U.S. DEPARTMENT OF STATE

DIPLOMACY IN ACTION

Executive Summary

Eritrea remains a strict command economy, with government activities crowding out most private investment. Investors in Eritrea face significant risks, including: lack of transparency in the regulatory process, severe limits on the possession and exchange of foreign currency, lack of objective dispute settlement mechanisms, difficulty in obtaining licenses, and infrastructure challenges such as high fuel prices and unreliable provision of electricity and water.

The Government of the State of Eritrea (GSE) sponsored two investment conferences for Diaspora returnees in the course of 2012, but did not host similar events in 2013. The GSE began encouraging some types of international investment in 2012, and some currency reforms were introduced in 2013. The government is seeking to privatize some state-owned firms. Eritrea's national development priorities are clearly spelled out in policy statements related to infrastructure, human resources, and food security. Overall, however, despite internal pressure for reform, the GSE has not implemented specific measures that would truly reform the command aspects of its economy or spur broad-based private sector-led growth and market development, nor has it taken steps to loosen business practices, correct macroeconomic imbalances or address foreign currency restrictions and shortages.

The nation's most successful economic sector is mining. A number of reputable international firms are present in Eritrea either conducting exploration or mining for copper, gold, silver, zinc, potash or other minerals. Through these partnerships, Eritrea has the potential to develop an industry that will provide not only direct economic benefits but also skill enhancement and supply chain expansion. At least 24 small and mid-size mining companies have signed license agreements with the GSE, although a few curtailed operations in 2013 or merged with larger firms due to the international economic downturn that put special pressure on speculative industries not yet in the production phase.

Eritrea achieved Millennium Development Goals related to public health in the course of 2013, and is making progress toward other MDGs. But the country's mandatory national service program, and the tendency of the GSE to place persons performing national service in some commercial enterprises, may leave businesses open to charges of relying on conscripts as a labor force. Investors in Eritrea face risks including lack of transparency in the regulatory process, limits on possession and exchange of foreign currency, lack of reliable dispute settlement mechanisms, difficulty in obtaining licenses, potential expropriation of private assets, and poor and expensive infrastructure, to include high fuel prices and unreliable provision of electricity and water.

1. Openness To, and Restrictions Upon, Foreign Investment

The Government of the State of Eritrea (GSE) maintains a command economy, with government activities predominating over private enterprise. Many key firms are Party- or military-owned. The GSE began encouraging some types of international investment in 2012, and some currency reforms were introduced in 2013, thus ending, as a matter of doctrine, years of adherence to self-imposed isolation and strict self-reliance. A series of broader reforms that would ease restrictions on business licensing and imports, described as ready for enactment several times in the course of 2013, have not been approved by the President. The government is seeking to privatize some state-owned firms, and in 2013 began talks that may culminate in the sale of the national brewery to a South African private concession. The GSE has courted Diaspora and other foreign investors in additional sectors including energy, fisheries and tourism, although these areas remain underdeveloped at present. Firms slated for privatization include the telephone company, hotels and some food production and packaging entities. The GSE sponsored two investment conferences for Diaspora returnees in the course of 2012 but did not host similar events in 2013. Eritrea's national development priorities are clearly spelled out in policy statements related to infrastructure, human resources, and food security. Overall, despite internal pressure for change, the government has not implemented specific measures that would truly reform the command aspects of its economy or spur broad-based growth and market development, nor has it taken steps to loosen business practices, correct macroeconomic imbalances or address foreign currency shortages. International financial experts believe that Eritrea's informal economic sector has gained strength against the formal sector in recent years.

