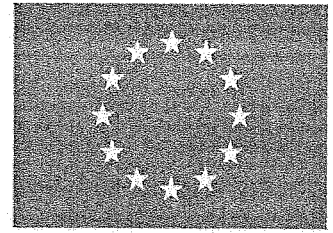
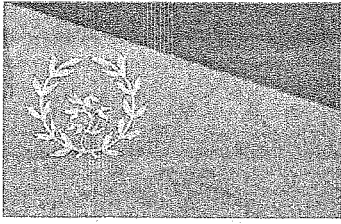


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# **Eritrea - EU Cooperation**

**11<sup>TH</sup> EUROPEAN DEVELOPMENT FUND**

**NATIONAL INDICATIVE PROGRAMME**

**2014 – 2020**



## GENERAL CLAUSES

The Government of the State of Eritrea and the European Commission on behalf of the European Union hereby agree as follows:

(1) The Government of the State of Eritrea, represented by H.E. Dr Giorgis Teklemichael, National Authorising Officer, Minister for National Development, and the European Commission represented by H. E. Christian Manahl, Ambassador, Head of the European Union Delegation, hereinafter referred to as the Parties, determined the general orientations for cooperation for the period 2014-2020.

These orientations which are included in the National Indicative Programme, concern the European Union Aid in favour of the State of Eritrea and were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, revised and signed in Luxemburg on 25 June 2005 and revised and signed in Ouagadougou on 22 June 2010.

The National Indicative Programme is annexed to the present document.

(2) As regards the indicative programmable financial resources which the European Union envisages to make available to the State of Eritrea for the period 2014-20, an amount of EUR 200 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A- allocation). A B-allocation referred to in Article 3.2 (b) can be established to cover unforeseen needs. This allocation is at EUR 0 until a need arises. These allocations are not entitlements and may be revised by the Commission, following the mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.

(3) The A- allocation is destined to cover programmes and projects. The National Indicative Programme concerns the resources of the A- allocation. It also takes into consideration financing from which the State of Eritrea benefits or could benefit under other European Union resources. It does not pre-empt financing decisions by the Commission.

(4) The B-allocation is destined to cover unforeseen needs such as humanitarian, emergency and post emergency assistance, where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate exogenous shocks. The B-allocation shall be established according to specific mechanisms and procedures and does therefore not constitute a part of the programming.

(5) Following the entry into force on 01 March 2015 of the Internal Agreement between the Representatives of the Governments of the Member States of the European Union, meeting with the Council, on the financing of European Union Aid under the multiannual financial framework for the period 2014 to 2020, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the State of Eritrea within the limits of the A- and B-allocations referred to in this document. The respective projects and programmes shall be implemented according to the 11<sup>th</sup> EDF implementing rules and financial regulation.



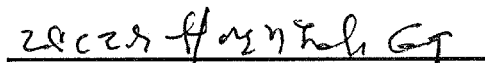
(6) The European Investment Bank may contribute to the implementation of the present National Indicative Programme by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 2c and 3 of the EDF 11 multi-annual financial framework for the period 2014-2020.

(7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Indicative Programme as well as the B- allocation can be revised following the mid-term review and the end-of-term review or ad hoc reviews.

Done in Asmara on 28 January 2016 in two original in English language.

For the Government  
of the State of Eritrea

For the European Commission  
On the behalf of the European Union



Giorgis Teklemikael  
National Authorising Officer  
Minister for National Development



Christian Manahl  
Ambassador  
Head of the European Union Delegation



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## LIST OF ACRONYMS

ACP	African, Caribbean and Pacific Group of States
AfDB	African Development Bank
COMESA	Common market for Eastern and Southern Africa
EC	European Commission
EDF	European Development Fund
EEC	Eritrean Electric Corporation
EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
ENCC	Eritrean National Chamber of Commerce
EPC	Eritrean Petroleum Corporation
ERCOE	Eritrean Centre for Organizational of Excellence
EU	European Union
EUR	Euro
FAO	Food and Agriculture Organisation of the United Nations
GDP	Gross Domestic product
GEF	Global Environment Facility
GFATM	Global Fund against AIDS, Tuberculosis and Malaria
GHG	Greenhouse gas
GPGC	Global Public Goods and Challenges Programme
GSE	Government of Eritrea
ICS	Interconnected System
IFAD	International Fund for Agricultural Development
IGAD	Intergovernmental Authority on Development
IPD	Independent Power Distributor
IPP	Independent Power Producer
LED	Light Emitting Diode
LPG	Liquefied Petroleum Gas
MDG	Millennium Development Goals
M&E	Monitoring and Evaluation
MMR	Ministry of Marine Resources
MND	Ministry of National Development
MoA	Ministry of Agriculture
MoE	Ministry of Education
MoEM	Ministry of Energy and Mines
MoFA	Ministry of Foreign Affairs
MoH	Ministry of Health
MoJ	Ministry of Justice
MoLHW	Ministry of Labour and Human Welfare
MoT	Ministry of Trade
NAO	National Authorising Officer
NCEW	National Confederation of Eritrean Workers
NIDP	National Indicative Development Plan
NIP	National Indicative Programme
NSA/LA	Non-State Actors and Local Authorities
NSEO	National Statistics and Evaluation Office
NUEW	National Union of Eritrean Women
NUEYS	National Union of Eritrean Youth and Students
OAG	Office of the Auditor General



PFM	Public Finance Management
PPP	Public Private Partnerships
PV	Photovoltaic
SDG	Sustainable Development Goals
SE4ALL	Sustainable Energy for All
SIDA	Swedish International Development Agency
SMEs	Small and Medium Enterprises
TAF	Technical Assistance Facility
TCF	Technical Cooperation Facility
ToR	Terms of Reference
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
UPR	Universal Periodic Review
USD	United States Dollar
WB	World Bank
WHO	World Health Organisation

### Units

GW	Gigawatt ( $10^9$ Watt)
GWh	Gigawatt-hour ( $10^9$ Watt-hour)
kg	Kilogram
kWh	Kilowatt-hour
MW	Megawatt
V	Volt

## SUMMARY

### **Eritrea - EDF 11 National Indicative Programme (NIP)**

The European Union (EU) has been supporting the State of Eritrea since independence. Development cooperation has covered a variety of sectors since EDF 8, with agriculture/food security and governance the focal sectors under EDF 10. Inspired by the substantial renewable energy components within EDF 10 programmes and based on the assessment that the limited access to energy is one of the most crucial impediments to broad-based social and economic development, the Government of the State of Eritrea proposed renewable energy as the first focal sector for EDF 11. The lack of reliable, affordable and sustainable energy services is one of the most critical constraints to poverty alleviation and socio-economic development in Eritrea. EU assistance will enable the country to substantially diversify its energy sources, increase access for both urban and rural populations, support a shift from almost complete dependence on hydrocarbon-based electricity production (heavy oil and diesel generators) towards renewable power sources, and promote an improvement of energy efficiency. The EDF 11 support will focus on photovoltaics, but also include the rehabilitation of key power grids, development of wind energy, and contribute to realising the potential of geothermal energy. Bringing new technologies to Eritrea will require an adaptation of the regulatory framework. The investment in infrastructure will thus be complemented by comprehensive support to the development of energy sector governance, including the overall energy policy and strategy, refinement of regulations, and capacity development for key actors.

The decision to focus on energy in the Eritrea-EU cooperation under EDF 11 was motivated by the understanding that an improvement of energy production from renewable sources and its efficient distribution in particular in remote and hitherto economically marginalised areas, will positively affect a broad range of economic and social sectors, from agriculture to education, health, manufacturing and marketing. Its benefits for the modernisation of agricultural and rural development are already demonstrated in the ongoing programs under EDF 10. Improved availability of energy stimulates not only directly agricultural production in the form of mechanised irrigation; it also plays a crucial role in the marketing of agricultural products and fisheries (cooling, storage, and food processing). It thus also enhances the Eritrean society's resilience to natural shocks in a climatically volatile environment. In addition to increasing productivity in other sectors, the investment in the energy sector will in itself create job opportunities for engineers, technicians, craftsmen, and labourers.

All aspects of the EDF 11 energy programme – energy efficiency, photovoltaics, wind, and geothermal – are fully in line with the EU's global energy and climate change policy and the Sustainable Energy For All (SE4All) agenda.

The second sector of the Eritrea-EU cooperation under EDF 11 will be governance and public finance management (PFM). Building on the achievements within the programs funded from EDF 10 to develop the Government of Eritrea's audit, judicial and civil service capacity, the new programme will focus on macro-economic planning and management (general statistics, regulatory framework, employment and productivity), public financial management (audit, financial statistics, fiscal policy), and the implementation of recommendations accepted by the Government of the State of Eritrea under the Universal Periodic Review (UPR), as undertaken by all UN Member States.

The main aim of this programme is to enhance the Government of the State of Eritrea's capacity for economic, financial and fiscal management, to further develop the policy and regulatory framework for the public and private sector, and generally to improve productivity and employment. As such the governance and PFM program aims at improving the business climate concomitant with the Government of the State of Eritrea's capacity of economic management. It is expected to contribute to creating employment opportunities, in particular for young people, in order to curb irregular migration.

The governance and PFM program goes hand in hand with a regular dialogue of the EU Delegation and EU Member States and the Government of the State of Eritrea on migration and human rights issues under

Art. 8 of the Cotonou agreement. It is complementary to activities undertaken jointly by the Government of the State of Eritrea and the EU to tackle the root causes of migration and which are funded from the EU's budget, such as awareness raising and strengthening of the judicial sector of Eritrea to combat human trafficking. In the area of human rights, the governance and PFM program includes a component to support the implementation of the UPR recommendations accepted by the Government of the State of Eritrea.

Creating a more dynamic economy capable of absorbing young people into the formal labour market is a particular concern for both the Government of the State of Eritrea and the EU. Providing young people with livelihood options is a crucial objective of any society. In the Eritrean context, it is also an essential measure in order to address the scourge of irregular migration, which has cost the lives of many Eritreans and impacted negatively on the economy. The recent measures adopted by the Government of the State of Eritrea to provide more opportunities for young people and expedite their entry into the civil service and the job market by defining and even waiving the requirements of the 1994 National Service proclamation as well as providing proper salaries for them might create a more positive environment. It underscores the importance of employment creation in the formal economy for young people. Creating decent employment opportunities is also vital in order to retain and expand the human resources of the country, as well as to encourage those who have left the country to return. At the same time, it is clear that to succeed these recent measures and the policy goals they are set out to achieve will require significant investment in technical and vocational education and training as well as support for the overall growth of the economy.

