



— East Africa

Regional Strategy
2020-2024

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EAST AFRICA REGIONAL STRATEGY

**Promote inclusive and
sustainable prosperity in Africa's
most populated region**

Between 2017 and 2019, AFD reorganised its network around seventeen Regional Offices, with the twofold purpose of decentralising decision-making and pooling expertise and skills. Based in Nairobi, the Eastern Africa Regional Office covers eleven countries: Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Uganda, Rwanda, Somalia, Sudan, South Sudan and Tanzania.

The mission of the Regional Office is to implement the Group's strategy in East Africa, together with the AFD team, the team of Proparco, the Group's private-sector arm, and the Expertise France team for technical cooperation.



The regional strategy was prepared following broad-based consultations and exchanges with AFD's supervisory administrations and the French representations of the countries concerned. It sets out the priorities of France's development policy as defined by the Interministerial Committee for International Cooperation and Development (CICID) and taken up by AFD Group in its Group Strategy 2018-2024, in order to contribute to the achievement of the Sustainable Development Goals and the Paris Agreement.

It also responds to the expectations of the President of the French Republic, as expressed in his 2017 speech in Ouagadougou, that official development assistance be more effective, more partnership-based and in closer contact with the field, along with a stronger evaluation culture.

This strategy is a vector for the **diversification and growth of AFD Group's activity** in the region and is complementary to the existing country strategies for the region.

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1.

**PANORAMA
OF EAST AFRICA**

1.1. DEVELOPMENT CHALLENGES: A REGION OF ECONOMIC OPPORTUNITIES, WITH HIGH POLITICAL AND CLIMATE VULNERABILITIES

The East Africa region presents **two faces**. It comprises a first ensemble that is relatively stable politically and on a sustained growth path, a land of opportunity and innovation, grouping the Ethiopia-Djibouti axis as well as four countries in the East African Community¹ (EAC): Kenya, Uganda, Tanzania and Rwanda. The second comprises countries marked by fragilities, which are mainly political and security-related. Six countries, home to a quarter of the region's population, are considered by the World Bank as "Fragile States" (Burundi, Djibouti, Somalia, Sudan, South Sudan, Eritrea). Inter-communal violence and protracted conflicts have caused the displacement of 15 million people in recent years, including 5 million refugees, most of whom are hosted by Kenya, Ethiopia and Uganda. What is more, the region **borders on the Sahel and the Democratic Republic of the Congo (DRC) and shares stability issues with both these areas**.

Home to more than 351 million inhabitants in 2017, East Africa concentrates **the main bulk of Africa's population**. With a GDP of 315 billion dollars – equivalent to 15% of Africa's total GDP – the economic weight of East Africa on the continent nonetheless represents only half its demographic weight. In fact, notwithstanding its positive dynamics, **the region is facing some major challenges** (cf. Appendix 1): increasing levels of debt, territorial and gender inequalities, food insecurity and malnutrition, pressure on resources exacerbated by **climate change**, conflict situations, deteriorating security in some areas, and corruption. The region is also experiencing high demographic growth, with a fertility rate of 4.5 children per woman and

a median age of under 19 years, which portends a doubling of the population by 2050. This demographic pressure is heightening the tensions caused by inequalities, young people's difficulties in accessing employment, massive urbanisation² and the lack of basic services.

The region, however, can capitalise on its assets and, **over the past twenty years**, it has experienced **the strongest economic growth on the African continent** with a yearly average growth rate of over 5.0%. The region's wealth is based primarily on its natural capital: biodiversity hotspots,³ good quality arable land, numerous catchment basins, minerals (oil and gold), and a high potential for renewable energies (hydro, geothermal and solar power). Although the region is the epicentre of food and nutritional insecurity and its subsistence farming is typically vulnerable to adverse weather events and natural disasters (locust invasions since 2019 in several countries), it is endowed with sufficient natural capital to become a key player in the global agricultural and food system.⁴ Accounting for half of the region's GDP, the tertiary sector is growing, spurred by the expansion of information and telecommunications technologies, finance and tourism. Riding on the dynamism of Kenyan businesses, the region is also spearheading digital innovation.⁵ Private investment opportunities are many, driven by the increasing demand from an emerging middle class and a large market. In particular, EAC is the most economically integrated zone in Africa.⁶ As a result, East Africa reaped the largest share of foreign direct investment (FDI) in Africa in 2018, after North Africa, accounting for 22% of foreign direct investment (FDI).

¹ The member countries of the East African Community are Tanzania, Kenya, Uganda, Rwanda, Burundi and South Sudan.

² Although the region has the continent's lowest urbanisation rate, the pace of urbanisation is also the fastest in Africa.

³ The region harbours three of the planet's biodiversity hotspots: Horn of Africa, the Eastern Afromontane and the Coastal Forests of East Africa.

⁴ According to the African Development Bank.

⁵ Among African countries, Kenya ranks 3rd in terms of Tech Hubs and 1st in terms of innovation capacity, according to the World Economic Forum (2015).

⁶ According to the Africa Regional Integration Index Report, 2016.

1.2. FRENCH PRESENCE AND AFD'S POSITIONING IN THE REGION

1.2.1 A multi-faceted and dynamic French presence

France is indeed present in East Africa, principally due to its diplomatic network, its military contingent⁷ and the number of French companies operating in the region. Although market share is small (around 1.3%), France's trade relations with the region are constantly on the rise. The volume of French FDI remains significant – for example in Kenya, where France is the third largest foreign investor. By capitalising on the added value of French offers, mainly in the transport, water, energy, agriculture, tourism and health sectors, AFD Group will contribute to promoting French economic interests in East Africa.

In terms of official development assistance (ODA), **France is the 8th bilateral donor in the region.**⁸ Three countries (Burundi, Djibouti, Ethiopia) are on the list of priority countries drawn up by the Interministerial Committee for International Cooperation and Development (CICID) and are priority recipients of the aid allocated by the French state (grants and subsidies). Additionally, mindful of the challenges of regional stability and growth, France is resolutely supporting the ongoing political and economic transitions in Sudan and Ethiopia. It is also paying particular attention to resilience factors in the region's fragile states. Lastly, the renewed framework for France-Rwanda relations has resulted in an active contribution to Rwanda's development strategy.

1.2.2 Overview of AFD Group's activities in the region

AFD Group's substantial activity in East Africa is a sign of the denser relations that the Group wishes to establish with the whole of Africa, reflecting those of French diplomacy.

Between 2015 and 2019, the Group approved financing of nearly €3.1 billion, of which €1.8 billion in sovereign loans and €0.8 billion in non-sovereign loans (cf. Appendix 2). The main intervention sectors are infrastructure (energy, urban development, water and sanitation), the productive sector and agriculture. Four countries concentrate over 95% of the financing volumes: Kenya (35%), Uganda (29%), Tanzania (19%) and Ethiopia (14%). **Proparco's operations** for the private sector amounted to almost €412 M over the period. In addition, the **activities of Expertise France** in East Africa focus on the sectors of governance, health (the fight against counterfeit drugs, Initiative⁹ 5%) and sustainable development (support to the Covenant of Mayors for Sub-Saharan Africa; Post-2020 Biodiversity Framework). These activities are mainly implemented within a multi-country perimeter but with a special focus on Djibouti and Ethiopia in view of reinforcing AFD's positioning with the African Union. These activities are mostly supported by AFD funds and European Union financing.

