Document:	EB 2020/129/R.12
Agenda:	7(b)(i)(a)
Date:	16 March 2020
Distribution:	Public
Original:	English

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Investing in rural people

State of Eritrea

Country Strategic Opportunities Programme

2020-2025

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Executive Board — 129th Session
Rome, 20-21 April 2020

For: **Review**

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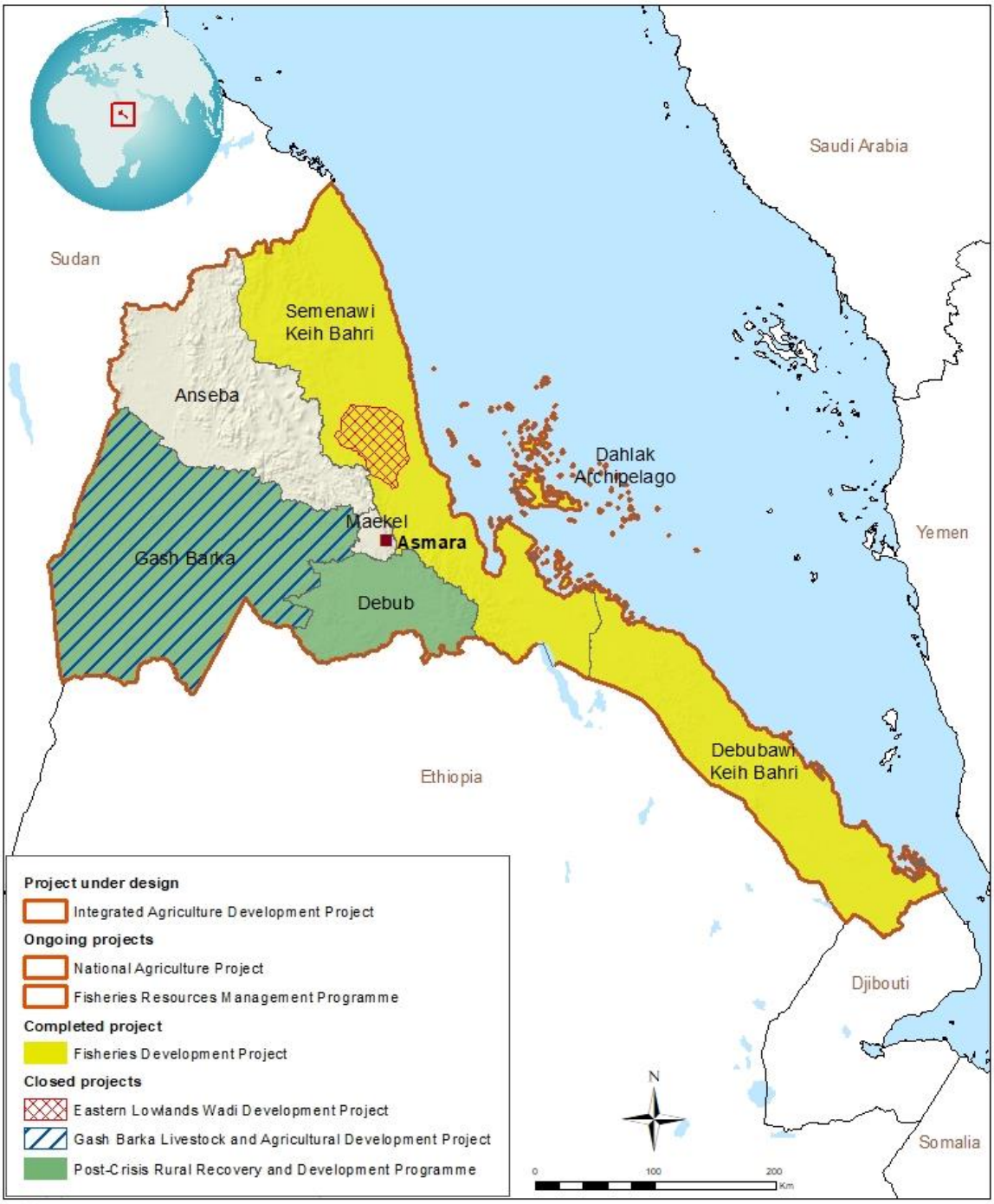
Abbreviations and acronyms

ACBF	African Capacity Building Fund
CLPE	country-level policy engagement
COSOP	country strategic opportunities programme
DSF	Debt Sustainability Framework
FAO	Food and Agriculture Organization of the United Nations
FFS	farmer field school
FM	financial management
GNI	gross national income
HDI	Human Development Index
IADP	Integrated Agriculture Development Programme
ICARDA	International Centre for Agricultural Research in the Dry Areas
ICRISAT	International Crop Research Institute for the Semi-Arid Tropics
IMF	International Monetary Fund
M&E	monitoring and evaluation
MMR	Ministry of Marine Resources
MoA	Ministry of Agriculture
NAP	National Agriculture Project
PBAS	Performance-based Allocation System
SDGs	Sustainable Development Goals
SECAP	Social, Environmental and Climate Assessment Procedures
SMCFS	Small and Medium Commercial Farmers Strategy
SME	small and medium-sized enterprise
SO	strategic objective
SSTC	South-South and Triangular Cooperation
UNDP	United Nations Development Programme
WFP	World Food Programme

Map of IFAD-funded operations in the country



IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 28-01-2020

Executive summary

1. The State of Eritrea and Ethiopia signed a peace agreement in July 2018 and the United Nations Security Council lifted sanctions in November 2018. This peace dividend offers Eritrea opportunities to reallocate public resources to its economic and social development, update its development strategies, create jobs for youth and demobilized soldiers and enhance international cooperation.

2. IFAD remains committed to supporting the Government of the State of Eritrea during this process and has thus jointly prepared this country strategic opportunities programme (COSOP) 2020–2025. The COSOP is aligned with the recently updated Eritrea National Agriculture Development Policy and Strategy, the Five-year Strategic Agricultural Development Plan (2019–2023) and the draft Strategic Development Plan (2016–2020), prepared by the Ministry of Marine Resources (MMR). The COSOP will ensure that IFAD's lending and non-lending support is continuously aligned with the Government's priorities.

3. The COSOP's goal will be to contribute to enhancing smallholder farmers' and small-scale fishers' food and nutrition security through resilience-building interventions. This will be achieved through three strategic objectives (SOs):

   (i) SO1: Increased resilience and adaptation to climate change through sustainable management and utilization of natural resources (land andwater);

   (ii) SO2: Improved access to and use of appropriate technologies, infrastructure and services for enhanced productivity and sustainability of smallholder agricultural and fisheries systems;

   (iii) SO3: Build institutional, community and individual capacities to enhance food and nutrition security and sustainable livelihoods.

4. This COSOP's theory of change focuses on expanding IFAD's core thrusts in the agriculture sector and blue economy by: (i) establishing the resource base for agriculture and fisheries development through water and soil management and irrigation development; (ii) structuring and strengthening of producers' organizations; (iii) strengthening of national input development and delivery systems; (iv) access to intensification and value addition factors; (v) training and institutional capacity development; and (vi) aquatic ecosystem management. IFAD's investment portfolio will mainstream gender, youth, nutrition, and climate change, with particular attention to creating employment opportunities for youth, women and demobilized soldiers.

5. This COSOP will cover two IFAD cycles: the Eleventh Replenishment of IFAD's Resources (IFAD11) and IFAD12 and extend into part of IFAD13. For IFAD11, Eritrea is eligible to receive 80 per cent grant and 20 per cent optional loan resources on highly concessional terms under the Debt Sustainability Framework (DSF). The country's lending terms and related financing conditions will be assessed during IFAD12, taking into consideration its gross national income, debt burden and the application of IFAD's DSF.

I. Country context and rural sector agenda: key challenges and opportunities

1. **Macroeconomic context**. The State of Eritrea is situated on the western shore of the Red Sea and has a coastline spanning over 1,200 km and a total land area of 124,000 km^2. For several decades, Eritrea was diverted from its development path as a result of a 20-year war, followed by a "no-war, no-peace situation" and 10 years of international sanctions. The situation normalized with the signing of the peace agreement between Eritrea and Ethiopia in July 2018 and the lifting of sanctions, by the United Nations Security Council in November 2018. Since then, Eritrea has been gradually moving towards development and resilience-building, but in a context in which it remains highly vulnerable to economic, climate and exogenous shocks, including fluctuating commodity prices for its raw material exports.[1]

2. Eritrea's GDP is driven by services (58.9 per cent) and industry (23.5 per cent). Agriculture and fisheries contribute only 17.6 per cent,[2] although the sector employs 65–70 per cent[3] of the population. Real GDP growth declined from 11.0 per cent in 2011[4] to 4.8 per cent in 2016, but has gradually started to pick up (5.4 per cent in 2018),[5] mainly due to public and private investments in the mining sector.

3. The 2019 Ease of Doing Business index[6] ranks Eritrea 189th out of 190 countries. Private sector participation is constrained by restrictive policies. The fiscal deficit amounted to 7.9 per cent of GDP in 2018, with a current account deficit of 2.7 per cent.[7] The exchange rate has been fixed at 15.08 Eritrean nakfa (ERN) to one United States dollar since December 2016, after being pegged at ERN 15.37 per dollar since 2005. The ERN has become significantly overvalued because of Eritrea's double-digit inflation, combined with current account deficits and monetization of fiscal deficits. Consequently, Eritrean agriculture has difficulties in competing internationally, particularly as cross-border movements are restricted due to the volatility in the Horn of Africa.

4. **Poverty context, gender, youth and nutrition**. Eritrea's population is estimated at 3.29 million,[8] with an annual growth rate of 2.9 per cent. About 70 per cent of the population is under 35 years old. The demobilization of young adults following the peace deal with Ethiopia will require job creation in the private sector and in agriculture, which in turn will require public and private investment and technology transfer.

5. Poverty statistics are yet to be published. The country's ranking on the United Nations Development Programme (UNDP) Human Development Index remains low (0.44) and places Eritrea 178th out of 189 countries. This is due to the impact of the war and sanctions, widespread rural poverty, and the dependence of about 65–70 per cent of the population on small-scale agriculture.

6. Women constitute 55 per cent of Eritrea's population[9] and head 47.2 per cent of all households.[10] Cultural factors and unequal access to inputs and economic opportunities constrain women's socio-economic empowerment in rural areas.

[1] https://www.afdb.org/en/knowledge/publications/african-economic-outlook.
[2] Government of the State of Eritrea.
[3] Government of the State of Eritrea.
[4] World Bank.
[5] Economist Intelligence Unit, August 2019.
[6] World Bank, 2019.
[7] Economist Intelligence Unit. September 2019.
[8] Government estimates for 2012 (Ministry of Local Government – Local Administration Office).
[9] FAO. Country Programming Framework for the State of Eritrea, 2017 to 2021.
[10] Eritrea Population and Health Survey (EPHS), 2010.

7. Eritrea faces severe food and nutrition security challenges. Malnutrition among children under 5 years old has led to a severe burden of stunting (50.3 per cent), underweight (38.8 per cent), and wasting (15.3 per cent).[11] Causes include chronic undernutrition and micronutrient deficiency. Eritrea scored poorly (33.8) on the Global Hunger Index in 2014.[12] Being heavily dependent on food imports, Eritrea is also severely affected by variations in international food prices, which continue to have detrimental effects on rural net food buyers and other vulnerable people.

Agriculture, livestock and fisheries

8. About 75 per cent of the population depend on rainfed crop production and cattle-raising in traditional smallholder systems, which are affected by highly variable climatic conditions, water scarcity and environmental degradation. The agricultural sector's suboptimal performance is attributable to: (i) heavy reliance on rainfed agriculture in a context of low and erratic rainfall; (ii) limited soil fertility, combined with limited access to improved inputs, technologies and equipment due to foreign currency constraints; and (iii) inadequate technical skills at different levels. Limited energy supply is another challenge. Access to irrigation (typically 0.1–0.25 ha per household) allows for two or three cropping seasons and production of surpluses for the market.

9. Livestock continues to be important for Eritrean farming systems, since 49 per cent of the total land area is suitable for grazing and only 17 per cent is suitable for cropping. Livestock productivity is generally low, compared with its potential. This is partly attributable to low availability/access to veterinary inputs and services. The fisheries subsector contributes about 3 per cent to GDP. Eritrea has substantial and relatively underexploited marine resources. Recorded national fish catches rarely exceed 10,000 tonnes per year, of which under 2,000 tonnes are caught by small-scale fisher boats. The Government, with support from its partners, has established over 330 inland water reservoirs, of which only 70 have been stocked with different fish species in an effort to improve rural diets.

10. Agricultural marketing and value addition remain substantially underdeveloped in rural areas. Challenges faced by smallholders who are willing to sell their production surpluses include: high seasonal variability of farm-gate prices; wide price differentials between farm-gate and urban wholesale prices due to weak rural bulking facilities and insufficient transport opportunities; inadequate infrastructure, bulking facilities and transport; and limited farmer organizational services to support the development of small and medium-sized enterprises (SMEs).

11. Climate change and increased climate variability are severely impacting on crop production and livelihoods. Adaptation to climate change is essential given changes in rainfall patterns and increasing temperatures in Eritrea. The country has ratified the United Nations Convention to Combat Desertification, the United Nations Framework Convention on Climate Change and the United Nations Convention on Biological Diversity.

II. Government policy and institutional framework

12. The Government's vision is reflected in the National Indicative Development Plan 2014-2018. The main frameworks for the agricultural sector include the 2019 National Agriculture Development Policy and Strategy; the Five-year Strategic Agricultural Development Plan, 2019-2023; the Small and Medium Commercial Farmers Strategy (SMCFS); and the Minimum Integrated Household Agricultural Package. By 2023, the SMCFS aims to create farm enterprises that are engaged in productive, profitable agriculture value chains, linked to domestic and international markets.

[11] EPHS, 2010.
[12] IFPRI, 2018.

13. Despite the Government's strong commitment to Eritrea's development agenda, institutional capacity gaps exist, including: (i) lack of suitable procedures and regulatory frameworks to guide project implementation; (ii) weak managerial and technical capacities; (iii) limited coordination across sectors; and (iv) inadequate financial management (FM) and monitoring and evaluation (M&E) systems, all of which affect the ability to quantitatively demonstrate development impact.

14. The Government is the main provider of inputs and equipment for agriculture, livestock and fisheries, for which purpose it uses revolving funds distributed under cooperative principles. Farmers' organizations and cooperatives need to upgrade and diversify their models in order to better provide services to their members and ensure their viability. Rural financial services are provided by a microcredit institution under the nationwide Savings and Microcredit Programme.

15. The Ministry of Marine Resources (MMRs) policy framework[13] is focused on (i) developing inland fisheries and encouraging fish consumption; and (ii) sustainable growth of marine fisheries for foreign exchange earnings.

III. IFAD engagement: lessons learned

16. The COSOP 2006–2015 for Eritrea focused on support for the transition from reconstruction to structured development. After 2015, IFAD prepared a 24-month country strategy note for the period 2016–2018, which was subsequently extended to December 2019.

17. IFAD's engagement with Eritrea began in 1995. Seven programmes and projects have been approved, with IFAD financing totalling US$114.78 million. To date, total investments, including cofinancing, have amounted to US$165.92 million. The ongoing IFAD portfolio consists of two projects, with total financing of US$77.78 million: the Fisheries Resources Management Programme and the National Agriculture Project (NAP). NAP is the first IFAD-supported project with national coverage and has yielded valuable lessons.

18. **Main lessons learned**. Key lessons learned from IFAD's experience in Eritrea are as follows:

    (i) Trust between IFAD and the Government, notably during Eritrea's period of isolation, resulted in sector-wide coverage of IFAD interventions in the agricultural sector. The limited resources provided by IFAD have been stretched in an attempt to address the different sector challenges.

    (ii) Many implementation challenges in the *zobas* (regions) are due to capacity differentials between them. Prior to NAP, most IFAD interventions in Eritrea focused on the Gash-Barka and Debub *zobas*, which have tended to perform better than other *zobas*. Embedding project implementation functions in existing government structures promotes sustainability.

    (iii) Watershed management, combined with irrigation development, offers a sustainable solution for increasing the production and productivity of smallholder farmers situated on arid and semi-arid lands. Under NAP, check dams, built on the Tselma plain (Debub *zoba*), enabled two to three cropping seasons per year, which increased the number of producing households from 300 to 800.

    (iv) Limited availability of energy, particularly electricity, negatively affects project components related to infrastructure, which results in low disbursements. This calls for flexibility during implementation.

    (v) Limited availability of funds under the revolving funds for the distribution of inputs curtails the expansion of production across the different subsectors

[13] Draft National Coastal Policy, draft National Action for the Conservation of Marine Turtles, draft Integrated Coastal Area Management Plan and a Strategic Development Plan (2016–2020).

(crops, fisheries). For effectiveness and sustainability, access to appropriate rural finance facilities should be improved.

(vi) Value chain development is central to the Ministry of Agriculture's (MoA) approach under the SMCFS, but experience from other countries (Kenya, Malawi, Tanzania) suggests the need, as a prerequisite, to strengthen enablers to ensure functioning relationships between all value chain actors. In addition, insufficient use of agribusiness tools hampers the efficiency of budget allocation and the sustainability of interventions.[14]

(vii) Women's empowerment is key to addressing household food and nutrition security goals, but efforts need to focus on social and cultural traditions in order to quickly foster women's economic participation. Small livestock-raising has been very effective in the rehabilitation of destitute, single-parent and woman-headed households.[15]

(viii) Due to very limited in-country technical capacity, the development of technical specifications remains the major cause of implementation delays, in particular for infrastructure works and acquisition of imported equipment and goods. The procurement risk matrix highlights shortcomings in many areas, including lack of an adequate legal and regulatory structure, inadequate public bidding documents and insufficient access to public procurement information. The use of framework contracts and technical assistance could be effective in speeding up procurement processes.

(ix) Financial management [16] is inefficient because of semi-manual reporting systems, limited communication infrastructure (including limited internet coverage) and weak capacity of accountancy professionals in Eritrea. The use of country systems for financial reporting is not envisaged at this stage, as existing systems do not comply with IFAD requirements. Internal and external audit mechanisms are in place, but should be strengthened.

(x) The limited availability of monitoring data makes it challenging to measure impact and value for money and to engage in evidence-based policymaking. Most of the data collected are at output/input level. M&E requires attention to ensure that baseline surveys are available, that achievements are sufficiently documented and disseminated and that associated lessons are compiled to inform project design and implementation. Under NAP, IFAD has already mobilized technical assistance to enhance M&E.

IV. Country strategy

A. Comparative advantage

19. Since 2006, IFAD has been one of the key international development partners that have remained active in the agricultural sector in Eritrea. This has established IFAD's credibility with Government in addressing the sector-wide challenges in the agriculture sector and in piloting fisheries development interventions. Given the emerging priorities defined in the SMCFS, IFAD will work with the Government with a long-term vision to gradually steer agriculture and the blue economy (fisheries) towards a more commercial, resilient and sustainable pathway.

20. IFAD's overarching aim will be to continue establishing the building blocks for sustainable, productive and market-oriented rural agriculture and fisheries, notably by building resilience and enhancing rural livelihoods and food security. This will be achieved using a programmatic approach, focusing on promoting climate change adaptation and natural resource management; strengthening individual and institutional capacities; enhancing productivity and value addition; and developing

[14] NAP Supervision Report. August 2019.
[15] NAP Midterm Review Report. November 2016.
[16] Details in appendix.

alternative, off-farm, livelihood opportunities. Due attention will be given to participatory approaches, food and nutrition security and the social and economic empowerment of women and youth.

B. Target group and targeting strategy

21. **Target group**. The interventions under this COSOP are expected to directly benefit 90,000 households (about 450,000 people). Women-headed households will constitute over 40 per cent of these households. The beneficiaries will include at least 50 per cent women and 30 per cent young adults.

22. **Targeting strategy**. IFAD's country programme will cover all six *zobas*.[17] Given Eritrea's IFAD11 performance-based allocation, approximately half of all *sub-zobas* will be targeted. Intervention sites will be selected, based on food and nutrition security and poverty data, agro-ecological suitability and market assessments.

