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Managing Director's Statement



This issue of the Newsletter coincides with the marking of the Institute's ten-year anniversary of operations. During this period, the Horn Economic and Social Policy Institute has achieved considerable success in delivering on its core mission of conducting objective and high-quality economic and social research, enhancing institutional capacity for good governance and pursuit of sustainable prosperity, and promotion of economic integration for stability and regional development. Consequently, the Institute's importance and value added is well recognized and the realization of the vision of the founders to establish a regional Institute of excellence and point of reference in the sub-region for economic and social policy research, knowledge advocacy, and institutional capacity building is closer than ever.

During this decade, the Inter-Governmental Authority for Development (IGAD) sub-region has experienced both high sustainable growth in several member countries, and deteriorating economic and social situation in several fragile countries, largely on account of insecurity and civil conflict. The region has also been adversely affected by the prolonged decline in commodity prices of its principal exports. Reflecting these unstable conditions and unfavorable economic developments, the growth momentum in the sub-region has slowed down and youth unemployment has become more acute. The deteriorating trends are reflected in an influx of unskilled migrants from the IGAD region through risky transit routes to Europe and the Middle East.

The Horn Economic and Social Policy Institute will continue to work with governments, the private sector, civil society and the region's development partners to provide evidence-based reform agenda, to enhance policy formulation and to address the headwinds challenging the sub-region. We will also endeavor to assist member governments achieve their national transformation targets, the 2063 agenda, and the Sustainable Development Goals.

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 year. 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

Ali Issa (PhD)

Recent Events

HESPI signed protocol with the IGAD Secretariat

The Horn Economic and Social Policy Institute (HESPI) and the Inter-Governmental Authority on Development (IGAD) Secretariat signed a joint research agreement on the 26th of October 2016. The Managing Director of HESPI, Dr. Ali Issa, and IGAD's Director of Economic Cooperation and Social Development, Amb. Elsadig Abdella expressed their appreciation to all who worked hard to realize the conclusion of the agreement. They also noted their hope that this is the beginning of a fruitful future cooperation between the two parties. The agreement covers studies on five sub-projects that range from short-term to long-term. The projects include: (i) An Assessment of Status of Warehouse Receipts System in IGAD Region, (ii). IGAD Region Think-Tank Network and Knowledge Sharing, (iii). An Operational Research Manual, (iv). Statistical Database for Economic Analysis in the IGAD Region, and (v) A Regional Macroeconomic Framework.



From left:
Dr. Ali Issa,
Amb. Elsadig
Abdella, and
Dr. Haile
Kebret

These research projects are expected to equip the IGAD Secretariat with relevant inputs to carry out various policy issues and upgrade its institutional capacity. Both parties expressed their keen interest to effectively complete the projects and the hope that this opens to further close cooperation.

The External Compliance Audit conducted by Deloitte & Touché



From left: Mrs Mahlet Hailu, Mr. Bonani Pilime (ACBF external Auditor), Mrs Hiwot Gezahegn, and Mr. Daniel Fantaye

The African Capacity Building Foundation (ACBF) Grant 256 for HESPI was among the projects selected to undergo External Compliance Audit for 2016. Accordingly, as part of the external audit undertaking, ACBF contracted for the services of Deloitte & Touché firm conduct the audit, which focused on evaluating the internal control systems, compliance with the ACBF's policies, procedures, and the financial operations efficiency. The audit also focused on the project's governance organs, procurement practices, and the reliability and integrity of financial data, budget implementation reports; and plans and actions taken to correct any reported inadequacies in previous audit missions.

The audit results complemented the relevant applications of the year 2016 and concluded that "HESPI (the beneficiary) is in compliance with the provisions of the grant agreement". Also, the auditor recommended that the Institute finalize the on-going updating of its Financial and Accounting manual, and put in place an Information Technology Policy.

