

# NEWSLETTER

Vol. VI/No. 2/2017 December, 2017

## Headings Covered in this issue



HESPI Conference on IGAD Economies 2017



**Assessing Transition to Stability, Fiscal Sustainability and Provision of Peace Dividend in South Sudan**



**Proceedings of Conference on Imperatives for Attaining the Sustainable Development Goals in the IGAD Region**

Contents	Pages
• MD Statement	1
• Somalia Federalism Network	2
• Somalia Partnership Forum	2
• HESPI Conference on IGAD Economies 2017	3
• IGAD Think Tank Network	3
• HESPI Board of Directors meeting	4
• Scoping Mission to South Sudan	4
• Scoping Mission to Somalia	5
• HESPI Audit Report	5
• HESPI ICT infrastructure upgrading	5
• HESPI research team training	5
• HESPI success stories	6
• Brief reports on the IGAD region development	8
• Research Outputs	9

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## Managing Director’s Statement



In the four years through December 2017, the Horn Economic and Social Policy Institute’s work program has been guided by the policy priorities, objectives, and initiatives laid out in the Strategic Plan of January 2014–December 2017. The strategic priorities of the Institute have been narrowed to undertaking high quality economic and social research; assisting in enhancing effective institutional capacities and sound policy formulation in the IGAD sub region; advocating and promoting national and regional appropriate policies; broadening the engagement with the private sector; and strengthening the internal capacity, visibility and financial sustainability of the Institute.

The recent strategic plan outlined how the Institute would support both the good performers and fragile states in the sub region. The Institute has focused on helping policymakers identify sound economic and social policies and enhance resilience; assisting the member countries to address the considerable challenges faced including the decline in international commodity prices; supporting members to expand investment and trade opportunities within the region and the world markets; and advocating for regional integration at sub region and continental levels.

HESPI’s work on fragile states extended beyond traditional areas of improved policies formulation and execution, and focused on issues with impact on broad economic governance and financial management. As a consequence, institutional capacity building and imparting the requisite skills for middle and senior level managers has been a principal engagement in programs for the fragile states. In addition, the Institute expended considerable efforts to strengthen domestic resources mobilization; advocate impactful policies that contribute to economic resilience and transformation; and build capacities of financial institutions to strengthen resources management.

The Institute has continued to deliver on various elements of its programs. HESPI created an annual economic conference on IGAD countries providing an avenue for dialogue on policy research findings between policy makers and researchers. Since 2014, these annual economic conferences have been instrumental in informing participants on sound policy reforms based on empirical research findings and have drawn interest from key stakeholders in the region. Member States benefit from policy recommendations and reforms, which have influenced multiple sectors in the region. HESPI has also conducted economic policy forums to inform and advocate on reforms in many sectors and the feedback indicates that the outputs significantly impacted national and regional policies.

Fragile states in the region received tailored policy advice and technical assistance, supported mostly by an African Capacity Building Foundation Grant. The deliverables under the grant have been achieved and in many instances exceeded, including on areas such as domestic policy formulation, and financial integrity, which further drives the Institute’s commitment to scale up support in the years ahead.

Building HESPI’s sustainability is a prerequisite, which is realized when the Institute meets the expectations of the management and staff, beneficiaries of its services, and the public at large. Until recently the Institute has achieved sustainability based on its performance and the core programs achieved. In the near future, sustainability is predicated on partners support that is no longer assured, and the business model of the Institute would need to accommodate the new realities in order to achieve the most basic financial sustainability.

Ali Issa (PhD)

## The Second Consultative Meeting of Somalia Federalism Network



From left: H.E. Mohamed Abdullahi Farmajo, President of Somalia and H.E. Ismail Omar Guelleh, President of Djibouti

**H**ESPI has been assisting the Somalia Federal Government (SFG) and the member states senior officials to establish effective federal governance in the country. In this context, the Institute organized a series of conferences and meetings on several aspects of implementing cooperative federalism in Somalia; including a three day discussion on federalism and the lesson to be drawn from mature Federal States in October 2014 - Addis Ababa; on aspects of power and resources sharing in December 2015 - Djibouti; and on the formation of Somalia Federalism Network in July 2016 - Entebbe. HESPI in association with the World Bank organized the second consultative meeting of Somalia Federalism Network on 24-25 October, 2017 in Djibouti.

