

OCTOBER 23, 2024

INNOVATIVE FINANCE

SCALING UP INNOVATIVE FINANCE FOR SUSTAINABLE GROWTH IN THE HORN OF AFRICA



HORN OF AFRICA INITIATIVE

22nd Ministerial Meeting

In Partnership with



WORLD BANK GROUP



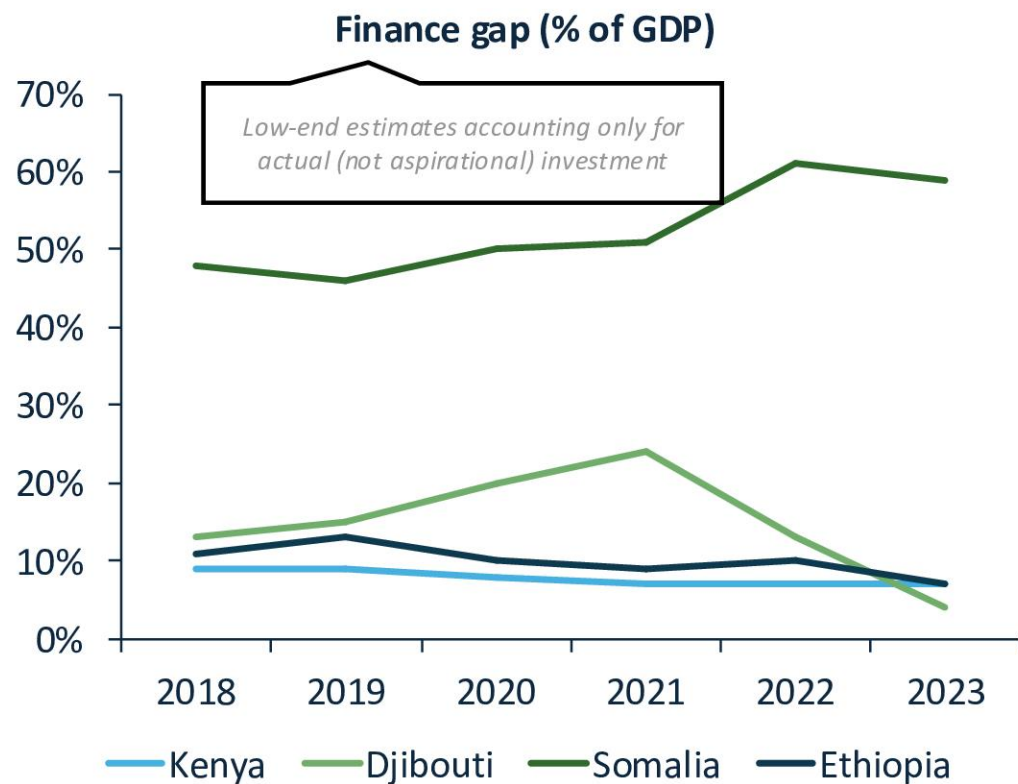
Federal Ministry
for Economic Cooperation
and Development
BMZ



UK Government

HOA COUNTRIES FACE FINANCING GAPS AND HAVE LIMITED HEADROOM FOR FURTHER DEBT

INVESTMENT NEEDS EXCEED SAVINGS



Note: Financing gap calculated as gross fixed capital formation less domestic savings. Data for South Sudan not available. Source: Authors' calculation based on WDI data

PUBLIC DEBT IS HIGH AND ABSORPTIVE CAPACITY FOR FURTHER DEBT LOW

	Public Debt/GDP	External debt/GDP	Fiscal deficit/GDP	Current account/GDP	Inflation (CPI)	Tax revenues/GDP	Credit to private sector/GDP
Kenya (2024)	67.9	42.4	-4.7	-4.1	7.0	15.1	31.8
South Sudan (2023/2024)	51.2	42.9	3.8	4.3	42.2	31.0*	3.2
Djibouti (2024)	68.1	59.5	-3.0	5.1	1.8	17.5	11.0
Somalia (2024)	6.1	5.5	0.5	-8.7	4.8	2.0	6.1
Ethiopia (2023/2024)	40.5	15.4	-1.7	-2.8	30.1	6.3	40.0

*Of which non-oil tax revenues amount to only 5.8% of GDP | Source: Authors' calculation based on WDI data

CLIMATE CHANGE EXACERBATES FRAGILITY AND THE FINANCING GAP IN THE HOA

Higher financing needs due to impacts of climate change...



Extreme weather events impacting growth/viability



Need for investments in adaptation/mitigation

...vs. limited availability of climate financing



Lack of predictable returns



Lack of enabling policies and data/information



Small and narrow financial landscape

SUPPORTING INNOVATION

DPs are supporting innovations targeting a wide range of conventional and climate financing needs across the public and private sectors

DEBT



Concessional/blended lending platforms, bond issuance support, and fintech rollout

EQUITY/PATIENT CAPITAL



Equity investments and other patient capital channeled to government, firms, and projects

DERISKING



Insurance and other products against credit, political, trade, and climate risks

TECHNICAL ASSISTANCE



Technical assistance for improving the investment climate and climate finance



KEY PILLARS OF SUPPORT

The EU supports raising innovative finance through its Global Green Bond Initiative (GGBI)

PILAR 1 GGBI INVESTMENT FUND

- Public-private investment fund acting as anchor investor for green bonds in LMICs, with a focus on Africa
- Based on EUR 1 billion commitment from public sector anchors.
- Leverages private investment to scale up sustainable financing (EUR 15-20 billion goal).
- Diversified portfolio: sovereign, sub-sovereign, and corporate-issued green bonds.

PILAR 2 GGBI TECHNICAL ASSISTANCE

- Demand-driven support for green bond issuers: issuer readiness, green project pipeline identification, and compliance with green bond frameworks.
- Roundtable meetings with European investors and stock exchanges for knowledge sharing.

PILAR 3 GREEN COUPON FACILITY

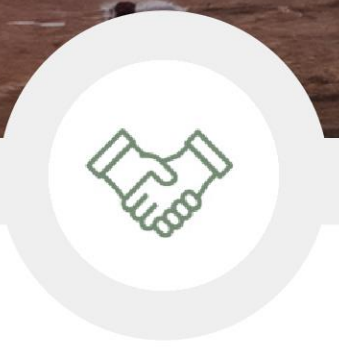
- The facility will provide interest rate subsidies to green bond issuers facing particularly high interest rates in the market, under specific circumstances.

THE GGBI COALITION



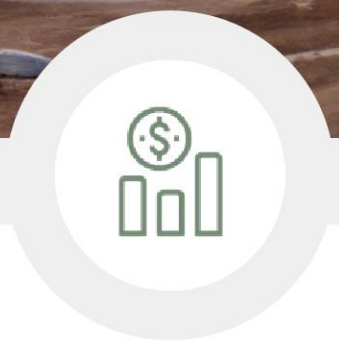


WHAT DFC OFFERS



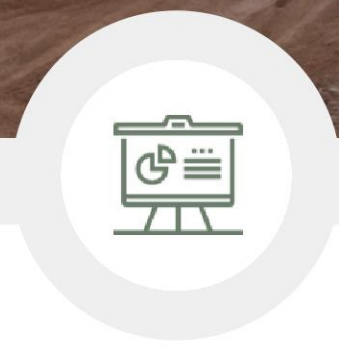
DEBT FINANCING

Direct loans and guaranties of up to \$1 billion for tenors as long as 25 years, with specific programs targeting small and medium U.S. businesses..



EQUITY INVESTMENTS

DFC direct equity investments can provide critical support to companies committed to creating developmental impact.