The overall envelope of the National Indicative Program is EUR 200 million (grant), of which EUR 175 million shall be allocated to energy and EUR 25 million to governance and supporting measures. In both areas, there is scope for complementary funding, such as concessional loans from the European Investment Bank, notably in the area of the rehabilitation of the electric grid and possibly in development finance. Discussions hereon between the Government of the State of Eritrea and the European Investment Bank (EIB) started in early 2015.

This National Indicative Program focuses on the two before-mentioned sectors, which, in the view of the Government of the State of Eritrea and the EU, can achieve the maximum impact on the livelihoods of the people of Eritrea and address some of the most critical issues for the country's socio-economic development in the years up to 2020, notably energy efficiency and sustainability, economic performance, and decent job creation. By providing economic perspectives, the implementation of this programme is thus expected to result in decreased emigration. This will come in addition to the support provided to Eritrea through the Khartoum process in which Eritrea has committed to playing its role.

Women's empowerment has been central to the Eritrean identity, including in the struggle for independence. The EDF 11 programmes will continue to make a strong contribution towards this objective, such as in the provision of reliable energy, reducing the need for collection of fuel wood which is traditionally a task of women and girls.

In addition, to the two focal sectors described above, the Government of the State of Eritrea has requested the EU to assist in a feasibility study for the rehabilitation of the railway and its potential extension to Sudan. The need for improved transport infrastructure in the context of Eritrea's economic development is obvious. The country's mining resources, many of which are located in the West and Northwest, are a key source of income for the Government of the State of Eritrea and present an important potential for employment. The Bisha mine, the only one which is presently at the stage of production, contributes significantly to the country's public resources and provides employment, directly and indirectly, for thousands of people. However, its produce has to be transported to Massawa port in order to be shipped to international markets via a road, which was built at the beginning of the last century and which is not designed for regular heavy-duty transport. With the opening of new mining operations expected from late 2015, this transport bottleneck will be exacerbated and needs to be addressed as a matter of urgency.

Since the Government of Sudan has confirmed its interest in such a cross-border transport link, such a transport corridor project is in principle eligible for Regional Indicative Programme (RIP) funding. A pre-feasibility study, financed from remaining EDF 10 funds, is currently ongoing. It will provide the Government of the State of Eritrea with a range of options and prepare Terms of Reference for a more detailed feasibility study, which could eventually be considered under the RIP for the Horn of Africa and Eastern Africa. The rehabilitation and potential extension of the railway itself would require substantial funding, which could include RIP resources but also loans from finance institutions such as the European Investment Bank, the African Development Bank, or others. The objective of the current pre-feasibility study and, subsequently, a feasibility study, would be to assist the Government of the State of Eritrea in presenting a bankable project and in mobilizing resources.

The EDF 11 NIP, detailed in this document, is complementary to other areas of cooperation with Eritrea, including within the framework of the EC's thematic programmes, such as the European Instrument for Democracy and Human Rights (EIDHR), the Non-State Actors and Local Authorities programme (NSA/LA) and the Global Public Goods and Challenges Programme (GPGC), through which additional resources might be made available to support Eritrea's development objectives, as well as to the programmes of EU Member States and other development partners as detailed below.

### Proposed indicative overview of activities and budget allocation of EDF 11

<b>Focal Sector 1: Energy for Development</b> – Improved socio-economic development through usage of clean, reliable, sustainable and affordable energy (sector governance and capacity development included in sector 2)		
Increased generation capacity and access (# of users) in the Interconnected System (ICS)	EUR 75 million	37.5%
Access for farming and fishing communities, SMEs and social sector institutions through Photovoltaic (PV) and wind standalone systems	EUR 60 million	30%
Studies and exploration phase for Alid geothermal field	EUR 8 million	4%
Rehabilitation of distribution grids in Asmara and Massawa	EUR 20 million*	10%
Expansion of LPG storage and distribution	EUR 4 million*	2%
Introduction of energy saving technologies (e.g. LED lamps)	EUR 3 million	1.5%
Establishment of recycling and reprocessing system for PV components	EUR 5million	2.5%
<b>Total for Sector 1</b>	<b>EUR 175 million</b>	<b>87.5%</b>
<b>Focal Sector 2: Governance and Public Finance Management</b>	<b>EUR 20 million</b>	<b>10%</b>
<b>Cross-cutting Aspects: Support to NAO and other related initiatives/Technical Cooperation Facility</b>	<b>EUR 5 million</b>	<b>2,5%</b>
<b>Grand total</b>	<b>EUR 200 million</b>	<b>100%</b>

\*Blending of EDF funds with EIB loans to be explored

The above table presents an indicative overview of activities and corresponding budget allocation, based on discussions between the Government of the State of Eritrea and the EU, including in the

framework of TAF (Technical Assistance Facility) missions. As per EDF programming cycles, the exact list of activities and respective budget allocation will jointly be defined during the identification and formulation process. This will allow responding to identified needs at the time of the formulation, also taking into account any developments in the period between drafting this NIP and individual Financing Agreements.

## **1. The overall lines for the EU response**

### **1.1. Strategic objectives of the EU's relationship with Eritrea**

Eritrea's history over the last few decades has made broad-based development difficult. After a long war for independence, Eritrea enjoyed a relatively brief period of substantial reconstruction and development which was interrupted again by the 1998-2000 border war with Ethiopia. Since then, the Government of the State of Eritrea has sought to rehabilitate and reconstruct damaged economic and social infrastructure in order to develop the economy and meet the needs of the population. Investment in social infrastructure has triggered results in the health MDGs, such as life expectancy (increase from 46 to 62 years), maternal mortality (drop from 998 to 250/100,000), and child mortality (drop from 135 to 63/100,000). Gender equality is well addressed and mainstreamed across all institutions. However, the protracted 'no war no peace' situation and the relative political and economic isolation of Eritrea have not made it possible for Eritrea to fully develop its economic and social potential.

Eritrean and international institutions often differ in their assessment of key statistical indicators. Reliable statistical data are not always available in the Eritrean context – an issue which will be addressed in the governance component of EDF 11. Nevertheless, it is commonly accepted that Eritrea today is a least developed country, although its citizens display a high degree of resilience. It is estimated that the population is around 3.5 million<sup>1</sup>. Eritrea is ranked 182 out of 187 countries in the Human Development index for 2014<sup>2</sup>. In the absence of reliable statistical updated data, figures regarding the macro-economic situation and the poverty levels can only be projections based on estimates. However, Eritrea is undoubtedly confronted with serious economic challenges, low growth, fiscal imbalance, high inflation and high indebtedness<sup>3</sup>. According to the last poverty assessment (WB 2003), 65% of the population was living below the poverty line.

While Eritrea has important economic potential, including mineral resources, arable land and deep water ports, as well as human resources, it is facing considerable challenges, amongst which ensuring food security in a drought-prone environment, providing and upgrading basic social services, tackling youth employment, promoting the transition from the informal to the formal economy, developing transport and communication infrastructure, and enabling the private sector to contribute to the Government of the State of Eritrea's development activities. Private sector engagement is not yet fully complementary to the Government of the State of Eritrea's development initiatives. In recognition of this, focal sector two of EDF 11 will include activities to improve the investment climate (including the formulation of a legal framework) and macro-economic policies. Undoubtedly, the current lack of broad-based economic development encourages emigration. The Government of the State of Eritrea is committed, through cooperation with the EU, to address some of these challenges by improving the energy situation and addressing governance issues, thereby lifting some key constraints to poverty alleviation and socio-economic development. It is expected that this cooperation will contribute to improved livelihood security and to the creation of economic opportunities for the population which will counter current push-factors for out-migration.

Eritrea and European countries have a long shared history, some of which is still very evident in Eritrea today. Ties between the EU and Eritrea encompass political, economic and cultural aspects. In

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<sup>1</sup> Eritrean Statistical office

<sup>2</sup> UNDP human development report of 2014

<sup>3</sup> IMF regional economic outlook : sub Saharan Africa, April 2015

terms of developmental activities, the EU, and many of its member states, has been supporting Eritrea ever since independence.

In the political and development context of Eritrea, the EU opts for a comprehensive political dialogue, and follows a line of engagement, supporting the country's efforts for renewed regional and international cooperation. The principal conclusion of the "Agenda for Change" is that objectives of development, democracy, human rights, good governance and security are intertwined. Within the framework of the political dialogue between the Government of the State of Eritrea and the EU, the overall political situation, including human rights, is addressed in a constructive way. The Eritrean-EU development cooperation is an integral part of the Eritrea-EU relationship and focuses on tangible development outcomes on the ground, by addressing a limited number of identified priority areas where the EU partnership can make a real difference. The EU is at the forefront of worldwide clean energy policies and implementation and is in a unique position to share the needed advanced modern technologies and experience. Importantly, Eritrea and the EU have aligned their policies in view of clean, affordable and renewable energy to foster the major sectors of development, particularly the food, water, and energy nexus.

The EU and the Government of the State of Eritrea share the concern about sizeable emigration from Eritrea and the fact that thousands of people are losing their lives as a result of criminal activities, including smuggling of migrants and trafficking of human beings. The EU is interested in supporting the Government of the State of Eritrea in addressing the issue of migration and its economic and political causes. In the area of governance, the EU supports the Government of the State of Eritrea in the implementation of the accepted UPR recommendations.

Poverty alleviation is at the heart of the EU's development policy. The EU wishes to support Eritrean efforts to increase resilience and expand livelihood options of the Eritrean people. Eritrea has enormous, yet largely untapped, potential. Contributing to harnessing this potential is the concept behind the programme for EDF 11. Accelerating social and economic development will not only expand options for individuals and enable them to realise their potential in Eritrea, rather than to look for opportunities outside of Eritrea, but it will also strengthen the Eritrean society as a whole.

Like many countries in the region, Eritrea is faced with challenging demographic trends. Year after year, tens of thousands of youth graduate from schools. Equipping youth with adequate skills and enabling them to find decent employment will be key to maintaining the stability that has recently characterised Eritrea in a region often plagued by challenges to peace and stability. The EU has a vital interest in contributing to peace and stability in the wider Horn of Africa region and along the coasts of the Red Sea. Eritrea could play a crucial role in this respect.

