

THE GOVERNMENT

OF THE STATE OF ERITREA

# MACRO-POLICY

NOVEMBER 1994

# **CONTENTS**

## **Introduction**

**1**

**1.**

## **Economic Overview**

**3**

1.1 Introduction

3

1.2 Agriculture

1.3 Industry

1.4 Fisheries and Salt Panning

1.5 Infrastructure

3

4

5

6

**2.**

## **The Challenge**

9

**3.**

## **National Development Objectives**

**10**

**4.**

## **Development Strategy**

**12**

**5.**

## **Macro-Policy**

**13**

**6.**

## **Policy on Investment**

6.1 Objectives

6.2 Role of Public and Private Sectors

**14**

14

14

6.3 Role of Domestic and Foreign Capital

6.4 Inter-Sectoral Priorities

16

16

6.5 Export Promotion

6.6 Technology Transfer

6.7 Promotion of Specific Industries

6.8 Tariff Protection and Subsidies

18

19

19

19

6.9 Support to Indigenous Industry

6.10 Environmental Concerns

19

20

6.11 Regional Balance

6.12 Promotion of Regional Investment

6.13 Investment Promotion

20

20

20

**7.**

## **Monetary Policy**

7.1 Objectives

7.2 Measures To Be Enacted To Achieve Objectives

### 7.3 Exchange Rate

21

21

21

22

### 7.4 Interest Rate

22

### 7.5 Credit Policy

23

## **8.**

### **Fiscal Policy**

#### 8.1 Objectives

#### 8.2 Taxation Policy

24

24

24

8.3 Policy on Other Sources of Revenue

8.4 External Financial Resources

8.5 Expenditure Policy

**9. Trade Policy**

9.1 Background

9.2 Future Orientation

9.3 Objectives of Trade Policy

9.4 Short and Long-term Trade Policies

**10. Land Policy**

10.1 Objectives

10.2 Policies

27

27

27

**30**

30

31

31

32

**34**

34

34

**11. Local Administration Framework Policy**

11.1 Objectives

11.2 Policy

**12. Science and Technology Policy**

12.1 Objective

12.2 Policies

**36**

36

36

**37**

37

37

**13. Human Resources Development and Population Policy 39**

13.1 Education and Training 39

13.2 Health 41

13.3 Social Welfare 42

13.4 Rehabilitation of War Victims and Other

Vulnerable and Disadvantaged Members

of Society 43

13.5 Gender Issues 43

13.6 Youth 44

13.7 Population Policy 44

**14. Institution Building and Institutional Nationalization 46**

14.1 Objectives 46

14.2 Policies 46

**15. International Economic Cooperation Policy**

15.1 Objectives

15.2 Policies

**48**

48

48

**16. Environmental Policy**

**49**

# MACRO POLICY

## INTRODUCTION

Eritrea is rising from the ashes of war and destruction, conflict and conflagration, colonial rule and oppression, and has entered a new era of peace and prosperity, of development and democracy. A bright vista which draws on the hard won independence, prevailing peace and stability, strong national unity, accelerating process of democratization, and harmonious and cooperative external relations is opening up. A concerted effort is underway to transform the war ravaged backward economy into a modern one characterized by self-sustaining growth.

The prospects for the development of an outward oriented strong manufacturing sector, modern irrigation based commercial agriculture, and a multifaceted and highly efficient service sector are good. Aside from the optimal macro-economic policies which have been drawn up to generate and motivate private (external as well as domestic) initiative and investment there are a number of other factors which augur well for the achievement of the desired socio-economic transformation. Eritrea possess a highly motivated, industrious and disciplined people who have not only a strong aspiration for development but are also aware of what it takes to develop and have the necessary commitment to bring it about. Eritrea is at a strategic point on the world map with more than 1000 kms of coastline and two important deep water ports on a most critical international pathway. It is thus well positioned to access the most important global as well as regional markets. It enjoys a variegated and conducive climate as well as topography. Eritrea is also endowed with the natural

resources necessary for the development of agriculture, industry and mining.

There are however critical constraints to development. The physical and social, as well as institutional, infrastructure of the country has been severely and negatively affected by the war and the policies of the colonial regimes. Human capital development is low and the technological base is backward. The creation, in this context, of a modern technologically advanced and internationally competitive economy within the next decades thus becomes an overriding national development objective.

## **1. ECONOMIC OVERVIEW**

**1.1** The economy of Eritrea has been devastated by war, drought and inappropriate economic policies. There is no sector of the economy and no aspect of social life that was not affected by these triple scourges. These combined forces left the economy in a state of utter destruction and deprivation and the resulting situation could be summarized by the following social indicators:

### % Sub-Saharan Average

Daily calorie intake 1750 Kcal -16-5%

Infant mortality 135/1000 +24%

Life expectancy 46 -11.5%

Adult literary rate 20% -52% .

Literacy rate for women 10% N/A

The sectoral background to this appalling social situation is briefly given hereunder.

### **1.2 Agriculture**

The agricultural sector is by far the most important provider of livelihood to the majority of the population. However, its contribution to GDP is small. This is because productivity in the sector is low. Agricultural productivity in Eritrea has historically been low as the sector is predominantly characterized by traditional, rain-fed, subsistence farming with little use of modern agricultural inputs such as fertilizers, and human and/or animal power are the principal sources of traction. The negative impact of these traditional agricultural practices on productivity was exacerbated by progressive environmental degradation resulting from, i.e., excessive use of fuel

wood as a source of energy and lack of adequate water and soil conservation systems.