The SFN was established to enhance dialogue and cooperation among the federal member states at the horizontal level, and to promote cooperation between the Federal Government and Member States (in existence and in the process of formation) at the vertical level. The SFN is to create space for the promotion of viable federalism governance and deliberative consideration on critical issues including power and resources sharing among the relevant

stakeholders. The creation of an Inter-Governmental Relations (IGR) group, together with federalism experts and policy makers in the regional administrations was aimed at knowledge generation and dissemination of important federalism issues as well as better informing the leadership of the federal government, states, and ultimately the wider public.

The 2017 Consultative Meeting addressed in detail the proposed review of The Provisional Constitution of Somalia, and recommended the establishment of a Federal Revenue Authority. During the two-day meeting, H.E.

Mohamed Abdullahi Farmajo, President of Somalia and H.E. Ismail Omar Guelleh, President of Djibouti came to the meeting to greet the participants.



Participants at the consultative meeting

## The Somalia Partnership Forum

**S**enior representatives of the Somali Government, the United Nations, representatives from Somalia Federal Member States, and the international community met in Mogadishu on 4 - 5 December, 2017 to participate in the Somalia Partnership Forum officially opened by H.E. Mohamed Abdulahi, the President of the Federal Republic of Somalia with a call for greater investment in the country's economic development to create more job opportunities, rehabilitate essential infrastructure, and improve the living conditions of the Somali people.

In his keynote address, the president said his government intends to reduce poverty and had created jobs for thousands of Somali youth since taking office earlier this year with assistance from the international community. He underlined that the country must still do more to retain young people and stated that socio-economic improvements to the quality of the Somali people's lives will help bring political stability not only in Somalia, but for the region as well. President Farmaajo also reiterated his long-standing call for debt relief that would provide Somalia with access to loans from international

financial institutions to pay for urgently needed infrastructure improvements.

During the two day sessions, participants at the forum discussed the importance of economic recovery and humanitarian intervention, noting the importance of building accountable state institutions, generating greater opportunities and livelihoods for the benefit of the population. At this forum the Horn Economic and Social Policy Institute was represented by Dr. Ali Issa who commended the focused discussions on strengthening the partnership for sustainable economic recovery and poverty reduction.

A communiqué issued at the end of the meeting welcomed the Federal Government's pledge to hold one-person, one-vote elections in 2021, and stated that the next Somalia Partnership Forum would be held in mid-2018.

## HESPI Conference on IGAD Economies 2017



H.E. Magdi Hassan , Sudanese Minister of Finance

The Annual HESPI Conference on IGAD Economies was held on September 24-26, 2017 at the Mamoun Beheiry Center (MBC) in Khartoum, Sudan . The three-day conference on the theme “Youth Unemployment and Creating Opportunities through Trade and Investment in the IGAD” was jointly

organized by HESPI, IGAD Secretariat, MBC and the UNECA. Over 21 research papers were discussed and presented by a distinguished group of academics/professionals from and outside IGAD.

Ambassador Peter Robleh, Board Chairman of HESPI, gave opening remarks followed by, Dr. Ali Issa, the Managing Director, who highlighted how the annual Conferences on IGAD Economies help decision-makers exchange views on the region’s economic and social issues. Dr. Ali stressed the factors contributing to youth unemployment by highlighting the lack of adequate skills, education, experience, economic opportunity, dysfunctional national institutions, endemic insecurity, instability, inadequate policies, and low expansion in trade and investment as core problems. As a result, he stated that among the aims of the conference was to come up with trade and investment policies strong enough to promote employment.

The exigency of bringing youth unemployment to light was also supported by his Excellency Magdi Hassan, Sudanese Minister of Finance, who underscored the timeliness of the conference theme and the significance of conveying it in policy-oriented fora. He pointed that institutional constraints, such as uncompetitive educational systems,

have distanced the youth from reaping their fair share in the labor markets. The Minister further stated that besides governments’ commitment to devise and implement appropriate budgetary support to education, enhancement of investment and trade is also key to youth employment.