FEASIBILITY STUDIES

Support for the analysis of a potential DFC project.



INVESTMENT FUNDS

Debt and equity support for emerging markets private equity funds to help address the shortfall of investment capital.



POLITICAL RISK INSURANCE

Coverage of up to \$1 billion against losses due to currency inconvertibility, government interference, and political violence, including terrorism. DFC also offers reinsurance to increase underwriting capacity



TECHNICAL ASSISTANCE

Support to increase the developmental impact of existing DFC projects or develop potential DFC projects.



REGIONAL INFRASTRUCTURE FINANCING FACILITY (RIFF)

To expand long-term finance to private firms in selected infrastructure sectors in Eastern and Southern Africa

PILLAR 1

Provide long-term finance to infrastructure projects (USD\$275M)

PILLAR 2

Access to debt financing for renewable energy projects. (USD\$125M)

PILLAR 3A

TA to support capacity building in infrastructure finance (\$10M)

PILLAR 3B

TA capacity building to develop regional off grid energy market (\$15M)

AREAS OF FOCUS

Solar home systems

Infrastructure

Clean Cooking

Energy Plants

Productive uses of electricity

Road Construction

ELIGIBLE COUNTRIES

TDB Member Countries

COMESA Member States

IMPLEMENTING AGENCIES



PROJECT IMPACT TILL DATE



STANDARDS

- COMESA Model Energy Policy (approved)
- COMESA Model Solar Standards (approved)



0.6 MILLION

- New connections



\$179 MILLION

- Private capital mobilized through the project



60,000 Jobs Created

- Direct jobs 28,808
- Indirect jobs 63,830



GRIHD REGIONAL PROJECT

Africa Green, Resilient and Inclusive Housing De-risking (GRIHD) Facility

POTENTIAL GRIHD PILOT COUNTRIES:



PROJECT OBJECTIVE

SOP PDO: To expand access to housing finance to deliver green, resilient, and inclusive outcomes for target beneficiaries in select countries in Eastern and Southern Africa.

SOP 1 PDO: To increase private capital mobilization into green, resilient, and inclusive housing value chains in select countries in Eastern and Southern Africa.

PROJECT FINANCING

US\$180Mn
Regional FIF SOP1
Operation
(Board: FY25)



De-Risking Products for Green, Resilient and Inclusive Housing Value Chains (US\$150 million)

COMPONENT STRUCTURE

Under SOP 1, the Facility will launch Window 1 (building materials and technology) and Window 3 (housing construction or renovation), based on pipeline demand. Eligibility criteria and example sub-projects under these two pilot windows is informed by existing building standards and certification schemes including EDGE and BRI, and relevance on the ground based on consultations with local industry stakeholders.

IMPLEMENTED BY

PROJECT STATUS AND TIMELINES

- GRIHD SPV incorporated in November 2023 by authority of TDB's Board of Governors.
- US\$3.91 million worth of Class A Shares subscribed by 23 COMESA member states, demonstrating strong ownership by AFE countries.
- Target Board Date: End December 2024

PROJECT IMPACT

\$701 MILLION
of private capital mobilized through the project

PRIVATE CAPITAL ENABLING (PCE)
Non-monetary indicator: "at least one local currency bond issued" by the GRIHD Facility

92,600 JOBS CREATED
Direct jobs 28,808
Indirect jobs 63,830

CLIMATE ADAPTATION & MITIGATION
100% CCB with 50% assigned to adaptation

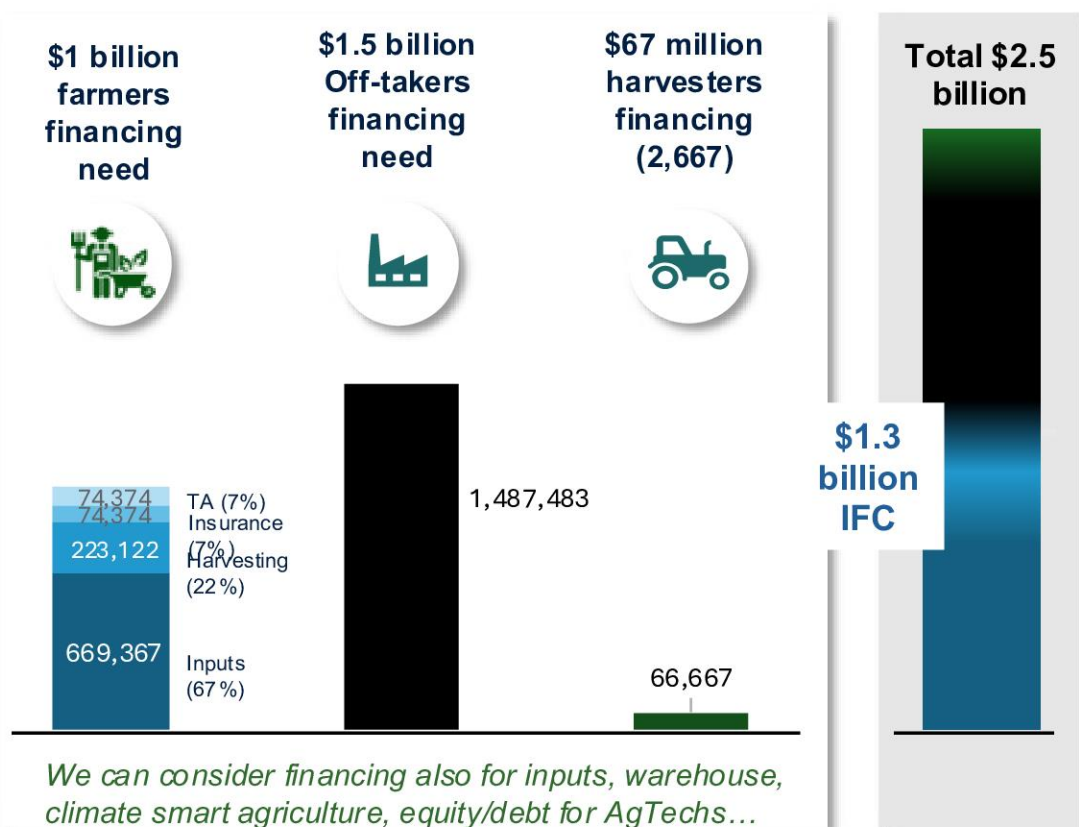
THE AFRICA AGRI-ACCELERATOR PROGRAM (AAAP)

PROGRAM AMBITION:

5 million hectares serviced and US\$6.5 billion financing by 2030 to reduce Africa's food security gap in wheat, rice, and maize by 50%

OBJECTIVE 2026:

Enable 1 million hectares financing in 32 countries, with USD 1.3 billion financing to reduce the food security gap in wheat, rice, and maize by 10%



EXPECTED IMPACT

Close FS gap by 10%

X2 production
(5.8 MT achieved with 1 million ha)

