

# COUNTRY PROFILE

## ERITREA



<b>Full Name:</b>	The State of Eritrea
<b>Area:</b>	124.000 km <sup>2</sup>
<b>Capital:</b>	Asmara
<b>Main Languages:</b>	Tigrinya, Tigre, Arabic, English
<b>Currency:</b>	Nakfa (ERN)
<b>Head of State:</b>	President Isaias Afewerki



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*The authors accept sole responsibility for the profile which does not necessarily reflect the views of the organizers: Pro€Invest, the Centre for the Development of Enterprise (CDE), the European Investment Bank (EIB), the African Union (AU) and the Common Market for Eastern and Southern Africa (COMESA).*

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## 1. BUSINESS OVERVIEW

### 1.1 Key Economic Indicators

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

**Table 1: Key Economic Indicators 2002-06**

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

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

Sources: COMTRADE, World Development Indicators, Oanda.com

### 1.2 Economic Context

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

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

### 1.3 Population and Labour Force

The population estimates vary widely but the International Monetary Fund (IMF) calculated it at almost 4.75 million in 2006, of which some 19 percent resided in urban areas. The overall population density is approximately 39 persons per km<sup>2</sup>. Despite the lack of recent specific statistics, the World Bank estimates that the labour force has been growing at 4.3 percent per year between 1999 and 2005. Over 80 percent is involved in agriculture and pastoralism.

### 1.4 Role of Tourism

The tourism sector is relatively underdeveloped. The National Tourism Development Plan (NTDP), which was developed in 2000 with UNWTO assistance, estimated the total number of direct employees in the tourism sector to be around 5,700 persons. Further employment is created in economic activities which supply the tourism sector with goods and services; in total, up to 20,000 jobs may depend, directly or indirectly, upon the tourism sector. The NTDP has recently been revised, with a new government emphasis on sustainable rather than mass tourism.

### 1.5 General Institutional and Regulatory Framework

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

## 1.6 Local Skills Base

Unemployment is high in Eritrea and labour is plentiful and inexpensive. However, the labour force is relatively unskilled and on-the-job training is essential. The Hotel and Tourism Training Centre (HTTC) in Asmara is responsible for providing training for persons entering the hotel and tourism sectors.

## 1.7 Infrastructure Services

### 1.7.1 International access

#### *Air*

The main international airport is located at Asmara International Airport (ASM) which is located some 6km from the city. A new airport at Massawa is capable of handling wide-bodied jet aircraft. The airport is currently open though rarely used. However, it is anticipated that this airport will become one of the main gateways for both scheduled and charter services for international tourists visiting the planned new resorts on the coast and the offshore islands. The other international airport is at Assab but, like Massawa, there are no few international scheduled services.

At present, Eritrea is served by international flights operated by

- Eritrean Airlines (from Amsterdam, Milan, Frankfurt, Rome, Nairobi and Jeddah)
- Egypt Air (from Cairo),
- Lufthansa (from Frankfurt via Jeddah or Cairo);
- Saudia (from Jeddah),
- Yemenia (from Sana'a); and
- Regional Air (from Nairobi via Djibouti). By a new Company NASAIR

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

The fact that international flights are comparatively infrequent and often involve transfers from most of the major tourist-generating markets is undoubtedly a deterrent to attracting more tourists. However, as tourist traffic increases it is likely that more direct flights, and perhaps more airlines (including charter flights), will be added. As the national carrier, Eritrean Airlines can play an important role in developing key markets.

#### *Sea*

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

#### *Road*

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

### 1.7.2 Internal transport

#### *Air*

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

***Rail***

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

***Road***

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

**1.7.3 Telecommunications**

*Telephone:* IDD is available to Asmara, Massawa and Assab. The country code is 291. Operator assistance may be required.

*Mobile Telephone:* roaming agreements exist with mobile phone companies.

*Internet:* there is internet access in the main towns, and coverage is variable.