23. Special efforts will be made to reach out to youth and women through a combination of self-targeting, direct targeting and empowerment measures, while also focusing on the achievement of nutrition outcomes. The COSOP will ensure that rural households involved in agriculture and fishery will principally benefit from production-based livelihood opportunities. Specific approaches will be adopted to cater to the needs of women, youth (including demobilized soldiers) and the poorer members of communities with limited access to land, who will benefit from alternative income sources, such as the Minimum Integrated Household Agriculture Package, microenterprise development and seasonal employment, to guarantee their food and nutrition security.

24. The COSOP will focus on social development by strengthening grass-roots organizations, with incentives for the inclusion of the poor through self-targeting activities.

C. Overall goal and strategic objectives

25. The theory of change focuses on expanding IFAD's core thrusts in the agriculture sector and the blue economy by: (i) establishing the resource base for agriculture and fisheries development through water and soil management and irrigation development; (ii) structuring and strengthening producers' organizations; (iii) strengthening national input development and delivery systems; (iv) improving access to, and intensification of, value addition factors; (v) strengthening institutional capacity; and (vi) strengthening aquatic ecosystem management.

26. The COSOP's overall goal will be to contribute to enhancing the food and nutrition security of smallholder farmers and small-scale fishers, through resilience-building interventions. The COSOP will also contribute to the achievement of the following Sustainable Development Goals (SDGs): SDG1, SDG2, SDG5, SDG13, SDG14 and SDG15.

27. The COSOP's strategic objectives (SOs) are aligned with IFAD's Strategic Framework 2016–2025. The SOs are also aligned with the National Agriculture Development Policy and Strategy, the Strategic Agricultural Development Plan and the Minimum Integrated Household Agriculture Package and will help set the stage for the SMCFS:

- **SO1**: **Increased resilience and adaptation to climate change through sustainable management and utilization of natural resources (land and water).** This SO will contribute to maintaining ecological integrity and natural capital for production through sustainable land, soil and water management and conservation approaches to address water scarcity and land degradation. There will be a specific focus on the deployment of an integrated watershed management approach to inform agricultural production

[17] Eritrea is subdivided into *zobas* (regions), *sub-zobas* and *kebabis* (clusters of villages).

interventions; strategic natural resource generation to address soil erosion and land degradation (including of rangelands); and renewable energy and conservation of coastal marine ecosystems to improve the livelihoods of fishing communities. Livelihood opportunities will be fostered for women and young people through service provision in ecosystem preservation interventions. The expected outcomes of SO1 are: (i) appropriate and climate-smart improved technologies adopted; and (ii) sustainable management of natural resources mainstreamed.

- **SO2**: **Improved access to and use of appropriate technologies, infrastructure and services for enhanced productivity and sustainability of smallholder agricultural and fisheries systems.** This SO will focus on upgrading production systems to address household food and nutrition needs, and developing sustainable rural livelihoods, while gradually embedding market responsiveness within production systems. Improved access to climate-smart productive inputs, technologies, and infrastructure and advisory services will be promoted. Key enablers will include the development of local input systems, water infrastructure (dams, irrigation) and post-harvest facilities to support the development of sustainable livelihoods on- and off-farm. The expected outcomes of SO2 are: (i) production and productivity (cereals, vegetables, small ruminants, milk, poultry, fish) increased; (ii) rural infrastructure and water-efficient irrigation systems developed; and (iii) nutrition-sensitive technologies adopted.
- **SO3**: **Build institutional, community and individual capacities to enhance food and nutrition security and sustainable livelihoods.** This SO will be cross-cutting, addressing capacity gaps under SO1 and SO2, and will be informed by capacity needs assessments. The overall focus will be on building technical and managerial capacities of implementing ministries, service providers and national NGOs, as well as farmer and community groups, individuals and households. Mainstreaming themes will be included in interventions, and market-oriented approaches will be gradually integrated into investment decision-making. The expected outcomes of SO3 are: (i) capacities of public institutions and other service providers strengthened; and (ii) structured community participation in decision-making and local development enhanced.

28. Four themes will be mainstreamed into the IFAD country programme:

- Food and nutrition security, particularly for women and children. Emphasis will be placed on: (i) nutrition-sensitive agriculture, horticulture and aquaculture, including distribution of nutritious and drought-tolerant varieties; (ii) community awareness-raising campaigns on the importance of nutritious foods (vegetables, pulses, fruits, poultry, dairy and fish); (iii) promotion of good practices in post-harvest handling and storage, food safety standards and food preparation; (iv) access to safe drinking water; and (v) updating of food safety and certification protocols.
- Gender equality and women's empowerment. Women will be supported through: (i) access to and enhanced skills in irrigated farming, with particular reference to production of high-value crops; (ii) microenterprise development (small livestock, service provision); (iii) enhanced representation in cooperatives and leadership capacities; (iv) access to finance; and (v) nutrition-sensitive agriculture and education (farmer field schools [FFS] for women). In addition, the gender approach will be based on: (i) quotas, if required, to ensure that women make up at least 50 per cent of those benefitting from activities; (ii) monitoring of women's participation; and (iii) gender awareness training for programme implementers. The Women's Empowerment in Agriculture Index will be used as a framework.
- Youth employment. Young people aged 18–35 years, particularly demobilized soldiers, will systematically benefit from opportunities, including: (i) irrigation

schemes and upstream/downstream value chain activities; and (ii) cooperatives and SME promotion. Young people will be prioritized for training (technical, life skills, service provision and microenterprise development) and will receive access to appropriate technology and productive assets (small livestock) through the Minimum Integrated Household Agriculture Package.

- Climate change. Investments will be strengthened to adapt to and mitigate climate change and to prevent and reverse environmental degradation. Climate-smart technologies to be promoted include: (i) rainwater harvesting; (ii) drought-tolerant and early-maturing crop varieties; (iii) drought-tolerant forage and agroforestry fodder species; (iv) watershed conservation and management; (v) afforestation; (vi) mangrove rehabilitation and conservation; and (vii) solar and other forms of renewable energy sources and energy-saving approaches.

D. Menu of IFAD interventions

Achieving the strategic objectives

29. **Strategic approach**. Given the need to fully assess the evolving impact of the peace dividend on the rural development sector, IFAD will continuously monitor the situation during design, supervision and implementation support missions. This will help to determine the conduciveness of the context to deepening the market-oriented approach in IFAD's portfolio. The COSOP midterm review, in 2023, will be critical for the potential review of the SOs.

30. **Loans and grants**. The portfolio (table 1) under this COSOP will include two ongoing projects (NAP, FReMP) and a new IFAD11 investment, namely the Integrated Agriculture Development Programme (IADP). IADP, which will build on the NAP experience, represents a consolidation of IFAD's comparative advantage in watershed management, irrigation development, and livestock and crop production, while also integrating IFAD's mainstreaming themes. IADP is also expected to prepare the groundwork for IFAD's future engagement with the Government on the market-driven approach, as set out in the SMCFS. At the COSOP midterm review, a new investment might be envisaged, subject to the country's IFAD12 performance-based allocation.

31. Regarding portfolio implementation challenges, SO3 specifically seeks to augment the technical and managerial capacities of the various institutions involved in implementation. An integrated project management software will be introduced to strengthen FM and M&E. Project designs will be kept simple, with provision for continuous implementation support (FM, procurement, M&E) and full adoption of IFAD's Procurement Handbook. The FReMP midterm review will consider possible project restructuring to align with this COSOP's approach on the mainstreaming themes.

Table 1
Sequencing of IFAD's ongoing and future portfolio

	IFAD8			IFAD9			IFAD10			IFAD11			IFAD12			IFAD13		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
NAP US$40 million																		
FFReMP US$37.7 million																		
IADP US$45 miliion (under design)																		
New Investment (IFAD12)																		

32. Several regional grants will be mobilized, with CGIAR, to complement the investment portfolio, including from: (i) WorldFish, for piloting of climate-smart inland aquaculture and mariculture; (ii) a special European Union–IFAD programme for the Horn of Africa (Djibouti, Eritrea, Somalia and South Sudan), to be implemented by the International Center for Biosaline Agriculture; and (iii) the International Center for Agricultural Research in the Dry Areas (ICARDA). Implementation capacities will also be strengthened through Program in Rural M&E (PRIME), RESOLVE: Results-based Management for Rural Transformation (due for IFAD Executive Board submission) and the Capacity-building to Improve Project Procurement (due for IFAD Executive Board submission). IFAD will also seek to mobilize additional funding for smallholder resilience through the upcoming Adaptation for Smallholder Agriculture Programme (ASAP+).

33. **Country-level policy engagement (CLPE).** IFAD's dialogue with the Government will focus on strengthening enabling conditions to increase capacity to absorb investment funds and develop the building blocks for climate-smart market-oriented production. With the MoA, dialogue will be centred on the sustainability of the Minimum Integrated Household Agriculture Package as a potential vehicle to spur the agriculture commercialization agenda in the future. With the MMR, IFAD's engagement will focus on the integration of business planning as an important step for the determination of investment interventions. There will also be continued dialogue on strengthening the Environmental and Social Management Framework under IFAD's Social, Environmental and Climate Assessment Procedures (SECAP).

34. IFAD will remain an active member of the Agriculture, Food Security, Environment (AFE) and Climate Change Working Group (AFE-WG) in which the Government and its development partners discuss sectoral and cross-sectoral strategies and programmes and implementation progress. IFAD will engage with the Statistics Working Group in the Eritrea Development Partners Forum and the Food and Agriculture Organization of the United Nations (FAO) on the National Agriculture Census to address M&E constraints.

35. **Capacity-building** will be informed by capacity assessments at national, *zoba* and *sub-zoba* levels, with a focus on enhancing technical, project management, M&E, procurement and FM capacity. The strategy, developed under SO3, will also entail short- and long-term (master's and PhD degrees) training for young staff in technical (research) and operational areas in order to develop a human resources pipeline, coupled with FFS for farmers. Regional CGIAR institutes, FAO and the African Capacity Building Fund (ACBF), among others, will be key partners for capacity-building. The country programme will also benefit from relevant expertise drawn from the ongoing collaboration between IFAD and Iceland, on the blue economy.

36. **Knowledge management (KM).** A KM strategy will be prepared in 2020. It will include: (i) knowledge gap identification and prioritization of knowledge products to be developed; (ii) dissemination of know-how and best practices, based on available communication tools (MoA newsletter, brochures, websites, radio, farmer

field schools/farmer business schools [FFS/FBS]); (iii) data collection; and (iv) capacity needs assessments. Potential knowledge areas include: market-driven agricultural production models applicable to the local context, sustainable water conservation and advanced irrigation technologies, sustainability and efficiency of revolving funds, and renewable energy.

37. **South-South and Triangular Cooperation (SSTC)** will be strengthened and closely linked with the agenda for innovation, capacity-building and scaling up. The IFAD SSTC centre for Africa in Addis Ababa and international research centres and platforms, such as the International Crop Research Institute for the Semi-Arid Tropics (ICRISAT), ICARDA, FAO, WorldFish and the Association for Strengthening Agricultural Research in Eastern and Central Africa, will be engaged to promote the transfer of knowledge and experience. Potential partners for bilateral cooperation are China, Egypt, Ethiopia, Kenya, Rwanda, South Africa and Viet Nam. SSTC will include exploring business linkages for goods and services, including for agricultural inputs, especially seeds, fish and animal products. The China–IFAD SSTC Facility will be a potential instrument.

38. **Communication and visibility**. A communication strategy will be adopted to facilitate dissemination of knowledge and information, including on lessons learned and good practices regarding key thematic areas of this COSOP. The main building block will be the development and maintenance of information management systems.

V. Innovations and scaling up for sustainable results

39. **Innovations**. Priority areas for innovation will include: advanced irrigation technologies; cooperative development and market linkages; renewable energy; nutrition improvement; financial services for agribusiness; and aquaculture and mariculture technologies. The promotion and/or scaling up of innovations will be done through partnerships with relevant national institutions (such as the National Agriculture Research Institute [NARI]), international research centres (such as ICRISAT, ICARDA, the International Center for Tropical Agriculture [CIAT], the International Livestock Research Institute, WorldFish, FAO) and other development partners.

40. **Scaling up**. The COSOP will scale up good practices, selected through KM, at national and regional level. Priority areas will include: (i) advanced water use efficiency in irrigation; (ii) sustainable land and water management, conservation farming and soil fertility; (iii) the Minimum Integrated Household Agricultural Package approach to addressing IFAD11 mainstreaming priorities; and (iv) food safety in fisheries and financing the expansion of the capacity of the national fishing fleet.

VI. COSOP implementation

A. Financial envelope and cofinancing targets

41. The COSOP 2020–2025 will cover two IFAD financing cycles, including US$37 million for IFAD11. Of that amount, and as per IFAD's Debt Sustainability Framework (DSF), Eritrea is eligible to receive 80 per cent in grant funds and 20 per cent as optional loans on highly concessional terms. The Government agrees with these conditions and is committed to utilizing its full allocation. The IFAD12 (2022–2024) allocations, and the applicable lending terms and conditions, are still to be confirmed, as the dialogue with IFAD Member States on DSF policy is still ongoing.

Table 2
IFAD financing and cofinancing of ongoing and planned projects
(Millions of United States dollars)

Project	*IFAD financing*	*Cofinancing*		
		Domestic	*International*	*Cofinancing ratio*
Ongoing				
FReMP	15	Government: 1.42 Beneficiaries: 1.35	GEF: 7.89 Germany: 11.55 FAO: 0.50	1:1.51
NAP	26.61	Government: 5.4 Beneficiaries: 3.7		1:0.3
Planned				
IADP	37	Government: 7.0 Beneficiaries: 6.0		1:0.3
Total				**1:0.6**

42. Eritrea is classified as "red" under the DSF. After an interruption of 10 years, an International Monetary Fund (IMF) Article IV mission visited Eritrea in May 2019; this is a positive step towards normalization of international relations. For IFAD11, Eritrea's eligibility will be as per IFAD's DSF.

B. Resources for non-lending activities

43. Non-lending resources for technical thematic areas will be mobilized from regional grants, under which a combined envelope of US$3.5 million will support Eritrea and other countries. Eritrea will also benefit from a global grants envelope (US$5.5 million), which will be used to strengthen procurement and management capacities (RESOLVE). Additional technical assistance for the fisheries sector will be mobilized through the German supplementary funds for FReMP (EUR 700,000). Proposals will be prepared for the China–IFAD SSTC facility.

C. Key strategic partnerships and development coordination

44. IFAD's core national partners are the Ministry of Finance and the two lead ministries for project implementation, namely MoA and MMR. Other essential partners are Ministry of Land, Water and Environment, the National Union of Eritrean Women and the National Union of Eritrean Youth and Students.

45. Existing partnerships supporting the agriculture and fisheries sectors will be reinforced, including with support from the European Union, the United Nations system, particularly Rome-based agencies (FAO and the World Food Programme [WFP]). Germany will remain a key cofinancing partner under FReMP. Engagement with the World Bank, WFP and the Italian Agency for Development Cooperation, which are in the process of renewing their engagement with the Government, will be explored.

46. A potential area for collaboration with other Rome-based agencies is the upcoming FAO and WFP collaboration on the development of a resilience strategy for Eritrea, in partnership with the Government.

D. Beneficiary engagement and transparency

47. **Beneficiary engagement**. All investments will align with IFAD's Framework for Operational Feedback from Stakeholders. Investments will promote enabling institutional environments and partnerships for enhanced transparency and accountability, fostering increased participation of IFAD's target groups throughout country programme management processes and integration of feedback M&E systems.

48. **Transparency**. Arrangements will be put in place to enhance the transparency and visibility of IFAD's interventions and their results (e.g. publishing financial results and supervision reports, transparent and fair procurement processes and publication of participatory assessments).

E. Programme management arrangements

49. The IFAD subregional hub in Addis Ababa, through the Country Director and with support from the technical teams in IFAD's Nairobi hub and at headquarters, will assist the Government and the national project coordination units with implementation support. Collective support will be provided to implement IFAD's institutional priorities and mainstreaming themes. Strong engagement with IFAD's Agricultural Research for Development team is envisaged, given the potential collaboration with the CGIAR institutions.

50. Management of the two ongoing projects is fully embedded into Government systems at all levels, thus ensuring ownership. Close follow-up and regular IFAD and Government joint implementation support missions will allow for a results-oriented performance assessment of project implementers in activities planning, procurement, monitoring and reporting, and contract management.

F. Monitoring and evaluation

51. The COSOP results framework (appendix I) includes measurable outcome indicators, aligned with the SDGs, the National Indicative Development Plan and the SMCFS. All projects in the portfolio will provide the required data to measure the COSOP's outcome indicators. Data collected by other United Nations agencies will also be used. As much as possible, annual outcome assessments will also take into consideration the COSOP cycle data requirements. Data will be disaggregated by sex and age. Annual meetings of the country delivery team will review the COSOP implementation progress, identify lessons learned and propose recommendations. At midterm, in 2023, IFAD and the Government will review the COSOP performance and make necessary adjustments. A COSOP completion review will be conducted in 2025.

VII. Risk management

Table 3
Risks and mitigation measures

Risks	*Risk rating*	*Mitigation measures*
Political/governance	High	Projects will be mainstreamed in Government structures, at national and *zoba* levels. Project institutional anchoring and implementation will not change fundamentally, as the range of private service providers is very limited. To enhance local ownership, focus on empowering cooperatives by strengthening business planning capacity and promoting strong member ownership.
Macroeconomic	High	As international competitiveness is of concern, focus on improvement of national food and nutrition security, innovation and mainstreaming of new technologies to increase productivity, supply to local markets and import substitution in a gradual manner.
Sector strategies and policies	High	Work with technical and financial partners on value chain development; analysis of economic and financial sustainability during the design of any investment; linkages with any existing rural financial services sector; contribution towards shaping policies in the rural and agriculture sectors.

