This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

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<td>Gini Index</td>
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<td>Poverty³     %</td>
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<td>Aid per capita $</td>
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Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $2 a day.

Executive Summary

Neither the political nor the economic agenda of the Eritrean government changed during the past two years, and the country’s economy, which is controlled by the ruling party and the military, remained in very poor shape. Eritrea is a dictatorship in which public political participation is impossible, civil rights and freedom of expression and assembly are absent, and the human rights record is extremely poor. There has been no demobilization of army and national service recruits (at least 600,000 people) and unlimited national service that affects large parts of the working-age population remained in place. The government exploited the sanctions imposed on Eritrea in December 2009 by the U.N. Security Council to call for a “resolute national rebuff” against a perceived foreign conspiracy, exhorting the citizenry to make even more sacrifices for the nation. Thus, the country has continued along its destructive path, which runs counter to democratization and economic liberalization.

The government remained dominated by the president and a small group of advisers and maintained its monopoly of power, as did the military and the ruling party in the economic sphere. The ruling party, the People’s Front for Democracy and Justice (PFDJ), was the only party allowed. The mass exodus of tens of thousands of Eritreans accelerated in the absence of civil liberties and the limitation of opportunities to make one’s living caused by prolonged national service. This large-scale flight has led to a gradual weakening of state institutions such as the educational sector; many of the refugees were teachers and other educated persons. Arbitrary arrests and religious persecution continued unabated.

Members of the general public were unable to communicate civic interests without the risk of being arrested, and there was no progress towards democratization. The president indicated that he planned to lead the country through the coming decades without elections. The economy was state-controlled via the military and the ruling party. Both institutions were involved in contraband trade activities, while the general population suffered from a persistent scarcity of
consumer goods and extremely high prices. At the same time, the unlimited national service made it impossible for recruits, who served for low wages, to take care of their immediate and extended families in the absence of a public welfare system. This fact contributed to mass flight, as many hoped to make a living abroad to sustain their families. The diaspora remained a stabilizing factor, as some of the refugees paid the 2% tax imposed on them by the government and sent private remittances to their family members inside Eritrea.

In spite of the government’s assertion to have reached self-reliance in agricultural production, malnutrition and poverty were widespread, while basic consumer goods such as bread, milk, cooking oil and kerosene for cooking purposes remained scarce. People were forced to use charcoal and wood to cook their meals, which led to the continuation of environmental degradation.

Foreign relations with all regional neighbors except for the Sudan remained poor, and the government accused the USA of being the mastermind behind the sanctions; thus, relations between the United States and Eritrea remained strained over the period under review.

History and Characteristics of Transformation

Eritrea gained independence de facto in 1991 and de jure in 1993 after an independence struggle that lasted for 30 years (1961 – 1991). Since the early 1980s, the struggle had been dominated by the Eritrean People’s Liberation Front (EPLF), which later formed the government of the independent state of Eritrea. In 1994, the EPLF held its third and last organizational congress and changed its name to the PFDJ. The former secretary general of the EPLF, Isaias Afwerki, has ruled the country since independence as president without ever having been confirmed in his office by popular vote. He managed to consolidate his power base with his tough style of authoritarian rule with totalitarian tendencies, although his popularity has sharply declined due to continuous deterioration of the economic situation, gross human rights violations, forced military conscription of large parts of the population of productive age, and the country’s complete lack of civil liberties.

In recent years, relations with Western donor nations were strained as the government showed a lack of transparency, refused with very few exceptions to accept NGO activities in the country, and even rejected emergency aid, claiming to be self-reliant in food production (an assertion which is obviously not true). The European Commission, in spite of concerns related to the poor state of human rights in Eritrea, made a fresh grant to the government of $122 million in 2009. The money was supposed to be channeled to projects aimed at achieving food security and to road maintenance and safety. The construction sector remained monopolized by party-owned companies that employ national service recruits without payment. Relations with the United States and all neighboring countries except Sudan remained tense. In December 2009, the U.N. Security Council imposed targeted sanctions on Eritrea because of its failure to enter into
negotiations with Djibouti over the disputed border of the two countries, its refusal to remove its troops from contested territories, as well as its presumed support of al-Shabaab militias in Somalia. The sanctions were initiated by the Intergovernmental Agency for Development (IGAD) and the African Union, but the Eritrean government claimed them to be the result of a conspiracy masterminded by the United States. Ethiopia did not cede territories awarded to Eritrea according to the 2002 Eritrea-Ethiopia Border Commission’s (EEBC) decision, and relations between both countries remained tense, although there was a decline in aggressive rhetoric between the two governments. The Eritrean government used the sanctions, which it considered “illegal and unjust,” to proclaim a “resolute national rebuff” and maintained its extremely high level of military mobilization, coupled with the use of national service recruits as an unpaid labor force for party and military-owned enterprises. Eritreans abroad were called on to contribute large sums of cash as their contribution to the so-called rebuff. Nevertheless, the government accepted negotiations in its conflict with Djibouti under the mediation of the emir of Qatar starting in June 2010, without mentioning these developments in the state media. Eritrean troops were removed from the border area, but so far none of the negotiation results have been made public.