Apart from contributing to Eritrea's national development, the EU is also supportive of closer regional integration of Eritrea. The region stands to benefit from enhanced integration in terms of transport and communication infrastructure which would reduce transaction costs, increase trade etc. The EU hence supports the closer integration of Eritrea in regional initiatives, including IGAD and COMESA, as well as the development of regional infrastructure. A first step towards the rehabilitation and extension of the Eritrean railway towards Sudan is currently made with EDF 10 funding for a pre-feasibility study. Given the interest of both Governments, Eritrea and Sudan, in such a cross-border transport link, a detailed feasibility study is, in principle, eligible for EDF RIP support.

## 1.2 Choice of sectors

The National Indicative Programme will focus on the following focal sectors:

- **Energy for Development – Improved socio-economic development through usage of clean, reliable, sustainable and affordable energy**
- **Governance and Public Finance Management**

As per discussions between the Government of the State of Eritrea, represented by the Minister of National Development, and the EU Commissioner for Development in December 2013, energy was identified as the critical sector hampering the social and economic development of Eritrea. Food security and youth employment were additional priorities expressed by the Government of the State of Eritrea. The Government of the State of Eritrea and EU agreed that any EDF 11 intervention in support of the energy sector would be aligned to the Government of the State of Eritrea and EU policies, and should be in line with the following main principles:

- based on the sector strategy and embedded in the national development plan,
- focused on sustainable energy access, efficiency and the promotion of renewable energies,
- linked to the SDGs, thereby directly improving livelihoods of the Eritrean population, and
- built on lessons learnt from the past EU support in Eritrea allowing for effective and implementable interventions.

Energy also features strongly in the Government of the State of Eritrea's National Indicative Development Plan (NIDP) for the period 2014-2018 which is based on a vision for an economically sustainable, carbon-neutral and inclusive growth with a strong social and governance component. The NIDP, in fact, identifies the access to adequate and reliable energy as a core element for inclusive sustainable growth and development in all sectors, productive and social. As detailed in this document, the proposed interventions in the energy sector are expected to result in tangible and substantial benefits for a variety of sectors. Lack of access to energy has had a crippling effect on the Eritrean economy and society. Increased access, reliability and affordability of energy are prerequisites for robust socio-economic development. It is expected to result in improved access to health and educational services, increased agricultural production, processing and marketing as well as generation of off-farm employment. Diversifying energy sources by phasing in renewable energies on a substantial scale will also contribute to global climate objectives, such as mitigating global warming.

The second focal sector under the EDF 11 will be governance, with a focus on economic governance. Building on the achievements under the programs funded from EDF 10 to develop the Government of the State of Eritrea's audit, judicial and civil service capacity, the new programme will focus on macro-economic planning and management (general statistics, regulatory framework, employment and productivity) and public financial management (audit, financial statistics, fiscal control). The aim of this programme is to enhance the Government of the State of Eritrea's capacity for economic, financial and fiscal management, to further develop the policy and regulatory framework for the private sector, and generally to improve productivity and employment. As private sector actors become interested in complementing the role of the State in Eritrea, the framework for such engagement needs to be provided. The public administration, on the other hand, needs to be capacitated to continue to fulfil the responsibilities vis-à-vis its citizens. Cooperation under EDF 10 in the governance sector has established a level of trust between the Government of the State of Eritrea and the EU that provides an enabling framework for the ambitious EDF 11 governance agenda.

The present NIP strongly builds on the experience of EDF 10. In line with the value for money principle and with the priorities identified in the EU Agenda for Change, the main challenges, achievements and lessons learned have been elaborated to develop a sustainable, effective and efficient programme. In this framework, the key challenges to further support the development of the agriculture sector (key sector of EDF 10) will be addressed through the energy sector. At the same time, governance will be kept as priority sector, with a focus on regulatory and capacity building components. Lessons have also been drawn as regards the capacity to manage complex interventions. As a result, EDF 11 programmes will be designed in a way to reduce the number of individual procurement processes. Robust capacity development components will be mainstreamed in all programmes.

In designing EDF 11 interventions, it will be ensured that the support provided contributes to gender equality and women's empowerment. Support will be gender-mainstreamed to ensure that both men and women benefit equally and equitably from EU supported programmes. Monitoring and evaluation frameworks will include gender-disaggregated indicators to measure progress.

Consultations with the Member States, including resident and non-resident Ambassadors to Eritrea, the local private sector, social interest groups (NCEW, NUEW, NUEYS and ENCC) as well as the UN have taken place in the sector identification phase. The principles of coordination, complementarity and division of labour of domestic and international stakeholders have also guided the choice of the key sectors. Several Member States have already identified avenues for bilateral cooperation in line with the principle of complementarity.

### **Focal Sector 1: Energy for Development – Improved socio-economic development through usage of clean, reliable, sustainable and affordable energy**

Lack of reliable, affordable and sustainable energy services is one, if not the most critical constraint to poverty alleviation and socio-economic development in Eritrea. Eritrea's energy sector is characterised by heavy reliance on biomass as a source of energy: Fuel wood and charcoal account for 78% of energy supply. Electricity access rates (38% nationally) remain among the lowest in the world, particularly in rural areas (below 10%). Despite the increase in number of connections (7.5% on a yearly basis over the last decade) electricity consumption per capita remains at an extremely low 60 kWh/year, very low even compared to the African average of about 500 kWh/year.

Low access to energy stifles wellbeing at an individual level as well as socio-economic development at a national level. Where schools and hospitals cannot depend on reliable electricity, the provision of key social services becomes a greater challenge than it already is. Where water for irrigation agriculture cannot be pumped, crops are not grown and food insecurity prevails. Where manufacturing and trade is interrupted through power cuts, efficiency decreases and the economy cannot expand and diversify.

In addition to the above, 98% of the little electricity that is generated in Eritrea is from imported fossil fuels. This places a heavy financial burden on the government as electricity is subsidised and sold at a loss. Furthermore, due to outdated transmission lines and municipal grids, transmission and distribution losses of up to 23% are incurred. Finally, from a climate policy perspective, the generation of electricity from fossil fuels is polluting and in many countries gradually phased out or reduced. As advocated by the EU and recognised by the Government of the State of Eritrea, renewable energy sources are the key element in the SE4All strategy.

In stark contrast to the current almost exclusive use of fossil fuels for electricity generation, the specific geographical properties of Eritrea make the country especially endowed with highly



abundant sources of renewable energy. Solar, wind and geothermal energy can play an increasingly important role in the country's energy mix, in line with the goals of the SE4All initiative. The targets as per the sector strategy are also coherent with the objectives of the SE4All initiative. Regional cooperation with its neighbouring countries can contribute to achieving the energy sector objectives, and the Government of the State of Eritrea is therefore pursuing interconnectivity with Sudan in the short-term and with Ethiopia at a later stage.

Energy is a complex and diverse sector requiring reliable planning, capacity building and significant capital investment, which goes beyond the current financial capacities of the Government of the State of Eritrea. The intervention in the energy sector will also prioritise the development and implementation of energy efficiency policies at all levels of the economy (households, productive sector and public sector) as well as encourage reforms enabling the sector to attract and secure private sector participation. The intervention will also likely include a highly innovative component, which could be used as an example for similar energy programmes by establishing a recycling and reprocessing system for up to 80% of the material used; this will contribute to address the environmental risks and to prevent pollution in the long term. Energy governance will be a crucial aspect of the programme. This includes, beyond establishing efficient institutional capacity, an effective legal and regulatory framework. It is under this aspect that cost reflective tariffs would gradually be introduced in order to realise sector sustainability.

The provision of reliable electricity will have a major impact on economic activity and growth in Eritrea and will hence create employment opportunities. Beyond this effect, in the implementation of EDF 11 programmes priority will be given to creating job opportunities, notably for the youth.

## **Focal Sector 2: Governance and Public Finance Management (PFM)**

Eritrea is faced with challenges in terms of human development and capacity, fundamental for ensuring broad-based inclusive and sustainable growth. To address these challenges, Eritrea is committed to improving the governance and efficiency of the public administration with the objective of enhancing growth and service delivery to its people. An improved investment climate and the further development of an enabling regulatory framework are equally prerequisites for sustainable growth.

In order to ensure the sustainability of the clean energy investments to be made under EDF 11, to ensure the efficiency of service delivery and outputs expected in productive sectors of the economy, including agriculture and fisheries, and in terms of improvements of the social indicators in health and education, capacity development in the public administration and related agencies is seen as key.

Taking into consideration the natural yearly increase of 2.2% of the labour force as well as the additional labour force linked to the expected entry of large numbers of youth into the labour market due to the recent measures to define and even waive national service requirements, the Government of the State of Eritrea sees it as a priority to work on an employment policy with the goal of achieving full employment. Improving the capacity of the public administration in handling the increased labour force by enhancing human development, stimulating economic growth, creating decent jobs and improving the business environment will be key and of mutual interest as a means to reducing poverty as well as to reducing the "push factor" of migration.

Finally, it is recognised that improvement of human capacity alone will not be sufficient for improving policies, strategies and their implementation. In line with the Agenda for Change and the new Sustainable Development Goals, economic governance, rule of law, transparency and

accountability will be enhanced. Activities towards these objectives will encompass supporting the production and dissemination of timely, reliable and comprehensive statistics, as well as external control of the use of public resources in relevant sectors, which are considered key to ensure evidence-based and sound public policies necessary for achieving and measuring the expected development goals. In this regard, and in order to ensure sustainable and inclusive economic growth, advice in support of policies towards macro-economic stability will be provided.

As outlined in the NIDP, Eritrea has gone through a period of stabilisation and reconstruction and is now eager to enhance a rapid social and economic development that will impact on the living standards of the people. EDF 11 will be supporting the increase of the efficiency of the public administration, the production of timely and reliable national accounts for relevant sectors and socio-economic statistics which feed into the decision making and planning of the development strategies, and which are essential for monitoring and measuring the country's development outcomes and the improvements in people's living standards.

In the area of human rights, the Government of the State of Eritrea has participated in the Universal Periodic Review and accepted about half of its recommendations. Subsequently, the Government of the State of Eritrea has expressed its interest in working with development partners to implement these recommendations. The Government of the State of Eritrea and the EU will jointly identify priority areas and activities to be funded from a specific amount set aside in this NIP.

The Government of the State of Eritrea is also very supportive of the Khartoum Process in addressing the issue of migration and human trafficking, and, in its framework, the implementation of concrete projects, including capacity building of the judiciary and awareness-raising. Financial support for such activities in support of the Khartoum Process is envisaged to be sourced from separate EU funds but could be funded from EDF 11 if the Government of Eritrea so desires.

