Eritrea

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Eritrea	
Sanctions:	UN and EU Financial and Arms embargo
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Compliance with FATF 40 + 9 Recommendations (mutual evaluation not yet completed) Weakness in Government Legislation to combat Money Laundering Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.)) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)

Major Investment Areas:

Industries:

food processing, beverages, clothing and textiles, light manufacturing, salt, cement

Exports - commodities:

livestock, sorghum, textiles, food, small manufactures

Imports - commodities:

machinery, petroleum products, food, manufactured goods

Investment Restrictions:

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.

Overall, investors in Eritrea face risks including lack of transparency in the regulatory process, limits on possession and exchange of foreign currency, lack of thoroughgoing dispute settlement mechanisms, difficulty in obtaining licenses, potential expropriation of private assets, and infrastructure challenges such as high fuel prices and inconsistent provision of electricity and water.

The nation's most successful economic sector is mining. 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 electric and telephone companies and the state-run soft-drink and beer bottling concession.

Contents

Section 1 - Background

The UN established Eritrea as an autonomous region within the Ethiopian federation in 1952. Ethiopia's full annexation of Eritrea as a province 10 years later sparked a violent 30-year struggle for independence that ended in 1991 with Eritrean rebels defeating government forces. Eritreans overwhelmingly approved independence in a 1993 referendum. ISAIAS Afworki has been Eritrea's only president since independence; his rule, particularly since 2001, has been highly autocratic and repressive. His government has created a highly militarized society by pursuing an unpopular program of mandatory conscription into national service, sometimes of indefinite length. A two-and-a-half-year border war with Ethiopia that erupted in 1998 ended under UN auspices in December 2000. The Eritrea-Ethiopia Boundary Commission (EEBC) created in April 2003 was tasked "to delimit and demarcate the colonial treaty border based on pertinent colonial treaties (1900, 1902, and 1908) and applicable international law." Eritrea for several years hosted a UN peacekeeping operation that monitored a 25 km-wide Temporary Security Zone. The EEBC on 30 November 2007 remotely demarcated the border, assigning the town of Badme to Eritrea, despite Ethiopia's maintaining forces there from the time of the 1998-2000 war. An increasingly hostile Eritrea insisted that the UN terminate its peacekeeping mission on 31 July 2008. Eritrea has accepted the EEBC's "virtual demarcation" decision and repeatedly called on Ethiopia to remove its troops. Ethiopia has not accepted the demarcation decision, and neither party has entered into meaningful dialogue to resolve the impasse. Eritrea is subject to several UN Security Council Resolutions (from 2009, 2011, and 2012) imposing various military and economic sanctions, in view of evidence that it has supported armed opposition groups in the region.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Eritrea is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

Eritrea has not yet undertaken a Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards.

US Department of State Money Laundering assessment (INCSR)

Eritrea was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Eritrea is not a regional financial center. Historically, the Government of the State of Eritrea has relied on command economic policies and arrangements. Although reliable statistics are unavailable, exports, with the exception of the mining industry, are small and generate little hard currency. The development of the mining sector and successful mining ventures, operated in partnership with large international mining companies, have led to an increased inflow of capital as earnings accrue from mineral exports, notably of gold and copper. However, lower commodity prices are likely to drag down export and fiscal revenues. The government relies in part on taxation of Eritreans living overseas to sustain itself. Many in the Eritrean domestic population are similarly dependent on remittances from relatives abroad.

Eritrea is a source country for men, women, and children subjected to forced labor in the National Service and, to a lesser extent, sex trafficking. The level of cross-border trafficking of narcotics is not known, but Eritrea is not believed to be a significant market or transit route for narcotics. There are, however, reports that Eritrean government and military officials profit from contraband and human smuggling and extortion.

Due to its informal, cash-based economy; limited regulatory structure; underground remittances; prevalent use of money or value transfer services, such as hawala; proximity to regions where terrorist and criminal organizations operate; and increasing corruption, Eritrea is vulnerable to money laundering and related activities. The non-convertibility of the nakfa currency in international markets helps drive the use of underground remittance systems. All banks in Eritrea are government controlled.