Compounding the above, the sector was severely affected by the protracted war of liberation, recurrent drought, and by the inappropriate economic policies of the previous regime. The war displaced farmers, decimated livestock, reduced agricultural inputs and destroyed rural roads and the rudimentary soil and water conservation systems that existed. The drought and misguided economic policies of the Dergue, with their neglect of peasant farming and emphasis on ill-conceived state farms, reinforced this cycle of destruction and reduced the sector to its present state where in the best of times it could barely produce 60 percent of the country's food requirements.

The picture on the forestry side is equally bleak. The protracted war, population pressure and drought have all left their scars on the environment. Forest cover has been destroyed by war and by the demand for firewood and construction materials. Forest cover is presently estimated at only 0.4% of the total land surface.

### **1.3 Industry**

The picture on the industrial front is no better. Until the early 1970s, Eritrea had a thriving industrial sector, accounting for some 40% of the industrial output of Ethiopia. The rate of industrialization stagnated after the forced union with Ethiopia in the early 1960s. The advent of the Dergue in the mid-1970s marked the beginning of the decline of the industrial sector. To begin with, all major industrial establishments were put under state ownership and their planning and marketing activities were subjected to centralized direction and control. This was compounded by lack of investment in new plants and machinery and, at times, by neglect of

even the most routine maintenance activities. The private sector was being discouraged in numerous ways so its growth was stunted.

The industrial sector inherited from the Dergue consisted of 42 factories in the public sector and some 650 smallscale enterprises in the private sector, with the former producing about 85% of total industrial output. The factories in the public sector consist of light manufacturing units with outdated technology, and with plant and equipment in a severe state of disrepair.

They have heavy foreign dependence for technology, resource inputs and markets. Most of the industrial enterprises in the private sector are really nothing more than small concerns employing 2-5 persons and mostly engaged in such activities as woodwork, metalwork, garages, bakeries, leather products, etc. The private sector is characterized by low capitalization and undeveloped marketing and business management skills.

### **1.4 Fisheries and Salt Panning**

Eritrea has about 1,200 km of continental coastline and over 52,000 sq. km. of continental shelf. Thus fishing and salt panning provide the means of livelihood to people living along the coast.

Fishing was an important sector of the economy in the fifties and early sixties when some 20,000 fishermen attained a peak production of 25,000 tons in 1954, the bulk of which was exported.

The fishing industry, which began to decline at the time of the closure of the Suez Canal, collapsed during the protracted war of independence. The war dispersed the fishing communities, destroyed on-shore facilities, disrupted

external trade networks and restricted domestic marketing outlets.

Salt panning along the coast was also an important enterprise. The high salt content of the sea water and the hot climate of the region provide an ideal combination for cheap production of salt. Salt was being exported to faroff regions in Europe and the Far East. Salt works in Massawa were severely damaged by the war.

## **1.5 Infrastructure**

### **Inland Transport**

The inland transport system left by the Italians consisted of a network of main roads and rural roads connecting the major administrative centers and some rural areas, as well as a railway line connecting the port city of Massawa with Asmara, Keren and Akordat. Though these systems were far from comprehensive, they served the country well at the time. Neglect and war left these systems in shambles, with the railway line completely destroyed and the road systems in an appalling condition of disrepair.

#### **Ports**

Though the country has two ports, the principal port serving Eritrea is Massawa as the port of Assab almost entirely serves Ethiopia. Largely because of this the Ethiopian authorities had neglected the development of Massawa as a commercial port. This, coupled with the indiscriminate bombing that Massawa was subjected to in the last days of the war, left the port severely under capitalized and partially destroyed.

### **Post and Telecommunications**

The postal network consists of 16 post offices, 17 sub-post offices and 22 postal agents. The telecommunications network at the end of 1993 had under 14,000 connected

lines mostly in Asmara, constituting a telephone density of about 0.44 per 100 inhabitants. Only 17 of the country's 47 sub-provinces have access to rudimentary telephone services.

### **Energy and Water**

The energy sector in Eritrea is undeveloped, with 82% of total energy demand and almost 99% of household energy demand met by fuel wood and biomass with extensive damage to forest cover and soil fertility. Electric energy, which is thermal, supplies only 1.14% of total energy demand with about 78% of this supply going to industrial and commercial consumers. Present generating capacity, eroded by age of plants and lack of maintenance, stands at 30 MW. Present demand plus

30% reserve would require a minimum additional capacity of 80 MW. Thus the present power capacity constitutes a serious bottleneck to present operations and future plans.

The water resource potential of the country is not fully known and that which is known is not

developed. There are no perennial rivers and rainfall is scant and erratic. The scant rainfall in the highlands disappears as run-off because of the rugged and denuded topographic conditions and the impermeable nature of the geological formations. Thus hydrological, climatic, topographic and geological factors, together with human actions of deforestation and war, have combined to create a chronic shortage of water for industrial and commercial uses, as well as for human consumption. Only about 25% of the population have access to safe water.