Lack of consistent, high-level government commitment to structural reform continues to hamper Eritrea's economic prospects. The country performs poorly with regard to public finance management. Its legal and regulatory frameworks are underdeveloped, and its judicial system is not sufficiently experienced or independent to protect the sanctity of contracts. Weak enforcement of property rights and uneven rule of law have driven many people into informal sectors. The inefficient public sector remains the largest source of paid employment. (Sixty to eighty per cent of the population is engaged in subsistence agriculture.) Monetary stability is fragile, reflecting excessive money creation to fund chronic fiscal deficits. Some evidence suggests that the government resorted to large-scale printing of money in 2013 to facilitate salary and wage payments.

The nation's most successful economic sector is mining. A number of reputable international firms are present in Eritrea either conducting exploration or mining for copper, gold, silver, zinc, potash or other minerals. Through these partnerships, the nation has the potential to develop an industry that will provide not only direct economic benefits but also skill enhancement and supply chain expansion. Strong GDP growth in recent years has been led by foreign investment in the mining industry, but transparency is lacking as to the size of mining earnings and how they are used, and earnings appear to be trailing off as a result in part of reduced mineral prices globally. Mining company executives say they believe that the majority of Eritrea's national mining earnings are being reinvested in the sector, and will continue to have to be reinvested until 2020 or later in order that mining can continue to give Eritrea maximal possible returns. 2011, the first year that mining revenues began to accrue, was a watershed for the Eritrean economy, with growth estimated by the African Development Bank (AfDB) at 8.2 per cent, compared with 2.2 per cent in 2010. At least 24 small and mid-size mining companies have signed license agreements with the GSE, although a few curtailed operations in 2013 or merged with larger firms due to the international economic downturn that put special pressure on speculative industries not yet in the production phase. Canada-based Nevsun Resources, Inc., through the Bisha Mining Share Company, was the first firm to start producing gold (near the town of Barentu in January 2011). Bisha transited from mainly gold to mainly copper production in 2013, and will go on line with zinc production in 2014. In February 2014, Nevsun issued a statement estimating total mineral reserves at Bisha to be 29 per cent higher than the previous estimate from May 2012. Australia-based Chalice Gold Mines signed an agreement with the GSE in November 2011 to commence mining for gold at Zara; in September 2012 Chalice sold its assets to China's SFECO Group for US$ 78 million, plus a differed payment of US$ 2 million upon commencement of commercial production at the Koka Mine, part of the Zara project. Zara is expected to become operational in late 2014 or 2015. Representatives of mining companies generally receive preferential treatment from the GSE, including blanket travel approvals, personal security in the field, liberal import and export agreements, and easy access to government officials.

In large part thanks to continued minerals productivity, the GSE in February 2013 forecast GDP growth levels between seven and ten per cent in the 2014-2016 period. Also in 2013, the African Development Bank projected 2014 growth at 6.5 per cent; other international sources estimated growth between 2014 and 2016 to range from five to seven per cent, at least until the Colluli potash mine, located on the Danakil Peninsula and spanning the Eritrean-Ethiopian border, becomes productive in 2016. In April 2014, the IMF revised growth projections downward significantly for a series of fragile economies in Africa, including Eritrea's, projecting growth at 2.3 per cent for the nation this year. The downward revision has to do in part with drops in international prices for minerals.

Just as mineral earnings drive economic growth, military spending appears to drain resources. Chronic deficits, in the neighborhood of 125 per cent in recent years, are attributable in part to personnel costs associated with required national service, worsening already-fragile monetary stability. The current size of earnings from the two per cent "Diaspora tax" is not known, but may have shrunk from the 20-some per cent of the budget that it appeared to comprise when the IMF last calculated a possible figure in the mid-2000s. At the same time, the reliance of Eritrean people on informal remittances from relatives abroad appears to have gone up in recent years, but figures are not available to substantiate this.
Eritrea's labor pool is well qualified compared with that in neighboring states. Eritrea achieved Millennium Development Goals related to public health in the course of 2013, and is making progress toward other MDGs. But the country's mandatory national service program, and tendency of the GSE to place persons performing national service in some commercial enterprises, may leave businesses open to charges of relying on conscripts as a labor force.
Investors in Eritrea face risks including lack of transparency in the regulatory process, limits on possession and exchange of foreign currency, lack of reliable dispute settlement mechanisms, difficulty in obtaining licenses, potential expropriation of private assets, and infrastructure challenges such as high fuel prices and unreliable provision of electricity and water.
The World Bank's 2014 "Doing Business" Index ranked Eritrea 184 out of 189 economies overall. Eritrea's specific rankings according to the index are as follows:

