This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at [http://www.bti-project.org](http://www.bti-project.org).


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Key Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
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<td>Population</td>
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<tr>
<td>Pop. growth¹</td>
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<tr>
<td>HDI rank of 187</td>
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<tr>
<td>Gini Index</td>
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<tr>
<td>Life expectancy</td>
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<tr>
<td>UN Education Index</td>
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<tr>
<td>Poverty³</td>
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<tr>
<td>Urban population %</td>
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<tr>
<td>Gender inequality²</td>
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<tr>
<td>Aid per capita $</td>
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</table>

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes:
(1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $2 a day.

Executive Summary

During the period under review, the Eritrean government made no significant change in its political and economic agenda, remaining a surveillance state committed to a command economy and an autocratic political system. The economy was under the control of the ruling People’s Front for Democracy and Justice (PFDJ) party and the military. High-ranking military officers, most prominently General Tekle Kifle “Manjus,” were increasingly involved in illegal activities, including goods smuggling and human trafficking of Eritreans seeking to leave the country. Hundreds of Eritrean refugees were handed over to Bedouin groups in the Egyptian Sinai Peninsula, who tortured and raped them in order to extract ransom money from their relatives in the diaspora, or even sold their organs. On 21 January 2013, about 200 officers occupied the Ministry of Information for a short time and forced a television newsreader to read a press release in which they requested the release of the G-15 group of dissidents and the implementation of the 1997 constitution. However, after mediation by the defense minister and other generals, this group returned peacefully to their barracks. On the next day, most of their leaders were arrested or committed suicide, while a number of PFDJ leaders and civilian opponents were imprisoned. During this period, the government strengthened controls on the borders with the Sudan, Djibouti and Ethiopia, seeking to prevent militant opposition groups active in the border regions from getting involved. This uprising of frustrated officers indicates that the government’s control over the military has been weakened and frictions between reformers and those who support the policy of the president persist.

The economy deteriorated further, while electricity blackouts and shortages of fuels and drinking water were common. The government did not use the revenues from gold mining, which started in 2011 (production in that year was worth $614 million), to buy assets necessary to the functioning of the economy or to provide the population with basic imported consumer goods. Military officers and PFDJ leaders began to challenge the president’s decision-making power by implementing their own rules and regulations in the regions under their control. The civilian administrative apparatus
was powerless and civilian administrative employees had to adapt themselves to military directives to avoid imprisonment without charge.

Military and PFDJ leaders established their own shops, which supply party members and high- and middle-ranking military officers and their relatives with consumption goods and scarce items such as fuels, kerosene, charcoal, drinking water and other goods at low prices. Many consumer goods were available only in the black market, with prices 400% to 500% higher than normal market prices.

Politically, Eritrea remained a dictatorship in which public political participation was impossible, civil rights and freedom of expression and assembly were absent, and human rights were routinely violated. The unlimited-term national service requirement that forces large parts of the working-age population to perform very poorly paid labor for party and military enterprises remained in place. During the period under review, more than 600,000 people were forced to serve either in the army or the national service. The government continued to exploit the sanctions imposed by the U.N. Security Council in 2009 and 2011 to call for a “resolute national rebuff,” mainly to raise money from the diaspora communities.

Government functions were executed by the president and a small group of advisers. During spring 2012, President Isaias Afewerki failed to appear in public for a full month, a fact that fuelled speculations about his well-being and possible death. Although he later reappeared in public and seems to be in reasonable health, this episode made clear that there are no procedures regulating his succession (there is no vice president and he has no official deputy). Some analysts argued that his disappearance was orchestrated in order to check how the competing generals and the civilian population would react.

The ruling PFDJ is the only party allowed to exist. Together with the military, it holds a monopoly on the economic sphere. The party-owned Hdri Trust Fund controls all state enterprises without no external financial monitoring allowed. The mass exodus of tens of thousands of Eritreans seen in earlier periods accelerated, as the prolonged national service requirements made it impossible for the bulk of the population to found a family or to pursue a normal life. State institutions and social services were further weakened by this process, as large numbers of professionals (teachers, doctors, engineers, etc.) were among the refugees. Arbitrary arrests and religious persecution continued unabated.

There was absolutely no progress toward democratization, which has been ruled out by the president. The public was unable to communicate civic interests without the risk of being arrested. In 2012, the government armed large numbers of civilians in the cities and set them to patrol as neighborhood militias in order to increase mutual mistrust and create a climate of fear. In the absence of free market mechanisms, the import-export trade remained in the firm grip of the ruling party’s elite, while the military operated large-scale contraband activities, selling goods at exorbitant black market prices. The general public suffered from a persistent and worsening scarcity of basic consumer goods along with extremely high prices. There is no public welfare system, and traditional social safety networks based on extended family structures have been
continuously weakened by prolonged recruitment into the national service. Eritreans living in the diaspora usually support their families inside Eritrea financially, and many of them paid the 2% tax imposed on them by the government either voluntarily or by coercion, providing a stabilizing factor for the regime.

The government’s aim of achieving self-reliance has receded further into the distance; malnutrition and poverty were widespread during the period under review, while basic consumer goods, drinking water and energy were in short supply. The continuous use of charcoal for cooking purposes accelerated environmental degradation. Generally, Eritrea has continued to follow a destructive path, which runs counter to democratization and economic liberalization.

Foreign relations with all regional neighbors except for the Sudan remained poor, as were relations with the United States and Europe. The sanctions imposed on Eritrea by the United Nations in 2009 were tightened in 2011.

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 Eritrea People’s Liberation Front (EPLF), which later formed the government of the independent state of Eritrea. In 1994, the Front held its third and last organizational congress and changed its name to the PFDJ. The former secretary-general of the EPLF, Isaias Afewerki, has ruled the country since independence as president without ever having been confirmed in his office by popular vote. He managed to solidify his power base by his tough style of authoritarian rule with totalitarian tendencies, although his popularity has sharply declined due to continuous deterioration in 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 have been strained, as the government has shown a lack of transparency, has refused with very few exceptions to accept NGO activities in the country, and has even rejected emergency aid, claiming to be self-reliant in food production (an assertion that is obviously not true). The European Commission, in spite of concerns related to the poor state of human rights, 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. In 2011, the Eritrean government terminated cooperation with the European Union without prior notice. 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 and 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 IGAD (Intergovernmental Authority on Development) and the African Union, but the Eritrean
government asserted that they were the result of a U.S. conspiracy. The sanctions were tightened in 2011. Ethiopia did not cede territories awarded to Eritrea according to the 2002 Eritrea-Ethiopia Border Commission’s (EEBC) decision, and the relations between the two countries remained tense. In 2012, Ethiopia conducted several military operations inside Eritrean territory. However, following the death of Prime Minister Meles Zenawi, his successor Hailemariam Desalegn declared his readiness for negotiations. His offer was declined by the Eritrean president. The Eritrean government instrumentalized the U.N. sanctions, which it considered “illegal and unjust,” proclaiming a “resolute national rebuff” and maintaining 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 living in the diaspora were called upon 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 Qatar in 2010. Eritrean troops were removed from the border area, but the negotiations have to date been unfruitful.

There were no internal political reforms during the period under review, and the constitution ratified in 1997 was not implemented. President Isaias indicated that no elections would be held for at least 30 years, and the small ruling elite composed of high-ranking PFDJ cadres and military officers continued to dominate political and economic affairs. The military was given a free hand to pursue all kinds of illegal activities including human trafficking, and has so far not posed a threat to the president. Leading PFDJ cadres such as Yemane Ghebreab (head of the party’s political affairs) may have gained more impact on political decision-making. Isaias was not seen in public for a full month in spring 2012, leading to speculation that he might be in poor health. There was a complete lack of transparency in regard to internal political developments, and Eritrea was ranked last worldwide in Reporters Without Borders’ assessment of press freedom for the sixth consecutive year.

