

ERITREA

SUPPLEMENT

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Presidential vision

As the mining sector opens up, President Isasia Afewerki outlines his strategy for growing a sustainable economy.



Tourism

Time and investment are the keys to a booming tourism sector in Eritrea — the attractions are already there.



Finance

Infrastructural investment and technical upgrades will boost competition and services within financial services.



Free zones

Eritrea's new integrated free zone project will bring investors closer to significant trade routes and African markets.

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Investment, not charity, the key to future prosperity

As the mining sector opens up, Eritrea looks forward to building a sustainable economy.

“WE need investments, real investments. Charity is not going to save Africa, or transform Africa into a real market.”

Speaking during an interview with **Prisma Reports**, in which he praised China's business relationships in Africa, President Isaias Afewerki of Eritrea has outlined what he believes is the solution: better partnerships, certainly, conditions that are more conducive to investment, without doubt — but also, importantly, a thriving manufacturing sector.

“Africa is marginal; it is not even a market,” he says. “We cannot talk about Africa as an economy. Globally, what do they represent in terms of productive capacity, in terms of economic growth, in terms of their trade partnerships with a number of continents? They don't represent anything.”

“China will have to invest heavily in Africa. We have witnessed them getting heavily involved in infrastructure, mining, agriculture and a number of other industries,” he says.

“Raw materials will need to be transformed into the finished product and technology transferred.”

President Isaias Afewerki

“Now they also need to invest in manufacturing. Raw materials in Africa will not transform this continent into a viable market. Manufacturing will have to be there, infrastructures will have to be developed, raw materials will need to be transformed into the finished product and technology will have to be transferred.”

Governing a land brimming with valuable resources that include gold, potash, zinc, copper, salt, fish and the possibility of oil and natural gas, Afewerki believes China's next

round of investment should be aimed at helping the continent grow in self-sufficiency.

In September, the President visited New York to address the 66th session of the General Assembly of the United Nations, where he met China's Foreign Minister, Yang Jiechi. It was a fruitful exchange.

Mining production started in Eritrea this year. The government has allowed more than 30 companies to come and invest in that sector and is taking advantage of the increased foreign direct investment in the real economy. President Afewerki notes how the country's debt is “almost insignificant” when compared to other countries: “We have been judicious in our approach to borrowing money, even getting aid from outside because it would disable us and put a heavy load on our shoulders,” he says.

He emphasizes the transparency he and his government have been working to improve in recent years. “It is a very clean government,”

he says. “You have the legal, political and labor aspect of the investment opportunity for foreign direct investment and an infrastructure. Our policy for the last 20 years has been focused on creating a viable environment for investment, both local and foreign. We are now in a very comfortable position.”

“The Chinese government and Chinese investors are working to develop achievable programs. The support and facilitation for investors coming to this country is huge.”



Isaias Afewerki
President of the State of Eritrea

The President is also hoping China will help his country maximize its particular domestic advantages, not least an exceptional location on the Red Sea.

“In the 19th century, during the colonial era, Eritrea was a gateway to the Horn of Africa. Location is a comparative advantage, and we need to invest in that location. We need good harbors, good roads, good energy programs, and good communication links. Unless you have that infrastructure in place, you simply talk about location as a virtual advantage.”

“We need to develop that comparative advantage jointly so that both countries benefit. China can benefit and Eritrea, within the collective manner, would benefit from the infrastructure. Its harbors, its airports, its electricity, its roads, its water supply, its communications, land, air and sea transport

— those investments are what we are working on with the Chinese. We need to have viable roads, not only for the domestic market, but also for the regional market. We link to Djibouti, Ethiopia, Sudan and other areas, by sea, by land and by air. So that will require a huge investment in infrastructure — that is what we are seeking to do with the Chinese.”

Trade policies also need to be harmonized within the region for it to really succeed, the President believes. “At the moment, there are no policies,” he says. “Unless we develop a free trade environment with the region, none of the other programs will run smoothly.”

