19th Horn of Africa Initiative Ministerial Meeting

Brussels, 15 December 2023
Investment opportunities and barriers in the Horn of Africa
Opportunities

- African Continental Free Trade Area (AfCFTA)
- East Africa remains the most profitable region to invest
- Infrastructure Development
- Transport and Distribution
- Agriculture and Agribusiness
- Renewable Energy and Environmental Services (Green and Sustainable Economy)
- Tourism and Hospitality
- Manufacturing and Industrialization.
# Examples – Opportunities with Europe

## Kenya

<table>
<thead>
<tr>
<th>Potential to increase the exports from the EU</th>
<th>Somalia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Medicines</td>
<td>1. Medicines</td>
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<tr>
<td>• current exports: $123 mn</td>
<td>• current exports: $3.6 mn</td>
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<tr>
<td>• untapped potential to increase exports: $284 mn</td>
<td>• untapped potential to increase exports: $27 mn</td>
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<tr>
<td>2. Cars</td>
<td>2. Wood for construction</td>
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<tr>
<td>• current exports: $49 mn</td>
<td>• current exports: $31 mn</td>
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<tr>
<td>• untapped potential to increase exports: $147 mn</td>
<td>• untapped potential to increase exports: $34 mn</td>
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<td>3. Insecticides &amp; herbicides</td>
<td>3. Pasta</td>
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<td>• current exports: $42 mn</td>
<td>• current exports: $546 k</td>
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<tr>
<td>• untapped potential to increase exports: $17 mn</td>
<td>• untapped potential to increase exports: $17 mn</td>
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## Somalia

<table>
<thead>
<tr>
<th>Potential to increase the exports to the EU</th>
<th>EU firms’ interest in investment</th>
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</thead>
<tbody>
<tr>
<td>1. Cut roses</td>
<td>1. Energy or environmental services (green &amp; sustainable economy)</td>
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<tr>
<td>• current exports: $485 mn</td>
<td>2. Construction or engineering services</td>
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<tr>
<td>• untapped potential to increase exports: $197 mn</td>
<td>3. Tourism services</td>
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<tr>
<td>2. Black tea</td>
<td>1. Energy or environmental services (green &amp; sustainable economy)</td>
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<tr>
<td>• current exports: $224 mn</td>
<td>2. Agribusiness, fresh products</td>
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<td>• untapped potential to increase exports: $231 mn</td>
<td>3. Transport &amp; distribution services</td>
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<td>3. Avocados</td>
<td>4. Health or social services (also ranking 3rd)</td>
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<tr>
<td>• current exports: $121 mn</td>
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<td>• untapped potential to increase exports: $108 mn</td>
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<th>EU firms’ interest in investment</th>
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<td>5. Health or social services (also ranking 3rd)</td>
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Challenges

• Restrictive market access barriers such as foreign equity caps, minimum capital requirements and FOREX restrictions.

• Insufficient protections for investors

• Weak business support ecosystems and limited access to finance and other services for MSME, notably due to lack of regulatory incentives, preventing private sector expansion

• Weak public-private dialogue, combined with chambers of commerce with small member base and limited value addition for members.

• High levels of informality
• Legal uncertainty and inefficient rule of law / justice / anti-corruption.
**Recommendations**

- Partnering more with African financial institutions
- Strengthen the countries financial strategies
- A better balance to be found between promoting local control and ownership, and encouraging international investments.
- Provide funding and promote regulations that facilitate SME lending
- Space for better data gathering to ensure better targeting
- Attract local and international investors towards equity investment. Create incentives and coordination to allow for more and better bankable deals
- Strengthened business support services ecosystem, specially outside the main cities.
- Increase the participation of business organizations in public-private dialogue processes, ensuring representation of traditionally excluded segments (e.g. youth, women, etc.).
- Improve the business environment.
What donors are doing
World Bank

- Regional project under design (expected amount USD 325 million) to support the implementation of reforms that will aim to facilitate trade and investments in the HoAI to raise incomes and support livelihoods in the region.
The Bank provides support to both regional DFIs and HoA countries, backed by its triple A rating. Support aims at addressing key constraints.

<table>
<thead>
<tr>
<th>Tools and Project Examples</th>
<th>Key challenges targeted</th>
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<tr>
<td>Guarantee instruments</td>
<td>de-risking projects /high risk perception of African markets</td>
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<td>Supporting PPPs</td>
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<td>Equity investments</td>
<td>capital constraints</td>
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<td>Technical assistance &amp; knowledge products</td>
<td>address regulatory challenges</td>
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<td>Loans</td>
<td>capital constraints</td>
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African Development Bank

Examples of Projects:

- **South Sudan (USD 18 million)**: Supporting the country’s membership to regional Development Finance Institutions - Trade & Development Bank (TDB) and Africa Trade Insurance Agency (ATI) to boost its capacity to successfully implement Trade Finance and investment-risk underwriting.

- **Somalia (USD 6.65 million)**: Support financial sector development. Support to Central Bank, Somalia Development and Reconstruction Bank and Financial Reporting Center to enhance standards of operations of Somali Financial Institutions (FI) and enable integration into global market.

- **South Sudan (USD 11 million)**: Support to central Bank of South Sudan (BSS), to develop and upgrade the National Payment Systems (NPS) and integrate into EAC payment systems.

