

CPIA Detailed Report

Country: Eritrea

Exercise Year: CPIA Exercise 2023

Currency: Eritrean Nakfa (ERN)

City: Asmara

Income Group: Low income

Lending Category: IDA

Final CPIA Score: 2.452

(A) Economic Management

Cluster Score: 2

01. Fiscal Policy

Criteria Score: 2

1. Fiscal Policy

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The fiscal deficit narrowed to an estimated 2.2% of GDP in 2022 compared to 4.1% in 2021 (Table 2.1) due to the gradual increase in public revenues in line with the economic recovery (AfDB database). The fiscal consolidation strategy, which aims to rationalize public spending to stabilize the public debt, contributed to reducing the fiscal deficit, which was financed by drawing down government deposits with the Central Bank. Total spending is dominated by recurrent spending, mainly wages, salaries and allowances. The historical paradigm of “No War No Peace” has continued to influence the structure of spending. This situation was, however, fueled by a long period of conflicts, which undermined the capacity of the private sector to create jobs. Consequently, the recurrent component in the overall budget largely reflects a structural challenge where the government remains the main employer. The country has since 2015 nuanced the revenue collection through 2015-2019 revenue mobilization strategy (RMS), the government has strengthened tax administration and compliance which will subsequently increase revenue yields. The inland revenue department has through the modernization of tax administration strengthened domestic revenue mobilization, the country's tax revenue has averaged 14% during 2014-2022.

Despite trending down, Eritrea's debt of more than 100% of GDP is considered high. The public debt to GDP ratio decreased from 185% in 2020 to 175.6% in 2021, largely due to government efforts to accelerate debt servicing. Fiscal consolidation is being pursued but debt restructuring could be necessary to improve debt sustainability. During dialogue between the Bank and the Government in September 2023, there were some indications that the country has accelerated debt repayments to India and China. The huge debt with the IDA remains unresolved until they harmonize on the outstanding issues. The fiscal outlook for 2023 and 2024 shows the narrowing down of the fiscal deficit from 1.9% to 1.2%, as the economy recovers and revenues recover from the previous external shocks.

02. Monetary Policy

Criteria Score: 2

2. Monetary Policy

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Monetary policy aimed to stimulate aggregate demand while maintaining price stability. The reopening of global supply and value chains helped to ease inflationary pressures, with inflation decreasing by 1.1 percentage point to an estimated 4.5% in 2021 compared to 2020. Inflation increased to an estimated 7.5% in 2022 because of the effects of Russia's invasion of Ukraine on food and energy prices. Improved food supplies and the gradual stability in global supply and value chains are expected to reduce inflation to 6.1% and 5.0% in 2023 and 2024, respectively. The financial sector remains bank-based with limited products. The Nakfa is fixed at 15 per United States dollar in the official market. The main objectives of monetary policy in Eritrea are price stability, stimulating growth, and ensuring a healthy balance of payments under a fixed exchange rate regime. To this end, the Bank of Eritrea (BOE) relies on standard monetary tools such as commercial bank reserve requirement, administered interest rates and rediscount window operations (set at 5.5% since 1994, but not utilized by commercial banks due to their strong cash holdings). The excess liquidity of commercial banks facilitates the use of Bank of Eritrea to advance credits to fund the fiscal deficit. For instance, the pandemic-induced fiscal deficit was financed by allowing the government to draw down its deposits with the BOE and by concessionary loans. International reserves were estimated at 4 months of imports in 2022 from 3.1 months of imports in 2021. The Bank of Eritrea has recently made progress towards adopting risk-based supervision, by implementing a framework that provides guidelines on how to manage various risks as they pertain to financial institutions.

03. Debt Policy

Criteria Score: 2

3. Debt Policy

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Despite trending down, Eritrea's debt of more than 100% of GDP is considered high. The public debt to GDP ratio decreased from 179.7% in 2020 to 175.4% and 163.8% in 2021 and 2022 respectively, largely due to government efforts to accelerate debt servicing. Even though domestic creditors largely commercial banks hold the bulk of public debt (constitutes 70% of public debt), external debt services to exports ratio is significant. The ratio increased from 11.33 percent in 2019 to 12.52 percent in 2020 (compared to 29.59 percent in 2010). Encouragingly, the percentage continued to decline in recent years as the estimates for 2020, 2021 and 2022 were 57.3, 55.2 and 51.2. The outlook for 2023 and 2024 shows a declining trend with rates standing at 45.8% and 42.8% of GDP for 2023 and 2024 respectively. However, this does not hide the low level of debt management capacity of the country as reflected in by Eritrea's weak debt policy rating of 1.9 out of 6.0 in 2021 based on the World Bank's Country Policy and Institutional Assessment (CPIA), among the lowest in East Africa. A key indicator of debt sustainability that is also available for Eritrea (external debt service to export ratio) was estimated at 12.5% in 2020, up from 11.3% in 2019, and above the 10% threshold for countries with weak debt-carrying capacity such as Eritrea. Actual data for 2021-2022 are not yet available, but it's unlikely that much improvement was registered during 2021-2022. Public debt has remained high due the elevated real effective interest rates and persistent fiscal deficits. The government has implemented to interventions through the Bank supported public financial management and capacity building project. Under this project, the Bank supported Eritrea's Debt Management Unit to acquire and install the Debt Management and Financial Analysis System (DMFAS). As a result, quarterly, and annual debt reports are being generated from one integrated source since July 2019. Furthermore, national authorities are now able to analyse public debt data and benchmark with international practices. The Bank has already informed government of its readiness to provide additional support to public debt policy and management to argument the back office functions with the middle and front office ones including strengthening the country's capacity to negotiate. The Bank is also informed that the country has already paid debts owed to india and the China which is a key step to reducing the country's external debt. Looking at external pressures such as the continuation of the Russian invasion of Ukraine, the outlook for Eritrea's management of its debt will be extremely challenging necessitating the need for debt restructuring. Eritrea is classified as a pre-decision Heavily Indebted Poor Countries (HIPC) initiative potential beneficiary but must commit to an International Monetary Fund (IMF) Staff Monitored Program to access debt relief under the HIPC and possibly Multilateral Debt Relief initiatives.

(B) Structural Policy

Cluster Score: 2

04. Policies and Institutions for Economic Cooperation, RI and Trade

Criteria Score: 1.833

4.a. Regional Integration and Economic Cooperation

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Eritrea is not well integrated with the region. It is the least integrated country in Africa, with a score of 0.15 on the 2019 Africa Regional Integration Index—behind Ethiopia at 0.22 and Djibouti at 0.44 (AU, AfDB, and UNECA 2019). Its score on trade integration was similarly dismal. Though Eritrea is not among the 16 country members of the Common Market for East and Southern Africa (COMESA) free trade area, it is a member of COMESA's preferential trade area. Under the latter, Eritrea is expected to reduce and eliminate trade barriers on selected goods, cooperate on customs and trade facilitation, and enforce COMESA rules of origin in setting preferences on applicable goods. Eritrea also participates in established transit, clearing, and payment arrangements within COMESA to promote trade in goods and services within the region. Being in COMESA exposes Eritrea to tremendous opportunities for trade and industrialization that could promote self-sustained industrialization in the region's value chains and hence trigger structural transformation. Moreover, Eritrea's direct participation in COMESA's free trade area could offer more trade gains than under the preferential trade area. Eritrea has not signed the African Continental Free Trade Area (AfCFTA) agreement. Eritrea rejoined the Intergovernmental Authority on Development (IGAD) in June 2023 as an active member, after nearly 16 years of opting out of the body. This was pronounced at an IGAD summit held in Djibouti in June 2023 when Eritrea took up its seat at the summit and expressed its readiness to work toward peace, stability and regional integration. Following this, Eritrea can participate in the bloc's initiatives—such as IGAD Drought Disaster Resilience and Sustainability Initiative (IDDRSI) which aims at enhancing resilience in the region; and initiatives for regional infrastructure development, trade, peace, security.

Eritrea is also a member of other blocs such as the Community of Sahel–Saharan States, headquartered in Tripoli, Libya, aims to create a free trade area within a region of Africa. Eritrea has been a member of the grouping since 1999. Eritrea has been participating in the Horn of Africa Initiative, which is a country-led initiative to deepen integration in the region. While this is not a treaty-based entity, it allows countries to coordinate on a set of priority regional projects and programs and provides a platform for policy dialogue. It also offers opportunities for co-financing among the development partners supporting the initiative. Eritrea is the only country in Africa that is yet to sign the African Continental Free Trade Area (AfCFTA). Eritrea is also not a member of the World Trade Organization (WTO) and is neither an observer nor undergoing accession. This means Eritrea cannot benefit from the most favoured nation (MFN) treatment in the multilateral trading system. For Eritrea to benefit from the prospects of the regional and continental trade agreements, it will need to urgently integrate trade and investment measures in its wider domestic structural reform agendas. Eritrea's performance on regional integration has been relatively low. According to the Africa Regional Integration Index (ARII)[i], Eritrea is rated as a low performer in 2019 with a score of 0.16/rank 53(<https://arii.uneca.org/en-US/Maps>)..