Levels of state and military intervention in the economy have remained consistently high in recent 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. The political dissidents and journalists arrested in 2001 remained in 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 accelerated as a result of the widespread frustration and disillusionment related to the unlimited scope of national service obligations, which have made it difficult for the majority of the population of productive age to feed their families. Thousands of Eritreans crossed the border to Sudan every month, with similar numbers escaping to Ethiopia. Hundreds of these escapees ended up in the hand of human traffickers, who held them hostage in the Egyptian Sinai peninsula and tortured them with the aim of extracting ransom from their relatives in the diaspora.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state’s monopoly on the use of force remained in place countrywide. Militant opposition groups based in Ethiopia continued to exist, but did not perform any activities that seriously challenged the government. Among these were the Red Sea Afar Democratic Organization (RSADO), the Democratic Movement for the Liberation of Eritrean Kunama (DMLEK) and the National Democratic Front for the Liberation of the Eritrean Saho (NDFLES). More remarkably, the Ethiopian army conducted military incursions into sovereign Eritrean territory in March and May 2012, one of which was officially confirmed by the Ethiopian government. The alleged purpose of these operations was to destroy bases harboring militant Ethiopian opposition groups operating from Eritrea. The Eritrean government did not officially react to these incursions. They were neither announced in the state media nor reported to the international community. This can be interpreted as a partial failure by the government to safeguard its monopoly on the use of force. The mass exodus of the young generation continued, and large numbers of educated persons such as teachers, doctors and engineers left the country, further weakening administrative capacities. Illegal activities on Eritrean soil and in the border regions such as smuggling of goods and human trafficking of Eritreans increased significantly, with the involvement of army officials and the Rashaida ethnic group. The government showed no willingness or did not have the capacity to stop these practices.

On 21 January 2013, a group of military officers occupied the Ministry of Information and requested the release of the G-15 group of dissidents and the implementation of the 1997 Constitution. This was part of a wider coup attempt which failed due to organizational flaws. However, it revealed the existence of severe tensions within the military.

The legitimacy of the nation-state was not questioned by the population, as the state of Eritrea is seen as the legacy of a 30-year liberation struggle (1961 to 1991) that took a heavy toll on all segments of society. However, the strategy of the ruling
People’s Front for Democracy and Justice (PFDJ) of equating itself with the state and evoking an alleged unity and equality of all population groups irrespective of religious or ethnic background further lost credibility. While ethnic and religious minorities continued to feel excluded from higher education and state institutions, the unlimited national service requirements imposed on the younger generation led to increasing levels of alienation from the state, as well as from the broader Eritrean nation-building process. The majority of Eritrea’s youth has considered fleeing the country and living abroad as a far more attractive alternative than fulfilling the extensive demands of the state and government without enjoying rights and benefits in return. Feelings of hostility against Ethiopia and Ethiopians have declined sharply among the younger generation, as many Eritreans have found refuge there and hundreds have been admitted to Ethiopian universities.

The state is defined as a secular order in which religion and state are separated. In reality, the government considers religion to be a highly politicized issue, and tries to keep strict control over religious practice. During the period under review, it continued to prosecute Christian and Muslim believers it considered to be “radical,” by which it means the rejection of the PFDJ ideology prioritizing “martyrdom for the nation” over spiritual values. Among the faiths affected were Evangelical and Pentecostal churches, Jehovah’s Witnesses and adherents of Wahhabi Islam. The leaders of the religious communities accepted by the state, namely the Orthodox, Catholic and Lutheran churches and Sunni Islam, were controlled by the government. Abune Antonios, an Orthodox Church patriarch removed from office by the government after criticizing state interference in religious affairs, remained under house arrest. Some Muslim religious leaders and Muslim community elders were also arrested and accused of not being loyal to the PFDJ. They were often labeled as radical Muslim fundamentalists. Even the leaders of the January 21 mutiny were arbitrarily accused by the PFDJ’s head of political affairs Yemane Gebreab of being Islamic fundamentalists and al-Qaeda members. On the other hand, the government accepted the application of customary and religious law (Shari’ah and Orthodox Church-related customary laws) in civil jurisdiction and conflict mediation.

The state’s administrative structures continued to cover the whole country, but the quality of the services it provides has been declining continuously both in the countryside and in the urban centers. The economy continued to suffer from control by the state (party) and the military, and its output was minimal. Administrative services were hampered by the ongoing mass exodus of skilled individuals, poor management of scarce resources and rising levels of corruption. In spite of significant additional revenues derived from gold mining that began in 2011, the government was unable to provide the population with basic goods and services such as electricity, cooking fuels, reliable access to drinking water, or affordable food items. National service-based development programs continued to focus on infrastructure
projects of poor quality, while the existing infrastructure, mainly in the capital and other cities, suffered from severe neglect.

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 remained the only legal political party, and President Isaias Afewerki, who has been in power since independence, showed no readiness to accept elections or any change in the country’s political status quo. When Isaias was not seen in public for a month in spring 2012, leading to rumors of his death, it became clear that no provisions have been made regarding his succession. He rules in conjunction with a number of advisers from the PFDJ leadership, while the military continues to enjoy considerable political power. The defunct National Assembly did not meet, the constitution remained unimplemented, and the cabinet of ministers, which was hand-picked by the president, had very little decision-making power.

Political decision makers in Eritrea are not democratically elected or restricted in their policymaking by constitutional constraints. Veto powers that might undermine democratic procedures are nonexistent, as democratic procedures are alien to Eritrea’s policymaking process. High-ranking military officers have gained increasing influence in recent years, and might be able to exert a veto on decisions that threaten the profits they make through contraband trade and the exploitation of national service conscripts.

Association and assembly rights are completely denied in Eritrea. Independent civic groups are prohibited, and the PFDJ is the only political party allowed in the country. The National Union of Women, the National Union of Youth and Students, and the Confederation of Eritrean Workers are government-controlled satellites of the ruling party. Assembly rights are severely restricted, and even gatherings of religious groups (Pentecostal Christians, reformist Orthodox Christians, followers of Wahhabí Islam, etc.) are prohibited. Participants in such meetings, including children, are often arbitrarily arrested with some participants kept in prison for years. Political demonstrations are inconceivable in an atmosphere of general suppression, surveillance by security agents and the widespread and arbitrary use of force by the police, the military and the state security services.

The freedom of expression is completely denied in Eritrea. The private press has been banned since 2001, and the state media continued to be controlled by the Ministry of Information. The minister of information, a close confidant of the president, defected in December 2012. His post had not been filled by the end of the review period. Eritrea continued to be ranked last in the world in Reporters Without Borders’s press freedom indices, a position it has held since 2007. Numerous independent journalists
were kept in detention, and the state media were restricted to reporting on the alleged progress of development projects and the “satisfaction” expressed by Eritrean nationals with the benefits received from the government. Private conversations in bars, cafés and during social meetings such as marriages were monitored by a countrywide net of agents working for the government and/or the military’s security apparatuses. This included religious ceremonies such as the two Muslim feasts Eid el Fitir and Eid al Adha, which were closely watched by state security personnel who infiltrated gatherings and meetings with the help of Muslim PFDJ members. Many of those who openly criticized the government’s policies were labeled as religious extremists and imprisoned without charge.

