

MAY 2023

PRIVATE SECTOR MOBILIZATION

A Roadmap for a Government-Enabled, Private Sector Led Green Growth in the Horn of Africa

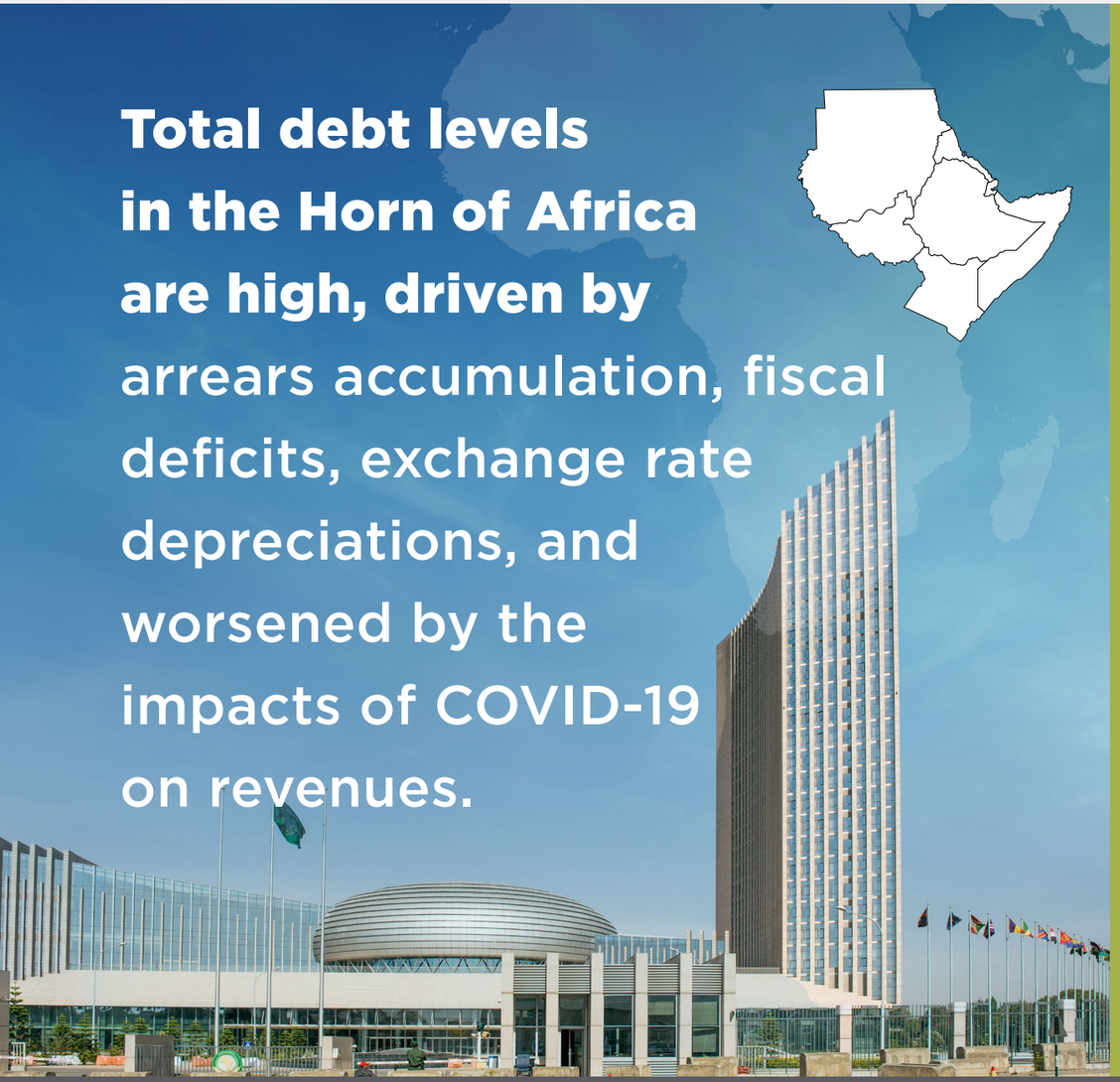
17th HOAI Ministerial Meeting | Sharm Al-Sheikh