Some sources continue to charge that elements of the Eritrean security apparatus provide training, supplies, and financing to destabilizing forces in the region. Evidence of the government's past support to insurgents in neighboring states resulted in the UNSC levying an arms embargo against Eritrea beginning in 2009. In December 2011, the UNSC toughened existing sanctions, also addressing concerns over the potential use of Eritrean mining revenues to support destabilizing activities. In 2015, the UN Somalia-Eritrea Monitoring Group (SEMG) reported it found no evidence of continued Eritrean support to al-Shabaab during the course of its present mandate.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:
"All serious crimes" approach or "list" approach to predicate crimes: Not available
Are legal persons covered: criminally: Not available civilly: Not available

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES
KYC covered entities: Banks

REPORTING REQUIREMENTS:
Number of STRs received and time frame: Not available Number of CTRs received and time frame: Not available STR covered entities: Banks

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:
With U.S.: MLAT: NO Other mechanism: Not available
With other governments/jurisdictions: Not available Eritrea is not a member of a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The government professes to take action against money laundering and has introduced a new currency, as well as new currency and banking regulations, with the intent of fighting corruption and money laundering. Eritrea does not publish national accounts or trade statistics. The international community has long pressed for fiscal transparency, but Eritrean officials generally have not been willing to discuss AML/CFT initiatives with international experts.

Money laundering is punishable by imprisonment of five to ten years and a fine not exceeding 50,000 nakfa (approximately $3,330). Corruption is a significant problem in Eritrea and affects all sectors of government and society. The line separating the finances of the Eritrean government and the ruling party is blurred and wrapped in secrecy. The Eritrean banking, legal, and regulatory systems are underdeveloped and are not transparent. The Eritrean nakfa is one of the most non-convertible currencies in the world and basically worthless outside of Eritrea. With imports and exports severely restricted, Eritrea has little hard currency and, the government believes, is not vulnerable to money laundering.

Eritrean cooperation with the World Bank and IMF is limited. An IMF document from 2003 (the date of the IMF's most recent surveillance mission to the country), noted the government had put in place measures to criminalize money laundering and terrorism finance, confiscate terrorist funds, set reporting requirements for suspicions transactions, and establish a financial intelligence unit. On September 8, 2014, the government published Proclamation no. 175/2014, "The Anti-Money Laundering and Combating Financing of Terrorism Proclamation," that includes provisions establishing a financial intelligence unit and addressing customer due diligence, politically exposed persons (PEPs), record-keeping, and financial institution employee training and audit requirements. Reportedly, a new criminal code has been developed, but it is unclear whether it has actually been adopted and is in force.

Due to a lack of transparency from the Government of the State of Eritrea, it is impossible to determine the extent of law enforcement measures taken to combat money laundering and terrorist financing. There is no publically available evidence the government has ever prosecuted a money laundering or terrorist financing case. The major deterrents to Eritrea's responding more effectively to the threat of money laundering are the underdeveloped financial system and a lack of political will on the part of the government, which does not perceive drug trafficking and money laundering as major problems in Eritrea.

Eritrea became a party to the UN Convention against Transnational Organized Crime on September 25, 2014.

The Government of the State of Eritrea should make public information and statistical data, including reporting, prosecution, and conviction data, to show the effectiveness of its AML/CFT regime. The government should become a member of a FATF-style regional body and re-engage with international financial institutions. Eritrea also should become a party to the UN Convention against Corruption and the International Convention for the Suppression of the Financing of Terrorism.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Eritrea does not conform with regard to the following government legislation: -

Criminalised Drug Money Laundering - The jurisdiction has enacted laws criminalizing the offense of money laundering related to drug trafficking.

Criminalised Beyond Drugs - The jurisdiction has extended anti-money laundering statutes and regulations to include nondrug-related money laundering.

System for Identifying/Forfeiting Assets - The jurisdiction has enacted laws authorizing the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

Cooperates with International Law Enforcement - By law or regulation, banks are permitted/required to cooperate with authorized investigations involving or initiated by third party jurisdictions, including sharing of records or other financial data.

Ability to freeze assets without delay - The government has an independent national system and mechanism for freezing terrorist assets in a timely manner (including but not limited to bank accounts, other financial assets, airplanes, autos, residences, and/or other property belonging to terrorists or terrorist organizations)

Disclosure Protection - "Safe Harbour" - By law, the jurisdiction provides a "safe harbour" defence to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.

Criminalised Financing of Terrorism - The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.

International Terrorism Financing Convention - States parties to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

Know Your Customer Provisions - By law or regulation, the government requires banks and/or other covered entities to adopt and implement Know Your Customer/ Customer Due Diligence programs for their customers or clientele.

Reports Suspected Terrorist Financing - By law or regulation, banks and/or other covered entities are required to record and report transactions suspected to relate to the financing of terrorists, terrorist groups or terrorist activities to designated authorities.