3 | Rule of Law

Separation of powers is nonexistent both de jure and de facto, as Eritrea has no implemented constitution. The high-ranking cadres of the ruling PFDJ and the government form a monolithic power apparatus, and the parliament is not convened. The cabinet of ministers is hand-picked by the president, and ministers have very limited decision-making powers in their respective portfolios. The legislative, executive and the judiciary branches of government are controlled by the president, who rules by decree. The internal power balance of the regime has shifted to some degree in favor of the military generals. Some branches of the judiciary, namely the special courts, are under the control of the military; military officers also exercise juridical functions over their conscripts. The commanders of the military operational zones (four generals) have had growing impact on government policies, especially in the field of regional administration, but have shown themselves mainly concerned with gaining personal profits from illegal activities such as smuggling goods and selling them in the black market. During the period under consideration, their involvement in the human trafficking of Eritreans fleeing the country increased dramatically.

The formal judiciary remains poorly organized and dependent on the government, which often means that the president interferes directly. The military or special courts headed by military officers acting as lay judges remained in place, operating without standard procedures; high-ranking military officers also exercised juridical power over army recruits. Police, state security and military personnel often arrested people, held them for several months and released them without ever bringing a formal accusation or bringing them before a court of law. It has become common practice to arrest family members of those who have fled the country and/or defected from the government while abroad. The state security and military officers routinely intervened in conflicts over land and other resources in favor of their relatives or members of their respective ethnic group. Another common practice was to confiscate houses and other properties belonging to minorities or those whose
children had fled the country. Given the weakness of the formal judiciary, informal customary juridical institutions remained the backbone of juridical practice in civil matters and to a certain extent in criminal cases. These institutions decide cases on the basis of traditional law, which focuses strongly on mediation and reconciliation between the conflicting parties. There are also government-controlled community courts that are supposed to provide rulings based on customary law, but these enjoy less confidence among the public than the informal customary institutions.

During the period under review, the leadership seems to have de facto abandoned the official policy of fighting corruption. Corruption in the civil administration and especially in the military increased sharply. High-ranking officers engaged in illegal activities such as smuggling goods, and increasingly in human trafficking. They facilitated the flight of Eritreans willing to leave the country, only to hand them over to criminal gangs of human traffickers in Sudan, who in turn sold them to Bedouins on the Egyptian Sinai Peninsula who tortured them to extract ransom from relatives abroad. According to the U.N. Monitoring Group on Somalia and Eritrea, General Tekle “Manjus” plays a leading role in the human trafficking business. Due to the decreasing availability of staple goods, especially fuel (gasoline, diesel and kerosene for cooking purposes), contraband trade in these commodities also increased. Eritrean officers often collaborated with Sudanese officials in these illegal activities. Army officers continued to accept bribes from military or national service conscripts in return for sick leaves or other exemptions from the service. Such actions seem to have had no legal consequences in the recent past, and the toleration of these practices by the government as a means of appeasing military officers helped ensure the absence of adverse publicity.

There is absolutely no protection of civil rights in Eritrea. Twenty years after its independence, the country still has no implemented constitution, and civil rights are not guaranteed by any law. Top government officials, including the president, express their open disregard and disrespect for internationally accepted civil rights and the due process of law. There is no freedom of the press, no right to habeas corpus, and no freedoms of expression or assembly. Religious freedom is restricted to the four officially accepted faiths: Orthodox, Roman Catholic and Lutheran Protestant Christianity, and Islam. Even representatives of these religions are subject to surveillance, intimidation and arrests. The rights to life and security are ignored and torture is widespread in prisons and army prison camps. The lack of civil rights affects the entire population, but ethnic and religious minorities are often subject to relatively harsher treatment. Traditional juridical institutions are committed to justice, but neglect gender equality to a certain extent.
4 | Stability of Democratic Institutions

There are no democratic institutions in Eritrea. The president’s position has not been confirmed by elections since he came to power as a guerrilla 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 and is obviously defunct. Political power rests solely with the president and a few of his advisors within the president’s office and the PFDJ leadership. Twenty years after formal independence, the country still lacks an implemented constitution. High-ranking military officers have broad decision-making powers in the regional administrations, and also control legal and illegal economic activities. In the absence of democratic procedures, the economy is controlled by a highly interlinked conglomerate of the PFDJ, the government and the military. The president, who is aware of the generals’ growing power base, has sought to limit the threat they pose to his monopoly on power by trying to control them through divide-and-rule strategies.

All of the few relevant political actors during the period under review remained determined to obstruct the emergence of democratic institutions. The former supporters of political pluralization within the PFDJ (the so-called G-15) have been in detention since 2001, and many are believed to be dead or in poor health due to unbearable conditions and the denial of medical treatment. Other potential proponents of democratic change have either been arrested, forced into exile or silenced by 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 political opposition abroad remains fragmented and lacks a clear agenda for political change. Since 2011, new youth movements for democratic change have appeared in the diaspora, but have to date been unable to spread inside Eritrea.

5 | Political and Social Integration

The PFDJ has been the only permitted party since independence. The political leadership has no intention of allowing a multiparty system to develop in the foreseeable future. Over the past decade, the population has been progressively alienated from the ruling party, which had initially been welcomed as the liberator of the country. It is now perceived as a “mafia organization” rather than a political party by the majority of Eritreans, with the exception of the considerable number of PFDJ supporters in the diaspora. In the wake of the mutiny of 21 January 2013, some leading PFDJ members were arrested despite their lack of direct involvement in the
coup attempt. Among them were the governor of the Southern Region, Mustafa Nurhussein, and Abdalla Jabir, the head of PFDJ’s foreign affairs and one of the organization’s strongmen. Both were arrested on January 22. This is a strong indicator of internal frictions and power struggles between party cadres and the president, and will likely lead to further decline in the only existing party.

Associations and interest groups acting independently of the PFDJ are prohibited. The party claims that the Eritrean people are a single mass sharing the same interests, and that it is the only organization representing the interests of all societal groups. It has suppressed the emergence of civil society organizations from the beginning and firmly controls the mass organizations (the unions of women, workers, youth and students). In reality, the party and the military are groups which represent their own narrow self-interest, while the social interests of the vast majority of the population remain unrepresented. Among the population, local elders remain highly respected and have acted as mediators when social groups’ interests have collided, for example in cases of land conflict. However, they are barred from intervening in political affairs.

There are no public opinion surveys in Eritrea.

Social trust is rooted in networks based on customary law, common descent and religion. These networks used to alleviate social hardships, but have been continuously weakened by the structural militarization of the society through the national service requirement, which deprives large parts of the population of the opportunity to earn incomes large enough to enable them to support their extended families. Existing local networks such as “equbs” (saving clubs) are infiltrated by government agents, creating further mutual mistrust.

However, there are social networks linking Eritreans in the diaspora and those inside the country.

In 2012, the government started to arm civilians in the cities, mainly Asmara and Keren, and organized them into neighborhood militias. This measure will probably endanger mutual trust within these neighborhoods, as these militias are using their new power arbitrarily to threaten people with whom they have disagreements.
II. Economic Transformation

6 | Level of Socioeconomic Development

Eritrea remains one of the world’s poorest countries, and poverty is endemic. The Global Hunger Index continued to assess Eritrea’s nutritional situation as “extremely alarming.” The government denied the existence of the ongoing food crisis, claiming that Eritrea was the only country in the Horn of Africa unaffected by the drought and famine of 2011. It did not grant foreign NGOs access to the needy population. Statistical data are either not available or unreliable due to the complete lack of government transparency. The availability of basic consumer goods such as potable water, cooking fuels and electricity in the urban areas declined further during the period under review. Eritrea’s Human Development Index rank was 177 out of 187 (with a score of 0.349), an indicator of a very low level of socioeconomic development. Due to the unlimited-term national service requirement, which has been in place for a decade and has forced the majority of the adult population to serve as recruits in return for pocket money, the poverty rate is very high and large numbers of Eritreans depend on the support of relatives in the diaspora for survival. The service requirement has also weakened subsistence agriculture and pastoral activities, from which an estimated 80% of the population makes a living. Thus, the majority of the people are structurally excluded from opportunities to make a decent living. Most of the vocational training centers, the colleges and health centers are found in the capital and in the Southern Region where the dominant Tigrinya ethnic group is concentrated, while other groups have little access to education and are generally taken as conscripts to the Sawa military training center. Ethnic minority groups such as the Saho, Afar, Kunama, Nara and Hedareb tend to be more vulnerable, poorer and suffer more frequently from malnutrition; among these communities, the child mortality rate is very high, as few parents have family members abroad who can support them financially.

