ERITREA
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

The investment climate in Eritrea is not conducive to U.S. investment. While there is opportunity, especially in the extractive industries sector, the Government of the State of Eritrea (GSE) maintains a command economy, with government activities predominating over private enterprise. Unreliable power, complicated and changing import regulations, difficult air and ground transportation links, insufficient port facilities, lack of fuel, unrealistic exchange rate, restrictions on repatriation of profits, the near impossibility of getting a construction permit unless the project is government-sanctioned, and in-country travel restrictions all work to undermine trade and investment. In addition, the potential U.S. investor must be aware of the international sanctions regime placed on Eritrea. There is no American Chamber of Commerce and few American companies are working in Eritrea.

According to its Five Year Indicative Development Plan 2014-2018, the GSE states that it wants to encourage Foreign Direct Investment, but its policies belie those pronouncements. 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 as far back as 2013, have never been approved by the President. Recently, more flights in and out of Asmara have been added to replace Lufthansa flights that terminated in 2013. Eritrea achieved Millennium Development Goals related to public health in the course of 2014, and is making progress toward other MDGs.

Eritrea's labor pool is well qualified as compared with that in some neighboring states. Eritreans start English classes in the early grades and are educated almost exclusively in English from grade six onwards. The people are generally resourceful and industrious. Unlike many other places, Eritrea has not historically been a place of endemic corruption, but there are signs corruption is on the rise, particularly in the areas of smuggling and immigration. 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.

Investment opportunities in Eritrea are most promising in the mining, minerals, energy and agricultural sectors. Foreign activity in financial services, domestic wholesale trade, domestic retail trade, and commission agencies is prohibited. The GSE prefers to obtain a controlling interest in any large venture and appears to favor partnering with smaller entities as opposed to larger, multinational firms.

The country performs poorly with regard to public finance management. It has never published a national budget. Economic indicators are based on conjecture and partial information.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

In its Five Year Indicative Development Plan 2014-2018, the GSE states it "encourages foreign direct investment and has enacted competitive fiscal regulations and packages to ensure a fair return for risk while maximizing the benefits to the host country", but its policies belie those pronouncements. The Foreign Financed Special Investments (FFSI) Proclamation permits foreign investment, but specifically limits FDI in financial services, domestic wholesale trade, domestic retail trade, and commission agencies, as these sectors are seen more promising for domestic investment. Investment opportunities in Eritrea are most promising in the extractive industries, energy and agricultural sectors. The GSE prefers to obtain a controlling interest in any large venture and appears to favor partnering with smaller entities as opposed to larger, multinational firms.

Lack of consistent, high-level government commitment to structural reform continues to hamper Eritrea's economic prospects. Investors in Eritrea face risks including lack of transparency in the regulatory process, limits on possession and exchange of foreign currency as well as repatriation of profits, difficulty in accessing any part of the country outside of Asmara and obstacles in obtaining licenses and construction permits.

Other Investment Policy Reviews

In the past three years the GSE has not conducted an OECD, WTO or UNCTAD investment policy review, nor has it cooperated with an institution to produce a report on the investment climate. The last UNCTAD report was in 2001.

Laws/Regulations of Foreign Direct Investment

The Foreign Financed Special Investments (FFSI) Proclamation of April 2007 specifically limits foreign investment in financial services, domestic wholesale trade, domestic retail trade, and commission agencies, but permits investment in other sectors. The Proclamation established a framework for investments greater than USD 20 million and aims to achieve self-sustaining growth, facilitate the rapid expansion of exports, expand employment, and promote and protect foreign investment. 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. There is no link to Eritrea in www.GER.co.

Eritrea's legal and regulatory frameworks are underdeveloped and judges sometimes are inexperienced. Judicial cases can take an inordinate amount of time to conclude. Civil courts are open and operate slowly, but generally under rule of law without government interference. Judicial decisions are not published.

Eritrea has no legislature or parliament. "Laws" are passed by proclamation and are usually published at http://erigazette.org/.

Industrial Promotion

The GSE sponsors a mining conference for international investors every year, usually in October. The GSE sponsored two investment conferences for diaspora returnees in the course of 2012 but has not hosted similar events since then.

Limits on Foreign Control

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. No waivers are granted. In any case, FDI is not widespread in Eritrea and most medium and large businesses are controlled by either the GSE or the ruling party. The GSE appears to prefer obtaining a controlling interest in any large venture and to favor partnering with smaller entities as opposed to larger, multinational firms. 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.

