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CONCEPT NOTE ON THE CREATION OF AN INTERNATIONAL SOLIDARITY FUND FOR IGAD REGION (ISFIR)

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Etienne Cracco

Christian Ghymers

IRELAC

For the last fifteen years, the Horn of Africa and the IGAD region had to face several major crises, drought in the region, terrorism, Yemen war, South Sudan crisis, Somalia.... All these crises have generated unforeseen challenges that have threatened peace and stability in the region but also funneled resources to social and economic challenges linked to every events creating major turmoil in the region. The present crisis is forcing IGAD region to look into a mechanism that will help its Member States to implementing an emergency system that could absorb partly but efficiently the social and economic costs due to unforeseen external events. The cooperative process necessary to attract external resources and to generate mutual benefits bigger than any single national development bank or fund, constitutes a significant improvement in the governance of the IGAD member states as well as a major building block in their integration process based upon a regional identity. This learning-by-doing for generating a regional value-added should transform the IGAD into an ambitious example of development through regional synergies and mutual benefits generating dynamic effects on the different countries as well as for the other Regional Economic Communities of the African Union.

After the immediate actions of coordination and priority decisions imposed by the present emergency situation, this cooperative Fund would become by steps a new form of regional bank providing both development bank services and macroeconomic coordination incentives for ensuring the convergence process for meeting the goals of African Continental Free Trade Area and the Agenda 2063.

The present concept note is addressing only the first step of a systemic coordination by creating an emergency solidarity fund, but should be read bearing in mind the potential of the evolutionary innovative tool resulting from a win-win game momentum generated by the first step: responding to the unprecedented crisis of COVID-19 and its socio-economic consequences by a fast cooperation between IGAD member states.

1. Introduction: the context of the present double crisis

The global crisis overwhelming the world is not only a terrific health threat, but also another kind of Pandemic in financial and economic areas. Both aspects create an unprecedented depression by combination of supply and demand shocks: supply-chain disruptions and demand cuts triggering a vicious spiral i.e. supply-demand doom loop creating a Keynesian depression combined with a global liquidity crunch.

Such an historical breakdown produces monstrous damages but opens also a window of opportunity for systemic improvements all the more that traditional recipes won't suffice for getting out safely.

Letting aside - in this first step - the necessary lessons to draw from the past mistakes both in African countries and in the advanced economies, IGAD region must react by formulating its own adequate initiatives for meeting the new challenges and resisting to the coming disasters. In contrast with the disastrous cacophony shown at this moment by the most advanced countries that react on their own in a primitive return to simplistic nationalist actions, even in the EU, the Horn of Africa, in coordination with the other Regional Economic Communities (REC) forming the pillars of the integration plan of the African Union, should demonstrate its own ability of cohesion to respond to the double external Pandemic aggression of COVID-19 and its consequent global financial drought which are not their direct responsibility. Such a response should be organized at sub-regional and regional levels, but IGAD could take the first initiative and open a path for strengthening its own Integration for facing the crisis and so attracting the required resources from outside.

2. The need for a systemic upgrading of IGAD in economic and financial domains

For IGAD, it is an important chance to use the present common challenge for levelling-up its integration tools and improving its capacity to speak with a single voice, inside and outside the sub-region, being so able to fulfil better its mandates by completing its architecture, in order to be in condition not only to resist to the present crisis, but rather to respond in a proactive way to the challenges of getting the resources for accelerating its development.

Indeed, IGAD as one of the eight Regional Economic Communities (RECs) recognized by the Abuja Treaty and the African Union as a pillar of the African integration process, is the less structured in economic integration, as shown this table, with neither effective Free Trade Area nor of course, more advanced stages in regional and political integration:

Table 1: Ambition and implementation timelines of RECs

RECs	Date of Establishment	FTA	Customs Union	Common Market	Monetary Union	Politican Federation
AMU	1989					
CED-SAD	1998					
COMESA	1994					
EAC	2000 ^a					
ECCAS	1983					
ECOWAS	1975					
IGAD	1998					
SADC	1992					

Source: AfDB (2014)

Notes: Achieved (green), in progress (orange), planned (blue), and not planned (white).

a EAC was first established in 1967, disbanded in 1977 due to internal conflicts among the member countries and reformed in 2000.