Wealth is concentrated in the hands of a few corrupt army officials and PFDJ cadres who control the command economy and are engaged in contraband trade and illegal activities such as human trafficking. It is believed that large sums of money have been transferred to Chinese bank accounts under the names of the president and his son. Gender inequality persists, especially in educational settings, as does indirect discrimination against citizens who do not belong to the dominant Tigrinya ethnic group. School enrollment rates declined from 52.3% to 44% at the primary level, while the secondary school enrollment rate was 31.9% and tertiary rate just 2%. The number of girls attending schools was significantly lower than that of boys, and there were structural disparities between urban and rural areas. Many qualified teachers
have fled the country, as they would otherwise be forced to work without payment as national service recruits, while those who have stayed behind tend to lack motivation. This situation has contributed to a steady decline in the quality of instruction.

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<tr>
<td><strong>External debt</strong> $M</td>
<td>1050.7</td>
<td>1041.5</td>
<td>1055.2</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total debt service</strong> $M</td>
<td>21.7</td>
<td>22.8</td>
<td>22.1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash surplus or deficit</strong> % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Tax revenue</strong> % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Government consumption</strong> % of GDP</td>
<td>20.1</td>
<td>23.9</td>
<td>21.1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Public expnd. on edu.</strong> % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Public expnd. on health</strong> % of GDP</td>
<td>1.3</td>
<td>1.3</td>
<td>1.2</td>
<td>-</td>
</tr>
<tr>
<td><strong>R&amp;D expenditure</strong> % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Military expenditure</strong> % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>


7 | Organization of the Market and Competition

Market-based competition remains virtually absent in Eritrea. The government, through the PFDJ and the military, retains the control over trade, production and cash-crop agriculture. PFDJ-owned companies such as Segen Construction have a
monopoly in the construction sector, where private-sector activities have been prohibited since 2006. Broad restrictions regarding the possession of foreign currencies and the import and trade of goods remain in place. In spite of increased national income due to the commencement of gold mining in 2011, consumer goods became even more scarce, and the government was unable (or unwilling) to import fuel to produce electricity and for cooking purposes (kerosene). There were frequent blackouts throughout the year. Due to the distortions caused by the command economy, illegal activities by military officers including contraband trade increased sharply and were tolerated by the government. Fuels, food items such as sugar, wheat, cooking oil and rice, and spare parts were smuggled across the Sudanese and Yemenite borders and sold in the black market at very high prices (four or five times that of regular market prices). The confiscation of locally produced agricultural goods for the purpose of sale in the black market continued. The government held two conferences for possible investors from the diaspora; however, as there was no change in the existing command economy and no economic liberalization in sight, this was probably no more than an attempt to secure fresh hard currency for the government’s coffers. Wealthy Eritreans, mainly from Middle Eastern countries, are required to invest in state- or party-owned companies rather than open their own businesses.

During the review period, the country’s economy continued to be controlled by the ruling PFDJ and its enterprises in the trade, retail market, construction and cash crop sectors and in the mining of gold and other precious metals (as in the case of joint ventures with the Canadian Nevsun company and other foreign companies still in the stage of exploration). The government, PFDJ and the military form a monopolistic conglomerate, leaving no space for free entrepreneurship. The Hdri Trust Fund, under the supervision of PFDJ Financial Director Hagos Ghebrehiwet “Kisha,” controlled all relevant companies operating in Eritrea. Large segments of the population continued to be kept as recruits in the unlimited-term national service, and were used as forced laborers by party-owned companies such as Segen Construction. As a foreign investor, Nevsun Resources was forced to engage Segen for mining-related construction work, thereby making use of the forced laborers employed by this company. The government did not implement any measures aimed at preventing the emergence of monopolies, and did nothing to change the inefficient monopolistic structures it has created.

All foreign trade and trade in foreign currencies remained under the supervision and control of the state. Strict controls on the transfer of hard currencies remained in place, and it is highly probable that the government is involved in the flourishing foreign-currency black market that it has tolerated for years. The PFDJ-owned Red Sea Corporation controls the import-export trade, but contraband activities, which are mainly run by the military, continued to increase in importance due to the perpetual scarcity of all kinds of consumer goods. Due to the lack of free foreign trade, imported
goods remained extremely expensive, including basic consumer goods such as grain, rice, sugar and cooking oil. Farm laborers and local merchants were not allowed to transport agricultural goods from one zoba (region) to another without risking confiscation. The military was involved in the confiscation of such goods, subsequent selling them in the black market for a high profit. The government continued its policy of alleged self-reliance and isolation from free world-market trade.

There are three state-controlled banks in Eritrea – the Bank of Eritrea, the Commercial Bank and the Commercial and Housing Bank – while the PFDJ runs Himbol Financial Services. Himbol is in charge of handling remittances and tax payments of diaspora Eritreans, which are channeled through Eritrean embassies and consulates abroad or through appointed government “money collectors.” Private banks are not allowed, and there is no free capital market. The local currency, the nakfa, remained artificially fixed to the U.S. dollar at a severely overvalued rate of ERN 15 to $1. The currency black market using the “hawala” system thus continued to flourish. Diaspora Eritreans usually prefer to engage in private money transfers via third persons, many of whom are based in Dubai, when they remit money for the support of their extended families in the home country. Beneficiaries inside Eritrea receive the cash transfer in nakfa, currently at a rate of about ERN 43 to $1. Small retail traders and other small-business owners (owners of cafeterias, stationeries or shoe shops) are often involved in these practices. These activities are usually tolerated by the government, which seems to be involved in and profiting from the system as well.

8 | Currency and Price Stability

The president of Eritrea has dismissed all financial experts from their posts over the course of the past decade, and the government now follows an irrational financial policy which amounts to nothing more than fixing the nakfa to the U.S. dollar at a rate of 15 to 1, while strictly controlling import-export trade and the foreign currency market. This means that the nakfa has been severely overvalued for years, a fact that has contributed to a steady expansion of the currency black market, which currently offers an exchange rate of ERN 43 to $1. Due to the scarcity of hard currency and the limitations on the import of vital consumer goods and spare parts, a steadily increasing number of corrupt government and military officials are involved in illegal contraband activities that undermine the official austerity policy, inflate the black market and contribute to significant inflation of consumer prices (an annual rate of at least 20%). The government has continued to deny the presence of any food scarcity in the country, even during the 2011 Horn of Africa drought, and did not accept food aid from the international community. As a result, food had to be imported through contraband trade channels, and was sold at extremely high prices in the market.
Statistical data by which Eritrea’s macroeconomic stability might be assessed are either non-existent or unreliable, as the country has not published a budget since independence. In addition, all economic enterprises of any significance are controlled by the PFDJ or the military and are not subject to financial oversight, including the mining sector. In 2011, Canadian mining company Nevsun (a joint venture with the Eritrean National Mining Corporation) started gold extraction at the Bisha mine, but it is unclear how the government used the substantial income it gained from these mining activities (gold production in 2011 was worth $614 million). A part of the revenue was used to buy additional shares from Nevsun. The prevailing shortage of basic consumer goods was exacerbated during the past year, while inflation remained high. Hard currency reserves remained very low and dependence on diaspora remittances high. The government was unable to import sufficient fuels for the production of electricity and private household consumption. The use of national service conscripts as forced laborers in return for only minimal pay continued and fuelled the ongoing mass exodus even further. This outflow of people can be largely attributed to the poor macroeconomic situation and the impossibility of making a decent living inside Eritrea for the majority of the population. The current situation can be seen as a vicious circle, in which the government’s misguided economic policy, including the recruitment of the workforce into the national service, fuels the exodus, which in turn damages macrostability even more severely over the long term.