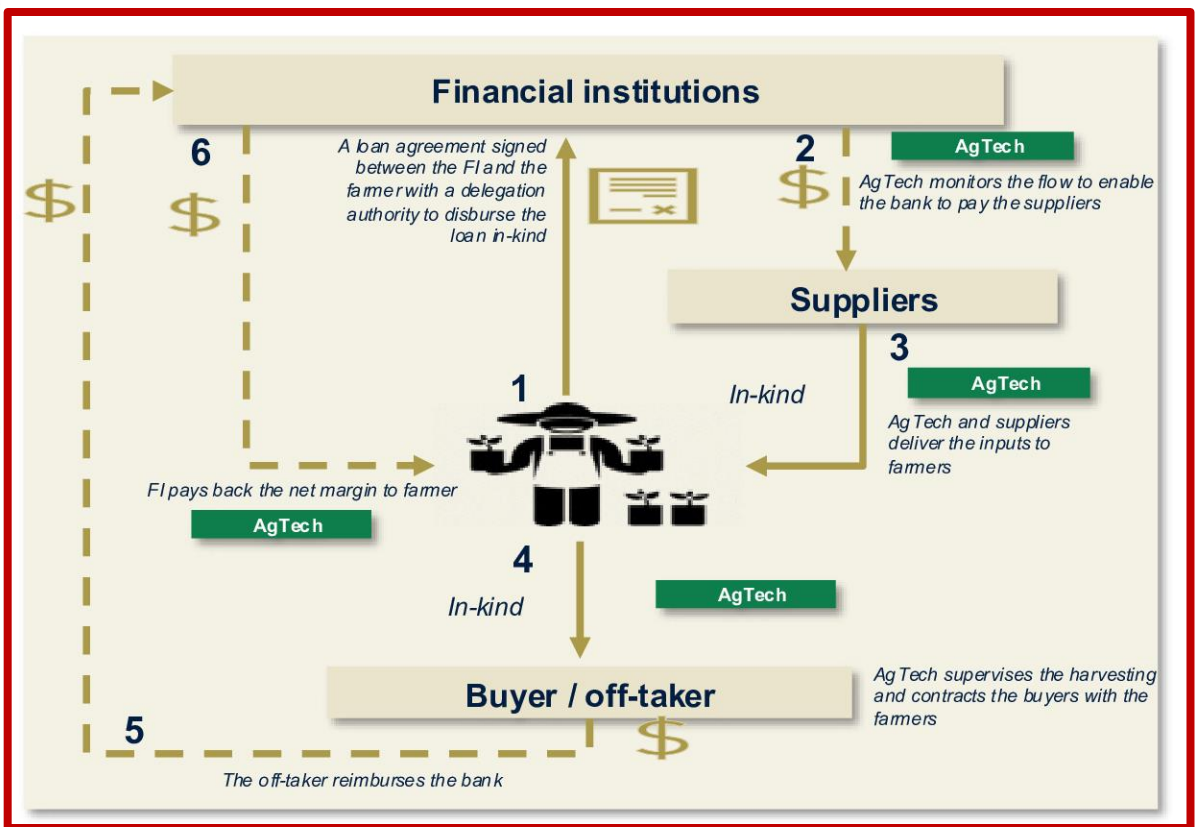
X2 farmers revenue (USD 1.5 Bn)

+ 25k direct jobs
(agri-agents and drivers)



K hectares to financed by IFC

1 200



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AFDB TRANSITION SUPPORT FACILITY

The Transition Support Facility (TSF, est. 2008) to address fragility and build resilience offering complementary and catalytic funding beyond the standard concessional and non-concessional instruments. For countries facing conflict and fragility that are eligible for ADF resources.

3 FINANCING WINDOWS

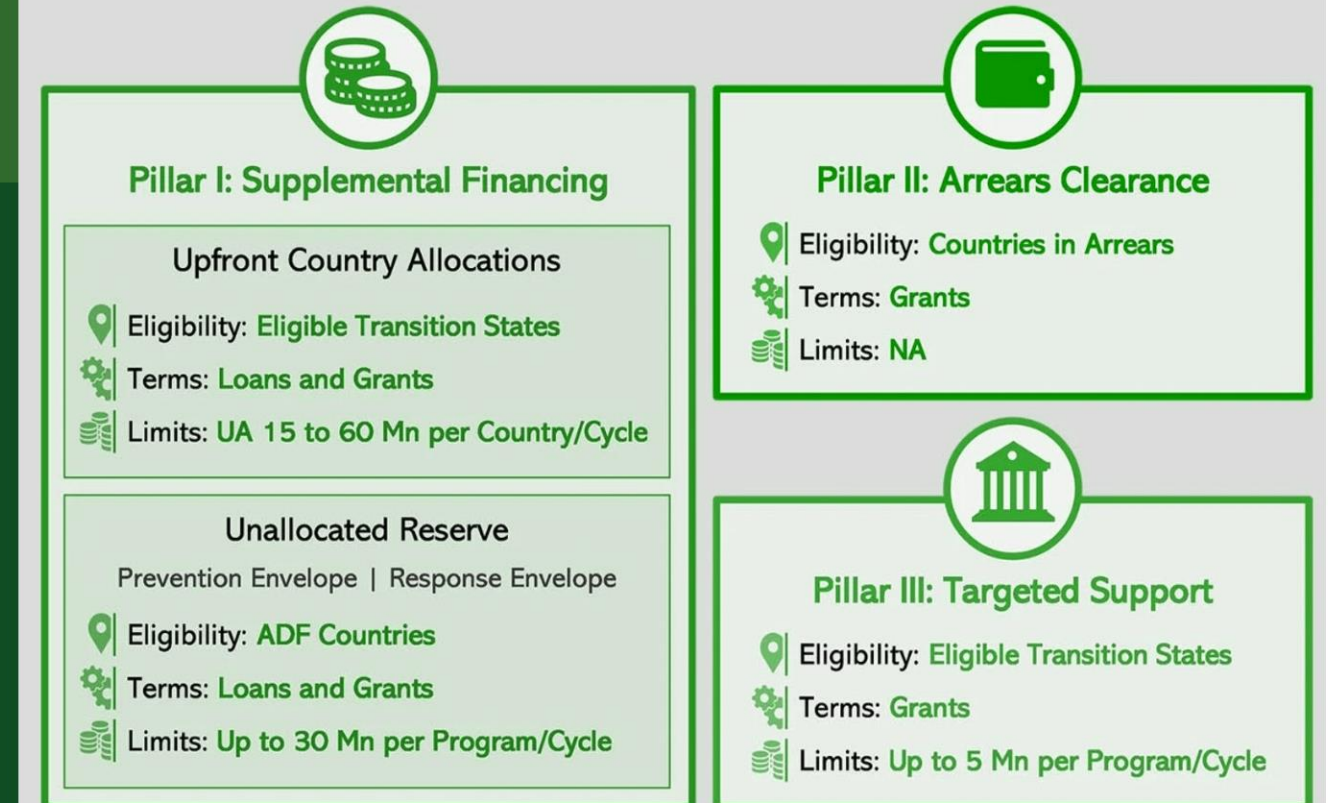
Three financing windows and their operational flexibility assist countries in their transition to resilience and to respond to crisis situations.

OVER \$6B DISTRIBUTED

Since its inception, the TSF has mobilized over USD 6.56 billion from its ADF contributors to support investments and institutional support projects in ADF countries.

RECENT PROJECT EXAMPLES:

- Eritrea - Dekemhare 30 MW Solar PV Grid Connected Project (Approved 2023). USD 49.92 Million Grant
- Multinational Burundi - Tanzania - DRC 651 km Standard Gauge Railway - total USD 98.62 million (TSF1 USD 15.78 million grant)
- Ethiopia Resilient Wheat Value Chain Development - total USD 94.3 million (TSF USD 20 million)
- Djibouti - Youth Entrepreneurship for Climate Change Adaptation Project (PEJACC) - Project Appraisal Report - total USD 49.82 million (TSF USD 19.8 million)
- South Sudan - Climate Resilient Agri-Food Systems Transformation Program-Project 1 - total USD 51.3 million (TSF USD 39.6 million)





CLIMATE ACTION WINDOW (CAW)

Established under ADF's 16th Replenishment and still mobilizing resources, the CAW seeks to help fill the significant climate finance gap in Africa's low-income countries through transformative and impactful programs. The facility allocates resources following the conclusion of Call for Proposals.