4.b. Trade restrictiveness

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

Eritrea's trade openness as measured by the ratio of total trade to GDP increased from 64% percent in 2020 to 66% in 2021 with the top four exporting destinations being China, India, United Arab Emirates, and Switzerland while the top five import sources comprise United Arab Emirates, Italy, Saudi Arabia, China and Turkey. The export concentration ratio decreased from 0.29 in 2020 to 0.27 in 2021 reflecting a larger number of export products and trading partners[2]. There is limited intra African trade taking place with COMESA and countries, particularly Djibouti, Egypt, South Africa, and Kenya for exports; and Djibouti as well as South Africa for exports. The limited intra African trade taking place with COMESA and neighboring countries, particularly Ethiopia calls for urgent attention to adapt appropriate trade policy and strategy to enhance regional and global trade, expand export markets and diversify its export products through value addition and further processing of domestic and foreign raw materials. The various peace deals signed with neighbours in July 2018 are yet to spur trade and investments in the country as well as relax the country's stance on its regional and international trade regimes. Eritrea's exports are estimated at USD 583 million but exports to Afriana countries only USD 4 million in 2021 compared to USD 747 million and USD 7 million respectively in 2019, reflecting the impact of COVID 19 restrictions on trade.

4.c. Customs/trade facilitation

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

In its drive to integrate with its neighboring countries and beyond, Eritrea is gradually considering implementing reforms to improve on the time required for customs to clear documents for exports and imports to less than 6 days (achievable given the status of 6 days reported in 2018 doing business). In 2018, the cost (US\$ per container) was reported as 1,600 which is much lower than the sub-Saharan African average of 2,793 but it takes more time of 59 days as compared to 38 which is SSA average. The Common Market for Eastern and Southern Africa (COMESA) Common External Tariff (CET) has not come into force and therefore the relevant CET is not applied. Absence of effective intra-trade linkages between Eritrea and its partners, particularly in the Horn of Africa weakens the country's regional trade stance. However, since the country's effective tax rates are lower and with fewer multiple bands, it could competitively engage in regional trade based on COMESA's CET (when operational). Anticipated reforms will include procurement of ASYCUDA WORLD and Oracle Enterprise Taxation and Policy Management System and automation of basic customs procedures. Other reforms could include computerized and harmonized customs procedures which would improve turnaround time and service delivery.

05. Financial Sector Development

Criteria Score: 2

5.a. Financial stability

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Despite having an embryonic financial sector based on four commercial banks, the limited exposure to the world has cushioned the country from external financial sector shocks. Eritrea is yet to experience the power of financial technology to expand access to, and use of, accounts is yet to be fully realized. The commercial banks in Eritrea include Bank of Eritrea, Commercial Bank of Eritrea, Investment and Development Bank, and Housing and Commerce Bank. The digital technology that is enabling the use of mobile money banking to transform the payments landscape in other Common Market for Eastern and Southern Africa (COMESA) countries is yet to be adopted. This in part reflects the challenge posed by the current payment system. The state-owned Eritrea Investment and Development Bank (EIDB) dominates the non-banking sector. Owing to capitalization and capacity constraints, its ability to meet the growing demand for term-finance and related services from both public and private sectors remains limited. In the context of the Basel III international regulatory requirements for banks, the country is still weak. Capital adequacy and market liquidity risk remain affected by the limited capacity of banks. Moreover, the supervisory authority has not been able to transition from compliance supervision to the preferred risk-based supervision.

5.b. Sector's efficiency, depth, and resource mobilization strength

Score Type	Value
Draft Score	1.0
Reviewed Score	1.0
Second Draft Score	1.0
Final Score	1.0

Country Notes:

Eritrea's financial system is still very shallow but with opportunities to grow as the business and investment climate gradually improves. In Eritrea, a rural financial sector development framework does not exist, and this penalizes the engagement of financial institutions and private actors in rural development and agriculture sector. Access to rural financial services relies only on local revolving funds as the parastatal system (commercial and development banks) outreach is limited. There is almost no access to asset acquisition or working capital even through matching grant. Among the critical challenge is lack of information which does not allow assessment on depth indicators such as deposit to money banks assets, and liquid liabilities to GDP. Notwithstanding this, overall, the financial sector's depth is limited. This is based on available information in 2020, private sector credit in terms of GDP is estimated at 18 which is considered low, and this is limited by poor capitalization and access factors. The past information indicated that credit supply to the private sector grew at much lower rates, ranging between 1% and 4% over the period 2009-2015. The government should particularly promote access to banking services for farmers and Small and medium enterprises, by exploiting the Fintech opportunities that require large investment in digital networks. To facilitate access to a formal capital market that is inexistent in the country, Eritrea could rely on the process of regional integration of capital markets in East Africa, alongside sustaining normalization of its relationship with neighbours. The women federation is active in revolving fund and vocational training, but the fund needs to be upgraded and institutionalized. The main factors that explain the lack of finance for households involved in the rural areas is largely lack of risk assessment tools and outreach.

5.c. Access to financial services

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

As already alluded to the financial sector relies on four commercial banks and the financial depth is limited. There are no functional Automatic Teller Machine (ATM) found in other COMESA countries and the Horn of Africa which reduces the incentives to potential depositors. This limited access which is the degree to which individuals can and do use financial services. In this respect, the ease of access to loans is considered limited as reflected by the shallowness of the banking sector and attendant capitalization problems. The Government is still considering privatizing the current banks but other political factors including the border issues are affecting the process. As already alluded to, the Government has encouraged the formation of microfinance institutions to provide financial services to women and rural communities. These microfinance institutions are reportedly working but they lack adequate capital to facilitate small and medium enterprise. The main constraint to the financial sector development and effective service provision are limited sources of bank financing. Consequently, lack of competition and cumbersome administrative requirements and lack of credit bureau has made the cost of borrowing to remain high which deters private sector investment. The risk premium remains high which reduces the collateral net worth which has constrained many small entrepreneurs from borrowing to expanding their business. The lack of a strong Central Bank, capital outflows and limited deposits due to access issues, a real challenge. Other issues affecting access relate to affordability of financial services, venture capital availability, and financial services meeting business needs.

06. Business Regulatory Environment

Criteria Score: 2.167

6.a. Regulations affecting entry, exit, and competition

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

In a bid to improve the regulatory environment, the Government has relaxed all controls including simplifying the process of acquiring business license. Trading between Ethiopia and Eritrea was relaxed leading to increased access to cheaper goods. The Government has also licensed companies that operate in the foreign exchange market and therefore access to foreign currency is much easier and the ultimate objective of liberalizing trade is being realized. The procedure for entry has been reduced to only five steps, although the overall process of registering a business is cumbersome. Company incorporation is carried out through initial minimum capital requirement deposit at a commercial bank before the

commencement of manual name search at the Business License Office after which, there is publication of the incorporation in an official journal, Hadas Eritrea's for a period of 30 days. Eritrea's regulatory environment is yet to improve to the level of being considered conducive for business, and this will highly impact the development of the industrial sector and business in general. The ongoing government drive to lure investors from China and other countries to invest in various areas would require a deep and comprehensive overhaul of the regulatory, institutional, and administrative system that deals with business and the private sector. Company incorporation is carried out through initial minimum capital requirement deposit at a commercial bank before the commencement of manual name search at the Business License Office after which, there is publication of the incorporation in an official journal, Hadas Eritrea's for a period of 30 days. Trading between Ethiopia and Eritrea was relaxed leading to increased access to cheaper goods. The Government has also licensed companies that operate in the foreign exchange market and therefore access to foreign currency is much easier and the ultimate objective of liberalizing trade is being realized. The procedure for entry has been reduced to only five steps, although the overall process of registering a business is cumbersome. While few bans on investment, but there are complex licensing requirements for many activities. Procedures to enter and exit many economic activities are costly. Legal framework to address anti-competitive conduct by firms exists as reflected by the country's vision 2030, but there is no effective enforcement.

The country's vision 2030 commits that Eritrea's telecommunication sector needs to be radically reformed and developed. Vision 2030 proposes to open telecommunications and Information and telecommunication technology infrastructure and services to the private sector and the Eritrean Diaspora. The privatization and public offerings of EriTel would be a first step. Additionally, envisions allowing regulated competition in the economy by allowing foreign investment in telecom infrastructure such as renowned and well-experienced regional operators that will help transform what remains a virtually untapped market.

6.b. Regulations of ongoing business operations

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The Government of State of Eritrea (GoSE) has established operational licensing, permits, inspections and other compliance systems including those related to taxes and customs, according financial regulations of the Government. The few steps with respect to privatization has resulted into increase in prospective investors. The investors have expressed interests in developing various sectors including mining, tourism, and agriculture prior to the COVID-19 pandemic and the discussions in this endeavor are expected to resume post COVID-19. The Government now considers the role of private sector as vital, but the regulatory environment remains a restraining factor that needs to be addressed. The Government had

privatized several its state-owned enterprises by the end of 2018, and this was done to revamp the operations of the private sector. Despite the remaining challenges of dealing with some of the factors that limit investments and development such as availability skilled labour Force, inadequate power supply, and lack of credit to import goods and equipment from abroad, the future is promising. In terms of other reforms, Eritrea made trading across borders easier by upgrading infrastructure at Massawa port as well as the roads between Massawa and Asmara. Meanwhile, increased efficiency among banks reduced the time required to open a letter of credit.