- **Sudan (USD 2.13 million)**: (on hold pending normalization of political situation): Project targets financial sector development to:-
  - strengthen the capacity of Central Bank of Sudan (CBOS) to regulate and supervise bank and non-bank financial institutions;
  - implement monetary and foreign exchange policy,
  - develop and implement a functioning interbank market,
  - Develop liquidity management tools, monetary framework and market based foreign exchange rates;
  - conduct capital markets diagnostic study.

- **Eritrea**: Support to Financial sector

Planned Projects:

- **The Eastern and Southern African Trade & Development Bank (TDB) (USD 150 million)**: Provision of 3-year Unfunded Trade Finance Risk Participation Agreement (RPA) facility. The RPA facility is a renewal of an existing facility of USD70m that matured end of June 2023. Beneficiary countries include Djibouti, Eritrea, Kenya, Somalia, South Sudan and Sudan.

- **Ethiopia (USD 60 million)**: Trade Finance (TF) Package for Dashen Bank consisting
  - TF Line of Credit (TFLOC) to support SMEs and local corporates
  - Transaction Guarantee (TG) facility to support confirmation of TF transactions of Dashen Bank

- **South Sudan**: 2023 Business mission to South Sudan to identify local financial institutions that it can work with.
Ethiopia

- Development Bank of Ethiopia (DBE): Promotion of Ethiopian Private Sector (EUR 20 mio) → Promote and facilitate SME lending
- DBE: Fund for Increasing Productivity through Innovation in Agriculture (EUR 15 mio) → Strengthened business support services ecosystem, specially outside the main cities
- MoF/WB: Reform Support Multi Donor Trust Fund (EUR 10 mio) → Improved investment climate and developing financial sector
- MoF/ATIDI: Increase of Ethiopia’s equity share to the African Trade Insurance (ATIDI) (EUR 21 mio) → Attract local and international investors towards trade and direct investment.

Kenya

- Kakuma Kalobeye Challenge Fund (EUR 8,24 mio) → Strengthened business support services ecosystem, specially outside the main cities

Somalia

- Promotion of Somali MSMEs via the financial institution Gargaara (EUR 17,7 mio) → Promote regulations that facilitate SME lending

Others

- Observer seat held by German Development Bank KfW within ARIA initiative → Attract local and international investors towards equity investment
- Through cooperation with IGAD in different sectors, German Development Cooperation strengthens the overall socio-economic ecosystem, specially outside the main cities
- Efforts complemented by TA (through GIZ) on market relevant TVET, private sector development and improving business environments
• GG priorities for Africa: support more and better investments
• Africa-Europe Investment Package
• De-risking and blending: EFSD+
• Renewable energy sector
• Circular economy
The EFSD+ guarantee: windows

**Sovereign & non-commercial sub-sovereign**

**Beneficiary:**
Government and entities fully backed by state unable to finance themselves in market.

**Examples:**
- Large infrastructure projects (e.g. metro, hospital, port)
- Coherence with budget support, Macro-Financial Assistance.

**Commercial sub-sovereign**

**Beneficiary:**
Public entity able to finance themselves in the market.

**Examples:**
- Loan to public water and sanitation company.
- Upgrading of capacity of national utility company

**Private sector**

**Beneficiary:**
Wide range of private sector companies (e.g. SMEs to large telecommunications company).

**Examples:**
- SME credit line.
- Solar off-grid project
- Support to cocoa producers
The EFSD+ Open Architecture

- EUR 13 billion at global level in Open Access Guarantees
- Guarantees provided to Partner Development Finance Institutions (DFIs)
- DFIs use this guarantee to mobilise their own funds and funds from other major private and public investors
Open Architecture: 7 first time partners applied for the implementation of the EFSD+ Guarantees
First batch of PIPs under negotiation

<table>
<thead>
<tr>
<th>Implementing Partner</th>
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<th>Lead Investment Window</th>
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<tbody>
<tr>
<td>AFD</td>
<td>Accelerate the energy transition - AccelerET</td>
<td>Connectivity</td>
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<td>BGK</td>
<td>Support in digitalization process for Sub-Saharan countries</td>
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## Priorities for HoA countries – under negotiations

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### Contracting phase led by DG INTPA

### Contracting phase led by DG NEAR

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Positive examples – what works

- Opportunities on Debt/Green Bonds: GGBI
- Just Energy Transition Partnerships
- TEI IYBA Kenya
- MAV+ Vaccine Manufacturing – Kenya
Opportunities for the future – Strategic transport corridors

• Continental and sub-regional Regional programme NDICI: continuation of support to TTTFP (Tripartite Transport and Transit Facilitation Programme, SADC, EAC, COMSA region)

• Regional: Trade Facilitation and Transport Governance programmes: est. 20-25 MEUR / corridor
Opportunities for the future – Strategic transport corridors

- Ethiopia: Dry Port in Mojo & intermodal linkage of it with the Railway Addis-Djibouti
- Ethiopia / Somalia: Tog Wajaale OSBP
- Somalia: Road rehabilitation along Berbera – Hargeisa-Wajale axis
- Somalia: Feeder roads supporting and value chains development
Opportunities for the future – Strategic transport corridors

- Kenya: Nairobi – Nakuru – Mau Summit highway (tbc)
- Northern corridor: OSBP support programme (tbc)
Opportunities for the future – Strategic transport corridors

- South Sudan: Juba-Nimule (border with UG) road
- South Sudan: Feeder roads for value chains development
Opportunities for the future

- Energy sector:
  - Interconnection Uganda-South Sudan
  - Djibouti Geothermal exploration and drilling
Thank you