



# HESPI

The Horn Economic and Social Policy Institute

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Institutional Profile  
2017

# **The Horn Economic and Social Policy Institute**

Dedicated to preeminent policy research and institution building  
for sustainable prosperity



This document informs on HESPI's identity as a regional think tank with aspirations and commitment to sustain appropriate economic and social policies for poverty reduction and sustainable inclusive growth. It also illustrates the mandate and mission of the Institute as a Centre of excellence in conducting objective research, institutional capacity building and engaging in core activities to generate and disseminate knowledge.

On behalf of the entire HESPI family, I wish to thank the African Capacity Building Foundation, the African Development Bank, the Islamic Development Bank, the World Bank, the IGAD member governments and Secretariat, and all the other partners of the Institute for their financial support which made possible the achievement of the core activities of the Institute in the last ten years. Thanks also to the technical partners of HESPI that include the central banks, ministries of finance and financial integrity agencies of IGAD member countries for their cooperation and collaboration.

Also, I commend the dedication and professionalism of the lean staff of the Institute without whose efforts the admirable achievements of the past decade would not have been possible. A large measure of the Institute's effectiveness over the years has been attributable to the relationship of mutual respect and confidence between HESPI staff and the senior officials of the governments with whom we have worked, and who have encouraged the efforts of the Institute

Finally, I wish to express my sincere appreciation to all those involved in the activities of HESPI and look forward to continued cooperation in the achievement of the Institute's strategic objectives that will ensure member governments realize their national transformation targets, the 2063 agenda, and the Sustainable Development Goals in the years to come.

Ali Issa (PhD)

Managing Director , HESPI

## HESPI in Brief

The Horn Economic and Social Policy Institute (HESPI) is an independent, non-profit think tank and consultancy firm established in 2006 for the member countries of the Horn of Africa in particular and developing countries at large. HESPI provides high quality economic and social policy analysis and research on issues of interest to the sub-region. The Institute undertakes commissioned studies, policy analysis and research for the public and private sectors in areas of regional or country specific interest, and provides institutional and human resource capacity building. HESPI assists with the formulation and implementation of sound economic and social policies, promotes high-quality research and policy analysis, and provides advisory services to facilitate broad-based economic growth and poverty reduction. HESPI's work targets policy makers at regional and national levels, development partners, and the non-state actors such as Civil Society Organisations (CSOs), the private sector and citizens of the IGAD sub-region and the developing world.

## Vision Statement

To be a regional Institute of excellence and point of reference in socio-economic research, policy advocacy, and institutional capacity building.

## Mission Statement

To contribute to the achievement of regional and national development goals in the IGAD sub- region by conducting objective economic and social research on issues pertinent to development of the region, improving policy formulation and implementation for broad- based economic growth and poverty reduction, enhancing institutional capacity for sound management, and promoting regional integration, stability and conflict prevention.

## Core Values

HESPI will adhere to the following values: dedication to excellence in research and policy advocacy, honesty and integrity, accountability and transparency, diversity and equality, objectivity and independence of action.

## Activities and Programs

HESPI's activities and program mainly are on the Economic Research Program, Social Research Program, Productive Sector Services, Institutional Capacity Building, Regional Integration, Private Sector Development, and Post-Conflict Issues.



## Activities and Programs

### Regional Integration

Regional integration is a central objective of the IGAD member countries as a principal element in the pursuit of economic and social development. HESPI's research and analysis gives prominence to the benefits of economic and social integration. The studies provide a basis for defining possible interventions to identify appropriate policies for economic and social integration, and assist with the legal and regulatory framework that promotes integration. HESPI aims to provide broad understanding of the benefits of policy collaboration and harmonization in the sub-region.



# HESPI Conference on IGAD Economies

CONFERENCE PROCEEDING  
ADDIS ABABA  
JANUARY 2015





## HESPI Conference on IGAD Economies, October 24-25, 2016, Addis Abeba

The 2016 HESPI conference on IGAD economies was held on 24-25 October 2016 at the UNECA conference hall, Addis Ababa, Ethiopia. This year theme was on "Imperatives for Attaining the Sustainable Development Goals".

Dr. Ali Issa, Managing Director of HESPI, warmly welcomed the distinguished participants and shared his view on the 17 SDGs pressing on the need for knowledge and capacity sharing among countries. The director also underscored on the importance of particular supports to countries coming out of conflict in the IGAD Region during the SDG period.

Mr. Adem Elhiraika, Director, Macroeconomic Policy Division- UNECA, and the coorganizer of the event welcomed the participants and shared his view on industrialization and industrial policy in Africa and the misconception that prevails in understanding industrial policies. He argued that industrial policy is beyond industries and that targeted incentive mechanisms, irrespective of the nature of the receiving sector, can be considered an industrial policy. He claimed that Africa and the IGAD region need prudent such policy interventions to realize the SDGs.

Dr. Roger Atindehou, Manager, Operations Eastern and Southern Africa Department, African Capacity Building Foundation, in his keynote speech indicated the importance of such fora for the planning and successful implementations of the SDGs. The ACBF is assisting in capacity building of several think-tanks in Africa, including the event being organized by HESPI.

In his official opening statement, H.E. Dr. Yinager Dessie, Minister for National Planning Commission of Ethiopia, commended the relatively faster pace with which Africa and the IGAD region are integrating with the rest of the world with particular emphasis to China's role in the region. He, however, stressed on the slow growth of intra-regional trade and investment in the IGAD region that needs to be strengthened through joint actions. The conference has brought together think-tanks, academia, and policymakers to discuss the targeted global agenda 2030 (the Sustainable Development Goals).

About 20 papers of policy relevance to the SDGs were presented, and pertinent issues related to all the 17 SDGs were discussed with particular emphasis on:

- Poverty, Hunger and Malnutrition. Papers that serve as policy inputs to realizing the goals set in the SDGs to end poverty in all its forms, eliminate hunger, achieve food security, improve nutrition, and promote sustainable agriculture pertaining to the IGAD.
- Ensuring Quality Education. Papers centered around the challenges and prospects to ensure inclusive and equitable

quality education and promote lifelong learning opportunities for all; on institutional requirements to do so; and on measurement of educational justice and related issues.