TYPE

ADF Instrument.

CAPITALIZATION

USD 429 million.

WINDOWS

Allocates resources through 3 sub-windows:

- (i) 75% for climate adaptation
- (ii) 15% for climate mitigation
- (iii) 10% for Technical Assistance

CLIMATE MITIGATION

Projects that aim to reduce the emissions of GHG emissions or enhance the sinks that accumulate and store them. The goal is to promote approaches that support net-zero emissions altogether

CLIMATE ADAPTATION

Projects that support adaptation to climate change & variability, build resilience to climate related shocks and extreme events, or strengthen adaptive capacity of ecological, social, economic systems or policy processes.

TECHNICAL ASSISTANCE

Supports the: (i) preparation of Paris Aligned projects, and (ii) development and strengthening of Long-Term Strategies, NDCs, National Adaptation Plans, Climate Diagnostics for Country Strategy Papers, and, among others, (iii) capacity building

COUNTRY ELIGIBILITY

ADF Eligible Countries

TARGET SECTORS



Agriculture, Forestry, Food, and Nutrition Security



Water Security, Sanitation, and Health



Climate Information, Early Warning Systems and Disaster Risk Management



Transport and Infrastructure



Energy Access and Renewable Energy

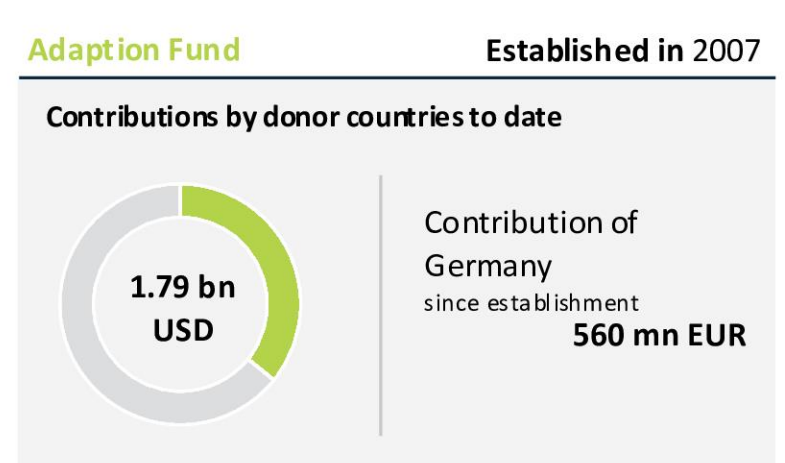
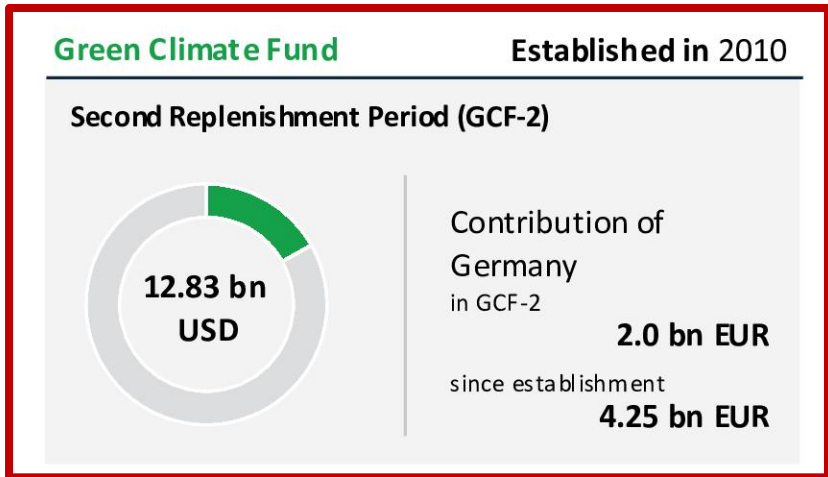
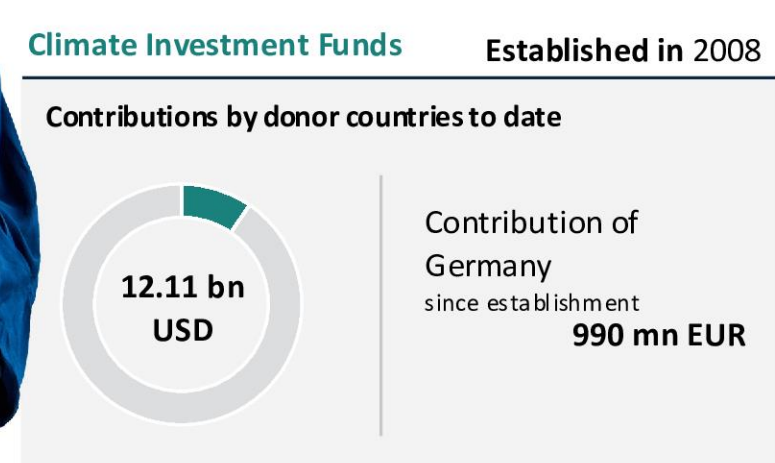
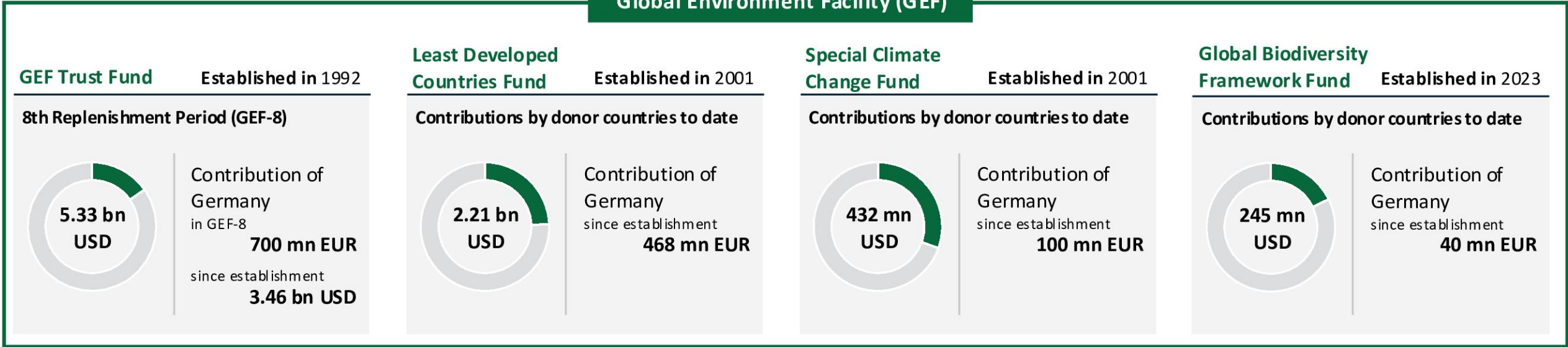


