

INVESTMENT POLICY
AND
OPPORTUNITIES OF
THE STATE OF ERITREA

ERITREA



Eritrea Investment Center
ASMARA, 2003

GENERAL DATA ON ERITREA

Official Name	The State of Eritrea
Area	124,300 sq. km. Including around 365 islands
Location	Horn of Africa.
Sea Coast	1200 km. Coast line along the Red Sea
Population	Approximately 3.5 Million
Working Languages	Tigrinya, Arabic and English
Capital City	Asmara
Port Towns	Massawa & Assab
Currency	Eritrean Nakfa (ERF)
Climate	Varies with altitude Temperate central highlands plateau hot & Humid western low lands hot & Arid Eastern low lands.
Time zone	GMT +3



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INTRODUCTION

Realizing the cardinal role investment could play in Eritrea's development imperatives, the government of The State of Eritrea encourages investment, development and utilization of the country's natural resources, expanding exports, fostering transfer of technologies and SME's development. The following briefs the policy on investment and available opportunities for investment in the State of Eritrea.

PART I – INVESTMENT POLICY OF THE STATE OF ERITREA

1. ECONOMIC POLICIES

Eritrea is committed to fostering free trade, encouraging all types of private investment and promoting export-led growth. In so doing the Government has, among other things:

- implemented a liberal investment law
- taken a principled stand to privatize state run enterprises
- adjusted the exchange rate to make it competitive and attract foreign investment
- liberalized the tax regime
- adopted responsible fiscal policies

2. POLICIES IN REGARD TO INVESTMENT

The policy principles in regard to the promotion of investments:-

- Private investment, both local and foreign, is allowed to participate in all sectors of the economy with no restrictions and discrimination.
- The Government is taking all necessary policy and other supportive measures to promote, encourage and develop the private sector and protect its interests.

3. DOMESTIC CAPITAL AND FOREIGN DIRECT INVESTMENT (FDI)

- Domestic capital and FDI are given equal opportunity.
- FDI is welcome with open and equal access to the economy available to the local investor. All sectors of the economy are open to foreign investors.
- Inflow of FDI is encouraged by a conducive investment atmosphere.

- Foreign capital may establish an enterprise on its own and/or in partnership with local capital.

4. INVESTMENT PROCLAMATION No. 59/1994

The revised investment policy, investment proclamation No. 59/1994 is more liberal and workable for it addresses the current investment issues, in particular, tax regime, foreign exchange regulation, labour laws, business licensing and guarantees. It is more responsive to the competitive world situation. The important features of the new investment proclamation include:-

- encouragement of investments so as to develop and utilize the natural resources of the country
- expansion of exports and encouragement of competitive import substituting businesses
- creation and expansion of employment opportunities
- encouragement of new technology introduction in order to enhance production efficiency and thereby optimize resource exploitation
- encouragement of equitable regional growth and development
- encouragement of small and medium scale enterprises.

5. INVESTMENT INCENTIVES AND GUARANTEES

5.1. Tax Regime

A. Duties and Taxes Levied on Imports and Exports

- Capital goods, intermediates, industrial spare parts and raw materials pay a nominal customs duty of 2%.

- Raw materials and intermediate inputs shall be subject to 5% sales tax.
- However, all sales tax on all materials and inputs that have been used for export production will be rebated.
- Exports are exempted from export duties and sales taxes.

B. Income Tax

- The marginal tax rates range, as per Proclamation No. 116/2001 (a proclamation to amend the income tax Proclamation No. 62/1994), as follows:
 - On personal income from 2% - 30%
 - On non-corporate profit 2% - 30%
 - On corporate profit, flat rate of 30%
 - On rent income from 2% - 30%
- Profit derived from mining activities will be taxed as per the mining legislation (Proclamation No. 69/1995).
- There shall be no taxes on declared dividends.
- Any net loss incurred in one year may be set off against taxable business income in the next five years, earlier losses being set off before later losses.

5.2. Allocation of Foreign Exchange

In accordance with regulations of the Bank of Eritrea investors may:

- open and operate foreign exchange accounts in Eritrea
- use foreign exchange in their accounts for the operation of their investments, including necessary procurements
- be granted foreign exchange allocations; with priority given to exporters
- retain up to 100% of their export earnings in foreign currency.

5.3. Remittance of Foreign Exchange

Without altering the provisions of investment proclamation No. 59/1994, foreign investors may, in accordance with the rate of exchange at the time, remit foreign exchange out of Eritrea for the following:-

- net profits and dividends accrued from investment capital

- debt-servicing payments for a foreign loan incurred pursuant with proclamation and Bank regulations
- fees or royalties in respect of any technology transfer agreements
- proceeds received from liquidation of investment and/or expansion
- payments received from the sale or transfer of shares.