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. Tired of waiting years for a construction/building permit many families built homes without authorization. In 2014, the GSE bulldozed and destroyed hundreds of such homes throughout the country.

Privatization Program

As noted previously, most medium and large businesses in Eritrea are controlled by either the GSE or the ruling party. The government signals it is seeking to privatize some state-owned firms, but little progress has been made. Firms slated for privatization include the telephone company, hotels and some food production and packaging entities. However, to date, no state-owned enterprise has been totally privatized. Privatization is by direct negotiation, not an open bidding process. 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. For example, a South African firm began discussions about the sale of the national brewery in 2013, and these discussions are ongoing, but with limited forward movement.

Screening of FDI

In the Eritrean command economy, the GSE reviews all FDI and is often involved in the direct negotiation, but the process is obscure and non-appealable. Over the years, the GSE has enacted a number of commercial "proclamations" designed to facilitate conduct of private enterprise, but these are not consistently implemented. 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.

Competition Law

There is no separate agency in Eritrea which reviews transactions for competition-related concerns.

Investment Trends

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. For example, Proclamation 173/2013 repealed legal notice 101/2005 which imposed a regime of foreign currency restriction, thus ending, as a matter of doctrine, years of adherence to self-imposed isolation and strict self-reliance. Even so, 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 still not been approved by the President. In areas that remain underdeveloped such as energy, fisheries and tourism, the GSE courts diaspora and other foreign investors.

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 unreliable provision of electricity and water.

Lack of consistent, high-level government commitment to structural reform continues to hamper Eritrea's economic prospects. Overall, 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, issue construction permits, correct macroeconomic imbalances or address foreign currency exchange anomalies.

The nation's one successful economic sector is mining. A number of reputable international firms are present in Eritrea either conducting minerals exploration or mining for potash, copper, zinc, and electrum (a naturally occurring gold and silver alloy) However, the country remains unable to process the raw material, as there is no reliable power for smelting, so raw materials are exported to other countries, limiting returns. 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.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	166 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	189 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	Not ranked	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 490	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of USD 4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015.

2. Conversion and Transfer Policies

Foreign Exchange

The official exchange rate is fixed at 15 nakfa (ERN)/USD 1 while the unofficial market rate fluctuated between ERN 50 to 58/USD 1 during 2014. The official exchange rate between the ERN and USD is fixed, but the exchange rate between the nakfa and Euro floats based on the exchange rate between the USD and Euro. This makes the Euro extremely difficult to use since there are no mechanisms to determine the current exchange rate. Exchanging nakfa at the unofficial market rate outside of the banks is widespread, although illegal.

The GSE places limits on possession and exchange of foreign currency and lacks transparency in conversion and transfer policies. It is generally illegal 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 USD 10,000 required declaration. Repatriating hard currency is legally permissible but in practice it remains difficult. Foreign companies have sometimes found themselves unable to convert nakfa into foreign currencies: for example, foreign air carriers have 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. In 2014, Qatar Airways and Turkish Airlines opened routes to Asmara. EgyptAir, Sudan Airways, and

Yemenia have continued to provide service to Asmara. Airlines require payment in hard currency for foreign travelers. Some airlines accept payment in nakfa, but only from Eritrean citizens who are resident in Eritrea and who do not have a foreign passport and not for one-way tickets out of Eritrea. 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. Eritrean hotels serving foreign visitors require payment in hard currency. As a general matter, lack of hard currency motivates the GSE to seek payment in U.S. dollars where possible but provide income in nakfa.

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 an account for foreign currency reserves and manage foreign exchange activities. There are three state-owned banks in Eritrea: the Bank of Eritrea, the Commercial Bank, and the Commercial 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. That the Himbol system processes both public (two per cent tax) and private (gifts from relatives abroad) transactions has meant that some incoming foreign currency exists in a legal no man's land, without adequate accountability or transparency. In 2015, in response to the UN's Somalia Eritrea Monitoring Group (SEMG) report, the Eritrean government disclosed its revenue in relation to the 2 percent income tax imposed on Eritreans living abroad, claiming that the, "aggregate RRT collected in the past four years did not exceed 73 million US dollars." No documentation was released, however, to substantiate this figure.