HESPI staff visit to the African Economic Research Consortium (AERC) and the Kenya Institute for Public Policy Research and Analysis (KIPPRA)

A staff team from the research and operations of the Horn Economic and Social Policy Institute had an experience sharing visit to the AERC and KIPPRA in Nairobi, Kenya on 30th October – 3rd November 2016. The HESPI team met with the Executive Directors and also key staff members of the two policy research institutions, and much appreciates the warm reception and arrangements for the experience sharing visit. The main purpose of the visit was to impart to the HESPI team effective, efficient and more sustainable ways of working (best practices) both in the programs of core activities and operational functions of the host Institutions.

This visit was part of HESPI's own research and operational team capacity building exercise. The Trip was supported by the ACBF grant. The team gained useful lessons which can be adopted to various strategic and operational areas, in the HESPI context .



HESPI team
visit to
KIPPRA in
Nairobi

Recent Events

The 3rd annual HESPI Conference on IGAD Economies



From left: H.E. Dr. Yinager Dessie, Dr. Ali Issa, Dr. Roger Atindehou, and Mr. Adem Elhiraika

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 co-organizer 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.

Sideline meeting Dr. William M. Butterfield



Dr. William M. Butterfield
USAID's mission economist

HESPI staff met with USAID’s mission economist, Dr. William M. Butterfield at the sideline event of HESPI’s annual economic conference on IGAD Economies on 24 October 2016. The discussion focused on potential support by the USAID for HESPI’s proposed project on improving fiscal transparency in Ethiopia. HESPI proposed a project on building the capacity of civil society organizations in Ethiopia on budget advocacy, that of the independent media on budget accountability and of the Public Accounts Committee of the Ethiopia’s parliament on making effective external oversight on budget implementation.

Recent Events

HESPI Management Held meetings with participating central banks' officials



Participants at the HESPI conference on IGAD economies

At the sideline of the 3rd annual HESPI Conference on IGAD Economies (HCIE), the management of the Institute held talks with representatives from Central Banks of Ethiopia, Kenya, Sudan and Uganda on a possible future collaboration on research and institutional building activities. The Managing Director of HESPI, Dr. Ali Issa, expressed HESPI's unwavering commitment to work together with central banks from the IGAD region on different areas of collaboration.

The representatives of the central banks commended HESPI's research and capacity building activities targeting the IGAD sub-region with particular

emphasis to fragile and conflict prone states. The central bankers particularly commended the Institute for organizing the annual conference on the IGAD economies and bringing together policy makers, practitioners and researchers from the region and beyond. The conference, the representatives said, created a platform for especially young researchers from the region.

The central bankers also expressed their appreciation of HESPI's initiative of establishing an IGAD development bank with a new business model. The Bankers stressed that there is huge need for additionality of finance in the region despite the existence of some other development banks which serve the member states. Hence the representatives recommended that HESPI should introduce the idea of a development bank at the prospective IGAD summit to entice the member states for political commitment.

The bankers reaffirmed that they will work with the Institute on different areas of engagement and take the discussion to their respective Bank Management.

Selected Research Institutes and the IGAD Secretariat explored collaboration



Participants at the HESPI conference on IGAD economies

Representatives of four think-tanks in the IGAD region and the IGAD Secretariat discussed on possibilities of collaborations and formation of think-tank network. This was discussed in a side meeting held on the second day of the Economic conference on IGAD economies (25 October 2016). The institutes represented were Economic Policy Research Center (EPRC) Uganda; the Horn Economic and Social Policy Institute (HESPI); Kenya *Institute for Public Policy Research and Analysis (KIPPRA)*; Mamoun Behairy Centre for Economic and Social Studies in Africa (MBC); and the IGAD Secretariat. The meeting discussed highlighted areas that think-tanks in the region could collaborate on issues such as research, capacity building, policy advocacy, resources mobilization, event co-organizing etc.

Participants exchanged information about the activities and core programs of their institution and suggested areas of collaboration. Mr. El Sadig Abdalla (IGAD Secretariat) endorsed the idea and expressed IGAD's interest to bring together think-tanks in the region. IGAD would also like to work with such institutions in

several fronts, particularly consultancies and policy advocacy. He noted that IGAD has recently assigned few consultancy activities to HESPI, including preparatory works for establishment of IGAD region think-tank network and formulation of macro-econometric model for selected IGAD member countries. Mr. Elsadig also mentioned investment, and infrastructure developments require actions beyond national levels, and stressed to launch IGAD level initiatives.