- Productive Work and Economic Growth. Papers that delve into labor market characteristics and implications to promoting sustained, inclusive and sustainable economic growth, full and productive employment, and decent work.

- Industrialization, Innovation, and Infrastructure. Papers on policies to build resilient infrastructure, promote sustainable industrialization and foster innovation.

The UNECA was a joint organizer of the event and delivered a panel discussion on 'Socioeconomic Transformation and Sustainable Development in a Pan African Setting' that looked into issues of the dual transition for Africa in terms of development frameworks: from NEPAD to Agenda 2063 and from MDGS to SDGs. Also, UNECA presented its new study compiled as the African Social Development Index Report for East Africa.





## HESPI Conference on IGAD Economies, October 29-30, 2015, Addis Ababa

The promising insights of growth in the IGAD member states on the one hand and a range of problems and challenges that these members states face on the other hand necessitated to have a platform where researchers, policy makers, development practitioners discuss and scrutinize the challenges, and contribute to the development endeavors in the region. Recognizing the importance of such a platform, The Horn Economic and Social Policy Institute (HESPI) along with its partners have initiated an annual conference for the IGAD Economies.

After successfully completing the first conference in 2014, the second conference on IGAD Economies was held from 29 - 30 October 2015 at the UNECA Conference Hall in Addis Ababa, Ethiopia. It was officially opened in the presence of H.E. Ahmed Shide, State Minister of the Ministry of Finance and Economic Development of the Federal Democratic Republic of Ethiopia, and representatives from UNECA and ACBF.

The conference, which focused on Inclusive Growth and Poverty Reduction, had attracted several participants from different parts of the globe working at different capacities. More than 20 research papers were presented and discussed over the two days conference. The papers were mainly in the areas of Inclusive Growth; Agriculture and the Environment; Financial Inclusion; Market Potential and Productivity; and Private Sector and Inclusive Growth.

Moreover, along with research paper presentations, two panel discussions - one on IGAD Economies Transformation and Essential Pre-requisites; and second on Displacement and Migration in the IGAD Region - were held.

In the concluding remarks and way forward of the two days conference, participants expressed their satisfaction with the overall organization of the conference and appreciated its importance.

They emphasized on the need for a forum of this type to bring together researchers in the IGAD region and elsewhere to discuss on pertinent issues of the sub-region, and suggested for continuity of the conference with a wider and diverse coverage in terms of both participants and quality and quantity of papers.

On side event HESPI conducted Policy Round Table on migration and internal displacement within the IGAD region and its policy implications. The high unemployment rate and instability have been key push factors for the IGAD region youth to take risky paths for outward migration. This session focused on mapping out the refugees' incidence and its current status including internally displaced communities and the socio-economic and political factors that are driving the refugees and internally displaced communities.





## HESPI Conference on IGAD Economies, October 23-25, 2014, Addis Ababa

Promising insights of growth in the IGAD member states on the one hand and a range of problems and challenges that these member states face on the other hand has necessitated to have a platform where researchers, policymakers and development practitioners discuss and scrutinize the challenges and contribute to the development endeavors in the IGAD region.

Thus, HESPI along with its partners have initiated annual conference for the IGAD region called IGAD Economic Conference.

The key objectives of the conference are:

- To offer a unique avenue for researchers, policymakers and development practitioners from the IGAD region and elsewhere to debate on important economic, social and political developments in the IGAD region.
- To contribute to the economic, social and political development in the IGAD region through promotion and advancement of scientific research on economic, policy and social issues related to development of the IGAD economies.
- To promote scientific research and knowledge management as an important driver of policy dialogue, good policy planning and implementation in the IGAD region.

The inaugural IGAD Economic Conference, (IGADEC) 2014 was held from 23-25 October 2014 at the UNECA Conference Hall in Addis Ababa, Ethiopia. The conference focused on Economic, Social and Political Developments in the IGAD region and the challenges thereof.

In his opening remarks, Dr. Ali Issa Abdi, the Managing Director of HESPI, mentioned the various regional and international research conferences hosted by various institutes and underscored the absence of such regional arrangements for the IGAD region, despite the knowledge deficit in the region and the need to strengthen research and development to enhance evidence based policy formulations. He further noted that the conference is a platform for the academia, think tank, and policy makers to discuss on issues pertinent to the IGAD economies.

The IGADEC 2014 drew over 50 participants from different parts of the globe working at different capacities. More than 30 scientific papers were presented and discussed over the three day conference.

The papers were mainly in the areas of Foreign Direct Investment (FDI) and Foreign Trade; Food Security; Growth and Urban Development; Exchange Rate and Governance; Finance; Inequality, Institutions, Policy and Development; and Environment and Climate Change. Moreover, 2014 Annual Economic Report of IGAD Region, a flagship report of the region compiled by HESPI, titled "The State of IGAD Economies, Trade Performance and Prospects" was presented and discussed.

In the concluding remarks and way forward of the three day conference, participants expressed their happiness in the overall organization of the conference and appreciated its importance. They emphasized on the need for a forum of this type to bring together researchers in the IGAD region and elsewhere to discuss on pertinent issues of the region, and suggested for continuity of the conference with a wider and diverse coverage in terms of both number of participants and quality and quantity of papers.



## Activities and Programs

### Private Sector Development

The growth and development of the Horn of Africa countries requires viable and vibrant private sector. The formation of an optimal relationship between the state and the private sector could be better informed through more comprehensive research on the role of the state in a market-based economy. HESPI's research and analysis address issues on the role of the state in economic markets; and the implications of regulations on economic management. The national and regional authorities need to recognize the key contribution of the private sector in the economic sphere as well as its potentially important role in the provision of social goods and services.

### Post-Conflict Issues

A key ingredient of the incidence of conflicts in many developing countries has been inadequate economic and political governance, as well as high incidence of poverty and struggle over limited resources. The performance in the sub-region in the past several decades manifests the toll taken by various conflicts, in terms of destruction of economic and social infrastructure, as well as development opportunities foregone. HESPI undertakes studies on the impact of intra- and inter- State conflicts on national and regional developments, and the economic drivers of conflict as well as measures to resolve and avoid the recurrence of conflict.