There were no internal political reforms, and the constitution, ratified in 1997, was not implemented. President Isaias has indicated that no elections will be held within the coming 30 years, and the small ruling elite, composed of high-ranking PFDJ cadres and military officers, continued to dominate political and economic affairs. Apparently, the political potential of the military remained stable without posing a threat to the president, while leading PFDJ cadres such as Yemane Ghebreab (the party’s head of political affairs) may have gained more leverage on political decision-making. There was a complete lack of transparency as to internal political developments, as Eritrea continued to be ranked last worldwide in press freedom for the fourth consecutive year by Reporters Without Borders.

Levels of state and military intervention in the economy remained consistently high during the past two years, while the private business sector continued to be severely restricted by import-export regulations and a lack of hard currency. The degree of political suppression remained extraordinarily high and arbitrary arrests without due process of law continued. Political dissidents and journalists of the free press arrested in 2001 remained in incognito detention, while hundreds of Christians and Muslims were arrested for alleged religious extremism without being formally accused or brought before a court of law. It was not possible to leave the country without an exit visa, which could only be obtained after having fulfilled one’s “national duty” (i.e., being released from the national service). Nevertheless, the mass exodus of the young generation increased further due to widespread frustration and disillusionment related to the unlimited national service, which makes it difficult for the majority of the population to feed their families. Around 1,800 Eritreans crossed the border to Sudan each month, and similar numbers escaped to Ethiopia.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The state’s monopoly on the use of force remained in place nationwide, but it was challenged by a number of militant opposition groups mainly based in and supported by Ethiopia. These opposition groups were either grounded in ethnic group affiliations or had an Islamic background. Both ethnic minorities and the Islam-based movement resisted suppression by the PFDJ government, which is perceived as dominated by the Tigrinya. There was also a certain degree of passive resistance by the rural population, who boycotted meetings imposed on them by government agencies. Some smaller pastoralist clans were also involved in the smuggling of goods, which was facilitated by the government’s rigorous control of import and export activities and which led to a scarcity of imported consumer goods. The illegal mass exodus of the young generation continued unabated; this gradually weakened the administrative structures of the state, as thousands of educated youth left the country.

The legitimacy of the nation-state was not questioned by the population, as it is commonly seen as the legacy of a liberation struggle that took a heavy toll on all segments of society. However, the ruling PFDJ’s attempt to equate itself with the state and the people of Eritrea further lost acceptance within the population. There was also a growing tendency to question the perceived unity and equality of all nine ethnic groups and the religious groups (“one people, one heart”). For the first time, there were extensive discussions on opposition websites focusing on ethnic, regional and religious differences. This reflects to a certain degree the situation within Eritrea, where such issues (especially Tigrinya dominance) are declared taboo by the government yet are still addressed in private conversations.

The state is defined as a secular order in which state and religion are separated. In practice, there has been a strong impact of religion-based traditional law over centuries, including both Sunni Muslim and Orthodox Church religious and cultural
elements. The government accepts customary and religious law in civil jurisdiction, but otherwise strictly controls the religious leadership of all faiths in the country, as they may possibly challenge the militarized ideology of the government, which exploits the pseudo-religious glorification of “martyrdom for the nation” to mobilize the population. This ideology is not based on humanist values, but rather on the sacrifice of the individual for the country, and it denies the legitimacy of individual interests, including restrictions on religious liberties, such as practicing one’s faith while performing military or national service.

The state’s administrative structure covers the whole country, but the administration’s efficacy remained poor or declined further. Because the economy is largely dominated by the ruling party and the military, which can hardly be distinguished from the state as such, the distribution of commodities such as bread and other basic food stuffs, as well as fuel, rests in the hands of the administration, which was unable to provide adequate services to the population. The mass exodus of the educated younger generation, including a large number of teachers and other state employees, has led to a further decline in the educational system. National-service-based development programs continued to focus on infrastructure projects of poor quality, perhaps with the exception of some micro-dam projects.

2 | Political Participation

Since Eritrea’s independence in 1993, there have been no elections on the national or regional (zoba) levels and no free elections on the sub-regional and local levels. The PFDJ is the only political party, and President Isaias Afewerki, who has been in power since independence, has firmly declared that he has no intention to hold elections within the foreseeable future. The constitution ratified in 1997 has not been implemented, and the PFDJ held its last congress in 1994. It is dominated by a few “strongmen” who act as presidential advisers. The National Assembly met for the last time in 2001, leaving the president and his cabinet of ministers – the latter’s political impact is very limited – as the only political decision-makers in the country. The military has been awarded considerable political power on the regional level in the past decade.

In Eritrea, there are no elected rulers and no veto powers that may challenge government decisions. Civil society organizations are not independent from the government, and religious leaders are firmly controlled. It seems that the military could not further expand its political impact within the past two years, and high-ranking military officials have mainly concentrated on gaining personal financial advantages through control of the labor force of national service conscripts and involvement in contraband trade. Following the imposition of sanctions on Eritrea by the United Nations in December 2009, the emir of Qatar, one of President
Isaias’s few allies, seems to have gained considerable influence on Eritrea’s foreign policy, for example by pressuring the government to engage in negotiations with Djibouti.

