial areas: (1) reduction of poverty, and (2) achievement of universal primary education. Second, the general consensus is that the MDGs, even if they were to be fully achieved, represent only the minimum benchmarks rather than the culmination of full development itself. Third, the road map to 2015 is based on crucial assumptions, including the resolution of the no-peace no-war status of the border conflict, the absence of drought, the robust performance of the economy, and the successful mobilization of resources, both domestic and international, necessary for the achievement of the MDG targets.

Achieving the MDG targets requires human, material and financial investments in the economic, social and physical infrastructure. An important part of the exercise has thus been the determination of the cost of achieving the targets. The additional cost assessment exercise indicates that it will cost Eritrea around \$ 1,471 million over the next 11 years, which comes to an average of some \$ 134 million annually, to achieve the MDG targets. The cost must, however, be treated as very preliminary since the cost estimation was based on insufficient data. It goes without saying that the resource requirement for achieving the MDGs is in addition to the normal pattern of development expenditure the Government allocates from its own resources and the contributions of its development partners.

I would like to think that we have, in this Report, a useful tool for monitoring and assessing progress on the MDGs. More importantly, the Report can serve as a medium for dialogue and partnership between the two principal stakeholders, Eritrea and the international community, on how best to ensure the achievement of the MDGs, especially in the spirit of the Monterrey Consensus. However, Eritrea cannot overemphasize its belief that the international community would make a more effective contribution to the achievement of the MDGs in Eritrea through its effort to adjudicate the decision of the Boundary Commission than through the provision of financial resources no matter how large these resources might be.

In conclusion, I would like to express my appreciation and thanks to my colleagues in the key economic and social ministries for their valuable input and comments on the draft MDGs Report. My sincere gratitude goes to the UNCT, under the leadership of Mr. Simon Nhongo, former Resident Humanitarian Coordinator in Eritrea, for supporting the project financially and their important comments on the draft Report. Special thanks goes to the Consulting Team consisting of Mr. Emmanuel Ablo, Team Leader, Dr. Tesfai Haile and Dr. Rao Musunuru. My appreciation is due also to Ato Yoseph Woldemichael, Coordination Specialist in the Resident Coordinator Support Unit at UNDP, for his persistent efforts, throughout the entire process, to complete the work.

Woldai Futur

Minister

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ACRONYMS

BCG	Bacillus Calmette Guerin (vaccination for tuberculosis)
CCA	Common Country Assessment
DHS	Demographic and Health Survey
DPT	Diphtheria Perutussi Tetanus
ECDF	Early Child Development Fund
FSS	Food Security Strategy
GDP	Gross Domestic Product
GIS	Geographic Information System
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus /Acquired Immunodeficiency Syndrome
ICOR	Incremental Capital Output Ratio
IDPs	Internally Displaced Persons
I-PRSP	Interim Poverty Reduction Strategy Paper
LSMS	Living Standards Measurement Survey
MDGs	Millennium Development Goals
MDGsR	Millennium Development Goals Report
MLWE	Ministry of Land, Water and Environment
MND	Ministry of National Development
MOA	Ministry of Agriculture
MOE	Ministry of Education
MOH	Ministry of Health
NSEO	National Statistics and Evaluation Office
NUEW	National Union of Eritrean Women
PPA	Participatory Poverty Assessment
RAP	Rapid Assessment Survey
STD	Sexually Transmitted Diseases
TB	Tuberculosis
UNDAF	United Nations Development Assistance Framework
VIP	Ventilated Improved Pit

EXECUTIVE SUMMARY

The Millennium Development Goals (MDGs) comprise eight global objectives, each with one or more quantitative targets. They encompass the reduction of poverty and hunger, and improvements in health, education, gender equality, the environment and other aspects of human welfare, as well as global partnerships for achieving the targets. They are a major subset of the national development goals of Eritrea.

This is the first Millennium Development Goals Report (MDGR) for Eritrea. The report is an important instrument for assessing progress and prospects and mobilizing people and resources to implement the required policies and programmes to achieve the MDGs. Eritrea's promising start on the road to socio-economic development suffered a severe setback as a result of the border war with Ethiopia. In spite of this, progress has been made towards achievement of many of the MDGs. However, challenges remain in a number of areas.

PROGRESS AND PROSPECTS

Progress towards achieving the targets is assessed by comparing the status of various indicators during the period 2001-2003 with that of 1993-95, drawing on a number of surveys¹ and other sources. Table E1 below provides a summary assessment of progress and prospects.

Table E1: MDG Progress and Prospects at a Glance (percentage)

Goals and Targets	Starting value (1993-95)	Ending value (2001-03)	Linearly projected value (2015)	MDG target value (2015)	Status
Proportion below poverty line	53	66	48	33	Off track
Prevalence of underweight children	44	40	24	24	On track
Net primary school enrollment	30	44	82	100	Off track
Ratio of girls to boys in primary school	80	81	100	100	On track
Under-five mortality	136	93	30	45	On track
Maternal mortality ratio	985	581	246	246	On track
Prevalence of HIV/AIDS	N/A	2.4	< 2	< 2	On track
Malaria cases per 1,000	N/A	36	<36	< 36	On track
Environmental resources: forest cover, of land area	13.9	32	>32	>32	On track
Proportion without access to safe drinking water	84	33	25	20	On track

¹ They include the Demographic and Health Survey (DHS), the 2003 Poverty Assessment comprising the Living Standards Measurement Survey (LSMS) and the Participatory Poverty Assessment (PPA), the 2003 Rural Livelihood Security Assessment, and the 2003 Food Security Strategy (FSS).

Table E1 shows that Eritrea is on track to achieve the MDGs relating to gender equality in primary education, child health, maternal health, HIV/AIDS, malaria and other major diseases, and access to safe water. However, in two crucial areas, namely eradication of extreme poverty and achievement of universal primary education, the country is below target. In another crucial area, that is, environmental sustainability, data do not permit a clear assessment of progress but the country appears to be making good progress.

The gains made since independence in all the areas covered by the MDGs need to be sustained and improved upon. For the gains to be sustained and improved upon, economic growth has to resume at a rate of at least 5 percent a year. For more discussion of the growth issue, see Chapter 5.

NEEDS ASSESSMENT

A preliminary assessment of the costs of achieving the MDGs is presented in this report. This exercise was plagued by data deficiencies. The results of the assessment are summarized in Table E2 below. The total costs are estimated at \$1,471 million over the next eleven years or an average of \$134 million a year. These costs would be borne by the public sector. They exclude the contributions that households and businesses will make towards the achievement of the MDGs.

Table E2: Summary of Projected Financial Resources Required to Achieve the MDGs (in 2004 \$ million)

	2005*	2010*	2015*	Total 2005-15	Ave. 2005-15
Poverty and Hunger	21	30	37	323(22%)	29
Education	29	38	38	494(33%)	45
Gender Equality	2	1	1	15(1%)	1
Child Health	3	4	5	40(3%)	4
Maternal Health	2	2	3	27(2%)	3
HIV/AIDS, Malaria and TB	13	15	18	165(11%)	15
Water & Environmental Sustainability	12	12	12	133(9%)	12
Energy	10	13	15	140(10%)	13
Roads	12	12	12	133(9%)	12
Total	84	97	140	1,471 (100%)	134

* These years have been chosen for illustration and the figures are rounded off to the nearest unit.

CHALLENGES

The Government faces a number of challenges in its effort to promote development and achieve the MDGs. These are (i) restoring macroeconomic stability, (ii) attracting private investment, (iii) ensuring food security, (iv) achieving sustained, rapid economic growth, and (v) mobilizing the required resources. Economic growth and resource mobilization issues are discussed later in the Report. Readers are referred to the Interim Poverty Reduction Strategy Paper (IPRSP) and the Food Security Strategy Paper for an in-depth discussion of these challenges.

CHAPTER 1. INTRODUCTION

At the Millennium Assembly in September 2000, leaders of the 189 member countries of the United Nations adopted the Millennium Declaration aimed at improving the lives of the poor in developing countries in the twenty-first century. Earlier, International Development Goals (IDGs) and other objectives for socio-economic development were incorporated in the Millennium Declaration to form the Millennium Development Goals (MDGs). The MDGs comprise eight global objectives, each with one or more quantitative targets, except for the goal dealing with global partnerships. They encompass the reduction of poverty and hunger, and improvements in health, education, gender equality, the environment and other aspects of human welfare, as well as global partnerships for achieving the targets.

All member countries of the United Nations, including the State of Eritrea, subscribed to the Millennium Declaration and pledged to work towards the achievement of the MDGs. To keep the subject on the international agenda, member nations are expected to report on progress and challenges to the UN, at least once every three years, while the UN Secretary-General, in turn, reports regularly to the UN General Assembly.

The MDGs country report is an important instrument for: (i) assessing progress and prospects, (ii) identifying the factors contributing to success, (iii) recognizing the challenges, (iv) promoting public dialogue on policies and actions to be taken and the roles of different stakeholders in achieving the MDG targets, (v) promoting both domestic and international partnerships, and (vi) mobilizing people and resources to implement the required policies and programmes.

The MDGs represent a consensus among nations on a core agenda for development. They are a major subset of the national development goals of Eritrea. Most African nations, including Eritrea, find the MDGs ambitious because of the numerous development challenges they face. A young nation like Eritrea faces even more challenges in mobilizing sufficient human and financial resources to implement policies and programmes to achieve the MDG targets.

This is the first Millennium Development Goals Report (MDGR) of Eritrea. Chapter 2 provides the development context in which the Government and people of Eritrea, with the support of the international community, are striving to achieve the MDGs. Chapter 3 assesses progress made so far towards achieving the MDGs and the prospects for the future. A preliminary assessment of the resources needed to achieve the various goals is presented in Chapter 4. Chapter 5 discusses the pivotal role of economic growth in poverty reduction. Chapter 6 discusses selected issues relating to the achievement of the MDG targets. Chapter 7 provides an assessment of the prospects of mobilizing the required resources. The report concludes with a chapter on next steps.

CHAPTER 2. DEVELOPMENT CONTEXT

INDEPENDENCE, WAR AND DROUGHT

Eritrea was fully liberated from Ethiopian rule in May 1991. After a United Nations-supervised referendum, it gained independence in May 1993. The Government immediately embarked upon an ambitious development programme focusing on:

- rehabilitation and construction of infrastructure;
- raising agricultural productivity;
- promotion of private investment;
- investment in education, health and nutrition;
- promotion of exports;
- protection of the environment, and
- mobilization of communities for development.

Appropriate macroeconomic policies were put in place, resulting in: the reduction of the Government budget deficit to 6 percent of GDP in 1997; the lowering of inflation to 5 percent in 1997; the build-up of foreign exchange reserves to seven months of import cover; and the maintenance of a stable exchange rate. The economy rebounded quickly from the depressed levels of the liberation war years. GDP growth averaged 7.4 percent a year during 1993-97.

Eritrea's promising start on the road to economic and social development suffered a severe setback when a border war with Ethiopia broke out in May 1998. The war ended in June 2000 but its adverse consequences are being prolonged by Ethiopia's refusal to abide by the decision of the Boundary Commission regarding the demarcation of the border. The state of no-peace no-war and the consequent high level of resources (manpower and finance) tied up in defence, in particular, have reduced considerably the scope for economic growth.

In addition to the border war and its consequences, Eritrea has had to cope with severe droughts in recent years. The worst drought in recent memory occurred in 2002. Crop production that year amounted to 61,591 metric tons, equivalent to only about 10 percent of annual national consumption requirements. In any case, because of its arid climate, Eritrea suffers from chronic food deficits. Even in years of good rainfall, it has normally not been able to produce more than 60-70 percent of domestic consumption requirements.

THE CURRENT SOCIO-ECONOMIC CONTEXT

The single most important factor affecting the current socio-economic situation in Eritrea is the state of no-peace no-war with Ethiopia. This state of affairs is having a negative impact on the economy in diverse ways. First, the Government has had to tie up resources in defence that would have gone to develop the economy. However, through the Warsai Yikaalo development campaign, a large segment of the defence force is being deployed on development projects, such as infrastructure construction or rehabilitation, crop production and fishing. Second, Government has not been able to reduce defence expenditure as fast as it would have liked, thus delaying adjustment to the macroeconomic imbalances brought

about by the war. Third, the uncertainties surrounding relations with Ethiopia and the Sudan have deterred private investment. Fourth, production of goods and services for export has significantly dropped in the aftermath of the war, resulting in a severe shortage of foreign currency. The net result of all these unfavourable developments is that, Eritrea, already one of the poorest countries in the world, has not made significant socio-economic progress during the border conflict years. In that period, GDP per capita is estimated to have declined from \$200 in 1998 to \$180 in 2002.