Starting a Business	188
Dealing with Construction Permits	189

Getting Electricity	95
Registering Property	184
Getting Credit	186
Protecting Investors	115
Paying Taxes	150
Trading Across Borders	170
Enforcing Contracts	67
Resolving Insolvency	189

The Heritage Foundation's 2014 Index of Economic Freedom terms the Eritrean economy "repressed," assigning it a ranking of 175 out of 179 countries, with an overall score of 38.5. This score represents a slight improvement over Eritrea's 2013 ranking (36.2) due to progress in terms of control of public spending, labor freedom and monetary freedom, offsetting a small decline in freedom from corruption. Heritage ranks Eritrea 45 out of 46 countries in the sub-Sahara Africa region. The nation scored far below world averages in the following categories:

Trade Freedom	69.1
Property Rights	10
Monetary Freedom	57.6
Labor Freedom	63.6
Investment Freedom	0
Government Spending	66.1
Freedom from Corruption	22.9
Fiscal Freedom	57
Financial Freedom	20
Business Freedom	18.6

Transparency International's 2013 Corruption Index ranked Eritrea 160 out of 177 countries for corruption perception, "the degree to which corruption is perceived to exist among public officials and politicians by business people and country analysts." Eritrea's ranking has been sliding downward over the past three years, perhaps as the wartime spirit of self-sacrifice has given way to greater cynicism on the part of citizens coping with economic privation.
In a policy address on New Year's Day 2013, Eritrea's President, Isaias Afwerki, specifically rejected the reliability of international economic indices, asserting that real indicators of economic growth ought to comprise measures of assets, resources, creativity and innovation, administration and management, economic interrelationships and internal stability. The President further claimed that standards of living, quality of life and sustainability had not been measured in reports produced by international organizations analyzing Eritrea's economic wellbeing. The

nation's ratings were based on speculation, he argued, aimed at serving vested political interests. In 2014, Isaias delayed his traditional New Year's address until February, focusing on a number of government efforts – food security, housing construction, electricity provision and improved health care – that aimed to address citizen concerns that the government had not prioritized standards of living, and that shifts in public administration and public management had not brought about improvements in quality of life.

Over the years, the GSE has enacted a number of commercial laws designed to facilitate conduct of private enterprise, but these laws are rudimentary and not consistently enforced. The Foreign Financed Special Investments (FFSI) Proclamation of April 2007 established a framework for investments greater than US$ 20 million. The proclamation aims to achieve self-sustaining growth, facilitate the rapid expansion of exports, expand employment, and promote and protect foreign investment. The Eritrean Investment Proclamation issued in 1994 established a more general framework for investment. This document's stated objectives were to encourage investment, expand exports, expand employment, and encourage new technology. It also provided tax incentives for investors as well as a limited framework for dispute resolution. Proclamation 114 issued in 2001 gave the Ministry of Trade and Industry authority to negotiate the sale of public enterprises, but in practice, other *ad hoc* approval requirements, particularly for large-scale projects, may be levied on new investors. President Isaias, in his New Year's interview at the beginning of 2013, stressed that his government was striving to lay necessary legal groundwork for expanded investment in many sectors, pointing out that weaknesses tended to characterize implementation more than policy. He emphasized his commitment to enhancing investor awareness, which he said would encourage development of a more detailed and viable framework to protect investors. Portions of his early 2014 address were devoted to explaining how he hoped to counter chronic power and water shortages that have discouraged FDI.