6.c. Regulations of factor markets (labor and land)

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Eritrea's labor markets remain over regulated and the decrease in the overall score points to a steep plunge in business freedom completely overwhelming increases in scores for judicial effectiveness and labor freedom. Eritrea remains one of the world's most difficult places to do business. Poor governance and lack of commitment to reform hamper economic freedom and drive many Eritreans into the informal sector. Eritrea's index of economic freedom was at level of 39.7 score in 2022, down from 42.3 score in 2021, this is a change of 6.15%. Economic freedom is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please, with that freedom both protected by the state and unconstrained by the state. In economically free societies, governments allow labor, capital, and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself. 100 represents the maximum freedom. In terms of reforms, there are a few changes happening in the country's labour market because of recent actions of the Government to provide formal employment to the youth in public institutions. Given the limited and slowly growing economic activities in the country, the informal market is still regarded as relevant for employment and continues to provide jobs to the young population, women, and men. Equally, the formal employment is also showing some signs of growth as the Government employs young graduates in key sectors. The remaining rigid employment regulations would need to be dismantled completely as demobilization of youth from the military takes center stage. The land ownership is gradually changing as the Government is providing full ownership of land to individuals.

(C) Policies for Social Inclusion/Equity

Cluster Score: 2.927

07. Gender Equality

Criteria Score: 3.667

7.a. Promotion of equal access for men and women to human capital development opportunities

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

According to the 2020 Eritrea Country Gender Profile prepared by the African Development Bank, overall, there has been significant progress in Eritrea in support of gender equality since independence, despite the challenging circumstances. Eritrea has a progressive legal framework that accords women and girls equal rights across all spheres of life, although challenges remain in applying this framework and there are recommendations in the report. The proportion of women who have a primary education certificate and those who completed primary level but don't have a certificate were estimated at 21.4% and men in this category were 16.5%. At secondary level, the situation is reversed. The proportion with secondary education certificate combined with those who completed this level without a certificate, is estimated at 19% for women and 30.8% for men. At primary level, boys are more likely to be affected by household chores at the farm compared to girls, while at secondary level; girls are mainly affected by marriage. This means that there are enduring gender parity challenges in terms of primary and secondary school enrollments. In this respect, these trends translate into job opportunities for both men and women at decision-making levels. Other sources notably the World Development Indicators (WDI) data for Eritrea show that the proportion of males attending primary and secondary school is higher than that for females. For example, the gender parity index for gross enrolment ratio in primary and secondary education was 0.88 in 2018. Factors that force girls to drop out of school are closely related to poverty and lack of social services. Early marriages, teenage pregnancies, lack of gender-separate sanitary facilities, long distances to school, migration, and poverty are complementary factors for the differences in education attainment. The Government is addressing the outstanding gender parity challenges through effective implementation of the 2000 national policy on gender and action plan.

7.b. Promotion of equal access for men and women to productive and economic resources

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

The Eritrean authorities have put in place incentive and institutional measures in recent years to improve women's access to positions of leadership and decision making but from a low base. An example is the requirement of 30 percent participation of women in national, regional, and local assemblies as well as in community courts, sport federations and land committees. The 1994 Eritrean National Charter explicitly states that, "In Eritrea, there shall not be any position exclusively reserved for men that cannot be attained by women", and women's right to vote, to elect and be elected democratically is guaranteed. An illustration of the implications of these commitments is the current representation of women in the National Assembly, where, according to the CEDAW Report of 2020, they hold 22 percent of the seats in an assembly of 150 representatives. However, obstacles to women's enhancement remain significant in Eritrea because many women are illiterate and face high levels of unemployment. The female labor force participation rates remained at 75% of female population (ages 15-64) compared to male participation at 87% of the male population (ages 5-64) between 2017 and 2019. Females in wage and salaried (paid employment) constituted 6.7% of female employment in 2017 and 7.0% in 2019, with the rest constituting informal employment. Females are mostly represented in low-skilled and low-paying occupations. Due to limited education and financial capacity, females are mainly engaged in the informal sector which is associated with low value-added and marginal returns[j]. Vulnerable employment, which comprises the self-employed and other own account workers, accounted for 86.8% and 86.4% of total employment in 2017 and 2019, respectively. While it marginally declined, gender differences remain elevated. Vulnerable employment, as a percent of male employment, was at 81% in 2019 and female counterparts at 93%. Vulnerable employment is expected to have worsened during COVID-19 period due to limited access to social safety nets. Eritrea has made progress with respect to supporting gender equality. The AfDB ranked Eritrea 27 out of 52 countries with an overall score of 0.528. Across the respective categories, the country ranked 26 with respect to economic opportunities for women, 39 for women's human development, and 19 for laws and institutions relating to women's equality and wellbeing. However, although Eritrea is doing better than other countries in the region, gender disparities are still quite evident, especially regarding leadership and decision making, access to justice, economic empowerment and financial inclusion, education, and health, GBV.

By and large, Eritrea Government's commitment to women's rights and women's empowerment has been demonstrated through favorable policy instruments, including the Macro Policy, National Charter, National Gender Action Plan, Interim Poverty Reduction Strategy Paper, the Constitution of the National Union of Eritrean Women (NUEW), that it has promulgated and international agreements it has ratified. It fair to say that formal policies and laws provide for gender equality in these areas, and that there are mechanisms to enforce these laws (e.g., in the form of programs to achieve gender equality, or institutions and agencies to guide the achievement of gender equality).

7.c. Men and women equal status and protection under the law

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

Eritrea's 1997 constitution guarantees equal rights to women and men. There are improvements since 2000 but for a period of the last 21 years including 2022, the gender score remained at 69.4 which is much lower than the desirable highest score of 100. Across categories, the country ranked 19th for laws and institutions on women's equality and well-being. It is ranked 26th on economic opportunities for women, and 39th on women's human development. The 1997 constitution was preceded by ratification of the he Convention on the elimination of all forms of discrimination against Women (CEDAW) in 1995(translated into local languages). The Eritrean authorities have put in place incentives and institutional measures in recent years to improve women's access to positions of leadership and decision making but from a low base. An example is the requirement of 30% participation of women in national, regional, and local assemblies and in community courts, sports federations, and land committees. Despite these measures, gender disparities are still quite evident, especially regarding leadership and decision making, access to justice, economic empowerment and financial inclusion, education, and health. Noteworthy that women in Eritrea were equally instrumental in the war of liberation, a story that puts Eritrea's women at the forefront of nation building. The National Union of Eritrean Women (NUEW), a civil society organization mandated to coordinate gender mainstreaming and lead advocacy for Eritrean women, is a major institutional player in the country. Moreover, the Ministry of Justice has been conducting awareness programmes in the media targeted at enhancing the rights of women in the community. However, these efforts have been challenged by the persistence of traditional prejudice and lack of legal support services. Further, existing legal framework is often undermined by harmful cultural beliefs and practices that under value women in society relative to men. As a result, women, fearful of cultural ostracization, are generally reluctant to pursue court cases even when fully aware of their human and legal rights. As already alluded respecting the equality of rights in Eritrea has evolved. However, there is persistence regarding violations of women's rights such as sexual abuse and harassment, slavery, torture, and rape, including in the context of the mandatory military service. Female Genital Mutilation (FGM), Underage

Marriage (UAM) and other harmful practices are also of concern in Eritrea, and arise mainly from persistent patriarchal attitudes and discriminatory stereotypes regarding the roles and responsibilities of women and men in the family and society. However, there have been improvements with the establishment of anti-FGM and UAM committees throughout Eritrea since 2006. According to the 2019 Government CEDAW report[2]: “the assessment on the prevalence rate of FGM made among all women and girls in 1995 was 95 percent, the same approach that followed in 2002 resulted in 89 percent. Moreover, in 2014 selected mapping conducted in 135 villages for girls under ages of 5 showed a dramatic drop of 90 percent.

08. Equity of Public Resource Use

Criteria Score: 1.667

8.a. Poverty Measurement

Score Type	Value
Draft Score	1.0
Reviewed Score	1.0
Second Draft Score	1.0
Final Score	1.0

Country Notes:

Eritrea remains one of the poorest countries in the world and is ranked 180 out of 189 on the UN Human Development Index. Poverty remains high, with extreme poverty at purchasing power parity of \$1.90 per day estimated at 77% of the total population in 2020 and 2021, a small increase on the 76% in 2019. Based on 2019 estimates, vulnerable employment, which comprises the self-employed and other own account workers accounted for 86.4% of total employment and is expected to have been affected negatively by COVID-19 due to limited access to social safety nets. The Ministry of National Development through the National Statistics Office (NSO) is mandated to prepare, develop tools to collect and disseminate data on social, economic and fiscal performance of the country. The NSO has tried to collect and disseminate data only on social and some economic indicators because of lack of reliable financing and trained statisticians. Another challenge for NSO is lack of legal instruments to execute its mandate as well as failure to recruit qualified personnel and fund timely data collection. The NSO has tried to produce the report on population and health sector issues that provides pointers on poverty indicators like malnutrition, unemployment, housing, education and access to other services. As can be noted in the previous and current assessments and most of the socio-economic data on Eritrea is outdated. Given the lack of data on poverty and inequality from Eritrea, we looked closely at the link between household final consumption expenditure (HFCE) and real GDP growth. We used HFCE as a proxy for the measurement of household welfare in the absence of any recent data on household level welfare indicator for Eritrea. Hence, we can leverage existing macro data to unveil important micro-level living standards outcomes of macroeconomic changes as revealed in the rate of real GDP growth. That link between growth and HFCE

is assessed using an intuitive non-parametric regression. HFEC is a useful proxy to investigate the issue of inclusive growth because it tells us what happens to household welfare as growth evolves over time. In our analysis, the robustness of the link between HFCE and GDP is ascertained by appealing to different growth indicators. Our analysis reveals the negative relationship between growth and HFCE suggesting the failure of the GDP growth episodes for the period from 2000 to 2022 to be inclusive in Eritrea.