Eritrea's economic growth prospects in the short to medium term would depend a great deal on the outcome of the border dispute with Ethiopia. The growth prospects in this document are based on the growth assumptions contained in the IPRSP, and underpin the attainment of the MDG targets on the implementation of the policies and strategies laid out in that and other related documents.

CHAPTER 3. PROGRESS TO DATE AND PROSPECTS OF ACHIEVING THE MDG TARGETS

In order to ascertain the progress that Eritrea has made with respect to the MDG targets, it is necessary to first establish a base year and benchmarks for the indicators. Based on a review of the available data, 1993-95 was chosen as the base period. This is the first period for which reasonably reliable data on most of the indicators are available.¹ Moreover, it coincides with the initial reconstruction and recovery efforts launched by the Government soon after *de jure* independence in 1993.

Progress towards achieving the MDG targets is assessed by comparing the status of various indicators during the period 2001-03 with that of 1993-95, drawing on a number of surveys² and other sources. The choice of a three-year period is dictated by the fact that not all data on major indicators are available for any single year. In some cases data are not available for the base period but, on the whole, the data presented in the tables below are adequate to assess, with appropriate qualifications, Eritrea's progress towards the achievement of the MDGs (see Table 3.11 at the end of this chapter for the full list of data sources and an assessment of data quality).

The next step is to adapt the global MDG targets to the Eritrean situation. In the tables and charts below, national targets for 2010 and 2015 have been derived from the global targets, taking into account how much ground Eritrea still has to cover in order to meet the global targets.³ The national targets will be reviewed and adjusted periodically to reflect the actual pace of progress towards the global targets. The rest of this chapter presents a goal-by-goal discussion of progress and prospects.

¹ Such as from the Eritrea Poverty Assessment prepared by the World Bank in June 1996 and the 1995 DHS.

² They include the 2002 DHS, the 2003 Poverty Assessment comprising the LSMS and the PPA, the 2003 Rural Livelihood Security Assessment, and the 2003 FSS.

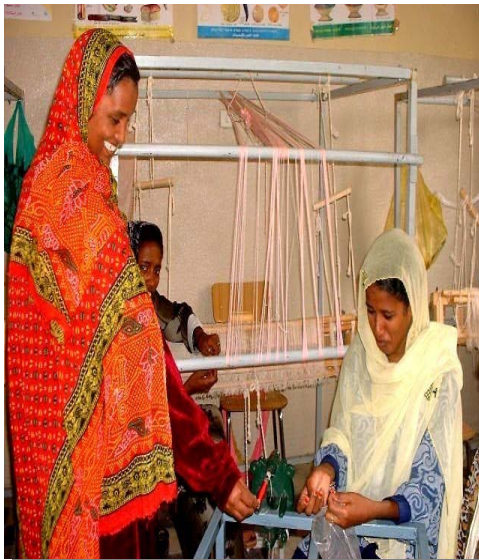
³ Most of the global MDG targets are to be achieved over a time span of 25 years, with 1990 as the base year and 2015 as the target year. Starting, effectively, in 1994 (the mid-point of the base period) Eritrea has 21 not 25, years in which to achieve the global targets by the global target date of 2015.

Goal One

Eradicate Extreme Poverty and Hunger



Halve the proportion of people living on less than a dollar a day and those who suffer from hunger through rapid and sustained economic growth and development.



Income-generating activities towards eradicating extreme poverty and hunger

GOAL 1. ERADICATE EXTREME POVERTY AND HUNGER

Progress to date

Target 1: Halve, between 1990 and 2015, the proportion of people living below the national poverty line⁴

The proportion of the population living below the national poverty line was 53 percent during 1993-95. The comparable figure for 2001-03 was 66 percent (see Table 3.1).⁵ These figures take into account food and non-food aid. On the face of it, the incidence of poverty has increased. But this increase has to be seen in context; that is, in light of the adverse consequences of the border war and the severe drought that hit Eritrea during 2002. Poverty is most widespread in urban areas other than Asmara, the capital. In those areas, the proportion of the population below the national poverty line in 2001-03 was 83 percent, compared to 70 percent in the rural areas. Asmara had the lowest poverty rate of 58 percent. In 2001-03, female-headed households accounted for 28 percent of all households. In Asmara and other urban areas, the proportion of female-headed households was 43 and 37 percent, respectively. Nationally, 7.5 percent account for extreme poor and 8.3 percent poor, thereby bringing 16 percent of the female-headed households under poor category.

Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger

The indicator of hunger is the proportion of children who are underweight in terms of weight for age. During 2001-03, the proportion of children below five years of age who were underweight was 44 percent, compared to 40 percent during 1993-95 (see Table 3.2). These figures suggest that hunger among children is as prevalent as it was a decade ago. In view of the adverse effects of the recent war and drought, the situation could have been worse, if it had not been for the efforts of the Government and the international community to meet the emergency humanitarian needs of the people.

Prospects for achieving the 2015 targets

The global target of reducing the proportion of the population living below the national poverty line from 66 percent in 2001-03 to 33 percent by 2015 is not attainable because it would require sustained GDP growth rates in excess of 10 percent a year (see Table 3.1). Assuming that GDP grows at an average of 6 percent a year over the next eleven years, it is projected that the proportion of the population below the poverty line would decline to 48 percent by 2015. This situation would be realized through a widely-shared and sectorally and regionally balanced development strategy. With regard to hunger, it is projected that

⁴ Eritrea follows the practice of most developing countries in using the national poverty line, instead of the \$1 a day measure expressed in purchasing power parity (ppp) terms. This is because of the difficulties involved in adjusting for international price differences in order to arrive at ppp rates.

⁵ The LSMS national poverty line (in 2003 prices) is Nakfa 238 per capita or Nakfa 1221 per family based on an average family size of 5.13 persons.

the global target of halving the proportion of under-five children who are underweight from 40 percent to 24 percent by 2015 would be achieved, based on the aforementioned GDP growth scenario, increased investment in the social sectors and continued humanitarian assistance in times of emergencies (see Table 3.2).

Constraints and opportunities

The main constraints on poverty reduction in general and on eradication of extreme poverty and hunger are:

- *Adverse impact of the border war.* The border war and the delay in demarcating the border because of Ethiopia's refusal to abide by the decision of the Boundary Commission have resulted in tying up resources for defence that would otherwise be used for development, i.e. for investment in the productive sectors and more effective delivery of social services and budgetary problems. This has constrained the capacity of the economy to grow.
- *Recurring droughts.* Eritrea is prone to drought, which has adverse effects on food production and water supplies. It has yet to recover from the devastating drought of 2002. In 2003 rainfall was just a little higher than in 2002, but not high enough for a good agricultural harvest.
- *Low agricultural productivity.* Low agricultural productivity keeps the 60-70 percent of the population that lives in rural areas poor.
- *Weak private sector.* Although the private sector is expected to be the engine of growth, its contribution to growth and development of the country has been constrained by the prevailing uncertainties in the country, which resulted in hampering its development and the realization of its full potential.
- *Declining assistance from development partners.* There has been a decline in the trend of assistance from Eritrea's development partners for development purposes, following the border war and disagreements with Government over issues of human rights and governance. However, humanitarian assistance, mostly food aid, has continued to flow to those affected by the border war and drought.
- *Poor infrastructure.* Much has been accomplished in building roads, educational and health facilities, water dams, power plants, etc.; but more needs to be done, especially in water, energy and telecommunications.

Notwithstanding the above constraints, there are a number of opportunities that the Government would exploit, namely:

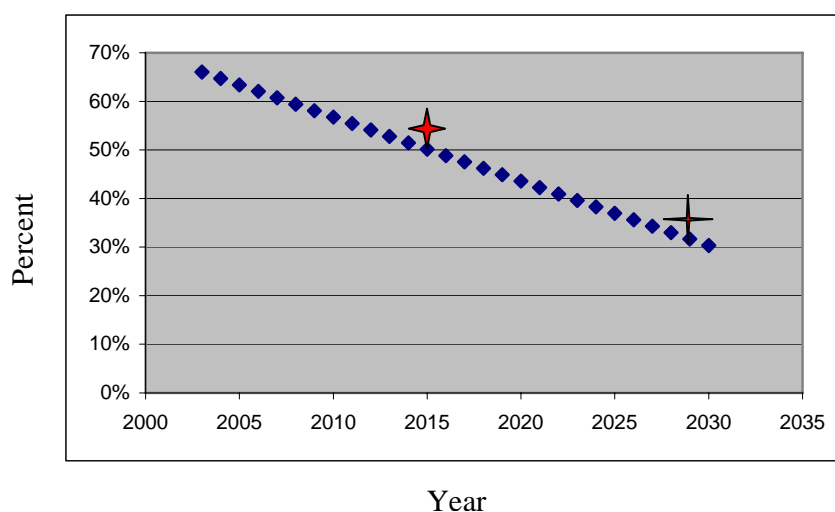
- *The private sector.* The bulk of jobs and incomes will have to come from the private sector necessitating the need for a stronger partnership between the Government and the private sector in addressing the constraints to private sector development. In this regard, the Government would facilitate private investment in sectors with good potential for growth such as fisheries and construction.
- *The Diaspora.* This is a ready source of skills, capital, technology and access to markets. With the right policies, the overseas Eritreans could meet a significant portion of the country's investment needs.
- *Irrigation.* There is scope for raising agricultural productivity through increased reliance on irrigation.

- *Export markets.* Given their proximity, the Middle East and Europe are important potential markets for Eritrean goods and services. Advantage will also be taken of preferential market access arrangements.
- *Public sector probity.* The Government has established a reputation for ensuring that public resources are used for the intended purposes. This sets Eritrea apart from many corruption-ridden countries, making it a potentially attractive place to invest.
- *Industrial culture.* Traces of the industrial culture developed during the Italian colonial period remain. Efforts must be made to revive, build and expand on this culture.

Table 3.1: Target 1 - Halve the proportion of people living below the national poverty line (percentage)

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	2015
Proportion of population below the national poverty line (with food and non-food aid)	53	66	55.0	47.8	33

Chart 3.1 Poverty Incidence with Food and Non-food aid



The chart is based on projections to 2015 from a 2003 base of 66%, i.e. poverty incidence with food and non-food aid. The target of 33.1% would be reached in 2028 assuming an annual GDP growth rate of 6%.

Table 3.2: Target 2 - Halve the proportion who suffer from hunger (percentage)

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	2015
Prevalence of underweight children under-five years of age	43.7	39.6	29.4	24.4	24.4

Chart 3.2 . Eritrea: Underweight Children

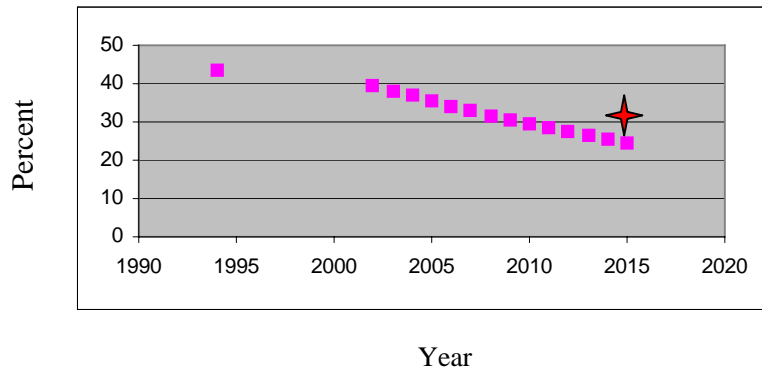


Chart is based on projections to 2015 from 2001-03 status to reach the global target. The annual reduction rate is 3.66%.

GOAL 2: ACHIEVE UNIVERSAL PRIMARY EDUCATION

Progress to date

Target 3: Ensure that, by 2015, boys and girls alike will be able to complete a full course of primary schooling

In this report primary school is equated with elementary school (grades 1-5). The net primary school enrollment ratio rose from 30 percent in 1993-95 to 44 percent in 2001-03, an increase of 47 percent (see Table 3.3). These figures show that progress has been made in increasing primary school enrollments but they also show that a lot remains to be done. There are big differences among regions and between rural and urban areas. For example, during 2001-03 the net primary school enrollment ratio in the Southern Region was 67 percent compared to 27 percent in the Southern Red Sea Region, where the people are mostly nomads or semi-nomads.