While some IGAD members are now among the highest growing economies in the world, Dr. Abdalla Hamdok, the Deputy Executive Secretary and Chief Economist of the UNECA, stated that the region is also one of the most unstable with massive unemployment challenges. He highlighted the over-dependence on low-value primary commodities as one of the contributors to the challenge and advised IGAD countries to enhance intra-regional trade by strengthening regional cluster integration and lowering the cost of trade to maximize the potential of a large and growing international market in the sub region. Mr. ElSadiq Abdalla, Director of Economic Cooperation and Social Development, of the IGAD Secretariat, noted the challenges of utilizing the youth which constitute over 60% of the region’s population, and also suggested focusing on trade and investment to alleviate this issue.

The conference was commended by Professor Munzoul Assal, Executive Director of the MBC, and Dr. Robert Natchouang, from the African Capacity Building Foundation (ACBF), who stated that such collaboration symbolized the development commitment of the region’s actors. Dr. Natchouang also voiced his concerns regarding youth migration and added that the absence of young local talent will continue to impede the continent’s development unless Africa changes course.

## IGAD Think Tank Network (ITTN)



IGAD Think Tank Representatives

In parallel with the HESPI’s conference on IGAD economies 2017, representatives from 13 think tanks from the subregion discussed ways to establish a think tank network for the region. To tackle the lingering perception of Africa having the fewest

think tanks relative to other regions, IGAD Secretariat and HESPI initiated the idea of the IGAD Region Think Tank Network (ITTN) in 2016 with the aim of building a discipline-based network that specializes in economic and social policy issues, promoting knowledge and information sharing, and facilitating regional integration and interconnectedness. The network is designed to support the sharing of peer reviewed products in a centralized online platform. The formation of regional think tanks will highlight the region’s progress and promote

self-sustainability by increasing the number of, and reliance on, local expertise rather than continuing to refer to the outside world. Barriers regarding the mission, sustainability, governance, funding and membership roles have been considered, but constant communication amongst all members has been identified as the blueprint to prevent and solve potential challenges.



IGAD Think Tank Representatives

## Board of Directors 2017 Second Meeting

The 2<sup>nd</sup> HESPI Board of Directors meeting of 2017 was held in Addis Ababa on October 18<sup>th</sup>. The chairperson called the meeting to order, and requested a moment of silence in memory of the lost lives in the terror attack in Mogadishu on October 16<sup>th</sup>, 2017.

The chairperson then introduced the two new board members: Ms. Abda Yahia El- Mahdi from Sudan, and Dr. Mulu Katsela from Ethiopia, and invited them to make initial remarks. Ms. Abda mentioned that joining HESPI's board would be a great opportunity to contribute in IGAD region policy-making and capacity building; and noted HESPI should continue to assist in the challenges of poverty reduction, high unemployment of youth and women. Dr. Mulu on her part thanked the Institute for the opportunity to join its governing board and underscored the necessity of addressing the challenges facing the IGAD region. After introducing other members of the Board of Directors, the chairperson indicated the need for further board expansion with more geographic inclusivity.



Participants at the Board of Directors meeting

The Board of Directors reviewed and adopted the minutes of the 1st Board of Directors' meeting of 2017. HESPI's Program Manager and Managing Director presented the Institute's 2017 activities and the program successes achieved. Furthermore, they detailed the November 2017- December 2018 budget and planned program activities. The Board of Directors had an intense and expanded discussion on all areas of HESPI's performance and appreciated the 100% achievement on all targeted program activities.

The Board considered the consultant's report on the proposed formation of the IGAD development bank. The board members broadly supported the report's conclusions and recommended that the report should be submitted to the IGAD Secretariat and the member governments for consideration at the earliest possible time.

## HESPI and ACBF Scoping Mission to South Sudan

HESPI research director Dr. Haile Kebret and ACBF program officer Mr. Beruk Negash undertook a Project Identification Mission to Juba, South Sudan from 28-30 August, 2017. The two-day scoping mission focused on consulting various stakeholders on policy gaps and the need for intervention that could be done within six months.

The mission visited and held detail discussions with officials from the Ministry of Finance, Commerce and Economic Planning, UNDP, Ebony Center for Strategic Studies (Think Tank), Bank of South Sudan, Economic Advisor of the President of the Republic and the National Legislative Assembly. The discussions with the authorities covered the areas of priority for project implementation and explained the constraints for consideration: the timeframe, budget allocated and scope, which AfDB and ACBF agreed that the grant to be used for implementing activities in the areas of fragility, macro-economic management, regional integration and public financial management.