Policy Forums

Dissemination

HESPI Policy

# HESPI Policy Forums & Dissemination

HESPI Policy Forums

HESPI Policy



# HESPI Policy Forum on Illicit Migration from the IGAD region and its Implications

Eastern Africa in general and the IGAD region in particular are one of the primary sources of illicit migrant flows and large stocks of migrants and internally displaced people. Although the exact number of illicit migrants that originate from the IGAD region varies, nationals of the member countries constitute a significant share of the total migrants that arrived in Europe in 2016.

In that context, the Horn Economic and Social Policy Institute held a policy forum on illicit migration from the IGAD region and its implications on 10 March 2017, in Addis Ababa. The forum was attended by various experts from the International Office for Migration (IOM) Ethiopia office, Life and Peace institute, local experts, policy makers, representatives of various embassies, members of the academic community, civil society and NGO representatives.

The forum discussed the relevant push and pull factors that influence the outflow of migrant from the world in general and IGAD member countries in particular. A special focus of the discussion was also on the extent and specific reasons of the outflow destined to Europe and the hardships migrants go through in an attempt to reach their intended destination. Various issues related to the factors that influence the decision to migrate and policies to mitigate the problem were discussed by the panel presenters and the participants.

The participants appreciated the effort to raise such a timely and urgent issue affecting both the source and receiving countries and insisted such discussions should continue by including a wide range of stakeholders. The meeting was concluded by highlighting HESPI's commitment to continue bringing such pertinent issues as it has done, so far, by organizing relevant policy forums.



# HESPI Policy Forum on Fiscal Federalism and Decentralization

The Horn Economic and Social Policy Institute (HESPI) has been organizing Policy Forums to create an avenue for cross-learning and to disseminate research findings to influence policy formulation and implementation processes.

On 26 September 2016, the Institute held a policy forum on "Fiscal Federalism and Decentralization in the IGAD member countries" based on a commissioned study conducted for: Ethiopia, Kenya, Somalia and South Sudan. The aim of the Forum was to assess and document the practice of fiscal federalism in the select countries and to draw useful lessons from the relatively advanced federal systems of Ethiopia and Kenya, for Somalia, South Sudan and other IGAD member states embarking on federal governance.

The Forum brought together policy makers, prominent researchers on federalism and decentralization from the select IGAD countries and the sub-region at large, academicians, professionals, and representatives of the private sector and civil society







## HESPI Policy Forum on Assessing Private Sector Challenges and Opportunities in the IGAD region

HESPI conducted a Policy Forum on "Assessing Private Sector Challenges and Opportunities in the IGAD region" on 20 May, 2016. The Forum brought together policy makers, academicians, professionals, and representative of the private sector and civil society to discuss issues of common regional importance characterizing the private sector in IGAD member countries.

Introductory remarks were made by the HESPI Managing Director, Dr. Ali Issa. The introductory remarks highlighted the state of the economies of IGAD member countries in light of the slowdown in the global economy and more particularly the decline in commodity prices. The remarks also set the stage for subsequent discussions by identifying the constraints plaguing the private sector in the region, ranging from inadequate infrastructure, shortages in skilled labor, inefficiencies in public utilities and inadequate access to finance. In part owing to the above mentioned constraints, Dr. Ali explained that 5 out of 7 IGAD member countries are ranked lower than the Sub-Saharan average in the World Bank's ease of doing business rankings, two of the countries being among the bottom three.

To have a closer look at the challenges facing the private sector in the region, an empirical study on Small and Medium Enterprises (SMEs) access to finance was presented by Dr. Fredu Nega a senior research fellow at HESPI. The presentation revealed that in general, SMEs have very little access to finance from microfinance institutions and banks in Ethiopia. More particularly, the study showed that young firms that do not have adequate managerial and operating experience, and those with inadequate collateral are highly credit constrained.

In the question and answer session following the presentation, there was active participation, notably from those who were representing private and public financial entities. They discussed the challenges they faced to extend credit to SMEs and the special schemes they are designing to make credit available to SMEs.

The newly introduced Hawassa industrial park in Ethiopia was mentioned as an example of the opportunities being created, where the government has called on local manufacturers with generous incentives to set up their companies at the park. The incentives include non-collateralized credit for investment and working capital (ranging from 75%-90%), ten years tax exemption, 28 day long retention of foreign exchange earnings from exports, sharing cost of skills training, and technical support.



## Energy Production and Consumption

A policy forum was held in February 2015 at Addis Ababa Hilton that aimed to explore the impact of infrastructure linkages among IGAD member countries in general and between Kenya, Sudan and Ethiopia in particular. In addition to a paper presentation on the economic growth impacts of energy consumption on the economies of Kenya and Sudan, broader presentations on the need and prospects of infrastructure linkages were also presented at the forum.

The objective of the forum was to quantify the likely impact of energy consumption on the growth of the countries that have started importing hydropower from Ethiopia, as a case study and relevance and implications for further infrastructure collaboration in other areas such as the transport (road, railway), mining exploration, communication, irrigation, and IT sectors.

An eye opener presentation of a paper on Energy consumption in Kenya and Sudan set the stage for discussions. A panel discussion on Infrastructure collaboration in IGAD member has provided immense understanding of ongoing initiatives to boost collective action in infrastructural developments of the IGAD and African regions. The progress that has been made in terms of trade flows, the strengths and weaknesses of the regional blocks that exist and the factors that have contributed to that outcome were well discussed.





## Activities and Programs

### Institutional Capacity Building

HESPI promotes a broader and more informed dialogue on key issues including institutional building activities pertinent to specific nations or the sub-region by acting as a center for open discussion of fundamental institutional issues. Also HESPI contributes to capacity building through interactions in workshops and seminars as well as tailor made trainings in collaboration with partner training institutions

# **Institutional Capacity Building**

## Training for Officials of the Central Banks of South Sudan & Ethiopia

As part of its capacity building portfolio to the financial institutions in the IGAD region, HESPI conducted a capacity building training for selected Central Bank staff members in the region in collaboration with the Kenya School of Monetary Studies in Nairobi on 12-23 June 2017.