Monetary stability is fragile, reflecting excessive money creation to fund chronic fiscal national deficits. Several times during 2014, only smaller denominations of bills, such as ten or twenty nakfa notes were available, with no explanation. Eritrean banks impose a limit on cash withdrawals of ERN 10,000. How many transactions are allowed in a given timeframe remains unclear. For example, one branch of a bank may limit the number of transactions to once a week while a different branch of the same bank may allow daily transactions. In special circumstances a larger withdrawal may be allowed.

Remittance Policies

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, but these allowances are not always observed in practice. Foreign exchange for investment remittances is coordinated by individual contracts unique to each investment. See also section above.

3. Expropriation and Compensation

Legal provisions for expropriations, other than eminent domain for public purposes, do not exist. 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.

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.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Eritrea's legal system is a civil law system borrowed from Ethiopia's adaptation of the Napoleonic Code. There is Commercial Code of Eritrea and Provisional Civil Code of Eritrea (1993). Eritrea's legal and regulatory frameworks are underdeveloped and judges sometimes inexperienced. Judicial cases can take an inordinate amount of time to conclude. Civil courts are open and operate slowly, but generally under rule of law without government interference. Although almost all of Eritrea's rankings in the World Bank's "Doing Business" were in the bottom 10 percent, its ranking for "Enforcing Contracts" was 68 of 189, up one ranking from 2014.

All property is state owned and subject to 99 year leases.

Bankruptcy

In theory a debtor may file for both liquidation and reorganization. A creditor may file for liquidation only. Eritrea ranked 189 out of 189 in the World Bank's 2015 "Doing Business" Index for resolving insolvency and the overall comment on the ranking for "strength of insolvency framework index is "no practice."

Investment Disputes

Eritrea does not have thoroughgoing 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) but, Eritrea has neither ratified nor signed the ISCID Convention, although it has said it intends to do so. There are currently no known cases in which the GSE has accepted international arbitration for business disputes.

International Arbitration

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. There are currently no known cases in which the GSE has accepted international arbitration for business disputes. See also above section on Investment Disputes.

ICSID Convention and New York Convention

See above.

Eritrea has neither ratified nor signed the ICCID Convention, although it has said it intends to do so.

Duration of Dispute Resolution

The resolution of dispute proceedings is measured in years, not months. Eritrean judges are few, overworked and often inexperienced. Post is unaware of any court decision or arbitration award or enforcement thereof.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Eritrea is not a member of the WTO.

Investment Incentives

Information on any form of investment incentive, if it exists, is close-held by the government and the existence thereof, or details about it are not known. All foreign investment is overseen and regulated by the government.

Research and Development

If U.S. and/or other foreign firms participate in research or development, it is self-financed. The GSE does not subsidize or fund non-Eritrean entities.

Performance Requirements

All foreigners are restricted from traveling outside the capital, Asmara. A travel permit is required and must be requested 10 days in advance for any travel outside the capital. Travel to border areas or outside recognized tourist areas is generally not approved.

It is known or suspected that the government or the political party owns a stake in all large going concerns or investments, including the new investments in the extractive industries but such information is neither published nor generally available.

Data Storage

The host government does not follow "forced localization" by law. In any case, most goods and technology which investors would use would have to be imported. There is very little local production or manufacturing except for agricultural goods, textiles, and shoes. There are no laws on IT software, hardware or data storage.

6. Right to Private Ownership and Establishment

As noted above, foreign ownership/investment in financial services, domestic wholesale trade, domestic retail trade, and commission agencies is prohibited.

7. Protection of Property Rights

Real Property

All property is state owned and subject to 99 years leases. 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. World Bank's Doing Business Report ranks Eritrea 176 out of 189 on Registering Property. Land titles are recorded, but due to exorbitant taxes of up to 30 percent or more on transfers, many transfers are not recorded.

Intellectual Property Rights

IPR is enforced through Eritrea's Commercial Code and Provisional Civil Code of 1993. http://www.wipo.int/wipolex/en/text.jsp?file_id=244453. Trademarks, patents, and copyrights are available through a procedure involving a public advertisement in the local press. The legal structure for enforcement is extremely weak to non-existent. Pirated DVDs, software and music are openly available and sold, probably as much or more so than legitimate product. There have been no known enforcement actions.

Eritrea is neither listed in USTR's Special 301 report nor in the notorious market report. Eritrea joined WIPO in 1997.