⁷ The French forces stationed in Djibouti (FFDj) form the largest French contingent outside of France, with 1,450 military in 2018.

⁸ Source DAC/OECD. France ranks behind the United States, the United Kingdom, Germany, Japan, Sweden, Canada and Norway. East Africa is the African region that receives most ODA: in 2017, for example, it received 12.7 billion euros of ODA as defined by the OECD classification.

⁹ Facility that aims to provide technical assistance to countries supported by the Global Fund to Fight AIDS, Tuberculosis and Malaria, to improve the effectiveness and health impacts of the funded programmes.

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2.

STRATEGIC PRIORITIES

AFD's strategy in East Africa aims to drive the **diversification of AFD's activity** in the region and has the overarching goal of **promoting inclusive and sustainable prosperity in Africa's most populated region**. It revolves around the **three following priorities**:

- Promote a balanced and sustainable territorial development
- Support economic diversification and integration
- Strengthen social cohesion, protect populations and support young people

2.1. PRIORITY 1: PROMOTE A BALANCED AND SUSTAINABLE TERRITORIAL DEVELOPMENT

The territorial and ecological transition must enable an improvement in living conditions for all and the shift from sprawling urban growth to a denser use of space, from extensive cultivated areas to ecological intensification, and from the excessive consumption of water to optimised and jointly managed uses. The promotion of attractive territories that capitalise on their wealth of natural resources over the long term and are **resilient to climate change** will be a priority for the Group, which will ensure that its approach is inclusive, particularly in terms of gender, and that each activity is **not deployed at the planet's expense**. This priority will result in:

2.1.1 Access to basic services: green energy, water, sanitation, transport, access to digital tools

In the region, AFD is a key player in the water and energy sectors. Its recognised expertise is an advantage that can be leveraged. Although the Group has so far targeted its financing at bolstering productive capacities, it now wishes to step up its interventions to support the **access for all** to basic services – the region's access rates being low (38% of the population have access to electricity and 47% to safe drinking water) – with a special focus on the needs of women and young people. Electrification is a lever of value creation, a key prerequisite for developing the manufacturing sector and a factor for territorial resilience. The Group will continue its interventions to support independent

renewable power producers in the region. It will also seize on opportunities to support electricity interconnection projects discussed within the East African Power Pool. Finally, for communities located far from power grids, the Group will seek to expand access to **a renewable energy source**: development of cost-effective mini-grids for cities and other densely populated areas unconnected to the national grids, and the roll-out of individual **solar solutions** in off-grid areas (West Kenya, West Uganda, Ethiopia).

In the drinking water and sanitation sector, the emphasis will be on financing sanitation infrastructure to complement the longstanding support provided to rehabilitate water supply systems and construct water supply infrastructure. This will have a strong leverage effect not only on **biodiversity protection**, but also on **climate change adaptation**. It will also help to **protect water resources** in water-stressed environments, as well as reduce the prevalence of water-borne diseases that are exacerbated by rising temperatures. In addition to financing infrastructure, AFD will focus on capacity-building and skills-transfer, both of which are crucial for the sustainability of investments.

Finally, AFD will support digital connectivity and the opening-up of territories, as these are economic growth accelerators and vectors of equity. This support will target digital infrastructure projects as well as rail and road projects,¹⁰ **in line with ambitious environmental and social standards**, while also promoting gender equality.

¹⁰ The use of PPPs will be encouraged: French companies have a real competitive advantage in this segment.

2.1.2 Support for investment in sustainable and inclusive cities

Although East Africa has the lowest urbanisation rates of all African regions (an average 27% compared to the continent's 42%), the urbanisation dynamics are stronger than elsewhere (4.6% of urban growth) and concern not only the sub-region's capital cities, but also the secondary cities in countries such as Ethiopia, Kenya, Tanzania and Uganda. This fast-paced urban growth is exerting pressure on access to basic services, with the result that cities are becoming hotbeds of inequalities which are more pronounced than the inequalities in rural areas. Added to these ills are health and environmental issues linked to solid and liquid waste management and air and water quality, as well as the need to **control CO₂ emission trajectories**. France proposes world-class solutions for each aspect required for a sustainable city. Drawing on this expertise, AFD's actions will focus on the following priorities: develop participatory strategic planning tools mainly based on digital technology; finance **low-carbon mobility systems** (via the Mobilise Your City Initiative); improve waste management and urban drainage; support the upgrading and integration of precarious neighbourhoods; bolster access to decent housing for all; and support infrastructure **energy efficiency** (lighting, buildings). AFD Group will grasp opportunities that help further social and women's entrepreneurship in the area of urban infrastructure management (mainly small private operators and other financial innovations).

2.1.3 Natural resources management and biodiversity protection

The region covers arid and semi-arid areas where the issues around access to water are already triggering numerous conflicts. These tensions are on the rise due to a growing demand, the degradation of water bodies in Equatorial Africa (particularly Lake Victoria) and persistent droughts, which are themselves amplified by climate change. The region is also home to major reserves of biodiversity and forests that are under threat even though they provide a wide range of services for local communities and for the fight against climate change. These spaces are areas where rivalries between pastoral, nomadic and farming populations are playing out.

The focus will be set on putting in place frameworks for Integrated Water Resources Management (IWRM), with support from actors such as IRD, CIRAD or the International Network of Basin Organizations (e.g., in the Lake Tanganyika and Lake Victoria basins, or the Nile Basin in coordination with the NBI); on supporting the elaboration of regional policies for the **protection of biodiversity and natural commons** together with regional institutions such as EAC by capitalising on the know-how of Expertise France; on managing terrestrial and marine natural protected areas and strengthening **ecological connectivity**, including at regional scale; on supporting measures for **climate change adaptation**, and on promoting **innovative digital solutions in favour of the environment** (community-based solutions, IT monitoring, etc.). AFD will seek to associate state actors, civil society actors and local populations, and integrate a gender-sensitive approach.

AFD will also support projects that are part of the "One Health" approach, which makes the connection between human, animal and ecosystem health. These aspects are closely interlinked and can cause the emergence of pathogens and diseases that may spark epidemics.

2.2. PRIORITY 2: SUPPORT ECONOMIC DIVERSIFICATION AND INTEGRATION

The purpose of supporting the region's economic diversification and integration is to spur more sustainable and inclusive development. This transformation will, in fact, be key to bolstering value creation and diversifying exports, as it will capitalise on the countries' assets. It will promote the creation of more productive and better-paid jobs. The main levers for this will involve: strengthening the public authorities' capacity to fulfil a regulatory and incentivising role in the economic sphere; creating an enabling environment for private sector growth;¹¹ increasing locally produced added value and extending intra-regional trade. In this optic, the following priorities will be pursued:

2.2.1 Promote the structural transformation of economies by supporting economic actors

Throughout the region, the financing of development through recourse to public borrowing is reaching its limits. The challenge will now be to strengthen States in their role as regulators and economic agents, while also creating conditions conducive to the growth of an efficient private sector.

When it comes to the public sector, the aim will be to support States in moving towards **more effective public governance** by drawing on technical assistance provided chiefly by Expertise France. These actions will be designed to support the public finance reforms initiated by the countries themselves, not only to help greater mobilisation of domestic revenues, which remain low in the region (15% of GDP on average), but also to act on the major bottlenecks that limit the effectiveness of public spending (strategic allocation of resources, implementation and control of expenditure). Special attention will also be paid to improving the management of public debt in order to shore up its sustainability. The actions will also aim to strengthen the State's regulatory role (the shareholder-State, local governments, state-owned enterprises, development banks, regulatory authorities) and the take-up of measures to promote investment (business environment, support for ventures involving public-private partnerships – PPPs) in view of stepping up the private sector's contribution to financing the economy. By further consolidating the regulatory framework, these actions will help to give the dialogue between France and the countries concerned a strategic, rather than strictly sectoral, perspective. More-

over, French experience in the area of economic and financial governance is widely recognised in the countries that are keen to open up to other governance models.