The training was designed to expose the participants to critical functions of central banks, including monetary policy formulation and implementation, bank supervision, currency management, financial markets operations, banking and national payments systems including the legal framework governing the operations of central banks. The focus of this capacity building was on training of trainers (TOT) program. The participants were prepared to train other staff members upon return to their respective central banks for wider reach.



## Experience sharing visit for Central Bank Supervisors

Capacity limitation is the missing link with the financial integrity institutions which are mobilising and regulating the utilization of public resources. This has been hindering the effort of meeting the required social transformation and resourcing sustainable development programs in the IGAD region. The Horn Economic and Social Policy Institute (HESPI) has been engaged in building the capacities of financial institutions to enable them effectively deliver on their mandates, especially in post conflict and fragile situations. Among the eight IGAD member countries, HESPI has been supporting on that regard, Somalia and South Sudan. Based-on the capacity building request from the target countries' central Banks supervision units, HESPI organized a study tour for bank supervision officials of Somaliland in collaboration with the National Bank of Ethiopia (NBE) which was held on 18 -23 July 2016 in Addis Ababa, Ethiopia.

The main purpose of the study tour was therefore to share the National Bank of Ethiopia's experience on Bank Licensing and Supervision and equip the supervision staff members of the Central Banks of Somaliland to render effective support to banks and other financial institutions particularly in the areas of bank licensing and supervision. HESPI, in collaboration with the NBE, developed the study tour program in such a way that it would address the required training need areas







## Training for senior officials of Somalia and South Sudan

## Training for selected Auditors of the Supreme Audit Institutions of Somalia and South Sudan

Under the "Institutional Capacity Building Component of the ACBF supported project" HESPI conducted training for senior Public Finance Management (PFM) officials of Somalia and South Sudan on "Fiscal Transparency and Effective budget management" (in Nairobi, Kenya) from 30 May to 3 June

2016. The training aimed to build the capacities of the financial integrity institutions in the target countries with severe and prolonged insecurity, which damaged most of the governance institutions. The training addressed key issues in PFM such as ways of developing credible and participatory national budget, transparent execution of budgets and ways of controlling or monitoring the budget cycle. To ensure transparency, mechanisms of actively including vibrant public and civil society groups, ensuring the budget addresses national priorities and providing effective external control and scrutiny of fiscal operation were among the issues discussed. This training equipped the participants with useful fiscal management technical knowledge in accountability and transparency and in methods of delivering efficient public finances management and effective fiscal risk controls.



The Horn Economic and Social Policy Institute conducted training program for selected Auditors of the Supreme Audit Institutions of Somalia and South Sudan on the following core topics: Financial Audit, Internal Control Systems and Fraud Audit of Public Resources Management on May 2-8, 2016 in Addis Ababa. The training was aimed at imparting key skills towards building the capacity of financial integrity institution engaging in public budget resources management and accountability. The effectiveness of Audit Institutions and staff are essential for overseeing and ensuring that public money serves citizens, while tackling corruption, fraud, misconduct and inefficiencies that reduce confidence in public services and assures that fiscal discipline is maintained in the target countries. The training also created opportunities for cross-learning of Audit practices in the region as it brought together the experiences of South Sudan, Somalia and Ethiopia.

The trainees will disseminate the new skills and knowledge in the topical areas among their subordinates and share it with the management of Audit offices, and the financial units of line ministries for larger influence on fiscal operations. The progress towards implementation of the new skills and knowledge within the respective Supreme Audit offices will be tracked by HESPI.





## The First Consultative Meeting of the Somalia Federalism Network (SFN)

The first consultative meeting of the Somalia Federalism Network took place at Entebbe, Uganda on July 9-11, 2016. Representatives from the Federal Government of Somalia, then existing member states, and several in the process of formation held the first Consultative Meeting of the Somalia Federalism Network (SFN) in order to discuss the key elements of cooperative federalism in Somalia. The participants at the meeting, which were supported by the Horn Economic and social Policy Institute (HESPI), included members of the Somali Parliament and political leaders, as well as scholars and change agents who articulated the challenges and prospects to building a viable and federal state.

The meetings consisted of a 2-day intensive seminar format on key federalism issues. A research paper on "Fiscal Federalism and Decentralization in selected IGAD member countries" which covered the status of devolution of power and resources sharing in several countries of the IGAD region was presented on the meeting.

At the closing session, the participants discussed the processes of formalizing the operations of the Somali Federalism Network and selection of its coordinating leadership. The participants agreed to form a team comprising a chairperson and deputy of the Network that will be reviewed at the time of its second meeting.



## Consultative Meeting on Somalia Federalism Power and Resources Sharing in the realm of Federal system

This event was conducted within the office premises of the IGAD secretariat in Djibouti. The consultative meeting that invited prominent stakeholders of Somalia has advanced the previous consultations on Somalia Federalism to contribute to Federal system making. The event deepened the discussion of key issues that are pertinent to federalism in a dispassionate objective and informative setting.

The meeting focused on some identified federalism issues like building horizontal federal relationship, building key institutions at all levels which are vehicles of fostering federalism; division of expenditure responsibilities; division of Taxation power; responsible and accountable financial management system. The meeting set out steps to help the stakeholders building Federal system of Somalia under post-conflict nation building aspiration.



## Activities and Programs

### Economic Research

The main thrust of the work program of HESPI is research and analysis on development of economic policy issues that are important in formulation of effective policy reforms. The core policy reforms include macroeconomic policies, public finance management, the role of institutions and good governance in development, the role of domestic and international private investment in economic growth and poverty reduction, and the effective use of local finances and development assistance

### Social Research

There are many challenges posed by current circumstances of the IGAD member countries in the social sector. Consequently, there is a need to stimulate sustainable investments in social services and to enhance cost effective development programs. The analytical work of the Institute focuses on the strengthening of social services in particular education and health.