9 | Private Property

Property rights and regulations are formally defined by law, but due to the lack of a constitution or the rule of law, there is no protection against arbitrary confiscation of land and property. In spite of the land reform of 1994, which declares that all land belongs to the state, highland farmers are usually granted usufruct land rights based on customary law. Land is state property in Eritrea. There have been no major resettlement projects during the past two years, but generally the people are not safe from being arbitrarily expelled from land over which they enjoy usufruct rights.

The western lowland has been the focus of numerous resettlement programs in the past, in which the indigenous population was not compensated for their loss of land. The eastern lowland and highland escarpments to the Red Sea Coast have also experienced resettlement programs in which members of the indigenous Saho population group were similarly uncompensated. The same is true for those who have lost their land to the military, which has established cash-crop farms run by conscripts, mainly in the Gash-Barka Region. The resettlement programs from the highland to the western lowlands initiated in 2009 seem to have come to a halt, but the handling of property rights by the government remains highly nontransparent and unpredictable. Property confiscation has in some cases been used as a sanction: In cases of draft evasion or desertion, the individual’s entire family is held responsible
and forced to pay a fine of ERN 50,000. If they prove unable to raise this amount, their property is subject to confiscation.

The government’s hostile policy toward the private business sector continued during the period under review. All economically significant companies are owned by the PFDJ, the government or the military. Foreign companies active in the exploration of gold and other precious metals are forced to enter into joint ventures with government companies in order to obtain a license. Outside the mining sector, foreign investment is discouraged. However, two investment conferences for Eritrean investors from the diaspora were held in 2012. They were encouraged to invest in government companies rather than starting their own private business enterprises. This can be seen as an attempt by the government to fill its empty coffers with capital from wealthy members of the diaspora, especially from the Middle East, as the readiness of Eritreans living abroad to pay the mandatory 2% income tax has steadily declined over the past years. The government has a record of extracting money from diaspora Eritreans for investment projects which fail to be finalized, for example in the housing construction sector. For the remaining private companies, mainly small enterprises and shops, it remains impossible to convert profits into hard currency in order to purchase spare parts and other materials.

10 | Welfare Regime

The state does not provide a social security network that covers risks such as unemployment, illness, old age or disabilities, with the exception of a Martyr’s Trust Fund that raises money from diaspora Eritreans for the benefit of relatives of fighters and soldiers killed in action. The funds are distributed in a nontransparent manner. The provision of social security is left to traditional solidarity networks based on clan and enda (extended family) structures. However, these traditional security networks have increasingly been weakened by the unlimited-term national service program that has now been in place for more than a decade. Most male and many female Eritreans of working age (18 to 50 years) are conscripted and prevented from earning an income sufficient to care for themselves and their nuclear families, let alone their extended families. The state does not provide compensation for relatives of conscripts. As a consequence, many Eritreans are left with the options of fleeing the country to sustain themselves abroad or depending on diaspora remittances from their relatives to survive.

Eritrea has a functioning basic health care program, including malaria prevention, but only an estimated 1.3% of the budget is spent on health care programs today (as compared to 2.7% in 2001). The system suffers from increasing institutional weakness, as large numbers of doctors and other qualified medical staff have fled the country in recent years.
In principle, all social groups have equal access to the limited services provided by the state, including basic health care, education and food coupons in urban areas. Schools and the limited number of health care centers are concentrated in cities and towns dominated by the Tigrinya ethnic groups, while the majority of ethnic groups – especially pastoral and agro-pastoral social groups – are excluded. Food coupons are often withheld for political reasons. In practice, women, Muslims and ethnic minorities are underrepresented in higher education and in the administration, which is dominated by male Tigrinya. Jehovah’s Witnesses are denied all civil rights, and Christian and Muslim denominational minorities are persecuted. The 12th school year is held at the Sawa military training camp for all students nationwide, and female students often face sexual harassment there. This discourages all female students, but especially those of Muslim faith, from school attendance. Only a small minority of those students who pass the twelfth grade are granted access to tertiary education at so-called colleges, while the vast majority are directly conscripted into the army and the national service. Thus, most citizens are deprived of a personal career.

11 | Economic Performance

The command economy controlled by the PFDJ and the military remains in very poor shape despite the commencement of gold mining at the Bisha mine (a joint venture of the Canadian Nevsun and the Eritrean National Mining Corporation). Economic growth jumped to 8.7% in 2011 and GDP grew from $2.1 billion to $2.6 billion. However, it is unclear how the resulting revenue of more than $500 million was spent. Throughout 2012, the government was unable (or unwilling) to import even the fuels necessary to keep its only electric power plant in Hirghigo running, resulting in regular blackouts. Due to infrastructural neglect, the potable water supply in the capital Asmara declined sharply, and basic consumer goods remained scarce. The smuggling of consumer goods and fuels by the military and their subsequent sale in the black market at exorbitant prices were further indicators of the weakness of the formal economy. Statistical data remained nonexistent or unreliable due to the complete lack of transparency and the failure of the government to produce a state budget. Average annual consumer price inflation was 23%, according to IMF data. The continuing militarization of the society, which takes the form of requiring most of the adult population to work in the national service for no more than pocket money, distorted the labor market and further fuelled the mass exodus of the youth and the educated, in turn increasing the fragility of the state’s institutions.
The government’s environmental policy remained unchanged. While environmental protection is promoted in theory, it does not seem to be a priority of the government in fact. The actual state of pollution remained low due to the very limited levels of industrial production and limited exploitation of marine and coastal resources. However, the chronic shortages of fuel and kerosene persisted or even worsened in spite of the new revenues derived from the gold mining sector. This forced the population to use firewood for cooking purposes even in the urban areas, fueling countrywide deforestation. Contraband trade of illegally harvested wood with the involvement of the military was common. The informal production of charcoal for sale by poor households remained widespread and was largely tolerated by the government. It is unknown if the pollution created by the activities of the Bisha mine in the Gash-Barka Region is dealt with appropriately because access to the area is heavily restricted.