Regarding the private sector, the focus will be on supporting **entrepreneurs, particularly women, and innovation**, and also includes young people. This will mean, for example, taking advantage of the digital dividend by encouraging the emergence of start-ups with a high social impact, and the multiplication of digital ecosystems. Particular attention will thus be paid to professionalising the support structures for innovative entrepreneurship. To facilitate SMEs' **access to financing**, AFD will also work with central banks on setting up frameworks to incentivise financial innovation, while Proparco's efforts will target support for investment funds and financial institutions involved in this segment, echoing the Choose Africa initiative, which aims to accelerate the growth of African SMEs.

2.2.2 Support local strengthening of value chains

Growing demand, particularly in urban areas, opens up opportunities to **create wealth and jobs** for the actors involved upstream and downstream of production activities, especially in the agri-food sector. In order to strengthen **food security** and nutrition at regional level, it is necessary to develop healthy, resilient and sustainable **agropastoral and food systems** that are economically viable and more able to meet demand. A sectoral transformation is needed to move from subsistence farming – characterised by degraded soils, the absence of irrigation, limited access to inputs, and inadequate levels of mechanisation – towards productive family farming that is **climate-change resilient** and **environment- and bio-diversity-friendly**. This will thus ensure access to a healthy diet for all. AFD will bolster infrastructure in rural areas (roads, irrigation) and support multi-sector public policies **promoting the productive sector** (standards for quality and agricultural practices, price stability, infrastructure construction in rural areas, traceability, etc.) based on an approach that integrates gender-equality and environmental issues. To complement AFD-funded activities designed to structure value chains, Proparco will provide financing for private-sector stakeholders across the whole of the value chain: processing and manufacturing activities (cotton in Tanzania, sugar cane industry in Kenya and

¹¹ The business environment is very unfavourable in the region, with the exception of Kenya.

Uganda, textiles in Ethiopia, etc.); logistics actors; inputs suppliers; and facilitators of market access (wholesalers, aggregators, etc.). Attention will be paid to how these activities impact the environment. Finally, following a rationale of reinforcing agropastoral systems – the cornerstone of value chains – the focus will be set on research and the scaling-up of **agro-ecological solutions**; higher agricultural performances through digital innovations (forecasting tools, online training platforms, etc.); access to credit for family farmers and livestock farmers; support for animal health programmes; the ongoing fight against crop pests (locusts and others); agricultural training and advice; and the enhancement of existing data on agricultural regions and land use.

2.2.3 Densify regional integration

The vitality of the private sector and the flow of foreign direct investment, notably French, will depend on the size of markets and the dynamism of trade between the countries in the sub-region.¹² The efficient functioning of a market as vast as that of East Africa will result in stronger growth and job creation. More specifically, if trade between the Horn of Africa and the EAC countries is more interlinked through the development of the Kenya-Ethiopia corridor, this will enhance the region's attractiveness, contribute to the good performance of locally established companies,¹³ and provide underpinnings for the implementation of the **African Continental Free Trade Area (AfCFTA)**. With this in mind, AFD Group will support initiatives designed to increase trade within the region, once it has ensured that these are **compatible with the SDGs and the Paris Agreement**. AFD will mainly target: infrastructure projects to facilitate access to markets (national, regional, international); programmes to enhance the business environment (preparation of norms and standards, stronger competition rules, operationalisation of conflict-resolution mechanisms, etc.); and projects to bolster companies' competitiveness (creation of logistics clusters, support for cooperatives). These actions will be implemented in partnership with regional actors that have the relevant expertise and in coordination with regional institutions such as EAC, IGAD¹⁴ or any other regional economic community (SADC¹⁵, CEPGL¹⁶, etc.). Reinforcing the practices of the main **regional institutions** will also be core to AFD's interventions.

¹² Currently, national interests and the tendency to set up non-tariff barriers are hampering growth of EAC. As a result, intraregional trade declined by 31% between 2013 and 2017.

¹³ For France, this involves Peugeot, Décathlon, Yves Rocher, BGI Castel and Oréal, for example.

¹⁴ The Intergovernmental Authority on Development (IGAD), which includes 7 countries: Djibouti, Ethiopia, Kenya, Somalia, Sudan, South Sudan and Uganda.

¹⁵ Southern African Development Community.

¹⁶ Economic Community of the Great Lakes Countries.

2.3. PRIORITY 3: STRENGTHEN SOCIAL COHESION, PROTECT POPULATIONS AND SUPPORT YOUNG PEOPLE

Sustainable development would be unachievable if the aspirations of individuals and peoples were not taken into account and if the tensions operating within societies were not understood. The East Africa region is characterised by particularly low human development indices, large social divides, including gender inequalities, and population displacements that are drivers of fragility and destabilisation.

The Group has set social cohesion and the protection of populations as the third of its main objectives for the region. It will seek to develop a quality health and education offer for the most vulnerable population segments, with **particular attention to women and to the reduction of gender inequalities** in the region. It will support access to employment and financial inclusion, with specific focus on inclusion of the most vulnerable and marginalised populations. The Group will support the institutions and initiatives that aim to encourage solidarity, foster coexistence between the different social groups at the national level, and **facilitate the integration of displaced populations**. These aspects will be tackled in the following ways:

2.3.1 Access to decent employment, through training and financial inclusion

This priority particularly targets young people, who are the main victims of unemployment throughout the region. This is partly due to young people's lack of qualifications, given that the education system does not provide them with the cognitive, technical and social skills necessary to ensure their employability.

AFD will thus work to foster the emergence of training systems aligned on labour market needs. On this count, particular attention will be paid to promoting guidance for young girls and women towards vocational training and science and technology training. Consistent with the priority placed on agri-food value chains and in connection with the rural exodus of young people from farming families, particular attention will be paid to vocational training schemes covering the domains of agriculture and agro-industry.

In addition, emphasis will be placed on supporting universities that perform well in terms of employability, so as to increase the number of admissions and the quality of their curricula, as well as on financing training centres and centres of excellence in partnership

with French educational structures. More-over, private-sector financing will be sought. In the field of higher education, Proparco will focus on operators proposing high-quality education and affordable tuition fees and whose critical size is able to meet the underserved demand of the middle classes. It will also encourage the development of more inclusive strategies and policies for these structures. There will also be a focus on **women's economic empowerment**, in partnership with the donors working on **women's entrepreneurship**. Additionally, so as to foster the growth of income-generating activities, AFD will support inclusive financial institutions that facilitate access to financial systems for vulnerable or excluded populations. The Agency will also support digital finance models that are likely to promote access to financial systems for excluded populations.