The mission reviewed current economic, financial and governance capacity gaps, the current policy formulation process and key players; identified possible interventions to address the gaps within the framework of the AfDB grant. Also, the mission assessed the risks and identified mitigation measures; identified local partners and beneficiary institutions; and agreed on implementation modalities, work plan of implementation and results framework.

The mission achieved its main objective of identifying capacity needs and designing the project interventions through consultation of local stakeholders. The work program and modalities of implementation are being worked out among relevant stakeholders. The project is expected to be completed by April 2018.

## Scoping Mission to Somalia

**H**ESPI conducted a diagnostic scoping mission to Somalia on 5-12 July 2017 to provide technical assistance (TA) to Public Finance Management (PFM) and financial institutions. The prime purpose of the mission was to assess the performance, capacity gaps and need for financial integrity institutions in post-election Somalia. Assessments would serve as basis for potential need-based technical support provided by HESPI around institution building, ultimately resulting in improved economic and financial governance.

The mission had four components: capacity assessment and providing TA on PFM for financial integrity institutions, capacity assessment and providing TA on performance of the Central Bank of Somalia, and capacity assessment and providing TA on public audit functions of the Federal Auditor's Office, and the Budget and Finance Committee (BFC) of Parliament.

Following the field work, the mission team produced and shared a comprehensive report with the Somali authorities and other interested stakeholders for TA consideration. The report highlighted the identified gaps and future recommendations for improved economic and financial governance. The report also proposed specific reforms that the Institute was willing to assist through technical assistance on its own or in partnership with other development providers.

## 2017 ACBF Grant Project Financial Audit Report

**T**AY & CO. - Chartered Certified Accountants and authorized auditors, conducted an audit of the Horn Economic and Social Policy Institute's (HESPI) accounts from November 6-9, 2017. The external audit included financial documents and statements of the ACBF Grant Project (Grant #256) covering the balance sheet as of October 31 2017 and related statement of income and expenditures for the period of January 1, 2017 to 31 October 31, 2017.

As it has been for the last several years, this year's audit report also confirmed that the financial handling of HESPI was free from any anomalies and worth of verifiable integrity. The audit company approved the true and fair view of the financial position of the institute by giving its statement

*"During our audit of your account for the period from 01 January 2017 to 31 October 2017 no material reportable instances have come to our notice. Accordingly, we confirm that we did not issue management letter (Internal Control Memorandum) with regards to audit of your account for the period from 01 January 2017 to 31 October 2017."*

This is attributable to HESPI's well-established and effective financial function, emphasis on accountability, strong commitment of the financial department, and understanding the need to conform to financial compliance, requirements and set regulations of its stakeholders.

## Internet service upgraded to Optical Fiber

**T**he world of Information Communication Technology (ICT) has been rapidly growing in recent years. Research institutes worldwide have been adapting with the times by using these technological innovations for better performance. Similarly, The Horn Economic and Social Policy Institute (HESPI) has also been making basic changes in its existing ICT infrastructure to keep up with the times.

By utilizing resources provided by African Economic Research Consortium (AERC) grant, HESPI made fundamental ICT upgrades by purchasing first class equipment at its headquarters. The major upgrading was the shift from copper line internet service to optical fiber Internet service. This adjustment minimized frequent line failures and gives HESPI consistent access to the cloud.

## Research Team Training Workshop

**H**ESPI conducted a training workshop for members of its research staff on August 1-5, 2017, in Addis Ababa. The training focused on the application of micro econometric techniques for impact evaluation using STATA. Techniques of impact evaluation including randomized control trials, double difference and propensity score matching were covered. The research team was able to acquire skills on how to apply the different impact evaluation techniques to a particular program evaluation.



