



HoAI Regional Portfolio Performance Review (RPPR)

21st Meeting of Finance Ministers

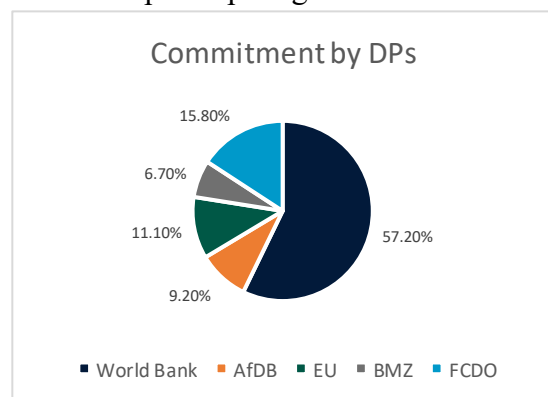
28 May 2024, Nairobi

Introduction and RPPR Objectives

In October 2019, Horn of Africa Ministers of Finance approved a priority package of investments worth USD 15.89 billion under the four pillars of the Horn of Africa Initiative (HoAI): (1) *Regional infrastructure connectivity*, (2) *Economic integration and trade*; (3) *Building resilience*; and (4) *Human capital development*. HoAI countries have been implementing the priority projects with their own resources and with funding from the Development Partners (DPs), originally AfDB, the European Union (EU) and the World Bank, and now joined by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the UK Foreign, Commonwealth and Development Office (FCDO). A Horn of Africa multi-donor trust fund (MDTF) was also established with EUR 30 million seed funding from the European Union and managed by the World Bank. The MDTF focuses on financing preparatory/diagnostic studies, technical assistance and operational expenses of the HoAI Secretariat. In addition, a team of National Advisers, funded by the AfDB, have been deployed to support the HoAI Focal Points in implementation of the Initiative.

Efforts remain ongoing to mobilize private sector investment (including, under the Private Sector Engagement and Borderlands Roadmaps) the digital programme and the DRIVE project) and additional donors to support implementation of the priority package.

The HoAI package has evolved following the expansion of HoAI participating countries from five in October 2019 (Djibouti, Ethiopia, Eritrea, Kenya and Somalia) to seven currently with the addition of South Sudan and Sudan¹. New Development Partners, namely BMZ and FCDO UK, have joined the Initiative in May and December 2023, respectively. Furthermore, unforeseen events such as the COVID-19 pandemic and the Desert Locust invasion necessitated the inclusion of new interventions in the HoAI package, which as of April 2024 stood at **119 projects with a commitment of about USD 9.93 billion**, which are generally well aligned to the HoAI's four pillars.



¹ Sudan currently inactive due to the prevailing situation.

The HoAI is in its fifth year of implementation. During the 19th Horn of Africa Initiative (HOAI) Ministerial meeting, Finance Ministers called for a portfolio review to take stock of HoAI’s status of implementation and assess the performance of its ongoing portfolio. The review also seeks to provide lessons learned and recommendations to Ministers and DPs to improve project design, implementation, performance, coordination and alignment with the HoAI pillars.

RPPR Review Methodology

The Regional Portfolio Performance Review (RPPR) serves to monitor implementation progress and present information on the quality and effectiveness of the interventions. It also serves to check portfolio alignment with the HOAI strategy. To ensure comprehensiveness, the review covers a sample of projects from the AfDB, EU and World Bank across all four pillars and all HoAI countries. Projects financed by BMZ and FCDO have not been included in the RPPR as it was considered too early for the purposes of the review. The review also examines the effectiveness of the coordination aspect of the HoAI. The RPPR draws lessons to inform the Ministers and DPs on improved design, development and implementation of new and existing regional operations, and also to help improve coordination and policy harmonization activities.

