

NEWSLETTER

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Headings Covered in this issue



HESPI Institutional Capacity Building in South Sudan



The Macroeconomic Environment and the Status of Industrialization in the IGAD region



The Republic of South Sudan: Progress, Prospects and Challenges of Regional Integration

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Managing Director's Statement



Ali Issa (PhD)

The countries of the Horn of Africa (HoA) are considered among the least developed in the world. Although there has been promising economic growth trends in several countries in the sub region in the last decade and a half (Djibouti, Ethiopia and Sudan in some years), the most basic needs of education, health and food security have yet to be attained, unlike in many other regions of Africa and the world. Also, several countries have substantially reduced prevalence of absolute poverty, but critical challenges on sustainable development remain in the region.

The two decades conflict between Eritrea and Ethiopia, prevalent insecurity in Somalia, and prolonged conflicts in North and South Sudan, and recently among South Sudan combatants have had far reaching negative impact on development of the affected countries and aspirations of the region for sustainable transformation. There are clear links between stability and development as the latter can only be pursued and attained in relatively secure and stable environment. The costs and consequences of conflict and insecurity on development are demonstrated by adverse effects on investment and trade; diversion of public resources from education, health and other basic social services to destructive and unproductive military expenditures; and binding constraints on cross-country infrastructure development.

Prolonged conflict also weakens socio-economic and political good governance, as well as the rule of law. As most of the zones of conflict and instability have been at border areas, there are often adverse spillovers that impact on the region at large. Such prevalence of insecurity has led to millions of internally displaced people; contributed to outward migration through risky and dangerous routes; and caused significant human and economic costs that constrained development. Accordingly, the recent moves initiated in the HoA to promote peace and security and to pursue an integrated region are to be applauded.

Conventional economic wisdom indicates that nations that take advantage of open trade and investment attain higher growth and sustained development. Consequently, economic integration has been pursued in all continents and has been a priority for Africa for decades. However, in the HoA economic and social collaboration has been modest and regional integration has not achieved much success to date.

The HoA countries location, complementarity, and the potential for successful pursuit of formal trade and investment is considerable. The region's immense needs for sustained high economic growth and urgent requirements for transformative policies and reforms dictate the pursuit of regional integration, security and stability to attain economic and social development. In this context, sustaining high economic growth is a pressing challenge of political leaders and policy makers; and they should focus on the binding constraints including, the low investment in physical and human capital; removing the financial resources constraints of the region; and providing the legal framework and institutional capacities to enable harmonious transformation and sustainable development.

Belt and Road Institute of China and HESPI discussed future collaboration

The Horn Economic and Social Policy Institute (HESPI) was ranked among the Top Think Tanks in Sub-Saharan Africa on the 2017 Global Index Report by the Think Tanks and Civil Societies Program (TTCSP) of the Lauder Institute at the University of Pennsylvania. It is in this respect that the Belt and Road Institute of China Centre for Globalization (CCG), a leading independent think tank based in Beijing which is ranked among the top Chinese independent think tanks and as a top think tank worldwide extended its interest in establishing cooperation with HESPI. The China Belt and Road Institute's Executive Vice President, Prof. William Sun met with HESPI management team on 29th June, 2018 at the Institute's head office, in Addis Ababa. Prof. William



Prof. William Sun with HESPI management team

introduced the Belt and Road Institute's initiatives and discussed possibilities of future collaboration with HESPI. The management of HESPI explained the objectives and priorities of the Institute in the IGAD and Africa at large and its current research focus.

In an effort of forging common areas of future collaboration, the two Institutes agreed to develop a concept note highlighting activities and policy research areas that the

two institutions can jointly work on. During the meeting, ideas on organizing a joint investment Forum that can bring together top companies leadership, investment Funds CEOs, and top executives of finance companies was considered. Also, joint research by the Belt and Road Institute and The Horn Economic and Social Policy Institute (HESPI) was proposed to assess the potential of the trade and investment markets and the likely sectors of mutual interest.

China-Africa Infrastructure Development Cooperation

African Economic Research Consortium (AERC) organized a two-day seminar on China-Africa Infrastructure Cooperation to boost modernization of roads, ports, railways and telecommunication networks in Africa, jointly with the Chinese Embassy in Kenya, the Kenyan Ministry of Transport and invited IGAD based think tanks and the business community on 24-26 June 2018 in Nairobi, Kenya.

The seminar focused on the state of Africa's transport infrastructure, which continues to be a constraint on economic growth in the continent, and the imperative needs for modern and sustainable infrastructure if the continent is to transform its economies and attain the development aspirations as



HESPI managing Director on Mombasa-Nairobi SGR

framed in Africa's Agenda 2063, and in the United Nations 2030 Agenda for Sustainable Development.

Mr. James Macharia, the Cabinet Secretary for the Ministry of Transport, said in his opening remarks that the China funded Mombasa-Nairobi Standard Gauge Railway (SGR) remained a model for cooperation with Beijing to boost infrastructure development and

realize socio-economic transformation.