Mr. Swaibu Mbowa (EPRC); Mr. Christopher Onyango (KIPPRA); Prof. Munzoul Assal (MBC) delivered briefs about their respective institutes; their priority areas and scope of operations. Prof. Munzoul Assal suggested the next conference on IGAD economies to be held in the MBCs conference hall (Sudan) and expressed his institution's readiness to participate as a co-organizer. Mr. Swaibu Mbowa indicated that the basis of collaboration begin with identification of crosscutting issues that integrate the IGAD countries, such as infrastructural and investment collaborations, finance, and so on. Mr. Onyango appreciated the proposal and expressed KIPPRA's stance (although a country focused institute) to take regional responsibility in some instances. He mentioned that KIPPRA has previously done some research on issues beyond Kenya and this can be strengthened through formation of the IGAD think-tank network.

The event was concluded by Dr. Ali's final remarks, in which he pressed on bringing more such institutions to the table, besides the institutes represented at this side meeting. He pointed the need to scale this up and organize further meetings to discuss the issue substantively and to lay the foundation for establishment of a viable Think-Tank network for the IGAD region.

Recent Events

Fiscal Federalism and Decentralization Policy Forum

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. Welcoming remarks were made by H.E. Amb. Peter Robleh, chairperson of HESPI Board of Directors and the session was officially opened by Dr. Ali Issa, Managing Director of HESPI. Dr. Ali stated that the four countries that are covered in the study in one form or the other have decided to adopt a federal decentralized system, which is relevant for these countries. He mentioned that the idea of federalism is something that would lead to stability and holds countries together politically, economically, and socially. He noted that the federal systems in the IGAD region have succeeded in maintaining stability, and contributed to more equitable sharing of resource, and thus have avoided two main causes of most conflict in Africa and throughout the world.



Panelists at the Policy Forum



Participants at the Policy Forum

The study by Dr. Solomon Negussie, from Addis Ababa University, assessed how fiscal federalism operates or is designed to operate in each member country of the IGAD region; as well as the structure and operations of fiscal federalism in the region. In considering the lessons that may be learned, attention is given to the criteria of equity, autonomy, accountability, political stability and intergovernmental relations between the levels of government.

The discussions at the Forum focused on various issues including institutional architecture in a federal system, arrangements of expenditure assignment at different government levels, allocation of revenues generating authority in federal systems, and intergovernmental transfer. Accordingly, the Policy Forum presentation

and discussions covered the following basic issues of fiscal federalism in an interrelated manner:

- ◆ The institutional framework that can be related to the fiscal issues in terms of defining the number and size of constituent units, the devolution of administrative, human and financial resources, and the importance of the constitutional institutions designed to ensure participation of the constituent units in the federal power sharing arrangement;
- ◆ The constitutional design for the distribution of expenditure responsibilities, and the case for constitutional clarity to define the nature of federal or devolved system. It deals with the issue of 'who does what' in a federal system which depends on the constitutional division of powers and responsibilities;
- ◆ The related issue is the division of *revenue* raising powers between the federal government and the regions. It focuses on the assignment of taxes in general and natural resources taxation in particular. Following the nature of expenditure and tax assignments, the study focuses on the causes and impact of fiscal *imbalances* (vertical and horizontal) between the tiers of government in executing their respective responsibilities;
- ◆ The types and forms of resources transfers employed and their constitutional basis are the most important issues addressed in the paper. Transfers in the form of sharing joint revenue, tax base, or allocation of general or conditional grants and their objectives are assessed;
- ◆ The role of functional and administrative capacity is assessed in terms of the overall importance of achieving the objectives of fiscal federalism and decentralization.

Recent Events

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 and South Sudan in collaboration with the National Bank of Ethiopia (NBE) which was held on 18-23 July 2016 in Addis Ababa, Ethiopia. The request is aligned with the HESPI and The African Capacity Building Foundation (ACBF) capacity building strategic priorities of financial institutions in the region.