Association and assembly rights are completely denied in Eritrea. There are no independent civic groups, and the National Unions of Women, of Youth and Students, as well as the Confederation of Eritrean Workers, are government-dependent organizations. Private assemblies of groups not accepted by the government, such as religious groups (Pentecostal Christians, reformist Orthodox Christians, followers of Wahhabi Islam, etc.), are prohibited and participants arbitrarily arrested. Political demonstrations are inconceivable in an atmosphere of general suppression and arbitrary use of force by the police and military.

There is absolutely no freedom of expression in the country and the private press has been banned since 2001. The state media are controlled by the Ministry of Information, which provides the sole source of news distribution and opinion-making in the country. Eritrea ranked last in the world in Reporters Without Borders’ 2009 and 2010 press freedom indices, as it did in the previous two years. Numerous independent journalists were kept in incommunicado detention, and state media journalists remained subject to constant pressure. Private conversations in bars, cafes and even at weddings and funerals were closely monitored by agents of the government and/or military security apparatuses.

3 | Rule of Law

Separation of powers is nonexistent. The ruling PFDJ and the government form a monolithic power apparatus. There is no separation of powers and not even a convening parliament. The legislative, executive and judicial branches are controlled by the president, who rules by decree. He heads the cabinet of ministers, who have very little autonomy as to setting up policies in their respective portfolios. The commanders of the military operational zones (four generals) have some impact on government policies, but apparently they were unable to increase their impact during the past two years.

As the constitution has not been implemented, there is also no de jure separation of powers.

There have been no judiciary reforms, and the formal judiciary remains poorly organized and dependent on the government. The military or special courts headed by military officers, who act as judges without following legal procedures, remained in place. In numerous cases, people were jailed for several months without being accused or brought before a court of law. The informal sector of traditional juridical institutions is the backbone of jurisdiction in civil, and to some
extent criminal, cases. They decide cases on the basis of traditional law, which focuses strongly on mediation and judgments accepted by all parties involved. There are also community courts headed by lay judges, appointed by the government, who are supposed to adjudicate based on traditional law, but these courts enjoy less confidence among the public than do informal customary institutions.

The official policy of fighting corruption is still in place, but due to the poor state of the economy, general scarcity of goods and strict government control over all economic and trade activities, corruption within the military and the civil administration is on the rise. This includes contraband trade by officials, accepting bribes for the release of holiday certificates for conscripts or sick notes, and black market currency trade. There is still no due process of law and the accused are brought before a military court without access to a lawyer or the right to appeal. An alleged perpetrator’s political loyalties still play a role when it comes to persecution or tacit tolerance of corrupt practices. Corruption does not result in adverse publicity; cases of corruption have rarely been made public during the past couple of years.

There is still absolutely no protection of civil rights in Eritrea. There is no constitution in place and civil rights are not guaranteed by any law. Top government officials, including the president, repeatedly expressed callous disregard of internationally accepted civil rights and due process of law. There is no freedom of the press, no right to habeas corpus, and no freedom of expression and assembly. Religious freedom is only granted to the four officially accepted faiths: Orthodox, Roman Catholic and Lutheran Protestant Christianity, and Islam. The rights to life and security are ignored and torture is widespread in prisons and prison camps throughout the country. Ethnic and religious minorities may be subjected to even harsher treatment than the general public, but the lack of civil rights affects the entire population. Traditional jurisdiction does not handle gender equality along the lines of Western liberal understanding, but does not generally neglect women’s rights.

4 | Stability of Democratic Institutions

Democratic institutions are absent in Eritrea. The position of the president has never been confirmed by elections since he came to power as a guerilla leader in 1991, and no parliamentary elections have been held since independence. The PFDJ is the only party allowed in the country and its leadership is not subject to inner-party elections. The party held its last congress in 1994. The National Assembly, a parliamentary body comprised of members of the former politburo and central committee of the PFDJ, has not convened since 2001. Political power rests solely with the president and a few of his advisors within the president’s office and the
PFDJ leadership. Nineteen years after its independence, the country still lacks a constitution. Companies owned by the PFDJ, government, military and party control most parts of the economy as a highly interwoven conglomerate that operates in the absence of democratic procedures.

All relevant political actors are determined to obstruct the emergence of democratic institutions. The former supporters of political pluralization within the PFDJ (the “G-15”) have remained in incommunicado detention since 2001, and potential promoters of democratic change have either been arrested, forced into exile or silenced because of fear for their and their family’s lives. The complete lack of freedom of expression prevents all possible supporters of democratic change from acting inside the country. The fragmented political opposition abroad is unable to directly impact the policy of Eritrea.

5 | Political and Social Integration

The PFDJ has been the sole permitted party since independence. The political leadership has no intention to allow a multi-party system in the foreseeable future.

There are no associations or interest groups permitted which are independent of the PFDJ. The party claims to be the sole organization representing the interests of all societal groups and has suppressed the emergence of independent civil society organizations. Local elders remained highly respected by the general public and acted as mediators in conflicts between various societal groups, such as in land conflicts, but remained barred from intervening in political affairs.