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

## 2. TOURISM SECTOR

International tourism to Eritrea recommenced in 1991 following the cessation of hostilities with Ethiopia. During the preceding three decades of armed conflict, tourism was mainly limited to border and ethnic travel. The trend in international visitor arrivals has been upwards in recent years. Visitor numbers increased from 70,000 in 2000 to 87,000 in 2004, but fell back to an estimated 83,000 in 2005. Renewed border tension with Ethiopia had a negative impact on international tourism.

In recent years, Eritrea has approved several new private hotel developments and streamlined its visitor entry procedures. Improvements have been made to the road system – the rehabilitation and upgrading of roads to Assab and Semienawi Bahri facilitated access to these areas for desert and water-based tourism and for eco-tourism activities – while a new international airport was constructed in Massawa..

### 2.1 Product Offer

At present, Eritrea's main appeal is to specialist markets such as scuba diving, bird watching, railway enthusiasts, military, architectural and archaeological interest groups as well tour operators who offer 'off-the-beaten-track' tours. Outside the domestic market, there appears to be little demand at present for beach holidays (although these could be promoted once new resorts are developed). Another attraction for visitors to Eritrea is the relative absence of street crime.

The prime attractions are:

#### *(i) Asmara*

Because of the intensive development that took place in the 1930s, Asmara is considered to possess one of the largest concentrations of Modernist or Art Deco buildings in the world (some of which are undergoing restoration). A number of churches and mosques can also be visited, including the Catholic Cathedral (1922), the Al Khulafa Al Rashiudin mosque and the Nda Mariam Orthodox Catholic Cathedral. Other notable buildings are the Asmara Theatre (built 1918), the Town Hall, the National Museum, the University and the Mai Jahjah Fountain. The spectacular road and railway from Asmara to Massawa (105km) descend from 2,438m to sea level, with magnificent views over the coastal desert strip. The road passes near the Orthodox Monastery of Debre Bizen.

#### *(ii) Massawa*

Massawa was an important centre in ancient times and remains the largest natural deep-water port on the Red Sea. It is built in Turko-Egyptian style, reflecting the periods of Ottoman and Egyptian rule from the 16th century to the late 19th century. Many important buildings in Massawa suffered damage during the Ethiopian war, but a number (e.g. the former Bank of Italy, the covered walkway and the former royal palace) are scheduled for restoration.

#### *(iii) Coastal and Marine Areas*

With its extensive coastline, white sand beaches, numerous islands and relatively calm waters with steady winds in some areas, Eritrea's shore and marine environment offers significant potential for water-based tourism activities. This potential has been considerably enhanced by the improved accessibility to coastal area following construction of the new Massawa-Assab paved road. There are wide sandy beaches and calm seas along the Red Sea coast, such as those at Gurgusom (near Massawa), Buri Peninsula, Zula Bay, Mersa Gulbub, Mersa Ibrahim, Ras Kuba and at the south-eastern city of Assab.

The Dahlak Archipelago, consisting of more than 200 islands with flat reef gardens and a variety of fish, has recently been given National Park status. It offers abundant opportunities for snorkelling and scuba diving.

#### *(iv) Archaeological and Historic Sites and Attractions*

Eritrea boasts a large number of specific archaeological and historic sites and attractions relating to various periods of its long history. These include

- Prehistoric cave paintings and etchings at QoHaito, Himbirti, Hashmile and elsewhere which require preservation and visitor interpretation;
- Adulite ruins at QoHaito, Metera and elsewhere which require further excavation. When the border re-opens, Eritrea could also serve as the gateway to visit the Axumite ruins in northern Ethiopia;

- Historic buildings from the Ottoman, Egyptian, and Italian periods in Massawa, Asmara, Keren and elsewhere;
- Struggle for Independence sites such as the Globe and Denden Trenches and the underground command posts at Nakfa; and
- British and Italian military cemeteries which are of interest to persons associated with, or interested in, the relevant military campaigns.
- All the archaeological sites need a special permission from the National Museum (costs: 10 USD)

**(v) Cultural Attractions**

Many aspects of Eritrea’s culture can be interesting attractions for visitors. These include traditional cultural patterns of the various ethnic groups in Eritrea; handicrafts; and traditional Eritrean cuisine. Both the Eritrean national festival (held in August each year) and the Fenkil festival (held in February each year to mark the liberation of Massawa) attract many local and overseas Eritreans and would appeal to international tourists if they were more actively promoted.