Participants at the experience sharing visit

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 and South Sudan 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.

Some of key areas addressed during the course of a week-long study tour were:



Central Bank Supervision officials from Somaliland

- ◆ The way how the bank has organized itself to enable it deliver on its mandates. Organizational structure and its governance systems, core mandates, roles and functions have been thoroughly discussed and the visiting team drew lessons to employ into their rudimentary governance system of Central Banks.

- ◆ Practical experiences were shared in the areas of Licensing and Supervision of the banks and other financial institutions. Approaches and Risk Based Supervision methods were shared with the visiting team using previous reports and the various formats of the CAMEL rating systems. CAMEL stands for an internationally recognized bank performance rating system that the authorities from the

Central Bank's supervisory units use in order to rate financial institutions according to five factors represented by the acronym "CAMEL." Supervisory authorities assign each bank a score on a scale, and a rating of one is considered the best and the rating of five is considered the worst for each factor. (See foot note 1 above).

- ◆ The rationale and approaches, guidelines and procedures of Risk Management with banks were discussed and the experiences of the NBE were shared. The visitors learnt that where there are shortages of human resources within the supervision team, they should focus on selected big transactions and focus on few risk categories – Liquidity risk, Credit risk, market risk, ICT risk, strategic risk and reputational risk.
- ◆ With the support from the Financial Intelligence center of Ethiopia (FIC), the participants were trained and gained useful experience on issues related to Illicit Financial Flow. The core lessons they learnt include the procedures followed to establish the center, its core legitimate mandates and the way it operates. The visitors realized that the Centre is designated as a national central authority for receiving, collecting, administering, analyzing and evaluating suspicious transaction and large cash transaction report and disseminating the information and cases that are suspected to be related with Money Laundering (ML) to law enforcement agencies.
- ◆ In order to give sense of how private banks work in Ethiopia, the NBE and HESPI organized visit to a pioneer private bank (the Awash international Bank) in Addis Ababa. They learnt in depth about the start-up challenges of the private banks, the work relationship with the NBE, the emerging experience on Islamic banking window and mobile banking systems and facilities. They also noted the bank's experience in separately handling interest free banking service.

Recent Events

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.



From Left:
Gen. Mugisha K. Nathan (Amb. & Deputy head of the Uganda Mission for Somalia);
Dr. Ali Issa Abdi (Managing Director of HESPI); Amb. Sayid Ahmed Dahir (Somalia
Ambassador to Uganda); Dr. Abdurahman Abdullahi Baadiyo

The SFN was established in December, 2015 at the conclusion of a conference attended by a cross section of the Somali public and policy makers including from the Federal Ministry of Interior, senior representatives of the regional administrations in existence and those in the process of formation as well as members of parliament and civil society organizations. The purposes of the establishment of the SFN were to:

- enhance cooperation and dialogue among the Member States and between them and the Federal government;
- spread knowledge of optimal aspects of viable and effective federalism in Somalia, and
- empower constituents with evidence-based research and promote horizontal and vertical communication and consensus building.



Participants at the SFN meeting

The meetings consisted of a 2-day intensive seminar format on key federalism issues, including:

(i) Presentation on the foundational basis of cooperative federalism and the intergovernmental relations relevant to a workable federal arrangement as articulated in the Provisional Constitution of Somalia adopted in August, 2012. The presentations also included reflections on division of powers, between the federal units and the central government, in a future federal Somalia; exclusive powers/functions, concurrent powers/functions and residual powers.