### Productive Sector Services

The fact that over two-thirds of the population of almost all the countries of the sub-region is rural and depends exclusively on agriculture for its consumption and income generation means that measures to address the problems of poverty and food insecurity must mainly be found within the agricultural sector; including crops, livestock, fisheries, forestry and the conservation and management of water resources and broad environmental sustainability



# Publications Catalogue

*The Horn Economic and Social Policy Institute*

# 2017

Dedicated to preeminent policy research and institution building for sustainable prosperity

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## Enhancing the Development of the Private Sector for Inclusive Growth and Job Creation in the IGAD

This study attempts to identify the major challenges facing private sector development in the IGAD region and proposes possible pathways to overcome those challenges. An important avenue to realize the potential of the IGAD region is the development of the private sector—the most viable vehicle for sustained economic growth and job creation. That would in turn depend on adequately addressing the most binding constraints to improve the business environment.

The major impediments slowing down the development of the private sector in the region include: restrictive policies and regulations, limited access to infrastructure, shortage of skilled workforce, limited access to finance, foreign exchange rationing, low intra-regional trade and lack of political stability, to mention a few. However, the region has made strides to address a number of these impediments, particularly infrastructure where a number of major projects are ongoing or in the pipeline in a number of countries. Nevertheless the region has a long way to go to address the remaining major challenges.

In order to propel private sector development in the region, this study recommends that policy makers should further simplify the laws and regulations that govern businesses; physical and financial infrastructure services have to be improved; regular public-private dialogues should occur. Also entrepreneurship development, and Small and Micro Enterprises (SMEs) should be supported; and the efficiency and effectiveness of the public sector and its interface with the private sector should be enhanced.

By Osman Sheikh Ahmed (PhD)  
May, 2017

## Macroeconomic Performance of the IGAD Economies and the Implication of China's Economic Slowdown

This report shows that in 2015 all IGAD economies (except South Sudan which experienced output contraction due to the ongoing conflict) have registered a modest GDP growth exceeding the Sub-Saharan average despite global commodity price fall. Ethiopia has continued its growth momentum registering 9.6 percent followed by Kenya with 5.6 percent and Uganda 5 percent. Similarly consumer prices remained in single digits in all economies, except in Sudan and South Sudan. Despite the progress made in mobilizing domestic resources, the economies have continued to run growing fiscal deficits.

IGAD economies exposure to China's economy through trade and investment, as the report shows, is significant especially for Sudan, Ethiopia, and Uganda to a lesser extent. In 2015, the share of exports from Ethiopia and Sudan to China constituted 12.5 and 16.2 percent of their total exports respectively.

By HESPI staff  
April, 2017





# Contribution of Early-Age Circumstances to Inequalities in Educational Achievement

## A within and across age cohorts comparative study for Ethiopia

This study measures inequality in overall educational achievement of children in Ethiopia. It then decomposes the existing inequality and attributes parts of the inequality to children's own effort and circumstances on which children have no control (e.g. parental education). The study also depicts the dynamics as children grow older. In so doing the study employs four rounds of surveys by the young lives project that tracked children of young (1 year olds) and old (8 year olds) cohorts four times during 2002 and 2013. Average Z-Scores in mathematics, PPVT and Language are used to proxy educational achievements.

Gini Coefficient and more importantly, the decomposable General Entropy measures were used to measure overall inequality in educational achievement. The Gini for overall inequality was found to be 0.35-0.38 for all survey rounds. Early childhood circumstances on which children have no control explain a big chunk of the inequality in educational achievement. Household wealth and parental education were found to be the strongest drivers of inequality. The findings means that affirmative action on educational enrollment alone is only part of the solution. The study calls for policies meant to address the root causes of such inequalities.

By Gashaw Tsegaye (MSc.) and Abdurahman Ali (MSc.)  
February, 2017

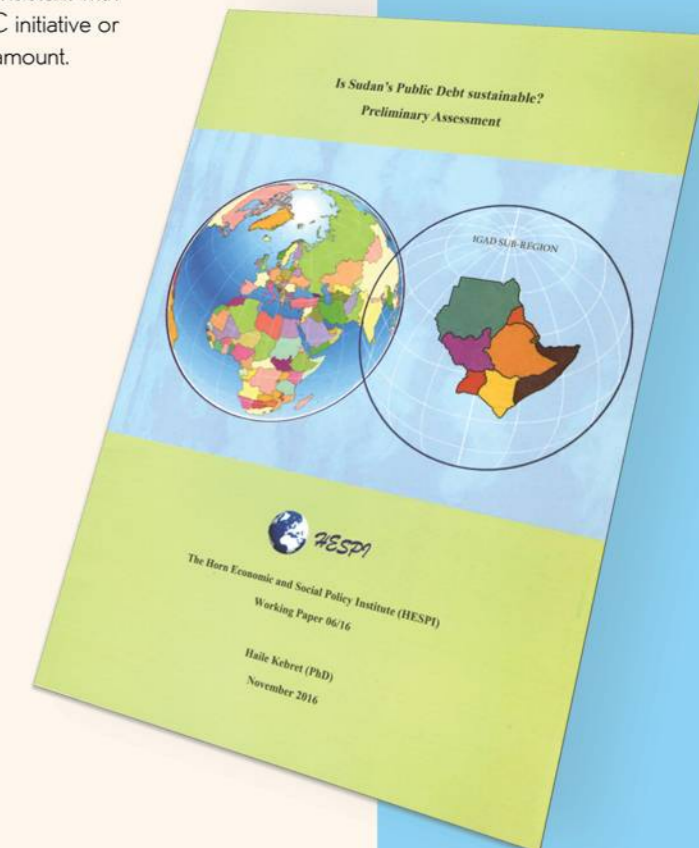


# Is Sudan's Public debt sustainable?

## Preliminary assessment

This study is motivated by one of the SDG goals (17.4), which proposes to assist developing countries to attain debt sustainability in the long term. In this context the current study analyzes the extent to which Sudan's debt can be sustainable under different growth scenarios. To this end, the study employs both econometric and non-econometric techniques. The findings reveal that Sudan needs to register a GDP growth exceeding its historical average of 4% to have a long term debt-sustainability. Thus, given the existing economic environment, Sudan's debt is unlikely to be sustainable. The findings remain intact after some sensitivity tests. Short term solutions consistent with the SDG goal (17.4) include debt relief for Sudan under the advanced HIPC initiative or donors shall be willing to lend Sudan more than the real value of the existing amount.