Prospects for achieving the 2015 target

Given the fact that the net primary school enrollment rate was still less than 50 percent in 2001-03, achievement of universal primary education by the global target date of 2015 would be extremely difficult. Even if the financial resources were readily available, it would be physically almost impossible to provide the necessary infrastructure and associated inputs (teachers, administrators, etc.) during the next eleven years to cater for all children of primary school age. Thus, supply constraints are likely to delay achievement of universal primary education beyond the global target date, despite the Government's best efforts towards this end. In view of this, it is projected that the net primary school enrollment rate would reach 82 percent by 2015 and that universal primary education would be achieved by 2019 (see Table 3.3).

Constraints and opportunities

The main constraints to primary school enrollment include:

- *Shortage of classrooms.* In urban areas schools run double shifts, often in overcrowded classrooms. Conversely, in rural areas schools run single shifts and classrooms are sometimes underutilized.
- *Shortage of textbooks.* Availability of textbooks has improved a lot. In a few subjects, however, two students still share one textbook.
- *Shortage of trained teachers.* In 2001-03, about 30 percent of primary school teachers were unqualified. Until recently, the country relied solely on the Asmara Teacher Training Institute for trained teachers. Now there is the Faculty of Education at Asmara University and also the recently established Eritrea Institute of Technology. Other teacher training institutions are under construction or at the planning stage.
- *Low pay for teachers.* During 1998 and 2004, most teachers and administrative staff in the education sector belonged to the National Service and thus received only a stipend that is much lower than regular pay. This adversely affected morale, leading to absenteeism and attrition. As more teachers convert to regular pay, the morale would continue to improve.

Goal Two

Achieve Universal Primary Education



Ensure that all boys and girls complete primary school



- *Internal inefficiencies.* High repetition and dropout (about 15 percent in each case) reflect the internal inefficiencies of the education system. This is due partly to factors under the control of the education authorities such as school administration and teaching and partly to factors beyond their control such as war, drought and early marriage of girls.

Among the opportunities for increasing primary school enrollment are:

- *Education sector development programme.* This programme focuses on school construction, curriculum development, textbook production, teacher training and capacity building. Adequate allocation of resources for the programme and its effective implementation would be key to increasing enrollment.
- *Free primary education.* Primary education is free. Out-of-pocket expenses are being kept to the minimum, or preferably eliminated.
- *Private schools.* While accepting that provision of primary education is a public sector responsibility, the Government policy of encouraging the establishment of private schools will continue.

Table 3.3: Target 3 - Ensure that, by 2015, boys and girls alike will be able to complete a full course of primary schooling (percentage)

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	
Net enrolment ratio in elementary school	30	44	64	82	100
Net enrolment ratio in middle school	6	12			
Net enrolment ratio in secondary education	10	14			
Proportion of pupils starting grade 1 who reach grade 5	70	80.2 (est.)	91.9	100	100

Chart 3.3 Eritrea Primary Net Enrolment

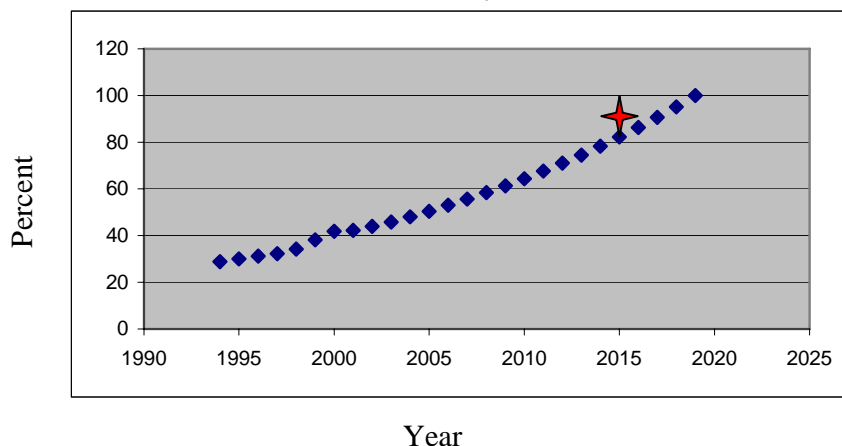


Chart is based on projections to 2015 from 1993-95 base-year to reach the global target by 2019. The annual growth rate is 4%.

Chart 3.4 Eritrea Primary Cohort Progression

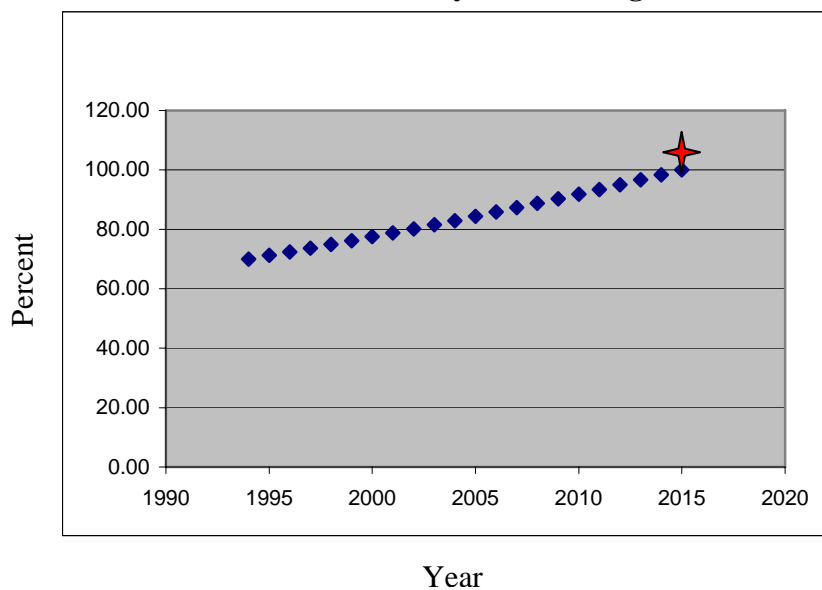


Chart refers to proportion of pupils starting Grade 1 who reach Grade 5. The projections to 2015 are based on the 1993-95 base-year level of 70% to reach the global target of 100%. The annual growth rate is 1.71%.

GOAL 3: PROMOTE GENDER EQUALITY AND EMPOWER WOMEN

Progress to date

Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education by 2015

During the 1993-95 period, the ratios of girls to boys at the primary, middle and secondary school levels were quite high: 80, 84 and 65 percent, respectively. Data for the 2001-03 period show that the gender ratios have stagnated or deteriorated (see Table 3.4). In particular, the ratio of girls to boys in secondary school dropped from 65 percent in the earlier period to 57 percent in 2001-03. The lack of progress in gender equality in education is difficult to explain but could be partly due to the unsettling situation created by the border war and its consequences.

Women's representation in the national assembly of 150 members increased from 15 to 22 over the past decade. Beyond that, the National Union of Eritrean Women (NUEW) has been working hard to ensure that women enjoy a greater measure of empowerment. Women make up 16.7 percent of the Cabinet of Ministers.

Prospects for achieving the 2005 and 2015 targets

A young nation like Eritrea will miss the early global target of eliminating gender disparity at the primary, middle and secondary school levels by 2005. On current trends, however, it is projected that Eritrea is on track to achieve gender equality at the primary and middle school levels by 2015 (see Table 3.4). At the secondary school level the Government will do everything possible to reverse the recent deterioration in the ratio of girls to boys. Even then, it is projected that gender disparity at the secondary school level would not be eliminated until about 2020.

Constraints and opportunities

The main constraints to achieving gender equality at the pre-tertiary levels are:

- *Poverty.* In poor families girls' traditional role of fetching water, collecting firewood, preparing meals and performing other household tasks contribute to their not enrolling in school or to their dropping out.
- *Long distances to school.* Distance to school increases with the level of education, as there are fewer middle and secondary schools. Some parents are reluctant to allow their daughters to walk long distances to and from school.
- *Early marriage.* Early marriage in accordance with culture or religion, or for economic reasons, adversely affects girls' enrollment.
- *Out-of-pocket expenses.* Even small out-of-pocket expenses can discourage poor families from sending children, especially girls, to school.

Opportunities for promoting gender equality include:

Goal Three

Promote Gender Equality and Empowerment of Women through Education and Participation



Ensure that all boys and girls complete full course of primary schooling



Ensure greater empowerment for women

- *More schools.* In general, more schools result in shorter distances between home and school. In special cases feeder schools are needed.
- *School feeding programmes.* Free school meals serve as a supplement to family income and thus help to keep children, especially girls, in school.
- *Non-food incentives.* Incentives in the form of scholarships for girls who excel in school and for girls from poor families help to increase girls' enrollment.
- *Special facilities.* In certain areas, boarding schools and hostels are being provided for girls. This will continue.

Table 3.4: Target 4 - Eliminate gender disparity in education and empower women (percentage)

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	
Ratio of girls to boys in primary, middle, secondary and tertiary education					
Primary	80.2	80.5	92	100	100
Middle	83.6	79.8	91.7	100	100
Secondary	65.4	57.0	73	86	100
Tertiary	17	15	28.1	34	
Ratio of literate females to males 15-24 year olds		76			
Proportion of seats held by women in national parliament	15	22			
Proportion of women holding ministerial position		16.7			

Chart 3.5 Eritrea Gender Parity: Primary School

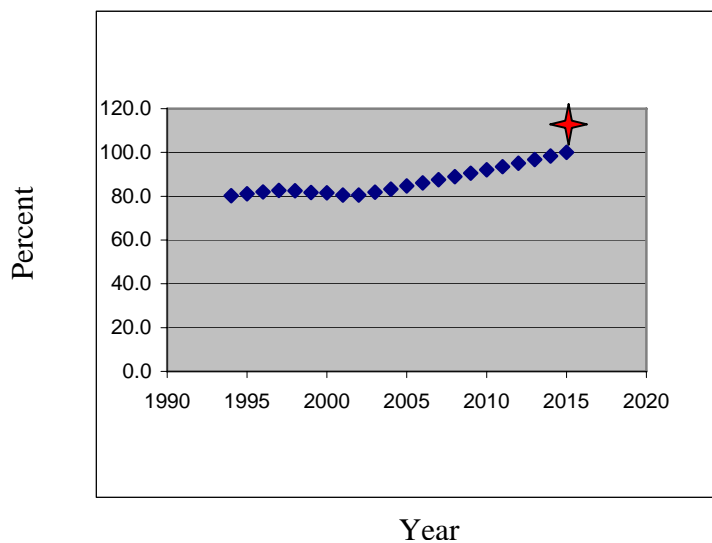


Chart is based on projections from 1993-95 base-year to reach the global target 2015. The annual growth rate is 1.02%

Chart 3.6 Eritrea Gender Parity: Middle School

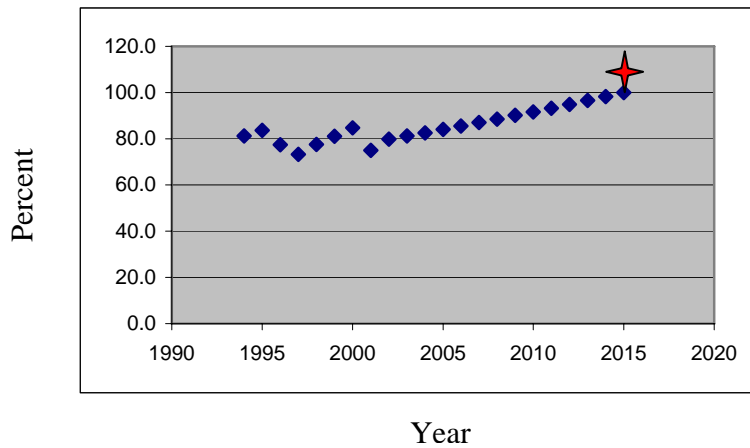


Chart is based on projections from 1993-95 base-year to reach the global target by 2019. The annual growth rate is 3.18%.

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Chart 3.7 Eritrea Gender Parity: Secondary School

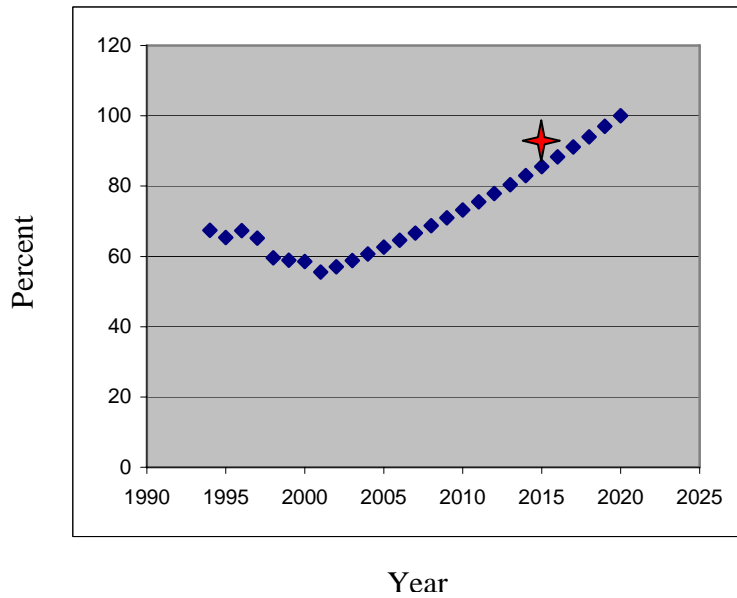


Chart is based on projections from 1993-95 to reach the global target in 2015. The annual growth rate is 1.68%.