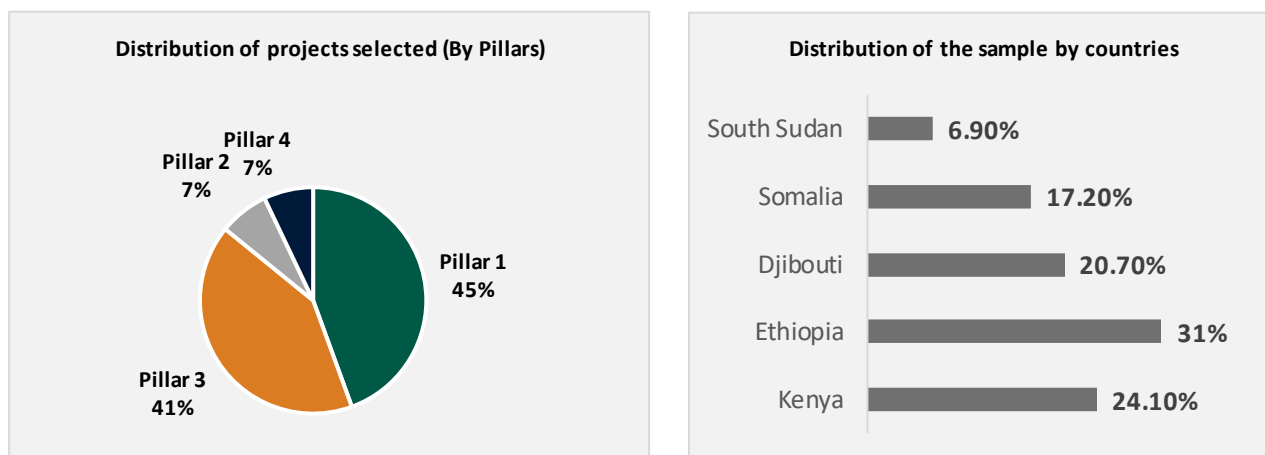
The review converted the AfDB and WB internal rating into the simplified traffic light system below; to highlight progress and grade portfolio performance. It should be noted that the EU does not use such a system.

- *Green* – on track and satisfactory. Represents projects that have met or exceeded expectations in terms of well-performing operations, relevance, efficiency, and effectiveness and can be considered an overall success.
- *Yellow* – moderately satisfactory or moderately unsatisfactory. These projects have achieved some or most of their major objectives but with some shortcomings in performance or projects show early indications of some implementation issues that should be addressed proactively, possibly in the next quarter.
- *Red* – unsatisfactory or highly unsatisfactory projects requiring intervention i.e., projects that have not achieved most of their objectives and have shortcomings or failures in several key areas.



The portfolio performance review looked at 27 out of 119 projects, amounting to **23%** of the portfolio. At least **18%** of the sampled projects received an implementation performance rating of Satisfactory, **56%** were rated Moderately Satisfactory and **26%** were rated Moderately Unsatisfactory or below.

The portfolio review covered a sample of 27 projects across all four pillars and HoAI countries.



Overall, the HoAI portfolio performance remains robust, despite challenging regional and global conditions. The Regional Portfolio across the Horn was not severely affected by the pandemic, the prolonged post-pandemic recovery, lingering geopolitical tensions, and austere financial conditions. The Portfolio distribution among countries is more even and spread compared to earlier years. Earlier HoAI projects were concentrated in countries that joined the Initiative at inception with a stock of bankable projects. However, in May 2024, Ethiopia, Kenya and Djibouti accounted for 31%, 24% and 20%, of the selected portfolio, respectively. Somalia initially lagged due to the lack of bankable projects and its arrears. Following its HIPC completion, Somalia is expected to unlock financing for investment-ready projects and gain access to project preparation support and financing. The World Bank’s decision to maintain the grant status for Somalia for the remaining IDA20 period is a shot in the arm. Recent project approvals and technical assistance are also expected to benefit South Sudan; a member that joined HoAI later. Two members, Sudan and Eritrea remain relatively inactive. Overall, capacity support and handholding remain a vital need across the Horn.

Conduct of the RPPR was based on a set of questions developed to capture the broad and overarching issues that impact on portfolio performance, across sectors and countries. A list of questions adopted by partners were used to gather and assess information reported by concerned project staff. From that, a set of issues were identified, and lessons drawn. Due to time constraint and the limited scope of the review, the findings were not discussed with relevant government partners or other stakeholders. Therefore, the RPPR findings and lessons reported may not be fully representative of the whole universe of HoAI operations. They should, instead, be viewed as top line indicators of trends in the portfolio.

Out of the 119 total HoAI projects, 27 were selected for this review. The following criterion was applied in the selection of projects and programs to be reviewed:

1. Approved after October 2019 (1 WB project approved in 2016 but got additional fund)
2. Approved before July 2023
3. Approved between July-Dec 23, for partial review for effectiveness challenges
4. Availability of information.

