



COUNTRY PROFILE

ERITREA



Full Name:	The State of Eritrea
Area:	587,040 km²
Population	4,747,000 (July 2006 est.)
Capital:	Asmara
Main Languages:	Tigrinya, Tigre, Arabic, English
Currency:	nakfa (ERN)
Head of State:	President Isaias Afewerki



The Novatech 2007 Regional Investment Conference in Nairobi, Kenya is a component of the Pro€Invest programme which is a common initiative of the European Commission (EC) and institutions from the ACP states (Africa, the Caribbean and the Pacific).

This overview of the ICT sector has been prepared by BK Consultants on behalf of the organizers. The authors accept sole responsibility for the profile which does not necessarily reflect the views of the organizers: Pro€Invest, the Centre for the development of Enterprise (CDE), the African Union (AU) and the Common Market for Eastern and Southern Africa (COMESA).

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1. BUSINESS OVERVIEW

1.1 Key Economic Indicators

Table 1 shows the recent trend for selected key economic indicators using the most up-to-date available information.

Table 1: Key Economic Indicators 2002-06

	2002	2003	2004	2005	2006
Population (mn.)	4.304	4.412	4.522	4.635	4.747
Population Growth (%)	2.5%	2.5%	2.5%	2.5%	2.4%
GDP (US\$ bn. at current prices)	0.635	0.584	0.635	0.970	1.018
GDP per capita (US\$ at current prices)	147.5	132.4	140.4	209.2	214.5
GDP growth at constant prices (%)	0.7%	3.0%	3.5%	4.8%	2.0%
Current account balance (US\$ mn.)	28	23	30	36	(7)
Inflation Rate (%)	16.9%	22.7%	25.1%	12.4%	16.5%
Exchange Rate: annual average nakfa per US\$*	13.958	13.878	13.788	14.500	15.400

* the official exchange rate is 15 nakfa per US\$

Sources: COMTRADE, World Development Indicators, Oanda.com

1.2 Economic Context

In 2006, total Gross Domestic Product (GDP) amounted to some US\$4.7 billion at current market prices. In that year, agriculture, herding and fishing accounted for around 10 percent of the total GDP compared with industry, 25 percent, and services, 65 percent.

The Eritrean economy has been growing in recent years, but the GDP growth rate declined from 4.8 percent in 2005 to 2 percent in 2006.

1.3 Population and Labour Force

The population estimates vary widely but the International Monetary Fund (IMF) calculated it at almost 4.75 million in 2006, of which some 19 percent resided in urban areas. The overall population density is approximately 39 persons per km². Despite the lack of recent specific statistics, the World Bank estimates that the labour force has been growing at 4.3 percent per year between 1999 and 2005. Over 80 percent is involved in agriculture and pastoralism.

1.4 General Institutional and Regulatory Framework

The transitional constitution, decreed in May 1993, was replaced by a new constitution which was adopted on 23 May 1997 but has not yet entered into effect. The legal system operates on the basis of the transitional laws that include pre-independence statutes of the Eritrean People's Liberation Front, revised Ethiopian laws, customary laws, and post-independence enacted laws.

1.5 General educational level

Unemployment is high in Eritrea and labour is plentiful and inexpensive. However, the labour force is relatively unskilled and on-the-job training is essential.

1.6 Infrastructure Services

1.6.1 International access

Air

The main international airport is located at Asmara International Airport (ASM) which is located some 6km from the city.

A new airport at Massawa is capable of handling wide-bodied jet aircraft. The airport is currently open though rarely used. Apart from Eritrean Airlines, the only international airline that has officially agreed to serve the airport is the Pakistan International Airlines called No Pia Flight. However, it is anticipated that this airport will become one of the main gateways for both scheduled and charter services for international tourists visiting the planned new resorts on the coast and the offshore islands. The second international airport is at Assab but, like in Massawa, there are no few international scheduled services.

At present time, Eritrea is served by international flights operated by

- Eritrean Airlines (from Amsterdam/Milan, Frankfurt/Rome, Nairobi and Jeddah);
- Egypt Air (from Cairo),
- Lufthansa (from Frankfurt via Jeddah or Cairo);
- Pakistan International Airlines (from Karachi)
- Saudia (from Jeddah),
- Sudan Airways (from Khartoum)
- Yemenia (from Sana'a); and
- Regional Air (from Nairobi via Djibouti).