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

States Party to United Nations Transnational Organised Crime Convention - States party to the United Nations Convention against Transnational Organized Crime (UNTOC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

States Party to United Nations Convention Against Corruption - States party to the United Nations Convention against Corruption (UNCAC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

EU White list of Equivalent Jurisdictions

Eritrea is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Eritrea is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2011 (introduction):

No report available

US State Dept Trafficking in Persons Report 2014 (introduction):

Eritrea is is classified a Tier 3 country - a country whose government does not fully comply with the minimum standards and is not making significant efforts to do so.

Eritrea is a source country for men, women, and children subjected to forced labor domestically, and to a lesser extent, forced prostitution and labor abroad. Tens of thousands of persons continue to flee the country, many escaping the government’s mandatory national service program. Under the Proclamation of National Service (No. 82/1995), persons aged 18 to 50 years must perform national service. For persons aged 18 to 40 years, this consists of six months of military training and 12 months of service in a government-run work unit, including the Eritrean Defense Forces, for a total of 18 months; persons over 40 are considered to be on reserve status if they have performed active duty service. The emergency situation declared in 1998 as a result of a border war with Ethiopia remained in effect during the year. Despite the 18-month limit on active duty national service under the 1995 proclamation, many persons are not demobilized from government work units as scheduled after their mandatory periods of service ended, and some are forced to serve indefinitely in the military under threats of detention, torture, or punishment of their families. Persons performing national service are prohibited from resigning from their jobs or taking new employment, generally receive no promotions or salary increases, and often cannot leave the country legally because they are denied passports or exit visas. Those performing national service in the Eritrean military carry out standard patrols and border-monitoring, in addition to public works projects such as agricultural terracing, road maintenance, and laying power lines. Working conditions are often harsh and sometimes involve physical abuse. In the past, there were reports that some Eritrean conscripts were forced to build private homes for army officers, perform agricultural labor on farms owned by the ruling party, or work in privately-owned mines, functions that fall outside the scope of the proclamation.

All 12th-grade students, including some younger than 18, are required to complete their final year of education at the Sawa military and educational camp; those who refuse to attend cannot receive high school graduation certificates, go on to higher education, or be offered some types of jobs. The first six months consist of military training prior to military service. Though the government made an effort to ensure that no persons under 18 engaged in military training at Sawa, it was difficult to determine whether all those performing the military training component had reached 18 years of age. The media reported that male and female recruits at the Sawa military training camp were beaten, and female recruits reported being sexually abused and raped; however, the number of claims of abuse reportedly declined in the last year as parents put pressure on school administrators to correct abusive practices. In 2012, the government instituted a compulsory citizen militia, requiring adults not already in the military or being trained at Sawa, including many who had been demobilized or exempted from military service in the past, to carry firearms and attend military training. During the reporting period, the Ministry of Education continued Mahtot, a national service program in which secondary-school children are assigned to work in public works projects including anti-litter campaigns and building school furniture. Eritrean children work in various economic sectors, including domestic service, street vending, small-scale manufacturing, garages, bicycle repair shops, tea and coffee shops, metal workshops, and agriculture; some of these children may be subjected to forced labor, including forced begging. Eritrean women and girls are subjected to sex trafficking within the country.

Eritreans fleeing national service, persecution, or seeking economic opportunities abroad primarily migrate to Ethiopia, Sudan, Djibouti, and Yemen; in 2013, new migration routes extended from Sudan to Libya and from Libya to Europe. The government's strict exit control procedures and limited issuance of passports and exit visas effectively oblige those who wished to travel abroad to do so clandestinely, increasing their vulnerability to trafficking. As of December 2013, Sudan hosted an estimated 114,900 Eritrean refugees and asylum-seekers, with 400-600 Eritreans arriving to Sudan per month. Eritreans accounted for 78,974 of Ethiopia's registered asylum-seeker population; from October to December 2013, 3,496 new Eritrean asylum-seekers registered in Ethiopia. Smaller numbers of Eritrean refugees and asylum-seekers were registered in Uganda, Yemen, and Djibouti in the reporting period. Some fleeing Eritreans face being shot and killed by Eritrean or Egyptian authorities or are forcibly repatriated to Eritrea, where they are sometimes detained without charge by the Eritrean government, or recalled into national service. Adolescent children who attempt to leave Eritrea are sometimes detained or forced to undergo military training despite being younger than the minimum service age of 18. Some Eritreans become victims of forced labor, primarily domestic servitude, in Sudan, Egypt, Israel, Yemen, Djibouti, Saudi Arabia, or other Gulf countries. Eritrean women and girls are sometimes recruited to travel to Saudi Arabia or other Gulf states for domestic work with employment contracts that provide them with visas and work permits but are forced to engage in prostitution after they arrive. Smaller numbers of Eritrean women and girls are subjected to sex trafficking in South Sudan, Sudan, Israel, and Gulf countries; some Eritrean men are reportedly vulnerable to sex trafficking in Israel. International criminal groups seek out and—more frequently over the last couple of years—kidnap vulnerable Eritreans inside and outside of refugee camps, particularly in Sudan, and transport them to Egypt's Sinai Peninsula. In the Sinai, migrants and refugees are subjected to severe abuses, including human trafficking, at the hands of criminal groups. Abuse often consists of being forced to call family and friends abroad to pay ransom for release; some migrants and refugees report being forced to work as cleaners or on construction sites during their captivity. Victims of these criminal groups also report being chained together, whipped and beaten regularly, deprived of food, and repeatedly raped.