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GOAL 4: REDUCE CHILD MORTALITY

Progress to date

Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

The under-five mortality rate fell from 136 deaths per 1,000 live births in 1993-95 to 93 in 2001-03, a decline of 46 percent (see Table 3.5). The infant mortality rate declined from 72 deaths per 1,000 live births to 48 over the same period. These figures show that progress has been made in reducing child mortality.

Prospects for achieving the 2015 target

The 2015 global targets for the under-five mortality rate and the infant mortality rate are projected at 45 and 24 deaths per 1,000 live births, respectively (see Table 3.5). Given the Government's continued emphasis on child health, it is projected that the global targets would be achieved. Actually, the Government's aim is to do better; that is, to reduce the under-five mortality and infant mortality rates to 30 and 20, respectively, by 2015.

Constraints and opportunities

The main constraints to improving child health include:

- *Prevalence of malnutrition.* This makes children more susceptible to infection.
- *Shortage of trained health personnel.* All categories of health personnel are in short supply - doctors, nurses, laboratory technicians, etc.

In spite of the constraints, there are opportunities for reducing child mortality further. These include:

- *Immunizations.* The results of the 2002 DHS show that 76 percent of children 12-23 months old had received BCG, DPT, polio and measles vaccinations. The goal is to immunize every child against the common vaccine-preventable diseases.
- *Integrated Management of Childhood Illnesses (IMCI).* This focuses on treating children with diarrhea, dehydration and acute respiratory infections, which are leading causes of child mortality.
- *Malaria control.* Continuation of the comprehensive malaria control programme launched by the Government in 1999 is an important instrument for reducing child mortality.
- *Nutrition:* Periodic monitoring of the nutritional status of children and provision of supplementary feeding contribute to better child health.

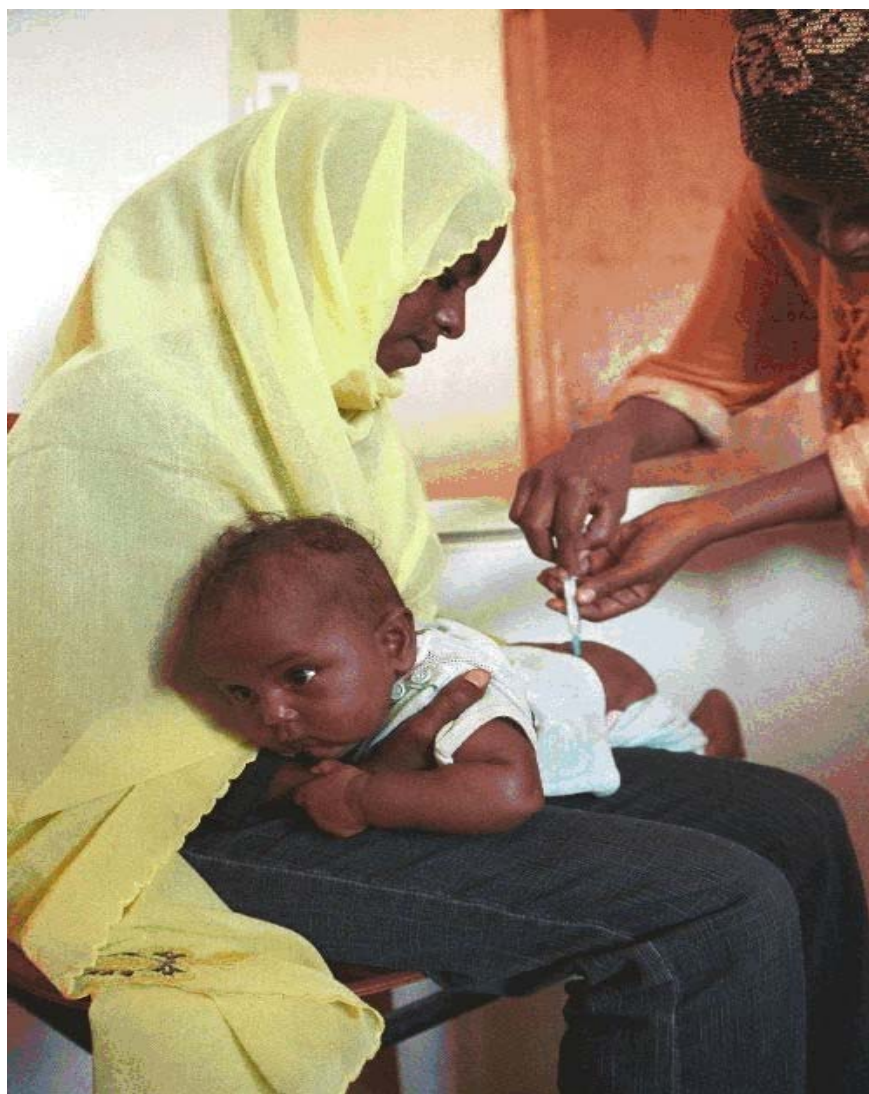
Table 3.5: Target 5 - Reduce by two-thirds the under-five mortality rate (percentage)

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	
Under-five mortality rate	136	93	40*	30*	45.3
Infant mortality rate	72	48	30*	20*	24
Proportion of children 12-23 months with measles vaccination	51	84.2	95*	98*	80

* Data provided by MOH.

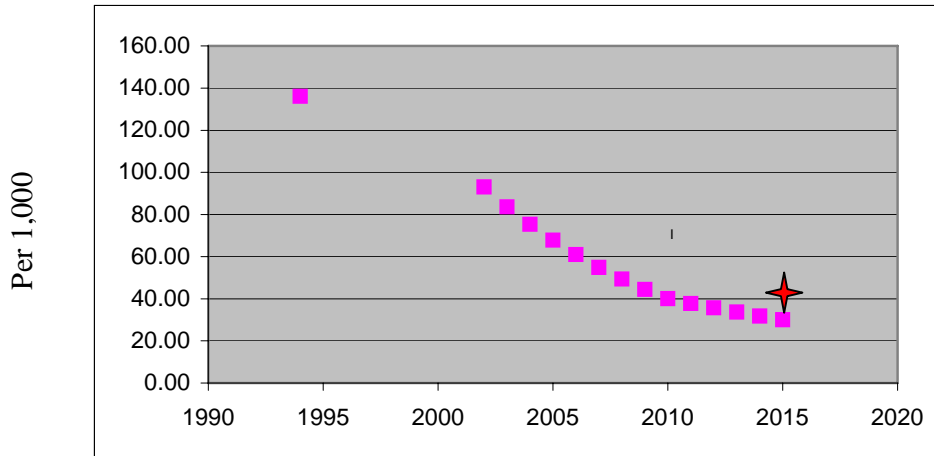
Goal Four

Reduce Child Mortality



Reduce the mortality rate among children under five years of age through, among other things, national access to immunization

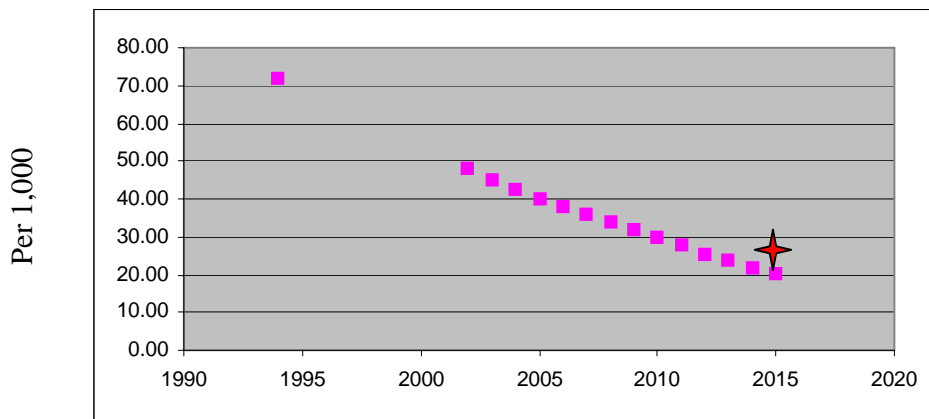
Chart 3.8 Under 5 Mortality Rate



Year

Chart is based on projections to 2010 and 2015 from 2001-03 status to reach the national targets, which are below the global target. The annual growth rate is 10.01% from 2002 to 2010 and 5.59% thereafter.

Chart 3.9 Infant Mortality Rate



Year

Chart is based on projections to 2010 and 2015 from 2001-03 status to reach the national targets, which are below the global target. The annual growth rate is 5.80% from 2002 to 2010 and 7.74% thereafter.

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GOAL 5: IMPROVE MATERNAL HEALTH

Progress to date

Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

Based on the 1995 DHS, maternal deaths per 100,000 live births were estimated at 985 during 1993-95 (see Table 3.6). The 2002 DHS did not collect data on maternal mortality. Projecting the 1993-95 figure so as to achieve the 2015 global target yields a rough maternal mortality ratio of 581 during 2001-03. But health facility data for the period 2001-03 give a maternal mortality ratio of 230. This is certainly an underestimate, since most births occur at home, where the risks to the health of the mother and child are greater. This point is reinforced by DHS data showing that the proportion of births attended by skilled health personnel is still very low; the proportion increased from 21 percent in 1993-95 to only 28 percent in 2001-03.

Prospects for achieving the 2015 target

Based on the 1993-95 figure and the estimate for 2001-03, the global target for 2015 is projected at 246 maternal deaths per 100,000 live births (see Table 3.6). The prospects of achieving this target are somewhat doubtful, as it would mean a dramatic reduction from the level of 1993-95. Recognizing this, the Government is making efforts to train large numbers of skilled birth attendants and make good use of the skills of traditional birth attendants.

Constraints and opportunities

The constraints to improving maternal health include:

- malnutrition;
- adult female illiteracy;
- shortage of trained birth attendants;
- low contraceptive prevalence rate;
- preference for home delivery for cultural and religious reasons, and
- long distances to health facilities in under-served areas.

Opportunities for improving maternal health further include:

- expanding the programme for training birth attendants;
- providing training to traditional birth attendants, and
- using adult literacy programmes to educate women on health issues such as child spacing, contraception, nutrition and hygiene.

Goal Five

Improve Maternal Health



Reduce the ratio of women dying in childbirth through skilled care for every pregnancy and childbirth

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	
Maternal mortality ratio	985	581*	342	246	246
Proportion of births attended by skilled health personnel	20.6	28.3	49.2	69.6	69.6

*More recent study indicates that the maternal mortality rate estimates as 752 per 100,000.

Data for 2001-03 is based on deliveries at health facilities and not comparable with the data for 1993-95. The targets for 2010 and 2015 are for deliveries at health facilities provided by the MOH.

Chart 3.10 Eritrea Maternal Mortality

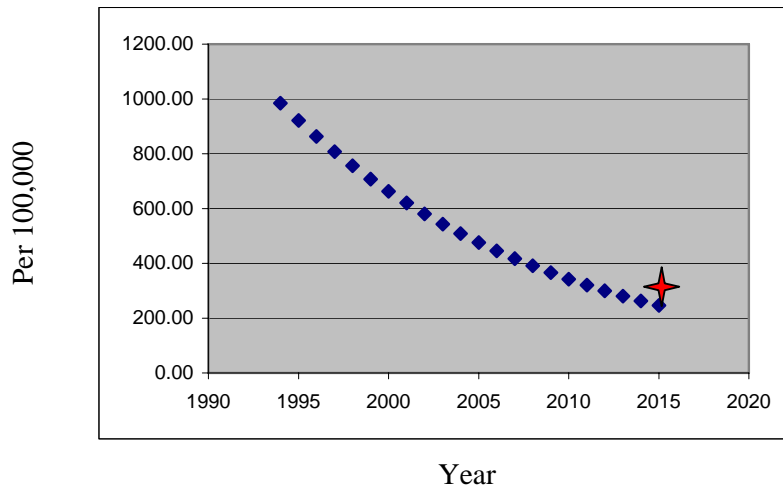


Chart is based on projections to 2010 and 2015 from 2001-03 status on maternal mortality (at facilities only) to reach the national targets, which are below the global target. The annual rate of decline is 5.28% from 2002 to 2010 and 7.79% thereafter.