### **Education**

There is widespread adult illiteracy in Eritrea, nearly 85%, with female illiteracy being twice that of male illiteracy. Educational opportunities are severely limited and

concentrated in a few towns. Only 42% of the relevant population are enrolled in primary schools and 19.4% and 13.1% of the relevant population are enrolled in junior secondary schools and secondary schools respectively. Most schools, especially in the rural areas, are congested and lack basic facilities and teaching materials such as desks, textbooks, laboratories, etc.

## **Health**

Eritrea inherited a devastated and inadequate health infrastructure with a marked discrepancy in regional distribution of health facilities. The delivery system for primary health care services is severely limited. Those health facilities that were inherited were damaged by war and neglected maintenance. Existing facilities are short of medical personnel, basic drugs, equipment and supplies. Compounding this situation, services such as garbage disposal and sewerage are restricted to Asmara and Massawa, thus exposing a large part of the population to serious health hazards.

## **2. THE CHALLENGE**

The foregoing brief situation analyses illustrates the nature and extent of the formidable problems that confront Eritrea, presenting it with its most serious challenge after the war of liberation.

The country has adopted a two-pronged approach to tackle this challenge. The first prong addresses the immediate problems of resuscitating the economy and rehabilitating certain sectors through a programme of recovery and rehabilitation. The second prong addresses the fundamental development problems and prospects of

- the country and charts the direction for its future growth.

2.1 The programme of recovery and rehabilitation was a multi-sector programme that covered the restoration of essential agricultural and industrial activities, the repair and rehabilitation of infrastructure, the restoration of community assets such as schools, clinics, water systems, agricultural tools, livestock, etc., and the building and strengthening of institutional capacity. These programmes have helped to kick-start the economy. As a result, some critical sectors have started to function again, enabling the economy to meet some of the needs of the society to some extent.

2.2 The long-term measures had to look beyond the horizon of immediate problems and examine in depth the structural and systemic factors hampering the development of Eritrea, weigh the comparative advantages that Eritrea has and on which her future growth could be based, and, based on such diagnosis, devise an appropriate macro framework and supporting policies to engender sustained economic growth and to further the country's national development objectives.

### **3. NATIONAL DEVELOPMENT OBJECTIVES**

The government took this opportunity to define its vision of the new Eritrea that it wants to build, and to map out a strategy to catch-up with four decades of lost opportunity and growth. The vision of the new Eritrea is articulated in the national development objectives of the country. The overriding national development objective is the creation of a modern, technologically advanced and internationally competitive economy within the next two decades. The national developmental effort will be directed to the realization of:

- Improved agricultural production through the development of irrigated agriculture, and by enhancing the productivity of peasants, pastoralists and agro-pastoralists.
- Developed capital and knowledge-intensive and export-oriented industries and services.
- An upgraded and technologically improved informal sector.
- A developed tourism sector and high-grade conference and convention facilities.
- A competitive international financial center.
- A developed and systematic public health care system.
- Broad-based education incorporating widespread dissemination of skills and languages and extensive human capital formation.

10

- An effective social welfare and safety net system.
- An upgraded and safe-guarded environment that is free from pollution.
- A decentralized and democratic political system.
- An internally peaceful and stable nation at peace and in harmony with its neighbours.
- A free and sovereign state where human rights are respected.

11

#### **4. DEVELOPMENT STRATEGY**

4.1 To achieve the above-stated objectives, the government adopted a broad-based growth strategy that has aspects of rehabilitation, reconstruction and development covering all sectors of the economy. Major components of this strategy are human capital formation, with education and health as key inputs; export-oriented development both in industry and agriculture; infrastructural development to remove critical bottlenecks; environmental restoration and protection; and the promotion of the private sector.

4.2 The centerpiece of this strategy is the establishment of an efficient, outward looking, private sector-led market economy, with the government playing a proactive role to stimulate private economic activities. The economic role of the public sector would be restricted to those areas which the private sector may tend to avoid because of externalities. This said, the strategy does not preclude a well prepared public investment program in strategic subsectors to initiate economic growth and to supplement the efforts of the private sector. In such cases, all such strategic public investments would be subjected to rigorous project preparation work and would be operated on commercial basis, with eventual divestiture not excluded. Such public investment programmes will be carried out within the limits of a prudent fiscal policy.

12

#### **5. MACRO-POLICY**

In keeping with the above-stated development objectives and strategies, the government expounded a macropolicy framework designed to stimulate private investment and thus engender economic revival and growth. The main purpose of macro-policy is to communicate clearly the government's positions on such issues as property rights, roles and prerogatives of the public and private sectors in the economic and social life of the country, etc., issues on which unambiguous policy statements are very important for private enterprise to participate in economic development activities without fear and reservations. It is believed that the government's overall macro-policy as crystallized in the following policy instruments achieves these purposes.

13

## **6. POLICY ON INVESTMENT**

### **6.1 Objectives**

The objectives of the policy on investment are to promote high levels of investment and assure self-sustaining growth thereby increasing the standard and quality of life of the Eritrean people.

### **6.2 Role of Public and Private Sectors**

Having set the objectives, it is necessary to define the roles of the public and private sectors in achieving them. Eritrea has opted for an open, private sector led, free market economy. As such the two sectors have distinct, often complementary and sometimes overlapping roles to play.