## 2. Financial overview

<b>Focal Sector 1: Energy for Development</b> – Improved socio-economic development through usage of clean, reliable, sustainable and affordable energy	EUR 175 million	87.5%
<b>Focal Sector 2: Governance and Public Finance Management</b>	EUR 20 million	10%
<b>Cross-cutting Aspects:</b> Support to NAO and other related initiatives/Technical Cooperation Facility	EUR 5 million	2,5%
Total	EUR 200 million	100%

## 3. EU support per sector

### 3.1. Energy for Development - Improved socio-economic development through usage of clean, reliable, sustainable and affordable energy

As detailed above, the limited access to energy is considered one of the most crucial impediments to broad-based social and economic development. Reliable supply of energy is not only a major driver

for development in its own right, but is also catalytic to achieve an impact in other sectors. The WHO representative in Eritrea has confirmed that lack of energy is the main obstacle to achieving greater impact in the health sector, such as for storage of temperature-sensitive drugs and vaccines, uninterrupted work in laboratories, and power supply for operating theatres to perform life-saving operations. The potential impact of reliable and affordable energy provision for the education sector is equally obvious: Since independence, the Government of the State of Eritrea has invested substantially in education infrastructure, including with EDF 9 support, and has achieved a remarkable increase in school enrolment and literacy rates. However, quality of education suffers from a lack of energy supply in almost all educational facilities, from primary to tertiary education. Increased and reliable supply of energy will allow schools and colleges to operate after sunset thus increasing student intake and to employ different media and technology thus increasing quality of instruction.

In the agriculture and fisheries sectors, the EU, through its earlier and current programmes, knows first-hand the crippling effect of lack of energy. In the semi-arid areas of Eritrea, only a shift to irrigation agriculture will allow a substantial increase of production in order to improve food security. Where gravity irrigation is not possible, pumps have to be driven by power, and diesel generators are financially and environmentally unsustainable. Fishing communities along the Red Sea coast fish, process and sell a mere fraction of the possible sustainable catch, for lack of ice, cooling and processing facilities – all dependent on electricity. The need is obvious, and the desired shift towards a diversification of energy sources and large-scale introduction of renewables is as timely as it is economically sound.

The choice of technologies to be supported through EDF 11 has been made on the basis of economic analysis both by the MoEM as well as two SE4ALL TAF missions in 2014 and 2015. The underlying principle is that of changing the energy mix towards renewable sources. The development of geothermal energy is a priority of the Government of the State of Eritrea as its potential power supply will be constant, in contrast to that of PV and wind power. It is thus best placed to provide the baseload in the ICS. Grant resources, such as EDF funds, cannot on its own support the development of a geothermal power plant. However, EDF 11 resources are foreseen to contribute to the costs of any missing studies and exploratory drilling that brings the most promising of the known geothermal fields in Eritrea, Alid, up to the exploitation stage.

Photovoltaic (PV) is the second technology that will be supported with this programme. The average insolation in Eritrea is above 6 kWh/m<sup>2</sup>/day; especially in the highlands. Exploitation of this massive potential is at its infant stage. While PV power on its own cannot sustain the load in an Interconnected System (ICS) as it creates disturbance in the grid and is only available in the daytime, unless huge investments are made for storage systems (battery banks), it can make a substantial contribution to the overall energy availability. It has been calculated that the amount of MW to be injected into the ICS through PV plants with EDF 11 support can be safely absorbed by the system. Other PV plants will be off-grid solutions and power more remote communities that are not yet connected to the ICS, as described below.

The third technology to be promoted is wind power. The best potential for wind turbines is in the coastal areas (up to class 7); however, some highland locations also have good potential. Although wind velocity changes in the different seasons, data available for Assab proves that wind power is economically viable there. For some highland locations, EDF 11 resources will be used for further wind measurement campaigns to enable a robust feasibility assessment.

There will be no direct intervention in biomass. In the arid and semi-arid regions of Eritrea, biomass is a scarce resource. Deforestation, mostly to harvest fuel wood and produce charcoal, is being tackled by the Government of the State of Eritrea with afforestation programmes, but is still at alarming levels. Growing crops for biofuel or biogas production would create competition for arable areas that need to be used for growing food crop and animal feed. The limited amount of animal droppings available is normally used as manure and, especially in rural areas, as fuel to bake bread.

Biogas could be a solution to provide energy at schools or hospitals and some pilot projects have been implemented, e.g. with IFAD. However, the Government of the State of Eritrea and the EU believe that the energy programme as designed is already multifaceted, and adding yet another technology may increase complexity with relatively limited return. What the programme does include is an expansion of the EDF 9 supported Liquefied Petroleum Gas (LPG) scheme (see below). LPG reduces demand for biomass fuels and thus contributes to curbing deforestation.

EDF 11 support of the sector will enhance access to energy for both rural and urban populations. It is the Government of the State of Eritrea's policy to increase access to electricity both in urban areas where most of the power is sold today, as well as in rural areas which are currently not or underserved in an effort to guarantee equitable access by all communities. The below information reflects an indicative overview of activities, technologies and corresponding budget allocation, based on discussions between the Government of the State of Eritrea and the EU, including in the framework of TAF missions. As per EDF programming cycles, the exact list of activities and respective budget allocation will jointly be defined during the identification and formulation process. This will allow responding to identified needs at the time of the formulation, also taking into account any developments in the period between drafting this NIP and individual Financing Agreements, progress in technology and changes in prices at the time of formulation etc.

Energy supply in the Interconnected System (ICS) currently serving the cities of Massawa, Asmara and Keren, as well as towns and villages along this main line, will be enhanced and the number of users connected to the ICS will be increased by building and connecting PV plants and upgrading existing and, potentially, adding sub-stations.

Communities that are not connected to the ICS will be benefitting from the installation of standalone systems. Several fishing communities along the Red Sea coast have been identified for such systems which, given an enabling regulatory framework, will enable a substantial increase in fishing, fish processing and marketing activities. The town of Assab, currently totally dependent on a diesel powered generator set, will benefit from the installation of a wind farm of tentatively 5 MW. The town of Barentu and rural communities in the high-potential agricultural areas of the Gash Barka region will be provided with standalone systems that will provide more reliable energy for current customers as well as enable an overall increase of the number of users.

In addition to the above interventions towards renewable energies it is foreseen to expand the storage and distribution system for LPG. This builds on a very successful EDF 9 intervention. While LPG is not a renewable energy source, it is a relatively clean fuel. Access to LPG by households for cooking replaces fuel wood and charcoal and hence has significant positive environmental and health benefits. Reducing the use of fuel wood will have a substantial impact on the lives of women and girls who are mainly tasked with fuel wood collection. They will be empowered to spend more time on productive activities.

Bringing new technologies to Eritrea will require an adaptation of the regulatory framework. The activities in support of energy infrastructure will be complemented by comprehensive support of the development of energy sector governance (see sector 2), including the overall energy policy and strategy. The Government of the State of Eritrea and EU agree that a comprehensive study on the future development of the energy sector (e.g. for the years 2015-2040) needs to be undertaken. This should lead to the finalisation of the National Power Development Master Plan in which important work that has already been carried out as regards future energy requirements and sources, transmission and distribution systems, regional connectivity etc., would be compiled and updated. The Government of the State of Eritrea, specifically the Ministry of Energy and Mines (MoEM), is keen to continue and expand its work on the regulatory framework. As early as 2007, a number of draft regulations have been developed that would enable the private sector to contribute to power generation, transmission and distribution, including model generation permits, power purchase and bulk supply agreements, charging directive (tariffs) and more. In recognition of the fact the scope of the necessary investment in the sector is beyond the capacity of the Government of the State of

Eritrea and other public funds, such as through development partners, updating and implementing the mentioned draft regulations will be explored.

The support to the energy sector will largely be provided as grant funding to the Government of the State of Eritrea. As explained above, the private sector is not yet in the position to contribute in a substantial manner to energy generation and distribution, with few exceptions, notably the power supply to the Bisha mine. Hence, Public Private Partnerships (PPP) are not currently an option for EDF 11 support. However, for the rehabilitation of the Asmara and Massawa distribution grids and the expansion of LPG storage and distribution blending of EDF grant resources with EIB concessional loans is considered.

In order to ensure the sustainability of the investments in the energy sector, it is a priority to build the capacity of Eritreans to operate and maintain the equipment. Robust capacity building components will thus be mainstreamed into all projects in the energy sector and will create employment opportunities for a broad range of skill sets. External technical assistance will be made available as an integral component of the projects to complement and upgrade the capacity in the respective institutions of the Government of the State of Eritrea to plan and implement the ambitious interventions in the limited timeframe of EDF 11.

As with any technology that is introduced or substantially up-scaled, there are associated risks involved, many of which are mentioned in the table in section 3.1.6. In terms of technical and economic viability, sufficient data exists to justify the choice of technology. Risks exist as regards the maintenance of the systems. This will be addressed with a robust capacity building for MoEM, EEC, and other stakeholders, including from the private sector. Another risk exists as regards the injection of high amounts of PV power into the ICS which may cause disturbance in the grid. This risk will be managed by maintaining a high enough percentage of power generated from other sources, including from thermal power stations which are currently modernised, as well as through the rehabilitation of ICS infrastructure as part of the EDF 11 programme.

