HORN OF AFRICA INITIATIVE

22nd Meeting of Horn of Africa Initiative

Scaling Up Innovative Finance for Sustainable Growth in the Horn of Africa[1]

October 2024

1. ***Setting the stage: macro-financial imbalances expose countries in the Horn of Africa (HoA) to fragility***

Countries in the Horn of Africa (HoA) face financing gaps, with investment needs for hard and soft infrastructure and the social sectors exceeding savings, even at current levels of gross capital formation. This applies to all HoA countries including those with access to Euromarkets borrowing (Kenya and Ethiopia) on one hand and those which depend on concessional sources of finance, such as Djibouti and Somalia on the other (see Table 1). Taking into account large, forecasted investment needs—particularly in the infrastructure, human capital development, and building resilience including through climate adaptation and mitigating of climate risks—aspirational financing gaps are much larger than suggested here.

Table 1: Financing Gap (percent of GDP)

Country	2018	2019	2020	2021	2022	2023
Kenya	9%	9%	8%	7%	7%	7%
South Sudan	NA	NA	NA	NA	NA	NA
Djibouti	13%	15%	20%	24%	13%	4%
Somalia	48%	46%	50%	51%	61%	59%
Ethiopia	11%	13%	10%	9%	10%	7%

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

In the cases of Kenya, Somalia, Ethiopia, and Djibouti financing gaps are reflected in the countries' fiscal and current account deficits to various extents (see Table 2). Symptomatic of their financing gaps, countries

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in the HoA are characterized by their limited ability to raise tax revenues. The situation of South Sudan differs due to revenues generated from hydrocarbon exports. However, it is quite closely aligned with other countries regarding its ability to generate tax revenues from non-oil sources.

Except for Somalia which recently secured donor support to clear all arrears, all countries have accumulated significant public debt. Of concern is that a large proportion of this public debt is external, i.e., borrowing in foreign currency. In the case of Ethiopia, while the level of external indebtedness s relatively low, the country is facing debt distress and has accumulated arrears to official creditors since early 2023 amid acute foreign exchange shortages. The authorities have begun restructuring negotiations with representatives of holders of the Ethiopian Eurobond (for US$1 billion). Kenya also has access to euro-market borrowing, but in February 2024 found itself having to refinance its Eurobond set to mature in June 2024, at a yield of 10.375 compared to 6.3 when issued in 2021[2]. These experiences demonstrate—even for those countries with market access—how fragile access to the Euromarkets is and the risks associated with accumulation of external, non-concessional debt.

Kenya and Ethiopia, which have access to borrowing on the Euromarkets, find themselves with increasingly limited headroom, are also those with less shallow domestic financial markets, as reflected by the size of credit made available by their banking systems to the private sector. Their deeper—albeit still small by global standards—domestic markets provide them with access to supplementing domestic savings with foreign capital. Finally, high inflation rates experienced in Somalia and Ethiopia suggest that countries may face challenges in macroeconomic management, so care needs to be taken to avoid overstretching the recipient countries' absorptive capacity. The latter speaks to the need for leveraging financial innovations that (i) unlock financing opportunities to mobilize patient private capital, (ii) leverage guarantees rather than directly providing liquidity and (iii) provide financing in local currency rather than expecting local institutions to absorb the combined credit and currency risks.

Table 2: Selected indicators of absorptive capacity

Country	Year	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: IMF program and Article IV documents

2. ***<u>Deep dive: climate change exacerbates fragility in HoA</u>***

HoA countries, despite their minimal contribution to global greenhouse gas (GHG) emissions, are disproportionately affected by the consequences of climate change. Extreme weather events such as

[2] Of maturing euro-borrowing of US$2.0 billion, US$1.5 was refinanced. The remaining financing need was met by a loan from the World Bank.

droughts, floods, and cyclones have become increasingly frequent, intense, and severe in the HoA. This in turn exacerbates existing socioeconomic challenges, such as poverty, food insecurity, food and waterborne diseases, conflicts, and political instability, creating a perfect storm of adversity that threatens the livelihoods and wellbeing of millions of people. Recent studies find evidence that climate change inflicts lasting macroeconomic costs in HoA countries. For example, the World Bank Country Climate and Development Report (CCDR) estimates that, under a business-as-usual scenario, inaction could reduce Kenya's real GDP by as much as 7.25 percent in 2050 compared to the baseline, while Ethiopia's annual average GDP loss could amount to 5 percent by the 2040s.[3,4]