#### **6.2.1. Public Sector**

a. The country's economic policy limits the role of the public sector in the economy to (in addition to its normal regulatory roles):

- Provision of necessary infrastructure.
- Investment in human capital.
- Provision of secure financial and credit institutions in order to mobilize savings from the public and avail credit for long-term development projects.
- Maintenance of macro-economic stability by limiting budgetary deficit to levels that could be managed without inflation.

14

- Maintenance of low and predictable level of inflation stable real interest rate and prices to encourage long-term planning and private investment.
- Maintenance of a realistic exchange rate policy consistent with growth.
- Provision of the necessary political legal and institutional framework and safeguards to promote and protect investment.

b. At the same time, in view of the present dearth of a capable entrepreneurial business community in Eritrea, there is a clear need for a pioneering and catalytic role to be played by the government. However, in such cases, the terms of government participation will be on a strictly competitive basis and will be guided by principles of the market. The overall impact on the economy should be the encouragement of competition in the market and the stimulation of private investment activity. Thus public sector participation in productive economic activities should be seen in this light. The ultimate objective of the government is to withdraw completely from such areas and leave them to the private sector.

### **6.2.2 Private Sector**

- The private sector is the lead actor in the economic activities of Eritrea.

It is allowed to participate in all sectors of the economy with no restrictions and discrimination.

- The government will take all necessary policy and other supportive measures to promote, encourage and develop the private sector and protect its interests.

### **6.3 Role of Domestic and Foreign Capital**

Domestic and foreign capital separately or in partnership with each other are accorded unencumbered access to investment opportunities in all areas with equal and nondiscriminatory treatments. However, in view of the shortage of domestic capital, the following measures are taken to attract foreign capital investments:

- Remittances of profits and repatriation of capital are free and unrestricted. The government will employ other fiscal measures to encourage reinvestment of profits.
- Foreign capital is assured of full government guarantees against nationalization or confiscation. In the event of arbitrated business break-up the government shall play fair compensation.
- Direct foreign investment (DPI) is expected to give priority in employment at all levels to Eritreans with the requisite qualifications. Training of local people in all technical and managerial aspects of the business should also be part of the investment package.

..

### **6.4 Inter-Sectoral Priorities**

The conventional way of listing priority sectors for development may not be appropriate in the present circumstances. There is an equally critical need for rehabilitation, reconstruction and development in practically all sectors. However, the main focus will be

16

on removal of critical bottlenecks in every sector by undertaking broad fronted development programmes.

The guiding principle will be to have a development orientation that is human-centred and that ensures economic efficiency, social justice and is environmentally sustainable. In this overall sense, sectoral orientation could be elaborated as follows:

#### **6.4.1 Sectoral Orientation**

##### **• Agriculture**

Develop irrigated agriculture with emphasis on eastern and western lowlands, primarily for exports.

##### **• Marine Resources**

Develop marine resources for the export and domestic markets.

- **Manufacturing**

Develop light manufacture based on agroindustry as a start and promote high-tech industries.

- **Mining and Quarrying**

Exploration (hydrocarbons, metals, geothermal, construction materials, etc.) followed by exploitation.

- **Services**

Develop financial, tourism, transport and transiting services.

- **Water**

Develop Eritrean river basins; develop Eritrean rivers for a joint hydro-irrigation use.

- **Energy**

Develop the country's energy base through exploration and development of the country's potential gas and oil deposits, development of renewable energy sources, etc.

- **Telecommunication**

Develop high-tech telecommunication facilities for international and domestic services.

- **Ports**

Develop the port of Massawa as a regional port. Assab and others also to be developed.

- **Roads**

Develop trunk roads for domestic and regional services and comprehensive domestic networks in stages.

- **Rail**

Rehabilitate the railway system and study the feasibility of a regional network.

- **Air Transport**

Develop domestic air services and work towards making Eritrea a hub for regional air services.

- **Housing**

Develop residential houses and commercial \ and public buildings.

## **6.5 Export Promotion**

The investment policy gives special attention to export industries. This policy is an integral part of our strategy of

18

an outward looking development endeavour to assure expanded possibilities for a small country like Eritrea. Exports will comprise largely of manufactures which have high price and income elasticity of demand, and will be assisted by a realistic exchange rate policy as well as by a favourable external trade tax regime.

## **6.6 Technology Transfers**

The investment policy promotes the transfer of up-to-date technology that would assure competitive edge to Eritrean produce.

## **6.7 Promotion of Specific Industries**

Even though the general policy is to allow market forces to guide decisions with respect to investments, strong promotional support will be given to export industries that indicate clear competitive advantage in international markets and to specific projects designed to exploit the special factor endowments of the country (like tourism, entreport services, marine transport, etc.).

### **6.8 Tariff Protection and Subsidies**

The government's investment policy does not envisage the provision of tariff protection and/or subsidy to industries and other investment undertakings. However, all necessary legal and institutional frameworks that would facilitate and promote investment are in place.

### **6.9 Support to Indigenous Industry**

Handicrafts and cottage industries will be provided with the know-how and other required inputs to help boost productivity. Those investors who initiate training and

retraining and promote greater participation of Eritreans will be entitled to special support.

#### **6.10 Environmental Concerns**

Thirty years of war, neglect and drought have left their scars on the environmental condition of the country. Efforts are currently directed at redressing environmental imbalances and at arresting further deterioration. Proper attention shall be given to potential environmental consequences of investment decisions.