3.1.1. The following overall and specific **objectives** will be pursued:

The **overall objective** is improved socio-economic development of both urban and rural populations through usage of clean, reliable, sustainable and affordable energy

The **specific objectives** are:

- ❖ Specific objective 1: Access to increased and diversified electricity supply from renewable energy sources
- ❖ Specific objective 2: Increased energy efficiency
- ❖ Specific objective 3: Increased food security and employment and enhanced provision of social services through reliable energy supply with standalone systems

3.1.2. For each of the specific objectives the main expected **results** are:

Specific Objective 1 – Access to increased and diversified electricity supply from renewable energy sources

- ✓ Result 1.1: Increased electricity generation capacity connected to the ICS
- ✓ Result 1.2: Increased access to electricity through the ICS
- ✓ Result 1.3: Preliminary studies and exploration phase completed for geothermal field at Alid

Specific objective 2 – Increased energy efficiency

- ✓ Result 2.1: Distribution grids in Asmara and Massawa are rehabilitated
- ✓ Result 2.2: Energy saving technology such as LED lights installed and used
- ✓ Result 2.3: Recycling and reprocessing system established for PV components
- ✓ Result 2.4: Expansion of LPG storage and distribution facilities to rural areas

Specific objective 3 – Increased food security and employment and enhanced provision of social services through reliable energy supply with standalone systems

- ✓ Result 3.1: Fishing and farming communities as well as SMEs gain access to reliable electricity supply
- ✓ Result 3.2: Increased income of beneficiary communities from fishing and farming activities and SMEs
- ✓ Result 3.3: Improved provision of social services through enhanced electricity supply
- ✓ Result 3.4: Decent jobs created for installation, operation and maintenance of PV and wind-powered energy generation systems

### 3.1.3. Indicators

Improved access to data and reliable statistics as a result of activities supported by sector 2 (good governance and public finance management) will enable widening the scope and refining the choice of indicators Preliminary indicators are:

Result 1.1: Increased electricity generation capacity connected to the ICS

Indicator:

- Increase in generation capacity connected to ICS

Result 1.2: Increased access to electricity through the ICS

Indicator:

- Number of users connected to the ICS

Result 1.3: Preliminary studies and exploration phase completed for geothermal field at Alid

Indicator:

- Implementation status of exploration phase

Result 2.1: Distribution grids in Asmara and Massawa are rehabilitated

Indicators:

- Extent to which inefficient components of grids are replaced
- Annual electricity availability in the ICS

Result 2.2: Energy saving technology such as LED lights installed and used

Indicators:

- Number of LED lights distributed to end consumers
- Number of public institutions using exclusively LED lights

Result 2.3: Recycling and reprocessing system established for PV components

Indicator:

- Status of recycling and reprocessing system

Result 2.4: Expansion of LPG storage and distribution facilities to rural areas

Indicator:

- Number of functional distribution facilities, both stationary and mobile

Result 3.1: Fishing and farming communities and SMEs gain access to reliable electricity supply

Indicator:

- Number of fishermen and farming households with improved access to electricity
- Number of SMEs with improved access to electricity

Result 3.2: Increased income of beneficiary communities from fishing and farming activities

Indicator:

- % change in income of beneficiary communities from fishing and farming and SMEs

Result 3.3: Improved provision of social services through enhanced electricity supply

Indicator:

- % reduction of electricity blackout periods in schools and health facilities dependent on the ICS

Result 3.4: Decent jobs created for installation, operation and maintenance of PV and wind-powered energy generation systems

Indicator:

- Number of jobs created in operation and maintenance of PV and wind-powered energy generation systems

#### **3.1.4 Donor coordination and policy dialogue:**

Currently, donor coordination is largely performed on a bilateral basis. The number of development partners providing sizeable support is still limited. However, on a par with the current re-engagement of the Government of the State of Eritrea with development partners, the Government of the State of Eritrea, specifically the Ministry of National Development, is committed to enhance coordination. Until now, the few development partners active in Eritrea use the UNDP initiated “Development Partners’ Forum” to exchange information and to ensure a degree of complementarity. Being one of the few current development partners, the EU-Delegation is routinely contacted by any interested potential development partner and maintains active exchange. As regards the energy sector, the EU Delegation exchanges information with the Embassy of China, UNDP-GEF and IFAD, all of which support interventions in the sector. Due to the long-standing EU support to the energy sector which includes the EDF 9 supported LPG expansion project, substantial PV components within EDF 10 projects, and a separate Energy Facility project of EUR 11 million (of which EU contributes EUR 8 million) to provide communities in Southern region with PV generated power, the MoEM and the EU have developed a close cooperation. Especially since the start of EDF 11 preparation and in the framework of the two TAF missions, the policy dialogue has gained depth. It can be expected that the Ministry of Energy and Mines will in the future assume a more substantial role in coordination and policy dialogue for the energy sector, in close coordination with the Ministry of National Development.

3.1.4. The Government of the State of Eritrea's **financial and policy commitments** are:

Energy is among the top priorities identified in the NIDP. Having been identified as a key constraint to development, energy has been receiving substantial attention.

To improve the performance of the power sector, the Government of the State of Eritrea decided to focus on the following global undertakings:

- diversify the sources of electricity generation, giving priority to renewable and new energy forms and taking the necessary measures to protect the environment;
- meet the growing demand for electricity in both rural and urban areas (universal access);
- encourage investments from the private sector;
- enhance financial self-reliance of the electric utility through increasing efficiency in power systems (grids, operations and services, etc) and effecting cost reflective tariffs;
- strengthen institutional capacity through skills development, power sector management and other governance aspects.

Work has begun on drafting and revising key policy and strategy documents to reflect the above. The Government of the State of Eritrea appreciates that the regulatory framework of the sector needs to be revised to allow for financially sustainable energy generation, transmission and distribution. User tariffs as well as feed-in tariffs need to be reviewed and established, respectively.

Private sector participation in the energy sector is also being considered by the Government of the State of Eritrea as reflected in policy paper published by MoEM: "Eritrea is likely to encourage local and foreign Independent Power Producers (IPP) and Independent Power Distributors (IPD) to invest in the generation and supply of renewable electricity in order to increase access".

Some legal and regulatory concepts have already been developed and may need to be revised; others have yet to be drafted. The Government of the State of Eritrea recognises that substantial capacity development interventions will be required to enable the MoEM to absorb and manage the anticipated EDF 11 support.

As of yet, the Government of the State of Eritrea's budget is not published. However, access to electricity is seen as a key deliverable of the Government of the State of Eritrea and is thus enhanced at high cost, including subsidies. The shift towards renewable sources will decrease the amount spent on fossil fuels for power generation. Current tariffs are expected to be reviewed.

### 3.1.5. **Environmental assessment**

The interventions in the energy sector are expected to result in a substantial positive environmental impact: the share of electricity generated using fossil fuels will decrease with a positive impact on the emission of greenhouse gas (GHG). Electrification of hitherto unserved communities will decrease the use of fuel wood and charcoal, reducing deforestation, soil erosion etc. as well as having a beneficial health impact, i.e. through reduction of fumes through open fires.

A very important aspect is that the main environmental impact of PV plants, which is the disposal of components after their working life, is already addressed as a recycling and reprocessing system is expected to be established by the end of the programme.

### 3.1.6. The overall **risk assessment** of the sector intervention:

The sector conditions such as policy, strategy, including its monitoring systems, and the sector's institutional setup are sufficiently favourable for the establishment of an EDF support programme



and cooperation. The Government of the State of Eritrea appreciates the importance of the sector for the economic development of Eritrea and has demonstrated its determination to achieve real results.

The institutional framework reveals weaknesses due to limited institutional capacities at the MoEM as well as at the level of the national utility. The wide remit of the organisation has often led to the neglect of vital areas, and management attention has sometimes been channelled into addressing short-term operational issues rather than ensuring the long-term future of the energy and mining sectors.

Possible mitigation measures include a strong capacity development programme for the Ministry of Energy and Mines and work towards ensuring financial sustainability by reviewing subsidies from the Government of the State of Eritrea in line with the country's development agenda.

<b>Risks</b>	<b>Mitigation measures</b>
<p><b>Policy/political risk</b></p> <ul style="list-style-type: none"> <li>- Delayed work on sector policy and strategy reform</li> <li>- Lack of political will to address the governance aspects of an updated energy policy, including the regulatory framework</li> <li>- Weakness in coordination between different line Ministries and their respective policies</li> </ul>	<ul style="list-style-type: none"> <li>- Continue to engage with the Government of the State of Eritrea to support country-driven efforts to improve sector governance</li> <li>- Support robust coordination framework</li> </ul>
<p><b>Technical risk</b></p> <ul style="list-style-type: none"> <li>- Political need to add lines and customers may add to operational and financial challenges of the power utility</li> <li>- Delays in installation of plants may lead to an extension of costly thermal generation</li> <li>- Inadequate capacity to institutionalize appropriate monitoring and dissemination arrangements</li> <li>- PV components (e.g. battery banks) require prudent management to maintain efficiency</li> </ul>	<ul style="list-style-type: none"> <li>- Robust capacity development programmes</li> <li>- Encourage the Government of the State of Eritrea to open the sector for private investment and private utilities</li> <li>- Design work to be frontloaded; procurement experts to support tender preparation; review of tariffs to be addressed as a priority</li> <li>- M&amp;E arrangements to receive particular attention at identification stage</li> <li>- Robust capacity building activities to be mainstreamed in all interventions</li> </ul>
<p><b>Financial risk</b></p> <p>Some of the intervention may result in an increase on demand which may exceed financing capacity of the government</p>	<ul style="list-style-type: none"> <li>- Review of tariffs to be addressed as a priority</li> <li>- Positive engagement in sector will attract additional development partners to contribute</li> </ul>
<p><b>Implementation risk</b></p> <ul style="list-style-type: none"> <li>- Limited absorption capacity linked to insufficient Human Resources in public administration, both in number and skill sets</li> <li>- Vested interests</li> <li>- Insufficient human resources for implementation and follow up</li> <li>- Parallel support from other DPs may affect absorption capacity</li> </ul>	<ul style="list-style-type: none"> <li>- Assess the human resources needs for the implementation of the interventions in the governance sector</li> <li>- Ensure that capacity development programmes are well sequenced; start with needs assessments and possibly functional reviews</li> <li>- Ensure acceptance of external national and international technical assistance</li> <li>- Sector coordination mechanism to be</li> </ul>

strengthened from the start - Options for implementation modalities to be assessed during identification and formulation
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### 3.2. Governance and public finance management

Strengthening the public administration efficiency in the energy sector in particular, but not exclusively, its capacity in planning, in policy making, in monitoring and evaluation will be crucial for the energy investments to become drivers for change in the agriculture, health and education sectors, as well as for the private sector. As outlined in the NIDP, at the sector level, being it productive sectors like agriculture, fisheries, construction, or non-productive sectors such as health and education, the main weaknesses identified are the lack of energy and human capacity. The EU will therefore support the Government of the State of Eritrea in enhancing the institutional and human capacity, in order to ensure that the energy investments can become drivers for social and economic progress and ensure that these investments will be maintained and sustained to develop and enhance the potential human and economic development.

The Government of the State of Eritrea has identified as top priority the issue of employment and productivity, key for increasing wealth and reducing poverty, and also for tackling the root causes of emigration and the refugee crisis. The Government of the State of Eritrea estimates that the increase of the labour force is of 2.2% annually. With the recent measures in regard to national service, a large number of youth are expected to enter the job market. The EU, in line with the principle of Agenda for Change and the principles of the latest decisions on migration, will support the capacity-building for an enhanced, inclusive labour market policy, including the capacity of the Government of the State of Eritrea to enhance skills development and decent job creation, also by improving the business environment which is considered a crucial focal area by the Government of the State of Eritrea.

Eritrea recognises the importance of good public financial management and in particular the need of reliable statistics and data for defining, planning and monitoring the implementation of sound public policies and development goals, as well as the need for a strong and effective/independent audit institution to promote accountability and transparency in the management of public resources in the relevant sectors.