This lag with respect to other African RECs is explained by the degree of priority of the objectives of peace and security in the Horn of Africa, which focused all the attention of IGAD up to now.

However, the African Continental Free Trade Area (AfCFTA) signed by 54 of the 55 members of the African Union, requires that the participating RECs harmonize their plans and actions in order to implement the African single market and the Agenda 2063.

Therefore, the conditions and crisis context provide the possibility for IGAD to claim for a systemic improvement through the creation of a Solidarity Fund allowing to kill three birds in a single shot:

- to face the emergency needs created by pandemic and natural catastrophes by attracting internal and external resources,
- to ensure a fast progress in the citizen's ownership and identity of the sub-regional dimension under IGAD banner by showing its effectiveness, and
- simultaneously to make a quantum leap in integration and coordination, meeting so the goals of the IGAD as well as its own part in the Agenda 2063, becoming a method or a model for the other RECs inside the African Union.

3. Institutional justification

From an institutional point of view, there are ample possibilities because the IGAD Agreement is sufficiently broad and provides legal foundations. Indeed, considering that Member countries agreed in the IGAD founding treaty that this Authority is mandated to:

“assist efforts of Member States to collectively combat drought and other natural and man-made disasters and their consequences” (Art. 7 -d) and to “harmonize macro-economic policies and programmes in the social, technological and scientific fields” (Art. 7-a), as well as “delivering timely assistance to people in distress and of alleviating human suffering. In this regard, Member States shall facilitate the movement of food and emergency supplies in the event of man-made or other natural disasters from surplus of deficit areas” (Art. 13A – k), with the ability to “Develop such other activities as the Member States may decide in furtherance of the objectives of this Agreement” (Art. 7 – k);

recalling that Executive Secretary of IGAD is entrusted to *“initiate measures aimed at promoting the objectives of the Authority”* (Art. 13 – a),

IGAD may immediately decide the set up an **“International Solidarity Fund for IGAD Region (ISFIR)”** for organizing in a first emergency step the common response to the present and future pandemic or natural disasters and their economic and financial consequences in a timely manner. This emergency first step must be a systemic improvement with respect to the present situation and existing procedures. This requires the immediate set up of a crisis management structure at the IGAD level in coordination with an integrated member states crisis management structure, upon which the ISFIR could build up its intervention strategy and concrete actions in the member states. Indeed, this essential requirement allows to provide a credible value added with respect to existing multilateral institutions or national structures, and is therefore indispensable for convincing national authorities and public opinions as well as the key external donors. Therefore, the ISFIR must start by an institutional step giving to the IGAD a specific coordination mandate in case of deep crisis for organizing with the ISFIR the “regional emergency action plan” from the respective member states “emergency national plan - ENPs”. The pre-requirement is therefore to decide at IGAD level that each member states sets up immediately their own crisis management structure, their task being first to identify the critical issues and priorities from each local situation and inventories of stakeholders and available resources. With these bottom-up information, each national emergency structure gives a mandate to one of its key-representative to delegate for participating to the establishment of the “regional emergency action plan” at IGAD level with the ISFIR, which acts as a collegial body deciding the key-priorities, the main scenarios and the allocation of the resources. Such a pre-planning work will need to be permanently updated, and would become the backbone of an efficient Solidarity fund for the region able to show a convincing systemic progress able to tackle the problems better than otherwise. In particular, the ISFIR experts and the key-national delegates have to realize an aid mapping of financial, technical, human, and logistic resources at the bilateral-regional-African-Multilateral levels as to match the crisis potential with the international and regional aid potential on an emergency basis. The complementary institutional modalities are presented in the following section 4.

This new Fund, in a second step, once the present pandemic effects would be tackled, while maintaining a permanent tool for unforeseen events, would focus more upon integration by selecting key-projects in accordance with the AfCFTA and the regional programmes coordinated inside the process of the Agenda 2063. Indeed, drawing upon its Articles 7 – a, 7 – c and 7 – k of its Principal Agreement, ISFIR would become a key-instrument in the coordination of the integration priorities, including macroeconomic policies of its members by providing incentives for ensuring the convergence of national policies, in full respect of subsidiarity principles.