HORN OF AFRICA INITIATIVE
17th Ministerial Roundtable

In Partnership with

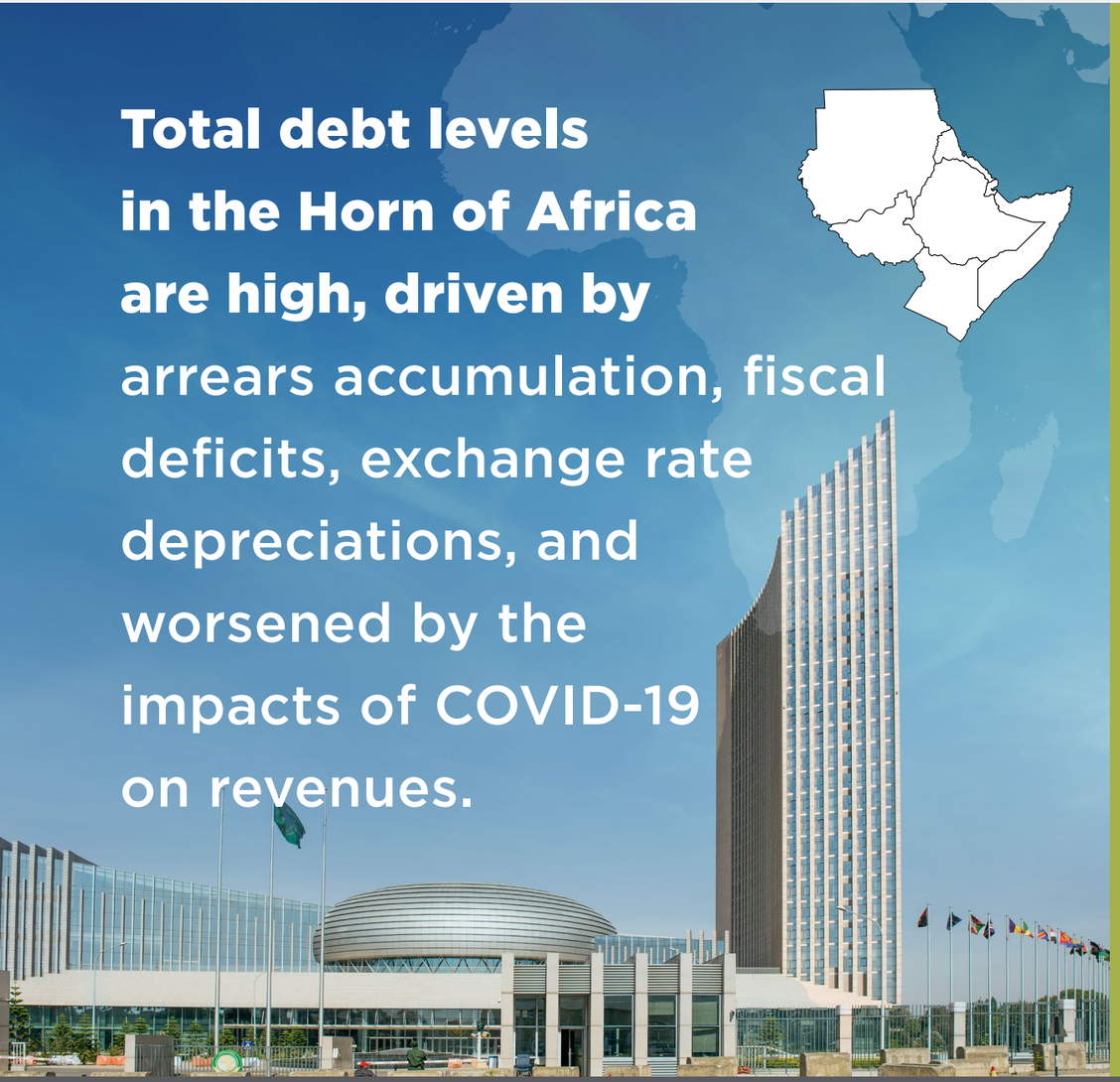
WORLD BANK GROUP

AFRICA'S MACRO BACKDROP:
Pandemic, Ukraine, and The Debt Sustainbility Challenge



- For East Africa as a whole, the average total public debt-to-GDP ratio reached 87 percent in 2021 from 79 percent in 2020 in the region, significantly higher than IMF's recommended threshold of 40% for developing countries.
- High debt to GDP ratios limits the available space to finance the priority projects and programs including those under the Horn of Africa package.
- Russia's invasion of Ukraine boosted risk aversion among international investors which raised the cost of external financing for riskier countries.
- US Fed tapering, rising interest rates, and a stronger US dollar have also negatively affected developing countries.

AFRICA'S MACRO BACKDROP:
Pandemic, Ukraine, and The Debt Sustainbility Challenge



- Raising interest rates in African countries as a response weighs on growth outlooks and slows fiscal consolidation and debt stabilization or reduction, which are important rating sensitivities for many countries.
- Limitations on government fiscal flexibility and high borrowing costs make it clear there are limits to traditional sources financing available for countries in Africa.
- Governments and development partners cannot fill the financing gap which highlights the key question of how the Horn of Africa countries can adapt to these trends and find innovative solutions to complement public investments.

PRIVATE SECTOR ENGAGEMENT



Private Sector Engagement Plays Critical Role in Closing Financing Gaps For Private Sector Development In HOA.

- Collaboration between government and private sector in shaping policies and regulations is fundamental