Risks	***Risk rating***	***Mitigation measures***
Institutional capacity	Medium/High	Provision of specialized international and national technical assistance; institutional capacity development at all levels; training of young staff.
Portfolio	High	Technical assistance; continuous capacity-building of MoA and MMR staff at national and *zoba* level in procurement, programming, safeguards, M&E.
Fiduciary – financial management	High	Strengthening of financial reporting, communication infrastructure and oversight mechanisms during the COSOP period, and provision of implementation support.
Fiduciary – procurement**	High	In the absence of national systems, follow IFAD's Project Procurement Guidelines, Procurement Handbook and standard bidding documents. Conduct more regular implementation support missions, with targeted training and support on preparation of bidding documents in compliance with IFAD's requirements.
Environment and climate	High	Adopt climate-smart interventions and systematically integrate climate adaptation into investment projects.
Social	Medium	Enhance targeting of vulnerable people, in particular women and youth.
Other COSOP-specific risks	n/a	
Overall	High	

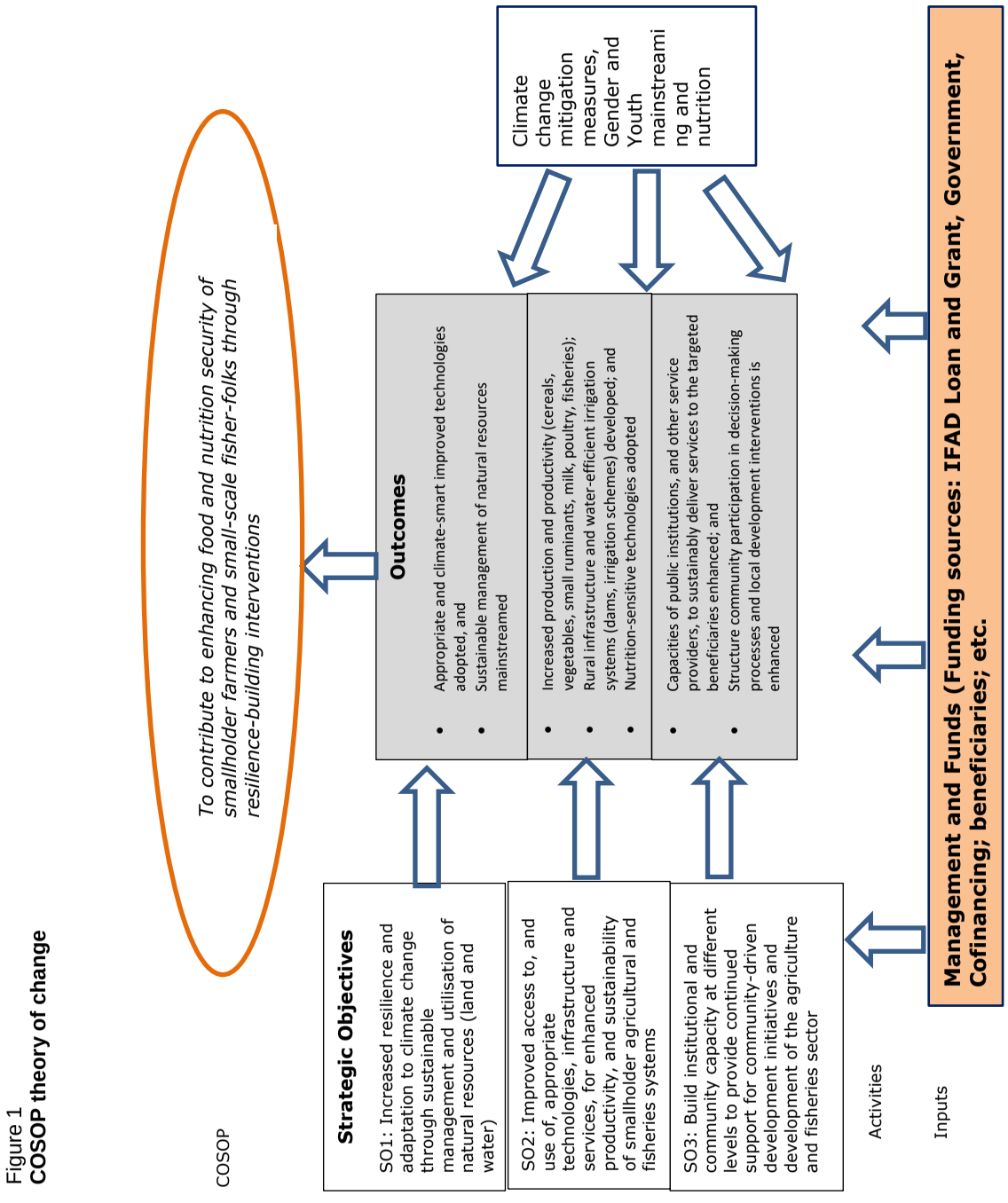
Appendix I: COSOP results management framework

Country strategy alignment	Related SDG and UNDAF outcomes	Key COSOP results			
		COSOP Strategic objectives	**Lending and non-lending activities for the COSOP period**	**Outcome indicators**	**Milestone indicators**
National Indicative Development Plan: Inclusive growth, food security, and sustainable livelihoods Eritrea National Agriculture Development Policy and Strategy (2019) 5-year Strategic Agriculture Development Plan (2019-2023) Marine Resources Draft Strategic Development Plan (2016-2020).	**SDG 1, 2, 5** **UNSPCF 4, 5, 6, 7**	**Overall objective:** contribute to enhancing food and nutrition security of smallholder farmers and small-scale fisher-folks through resilience-building interventions.		• 90,000Rural households reached, of which at least 50% are women and 30% youth • 30% increase in annual net income of crop and livestock farmers, and from fishing and aquaculture • -3% reduction in prevalence of rural chronic malnutrition **UNSPCF Indicators** • **Four (4).** Environmental and natural resources management is gender responsive and sustainable, negating the impacts of ecosystem degradation, climate change, and strengthening community resilience to disaster • **Five (5).** The population, including vulnerable groups, benefits from evidence-based planning and policy; accountable public institutions and systems that ensure human rights and equitable public service delivery. • **Six (6).** Smallholder households have improved access to, and utilization of quality food and enhanced livelihood opportunities. • **Seven (7).** Women, men, children and youth, including vulnerable groups and refugees, have improved gender equitable opportunities to participate in economic, political, cultural and social development.	

Country strategy alignment	Related SDG and UNDAF outcomes	Key COSOP results			
		COSOP Strategic objectives	**Lending and non-lending activities for the COSOP period**	**Outcome indicators**	**Milestone indicators**
	SDG 5, 13, 14, 15 **UNSPCF 4, 5, 6, 7**	**SO1**: Increased resilience and adaptation to climate change through sustainable management and utilization of natural resources (land and water)	Lending/investment activities: • FReMP, NAP, and the new projects to be developed during the COSOP period Non-lending/non-project activities: • CLPE: private sector engagement framework, capacity building of public institutions (procurement, etc.) • Partnerships: FAO, EU, ICARDA, ACBF, GEF, ICRISAT, WorldFish • SSTC: linkages with regional research centres, ToT, training of managers • KM: MCFS approaches, project management, FAS/FFS, IPM	• 30% increase in the number of people earning livelihoods from natural resources in a sustainable manner. • 60% of producer organizations (Water Users Associations (WUAs), Community-Based Organizations (CBOs), cooperatives, etc.) empowered for sustainable Natural Resources Management and climate change resilience.	• Number of people earning livelihoods from natural resources. • Number of hectares of community land managed by natural resource groups. • Total number of community members (m/f) in natural resource management groups
	SDG 1, 2, 5, **UNSPCF 6, 7**	**SO2:** Improved access to, and use of, appropriate technologies, infrastructure and services, for enhanced productivity, and sustainability of smallholder agricultural and fisheries systems.	Lending/investment activities: FReMP, NAP, and the new projects to be developed during the COSOP period Non-lending/non-project activities: • CLPE: private sector engagement framework, capacity building of public institutions (procurement, etc.) • Partnerships: FAO, EU, ICARDA, ACBF, ICRISAT, WorldFish • SSTC: linkages with regional research centres, ToT, training of managers	• 70% of yield increase of main commodities • 70% of adoption of appropriate and climate-smart modern technologies • 40% of targeted famers adopting good post-harvest practices • 8,114 ha of irrigation scheme developed • 71,736 ha of land under SWC and mangrove under sustainable management, rangeland and intensified forage production • 5,000 ha of specific nutritive foods • 6,900 tonnes of all fish annually delivered to consumers (dry Small pelagic and wet large fish)	• Technical assistance provided • # Innovative tools for farming intensification developed • # Incentive schemes set-up for Inputs supply and agricultural services advisory systems diversification and improvement

Country strategy alignment	Related SDG and UNDAF outcomes	Key COSOP results			
		COSOP Strategic objectives	**Lending and non-lending activities for the COSOP period**	**Outcome indicators**	**Milestone indicators**
			• KM: MCFS approaches, project management, FAS/FFS, IPM		
	SDG 5 **UNSPCF 5, 6, 7**	**SO3:** Build institutional, community and individual capacities to enhance food and nutrition security and sustainable livelihoods	Lending/investment activities: • FReMP, NAP, and the new projects to be developed during the COSOP period Non-lending/non-project activities: • CLPE: private sector engagement framework, capacity building of public institutions (procurement, etc.) • Partnerships: FAO, EU, ICARDA, ACBF, ICRISAT, WorldFish • SSTC: linkages with regional research centres, ToT, training of managers KM: MCFS approaches, project management, FAS/FFS, IPM	• Institutional capacity at the national, Zoba, Sub-Zoba and Kebabi levels strengthened; • Capacity for Programme/Project implementation enhanced; Participatory and community-driven development approaches mainstreamed in most of Government development programmes.	• Improved performance of institutions in rural poverty reduction; • Improved pace and quality of Programme/Project implementation as reflected in the disbursement and improved technology adoption rates; Participation of rural communities in planning and implementing development Programmes/Projects.

Figure 1
COSOP theory of change



Appendix II: Transition scenarios

1. **Data sources.** Eritrea and Ethiopia signed a peace agreement on the 9th of July, 2018, which has put an end to a longstanding conflict and normalized ties between the two countries. In addition, the United Nations Security Council lifted sanctions in November 2018, opening the space for widening international cooperation. The peace dividend offers Eritrea opportunities to reallocate public resources to is economic development.

2. The Government of the State of Eritrea does not publish macro-economic data. The World Bank interrupted the monitoring and sharing of macro-economic data on Eritrean in 2010. However, a World Bank mission visited Eritrea to explore potential for renew its support to the country.

3. The most recent IMF Article IV Consultation – Staff Report dates from June 2003[18]. Article IV Consultation is delayed, due to a lack of adequate information that would allow IMF staff to make such an assessment. In May 2019, a new IMF Article IV Consultation mission visited Eritrea to renew consultations. No report is available

4. The Economist Intelligence Unit (EIU) publishes Country Reports for Eritrea. Their macro-economic data are mainly estimates and projections. EIU is the main source of information for this annex.

5. As per the Economist Intelligence Unit's (EIU) outlook for Eritrea, activity in the mining sector will sustain accelerating real GDP growth rates, from an estimated 5.4% in 2018 to 5.8% in 2020. Agriculture and fisheries contribute only 14.5% to GDP, although about 65% of the population depends on this sector for their livelihoods. Real GDP growth slowed down from 11% in 2011 to 5.4% in 2018. GDP growth depends mainly on investments in mining by public-private partnerships. Despite economic growth over the last 15 years, Eritrea remains one of the least developed countries in the world. The country depends on food and fuel imports, as local supply is structurally insufficient.

6. The exchange rate for ERN to US$ has been fixed at 15.37 since 2005, while inflation has soared over the past two decades and was estimated at 13% in 2018, compared to 2% or less for international reference currencies. As a result, the ERN is overvalued, agriculture has difficulties to compete in the international environment and cross-border movements of capital, goods and services are restricted. The fiscal deficit was 7.9% of GDP in 2018 with a current account deficit of 2.7%[19]. As for inflation, it has soared over the past two decades, but is projected to ease to 11% in 2020. The country is also forecasted to have an unsustainable debt burden.

7. Based on International Monetary Fund Article IV 2009, Eritrea was at the pre-decision point for becoming a heavily indebted poor country (HIPC) and therefore may be eligible for HIPC multilateral debt relief. The Debt Sustainability Framework classifies Eritrea as "red".

8. In light of the circumstances, three possible trajectories were considered over the 2020-2025 period:

   i. **Base case.** The base case reflects the projections in the EIU. Real GDP growth is projected to be on average about 5.5% per annum over the five years of the COSOP period. Under this scenario, the Government continues to implement prudent macro policies and the external environment remains benign. Prices of minerals remain at their current level while exports of minerals grow. Oil prices and international prices of cereals stay at current levels. **The countr**y remains in the lower income category.

   ii. **High case**. Under the high case, mineral prices (gold, zinc, copper) increase significantly, while international oil prices decline. This would improve the current-account balance significantly, reduce the fiscal deficit and make resources available for the social sectors and for development of agriculture. Under this scenario, the

[18] https://www.imf.org/en/News/Articles/2018/06/28/pr18262-delayed-article-iv-consultation-with-the-state-of-eritrea.
[19] Economist Intelligence Unit. August 2019.

country would renew its collaboration with IMF and the community of technical and financial partners. In this case, a sustained 6.5% of GDP growth rate could be realistic. The country remains in the lower income category.

iii. **Low case**. In the low case, Eritrea is hit by a number of shocks. Most significant shocks would be a sustained decline in mineral prices due to weak global growth and increase international food and petrol prices. Under this scenario, the current-account deficit would increase in growing fiscal deficits, increased debt and difficulties to import inputs and equipment that are required to develop agriculture. Under this scenario, the country remains in the lower income category.

Table 1 Projections for key macroeconomic and demographic variables[20]

Case	*2017*	*2018*	*2019*	*2020*
Average GDP growth (2018 - 2020)	4.9	5.4	5.4	5.6
GDP per capita (2018)		1219 US$		
Government balance (% of GDP)	-10.2	-7.9	-7.0	-6.3
Current account balance (% of GDP)	-3.5	-2.5	-2.4	-2.2
Inflation rate (%) (2018-2020)	14.0	13.0	12.3	11.4
Rural population		3.29 million (Government of the State of Eritrea) (End of COSOP period): 3.9 million Annual growth rate: 3.2% per annum		
Investment climate for rural business		Rating: 1/6 Ease of Doing Business: 189th on 190 countries		
Vulnerability to shocks		Rating: 2/6 Eritrea is particularly vulnerable to changes of international prices of petrol, food (wheat, vegetable oil) and minerals (gold, zinc, copper, silver), which have a direct impact on the current-account balance and potential of the country to import international inputs and equipment to develop agriculture. The NG-Gain index classifies Eritrea as 179th country. The country is very vulnerable to CC.		

Footnotes:
Economic Intelligence Unit (EIU) "Country Forecasts" with 4-year projections.
[b] Rating (1-6), based on justified qualitative assessment. Source RSPA
[c] Rating (1-6), based on justified qualitative assessment of vulnerability to CC; food price shocks; political risk.

9. The implications for IFAD Country Programme are as follows:

(a) **Lending terms.** For IFAD11, Eritrea is eligible to receive 80% of financing as grant, and 20% as an optional loan on highly concessional terms, under the DSF. The country's lending terms and related financing conditions for IFAD12 will be assessed at the beginning of the replenishment period taking into consideration GNI, the country's debt burden and the application of the DSF reform, if approved by IFAD's Governing Council in 2020.

(b) The **PBAS allocation** for Eritrea is unlikely to change under the three scenarios.

(c) **COSOP priorities and products.** The COSOP is aligned with the Small and Medium Commercial Farmers Strategy under which the government seeks to modernize family farming and assist organizations of small producers gain access to the market. The COSOP strategy remains valid under the three scenarios, although under the low case, access to external inputs and equipment (cement, irrigation equipment, etc.) will become very problematic and slowdown innovations in agriculture.

(d) **Co-financing opportunities and partnerships**. As the UN Security Council lifted sanctions, Eritrea is opening up to the international community and co-financing opportunities might arise during the COSOP period.

[20] Economist Intelligence Unit. August 2019.

Appendix III: Agricultural and rural sector issues

Production systems and rural incomes

1. The State of Eritrea has certain agro-ecological diversity: the Northern/Central Highlands (cool sub-humid to semi-arid, average annual rainfall of 300-700 mm); the Western Lowlands (hot semi-arid, annual rainfall of 200-600); and the Eastern Lowlands (arid, annual rainfall of 50-300 mm); and a coastline of over 1,000 km along the western coast of the Red Sea. This allows to develop various production systems: (i) crop farming (rain fed: sorghum, finger millet, teff, maize, barley, wheat and beans; and irrigated cropping: banana, citrus cropping, onions, potatoes, tomatoes, pepper, lettuce, cabbage etc.), (ii) agro-pastoralism (in addition to crops: dairy, small stock, and poultry); (iii) pastoralism (cattle, small stock, camels, donkeys and poultry), and (iv) marine fisheries. This zonal production specialization requires an inter-regional marketing and logistics organization (e.g.: development of cold chain to supply sea foods to the highlands). The main food import of Eritrea consists of wheat and edible oil.

2. The importance of livestock in Eritrea can be seen by the fact that 49% of the total land area is suitable for grazing whereas only 17% is suitable for cropping. This situation does, however, lead to competition between livestock raising and crop cultivation in some cases, and policy for resolving those conflicts is not yet fully articulated. Important quantities of live sheep and goats were exported to regional markets. Exports of hides and skins were also significant. Eritrea has substantial and relatively underexploited marine and fisheries resources: recorded fish catches rarely exceed 10,000 tons per year out of the maximum sustainable yield (MSY) of Eritrea's Red Sea fisheries estimated in 2005 at 80,000 tons per year.

3. Crop and livestock productivity is low, compared to potential yield, because of difficult access to land especially for youth and women; low and erratic rainfall and drought prone area; limited soil fertility and land degradation; weak agricultural services and limited outreach; poor access to modern inputs; inadequate technical skills; difficult access to information, knowledge, and technologies; and limited capacity of project implementers most of which are public institutions. Notwithstanding these limitations, there are good opportunities for agricultural development based on adoption of proven and affordable technologies, production and distribution of improved seeds, expanded and improved irrigation, innovative approaches to soil and water management and promotion of sustainable natural resource management.

4. Fisheries productivity is mainly constrained by lack of production tools and inputs. The fishers communities are mostly using artisanal method of fishing which does not allow them to increase in productivity. Under FDP and FReMP, many fishers were provided with inputs supplied on credit (net, fishing boats, engine) under the Cooperative Service Unit (CSU) but are however unable to repay their loans due to the high prices, particularly for bigger items such as fishing boats or engines, and low income-generating activity of fishing. Further training in modern fishing techniques shall continue to be held to enhance their capacity in addition to introduction to new/innovative technologies. The CSU shall be strengthened in terms of managerial and financial capacity. These need to be rebuild, by enabling fishers (paying particular attention to young fishers and demobilized soldiers) to acquire the fishing assets and providing the training they need in modern fishing techniques. Interventions will include ecosystem approach to fisheries management to ensure sustainability of resources and improvements in the value chain infrastructure and services to reduce post-harvest losses. Building the capacity of MMR for proper management of the sector will be essential.

5. To move from subsistence to profitable and market-oriented farming, priority should be given to: irrigation and catchment protection infrastructure development; equitable distribution of lands; agricultural services advisory strengthening; inputs

supply systems improvement; water and land conservation and management; animal genetic potential improvement and disease control; and animal feed production.

6. The main constraints for livestock intensification are: Degradation of rangeland from overgrazing; insufficient livestock watering points; shortage of supplementary feed in dry season; restrictive regulations on opening private feed plants; weak disease control systems and insufficient veterinary service; lack of qualified and professional veterinarians, animal breeders and animal nutritionists; underdeveloped export marketing.

7. Climate change adversely affects the crop and livestock production of 75% of the population who derives its livelihoods from rain-fed crop production and cattle rearing on traditional smallholder systems. Indeed, about 80% of the country receives less than 500mm of rainfall per year, and only 1.5% of the country receives more than 700 mm annually so water resources are limited. Rainfall is also erratic and droughts are becoming frequent. In recent years, the length of the main rainy season has been declining, and temperatures are increasing faster than the global average reflecting the emanating of the influence of climate change. In future temperatures are likely to increase further and though there is no clear prediction for trends in overall levels of rainfall, increased heat will increase. Smallholder farmers' livelihood resilience is still limited given that access to irrigated land is difficult; seeds are not yet adapted to rainfall variation, incentives for climate-smart practices and modern technologies adoption are not in place yet; etc. Farmers with access to wells continue to use fuel-led water pump system. The use of fossil fuel hinders the sustainability of the activity as fuel may not be available easily to farmers due to cost and availability while harming the environment. Through the COSOP, renewable energy method of irrigation shall be incorporated.

8. The marketing, aggregation and value addition of agricultural products are not enough organized and farmers cannot take advantage of them. Marketing of production and input supply is generally based on cooperatives, although some private intermediaries exist. Often, farmers sell some parts of their products to the cooperative and some directly in the market (weekly market places and merchants). Market prices vary on a weekly basis impacting the income of farmers. Overall, access to imported inputs and equipment remains difficult due to the currency constraint. Livestock and fisheries have high potential for export but affected by exchange rate, high transaction costs, lack of services including logistics and cold storage/chain system, less competitiveness of the value chain.

9. The approaches for marketing, aggregation and value addition development have not been developed yet. Moreover, they request an attractive environment for private investment, marketing infrastructures development, structured farmer organization and post-harvest handling to obtain quality products. The main motivation of farmers to intensify their production is a better farm gate price.

10. Farmers' organizations and cooperatives need to upgrade and diversify their models in order to better provide services to their members and ensure their viability. A minority of farmers are organized and some of them have already left their organization as a result of a lack of organization clear vision and objective, demand-driven service provision to members, know-how of market linkages, profitability, low capacity specifically of the Water Users Associations (WUAs), the cooperatives independence, etc.

11. The fisheries cooperative support unit (CSU) does not have a department for service delivery (business plan preparation, advice, coaching, financial service, etc.) as its structure at different level consists only of activities management. The ownership of its cooperatives members is limited because they have not been able to orient the CSU actions according to their needs: more ice, boat, engine and processing. There is also a need of the VC development coordination regarding those key interventions.

12. Access to rural financial services relies only on local revolving funds as the parastatal system (commercial and development bank) outreach is limited. There is almost no access to asset acquisition or working capital even through matching grant. This is the second limitation for investment promotion after the market access. The women federation is active in revolving fund and vocational training. In the short term, the revolving fund could be upgraded and institutionalized.