Resources for Rights Holders

Post's Economic Officer: Debra Johnson (until June 2015) Edward Thompson (eff July 2015)
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Eritrea has no AmCham.
Post's list of attorneys can be found here: http://eritrea.usembassy.gov/professional-services.html

8. Transparency of the Regulatory System

Eritrea has not convened parliament for over a decade and all laws are issued by proclamation from the executive branch and usually published here: http://erigazette.org/. There is no process in place to review the legality of these proclamations. 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, though a new Code of Procedures may be published soon. The GSE does not always announce new regulations prior to implementation, and they may be subject to abrupt change. For example, in 2014 the regulation for importing cars was abruptly changed from allowing no vehicles older than 10 years to allowing no vehicles older than 5 years. 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.

There are no private nongovernmental organizations or private sector professional associations which are open to foreigners.

9. Efficient Capital Markets and Portfolio Investment

In its Five Year Indicative Development Plan 2014-2018, the GSE states it "encourages foreign direct investment and has enacted competitive fiscal regulations and packages to ensure a fair return for risk while maximizing the benefits to the host country", but its policies belie those pronouncements. The Foreign Financed Special Investments (FFSI) Proclamation permits foreign investment, but specifically limits FDI in financial services, domestic wholesale trade, domestic retail trade, and commission agencies, as these sectors are seen as more promising for domestic investment. Profits are difficult to repatriate. There is no credit for investors in the local market primarily because there is a shortage of hard currency in Eritrea. See also section 2 on Conversions and Transfers.

Money and Banking System, Hostile Takeovers

The health of the banking sector is unknown, but likely it is not healthy. All banks are state-owned and are the only bodies authorized to maintain accounts for foreign currency reserves and manage foreign exchange activities. None publish a financial statement. Foreigners can maintain a bank account but may have trouble withdrawing funds.

10. Competition from State-Owned Enterprises

State-owned Enterprises (SOEs) are active in nearly every sector except retail. In the mining industry, the government owns a percentage of going concerns and is not actively involved in the management. As no national budget has ever been published and statistics and information are closely held, any data about SOEs is necessarily the result of conjecture, rumor and/or guesswork. 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 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. Following the loss of Ethiopia as its principal trading partner after the border war, industrial production decreased due to a shortage of raw materials, power and fuel affecting both private and government-owned enterprises. 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 to take over the GSE-owned Asmara Brewery, and negotiations remain ongoing. Other firms offered for privatization include food production and packaging enterprises, hotels and the telephone company but to date, none of these negotiations have resulted in a transfer of ownership.

OECD Guidelines on Corporate Governance of SOEs

SOEs do not have Boards of Directors and management is overseen/controlled by the government or the party. For example, the Coca-Cola bottling plant (majority owned by the political party) was shut down for several months, allegedly because it could not get hard currency from the Government to purchase supplies not locally available. Private industry is not allowed to compete against SOEs.

Sovereign Wealth Funds

Eritrea has no Sovereign Wealth Fund.

11. Corporate Social Responsibility

Corporate social responsibility is not a concept of which there is general awareness in Eritrea. There are no independent NGOs in Eritrea.

Nevsun, the Canadian majority-owner of the Bisha mining operations, partners with the Eritrean National Mining Corporation(ENAMCO), and reports that the Bisha Mine will work towards adhering to the 2012 International Finance Corporation (IFC) Performance Standards for Social and Environmental Sustainability. Per its website, Nevsun's annual CSR Report follows much of the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines

OECD Guidelines for Multinational Enterprises

The host government does not encourage foreign and local enterprises to follow generally accepted CSR principles such as the OECD Guidelines for Multinational and the United Nations Guiding Principles on Business and Human Rights.

12. Political Violence

Eritrea has no recent history of political violence, as the Eritrean government is a highly centralized, authoritarian regime under the control of the President. Authorities generally maintained effective control over security forces and security forces maintain control over the citizens. 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 relations with its neighbors Ethiopia and Djibouti are tense due to unresolved border issues, and extremists have periodically operated on the Sudan side of that border. The UN Security Council levied sanctions in 2009 and 2011, in response to allegations that Eritrea supported regionally destabilizing groups, including al-Shabaab. Per its October 2014 report, the UN Somalia-Eritrea Monitoring Group found no evidence of Eritrean support to al-Shabaab during the course of its mandate.

On March 20, 2015, two minor explosions occurred at the Bisha Mine 100 miles from Asmara. Nevsun, the Canadian mining company with majority-ownership of the Bisha operations, released a press statement blaming it on an act of vandalism. No group has publicly taken responsibility.