The Government of Eritrea does not fully comply with the minimum standards for the elimination of trafficking and is not making significant efforts to do so. The government did not report data regarding efforts to combat human trafficking, as distinct from human smuggling. The government continued to subject its citizens to forced labor of a non-military nature in its compulsory national service, often for periods of indefinite duration, and in its citizen militia, whose members were also sometimes obliged to carry out public works such as tree-planting and dam- building. The government failed to identify and adequately protect victims of forced labor and sex trafficking, and it continued to arrest and detain unidentified victims for acts committed as a direct result of being subjected to human trafficking, such as immigration and prostitution violations. Although the government continued to warn its citizens of the dangers of trafficking, authorities largely lacked understanding of the crime, conflating it with all forms of transnational migration. The government took no effective measures to stem the exodus of thousands of Eritreans fleeing the country every month to seek economic opportunities abroad via clandestine migration that increased their vulnerability to forced labor and sex trafficking abroad.

US State Dept report on Terrorism 2015

Overview: The Government of Eritrea continued to make regular public statements about its commitment to fighting terrorism. Additionally, it participated in the Countering Violent Extremism Conference in Kenya in June and the UN Global Counterterrorism Forum Conference in Morocco in July, making strong statements at both international gatherings. Also, on December 21, the Ministry of Foreign Affairs issued a press statement expressing its support for the Saudi initiative to form an alliance against terrorism.

In May, the United States re-certified Eritrea as “not cooperating fully” with U.S. counterterrorism efforts under Section 40A of the Arms Export and Control Act, as amended. In considering this annual determination, the Department of State reviewed Eritrea’s overall level of cooperation with U.S. efforts to combat terrorism, taking into account U.S. counterterrorism objectives and a realistic assessment of Eritrean capabilities.

The Government of Eritrea has been under UNSC sanctions since December 2009 as a result of past evidence of support for al-Shabaab and regional destabilization. UN Security Council Resolution (UNSCR) 1907 (2009) and 2013 (2011) continued an arms embargo on Eritrea and a travel ban and asset freeze on some military and political leaders, calling on the nation to “cease arming, training, and equipping armed groups and their members, including al-Shabaab, that aim to destabilize the region.” The Somalia-Eritrea Monitoring Group’s 2014 and 2015 reports found no evidence that Eritrea is supporting al-Shabaab.

Lack of transparency on how governing structures function means that there is not a clear picture of the methods the Government of Eritrea uses to track terrorists or maintain safeguards for its citizens. For a number of years, members of the police have refused to meet with security officials from western nations to discuss policy matters, although the U.S. government had informal contact with law enforcement counterparts in 2015.

Countering the Financing of Terrorism: Eritrea is not a member of a Financial Action Task Force-style regional body. This gap impedes any overall assessment of the risks the country faces in regards to terrorism financing. Eritrea’s general lack of transparency on banking, financial, and economic matters makes the gathering of definitive information difficult. There is no available information to indicate that Eritrea has identified any terrorist assets or prosecuted any terrorism financing cases.

International Sanctions

Arms

UN Security Council Resolution 1907 was adopted by the Security Council on 23 December 2009. These sanctions included an open-ended embargo on the supply of arms and military equipment to and from Eritrea. The sanctions were imposed in response to the findings of the UN Monitoring Group on Somalia that Eritrea had provided political, financial and logistical support to armed groups in Somalia. They were also in response to the refusal by Eritrea to withdraw its forces from disputed border territory with Djibouti and engage in dialogue.