13. A rural financial sector development framework is not in place and hamper the involvement of financial institutions in the agriculture sector development to provide appropriate responses to its actors' needs. Then, its piloting and development still require demands and risks assessment, products promotion especially innovative financial products tailored for agriculture, training for financial knowledge and skills of farmers and enterprises, facilitation to women and youth formal finance access, capacity building of MFIs and SACCOs.

14. Youth and women could not take advantage of off-farm activities, which would have played key roles for agricultural and marketing service delivery, even for value chain development. However, number of youth entering the workforce are interested more in off-farm activities than the agricultural production itself due to perceived work painfulness, risk and lack of available finance. Youth are usually engaged in the national service system where they are assigned in different ministries and other government bodies according to their skills/education. The participation of youth will only be fully realised if there is a significant demobilization. But an off-farm opportunities assessment and business skills orientation and promotion should be carried out prior to the development of off-farm activities.

Policy and regulatory framework for smallholder agricultural development

15. The Ministry of Agriculture (MoA) has updated in 2019 the Eritrea National Agriculture Development Policy and Strategy, which covers rural energy, agriculture research, extension, forestry and wildlife, soil and water management, livestock and crop production. In parallel, the Five-year Strategic Agricultural Development Plan 2019-2023 sets the operational targets: (a) to increase the agricultural, horticulture and livestock output; and (b) to earn foreign currency through exports of agricultural and agro-industrial products and substitute imports.The Ministry of Marine Resources (MMR) prepared a draft Strategic Development Plan (2016-2020).

16. IFAD will remain an active member of the Agriculture, Food Security, Environment (AFE) and Climate Change Working Group (AFE-WG), in which the Government and its development partners discuss sector and cross-sector strategies, programs and implementation progress.

17. The main policy issues are related to the following topics:

i. Enabling conditions for value chain development, in particular for high value commodities (fish, dairy and horticulture produce). The support could focusses on value chain coordination platform to ease actors' engagement; promotion of public and private investment synergy (including PPP based on the mining experience) ; planning of value chain upgrade and development; set-up of the requested services and capacity building.

ii. Implementation approach of the new Small and Medium Commercial Farmers Strategy (SMCFS; May 2019) on how to orient farm enterprises in highly productive, profitable agriculture value chains; prepare the related business plan; mobilize financial resource; and develop business development services including management coaching.

iii. Youth and women Small and medium enterprise promotion. In addition to the SMCFS, youth and women inclusion to business requires (i) access to land and other assets; (ii) income generation activities to cope with their immediate

needs; (iii) knowledge and skills development in entrepreneurial and business opportunities; and (iv) continued management coaching.

iv. Rural finance support would focus on the revolving fund case study preparation to orient its upgrading and institutionalization as well as its regulatory framework and development strategy formulation.

v. Migrant workers' remittances contribute to a secondary income surplus as a share of GDP. IFAD has acquired substantive experience in helping remittance families leverage the development impact of their own resources. Hence remittances to Eritrea remain very high and an important source of hard currency for the country both through formal channels (income tax, etc) and informal channels (relatives etc).

vi. Model and governance of cooperatives for better ownership and effectiveness

vii. Costing of the Strategic Development Plan;

viii. Statistics and national M&E system development;

ix. Land tenure reform;

x. Sustainable management of fisheries, aquaculture and the ecosystem;

xi. Vocational training organization; public staff specialization training (masters and PHD level);

xii. Information management system set-up.

18. IFAD Eritrea will support the MoA and MMR through analytical work, technical assistance and facilitation to translate policy orientations into regulations, institutional capacity and investments. IFAD Eritrea would also mobilize other organizations and institutions.

Public institutions and private sector

19. Non-Governmental Organizations and the Private Sector operations are currently limited and are restricted to relief and rehabilitation by Proclamation No. 145 of May 2005, entitled "A Proclamation to Determine the Administration of Non-Governmental Organizations". However, an NGO may engage in development work if it has an agreement with a specific ministry. The border stalemate has curtailed private sector operation, particularly in the construction sector where parastatals dominate.

20. The National Union of Eritrean Women (NUEW) is an autonomous non-governmental organization dedicated to improving the status of Eritrean women. The union partners with Government projects, financial and development partners to implement actions related to its advocating areas: development of women's confidence in themselves; laws that protect women's rights in the family; equal access to education and employment opportunities; improved access to adequate health care; the eradication of harmful traditional practices that endanger women's health and well-being.

21. Key institutional partners of IFAD are: (a) at the national level, the Ministry of Finance, Ministry of Agriculture, Ministry of Marine Resources (MMR), Ministry of Land, Water and Environment, (b) at the regional level – zoba and sub-zoba Administrations, the decentralized services that will be responsible for project implementation.

22. The COSOP and its project cycle involve the Ministry of Agriculture (MoA) and its national services such as the Planning and Statistics Division (PSD), the Regulatory Services Department (RSD); the National Agriculture Research Institute (NARI), the national breeding centres (poultry, rabbits and swine, horses, etc.), the National Animal Plant Health Laboratory (NAPHL), the Agricultural Extension Department (AED).

23. The Ministry of Land, Water and Environment has responsibility for the allocation of land concessions for agricultural development though areas under traditional agriculture have not yet been registered in accordance with the 1994 Land Proclamation. The Water Resources Department mandate includes establishment of the necessary legal and regulatory frameworks for water use; in this regard a new Water Proclamation has been approved in 2010.

24. Under the direction of the Governors, Zoba administrations are the lead agencies for the day-to-day implementation of agriculture and rural development interventions. These departments are replicated at the Sub-zoba level. For the community participation, each Kebabi administration has a Planning and Implementation Committee (PIC) to review and consolidate Village Development Plans, prepared by the communities, into a Kebabi Plan. At kebabi level, extension officers working closely with local communities are assigned. The AED will provide technical backstopping to the Zoba administrations, and ensure that Project implementation is aligned with GOE policy and strategy.

25. In brief, Government's departments and decentralized agencies are the main implementers of interventions. This favors alignment with GoE systems and procedures, stronger partnerships and harmonization with other development partners and other stakeholders in the sector, and optimization of partners and domestic resources.

26. However, those public implementers already face challenges in terms of implementation capacity gap, appropriateness of tools and procedures with no other alternative, limited outreach given the current staffing, limited option of capacity leveraging such service providers contracting, etc. Moreover, there is a risk of overlapping role of different institutions throughout the project cycle management (steering committee, planning, implementation, internal control, etc., which must be played by separate bodies).

27. Capacity building and empowerment expect to cope with the current implementation capacity gap but will take time and should also deal with the growth of the agriculture investment portfolio following the re-engagement of many development partners.

Appendix IV: SECAP background study

Introduction

1. The annex is the preliminary SECAP Review note that will be completed and fine-tuned during the COSOP and project preparation process.

Part 1 - Situational analysis and main challenges

Socio-economic situation and main challenges

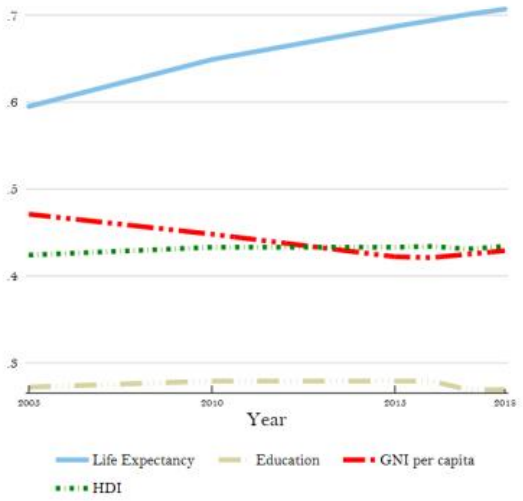
2. **Poverty and Social Indicators**. Several social indicators improved significantly during the last decades. Life expectancy at birth is 65.5 years[21], up from 50 years a decade ago. For example, the child mortality rate has declined from 8.9% in 2000 to 4.5% in 2016 (see further details under the gender section below). The scarcity of statistics makes it difficult to establish the country's rural poverty situation but an estimated 80% of poor people live in rural areas[22]. For context, in spite of the incompleteness of reliable statistical information, inequality weighted metrics for Eritrea and other countries in the Horn of Africa are presented as Table 1. This shows that, in spite of the UNDP Human Development Index (HDI) in 2018 being relatively low at 0.43, that differences in life expectancy as a function of inequality are moderated compared to this group of countries. This means that material differences in equality do not necessary translate into worse health outcomes.

Table 1. Human Development Index and Trends

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP$)	HDI value
1990	49.6			895	
1995	52.3	3.8		2,250	
2000	55.3	4.7		2,484	
2005	58.7	5.3	3.7	2,265	0.424
2010	62.2	5.4	3.9	1,941	0.433
2015	64.7	5.4	3.9	1,633	0.433
2016	65.1	5.4	3.9	1,627	0.434
2017	65.5	5.0	3.9	1,670	0.431
2018	65.9	5.0	3.9	1,708	0.434

Figure 1 below shows the contribution of each component index to Eritrea's HDI since 2005.

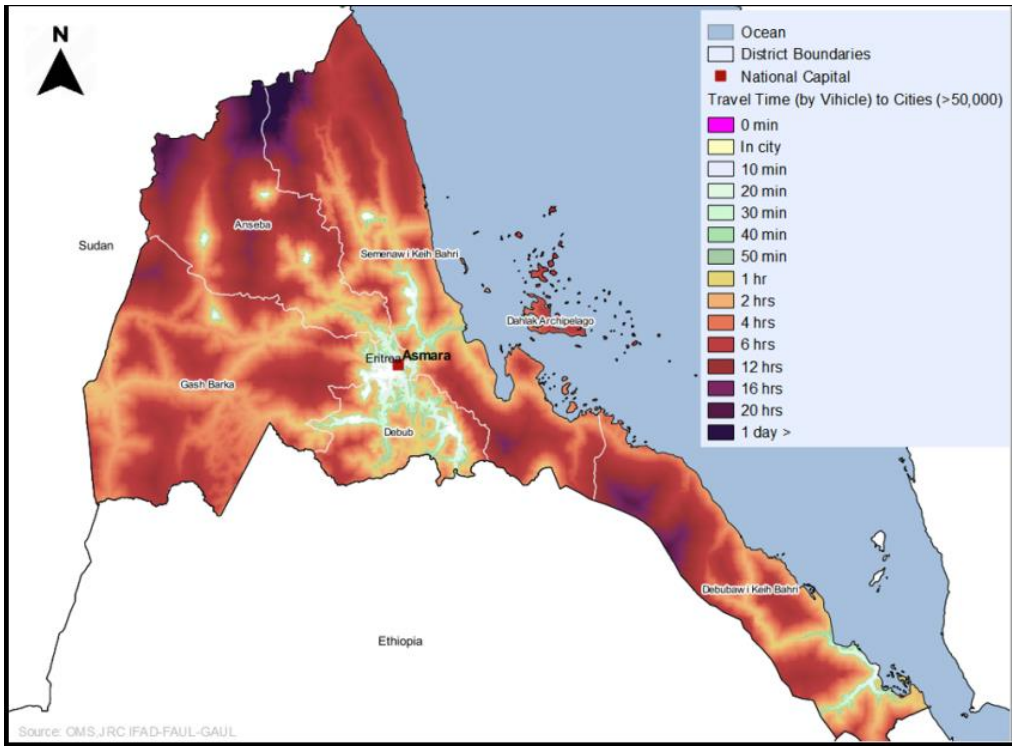
Figure 1: Trends in Eritrea's HDI component indices 2005-2018



[21] UNDP. Human Development Index. 2019
[22] IFAD

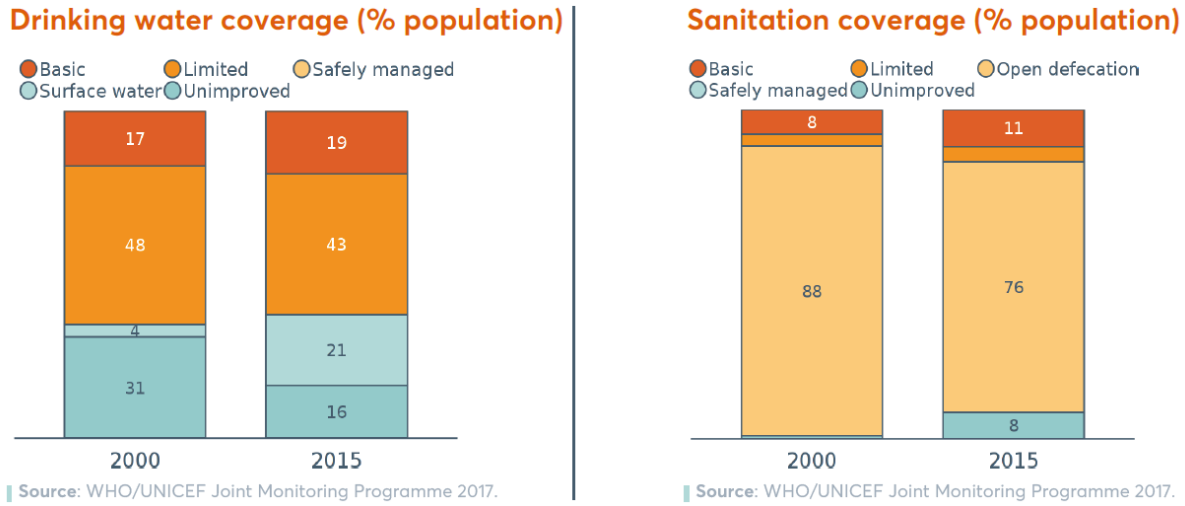
3. **Poverty and Vulnerability in rural Eritrea**. Both poverty and vulnerability are often associated with distance to market centres and service centres. This affects, among others, the ability to acquire agricultural inputs and services, add value to and market agricultural products. As such IFAD's GeoSpatial Support Unit has created as Figure 1 a mapping of distance to urban centres of at least 50,000 people in terms of time by vehicle. In fact, depending on vehicle access it may take significantly longer for more remote populations. Vulnerability due to remoteness should be taken into account in IFADs targeting strategy for interventions designed within this COSOP period.

Time required from any point to an urban centre of over >50,000, by vehicle



4. Other dimensions of vulnerability include climate change, which is further detailed at various points in this SECAP, as well as social discrimination which could be a result of cultural factors, meaning that women and youth may have less access to inputs and opportunities. Access to land and animal draught power may also be strongly influenced by cultural norms and practices. This is particularly important given the low level of mechanization. The time burden for women in particular to collect water should not be overlooked, as well as fuelwood. There is good reason to believe that in rural Eritrea there is an environment (water, fuel) – women – nutrition nexus, all exacerbated by climate change. Figure 2 highlights the challenges in terms of safe water availability and sanitation. Hence IFAD should ensure that this is reflected in the theory of change of development and reflected in interventions designed during this COSOP period.

Figure 2. Drinking water and Sanitation coverage in Eritrea 2000 and 2015



5. **Livelihoods and agriculture.** Rain-fed agriculture is the predominant economic activity employing more than two thirds of the population. The sector's contribution to GDP, however, has been moderate and declining, reflecting challenges that include recurrent droughts in the Horn of Africa, and low technology farming methods. Over two thirds of Eritreans work in agriculture, but with the scarce yearly rainfall having become ever more unpredictable, reliance on rain-fed agriculture is increasingly precarious. Deforestation has reached a critical rate, leading to limited water retention capacity of soils and thus a significant decrease in the availability of water for irrigation. Soil erosion and declining soil fertility are also major problems. Due to the lack of modern and mechanised tools, there was a need to invest in better techniques and a move towards irrigated agriculture to allow for year-round farming.

6. **Economy, Food Production and Food Insecurity**. Eritrea has one of Africa's highest level of food insecurity, a current low adaptive capacity and a fragile environment. By virtue of its location in the Sahel, Eritrea suffers periodic droughts and chronic food shortages hampering development efforts. Even in times of good rainfall, domestic food production is estimated to meet 60-70% of the population's needs. The value of imports in 2017 amounted to US$ 396 million, of which 40.3% are food products (mainly wheat, pasta and soybean oil)[23]. There is potential for export of livestock products in particular, especially to the Middle East.

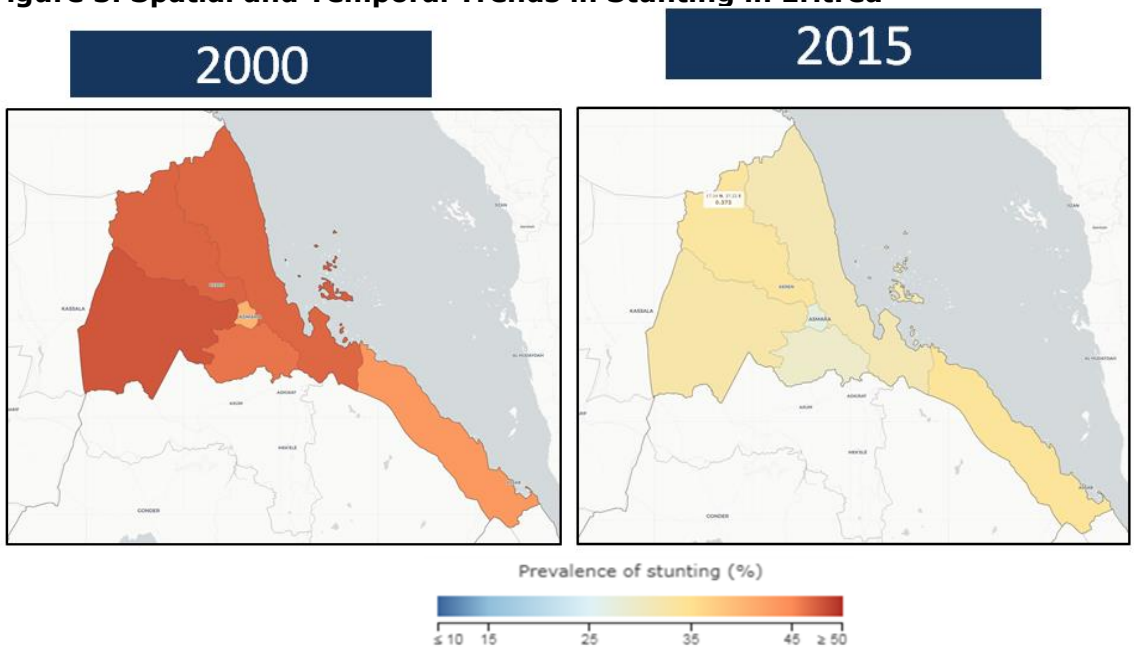
7. **Gender empowerment and Gender Based Violence**. Women constitute 55% of Eritrea's population[24] and they head 47.2% of all households (EPHS[25], 2010). Women have been key players in Eritrea's nation building process, from their invaluable participation in the country's independence struggle to their ongoing contributions to the development agenda. Inspired by this powerful legacy, the Government of the State of Eritrea has made the empowerment of women a national priority, and committed to a development agenda grounded in social justice and gender equality. Gender discrimination remains prevalent in some aspects of Eritrean culture, however, and women continue to be affected by prejudice[26]. However violence against women and girls is widespread, both in the domestic sphere and in the context of the mandatory National Service (OECD, 2019). The militarization of society through conscription is an underlying structural cause of the acceptance of violence in society, particularly against women

[23] UN COMTRADE, 2017
[24] FAO. Country Programming Framework for the State of Eritrea. 2017 to 2021.
[25] National Statistics Office, Eritrea Population and Health Survey, 2010
[26] 10 Years Women in Eritrea NUEW/UNDP 2014

(OECD, 2019). On the SIGI scale, Eritrea scores 0.75[27] for the laws on violence against women; the legal framework covers some forms of violence against women, i.e. intimate partner violence, rape, sexual harassment (OECD, 2019). In reality, though, attitudes towards violence against women and girls still are embedded in discriminatory social and gender norms

8. **Nutrition security** is a serious challenges, due in part to frequent droughts and a high dependence on rainfed agriculture. According to WHO (2014), malnutrition is one of the greatest public health problems of Eritrea[28]. Figure 4 shows that about half of children under 5 are not affected by any of wasting, stunting of overweight conditions. As can be seen from Figure 5, the location matters in terms of nutritional status; rural areas fare consistently worse. This distribution together with the magnitude of various measures of malnutrition warrants a focus on nutrition within IFADs investments in Eritrea. Nevertheless, as can be seen from Figure 3, there has been progress in the country between 2000 and 2015, albeit with some geographic variation (courtesy of IFADs GeoSpatial Support Unit, based on IHME 2015)

Figure 3. Spatial and Temporal Trends in Stunting in Eritrea



[27] The closer to 1, the higher the inequity.
[28] World Health Organization (WHO).