#### **6.11 Regional Balance**

As a general policy, decisions with respect to location of industries will be left to market forces. However, the government can use fiscal and other mechanisms to attract private investment to relatively depressed areas in order to promote regional balance.

#### **6.12 Promotion of Regional Investment**

Investments that are of mutual benefit and that promote regional co-operation with neighbouring countries will be encouraged.

#### **6.13 Investment Promotion**

An institution that facilitates, promotes, and guides investments will be established and given all necessary support.

20

### **7. MONETARY POLICY**

#### **7.1 Objectives**

An effective monetary policy may evolve only after the establishment of an independent national currency which will be created at an appropriate time in the near future. With the provision of one's own currency, Eritrea's objectives in the area of monetary policy would be:

- a. Stimulation of growth through the mobilization of financial savings and their optimal allocation to competing investment demands.
- b. The control of inflation and insurance of price, exchange rate and overall macro-stability.
- c. The maintenance of a healthy and sustainable balance of payments position.

#### **7.2 Measures To Be Enacted To Achieve Objectives**

- Existing financial laws and regulations will be further reviewed, clarified and defined.
- Measures will be taken to strengthen existing banking institutions in terms of trained manpower

and physical facilities.

- The gradual development of a diversified financial system will be given high priority.
- Interest rate, credit and exchange rate policies will be managed in a mutually supportive manner.

- Entry in to the banking system will be open to the private sector.

### **7.3 Exchange Rate**

The exchange rate would be set and managed with the objectives of:

- Encouraging production for export,
- Promoting the competitiveness of Eritrea's export products in external markets,
- Attracting and retaining foreign investment, and
- Restraining inflationary expansion of money supply.

### **7.4 Interest Rate**

a. The objectives of interest rate policy would be to sustain an increasing level of savings and investment and to control inflation. This will include *interalia*:

- Promoting the growth of financial savings through the maintenance of a positive real interest rate,
- Managing the inflow and outflow of short-term international capital,
- Directing credit to and lowering the cost of credit to preferred(priority) sectors of the economy, and
- Controlling the growth of money supply.

22

b. Until such time as the development of financial institutions and financial instruments enable the determination of interest rates to be taken care of by market forces, the Central Bank will be responsible for fixing the rates taking into account the internal supply and demand for loanable funds, price developments and other relevant factors.

### **7.5 Credit Policy**

Access to credit and credit conditions to various institutions and sectors of the economy would be largely left to be determined by market demand and supply in the money and capital markets. Government intervention would be restricted to defining and enforcing rules of competition and preventing the development of harmful financial practices so as to ensure a healthy market environment.

A system of preferences and priorities with respect to access and conditions of credit will have to be operational until the financial system develops and an appreciable magnitude and rate of domestic savings is achieved.



## 8.

### FISCAL POLICY

#### 8.2.1 Direct Taxes

#### 8.1 Objectives

#### 8.2

- a. Promote the optimal allocation of resources across sectors, institutions and regions.
- b. Promote an equitable distribution of income and wealth so that the benefits of development are overtime more and more equitably distributed across members of the society.
- c. Enhance the competitiveness of Eritrea's export products in foreign markets.
- d. Ensure adequate incentives for both domestic and , foreign private capital so as to achieve an increasing rate of investment overtime.
- e. Promote domestic savings.
- f. Foster greater competition in the domestic market.
- g. Ensure that the revenue yield of the tax system as a whole grows at least in line with the growth rate of GNP.
- h. Strengthening tax administration.

#### Taxation Policy

The tax system will be reformed to be consistent with the objectives of fiscal policy enumerated above.

- a. Direct taxes will as much as possible be made to cover all types and sources of incomes.
- b. Tax rates will be moderately progressive and profit taxes will be with few brackets and lower rates.
- c. The rates and progressivity of taxes on different types of income will as much as possible be made comparable.

d. Exemption level for direct taxes will be set at a minimum national income level, as assessed by the Ministry of Finance and Development.

e. Tax brackets will be minimized to enhance simplicity and ease of administration.

f. Property tax shall be introduced.

### **8.2.2 Indirect Taxes**

a. Indirect taxes include sales taxes, excise tax and customs duties.

b. All three taxes will as much as possible be set taking into account the price elasticity of the product or service.

c. Sales taxes will be payable on all goods and services unless otherwise explicitly stated. Sales taxes on goods and services will be set to:

- Avoid extreme regressivity by differentiating between essentials and luxuries.

24

25

- Avoid distortions with respect to resource allocation by applying low and uniform rates for given classes of goods and services.

- Enhance ease of administration by minimizing number or rates.

d. Customs duties on imports will be set to:

- Exempt or charge minimum duty on capital goods and intermediate inputs (i.e., raw materials, semi-finished goods and spare parts).

- Discourage conspicuous consumption of luxuries.

- Be uniform and low on all other goods and services.

e. All exports will be exempted from sales taxes and customs duties.

f. All re-exports will be exempted from sales taxes and customs duties.

g. To compensate for revenue loss due to exemption of exports from sales and customs duties and to discourage conspicuous consumption of luxuries:

- An excise tax on selected domestically produced and imported commodities of the luxury type and destined largely for domestic consumption will be introduced.