Low Income Countries & Indicator Scores FY 2014

Measure	**Year**	**Index/Ranking**
TI Corruption Index	2014	0.26 (160 out of 177 countries)
Heritage Economic Freedom	2014	Overall score of 38.5
World Bank Doing Business	2014	184 Out of 189 economies
MCC Gov't Effectiveness	2014	-0.59
MCC Rule of Law	2014	-0.46
MCC Control of Corruption	2014	0.26
MCC Fiscal Policy	2014	-15.2
MCC Trade Policy	2014	69.1
MCC Regulatory Quality	2014	-1.49
MCC Business Start Up	2014	0.731
MCC Land Rights Access	2014	0.85
MCC Natural Resource Protection	2014	28.3

MCC Access to Credit	2014	6
MCC Inflation	2014	12.3

Note: MCC is Millennium Challenge Corporation.

Topic Ranking	**DB 2014 Rank**	**DB 2013 Rank**	**Change in Rank**
Starting a Business	188	186	-2
Dealing with Construction Permits	189	189	No change
Getting Electricity	95	96	1
Registering Property	184	184	No Change
Getting Credit	186	182	-4
Protecting Investors	115	113	-2
Paying Taxes	150	151	1
Trading Across borders	170	170	No Change
Enforcing Contracts	67	67	No Change
Resolving Insolvency	189	189	No Change

2. Conversion and Transfer Policies

The GSE places limits on possession and exchange of foreign currency and lacks transparency in conversion and transfer policies. It is generally illegal, absent special permission from Central Banking authorities, for Eritrean citizens to hold or exchange foreign currency, although import restrictions for foreigners, including returning Diaspora investors, were eased in 2013 via Proclamation 173/2013 so that only foreign currency in excess of $10,000 required declaration. At the beginning of 2014, black market exchange centers valued the local currency (nakfa) at 52 to one USD, whereas the legal rate – legal transactions could only be performed by foreigners in a few official exchange locations – was 15 nakfa to one USD. Foreign companies have sometimes found themselves unable to convert nakfa into foreign currencies: for example, foreign air carriers have hundreds of millions of unconvertible nakfa in local banks, a circumstance that prompted Lufthansa, long the premier international carrier serving Asmara, to suspend flight operations in 2013. (When Lufthansa ceased flights definitively in 2014, Eritrea's other two international carriers, Egyptair and Yemenia, began selling tickets in hard currency.) Companies have reported that signed contracts allowing for payment against certain services in nakfa have been violated, with the GSE insisting on payment in U.S. dollars or other hard currency. As of 2013, some Eritrean hotels serving foreign visitors began charging in hard currency. As a general matter, the hard currency shortage motivates the GSE to seek payment in U.S. dollars where possible but provide income in nakfa.

There are three state-owned banks in Eritrea: the Bank of Eritrea, the Commercial Bank, and the Commerce and Housing Bank. Himbol Financial Services, the arrangement by which foreign currency is sent from abroad both in payment of the two per cent tax and also as private support from the Diaspora to Eritrea-based family members, is run by the sole political party, the People's Front for Democracy and Justice (PFDJ). Eritrean Embassy personnel and consular agents abroad collect the two per cent tax, channeling it to the Himbol system in Eritrea. Private remittances, formerly channeled exclusively through the Himbol system, now tend to arrive as adjuncts to trade flows via personal intermediaries who float hard currency and other loans as well as bring in foreign-made goods for sale in Eritrea. Thus some incoming foreign currency exists in a legal no man's land, without adequate accountability or transparency. Eritrea's banking system was established under Proclamation 32/1993 and later modified under Proclamation 93/1997. The Proclamation pertaining to foreign exchange bureaus was introduced in 1998. State-owned institutions are the only bodies authorized to maintain and account for foreign currency reserves and mange foreign exchange activities, but black marketeering is now widespread.