Private sector engagement leverages the capabilities of the private sector to drive economic growth, job creation, poverty reduction, and addressing social and environmental challenges.

- Reforms implemented through a process of private sector engagement tend to have greater sustainability over time and higher levels of legitimacy.

- The COVID-19 pandemic had a lasting and significant impact on Africa private sector and global supply chains, which further deteriorated due to Russia's invasion of Ukraine.

PRIVATE SECTOR ENGAGEMENT



Private Sector Engagement Plays Critical Role in Closing Financing Gaps For Private Sector Development In HOA.

Private sector development policies and investments should aim to accelerate inclusive and green growth and structural transformation and diversification of African countries' productive base through:

1. Industrialization,
2. Human capital development,
3. Promoting jobs in high-productivity sectors,
4. Promoting intra African trade and regional supply chains and leveraging AfCFTA,
5. Enabling infrastructure investments,
6. Advancing fourth industrial revolution technologies,
7. Intensifying cross cutting and sectoral reforms to unlock opportunities for the private sector.

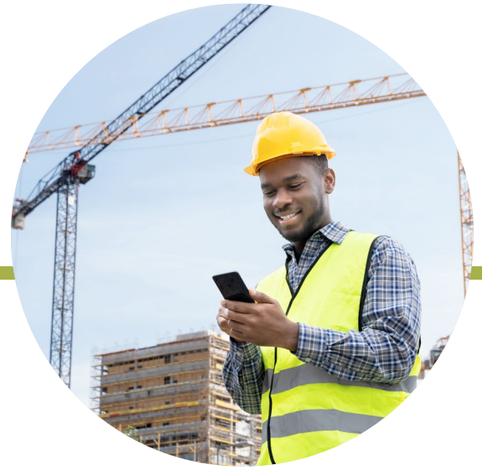
CHALLENGES FACING PRIVATE SECTOR DEVELOPMENT (PSD) IN AFRICA



While the business environment in African countries has improved over the past decade, institutional and regulatory obstacles continue to constrain private sector growth.



While the structure of Africa's private sector has evolved noticeably over the past 10 years, informality is still a persisting challenge.



Inadequacy of physical infrastructure across Africa continues to significantly inhibit private sector development, particularly in input sectors such as energy and transport.