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 GSE controls most foreign exchange, virtually the only legal source of imports, creating illicit profit opportunities for smugglers. Eritrea is not yet a party to international anti-corruption agreements. The GSE does not publish a national budget or national accounts.

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

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Eritrea is neither a party to the UN Anticorruption Convention nor the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

Special courts have jurisdiction over corruption as national security cases. During the year authorities did not bring persons detained on national security grounds, for corruption or otherwise, to trial, although it was rumored over 100 people were arrested in March 2015 for corruption, having to do with smuggling goods and fuel. In practice, special courts do not protect the rights of defendants or ensure access to a lawyer. Special Court judges are military officials. The court reports to the Ministry of Defense and the Office of the President. Trials in Special Court are not open to the public and the court's decisions are final, without appeal.

There is no watchdog organization operating in Eritrea. Transparency International ranked Eritrea 166 out of 175 countries, scoring 18 out of a possible 100 in their 2015 Corruption Perception Index.

14. Bilateral Investment Agreements

Eritrea has only one formalized bilateral investment agreement that is currently in force (with Italy). It has signed other agreements, but they are not in force. Eritrea has no trade agreements with the U.S.

Eritrea-Netherlands Bilateral Investment Treaty; date of signature: 02/12/2003. Eritrea-Uganda Bilateral Investment Treaty; date of signature: 30/06/2001. Eritrea-Qatar Bilateral Investment Treaty; date of signature: 07/08/2000. Eritrea-Italy Bilateral Investment Treaty; date of signature: 06/02/1996; date of Entry into Force: 14/07/2003.

Bilateral Taxation Treaties

Eritrea does not have a bilateral taxation treaty with the United States.

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. It has joined the Multilateral Investment Guarantee Agency (MIGA).

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. Eritrea's labor pool is well qualified as compared with that in neighboring states. Eritreans start English classes in the early grades and are educated almost exclusively in English from grade six onwards. The people are generally resourceful and industrious. Unlike many other places, Eritrea is not a place of endemic corruption. UN agencies reported that Eritrea achieved Millennium Development goals related to reducing child mortality, improving maternal health, and combating HIV/AIDS, malaria, and other diseases in 2013. Its labor force is essentially free of HIV/AIDS, malaria and tuberculosis.

Although Eritrea has ratified seven of eight ILO fundamental conventions, Eritrean labor law, policy and practice are far from being consistent with these conventions. The law allows unions and collective bargaining, but in actuality there are none. Neither are there strikes nor labor dispute resolution mechanisms. While eighty per cent of the population is engaged in subsistence agriculture, the inefficient public sector remains the largest source of paid employment. Most remaining paid employment is in small retail shops. The official unemployment rate is around 14.5 percent, but it is probably much higher.

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. 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 – a practice inconsistent with the ILO Forced Labor Convention and Abolition of Forced Labor Convention. The military and PFDJ regularly use persons performing national service as a low-cost labor force, disrupting free competition in the labor market. The range of jobs performed by national service conscripts include immigration at Asmara International Airport, receptionists and restaurant servers at the city’s largest (and government-owned) hotel, auditors in the Ministry of Finance, employees at the Ministry of Foreign Affairs who work directly with foreign missions and teachers.

Eritrea is not a signatory to the ILO's Worst Forms of Child Labor Convention (C. 182), 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 ERN 500-700 (USD 34-47 at the official exchange rate, USD 9 - 14 at market 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 ERN 360 (USD 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/Trade Facilitation

The GSE constructed a free trade zone in the port city of Massawa in 2001 and promised to issue the first licenses in 2006. 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. Few foreign companies operate in the zone, and whether it actually operates per the terms of the declaration is difficult to determine.

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 highway 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, either legitimately or through smuggling of consumer goods which occurs regularly across the border.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M USD)	N/A		2013	3,444	www.worldbank.org/en/country
Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M USD, stock positions)	N/A		2013	7	BEA
Host country's FDI in the United States ($M USD, stock positions)	N/A		2013	0	BEA
Total inbound stock of FDI as % host GDP	N/A		N/A		

*Eritrea produces no public statistical data.

Table 3: Sources and Destination of FDI

No data available on Eritrea in the IMF's Coordinated Direct Investment Survey (CDIS) site (http://data.imf.org/CDIS).

Table 4: Sources of Portfolio Investment

No data available on Eritrea from the IMF's Coordinated Portfolio Investment Survey (CPIS) site (cpis.imf.org).

19. Contact for More Information

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