GOAL 6: COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES

Progress to date

Target 7: Have halted by 2015 and begin to reverse the spread of HIV/AIDS

Reliable data on HIV prevalence are not available for 1993-95. For the 2001-03 period the adult prevalence rate, based on an expanded ante-natal clinic sentinel surveillance program, is estimated at 2.4 percent (see Table 3.7). This is low when compared to the prevalence rates in some of the worst-affected countries in Africa but there is no room for complacency. For, the recent data show that prevalence rates are much higher among certain occupational categories, namely: bar, hotel and teashop workers (11.9 percent); housemaids (9.5 percent) and military and National Service personnel (6 percent).

Target 8: Have halted by 2015 and begin to reverse the incidence of malaria and other major diseases

Reliable data on the incidence of malaria, sexually transmitted diseases and tuberculosis are not available for the period 1993-95. Reliable data are available only from 1998. These data show that morbidity and mortality due to malaria have been on the decline. The data show that during 2001-03 there were 22 outpatient and inpatient malaria cases per 1,000. At the same time malaria deaths in health facilities declined from a little over 400 in 1998 to 59 in 2003 (see Table 3.8).

With regard to tuberculosis, health facility-based data show that in 2003 the smear positive detection rate was 70 percent while the cure rate was 85 percent.

Prospects for achieving the 2015 targets

Eritrea is on course to achieve the 2015 target of halting and reversing the spread of HIV/AIDS and reducing the incidence of malaria, STD and TB. There are vertical programs in place to tackle all these diseases.

Constraints and opportunities

With regard to HIV/AIDS, the main constraints to further progress are:

- *Slow behaviour change.* According to the 2002 DHS, virtually all women interviewed had heard about HIV/AIDS and, without prompting, 54 percent stated that HIV/AIDS could be avoided by using condoms. Yet condom use remains very low: less than one percent among currently married women, according to the 2002 DHS.
- *Widespread stigma.* There is still widespread stigma associated with the disease, discouraging people from undergoing testing.
- *Limited scope for care and treatment.* Lack of opportunities for treatment discourages people from wanting to know their HIV status.

Opportunities for making further progress on HIV/AIDS control include:

- *Availability of resources for treatment.* Provision of resources for care and treatment, in addition to the resources being made available for prevention, would aid the fight against

the disease.

Goal Six

Combat HIV/AIDS, Malaria and other Diseases



Halt and reverse the spread of HIV/AIDS and the incidence of other major diseases through advocacy for safe sex practices, seminars and distribution of training and support materials

- *Political leadership.* National high-level leadership with respect to the fight against the stigma attached to the disease and the push for behaviour change would contribute greatly to controlling the spread of the disease.

In the case of malaria, sexually transmitted diseases and tuberculosis, the constraints are:

- *Inadequate access to mosquito nets.* According to MOH, there are about 530,000 mosquito nets in use. The 2002 DHS showed that the proportion of households with at least one mosquito net was 34 percent. It also revealed that only 12 percent of children slept under a mosquito net the night before the survey.
- *Weak institutional capacity.* Institutional capacity is being built but more remains to be done, especially with respect to STD and TB control.

Opportunities, however, exist to tackle malaria, STD and TB more effectively, through:

- *Continued Government focus on communicable and preventable diseases.* Child and maternal health, diarrhea, acute respiratory infections, malaria, HIV/AIDS and tuberculosis have been given priority in the allocation of public resources.
- *Expansion of the physical infrastructure.* The extensive physical infrastructure that has been put in place has facilitated not only diagnosis and treatment but also prevention.
- *Supply of mosquito nets.* Provision of more mosquito nets will lead to further reduction of the incidence of malaria.

Table 3.7: Target 7 - Have halted and begun to reverse the spread of HIV/AIDS (percentage)

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	
HIV/AIDS prevalence rate		2.4		Less than 2.4	Less than 2.4

Table 3.8: Target 8 - Have halted and begun to reverse the incidence of malaria and other major diseases (percentage)

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	
Malaria cases per 1,000		22	Less than 20	Less than 20	Less than 20
Health facility malaria deaths	409 (1998)	59			
Proportion of TB cases detected and cured under DOTS					
Detected		70			
Cured		85			

Data for 1998 and 2001-03 provided by MOH.

GOAL 7: ENSURE ENVIRONMENTAL SUSTAINABILITY

Progress to date

Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources

In recognition of the importance of environmental sustainability, the Government established the Ministry of Land, Water and Environment (MLWE) in 1997. The MLWE is being strengthened so that it can play the lead role in integrating the principles of sustainable development into country policies and programs.

Since independence, efforts have been underway to halt and begin to reverse environmental degradation through afforestation programs, soil and water conservation and management programs, protected area programs, etc. According to the 2003 Human Development Report, land area covered by forest was 13.9 percent in 1990. Data provided by the Ministry of Agriculture (MOA), based on recent GIS mapping, show that land area covered by trees is about 2 percent while the area covered by shrubs is 30 percent. If trees and shrubs are taken to represent forest cover then the loss of environmental resources is being reversed. But this conclusion should be treated with caution because the data for 1993-95 and 2001-2003 are not directly comparable.

Target 10: Halve by 2015 the proportion of people without sustainable access to safe drinking water

Based on DHS data, the proportion of households without access to safe drinking water declined from 83.6 percent in 1993-1995 to 32.5 percent in 2001-03 (see Table 3.9). In the urban areas, apparently only 3 percent of households were without clean water in 2001-03 while 51.7 percent of rural households were without clean water. Clean water is defined as water piped into homes, water from public taps, water from private or public protected wells and water delivered by tanker trucks. The figures for 2001-03 need to be treated with caution because they appear to overstate the actual situation, especially in urban areas. There could be problems with survey respondents' definition of safe drinking water. Furthermore, in some areas, although water supply facilities exist, they are often not in operation.

Target 11: Have achieved by 2020 a significant improvement in the lives of slum dwellers

DHS data show that the proportion of households without flush toilets or ventilated improved pit (VIP) latrines declined from 87.2 percent in 1993-95 to 74.4 percent in 2001-03 (see Table 3.10). Another indicator of slum conditions is overcrowding. According to the 2002 DHS, overcrowding is a serious problem: in 40 percent of households there were 5, 6, 7 or more persons per sleeping room.

Goal Seven

Ensure Environmental Sustainability through integrating the principles of sustainable development into country policies and programmes



Reversing the degradation of environmental resources



Reducing by half the proportion of people without sustainable access to safe drinking water

Prospects for achieving the MDG targets

Eritrea is working towards the integration of the principles of sustainable development into country policies and programmes and reversing the loss of environmental resources. Given the fragility of the environment and the extent of degradation through neglect and unwise use of resources during the various colonial periods and the recent border war, no quick results can be expected.

Based on the latest DHS data, the global target of halving the proportion of people without sustainable access to safe drinking water by 2015 is attainable (see Table 3.9). This conclusion needs to be treated with caution in view of the likelihood that the DHS data overstate the actual situation with regard to access to safe drinking water. For lack of information, no projection can be made concerning improvements in the lives of slum dwellers.

Constraints and opportunities

The constraints to integrating the principles of sustainable development into country policies and programs are:

- *Weak enforcement.* The MLWE is ill-equipped to enforce the rules.
- *Lack of appropriate technologies, building materials and sustainable maintenance systems.* These factors have hampered provision of safe drinking water and shelter.
- *Land access issue.* All land in Eritrea is vested in the Government. Allocation procedures have not been fully worked out. This hampers access to land for housing, especially low-income housing, in urban areas, which contributes to overcrowding in homes.
- *Scarcity of alternative energy sources.* For lack of alternatives, firewood remains the predominant form of energy, resulting in intense pressure on an already fragile environment.

Opportunities for reversing the loss of environmental resources and improving the lives of slum dwellers include:

- *Alternative energy sources.* Ways have to be found to replace firewood with alternative sources of energy, including electricity, gas, wind and solar energy.
- *Affordable housing:* Increasing access to affordable housing with water and sanitation for the poor would relieve slum conditions in urban areas and reduce poverty.

Table 3.9: Target 10 - Halve the proportion of people without access to safe water (percentage)

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	
Proportion of people without access to clean water					
Urban		3			
Rural		51.7			
Total	83.6	32.5	25.5	20.5	20.5

- Data provided by MOH.

Chart 3.11 Proportion of People without Access to Safe Water

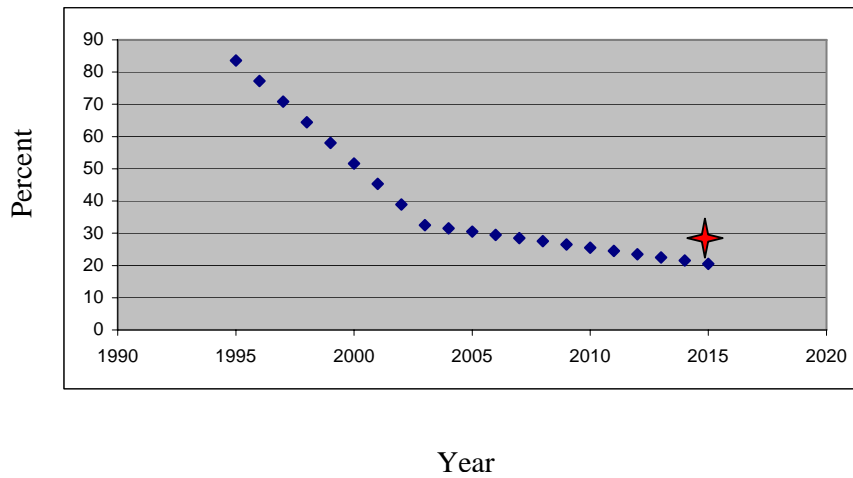


Chart is based on projections to 2015 from a 2001-03 base. The annual growth rate required to reach the global target is 3.13%.

Table 3.10: Target 11 - By 2020, achieve a significant improvement in the lives of at least 100 thousand slum dwellers (percentage)

Indicator	Eritrea Status		Eritrea Targets		Global Target
	1993-95	2001-03	2010	2015	
Proportion of households without flush toilets or VIP latrines	87.2	74.4	54.6	35	35

- Data and targets provided by Ministry of Health.

Chart 3.12 Eritrea Access to Improved Sanitation

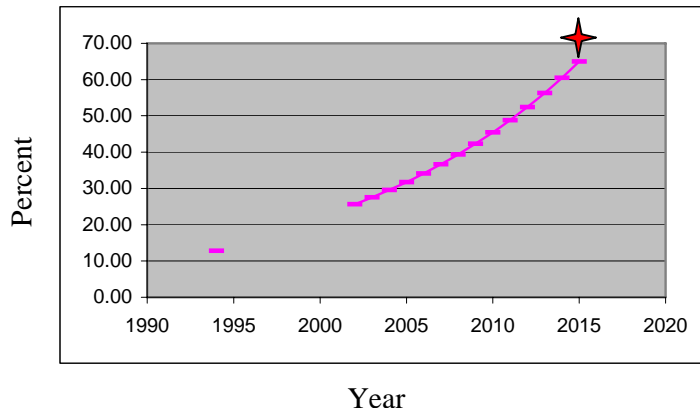


Chart is based on projections to 2015 from a 2001-03 base. The annual growth rate required to reach the global target is 7.43%.

GOAL 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT

The issues around which developed and developing countries are expected to build partnerships are the following:

- *Issue 1:* Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. This includes a commitment to good governance, development and poverty reduction - nationally and internationally-;
- *Issue 2:* Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction;
- *Issue 3:* Address the special needs of landlocked and small island developing states;
- *Issue 4:* Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term;
- *Issue 5:* In cooperation with developing countries, develop decent and productive work for the youth;
- *Issue 6:* In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries;
- *Issue 7:* In cooperation with the private sector, make available the benefits of new technologies – especially information and communications technologies.

No quantitative targets were set in respect of the above-mentioned issues. However, the issues highlight the crucial point that while the responsibility for achieving the MDGs rests with the Government and people of Eritrea, the country cannot go it alone. It needs a significant level of support from its development partners. The costs presented in Chapter 4 give an indication of the resources needed to achieve the MDGs and provide a basis for discussions concerning the required level of MDGs-related support from development partners.