Figure 4 Metrics of Nutrition in Eritrea

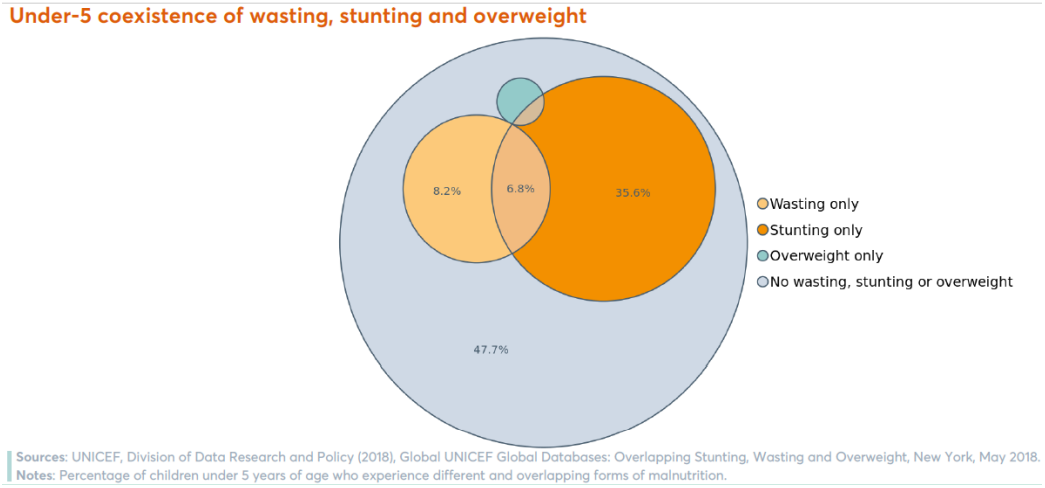
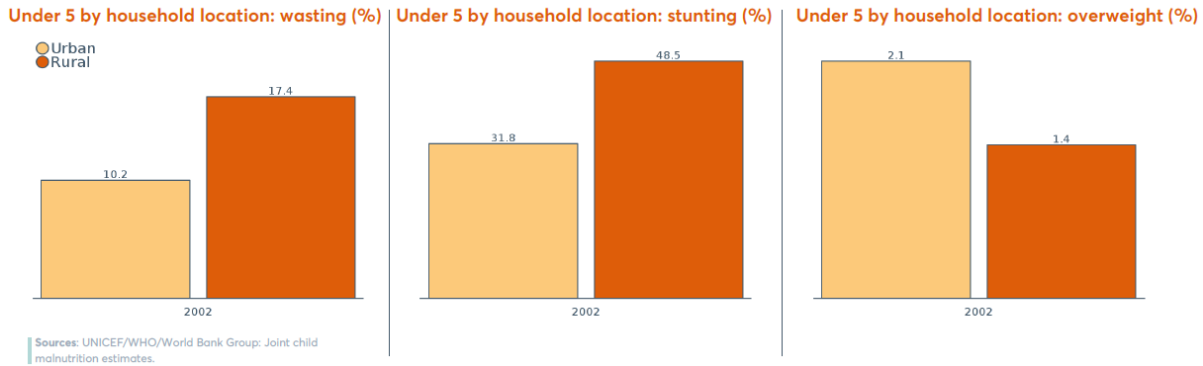
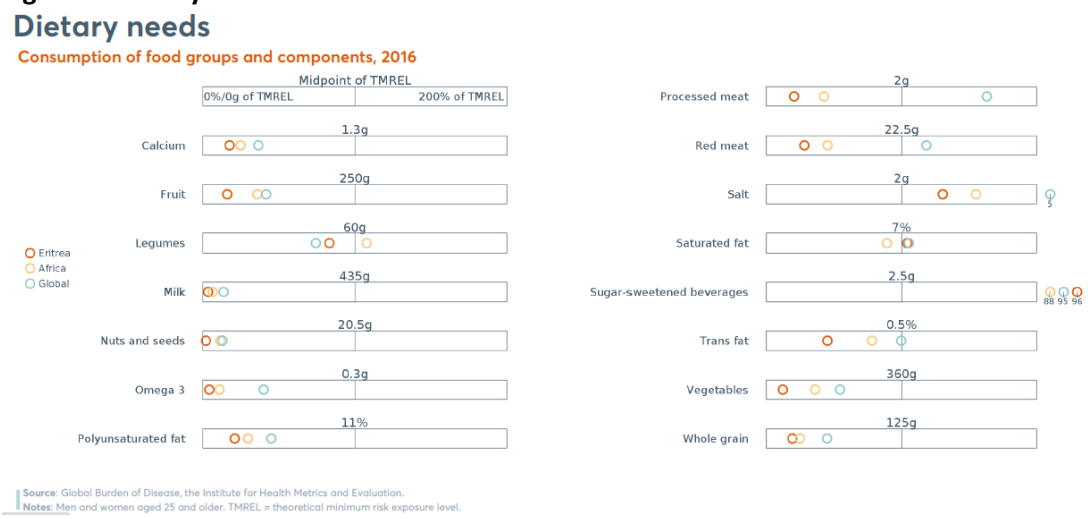


Figure 5 Nutritional differences between rural and urban areas in Eritrea



9. Specific and targeted interventions should be considered in IFADs work in the country to address these via project interventions as well as through policy engagement if possible. This should be based on specific information related to dietary needs. A snapshot at national level is provided as Figure 6. These needs would have to be further discriminated in terms of locality (local soil deficiencies, market access, purchasing power, dietary preferences, range of production possible, patterns by gender and age). This will also vary between agriculturalists, agro-pastoralists and pastoralists.

Figure 6. Dietary Needs in Eritrea in African and Global contexts



10. **Women and Health Trends in Eritrea** There have been significant improvements in health, in particular for children and child bearing women, between 2000 and 2015. This can be seen from the Figure 7: Mortality per 1,000 live births (IFAD GeoSpatial Support Unit, based on IHME 2015). There have been major improvements and these improvements have been relatively well distributed across the country. In addition, as can be seen from Figure 8, orange line, birth rates per young (15-19) women has declined over the same period and is now approaching the average for middle income counties. This is typically associated with higher 'agency' for women. Finally, as can be seen from Table 2, life expectancy of both women and men has improved over the same period, as well as the under 5 mortality rate.

Figure 7. **Spatial and Temporal Child Mortality Trends in Eritrea**

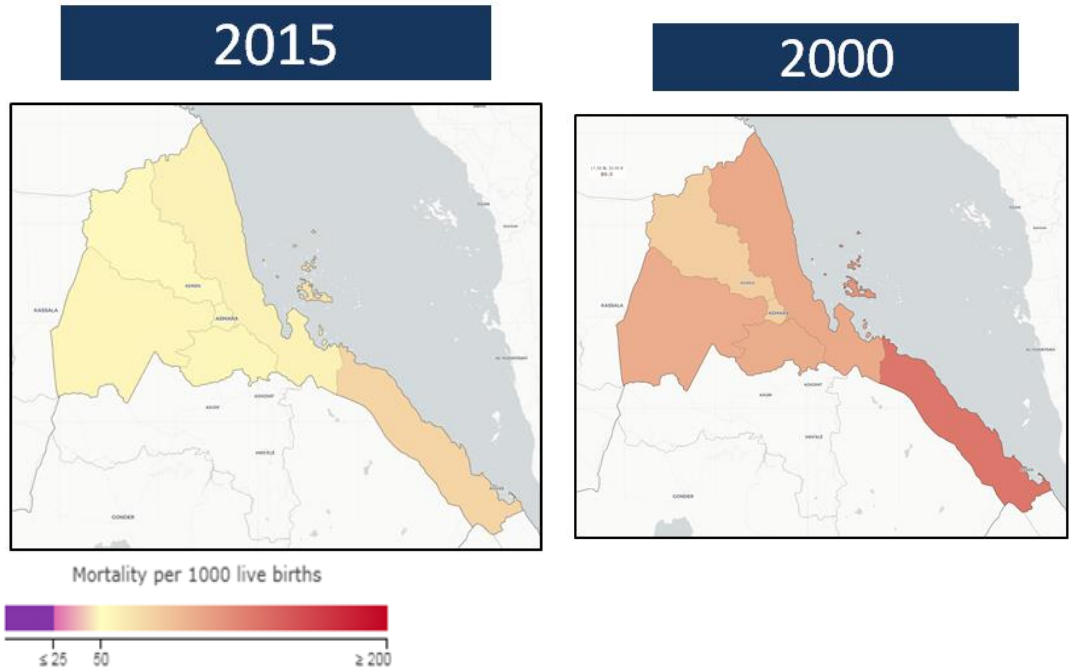
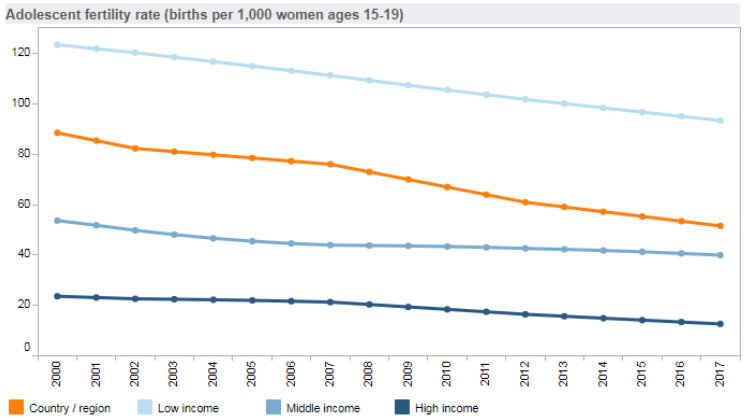


Table 2 Life Expectancy and Under 5 Mortality Trends by sex from 2000 t0 2017

	2000	2017
Life expectancy at birth, female (years)	57.2	67.7
Life expectancy at birth, male (years)	53.4	63.4
Mortality rate, under-5, female (per 1,000 live births)	80.6	38.2
Mortality rate, under-5, male (per 1,000 live births)	95.8	47.8

Figure 8. Adolescent Fertility Rate trend 2000-2017 in Eritrea



11. **Gender and Land ownership**: The TCCE and the 1994 Land Proclamation No.58/1994 (Article 4) grants equal access to land for all citizens (OECD, 2019). Further, all citizens above 18 years of age is allowed access to land based on the usufruct principle through The Land Proclamation (OECD, 2019). All Eritreans residing in the rural areas are accorded equal access to land; both for agricultural activities and for housing. The Constitution asserts that any citizen shall have the right, anywhere in Eritrea, to acquire, own, and dispose of all property individually or in association with others and to bequeath to his heirs or legatees (Article 23(1)) (OECD, 2019). However, in reality, women's access and control over land is often affected by a number of factors including: customary law; attitudes of local authorities; marriage and the type of marriage they enter (i.e. if they enter a polygamous marriage); participation or non-participation (or their husbands) in the National Service (OECD, 2019).

12. **Gender, Economic empowerment and Labour rights** About 30 per cent of employed women contribute to family enterprises. There are no legal restrictions on women's rights to open bank accounts or access loans, mortgages or other forms of financial credit. Banks and other financial institutions apply financial or collateral criteria equally to women and men when providing loans (OECD, 2019). Some of the challenges women face in accessing employment are related to a lack of opportunity based on limited or no education; illiteracy; lack of mobility; social and cultural norms that vies a woman's role as being one of caring for children and elders as well as looking after household responsibilities

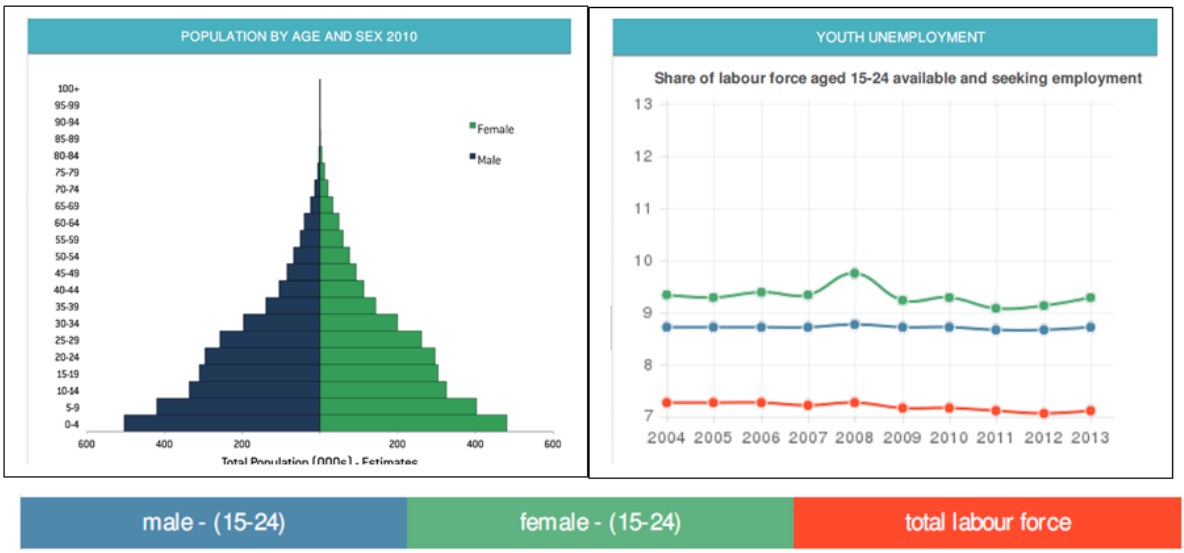
13. **Education and Gender**. The completion rate for both females and males for primary school education is low; however has improved between 2000 and 2017, as can be seen from Figure X. For those who do complete primary education, progression to secondary school is good for both sexes; however current statistics are not available. Over the past 10 years, NUEW has worked in partnership with the Ministry of Education to eradicate adult illiteracy, both by organizing educational resources and campaigning for the increased participation of women in the programme. Since 2003, nearly 350,000 people – 92% of them women – have participated in the adult education program. However much remains to be done: many NUEW members are still illiterate and female participation in schools remains low. See Table 3 for sex disaggregated educational statistics comparing 2000 (left) and 2017 (right).

Table 3 Education trends in Eritrea by sex from 2000 to 2017

Primary completion rate, female (% of relevant age group)	32.2	42.6
Primary completion rate, male (% of relevant age group)	39.2	47.9
Progression to secondary school, female (%)	84.8	
Progression to secondary school, male (%)	87.6	
Lower secondary completion rate, female (% of relevant ..	22.0	30.8
Lower secondary completion rate, male (% of relevant a..	32.4	30.5

14. **Youth.** As can be seen from Figure 9, a substantial proportion of the population are under 35. Currently, as can be seen from Figure 10, youth unemployment is low, an anticipated progressively demobilization of youth will require job creation in the private sector and increased employment in agriculture for the rural youth. The Youth Development of the Commonwealth Secretariat (2016) found that Eritrea has a low Youth Development Index (YDI)[29] (Table 5) ranking 163 out of 183 countries with a score of 0.449 where the global average is 0.616 and the Commonwealth average is 0.606.

Figures 9, 10 Population Pyramid by Age/Sex and Youth Employment by Sex

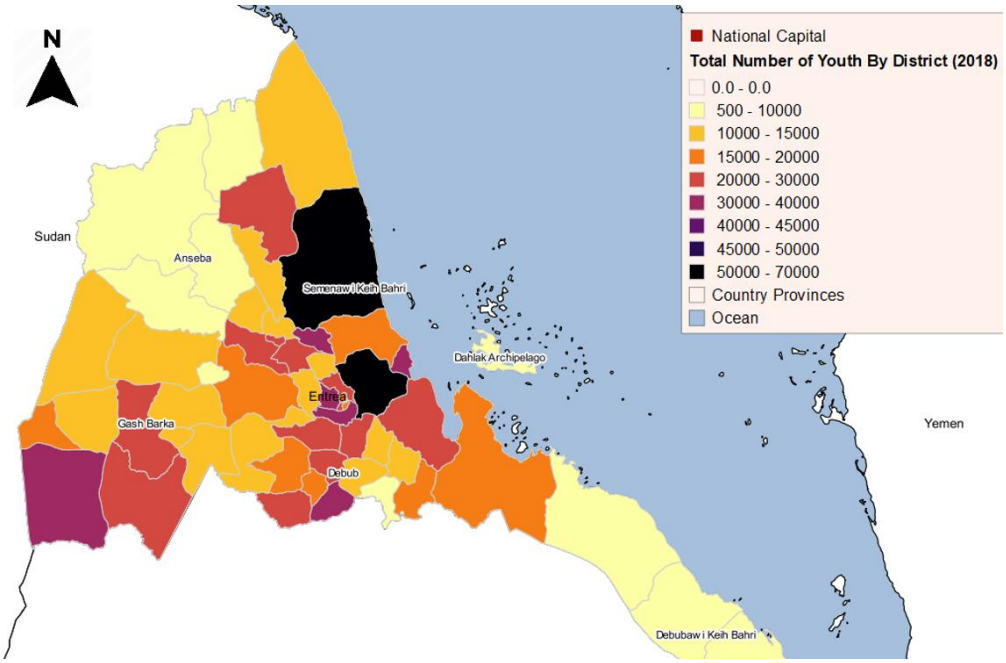


15. Labour force participation in general is high for both male and female over 15 compared to other countries in the same economic bracket. As described by Weldeab (2010), conscription typically starts after the completion of high school or college, meaning that Eritrean society is highly dependent on its youth for its national defence and reconstruction. Eritrea has a very high labour force participation for both men and women and across all ages, in particular for youth (in comparison with other LDCs). However the case of Eritrea is particular in terms of youth employment due to universal conscription that existed during the war. Estimated actual numbers and the spatial distribution of the youth in the country in 2018 is mapped as Figure 11. This is, not surprisingly, generally correlated with the population distribution. Nevertheless this may provide a basis for geographic targeting if youth is a primary beneficiary. Hence the

[29] "The YDI score is a number between 0 and 1. For a country to receive a perfect score of 1, it would represent the highest possible level of youth development attainable, with 0 reflecting little to no youth development. This scoring system is the same as the one that underpins the HDI produced by the UNDP's Human Development Report Office (HDRO)." Commonwealth Secretariat, 2016, p. 12.

types of activities chosen if targeting youth in the agricultural sector would need to vary by location.

Figure 11. Distribution of Youth by district in Eritrea 2018



16. **Ethnic minorities** Eritrea recognizes a number of ethnic groups.[30] Most of the Tigrina, mostly farmers who constitute about 55 per cent of the population -- live in the highlands, although they have also migrated to other parts of the country. The Tigre, nomadic pastoralists and the Hidarb (Cushtic Beja) (the latter who make up under 5 per cent of the population), reside in the northern, western, and coastal lowlands although many also migrated to Sudan during the Ethiopian-Eritrean conflict; they make up about 2 per cent of the population. The Rashaida reside in the northern coastal lowlands and the northern eastern coasts of Sudan and represent about 2 per cent of the population. The Afar constitute under 5 per cent of the population and live in the Debubawi Keyih Bahri Region and Ethiopia and Djibouti. They suffered greatly from the famine of the 1970s as well as the conflicts. Recent droughts have also put the Afar at risk of hunger and disease.[31] The Saho represent 4 per cent of the population and mostly reside in the Debubawi Keyih Bahri Region and the Northern Red Sea Region of the country. At about 2 per cent of the population, the Bilen, mostly farmers, are primarily concentrated in the north-central areas, in and around the city of Keren, and south towards Asmara. The Kunama make up around 2 per cent of the population and live mostly around in the Gash Barka Region and the Nara, who make up under 5 per cent of the population live mostly around the south-western border with Sudan and Ethiopia.