Agriculture, which accounts for more than 14 percent of GDP and employs around 80 percent of the population, also presents an opportunity for Chinese investors.

“We have developed a number of irrigation and soil conservation programs, and the technology has reached a level where you can develop agriculture in arid, or semi-arid land,” he says. “But that is not all — our livestock is another big advantage and fishing is also a critical sector for us in terms of exports. We are also working on cotton cultivation. We have food and grain production, and fruit, vegetables and horticultural developments in place to provide food security for the country. The next step, of course, is to develop the agro-industry; we need to develop commercial and high-value crops for export.”

The Premier is optimistic that a young and dynamic country like Eritrea will, with the right investment, be able to build a viable economy eventually. “We have only done the minimum in terms of our long-term development,” he says. “It would be foolish for us to be complacent. With each achievement, the challenge becomes greater for a country to develop its economy to a sustainable level.”

New tourism hotspot gears up to enthrall visitors

Stable, harmonious, diverse — and with a host of fascinating attractions — Eritrea has the potential to shine.

WITH a coral-lined Red Sea coastline spanning 1,400 kilometers, 350 islands, forested mountains, unusual wildlife and hot water springs, Eritrea's tourism potential is as vast as the East African savannahs.

But although progress has been made in road development and basic infrastructure, there is still a lot to do.

Minister of Tourism of Eritrea, Mrs Askalu Menkerios, describes the changes afoot as the country gears up to attract strong investment.

“Eritrea is a unique country, and can offer a lot,” she says. “It has a strategic location geographically, and links Europe, Asia, Africa and the Middle East.”

“We are in the process of improving the tourism environment, and our precious historic and cultural areas, so it is conducive for people to come, enjoy, do research and invest.”

“Our investment policy is very open and Chinese investors can be involved in the basic infrastructures: electricity, roads, and clean water, for example, as well as hotels and communications. There are also opportunities to develop the coastal area.”

Ecotourism would be key, the Minister states, to protect Eritrea's special natural resources.

“The Danakil depression is

the lowest spot on Earth: it is 100 meters below sea level. People can come to dive; we have beautiful corals, turtles, sea birds and more than 1,000 species of fish. It is pristine, unpolluted water.

“Then, if you go a few kilometers from Asmara, you find the green belt, the highlands, with beautiful mountains and scenery.”

There is also huge potential for safaris and national parks, particularly in the Gash Barka area, the agricultural area and so-called “bread-basket” of the country.

“We have elephants you can go and watch and are creating very good parks for various species. We want to make it a place where they can move freely as if they were in their natural environment — not a zoo,” she says.

With natural therapeutic springs around the country, there is also potential for health tourism.

Culturally rich

The country also boasts a rich cultural diversity, and a fascinating history. “There are underground cities and towns belonging to the Adulite civilization from thousands of years ago beneath the Red Sea,” Minister Menkerios continues. “Whenever they dig to build houses around Asmara, they come across ancient relics, such as



Askalu Menkerios
Minister of Tourism of Eritrea

pottery and jewels.

“Recently a 27 million-year-old elephant skeleton was discovered here, as well as a 1 million-year-old full skeleton of a human-being in Buya, so it is very interesting for archaeologists, historians and religious researchers.”

“We have so much to offer, and are building the infrastructure to make all these attractions accessible.”

As Eritrea's most important trading partner, China is naturally being approached for foreign direct investment. “We are building another international airport and our two most important ports have been



Massawa Port: home of coral-built structures and old covered markets.

declared free zones. There are great opportunities for different business and investment activities,” the Minister explains.

“Local people are also trying to benefit from the service sector. They are aware of the need to build hotels, pensions, coffee shops, and restaurants.”

“As a government, we are organizing interest-free loans to help local entrepreneurs get started. And of course there will be domestic tourism; people from every region of Eritrea can travel and experience other regions.”

There are conferences going on in all corners of Eritrea to evaluate

the current state of the services sector, the Minister explains.