### **8.2.3 Fiscal Policy With Respect To Taxation Should Gradually Evolve So That**

- The proportion of revenue from direct taxes increases over time, and

- Dependence on indirect taxes is increasingly reduced.

### **8.3 Policy On Other Sources of Revenue**

The government will try to raise over time the contribution of non-tax sources of revenue vis-à-vis tax revenue by:

a. Rationalizing and properly managing existing nontax sources of revenue.

b. Conducting studies to explore and introduce new non-tax sources of revenue like state run lottery, pension contributions, etc.

### **8.4 External Financial Resources**

- Maximize the inflow of external financial resources consistent with the debit servicing capability of the country.

### **8.5 Expenditure Policy**

Government policy with respect to expenditure will be geared to:

a. The provision of essential governmental services (like defence, foreign affairs, law and order and other regulatory services).

26

27

b. The provision of basic social services (primary education and primary health care) with minimum charges and by ensuring equal access to such services.

c. Supporting the réintégration of demobilized excombatants into the civilian economy.

d. Supporting the rehabilitation of war and drought dislocated, war disabled, orphans and other disadvantaged sections of the population.

e. Promoting the rehabilitation, conservation, development and proper exploitation of natural resources (afforestation, geological mapping, soil conservation, etc.)

s

f. Supplying supplementary services to enhance the growth of the directly productive sectors of the economy like:

- Agricultural research and extension services.
- Dissemination of information on investment and market opportunities.
- Industrial and marketing research.

g. Assisting the expansion of private investment (domestic and foreign) by:

- Undertaking complementary investment in economic and social infrastructures (power, water, finance, transport and communications, housing education, health, etc.)

28

- Initiating investment jointly with the private sector or alone in strategic productive sectors where the supply of private entrepreneurs is too short.

h. Ensuring overall macroeconomic stability by minimizing the overall deficit.

i. Expenditure policy will give proper attention to prudent debt management practices.

29

## **9. TRADE POLICY**

### **9.1. Background**

#### **Eritrea's Resource Base and Potential for Development**

Eritrea is a small country in land as well as population. The country's resource base awaits systematic investigation. Present knowledge indicates that there are yet unutilized resource bases in agriculture, fisheries and mines to support expansion in external trade.

Eritrea's 1,200 km. coastline and over 300 islands of different sizes are believed to be adequate grounds for the development of tourism and port services. Eritrea's location at the crossroads to Europe and the Far East places it in a position to access important global as well as regional markets for both inputs and outputs. The country's ideal location is expected to be a contributing factor in the attraction of foreign businesses wishing to access the various markets.

The peace and tranquillity that prevails in the country is another important supportive factor for the expansion of trade. The whole Eritrean population is now poised for the peaceful reconstruction and development of the society. The government has enacted a series of policy measures to promote both domestic and external trade.

The determination to expand trade is strong. But the government also recognizes that there are major constraints that could impede progress. Some of these are:

- Low level of infrastructure I development,
- Low level of institutional development,

30

- Low level of human capital, undeveloped entrepreneurial capacity, work discipline and business ethics that have been seriously weakened by years of foreign subjugation,
- Small domestic market.

### **9.2 Future Orientation**

It is on the basis of these realities that Eritrea is to develop into a trading nation. The desire to give trade prominence in the development effort emanates from the recognition that Eritrea has a strategic location that is believed to be conducive for the expansion of trade. This strategy is expected to remove constraints that could possibly be imposed by the limitations of the domestic market.

### **9.3 Objectives of Trade Policy**

- a. Promote economic growth and a healthy balance of payments.

- b. Expand access to sources of raw materials, technology and know-how.
- c. Remove domestic market limitations for marketing of outputs and thereby improve employment opportunity.
- d. Enhance efficiency in production and competitiveness in price and quality of commodities and services.
- e. Promote regional cooperation and economic integration.

b.

f. Increase attraction of Eritrea to direct foreign investment.

#### **9.4 Short and Long-term Trade Policies**

a. The government will foster liberal internal and external trade regimes with limited interventions that would not contradict the tenets of free trade. This will mean, among other things, liberalizing and simplifying the licensing regime and reducing and eliminating tariff and non-tariff barriers.

The government will foster export based industries and services by providing:

- Preferential financing
- Assistance in international market penetration
- 

Information backup (information with regard to new products and processes, foreign market entry requirements, new laws, regulations, etc.)

- 
- Assistance in meeting the rigorous quality standards required by the international market. To this end, there will be facilities (Standard Institute of Equivalents) to measure and verify that world standards are met.

Participation in regional bilateral and multilateral trade and economic cooperation will be actively encouraged. Similarly, access to preferential trade agreements and zones will be sought.

The government will assist and encourage the private sector to play a leading role in both the domestic and external markets. The public sector

32

f.

role will be limited to regulatory functions, selected price stabilization roles, and the import or export of critical commodities and supplies, the requirements for which cut across sectors.

The government will help build the institutional capacity to help make Eritrea a trading nation.

Participation of Eritreans living abroad in trading activities will be encouraged and supported.

33

## **10. LAND POLICY**

### **10.1 Objectives**

The objectives of the new land policy are to establish a revised tenure system that:

- Encourages long-term investments in agriculture and prudent environmental management.
- Assures women's right to land on equal basis with men.
- Promotes commercial agriculture.