Public expenditure for education remains low at 2% of GDP. Gross enrollment ratios are very low, and the female enrollment ratio is significantly lower than that of males, as are enrollment ratios among disadvantaged minorities groups in primary-level mother tongue schools, especially among the pastoral and agro-pastoral groups. Early school withdrawal rates have increased in the last three years in urban as well as in rural areas. The literacy rate is 66.6%, but functional literacy is probably much lower. The quality of education declined further during the period under review because most teachers, especially in rural areas, were unpaid national service recruits with a consequent lack of motivation; many have left the country, a factor leading to rising numbers of students in classes and declining instruction quality. There was no investment in research and development, and the University of Asmara remained closed. Research is seen as dangerous and challenging issue, and scholars are not allowed to perform research without first obtaining permission from the president’s office. The subject must be one accepted by the authorities. Tertiary education is limited to so-called colleges that do not grant internationally accepted grades, and only a very limited number of students have access to these facilities. The educational system retained its militarized character. The 12th year of school is held at the Sawa military training camp. About 2% of each age cohort transfers from here to tertiary education, while the rest are forced to enter the unlimited-term national service, where some receive vocational training.
Transformation Management

I. Level of Difficulty

When the current government came to power 20 years ago, it inherited structural constraints related to the 30-year struggle for liberation such as poor infrastructure, widespread poverty and illiteracy. Another structural constraint is the dry climate which limits the productivity of rain-fed agriculture. However, it also inherited a fairly developed and diversified industrial sector that had been created under Italian colonization, and which continues to form the heart of the country’s industrial production. In the years following independence, the government developed programs to overcome the damage done by the war, setting out a cautious path of liberalization and democratization. However, these developments came to an end with the outbreak of the Eritro-Ethiopian war (1998 – 2000), in the service of which the population had to pay a heavy toll, and in which newly erected infrastructure was destroyed. Since the end of the “border war,” the government has made no move to loosen political, social or economic restraints, and has shown no interest in pursuing policies leading to democratization or the construction of a market economy. Indeed, the government is actively working against democratization by claiming that the educated and the merchants are the primary enemies of the government’s development strategy. It has imprisoned or exiled hundreds of thousands of civilians and young officers who have criticized the government’s economic policies. NGOs, international donors and national investors seeking to provide aid or other supplies to the population, especially during the drought year of 2011, have been refused access. The government claims that Eritrea is self-sufficient and can even send food donations to Somalia. By doing so, it has continuously built up new constraints to sustainable development by its own misguided economic policies and lack of democratic transformation. Its gravest mistake has been forcing its population into unlimited-term national service, a requirement that has driven tens of thousands of Eritreans into mass exodus every year, and is decisively weakening state institutions. The policy creates additional constraints by strictly limiting opportunities for entrepreneurship, severely hampering the higher educational sector and by militarizing the entire society. By these failed policies, the government increases the risk of state failure from year to year and deprives generations of Eritreans of the ability to make a dignified living inside their mother country. Fresh revenues created by the mining sector are not used for the benefit of the population or for investment
purposes, but most probably end up in the coffers of government and military officials, including those of the president himself. The government’s destructive foreign policies, including harboring and training radical opposition groups from neighboring Ethiopia, Somalia, Sudan, Djibouti and Yemen, led to the imposition of sanctions by the United Nations Security Council in 2009 and their tightening in 2011, which can be seen as a further constraint to Eritrea’s development.

Civil society organizations such as NGOs, labor unions and organized interest groups of all kinds are prohibited in Eritrea. Attempts to create civil society organizations that work independently of the government have been suppressed from the beginning of the state’s existence. The national unions for women, youth and students and the worker’s confederation are the leftovers of the former mass organizations of the Eritrean People’s Liberation Front (EPLF) and are de facto branches of the government. They have become increasingly inactive during the past years. On the other hand, traditional civil society networks, based on elaborated mediation procedures performed by religious and local elders, have strong roots in Eritrean culture and continue to be a means of solving conflicts between various interest groups in the absence of a democratic judiciary system. These have also served as the backbone of the social security network given the lack of a state-run welfare system. However, the involvement of the government, which created new PFDJ-loyal community courts in 2004, has weakened these traditional mediation networks to some extent, especially in urban areas. In addition, the decade-long militarization of society through the national service program, which alienates the population from their social roots and prevents them from founding and caring for a family, has weakened traditional civil society networks.

According to government dogma, there are no conflicting interests between the various ethnic and religious groups of Eritrea, and the people are unified under the PFDJ’s doctrine of “one people one heart.” In reality, there are cleavages between the dominant ethnic group, the Tigrinya, and smaller ethnic groups which feel disadvantaged and excluded from the limited services provided by the state such as education and employment in the state administration. Muslims also feel discriminated against, as Arabic, their lingua franca, is suppressed in educational circles and is not used in the state administration. Armed insurgency groups acting from Ethiopia continued to exist, but did not carry out major activities in 2011 or 2012. Most are comprised of Eritreans who belong to ethnic minority groups such as the Afar, Kunama and Saho.

A new government strategy has been to arm civilians in the cities, mainly Asmara and Keren, and have them patrol as “neighborhood militias,” probably with the explicit aim of raising levels of mutual mistrust among the population. So far, this measure does not seem to have resulted in an increase in violence, but has further raised the latent potential for conflict. It has been reported that members of these
militias arbitrarily arrest persons with whom they have personal grievances and bring them to the police to have them jailed.

II. Management Performance

14 | Steering Capability

The government’s long-term goals and implemented strategies run counter to the establishment of democracy and a market-based economy. President Isaias has made it clear several times that he has no intention of standing for election or of giving up power in the foreseeable future in spite of his fragile health. It is unclear how his succession will be organized. The president has not had a deputy since Minister of Local Government and Vice President Mahomoud Sherifo, a member of the G-15 group of dissidents, was jailed in 2001. Isaias has also ruled out the market economy as a viable model for Eritrea. Instead, the government’s ideology is based on militarism, state control over the economy and collectivization of the population within the framework of the unlimited-term national service. The inherent lack of sustainability in this system has led to growing levels of corruption and a decline in values among the leadership, the high- and middle-ranking military officers, and portions of the population at large. The government has continued to ignore the negative impacts of its policies such as the mass exodus of citizens, the steadily declining economy, the lack of essential consumer goods, and the widespread poverty. It seems to be unaware of or heedless of the long-term consequences of its policies, a fact that may result in state failure if policies are not changed in the near future.

The government has no clear policy to implement. Daily politics depend on the changing moods and attitudes of President Isaias, who is an unpredictable personality. For instance, he has at times invited local and international entrepreneurs to invest in government-owned enterprises, and subsequently canceled all agreements. He has distributed land to farm laborers in order to produce enough food, only to confiscate the land the following year and distribute it to loyal military officers for the production of cash crops for export using unpaid military conscripts.

The government has no plans to reform its policy by introducing a market economy or by entering upon a path of democratization. Its official policy is to achieve development and social justice purely through self-reliance. Its main development policy instrument is the recruitment of the working-age population into the unpaid unlimited-term national service. Recruits are supposed to improve the country’s infrastructure by building dust roads, microdams and the like. By pursuing this policy
of forced labor while simultaneously strangling any private-sector economic initiatives, the government has not only failed to achieve its goal of development, but has maneuvered the country into a deep economic and social crisis.

During the past decade, the government has demonstrated absolutely no willingness or ability to engage in policy learning. The policymaking process is controlled by the president and a small group of advisors. There is no constitution, no functional parliament and the cabinet of ministers does not have any decision-making power. Thus, the leadership has not been challenged in its decision-making process and continues to ignore the serious problems arising from its failed development policy and the militarization of the society. It continues to blame foreign powers, mainly the United States and its Central Intelligence Agency, for all internal and external problems. President Isaias still considers Eritrea as a model for other African countries, ignoring the dire straits of a population forced to flee the country en masse.