Following the adoption of the UN arms embargo on Eritrea, the European Union adopted Council Decision 2010/127/CFSP on 1 March 2010 and Council Regulation (EU) No 667/2010. These measures were subsequently amended in 2010 by Council Decision 2010/414/CFSP.

On 15 October 2012, the EU adopted further restrictive measures against Eritrea via Council Decision 2012/632/CFSP The Decision came into force on the date of publication in the EU Official Journal on 16 October 2012. At the same time, the EU also adopted implementing which also came into force on 16 October 2012. This measure is Council Implementing Regulation (EU) No 942/2012 of 15 October 2012. These measures introduced an exemption to sanctions measures, as outlined above.

You can find the latest updates to EU legislation on the European Commission website.

Financial

On 23 December 2009 the United Nations Security Council, concerned about findings that Eritrea had provided support to armed groups undermining peace and reconciliation in Somalia and that it had not withdrawn its forces following clashes with Djibouti in June 2008, imposed an arms embargo on Eritrea, in addition to travel restrictions on and a freeze on the assets of the political and military leaders of Eritrea.

To date, no targets have been designated by the relevant UN Sanctions Committee for the asset freeze, although there are prohibitions on the financing of certain trade activities.

EU regulations in force

- 26.07.2010 Council Regulation (EU) No 667/2010 Implemented the measures in UNSCR 1907 (2009) including the freezing of funds and economic resources of persons designated by the UN Sanctions Committee or the Security Council (Annex I).

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	18
World Governance Indicator – Control of Corruption	5

Corruption and Government Transparency - Report by US State Department

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.

Section 3 - Economy

Since formal independence from Ethiopia in 1993, Eritrea has faced many economic problems, including lack of resources and chronic drought, which have been exacerbated by restrictive economic policies. Eritrea has a command economy under the control of the sole political party, the People's Front for Democracy and Justice (PFDJ). Like the economies of many African nations, a large share of the population - nearly 80% - is engaged in subsistence agriculture, but the sector only produces a small share of the country's total output. Since the conclusion of the Ethiopian-Eritrea war in 2000, the government has expanded use of military and party-owned businesses to complete President ISAIAS's development agenda. The government has strictly controled the use of foreign currency by limiting access and availability; new regulations in 2013 have slightly relaxed currently controls. Few large private enterprises exist in Eritrea and most operate in conjunction with government partners, including a number of large international mining ventures that have recently begun production. While reliable statistics on food security are difficult to obtain, erratic rainfall and the percentage of the labor force tied up in national service continue to interfere with agricultural production and economic development. Eritrea's harvests generally cannot meet the food needs of the country without supplemental grain purchases. Copper, potash, and gold production is likely to drive economic growth over the next few years, but military spending will continue to compete with development and investment plans. Eritrea's economic future will depend on market reform, international sanctions, global food prices, and success at addressing social problems such as illiteracy and low skills.

Agriculture - products:

sorghum, lentils, vegetables, corn, cotton, tobacco, sisal; livestock, goats; fish

Industries:

food processing, beverages, clothing and textiles, light manufacturing, salt, cement

Exports - commodities:

livestock, sorghum, textiles, food, small manufactures

Imports - commodities:

machinery, petroleum products, food, manufactured goods

Section 4 - Investment Climate

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.

opic Ranking	DB 2014 Rank	DB 2013 Rank	Change in Rank
tarting a Business	188	186	-2
ealing with Construction Permits	189	189	No change
ietting Electricity	95	96	1
egistering Property	184	184	No Change
ietting Credit	186	182	-4
rotecting Investors	115	113	-2
aying Taxes	150	151	1
rading Across borders	170	170	No Change
nforcing Contracts	67	67	No Change
esolving 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.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

mixed legal system of civil, customary, and Islamic religious law

International organization participation:

ACP, AfDB, AU, COMESA, FAO, G-77, IAEA, IBRD, ICAO, ICC (NGOs), IDA, IFAD, IFC, IFRCS (observer), ILO, IMF, IMO, Interpol, IOC, ISO (subscriber), ITU, ITUC (NGOs), LAS (observer), MIGA, NAM, OPCW, PCA, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO

Section 6 - Tax

Exchange control

For further information - http://www.shabait.com/

Treaty and non-treaty withholding tax rates

For further information - http://www.shabait.com/

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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