RPPR Key Findings

- 1. HoAI portfolio performance remains robust despite regional and global challenges.** Portfolios across the region were not severely affected by a prolonged post-pandemic recovery, lingering geopolitical tensions, and austere financial conditions. Out of 119 active HoAI projects, NONE were canceled due to poor performance. HoAI financed projects, including emergency interventions, were fully aligned with the Initiative's priority pillars, confirming the partnership's relevance and fitness for purpose. Out of the 27 projects reviewed in this RPPR, 18.5% were rated Satisfactory, 55.6% received Moderately Satisfactory and 26% were rated Moderately Unsatisfactory or worst.
- 2. Despite strong overall performance, country level results vary.** Capacity constraints, strenuous reporting requirements, resource scarcity, and compliance with effectiveness conditions impact performance outcomes. The Program to Build Resilience for Food and Nutrition Security in HoA (BREFONs) project is a case in point. Implemented in several countries simultaneously, its performance is rated satisfactory in South Sudan & Ethiopia, moderately satisfactory in Kenya, and unsatisfactory in Djibouti, Somalia and IGAD. The more problematic and delayed operations were generally observed under Pillar 1 in road transport infrastructure. These projects generally involve more complex preparation and conditions for disbursement as well as complex procurement. In some instances, projects have experienced delays at signature or first disbursement due to lengthy internal issues within government.
- 3. Portfolio distribution among countries is changing.** Earlier HoAI operations were concentrated in countries that joined the Initiative at inception with a stock of bankable projects. In May 2024, Ethiopia and Kenya accounted for 28% and 20% of the portfolio respectively. Thus, more than half of the HoAI portfolio is now spread among the other member countries. Somalia temporarily lagged due to the lack of bankable projects and its debt position. HIPC completion is expected to unlock financing for investment-ready projects. Recent project approvals and technical assistance are benefitting South Sudan, a relatively new member of HoAI². In 2024, HoAI partners approved five operations in South Sudan. Of the remaining two members, Sudan is operationally inactive, and Eritrea is presently lagging.
- 4. Timely execution of emergency operations demonstrates HoAI effectiveness.** The emergency operations that responded to the COVID pandemic and Locust invasion leveraged innovative financing through a multi-phased programmatic approach (MPA), where applicable. They also benefited from utilizing IGAD as an implementing REC for regional coordination. The approach allowed the project to reach effectiveness within one month of approval and achieve higher than projected disbursements within two months. It should be noted that emergency operations also benefited from fast tracked procedures.
- 5. Country ownership has improved regional cooperation.** Ownership promoted policy harmonization, alignment of strategy and enhanced performance. There is a High-level ownership at the ministerial level, expressed through periodic ministerial meetings. This

² Member since June 2022.

level of engagement needs to devolve to the operational level by actively engaging local stakeholders early and upstream in the project cycle, from preparation to implementation.

6. **Regional Economic Communities (RECs) involvement is essential** for regional activities and components, policy harmonization, peer learning and knowledge transfers. They advance policy harmonization, facilitate coordinated actions and offer technical know-how. IGAD's coordination of HoAI response to the COVID pandemic and locust invasion are examples of a successfully coordinated regional action. Countries value REC's coordination role and have partly funded their mandate (BREFONS project). Nonetheless, IGAD and EAPP are facing persistent capacity challenges that must be addressed with urgency. In general, policy and implementation capacities of Executing Agencies (PIUs/PCUs/NAs) varies by country and project, with room for improvement.
7. **HoAI countries face a shortage of skilled capacity at all levels**, especially in key specialized areas of Project Management, Financial Management, Procurement, Disbursement, Audit and Safeguards. Lengthy staff recruitment in PIUs has resulted in delayed or sub-standard audit reports, unrealistic annual work plans, incomplete disbursement requests and non-compliant procurement outcomes, adding up to overall delays. Capacity constraint is most pressing in post-conflict and fragile settings, forcing resources to be channeled through third parties (UNOPS/WFP) to fast-track operations.
8. **Where expert capacity is available, retention remains a challenge.** Projects experience high skilled staff turnover—particularly at PIU levels due to various reasons ranging from compensation packages to working conditions. Staff turnovers without proper handover leads to institutional disruptions. The practice of temporarily transferring staff from one government outfit to another to meet effectiveness conditions creates a revolving door which does not benefit overall implementation at the portfolio level.
9. **Delays in disbursing counterpart funds causes short-term financing gaps.** HoAI operations 'financing schedule, including local currency counterpart funds, is agreed to in advance. Liquidity constraints and/or internal procedures occasionally delay the timely release of counterpart funds, creating financing gaps, particularly in infrastructure projects. Although temporary, these gaps impact portfolio performance in areas such as compensation for project affected persons, land acquisition, right of way, etc.
10. **Effective procurement and contract management are early indicator of good implementation.** Approval, effectiveness, and disbursement delays beyond the project processing schedule points to challenges pertaining to project readiness. Infrastructure projects are at times approved, declared effective, and ready for implementation, before they are design ready. Staff recruitment is delayed, and technical studies are incomplete. For projects with large procurement, bidding documents for major works and/or goods are often not launched prior to approval. The Ethio-Djibouti 2nd power interconnector project took almost two years to complete recruitment of the Consulting Engineer.
11. **Financial Management is key to project implementation.** Efficient Financial Management is essential but appears to be a challenge in many projects for various reasons.