The Eritrean National Statistical System comprises the National Statistics and Evaluation Office (NSEO), relevant statistics departments in line Ministries and Statistics units in the regional administrative authorities. A number of surveys were conducted between 1995 and 2010, the last being the Population and Health Survey was produced in 2010, but currently, macro-economic statistics, national accounts, sector statistics, price statistics, GDP, GDP per capita, balance of payments statistics, government financial statistics and employment statistics are not produced anymore. The main challenges identified are the need for an appropriate legal framework and capacity building, in human resources, statistical infrastructure, tools and standards. The EU support to improve the national Statistical System in Eritrea will be of crucial importance in strengthening public financial management by increasing the planning and monitoring capacity of the Government based on comprehensive macro-economic data accepted by all Ministries, as well increasing the reliability, transparency and accountability of development outcomes. This is also in line with the post 2015 objective of strengthening the National Statistical Systems to monitor global goals.

The Government of the State of Eritrea also recognizes the need to continue strengthening the capacity of its Supreme Audit Institution. The Office of the Auditor General (OAG) is the Supreme Audit Institution in Eritrea and is in charge of ensuring sound management and use of public resources. It endeavours to provide a better environment for better policies and stronger delivery

capacity in the interest of the people. The OAG benefitted from support under EDF 10, but challenges, such as the legal framework ensuring its independence as well as continued human capacity development, prevail. Currently, the OAG reports are only submitted to the President and his Cabinet. As part of the improvement of public financial management, the Government of the State of Eritrea intends to restructure the OAG with a view to generating objective and reliable information which can feed into the policy cycle and help the Government of the State of Eritrea make informed, evidence-based policy decisions as well as in holding the government to account for its use of public resources in the interest of the people.

Having accepted a very substantial number of the recommendations put forward by the working group session of the UPR in February 2014, the Government of the State of Eritrea has presented a plan of action for their implementation and now tasked with its operationalisation. The EU will support the Government of the State of Eritrea with this endeavour.

Last but not least, the Government of the State of Eritrea recognises that the economic governance will also need to be enhanced to ensure the full potential for sustainable and inclusive growth. Along with activities on statistics and public financial management by the OAG which will provide the Government of the State of Eritrea with reliable data for better economic and social forecasting and for improving the sound use of public resources, the possibility to provide greater transparency on sector budgets will be explored. Economic governance with a stability-oriented macro-economic policy, including sound fiscal policies, will not only enhance the sustainability of the aforementioned investments, but will as well support the Government of the State of Eritrea's endeavours in terms of reaching development goals.

3.2.1 The following **overall and specific objectives** will be pursued:

The **overall objective** is to contribute to improved economic governance, accountability and efficiency of Government service delivery.

The specific objectives are:

- ❖ Specific objective 1: To improve the public financial management capacity of the Government of the State of Eritrea
- ❖ Specific objective 2: To strengthen macro-economic policies geared towards the creation of decent jobs, increasing productivity and improving investment climate
- ❖ Specific objective 3: To increase the capacity of the Government of the State of Eritrea in delivering services, such as affordable and clean energy
- ❖ Specific objective 4: To increase the capacity of the Government of the State of Eritrea in the follow-up and implementation of the UPR recommendations

3.2.2 For each of the specific objectives the main expected **results** are:

- ❖ Specific objective 1: To improve the public financial management capacity of the Government of the State of Eritrea

- ✓ Result 1: Availability and access to timely, reliable, comprehensive and quality statistics is improved
  - ✓ Result 2: Human, organisational and institutional capacities of National Statistics Office strengthened
- ❖ Specific objective 2: To strengthen macro-economic policies geared towards the creation of decent jobs, increasing productivity and improving investment climate
- ✓ Result 1: Macro-economic policies enable the private sector to contribute to Government of the State of Eritrea development objectives
  - ✓ Result 2: Capacity of the Ministry of Labour and other institutions in charge of labour market policy and employment generation enhanced
  - ✓ Result 3: Updated investment code and capacity and streamlining of the institutions in charge of developing the business climate and investment promotion strengthened
- ❖ Specific objective 3: To increase the capacity of the Government of the State of Eritrea in delivering services, a.o. affordable and clean energy
- ✓ Result 1: Planning, policy and management of the energy sector is improved
- ❖ Specific objective 4: To increase the capacity of the Government of the State of Eritrea in the follow-up and implementation of the UPR recommendations
- ✓ Result 1: Capacity of Government of the State of Eritrea institutions to address and operationalise agreed UPR recommendations is increased

3.2.3 For each result, the main indicators are:

Specific objective 1: To improve the public financial management capacity of the Government of the State of Eritrea

Result 1: Availability and access to timely, reliable, comprehensive and quality statistics is improved

Indicators:

- Number of statistics annually published
- Methodological statistics manuals / guidelines drafted, adopted and implemented by the National Statistic office and the statistic offices of the relevant Ministries

Result 2: Human, organisational and institutional capacities of National Statistics Office strengthened

Indicators:

- % of the National Statistics Office staff trained on and using statistics software

- ❖ Specific objective 2: To strengthen macro-economic policies geared towards decent job creation, increasing productivity and improving investment climate
  - ✓ Result 1: Macro-economic policies enable the private sector to contribute to Government of the State of Eritrea development objectives
  - ✓ Result 2: Capacity of the Ministry of Labour and other institutions in charge of labour market policy and employment generation enhanced
  - ✓ Result 3: Updated investment code and capacity and streamlining of the institutions in charge of developing the business climate and investment promotion strengthened

Result 1: Macro-economic policies enable the private sector to contribute to Government of Eritrea development objectives

Indicators:

- Updated investment code is agreed and published
- The commercial code is published
- Global competitiveness score / Doing Business report

Result 2: Capacity of the Ministry of Labour and other institutions in charge of labour market policy and employment generation enhanced

Indicators:

- Labour profile published
- Employment and productivity strategy published
- % of the staff of the Ministry of Labour and other institutions in charge of labour policy and employment generation trained in the framework of the programme

Result 3: Updated investment code and capacity and streamlining of the institutions in charge of developing the business climate and investment promotion strengthened

Indicators:

- Strategy for increasing private sector investment finalised

Specific objective 3: To increase the capacity of the Government of the State of Eritrea in delivering services, a.o. affordable and clean energy

Result 1: Planning, policy and management of energy sector is improved

Indicators:

- Energy policy and master plan finalised and published
- Regulatory framework, including PPP updated and published
- % of the staff of the Ministry of Energy and Mine trained on and using tools provided by the programme

Specific objective 4: To increase the capacity of the Government of the State of Eritrea in the follow-up and implementation of the UPR recommendations

Result 1: Capacity of the Government of the State of Eritrea institutions to address and operationalise agreed UPR recommendations is increased.

Indicators:

- Number of agreed UPR recommendations operationalised
- Coordination mechanism put in place and adhered to

### 3.2.4 Donor coordination and policy dialogue are:

As stated in section 3.1.4, currently, donor coordination is largely performed on a bilateral basis; however, the Government of the State of Eritrea is committed to enhance coordination.

The NAO and EU Delegation hold weekly meetings to discuss and monitor the implementation of EU supported programmes and dialogue on policy issues. Such dialogue is also regularly held with line Ministries implementing or planning EU supported programmes.

### 3.2.5 The Government's financial and policy commitments are:

The Government of the State of Eritrea states its high commitment to enhance governance and public administration efficiency, this being part of the NIDP. The amount of the financial commitment is currently not available, as the budget of the State of Eritrea is not published; however, the Government of the State of Eritrea is committed to exploring the possibilities to gradually increase the transparency on sector budgets.

### 3.2.6 Environmental assessment

The programme focuses in particular on policy development, capacity building and human development, so no particular environmental risk is foreseen. Moreover, the development of the statistic and planning capacity of the State will directly contribute to improve the environmental sustainability, allowing the line ministries to develop informed and adequate policies.

### 3.2.7 The overall risk assessment of the sector intervention:

Risks	Mitigation measures
<b>Policy/political risk</b> Political will - Government priorities may shift	- Continue to engage with the Government of the State of Eritrea and other stakeholders in political and policy dialogue.  - Build in flexibility in programming.
<b>Technical risk</b> - Risk of governance support becoming insufficiently targeted over time - Inadequate capacity to institutionalize appropriate monitoring and dissemination arrangements	- Establishment of robust M&E systems; Potential realignment of programmes based on continuous monitoring  - M&E arrangements to receive particular attention at identification stage
<b>Financial risk</b> Some of the intervention may result in an increase on demand which may exceed financing	- Increased focus on assessing financial sustainability of project - Positive engagement in sector will attract

capacity of the government	additional development partners to contribute
<b>Implementation risk</b> - Limited absorption capacity linked to insufficient human resources in public administration, both in number and skill sets - Vested interests - Insufficient human resources for implementation and follow up	- Assess the human resources needs for the implementation of the interventions in the governance sector  - Ensure that capacity development programmes are well sequenced; start with needs assessments and possibly functional reviews  - Ensure acceptance of external national and international technical assistance

#### 4. Measures in favour of civil society

The Government of the State of Eritrea is supportive of allocating funds for civil society organisations from the EC budget, such as the thematic instruments, rather than from the EDF. Hence, there will be no specific allocation from the EDF for civil society support. However, civil society organisations will be among potential beneficiaries of the activities of the sectors identified.

#### 5. B-allocation

No B-allocation is foreseen.

#### 6. Support measures

##### 6.1. Measures to support or accompany the programming, preparation or implementation of actions

Funding will be mobilised through a Technical Cooperation Facility (TCF) to support or accompany the programming, preparation and implementation of actions foreseen in this NIP. The TCF is a standard element of EDF cooperation which enables mobilization of funds for analytical work, policy advice, knowledge sharing and capacity development (through conferences or training) as well as visibility related actions. In the context of EDF 11, the Financing Agreement for TCF is subject to a simplified review and approval process. It is thus envisaged to sign this Financing Agreement as soon as possible after the adoption of the NIP. The TCF resources can then also contribute to the detailed preparation of other EDF 11 Financing Agreements, e.g. by funding outstanding studies etc.

##### 6.2. Support to the National Authorising Officer

Support to the National Authorising Officer (NAO) will be part of the activities foreseen under point 6.1. This is especially relevant as lessons learnt from EDF 10 point to a need to enhance the capacity of the NAO in order to increase absorption capacity. In EDF 10, commitment shown by individual staff members of the NAO unit rather than the existence of a comprehensively staffed unit has enabled management of the joint programmes. In view of the anticipated substantial increase in scope of cooperation, the NAO unit should be expanded in terms of capacity. In addition to capacity development activities for local staff, short and long term technical assistance for concretely defined tasks, such as procurement, may be envisaged.