China's Ambassador for Affairs of the Forum on China-Africa Cooperation (FOCAC), the Chinese Ambassador to Kenya, senior Chinese government officials, and representatives of African and Chinese think tanks joined policy makers and scholars at the forum to discuss infrastructure development as a key pillar of China-Africa ties. Among guests invited to the seminar, was the Horn Economic and Social Policy Institute (HESPI) Managing Director Dr. Ali Issa, who underlined the need for institutional and human capacity building and the imperative of technology transfers to Africa for socio-economic transformation and attainment of the sustainable development goals.

Conference on Building Resilience to Mitigate the Effects of Droughts and Floods



Participants at the Conference

The Kenya Institute for Public Policy Research and Analysis (KIPRA) annual regional conference, on the theme “Building Resilience to Mitigate the Effects of Droughts and Floods”, was held on 5-7 June 2018 in Nairobi, Kenya. Delegates representing Government Ministries, NGOs, International

organizations, Think Tanks and Civil Society attended this annual regional conference. Networking and exchange of ideas were made during the three days of the event showing interest for future collaboration.

The Horn Economic and Social Policy Institute (HESPI), was represented by Dr. Haile Kebret, Research Director of HESPI, who was among the guests to receive the Chief Guest of Honor and the Deputy Secretary of Finance. Dr. Haile thanked KIPRA for the honor and invitation extended to HESPI to participate in this timely and essential conference. He then

briefly introduced HESPI and its main activities in the region to the delegates. Dr. Haile underlined that HESPI’s participation in this regional conference helps HESPI solidify the collaboration with KIPRA; exploring the many dimensional effects of drought and floods as conceptualized in the conference; and learning the state of knowledge regarding the effects, mitigation mechanisms, intensity, frequency of such calamities in Kenya and the region at large. Dr. Haile also participated as a panelist on the Impact of Drought and Floods on the Agriculture sector.

Somalia Constitutional Review Official Launch



Somalia Prime Minister and Senior Government Officials at the official launch

Official Launch of the Somalia Constitutional Review Process was held in Mogadishu on 13-17 May, 2018. This event was attended by more than 300 representatives from the Federal Government, Federal Member States, civil society, Somali diaspora, diplomats, and representatives of the International community. In his opening statement, H.E. Hassan Ali Khayre, the Prime Minister of Somalia, underlined his Government’s commitment to the completion of a Somali-owned and inclusive

Constitutional review process.

The primary purpose of the event was to share with the public the specific processes of the Somalia Constitutional Review Process, including timelines and deliverables. Somali experts and some members of mandated bodies also shared constitutional review documents produced in the last four years, which inform the Constitutional Review Process. The international community representatives, from bilateral and United Nations agencies, offered their technical and material support as did the

participants from the Somali diaspora community.

As a representative of a Regional Think Tank that has contributed to the processes of establishing cooperative federalism in Somalia, The Horn Economic and Social Policy Institute (HESPI) was invited to the event to deliberate with a cross section of the participants on issues related to power and resources sharing. Dr. Ali Issa, Managing Director of HESPI, facilitated a panel discussion during the course of the event, which highlighted the considerable Pro-bono work HESPI performed in the initiation and development of the Somali Federalism Network.

Participants at the event encouraged the Federal Government and Federal Member States to engage in constructive dialogue on power sharing in order to promote and sustain political stability in the country.

ACBF's Program Implementation completion and Results Workshop

The Program Manager of the Horn Economic and Social Policy Institute Mr. Daniel Fantaye attended the African Capacity Building Foundation (ACBF) regional program implementation completion and results report validation workshop on 15-16 May 2018, in Harare, Zimbabwe

The workshop was attended by representatives from selected institutions in Africa, which have received financial support from the ACBF under a World Bank grant. The World Bank fielded a task force to prepare an implementation completion report on all of the capacity building projects supported by the Bank before its transition to its new funding model. The task

force came with a draft report on the completion and results of the various capacity building projects and wanted to broaden the draft report with views from the grant recipient organizations. The final report is expected to inform the Bank's senior management in its decision on the future funding relationship with the ACBF.

Seminar on Warehouse Receipts System (WRS) and Regional Economic Models for IGAD



Participants at the seminar

The Horn Economic & Social Policy Institute (HESPI) held a workshop which covered issues that were among the components of a research project conducted by HESPI for the Secretariat of the Inter-Governmental Authority on Development (IGAD).

The seminar participants discussed two commissioned studies at the venue on 3 - 4 May 2018. An assessment of status of Warehouse Receipts Systems from three countries in the IGAD region namely Ethiopia, Kenya and Uganda was presented, deeply discussed, and lessons drawn for the rest of the member countries of IGAD by the participants. The assessment of the WRS study included a review of the status of the Warehouse Receipt Systems, challenges and ways of addressing the limitation of the WRS

in the three mentioned countries; examination of the operations, challenges and ways of addressing the limitations of the WRS in the cases studied; and identification of lessons learnt to improve agricultural commodities management, marketing and financing so as to promote agricultural production and trading.