**2.2 Accommodation**

According to the latest Ministry of Tourism information, there are 211 hotels with 2,767 rooms, and 115 pensions with 1,317 rooms, in Eritrea, of which about 800 rooms would be suitable for international tourists. The Asmara (Maekel) and Southern (Dehub) regions between them have some two-thirds of the total accommodation supply, with the bulk of the pensions concentrated in the Asmara region. Recent additions to the hotel stock include Asmara InterContinental (175 rooms), the 200-room extension to the Dahlak Hotel in Massawa and the opening of some smaller new hotels (e.g. Keren, Lion, Crystal, etc.) in Asmara. Most hotels are owned by the Government.

**2.3 Market Trends**

**2.3.1 Visitor arrivals**

The estimated number of foreign visitors was 83,000 in 2005. The great majority of arrivals consist of Eritreans living overseas who comprised almost three-quarters (73.5 percent) of the total in 2003. The next largest categories are European visitors (8.5 percent); Asians (5.2 percent); Middle East (4.9 percent); and Africans (4.6 percent). Whereas, over the period 1997-2003, there were sharp decreases in the number of Overseas Eritrean, European and African visitors, arrivals from the Middle East and Asia actually increased – albeit very slightly – over this period. These figures refer to the visitor’s nationality rather than country of residence.

**Table 2.1 International Visitor Arrivals by Nationality, 2000-2003**

Country of Nationality	2000	2001	2002	2003	2004*	2005*
<b>Total arrivals</b>	<b>70,354</b>	<b>113,024</b>	<b>100,828</b>	<b>80,029</b>	<b>87,000</b>	<b>83,000</b>
of which						
Overseas Eritreans	52,929	84,549	74,357	58,804		
Africa	4,498	7,683	8,686	3,678		
Europe	6,162	9,626	8,167	6,798		
Middle East	1,151	3,538	3,275	3,913		
Asia	3,286	4,524	4,056	4,178		
Americas	2,093	2,829	2,094	2,321		
Oceania	235	275	193	337		

\* estimate

*Sources: Ministry of Tourism and World Tourism Organisation*

***Purpose of Visit***

Most visitors come to Eritrea for the purpose of visiting friends and/or relatives (69 percent of the total in 2003) or for business reasons (20 percent). In contrast, the number of holiday visitors amounted to only 5,070 persons (6.3 percent of the total) in 2003 compared with 8,769 in 1997. This reflects the general lack of awareness of Eritrea in the main tourist marketplaces and the undeveloped nature of the country's tourism product.

***Mode of transport***

In 2001 (latest year), 52 percent of international visitors travelled to Eritrea by air, compared with 46 percent by land and less than two percent by sea.

**2.3.2 Visitor expenditure**

In 2005, international tourism receipts amounted to an estimated \$66 million compared with \$73 million in 2004 and \$36 million in 2000. This compares with total export earnings from commodities such as livestock, sorghum and textiles of only \$17.6 million in 2006.

**2.4 Institutional Arrangements**

The main responsibility for tourism development and promotion lies with the Ministry of Tourism (established in 1993) which is the National Tourism Administration of Eritrea. The Ministry of Tourism has taken the initiative in the formation of a tourism association (known as the Eritrea Tourism Services Association) to include all tourism enterprises in Eritrea. This Association needs strengthening in order to carry out its intended functions.

**2.5 Future Outlook**

Eritrea sees very promising prospects for tourism as a result not only of its intrinsic tourism assets, but also due to major infrastructure improvements in roads, ports and airports; the establishment and development of Eritrean Airlines; and important events like the Eritrean National and Fenkil festivals.