17. **People living with disabilities** The 2010 Eritrea Population and Health Survey estimated the total number of persons with disabilities in Eritrea is 149 103, out of which, 96 748 live in rural areas. According to this survey, persons with disabilities constitute around 5 per cent of the country's total population (Abbay, 2015). The EPHS did not provide information on women with disabilities (Abbay, 2015). The EPHS indicates the most prevalent forms of disability as those related to vision, mental/intellectual and motion impairments (Abbay, 2015). The most prevalent forms of

[30] State of Eritrea. Ministry of Information. http://www.shabait.com/about-eritrea/erina/16508-eritreas-9-ethnic-groups (Accessed 12 January 2020)
[31] Minority Rights Group International. Eritrea: Afar. https://minorityrights.org/minorities/afar/ (Accessed 12 January 2020)

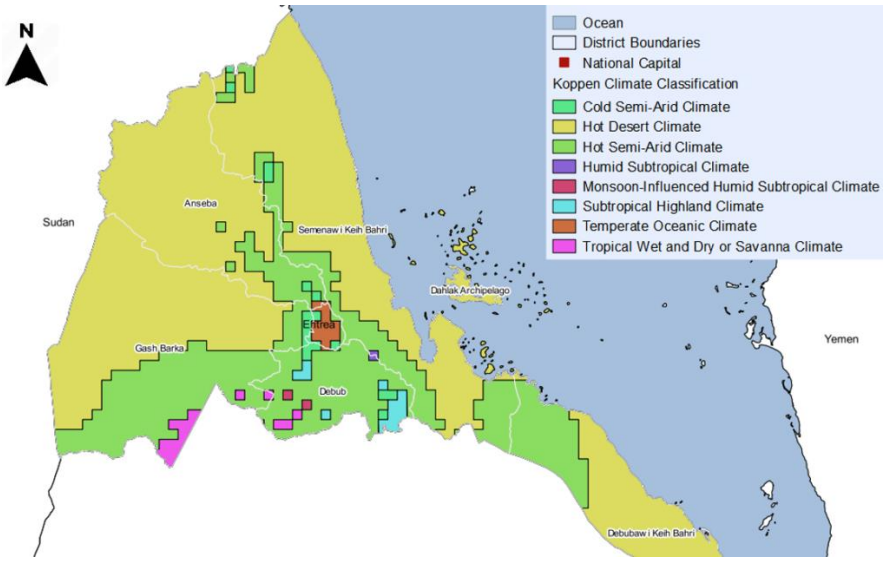
physical disabilities and mental illnesses are those caused by years of war and unexploded ordinances (Abbay, 2015).

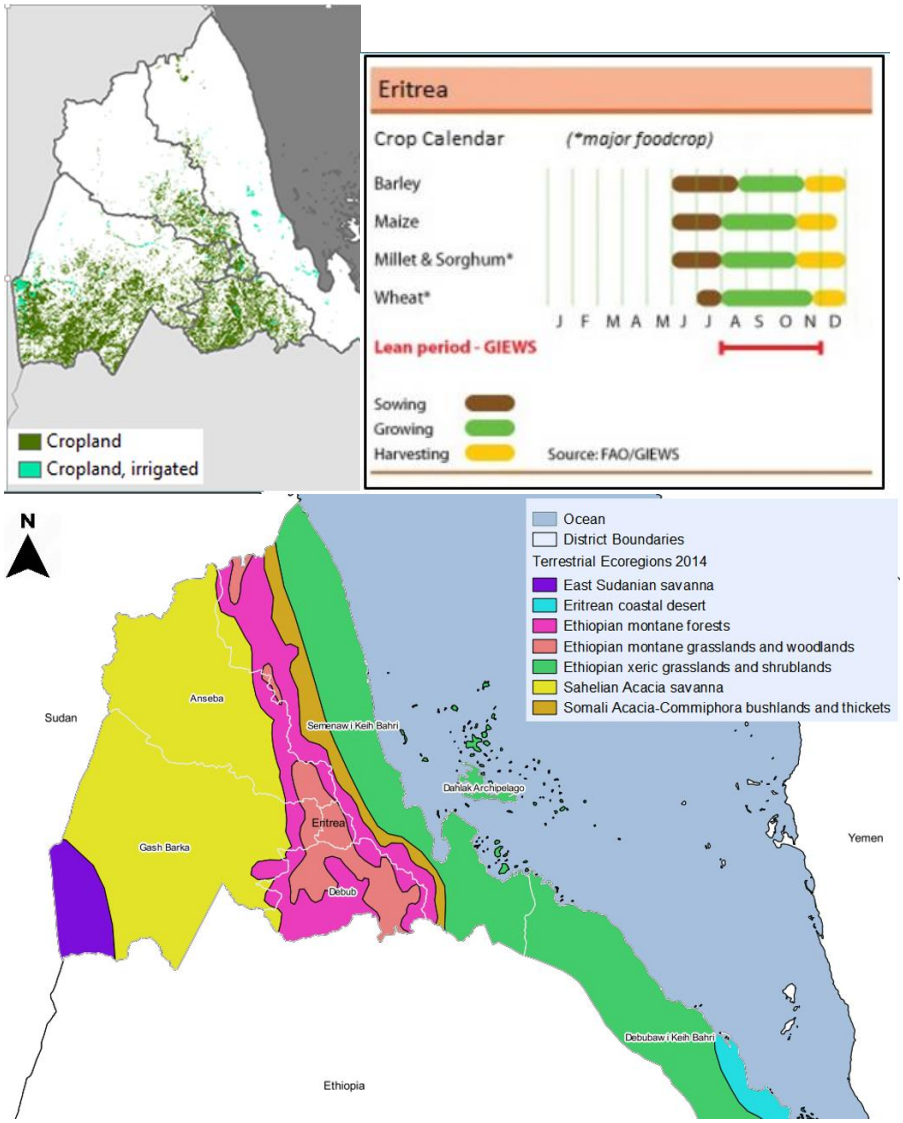
Environment and climate context, trends and implications

18. **Agriculture**. About 75% of the population derives its livelihoods from rain-fed crop production and cattle rearing in traditional smallholder systems, affected by highly variable climatic conditions and environmental degradation. Farm holdings are typically one to two ha with one cropping season. When access to irrigation is ensured, farmers have two cropping seasons, which allows producing surpluses for the market and applying a more commercial approach. Cereals include barley, wheat, teff, sorghum and millet in the highlands, and millet and sorghum in the lowlands. To move from subsistence to market-oriented farming, priority is given to irrigated agriculture and horticulture along seasonal rivers and downstream of dams, combined with watershed management and conservation measures. The livestock sub-sector consists of agro-pastoralism and pastoralism systems.

19. As can be seen from Figure 12, Climate Zones of Eritrea, the country is characterized by (Figure 13) a general semi-aridity, with arid lowlands. As result and as can be seen from Figure 14, Cropland of Eritrea, there is a relative scarcity of arable land and we note also the very small area under irrigated production. This, together with the Cropping Calendar in Eritrea, Figure 15 - showing the seasonality for the principle food crops – highlights the great potential for water development led interventions. Assuming water is available on a sustainable basis, this should inform IFADs interventions in the country. Note a ''lean period'' of 3-4 months. The reduction or elimination of the hunger associated with this lean period is one development outcome which could be addressed in this way.

Figures 12, 13, 14, 15: **Climatic zones, Agro-Ecological zones, Cropland (including irrigated areas); and Cropping Calendar of Eritrea**

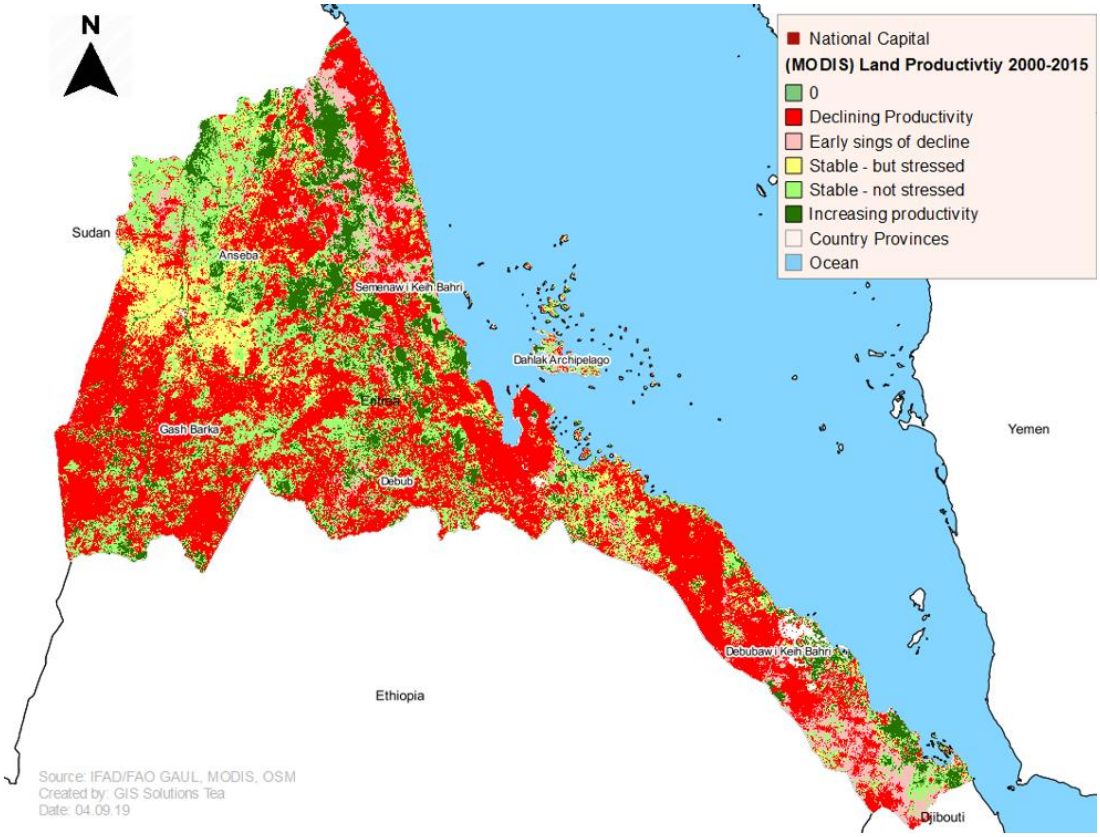




20. **Agricultural, Environment and Climate**. Over the last several decades there has been a trend in declining land productivity in Eritrea, as can be seen from Figure 15. This is essentially a measure of vegetation cover and health, which is taken to be a metric for land productivity. While not sufficient in and of itself, and the result of different dynamics in different places, if paints an overall picture which warrants concern. Vulnerability to potential negative impacts of climate change is considerable because of serious problems of land degradation, limited access to modern agricultural techniques, the population high dependence on precipitation and groundwater for agricultural production. Now the risk of crop failures and loss of livestock is rising (e.g. rainfed wheat has the potential for yield losses as high as 25% or more[32]). As documented in the country's NAPA (2007), traditional coping strategies have been already affected by different factors (e.g. desertification) and will be increasingly disturbed by recurrent droughts, high and spatial variability of rainfall.

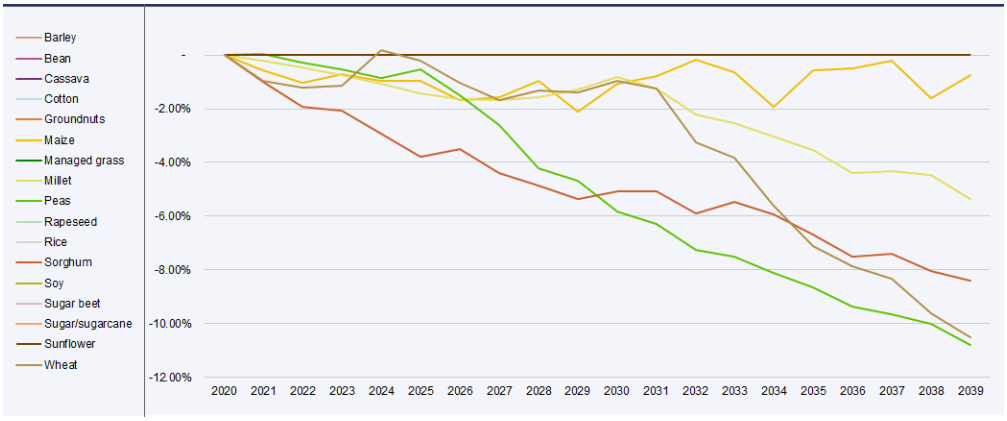
[32] IFPRI. 2012. East African Agriculture and Climate Change: Eritrea.

Figure 15. Index for Land Productivity Change in Eritrea 2000-2015



21. The impacts of climate change will exacerbate this general picture, as can be seen from the 20 year projection from 2020 in Figure 16 below. This is based on the median risk scenario using the CARD tool developed by IFAD. As can be seen, the impact varies by crop. This should be taken into account when selecting either the crop(s) to focus on and/or the water management regime. There are further distinctions between highland and lowland agro-ecosystems which are detailed further below in Figures 17 and 18

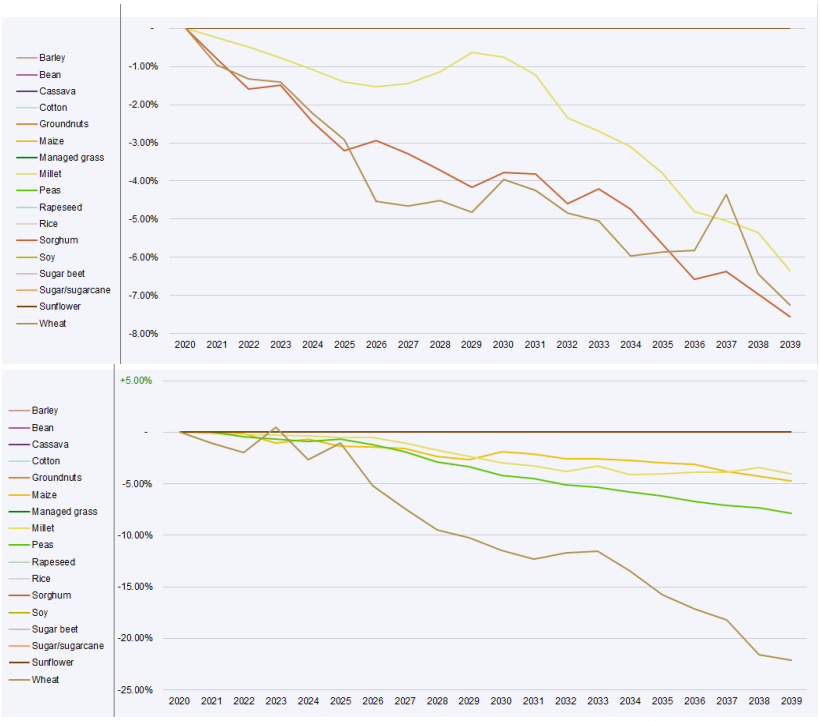
Figure 16 Projected national average crop yield decline due to Climate Change using IFADs CARD model for the period 2020-2040



22. Nevertheless, there will be also areas of the country, where longer growing seasons and potential increases in total rainfall may increase productivity (e.g. sorghum expected to boost in the area of production and in yield[2]). Adaptation is therefore

essential, not only to response to foreseen changes and unpredictable changes, but also to maximise potential gains[33].

Figures 17, 18 Projected crop yield decline due to Climate Change using IFADs CARD model for the period 2020-2040 by agro-ecological zone: Tropical Highland Semi-Arid (Top) vs Semi-Arid (Below)



Figures 17,18 Projected yield decline over 20 year period with median risk climate impact scenario, by agro-ecozone and crops **Tropical Highland Semi-Arid** (top) Millet, Sorghum, Wheat (from least to greatest yield decline) **Semi-Arid zone** (bottom) Maize, millet, peas, wheat (from least to greatest yield decline) Source: CARD (IFAD)

23. **IFADs investments will be strengthened** in Eritrea to adapt to and mitigate CC and to prevent and reverse environmental degradation. Some of the climate smart technologies to be promoted include: a) rainwater harvesting; b) drought tolerant and early maturing crop varieties; c) drought tolerant forage and agroforestry fodder species; d) watershed conservation and management; e) afforestation ;f) mangrove rehabilitation and conservation; g) solar and other forms of renewable energy sources, and energy saving approaches etc

Cross-thematic drivers of poverty & implications for project interventions

24. Determinants of poverty: Poverty in Eritrea has many underlying causes. The economy is one of the poorest performing; according to a recent estimate, a third of the nation's GDP is comprised of remittances from Eritreans living abroad (Callender, 2017). Agriculture has under-performed, also leading to poverty. About two thirds of households are impacted by food insecurity, with most of the threat in rural areas, particularly isolated regions (Callender, 2017). Finally, limited access to education has contributed to poverty - with one of the lowest primary enrolments in the world with just over an estimated 33 per cent (2017 figures) (Callender, 2017). However, a study in Zoba Meakel by Bahta and Haile (2013) found that determinants of poverty also included: number of family members, number of children, children at school age, and rent of land of household head is statistically significant and positively related to household's poverty.

25. Dependency ratio: As noted above, family size is directly related to poverty status. Extreme poor households tend to have larger families; in a study from 2003, these averaged 6.1 persons compared to the non-poor which averaged 4.2 (State of Eritrea, 2004).

[33]IFAD, 2012.

26. Gender and age dimensions of poverty: The World Bank Poverty Assessment of Eritrea (1996) found that women headed about 30 per cent of households, of which 18 per cent were widows. Women generally earned less than men and most poor rural women were engaged in low-paying manual labor in construction and agriculture. Female-headed households tended to have fewer household assets including livestock than male-headed households. Further, rural women were less likely to be literate – often leaving school early for marriage (World Bank, 1996).

27. Local responses to poverty: A 2006 report by IFAD indicated that rural communities across the country have coping strategies in place to protect the poor. In times of stress, wealthier households dispose of assets, mainly livestock, to provide loans to poorer relatives and neighbours. In times of duress, people also make use of labour-sharing including throughout the agricultural cycle where wealthier adults will assist households unable to cultivate land (IFAD, 2006).

28. High unemployment and a lack of skills are constraints for an inclusive economy in Eritrea. Over 80 per cent of students do not acquire specific job-related skills after high school leading to high youth unemployment. Additionally, access to technical and vocational education and training (TVET) at the secondary level is limited (see Figure 4 for numbers enrolled in TVET), increasing the shortage of middle level skills. In 2014, only 2.1 per cent of total secondary school enrolment was in TVET, of which only 25 per cent were women (African Development Fund, 2015).

29. In 2015, over 54 per cent of men, particularly youth, were either unemployed or under-employed in seasonal agricultural work or as casual labourers. The need to skill up youth was identified for the formal and non-formal sectors, including entrepreneurship skills to facilitate the start-up of small businesses, e.g. in agriculture, textiles, and footwear (African Development Fund, 2015). The government also is trying to modernise agriculture to provide improved economic opportunities including youth who are tempted to migrate to Europe and other countries to seek other options (Magidu, 2018).

30. In short, there are complex reasons for poverty and malnutrition in Eritrea, as well as some specific causal explanations for specific potential target groups of IFAD/GoE interventions. Some of these are beyond the scope of interventions via the project modality and over a COSOP timeframe, such as educational levels, but can nevertheless be mitigated through specific actions such as vocational training. There are some technical interventions which can be envisioned however certain outcomes will be contingent upon engaging in policy dialogue even if sectoral if policy barriers can be identified which are subject to change and which are critical.

Part 2 -Institutions and legal framework

Institutions

31. **Gender**. The National Union of Eritrean Women (NUEW) is advocating women's equal participation and is present at all levels of society. To raise women's awareness of the culture of gender discrimination prevalent in Eritrea, NUEW has conducted a number of political advocacy campaigns and educational interventions, including special courses and capacity building programmes for women in leadership positions. Overall, more than 2.9 million people – including 90% women – have been reached through nearly 25,000 meetings over the past 10 years. These have included political advocacy meetings, seminars, short courses and workshops covering a range of topics, including gender mainstreaming, women in decision-making roles and women's participation in elections, among others.

32. **Youth.** The National Union of Eritrean Youth and Students (NUEYS) is a national youth organization with the mission to "cultivate and produce capable youth by promoting and strengthening Eritrean youth in all aspects of national, regional and international development processes". Its main functions are: (1) Advocacy and lobbying, ensuring youth needs and issues are raised with decision-makers, and; (2)

Service provision, temporarily providing services to youth that are in scarce supply, such as establishing and running youth health centres around the country.