The HoA urgently needs to scale investments in critical areas such as climate adaptation and resilience, natural capital restoration and low carbon energy transition, but current financing levels are far from sufficient. Moreover, investments in industries that can help support climate adaptation and resilience such as renewable energy e.g. solar have been limited. According to the Climate Policy Initiative (CPI), African countries are only meeting around 10 percent of annual climate financing needs, and the private sector's contribution to climate finance is low.[5] The lack of climate finance creates a vicious cycle: without adequate investments, the HoA becomes increasingly vulnerable to climate change, which in turn makes the country even more high-risk and less attractive for investments.

In addition to the limited public resources for climate action in the HoI region, there is an urgent need to explore how private finance can be mobilized to support climate action; however, private finance is constrained by several supply and demand-side challenges. For example, on the demand side, many climate adaptation projects, though crucial for sustainability and resilience, arguably, do not have the predictable returns needed for commercial ventures. The lack of enabling policies further deters the development of investment ready projects. On the supply side, the lack of data and transparency reduces investors' ability to make informed decisions around climate investments. The small and narrow financial landscape in HoA also limits the diversity of financial instruments available, making it difficult to cater to the specific needs and risk profiles of climate adaptation projects. High transaction costs and complexities associated with green and sustainability-linked debt instruments deter issuers. Furthermore, the high cost of capital associated with perceived country risks and currency risks pose a significant barrier to accessing climate finance in international markets.

3. Innovative financing answering to the needs of the HoA

As discussed above, countries in the HoA are characterized by large financing gaps, constrained fiscal space, limited domestic savings and shallow financial markets, longstanding issues which have been exacerbated by the impacts of climate change. Within this setting, what innovations are development partners and the World Bank Group adopting or intending to adopt to offer to lessen the severity of these binding constraints that are depressing investments and constraining economic growth? As transpires from the following, many recent innovations have been focused predominantly on climate finance. While not to the exclusion of other themes, climate finance has high policy priority in donor countries, resulting in greater availability of concessional resources.

In the following the various initiatives supported by development partners and the World Bank Group are assembled according to the nature of the financial support being provided, covering funding in the form

[3] World Bank (2023). Kenya Country Climate and Development Report.
[4] World Bank (2024). Climate action in Ethiopia: acting now to build resilience and leverage opportunities.
[5] CPI (2022). Landscape of climate finance in Africa.

of debt and equity, guarantees, and technical assistance. The provision of these different instruments is largely complementary, as they each absorb specific kinds of risk associated with investment finance.

3.1 Innovations supporting debt financing

Recent innovations and projects by development partners have supported access to debt financing in HoA countries via the establishment of platforms to enable and invest in public sector green bonds and provide concessional debt to public sector, especially for sustainable investments:

- Together with other development partners[6] the EU intends to provide support to countries in Africa through the Global Green Bond Initiative (GGBI). The purpose of this initiative is to support the issuance of sovereign, sub-sovereign and corporate green bonds to leverage investment by the private sector investment by providing funding as an anchor investor that will bear first losses and providing parallel technical assistance. Development partners have committed EUR 1 billion to this initiative with the goal of leveraging funding of EUR 15 to 20 billion. Along with this funding commitment the GGBI offers technical assistance to support green project pipeline identification, and compliance with green bond frameworks as well as a green coupon facility to defray the cost of funding for first time green bond issuers.
- BMZ’s R-WASH program financed inclusive water and sanitation services for refugees, internally displaced persons and the population of host communities. Activities are borehole drilling, utility strengthening and expansion and rehabilitation of water infrastructure**.** Individual project sites include Kebribeya, Aw Barre and Sheder in Ethiopia, Wad Sharifey and Girba in Sudan and Dollow in Somalia. Over half a million refugees, internally displaced persons, and host community members will benefit from the program.