HESPI research team with the trainer

## Institutional Capacity Building in IGAD Countries

### Case I: Capacity Building for Financial Integrity in Somalia and South Sudan

The Fragile States of Somalia and South Sudan experienced prolonged insecurity and conflicts that adversely affected institutional capacity in these countries, thus depriving the countries of financial transparency and accountability. In order to increase state legitimacy and trust between citizens and the state in these post conflict situations, HESPI, in 2012, started prioritizing the financial sector by focusing on improving the Public Finance Management (PFM) and ultimately ensuring financial integrity. In the process, HESPI realized that developing laws and tools were not enough in such contexts, but creating capacities to enforce them was critically important. Hence, training was conducted for more than 330 government officials (28% female) from financial integrity institutions (Ministries of economic planning and finance; the auditor general, and central banks). Generally, the cumulative support HESPI delivered on PFM helped the target countries develop a strengthened legal framework and institutional structures, which are essential first steps in sound public budget planning and execution. HESPI has received positive feedback from a range of participants that attended its PFM workshops.

### Case II: Role of Leadership in Ensuring Accountability in Fragile States

HESPI initiated several institution building interventions with senior officials and Public Finance Management (PFM) leadership of Somalia and South Sudan governments. Members of the senior leadership from relevant committees of Parliaments as well as other senior officials attended several skill and knowledge transfer seminars and other capacity building events. A number of deficiencies and capacity gaps were identified in all core areas of PFM. Following such assessments, useful recommendations were developed, which aimed at alleviating capacity constraints and improving PFM, fiscal discipline and good governance. Important issues in rebuilding post-conflict nations were addressed, including the role of leadership in PFM, state reconstruction and financial governance. HESPI also organized a seminar for Economic and Public Accounts Committees of the national legislatures of Somalia and South Sudan. Despite the insecurity and precarious situations of the post-conflict countries, HESPI's interventions have moved the capacities of their PFM institutions to higher levels and created better sense of accountability.

### Case III: Interventions in State Capacity Building in Somalia

The prolonged conflict in Somalia had destroyed the country's state capacity. As a result, HESPI's support in tackling the issue started in 2006 when rebuilding PFM and financial sector operations were non-existent. The Institute commenced its intervention at the beginning of the Transitional Federal Government and planned to deliver several strategic and technical support elements to improve institutional weaknesses. It extended its support initially by reviewing and updating various laws for enactment and enforcement. HESPI also conducted a consultative meeting on *"Rebuilding Viable State and Effective Institutions in Somalia"* in mid-2013 consisting of about 60 high level representatives. The event was followed by a seminar on *fiscal and constitutional Federalism in Somalia* conducted in collaboration with the IGAD Secretariat, which brought together about 150 members of senior leadership and diaspora. Similarly, it led a leadership and good governance seminar, which enlightened participants on post-conflict recovery issues. HESPI's recommendations enhanced policies and the capacity of PMF institutions. A joint government and donor process is now being put in place to further improve financial integrity.

### Case IV: Support for Cooperative Federalism in Somalia

As part of its institutional capacity building, HESPI initiated dialogue on fiscal and other aspects of federalism (with financial support from the ACBF) among the Somali stakeholders. It played a pivotal role in initiating, guiding and creating a Somalia Federalism Network (SFN) to foster a decentralized governance system.

HESPI assisted stakeholders in understanding the prevailing state building context by conducting focused regional scope studies on the foundational basis of federal governance, fiscal federalism and decentralization. The Institute also organized events to bring together diverse groups of Somalis to seek viable options on federal governance. In the process, HESPI led a series of events in Ethiopia, Djibouti and Uganda to initiate and nurture the federalism discourse to maturity. As a result of these events, cooperation and dialogue among regional States and the Federal government of Somalia were enhanced, negative perceptions began to change, constituents were empowered and more contentious issues were understood and articulated.



Somalia Federalism Network consultative meeting  
in Entebbe, Uganda

## Case V: HESPI Annual Conferences on IGAD Economies

HESPI has created an annual conference that provides an avenue for face-to-face dialogue on policy research findings between policy makers and researchers in the IGAD region. Since 2014, these annual economic conferences have been instrumental in informing participants on sound policy reforms based on empirical research findings. The Institute has so far successfully completed three annual flagship conferences on IGAD economies. They have drawn interest from key stakeholders such as research institutions, IGAD member governments, the IGAD Secretariat and UNECA. Feedback from participating researchers and policymakers indicate that beyond knowledge sharing, IGAD member states benefit from policy recommendations, which have influenced multiple sectors in the region.