(ii) Presentation by senior official of the regional states on the status of the state formation process in Juba land and *Gulmudug* states including democratization, legislative institutions, stability and security, and judiciary. As the

Provisional Constitution adopted in August 2012 recognizes *only two levels of government*, the Federal Government and the Member States level and leaves local governments' roles and responsibilities to member state governments, the discussion also addressed local governance within the federal architecture adopted by Somalia, within an international perspective

(iii) The status of the state formation process: A baseline study by the group. The participants were assigned to conduct baseline studies of specific regions on the status of state formation process and their constitutional readiness for membership in the proposed federation. They were provided with a working template that will guide the studies and informed assistance will be available with the methodology of the research. Upon conclusion of the studies under the project, at the end of 2016, the baseline studies will be made into a booklet on the status of the state formation and the federation processes. The booklet will then guide the work-plan of the SFN, which shall be completed during the second meeting of the SFN, tentatively scheduled to take place by early 2017 (in the event the election cycle in the country is extended). The booklet will be shared with policy makers in Somalia and the country's international development partners.

(iv) A research paper on "*Fiscal Federalism and Decentralization in selected IGAD member countries*" was presented at the second day of the meetings. The paper covered the status of devolution of power and resources sharing in several countries in the sub region; and emphasized that transitioning to effective fiscal federal system under a constitutional negotiations guided by six important pillars: Institutional Architecture, Expenditure Arrangements, Tax Assignment, Intergovernmental Transfers, Functional and Administrative Capacity, and Institutional Arrangements.

(v) 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 by end-2016.

Mogadishu hosted a historic high-level IGAD Summit

The IGAD has held its 28th IGAD Extraordinary Summit of Heads of States and Government on 13 September 2016 at a hotel near Mogadishu's Aden Adde International Airport. Several media sources called it 'historic' for it is the first of such meeting to be held in the country in three decades time.

The meeting was attended by the heads of states and governments. The summit condemned Al-Shabaab continued disruption of Somali and regional peace saying degrading Al-Shabaab is a key mandate of AMISOM. Somalia's refugee situation was also discussed during the session.

Security concerns were raised ahead of the meeting especially as the militants had recently carried out deadly attacks in the capital, hence for security reasons many roads in the capitals were closed during the summit

The outgoing Somali president Hassan Sheikh officially opened the session with the attendance of high-ranking dignitaries, including the Kenyan president Uhuru Kenyatta, Ugandan president Yoweri Museveni and Ethiopian premier Hailemariam Desalegn. The

presidents of Sudan, Djibouti, and South Sudan were not in attendance of the summit. Mogadishu security was beefed up with security personnel deployed and closing of major roads in the capital.

IGAD heads of state meeting comes as Somalia's President term has expired in 10 September. The country is preparing for parliamentary and presidential elections in which new elected lawmakers will choose a new president on October 30.



Event hall

Kenya to Spend 40% of Tax Revenue on Servicing Public Debt

The repayment bill represents a 38.5 per cent jump from Sh446.4 billion spent on public debt this year compared to a projected 12 per cent growth in tax collection, which is a key indicator of the country's ability to repay. The government has accelerated borrowing in the past four years to build a modern railway, new roads and electricity plants, but the rate of tax collection has not matched new debt uptake. The huge increase means that taxpayers will now have to dig deeper into their pockets in the coming years to pay for the growing debt burden.

Debt repayment remains the Treasury's biggest budget item compared to essential expenditure lines like education and health. Next year's 38 per cent jump in loan repayment will come a year before the first tranche of the June 2014 Eurobond proceeds becomes due. The five-year \$500 million (Sh50 billion) Eurobond will fall due in 2019, meaning that debt repayment figures are likely to continue going up.

The ballooning debt has raised concerns that the growing appetite for loans risks hurting the economy. The Treasury has said that Kenya is still able to pay its debts, arguing that the infrastructure investments made will generate enough economic growth and revenues. But the World Bank has cast doubt on this argument, saying that despite the expensive investments, Kenya's productivity is falling (Source: The Daily Nation).

The construction of a crude oil pipeline between Uganda and Tanzania is officially on

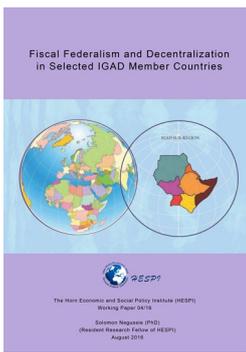
The work towards the construction of a crude oil pipeline between Uganda and Tanzania is officially on, with contractors to undertake a social and resettlement plan.