By Haile Kebret (PhD)  
November, 2016





## Inequality of Opportunity (IOp) in Child Health in Ethiopia

Early childhood development such as child health and nutrition is shown to affect success and wellbeing later in adulthood. While child health and nutrition are influenced by, inter alia, parental inputs and access to public services, the latter are not equitably distributed across children, leading to inequality of opportunity (IOp). The study decomposes the total inequality in child health and nutrition into a part attributable to child circumstances such as parental background, and access to public services—hence IOp in child health, and a part due to random variation in health. Using the young lives survey data in 2002 and 2006, the study then demonstrates that IOp in child health and nutrition has increased over this period, regardless of the method of inequality decomposition used. Further scrutiny into child circumstances driving IOp reveals that household wealth, parental background, access to public services and disparities in geographic location are responsible for the increase in the IOp.

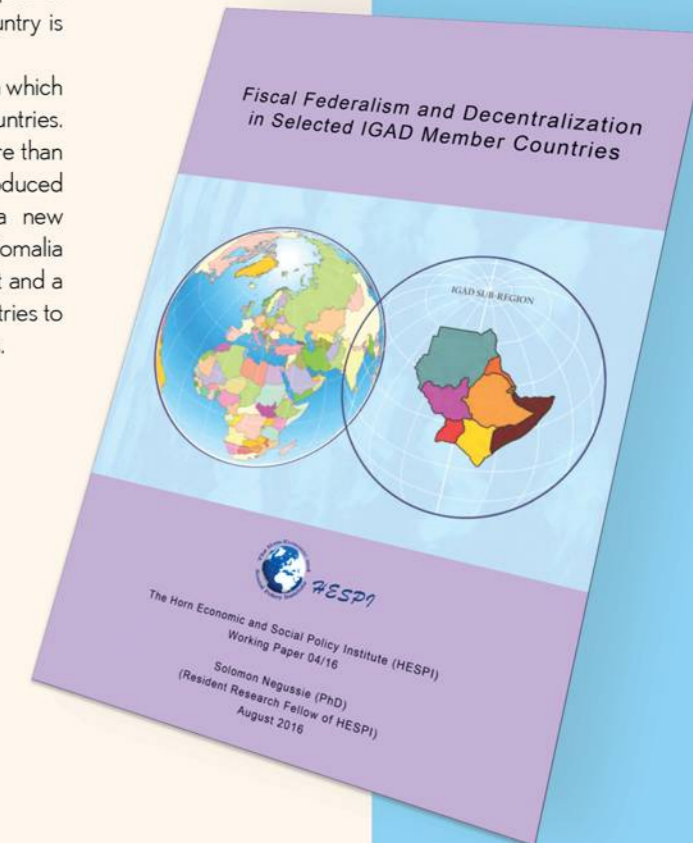
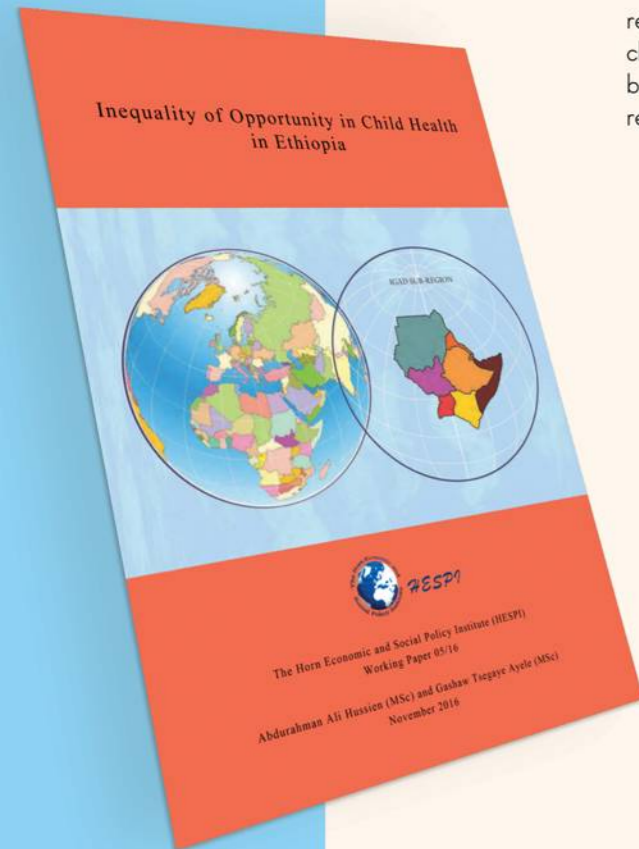
by Abdurahaman Ali (MSc) and Gashaw Tsegaye (MSc)  
February, 2017

## Fiscal Federalism and Decentralization in selected IGAD member countries

Fiscal federalism - the fiscal implications of a decentralized system of multi-level government - is an important component of governance in a federal or a decentralized system. Among the aspects of fiscal federalism to be assessed are the constitutional and political context, the allocation and the scope of federal, state and local revenues and expenditures, the nature and scope of intergovernmental transfers, equalization arrangements and institutional architecture for the participation of constituent units at the federal/national level. This study of fiscal federalism in the IGAD region focuses on the four member countries - Ethiopia, Kenya, South Sudan and Somalia. Although these countries have incorporated some or all principles of fiscal federalism in their federal or devolved constitution, obviously each country is unique in its own way.