A second presentation discussed regional Macro-econometric models covering Ethiopia, Kenya, Sudan, and Uganda towards development of IGAD region economic Models. Two types of Macro-econometric models have been developed under the commissioned work for the benefit of the membership and the sub region. The first is constructed along the traditional macro-econometric models initially inspired by the Keynesian theoretical analysis. Such models are more suitable for macroeconomic

policy issues and forecasting purposes, and often represent testing and quantifying macro aggregates, including monetary and fiscal policies and changes there off. The second is a Computable General Equilibrium model (CGE), which is more suitable for micro-oriented analysis and in examining structural linkages or interactions.

Accordingly both have been constructed for IGAD and could serve the purposes of the membership and the sub region. The workshop detailed the utility, advantages and limitations of each model for the member countries, and for exploring the linkages of the economies of the countries of the region. A crucial consideration underlined at the workshop was that the Models represented the state of the art at the delivery date; and that further improvements and additional work might well be necessary to refine the reports that were presented and debated at the Validation Workshop. Representatives from the IGAD member countries that have operative WRS and several other with active interest (Djibouti, Somalia, and South Sudan) participated at the workshop.

Institutional Capacity Building for South Sudan



Participants at the institutional capacity building programs

The Horn Economic and Social Policy Institute (HESPI) signed a project agreement in October 2017 with the African Capacity Building Foundation (ACBF) under the support projects to “Conflict Affected Countries- the Republic of South Sudan”. The project aimed at improving both intra-regional trade and sound economic and financial policies, specifically public finance reform that includes budget formulation, implementation and monitoring activities in South Sudan.

The implementation of this project was preceded by a tripartite needs assessment, prioritization and validation of the focus areas made by HESPI, ACBF and the Republic of South Sudan in September 2017 within the general framework of the program.

This six month project, November 2017 to April 2018 (subsequently extended to June 2018), was designed as a starter-initiative for the long-term institutional capacity building support to the Republic of South Sudan to assist its transition from fragility to sustainability by ways of ensuring the effective and efficient Public Finance Management, and Trade and

Regional Integration.

The prevailing practices and challenges of Public Finance Management in the central government of South Sudan have been assessed and analyzed. The research has looked into the challenges the Government is facing in enhancing fiscal management and towards ensuring fiscal sustainability. Fundamental laws and regulations enacted and promulgated in the country to help the Public Finance Management have been evaluated.

analyzed and the status of the Public Finance Management in the Republic of South Sudan has been examined and options to improve the situation have been proposed.

Also, HESPI conducted research on Trade and Regional Integration of the Republic of South Sudan in the IGAD region. A Country level survey was conducted with the Ministry of Trade, Investment and other government stakeholders. The research also gathered information from secondary sources. The prospects of the regional integration in regard to the trade potential, and the South Sudan trade performance benefits from the membership of the regional economic community has also been assessed.

In this regard, HESPI conducted policy forums and trainings to representatives of government ministries and agencies of the Republic of South Sudan (described below).



Participants at the institutional capacity building programs

Based on the assessment, measures of budget reliability, transparency, fiscal strategies and budgeting, predictability and control in budget execution, accounting and reporting and external scrutiny have been

Training for senior and middle-level government officials of South Sudan



Participants at the Senior Officials training program

Based on the identified areas of skill gaps, HESPI held Training for Senior and middle-level Government Officials of the Republic of South Sudan, on 18-21 April, 2018, in Juba, South Sudan.

1. This first two days (18-19, April) training was for senior government officials which included Ministers, Director Generals, Directors, and Parliamentarians. The trainees were selected primarily from the Ministry of Finance and Planning, and other key Ministries, Parliamentary Economic committees, Federal Audit Chamber, commercial banks, civil society, and the academic community who play an important role in the budget debate and execution.

This training focused on PEM framework, processes and strategic challenges; budget preparation,

management and its transparent execution; credibility and comprehensiveness of the budget process; budget execution monitoring and reporting process; strengthening liquidity and risk management; external scrutiny of, the legislature, and audit chamber responsibilities, as well as the roles of the anti-corruption agencies in transparency and effective budget management.

2. The training on 20-21 April, 2018, in Juba, was targeted for middle-level officials and was on managing the preparation and execution of national budgets. Hence the training

program covered the management of the budget data in line with the economy; budget planning and preparation; credibility of the budget; budget execution and treasury functions; the budget implementation and internal and external control; and monitoring and reporting of public expenditure. The participants were largely from the Ministry of Finance & Planning, other key spending ministries, and the national Audit chamber.



Participants at the Middle Level Officials training program

HESPI high level policy forums in South Sudan



Participants at the policy forums

HESPI Policy Forums on Public Expenditure Management (PEM) and Regional Trade and Integration in South Sudan were held on 16–17 April in Juba. The Policy Forums were officially opened by Dr. Ali Issa, Managing Director of HESPI, and representatives of the government of South Sudan.

1. The PEM policy forum was anchored on the key findings of research conducted by HESPI on PEM performance in the Republic of South Sudan since independence. The issues discussed, among others, included the need of effective PEM for accelerated

and sustainable development; the national budget reliability from the perspective of approval by the National Legislative body with proper forecasting and budget estimation combined with expected good budget discipline; transparency of public finances; the practice of policy-based fiscal strategy and budgeting in the country; control in budget execution, external scrutiny and audit; and accounting and reporting procedures and functions.