CHALLENGES FACING PRIVATE SECTOR DEVELOPMENT (PSD) IN AFRICA



In many countries, climate change is threatening agriculture and food security, urban water supply, and the supply of hydroelectricity.



Entrepreneurs and SMEs face development and growth constraints including limited access to regional and global markets, high cost of production, inaccessibility of business development support mechanisms, lack of adequate institutional and regulatory frameworks to support SME development, and lack of access to finance.



Africa human capital limitations pose risks to PSD in the Fourth Industrial Revolution era.

OPPORTUNITIES FOR PRIVATE SECTOR DEVELOPMENT IN AFRICA



The climate adaptation/ green growth agenda represents a significant market opportunity for the private sector to develop new products and solutions, capitalizing on Africa's abundant and untapped resources of renewable energy

Rapid urbanization and rising African middle class with more purchasing power is expanding market opportunities. Middle-class Africans tripled over the last 30 years and currently stands at 313 million people, more than 34% of the continent's population.

Africa's vast infrastructure deficit is an opportunity for significant new investment by the private sector to help leapfrog towards a new economic growth trajectory

OPPORTUNITIES FOR PRIVATE SECTOR DEVELOPMENT IN AFRICA



The Fourth Industrial Revolution is already becoming reality in Africa with digital technologies and businesses models transforming every sector globally.

the African Continental Free Trade Area (AfCFTA) is expected to create large markets and spur investment opportunities and intra-African trade as it connects 1.3 billion people across 55 countries with a combined GDP of USD 3.4 trillion.

Fintech is extending access to financial services to the informal sector and unbanked popultion.

ASSESSING RISKS

Risks for private sector development exist in Africa but there are available solutions to support private sector projects.



The perception and the presumption of risk in the African markets by the private sector investors are by far the biggest misunderstanding in pricing risk on the continent driving investors to seek a higher risk premium.

Development partners use the full range of financing instruments available including equity, loans and loan syndication, asset recycling and asset refinancing, risk mitigation and credit enhancement mechanisms (including guarantees), and technical assistance grants.