15 | Resource Efficiency

Substantial parts of the state administration are staffed with national service recruits who are forced to work for a pocket money. Since 2002, the government has been recruiting high-school graduates into the national service, employing them in the administration to perform routine daily tasks while the top administrative echelons are occupied by ex-fighters with often rudimentary education. This has seriously hampered the efficiency of public services. Many teachers, doctors and other qualified personnel trapped in the ranks of the national service program have fled the country, rendering state institutions and public services increasingly weak. Veterans of the independence struggle continued to be employed in the administration despite the lack of requisite skills, while large parts of the younger generation were deprived of vocational training or higher education and instead used as a cheap labor force for infrastructure projects, on military-run cash-crop farms or in the mining sector. Eritrea has not published a state budget since independence, and there is no auditing of government spending whatsoever. The Ministry of Local Government is defunct, and regional administrations are run in a parallel system by civil administrators and military commanders who control the country’s four military command zones. Each zone is supposed to be self-financing, collecting money both legally and illegally through the taxation of land and trade, but also through the contraband trade of consumer goods and spare parts across the borders. A basic public health service exists, but large numbers of qualified personnel have left the country, further reducing its efficiency. The national service and the mass exodus it produces constitute a huge waste of human resources. Financial revenues created by gold mining have been unaccounted for, instead of being used to alleviate urgent problems such as a lack of energy and affordable food items.
Policymaking is concentrated in the hands of the president and a few top PFDJ advisors. During the period under review, the military has gained considerable influence and today plays an important role in the economy. The government’s overall policy is coherent in principle, but only in a negative way: Its core policy, the militarization of society within the framework of a command economy based on forced labor, has had adverse effects on all other policies such as economic development and social welfare. Coordination between the various ministries is poor, the president’s unpredictable decision-making often depends on his unstable moods, and most state institutions are affected by corruption. In order to appease high-ranking military offers, it seems that the president’s office tacitly tolerates all methods of self-enrichment developed by the generals, including contraband trade, human trafficking, the use of forced labor by national service recruits to reap private profits, and bribes of all kinds. The objectives of the government’s policy have become increasingly obscure over the past decade.

The coup attempt of January 2013 revealed that the president has been losing policymaking power to the military during the past two years. The attempt was led by officers who reportedly had not received their salaries for almost nine months, and who were frustrated with the failed policies of the government.

The government’s official goal of containing corruption has been effectively abandoned in recent years, as the prosecution of corrupt military or civil servants has come almost wholly to a halt. There is absolutely no auditing of state spending or income, due to a complete lack of checks and balances. This includes the new revenues derived from the mining of gold and other precious metals, which commenced in 2011. The PFDJ’s Hdri Trust Fund controls all major companies in the country (trade, construction, retail etc.) and is “audited” by a single person, the financial head of the PFDJ. Eritrea continued to be ranked last worldwide in terms of press freedom, and state media are prohibited from reporting any negative developments. There is no public accountability for mismanagement or corruption, and even the military-headed special courts, which are supposed to deal with cases of corruption, have become increasingly inactive. The self-restraint of the elites, especially the high-ranking military officers, seems to have evaporated; during the period under review, they were engaged not only in contraband trade, but also in human trafficking by selling Eritrean refugees to criminal gangs who tortured them to extort ransom from their relatives in the diaspora, or even harvested their organs for sale.
16 | Consensus-Building

The country’s significant political actors, which effectively means the president and his top PFDJ advisers, remained strictly opposed to the establishment of democracy and a market economy. Those political actors who had promoted reform from within the PFDJ (the so-called G-15 group) remained in jail without any access to the due process of law. Other critics of the government’s policy were forced into exile or remained silent due to the authoritarian political system. The opposition in exile was fragmented, and there is no opposition party that has developed a political program dealing with the implementation of democracy and a market economy in a convincing manner.

The attempted coup of January 2013 was an indication that there is opposition to the government’s anti-democratic policies within the military. The mutineers demanded the release of the G-15 group and the implementation of the constitution. It may also be assumed that parts of the military leadership favor economic liberalization, because they currently have no investment opportunities for the large sums of local currency accumulated through mostly illegal activities such as contraband trade and the extortion of bribes from conscripts. However, the military’s most powerful generals either sided with the president during the January 21 event or remained silent.

The government itself is the most significant anti-democratic veto actor in Eritrea, and has stalled the process of gradual democratization and economic liberalization that it envisaged during the 1990s. The government, the ruling PFDJ and the military are highly interlinked, and the small ruling elite is deeply anti-democratic. Potential reformers not only lack influence over government policies, but have been persecuted and effectively silenced over the course of the past decade. Military officers profit from the current policy of militarization, as it grants them plenty of opportunities for personal enrichment. The opposition in exile still does not promote democratic and economic reforms in any consistent way; it remains fragmented and lacks a clear political agenda.

The government denies the presence of cleavages within Eritrean society along ethnic and religious lines. By claiming that all societal groups have equal rights and form an inseparable unity of Eritrean nationalists, the state conceals the structural discrimination faced by ethnic and religious minorities. The administration, the educational system and the military 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 right abuses, there is structural discrimination against the other eight ethnic groups, which are predominantly Muslim. The political leadership instrumentalizes ethnic and religious cleavages in order to maintain its power and political control. It also plays individual clans within ethnic groups against
one another by dividing them into alleged government loyalists and alleged opponents. It is also important to note that the government has been distributing weapons among groups it considers loyal since 2012, especially in urban areas, which leads to mistrust, polarization and widens the social and religious cleavages among various segments of the society. The political leadership declares existing cleavages to be taboo on the one hand, while exacerbating them on the other by marginalizing pastoral groups, using the western and eastern lowland regions to host large cash-crop agricultural projects or resettlements, suppressing the Arabic language as a medium of instruction and administrative language, and pursuing a controversial mother tongue policy.

The government has prevented the emergence of an independent civil society since coming into power, and has banned all NGOs and other civic groups with the exception of the former EPLF mass organizations (the National Union of Eritrean Women, the National Union of Eritrean Youth and Students, and the Confederation of Eritrean Workers). However, these are under strict government control, and do not play any role in representing the interests of the groups they should represent in theory. Their purpose is rather to impose the government’s ideology on their membership; however, they became increasingly inactive during the period under review. Traditional civil society, represented by religious and local elders and mediators, remain excluded from political decision-making process. Private charities and religious civil society groups remain prohibited. The PFDJ claims to be the only representative of the society, and denies the existence of other interest groups.

Historical injustices are ascribed to the time of Ethiopia’s annexation of Eritrea and the period of independence struggle between 1961 and 1991. The current regime has committed countless atrocities against the population. It will be the task of a future government to achieve reconciliation between the current victims of the regime and the perpetrators.

17 | International Cooperation

The government’s aim is to achieve economic and social development through a strategy of self-reliance, a condition it evidently intends to achieve by recruiting the working-age population into the unlimited-term and poorly paid national service program to perform coerced labor for government- and military-led enterprises. In 2011, it terminated all ongoing programs financed by the European Development Fund. At the same time, it denied that the Eritrean population was affected by the Horn of Africa’s ongoing hunger crisis, and rejected external food aid. Generally, the leadership considers international cooperation to be undesirable, considering it to create dependency. One purpose of the government’s refusal to cooperate with international donor organizations is to deny expatriates access to the countryside, thus hiding the effects of its misled policies such as malnutrition, mass displacements, the
use of forced labor in infrastructure projects, and so on. Foreigners, including diplomats, are not allowed to leave Asmara without prior permission by the Eritrean authorities. The only area where foreign investment is tolerated is the mining sector, where foreign companies from Canada, Australia and China have been granted exploration licenses. However, they are required to enter into joint ventures with the Eritrean National Mining Corporation (ENAMCO) and abide by its rules and regulations. Bisha mine, a joint venture of Canadian Nevsun Resources and ENAMCO, began operations in 2011.