Additional innovations are directly supporting private investment opportunities with access to debt financing:

- Africa is a priority region for the United States’ Development Finance Corporation (DFC) and is DFC’s largest region in cumulative exposure at over US$ 11.3 billion in debt and, to a somewhat lesser extent, equity invested in over 300 projects across 36 countries. Over the past fiscal year, DFC committed over US$ 3.2 billion across 72 new investments in Africa, including in infrastructure, energy, critical minerals, food security, health, and support to small businesses.
- The World Bank’s Regional Infrastructure Financing Facility (RIFF) project provides concessional long-term debt to projects funding infrastructure (US$ 275 million and renewable energy (US$ 125 million) in Eastern and Southern Africa combined with technical assistance (US$25 million). Supplementing the debt financing already made available to RIFF, in 2024 the World Bank’s Accelerating Sustainable and Clean Energy Access Transformation (ASCENT) channeled an additional US$ 300 million of concessional debt financing for renewable energy projects through the RIFF platform.
- In 2023 Financial Sector Deepening Africa (FSDA), the UK-government funded specialist finance development agency, supported Kenya's Burn Manufacturing to issue Sub-Saharan Africa's first green bond designated for clean cooking. The GBP 8 million in proceeds from the green bond will

[6] Other participating development partners are the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), Italy’s Cassa Depositi e Prestiti (CDP), the Spanish Agency for International Development Cooperation (AECID), Germany’s KfW development bank, PROPARCO of the AFD Group, and the Green Climate Fund.

support production and distribution of clean cooking stoves, including support for the development of a new factory in Nigeria.

- The World Bank's Africa Green, Resilient and Inclusive Housing De-risking (GRIHD) Facility to be presented for Board approval by end-2024 seeks to support issuance of local currency bonds and use de-risking products to increase private capital mobilization into green, resilient, and inclusive housing value chains in select countries in Eastern and Southern Africa.
- To reduce the food security gap in wheat, rice, and maize by 10 percent, the IFC's Africa Agri-Accelerator Program seeks to enable 1 million hectares financing in 32 countries using digital financing techniques, with US$ 1.3 billion of IFC financing leveraging similar amounts of private sector financing.

3.2 Innovations supporting equity and other patient capital structures

Recognizing the need for patient capital to complement debt in HoA countries' financing mix, development partners are also introducing innovative platforms to both provide patient to governments:

- The AfDB's Transition Support Facility *(TSF)* addresses fragility and building resilience offering grants and loans to eligible countries, going beyond standard concessional financing. Recent examples of funding to HoA countries supported by the TSF include US$ 94 million to Resilient Wheat Value Chain Development in Ethiopia, US$ 50 million to Youth Entrepreneurship for Climate Change Adaptation Project in Djibouti and US$ 51 million to Climate Resilient Agri-Food Systems Transformation in South Sudan.
- The Green Climate Fund (GCF) is the largest multilateral climate fund, established within the framework of the global climate finance architecture. GCF aims to catalyze finance to invest in low-emission and climate-resilient development, driving a paradigm shift in the global response to climate change. As of July 2024, $15 billion in GCF resources have been committed for 270 projects in 130 developing countries. GCF provides grants (reimbursable and non-reimbursable), concessional loans, equity, and guarantees. With a view to mobilizing private capital GEF has a *blended finance program* to which GEF has so far committed US$ 313 million. These are so-called non-grant resources generating similar amounts in eventual reflows and CGF has generated private sector co-financing of US$4.4 billion. Average co-financing ratios in recent years have been as high as 1:18.

Additional innovations are supporting private sector investment opportunities with access to equity or equity-type financing (combined with debt financing in some cases):

- The UK government supports several initiatives designed to increase the availability of equity financing in Africa. British International Investment (BII), the UK's Development Finance Institution (DFI), has committed 57% of its $8.2 billion portfolio to investments in Africa. MOBILIST—backed with GPB 156 million from the UK government—aims to mobilize investment in sustainable infrastructure through public 'listed' markets via searches, running competitions and investment in funds and is creating an ecosystem to promote enabling policies and information-sharing.
- The platform currently being established by the World Bank's aforementioned ASCENT project will include an equity facility designed to inject equity into enterprises investing in renewable energy mini-grids, solar home systems and clean cooking.