Expatriates employed from abroad in accordance with the investment proclamation and the labour laws of Eritrea may remit savings from their salaries in accordance with the foreign exchange regulations of the Bank of Eritrea.

6. INVESTMENT GUARANTEES AND DISPUTE SETTLEMENT MECHANISMS

In accordance with Investment Proclamation No. 59/1994, the Government of Eritrea guarantees that investment or property on investment will not be nationalized or confiscated.

It further guarantees that investments will not be attached, seized, frozen, expropriated or put under Government custody without due process of law.

Eritrea is a signatory of the International Convention for Settlement of Investment Disputes (ICSID) and the World Bank's Multilateral Investment Guarantee Agency, (MIGA).

Eritrea has also begun the process of concluding bilateral agreements for the promotion and protection of investments with several countries.

7. LICENSING

Business Licensing Office

The Government of Eritrea has established a centralized, "one-stop", licensing center to facilitate the speedy formation of business ventures. The Business Licensing Office (BLO) provides quick, efficient and effective service in the issuance and renewal of licenses to any person engaged in a business activity.

8. BUSINESS FORMATION

The transitional Commercial Law of Eritrea allows for the participation of different forms of business organizations, including ordinary partnerships, limited partnerships, share companies and private limited companies in various investment areas.

9. EMPLOYMENT OF LABOUR

Investors are expected to give priority in employment to Eritreans with the requisite qualifications.

In the absence of national experts investors may employ expatriate experts whether technical or managerial, but shall be obligated to train nationals to replace expatriates.

Expatriates, employed from abroad in accordance with the Labour Law of Eritrea, may remit savings from their salaries in accordance with the foreign exchange regulations of the Bank of Eritrea.

10. ALLOCATION OF LAND

Ownership of land in Eritrea is the exclusive right of the Government. The terms and conditions of lease are reasonable. The lease rate in areas other than agriculture ranges from 0.20 Nkf to 0.25 Nkf per m²/year. In agriculture the rate ranges from 0.05 Nkf to 0.10 Nkf per m²/year.

11. FREE ZONES

In an attempt to boost export by creating conducive investment environment, the Government has enacted Proclamation No. 115/2001 with provisions that permit to establish free zones in Eritrea. Investors are invited to develop /manage free zone or house their industrial /commercial establishments in declared free zones.

The unique feature of free zones in Eritrea is that the incentive engaged in trading, industry, storage or other activities need not pay any tax including personal tax on profit, bank interests from accounts, or bank business documents or shares.

PART II - INVESTMENT OPPORTUNITIES

Eritrea is endowed with diverse and unexploited natural resources. The balance between natural resources and population is at its lowest stage with ample opportunities for future development via synchronized investment ventures. The country's prospect for harnessing its natural resources; especially agriculture, fisheries and marine resources, and minerals; through enhanced investment is extremely high.

Eritrea is just starting everything from a clean sheet with no deep-rooted policy induced distortions, debt problems, and entrenched bureaucracy. Located on the busiest Red Sea corridor with its two ports, Eritrea could serve as the hub for regional and international business, investment and financial dealings. There are also rich opportunities to develop the tourist industry and related services. Above all, the Government is committed to fast development and is an ardent supporter and member of different regional and international groupings.

1. AGRICULTURE

Though Eritrea possesses abundant arable land and water resources currently only a small proportion is under cultivation applying backward farming practices. There is rich potential for the development of both intensive and extensive agriculture that could pay high returns to investors. The lowlands and river basins are ideal for irrigated agriculture. Modest investment in

modernized farming methods could secure higher productivity gains. The promising specific areas of investment, inter alia, include:

- Production of food and export cereals
- Production and export of cash crops (cotton, sesame, groundnuts etc.)
- Animal husbandry
- Livestock fattening and poultry

- Animal feed
- Forest products
- Production and export of fruits, vegetables and flowers
- Fresh and processed dairy and meat products
- Hides, skins and leather production and export, etc.

Besides, investment in intermediate activities that could supply inputs, intermediates and services to the developing agricultural sector provides lucrative opportunities. Investing in agricultural byproducts is also promising. After all, given its prime interest to achieve secured agricultural supplies for food, industrial inputs and exportable items; the Government is ready to extend its supportive services for the quick development of the agricultural sector of the economy.