Table 3.11. Data Sources and Quality

Indicators and data sources	Latest year and institutions responsible	Periodicity	Coverage	Data disaggregation	Quality of data
Poverty LSMS and PPA	2002/2003 NSEO	To be determined	Nationally representative	By sex, region, rural/urban	Good
Hunger DHS	2002 NSEO	To be determined	Nationally representative	By sex, region, rural/urban	Good
Education Basic Education Statistics and Essential Education Statistics	2002 Ministry of Education	Every year	Nationally representative	By age, sex, region, ownership	Good
Gender LSMS and DHS	2002 NSEO	To be determined	Nationally representative	By region, rural/urban	Good
Child mortality DHS and unpublished official estimates	2002 NSEO	To be determined	Nationally representative	Not disaggregated	Good
Maternal mortality DHS and unpublished official estimates	1995 (DHS) 2002 (MOH)	To be determined	Health-facility based (MOH)	Not disaggregated	Good but not nationally representative
HIV/AIDS Survey results	2003 MOH	Occasional	Nationally representative	By region, urban/rural	Good
Malaria and TB DHS and unpublished official estimates	2003 MOH	Health facility records	Not nationally representative	Not disaggregated	Fair
Environmental resources GIS mapping	2002 MOA	To be determined	Nationally representative	Disaggregated by region, type of trees	Good
Drinking water and sanitation DHS and unpublished official estimates	2002 NSEO, MLWE, ECDF, Asmara Water Department	To be determined	Nationally representative (DHS)	By region, urban/rural,	Questionable
Slum dwellers None	N/A	N/A	N/A	N/A	N/A

CHAPTER 4. MILLENNIUM DEVELOPMENT GOALS NEEDS ASSESSMENT

This chapter provides a preliminary assessment of the costs of achieving the MDGs. Even with good data, assigning costs to specific interventions in support of each MDG is not an easy task. When data are scarce or poor the task becomes a lot more difficult. The primary source of data for costing the MDGs would be public expenditure data, disaggregated by programmes and sub-programmes. It was not possible to obtain this type of data. The exception is education. In education not only are up-to-date disaggregated public expenditure data available but also detailed projections of material, human and financial resource requirements for the period up to 2015. For all the other sectors, the cost estimates are based on disparate sources of data, including project documents, project implementation reports and sector investment plans. In view of this, the estimates presented below should be treated as very preliminary. Details of the cost estimates are available separately.

OVERALL RESOURCE REQUIREMENTS FOR MDGs

The overall estimated costs of achieving the MDGs are shown in Table 5.1 below, with a breakdown between capital costs and operating costs. This is followed by a presentation and a brief discussion of the estimated costs of achieving each goal. The total costs are estimated at \$1,471 million over the next eleven years or an average of \$134 million a year. Virtually all of these costs would be borne by the public sector. Households and businesses will, no doubt, make contributions towards the achievement of the MDGs. However, for lack of data, no attempt is made to estimate these contributions.

Table 5.1. **Summary of Estimated Costs of Achieving the MDGs, 2005-2015 (in 2004 \$million)**

Goals/year	2005	2010	2015	Total 2005-15	Average 2005-15	% of total
Overall Costs						
Poverty and hunger	21	30	37	323	29	22
Education	29	38	73	494	45	33
Gender equality	2	1	1	15	1	1
Child health	3	4	5	40	4	3
Maternal health	2	2	3	28	3	2
HIV/AIDS, malaria & TB	13	15	18	165	15	11
Safe water & sanitation	12	12	12	133	12	9
Energy	10	13	15	140	13	10
Roads	12	12	12	133	12	9
Total Costs	105	127	177	1471	134	100
Capital Costs						
Poverty and hunger	8	11	16	128	12	9
Education	11	14	37	217	20	15
Gender equality	1	1	1	7	1	1
Child health	0	0	0	5	0	0
Maternal health	0	0	0	5	0	0
HIV/AIDS, malaria & TB	9	9	9	102	9	8
Safe water & sanitation	10	10	10	111	10	7
Energy	8	10	12	107	10	7
Roads	9	9	9	95	9	6
Total Costs	49	53	78	777	71	53
Operating Costs						
Poverty and hunger	12	18	21	195	18	13
Education	18	24	37	277	25	19
Gender equality	1	1	1	8	1	1
Child health	2	3	4	35	3	2
Maternal health	1	2	3	23	2	2
HIV/AIDS, malaria & TB	4	5	9	63	6	4
Safe water & sanitation	2	2	2	22	2	2
Energy	2.6	3.1	3.2	33	3	2
Roads	3.5	3.5	3.5	38	3	3
Total Costs	47	62	84	694	63	48

Figures are rounded off to the nearest unit.

GOAL 1: POVERTY AND HUNGER

The goal is to eradicate extreme poverty and hunger. Table 5.2 shows that the cost of reducing extreme poverty and hunger over the eleven-year period 2005-2015 is \$323 million, or an average of \$29 million a year. The focus is on increasing agricultural productivity, especially among small-scale farmers, increasing artisanal fish production and improving nutrition. The estimate assumes that the MOA continues to provide, and improve upon, its extension services to farmers. Similarly, with fisheries, it is assumed that the private sector will be largely responsible for the expected rapid growth of production. Accordingly, the main functions of the Ministry of Fisheries are regulation and provision of infrastructure. With nutrition, the main cost element is the current school-feeding program. It is assumed that this program would be scaled up to cover a lot more than the current number of about 80,000 primary school children. The school-feeding program has the added advantage of encouraging girls' attendance at school.

Table 5.2. Costs of Key Poverty and Hunger Interventions (in 2004 \$ million)

		2005	2010	2015	Total 2005-15	Ave. 2005-15
Agricultural Production	Capital costs	3.0	4.0	4.0	39.4	3.6
	Operating costs	8.0	9.3	10.1	101.6	9.2
	Total	11.0	13.3	14.1	141.0	12.8
Fish production	Capital costs	5.0	8.0	12.0	88.5	8.0
	Operating costs	0.5	1.2	3.0	16.0	1.5
	Total	5.5	9.2	15.0	104.5	9.5
Nutrition	Capital costs	-	-	-	-	-
	Operating costs	4.0	8.0	8.0	78.0	7.1
	Total	4.0	8.0	8.0	78.0	7.1
	Total	20.5	30.5	37.1	323.5	29.4

GOAL 2: EDUCATION

The goal is to achieve universal primary education. As shown in Table 5.3, the cost of achieving universal elementary or primary education would be \$256 million over 11 years, or an average of about \$23 million a year. To prepare children for the workplace in an era of globalization, education has to go beyond primary school; hence the estimate of the costs of increasing middle and secondary school enrollment ratios significantly over the coming decade. For middle schools, the costs are estimated at \$99 million and for secondary education \$116 million. In all cases, construction of classrooms will account for the bulk of the costs. Additional classrooms are needed not only for catering to fresh enrollments but also to reduce and ultimately eliminate the system of double shift in urban schools. The double shift system adversely affects the quality of education, as it does not allow for sufficient hours of teaching and learning per school day. Next in magnitude are teachers' salaries, including the costs of hiring expatriate teachers and training more Eritrean teachers. More trained teachers are needed to replace untrained teachers and foreign teachers. The shortage of trained teachers is an important factor that negatively affects the quality of education. Table 5.4 shows the projected growth of the number of teachers and classrooms up to 2015. Provision is also made for the continuation of adult literacy programs. This is necessary because adult illiteracy is still high, especially among women.

Table 5.3. Costs of Education Interventions (in 2004 \$ million*)

		2005	2010	2015	Total 2005-15	Average 2005-15
Primary Education	Capital costs	2	5	23	106	10
	Operating costs	9	14	19	150	13
	Subtotal	11	20	43	256	23
	Cost per student (\$)	38	59	77	62	68
Middle Education	Capital costs	6	6	6	49	4
	Operating costs	2	5	9	50	5
	Subtotal	8	11	15	99	9
	Cost per student (\$)	114	73	79	66	64
Secondary Education	Capital costs	3	6	7	62	6
	Operating costs	5	5	7	54	5
	Subtotal	8	11	14	116	11
	Cost per student (\$)	125	79	74	77	79
Adult Literacy	Capital costs					
	Operating costs	2	2	2	22	2
	Subtotal	2	2	2	2	2
Grand Total		29	43	73	494	45

* Figures are rounded off to the nearest unit

Source: MOE

Table 5.4. Education – Human Resources and Infrastructure Needs

Human Resources and Infrastructure Needs		2005	2010	2015	Total 2005-15	Average 2005-15
Number of students	Primary school	294173	337434	560000	4181730	380157
	Middle school	66652	153449	192075	1531911	139265
	Secondary	64662	143268	188250	1512950	137541
	Total	425487	634151	940325	7226591	656963
Number of Teachers	Primary school	7993	10545	17774	126868	11533
	Middle school	2448	4324	5166	46395	4218
	Secondary	1573	3462	5388	38160	3469
	Total	12014	18331	28328	211423	19220
Number of classrooms	Primary School	5452	6950	11472	88413	8038
	Middle School	1464	2513	3097	27141	2467
	Secondary	746	2004	3519	22829	2075
	Total	7662	11467	18088	138383	12580

Source : MOE

GOAL 3: GENDER EQUALITY

The goal here is to eliminate gender inequality in education and empower women. The drive for universal primary and middle school enrolment will in itself contribute towards gender equality. But that would not be enough. Special programs would be needed. School feeding is one such program (covered above under poverty and hunger). The construction of girls' schools would be another way of promoting girls' enrolment. Scholarship programs for girls could also be used to encourage girls' attendance in school. Besides gender equality in school, the broader issue of gender equality needs to be tackled. Here complex social, historical, cultural, religious and ethnic factors are often at work. Empowerment of women through greater representation in political and administrative spheres is one way of tackling the problem. But equally important is economic empowerment of women through promotion of income-generating activities, adult literacy programs and training. Globally, it is now widely accepted that all sectors should mainstream gender in their activities. In practice, this is easier said than done. So in Eritrea, the NUEW plays not only the lead advocacy role on issues of gender equality but also economic empowerment of women. Table 5.5 shows that the cost of supporting, and in some instances scaling up, NUEW's activities would be \$15 million over eleven years, or less than \$2 million a year.

Table 5.5. Costs of Key Gender Interventions (in 2004 \$ million)

	2005	2010	2015	Total 2005-15	Average 2005-15
Capital costs	1.1	0.6	0.6	7	0.64
Operating costs	0.7	0.6	0.7	8	0.72
Total	1.8	1.2	1.3	15	1.36

Source: NUEW

GOAL 4: CHILD HEALTH

The goal is to reduce child mortality. Doing so requires actions on many fronts: expanding immunization against the common childhood diseases, improving child nutrition, eliminating harmful cultural practices such as female genital mutilation, investing in the Integrated Management of Childhood Illnesses and improving public health generally. According to the 2002 DHS, children under five years of age accounted for 15 percent of the estimated total population. Table 5.6 shows that the cost of implementing health measures aimed at reducing child mortality over the next eleven years would be \$40 million, or an average of \$4 million a year. This sum is exclusive of the cost of improved nutrition, which is covered above under poverty and hunger. Needless to say, assigning costs to specific interventions aimed solely at improving child health is fraught with many difficulties.

Table 5.6. Costs of Key Child Health Interventions (in 2004 \$million)

	2005	2010	2015	Total 2005-15	Average 2005-15
Capital costs	0.5	0.5	0.5	5.0	0.5
Operating costs	2.2	3.1	4.4	34.9	3.1
Total	2.7	3.6	4.9	39.9	3.6

Source: MOH

GOAL 5: MATERNAL HEALTH

The goal here is to reduce maternal mortality. Maternal health is affected by many factors. These include fertility, nutrition, access to trained birth attendants, distance between home and a health facility and cultural and religious norms, which favour home delivery. Access to health facilities has expanded enormously since independence, with about 70 percent of the population living within 5-10 kilometres of a health facility. However, the proportion of births attended by trained personnel remains very low. Accordingly, a major element of the effort to improve maternal health involves vastly expanding the training and deployment of birth attendants. The cost of reducing maternal mortality over the next eleven years is projected to be \$27 million, or about \$2 million a year (see Table 5.7).

Table 5.7 Costs of Key Maternal Health Interventions (in 2004 \$ million)

	2005	2010	2015	Total 2005-15	Ave. 2005-15
Capital costs	0.3	0.3	0.3	4.0	0.4
Operating costs	1.5	2.1	2.9	23.3	2.0
Total	1.80	2.42	3.23	27.3	2.4

Source: MOH

GOAL 6: HIV/AIDS, MALARIA AND OTHER MAJOR DISEASES

The goal is to reduce the incidence of HIV/AIDS, malaria and other diseases through prevention, care and treatment. For the medium term, resources are available from the HIV/AIDS, Malaria, Sexually-Transmitted Diseases and Tuberculosis (HAMSET) Control Program and the Global Fund. But there are shortfalls now and in the future. In the case of HIV/AIDS, the biggest shortfall is in the area of care and treatment. The infrastructure for treatment is only now being put in place. Furthermore, arrangements need to be made for the procurement of drugs on a sustainable basis. With regard to malaria, much progress has been made in increasing access to mosquito nets but supplies are not yet adequate. In the case of TB, there is a pressing need for scaling up the program of detection, treatment and prevention. Table 5.8 shows that the cost of reducing the incidence of HIV/AIDS, malaria and TB over the next eleven years would be \$165 million, or an average of 15 million a year.