## ANNEXES



## ANNEX 1: Country at glance

### Key macro-economic indicators

	2013	2014(e)	2015(p)	2016(p)
Real GDP growth	1.3	2.0	2.1	2.0
Real GDP per capita growth	-1.9	-0.6	-0.4	-0.3
CPI inflation	12.3	11.6	12.1	12.3
Budget balance % GDP	-10.3	-10.7	-10.3	-9.9
Current account % GDP	0.3	0.2	-1.2	-1.5

Source: IMF, WEO 2014

### GDP by sector

	2009	2012
Agriculture, forestry, fishing & hunting	14.5	16.9
of which fishing	...	...
Mining and quarrying	0.0	0.0
of which oil	...	...
Manufacturing	5.7	5.9
Electricity, gas and water	1.7	1.7
Construction	15.1	15.5
Wholesale & retail trade; repair of vehicles household goods; Restaurants and hotels	20.4	19.4
of which hotels and restaurants	...	...
Transport, storage and communication	13.1	12.4
Finance, real estate and business services	0.0	0.0
Public administration and defence	29.5	28.1
Other services	0.0	0.0
<b>Gross domestic product at basic prices / factor cost</b>	<b>100.0</b>	<b>100.0</b>

Source: IMF, WEO 2014

### Public finances (percentage of GDP at current prices)

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
<b>Total revenue and grants</b>	<b>27.1</b>	<b>18.4</b>	<b>18.4</b>	<b>18.3</b>	<b>18.6</b>	<b>18.7</b>	<b>18.7</b>
Tax revenue	14.6	8.3	10.2	10.7	11.2	11.3	11.5
Grants	4.1	4.5	1.9	1.2	1.0	0.9	0.8
<b>Total expenditure and net lending (a)</b>	<b>39.1</b>	<b>31.6</b>	<b>28.6</b>	<b>28.6</b>	<b>29.4</b>	<b>28.9</b>	<b>28.6</b>
Current expenditure	29.1	23.4	22.0	22.8	23.0	23.2	23.4
Excluding interest	25.9	20.4	19.2	20.0	20.3	20.8	21.2
Wages and salaries	11.1	8.0	7.8	8.2	8.5	8.7	8.9
Interest	3.2	2.9	2.8	2.7	2.7	2.4	2.1
Capital expenditure	12.1	8.3	6.7	5.8	6.4	5.8	5.3
<b>Primary balance</b>	<b>-8.8</b>	<b>-10.2</b>	<b>-7.5</b>	<b>-7.5</b>	<b>-8.0</b>	<b>-7.9</b>	<b>-7.8</b>
<b>Overall balance</b>	<b>-12.0</b>	<b>-13.2</b>	<b>-10.3</b>	<b>-10.3</b>	<b>-10.7</b>	<b>-10.3</b>	<b>-9.9</b>

Note : a. Only major items are reported.

Source: IMF, WEO 2014

### Current Account (percentage of GDP at current prices)

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
Trade balance	-29.2	-10.3	-4.6	-5.5	-5.0	-5.8	-5.2
Exports of goods (f.o.b.)	1.0	10.0	15.1	13.4	15.8	13.5	12.0
Imports of goods (f.o.b.)	30.3	20.3	19.7	18.9	20.8	19.2	17.2
Services	-2.2	1.5	0.9	0.6	0.5	0.4	0.2
Factor income	-0.7	-1.1	-1.3	-0.9	-0.8	-0.7	-0.6
Current transfers	28.6	10.5	7.3	6.1	5.4	4.9	4.1
<b>Current account balance</b>	<b>-3.6</b>	<b>0.6</b>	<b>2.3</b>	<b>0.3</b>	<b>0.2</b>	<b>-1.2</b>	<b>-1.5</b>

Source: IMF, WEO 2014

Selected economic and social indicators<sup>4</sup>

		2013	2014	unit measure	source
<b>Economy</b>					
1	GDP per capita	544	590	USD	IMF
2	CPI inflation	12.3	12.3	%	IMF
3	Unemployment rate	7.2	X	% of total labor workforce	IMF
4	General government gross debt	126	125.3	% of GDP	IMF
5	Foreign direct investment, net inflows	41.358.000	43.859.000	USD	WDI
<b>Land and Demographics</b>					
1	Population <sup>5</sup>	6,333,135	6,536,176	Persons	WDI
2	Area	101,000	101,000	Sq.Km	WDI
3	Urban population	21.8	22.2	%of total	WDI
4	Population density	62.7	64.7	People per sq km	WDI
5	Birth rate	36.7	X	Per 1000 people	WDI
6	Death rate	6.7	X	Per 1000 people	WDI
7	Population female	50.1	50.1	% of total	WDI
8	Employment to population ratio	78.7	X	%	WDI
<b>Agriculture</b>					
1	Agricultural area	75.2	X	% of land area	WDI
2	Food production index	110.7	X	index 2004-2006 =100	WDI
3	Livestock production index	123.5	X	index 2004-2006=100	WDI
4	Crop production index	93.6	X	index 2004-2006=100	WDI
5	Cereal production	265.000	X	Metric tons	WDI
6	Cereal yield	602	X	Kg per hectare	WDI
<b>Telecommunication</b>					
1	Internet users per 100 inhabitants	0.9	x	per 100 people	WDI
2	Mobile cellular subscriptions	5.6	X	per 100 inhabitants	WDI
<b>Health</b>					
1	Life expectancy at birth	62.8	X	age	WDI
2	Infant mortality	36.1	X	Per 1000 live births	WDI
3	Child mortality	50	X	Per 1000 live births	WDI
4	Health expenditure	3.0	X	% of GDP	WDI
5	Total health expenditure per capita	17	X	USD per capita	WDI
6	HIV prevalence	0.6	X	%	WDI
7	Incidence of tuberculosis	92	X	Per 1000 people	WDI
<b>Education</b>					
1	Literacy rate, adult	70.5	X	%	WDI
2	Duration of Primary education	5.0	5.0	years	WDI
3	Duration of Secondary education	7.0	7.0	years	WDI
<b>Selected additional indicators</b>					

<sup>4</sup> Eritrean and international institutions often differ in their assessment of key statistical indicators. Reliable statistical data are not always available in the Eritrean context. Hence, the figures in this table cannot always be seen as confirmed.

<sup>5</sup> In statistical reports, population size varies from 3.5 to 6.5 mio people, owing to the fact that no recent census data is available. Related figures (i.e. GDP per capita) thus also have to be assessed with caution.

Ease of Doing Business (WB)	Rank 189/189 (2015)
Human Development Index (UNDP) (index, 1=most developed)	0.38/1, rank 181/186 (2013)
Corruption Perceptions rank (Transparency International) (rank, lowest="very clean")	Rank 166/174 (2014)
Index of Economic Freedom (The Heritage Foundation & the Wallstreet Journal) (100 represents the total freedom)	38.9/100, rank 174/178 (2015)
Democracy Index (Economist Intelligence Unit) (rank, Full democracy=1)	Rank 155/167 (2014)
Political Rights (Freedom House) (degree of freedom, 1=the highest)	7/7 (2014)

## ANNEX 2: Development Partners Matrix<sup>6</sup>

SECTORS (OECD/DAC)	DEVELOPMENT PARTNERS																										
	EU +								Non-EU bilateral partners				UN Agencies, Regional Organisations and Special Funds														
	UK	EU	Finland	France	Germany	Italy	Norway	Sweden	China	Egypt	Japan	Qatar	Turkey	United Arab Emirates	AfDB	FAO	GFATM	GPE	OCHA	UNAIDS	UNDP	UNFPA	UNHCR	UNICEF	WFP	WHO	
Education																											
Health																											
Population policies and Reproductive health																											
Water and Sanitation																											
Government and Civil Society																											
Other social infrastructures and Services																											

<sup>6</sup> The table presents the current and anticipated intervention sectors. Level of funding is not indicated for the following reasons: Some EU MS are discussing with GSE to restart bilateral programmes but amounts are not yet decided; the UN Strategic Partnership Cooperation Framework has a target (188 Mio USD for 2013-2016) but is under-resourced as of yet and pledging is still ongoing; for some non-traditional development partners figures are not readily available. Overall development partner funding is comparably limited as of yet.

SECTORS (OECD/DAC)	DEVELOPMENT PARTNERS																										
	EU +							Non-EU bilateral partners					UN Agencies, Regional Organisations and Special Funds														
	UK	EU	Finland	France	Germany	Italy	Norway	Sweden	China	Egypt	Japan	Qatar	Turkey	United Arab Emirates	AfDB	FAO	GFATM	GPE	OCHA	UNAIDS	UNDP	UNFPA	UNHCR	UNICEF	WFP	WHO	
Cultural Heritage																											
Economic Infrastructures and Services																											
Energy Generation and Supply																											
Banking and Financial Services																											
Agriculture																											
Fishing																											
Forestry																											
Industry																											

SECTORS (OECD/DAC)	DEVELOPMENT PARTNERS																											
	EU +								Non-EU bilateral partners				UN Agencies, Regional Organisations and Special Funds															
	UK	EU	Finland	France	Germany	Italy	Norway	Sweden	China	Egypt	Japan	Qatar	Turkey	United Arab Emirates	AfDB	FAO	GFATM	GPE	OCHA	UNAIDS	UNDP	UNFPA	UNHCR	UNICEF	WFP	WHO		
Mineral Resources and Mining																												
Trade Policy and Regulations and Trade-related adjustment																												
Tourism																												
Multi-sector / cross cutting																												
Humanitarian aid/ Refugees																												

ANNEX 3. Sector intervention framework and performance indicators

Note: All targets are subject to feasibility identification and assessment studies. Much statistical data is not readily available in Eritrea. Where baselines or targets are not available, these will be determined at project formulation stage. Wherever possible and meaningful, indicators will be disaggregated by gender.