2. FISHERIES AND MARINE RESOURCES

The Eritrean coastal waters for fishing covers more than 52,000 sq.km and is endowed with immense varieties of species such as: shrimp, lobster, tuna, kingfish, catfish, and shark to mention a few. The annual sustainable yield ranges from 50-70,000 tons. There is rich investment potential to develop and exploit these untapped resources in Eritrea. Above all, the Government is highly interested to promote foreign investment including all sorts of business collaborations in this sector. Lucrative investment opportunities may, among others, include seafood-processing plants, shrimp farms, boat construction and maintenance, etc.

3. MANUFACTURING

Given its strategic proximity to the major flourishing regional and international markets, export oriented industrialization policy and work force with long tradition in manufacturing; Eritrea has extensive comparative and competitive advantages to promote fast industrialization. To harness this potential opportunity, at present the Government is heavily involved in laying

down the infrastructure basis through out the Country.

- Textiles, garments, leather and leather products, footwear, food processing and other agro-industrial products.
- Cement, glass, marble, salt, ceramics and mineral resources based manufactures.
- Chemical (including salt) and engineering products.

4. MINERAL RESOURCES

Geological works and recent remote sensing investigations have proved that Eritrea possesses favorable geological settings. Eritrea is endowed with virgin and a strong mineral resource base relatively untouched by modern exploration techniques. The Eritrea green stone belt, which hosts precious and base metals covers 70% of the country. There is also a continuous artesian mineral discovery in different parts of the country. The major mineral resources with rich potential for investment are:

- Precious metals: gold, silver, copper, zinc, iron, nickel, and chromium
- Industrial minerals- potash, sulfur, gypsum, salt, silica, sand, feldspar, and kaolin
- Construction - marble, granite, chalk, and basalt
- Deposits of oil and natural gas.

5. TOURISM

Ideally situated at one of the world's great crossroads, Eritrea has vast opportunities as a tourist destination. The country's 1200 km coastal line along the Red Sea with glorious deserted contrasting bays and pristine sandy beaches between two deep sea ports holds great potential and opportunity for exploitation as a tourist industry. Eritrea's crystal-clear, pollution free coastal waters adorned by a myriad of islands, spectacular coral reefs and abundant marine life makes the development of facilities for tourist recreation more opportune. The existence of diverse ethnic groups, cultural, historical and archeological sites is also a rich asset for Eritrea as a tourist attraction center.

Major opportunities for investment are:

- Beach and marine resorts
- Dive centers, cruise and boat charters
- Water sports
- Hotels and restaurants/ entertainment
- Golf courses/ clubs
- Sports and leisure centers
- Conference/ convention centers
- Tour itineraries
- Hot springs
- Parks and reserves, etc.

6. INFRASTRUCTURE

Eritrea's backlog in infrastructure development process like: roads, railways, dams, sea and air ports, water supply, power, telecommunications, business and residential housing, etc. provides immense opportunities for investors to take advantage by participating in these ventures. Already, many local and foreign firms are making good business in these activities. To close down existing demand shortfalls, investments geared to advance the rational exploitation of energy and high-tech telecommunications facilities both for domestic and international services are given top Government priorities and support.

7. TRANSPORTATION

Modern land, air and sea transport systems that can meet domestic, regional and international demands are to be developed in keeping with Government plans to make Eritrea a major service center. At present, the majorities of passenger and cargo vehicles in Eritrea are privately owned and have, in the majority of cases, been in service for a considerable number of years. They need to be periodically overhauled and supplemented by additional fleets in order to keep pace with the country's expected rapid development. Investments in the construction of track roads for domestic and

regional services as well as in the revival and expansion of modern air and ocean transport are encouraged.

8. OTHER SERVICES

Associated with its location convenience, especially as its infrastructures improve, Eritrea can offer competitive services in the region. The country has good potential for offshore banking and other financial services including transport. Advantage could also be harnessed from the growing demand for out-sourced services and products needed by big international companies. Such potentials are believed to secure favorable investment opportunities. Investment that helps the gradual development of diversified financial system (banking, insurance and financial intermediation) will be encouraged, as will the entry of the private sector into such activities.

Other important investment areas in the service sector open to investors include the following:

- The establishment of strong and sustainable construction and real estate activities;
- The establishment of highly developed general consultancy services (business, legal, market, engineering, architectural, research etc.);
- The development of transport and transiting services.

9. FREE ZONES

In an attempt to boost export by creating conducive investment environment, at present, the Government has enacted proclamation No. 115/2001 with provisions that permit to establish free zones in Eritrea. In this case, investors are invited to develop/manage free zones or house their industrial/commercial establishments in declared free zones.