2.3.2 Access to healthcare services and social protection

In view of the large imbalance between the supply and demand for health services, which is aggravated by the lack of public resources, AFD will focus on strengthening healthcare systems by financing private actors whose critical size allows for economies of scale. This will make it possible to strengthen affordable healthcare provision, as well as create innovative health platforms that can reduce inequalities in accessing healthcare (e-health, access to medicines, etc.). Particular attention will be paid to issues of sexual and reproductive health, with the twofold objective of supporting demographic trajectories and **promoting gender equality**. AFD will also support the reinforcement of testing and accreditation systems to fight against counterfeit drugs (10% of drugs in Africa), while Proparco will work to ensure the affordability and quality of the healthcare provision it finances. Finally, as a large fraction of the population works in the informal sector, AFD will support national **social protection** policies and inclusive insurance schemes (universal health cover, social safety nets, etc.). French expertise on these different subjects will be mobilised, particularly through Expertise France, by capitalising on existing good practices in the region (extension of the universal pension scheme tested in Kenya, food security support programmes in Ethiopia, etc.). The Group will also seek to develop an integrated approach to health risks by including matters of preventive health and hygiene awareness in the projects implemented, particularly those involving access to safe drinking water and sanitation.

2.3.3 Support to the integration of vulnerable populations and socially inclusive activities

This is a region not only marked by major population displacements linked to drawn-out conflicts and extreme climate events, but also situated at the crossroads of several migratory routes (the intra-regional route, the route to southern Africa, the route to the Gulf countries). As a result, AFD will commit to reinforcing the factors of **resilience for vulnerable populations** and, in particular, work to put in place actions that both facilitate the integration of displaced populations in the fields of employment, training and health, and also improve the regional governance of migrations.

Furthermore, AFD will operate as a local partner in the region and will support vectors for social diversity such as sport and culture: as factors of integration, these help to create social cohesion and exchanges between opposing groups. **It is important that all segments of society be able to benefit from these activities.** The aim will be to integrate sustainable multi-sports facilities into urban development projects, especially in underprivileged neighbourhoods, and also make "sports" components part of educational support programmes, particularly for early school leavers or young people in difficulty, as well as young girls. Under AFD's Cultural and Creative Industries mandate and also capitalising on the know-how of Expertise France, support can be provided to projects that assist cultural entrepreneurship, reinforce the capacities of actors in the cultural sector, and support cultural policies linked to the development and promotion of the French language.

2.4. CROSS-CUTTING CHALLENGES AND ACCELERATORS

In line with its priority actions, AFD will ensure that each of its interventions integrate various cross-cutting challenges. Consistent with its 100% Social Link commitment, the Group will ensure that all of its activities contribute to **strengthening social cohesion** between populations and between territories, and **promoting gender equality**.

The Group will also ensure that each financing approved is **100% compatible with the commitments made under the Paris Agreement**, that is to say, that it contributes or at least does no harm to the efforts deployed for sustainable, low-carbon and resilient development. It will work to maximise the **climate benefits** of each of its interventions, both **in terms of climate change mitigation and adaptation**.

2.4.1 The pivotal role of digital technologies and innovation

Technological and particularly digital innovation are drivers of value creation and enable the design of new sustainable development solutions. AFD Group intends to promote the emergence of **innovative solutions** in its activities by building on the region's fertile seedbed of entrepreneurship, notably in Kenya and Rwanda. AFD Group will **leverage** the power of **digital technology to accelerate the achievement of its strategic objectives**, notably by capitalising on the rich experience of Expertise France. It will integrate a digital dimension into all of the sectors in which it operates, and will provide support more specifically for **digital technology related to climate issues** (green techs) and social issues by proposing, for example, to help bridge the region's lag in matters of civil status and digital identification. To foster Internet access for all, it will aim to **reduce digital divides** by promoting universal connectivity through reinforced digital infrastructure. It will also contribute to developing a **single digital market** in the region by supporting the definition of ambitious regulatory strategies and frameworks.

2.4.2 A resolutely partnership-based approach

AFD aims to build **each of its operations on a partnership-based approach**,¹⁷ with a view to increasing the effectiveness and impact of its operations. As the third donor to have adopted a regional strategy in East Africa, after USAID and the African Development Bank, AFD Group will seek to work in synergy with the interventions of regional financial partners. For this it will bring into play its extended range of tools, the plurality of the Group's offer and the implementation of a continuum in Expertise France-AFD-Proparco activities, as well as the wealth of French expertise and a strong diplomatic network.

Partnerships in the operational realm will be built with major actors identified in the region, such as regional organisations (IGAD, EAC), private-sector representatives with a regional dimension (Trademark East Africa, professional associations), civil society organisations and other think-tanks.

2.4.3 Cross-border challenges

The geographic situation of the region is quite specific as it comprises the **Great Lakes region**, which shares a **common border with the Sahel**, and as it is connected to the **Indian Ocean countries** by part of its coastline. As a result, this calls for more substantial exchanges with the sub-region's cross-border structures. The aim would be to coordinate a response to cross-border issues (for instance with the Lake Victoria Basin Commission, the Indian Ocean Commission, the ECGLC, the Lake Chad Basin Commission, the Economic Community of Central African States, the Nile Basin Initiative, etc.).

¹⁷ The partnership reflex will mean systematically looking for complementarities with our partners on our common strategic priorities (experience-sharing, advocacy, co-financing, studies, etc.)



3.

FINANCIAL PERSPECTIVES AND INTERVENTION MODALITIES

AFD is attentive to the borrowing capacity of its counterparties and, as a development actor, it refuses to contribute to their over-indebtedness. In recent years, the very strong debt dynamic in several of the region's countries points to a gradual decrease of interventions based on sovereign loans, which have so far been the main financial tool mobilised. AFD's broad range of instruments nonetheless offers alternatives: it will be necessary to adopt an **educational approach** with respect to governments as well as **capacity-building** for state-owned enterprises in order to develop the potential for non-sovereign loan financing.

As for support to the private sector, the use of **blended instruments** based on a Group approach (AFD grant, European Cooperation instruments, Green Climate Fund) will help to reinforce the impact of operations and to support and leverage private investment for initiatives with a higher

risk profile. Equity investments using own funds can also be accelerated in the region and efforts will be deployed to attract private investment: support for regulatory reforms, support for PPP ventures, implementation of credit enhancement schemes and public payment guarantees, etc.

Furthermore, AFD will work to enhance the quality of the **public policy dialogue** with national governments and, when relevant, back this with **policy-based loans** to accompany structural reforms initiated by the governments.

Finally, the need to improve project execution, and thus the level of disbursements, will lead the Group to adjust its intervention modalities. As such, particular attention will be paid to maturities and the structuring of projects submitted to the Group's decision-making bodies.

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APPENDICES

APPENDIX 1. REGIONAL CHALLENGES

1.1 Stability to be consolidated

The region is experiencing a series of transitions: in addition to the peace process initiated between Eritrea and Ethiopia, Sudan's political transition, spurred by the revolution, represents a real challenge for the stability of the region, but also for the bordering Sahel region. Moreover, the conflicts mainly in South Sudan, Ethiopia and Somalia, as well as on the western flank of the region (DRC, Chad), are the permanent drivers of major flows of displaced populations. The region thus has nearly 5 million refugees and 10 million internally displaced people (including 3 million in Ethiopia). South Sudan alone accounts for 4 million displaced people. The challenge for the hosting countries (mainly Kenya, Ethiopia and Uganda) is to accommodate the displaced without compromising their own stability, in a context of underfinanced humanitarian programmes.¹⁸ Moreover, the region is a hotbed for armed radical Islamism (the terrorist group Al-Shabaab), which poses a serious security threat. Finally, due to its coastline, the Horn of Africa constitutes a strategic priority at the intersection of commercial maritime routes connecting Europe to Asia via the Suez Canal, and the Middle East to Southern Africa via the Indian Ocean, which means it is at the heart of the inter-state rivalries.