There are no public opinion surveys in Eritrea.

Social trust is rooted in networks based on traditional law, descent and religion that create mutual social trust. They used to contribute a great deal to alleviate social hardship. Social trust is strong within the clans of the pastoral communities and the “endas” (descent groups) of the communities that practice sedentary agriculture.
II. Economic Transformation

6 | Level of Socioeconomic Development

Eritrea remains one of the world’s poorest countries, and endemic poverty has worsened in the past two years. About 17% of children in rural areas are chronically undernourished, and the Global Hunger Index ranked Eritrea at 82 out of 84 countries, which denotes an “extremely alarming level of hunger.” Statistical data are not available or unreliable; for instance, in 2009, the Economist Intelligence Unit estimated inflation to be at 15% and the IMF placed it at 34.7%, to give just one example of the unreliability of such data. For the past 20 years, it has been estimated that 80% of the population live from subsistence agriculture, but there has been an influx of the rural poor to the capital Asmara. Both minorities and the majority of the population are structurally excluded from opportunities to make a decent living. This is due to the unlimited and unpaid national service to which working-age Eritreans are subjected. The prolonged policy of militarization (since 2002) has led to a peculiar situation in which only a small class of privileged persons, such as high-ranking military and party officials, and businessmen who accumulated wealth in the past, can pay bribes to exclude their children from the national and military service. Furthermore, gender inequality, especially in education, and indirect discrimination against people who do not belong to the dominant Tigrinya ethnic group, persist. School enrollment was low at 52.3% for primary education, 30.5% for secondary education and 2.0% for tertiary education; the number of girls attending school was significantly lower than the number of boys. Eritrea’s last HDI ranking was 165, but in 2010, the UNDP dropped Eritrea from the rankings because of a lack of reliable data.

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### Economic indicators

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<td><strong>Military expenditure % of GDP</strong></td>
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### 7 | Organization of the Market and Competition

Market-based competition remained virtually absent in Eritrea. The government, through the PFDJ and the military, continued to control trade, production and cash crop agriculture. The high restrictions regarding possession of foreign currency and the import and trade of goods led to a scarcity of most basic consumer goods in the market. As a consequence, military officers became increasingly involved in contraband trade activities via Sudan and Ethiopia, selling their goods on the black market. The government strongly discourages private entrepreneurship and foreign investment (with a few exceptions, such as Italy and Qatar). Foreign investors in the mining and infrastructure sectors have to operate in joint ventures with either the government or the PFDJ. The government suppresses the informal sector, but petty trade under precarious conditions has increased due to rising poverty.
The ruling PFDJ, with its various enterprises (trade, retail market, construction, cash crop farming, etc.), and the military formed an economic oligopoly that dominated the entire economy of the country. The rural population was prevented from traditional subsistence agriculture activities and used as forced laborers in the national service. Land is state property. Although traditional usufruct rights have usually been granted to rural families, arbitrary resettlement programs took place in 2009 in which families from the highland were transported to areas near the Sudanese border without any significant further support. The government, meaning the PFDJ, holds a monopoly over the entire economy and thus does not implement any measures to prevent monopolies.

There has been no change in liberalization policy, and all foreign trade remained supervised by the state. Strict controls on the transfer of hard currencies remained in place, and the PFDJ-owned Red Sea Corporation controlled import-export trade. The lack of consumer goods caused by this practice led to a further increase in contraband activities, resulting in extremely high consumer prices (about three to four times the European price levels for basic consumer goods such as grain, rice, sugar, coffee, milk and cooking oil). Peasants and local merchants are not allowed to transport agricultural goods from one zoba (Region) to another; otherwise, their goods will be confiscated at the check points. The government continued its policy of (alleged) self-reliance and isolation from free world market trade.

There are three state-controlled banks in Eritrea, namely the Bank of Eritrea, the Commercial Bank and the Commercial and Housing Bank, while the PFDJ runs Himbol Financial Services. This banking institution continued to handle money transfers from the diaspora via Eritrean embassies and consulates worldwide. There are no private banks, and an official capital market does not exist. However, as the local currency, the nakfa, has been fixed to the U.S. dollar for years at a rate of 1 nakfa to $15 and is severely over-valued, a flourishing currency black market has developed using the “hawala” system, meaning private money transfers via third persons. The beneficiaries receive the transfer (mostly from the diaspora) in nakfa, but at black market rates that are often double or triple the official rate. Small retail traders (shop owners) are often involved in these practices, which are partially tolerated by the government, which seems to be involved in and profiting from the system.

8 | Currency and Price Stability

The government’s policy of fighting inflation with strict control of the foreign currency market and restrictions on imports proved to be unsuccessful. Consumer price inflation has risen continuously during the past four years and is now at 30%. The government’s erroneous assumption that the country is self-reliant and does not need food imports led to a sharp increase in contraband trade and highly overpriced...
goods in the market. The local currency, the nakfa, remained fixed and highly overvalued. This led to an increase of black market currency change activities at rates doubling or tripling the official rate. This seems to be quietly tolerated by the government, which lacks financial expertise now that all of the champions of a market economy have been dismissed from government positions. The government controls the Central Bank (the Bank of Eritrea).