Ethiopian Airlines, which previously offered daily services to/from Addis Ababa, has suspended its services to Eritrea.

Sea

Eritrea's two main seaports are at Massawa and Assab. These are important commercial ports (although, following the closure of the border with Ethiopia, traffic at Assab port has dwindled to very low levels). Tourism activity at these ports is not yet important except for occasional cruise ship and yacht stopovers at Massawa. There are very limited scheduled passenger services apart from a weekly ferry service from Massawa to Jeddah. However, in the long run (as foreseen in the NTDP), the port of Massawa is likely to become more important in the future as a base for cruise tourism, passing yachts, ferryboat services to the Dahlak Islands and the planned coastal resorts, and for small private boats owned by Eritreans and expatriates.

Road

Since the border with Ethiopia is currently closed, the only means of international access by road are between northern Eritrea and Sudan (via Afabet and Nakfa) and between Assab and Djibouti (via Obock). Both of these roads are in poor condition. Despite this, the level of international traffic is relatively high.

1.6.2 Internal transport

Air

Internal flights operate between Asmara and Assab, but are limited. The Civil Aviation Department is implementing a master plan for the rehabilitation and development of existing domestic airfields, including (in the first phase) Dahlak, Nakfa, Agordat, Tesseni and Barentu, of which Nakfa and Dahlak would be of particular importance for tourism.

Rail

The Asmara-Massawa railway line has recently been rehabilitated and offers a spectacular ride for passengers over the 2,330m descent from Asmara to the sea (and also in the reverse direction). It is already attracting groups of railway enthusiasts from Europe and elsewhere, especially for those wishing to use steam locomotives.

Road

The infrastructure suffered badly during the protracted fighting. Repairs and a modernisation programme are currently underway. Eritrea has made significant investment in rehabilitating and expanding its road infrastructure connecting the country's major cities and towns. For tourism purposes, the rehabilitation of the Asmara-Massawa, Asmara-Keren and Massawa-Assab roads are particularly important, especially the latter which has opened up some 1,000km of virgin coastline for resort and other tourism-related developments.

2. ICT SECTOR

2.1 Overview

The fixed and mobile communications are owned by the Government of the State of Eritrea and operated by the **Eritrea Telecommunication Services Corporation (EriTel)**.

2.2 Telecommunications

- In 2006, Eritrea had 45,000 exchange lines out of which 40.000 were connected subscribers, this equals a telephone density of 0,86%.
- For the year of 2004, the annual growth rate was 7,4%
- 480 payphones

The Mobile Communication service was launched in 2004 and is still progressing. Most of the big towns and the roads connecting them are covered. The technology used is GSM900. The capacity of the MSC is 100,000 ports. We might add that roaming agreements exist with other mobile phone companies.

- Approximately 360,000 Eritrean people already have a mobile subscription – which add up to a mobile tele-density of 8%
- Almost 100,000 are on a waiting list in order to obtain a subscription.

2.3 Internet

The Internet Service is open to limited competition and there are five competing Internet Service Providers. The Internet was introduced in November 2000, but since then the gateway bandwidth has been upgraded three times and provides dialup, wireless and lease line service. This reflects a large demand from business world and government agencies.

- In 2006, there were 28.882 subscribers using dialup, wireless and lease lines.
- 50,000 Internet Users.
- 42 Internet Cafes.
- The tariff is 100 Nakfa for 10 hours, which is around \$7 US.

2.4 Regulatory framework and sector regulation

Since 2001, the Government of the state of Eritrea has been seized in developing an ICT policy framework. The existing telecommunications policy states that every citizen has the right to communication services, be it fixed, mobile or internet connection. The policy development is under the responsibility of the Communications Department of the Ministry of Transport and Communications. The Ministry of National Development, as well as the Ministry of Information and EriTel are equally closely involved in the development of the ICT policy.

A Proclamation made in 1998 mandated the Communication Department as responsible of regulations in terms of:

- Economic and technical ICT regulations as well as advice and assistance to the ICT industry
- Promoting competition in the ICT sector and facilitate entrance into the ICT market
- Establish and manage the Rural Telecommunication Fund and protect the public interest
- Monitor the ICT service providers and act as intermediary between the operators
- Protect the consumers
- Develop policies and ensure transparent issuance of policies
- Provide guidelines on tariffs for ICT services and maintain a register of operators, suppliers and installers

2.5 Opportunities

Eritrea sees relatively promising prospects for the development of ICT as a result not only of its encouragement of private investment, but also due to major infrastructure improvements in roads, ports and airports.