1.2 Growth models to be supported

The robust growth recently observed has mainly relied on public investments aimed at carrying out major infrastructure works, all of this being financed by often unsustainable foreign debt given the weak mobilisation of domestic resources. The opening-up of the Ethiopian economy has also positioned the country as a world champion in terms of economic growth.¹⁹ Nonetheless, the debt dynamic of the region's countries appears strong. Only two countries continue to present a low risk according to a debt sustainability analysis (IMF ranking): Uganda and Tanzania. The emergence of bilateral lenders who are not members of

the Paris Club, notably China, has substantially contributed to this indebtedness. Thus among the African countries with outstanding debts to China, Ethiopia and Kenya are the 2nd and 3rd most heavily indebted, behind Angola.²⁰ Yet, the needs for external financing are very significant in East Africa (in both the EAC zone and the Horn of Africa): the current account deficit averages around 7%, which is one of the highest on the continent (against an average 5% for Africa). This means that a priority for the region will be to finance its development and maintain growth rates.

1.3 A demographic dividend that is deepening inequalities

The increase in GDP per capita over recent years has enabled a sharp reduction in poverty. Yet, poverty is still predominant as 40% of the region's population is still living under the poverty line.²¹ GDP per capita (€849) is much lower than the African average (€1,537). Likewise, growth has not gone hand in hand with sufficient job creation to reduce the very high level of unemployment, particularly for young people, which reaches 24% in a country like Kenya. However, in a context where the median age is under 19 years, it is crucial that the region take advantage of its demographic dividend by enabling its youth to access the labour market. Moreover, the Human Development Indicators (HDI) are particularly weak, with world rankings ranging from 142 for Kenya to 187 for South Sudan, out of 190 countries. Finally, although the region is relatively homogeneous in terms of income inequality, with an estimated Gini coefficient of 0.4, this state of affairs barely hides the more pronounced gender inequalities (forced marriages, early child-bearing, genital mutilation and sexual violence are common). This is also the case at a territorial level given that these inequalities²² are increasing in urban areas, against a backdrop of highly dynamic urbanisation, which accentuates the difficulties experienced by the more vulnerable social classes in accessing basic services.

¹⁸ Uganda hosts 1.2 million refugees, Kenya 471,000 and Tanzania 349,000 (Norwegian Refugee Council, 2019).

¹⁹ Around 10% per year on average over the past ten years.

²⁰ According to the China-Africa Research Initiative (CARI).

²¹ Apart from Kenya and Djibouti, 9 countries in the region are classified as Low-Income Countries by the World Bank, and only Kenya is not on the United Nations Least Developed Countries list.

²² According to the Gender Inequality Index developed by the United Nations.

1.4 Natural resources to be leveraged for greater food security

The region is richly endowed with natural resources (arable land, catchment basins, renewable energies), but remains highly vulnerable to adverse weather events that exacerbate cyclical disasters and threaten soil productivity and biodiversity conservation. Persistent droughts are accompanied by declines in energy production and loss of food stocks (crops, livestock), which leads to an inflation of food prices. The invasion of locusts in East Africa has disastrous consequences and aggravates the food crises. The region is thus an epicentre of food insecurity and malnutrition.²³ Yet, it is a highly agricultural area as the sector

accounts for 31% of GDP compared to 16% for sub-Saharan Africa. However, the low productivity of the agricultural systems is a major challenge. Cereal yields are low²⁴ and the growth of agricultural productivity hovers around 1%, well below the population growth rate of 2.5%. The lack of opportunities in rural areas, where 73% of the region's population lives, is encouraging young people to migrate to urban areas. This is raising concerns about who will take over the agricultural activities as the rural working population is aging. The pastoral communities, representing 10–20% in the Horn of Africa, are particularly vulnerable and often exposed to violence, population displacements and illegal side activities.

²³ In Ethiopia, Kenya, Rwanda and Tanzania alone – countries for which data are available – 50.5 million people suffered from malnutrition over the period 2017–2019, according to the report on the state of food security and nutrition in the world, published jointly by the FAO, IFAD, WFP, UNICEF and WHO.

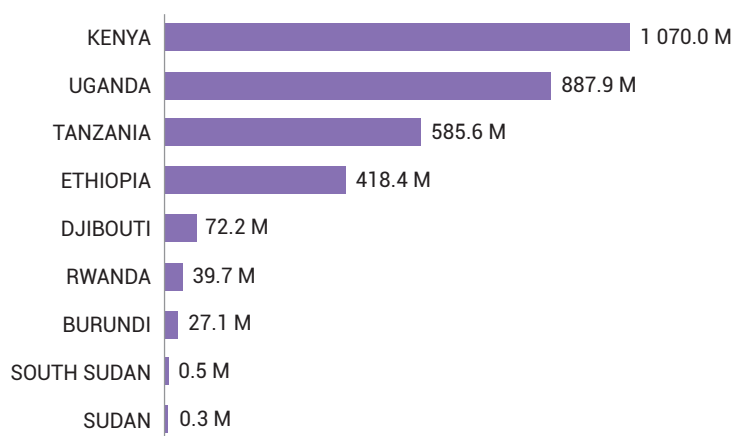
²⁴ 1.4 t/ha in East Africa compared to 8.6 t/ha in North America and 2.4 t/ha in Latin America.

APPENDIX 2. AFD GROUP'S ACTIVITY, 2015–2019

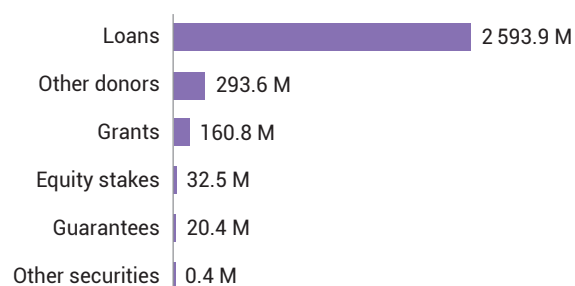
Overview of the Group's activity over the period 2015-2019

Total approved 2015-2019	€3,102 M
Of which PROPARCO	€412
Total approved with climate co-benefits	€1,203 M
Total approved with gender co-benefits	€620 M
Total state cost mobilised	€241 M
<hr/>	
Total payments	€1 181 M
Including PROPARCO	€228 M

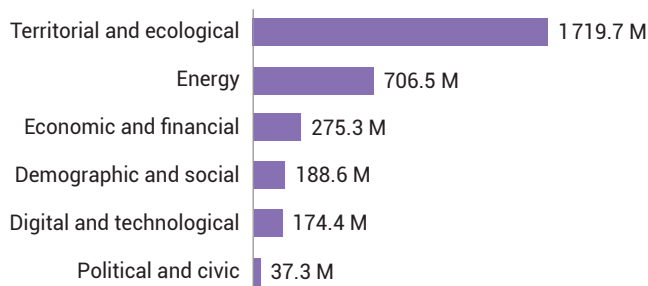
Group approvals by country, 2015–2019 (€)