Table 5.8. Costs of Interventions in HIV/AIDS, Malaria and TB (in 2004 \$ million)

	2005	2010	2015	Total 2005-15	Average 2005-15
Capital costs	9	9	9	102	9
Operating costs	4	5	9	63	6
Total	13	15	18	165	15

Source: MOH

GOAL 7: ENVIRONMENTAL SUSTAINABILITY

SAFE DRINKING WATER AND SANITATION

The goal is to reverse the loss of environmental resources and reduce the proportion of the population without access to safe drinking water and sanitation. For lack of data, no attempt is made here to estimate the cost of reversing the loss of environmental resources, increasing access to improved sanitation and improving the lives of slum dwellers. Only the cost of reducing the proportion of the population without access to safe drinking water is estimated and shown in Table 5.9. The cost over the next eleven years is estimated at \$133 million, or an average of \$12 million a year. The estimate assumes that the proportions of the population of Asmara and other urban areas without access to safe drinking water are 20 percent and 23 percent, respectively, as against the 2002 DHS overall urban estimate of 3 percent.

Table 5.9. Costs of Interventions in Water (in 2004 \$ million)

	2005	2010	2015	Total 2005-15	Average 2005-15
Capital costs	10	10	10	111	10
Operating costs	2	2	2	22	2
Total	12	12	12	133	12

Source: Dept. of Water Resources, Asmara Water Supply Dep't, ECDF and UNICEF



Building infrastructure and community participation

ENERGY

Eritrea presents a mixed picture of access to modern forms of energy. As the Eritrean DHS of 2002 indicates 32.2 percent of the Eritrean population have access to electricity. However, access in Asmara was 99 percent, while in other urban towns was 61 percent giving an urban average of 78 percent. These access figures contrast sharply with that in the rural areas which was 3 percent indicating a large disparity in access to electricity both within the urban areas and between the urban and rural areas. Given this picture, the provision of modern energy to the poor would contribute towards achievement of the MDGs in several ways. Access to modern energy would facilitate the growth of productive activities, help reduce the demand for firewood, which is very scarce, and improve the efficiency of running schools, health and water supply facilities. The goal is to reduce by half, between 2005 and 2015, the proportion of urban, semi-urban and rural households without access to electricity and efficient alternative cooking methods. Rural electrification through extension of the national grid, promotion of renewable energies such as solar, wind, geothermal, modern biomass/biogas, and improvement of the supply of oil products for productive uses, dissemination of improved stove and promotion of over all efficiency in energy production and utilization are among the essential opportunities open to the Government in its efforts to achieve this goal. The costs of extending access to modern energy are presented in Table 5.10 below. These add up to \$140 million between 2005 and 2015.

Table 5.10. Costs of Interventions in Energy (in 2004 \$ million)

	2005	2010	2015	Total 2005-15	Average 2005-15
Capital costs	7.7	9.8	12.1	43.0	3.9
Operating costs	2.7	3.2	3.2	12.4	1.1
Total	10.4	13.0	15.3	140.2	12.7

Source: Ministry of Energy and Mines

ROAD TRANSPORT

Since independence, the Government has given high priority to the rehabilitation and construction of the physical infrastructure. This is in recognition of the important role that transport, especially the road network, plays in economic and social development. In the transport sector, a great deal has been achieved in rebuilding roads and constructing new ones. Vast areas of the country that were previously inaccessible or accessible only with great difficulty have now been opened up. In spite of the progress made so far, a lot remains to be done. The existing road network still does not serve some important parts of the country. Achieving the MDGs requires investments in roads that would facilitate increased production and trade and easier access to social services. Table 5.11 gives the costs of interventions in the roads sector, estimated at a total of \$133 million over the next eleven years.

Table 5.11. Costs of Interventions in Roads (in 2004 \$ million)

	2005	2010	2015	Total 2005-15	Average 2005-15
Capital costs	8.6	8.6	8.6	94.7	8.6
Operation costs	3.5	3.5	3.5	38.4	3.5
Total	12.1	12.1	12.1	133.1	12.1

CHAPTER 5. ACHIEVING RAPID ECONOMIC GROWTH

In Eritrea a key objective of development policy is to make it possible for people to raise their living standards as fast as possible. International experience, especially since the 1960s, has shown that countries that have achieved rapid economic growth over long periods (e.g. Botswana, Mauritius, Singapore, Thailand and China) have seen dramatic improvements in the standard of living of their people. Overall economic growth results in rises in incomes. Rises in incomes make it possible for people to invest in themselves and their families, thus contributing towards the achievement of the MDGs. Although not sufficient, growth is absolutely essential for raising living standards. Since the outbreak of the border war with Ethiopia, the average annual rate of GDP growth per capita in Eritrea has declined to an average of less than 2 percent per year from that of 7.4% during the 1993-97 period. This situation needs to be reversed as matter of urgency.

To reiterate, rapid economic growth is the foundation for poverty reduction. But the pattern of economic growth matters, too. The most desirable pattern is growth that is widely shared by the population and sectorally and regionally balanced. This is the pattern of growth that Eritrea aspires to achieve. At the initial stages of development, growth based on labour-intensive methods of production is most likely to result in widely-shared benefits. For the poor to be able to participate and share in economic growth, labour and product markets must work efficiently. Public policy affects the way markets work and thus determines, to varying degrees, the rate and pattern of growth. Public policy and investments in education have an even more critical role to play in increasing and improving human capital, which in turn is pivotal to sustained economic growth and development.

PREREQUISITES FOR RAPID ECONOMIC GROWTH

Based on the experience of the fast-growing economies, three factors are absolutely essential for achieving rapid sustained economic growth and development. These are briefly discussed below.

1. *Macroeconomic stability.* Macroeconomic stability is essential because households and businesses need to be confident that their long-term investments would not be undermined by high (price) inflation and currency instability. The main indicators of macroeconomic stability are low government budget deficits, low and stable inflation and interest rate and a sound and stable exchange and trade system. Between 2000 and 2004 consumer price inflation averaged 18.5 percent a year while the budget deficit averaged 25 percent of GDP. Eritrea is, therefore, facing challenges in creating a stable macroeconomic environment.
2. *High rate of investment.* The second prerequisite for rapid growth is a high rate of investment relative to GDP. This means investment in farms, factories, hotels and other productive assets as well as investment in human capital and in economic and social infrastructure. A high rate of investment has to be underpinned by a high rate of domestic savings by the public and private sectors.

But experience from the fast-growing economies suggests that foreign investment tends to follow, rather than lead, domestic investment. In Eritrea, the ratio of investment to GDP is reckoned to have averaged 23 percent a year between 2000 and 2003, with two-thirds or more of this investment being undertaken by the public sector. At the same time, domestic savings averaged 16 percent a year, with the Government being a dissaver each year. By the standards of the fast-growing economies, where investment usually averaged 30 percent or more of GDP, Eritrea's rate of investment is too low to fuel rapid growth. Thus, private investment, which is expected to be the engine of economic growth, has failed to take off, given that the no-peace no-war situation and the investment uncertainties associated with it.

Foreign investment and saving. Of course, in both rich and poor countries, foreign investments and savings have an important role to play. They play a catalytic role in accelerating economic growth. The foreign investor often brings capital, new technology, modern management techniques, skills, quality standards and markets. As partners, competitors or suppliers, local investors benefit from the presence of foreign investors. The hoped-for foreign investment boom that the Eritreans residing abroad were expected to unleash has materialized only partially due primarily to the border war and its lingering effects.

High rate of investment can result in accelerated and sustained economic growth and development if focused on the following areas:

2.1 Transformation of agriculture and fisheries. This involves the modernization of agriculture and fisheries through the introduction of new technology and the provision of adequate infrastructure. The transformation of agriculture, in particular, results in growth that tends to be egalitarian, except in situations where land ownership is highly concentrated. It initiates the process of diffusion of modern production skills to a large segment of the population. It is an important contributor to employment and exports. It strengthens the linkages between agriculture and industry. In Eritrea rainfall (averaging 400-600 mm per annum) is a limiting factor on crop and livestock production. This constraint has to be relieved through increased reliance on irrigation. But given the scarcity of water, expansion of irrigated agriculture can only be justified if the water is used to produce high value crops and livestock, which can be exported. With fisheries, Eritrea is well endowed, with an estimated maximum sustainable yield of 80,000 metric tons per year. The challenge is to increase the annual catch considerably from present levels of about 10,000 tons.

2.2 Exports. Rapid economic growth requires a special emphasis on exports. This calls for a vigorous program of export promotion, supplemented by specific government interventions (export processing zones, fiscal incentives, the provision of business-friendly public services, etc). While government interventions have, no doubt, played a role in the export success of the fast-growing economies, one must take care not to exaggerate the range and efficacy of these interventions. Initially, rapid export expansion is often

resource-based but is usually subsequently driven by dramatic rates of growth of manufactured products. In Eritrea, exports were equivalent to about 15 percent of GDP prior to the border war. They have since declined to about 3 percent of GDP.

3. *Development of human Capital for accelerated economic growth:*

3.1 High rate of literacy and numeracy. The third prerequisite for rapid economic growth is a high rate of literacy and numeracy. Literacy and numeracy have important benefits not just for the individual concerned but also for society as a whole. Literacy and numeracy are crucial for promoting rapid economic growth. There lies the case for heavy investment in education, especially primary education. The ability to read and write is the basic tool for the acquisition and application of modern production and marketing skills in agriculture, industry and services. As shown in this report, Eritrea has performed poorly with regard to primary education.

3.2 Technical education. General education is essential but it is not enough because it does not equip the labour force with the abilities to master modern production techniques that are critical to raising productivity. Rapid growth, underpinned by structural shift from agriculture to industry, requires more and more technically trained people, with training in mathematics, engineering and the sciences. In Eritrea, the foundation for technical education is weak, as shown by the low enrollment rates in elementary and middle schools and the poor quality of education.

In addition to the three essential factors discussed above, the following critical factor contributes to the accelerated and sustained economic growth and development.

Partnership between the public and private sectors. An important ingredient in the pursuit of rapid economic growth is an effective, problem-solving partnership between the public and private sectors. In Eritrea, the private sector is in its infancy. This is the more reason why more has to be done to support and nurture it.

To sum up, the main ingredients for accelerated economic growth are in the process of being crystallized. First macroeconomic stability has yet to be restored. Second, saving and private investment rates are very low. Third, adult illiteracy rates are too high, especially among women. Fourth, there is an acute shortage of people with technical skills. Fifth, agriculture is still very backward. Sixth, the export base is too narrow and underdeveloped. Seventh, there is too little foreign investment coming into the country.

ERITREA'S ECONOMIC GROWTH PERFORMANCE

Being a young nation, Eritrea does not have a long track record of economic growth. However, there are now two contrasting periods to examine. The first period, that is, the immediate post-independence period (1993-1997), was characterized by a rapid growth of over 7 percent a year. Admittedly, there were special factors behind this performance. First, growth resumed from a low base. Second, the restoration of peace following the 30-year liberation war made it possible to reactivate idle industrial capacity, undertake

agriculture activities in areas previously ravaged by fighting, build new houses and make other types of investment. However, the high rates of growth recorded during this period cannot be wholly attributed to these special factors. The policies and programs implemented played an important role in stimulating production. These policies and programs resulted in rapid progress towards the achievement of macroeconomic stability, greater reliance on market forces, a relatively liberalized exchange and trade regime and improved infrastructure, especially roads. During 1998-2004, the second and conflict period, economic growth was low but positive on the average. The steep decline in growth can be blamed largely on the border war and its consequences as well as the severe droughts that have affected the country during this period.

THE LINK BETWEEN ECONOMIC GROWTH AND POVERTY REDUCTION

During 2003-2004, the Eritrean economy grew by 4 percent and growth in 2005 is expected to be 5 percent, with the rate rising to 8 percent by 2008. Looked at in relation to recent growth performance, a growth rate of 5 percent a year could be considered robust. But seen against the challenge of reducing poverty, 5 percent growth is inadequate. Eritrea, therefore, should aim high to achieve an average annual growth rate of 8 percent from 2008. The higher growth rate, i.e. 8 percent a year, is Eritrea's growth target for achieving the MDGs.