Statistical data on macroeconomic stability in Eritrea are unreliable, as the country has not published a budget since independence. All relevant economic enterprises are controlled by the PFDJ or the military and are not subject to financial monitoring. The prolonged use of national service conscripts as forced laborers has led to a partial de-monetization of the economy, as their only cash remuneration is 500 nakfa (€25) pocket money, with which they are supposed to cover the entire cost of living for their families. The government is attempting to achieve macroeconomic stability by militarizing its labor force, but this policy has failed. The command economy has led to a shortage of basic consumer goods, rising inflation, chronic shortage of hard currency and dependency on remittances from abroad. The start of gold mining might bring an improvement, but has been delayed year after year.

9 | Private Property

Property rights and regulations are formally defined by law, but due to the lack of constitutionality and rule of law, there was no protection against arbitrary confiscation of property, especially houses. In spite of the land reform of 1994, which declared that all land belongs to the state, highland farmers were usually granted usufruct land rights based on traditional law. In 2009, thousands of inhabitants in several highland villages were forcibly resettled to areas in the western lowlands bordering Sudan. This was explained as an attempt to boost agricultural production, but the villagers were left in the resettlement areas without any support for beginning agricultural production. They were thus forced to flee to the Sudan, to beg for a living, or to illegally return to their home villages. Existing land usufruct rights in the resettlement areas were also neglected by the government agencies.

There has been no change in the government’s hostile policy against the private business sector. All relevant companies are owned by the PFDJ, the government or the military. Foreign companies, which are increasingly interested in exploring Eritrea’s mining sector (gold and other precious metals), must form a joint venture with the government in order to get a license. Apart from the mining sector, private investment, including by Eritreans abroad, is discouraged. Profits made in nakfa
cannot be converted into hard currencies to import spare parts or other necessary material. Business licenses are hard to obtain and have often been arbitrarily cancelled by government agencies.

10 | Welfare Regime

There is no general social security network provided by the state, with the exception of a “Martyr’s Trust Fund.” The clans and endas play an important role in rural areas by supporting socially weak members, and they also have an impact in urban areas. However, this system was weakened considerably by the prolonged national service imposed on the younger generation. The conscripts are increasingly unable to fulfill their traditional familial duty to make a living and care for their immediate and extended families. This compromises private social networks, including mutual trust, to a significant degree.

Nevertheless, Eritrea has a functioning basic health care program, including malaria prevention, but increasingly fails to deal with rising and widespread poverty. The state does not have a public safety net; social security is left to traditional solidarity networks based on kinship, in which the diaspora plays a decisive role. A large number of Eritreans depend on support from their relatives abroad. Due to prolonged conscription into the military and national service, the working-age population (between 18 and 50 years old) is increasingly unable to care for their families in the absence of a public welfare system or compensation for relatives of national service conscripts. This forces tens of thousands to risk their lives by fleeing the country to make a living abroad. The national service has severely weakened traditional social security networks.

In principle, all social groups have the same access to the limited services provided by the state, such as basic health care, education and food coupons in urban areas. In practice, women, Muslims and ethnic minorities are underrepresented in higher education and in the administration. Jehovah’s Witnesses are denied all civil rights, and Christian and Muslim denominational minorities are persecuted. The twelfth school year is held at the military training camp in Sawa for all students nationwide, where female students often face sexual harassment. This discourages female students, especially those of Muslim faith, to attend the school, which is the only way to achieve a secondary school certificate. The national service has become a mechanism to deprive most citizens of a personal career.
11 | Economic Performance

The Eritrean command economy was in a very poor state and remained under the control of the PFDJ leadership and military leaders. The conscription of more than 600,000 persons into the army and national service, where they had to perform forced labor without noteworthy payment for unlimited periods of time, worsened the distortion of the economy and led to severe shortages of basic consumer goods in the market at prices that are out of reach for the majority of the population. In general, the economic situation in the country has deteriorated further since 2008 because it is dominated by the PFDJ ruling class as well as by the military commanders, who have a firm grip on all import-export activities. In addition, the military leaders play an important role in cash crop production and animal breeding, and they are also engaged in contraband trade and smuggling in goods from the neighboring countries. Peasants and local merchants are not allowed to transport their agricultural goods from one zoba (region) to another; if they attempt to do so, their goods will be confiscated at the check points. The price levels of imported consumer goods such as grain, sugar, coffee, milk, cooking oil and rice were triple or quadruple the world market prices. Poverty and malnutrition are therefore widespread in the country, especially among the rural population.

Statistical data remained unreliable or non-existent due to the administration’s complete lack of transparency. Since independence, the budget deficit and public debt have increased, inflation has reached 30% according to IMF data (2009), and there has been no official data on the unemployment rate. The economy was further weakened by the mass exodus of educated youth, due to a lack of opportunity for a decent self-determined life under the imposition of unlimited national service.