- BMZ/KfW is seeking to catalyze the utilization of carbon credits to pull in private capital. Using digital finance BMZ/KfW have invested in a low carbon economy fund (CaVEX) that enables micro-small projects to be rewarded for reducing or removing carbon emissions. The WALD Carbon Impact Fund under preparation is scheduled to invest in projects in developing countries that remove carbon dioxide from the atmosphere.
- Through its East Africa Geothermal Initiative BMZ has sought to fund, facilitate, and accelerate geothermal development in Eastern Africa. The program is led by the African Union Commission and aims to attract public and private developers for the construction of geothermal power plants. So far, a total of 41 projects have qualified for funding, primarily in Ethiopia and Kenya.
- AFDB's ADF 16: USD 429 million allocated to create new Climate Action Window (CAW) and seeking to raise USD 4 billion to support climate adaptation, mitigation and TA
- Among the objectives of the World Bank's De-risking, Inclusion and Value Enhancement (DRIVE) program is to support the development of livestock value chains in HoA countries through infrastructure enhancement, trade facilitation and investment. The program also supports provision of financial services to pastoralists and their dependents by encouraging savings through the provision of savings accounts and reducing exposure to risk through provision of livestock insurance (as referenced above under guarantee products).

3.3 Innovations using insurance and guarantee products

Development partners have introduced multiple guarantee products mitigating real and perceived credit risk, political risk and risks associated with trade finance that are prevalent in HoA countries:

- Africa is a critical area of focus for MIGA. Currently, MIGA guarantees over $10 billion of foreign investments in Africa, which represents about 30% of MIGA's global portfolio. In FY24 alone, MIGA supported 26 projects across 16 countries in Africa, guaranteeing $2.7 billion of investments.
- On July 1, the World Bank Group launched the Guarantee Platform housed at MIGA, bringing together all World Bank Group guarantee products and experts for efficiency, simplicity, and speed. The platform features a simplified menu of products and access to the best guarantee solutions available from the World Bank, IFC, and MIGA, enabling clients to meet project needs and development priorities.[7] For example, the Platform can be used to support Sub-Saharan Africa and IDA/FCV countries in supporting their energy access ambitions. This could include both renewable energy projects and off-grid/mini-grid projects.
    - The new platform provides three categories of guarantee products: 1) P**olitical Risk Guarantees** that protect against non-commercial risks occurring that could cause a loss to an investment (e.g., MIGA issued guarantees to support Djibouti's first utility-scale wind farm (2019) and Solar PV hybrid power plant project in Somalia (2023); 2) **Credit Guarantees** that cover lenders' credit risk by guaranteeing a financial institution that provides a loan to a sovereign or SOE for a specific project (e.g., an infrastructure project), or to a private sector company; and 3) **Short-term Trade Finance Guarantees for Public Sector Risk** that protect regional / global banks against the risk of a sovereign or state-owned entity/bank's failure to pay a trade finance obligation

[7] IFC guarantees to the public sector are included under the World Bank Group Guarantee Platform housed at MIGA, while IFC guarantees to private sector entities continue to be implemented by IFC directly.

    - The new guarantee platform will make it easier for (a) private sector companies to invest in development, including in public-private partnerships and for foreign direct investments that do not directly involve public sector contracts but are affected by broader policy, regulatory, and political risks faced by private investors, and (b) governments to access guarantees for development.
- De-risking initiatives sponsored by the IFC encourage broader utilization of financial products offered by MNOs. The IFC provides 50/50 partial guarantee to private commercial banks on credit losses associated with their lending to MNOs, thereby encouraging development of the MNOs lending operations benefiting micro and small enterprises.
- The World Bank's BOOST program seeks to support the implementation of the Africa Continental Free Trade Agreement (AfCFTA) in East Africa by reducing trade costs (e.g., through the adoption of cross-border digital payments), increasing investment flows, and reducing trading costs. The BOOST program will support de-risking in the form of trade insurance and provide trade finance to the benefit of SMEs. Thus, BOOST will supplement the risk participation agreements and trade credit lines provided by AfDB, IFC and other DFIs, which are designed to increase the availability of trade finance.