The PEM policy forum identified areas of strength and weaknesses and indicated short and long-term measures to be taken by the

Government to improve the status-quo and enable the young nation to effectively and efficiently use its scarce resources for stability and sustainable development. The various government bodies renewed their commitment and showed political will in this regard.

2. HESPI Policy Forum on Regional Trade and Integration in South Sudan was based on HESPI Research on Regional Trade and Integration in the Republic of South Sudan. The Ministry of Trade, Industry and East African Affairs, University of Juba, Civil Society Organizations (CSOs) and selected other stakeholders played important role in the preparation and participation of the forum. The policy forum addressed the various pros and cons of membership of the Republic of South Sudan in the EAC and the IGAD. The discussions were anchored on the key findings of the research conducted by HESPI.

The 5th Africa Think Tanks Summit held in Accra, Ghana

The 5th Africa Think Tanks Summit was held in Accra, Ghana, on 5-7 April, 2018 with a call on African leaders to provide visionary and transformative leadership to tackle the problem of youth unemployment in Africa. The theme for this year's Summit was "Tackling Africa's youth unemployment challenge: innovative solutions from think tanks". The aim was to inform policy decision makers and political leaders on how think tanks support the fight against youth unemployment by laying special emphasis on dimensions around transformative leadership development, and providing conducive environment for a thriving private sector and the development of critical skills required by the labor market.

The Horn Economic and Social Policy Institute (HESPI) was represented by Dr. Ali Issa, Managing Director of HESPI, who made a presentation on the role of Think Tanks in developing private sector job creation for sustainable African youth employment. Other panelists also emphasized the role of think tanks as intermediaries between the private sector and governments to ensure that employment projects are multi-sectoral, and the matching of skills and market needs.

The African Think Tanks Summit, brought together more than 40 Institutions from the continent, many supported by the ACBF, to discuss and extend solutions to pertinent issues affecting African development and to ensure that think tanks play

their role in supporting the continent's socio-economic transformation. African governments were urged to develop an effective industrialization strategy, which entails identifying new requisite skills sets and tailoring programs and projects to develop them. A complementary idea was offered to create an African Entrepreneurial Hub that would bring entrepreneurs together annually to network around pertinent issues including private sector capacity building and job creation for the youth.

Research Outputs of HESPI

Macroeconomic Environment and Status of Industrialization in the IGAD Countries



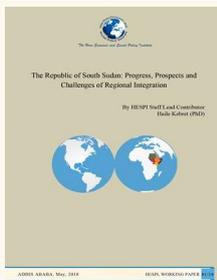
By HESPI Staff

HESPI's flagship annual report constitutes two parts. The first part provides an overview of the macroeconomic environment in the IGAD region and the second part assesses the status of industrialization in the region.

Overview of the macroeconomic environment shows that most countries have registered high economic growth, except South Sudan, whose GDP contracted due to the ongoing civil war in the country. Except in the Sudan and South Sudan, CPI has been stable. Looking at the fiscal balance, Ethiopia and Sudan had a fiscal deficit less than the SSA average in 2016, while Eritrea, Kenya, South Sudan and Uganda exceed the SSA average and Djibouti registered a fiscal surplus. Investment as a share of GDP remained low by SSA standards, although growing in recent years

Assessment of the status of industrialization (with particular attention to manufacturing sector performance) in the region shows that the share of industry in GDP has been either stagnant or declining since 1981, with the exception of Ethiopia and Uganda. Likewise, manufacturing value added as a share of GDP has been stagnant or declining for all countries, except Uganda over the last 2-3 decades. Moreover, manufacturing export as a share of merchandise export has been stagnant over the last decade in all countries.

Progress, Prospects and Challenges of Regional Integration in South Sudan



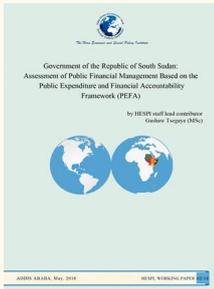
By HESPI Staff Lead Contributor Haile Kebret (PhD)

The purpose of this research is to assess the extent to which the Republic of South Sudan will likely benefit (in the short, medium and long-run) from joining any trading arrangements with the existing trading blocks in Africa, but particularly in one of those in Eastern Africa. This assessment is and should be anchored on the following salient features of the South Sudanese economy.

The Republic of South Sudan is: A young country with little past experience in managing bilateral and multilateral economic trading arrangements; With very poor infrastructure; Mainly dependent on a single commodity (oil) for its exports; Totally dependent on imports for almost all consumer goods and its essential needs; Despite rich farm land and ample natural resources, none of the sectors are well developed; and unskilled workforce, dysfunctional bureaucracy and unstable macroeconomic environment;

In short, with relatively unsettled socio-economic and political environment and a disorganized management system there seems to be, at least at the moment, the need to examine the pros and cons of joining a trading block in pertinent. In particular, what South Sudan is likely in a position to export, at the moment except for oil, is not apparent; and the marginal benefit of getting a market for such a product may not require a direct trading arrangement with any of the trading-blocks. This is mainly due to, despite a potentially rich country with abundant resources, the actual economic activity is at its early stage and the attendant management is probably ill equipped to navigate through and manage the daily detailed procedures of regional integration protocols.