**SECTOR 1: Energy for Development – Improved socio-economic development through usage of clean, reliable, sustainable and affordable energy**

❖ <u>Specific Objective 1: Access to increased and diversified electricity supply from renewable energy sources</u>			Means of verification
Expected Results	Indicators		MoEM and EEC reports
<b>Result 1.1</b> Increased electricity generation capacity connected to the ICS	- <b>Electricity generation capacity connected to ICS</b> Baseline: to be provided at the latest during the formulation stage Target: increased by 50 MW from baseline by 2020 with an additional 100 GWh per year		MoEM and EEC reports
<b>Result 1.2</b> Increased access to electricity through the ICS	- <b>Number of users connected</b> Baseline: to be provided at the latest during the formulation stage Target: increased by 20% from baseline by 2020		MoEM and EEC reports
<b>Result 1.3</b> Preliminary studies and exploration phase completed for geothermal field at Alid	- <b>Implementation status of exploration phase</b> Baseline: exploration phase not yet launched Target: Exploration phase completed by 2020		MoEM reports
❖ <u>Specific Objective 2: Increased energy efficiency</u>			Means of verification
Expected Results	Indicators		MoEM and EEC reports
<b>Result 2.1</b> Distribution grids in Asmara and Massawa are rehabilitated	- <b>Extent to which inefficient components of grids are replaced</b> Baseline: Current grid infrastructure dates from 1970x Target: Grids fully rehabilitated by 2020  - <b>Annual electricity availability in the ICS</b> Baseline: to be provided at the latest during the formulation stage Target: increase of 20GW per year by 2020 compared to no intervention scenario		MoEM and EEC reports  MoEM and EEC reports
<b>Result 2.2</b> Energy saving technology such as LED lights installed and used	- <b>Number of LED lights distributed to end consumers</b> Baseline: to be provided at the latest during the formulation stage Target: 200,000 additional LED lights installed and used by 2010  - <b>Number of public institutions using exclusively LED lights</b>		MoEM and EEC reports  MoEM and EEC reports

<p><b>Result 2.3</b> Recycling and reprocessing system established for PV components</p> <p><b>Result 2.4</b> Expansion of LPG storage and distribution facilities to rural areas</p>	<p>Baseline: 0 in 2015 Target: 8 by 2020</p> <ul style="list-style-type: none"> <li>- <b>Status of recycling and reprocessing system</b> Baseline: No recycling system operational in 2015 Target: Recycling and reprocessing system is designed by 2018 and operational by 2020</li> <li>- <b>Number of functional distribution facilities, both stationary and mobile</b> Baseline: to be provided at the latest during the formulation stage Target: Increase of 3 operational distribution facilities by 2020</li> </ul>	<p>MoEM and EEC reports</p> <p>MoEM and EPC reports</p>
<p>❖ <b>Specific Objective 3: Increased food security and employment and enhanced provision of social services through reliable energy supply with standalone systems</b></p>		
<p><b>Expected Results</b></p>		
<p><b>Result 3.1</b> Fishing and farming communities as well as SMEs gain access to reliable electricity supply</p>	<p><b>Indicators</b></p> <ul style="list-style-type: none"> <li>- <b>Number of fishermen and farming households with improved access to electricity</b> Baseline: to be provided at the latest during the formulation stage Target: increase from baseline by x by 2020</li> <li>- <b>Number of SMEs with improved access to electricity</b> Baseline: to be provided at the latest during the formulation stage Target: increase from baseline by x by 2020</li> </ul>	<p><b>Means of verification</b></p> <p>MoEM, MMR and EEC reports</p> <p>MoEM, MoT and EEC reports</p>
<p><b>Result 3.2</b> Increased income of beneficiary communities from fishing and farming activities</p>	<ul style="list-style-type: none"> <li>- <b>% change in income of beneficiary communities from fishing and farming and SMEs</b> Baseline and Target to be provided at the latest during the formulation stage</li> </ul>	<p>MMR, MoA and MoT reports</p>
<p><b>Result 3.3</b> Improved provision of social services through enhanced electricity supply</p>	<ul style="list-style-type: none"> <li>- <b>% reduction of electricity blackout periods in schools and health facilities dependent on the ICS</b> Baseline: to be provided at the latest during the formulation stage Target: reduction of blackout hours by 25% by year 2020</li> </ul>	<p>MoEM, MoE, MoH reports</p>
<p><b>Result 3.4</b> Jobs created for installation, operation and maintenance of PV and wind-powered energy</p>	<ul style="list-style-type: none"> <li>- <b>Number of jobs created, operation and maintenance of PV and wind-powered energy generation systems</b> Baseline and Target: to be provided at the latest during the formulation stage</li> </ul>	<p>MoE and MoT reports</p>



generation systems	
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**FOCAL SECTOR 2: Governance and Public Finance Management**

<b><u>❖ Specific objective 1: To improve the public financial management capacity of the State of Eritrea</u></b>		<b>Means of verification</b>
<b>Expected Results</b>	<b>Indicators</b>	
<b><u>Result 1.1</u></b> Availability and access to timely, reliable, comprehensive and quality statistics is improved	<ul style="list-style-type: none"> <li>- <b>Number of statistics annually published</b> Baseline: 1 nationwide statistical survey published in 5 years (health survey) Target: 1 nationwide statistical survey /year published between 2018 and 2020</li> <li>- <b>Number of methodological statistics manuals / guidelines drafted and adopted by the National Statistic office and the statistic offices of the relevant Ministries</b> Baseline: 0 manuals/ guidelines Target: 1 guideline (including quality control, data management and collection protocols etc.) published and adopted by all relevant offices and 5 thematic manuals published by 2020</li> </ul>	<p>NSEO reports</p> <p>NSEO reports</p>
<b><u>Result 1.2</u></b> Human, organisational and institutional capacities of National Statistics Office strengthened	<ul style="list-style-type: none"> <li>- <b>% of the National Statistics Office staff trained on and using statistics programmes and tools provided by the programme</b> Baseline: 0 Target: 80% of key staff and 50% of other staff</li> </ul>	NSEO reports
<b><u>❖ Specific Objective 2: To strengthen macro-economic policies geared towards decent job creation, increasing productivity and improving the investment climate.</u></b>		
<b>Expected Results</b>	<b>Indicators</b>	<b>Means of verification</b>
<b><u>Result 2.1</u></b> Macro-economic policies enable the private sector to contribute to Government of the State	<ul style="list-style-type: none"> <li>- <b>Status of investment code</b> Baseline: 0 Target: 1 investment code published</li> <li>- <b>Status of commercial code</b></li> </ul>	<p>MoT reports</p> <p>MoJ reports</p>

<p>of Eritrea development objectives</p>	<p>Baseline: 0 Target: 1 commercial code published</p> <ul style="list-style-type: none"> <li>- <b>Rank in Global competitiveness score / Doing Business report</b> Baseline: WB doing business rank 2014 189/189 Target: + 10 positions by 2020</li> <li>- <b>Status of Labour profile</b> Baseline: 0 Target: 1 Labour profile published by 2019</li> <li>- <b>Status of Employment and productivity strategy</b> Baseline: 0 Target: 1 Employment and productivity strategy published by 2019</li> <li>- <b>% of the staff of the Ministry of Labour and other institutions in charge of labour policy and employment generation trained in the framework of the programme</b> Baseline: 0 Target: 60% of key staff and 20% of other staff</li> <li>- <b>Status of Strategy for increasing private sector investment</b> Baseline: no strategy in 2015 Target: strategy finalised and available by 2020</li> </ul>	<p>WB reports</p> <p>MoLHW reports</p> <p>MoLHW reports</p> <p>MoLHW reports</p> <p>MoT and Investment centre reports</p>
<p><u>Result 2.2</u> Capacity of the Ministry of Labour and other institutions in charge of labour market policy and employment generation enhanced</p>		
<p><u>Result 2.3</u> Updated investment code, and capacity and streamlining of the institutions in charge of developing the business climate and investment promotion strengthened</p>		
<p>❖ <u>Specific Objective 3: To increase the capacity of the Government of the State of Eritrea in delivering services, a.o. affordable and clean energy</u></p>		
<p><b>Expected Results</b></p>	<p><b>Indicators</b></p>	<p><b>Means of verification</b></p>
<p><u>Result 3.1</u> Planning, policy and management of energy sector is improved</p>	<ul style="list-style-type: none"> <li>- <b>Status of Energy policy and master plan</b> Baseline: 0 Target: 1 Energy policy and master plan published by 2020</li> <li>- <b>Status of Regulatory framework, including PPP</b> Baseline: 0 Target: 1 updated regulatory framework, including for PPPs published by 2020</li> </ul>	<p>MoEM reports</p> <p>MoEM reports</p>

	<p>- % of the staff of the Ministry of Energy and Mine trained and using tools provided by the programme Baseline: 0 in 2015 Target: 60% of key staff and 30% of other staff by 2020</p>	MoEM reports
<p>❖ <u>Specific Objective 4: To increase the capacity of the Government of the State of Eritrea in the follow-up and implementation of the UPR recommendations</u></p>		
<p><b>Expected Results</b></p>		
<p><u>Result 4.1</u> Capacity of the Government of the State of Eritrea institutions to address and operationalise agreed UPR recommendations is increased.</p>	<p><b>Indicators</b></p> <ul style="list-style-type: none"> <li>- <b>Number of agreed UPR recommendations operationalised</b> Baseline: 0 in 2015 Target: 50% of agreed UPR recommendations operationalised by 2019</li> <li>- <b>Coordination mechanism put in place and adhered to</b> Baseline: 0 Target: 1 Coordination mechanism established and adhered to by 2018</li> </ul>	<p><b>Means of verification</b></p> <p>MoFA and MoJ reports</p> <p>MoFA and MoJ reports</p>

#### ANNEX 4: Indicative Timetable for Commitments: EUR 200 million

Sectors	Indicative allocation (EUR million)	Years					
		2015	2016	2017	2018	2019	2020
<b>Focal Sector 1: Energy for Development –</b> Improved socio-economic development through usage of clean, reliable, sustainable and affordable energy (sector governance and capacity development included in sector 2)	175		74	61	20	20	
1.1 Increased generation capacity and access (number of users) in the Interconnected System (ICS)	75		50		15	10	
1.2 Access for farming and fishing communities, SMEs and social sector institutions through Photovoltaic (PV) and wind standalone systems	60			50		10	
1.3 Studies and exploration phase for Alid geothermal field	8			8			
1.4 Rehabilitation of distribution grids in Asmara and Massawa	20		20				
1.5 Expansion of LPG storage and distribution	4		4				
1.6 Introduction of energy saving technologies (e.g. LED lamps)	3			3			
1.7 Establishment of recycling and reprocessing system for PV components	5				5		
<b>Focal Sector 2: Governance and Public Finance Management</b>	20		0	10	6	4	
<b>Cross-cutting Aspects: Support to NAO and other related initiatives/Technical Cooperation Facility</b>	5		5				