Green and Sustainable Finance

MULTILATERAL CLIMATE FUNDS: GERMAN CONTRIBUTIONS

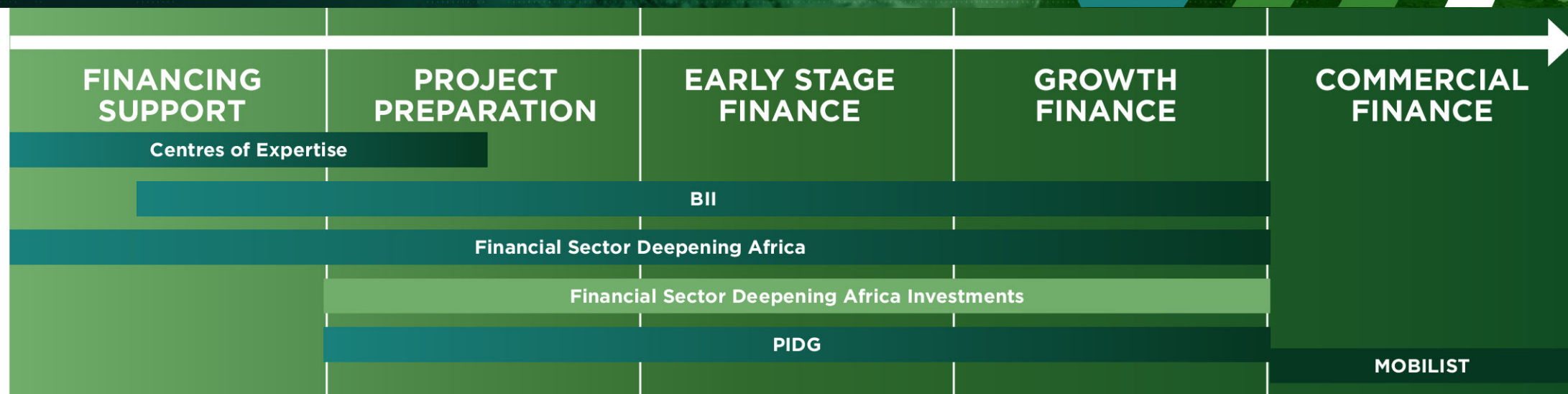


Global Environment Facility (GEF)



FINANCING SUPPORT

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CENTRES OF EXPERTISE (COES)

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MOBILIST:

Aims to mobilise investment through public 'listed' markets, including the UK: backed by £156m from UK government of which £139m is FT; it supports financial product proposals to mobilize investment in sustainable infrastructure via searches and running competitions (including investment in funds such as the Helios CLEAR Fund) and is creating an ecosystem to promote enabling policies and information-sharing.



ASCENT PROJECT

Accelerating Sustainable and Clean Energy Access Transformation (ASCENT)



RENEWABLE ENERGY MINI GRIDS

- Grid-like level of service
- Fully commercial cost: \$0.50-\$0.75/kWh



SOLAR HOME SYSTEMS

- Powers small appliances: lights, radio, phone charging, TV, small fridge
- Fully commercial cost: \$75-\$250 upfront



CLEAN COOKING

- Clean cooking solutions
- Fully commercial cost: \$50-\$150



PRODUCTIVE USES OF ELECTRICITY

- Solar powered productive use appliances (water pumping, cooling, milling, drying)
- Fully commercial cost: \$500-\$2,000



100 million people

with access to electricity



\$15 billion

US\$ 5bn IDA to mobilize additional US\$ 10bn



7 years

to achieve goals - until 2030



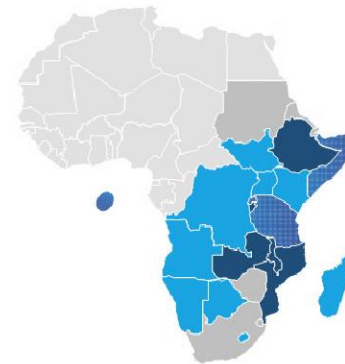
PILLAR 1:
Regional and National Platforms to Accelerate Energy Access



PILLAR 2:
Expanding Grid Electrification



PILLAR 3:
Scaling Distributed Renewables and Clean Cooking



Current Wave:
Tanzania
Rwanda
Somalia
Sao Tome and Principe

Next wave:
Burundi
Zambia
Mozambique
Ethiopia
Malawi

Future waves:
Comoros
Lesotho
Uganda
DRC
Sudan
Madagascar
Kenya
Potential IBRD countries

Regional Access Acceleration Platform:

Knowledge and technical assistance to public and private stakeholders; carbon market facilitation



Regional Financing Facility:

Debt and grants for DRE and clean cooking companies



Future platforms:

(i) Equity Facility, (ii) Risk Mitigation Facility, (iii) Scaling-Up Regional RBF

Collaboration with:



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TECHNICAL ASSISTANCE



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AFRICA RISK CAPACITY (ARC) GROUP

The EU-supported Africa Risk Capacity (ARC) Group targets improving government financial capacity.

ARC helps governments improve their capacities to better plan, prepare, and respond to extreme weather events and natural disasters, by providing risk management plans and climate disaster risk finance and insurance.

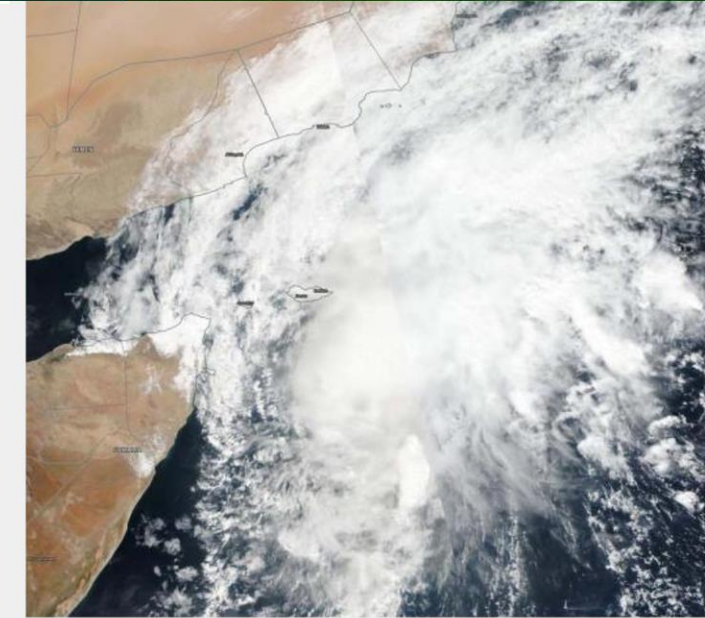
HAZARDS COVERED:

Droughts, tropical cyclone and outbreaks and epidemics. Soon additional insurance covered should be launched against flooding and additional extreme weather events.

HOW TO ACCESS:

undertake several processes, including customizing the Africa RiskView software, signing MOUs for in-country capacity building, defining a contingency plan for ARC payouts, and determining risk transfer parameters. Members of the ARC risk pool receive a payout when the rainfall deviation is sufficiently severe such that the estimated response costs cross a certain pre-defined threshold. The payout threshold is determined by the risk transfer parameters selected by each country - currently with a maximum coverage of US \$30 million per country per season for drought events that occur with a frequency of 1 in 5 years or less.

The ARC Group is composed of two entities: ARC Agency, a Specialised Agency of the African Union, and ARC Insurance Company Limited (ARC Ltd), the financial affiliate of the Group.