To be known as East African Crude Oil Pipeline, the project – which will transport Ugandan crude to Tanga Port in Tanzania – will be built jointly by a French oil giant Total SA, the UK-based Tullow Oil and Chinese state-owned oil company Cnooc Ltd

Uganda has over 6.5 billion barrels of proven oil reserves of which about 2.2 billion barrels are recoverable. The estimated cost of the project is \$ 4 Billion. It will create approximately 15,000 constructing jobs and between 1,000 and 2,000 permanent jobs. In Tanzania, the project comprises 1110 km of 24 buried isolated pipeline plus various above ground facilities. Resettlement planning is scheduled to commence in the first quarter of 2017 and shall comply with Tanzania legal and regulatory requirements and international best practices. (Source: *The Citizen*)



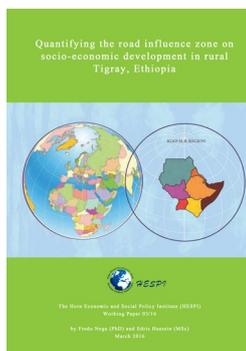
New Publications



Fiscal Federalism and Decentralization in selected IGAD member countries by Solomon Negussie (PhD)

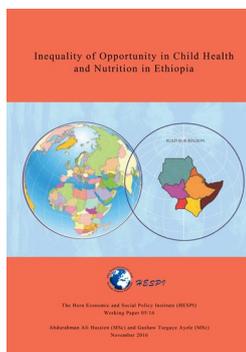
Fiscal federalism - the fiscal implications of a decentralized system of multi-level government – is an important component of governance in a federal or a decentralized system. Among the aspects of fiscal federalism to be assessed are the constitutional and political context, the allocation and the 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.



Quantifying the road influence zone on socio-economic development in rural Tigray, Ethiopia by Fredu Nega (PhD) and Edris Hussein (MSc)

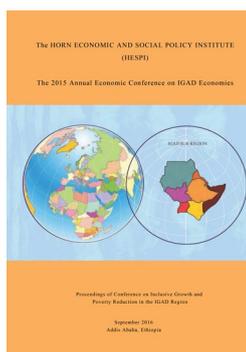
This study attempts to delineate the rural road influence zones for various socio economic outcomes. Using two rural roads built under the Universal Rural Road Access Program (URRAP), two regional highways and a sample of 529 households from four centers, the study has shown that the road influence zone 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.



Inequality of Opportunity (IOp) in Child Health in Ethiopia by Abdurohman Ali (MSc) and Gashaw Tsegaye (MSc)

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 in to 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 in to 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.



Proceedings of the conference on inclusive growth and poverty reduction in the IGAD region by HESPI staff

These proceedings constitute more than 20 research papers presented at HESPI's annual economic conference on the IGAD region in 2015. These papers fall under four broad categories i.e. inclusive growth, financial inclusion, agriculture and development and market potential and productivity.

Forthcoming Publications

Effect of Early-Age Opportunities on Educational-Achievement Inequalities in Ethiopia: A Within and Across Age Cohorts Comparative Study

by Gashaw Tsegaye (MSc) and Abdurohman Ali (MSc)

Using Young Lives four-round dataset that tracked children of age 1 in 2002 (age 12 in 2013) and age 8 in 2002 (age 19 in 2013), this study measured overall inequality in educational achievements and further decomposed it to single out the share of child circumstances—due to inequality of opportunity (IOP) in Ethiopia. We also observed the dynamics of IOP as children grow older. Math Test Scores (MTS) is used to proxy educational achievements. Overall inequality is measured with GE, Gini, and Atkinson inequality indices. We then combined parametric and non-parametric methods to decompose it into inequality of effort and IOP (using GE indices). At age 12 in 2006, the inequality of opportunity in educational achievement in Ethiopia was 62 percent and effort accounts 38 percent. In 2013, for the same age, the opportunity induced inequality in achievements grew to 64 percent, which is a worsening trend. The effect of early childhood opportunities has persistent effect on old age educational outcomes. Even at the age of 19, inequality of early age opportunity persists and it takes the lion's share of overall inequality in Ethiopia.