FM ratings of the majority of the projects reviewed was Moderately Satisfactory; implying some level of under-performance. This was achieved despite challenging FM capacity which remains different for each project. The level of FM compliance remains weak and has room for improvement. Audit reports are often delayed and qualified. Audit Improvement Plans, often prepared to meet financing conditions, are not properly executed; cash management, budget tracking and record keeping practices need improvement too. Each project having its own FM and procurement guidelines, manuals, and checklists, stretches weak capacity available in implementing agencies.

12. **Two-way coordination between countries and partners is a key feature of HoAI.** However, coordination is often overlooked at the project design stage, as it is considered costly and time consuming. Effective country-partner coordination builds mutual confidence and buy-in and strengthens the voice of funding constituencies in donor countries. Coordination among partners helps reduce transaction and compliance costs. The Ethio-Kenya electricity superhighway is a case in point. A joint steering committee and implementation manual provided for joint preparation, supervision, and experience sharing. By contrast, the absence of a similar mechanism in the current Ethiopia-Djibouti 2nd power interconnector project has led to ineffective coordination between the PIUs and financing partners.

RPPR LESSONS & RECOMMENDATIONS

1. **One of every four projects reviewed was unsatisfactory and at risk, while the performance of others has room for improvement.** Close attention is required to address quality at entry, including design and preparation and perennial implementation bottlenecks affecting the portfolio. Similarly, annual implementation targets must be agreed to accurately reflect country implementation capacity. Ambition must be matched with realism. Where regional projects are carried out in slow and fast implementing countries, project design must allow for slow implementers to learn from the experience of fast implementers.
2. **The three-way partnership among countries, partners, and IGAD,** developed in response to the Covid and Locust emergencies, and the use of innovative financing and implementation arrangements, can be replicated in other operations. New digital projects under HoAI have integrated this approach.
3. **Capacity remains uneven, and addressing capacity constraints is a cross-cutting priority** throughout the region. At all levels and in all sectors, to effectively execute their portfolio management mandate, both regional bodies and national executing agencies require sustained capacity building both as a component of projects and standalone interventions.
4. **Countries may wish to consider a regional approach for building capacity** to train experts in project management, procurement, FM and related fields, and who are fungible across countries and institutions. Countries can designate a regional institution fit for this purpose. IGAD may lead in knowledge exchange and capacity building among HoA countries. This will allow countries to share experiences and learn from one another.
5. **To ensure timely release of counterpart funds, countries can use flexible financing** instruments that allow them to front-load part of the loan/grant, instead of attempting to raise additional financing. Countries not ready to release counterpart funds in sufficient amounts may negotiate the use of loan/grant proceeds and other funding sources.
6. **Project readiness helps in smooth implementation.** Infrastructure projects are often not design-and-procurement ready and advance procurement is often not launched. Countries can ensure readiness and accelerate implementation by using project funds to finance pre-approvals, including detailed design and testing, launch bidding documents, set up PIUs and build institutional capacity. MDTF support for project analytics can also help.
7. **Governments may consider launching an internal readiness checklist** at the level of the finance ministry to verify design, procurement, institutional and safeguard readiness. A readiness verification filter managed by the finance ministry and compiled in the line ministries strengthens country ownership and improves portfolio quality. Technical support may be provided by the MDTF to develop a template checklist for regional use.