33. **Agriculture**. Key institutional partners of IFAD are: (a) at the national level, the Ministry of Agriculture (MoA) and its national services such as the Planning and Statistics Division (PSD), the Agricultural Extension Department (AED), the National Agriculture Research Institute (NARI), the national breeding centres, the National Animal Plant Health Laboratory (NAPHL).

Policy and regulatory frameworks

34. Eritrea has signed onto a number of international agreements, treaties and commitments including the development framework in support of development, reducing poverty, and improving the lives of the population including the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs). Eritrea has also signed up to the African Union Agenda 2063, which include goals and targets that align with the Government's Self-Reliance Policy and Development Agenda (UN Eritrea, 2017). The Government's Interim Poverty Reduction Strategy Paper (I-PRSP) (GOE, 2003) lays out a macroeconomic framework and steps to create the conditions for resuming rapid economic growth, and policies and programs for poverty reduction.

35. The vision of the Government of the State of Eritrea is operationalized in the National Indicative Development Plan 2014-2018, which has four pillars, namely (i) basic social services; (ii) environmental sustainability, resilience and disaster risk management; (iii) public sector capacity development; and (iv) inclusive growth, food and nutrition security, and sustainable livelihoods.

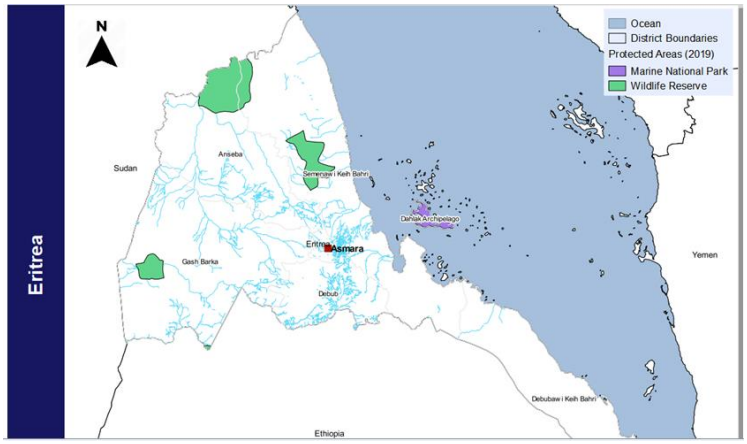
36. **Youth.** There is no governmental authority that is responsible for youth but however incorporated into each sector's priorities (education, health, etc). As described by Weldeab (2010), government agencies that deliver programmes to youth often so do without a specific youth strategy in mind. In some limited cases, government bodies such as the Ministry of Health have sought the input and assistance of youth in the design of their programmes. In one instance, the Ministry partnered with the National Union of Eritrean Youth and Students (NUEYS) because of their success with grassroots HIV/AIDS awareness.

37. **Gender**. The Government adopted several policies supporting equal opportunities, namely the National Education Gender Policy and Strategy (2003), National Policy on Gender (2015), National Gender Action Plan (2015-2019), and a gender awareness strategy of communities. In terms of key institutions, The National Union of Eritrean Women (NUEW) is advocating women's equal participation and is present at all levels of society. The National Union of Eritrean Women(NUEW) was established in 1979 with the support of the Eritrean People's Liberation Front. In its present form, NUEW is an autonomous non-governmental organization dedicated to improving the status of Eritrean women. The organization's mission is to ensure that all Eritrean women confidently stand for their rights and equally participate in the political, economic, social and cultural spheres of the country and share the benefits. NUEW is a member of ECOWAS and other international organizations.

38. **Environmental agreements**. Eritrea has ratified the UN Convention to Combat Desertification (UNCCD) and UN Framework Convention on Climate Change (UNFCCC). Several biospheres have been declared (see Figure 19) across different areas of the country. Considerable progress has been made in particular in combating desertification and towards its Land Degradation Neutrality target.

39. With respect to the environment, the National Environmental Management Plan (NEMP) is the primary policy document. Other key documents are the National Environmental Impact Assessment Procedure and the Integrated Water Resources Management Action Plan (2009-2016).

Figure 19. Protected Biospheres in Eritrea



40. More specifically on climate change, and as per the **Nationally Determined Commitment** (NDC) the GoE is committed to reduce the CO2 emissions from fossil fuels by 23.1% in 2020, 30.2% by 2025 and 39.2% by 2030 visa-vis to the reference year. If additional support is solicited, it can be further reduced by 36.4% in 2020, 61.1% by 2025 and 80.6% by 2030." "Unconditional mitigation scenario: With internal resources Eritrea can implement its unconditional scenario reaching 1.3 MtCO2 in 2020, 1.6 MtCO2 in 2025 and 1.9 MtCO2 in 2030from fossil fuel CO2." Furthermore "Conditional mitigation scenario: With external assistances Eritrea can implement its conditional scenario reaching 1.1 MtCO2 In 2020, 0.9 MtCO2 in 2025 and 0.6 MtCO2 in 2030from fossil fuel CO2

41. Finally, Eritrea intends to raise the share of electricity generation from renewable energy to 70% of the total electricity generation mix (wind, solar, geothermal) [by 2030].

Programmes and partnerships

42. Core national partners of IFAD are the Ministry of Finance, and the two lead ministries for project implementation, namely the Ministry of Agriculture (MoA) and the Ministry of Marine Resources (MMR). Other essential partners are the Ministry of Land, Water and Environment (MoLWE), the National Union of Eritrean Women (NUEW) and the National Union of Eritrean Youth and Students (NUEYS).

43. Current key development partners of IFAD in Eritrea include the European Union (EU), UNDP, FAO, African Development Bank (ADB), Global Environmental Fund (GEF), OPEC Fund for International Development (OFID) in order to attract more co-financing, and maximize synergies and complementarities of operations. Potential partners would be World Bank, World Food Program (WFP) and the Italian Cooperation, which are in the process of renewing their partnership with the Government. UNDP, in partnership with FAO, will implement a US$ 40 million program in agriculture that will be financed by EU.

Part 3 - Strategic recommendations

Lessons learned

44. There is a the need to further enhance IFAD's Country Programme with respect to environmental management and climate change mitigation, while prioritizing future interventions in areas where the Fund has developed a lead position and comparative advantage vis-à-vis other sectors of the economy in Eritrea (i.e. agriculture, agro-pastoralism, horticulture and fisheries sectors) and generated knowledge over the years.

45. Women empowerment is key to addressing household food security and nutrition goals but needs to pay attention to social – cultures conditions to quickly foster women' economic participation. The development of small livestock (sheep, goats and poultry) have been very effective in the economic recuperation of destitute, single-parent and

woman-headed households. No gender-disaggregated data are available to measure outreach to women.

Scenarios and risks

46. **The IFAD Country Strategy Note** (2016) outlines a number of risks including: i) country fragility linked to critical environmental issues, increased climatic variability, recurring drought, flash flooding, and sea level rise; ii) limited institutional implementation capacity within government systems, procurement delays, limited availability of service providers, etc.; iii) ineffective fishing technology leading to fisheries over-exploitation; and iv) potential risks of siltation that can endanger dams/reservoirs and the livelihoods of fishers.

47. Lack of economic opportunities for youth: The lack of economic opportunities for rural youth, and the ensuing challenge of migration to urban areas and outside of Eritrea is a scenario that is likely to affect the country over the short to long term and will likely increase as climate change impacts increasingly impact rural areas and populations.

48. Gender and social inequality are long term challenges and poverty determinants that need to be addressed to achieve the SDGs and other national and global commitments. While policies and programmes are needed as well as translation of these on the ground, behavioural changes are also needed at all levels. Social and cultural norms that discriminate against and limit the opportunities of girls and women, marginalized youth, ethnic minorities, and people living with disabilities need to be addressed in a cross-sectoral fashion including in agriculture and rural development.

49. Price of staple foods: The price of staple foods in Eritrea and the East African Region (WFP, 2018) is an issue that affects the country in the short, medium, and long term depending on what happens due to the impacts of climate change, world markets, and other pressures on agriculture, food, and trade. Rural infrastructure and transport can also affect prices. When the prices of staple foods rise above average, they erode the purchasing power of poor market dependent households, leaving them more vulnerable in lean times (WFP, 2018).

50. Institutional and human resources capacity constraints: The country continues to experience institutional and human capacity gaps across all sectors in both public and private institutions (ADB, 2017). This is not an issue that can be resolve in the short-term, but one that demands investment in education and training institutions over the long term as well as developing the economic opportunities for those skills to be used.

51. Inadequate infrastructure: Deficiencies in agriculture and water and sanitation infrastructure continue to undermine the country's inclusiveness by slowing the transformation of the Eritrean economy, which is heavily dependent on the mining sector (ADB, 2017).

52. A young private sector: The country's infrastructure challenges, a dominant public sector, restrictive economic and financial policies, skills gaps and miss-match, continue to undermine the existing potential in agri-business and agro-processing, manufacturing enterprise growth and employment creation and, therefore, curtailing the private sector development.

Strategic orientation

53. the Government has requested the UN Country Team (UNCT) to update the UN Partnership Framework to reflect the 5-year operational plan of the national development strategy. This UN Strategic Partnership Cooperation Framework (SPCF) would focus on inclusive growth and national capacity enhancement for sustainable development. The IFAD Country Programme could contribute to pillars 2 (environmental sustainability, resilience and disaster risk management) and 4 (inclusive growth, food security and sustainable livelihoods).

54. The COSOP will also contribute to achieving the following Sustainable Development Goals (SDGs): Eradicating extreme poverty (1), Ending hunger, guaranteeing food security, improving nutrition and promoting sustainable agriculture (2), Achieving gender equality and empowering all women and girls (5), Fighting climate change and its repercussions (13), Preserving and restoring terrestrial ecosystems (15).

Strategic actions and targeting

55. The Project will contribute to the Small and Medium Commercial Farmers Strategy. The SMCFS identified the following main challenges[34] of agriculture and livestock: (a) lack of value chain facilities, infrastructure, technology; (b) inadequate or limited human and financial resources; (c) weak institutional capacity; (d) insufficient access and linkage to markets. In response, the SMCFS proposes two strategic axes, namely: (i) Technological Support; (ii) Creating an Enabling Environment.

56. **Priority strategic areas**, with a focus on innovation, will include: (a) water conservation and advanced irrigation technologies; (b) job creation for youth and SME development, (c) renewable energy, (d) nutrition improvement, (e) sustainable financial services development; (f) food safety and certification. Their promotion will be implemented through partnerships with international research centres and with other development partners.

57. **Priority beneficiaries** will be: (i) rural poor smallholders involved in subsistence agriculture, horticulture and small livestock-keeping; (ii) farmers and youth agribusiness enterprises or farmer organizations, such as cooperatives and small agribusiness groups; (iv) women, especially female-headed households; and (v) youth (18-35 years), in particular IDP and demobilized soldiers.

58. **The target group** is represented by smallholders cultivating only rainfed crops, have food deficits even in good years. This is largely due to low yields resulting from low level of technology, late ploughing (because they have no draught animals), small holdings, and lack of livestock. Specific target groups are: (a) households cultivating small areas of rainfed crops (<2 ha) or small areas of irrigated crops (0.1-0.25ha); (b) pastoralist households with a maximum of 5 cattle and 10 sheep/goats; (c) resettled households (IDPs, expellees, returnees, demobilized soldiers); and (d) woman-headed-households (WHHs). WHHs constitute over 40% of households in the Project area.

59. **Targeting strategy**. The needs identification will be undertaken at the village level by the Sub-zoba and Kebabi administration on the basis of the guidelines provided by the NPCU. Special efforts will be undertaken to reach out to youth and women through a combination of self-targeting, direct targeting, facilitation and empowerment measures.

60. **Gender strategy**. Gender will be mainstreamed in implementation with a focus on supporting women to overcome constraints including access to assets, training and inputs. The MoA has put in place a gender strategy. The Project will help women to: (i) access irrigation schemes; (ii) enhance their skills in irrigated farming, with particular reference to production of high value crops (FFS for women); (iii) enhance women's representation in cooperatives and strengthening of their leadership capacity; (iv) access financial support; (v) nutrition-sensitive agriculture and home gardens for women. In addition, the gender approach will be based on: (a) quotas if required, at least 50% of women among beneficiaries of the various activities; (b) monitoring of women participation in activities; (d) gender training for programme implementers.

61. **Youth strategy**. The interventions will create rural job opportunities, in particular for rural youth in irrigation schemes and upstream/downstream value chain development opportunities. The Project will prioritise young people for training related to the development of skills and capacities in cooperatives, post-harvest handling and marketing.

[34] MoA. SMCFS, 2019.

Appendix V: Resilience assessment note

Building resilient agriculture, livestock and fisheries sub-sectors

1. IFAD is providing support to the Government of the State of Eritrea to build sustainable and resilient agricultural, livestock and fisheries sub-sectors, which are key drivers for the country to reduce rural poverty and to follow its development path. After years of conflict, Eritrea is gradually shifting from post-conflict to development in a context that is highly vulnerable to economic, environmental, climate and other shocks. Eritrea has a Country and Policy Institutional Assessment (CPIA) score of 2.0[35].

2. According to IFAD, the four main entry points for building resilience are: (i) gender and youth empowerment; (ii) institution-building; (iii) food and nutrition security; and (iv) natural resources management (NRM). These four entry points are particularly prevalent in the COSOP and also in the proposed Integrated Agriculture Development Project.

3. **Poverty context, gender and youth**. Eritrea's population is estimated at 3.29 million people[36], with an annual growth rate of 2.7%. No poverty statistics are published. The UNDP Human Development Index (HDI) remains low at 0.44 and ranks Eritrea 178th out of 189 countries, due to the impact of the long years of war and sanctions, widespread rural poverty and the dependence of about 65-70% of the population on small-scale agriculture, with limited land resources in difficult agro-climatic conditions. About 82% of the rural population owns agricultural land[37].

4. Eritrea faces severefood and nutrition security challenges. The malnutrition situation among the under five-year old children portrays severe burden of stunting (50.3%), underweight (38.8%), and wasting (15.3%)[38]. Causes are the chronic failure to receive sufficient and diversified nutrition, including micronutrient deficiency. Eritrea also scored poorly (33.8) on the Global Hunger Index[39] in 2014.

5. **Agriculture, livestock and fisheries**. Eritrea is situated along the western coast of the Red Sea with a coastline of over 1,200 km and has a total land area of 124,000 km^2. Eritrea has certain agro-ecological diversity: the Highlands are sub-humid to semi-arid; the Lowlands are arid with minimum rainfall, which allows the development of various production systems.

6. Agriculture is one of the main economic activities in the country, having two main farming systems. Agro pastoralism and pastoralism is practiced in arid and semi-arid areas, being mainly the east and west lowlands, whereas sedentary mix crop-livestock farming is practiced in the highlands and midlands. Challenges to the sector include: considerable climate variability; soil erosion and declining soil fertility as well as unpredictable water (frequent droughts) and energy supply challenges. Access to irrigation (typically 0.1 – 0.25 ha per household)allows for two or three cropping seasons and production of surpluses for the market. Livestock is an important sub-sector since 49% of the total land area is suitable for grazing whereas only 17% is suitable for cropping. Crop and livestock productivity is generally low, compared to potential yield.

Drivers to enhance Eritrea's resilience

7. As resilience in the context of Eritrea is particularly a multidimensional concept,

[35] Assesses the quality of a country's present policy and institutional framework. For each criterion, countries are rated on a scale of 1 (low) to 6 (high). World Bank
[36] Government of the State of Eritrea
[37] EPHS2010
[38] EPHS2010
[39] International Food Policy Research Institute (IFPRI), 2018

the transition towards sustainability and resilience requires different operational responses. The dimensions of resilience in the context of agriculture and fisheries in Eritrea have been tackled in the COSOP and the IADP concept note (CN) in the following way:

8. **Gender and youth empowerment** have been mainstreamed in the COSOP and the CN to make them as inclusive as possible with regards to women and youth participation. This will be done by building further on partnerships established by previous IFAD projects, namely with the National Union of Eritrean Women (NUEW) and the National Union of Eritrean Youth and Students (NUEYS), and by working together with other UN partner organizations, particularly IFAD's partnership with FAO and WFP, which are working on resilience.

9. Women will be supported through (i) access irrigation schemes; (ii) enhanced skills in irrigated farming, with particular reference to production of high value crops (FFS for women); (iii) enhanced representation in cooperatives and leadership capacities; (iv) access to finance; (v) nutrition-sensitive agriculture and home gardens for women; (vi) gender training for programme implementers.

10. Rural men and women, aged 18-35, will systematically benefit from rural employment opportunities, e.g. in irrigation schemes and upstream/downstream value chain development opportunities; cooperatives and SMEs promotion. Young people will be prioritised for training in cooperatives, post-harvest handling and marketing.Investment projects will collaborate with the NUEYS.

11. **Natural resource management** has always been a key concern in IFAD interventions in Eritrea, in particular: (a) to reduce the dependency on rain water and to promote water-efficient irrigation; (b) to support land and water conservation measures; (c) to identify and promote innovative technologies and build the institutional capacity. Climate smart practices technologies include a broad range of technologies, including rainwater harvesting, drought tolerant and early maturing crop varieties, drought tolerant forage and agroforestry fodder species, watershed conservation and management, afforestation, mangroves rehabilitation and conservation, solar and other forms of renewable sources of energy.

12. **Food and nutrition security** is essential given (a) the country's structural dependence on imports, in particular cereals (wheat, sorghum, vegetable oil, sugar); (b) the low productivity of rainfed agriculture, which does not allow to produce sufficient surpluses and also leads to seasonal hunger; (c) the malnutrition statistics. The three dimensions of food and nutrition security will be targeted.

13. Specific emphasis would be on: (a) nutrition-sensitive agriculture, horticulture and aquaculture, including distribution of nutritious and drought tolerant varieties, high-quality seeds and fingerlings;(b) community awareness and sensitization campaigns on the importance of nutritious food (vegetables, pulses, fruits, dairy and fish); (c) promotion of good practices in post-harvest handling and storage, food safety standards and food preparation; (d) access to save drinking water.

14. **Institution building** will include the following dimensions: (a) enhancing key institutions that are involved in project implementation (extension, research, breeding centres) with respect to infrastructure and equipment; (b) enhancing human resources at different levels (capacity building, knowledge management, South-South and Triangular Cooperation); (c) enhancing social capital of youth groups and farmers' organizations; (d) developing the building blocks and linkages for value chains which is likely to give rise to more sustainable results in the long term, as the benefits of better value chain structuring provide incentives for all actors to continue to invest in value chain institutions. Institutional

capacity building will be provided both at national and regional levels.

15. To further reduce the institutional risks, mitigation measures have been mainstreamed throughout the COSOP. Specific attention during design and implementation will be given to (i) preparation of the implementation manual during design, in close collaboration with the national team; (ii) programming and M&E; (iii) analysis of FM and procurement, as well as capacity building (including linking up with regional grants); (iv) provision of implementation support (financial management, procurement) and mobilization of international technical assistance.

Appendix VI: COSOP preparation process

1. The COSOP preparation process featured a participatory exercise that saw the active involvement of a broad range of stakeholders. The process was led by the IFAD Country Director (DC) for Eritrea in collaboration with FAO's Investment Centre Division (DPI). The COSOP Delivery Team (CDT), established by the Country Programme Manager (CPM), both at IFAD and in Eritrea, contributed to the entire process. The in-country COSOP Delivery Team (CDT) comprised the officials of Ministries of Agriculture and Marine Resources in addition to the national coordinating officers from both National Agriculture Project (NAP) and the Fisheries Resources Management Programme (FReMP).

2. The following consultations were undertaken at national level (i) meetings with the key government ministries involved in the proposed COSOP thematic areas, in particular the Ministry of Finance, the Ministry of Agriculture, and the Ministry of Marine Resources; (ii) the development partners, including FAO, WFP, EU, Italian Embassy, UNDP; (iii) the National Union of Eritrean Women, the National Union of Eritrean Youth; (iv) the Zoba and Sub-Zoba administration, as well as other implementing entities; (v) the beneficiaries at the grassroots levels. The Government of Eritrea led the discussion on the future IFAD support to the country and a new project pipeline, subject to the PBAS of IFAD. This participatory process aimed to ensure that strategic public and non-public stakeholders provided substantive and prioritised inputs and engagement, at various stages of the COSOP formulation.