3. Expropriation and Compensation

We know of no cases of GSE expropriation of private businesses during the reporting period. The GSE does have a history of expropriating profitable businesses without notice, explanation, compensation, or recourse. In October 2008 it abruptly terminated the Intercontinental Hotel Corporation's management contract for a government-owned hotel in Asmara. The hotel later reopened as a GSE-operated establishment. Legal provisions for such expropriations, other than eminent domain for public purposes, do not exist, and the GSE liberally interprets the idea of public purpose.

Article 13 of Investment Proclamation No. 59/1994 requires the government to compensate investors who have been denied rights to property if the denial is related to government action. Compensation, if and when it happens, must legally involve the concepts of: (1) full and fair compensation; and (2) due process of law. In practice, compensation is seldom paid under any conditions.

4. Dispute Settlement

Eritrea does not have well developed or neutral dispute mechanisms, although there are several laws regarding dispute settlement. Article 15 of Investment Proclamation No. 59/1994 provides a framework for investment dispute settlement and pledges that the GSE will enter into bilateral and multilateral protection treaties. Foreign investors sometimes report that they are treated in a discriminatory manner by local courts, and that in comparison with citizens of the host nation, they receive inefficient judicial services. Theoretically, foreign investors also have the option to resolve disputes through mechanisms created by multilateral treaties such as International Center for Settlement of Investment Disputes (ICSID). Eritrea has neither ratified nor signed the ISCID Convention, although it has said it intends to do so, and it has joined regional economic and financial institutions such as the Multilateral Investment Guarantee Agency (MIGA). There are currently no known cases in which the GSE has accepted international arbitration for business disputes.

5. Performance Requirements/Incentives

Although laws and regulations provide for investment incentives, in reality the GSE offers these relatively rarely and chiefly on an *ad hoc* basis. The Customs Proclamation of 2000, Part X, provides for relief from duties and taxes for imports receiving value-added processing prior to export, but whether any businesses have received such relief is not clear. The GSE restricts travel within Eritrea, requiring explicit written permission for foreigners with ten-day advance notice. (The GSE does not always reply to travel requests.) Eritrea also has a relatively opaque visa regime, and foreigners of many nationalities have difficulties obtaining entrance visas. Eritrea is not a member of the WTO.

6. Right to Private Ownership and Establishment

The Foreign Financed Special Investments (FFSI) Proclamation specifically limits foreign investment in financial services, domestic wholesale trade, domestic retail trade, and commission agencies, but permits investment in other sectors. The FFSI makes allowances for remittance of net profits and has guarantees against nationalization or confiscation, except for public purposes and with due process of law. This said, most medium and large businesses in Eritrea are controlled by either the GSE or the ruling party. In 2005 the GSE suspended all private construction activity, leaving only state-run firms in operation for this purpose. One of the economic reforms promised in the course of 2013 but not enacted by the President aimed to facilitate provision of construction licenses to private entities.

7. Protection of Property Rights

Eritrea's civil law protects private property, but the GSE has a history of expropriating houses, businesses, and other private property without notice, explanation or compensation. Trademarks, patents, and copyrights are available through a procedure involving a public advertisement in the local press, but Eritrea is not a party to any international conventions on intellectual property rights.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO’s country profiles at http://www.wipo.int/directory/en/.

8. Transparency of the Regulatory System

Eritrea has not convened a parliament for over a decade, and all laws are issued by proclamation from the executive branch. The nation’s constitution was ratified in 1997 but has not been implemented, on grounds that a “no war, no peace” situation with Ethiopia following the border war from 1998 to 2000 requires continued adherence to special arrangements resembling martial law. The GSE does not operate a clearly-organized regulatory system; procedures appear to be of haphazard creation, with irregular enforcement. The GSE does not always announce new regulations prior to implementation, and they may be subject to abrupt change. The GSE neither publishes accounts of its decision-making processes nor offers a public comment period for proposed laws or regulations. Asmara’s only law school reopened in the fall of 2010 after being closed for three years; the first class graduated in 2012. There are new training programs for paralegals under way, with the first classes having graduated in 2013.
Local business owners report difficulties with obtaining import and export licenses, customs clearances, telephone and mobile phone lines, land leases, and work permits. Central and