Several initiatives are also pioneering the use of insurance to protect against climate risk:

- The Team Europe Initiative on Climate Change Adaptation and Resilience in Africa supports the Africa Risk Capacity (ARC) providing risk management plans and climate disaster risk finance and insurance to help governments improve their capacities to better plan, prepare, and respond to extreme weather events and natural disasters. Hazards covered include droughts, tropical cyclone and outbreaks and epidemics. The intention is to include as part of coverage flooding and additional extreme weather events. Members of the ARC risk pool receive a payout when the rainfall deviation is sufficiently severe (e.g. when 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.
- AfDB's Africa Disaster Risk Financing Programme (ADRiFi) promotes disaster response mechanisms by supporting countries to cover their insurance premiums and plans for disaster. The Facility of USD 100 million is supporting 15 African countries, including HoA countries – reaching more than 6 million vulnerable people.
- In 2023 the UK announced £100 million *package to support some of the most climate-vulnerable countries* to tackle climate change. Part of this assistance was channeled through ARC to provide rapid payouts to vulnerable communities if rains fail. This includes GBP 7.4 million to fund drought insurance protection for Somalia over the next 3 years.
- Launched at COP27 the Global Shield against Climate Risks—establishing collaboration between the EU, BMZ/KfW, the World Bank and the Frankfurt School—aims to increase protection for vulnerable people by providing and facilitating substantially more and better pre-arranged finance against disasters and climate risks. By bundling existing activities under one roof the Global Shield seeks to provide greater financial protection, faster and more reliable disaster preparedness, and more efficient response to effectively addressing losses and damages. Somalia became a pathfinder country in 2024 and became eligible for Global Shield funding.
- Aligned with the Global Shield initiative BMZ/KfW are exploring viable options with the Intergovernmental Authority on Development in Eastern Africa (IGAD) on climate risk transfer

solutions, including risk pooling arrangements. Currently preferred fields of intervention are climate risk transfer solutions. The Global Shield bundles existing activities together under one roof, making them easier to access. Somalia became a pathfinder country this year, i.e. the country can access the Global Shield funding.

- Pula, a Kenyan insurtech firm, provides yield-indexed insurances against drought and floods for farmers. With funding provided by BMZ/KfW 122,000 small-holder farmers in Ethiopia have gained access to agricultural insurance. In Somalia, Gargaara, another BMZ/KfW supported financial institution, has started discussions with Pula on a climate risk insurance product.
- The World Bank's DRIVE project in the Horn of Africa provides a package of financial services that helps farmers to mitigate financial shock events, including drought livestock index insurance. This builds on successful piloting of drought index insurance in Kenya and Ethiopia, using satellite data and mobile accounts to provide quick payouts. The project also includes capacity building for pastoralists and financial service providers to ensure that products meet the needs of the beneficiaries, including women, and to develop trust.

3.5 Developing project pipelines

An important constraint in deepening private participation is the limited pipeline of bankable projects in the HoA region. This is critical to ensure that supply of financing can be absorbed by sufficient high-quality demand:

- Private Infrastructure Development Group (PIDG), a multi-donor funded independent institution investing $500m a year, supports private sector investment in infrastructure in poor/fragile (LICs) and conflict-affected states (FCAS) by *financing the development of project pipelines* through project development facilities. These facilities are set up on a private equity basis to facilitate an effective process drawing on the required legal, technical and institutional expertise and to provide strong financial incentives: InfraCo Africa, InfraCo Asia, and the Emerging Africa Infrastructure Fund. The facilities provide technical assistance and viability gap funding to projects, and can also draw on Guarantco under PIDG to provide first-loss coverage supporting issuance of bonds issued financing brownfield projects

3.7 Reforming the policy environment

In deploying the instruments described above, there is broad recognition of the need for reform to create a stable and predictable environment to give investors and firms alike the confidence and knowledge needed to invest in the HoA. Development partners are providing technical assistance globally and across the HoA to support such reforms:

- The EU provides support to *establishing a stable and predictable climate policy environment*. This assistance covers industrial policy, the mix of incentives and disincentives required to change economic fundamentals, and the reduction of regulatory hurdles for climate investments. Assistance encompasses establishing an appropriate regulatory framework, such as designing mandatory corporate disclosures on climate and environmental risks and impacts, establishing a taxonomy to identify green and other types of investments, and designing labels and standards based on these disclosures. There is also need to support literacy regarding financial instruments and economic sustainability among investors, corporates and supervisors.
- *Climate services and early warning systems* are needed to help communities prepare for extreme weather events, mitigate economic impacts of climate change, drive adaptation, and provide

actionable climate data and information to governments and organizations. Key priorities include improvement of climate models to better account for the African context, investment in state-of-the-art data observational systems, capacity-building of African research systems, and linkage of support to successful delivery of data and services.