## Case VI: Periodic Policy Forums on Topical Issues

The Institute has been organizing topical policy forums on sectors such as infrastructure, finance, energy, security and capacity building. The informal feedback from participating researchers and policymakers showed that beyond knowledge sharing, there are indications that policy measures are impacted in IGAD member states. Dialogue based on research study findings and policy recommendations inform and influence policy makers as well as HESPI. These forums have been hosted at the UNECA Conference Hall and other venues in Addis Ababa, Ethiopia in the presence of senior policy makers of the Federal Democratic Republic of Ethiopia, and representatives of a wide cross section of civil society. Also, representatives from UN agencies and diplomatic missions are usually invited and have participated.



Consultative meeting on "Rebuilding Viable State and Effective Institutions in Somalia" ACBF ES, HESPI Board Chairperson and the HESPI MD



HESPI Conference on IGAD Economies, UNECA hall, Addis Ababa, Ethiopia



Policy forum on Illicit Migration, Addis Ababa, Ethiopia



Seminar on Good Governance, Leadership and Institution Building for Senior Government Officials of Somalia and South Sudan

## Briefs on Current Developments in the IGAD region

### East Africa: EAC Adopts Energy Security Framework

**A**rusha – The East African Community (EAC) has adopted its Energy Security Policy Framework which seeks to ensure the security of the region's biomass, electricity, and oil and gas supplies. According to Mr Elsam Byempaka Turyahabwe, the energy expert at the Community Secretariat, partner states are implementing number related projects to address the low access to modern energy services in the region. However, energy security is a major challenge in the EAC and globally.

Source- <http://allafrica.com/stories/201712080379.html>

### FDI to East Africa Region Increase by 4.2pc, Mainly from China

**F**oreign direct investment in East Africa increased by 4.2 per cent in 2016, as partner states remained optimistic about increased foreign inflows as a result of viable reserves of minerals, oil and gas in the region. A draft trade and investment report seen by The EastAfrican shows FDI into the region increased to \$7.5 billion from \$7.2 billion in 2015, with the majority of inflows coming from China. The overall investment inflows in the region were in the manufacturing and construction sectors.

Source- <http://www.theeastafrican.co.ke/business/FDI-to-region-increase-by-4-2pc-mainly-from-China-/2560-4223452-71muth/index.html>

### International Trade Fair Highlights Djibouti's Role in Regional Trade

**W**ith the aim of strengthening the role of Djibouti in the regional trade, the 110 years old Chamber of Commerce of Djibouti hosted 'Djibouti the gateway to Africa', its first international trade fair. The trade fair has attracted international businesses from many countries across the world, including from Canada, Yemen, Kenya, United Arab Emirates, Uganda and Ethiopia among others. In addition a delegation of business from Japan with 52 members also participated. The event has brought together suppliers, customers and service providers in Djibouti and the sub-region and their partners from around the world.

Source- <http://newbusinessethiopia.com/international-trade-fair-highlights-djiboutis-role-in-regional-trade/>

### AfDB Supports Agribusiness Development in Uganda

**I**n line with its "Feed Africa" High 5 priority, the African Development Bank is supporting commercial farming in Uganda with a US \$80.68-million loan to finance agricultural value chain development in the East African country. Approved by the Bank's African Development Fund (ADF) Board in Abidjan on Monday, December 11, 2017, the Agricultural Value Chain Development Project's objective is to improve household incomes, enhance food security, and strengthen climate resilience mechanisms through commercial agricultural practices, sustainable natural resources management and agricultural enterprise development.

Source- <http://worldstagegroup.com/index.php?active=news&newscid=41472&catid=3>

## Research Outputs of HESPI

### Assessing Transition to Stability, Fiscal Sustainability and Provision of Peace Dividend in South Sudan

By James Alic Garang (PhD), Ali Issa (PhD)  
and Abdurahman Ali (MSc)

This study attempts to assess the level of fragility and the state of transition to stability in South Sudan. In so doing the study relied on a public opinion survey and secondary data analysis. The findings from the opinion survey reveals that 40% of the respondents blamed parliament for failing to deliver peace dividend and ensure fiscal sustainability while 48 percent believe all stakeholders are responsible for accelerating transition from fragility. Overview of the macroeconomic situation in general and the fiscal position of the government in particular reveals that the civil conflict triggered a widening fiscal deficit and macroeconomic instability. In order to transit from fragility to stability, the country should embark on foremost restoring peace and security, maintain fiscal discipline in basic PFM functions, restore communal trust and confidence among the private sector, enhance management of public resources, and strengthen political governance. Survey results and experience from case studies indicate that achieving durable peace and/or accelerating South Sudan out of fragility is not achieved by single institutions and individuals but by a collective responsibility that calls for broad participation of civil society organizations, political parties, academia, governments, and the regional and international community.