regional governments may not coordinate policies or procedures, adding to the opacity of conducting business outside of Asmara. The GSE has no current program with the IMF, and is in arrears to the World Bank, which suspended disbursement of funds because of nonpayment of outstanding obligations and closed shop locally in 2011. Still, the Bank and Fund periodically assess aspects of Eritrea's economic performance as best they can from abroad, as do some UN entities including UNCTAD. The IMF's AFRITAC regional office, based in Dar Es Salaam, sent a working-level team of experts to Asmara in early 2014 at the request of the GSE to discuss banking and currency reforms, following up on several previous visits in recent years. The AfDB has relatively productive relations with the GSE, sending in periodic expert teams. Eritrea ranks 160 of 182 countries in Transparency International's 2013 Corruption Perception Index.

9. Efficient Capital Markets and Portfolio Investment

Eritrea has neither a stock exchange nor a stock market, and the state currently owns all financial institutions. Banks appear to have a high proportion of non-performing loans, but some financial institutions may be profitable due to income from foreign currency transactions. The GSE's complete control of foreign exchange makes repatriation of profits difficult or impossible.

10. Competition from State-Owned Enterprises (SOEs)

At independence, part of Eritrea's economic reform was to create a development strategy based jointly on self-reliance and integration into the world market. The government began to privatize state-owned enterprises in the mid-1990s, but ceased doing so for a period in the mid-2000s out of stated desire to balance in-country regional disparities. Since 2000, the GSE has claimed that the border conflict with Ethiopia ending that year interfered with Eritrea's goal of making the transition from a centrally-planned economy to a market-based economy through privatization of formerly state-owned enterprises and liberalization of investment and trade. In the course of 2012, a number of state-owned firms were put up for privatization, but shares were initially offered only to Diaspora returnees. In 2013, a South African entity began negotiations, still under way at this writing, to take over the GSE-owned Asmara Brewery. Other firms offered for privatization include food production and packaging enterprises, hotels and the telephone company.

Following the loss of Ethiopia as a trading partner as a result of the border war ending in 2000, industrial production decreased due to a shortage of raw material, power and fuel affecting both private and government-owned enterprises. The military and PFDJ sometimes use persons performing national service as a low-cost labor force, disrupting free competition in the labor market.

11. Corporate Social Responsibility (CSR)

There is awareness and concern for corporate social responsibility among some private enterprises operating in Eritrea. Entities using national service members as labor are coming under increasing pressure from international partners and NGOs to stop the practice. There are no known entities that adhere to OECD Guidelines for Multinational Enterprises.

12. Political Violence

The government suppresses civil unrest, political violence, and actions seen as threatening the stability of the regime, although some remote areas of the nation are not entirely under GSE control. Eritrea's regions neighboring Ethiopia and Djibouti are sometimes tense due to unresolved border issues, and extremists have periodically operated on the Sudan side of that border.

13. Corruption

Eritrea has historically suffered less from corruption than many other nations on the African continent, but many indications suggest that corruption is on the rise. Some persons claim that civil court cases may be influenced by the Office of the President, or that decisions are rendered based on political factors. The President's Office has in the past assigned housing to high officials and military officers, in some cases forcing original owners, whether Diaspora members or foreigners from the colonial period, to sell property at discounted rates to address the housing needs of regime loyalists. The practice continues, but original owners have insisted, with some success, on fairer prices for compensation over the years. The GSE controls most foreign exchange, virtually the only legal source of imports, creating illicit profit opportunities for smugglers. Eritrea is not a party to international anti-corruption agreements, although officials have previously claimed that they want to subscribe to such instruments. The GSE does not publish a national budget or national accounts.