- The AfDB has been providing on-going support to governments like South Sudan for Institutional Strengthening for Economic Governance, to help diversify the non-oil economy and improve human and institutional capacity for effective policy making and management of resources. The Bank has also provided support to Somalia and to strengthen the capacity of the Central Bank, the Somalia Development and Reconstruction Bank and to help reform the country's financial architecture in order to promote inclusive growth.
- The UK has established Centers of Expertise (CoEs) to *channel technical expertise and policy advice* from the UK to posts overseas and in turn provide bespoke technical assistance to partner governments to tackle priorities in financial services and market development. The Financial Sector Deepening Africa is a UK-government funded specialist finance development agency providing technical assistance and market intelligence to financial market actors in the region.
- The UK and Rwanda co-chair the Taskforce on Access to Climate Finance which was established in 2021 to respond to climate vulnerable countries' concerns about the *current international architecture and mechanisms for accessing climate finance*. The UK is funding a Centre for Access to Climate Finance to disseminate findings of the Access to Climate Finance Task Force. Pioneer country trials, including Somalia, are testing the Taskforce's new approach to accessing climate finance at the country level.
- In 2019 the German government introduced a policy of climate mainstreaming, according to which it is mandatory to screen every project for climate financing potential. The volume of Germany's international climate finance in 2023 amounted to nearly EUR 6 billion, of which EUR 74 million was allocated to HoA countries.
- The IFC has established a *climate finance competency framework* to assess the maturity of financial institutions and improve their climate finance practices. This framework includes measures reflecting strategy and governance (including target market assessment and internal organizational structure), funding support (bond issuance capacity), products and sales (including technical assistance for end beneficiaries), risk management climate risk identification and measurement), and data and reporting (including reporting in accordance with the task force on climate related financial disclosures, TCFD reporting).

4 The way ahead: unlocking the potential for financial innovation

4.1 Scaling up existing – feasible innovations

Given the macro-financial constraints facing HoA countries, certain financial instruments offer more scalable potential than others. Those instruments which provide guarantees or risk-sharing arrangements rather than direct funding avoid dilemmas associated with the limited absorptive capacity of recipient countries in addition to minimizing the cost of carried interest for debt financing. Provision of funding—whether in the form of loans or grants—poses challenges as it raises available liquidity, which will need to be sterilized to avoid expanding domestic demand. As noted above, HoA countries already experience significant difficulties in managing domestic demand—as manifested by savings deficits (reflected in fiscal and current account deficits), high levels of external indebtedness and/or inflation and limited capacity for generating revenue through taxation.

There are several financial instruments offered by IFIs and development partners which already take account of these considerations. These are risk-sharing instruments, such as partial credit guarantees and insurance products, instruments that encourage local savings, and guarantees that enable borrowers to place greater reliance on local currency financing.

In addition, those IFI/development partner instruments that involve private sector co-financing to mobilize patient private capital in the form of relatively more stable longer term FDI capital flows—as opposed to volatile shorter term portfolio flows—pose less risks to the external sector. While not addressing the absorptive capacity dilemma outlined above, such longer term flows provide an important 'viability test' regarding the use of the combined public/private structured investment vehicles.

4.2 Piloting further innovations

There is a need for broader adoption and funding of innovations which are under-represented. An example highlighted by several of programs is the need to invest in more in capacity-building of market players. For example, all too often, technical assistance is limited to project preparation activities, which fall short in moving project which are found to be technically feasible to being bankable, a process known as project development. Assembling the legal, financial and structural information (e.g., about local regulatory hurdles/requirements) to bring projects to financial close requires significant specialized professional expertise. If such project development activities are to be undertaken effectively and professionally, private equity type incentives will need to be awarded to those prepared to take on such activities.[8]

In addition to deeper dialogue needs to take place regarding upstream policy reforms. The macroeconomic imbalances experienced by countries in the HoA, as in most countries in Sub-Saharan Africa, are highlighted by the climate crisis, and resolution of the dilemmas posed will depend on the further combined innovative efforts both in instrument design and macroeconomic management of the international donor community and sovereign states.