[Assessment of Public Financial Management in South Sudan Based on Public Expenditure and Financial Accountability Framework \(PEFA\)](#)



By HESPI staff lead contributor Gashaw Tsegaye (MSc)

This study assesses the economic environment surrounding public finance operations of the Government of the Republic of South Sudan (GSS); the institutions, laws, regulations, and standards used by the government in the PFM process; the budget planning and implementation and how these are intertwined; the government's control system on how mobilized resources are channeled to their intended destinations; the extent to which policy-based strategy and planning are used to integrate public finance with overall national policy directions; and the extent of transparency and accountability in terms of access to information, reporting and audit.

The study provides an overview of the PFM system with evidence-based measurements. It will serve as a foundation for reform planning, dialogue on strategy and priorities, and progress monitoring. This assessment is meant to help the government achieve sustainable improvements in PFM practices across the range of important public financial management institutions, systems, and processes. The government and other stakeholders will also be able to see the implications of the overall performance results for the key goals of fiscal discipline, strategic resource allocation, and efficient service delivery.

Forthcoming Research Outputs of HESPI

[The Dynamics of Unemployment, Population and Economic Growth in the IGAD](#)

By Haile Kebret (PhD)

This study aims to assess the size, structure and growth of population in the IGAD member countries, its impact on youth unemployment and the degree to which existing economic policies can mitigate the problem of youth unemployment. The study adopted an ARDL model using pooled data from IGAD member countries to analyze the response of youth unemployment to policy changes. Accordingly, the study has shown that pro-active economic policies go a long way in alleviating youth unemployment, this is particularly the case when policies that focus on domestic resource mobilization, targeting SME based employment job creation schemes and incentive compatible project are designed and implemented. However, due to the magnitude of the problem and the weak economic structure to support a robust response to traditional policy initiatives (trade creation, investment promotion etc.) in these countries, the problem will remain a serious challenge for some time to come, at least until these countries cross the 'transition bridge' or graduate from what is basically a subsistence economy and a persistent demographic pressure. This conclusion is strengthened, in view of the observed employment and economic growth relationships and the extent to which the latter is required to bring the former to what might be considered a natural rate of unemployment.

[The Prospects and Challenges of Islamic Microfinance in the IGAD members](#)

By Ms. Rahma Hersi (MSc.)

The study analyzes the prospects and challenges of Islamic microfinance policies in the IGAD region. It has found that there are misconceptions and ignorance surrounding the Islamic finance industry, which means that there needs to be an effective marketing campaign about the industry and its merits. The study argues that the Islamic microfinance industry in the region emerged from a market perspective. As a result, there needs to be a concerted effort to harmonize the laws pertaining to the industry with that of market principles. It has also identified a shortage of human capital with Islamic microfinance knowledge and practices. Within the IGAD region, there is a developed Islamic Finance Market in Kenya and the Sudan. The industry however is at a very early stage of development in Somalia and Djibouti, and has yet to be introduced in the other IGAD member countries.

Forthcoming Research Outputs of HESPI

[Trade Policies for Inclusive Growth and Employment: A Background Note on IGAD Economies](#)

By Christopher Hugh Onyango (PhD)

This background study looked into the IGAD region's trade and economic integration framework and respective economies' trade policies and regulations. Overall, intra-IGAD trade has remained low and mainly consist of agriculture and semi-processed or low value products. Apart from persistent conflicts and insecurity, the IGAD region also faces infrastructural deficiencies, while most member states have maintained restrictive rules and regulations which hamper cross-border trade. Whereas the focus on development of regional infrastructure and removal of restrictions hindering movement of persons, goods and services is expected drive economic development, deliberate and focused efforts in realizing these objectives is glaringly absent. Despite their relatively low GDP per capita, several countries in the IGAD region, including Ethiopia, Kenya, Djibouti, Sudan and Uganda, experienced relatively faster economic growth rates than global averages over the last decade.

[Investment Policy in the IGAD region and Its Implications for Job Creation & Poverty Reduction](#)

By Alemayehu Geda (PhD)

This study attempts to review investment policies in the IGAD region with the objective of serving as a guide for practical policy design, implementations and the care and degree of effectiveness that policy makers should adopt in managing investment. It also aims to show how these policies should be aligned with a given countries' economic policy priorities that includes robust, sustainable growth, and poverty reduction through employment creation. With this objective first it attempts to show what type of investment policies have been pursued in the region. Based on theory and the experience of such policies in East Asian and African successful developmental states, it also aims to indicate which of these policies should be encouraged, discouraged, and suggest a general framework on what type of investment policies should countries in the region follow.

[Corporate Taxation, Import Competition and Productivity: Evidence from Ethiopian Manufacturing](#)

By Kaleb Girma Abreha (PhD)

Focusing on firms in Ethiopian manufacturing over the period 1996-2010, this study examines the causal effect of corporate taxation and import competition on firms' export participation, capital investment and productivity growth at firm and industry levels. Regarding taxation and import competition, the findings show that there is no significant effect of either factors on firms' exporting and investment decisions. Additionally that productivity growth increases with improvement in the firm's efficiency at the technological frontier. While there is no effect of taxation, import competition promotes productivity growth.