8.b. Public Expenditures: Priorities and strategies

Score Type	Value
Draft Score	1.0
Reviewed Score	1.0
Second Draft Score	1.0
Final Score	1.0

Country Notes:

The traditional approach is to identify the national priorities based on the national development plan. Unfortunately the 2017-2019 national development plan expired and a new one is yet to be completed. The priorities are normally translated into the medium term expenditure framework. The development partners respect the government priorities and always align their development support to the priorities provided by the government. For example, all development partners must provide the financial support through the Ministry of Finance and National Development. The budgeting framework also uses sector specific strategies that provide details on the implementation of activities and how the challenges are to be achieved. The government informed the Bank, during the I-CSP completion report consultations, that the national development priorities comprise agriculture, food security, and value-chain development; infrastructure development, energy and water among others. During the recent visit by the AfDB president to Asmara, we learned that these have been updated and there is a list of ten national priorities which also includes the aforementioned. Notwithstanding, the absence of an updated national development plan, Eritrea Government has a well-designed framework that guides the planning, budgeting and implementation of projects and programmes at the various levels of Government.

8.c. Regressive Tax

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

In Eritrea, the tax regime is considered progressive and depicts good elements of fairness. Low-distortionary taxes including sales tax, turn-over-taxes, and excise taxes contribute a significant share of tax revenues, with the share of these taxes (both domestic indirect and import duties/ taxes) accounting for an average of 30.1% during 2015-2019. The tax system is characterized by a reasonable levy of tax and duty rates. All imports into Eritrea are subject to import taxes, unless when exempted by law, such as the importation of capital goods, which are not produced locally at comparable quantity, quality, and price. The applicable import duties consist of customs duty (2%-200%, applied in line with international customs systems); excise tax (4%-5%); sales taxes (5%-12%); and withholding taxes: dividends 0%, interest 10%, royalties (5%-10%) paid by mining companies. The authorities are committed to undertaking further administrative reforms to boost tax collection. The Bank through African legal facility had before 2019 provided technical assistance to the mining sector. As already indicated, the mining sector is the main source of revenue for the Government. Taxation in Eritrea remains progressive but challenges remain. Eritrea's capacity to mobilize tax revenue has been limited by the tax base, notably the small size of the private sector. Moreover, over the past decade, tax revenues as a share of GDP declined from 15.34 % in 2010 to 13.97 in 2019. However, recently, it is estimated at 14.2% in 2021 and 16.7% in 2022. Over the same period, non-tax revenues dropped from 4.8% in 2010 to about 1.0% in 2019 and has remained at the same level since. The drop in the non-tax revenues at the time of increased mining activities is surprising and remains an area for further investigation, though lack of updated audits in the sector could be an issue. What is required is to simplify the tax structure and reduce the number of income tax rates and corporate tax rates, as well as improve tax and customs administration procedures and management. Among the tax sources is a 2% "recovery and development tax" imposed by the government on the Diaspora inflows.

09. Building Human Resources

Criteria Score: 3

9.a. Health and nutrition services

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Over the years, the Government has taken actions to support equitable access and quality health service, focusing on primary health care. It has ensured health service to more than 60 percent of the

population residing in a 5 km radius of a health facility and 80 percent within a 10 km radius. Maternal and child health services are part of the primary basic health care package given free of charge or on an affordable nominal fee. The maternal mortality ratio was 1,700 deaths per 100,000 births in Eritrea in 1990. The goal for 2015 was to cut that number to 425 deaths per 100,000 births. In 2013, Eritrea not only met but surpassed this goal, with a maternal mortality rate of just 380 deaths per 100,000 births. Eritrea saw almost as much success in its efforts to achieve universal access to reproductive healthcare. In 1991, just 19 percent of women had any prenatal care. By 2013, that number had risen to 93 percent, a nearly fivefold increase. The Government engagement is guided by a health system based on community participation at the village, sub-zobas and zobas that has resulted into significant progress towards achieving health related sustainable development goals related to maternal and child mortality rates. Regarding maternal mortality the progress made is to be welcomed and follows the same trend as that of the health sector. The available data from Global Health Statistics report 2016, mortality rates attributed to cardiovascular disease, cancer, diabetes or chronic respiratory were on the rise. The main cause of premature death (under age 70) is mainly due to cardiovascular disease (37 percent), cancer (27 percent), other NCDs (23 percent) respiratory disease at 8 percent and diabetes at 4 percent. Nutrition has serious concerns. Although the Global Hunger Index did not rank Eritrea's nutritional situation, it listed it as a country with serious hunger concerns but with insufficient data for full assessment. The United Nations International Children and Education Fund (UNICEF) also alluded to the lack of data but estimated that in 2018 about 23,000 Eritrean children were threatened by acute malnutrition.

9.b. Education, ECD, training and literacy programs

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

The country has a mixed set of evidence on human development. From 2002 to 2022, Eritrea made a commendable progression in human development despite lagging from better performing developing and emerging economies. In terms of the Human Development Index between 2002 and 2022, life expectancy increased by about 7.7 years averaging about 60-67. This is higher than the average for Sub-Saharan Africa over the study period and shows the strides the country made primarily in areas of health. On the other hand, Eritrea has food insecurity vulnerabilities and concerns, though data do not allow for a full assessment. Within SSA, Eritrea is has remained a low human development country. The latest value from 2021 is 0.492 points compared to the world average of 0.724 points in 2021 based on 184 countries. For example, as a matter of emphasis, lack of skilled human resources is strongly recognized as one of the major challenges in the country. Available data shows that below 80% of Eritrean students leave high school without specific job-related skills, which has partly caused migration exodus. However, the Government has recognized this challenge and is working with the Bank and other development partners through establishing Technical and Vocational Education and Training (TVET) and other technical

training centres to address the problem. TVET education and training provides knowledge and skills for employment. There was a recognition by government that lack of strategic focus in the education sector has translated into failure to provide skills for the country's youth. Moreover, Eritrea's National Education Sector Plan 2018-2022 is the country's second sector plan and the first one underpinned by an education sector analysis. The strategic priority is to improve quality of learning in primary and secondary education by expanding early childhood education, improving teacher qualifications, and by bringing more out-of-school children into schools. The plan further identifies girls' education and special needs education as cross cutting areas for action. Despite challenges, enrollment rates at primary and secondary levels have respectively remained at 68% and 48% in 2018 and 2017 according to the latest available information.

9.c. Prevention and treatment of HIV/AIDS, tuberculosis, and malaria

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Between 1999 and 2018, HIV prevalence of Eritrea was declining at a moderating rate to shrink from 1.5 % in 1999 to 0.6 % in 2018 and the rate is estimated at the same rate in 2020. Improvement in the testing and reporting has curtailed increase in the surveillance rate. Eritrea is showing great commitment and dedication to confront HIV/AIDS. Activities to prevent the spread, and to support those living affected by the virus need continued support. Arising from effective implementations of HIV/AIDS programme, Eritrea is among the Sub-Saharan Africa countries with lowest levels of HIV prevalence (Eritrea 2021 country diagnostic note). The Government with technical support from the development partners has developed a health delivery system based on the principles of involvement of the local population at all levels to handle health issues including HIV/AIDS and malaria. Consequently, has successfully controlled preventable diseases like malaria. Available data indicates that instance, malaria infections reduced from 20 in 1998 to 11 per 1,000 by 2017 (Eritrea 2021 Country diagnostic note). This achievement is attributed greatly to design and implementation of Eritrean National Malaria Control Program that emphasized and promoted best practices on prevention, early diagnosis, and prompt treatment of the disease. In addition, this program included targeted distribution of insecticide-treated bed nets, which were provided for free to pregnant women, and regions or zobas that were believed to be highly vulnerable to the disease, which in turn encouraged users. Consequently, in 2018, HIV prevalence for Eritrea was 0.6 %. HIV prevalence rate has gradually reduced 0.5% in 2021. In 2021, incidence of tuberculosis for Eritrea was 74 cases per 100,000 people. Though Eritrea incidence of tuberculosis fluctuated substantially in recent years, it tended to decrease through 2002 - 2021 period.