In addition, the Government signed an agreement in July 2006 for a low-interest loan for US\$22 million for the modernisation of the telecommunications system which should see significant improvement in the near future.

3. INVESTMENT OPPORTUNITIES IN ICT

3.1 Investment Framework

3.1.1 Government policy

The Government is pressing ahead with implementation of its economic and social development programme. The strategy is to induce a widely shared and sustained economic development by:

- Creating an enabling environment for a strong and competitive economy in which an efficient export-oriented private sector thrives;
- Investing in infrastructure, institutional development and the principal sectors of the economy;
- Raising the skills and well being of the people by investment in education, health and water and sanitation services; and
- Formulating and implementing programmes that are intended to stimulate rapid economic growth, reduce poverty and minimise dependence on foreign assistance.

Eritrea has also made considerable efforts to create an environment conducive to private investment, both domestic and foreign. To this end, private investment, both local and foreign, is allowed to participate in all sectors of the economy, with no restrictions and discrimination; domestic capital and foreign investment are given equal opportunity; all sectors of the economy are open to foreign investors; and foreign capital may establish an enterprise on its own and/or in partnership with local capital.

3.1.2 Investment agencies

The Ministry of National Development has a mandate to plan and to co-ordinate programmes and projects at the sectoral and regional levels, or to co-ordinate their implementation.

The Eritrea Investment Centre (EIC) is tasked with advising and assisting investors to identify opportunities and partners, and in managing the process.

3.1.3 Investment guarantees

Eritrea is a member of the Multilateral Investment Guarantee Agency (MIGA) which protects investors against non-commercial risks.

3.2 Investment Incentives

Eritrea's investment incentives are primarily centred on duty and tax benefits:

- 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, but 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;
- The marginal tax income tax range, as follows: on personal income from 2%-30%; on non-corporate profit 2%-30%; on corporate profit, flat rate of 30%; and on rent income from 2%-30%;
- There shall be no taxes on declared dividends; and
- 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.

There are additional tax benefits for investors locating in a free zone.

3.3 Access to Finance

The Bank of Eritrea (BoE) is the country's central bank. It is responsible for regulating the lending and deposit interest rates, and keeping a check on inflation and other macro-economic indicators.

The commercial banking sector is dominated by the state-owned Commercial Bank of Eritrea which owns nearly 80 percent of all banking sector assets in the country. Other banks include the Housing and Commerce Bank, the Agricultural and Industrial Bank of Eritrea and the small privately-owned Augaro Bank.

The main development bank is the Eritrean Investment and Development Bank which is fully financed by the Ministry of Finance and is a fully state-owned bank. This still small bank typically funds development projects by channelling funds from various other organizations including the Bank of Eritrea and the World Bank.

Only 3 or 4 hotels in Asmara accept major credit cards.

3.3.1 International Financial Institutions

Eritrea, as a signatory to the agreement between African, Caribbean and Pacific nations (ACP) and the European Union, known as the Cotonou Agreement, has access to the facilities of the European Investment Bank (EIB).

As a member of the World Bank, the facilities of the International Finance Corporation (IFC) would also be available for projects in Eritrea. Other potential development finance sources include the Abu Dhabi Fund for Arab Economic Development, the African Development Bank (AfDB), the Kuwait Fund for Arab Economic Development and the New Partnership for Africa's Development (NEPAD).

3.3.2 Transfer of Capital and Profits

Foreign investors may repatriate income and profits arising from activities carried out in a free zone. Otherwise, transfer of capital and profits can be done on declaration and with prior authorisation from the Ministry of Finance.

3.4 Residential and Work Visas

At present, visas are required before arrival for most nationalities, necessitating in many cases sending one's passport to the nearest Eritrean Embassy. In some cases, visas can be issued on arrival for persons from the major tourist-generating countries.

The EIC is able to facilitate the acquisition of residential and work visas for approved foreign investors.

3.5 Technical and Promotional Assistance

The comparatively small marketing budget is generally complemented by some private sector marketing initiatives.

4. LIST OF KEY CONTACTS

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