Is Sudan's public debt sustainable? A preliminary assessment

by Haile Kebret (PhD)

Motivated by the global agenda of SDG goals (17.4) that proposes to assist developing countries in attaining long-term debt sustainability, this study calculates the extent to which Sudan's debt is likely to be sustainable. First, it attempted to examine the sustainability of Sudan's debt using two conventional approaches. The first approach used an econometrics technique to test the stationarity using co-integration of government revenue and expenditures, since this has been one of the approaches in the literature. Second both a crude and more elaborate tests that focused on non-econometric approaches have also been carried out. All the crude indicators suggest similar results that Sudan's debt is not sustainable. And the more elaborate approach that attempted to trace the dynamic path of fiscal deficits and debt under various growth scenarios indicated that sustainability will require a growth rate of GDP in Sudan that exceeds the historical national and regional average of 4%. Both approaches, therefore, suggest that under the attendant economic environment, Sudan's debt is unlikely to be sustainable. This result remains unchanged under two different scenarios i.e. Sudan's debt to GDP ratio is only 80% (as some reports suggest instead of the 96%), and interest rate on both domestic and concessional loans increased by 2 percentage points.

The findings means that unless donors are willing to lend more than the real value of the existing amount or cancel its debt under the Advanced HIPC's initiative, Sudan's economy has to grow by more than 4% to register a surplus in its budget balance or could only afford a small deficit as a share of its GDP if it wants to even modestly sustain its attendant debt whether it is 96% or the lower level of 80% of GDP.

IGAD continued its growth momentum in 2015 (Annual Report)

by HESPI Staff

HESPI has produced its annual flagship report on IGAD economies entitled "Macroeconomic Performance of IGAD and the Implications of China's Economic Slowdown". As a special theme, this year's report assesses the possible implication of China's economic slowdown and rebalancing on IGAD economies' trade, investment and financial relations with China.

The 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 single digit in all economies but in Sudan and South Sudan. Despite the progress made in mobilizing domestic resources, the economies have continued to run growing fiscal deficit.

IGAD economies exposure to China's economy through trade and investment, as the report shows, is significant especially for Sudan and Ethiopia, and Uganda to a lesser extent. In 2015, the share of Ethiopia and Sudan's exports to China constituted around 12.5 and 16.2 percent respectively. On the other hand, China's exports to the IGAD region has increased dramatically from US \$420 million in 2000 to close to US \$ 14 billion in 2014.

Amid the Chinese economic slowdown and rebalancing, IGAD member states (with the exception of Kenya which has relatively lower exports share to China) have experienced decline in their exports to China; but investment and financial flows to the IGAD from China have remained strong.

HESPI Internship Program

HESPI hosted an Intern from Hawassa University (Ethiopia)

Testimonial for The Horn Economic and Social Policy Institute internship program for post graduate students and economics undergraduate students from the IGAD region and internationally.

"My name is Aziza Abdurrahman Ahmed, and I am an upper class undergraduate studying economics at Hawassa University. I was a summer intern in HESPI for two months, doing a research paper on IGAD and its functions. HESPI helped me a lot giving me a place to work on, and assisting me on how I should be conducting analytical research on my internship within the institute. I would like to thank all HESPI staff on how well they treated me through my stay and offering a comfortable work environment."



From right: Ms. Aziza Abdurrahman (intern), Ms Sofia Sani, and Ms. Alice Parounakian

Upcoming Events

- ◆ HESPI Resource Mobilization meeting with DAG representatives in Addis Ababa, Ethiopia on December 9th, 2016 at Marriott Hotel
- ◆ HESPI annual Board of Directors meeting will be held on December 10, 2016
- ◆ HESPI will organize a Policy Forum on Migration and Unemployment issues in the IGAD sub-region in January 2017



The Horn Economic and Social Policy Institute

About HESPI

HESPI is an independent, non-profit regional think tank and research Institute established for 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 interest, and provides institutional and human 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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