10. Social Protection and Labor

Criteria Score: 2.8

10.a. Social safety net programs

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Eritrea has a wider social safety nets which is reportedly targetting the marginalised groups notably low incomes. However, there are indications that fuel and food staffs are subsidised for all Eritreans. In fact one would argue, that most adults are employed in government which is a form of income security. The Government has formulated relevant strategies to guide the implementation process at various levels (regions and sub-regions). The government is carrying out outreach programmes to the community on labour laws and standards using the existing strategies on labour. The labour standards are basically maintained, and the labour market regulations limit poor work ethics and employment in the national labour force. The Government has ratified all International Labour Organization (ILO) core conventions on labor standards. Notwithstanding these, most of domesticated laws and strategies need to be reviewed to meet the international standards and address the new challenges emerging in the country given the new political development taking shape in the region. Among includes: (a) strengthening the family unit to provide a better environment for the growth and development of children; (b) empower communities to coordinate and promote good childcare and appropriate socialization practices; (c) create favorable grounds for orphans to remain within their communities; and (d) strengthen the coping mechanisms of caretaking families through income-generating support.

10.b. Protection of basic labour standards

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The government is carrying out outreach programmes to the community on labour laws and standards using the existing strategies on labour. However, most of these strategies need to be reviewed to meet the international standards and address the new challenges emerging in the country given the new political development taking shape in the region. Among includes: (a) strengthening the family unit to provide a better environment for the growth and development of children; (b) empower communities to coordinate and promote good childcare and appropriate socialization practices; (c) create favorable grounds for orphans to remain within their communities; and (d) strengthen the coping mechanisms of caretaking families through income-generating support. The labour standards are usually maintained, and the labour market regulations limit poor work ethics and employment in the national labour force. The Government of State of Eritrea has ratified all International Labour Organization (ILO) core conventions on labor standards. To this effect, the Government has formulated relevant strategies to guide the implementation process at various levels (regions and sub-regions).

10.c. Labour market regulations

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The Government contends that it promotes the rights of the people at workplaces at all levels. Lack of data on labor markets for Eritrea could not allow looking at the various components of labor market regulations and other practices since Eritrea is not covered by world economic forum competitiveness report. However, what is clear is that restrictive labour regulations are one of the least five factors constraining doing business and investment in Eritrea. The current labour market analysis conducted by the Government in 2015 revealed that labour market regulations are in place but do not fully protect persons below the age of 18 years old. The children below 18 years get employed in occupation to support their parents who are either too old or are disabled because of the injuries suffered during the liberation war. Since 1993, the Eritrea has been a member of the international labor organization (ILO). The Government acceded to the ILO Convention on the Minimum Age for Work that subsequently guided the harmonization of domestic laws to conform to the principles enshrined in the convention. The recruitment of youth into the national service has been widely criticized. This practice has been stopped and the demobilization programme is already undertaken to ensure that the youth with relevant skills can join private sector or acquire informal sector jobs. Owing to lack of opportunities, young people (ages of 15-24) in Eritrea are more likely to join the pool of the unemployed than find work. Over the period 2000-2019, the average unemployment rate for Eritrea's youth people was 10.93% compared to 6.68 % for the total labour force. In recent years, high youth unemployment has fueled emigration, depleting the country's youthful labour

force.

10.d. Community driven initiatives

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The country's governance structure emphasizes local empowerment and decision making on issues that affect people in their daily life. The functioning of Community Courts is a case in point and adjudication of certain civil disputes is made with a better understanding of the local areas. The idea of community initiatives is not new in Eritrea but started in the past decade. The Government maintains that the principles applied during the war of liberation are still relevant to the current situation in Eritrea. The sectors use a community approach to design their programmes using the same guiding principles. This approach gains support from Agrekon (1997) who provided evidence that "Emerging experience from many countries, including some African countries, suggests that an approach that puts communities at the Centre of the development process is likely to have considerably more chance of success than the centralized, bureaucratic approach that has characterized previous rural development initiative". Following this approach, the zobas and sub-zobas, have continued to utilize the network of NUEW to mobilize the communities as well as implementing its programmes. A case in point is the mobilization of local communities to participate in the prevention of malaria and recently COVID-19. This approach has enabled the Government to address some of the development challenges that would require a lot of financial resources beyond the capacity of the Government. The government will continue to integrate community into the government development programmes given that this has been at the center of historical implementing development programmes in the country. The government is aware that the approach of community involvements was found to be working in Africa.

10.e. Pension and old age savings programs

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The Government has a strong pension and old age saving programs although it is not clear whether it is a public officers' defined pension program or not. Eritrea has a civil service with staff exceeding 65 years of age. It seems many staff have reached the retirement age and they need to be allowed to retire. Most of the youth have been participating in the national service programme and some of them may want to retire. Given the new opening for retirement, pension payment has been affected by shortage of funds as the government fiscal position and pension plans were severely affected by United Nations sanctions and now COVID-19 economic impact. In line with this pension requirement, contribution to pension fund is a mandatory requirement for all employees in Eritrea. In the face of new political developments in the region, the Government has started recruiting young graduates into Government institutions to allow some of the old people to retire but the type of retirement scheme in place is not yet clear. The demobilization exercise has already been initiated and this will release the young and trained youth to join productive employment. With the normalization of relations with all the neighboring countries and post COVID-19, the government should be in position to retire the officers due for retirement.

11. Environmental Policies and Regulations

Criteria Score: 3.5

11. Environmental Policies and Regulations

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Eritrea is highly vulnerable to climate change, and greenhouse gas emissions have increased in recent years. Political commitment to climate and green growth is reflected in the domestication of international commitments through the development of national frameworks to achieve the objective. Eritrea remains bound by global emissions mitigation objectives, under the Paris Agreement, where sub-Saharan Africa countries committed to cut their own future emissions by the same amount as the carbon credits sold today. The Ministry of Land, Water and Environment (MoLWE) and the nationally determined contribution (NDC) acknowledges the importance of climate financing to implementing the identified adaptation and mitigation actions. The National Vision 2030 considers climate change as a defining issue for future development and proposes to position the country as a leading green economy. The MoLWE is increasing awareness programs at all levels albeit at a slow pace. The government has historically progressed to prepare enabling laws and regulations and attendant policies to guide implementation. Since joining the global efforts to combat desertification by signing and ratifying the 1994 United Nations Convention to

Combat Desertification (UNCCD), several initiatives have been put in place. The Government has continued to promote innovations e.g. energy efficient stoves have been invented and introduced, and more investment has been made on renewable energy as a commitment from the government. Eritrea water Proclamation 23/08/2010 as well as the forestry and wildlife conservation are adequately utilized, and all institutions and entities are required that any activity implemented should meet the required standards set in these documents. Adaptation and mitigation plans are addressed in the 2001 Initial national communication under the United Nations Framework Convention on Climate Change (UNFCCC), the 2007 National Adaptation Program of Action (NAPA), the 2012 Second national communication to the UNFCCC, the 2015 Intended Nationally Determined Contribution (INDC) to the conference of the parties in Paris, and the 2018 Nationally Determined Contribution (NDC) for the period 2020-2030.

(D) Public Sector Management and Institutions

Cluster Score: 2.533

12. Property Rights and Rule-based Governance

Criteria Score: 2.25

12.a. Legal basis for secure property and contract rights

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Respecting property rights is essential to foster greenfield investment inflows and promote entrepreneurship and innovation. Expecting the private sector to play an active role in the economy without safeguards for property right will not yield the expected outcomes. In the history of economic development, protecting the property rights of individuals and the private sector increases business confidence, increase entrepreneurial activities and fosters innovation. Despite the constitutional guarantee of legal rights, the enabling legislations have lagged the fast changing environment and need updating. Moreover, the enforcement of property rights in Eritrea has been arbitrary and a source of insecurity, affecting all attempts at rural development and agricultural transformation. There is, for example, no protection against arbitrary confiscation of land and property. This has had negative impacts on investment and hence productivity in the agricultural sector and the countryside more broadly. While the

1994 land reform declared that all land belongs to the state, highland farmers were granted usufruct land rights based on customary law. However, they are not safe from arbitrarily expulsion from the allocated land. The western lowlands have been the focus of numerous resettlement programs in the past, in which the indigenous population was not compensated for their loss of land. The eastern lowlands and highland escarpments on the Red Sea coast have also experienced resettlement programs in which members of the indigenous Saho population group were similarly uncompensated. It is evident that there has been lack of transparency, predictability and impartiality that are considered as the main factors affecting business and private sector development. In terms of property rights, most of the property is owned by the government and leased out to individual persons. In practice, it is difficult to know whether intellectual property rights are well protected or not. Other examples related to property rights challenges. The eastern lowlands and highland escarpments on the Red Sea coast have also experienced resettlement programs in which members of the indigenous Saho population group were similarly uncompensated. The same is true for those who have lost their land to the military, which has established cash-crop farms run by conscripts, mainly in the Gash-Barka region. By and large, enforcement of contracts and recognition of property rights depend largely on informal mechanisms dictated by government where property is owned by the state. Property and contract rights are subject to manipulation by government officials or other elites. Unfortunately, during 2019-2023, it is not clear how information on property rights was collected during covid19 restrictions, most likely the previous status remains.