In the revised and updated NTDP, total international visitor arrivals are projected to increase from some 80,000 persons in 2003 to around 200,000 persons (medium projection) in 2020. The projected growth rates for holiday visitors are considerable higher than for business, VFR and other categories of visitors. The most rapid growth potential is considered to be from Europe (especially Italy, Britain, Scandinavia, Germany and France); Overseas Eritreans (mostly VFR); and Middle East and Asian countries. Visitors from Other African countries (especially Ethiopia, if and when relations are normalised) could increase more rapidly than shown in the projections. Based on these growth scenarios, an additional 1,000 or so international standard rooms would be required by 2020, of which approximately two-thirds would be located in resort areas (beach/islands/spas) and the remainder in Asmara and touring locations.



### 3. INVESTMENT OPPORTUNITIES IN TOURISM

#### 3.1 Investment Sectors

Emphasis has been placed on encouraging private investment in the tourism sector. The Ministry of Tourism is seeking to attract investors who are interested in the development of integrated beach and island resorts. The major types of water-based activities that can be developed are

- Beach recreation and swimming;
- Scuba diving and snorkelling;
- Boating (motor and sail boat);
- Wind surfing;
- Water/jet skiing; and
- Sport or game fishing (especially around the Dahlak Islands and south of Assab).

There are also opportunities for the development of spa resorts and enhanced conference facilities. The main hot springs sites are Akwaar and Mai Wui.

#### 3.2 Priority Investment Zones

The Government proposes to take up as a priority the implementation of projects in the Northern and Southern Red Sea regions and the offshore islands. A wide range of projects are included from small scale accommodation to larger luxury class hotels and convention facilities; from wayside food and beverage outlets to large scale restaurants; from diving stations and boat services to marinas and yacht repair facilities. However, this remains a long term perspective.

The facilities will be aimed primarily at high spending international tourists. As tourist facilities are upgraded, Eritrea would earn a reputation as a quality destination and the profile of the tourist would change to that of the high spending visitor. However, in recognition of the fact that some volume is required for purposes of job creation, it is also envisaged that, with suitable controls for purposes of conservation and sustainability, the beach and marine environment can be included in tour packages for European and Middle Eastern visitors.

## 4. INVESTMENT ENVIRONMENT

### 4.1 Investment Framework

#### 4.1.1 Government policy

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

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

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

#### 4.1.2 Investment agencies

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

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

#### 4.1.3 Investment guarantees

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

### 4.2 Investment Incentives

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

- Capital goods, intermediates, industrial spare parts and raw-materials pay a nominal customs duty of 2%;
- Raw materials and intermediate inputs shall be subject to 5% sales tax, but all sales tax on all materials and inputs that have been used for export production will be rebated; Exports are exempted from export duties and sales taxes;
- The marginal tax income tax range, as follows: on personal income from 2%-30%; on non-corporate profit 2%-30%; on corporate profit, flat rate of 30%; and on rent income from 2%-30%;
- There shall be no taxes on declared dividends; and
- Any net loss incurred in one year may be set off against taxable business income in the next five years, earlier losses being set off before later losses.

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

### 4.3 Access to Finance

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

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

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

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

#### **4.3.1 International Financial Institutions**

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

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

#### **4.3.2 Transfer of Capital and Profits**

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

#### **4.4 Residential and Work Visas**

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

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

#### **4.5 Technical and Promotional Assistance**

Generic tourism promotion is undertaken by the Ministry of Tourism. The comparatively small marketing budget is complemented by some private sector marketing initiatives. The Ministry has developed a website, participated in trade fairs and cultural events, and produced new annual and quarterly publications. Familiarisation trips for foreign travel agents have been organised in collaboration with the private sector. The main activities featured in promotion are adventure tourism, cultural tourism, visits to archaeological sites, scuba diving, bird watching, and train enthusiasts.

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