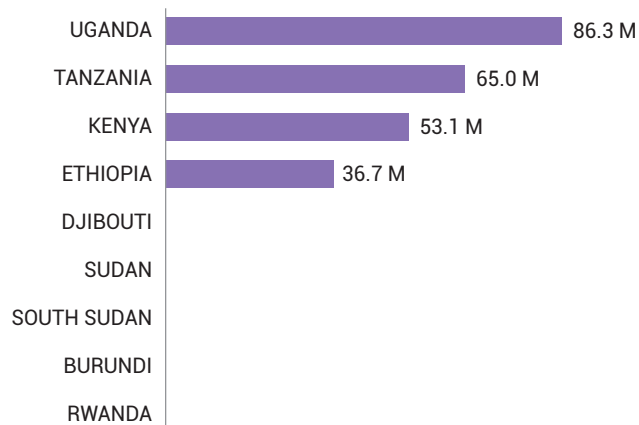
Group approvals by instrument 2015–2019 (€)



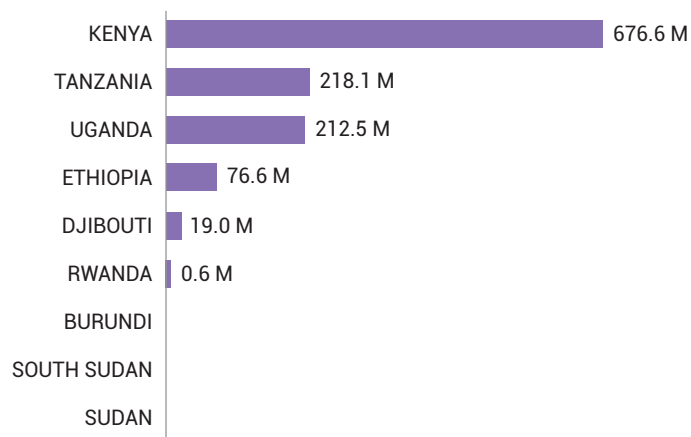
Group approvals by "transition" 2015–2019 (€)



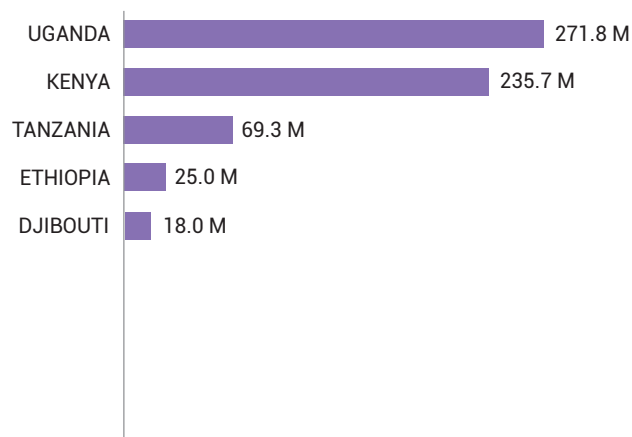
State cost mobilised 2015–2019 (€)



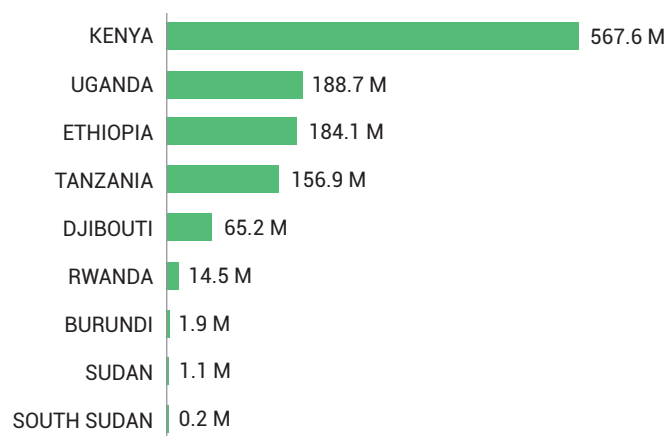
**Approvals with climate co-benefits
2015–2019 (€)**



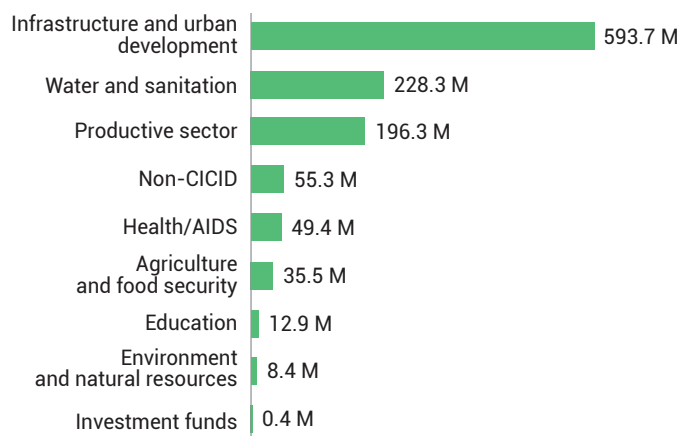
**Approvals with gender co-benefits
2018–2019 (€)**