12.b. Predictability, transparency, and impartiality of laws affecting economic activity

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Across sectors in Eritrea, transparency is less than desired for promoting economic activities. While regular procurement procedures are key to governance and transparency, their implementation has been a challenge. Given the insular approaches, the GoSE has been forced to design its own systems that have not fully conformed to international standards of procurement/public contracts. However, as a sign of the recent show of policy flexibility, the Government's procurement policy and rules are being reviewed to meet international standards. Eritrea's overall ranking on the Transparency International's Corruption Perception index ranking of 162 out of 180 countries in 2022 with scores of 22/100 in 2022 and 2021. The low scores underlines the need for reforms. Meanwhile, the general lack of legal and fiscal transparency has hindered the undertaking of a rigorous assessment of the current situation on the ground. While regular procurement procedures are key to governance and transparency, their implementation has been a challenge in Eritrea. Given the insular approaches, the GoSE has been forced to design its own systems that have not fully conformed to international standards of procurement/public contracts. We have learned that the Government's procurement policy and rules are being reviewed to

meet international standards. Laws and regulations in Eritrea are not frequently changed but they are outdated in the face of international standards. Judicial decisions are not publicly available but available on request.

12.c. Difficulty in obtaining business licenses

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Cognizant of the need to support business registration, in 2029 the Government simplified the process of acquiring business permits and it is almost the shortest process within the region. During the same time, Government lifted the ban issued on issuance of import permits for construction activities and fuel products. Reducing costs of doing business including transportation could be beneficial to Eritrea. This will facilitate export of goods being transported from Ethiopia and other neighbouring countries including Saudi Arabia and Jeddah. Additionally, Eritrea has one of the longest coastlines that can facilitate the transportation of goods across the sea from land locked countries in the region thereby making Eritrea realize its dream as a central transport hub to the far east and Europe. While the reform process which had been initiated and accelerated in 2018 could have stalled, the private sector is expected to pick up provided the several impediments such as power, access to credit and less favorable regulatory environment are addressed. The previous doing business had ranked as the second last of the 190 countries.

While there have been efforts in recent years, such as the simplification of the process of acquiring business permits in 20129, the overall environment remains challenging for businesses in Eritrea. The registration process, which usually takes 84 days and requires businesses to register with six different government offices, is a testament to the bureaucracy and time-consuming procedures in place. Although there are avenues to expedite the process for foreign businesses with the right connections. Despite Eritrea's potential advantages, like its extensive coastline, the business environment remains stifled by power issues, lack of access to credit, and an unfavourable regulatory environment, as reflected in its poor ranking in previous evaluations.

12.d. Crime and violence as an impediment to economic activity

Score Type	Value
Draft Score	3.0

Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Despite participating in the War between the governments of Ethiopia and the Tigrayan People's Liberation Front (TPLF) which ended with a peace agreement in November 2022(which has not been broken as of May 2023), Eritrea remain modestly peaceful. There are no serious incidents of internal conflicts fought and deaths from internal conflict over the past two years. Eritrea's score of 2.505 out of 5 has not changed although it is ranked 159. The country's score on domestic and international conflict is 1.787(1-5; is the most peaceful), societal safety and security is 3.428,and militarization is 1.709. In terms of impact and cost of domestic and international conflicts, Eritrea has been modestly impacted. Economic Impact of Violence (US\$ 2022 PPP) is 2,776,598,723 which is equivalent to US\$ 754 Per Capita Impact based on 2022, US\$ purchasing power parity. The economic cost of violence (US\$ 2022 PPP) is 2,093,771,795 which is equivalent to 13 % of GDP. According to 2023 Investment Climate Statements,Eritrea exhibits a mix of conditions that place it at the middle of the scale. Despite its involvement in external conflicts, the internal peace and absence of civil disturbances over the past two years indicate a state's capacity to maintain domestic order. The continued operation of the Canadian-operated mine after a single incident of violence underscores a relative stability in the investment environment. Although the state appears capable of providing protection against crime and violence, the single-party political system and restricted flow of information make it challenging to gauge the entire scope of public safety and sentiment. The absence of significant politically motivated violence or civil disturbance. This is in tandem with the scoring guideline 3.0 where the state is able to provide a modicum of protection against crime and violence.

13. Quality of Budgetary and Financial Management

Criteria Score: 3.75

13.a. Comprehensive and credible budget

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

In the face of delayed finalization of the national development plan, the country's Priorities are aligned to the vision Vision 2030 "A strategy for inclusive and sustainable development" that was launched in April 2020, and aligned to the attainment of the sustainable development goals and to the Sustainable Development Goals (SDGs). Additionally, the country's priorities are aligned to the agenda 2063 rooted in Pan Africanism and African renaissance with a vision of an integrated, prosperous, and peaceful Africa). The country has an elaborate consultative system of identifying priorities. Sectors and regional (zobas) and sub-regional (sub-zobas) administrative units participate with the ministry of finance and national development as the coordinator of the budget process. Additionally, the GoSE is committed to undertaking annual efficiency and effectiveness analyses for both tax and non-tax revenues and implementing corrective measures. The budget allocations are managed by the ministry of finance and national planning, the government is expediting the implementation of the medium term expenditure framework. Through the bank supported public financial management project it has installed an integrated commercial off the shelf financial management system, which has facilitated transparency and accountability in the approval and use of public resources. Overall, the government is committed to adopting a medium-term expenditure framework (MTEF) approach, formulated in consultation with line ministries, to facilitate the budget process. Most funds are now controlled through the budget, with limited diversion of expenditures—increasing budgetary effectiveness and efficiency. Consequently, the government has continued to strengthen value-for-money monitoring of the use of public financial resources and to weed out wasteful spending.

13.b. Effective financial management systems

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Eritrea has strived to address the challenges in its public financial management (PFM) system via the Budget Planning System (BPS) and the Government Accounting System (GAS). Its PFM system is new, and much remains to be done to achieve results. The overarching aim is to produce standardized, good quality and timely fiscal reports, and real-time determination of the government's cash position. Some improvements have already been noted, including compliance with some of the international best practices such as computerization of the payment system in Inland Revenue and Customs Divisions. Public Procurement Laws and Regulations, and Public Asset Management Laws and Regulations were also drafted. Among the challenges are the system's lack of integration due to lack of computerized financial management systems in ministries and departments and at the regional levels. Moreover, technical and managerial skills are in short supply for public financial management and associated oversight institutions. Still, the recommendations of the African Development Bank's 2016 Country Fiduciary Risk Assessment remain relevant. Eritrea should tighten budgetary and treasury management controls, establish, and scale up an integrated financial management information system, improve internal auditing, and strengthen institutional and human capacities, particularly at the subnational levels. These recommendations are being implemented, though slowly. With the cooperation of multilateral institutions, public expenditure, and financial accountability (PEFA) assessments are often undertaken in developing countries. One of the potential developments expected is the exercise of PEFA in the context of Eritrea because these assessments are important to measure degree of efficiency in PFM. PEFA is a key tool to assess institutional voids and progress across seven major pillars such as (i.) budget reliability; (ii.) transparency of public finances; (iii.) management of assets and liabilities; (iv.) execution of policy based fiscal strategy and budgeting; (v.) predictability and control in budget execution; (vi.) timely accounting and reporting; and (vii.) openness to external scrutiny and audit. Given the expensive nature of these assessments, donor support is often deployed to undertake them.

13.c. Timely and accurate fiscal reporting

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

To ensure compliance, the government has installed integrated financial management system software and has increased involvement of the various government agencies in the training on how to implement the integrated financial management system which is expected to increase its utilization. There are tough sanctions for those reports found lacking in accountability. The Government promotes the principle of efficient and effective use of resources to realize value for money in the delivery of services. The government is now able to produce reports that cover the programmes supported by both the government and the development partners. The ministry of finance and national planning releases the funds to those ministries and agencies that have complied with the requisite spending and reporting standards. Additionally, the releases are based on satisfactory audit reports.

13.d. Clear and balanced assignment of expenditures and revenues to each level of government

Score Type	Value
Draft Score	4.0
Reviewed Score	4.0
Second Draft Score	4.0
Final Score	4.0

Country Notes:

The Government of State of Eritrea operates at three levels: national, regional, and sub-regional level. All these levels have been assigned respective roles and responsibilities in relation to revenue collection and utilization. The budget classifications are assigned guided by the various functions of the ministries and agencies. Adherence to this principle is ensured by matching expenditures by function, sub-function, administrative unit, and economic category. The authorities benefited from the study tours to countries with advanced budgetary systems in terms of Sector wide approaches (SWAPS) to budget allocations notably Rwanda and Uganda. Under the SWAP, funds are allocated and used under a sector-specific umbrella and tied to a defined sector policy and priorities under a government authority. This is guided by the medium-term expenditure framework which is anchored on sector wide allocation. Overall, the government allocates its budget in a balanced manner based on sectoral priorities. While the MTEF would address the challenge of budget predictability and allow better planning, new technology platform and automation, would address the remaining challenge of delayed submission of financial returns for revenues collected at the regional and sub-regional levels

14. Efficiency of Revenue Mobilization

Criteria Score: 2.5

14.a. Tax policy

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

Eritrea's revenue to GDP ratio was registered an increase of 3.4 percentage points to 35.9 % in 2022 compared to 2021, largely reflecting improvements in the GDP and tax administration as the economy continued to recover following the gradual lifting of the COVID19 containment measures, and improvements in the global demand conditions. This continuous improvements was against the background of a drop in revenue in 2020 owing to the onslaught of COVID19 and its impact on the economy. The country's revenue position had improved in 2019 subsequent to the normalization of diplomatic relations with neighboring countries in 2018 supported by increased business activities and revenue base including on foreign trade.