There are significant differences in the constitutional and political context within which fiscal federalism operates or should operate in each of the four member countries. Ethiopia put in place a federal system and practiced fiscal federalism for more than two decades. Kenya, though not new to a decentralized system, introduced fundamental changes in its devolved system of government through a new constitution adopted in August 2010, which also changes the fiscal structure. Somalia and South Sudan are fragile states struggling to maintain a stable government and a workable structure of fiscal federalism. This study pulls together the four countries to identify the opportunities and the challenges for successful fiscal arrangements.

by Solomon Negussie (PhD)  
August, 2016

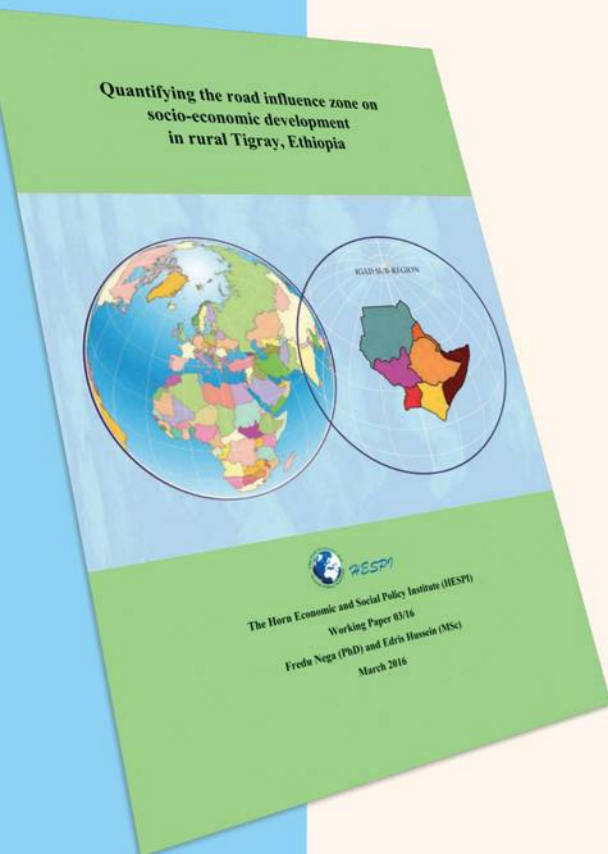




## Quantifying the road influence zone on socio-economic development in rural Tigray, Ethiopia

This study attempts to delineate the rural road influence zones for various socio-economic outcomes. Using two rural roads built under the Universal Rural Road Access Program (URRAP), two regional highways and a sample of 529 households from four centers, the study has shown that the road influence zone occurs at a varying distance from either side of the road to household location for different socio-economic outcomes. Accordingly, it has identified threshold effects at different distances on various socio-economic outcomes including use of fertilizer, motorized transport and commercial activities.

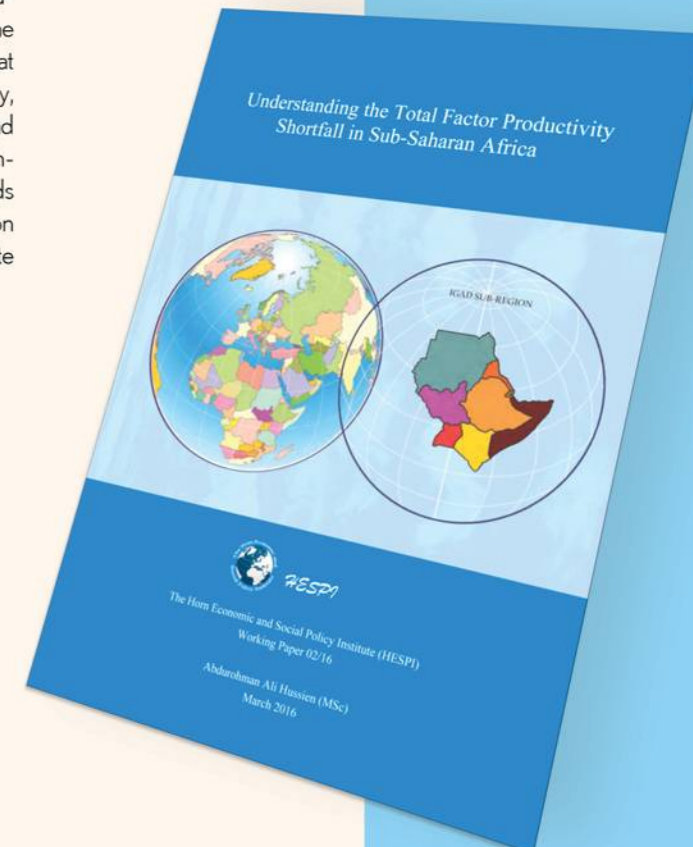
by Fredu Nega (PhD) and Edris Hussein (MSc)  
March, 2016



## Understanding the Total Factor Productivity Shortfall in Sub Saharan Africa

The study assesses whether the fundamental policies and institutions that govern Total Factor Productivity (TFP) variation across countries can explain the TFP shortfall in Sub Saharan Africa (SSA). Seeking evidence to this question, the study attempts to explain the TFP shortfall in SSA using institutional quality, restrictiveness of trade policy, and geographic location. Using IV estimation to take care of potential endogeneity of TFP determinants, the study has shown that the dismal TFP in SSA could broadly be understood in relation to its poor institutions, restrictive trade policy and, most importantly, its tropical location and the meagre domestic credit available to the private sector. The findings imply that there is substantial room for improving TFP through better institutional quality, less restrictive trade policy, better access to finance for the private sector and better connectivity of land locked countries with their non-land locked neighbors. Moreover, it also calls for emphasis in facilitating a structural shift towards less dependence in agriculture in the long run, while investing in research on drought resistant crops, tropical diseases, and irrigation infrastructure to mitigate the consequences of its tropical location in the short run.