**Group disbursements by country
2015–2019 (€)**

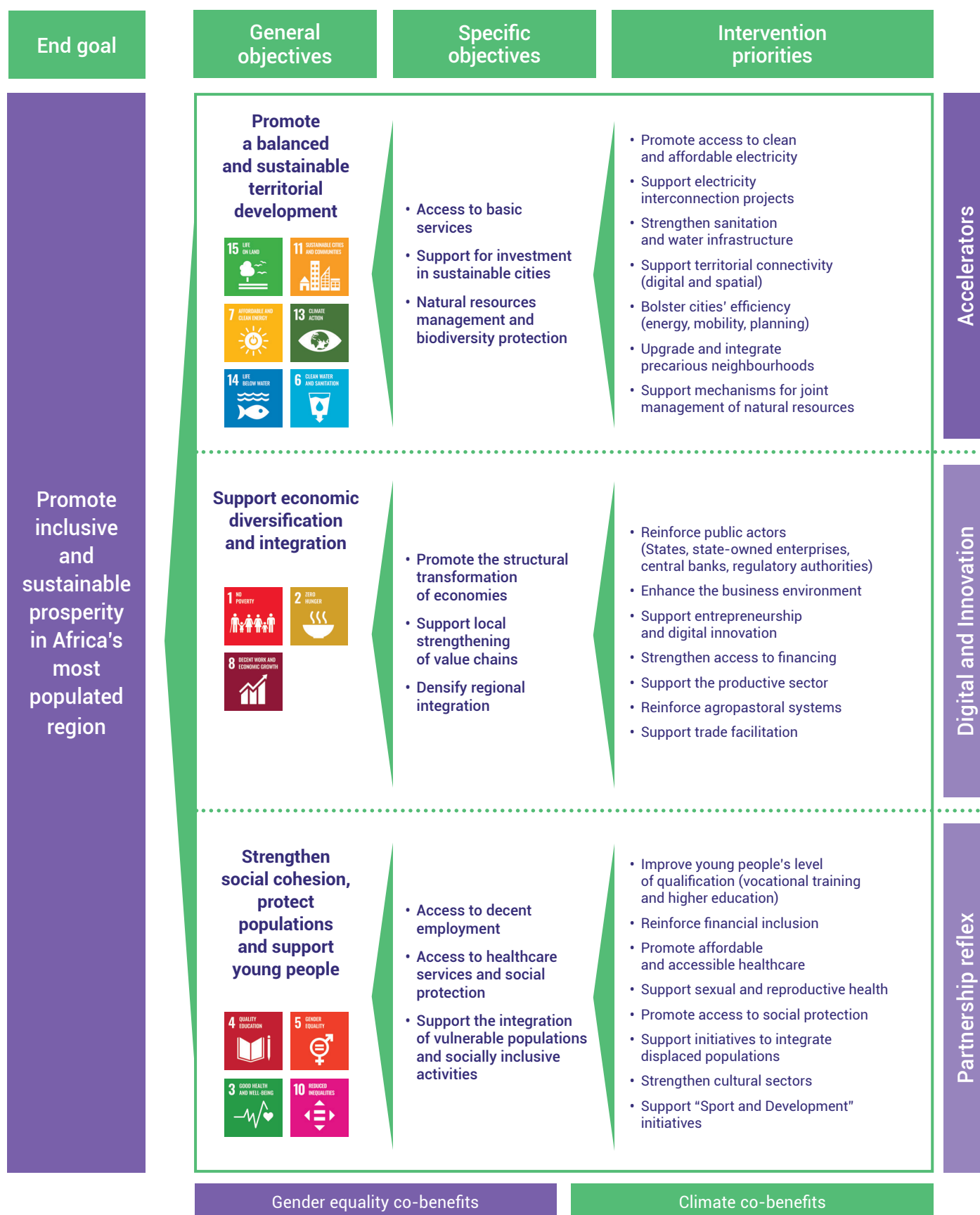


**Group disbursements by sector
2015–2019 (€)**



Multi-country projects are not accounted for in this appendix.

APPENDIX 3. LOGICAL FRAMEWORK FOR THE EAST AFRICA STRATEGY



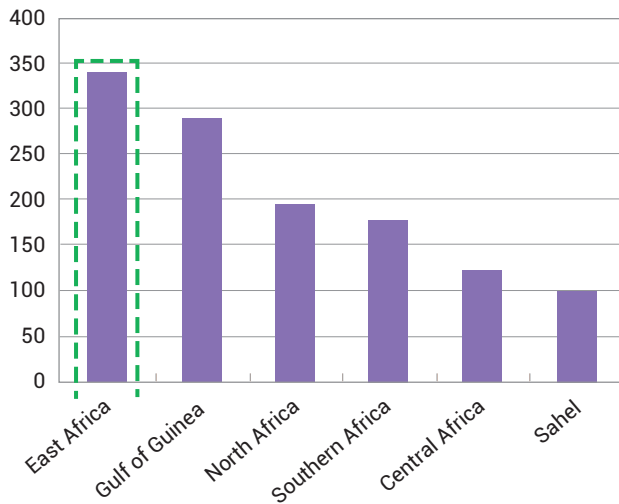
APPENDIX 4. KEY COUNTRY INDICATORS

	Rwanda	Tanzania	Kenya	Uganda	Ethiopia	Burundi	Djibouti	Somalia	Sudan	South Sudan	Eritrea
Population (millions) (Source: United Nations, 2017)	12.2	57.3	49.7	42.9	105	10.9	1	14.7	40.5	12.5	5.1
Fertility rate (Source: United Nations, 2015-2020)	3.8	4.9	3.8	5.5	4.0	5.6		6.1		4.7	4.0
GDP/capita (\$) (Source: IMF/WEO, 2017)	772	1034	1695	706	873	312	1988		1123	243	980
Poverty rate (Source: World Bank/WDI, 2017)	63.2	67.9	43.4	38	30.7	81	18.9		19.8		
Real GDP growth (Source: IMF/WEO, 2017)	6.1	6	4.8	4.5	10.9	0	6.7	1.8	3.2		5
Public debt (% GDP) (Source: IMF/WEO, 2017)	40	37	54	40	54	52	32		122	63	131
Doing Business (ranking out of 190) (Source: World Bank, 2019)		144	61	127	159	168	99	190	162	185	189
Gini Index (Source: WB/WDI)	0.45	0.38	0.41	0.43	0.39	0.39	0.44		0.35	0.46	
% access to electricity (Source: WB/WDI)	29.3	32.8	56	26.7	42.9		51.8	29.9	38.5	8.9	46.7
% access to drinking water (Source: UNICEF, 2017)	56.7	50.1	58.5	38.9	39.1	55.9	76.9	40.0	58.9	50.4	19.3
% city growth rate (Source: World Bank, 2016)	2.8	5.3	4.3	5.8	4.7	5.7		4.2	3	4.2	
Share of agriculture (% GDP) (Source: WB/WDI, 2016)	29.3	29.2	32.1	23.7	34.8	36.4	1.9		31.2		
Share of industry (% GDP) (Source: WB/WDI, 2016)	16.4	24.9	17.5	20.7	22.1	15.1	15.7		2.3		
Share of services (% GDP) (Source: WB/WDI, 2016)	47.3	39.2	44.7	47.6	36.5	43.7	71.8		46.5		
Millions of food-insecure people (Source: OCHA, 2017)			0.7	0.4	8	2.6	0.3	1.6	6.2	4.4	
% of food-insecure population (Source: OCHA, 2017)			0.05	0.04	0.07	0.26	0.22	0.28	0.07	0.47	
Gender Inequality Index (Source: UNDP, 2018)	85	130	137	126	121	114			139		
HDI (ranking out of 189) (Source: UNDP, 2018)	158	154	142	162	173	185	172		167	187	179

APPENDIX 5. COMPARATIVE INDICATORS FOR AFRICAN REGIONS

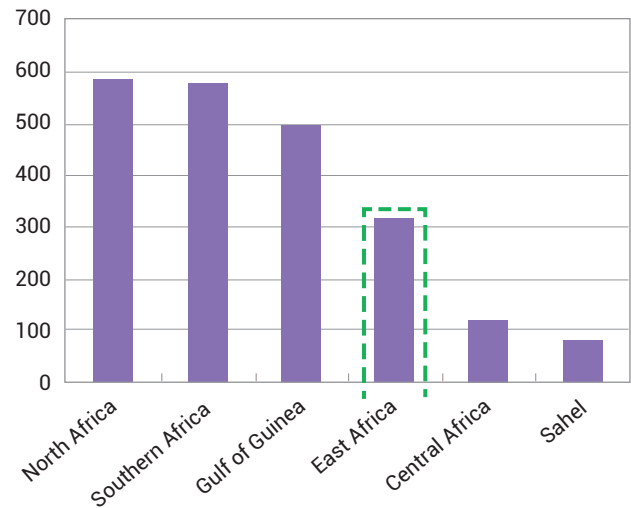
(2017, unless specified otherwise)

Population size (millions)



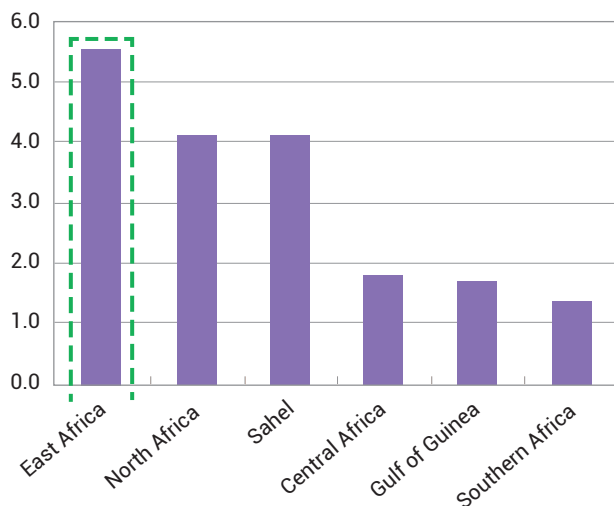
Source: World Bank/WDI

GDP in value (USD billions)