While the share of non tax revenue has remained small below 5% of GDP, this has evolved over time owing to the past reforms introduced in 2015. This trend has been supported by increased mining activities and associated mineral royalties, that have become an important source of public revenues. Among the 2015 tax measures was the unification of value added tax rates which improved tax collection. However, most of the tax revenue derives from taxing local trade, tourism, and VAT especially for a few manufacturing firms. Broad-based commodity taxation is considered the most effective form of taxation and it is expected that this revenue source should gradually dominate total revenues. The government had introduced new unknown measures under the 2020-2023 revenue plan to enable economic recovery from the impact of COVID-19. The policy measures introduced since 2015 had successively improved domestic revenue effort. These have been complemented by the improvements in tax administration and mainstreaming of the inland revenue department, attributed to the ongoing domestic resource mobilization project supported by the Bank Group. The other source of revenue which has a high potential given the large diaspora community, is the remittances. Remittances used to be important source of revenue before they were interrupted by economic sanctions imposed by United Nations and the United States, and with the financial sector modernization drive, the country could tap into this source. This premise is also against the backdrop of the high diaspora remittances during COVID-19 which reportedly helped to cushion the most vulnerable groups.

14.b. Tax administration

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

The country is making efforts to improve tax administration in the tax collection institution, the inland revenue. In tandem with the ongoing Eritrea Strengthening Tax Administration Project (ESTAP), automation of the system is complete and it is expected to improve revenue performance by 50%.

The project provides a glimpse of a strong and prudent tax administration system and it has already disbursed 3 percent. This has been complemented by ongoing government efforts to improve the tax system and the data Centre as well as strengthening networking. Government continues to implement a domestic revenue mobilization plan covering the period 2020-2023. This builds on the previous plans 2015-2019 and 2012-2014 where were considered successful. In addition, the training of human resource capacity in the tax administration is still ongoing and the Government plans to rollover the whole system to regions and sub-regional administrative units. To effectively implement the 2020-2023 revenue plan, the authorities included training of staff from the inland revenue departments in tax administration which will greatly enhance domestic revenue mobilization. This also includes the roll over of training to regions and sub regions. The design of the new tax system was preceded by the refinements of a 2004 Eritrean Tax Administration System (ERITAS) in various areas comprising (i) the legal and regulatory environment (proclamations and regulations); ii) the organizational structure that reflects modern tax administration, that is functionally organized, and administers taxpayers on the basis of segments, anchored around a Large Taxpayer Office, and iii) the computerization of revenue administration processes have been instrumental to improvements in tax administration

15. Quality of Public Administration

Criteria Score: 2.5

15.a. Policy coordination and responsiveness

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

Recognizing the importance of service delivery, the government through the coordinating ministry of finance and national development opted to use a decentralized service delivery structure where the zobas and sub-zobas play a critical in empowering the implementation of development projects and programmes. The government monitoring is especially important in the face of decentralization of authorities and resources where financial tracking is key to service delivery. To enhance execution of ministry mandates and effectiveness and avoid diversion of funds, there are lower-level courts and therefore the introduction of Community Courts is considered as a concept of delegating adjudication of certain civil disputes at the local level, but its performance needs close monitoring. The Zobas have also legislative bodies with jurisdiction on local issues. The generation of monitoring statistics is supposed to be under the bureau of statistics, but this role cannot be effectively executed owing to capacity issues. Consequently, monitoring data and other macro statistics are lacking making it challenging to assess the country's performance. In terms of government effectiveness indicators, Eritrea remains comparatively

weak. The country interfaces with a structural problem which delays timely monitoring. According to Bertelsmann Transformation Index (BTI 2020) policy-making in Eritrea is concentrated in the hands of the president and a few top political advisers; and that coordination between the various ministries is poor. This does not promote policy coordination and responsiveness. Policy-making in Eritrea is concentrated in the hands of the president and a few top political advisers; and that coordination between the various ministries is poor. This does not promote policy coordination and responsiveness. The Bertelsmann Transformation Index (BTI 2022) provides the following scores for Eritrea. Regarding efficient asset use is the score is 1(score 1 to 10 best), policy coordination is 2 and anti corruption policy is 1, and overall resource efficiency is 1.3 which is unfavorable.

15.b. Service delivery and operational efficiency

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

The main challenge for Eritrea service delivery remains delayed decision making and lack human capital and financial resources to execute activities at all levels. The government albeit budget constraints has moved ahead to gradually strengthen the anti-corruption by establishing courts at regional and sub regional levels as already indicated in the previous section. Eritrea is facing challenges of service delivery and operational efficiency as evidenced by its score on resource use BTI, 2022. The HIDRI trust funds continue to control all major companies in the country including construction, and trade. The narrative on BTI indicates that anti corruption is not as high on the agenda and corruption by military personnel and civil servants is due to lack of checks and balances. Consequently the revenues from the mining of copper which commenced in 2011 and other precious metals are yet to be audited. However, we are told that the Government is committed to undertaking new reforms to strengthen the structure to implement programmes like drought resilience and sustainable livelihood programme, which is vital for the wellbeing of the population. Noteworthy that the current governance structure promotes local empowerment as programmes, and projects are designed with the participation of the beneficiaries.

15.c. Merit and ethics

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5

Second Draft Score	2.5
Final Score	2.5

Country Notes:

The generally accepted ethical standards pervade the management of public service. The key instruments guiding ethical conduct is the national constitution which has provided opportunities to all citizens. However, there are limitations of the principal of equality at higher level of decision-making positions whereby men have been seen to dominate most of the appointments with on 22 seats allotted to women in national assembly. For Additionally, an estimated 30% of the fighting force during the liberation struggle was women, which the Government maintains largely, at established structures from village to national level. The equality of men and women, which has a historical attachment, is promoted at every level and in every programme taking into consideration the capacity or requirements needed for once to be considered. In this context, job distribution through recruitment, hiring and promotion for any public office are strongly considered on merit. The generally accepted ethical standards pervade the management of public service. Meritocracy IS key for public positions whleas the country's constitution strongly emphasizes the principles of equality between men and women in every aspect of life. In view of the above and information gathered from various missions in the country, the right scoring description of the situation in Eritrea is "Hiring and promotion formally merit-based, but there is extensive patronage in practice in several parts of government. Bribe seeking is accepted behaviour in some agencies but not throughout government".

15.d. Pay adequacy and management of the wage bill

No score data available for this subcriteria.

16. Transparency, Accountability, and Corruption in the Public Sector

Criteria Score: 1.667

16.a. Accountability of the executive to oversight institutions

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The authorities are committed to improving its oversight and accountability. The core of its policy is to deliver services to people more efficiently and effectively, and therefore value for money is critical. In this context, the Ministry of Finance tracks and follows up all funds received and utilized at the national, regional, and sub-regional administrative levels. Accessibility to the entire budget is still a challenge and therefore a complete assessment of efficiency of the fiscal policy is difficult. While the GoSE has an established and independent office of the Auditor General, the staffing level is limited and therefore this affects the frequency of visits made by auditors to each agency. The Mo Ibrahim Index continued to accord low scores on the voice of accountability, rule of law, government effectiveness and the regulatory quality. Overall, in terms of accountability and transparency, Eritrea is considered weak due to lack of checks and balances as highlighted by 2023 BTI (weak governance index score of 1.1 out of 10). International corruption index score is at 22/100. In the face of the tight budget constraints reflected by fiscal consolidation, the government is expected to have instituted tighter budget and spending guidelines, but lack of information limited validation on this.

16.b. Access of civil society to information on public affairs

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

Although the law provides for freedom of speech, including for the press, the government severely restricted this right. Freedom of Expression: The government severely restricted the ability of individuals to criticize the government in private or public. Additionally, the law bans private broadcast media and foreign ownership of media. Consequently, the government controlled all domestic media, including one newspaper published in four languages, three radio stations, and two television stations. According to 2022 report on Mo Ibrahim Index of Africa Governance, Eritrea is ranked among the worst 10 governance performers on the continent. In terms of participation, rights and inclusion, and foundation of economic opportunities, the country is categorized among those countries with increasing improvements. This underlines the need for reforms in these areas which will improve rights on access to information and make the government accountable. Eritrea's still has weak performance reported in rights, participation, rule of law, transparency, and accountability. Unless these rights are addressed, access to information across sectors will remain limited. The National Union of Eritrean Women (NUEW) and the National Union of Eritrean Youth and Students (NUEYS) with wide network all over the country (representing communities) cannot easily access or even provide information without formal authorization from government. Both NUEW and NUEYS play a critical role of mobilizing the communities for effective ownership. However, the most limiting factor is adequate access to information on all government

programmes which is needed to determine the level of expenditure and impact on people's welfare. The Eritrea has implemented a decentralized system of functions, resources, and authority from the central government to local authorities to improve the coordination of the public service sector and promote popular participation and access to critical public information to enhance accountability.

16.c. State captured by narrow vested interests

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

As alluded to in the previous sections, Eritrea's overall score on the 2023 BTI and the transparency International's Corruption Perception index is among the most non-transparent which underlines the need for reforms. The weak check and balances and the already enunciated in un-audited accounts including on revenues on copper and other precious metals imply that the level of state capture is high. The weak implementation of the PFM and the lack of PEFA assessment means that the government system remain opaque. The aforesaid explains the slow reform process. The public sector has been dominant in the overall management of the economy whereby most of the services and activities are undertaken by either the military or parastatals created by the Government. The Government has been quite slow in undertaking the necessary reforms to increase accountability and transparency which continues to augment state capture, affect service delivery, and hurt the growth of the economy as well as creation of jobs for most of the people.