### **10.2 Policies**

The following key points constitute the main elements of the land policy:

a. Ownership of land in Eritrea is the exclusive right of the government. All other rights accruing to land must be recognized and specifically permitted by the government.

b. Every Eritrean citizen and all foreign investors have the right of access to land for farming, for pasture, for housing and for development purposes. The conditions under which these are permitted are regulated by law. Such rights are usufructuary rights. The following provisions are attached to these rights:

- Land granted in this manner is neither divisible nor inheritable nor can it be sold or otherwise disposed of.

c.

- However, land may be leased, subjected to share-cropping arrangements, etc.
- Usufructuary rights to land are granted to every Eritrean upon the attainment of majority age (legally 18) or upon emancipation, as provided by the Civil Code of Eritrea, without regard to sex, religion or marital status.
- The usufructuary has to utilize the land in order to maintain his/her rights. No imposition is laid on the way a usufructuary utilizes the land. The law requires that certain standards of operation of land are maintained.
- Respect for the rights of others and strict adherence to the sanctions of the new land law are to be enforced under the pain of strict punishment to offenders.

All land left over from allocation to usufructuaries will be directly administered and its utilization decided by the government. Land taken away from holders of usufructuary rights shall be compensated. The amount of compensation, to be decided by agreement between the expropriator and the user, shall be proportionate to the damage suffered by the usufructuary.

## **11. LOCAL ADMINISTRATION FRAMEWORK POLICY**

### **11.1 Objectives**

The objectives of this policy are to correct recognised weaknesses of the existing administrative system of the country such that it can facilitate over-all socio-economic development of the country, and to protect and develop the short and long term strategic interests and recognized advantages of the country.

### **11.2 Policy**

The policy promotes a revised national administrative setup that should, *interalia*,

- a. \* Facilitate easier mobility of economic resources.
- b. Encourage better and effective utilization of the country's global (sea, land, air) resource potential.
- c. Allow Eritrea to have a lean but efficient central and local administration system and a highly qualified civil service.
- d. Allow the country to set up decentralised and more participatory democratic institutions.
- e. Facilitate the proper protection and conservation of the nation's resources.

36

## **12. SCIENCE AND TECHNOLOGY POLICY**

### **12.1 Objective**

The objective of the science and technology policy is to keep Eritrea abreast of developments in production, transport and service technologies in order to assure an upgraded and modern economic system that is competitive in the world.

### **12.2 Policies**

The policies are designed to promote:

- a. Replacement of existing obsolete stock of capital in the country,
- b. An extended and continuous programme of exposing the population to new methods and processes,
- c. Research and development efforts in selected sectors,

d. Establishment of a national institution to gather information about existing and emergent technologies worldwide, evaluate their appropriateness for Eritrean conditions, and make this fund of knowledge available to the public and private sectors. The purpose is to regulate the process of technology transfer and prevent suppliers of technology, be they nations or corporations, from exerting undue influence on the selection of particular technologies imported into Eritrea.

e. The technology already transferred to the country will be assessed in terms of its social, economic, environmental and health impacts, its adaptability to local conditions, and its sustainability, given local skills and resources. On the basis of this information, future technology transfers will be regulated.

### **13. HUMAN RESOURCES DEVELOPMENT AND POPULATION POLICY**

#### **13.1 Education & Training**

##### **13.1.1 Objectives**

- a. To produce a population equipped with the necessary skills, knowledge and culture for a self reliant and modern economy.
- b. To develop self-consciousness and self-motivation in the population to fight poverty, disease, and all the attendant causes of backwardness and ignorance.
- c. To make basic education available to all.

##### **13.1.2 Policies**

- a. Universal primary education up to seven years will gradually be made available to all.
- b. Skilled man power requirements of both the public and private sectors will be met by a steadily increasing enrolments at the secondary, technical and vocational schools.
- c. Continuing education through formal and informal channels will be promoted to achieve higher literacy rates and enhanced competence.
- d. Tertiary education will be expanded selectively to meet the envisaged manpower requirements of the country. For diversified skill acquisition, this will be supplemented by utilizing training

38

39

opportunities afforded by the international community.

e. The emphasis of technical/vocational training will be the imparting multi-craft dexterity and skills that enhance the job adaptability and retraining potential of the student.

f. The government, the community and the direct beneficiaries will be made to contribute varying amounts towards financing educational costs. The government may resort to levying surcharges to meet part of the cost of education.

g. Official recognition and/or professional accreditation of skill and academic attainment will

, be awarded only after undergoing government established certification procedures.

h. There will be no restraint on the provision of education by the private sector.

i. The standards of public schools will be maintained by curricula issued by the Ministry of Education. Private schools are expected to follow this curriculum but they will not be limited by its coverage.

j. Non-secular schools will be given accreditation of

professional competence(in non-religious matters) only after completion of established national certification procedures.

## **13.2 Health**

### **13.2.1 Objectives**

a. To reduce and eventually eliminate deaths from easily controllable diseases.

b. To enhance awareness of good health practices in order to improve the productivity of the work force.

### **13.2.2 Policies**

a. Basic health services will be made available to both the urban and rural populations. Priority will be given to primary health care and immunization programmes.

b. Major health hazards will be given special attention for containment and control.

c. The private sector will actively participate in the provision of health services following rules, regulations, and operational modalities provided by the Ministry of Health.

d. Community and beneficiary contribution in financing health services will be

promoted.

e. National health insurance schemes will be introduced.

f. Information dissemination on healthy practices will be actively promoted.