### Corporate Taxation, Import Competition and Productivity: Evidence from Ethiopian Manufacturing

By Kaleb Girma Abreha (PhD)

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

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

### Proceedings of Conference on Imperatives for Attaining the Sustainable Development Goals in the IGAD Region

By HESPI Staff

This year's HESPI conference was held at an important juncture in the international development calendar, where developing countries, including IGAD member countries, were beginning to set up their national development strategies aligned to the new 2030 sustainable development goals (SDGs) agenda. This made it imperative to assess the state of the IGAD economies in light of various macroeconomic and microeconomic indicators to provide policy pathways on how these economies should progress to attain the SDGs. It was thus no coincidence that this year's HESPI conference on IGAD economies was themed 'imperatives for attaining the Sustainable Development Goals'.

The Conference current proceedings present constitutes 13 selected papers among those presented at the HESPI's annual conference on IGAD economies in October 2016. The papers were categorized in to four major parts reflecting different thematic areas. Part I includes papers with topics related to inequality in human development. Part II presents papers that have a focus on agricultural productivity and growth. Part III takes on papers related to investment and employment creation, while part IV is devoted for studies on industrialization.

### Poverty and Inequality Analysis in the IGAD Region: Regional Profile and Country Status

By Abebe Damte Beyene (PhD)

This study assesses the extent of poverty and inequality in the IGAD region. By doing poverty decomposition, the study empirically analyzes the determinants of multidimensional poverty for each Member State. The global Multidimensional Poverty Index (MPI) was used to measure, understand the magnitude, intensity and determinants of multidimensional poverty. The study finds that, although the economy of the IGAD region has registered significant growth, poverty remains a major challenge as a large proportion of the population is still poor. Poverty decomposition by region and dimension reveals that rural areas are identified as the poorest while living standards appear to contribute the most to multidimensional poverty. The empirical analysis shows that household level variables explain poverty in both rural and urban areas of the region. Regionally, inequality is a major issue and varies from country to country.

## Forthcoming Research Outputs of HESPI

### The Dynamics of Unemployment, Population and Economic Growth in the IGAD Region: A Casual Note

By Haile Kebret (PhD)

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

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

By HESPI Staff

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

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

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

### The Prospects and Challenges of Islamic Microfinance in the IGAD Region

By Ms. Rahma Hersi (MSc.)

The study analyzes the prospects and challenges of Islamic microfinance policies in the IGAD region. It has found that there are misconceptions and ignorance surrounding the Islamic finance industry, which means that there needs to be an effective marketing campaign about the industry and its merits. The study argues that the Islamic microfinance industry in the region emerged from a market perspective. As a result, there needs to be a concerted effort to harmonize the laws pertaining to the industry with that of market principles. It has also identified a shortage of human capital with Islamic microfinance knowledge and practices.

Within the IGAD region, there is a developed Islamic Finance Market in Kenya and the Sudan. The industry however is at a very early stage of development in Somalia and Djibouti, and has yet to be introduced in the other IGAD member countries.

### Utilization of the African Growth and Opportunity Act (AGOA) Facilities in the IGAD and the Underlying Challenges

By Gashaw Tsegaye Ayele (MSc.)

The study looks into the level of utilization of the African Growth and Opportunity Act (AGOA), a facility that provides free trade access to the US market for eligible African countries. The paper follows a disaggregated approach to see sectoral and commodity level utilizations of AGOA. It also presents the current stance of the United States administration towards reciprocity in international trade and comments on the consequence of a likely termination of the AGOA pact. Comparisons are made within IGAD member countries and vis-a-vis SSA countries with similar access to the facility. The study sheds light on areas of low utilization, identifies the challenges and indicates policy pathways for IGAD policy makers to make the best out of AGOA.



## The Horn Economic and Social Policy Institute

### About HESPI

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

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