(E) Infrastructure and Regional Integration

Cluster Score: 2.417

17. Infrastructure Development

Criteria Score: 2.333

17.a. Sector strategy/policy

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The Ministry of Trade and Industry is the government arm for translating the country's vision and guidance on its adopted industrial policy and action plan and monitoring. Hence, the country's current industrial policy is focused on developing and supporting initiatives for consumer-goods industries and enterprises based on the country's natural and available resources such as agriculture and mining. In employment terms, the size of Eritrea's industry is relatively small compared to agriculture. The industry sub sectors are fed mainly by agriculture production and extractive activities. The main industrial sub-sectors are food and beverages but also textiles, leather and garments; paper, printing and publication; chemicals, paints, pharmaceuticals; plastics and rubber; construction materials; metal; and furniture, and resources-based industries. There is a realistic possibility to promote industrialization at pace via backward and forward linkages between agriculture and industrial sectors to reinforce the current activities in the agro-processing sub-sector. The government has ongoing initiatives on agro-processing zone and has already expressed the need to expand the zone. Prior to expiry in 2019, National Indicative Development Plan, 2017-2019 had prioritized infrastructure development as one of the key pillars in the country's development initiatives and the country's vision 2030 gives due cognizance to infrastructure among its priorities. The focus is to develop enabling infrastructure in the agro processing zone to create and catalyze the creation of productive jobs in all sectors of the economy remains central as an enabler of growth. In terms of an enabling framework, the country must invest more in physical infrastructure, including transport and ports, while a good regulatory environment targeted at attracting investment will also be crucial. In the face of the budget constraints, the Government struggles to strike a balance between infrastructure and other pressing needs of capital nature. Structurally, Eritrea's industry has not delivered its full potential despite the country's enormous natural wealth. The country's industrial production relies on a narrow resource base, centered on too few sub-sectors, such as the agro-industry, but it is also based on building materials like cement and chemicals from a few extractive minerals and imported oil products. The industry suffers from old and outdated equipment which were inherited from its past as an autonomous district of the Ethiopian federation. Better equipment and machinery exist in recently established industrial factories, but they are underutilized due to lack of adequate funding and skilled manpower. The absence of an updated industrial policy, is a serious gap. An industrial policy would give a sense of clear direction that is well adapted to the new paradigm in conducting business with the rest of the world while meeting global requirement such as value addition to products with acceptable standards, and greener investments. Currently, the industry sector relies heavily on supply chains from abroad. This is an industry whose production relies heavily on imported inputs to feed the transformational process rather than relying more on local and natural resources.

17.b. Legal and regulatory frameworks for infrastructure

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The Government has continued support infrastructure frameworks through various experts from the region to close the gaps in some specialized fields. In this respect, experts from Kenya, Sudan, and Uganda have been instrumental in the implementation of infrastructure projects. Inadequate infrastructure in the transport, Information and Communication Technologies (ICT) together with power shortages constitute critical constraints the development of the private sector and prevents the country from fully benefiting from its strategic position. The role of the private sector in infrastructure development has been very limited or nonexistent because of lack of the necessary equipment and materials or lack of import permits for some of the private sector players. While information on infrastructure legal frameworks is scanty, for the energy infrastructure, the Eritrean Electricity Corporation is the sole generator, transmitter, and distributor of electric energy in the country and the legal framework is provided by Proclamation number 142/2004 that reformed the electricity sector and allowed for more private sector participation. Infrastructure remains a key enabler to economic transformation and this recognition is embossed in Eritrea. Since independence, eritrea has put in place a modest institutional set-up including administrative, legal, commercial, judiciary and regulatory institutions to support infrastructure development amidst the distractions inflicted by past wars. This means a lot remains to be done to attain the desired level of outcome which is to enable infrastructure play a pivotal role in the country's development agenda including promoting the private sector and enhancing competitiveness. There is some progress, however. Mobile phone services is growing and the coverage is almost nationwide with remote areas of the country becoming beneficiaries. The infrastructure of WI-FI is already put in place and ready for providing Internet service. There are several challenges weak capacity due to the lack of adequate number of qualified staff in some of the specialized fields like engineering, law, accounting etc. While it can be acknowledged that there are some qualified planners and engineers at various levels, the capacity is generally weak, and this has affected the overall delivery of services necessitating outsourcing expertise in some cases.

17.c. Public resource management and accountability in the infrastructure sector

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0

Final Score	2.0
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Country Notes:

Eritrea has strived to address the challenges in its public financial management (PFM) system via the Budget Planning System (BPS) and the Government Accounting System (GAS). Its PFM system is new, and much remains to be done to achieve results. The overarching aim is to produce standardized, good quality and timely fiscal reports, and real-time determination of the government’s cash position. Some improvements have already been noted, including compliance with some of the international best practices such as computerization of the payment system in Inland Revenue and Customs Divisions. Public Procurement Laws and Regulations, and Public Asset Management Laws and Regulations were also drafted. Among the challenges are the system’s lack of integration due to lack of computerized financial management systems in ministries and departments and at the regional levels. Moreover, technical and managerial skills are in short supply for public financial management and associated oversight institutions. Still, the recommendations of the African Development Bank’s 2016 Country Fiduciary Risk Assessment remain relevant. Eritrea should tighten budgetary and treasury management controls, establish, and scale up an integrated financial management information system, improve internal auditing, and strengthen institutional and human capacities, particularly at the subnational levels. These recommendations are being implemented, though slowly. One of the potential developments expected is the exercise of PEFA in the context of Eritrea because these assessments are important to measure degree of efficiency in PFM. PEFA is a key tool to assess institutional voids and progress across seven major pillars such as (i.) budget reliability; (ii.) transparency of public finances; (iii.) management of assets and liabilities; (iv.) execution of policy based fiscal strategy and budgeting; (v.) predictability and control in budget execution; (vi.) timely accounting and reporting; and (vii.) openness to external scrutiny and audit. Given the expensive nature of these assessments, donor support is often deployed to undertake them. As already alluded to in the previous sections, the government is adopting a medium-term expenditure framework (MTEF) approach, formulated in consultation with line ministries, to facilitate the budget process. Most funds are now controlled through the budget, with limited diversion of expenditures—increasing budgetary effectiveness and efficiency.

18. Regional Integration

Criteria Score: 2.5

18.a. Movement of persons and labor and right of establishment

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0

Second Draft Score	2.0
Final Score	2.0

Country Notes:

Free movement of persons is one of the most important benefits of regional integration. African Union' has a protocol on the Free Movement of Persons which aims at deeper and progressive implementation of free movement of persons complete with rights of residence and establishment in Africa. These are important elements for ensuring that factors of production such as labour and capital become mobile within the signatories. Eritrea needs dire visa reforms as part of improving its business operational environment. Recently, the Government of State of Eritrea dismantled all controls and other administrative immigration rules and procedures for the Ethiopians following the normalization of relations between the two country. According to the 2019 Africa Visa Openness Index, gains through movement of persons could be a major impetus for driving trade, investment, and tourism. Eritrea's score of 0.18 shows that visa openness in Eritrea is very low as compared to other countries in COMESA such as Rwanda (0.9), Uganda (0.873), and Djibouti (1). Cognizance of the benefits of movement of labor in closing the skills gap and transfer of needed technology, Eritrea has ratified conventions and signed treaties and protocols that promote free movement of persons and labour. According to the 2019 Africa Visa Openness Index, gains through movement of persons could be a major impetus for driving trade, investment, and tourism. Eritrea ranked 51 of the 53 countries in the 2022 Visa openness Index thus indicating its restrictions and limitations of movement of people. Eritrea is yet to sign several protocols on free movement including its EAC's protocol and most Africans need a visa to enter Eritrea. Eritrea scored 0.019 in the 2023 Africa Regional Index. While the covid19 impacted on visa restrictness across countries including Eritrea, the situation in the later has been more or less the same in the past years. Apart fom covid19 restrictions, there were no new regulations restricting movements.

18.b. Regional financial integration

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The government's ambition for economic transformation including among others actively promoting greater access to banking services for farmers and small and medium enterprises by exploiting the Fintech opportunities that are available today and provide a huge return for relatively modest investment would require a regional financial instruments. Unfortunately, due to limited progress, Eritrea is among the least integrated countries along the indicators of macroeconomic integration(0.27) according to 2019 African regional Integration Index. In the face of outstanding sanctions on the financial sector, the payment system is still a challenge. The payment system is still manual across all government institutions, which have introduced many inefficiencies in facilitating trade and development. Eritrea's currently state dominated financial system will not be able to finance the economic transformation and enhance integration without reforms in particular digital technology requiring fast internet. For instance, in neighbouring countries digital technologies have revolutionized farmer access to credit in a manner not possible only ten years ago, but Eritrea is in search of the way out to enhance the payment system. The country has signed and ratified at least 25 percent of the existing regional agreements and it has membership in various regional groupings including IGAD and the delay in signing AfCFTA is due to some skepticism in terms of value added benefits given its current regional membership. ratifying the .