“We have people from China, Japan and South Korea asking to come in groups, but we have to hold off at the moment because we are just not prepared. When we are ready, we are sure many people will come to enjoy our culture, our attractions and relax.”

“Our young people are working night and day to build roads, dams, bridges, hospitals, schools — we are a new country.”

“All we need is time and investment to make the beauty we have accessible to all.”



Financial services branches out

Eritrea is calling on Chinese investors for more infrastructural investment as it seeks to grow the finance sector.

SINO-ERITREAN business relations go back to the beginning of Eritrea's independence, and in recent years, China has made significant contributions to the African country's growth, especially in infrastructure, such as hospitals, roads, schools and other amenities.

China also supports Eritrea in developing its industrial, agricultural and mining sectors. As a virgin territory, there are significant opportunities for Chinese investors to participate in developing Eritrea's potential across the board.

Now, however, experts within the financial industry are calling for more investment in the country's infrastructure; the knock-on effects of which will help this fledgling sector take flight.

Financial services in Eritrea are severely underdeveloped. As well as the central bank — the National Bank of Eritrea (NBE) — there are only four other entities. The market is dominated by the Commercial Bank of Eritrea, and an insurance company, the National Insurance Corporation of Eritrea.

With more than 85 percent of the domestic market, the Commercial Bank of Eritrea (the Bank) — formerly part of the Commercial Bank of Ethiopia — aims to provide services to all sectors of the economy and the public as it concentrates on its core banking activities.

A government-owned bank, which has 17 branches throughout the country, the Bank has arrangements with several international players, and accepts savings deposits, demand deposits, and deposits in local and foreign currencies for the Eritrean diaspora.

General manager Yemane Tesfay outlines the challenges of the financial system, and his vision for the state-owned company.

"Competition is small," he begins. "Eritrea's financial system is under banked. There is one commercial bank, the Bank which has 85 percent of the market, the Commerce and Housing Bank, which has between 10 percent and 12 percent shares, and one small investment bank.

"We have always been eager to reach a larger number of customers, and will keep growing because people are used to banking services. We have around 500,000 depositors, from a population of 6 million. We are also concentrating on small enterprise lending. We even give consumer loans at less than US\$400, for people to buy furniture, cars, motorcycles, houses, or pay medical expenses."

Although the bank renders credit facilities to all sectors; agricultural, manufacturing, domestic and foreign trade, Tesfay regrets that Eritrea's financial system does not yet have derivatives, money markets, foreign exchange or stock exchange facilities, or even ATMs.

"As the President has said, we need investment in infrastructure before any of this can be put in place," he says. "The development of the energy sector is crucial, for example: we are not confident with our power supply, so all our branches have standby generators, even in the



Yemane Tesfay, General Manager of Commercial Bank of Eritrea

small and rural areas. If we had a dependable power supply, we wouldn't need them."

IT development is another key issue. "I would like to see Chinese banks investing in the banks here, or having separate overseas branches, so that they can share their experience with us," Tesfay says. "We need foreign investment in the banking system because we cannot develop it on our own, no matter how ambitious we are.

"Eritrea may be small to Chinese banks now, but in the coming years, if the mining sector develops the way it is starting to, we will be a very attractive country. We have a lot of virgin land and investors can benefit from a first-mover advantage."

As Tesfay explains, the Bank has many foreign corresponding entities, including the Commerce Bank, ING, Citibank and around 40 European and US banks.

"We are connected by SWIFT and there is no problem transferring or receiving money. However, if the Chinese come and invest in the existing banks, even with a small percentage, they can intervene in management decisions. If the mining sector takes off, the shortage of foreign currency will be history."

Automation and skilled manpower will be the main challenges in the bank's development, Tesfay points out. "Automation is very necessary; we have dynamic IT people in-house, but as I've said, we need infrastructure, a dependable power supply, skilled manpower and an attractive remuneration scheme. Being state owned, that is not easy."