12 | Sustainability

There have been no changes in the government’s environmental policy. In theory, the government promotes environmental protection, and the actual state of pollution was low due to very limited industrial production and very limited exploitation of coastal and marine resources. Because the government has not been able to handle chronic shortages of fuel and kerosene for cooking purposes, de-forestation continued as the population relied on wood and charcoal for cooking purposes. This led to an increase in contraband trade of illegally harvested wood, probably with the involvement of the military, which controls cross-regional trade within Eritrea. Informal production of charcoal for sale by poor households was formally forbidden, but largely tolerated, by the authorities.
Public expenditure for education remained low (2% of GDP). School enrollment also remained limited, especially in rural areas, and was significantly lower for female students. The educational system retained its militarized character; the twelfth school year is still held at the Sawa military camp, from which students, after obtaining their secondary school certificate, are transferred to tertiary educational institutions or, as is the case for the majority, to military training, depending on their results. This discouraged large numbers of students, especially females, from pursuing their education beyond the eleventh school year. Tertiary education remained limited to “colleges” that do not meet international standards. The ongoing exodus of young teachers further weakened the educational system.
Transformation Management

I. Level of Difficulty

Even ten years after the end of the war with Ethiopia, the government seems to have no intention of ending its policy of militarizing society. It thus artificially exacerbates structural constraints such as a dry climate which restrains rain-fed agriculture instead of trying to decrease it. The government claims that unlimited national service is necessary to improve the infrastructure. It uses this labor force to build roads and micro-dams while keeping them away from subsistence agricultural activities. Food produced at farms run by the military is used for export, not to feed the population. At the same time, the military blocks all private sector economic initiatives, severely limits tertiary education and disregards the long-term consequences of the mass exodus of youths caused by the militarization and collectivization of society. By doing so, it massively increases the structural constraints future governments will have to face in order to address the damages that are currently being done to the fabric of the society and the economy. Eritrea has traditionally faced widespread poverty, but current macroeconomic policy aggravates problems instead of trying to deal with them.

In 2007, HIV prevalence was at 1.3% of the adult population according to UNAIDS, decreasing from 2.4% in 2003.

Civil society organizations (such as NGOs, labor unions and organized interest groups) independent of the government are not allowed to exist in Eritrea. The national unions, which are the former mass organizations of the EPLF, can be regarded as branches of the government. Traditional civil society, based on elaborated mediation procedures performed by religious and local elders, has strong roots in Eritrean society. Traditional law also used to be the backbone of the social safety network. The continuous militarization of the country, which in fact deprives large segments of the working-age population from earning an income and supporting their immediate and extended families, has started to weaken the traditional civil society networks, which will gradually lead to a decrease of societal and political stability in the country.
The government continued to insist on its assumption that the Eritrean people form a unified interest group with one single policy program under the umbrella of the PFDJ and the government. During the period of observation, there was a significant increase of discussions related to discrimination against Muslims and minority ethnic groups at opposition diaspora Internet sites. Within Eritrea, the absolute lack of freedom of expression limits such discussions to the private sphere, but nevertheless they do exist. Incidents of sabotage and insurgent activities continued on a low scale. They were carried out by armed groups based on ethnicity (Kunama, Afar) with the support of Ethiopia and Islamic groups. The readiness of diaspora-based opposition groups representing ethnic minorities to unify their strategies and commit acts of insurgency seems to be on the rise.

The latent potential for conflict is very high and may be increasing, but this has not yet turned into visible action on the ground during the period under review, and there was no civil war or widespread violent conflict.

II. Management Performance

14 | Steering Capability

The government kept up its long-term goals and implemented strategies which run counter to the establishment of democracy and a market-based economy. The government’s ideology is based on militarism, state control over the economy and the collectivization of the population within the framework of a so-called development campaign (Warsay-Yikealo). This means de facto that the population is conscripted into the national service over many years without access to private opportunities to make a living. Possible reform actors remained effectively silenced, and the ministries were prevented from developing policies outside of the country’s misguided macroeconomic policy framework. The government simply ignores the negative impact of its policies, such as mass exodus, a declining economy, widespread poverty, and a shortage of even the most common consumer items. Instead, it praises minor achievements in the infrastructure sector, the sustainability of which is questionable.

There are still no plans for a reform policy based on market reform or democratization. The government’s policy remained diametrically opposed to such reform programs and committed to its Marxist-based ideology.

In the past nine years, the government has demonstrated no willingness or ability in policy learning. The president held complete control over the domestic political decision-making process and continued to ignore the serious problems arising from
state- and party-controlled command economy and absolute lack of civil liberties. The government has attributed many of the country’s internal problems to the machinations of foreign powers, mainly the United States and the CIA. In the government’s view, Eritrea is a country striving towards self-reliance, fighting against a conspiracy of regional and international powers. The government sees Eritrea’s policy as exemplary for other African nations that have fallen into the “dependency trap” and therefore regards itself as a target of Western nations, mainly the United States.