The results also show that there is productivity convergence at the industry level in which low-productivity firms experience faster growth compared to high-productivity firms. The findings regarding taxation are consistent with the qualitative survey findings on whether taxation is a binding constraint in their performance. The proportion of firms that view aspects of the tax policy (tax rate and administration) as key constraints in their business operations is relatively small compared to other problems such as shortage of raw materials, absence of market demand, and access to finance. However, this does not mean that there is no urgent need for implementing a series of tax reforms in order to build a sound tax system in Ethiopia. Any form of industrial policy intervention should take into account the aforementioned firm characteristics as well as aggregate industry outcomes and aspects of the investment climate.

Forthcoming HESPI Events



The HESPI Annual Economic Conference and the HERITAGE Institute Forum for Ideas 14-18 December, 2018 - Djibouti



on “Food Security and Climate Change in the Horn of Africa (HoA).”

The Horn Economic and Social Policy Institute is a regional think tank with its primary engagement in the Horn of Africa sub-region, and that conducts high quality research and policy analysis as well as institutional capacity building. The Heritage Institute for Policy Studies (HIPS) is an independent, nonpartisan, non-profit policy research and analysis institute based in Mogadishu, Somalia. HIPS mission is to conduct evidence-based research and facilitate dialogue that informs public policy and produces practical and innovative solutions to advance peace, good governance, and economic integration. The two Institutes decided to collaborate on areas of mutual interest, including preparation of their respective 2018 “Annual Economic Conference, and the Forum for Ideas” on the topic of food security and climate change in the Horn of Africa.

The sub-region has been affected by adverse climate conditions that have been manifested in recurring severe droughts, ecological degradation and endemic food insecurity. Accordingly, regional priority programs would need to focus on drought disaster prevention and preparedness, natural resources management, and environmental protection. Adaptation to climate change supported by building resilience and food production sustainability remains a key concern of the institutions of the HoA.

The Proposed Joint 2018 Conference on Food Security and Climate Change

The main objectives of the conference on food security and climate change are to: (i) offer a venue for researchers, policy makers and development practitioners to discuss and debate important economic and social issues related to attaining sustainable food security; (ii) contribute to the broad goals of ways and means of addressing the impact of adverse climate change and environmental degradation and on the socio-economic development of the region; (iii) promote knowledge generation and dissemination in this critical area of food security and climate change; and (iv) address in a pragmatic and effective manner the perennial food insecurity in the sub-region that has long characterized the HoA.

The 2018 conference core themes reflect an integrated approach to conduct analysis of climate risk and food security, identify and document best practices and innovations in food security analysis, and provide solutions to the complex challenges of food insecurity. In this context, the sub-themes are:

- Climatic variability and food security in the sub region
- Identifying best practices to address climate change risks and adaptations in food security at the regional, national and community levels
- Innovations and Technology for transformative change in food security, agriculture and natural resource practices
- The public sector and public policies for agricultural transformation, sustainability and, innovation

This year’s planned conference on IGAD economies and Forum for Idea will be held on 14-18 December 2018 and is jointly organized by HESPI, HIPS; and their partners including UNECA. The conference will offer an opportunity for knowledge sharing, policy dialogue, and discussions on topics of importance to public policy and the region’s responses to addressing the adverse climate risk and its impact on food security.

Forthcoming HESPI Events



Capacity Building Support for Budget, Finance, International Cooperation and Financial Oversight Committee of the Parliament of Somalia

Somalia is now putting relentless efforts to rebuild public institutions in an effort to rebuild the state which requires support from various development partners. According to the provision of the Federal Constitution, the new Bicameral National Federal Parliament, inaugurated in December 2016 following the process of indirect elections, has 276 members in the Lower House of Representatives and 54 members of the Upper House. The lower has 15 Standing Committees, among which the Budget, Finance, Planning and International Cooperation, Financial Oversight (BFC for short) is tasked with carrying out various duties such as budget appropriations and scrutiny, and drafts of financial legislation.



Hon. Ali Abdi (Chairman of BFC) and Hon. Elmi Mahmoud (Member of BFC)
with Dr. Haile Kebrt and Daniel Fantaye

The BFC has recognized that it requires immediate and urgent capacity building given its human resources composition and its heavy workload and responsibilities of dealing with all financial legislation and budget matters. With this huge task and responsibilities of the BFC in order to promote good governance and redress the negative perception on Somalia, there is observed capacity gap and demand for enhancing the skills of committee members. Intensive capacity building is needed for the committee members in the areas of: review of policies, regulations and draft legislation on PFM; delivery on their roles and responsibilities; and technical capacities of scrutiny and oversight roles.

For Somalia's state-building process to be successful, the institutionalization of a capable and well-functioning public finance sector is crucial. It requires strengthening of mobilization of domestic resources, and effective and efficient use of the public resources in order to gain citizens' trust.