8. **Customized regulations and practices strain limited country capacity.** Countries and partners can use the HoAI framework to develop harmonized and standardized FM, procurement and disbursement manuals, procedures, and guidelines for HoAI financing partners. Such standardization should be backed by training and handholding, as needed.
9. As a next step, the review team, through the Secretariat, will meet with each country team to do a project-by-project deep-dive of the issues highlighted in the review and work on a project level time-bound action. The findings in the Review will also be shared with the concerned line ministries and government agencies. Issues raised in this review will also be followed up with the respective country Teams as part of regular dialogue and portfolio monitoring. In some instances, e.g. Somalia, DPs have recruited a consultant to help with portfolio performance and improvement.
10. Concerning the specific recommendations on a regional capacity building, project readiness and harmonization of procedures and practices, the chairman is requested to give guidance, through the Secretariat, on how to proceed with implementing one or all of the recommended actions.

Annex
List of the projects reviewed

Project Name	Partner country	Pillar	DP	Portfolio Rating	Commitment USD million
HoA Gateway Development Project (Kenya: Isiolo – Wajir – El Wak - Mandera)	Kenya	1	World Bank		\$750
Somalia HoA Infrastructure Integration Project	Somalia	1	World Bank		\$85
Horn of Africa Initiative: Djibouti Regional Economic Corridor Project	Djibouti	1	World Bank		\$70.00
2nd Ethiopia-Djibouti Power System Interconnection Project	Djibouti-Ethiopia	1	World Bank		\$55
HOA – Groundwater for Resilience Project	Ethiopia, Kenya, Somalia, IGAD	3	World Bank		\$385
Development Response to Displacement Impacts Project in the HOA Phase II (Ethiopia)	Ethiopia	3	World Bank		\$180
Food Systems Resilience Program for Eastern and Southern Africa (IGAD, Ethiopia)	IGAD, Ethiopia	3	World Bank		\$625
Emergency Locust Response Program	Kenya-Ethiopia-South Sudan-IGAD	3	World Bank		\$207
Emergency Locust Response Project (South Sudan, IGAD)	Kenya-Ethiopia-South Sudan-IGAD	3	World Bank		\$54
Africa CDC Regional Investment Financing Project (Ethiopia)	Ethiopia	4	World Bank		\$150
First Africa Higher Education Centers of Excellence for Development Impact Project (Djibouti)	Djibouti	4	World Bank		\$15

Horn of Africa Kismayo, Lamu and Mogadishu Corridor: (Kenya) Elwak-Rhamu-Mandera Road Upgrading Project	Kenya	1	AfDB		206.55
Multinational: Kenya – South-Sudan Road Section (Lesseru-Kitale & Morpus Lokichar)	Kenya	1	AfDB		197.26
Horn of Africa Djibouti - Somalia Regional Transport Project (Nagad–Loyada/Lowyaddo-Saylac-Borama Road Upgrade Project - Phase I)	Somalia, Djibouti	1	AfDB		64
2nd Ethiopia- Djibouti Power System Interconnection Project	Ethiopia, Djibouti	1	AfDB		81
Eastern Ethiopia Electricity Grid Reinforcement Project	Ethiopia	1	AfDB		122.6
Multinational – Desert-To-Power Initiative East-Africa Regional Energy Project (EAREP)**	Regional (IGAD)	1	AfDB		5.32
Eastern Africa Power Pool (EAPP) Institutional Capacity Building Program**	Regional (EAPP)	1	AfDB		6.68
HoA Digital market integration phase I project	Regional	1	AfDB		8.3
Program to build resilience for food and nutrition security in in the Horn of Africa-BREFONS (176.85)	Regional	3	AfDB		176.85
African Emergency Food Production Facility (K-AEFPF)	Kenya	3	AfDB		66.56
African Emergency Food Production Project-1 (SSEFPF-1) - (AEFPF)	South Sudan	3	AfDB		8.1
African Emergency Food Production Facility Project (AEFPF)	Somalia	3	AfDB		5.28
Skills for Employability, Inclusion and Productivity Project	Somalia	3	AfDB		7.29
Development of the Djibouti Corridor	Djibouti-Ethiopia	2	EU		33.92
COMESA Trade Facilitation Program	Regional	2	EU		5.94
Regional Locust Response	Regional	3	EU		81.62
Collaboration in Cross-Border Areas of the Horn of Africa Region	Regional	3	EU		5.3
TOTAL					\$3,658