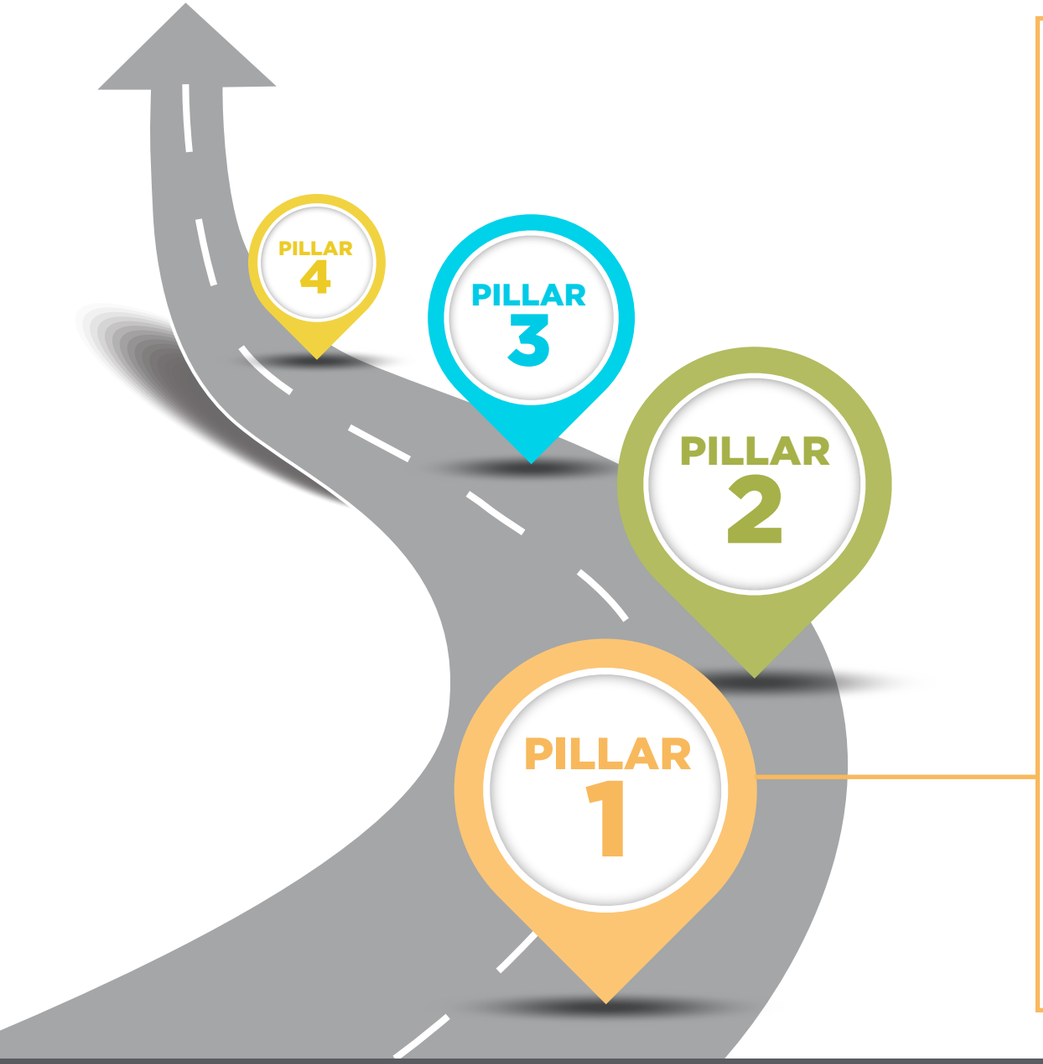
ASSESSING RISKS

Risks for private sector development exist in Africa but there are available solutions to support private sector projects.



- To complement these instruments, blended finance capital structures will be mobilized to crowd in private capital for high-impact projects, which will in turn alleviate the perception of high risks that discourage private investors.
- Development partners will mobilize co-financing, technical assistance, and capacity building needed for implementing cross cutting and sectoral business environment reforms and to implement projects on the ground.
- Full range of partnerships will be mobilized including with other MDBs and DFIs, bilateral development partners, global and regional impact investors and private sector companies, civil society organizations, and philanthropic foundations.