Accordingly, the BFC would like to build cooperation with relevant and reputable capacity building institutions in the region to share experiences and access resource persons. The committee has sought financial assistance from multilateral and bilateral donors as well as technical support from HESPI (a regional institute and think tank) to organize and conduct skills development and institutional capacity building. In this context, the Institute aims to assist in the capacity building activities for the BFC of the Somalia Parliament with effective delivery of its mandates and responsibilities in the oversight roles and required external scrutiny of PFM.

HESPI will follow phased-approaches to ensure meaningful capacity building. It will initially provide hands-on training seminar for selected members of the BFC and other relevant committee members of the Parliament in October – November 2018. Venue to be held in Kenya or Ethiopia using HESPI resources persons and experts from the countries. The duration will be 4-5 days excluding travel days. The seminar will be interactive and participatory in order to engage the full understanding of the roles and responsibilities of the BFC participants. The participants will include members and staff of the BFC and key related Committees of the national parliament.

Twinning arrangements with the neighboring countries in the sub-region will be made for selected key legislatures to gain practical experience on scrutiny roles of the parliament on the spending agencies of the budget, public hearing, and follow-up on the implementation of the recommendations of the Auditor General. Also, arrangements will be made to share experiences and best practices for selected BFC members with countries that have successfully attained recovery and transition to stability.

Briefs on Current Developments in the IGAD region

Djibouti plans new container terminal



Djibouti plans to build a new container terminal at an initial cost of USD 660 mln. The country hopes to develop the port into a major

transshipment hub in the red sea. Speaking on the sidelines of the Africa CEO forum in Abidjan, Ivory Coast, on March 27, the chairman of Djibouti Ports and Free Zone Authority (DPFZA), Aboubakar Omar Hadi, told Reuters that his authority plans to build the Doraleh International Container Terminal. He hopes to award the concession in July. The plan is to finance 15% of the cost through equity and the remaining through international institutions and banks.

Source: <https://port.today/djibouti-new-container-terminal-cma-cgm/>

SMEs across the East African Community (EAC) to improve access to the European Union market and increase interregional trade.



A Euro 35 million market access upgrade program (MARKUP) is a new initiative funded by the EU as part of the 11th

European Union Development Fund. It aims to benefit agribusiness in the EAC in terms of greater market access. The program is expected to support enterprise export competitiveness for a number of products with high growth potential, according to Jose Correia Nunes, head of Cooperation at the EU delegation in Tanzania. The EAC secretary general, Amb. Mfumukeko on his part said, the MARKUP will enhance the capacity of the EAC to participate and take advantage of the other free trade arrangements in Africa including the tripartite COMESA-EAC-SADC and the Africa Continental Free Trade Area.

Source: <https://www.eac.int/security/79-sector/trade/1136-markup-initiative-to-boost-market-access-to-europe-for-east-african-smes>

Ethiopia got support of \$202 million from the World Bank to create better economic opportunities for refugees

The World Bank approved \$202 million in support of the government of Ethiopia's effort to provide more economic opportunities for locals and refugee by strengthening the industry sector. The government plans to create about 100,000 jobs for Ethiopians and refugees under the government's broader industrialization strategy. The pledge known as the 'jobs compact' allows for the formal integration of refugees in Ethiopia's labor market.

Source: <http://www.worldbank.org/en/news/press-release/2018/06/26/ethiopia-world-bank-pledges-202-million-to-provide-better-economic-opportunities-for-refugees-and-host-communities>

New country engagement note for South Sudan

The World Bank endorsed a new country engagement note (CEN) with the republic of south Sudan. The CEN underscores that the main focus of the bank's intervention going forward will be on providing basic social services, supporting livelihood and enhancing food security for the poorest, most vulnerable and marginalized groups. The bank's country director for Ethiopia, Sudan and south Sudan, Carolyn Turk, stated that consolidating support for health, rural livelihoods and basic infrastructure at local levels will provide a solid foundation for accelerated development once a peace process is under implementation.

Source: <http://www.worldbank.org/en/news/press-release/2018/01/16/new-country-engagement-note-for-south-sudan-reaffirms-world-bank-groups-commitment-to-supporting-vulnerable-populations>

Briefs on Current Developments in the IGAD region

Agriculture remains key to Somalia's poverty reduction and economic growth

The opportunities and challenges for Somalia's agricultural sector has been outlined in a joint report by the World Bank and the Food and Agricultural Organization (FAO). The report highlights how the agricultural sector have been battered in the last three decades due to degraded natural environment, severe cycles of drought, insecurity, weak government institutions and infrastructure in the south central regions.

The report identifies the livestock, crop, forestry and fishing subsectors and sheds light on key medium to long term development potential, constraints, as well as policy and investment opportunities. The report noted the massive increase in food import that reached a staggering \$ 1.5 billion in 2015, which signals a huge demand and big opportunity for agricultural investment in Somalia. The report emphasized the need to improve security, institutional capacity, rehabilitation of flood control, irrigation and transport infrastructure in the short to medium term. In the long term, however, developing and implementing a comprehensive sector development strategy is said to be key to guide the growth of Agriculture in Somalia.