WHAT THE WORLD BANK GROUP GUARANTEE PLATFORM OFFERS

Political risk guarantees

Private sector

Protects investments against non-commercial risks (e.g., breach of contract, transfer restriction and currency inconvertibility)



Credit guarantees

Public & private sector

Mitigates credit risk and raises the credit worthiness of borrowers by guaranteeing loans



Short-term trade support guarantees

Public sector



Guards against non-payment by a sovereign or state-owned entity of its obligations relating to cross-border trade finance





Example:

-  Expropriation
-  Breach of Contract
-  War and Civil Disturbance
-  Project-Based Payment Guarantee

Example:

-  Partial/Full Credit Guarantee
-  Risk-Sharing Facilities

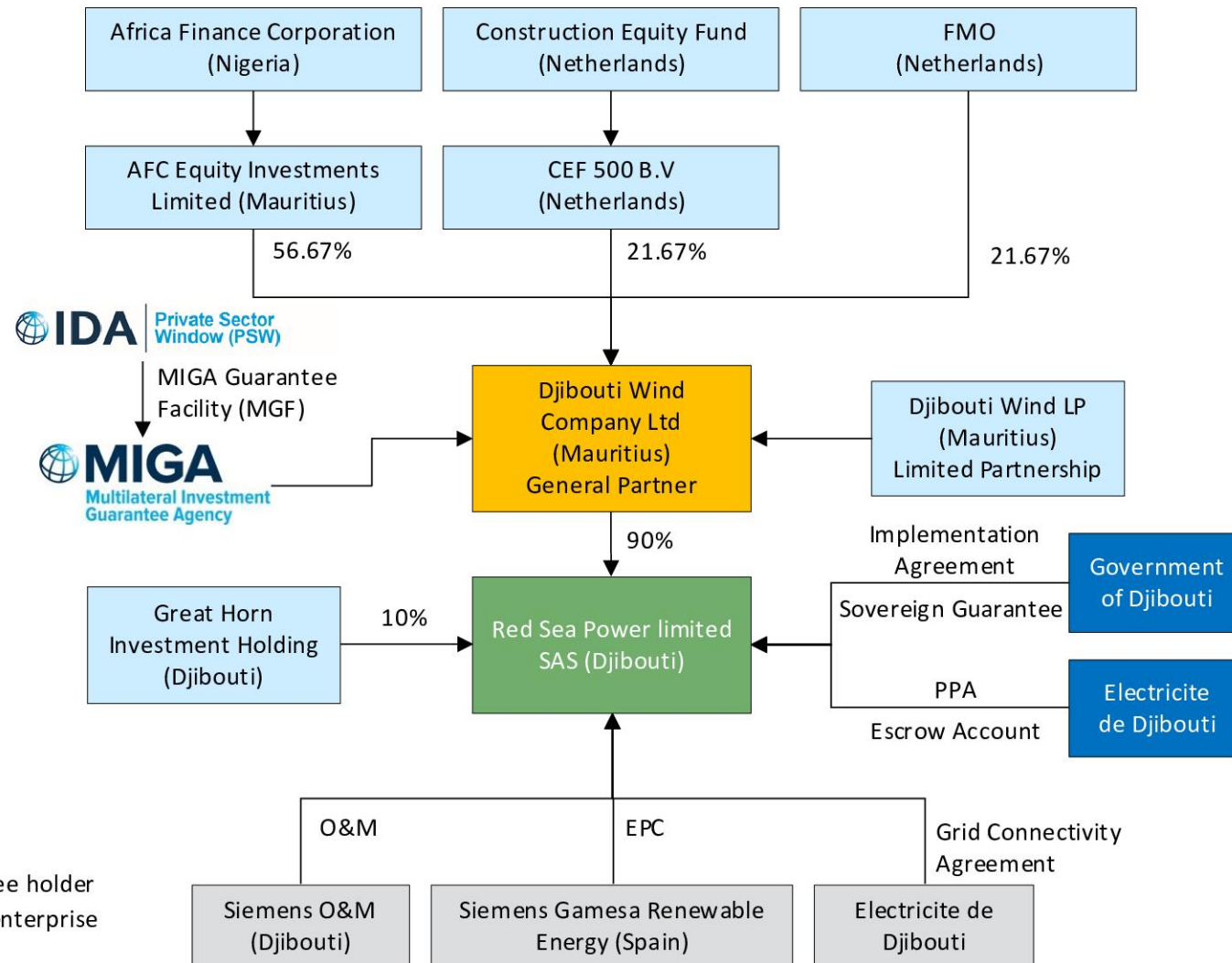
Example:

-  Trade Loans
-  Letter of Credit Confirmation

DEMONSTRATING VIABILITY OF WIND GENERATION & PRIVATE SECTOR INVESTMENT IN DJIBOUTI

RED SEA POWER SAS, DJIBOUTI

Project Structure



■ Obligor
■ Guarantee holder
■ Project enterprise

Project Overview

Description:

- Development, design, construction, operation and maintenance of a 58.9MW wind farm and interconnection facilities in Ghoubet

Guarantee Holder(s):



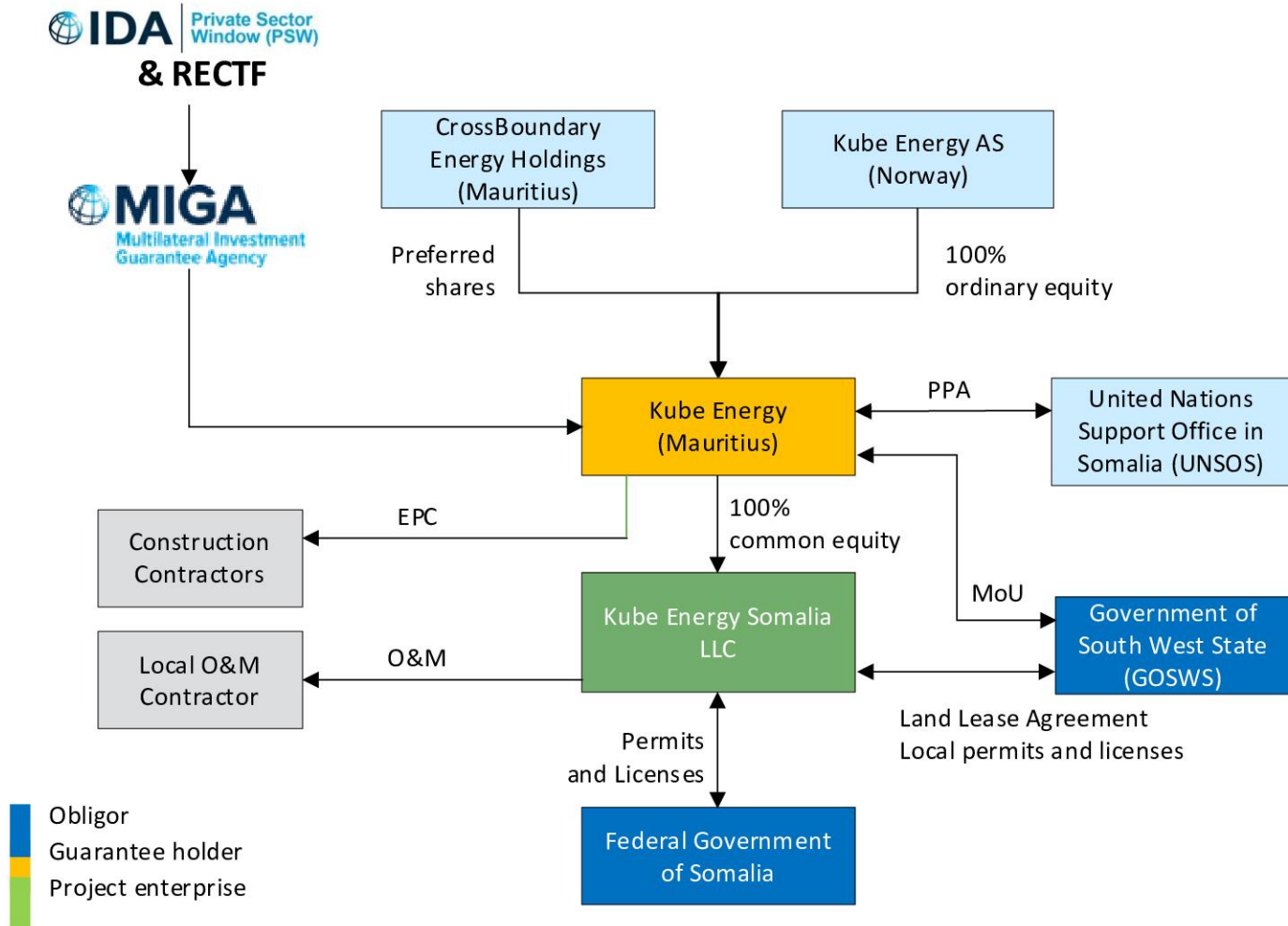
MIGA cover:

- Amount: \$91.6m (equity, quasi-equity)
- Tenor: 20 years
- Risk(s): Breach of Contract, Expropriation, Currency Inconvertibility and Transfer Restriction, War and Civil Disturbance
- Issued: December 2019



ENABLING INVESTMENT IN RENEWABLE ENERGY IN A FRAGILE AND CONFLICT-AFFECTED STATE BAIDOA, SOMALIA

Project Structure



Project Overview

Description:

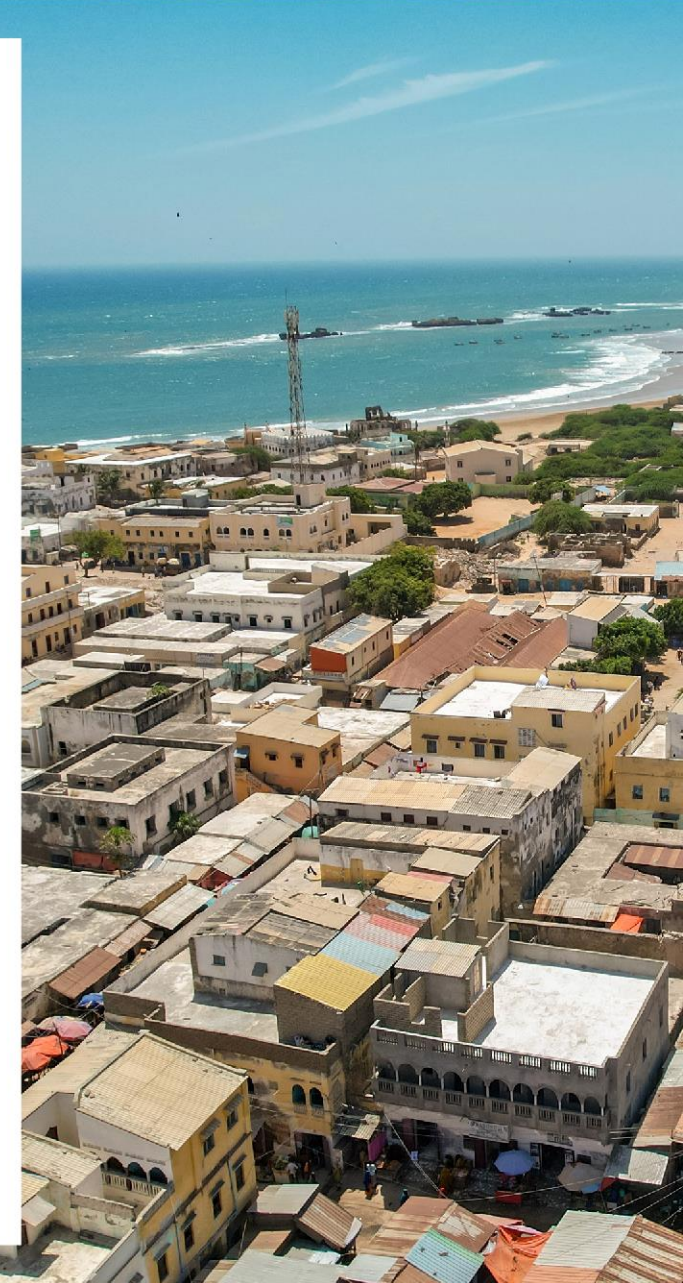
- 2.8 MW solar hybrid power plant (including a solar PV plant, a battery storage system, and back-up diesel fuel generators), interconnection equipment, and ancillary facilities
- The project will initially serve a limited number of off-takers, with the United Nations (UNSOS) as the anchor off-taker
- The UNSOS PPA serves as a foundation for the expansion of clean energy to local government and, through a potential future expansion, to businesses and residents
- After 15 years, the plant will form part of Baidoa's permanent energy infrastructure

Guarantee Holder(s):



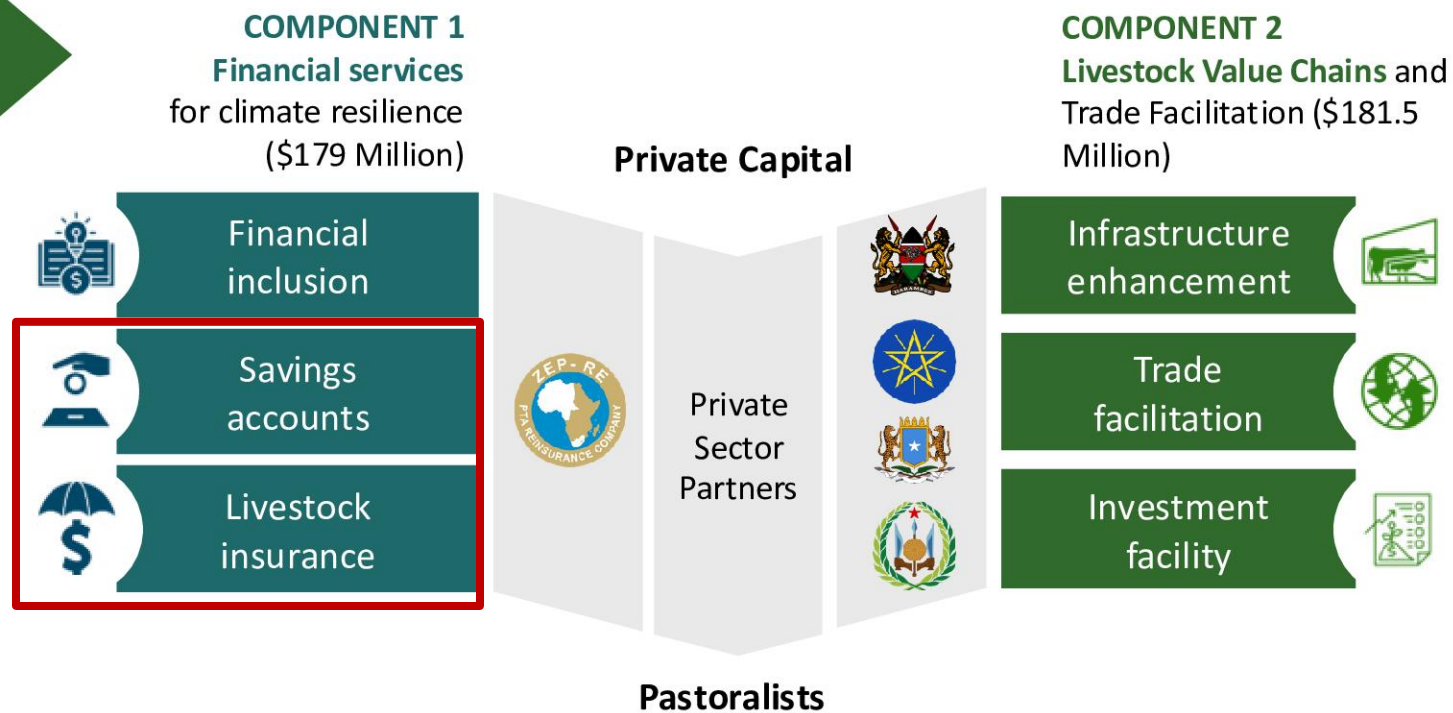
MIGA cover:

- Amount: \$5.67m (equity)
- Tenor: 15 years
- Risk(s): Expropriation, War and Civil Disturbance
- Issued: January 2023



DRIVE: is a regional project supporting pastoralists, currently implemented in four countries located in the Horn of Africa (HoA)

COMPONENTS & STAKEHOLDERS



REGIONAL PROJECT RATIONALE

- Quality trade & infrastructure**
Cross-country coordination on livestock trade ecosystem
- Regional implementation**
Risk pooling, economies of scale & lower operational costs
- Peace building**
Reduced cross-border movements

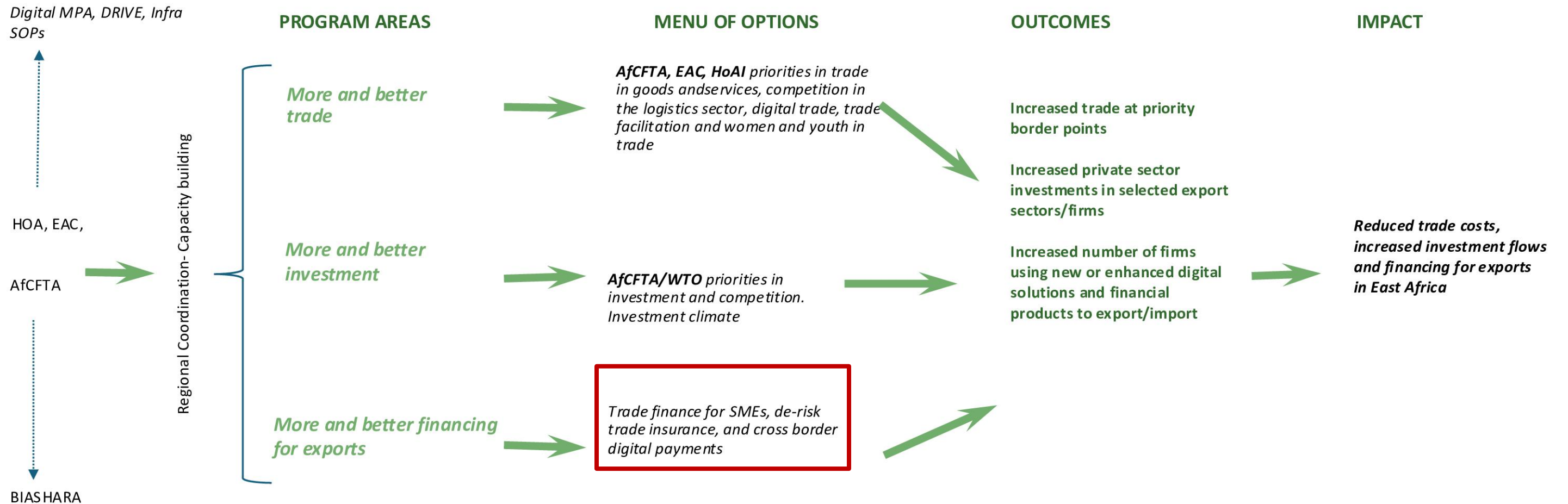
+2.2 MILLION
Pastoralists & Dependents
received access to financial services

\$45.2M
Premium Collected
illustrate market demand & paths to sustainability

\$224.6M
Private Capital Employed
(sum insured) highlight confidence & sustainability

+40
Private Sector Partners
for innovation & efficiency in product distribution

Proposed PrDO: To reduce trade costs, increase investment flows and financing for exports in East Africa



DRAFT

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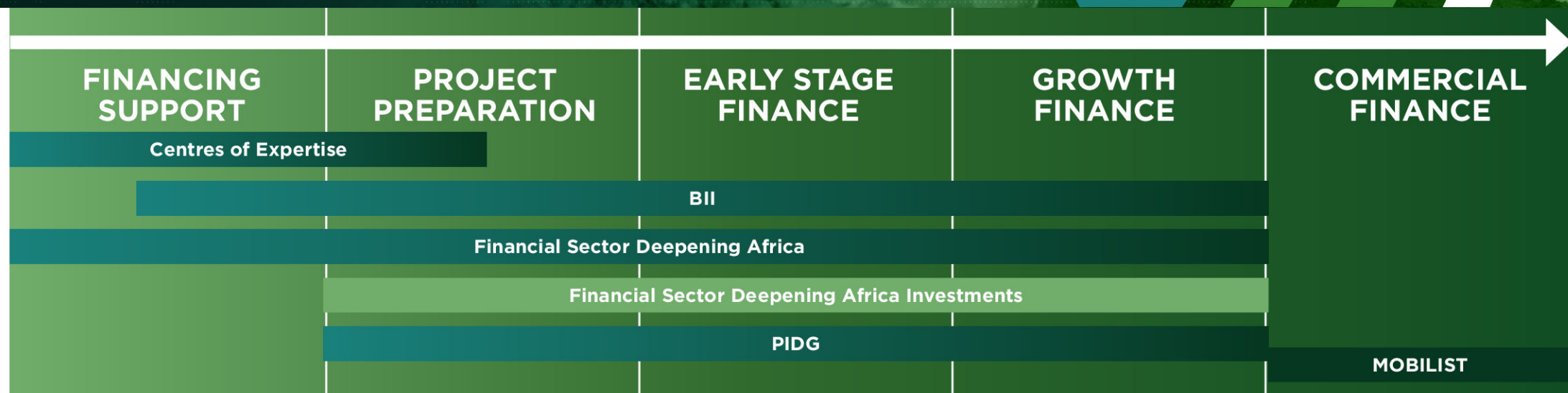
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IFC CLIMATE FINANCE COMPETENCY FRAMEWORK

A Competency Framework has been developed to assess the maturity level of financial institutions and improve their Climate Finance practices

1 Strategy & Governance	1.1 Market assessment and sizing	1.3 Portfolio review	1.4 Target market segments	1.6 Organizational structure	1.8 Internal transition
	1.2 Mapping of ecosystem players		1.5 Coverage model	1.7 Partnerships	1.9 Financial model
2 Funding support	2.1 Climate bond pre-issuance process		2.2 Climate bond post issuance process		2.3 Technical eligibility criteria by asset class
3 Products & sales	3.1 Client offering	3.3 Product supply chain partnerships	3.5 New clients' acquisition and retention		3.7 Marketing and communication
	3.2 Product manuals	3.4 Technical assistance for end beneficiaries	3.6 Sales Management		3.8 Training of staff
4 Risk Management	4.1 Climate risk strategy and business model	4.2 Climate risk governance and organization	4.3 Climate risk identification and measurement		4.4 Climate risk management framework
	4.5 Climate risk data and reporting				
5 Data & Reporting	5.1 Data referencing, collection and completion (internal and external)	5.3 Internal reporting	5.5 TCFD reporting		5.7 Eligibility tools (e.g., CAFI)
	5.2 Data structuring, processing and management	5.4 Regulatory reporting	5.6 Impact reporting		

KEY QUESTIONS FOR DISCUSSION AND FUTURE STUDY

- ❓ Which of the identified innovations are most scalable in the HoA context?
What are key priorities for further innovations?
- ❓ From a broader macro-finance perspective, what are key policy priorities to spur innovative financing and address the financing gap in the HoA?
- ❓ What financial sector regulatory reforms need to be developed?
- ❓ How can governments and development partners engage the private sector to further develop a bankable pipeline of investment opportunities in the HoA?





THANK YOU



**HORN OF AFRICA
INITIATIVE**
22nd Ministerial Meeting

In Partnership with