3. A COSOP formulation mission in Eritrea took place from 8th to 26th July 2019. The mission also conducted field visits to the Zoba Maekel/Central, Debub/Southern, Anseba and Northern Red Sea Region to visit the achievements of the NAP and FReMP projects, to consult beneficiaries and to exchange with implementing entities of these projects.

4. The draft COSOP has been shared with the Government and the UN Resident Coordinator in September 2019. Their feedback has been incorporated in the COSOP.

5. The draft COSOP was submitted for in-house review at IFAD. This process involved a peer review, a review by the Regional Economist, the Network of Regional Economists, and a Quality Assurance Group (QAG) process managed by Operational Strategy and Policy Guidance Committee Secretariat (OSC).

Composition of the COSOP Delivery Team

6. The in-house component of the CDT consisted of the below IFAD and FAO staff members (Table 1). Table 2 presents the composition of the extended in-country CDT, which includes representatives from key government agencies involved in the IFAD country programme, coordinators of IFAD supported projects in the country, key external development agencies, and resource persons.

Table 1: COSOP Delivery Team

Technical Division	Name	Title
East and Southern Africa - HQ	Sara Mbago-Bhunu	Regional Director
ESA-HQ	Shirley Chinien	Lead Regional Economist
ESA-Addis Ababa	Ulac Demirag	Country Director
ESA-Addis Ababa	Joseph Nganga	Country Programme Officer
FAO / DPIA	Frans Goossens	Senior Economist
FAO / DPIA	Haingo Rakotondratsima	Agricultural Economist
ESA-Addis Ababa	Dagim Kassahun	Administrative Assistant
ESA-Asmara	Meala Tesfamichael	Consultant
ESA-HQ	Sylvia Frattini	Programme Assistant
ESA-Nairobi	Zainab Semgalawe	PTL
ESA-HQ	Bernadette Mukonyora	Programme Analyst
Environment, Climate, Gender and Social Inclusion (ECG)	Eric Patrick	Regional Climate and Environmental Specialist
Office of General Council (LEG)	Purificacion Tola	Counsel
Financial Management Division	Virginia Cameron	Finance Officer
Procurement Division	Marie-Claire Colaiacomo	Senior Procurement Officer
Environment, Climate, Gender and Social Inclusion (ECG)	Steven Jonckheere	Senior Technical Specialist, Gender and Social Equality
PMI-HQ	Richard Abila	Fisheries and Aquaculture Specialist

Table 2: Extended In-Country Programme Management Team

Organization	Name	Title
Minister of Agriculture	H.E Arefaine Berhe	Minister of Agriculture
Ministry of Marine Resources	H.E Tewolde Kelati	Minister for Marine Resources
Ministry of Finance	Mr. Efrem Tesfai	Director, International Cooperation
Ministry of Agriculture	Mr. Heruy Asghedom	Director General, Agricultural Extension
Ministry of Agriculture	Mr. Bereket Tsehaye	Director, Planning and Statistics, Ministry of Agriculture
Ministry of Agriculture	Mr. Misghina Ketema	National Programme Coordinator-NAP
Ministry of Marine Resources	Mr. Tewolde Woldemikael	National Programme Coordinator-FReMP
UN	Ms. Susan Ngongi	UN Resident, Humanitarian Coordinator
UNDP	Mr. James Wakiaga	Resident Representative
FAO	Mr. Saeed Bancie	Resident Representative, FAO
WFP	Mrs. Miriam Tesfaldet	Officer in Charge

Appendix VII: Strategic partnerships

Strategic Area	Rationale	Expected Outcome/ Result	Partner	Strategic Objective contribution	Monitoring/ reporting
Policy engagement	The SMCFS strategy requires a value chains development approach which is new in Eritrea	Enabling conditions for value chains development in place	FAO Multi-lateral Institutions	SO2	# of value chain study and platform supported # Key Private Sector enterprises engaged in the coordination platform
	Lack of rural finance development and regulatory framework	Rural finance development and regulatory framework piloted and rural finance products improved	UN Multi-lateral Institutions	SO2	Participatory process supported Development Strategy and regulatory framework formulated
	Lack of specific support to youth and women Small and Medium Enterprises (SMEs) and cooperatives development	the promotion strategy of youth and women Small and Medium Enterprises (SMEs) and cooperative piloted	UN Multi-lateral Institutions	SO2	Related capacity (youth & women inclusion) of Business Development Services and vocational training providers built
	Very limited number of cooperative models which are unprofitable	Profitable and viable cooperative and SMEs providing appropriate services to farmers	FAO	SO2	Diversified and profitable models and governance of cooperatives and SMEs developed
	Issues of outreach and response to farmers' specific needs of current services delivery	Greater and diversified capacity of services delivery	FAO	SO1	# of new delivery mechanisms developed
Scaling up	IFAD best practices available on: improved irrigation, catchment protection, production and distribution of improved seeds, animal feed production, etc.,	Increased impact of agricultural development on poverty, food security and nutrition.	Multi-lateral Institutions	SO1	# of partners replicating and upscaling IFAD best practices
Coordination support	The current implementation capacity, tools and approaches gaps require Technical Assistance (international and national)	Capacity of implementing departments and agencies Built Outcome indicators of the COSOP and contribution to SDGs measured	All	All	Capacity of key departments and agencies strengthened Risks anticipated and managed Implementation challenges overcome

Strategic Area	Rationale	Expected Outcome/ Result	Partner	Strategic Objective contribution	Monitoring/ reporting
		Analysis and lessons learnt drawn form M&E			
Knowledge Management and innovation	Limited access to innovation and knowledge products due to the past Country context Lack of documentation on best practices and lessons learned	Innovations discovering tours organized KM products developed Documenting best practices and lessons learned via identification/analysis of date/impact assessment of ongoing projects/focus groups with beneficiaries	UN Agencies Multi-lateral Institutions CGIAR centers	All	Effective KM and innovation management to improve implementation effectiveness and management and enable scaling-up and policy engagement
Co-financing mobilization led with FAO Eritrea	Partners' collective actions are required to cope with the current and future (resumption of other partners' operations) institutions implementation and coordination capacity gap	Smooth and effective implementation of strategy, programme and project Increased procurement and internal control capacity	ACBF UN Multilateral Institutions	All	USD 15 million mobilized to implement the capacity building and KM action plan on staff specialization, institution function development, statistics, etc. Investment plan, programmes and projects M&E development supported
	Synergy development	Resilient practices, agroforestry, conservation agriculture; diversification of income, etc., financed	ASAP GEF, GCF, AF	All	USD 20 million mobilized for CSA, climate change adaption, Climate environment management integration into farming systems

Appendix VIII: South-South and Triangular Cooperation Strategy

I. Introduction

1. Developing countries across all income levels have become increasingly interested in learning from and drawing on the development experiences and resources of their peers. Through SSTC, two or more developing countries: (i) pursue their shared national capacity development objectives (relevant rural development solutions and knowledge) and/or (ii) establish and support partnerships and other forms of collaboration for improved rural livelihoods.

2. In response to the growing importance of South-South and Triangular Cooperation (SSTC), IFAD aims to strengthen its comparative advantage and expand its work in SSTC, in terms of both knowledge-based cooperation and investment promotion, seeing it as an integral part of its business model and of its country programming process.

II. Opportunities for rural development investment promotion and technical exchanges

3. After attaining its independence in1993, Eritrea faced with many development challenges because of longstanding conflict and post-conflict sanctions until Eritrea and Ethiopia signed a peace agreement on the 9th of July 2018.

4. Eritrea was not able to invest enough public resources to institution and capacity development such asHigher Education (at master level), diversified agricultural services delivery, business development, financial services, etc. The post-conflict sanctions limited its contribution to regional and sub-regional platform (research and exchange centres) as well as international cooperation for investment promotion.

III. SSTC engagement rationale

5. Through South-South Triangular Cooperation (SSTC), this COSOP will support Eritrea to catch up with the (i) innovation: enabling conditions for value chains development, SMEs, rural finance development framework, etc., (ii) capacity building: technical assistance, staff specialization training, etc.; and scaling up agenda: catchment protection, irrigation development, etc., in order to speed-up rural transformation and agricultural development. The related process will be facilitated by IFAD and eventually specific SSTC fund (China, Argentine, etc.) and linked to capacity building and knowledge management.

IV. Partnerships and initiatives

Innovation discovering

6. Participation and sponsorship of thematic, regional and international events (workshops, symposiums, forums, etc.)will remain an important SSTC tool for innovation discovering. IFAD Eritrea will therefore seek to identify opportunities for engagement to exchange lessons on strategy and investment plan formulation; enabling conditions for value chains development, model of SMEs, rural finance development framework, etc. This will include sharing experiences and good examples on innovative development solutions as well as to develop professional networks.

7. Existing regional structures and frameworks, such as the African Union's Comprehensive African Agriculture Development Programme (CAADP), the Economic Commission for Africa (ECA), Intergovernmental Authority on Development (IGAD) in Eastern Africa (IGAD), etc. could contribute to such study tours.

Technical exchange visit for capacity building.

8. Once the appropriate models, skills and training needs are identified, longer technical exchange visits would be organized for staffs from public institutions, agencies,

or services providers' capacity building with targeted countries (involving government, civil society, academia and the private sector) which can host them and share knowledge, skills, resources and technical know-how. This can include specialization and refreshment training by universities in the sub-region. Distance or in situ coaching (periodic technical assistance) from host countries is key to ensure quick learning and overcome challenges related to the practice of knowledge acquired.

Mutualization and partnership

9. International research centres and platforms such ICRISAT, ICARDA, FAO, WorldFish, ASARECA, could support SSTC opportunities and promote mutualization of intervention in vaccine and seeds production, cross boarder diseases management, cross country watershed and infrastructure development and management, etc.

10. Potential partners for bilateral cooperation are countries which have successful experiences in the specific areas of Eritrea interests (including training and capacity building, advanced irrigation technologies, food standards, cooperative development, financial services, and SME business models) for experience exchange like China, Vietnam, Ethiopia, South Africa, Egypt, and Kenya, etc.

Regional portfolio (projects exchange)

11. Through lending and grant financing activities, IFAD-funded projects and country partners have deployed traditional approaches to delivering knowledge-based technical cooperation – peer-to-peer exchanges of knowledge, technology and know-how to improve agricultural productivity – to broaden access to market information, enhance policies and increase community participation in local development, and in some cases bring about new investment opportunities. RB-COSOP 2019-2025 expects to design grants that will support knowledge management and capacity building on specific thematic areas such

12. SSTC activities will also cover activities aimed at improving the efficiency and effectiveness of IFADs operating model such: the Single Project Implementation Unit (SPIU in Rwanda), COSOP support unit (CAPFIDA in Madagascar or PSU in Cambodia) to strengthen the implementation capacity and promote IFAD country programme approaches.

V. Conclusion

13. Given the current institutional country context, SSTC is a key option for the COSOP development as well as the rural transformation and agricultural development. To bringing all partners on board, communication related to SSTC should be based on work plan (expected results), budget and planning.

Appendix IX: Country at a glance

Country profile – The State of Eritrea

	Figure	Year	Other Source
World view			
Population, total (millions)	3.29	2018	Government
Population growth (annual %)	3.2	2017	
Surface area (sq. km) (thousands)	124	2018	
Population density (people per sq. km of land area)	25.80	2818	Government
Poverty headcount ratio at national poverty lines (% of population)	69.0	1993	
GNI, Atlas method (current US$) (billions)	1.79	2100	
GNI per capita, Atlas method (current US$)	570	2010	
GNI, PPP (current international $) (billions)	6.1	2010	
GNI per capita, PPP (current international $)	1,900	2010	
People			
Income share held by lowest 20%			
Life expectancy at birth, total (years)	66	2018	
Fertility rate, total (births per woman)	4.1	2018	
Adolescent fertility rate (births per 1,000 women ages 15-19)	52	2018	
Contraceptive prevalence, any methods (% of women ages 15-49)	8	2010	
Births attended by skilled health staff (% of total)	8	2010	
Mortality rate, under-5 (per 1,000 live births)	43	2017	
Prevalence of underweight, weight for age (% of children under 5)	50.3	2010-16	
Immunization, measles (% of children ages 12-23 months)	99	2017	
Primary completion rate, total (% of relevant age group)	45	2017	
School enrolment, primary (% gross)	49.4	2017	
School enrolment, secondary (% gross)	30.8	2017	
School enrolment primary & secondary (gross), gender parity index (GPI)	1	2018	
Prevalence of HIV, total (% of population ages 15-49)	0.02	2017	
People using at least basic drinking water services (% rural population)			
People using at least basic sanitation services (% rural population)	6.1	2017	
Environment			
Arable land (% of land area)	6.8	2016	
Forest area (sq. km) (thousands)	15.1	2018	
Terrestrial and marine protected areas (% of total territorial area)	3	2018	
Annual freshwater withdrawals, total (% of internal resources)	20.8	2014	
Population affected by droughts, floods and extreme temperature (annual %)	7.3	2009	
Energy use (kg of oil equivalent per capita)	281	1990	
CO2 emissions (metric tons per capita)	0.16	2010	
Electric power consumption (kWh per capita)	86	2010	
Economy			
GDP (current US$) (billions)	2.1	2010	
GDP growth (annual %)	5.4	2018	WB
Inflation, GDP deflator (annual %)	13	2018	WB
Agriculture, value added (% of GDP)	14.5	2019	EIU
Industry, value added (% of GDP)	22	2010	
Exports of goods (million USD)	418	2019	EIU
Imports of goods (million USD)	396	2019	EIU
Gross capital formation (% of GDP)	-11.4	2000-201	
States and markets			
Time required to start a business (days)	84	2018	
Domestic credit provided by financial sector (% of GDP)	114.4	2010	
Arm forces personnel (x 1000)	202	2016	

	Figure	Year	Other Source
Mobile cellular subscriptions (per 100 people)	13.7	2017	
Individuals using the Internet (% of population)	1.3	2017	
Global links			
Export value growth (%)	60.1	2006-201(	
Net barter terms of trade index (2000 = 100)	85.2	2016	
External debt stocks, total (DOD, current US$) (millions)	819	2017	
Total debt service (% of exports of goods, services and primary income)	1,042	2010	
Net migration (thousands)	-160	2012	
Personal remittances, received (% of GDP)	0.7	2015	WB
Foreign direct investment, net inflows (BoP, current US$) (millions)	55	2017	
Net official development assistance received (current US$) (millions)	79	2017	

Source: World Development Indicators database, 04/09/2019.

Appendix X: Financial management issues summary

FINANCIAL MANAGEMENT ISSUES SUMMARY

COUNTRY	Eritrea		

COUNTRY and CURRENT PROJECT -Fiduciary KPIs:

Country Fiduciary Inherent Risk	High	The inherent risk is high. The State of Eritrea ranked 157th out of 180 countries in the Transparency International Corruption Perception Index in 2018, with a score of 24, although this represented an improvement compared to 20 in 2017 and 18 in 2016. The country ranked 178th out of 189 countries in the UNDP Human Development Index (HDI) in 2017. Eritrea has two ongoing projects – National Agriculture Project (NAP) and Fisheries Resources Management Programme (FReMP), which entered into force respectively in 2012 and 2016. In April 2018, FReMP's Financing Agreement was re-stated to include a EUR 9 million supplementary fund grant from Germany. NAP is classified as a problem project and FREMP is classified as a potential problem project, due to fiduciary performance and low rate of budget execution, amongst other factors. The use of country systems for IFAD's projects in Eritrea is partial. Project units are fully embedded within implementing agencies (national and district), with Government staff. Project funds transit through the Bank of Eritrea, which slows down payments. The Office of the Auditor General (OAG) sub-contracts the external audit function to private audit firms, whose capacity varies. Based on available information, there are no quality assurance mechanisms in place in OAG for reports issued by sub-contracted firms, neither are audit recommendations monitored at this level. There is no evidence of projects' being covered by executing agencies' internal audit plan of work, and IA capacity is weak. Project accounting is not recorded in an Integrated Financial Management System (IFMIS), although FREMP has recently procured an accounting software which is expected to strengthen financial management and reporting. No PEFA is available for Eritrea. The Economist Intelligence Unit's 2019 Country Report for Eritrea highlighted that the economy continues to be dominated by the agricultural and mining sectors, which are both highly vulnerable to shocks (weather-related and global prices respectively). Prospects of economic growth remain modest owing to lower global economic growth and slowdown in China, one of Eritrea's key trade and investment partners. According to the IMF, which completed an Article IV mission to Eritrea in May 2019, a sustained period of high fiscal deficits— albeit reversed over the past three years — has led to a heavy public debt burden. However the authorities have not consented to publication of the IMF report, so little information on the country's debt is publicly available. Eritrea's local currency, the nakfa, has been pegged to the dollar at Nfa15.08: US$1 since December 2016, after earlier being pegged at Nfa15.37. Over this period, the currency has become severely overvalued because of Eritrea's double-digit inflation and large current-account deficits. It is considered unlikely that the currency peg will be dismantled entirely and replaced by a free-floating exchange rate in 2019-20, given the local economic upheaval that this would trigger. Eritrea is expected to take financing from IFAD in US$ in the IFAD11 period
Pending Obligations	No ineligible expenditure has been reported for the ongoing projects	
Country Contribution in IFAD Replenishments	IFAD10: US$30,000 pledged and paid IFAD11: US$40,000 pledged and paid	
PBAS – Programme's cycle coverage	IFAD 11 allocation: US$ 37.08 million	
Disbursement - Profile	NAP: moderately unsatisfactory FREMP: moderately satisfactory	
Counterpart Funding - Profile	NAP: moderately unsatisfactory FReMP: satisfactory	
Current Lending terms (IFAD11)	20% Highly concessional (optional), 80% DSF Grant	

PORTFOLIO, FM RISK & PERFORMANCE

Existing portfolio

Project	Financing instrument	FLX Status	Lending Terms	Currency	Amount (million)	Completion date
NAP	200000195000	DSBL	DSF HC GRANTS	XDR	6.71	30/12/2020
NAP	G-I-DSF-8107-	DSBL	DSF HC GRANTS	XDR	11.40	30/12/2020
FReMP	200000228700	DSBL	SUPPLEMENTARY FUNDS GRANTS	EUR	9.00	30/12/2023
FReMP	200000170000	DSBL	DSF HC GRANTS	XDR	10.75	30/12/2023

Project	Financing instrument	Curr.	Amount (million)	Project risk rating	PSR quality of FM	PSR audit	PSR disb. rate	Disbursed to Approved
NAP	200000195000	XDR	6.71	Medium	Mod. unsatisfactory	Mod. unsatisfactory	Mod. unsatisfactory	29 %
	G-I-DSF-8107-	XDR	11.40					97 %
FReMP	200000228700	EUR	9.00	Medium	Mod. unsatisfactory	Mod. satisfactory	Mod. satisfactory	18%
	200000170000	XDR	10.75					24%

Concept note – <u>Key Fiduciary OBSERVATIONS</u>:

The Integrated Agriculture Development Programme will be national in scope, targeting six *zobas* (regions). Investments will cover 50% of all Sub-*zobas*, spread across all six *zobas* and all agro-ecological zones. The key actors involved in the implementation of the project will be the Ministry of Agriculture (MoA), the Agricultural Extension Department (AED), the National Agriculture Research Institute (NARI) and the national breeding centres. At the regional level the coordination and implementation responsibilities will be carried out by the Zoba Project Coordination Committees (ZPCCs). Project costs are preliminary estimated at US$ 50 million, of which US$ 37 million from IFAD, while Government will provide counterpart funding and tax exemptions. Beneficiaries will provide labour and construction materials for works and co-financing will be sought.

1. The ongoing projects in Eritrea are moderately unsatisfactory for FM and AWPB execution is very weak, impacting disbursement performance
2. Projects implement under conditions that are not conducive to efficiency. The communication infrastructure is particularly weak, with frequent internet and power outages. Current Government directives require vehicles procured with donor funding to be pooled centrally, resulting in projects operating without vehicles
3. Current projects do not use modern automated accounting systems expenditure, which limits the efficiency and effectiveness of financial reporting. FREMP is in the process of procuring an off-the-shelf accounting software
4. All the above factors significantly constrain project performance and should be addressed as part of the COSOP process
5. Government oversight mechanisms are in place for IFAD's projects, but should be strengthened. The upcoming design will attempt to address gaps in internal audit services and the quality of external audits