15 | Resource Efficiency

The government continued to employ large parts of the labor force in infrastructure projects based on manual labor. Administration employees are often veterans of the independence struggle with insufficient training and skills, and the educated youth have been deprived of administration careers by means of unlimited national service. The resulting mass exodus constitutes another huge waste of human resources. As to budget resources, the lack of transparency continued; Eritrea has never published a state budget since independence. A large number of public servants are “frozen,” meaning that they receive a salary but are banned from doing meaningful work due to alleged political unreliability, which creates another form of wasting resources. Generally, public service employment is subject to criteria of political loyalty to the government and not to personal skills or efficiency. The health sector continued to show relatively high levels of efficiency in basic health care, but there was no significant development and it was unable to effectively treat widespread diseases, such as diabetes.

Policy-making rested in the hands of the president and a few advisers from the PFDJ leadership. Thus, there is a personalized and centralized coordination of policies, but it rests on illogical assumptions, such as achieving social justice in a framework of militarization and forced labor, which instead caused a steady rise in poverty among the general population. Apparently, the military has not been able to expand its political powers, but it plays an important role in the economy, as it profits from the work of the national service recruits and has developed several methods of self-enrichment, such as contraband trade. The policy of militarization and unlimited national service recruitment has adverse effects on most other policies, such as economic development, education and social welfare. The government’s overall policy is coherent, but leads to negative results.

The government maintained its goal of containing official corruption, but lacked all necessary measures to do so. There is absolutely no auditing of state spending due to a complete lack of checks and balances. The PFDJ owns the “Hdri Trust Fund,” which holds all major companies in the country (trade, construction, retail, etc.). The fund’s board of auditors has never met; in fact, auditing is left to one single
person, the financial head of the PFDJ. Citizens and media have absolutely no access to information, and Eritrea is ranked last in press freedom worldwide. There is no public accountability for mismanagement or corruption, which is handled inside the government by a military or “special” court. There is no public procurement system. In the past, corruption was limited by self-restraint of the ruling elites, but has become more widespread in recent years.

16 | Consensus-Building

The small ruling elite’s policy remains strictly opposed to the establishment of democracy and a market economy. Political actors promoting reform (such as the G-15, the PFDJ’s internal group of reformers) remained in jail, in exile or were silenced due to the highly repressive political system. The opposition in exile remains fragmented and more concerned with issues such as leadership, the formation and dissolution of party alliances, violent vs. non-violent approaches to regime change and its stance towards Ethiopia, rather than with developing a structured agenda for political change.

The government, meaning the PFDJ, is the only political actor; both institutions are highly interwoven and remain deeply anti-democratic. Reformers not only lack control over government policies, but have been persecuted consistently throughout the past eight years. The military is part of the power apparatus and has demonstrated no interest in reform, but it seems satisfied with the economic privileges it holds due to the control of national service labor and other chances for personal enrichment (bribes, contraband trade). The opposition in exile does not seem to promote democratic and economic reforms in a consistent way; it is fragmented and lacks a clear political agenda.

The government denies the existence of cleavages within Eritrean society. Although societal cleavages along ethnic and religious lines are a reality, discussing them remains a strict taboo inside Eritrea. There was an increase of discussions related to the marginalization of certain population groups, mainly Muslims and ethnic minorities such as the Kunama, on diaspora-based websites during the past two years. The administration and the educational system are dominated by the Tigrinya ethnic group, which comprises around 50% of the population. While the entire population is subject to political oppression and human rights abuses, there is structural discrimination against the other eight ethnic groups, which are predominantly Muslim. There has been a rise in insurgency activities by opposition groups based on ethnicity, such as the Afar and Kunama, who operate out of Ethiopia.
Civil society in the modern sense is absent in Eritrea, as its development has been suppressed since independence. The National Union of Women, the National Union of Youth and Students, and the Confederation of Eritrean Workers remained under the control of the government and did not play any significant role in channeling the interests of the groups they represent. Traditional civil society, represented by religious and local elders, was excluded from the political decision-making process and was not consulted by governmental authorities on local issues. Private charities and religious civil society groups were not allowed. Within the context of its policy deliberations, the government and PFDJ view themselves as the only representatives of the society.

Historical injustices are ascribed to the time of Ethiopia’s annexation of Eritrea from 1962 to 1991. There have been no significant violent clashes among Eritrean population groups since independence.

17 | International Cooperation

The government claimed to be self-reliant and independent of foreign support. It nevertheless accepted fresh aid from the European Commission yet continued to ban international NGOs from operating in the country. It denied a looming hunger crisis and stopped the transfer of data on the population’s nutritional situation to international organizations. While international funding support is accepted, the government insists on its development strategy of militarization and infrastructure development, without considering the role of a strong private sector. The government is not interested in international know-how regarding successful development strategies. However, it accepted foreign expertise in its mining sector, where it has joint ventures with mining companies from Canada, Australia and other countries.