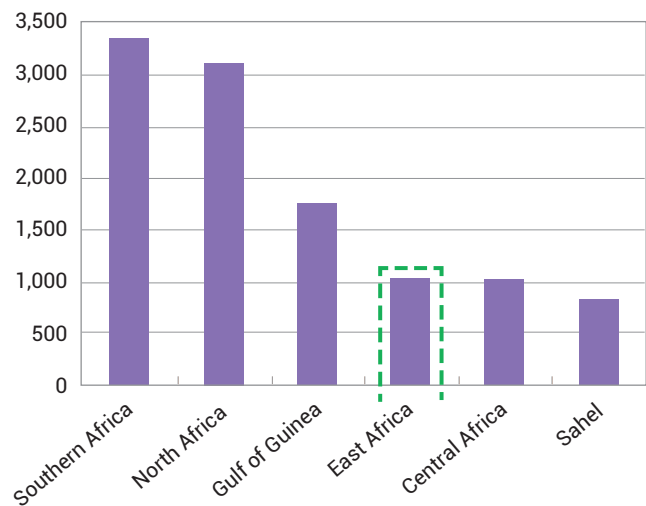
Source: IMF/WEO

Real GDP growth (%) average 2015–2017



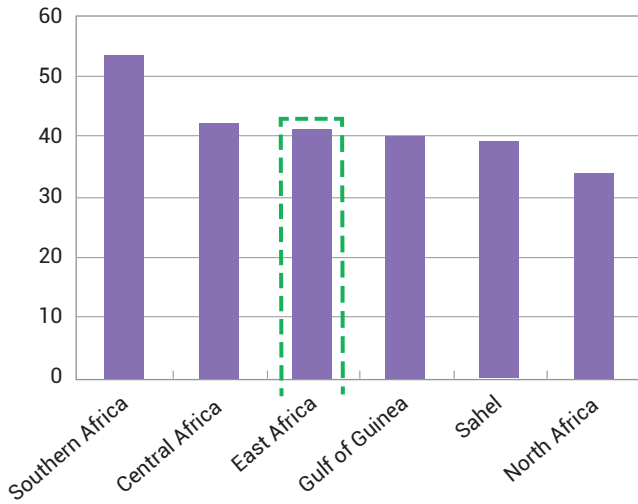
Source: IMF/WEO

GDP/capita (USD)



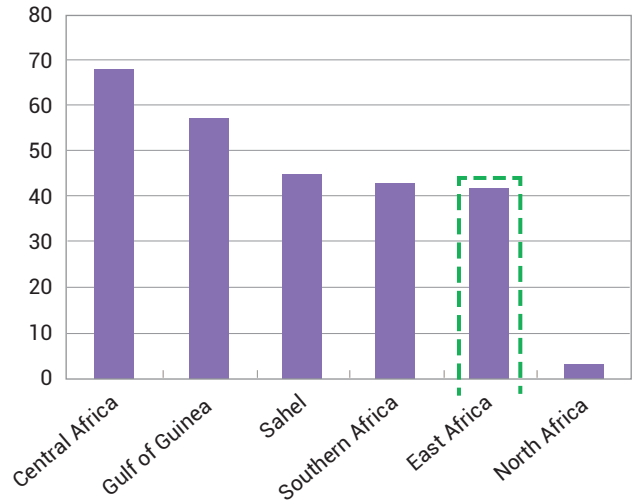
Source: IMF/WEO

Gini Index



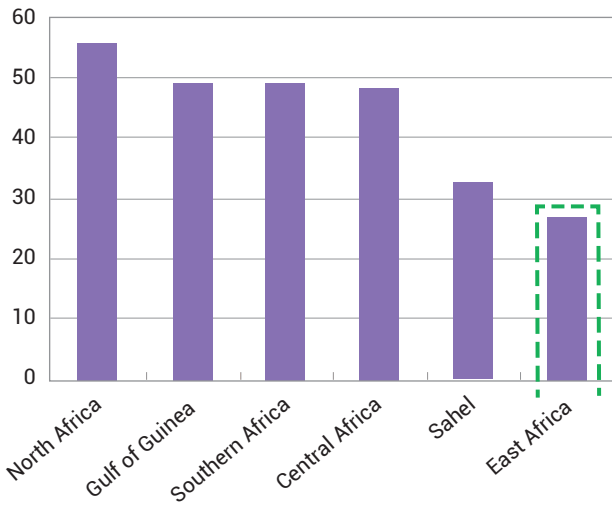
Source: World Bank/WDI

Poverty rate (%)



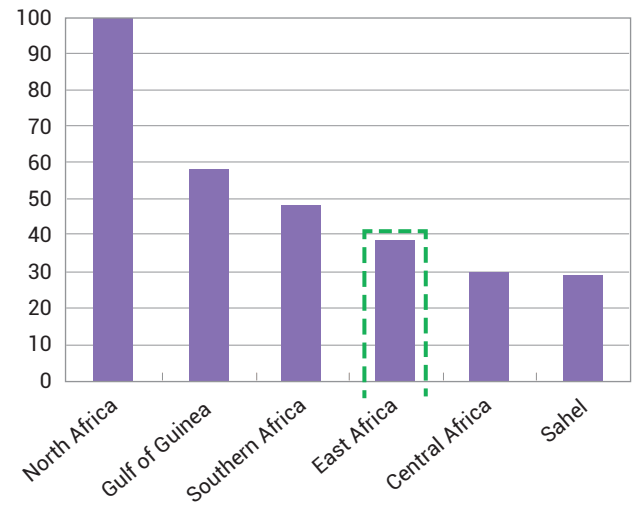
Source: World Bank/WDI

Urbanisation rate (%)



Source: World Bank/WDI

Access to electricity (% population)



Source: World Bank/WDI

ACRONYMS AND ABBREVIATIONS

AfCFTA: African Continental Free Trade Area

AFD: Agence Française de Développement (French development agency)

CICID: Interministerial Committee for International Cooperation and Development

CIRAD: Centre de coopération internationale pour la recherche agronomique pour le développement (French agricultural research and international cooperation organization)

DRC: Democratic Republic of the Congo

EARO: Eastern Africa Regional Office

EAC: East African Community

ECGLC: Economic Community of the Great Lakes Countries

FDI: Foreign direct investment

GDP: Gross domestic product

HDI: Human Development Index

IFAD: International Fund for Agricultural Development

IGAD: Intergovernmental Authority on Development

IMF: International Monetary Fund

IRD: Institut de recherche pour le développement (French national research institute for development)

IWRM: Integrated Water Resources Management

NBI: Nile Basin Initiative

SADC: Southern African Development Community

SDGs: Sustainable Development Goals

SMEs: Small and medium-sized enterprises

USAID: United States Agency for International Development

WB: World Bank

WEO: World Economic Outlook

WFP: World Food Programme

WHO: World Health Organization

What is AFD?

Agence Française de Développement (AFD) Group is a public financial institution that finances, supports and accelerates transitions towards a more just and sustainable world. As a French overseas aid platform for sustainable development and investment, we and our partners create shared solutions, with and for the people of the global South.

Our teams are active in more than 4,000 projects in the field - in the French overseas departments and some 115 countries. They strive to promote health, education and gender equality, and are working to protect our common resources – peace, biodiversity and a stable climate. It's our way of contributing to the commitment France and the French people have made to achieve the Sustainable Development Goals. Towards a world in common.

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