41

### **13.3 Social Welfare**

#### **13.3.1 Objectives**

To introduce stage by stage a comprehensive national social security scheme in line with the pace of the economic development of the country.

#### **13.3.2 Policies**

- a. Development strategies aimed at meeting the basic needs of the population will be designed and implemented.
- b. Traditional social security and community selfhelp schemes will be encouraged.
- c. Appropriate monetary policies will be put in place to enhance private savings.
- d. Employment safety nets will be introduced through labour intensive public works programmes in areas and periods of major economic distress.
- e. Access to productive resources (land, water, livestock, credit, etc.) will be provided to the unemployed and underemployed.
- f. Pension schemes will be introduced for public sector employees.
- g. Victims of war and vulnerable groups will be provided with proper care and attention.
- h. Children, youth, aged and women will be provided with legal protection from economic, sexual and other forms of exploitation.
- i. National capacity for disaster preparedness and prevention will be gradually developed and strengthened.

### **13.4 Rehabilitation of War Victims and Other Vulnerable and Disadvantaged Members of Society**

#### **Policies**

- a. Sufficient and necessary empowerment will be accorded to victims of war, disadvantaged persons such as demobilized combatants, refugees and displaced persons, and other vulnerable groups, in order to enable them become productive members of society.
- b. Continuous sensitization programmes will be conducted to enhance and promote the participation of society in the care of these groups.

### **13.5 Gender Issues**

#### **Policies**

All efforts will continue to be undertaken to sensitize and enhance the awareness of the society

on the decisive role of women for the socioeconomic, political, and cultural transformation of the country.

The equal rights of women will be upheld and all laws that subtract from this right will be changed.

42

43

e.

Participation of women in education and economic activities and employment will be expanded.

Appropriate labour saving technologies will be introduced to reduce the drudgery of women in the household and other activities (water, fuel wood, child care centres, etc.).

Mother-child care services will be improved and expanded.

### **13.6 Youth Policies**

a. Every effort will be made to cultivate in youth love and respect for country; dedication towards work and self-reliance; excellence in the arts, sciences and sports; and awareness for the need of tolerance, justice and democracy in the context of national political pluralism and cultural diversity.

b. Recognizing the existence of a large number of unemployed youth, every effort will be made to expand employment and retraining opportunities.

### **13.7 Population Policy Policies**

a. Acquisition of a comprehensive and reliable demographic profile of the population will be accorded due priority.

A population growth rate that is conducive to the economic and social development of the country will be promoted.

Efforts will be made to ensure that the population is healthy and productive.

## **14. INSTITUTION BUILDING AND INSTITUTIONALIZATION**

### **14.1 Objective**

To equip the new Eritrean state with the necessary institutional structures, skilled manpower, and modern facilities to enable it to discharge the duties of state in the most economical, efficient and effective manner possible.

### **14.2 Policies**

Develop public and private sector institutions that can contribute to formulating, implementing and facilitating national economic development.

Design and implement the necessary system of laws regulations, procedures, standards, facilities, organizational structures and manpower inputs.

g. Continuous upgrading of the skills of the existing manpower and recruitment of qualified Eritreans from outside the country will be given priority, including recruitment of expatriates, wherever necessary. Higher educational institutes will gradually be constituted to be able to contribute to upgrading of the skills of the national work force.

c. Develop institutionalized mode of operation based on legality, accountability, transparency, predictability, meritocracy and delegation of authority.

d. Structure a high quality but lean civil service that is supported by modern equipment and facilities that promote efficiency.

e. Define and delineate the duties and responsibilities of central and local governments.

f. Establish a national body or unit to monitor and amend as necessary institutional policies.

46

47

## **15. INTERNATIONAL ECONOMIC COOPERATION POLICY**

### **15.1 Objectives**

- a. Serve the aims of the national macro and development strategies and policies,
- b. Enhance and promote regional and international economic cooperation.

### **15.2 Policies**

- a. Strengthen bilateral and multilateral economic and financial relations,
- b. Promote export oriented economic development,
- c. Encourage foreign capital inflow through direct foreign investment,
- d. Encourage Eritrean investment abroad,
- e. Encourage trade, scientific, technical and cultural cooperation with all nations,
- f. Create a conducive atmosphere for international emergency assistance and grants.

48

## **16. ENVIRONMENTAL POLICY - Issues To Be Considered**

- a. Environmental consequences of every intended investment will be studied as a necessary component of the overall feasibility of the venture.
- b. Agricultural development efforts will be based on appropriate land use planning to reduce land degradation and compensatory measures will be taken to replace biotic loss.
- c. Water will be treated as a strategic commodity and its use for domestic, industrial and agricultural purposes will be regulated and measures will be taken to protect water sources from pollution.
- d. Efforts will be made to protect the country from environmental hazards that may result from failure or breakdown of industrial establishments.
- e. Safety standards will be set for the various technological establishments.
- f. Measures will be taken to safeguard against and fight pollution of the Red Sea in collaboration with the other littoral states.
- g. Proper industrial and urban waste disposal system will be established and recycling measures will be taken for maximum utilization and for reduction of environmental consequences.

h. Enhance early warning systems and preparedness of the country for natural disasters.

49