Insurance services

At the National Insurance Corporation of Eritrea Share Company (NICE), general manager Zeru Woldemichael is keen to get Chinese participation and make the company more competitive. "We have spent the last two decades making people aware of the need for insurance," he says.

NICE was established in 1991 and privatized

in 2004. It was the largest privatization drive in Eritrea's history with around 1,700 Eritreans investing and becoming new members.

According to a report undertaken by Munich Re, one of NICE's reinsurance partners, around 750 Eritreans at home, and more than 1,000 abroad bought NICE shares. Other shares are owned by the Martyrs' Trust Fund, with the remaining shares — some 60 percent — by the government.

Thanks to its skilled and prudent financial as well as operational management, NICE has shown remarkable growth in recent years, with most of its activities concentrated in non-life activities, such as car, marine, livestock and fire and accident insurance.

"Even though we look as though we have monopolized the market, we have a number of competitors around us and we need to penetrate the market," Woldemichael says. "We act as insurance company for the country and we are also the ones who advise on how the country manages its risk when it comes to the power plant, Eritrean Airlines, and the mining industry. When a concerned government institution or company needs advice on what is the best way to handle their risk, we provide it.

"We know that the reinsurance industry in China is huge and have always been looking for an alternative market in terms of insurance placements. I don't know whether the Chinese reinsurance industry has the appetite to look into Africa's general insurance industry.

"If a Chinese underwriter came to me, I would tell him that I have some insurance that I need some support for, especially for the big power plant in Massawa, where the insurance is between US\$120-150 million. In our experience, Chinese investors look for an insurance company in China."

The growing mining industry is playing a larger role in NICE's activities.

"There are a few companies in the industry that are on the right track. In another few years, we'll see not only the Bisha mine, but another four or five of them. One company is trying to set up by the end of next year or 2013 by the latest. Another three might come on board by 2015-2016.

"So these are some of the things that we are looking at. This is a situation that is changing drastically on a global and regional level. It gives us hope. However, when you go to the stock market or over the counter trading in terms of stock, you must have a conducive political and economic environment.

"All the shares have specifically been sold to Eritrean nationals wherever they are. We said let the Eritrean nationals take an advantage of it. So we have about 1,650-1,700 shareholders. Some of them own only 1 or 2 shares so the number is quite big and we do the AGM every year. They are the ones that approve the annual reports and we have been paying dividends since the time of our establishment and especially after privatization in 2004. So everybody is happy."

Woldemichael is also looking at the introduction of micro insurance.

"We need to be able to go out of where we are now and study the rural population at large and see if they need medical insurance, life insurance or agricultural insurance," he says.

"I would also like to look at the oil industry in South Sudan. We don't know how to insure it and where to insure it. And there are quite a lot of Chinese investors there. It is booming. At the end of the day, we are talking about a 2 billion dollar share of oil they have. That is a huge amount in the market."



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The National Insurance Corporation of Eritrea (NICE) and the New Sudan Insurance Company (NESI) are the market leaders with comprehensive products and unrivaled professionalism. NICE and NESI offer investors strong opportunities and local expertise.

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Excellent incentives combine with stability and security

Free Zone integration and expansion will bring benefits for the country and investors.

EXCITING developments are taking place in Eritrea's free zones, which will make a huge impact on trade and productive output in the country. Like all free zones, businesses based within the Massawa Free Zones Authority and the Massawa Port Authority benefit from excellent conditions and incentives.

The Eritrean government is hoping this new integrated development will attract considerable international attention and business, as it upgrades the port and airport facilities at Massawa and Assab.

Given the political and social upheavals in neighboring countries, Eritrea offers stability and security for investors. They also benefit from excellent road and sea links, and Eritrea's strategic location on the Red Sea trading route — one of the busiest trading routes in the world.