The two growth rates (5 and 8 percent) have very different implications for raising living standards. With 5 percent, per capita GDP would rise by 2 percent a year while with 8 percent it would increase by 5 percent a year, assuming a population growth rate of 3 percent. These figures translate into very different speeds at which GDP per capita can be doubled. At 5 percent it would take 35 years to double per capita GDP in Eritrea. At 8 percent it would take just 15 years to double per capita GDP. Doubling per capita income (currently less than \$200 a year) in 15 years would still leave Eritrea a poor country viewed from per capita income basis.

THE STRUCTURE OF PRODUCTION

In every country, the structure of production is expected to change as development proceeds. The universal pattern is for the share of agriculture in GDP to fall and the share of industry and services to increase. Eritrea, with its semi-arid and arid climate, faces severe constraints to increasing agricultural production; hence the small share of agriculture in GDP. Depending on the rainfall situation, the share of agriculture can be less than 20 percent. Still, about two-thirds of the population depends on agriculture for its livelihood.

The share of industry in GDP is about 18 percent. In the main, industry consists of manufacturing and construction. A significant part of the manufacturing sector is made up of factories that had been seized from private investors by the Mengistu regime. Most of these factories have been privatized but many have yet to replace the obsolete plant and machinery. Construction activity is largely driven by government infrastructure projects and, recently, to a growing extent, by residential home construction.

The economy has, prematurely, become dominated by services, which now account for about two-thirds of GDP. Only a fraction of service sector activities involve internationally-traded services. These relate mainly to sea and air transportation as well as hotels. Sea transportation services suffered a steep decline when Ethiopia stopped using the ports of Assab and Massawa, following the outbreak of the border war. Tourism is now influenced largely by arrivals of Eritreans in the diaspora during the northern hemisphere summer months.

SOURCES OF FUTURE GROWTH

Eritrea's system of national accounts is still evolving. There is, therefore, inadequate information about the actual performance of the various sectors and sub-sectors of the economy. Notwithstanding this, it is clear that, to achieve an annual average GDP growth rate of 8 percent, Eritrea would have to undergo major structural changes with regard to the composition of output. First, the share of internationally-traded goods and services in total production would have to increase dramatically. Second, agricultural productivity and output would need to increase significantly. Third, the share of fisheries in GDP would have to increase several times from its present miniscule level. Fourth, manufacturing needs a major boost, starting with the industrial base it inherited. Fifth, the share of modern services based on tourism and information technology would have to rise considerably. Sixth, the share of construction in GDP would need to increase significantly given the existing high demand for construction services in infrastructure including housing, transport and tourism. Against this background, the main sectoral sources of growth are briefly discussed below.

- *Agriculture and fisheries.* The key issue in agriculture is how to maximize returns from the scarce water resources available. The other issue is how to encourage movement of labour out of agriculture into higher-return activities elsewhere in the economy. Thus, the MOA has to systematically continue to focus on regulation, efficient extension work, research and development and human resource development.

Eritrea has abundant fishery resources, which have yet to be exploited fully. Increased production and export of fish in a sustainable manner would make a contribution towards the achievement of rapid economic growth and improve current account balances.

- *Industry.* Eritrea is fortunate in having a manufacturing base and culture. However, Eritrean industry lost its capacity to export outside of the region during the Mengistu period and became too narrowly focused on the Ethiopian market. One of the biggest challenges facing the manufacturing sector is developing export markets outside of the region. Foreign investors and the Eritrean Diaspora could play an important role in opening up new markets for Eritrean products. The supply of skilled workers is also an issue. Indeed, the skills base tends to dictate the nature of manufacturing activities that have the potential to succeed in the initial stages of industrialization. These are likely to

be labour-intensive activities involving work that can be learned relatively quickly on the job. Both foreign investors and the Eritrean Diaspora could be important contributors to the acquisition and development of such skills.

- *Services.* As mentioned earlier, the production structure is now lopsidedly dominated by services that are not internationally tradable. These services account for the bulk of formal and informal sector employment. Accelerating economic growth requires a major shift of labour out of low-wage service businesses such as restaurants, tea shops, photo shops and small groceries into offshore data processing, manufacturing, construction, high level tourism, transportation, financial services, etc.

THE CRITICAL ROLE OF EMPLOYMENT CREATION IN POVERTY REDUCTION

Improving the lives of the vast majority of Eritreans means expanding employment opportunities. This could be self-employment or paid employment. What matters is that it should be gainful employment in an environment where earnings are rising. In some countries, enclave-type industries generate the resources that underpin rapid and sustained economic growth. This is true of the oil and gas industry in some countries such as Qatar, the diamond industry in Botswana and tourism in Cyprus. In contrast, most successful countries (Taiwan, South Korea, Malaysia, Mauritius, etc.) rely on broad-based growth as the springboard for raising the living standards of the population. This usually boils down to promoting the whole gamut of enterprises ranging from the large scale to the medium and small scale. Enclave industries have limited employment potential and the opportunities for employment creation is greater when growth is broad based. Eritrea's primary option is to promote a broad-based growth, driven by a vibrant private-public partnership. As the public sector simply cannot provide a gainful employment on the scale that is required to lift a growing number of Eritreans out of poverty, it is imperative to develop a strong private sector that could exploit the full potential of the various sectors of the economy.

CHAPTER 6. SELECTED ISSUES RELATING TO THE ACHIEVEMENT OF THE MDG TARGETS

NATIONAL DEVELOPMENT GOALS AND THE MDGs

In seeking to achieve the MDG targets, Eritrea started from a strong position in the sense that the MDGs fit well into the Government's development goals. As soon as the war of liberation ended in 1991, the Government embarked upon an ambitious development program aimed at stimulating rapid economic growth. Similarly, it embarked upon a comprehensive malaria control program ahead of the launching of the MDGs and the global Roll Back Malaria Program. These and other examples show that the goals are not new. What is new is the setting of specific national targets within the framework of the global targets. The Government's medium-term development program as spelt out in the Macro-Policy document, 1994, the National Economic Policy Framework and Program (NEPFP), 1998-2000, the Transitional Economic Growth and Poverty Reduction Strategy, 2001-2002, and the IPRSP goes to emphasize the fit between the MDGs and Eritrea's development goals.

SYNERGIES BETWEEN SECTORS

Eritrea's own experience, as reported in the latest DHS, and experience from other countries, show that there are numerous synergies between sectors and within sectors. Women's education has positive effects on fertility and child health; education increases labour productivity and hence earnings; access to safe drinking water and improved sanitation reduces the risks of disease and thereby lessens the demand for curative health services, and so on. Access to safe drinking water and improved sanitation in schools is therefore not just a matter for the MOE but also for the MOH and other Government agencies. Similarly, child nutrition is not just a matter for MOH but also for MOE, MOA and other agencies. In the same vein, access to sustainable source of energy by the poor is a necessary and critical input for poverty alleviation and sustainable human development as it provides power for farm and non-farm income generating activities and for a host of social services. A national development plan is best suited to ensuring that these synergies are captured to the fullest extent. The Government's development strategies, policies and plans are developed incorporating these sectoral synergies and linkages.

ENHANCING THE CAPACITIES OF DIFFERENT STAKEHOLDERS

With the Government in the driver's seat, the other main stakeholders are the private sector, local governments, community groups, development partners and humanitarian agencies. The need for local capacity building cuts across all sectors. In the public sector, earlier ambitious plans to decentralize have had to be scaled back due primarily to the shortage of skilled and experienced manpower, which in large measure was the result of the border conflict. Enhancing capacity at the central government level has consequently had to take priority but even here capacity constraints remain severe. A long-term effort is, therefore, required to build capacity at the central, regional and local levels.

IMPROVING THE DATABASE

In some respects, the database on a wide range of economic and social indicators has improved. This is largely due to the DHS carried out in 2002 and the Household Income and Expenditure Survey carried out in 2002-2003, as well as the annual publication of the Basic Education Statistics. In other respects, crucial data for planning and budgeting in both the public and private sectors are currently inadequate.

At the macro level, the Government intends to improve the database by: a) carrying out a population census; b) compiling official national accounts statistics; c) carrying out national labour force surveys, and d) conducting regional economic surveys.

At the sector level, for example, the Government intends to improve the database by: a) carrying out a nationally representative survey on maternal mortality; b) conducting a nationally representative survey on malnutrition, and c) carrying out a nationally representative survey of TB prevalence.

INSTITUTING MONITORING AND EVALUATION SYSTEMS

Each sector has its own monitoring and evaluation system but these need to be adapted so that they can be used to measure progress towards the MDG targets. To coordinate these, the MND would periodically review the results of monitoring and evaluation of sector policies and programmes, including proposed adjustments needed to achieve the national MDG targets.

CHAPTER 7. PROSPECTS FOR MOBILIZING THE REQUIRED RESOURCES

The resources required to meet the MDG targets and for development generally would have to come from the following sources: the Government, local private businesses, households, the Diaspora, foreign private investors and the development partners. The Government itself is now a big dissaver, in large part, because of the border war and the protracted droughts. During 1998-2002 its dissaving averaged 18 percent of GDP. To reverse this trend, the Government is reducing the budget deficit drastically. As stated in the IPRSP, the deficit would be reduced from about 25 percent of GDP in 2003 to 6 percent by 2008. The Government realizes that, if the present state of no-peace no-war with Ethiopia continues, it would be very difficult to achieve the IPRSP budget deficit target, since defence expenditure would remain high. That is why it is anxious to see the decision of the Border Commission implemented without further delay.

In contrast, to Government dissaving, private saving has surprisingly held up well since the outbreak of the border war. Private saving is estimated to have averaged 25 percent of GDP during 1998-2002. This is a very high level of saving which the Government would like to see sustained and improved upon. But with Government dissaving on such a large scale, national savings have been very low, ranging from 2 percent of GDP to 11 percent over the past few years. This means that Eritrea has to rely heavily on foreign savings to meet its investment requirements. The Diaspora is one of the most important sources of foreign savings. It was a dependable source during the liberation war and the recent border war. Actually, a significant proportion of domestic household and business saving originates as remittances from the Diaspora. To maximize the contribution of the Diaspora, the Government set up the Commission for Eritreans Living Abroad (the Diaspora Commission) in 2002.

Foreign private investors represent another source of savings for Eritrea. From 1998 to 2001 annual inflows were of the order of \$35 million. The fact that some private foreign investment came into the country during these war years was encouraging. But the country needs much higher levels of foreign investment. At present, the main deterrents to foreign private investment are the state of no-peace no-war with Ethiopia and the perception that the Government does not fully appreciate the role of the private sector. The Government's view is that such unfortunate perceptions may arise as a result of transitional measures it takes in managing the no-peace no-war situation. In fact, the Government continues to intensify measures wooing private foreign and domestic investors to engage in long-term investment activities in which the country has comparative advantages.

In the spirit of the global partnership envisaged under the Millennium Declaration, the Government expects Eritrea's development partners to support the country's efforts to achieve the MDGs. During 1997-1999 the development partners financed, on average, 21 percent of total public expenditure. For the period 2000-2002 the share of total public expenditure financed by the development partners jumped to an average of 41 percent, reflecting in large part the massive humanitarian assistance needs occasioned by the border war and the severe recurrent droughts.

The prospects of mobilizing the resources needed for the achievement of the MDGs depend critically on the revival of private sector production and exports leading to rapid economic growth. The long run growth of Government revenue depends on the development of a dynamic and vibrant private sector. As self-reliant as Eritrea would like to be, it still needs significant additional amounts of assistance from the development partners to achieve the MDGs. Accordingly, the Government is making efforts to ensure that Eritrea receives its fair share of official development assistance.

CHAPTER 8. NEXT STEPS

Upon finalization of the MDGs Report the next steps would include:

- Dissemination of the MDGs Report among domestic stakeholders, including line Ministries, local administrations and civil society and international development partners;
- Incorporation of the targets, policies, resource requirements and other recommendations in the MDGs Report in the PRSP, the Medium Term Development Plan and the Annual Budgets;
- Mobilization of resources from domestic sources and development partners;
- Integration of the targets, policies, resource requirements and other recommendations in the MDGs Report in the programs and activities implemented by civil society;
- Integration of the targets, policies, resource requirements and other recommendations in the MDGs Report in the programs and activities of development partners;
- Incorporation of the indicators and targets in the monitoring and evaluation arrangements for the PRSP and the Medium Term Development Plan;
- Inclusion of the MDG indicators and targets in the periodic monitoring and evaluation reports of the Government.