by Abdurhman Ali (MSc)  
March, 2016



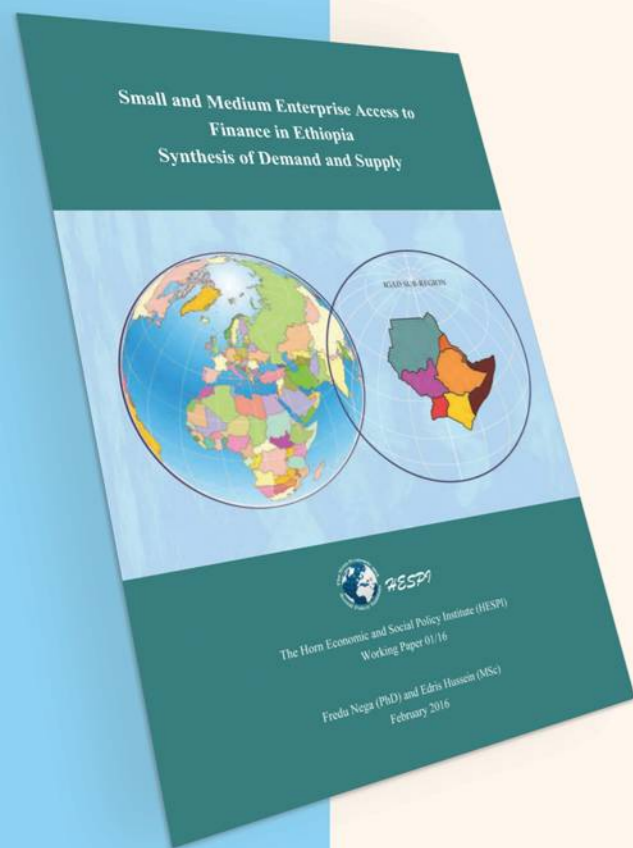


# Small and Medium Enterprises Access to Finance in Ethiopia

## Synthesis of Demand and Supply

This study attempts to explore the demand and supply side constraints characterizing small and medium enterprises' (SME) access to finance in Ethiopia. Conducting a survey of 519 SMEs from six major cities and towns in Ethiopia and selected commercial banks and micro finance Institutions (MFIs), the study has identified factors hindering SME's access to finance. The demand side analysis reveals that firms with relatively older age, more frequent previous engagement with banks, more experienced managers, and those managed by their owners have a better access to finance. The supply side analysis on the other hand shows that banks or MFIs perception on how well SMEs keep their financial records, whether or not SMEs have adequate collateral, the level of SMEs' risk management and SME's informal nature are key factors to extend credit to SMEs. Taken together the supply-demand analysis show that firms which are young, and which have less frequent past engagement with banks or MFIs, which have less experienced managers, poor financial records, and those with inadequate collateral and less risk management capability are highly credit constrained.

by Fredu Nega (PhD) and Edris Hussein (MSc)  
February, 2016



## Selected Research Outputs Since 2013

- Dec 2015 - Study on the establishment of an IGAD regional Development Bank
- Oct 2015 - Annual flagship report on IGAD Economies for 2015 entitled "Recent Macroeconomic Performance and Progress towards MGDs in IGAD"
- Sept 2015 - Domestic Resource Mobilization (DRM): Case Study on Ethiopia
- Aug 2015 - Do Tax Structures Optimize Private Fixed Investment in Sub Saharan Africa?
- May 2015 - Effects of regional trade agreements on strategic agricultural trade in Africa and its implications to food security: Evidence from gravity model estimation
- May 2015 - Exploring Economic Growth Potential Through Infrastructure Collaboration: the Case of Kenya and Sudan.
- Jan 2015 - Proceedings of the 1st Conference on IGAD Economies
- Dec 2014 - Is the Ethiopian Birr Overvalued? A Sober Assessment
- Dec 2014 - Proceedings of the Conference on Federalism in Somalia.
- July 2014 - Microfinance Institutions in Ethiopia, Kenya, and Uganda: Loan Outreach to the Poor and the Quest for Finance Viability
- July 2014 - Annual report on the state of IGAD economies: Trade performance and prospects
- May 2014 - Composition of Growth and Alleviation of Income Poverty and Child
- Dec 2013 - Under-nutrition in Sub-Saharan Africa Regional Integration and Trade in Africa
- Aug 2013 - Assessment of Economic Integration in IGAD
- Aug 2013 - Proceedings of the high-level conference on Rebuilding Viable state and effective institutions in Somalia
- July 2013 - HESPI annual report on IGAD economies, 2012
- Mar 2013 - Financial Sector Developments in the IGAD Region



# Our Partners

## Institutions with financial and/or technical association with the Institute

- African Capacity Building Foundation; Harare, Zimbabwe
- African Development Bank; Abidjan, Ivory Coast
- African Economic Research Consortium; Nairobi, Kenya
- Global Development Network (GDN); Washington DC, USA
- World Bank; Washington DC, USA

## HESPI partners with formal MoUs signed

- African Economic Research Consortium (AERC) December 2016; Nairobi, Kenya
- Kenya Institute for Public Policy Research and Analysis (KIPPRA) December 2016; Nairobi, Kenya
- ASAL Group, September 2015; Mogadishu, Somalia
- Intergovernmental Authority on Development (IGAD) Secretariat, May 2015; Djibouti
- Ebony Center for Strategic Studies, March 2015; Juba, South Sudan
- The Institute of Policy Analysis and Research (IPAR) October 2014; Kigali, Rwanda
- The United Nations Economic Commission for Africa (UNECA) November 2013; Addis Ababa, Ethiopia
- The African Development and Economic Consultants Ltd. March 2009; Nairobi, Kenya
- Uganda Management Institute, February 2009; Kampala, Uganda

## Partners with cooperation arrangements in place

- Republic of Djibouti
- Federal Democratic Republic of Ethiopia
- Federal Government of Somalia
- Intergovernmental Authority on Development (IGAD) Office of the Facilitator for Somalia Peace and National Reconciliation

# Governance and Management

## International Advisory Panel

HESPI has an International Advisory Panel, which comprises a prestigious group of experts from the sub-region and abroad, who have a strong commitment and passion for economic and social development of the Horn of Africa and other low income countries. The current Advisory Panel comprises of eight members.

## Board of Directors

HESPI's Board of Directors of 9 members exercises oversight over the strategies, policies, operations, and finances of the institute. The Board of Directors is currently chaired by Amb. Peter Robleh (PhD). The Board of Directors meets at least two times a year and the Executive Committee meets more frequently as necessary.

## Management Team

The management team comprises Dr. Ali Issa the managing director, Mr. Daniel Fantaye the programs manager, Dr. Haile Kebret the research director, Dr. Fredu Nega senior research fellow and Ms Hiwot Gezahegn the accounts and finance manager.

## How we work

The Institute conducts its work through its own staff and a network of Research Associates. HESPI advocates and promotes the formulation and implementation of sound economic and social policies through high-quality research and policy analysis, and providing advisory services to facilitate broad-based economic growth and poverty reduction. HESPI also conducts commissioned studies and institutional capacity building, to assist with better management of social and broad-based sustainable economic growth