Source: <http://www.worldbank.org/en/news/press-release/2018/03/28/agriculture-remains-key-to-somalias-economic-growth-and-poverty-reduction>

Prospects for US-Sudan Economic Re-engagement

A taskforce from the Atlantic council's Africa Center travelled to Sudan in January 2018 and issued a brief on progressive measures that should be taken by US and Sudanese governments to advance bilateral relationships. The taskforce recognizes the a potential for a new era of US-Sudan cooperation for the benefit of both peoples, following ease of sanctions by the current US administration. It's argued that Washington need to push for economic reforms and engagement as a partner, while Khartoum is expected to jumpstart a series of economic reforms including reduction of economic mismanagement, improving ease of doing business, and diversifying sources of revenue, among others. Once economic reforms are underway, the task force argues that the US should reinstitute normal relations including development assistance and encourage the multilateral institutions to re-engage with the Sudan.

Source: http://www.atlanticcouncil.org/images/publications/Sudan_Economy_web.pdf

Oversubscription to Kenya's Eurobond signals a surge in investors' confidence

Kenya raised \$ 2 billion from sovereign bond issue in February 2018. Being listed on the London stock exchange, the bond was oversubscribed, attracting \$14 billion worth of bids from global corporations and individual investors. The issue constitutes a 10 year and 30 year bonds. The national treasury stated that with a 30 year yield investments, international investors have shown their belief that Kenya is a stable economy where long term investments are safe. The government plans to use the fund to finance its development initiatives, including infrastructure.

Source: <http://www.treasury.go.ke/media-centre/speeches/category/167-speeches-2018.html?download=767:statement-by-the-national-treasury-on-the-issuance-of-the-eurobond>

Uganda launched its four year National Strategy for Private Sector Development



Uganda's Ministry of Finance, Planning and Economic Development (MoFPED) launched the National Strategy for Private Sector Development (NSPSD). The strategy paper endorses active government intervention to support competitiveness and growth of industries in order to facilitate structural transformation. Unlike previous strategy papers, the NSPSD constitutes simplified follow up and review mechanisms that use sector specific benchmarks and service delivery indicators to inform performance measurement.

Source: <http://www.finance.go.ug/sites/default/files/Publications/NSPSD%20BOOK%20WEB.pdf>

Research fellows and Internships Program

Research Attachments



Dr. Ebaidalla M. Ebaidalla has been engaged in a research project with the African Economic Research Consortium (AERC) on the issue of non-farm activities and income diversification in rural Sudan. Institutional support was required from a prominent research Institute or Think Tank in the region for cross-fertilization in capacity building by way of sharing research skills and knowledge.

Dr. Ebaidalla spent three months at the Horn Economic and Social Policy Institute (HESPI) in Addis Ababa where he exchanged knowledge with HESPI researchers and other research institutes based in Ethiopia. During his stay at HESPI, Dr. Ebaidalla benefited from the support and facilities provided to him by HESPI. His paper was peer reviewed by HESPI highly qualified team as well as by invited guest from other Institutes based in Addis Ababa

Dr. Ebaidalla commented on his quality time at HESPI by saying:

"I would like to thank all HESPI' staff members for their cooperation, support and generous hospitality with all needed technical support and logistics arrangements. Thank you and look forward for similar cooperation in the near future."

HESPI Internships

The Horn Economic and Social Policy Institute internship program for post graduate students, undergraduates and other select students from the IGAD region and internationally.



Ms. Lotte van der Heijden is a master student from Utrecht University, The Netherlands, currently studying International Development Studies. She came to Addis Ababa to conduct a mixed methods research for her master thesis which covers youth migration from Ethiopia to Western countries mainly focusing on how the perceptions of Western migration destinations are influenced by social media use and the migration network these young people already have abroad.

At the completion of Ms Van internship, she made the following comments:

"I would like to thank HESPI for hosting me for the duration of my stay in Addis Ababa. HESPI kindly provided me with office space, valuable contacts and also helped me out with practical matters. HESPI made my stay in Ethiopia really pleasant and because of them my research is progressing very well. Once again, many thanks for the pleasant stay and all your help!"



Mr. Thomas Lowe is a British national who is studying a Masters Degree in International Development Studies at Utrecht University in the Netherlands. The main purpose of him coming to Ethiopia was to conduct his research thesis which aimed to understand the life stories of domestic workers in Addis Ababa, and attempt to see how their life stories affect their social capital and feelings of empowerment.

Thomas has presented his gratitude to HESPI by his words:

"My time in Ethiopia was made much more comfortable and manageable due to the help that HESPI provided me. From helping with visa issues to giving contacts for my research, their help was invaluable and I cannot be more grateful for that. My research undoubtedly benefited from this attachment program"



The Horn Economic and Social Policy Institute

About HESPI

HESPI is an independent, non-profit regional think tank and research Institute that focuses on the member countries of the Horn of Africa in particular, and developing countries at large. HESPI provides high quality economic and social research and policy analysis on issues of current interest and importance to the region. In addition, the Institute undertakes commissioned studies for the public and private sectors in areas of regional or country specific relevance, and provides institutional capacity building. HESPI's mission is to assist with the formulation and implementation of sound economic and social policies, to promote high-quality research and policy analysis, and to provide advisory services to facilitate broad-based economic growth and poverty reduction.

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