ROADMAP FOR A GOVERNMENT-ENABLED, PRIVATE SECTOR LED GREEN GROWTH IN THE HORN OF AFRICA

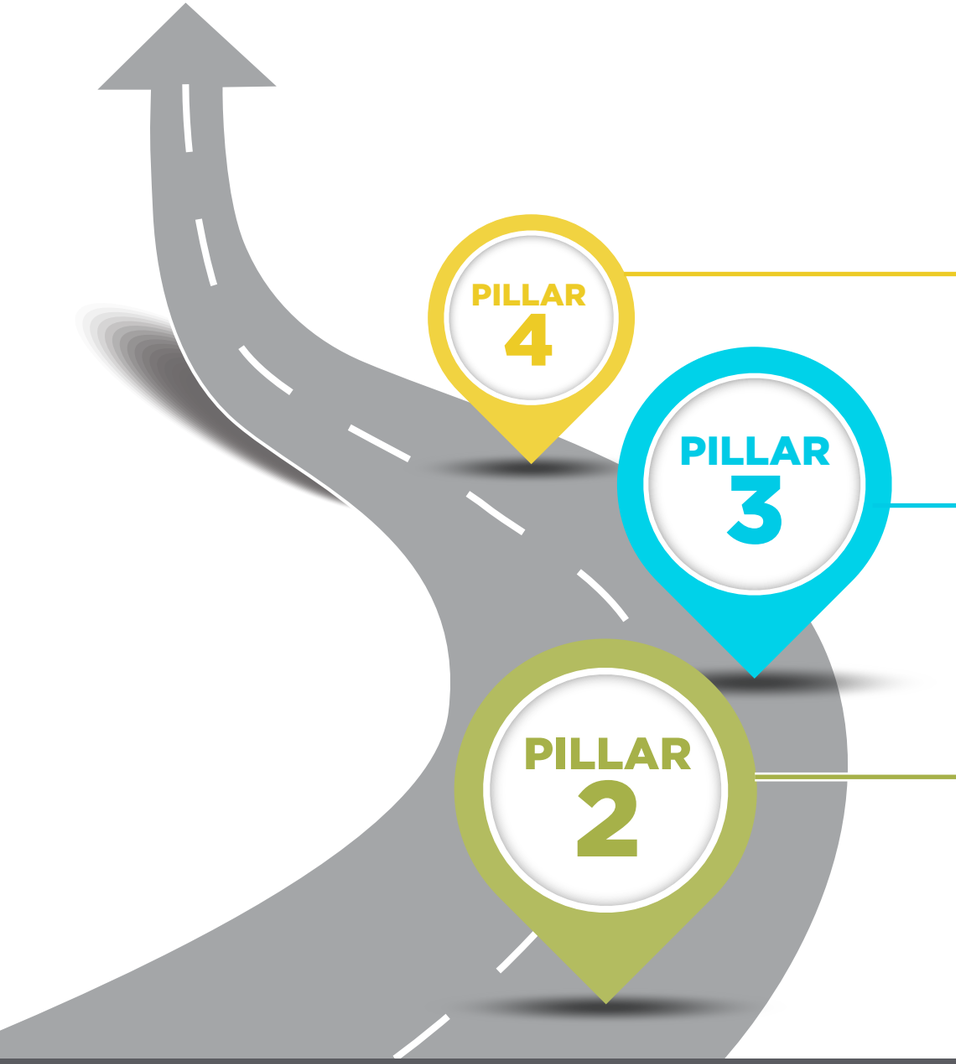


PILLAR 1

Enhancing Cross Cutting and sector specific business environment to unlock opportunities for private sector green growth in HoA.

1. Supporting trade and investment facilitation reforms to accelerate private sector-led structural transformation and green industrialisation in the Horn of Africa;
2. Supporting the identification and implementation of landmark sector specific reforms in high-growth regional value chains to unlock private sector green investment opportunities;
3. Supporting the development of PPPs in HoA countries to encourage private investments in the development of critical economic and social infrastructure; and
4. Empowering private sector through building the capacity of local private sector representatives to conduct public private dialogue and partnering with governments.

ROADMAP FOR A GOVERNMENT-ENABLED, PRIVATE SECTOR LED GREEN GROWTH IN THE HORN OF AFRICA



PILLAR 4

Development of youth entrepreneurship ecosystems and strengthening youth digital skills.

PILLAR 3

Promoting SME participation in regional green value chains.

PILLAR 2

Facilitating access to integrated green and digital infrastructure to accelerate industrialization and implementation of AfCFTA.

THE ROAD AHEAD FOR PRIVATE SECTOR ENGAGEMENT IN THE HORN OF AFRICA

1. **Map ongoing private sector engagement programmes** at national and regional levels, assess gaps in private sector mobilization, and determine how to close these gaps.

2. **Map potential business opportunities** at the regional level e.g., agribusiness where the region has a potential to reduce food insecurity and export.

3. **Establish regional public-private dialogue platforms** to engage the private sector on the way forward, identify challenges for trade and investment, advocate for reforms, promote a conducive business climate, promote regional linkages amongst private companies, and develop an implementation plan for private sector development.

4. **Launch regional initiatives and programs** to implement the four pillars of the private sector development approach.

5. **Engage additional development partners and promote** the potential of HoA countries with the objective of mobilizing DFIs financing, guarantees, grants, and technical assistance for the HoA initiative.

6. **Identify programs and initiatives** to advance economic integration within existing trade agreements (i.e., COMESA).

7. **Enhance ongoing efforts to incorporate refugees in formal economic channels** to discourage them from engaging in criminal activities and social unrest.

8. **Continue regional peace building efforts through ongoing political initiatives** to build a conducive political and secure environment needed for attracting investors.