The government has no policies oriented toward democratic and market reforms. It has virtually cut all relationships with bilateral and multilateral donors, and has expelled all foreign NGOs from the country. Apart from the mining sector, where companies from Canada, Australia and China have invested, there are hardly any foreign investors. The only official investment agreement is with Italy. All foreign investors are supposed to enter into joint ventures with Eritrean state companies or PFDJ-run enterprises. The government has a record of acting unpredictably toward international donors. It has expelled most bilateral aid agencies and NGOs, and in December 2011, it returned EU Commission funds accepted in 2009, originally earmarked for support of the agricultural sector and road maintenance, without giving an explanation. Thus, the government is neither considered credible nor reliable by the international community.

As one of the very few remaining allies and potential financial supporters of the regime, Qatar seems to exert pressure on the government on issues of foreign policy, trying to temper its militancy.

The targeted U.N. Security Council sanctions imposed on Eritrea in 2009 due to its support of militant organizations in Somalia and other neighboring countries remained in place during the period under review. Indeed, they were tightened in 2011 due to the country’s non-compliance with U.N. demands. The conflict with Djibouti remains unresolved, though Eritrea seems to have stopped its support for the al-Shabaab militias in Somalia, according to a 2012 report of the U.N. Monitoring Group on Somalia and Eritrea. The government has sought to revive its membership in the Intergovernmental Authority on Development (IGAD), which it suspended in 2007. To date, these attempts have not been accepted by key IGAD members such as Ethiopia and Kenya. Eritrea partially revived its membership in the African Union (AU), mainly for the purpose of using AU assemblies to complain about the “unjust and illegal” sanctions imposed on it. The Eritrean government did not officially react to the death of Ethiopian Member of Parliament Meles Zenawi, a former comrade in arm whose organization, the TPLF (Tigray People’s Liberation Front) fought alongside the EPLF against the Ethiopia’s Derg regime from 1975 to 1991. Relations with Ethiopia were volatile during the review period. In early 2012, the Ethiopian army conducted several military operations on Eritrean soil, allegedly against armed Ethiopian opposition groups operating from Eritrea. Following the death of Prime
Minister Meles Zenawi in August 2012, incoming Ethiopian Prime Minister Hailemariam Dessalegn declared his readiness for negotiations, but Eritrean President Isaias continued to refuse to enter into a dialogue, thus perpetuating the political stalemate. Relations with Sudan by and large remained positive. Various bilateral agreements on economic cooperation in the fields of tourism, fisheries, agriculture and trade between Eritrea and the Sudan, Egypt, Saudi Arabia and Qatar have been signed during the past decade, but have not been implemented due to unpredictable presidential decisions and a highly restrictive economic environment. The only existing official investment agreement was signed with Italy.
Strategic Outlook

For the past decade, the Eritrean government has pursued a destructive strategy that has blocked democratization, strangled the economy through control by the ruling PFDJ and the military, and militarized society to an extremely high degree. The practice of unlimited-term conscription into the army and the national service continued unabated, and hundreds of thousands of Eritreans have been serving for more than a decade without earning salaries substantial enough to make a living or sustain a family. This has further fuelled the mass exodus among young people and skilled workers, resulting in increasingly weak state institutions and deteriorating services. Both the health and educational sector have suffered severely from the flight of teachers, doctors and nurses. The government has failed to evaluate the root causes of the exodus, and a number of high-ranking military officers and other officials profit directly from these developments by engaging in inhumane human trafficking enterprises. The military leadership has been increasingly corrupted, and the morale of the defense forces has declined further. When Ethiopia conducted military operations (allegedly against armed Ethiopian opposition groups operating from Eritrea) on Eritrean soil, the Eritrean government did not even react to this provocation, which calls its capability to act into question. It has also failed to stop the downward spiral of the economy. In spite of substantial income from gold mining that commenced in 2011, the government was unable to import fuels necessary to provide electricity, public transport, or kerosene for cooking purposes. It has been unable to contain the widespread poverty and malnutrition, or to provide a sufficient amount of basic consumer goods at affordable prices. It did not give up its stated goal of achieving self-reliance (in the sense of autarky), but remains far from achieving this aim. Instead of critically reflecting on the dire straits in which the state and its population find themselves, the president declared that the collection of statistical data was “based on speculations by various international organizations and aimed at serving vested political interests,” and should be halted. This includes data on the nutritional status of the population. Eritrea’s poor relations with foreign donors declined further, as the government brought cooperation with the EU to a halt in late 2011. The private economy remained suppressed, while military officers and high-ranking party officials continued with to engage in self-enriching practices with impunity. Due to the absolute lack of transparency, it is unclear how revenues from the mining sector have been spent. It is highly probable that large parts of these rents ended up in bank accounts belonging to the president or party and military elites in China or elsewhere. The leadership maintained its cynical approach toward human rights and liberties.

The targeted sanctions imposed on Eritrea in 2009 and 2011 led the government to call for a “resolute national rebuff” on the part of its population, mainly those living in the diaspora, which is de facto a fundraising campaign for the government’s coffers. On the other hand, civil society groups in the diaspora have been able to raise awareness among their host countries about the 2% income tax imposed on Eritreans residing abroad, as this is often extracted through coercion and may be used for purposes prohibited under the U.N. sanctions regime. Apart from these activities,
the opposition remained fragmented and without a convincing program for democratic change and economic liberalization. The incidence of armed insurgency by militant opposition groups organized along ethnic and religious (Islamic) lines did not increase during the past two years, possibly due to a lack of encouragement from Ethiopia, where they are based. The complete lack of civil society institutions and the extremely high levels of oppression inside Eritrea have obstructed the emergence of internal resistance movements. The mutiny or attempted coup of 21 January 2013 has variously been interpreted as an attempt by frustrated officers to overthrow the president or simply as an effort to create awareness of the country’s dire situation. Whatever the ultimate intent, it was a strong indicator of the presence of serious cleavages and a high level of dissatisfaction within the army, parts of which support reform while others remain allied with the president in order to retain their privileges.

The president’s popularity has decreased within the population since 2011, especially among disadvantaged minorities. The number of PFDJ supporters among the diaspora has also declined, which means a clear challenge to the PFDJ ruling elite. Accordingly, for the first time, government opponents occupied embassies and consulates in various European, American and Arab countries and in Australia in a concerted action as a reaction to the failed “coup.”

For the time being, leaving the country seems to be the only option for the majority of the younger population to make a protest. If this process continues during the coming years, state institutions will become weaker and state functionality may become severely hampered. Moreover, the presidential succession is not regulated in any institutionalized form, despite Isaias’ apparently unstable health. This makes the outbreak of power struggles within the ruling elites (party and military) probable should his condition deteriorate in the future.

The international community’s impact on the internal policy of Eritrea is very limited, and there has been no consistent pressure on the government to reform its economic policy, end its strategy of militarization and introduce democratic reforms. Pressure has been confined to containing its militant foreign policy, and the sole aim of the sanctions is to prevent Eritrea from arming insurgent groups in the Horn, which has been partially achieved. The aspects of the sanctions aimed at freezing the assets of leading personalities in charge of Eritrea’s militant foreign policy have so far failed. At the moment, all officials who have enough political and financial power can engage in illegal activities such as arms smuggling and human trafficking with impunity. The leverage of the international community through which to influence the internal policy of Eritrea is limited due to the government’s rejection of aid and economic cooperation, a policy which may lead to the implosion of state structures and state failure as a medium-term consequence due to its disastrous side effects, especially the mass exodus of the young generation. Given the opportunity provided by the change in Ethiopia’s head of government, the international community should reinitiate efforts to bring the two governments to the negotiating table with the aim of finding a solution to their unsolved border problem. If Ethiopia could be convinced to implement the border decision of 2002, the Eritrean government would lose its justification – the alleged international conspiracy against the country – for the decade-long enslavement of its population in the national service. This might at last clear a way for long-overdue reforms.