Unstable political conditions, strict regulations regarding imports, and lack of consistency regarding granting of exit visas for Eritrean nationals have encouraged bribery and money laundering, specifically with respect to those responsible for customs and immigration.

14. Bilateral Investment Agreements

Eritrea's only formalized bilateral investment agreement is with Italy, although formalized arrangements may exist with Qatar, the UAE, and/or China.

The total number of Bilateral Investment Agreements undertaken as of 1 June 2013, as reported by UNCTAD, is:

Partner	Date of Signature	Date of Entry into Force
Italy	February 6, 1996	July 14, 2003
Netherlands	December 2, 2003	
Qatar	August 7, 2000	
Uganda	June 30, 2001	

15. OPIC and Other Investment Insurance Programs

OPIC programs do not currently operate in Eritrea. Due to the poor state of bilateral relations with the United States and lack of bilateral trade, the GSE has little interest in such arrangements.

16. Labor

Highly skilled professionals and managers are in relatively short supply, but international firms operating in Eritrea make clear that the overall quality of labor is good. UN agencies reported that Eritrea achieved Millennium Development goals related to public health in 2013. Per the UN, Eritrea is making progress toward goals related to public education, clean water provision, sanitation, and gender equality. Its labor force is essentially free of HIV/AIDS, malaria and tuberculosis.

Many highly-skilled workers have left Eritrea due to limited economic prospects domestically and to internal political conditions, a fact that even government officials now acknowledge as a critical economic challenge for the nation. As much as one-third of Eritrea's workforce may be performing national service; for some, there is no defined end date or job mobility, and compensation is limited. Eritrea is not a signatory to all relevant ILO agreements, although it invited a representative of the organization to visit at the end of 2013 to discuss how to bring existing labor protections into conformity with ILO standards, how to apply protections to those performing national service, and how to eliminate worst forms of child labor. National service workers generally are paid 500-700 nakfa ($34-$47 USD at the official exchange rate) per month, a sum that President Isaias has acknowledged as inadequate. The government sets most wages for other paid professionals, with the most frequently-cited published minimum wage of 360 nakfa ($24) per month. (This minimum is not always observed in practice, and officials offer widely differing views on what they believe it to be.)

17. Foreign Trade Zones/Free Ports

In June 2013, talks between the Presidents of Eritrea and Sudan resulted in agreement to establish a free-trade zone along their common border, as well as to extend a highways from Eritrea to Port Sudan and electricity provision from power stations in Sudan to towns including Tessenay in Western Eritrea. The Presidents also discussed the need to encourage free movement of peoples but at the same time curb smuggling and trafficking, with persons on both sides now able to travel on national identity cards without visas, albeit through checkpoints that attempt to identify persons engaged in illicit activities. The majority of Eritrea’s imports come from Sudan; smuggling of consumer goods occurs regularly across the border.

The GSE constructed a free trade zone in the port city of Massawa in 2001, and promised to issue the first licenses in 2006, but few foreign companies operate in the zone, and whether it actually operates as such as difficult to determine. Of those expressing an interest, most are Chinese. Proclamation 115 issued in August 2001 declares that in the zone there will be: 1) no taxes on income, profits, or dividends; 2) no customs duties on imports; 3) no currency convertibility restrictions; 4) no minimum investment; 5) 100 percent foreign ownership; and 6) 100 percent repatriation on profits and capital.

18. Foreign Direct Investment Statistics

Data on foreign direct investment (FDI) is not available from the Bank of Eritrea. Although the Investment Proclamation of 1994 governs all foreign investment, it contains no specific definition of FDI. The UN Conference on Trade and Development's 2011 FDI report states that Eritrea had US$ 74 million in FDI inward flow and US$ 779 million in FDI stock (accumulated inflows) in 2012, the most recent year for which data is available. No data is available on outflows.

19. Contact Point at Post

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