The free zones offer excellent opportunities for Chinese trade, shipping and logistics companies, which can also enjoy the use of warehouses in Eritrea's free zones, and can be utilized as a distribution center for Middle Eastern and African countries. They can also use them to export items manufactured within Eritrea, and establish shipping lines in Massawa or Assab to transport goods throughout Africa by land or sea.

Some 20,000 vessels a year pass Eritrea loaded with around 700 million tonnes of cargo — more than 9 percent of the estimated 7.7 billion tonnes carried by global shipping as a whole.

The Massawa Free Zones encompass about 5,000 hectares, including the port and airport. Authorities have invested tens of millions of dollars in preparing the infrastructure.

The new integrated free zone (EFZ) will be significantly bigger. It will incorporate the



Araia Tseggai
CEO of Eritrea Free Zones Authority

ports of Massawa and Assab, with all their combined facilities, the refineries, the salt works and the airports.

Investors can enjoy a range of excellent incentives, including exemption from paying customs duties, income tax or tax on profits. They can also work in any convertible currency. The EFZ, which will expand into more of the coastal area, will take in foreign and local economic activities across all sectors.

Chief executive officer of the Eritrea Free Zones Authority, Araia Tseggai outlines what makes Eritrea's existing free zones so important to the Horn of Africa.

"First, our geographical location is of importance because it is right there on the trade route of the world. The ships passing through load all kinds of facilities. We have a captive audience that makes it more feasible," he says.

"Secondly, the costs are low compared to other free zones in the region. The productivity issue has to do a lot with our exposure to many factories.

"With our government's welcoming attitude, investors coming here would find it easier to minimize the bureaucracy, hassle and corruption that exists in most other countries. They would be doing their business as cheaply as possible.

"From the beginning, our cardinal rule was not to see investors as cash cows. Of course, they are the source of our revenue indirectly, but we are not going to require too much from them," he says.

What they give by being here and staying here is much more valuable in terms of revenues for the government than putting a registration fee. We facilitate the investors' benefits totally.

"Benefits are always tempting: like I said, whatever you can find in others you can find here: 100 percent repatriation of your profits, no taxation of any kind on your profits, activities or income, 100 percent repatriation of your staff, your goods, your factory if you build it yourself — you can do whatever you want with no restrictions.

"Likewise, there are no restrictions on ownership; you can be a foreign owner by yourself, you can be in partnership with a local person or partnership with another country — all of that is immaterial. The bottom line is that it is your money and your investment.

"There are also no restrictions on labor practices as long as they fulfil international conventions, which we have signed, including no child labor, payment of overtime, medical help at work and working conditions that are healthy and safe — the same as is required everywhere else in the world," says Tseggai.

"We also have the Common Market for Eastern and Southern Africa (COMESA) made up of 19 countries that have no taxation regiment between them. That community, with a combined population of 400 million, an annual import bill of around US\$32 billion and an export bill of US\$82 billion, offers our free zone investors 40 percent added value.

"So if it made in Eritrea, well, of course it could be sold in Kenya through COMESA benefits, as if it is their country. No additional taxes are paid and that opens up many market area in the African continental zone.

"These are some of the things that we do and the location, the low cost, the benefits that we give them, the various activities that we are willing to go with the free zone status, and the fact that it is open to all businesses."

Tseggai explains how the benefits to Eritrea will also be significant.

"Free zones tend to be engaged in assembly line production," he says. "Consequently, they have a lot more people working in those factories than normal automated assemblies. So the amount of employment generated could be huge.

"Let's say a factory employs 500 people: the company then starts creating a supply line for itself, internally, which creates employment in other parts of the economy, such as transport, electricity ... it is an accumulative growth for the country."

Now is an interesting time for Eritrea, a country that, through the opening up of its mining sector, can look forward to continued development, with a view to having sustainable growth. As the President himself says: "If we can manage our partnerships with China and other investors in this country in a realistic manner, we can do a lot."

MM

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Well-connected, a superb location and offering excellent and highly competitive incentives, Eritrea's new Free Trade Zone will soon be open for business.

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