4.3 Thinking ahead for next steps

In identifying and scaling up innovations to meet the HoA's financing needs, it is critical for governments, the development community and researchers to further investigate and align on the following key questions:

- 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 policies are needed to support the shift to low-carbon and resilient economies 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?

[8] Efforts have been undertaken by the UK Private Infrastructure Development Group (PIDG) to set up such a development facility for Africa, but much more needs to be undertaken to replicate such efforts locally in African countries in this space.

Annex A: Links to Development Partners' Programs Cited

African Development Bank, Climate Action Window: https://www.afdb.org/en/topics-and-sectors/initiatives-and-partnerships/adf-climate-action-window

World Bank, De-risking, Inclusion and Value Enhancement of Pastoral Economies in the Horn of Africa(Drive): https://projects.worldbank.org/en/projects-operations/project-detail/P176517

African Development Bank, Transition Support Facility: https://www.afdb.org/en/topics-and-sectors/topics/fragility-resilience/transition-support-facility

African Union Commission, Geothermal Risk Mitigation Facility for Eastern Africa: https://grmf-eastafrica.org/

British International Investment: https://www.bii.co.uk/en/

CaVEX: https://cavex.io/

Emerging Africa Infrastructure Fund: https://www.eaif.com/

European Union, Global Green Bond Initiative(GGBI): https://capacity4dev.europa.eu/resources/team-europe-tracker/partner-countries/global/global-green-bond-initiative-ggbi_en

Financial Sector Deepening Africa, BURN Green Bond for Clean Cooking: https://fsdafrica.org/press-release/burn-issues-usd-10m-green-bond-to-support-clean-cooking-in-sub-saharan-africa/

German Federal Government, Climate Mainstreaming : https://climate-adapt.eea.europa.eu/en/metadata/publications/emerging-lessons-for-mainstreaming-ecosystem-based-adaptation-strategic-entry-points-and-processes-2

German Federal Ministry of Economic Cooperation and Development(BMZ), Water, Sanitation and Hygiene (WASH): https://www.bmz.de/en/issues/water/water-sanitation-and-hygiene-wash

Global Shield: https://www.globalshield.org/

Green Climate Fund: https://www.greenclimate.fund/projects

InfraCo Africa: https://infracoafrica.com/

InfraCo Asia: https://infracoasia.com/

International Finance Corporation, Africa Agriculture Accelerator Program: https://disclosures.ifc.org/project-detail/SII/47454/africa-agriculture-accelerator-program

International Finance Corporation, Climate Assessment for Financial Institutions: https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/climate-finance/climate-assessment-for-financial-institutions

International Finance Corporation, Micro, Small and Medium-sized Enterprise Finance: https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/msme-finance

KFW, Sub Saharan Africa Investments: https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/Subsahara-Africa/

Mobilist: https://www.mobilistglobal.com/

Multilateral Investment Guarantee Agency, Political Risk Insurance: https://www.miga.org/political-risk-insurance

Private Infrastructure Development Group: https://www.pidg.org/

Pula: https://www.pula-advisors.com/

U.S International Development Finance Corporation(DFC), Sub Saharan Africa Investments: https://www.dfc.gov/our-work/sub-saharan-africa

United Kingdom Government, £100 Million for Vulnerable Companies Tackling Climate Change: https://www.gov.uk/government/news/100m-for-vulnerable-countries-tackling-climate-change

World Bank, Accelerating Sustainable & Clean Energy Access Transformation Program (ASCENT): https://projects.worldbank.org/en/projects-operations/project-detail/P180547

World Bank, Africa Green Resilient and Inclusive Housing De-Risking (GRIHD) Facility: http://documents.worldbank.org/curated/en/099091923125585129/P17898601634310fa0b4d3074841b6a46cf

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