The government does not have any policies related to democratic and market reforms. It has a poor relationship with bilateral and multilateral donors and is politically isolated. There are very few foreign investors in the country apart from the mining sector, which is not yet operational. The only official investment agreement is with Italy, but Libya and Qatar are likely to have invested in the Eritrean economy as well. The state is always a shareholder in foreign investment projects. The government is known to act unpredictably, frequently ousting foreign aid organizations or withdrawing licenses from foreign investors at very short notice. There are currently no bilateral aid organizations operating in the country, while UNDP, UNICEF, UNHCR, UNAIDS and the Food and Agriculture Organization of the United Nations had limited numbers of representatives in the country. Members of the foreign aid community and embassy personnel needed travel permits to leave the capital and were mostly denied access to rural areas.
In 2009, the United Nations imposed sanctions on Eritrea because of its support of militant Somali opposition groups, such as al-Shabaab, and its refusal to enter into negotiations with neighboring Djibouti after a brief violent conflict in 2008. Among all its neighbors, the Sudan was the only state with which Eritrea had positive relations. Eritrea’s membership in the Intergovernmental Authority on Development (IGAD) remained suspended, and its relations with the African Union (AU) were problematic. Relations with Ethiopia remained hostile, although aggressive rhetoric seems to have diminished to a certain degree. The government continued to claim that it was a victim of CIA conspiracies, and the United States are seen as the mastermind behind the sanctions, although they were brought on the U.N. agenda by the IGAD and the AU. In 2010, Eritrea accepted the mediation of Qatar in its conflict with Djibouti without releasing news of this to the public. So far, nothing is known of the outcome of the mediation process.
Strategic Outlook

The Eritrean government has continued its destructive path of blocking democratization, exerting a strong grip on the economy and maintaining an extremely high level of militarization. While conscription into the army and the national service continued, those who have been serving for 12 or more years have not yet been demobilized. The education sector remained under military control and the university remained closed. The mass exodus of the young generation, mostly military recruits and professionals, continued unabated, despite the risks of being shot or arrested or suffering from hostile living conditions in neighboring countries. The government does not seem to comprehend the long-term negative consequences of its policies, which are weakening institutional structures; hundreds of thousands of citizens have left the country, and the government has refused to evaluate the root causes by not considering a reduction of national service to its original term of 18 months. It seems that within the military leadership there is growing opposition to unlimited service, because it is counterproductive to the goal of having a strong defense force; furthermore, from a long-term perspective, unlimited national service weakens the military’s current strong position within the power apparatus. The chronic scarcity of basic goods and high consumer prices have not prompted the government to reverse its policy of self-reliance. On the contrary, the government claimed that it had reached self-sufficiency in food production, a statement that flies in the face of all obvious indicators. The government has also put a stop to the communication of data on the population’s nutritional status to international agencies. There was no improvement in Eritrea’s poor relations with foreign donors. The private economy continued to be suppressed, and military officers and high-ranking party officials continued with impunity to engage in self-enriching practices, such as contraband trade and accepting bribes from recruits to get service exemptions. The rulers continued their cynical approach towards human rights and liberties. Eritrea can be compared with the Libyan political system (although Libya is a rich country), because the two countries remained dominated by one leader and a small group of advisers that maintain a monopoly of power despite growing dissatisfaction among the population.

The targeted sanctions imposed on Eritrea in December 2009 led the government to call for even more sacrifices from the population to “rebuff” alleged foreign threats.

Against this background, domestic actors committed to democratic change and market economy have been silenced for almost a decade. The opposition in exile, despite some efforts to overcome splits, remained heterogeneous and without a convincing program for democratic change. Armed insurgencies carried out by groups organized along ethnic and religious lines (Islam) will likely continue and may even increase, but so far they do not pose an immediate danger to the regime, given the lack of unity, leadership and convincing programs within the opposition. The complete lack of civil society institutions has thus far obstructed the emergence
of resistance movements inside Eritrea. Therefore, collective resistance can only take passive forms, such as boycotting government-imposed meetings, but in general the youth sees leaving the country as the only option to improve their lives, a situation that contributes indirectly to the gradual decay of the system.

In the economic field, gold mining by foreign companies, mainly the Canadian firm Nevsun Resources Ltd., is supposed to start in 2011, but it is highly unlikely that gold revenues will help to initiate economic development or alleviate widespread poverty unless the severe structural deficiencies of the economy are addressed.

The international community’s impact on internal Eritrean developments is very limited and its policy has been inconsistent. While the international community reacted with harsh sanctions when it learned of the government’s alleged support for al-Shabaab in Somalia and Eritrea’s refusal to acknowledge its border conflict with Djibouti, protests against internal repression and human rights violations were limited. In 2009, the European Union approved €122 million in funding for Eritrea, including a road maintenance and safety project that sought to generate employment by using a labor-intensive road maintenance approach. Given the fact that the ruling party owns the entire construction industry, which uses unpaid conscript labor, this strategy is not helpful for encouraging structural reforms. The 2009 sanctions have not yet been fully implemented; an arms embargo has been imposed, but none of the assets of high-ranking government and military personnel have been frozen. Thus, the sanctions have not affected the individuals responsible for drawing the ire of the international community; instead, the sanctions have supplied the government with a pretext for mobilizing fundraising efforts in the context of its ‘rebuff’ effort. In order to avoid the implosion of state structures, which is a conceivable medium-term consequence of current policy, the international community should put more pressure on the government to change its internal policies, while pushing Ethiopia to implement the border decision of 2002 to regain the confidence of the Eritrean leadership; this could also shatter Eritrea’s allegation of a foreign conspiracy against the country, which continues to serve as a justification of the government’s militarization policy.