In a third stage, the Fund could also consider developing additional functions depending upon its own momentum as well as the calendar and effective progress in the Agenda 2063 towards a common policies and even a common currency by sub-regions or at the continental level as proposed by the African Union.

In its **Extraordinary Summit held on 30 March**, the IGAD Heads of State and Government took already several dispositions for formulating an IGAD Regional Response Strategy to pandemic diseases particularly COVID-19. Among these resolutions, they propose to establish an IGAD Emergency Fund for the control of pandemic diseases and the strengthening of health systems in the region and to

coordinate their capacities of response to the crisis as well as their calls to the international community. The experience shows that the reaction time of the international community to our regional damages is too slow and has an impact to our regional development capacity.

Therefore, it is urgent to prepare as soon as possible the Terms of Reference for selecting experts able to prepare a complete project for creating and organizing the ISFIR (the International Solidarity Fund for IGAD Region), and for developing the possibilities and feasibility of the three successive steps.

4. Basic elements and structure of the International Solidarity Fund for IGAD (ISFIR)

The study should cover the concrete dispositions for creating an IGAD regional Fund addressing directly the two first steps: 1) emergency actions, coordinated at IGAD level, for mitigating the effects of COVID-19 on populations and their economic, financial and social impacts; and 2) pro-integration investments with a regional value added in priority areas.

- 4.1. Due to the urgency and gravity of the double crisis (health and economic activity), the time constraint is decisive and the Fund must be in condition to start working almost immediately for coordinating national measures and being active in a few weeks. As explained before in section 3, the ISFIR starts working at IGAD level in a collegial system of coordination of different “national emergency plans” which identify the concrete gaps or bottle-necks between existing means and needed demands, for setting and calibrating the “regional emergency action plan”. Therefore, it has to be built from existing structures, financial resources and human capacities in close connection with multilateral and bilateral technical assistance. However, the highest levels of professional qualification and technicity must be respected. Progressively, the Fund will improve its means and own human capital. Therefore, it should be temporarily integrated inside the IGAD secretariat although benefiting from an official independence from the Secretariat but fully accountable to the IGAD Assembly, the Minister Council and national Parliaments; it should start with a core group of few technicians and experts from national central banks, national development banks and regional + multilateral development banks, plus some temporary experts with ground experiences from emergency assistance.
- 4.2. Its institutional structure should be innovative in order to provide very strong professional credibility from the start taking on board that classical development bank model does not work well and that it is crucial to attract external funding since the beginning. The basic principle is independence management controlled by the results, with agreed objective indicators, transparency and external audit controls, with remunerations in proportion of the performance. This means to prevent politicians or national governments to control the management of the Fund which however remain fully accountable to member states and their parliament scrutiny as well as public opinions and national press. The Fund should enjoy a supranational status. A specific formula needs to be studied and proposed drawing upon experiences; therefore, the Board composition should be mixed between professionals among who the Executive Director of the Fund as chairman, representatives from each national central banks, representatives from multilateral and bilateral main donors, private sector representatives and the Secretary General of IGAD. Member states control is ensured through a General Assembly to which professional experts and auditors will report on regular basis; national parliaments could send missions of expertise on specific cases
- 4.3. Its staff should be exclusively professional selected by concours and upon merits; promotion only decided by the internal rules and professional hierarchy; no national quota should be imposed.

- 4.4. The starting capital is composed from quotas transferred from member states/national central banks, in proportion of GDP, plus multilateral and donors' subscription, plus, in the future, institutional investors. Capital should be remunerated once operations on regular track after the emergency situation.
- 4.5. Decisions should be collegial and based upon one member, one vote, not on quota; in case of disagreement, a specific process of mediation should be invented, with transparency guarantee and appeal formula to the Council of Ministers
- 4.6. Additional resources should come from the emergency loans from IFIs and international organizations (IMF, WB-IDA, UN, EU, WHO, etc.) plus grants from NGO and bilateral donors. IMF can provide to its member states, two emergency financing instruments—the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) — that the new IGAD Fund could take charge by delegation of IGAD members. These facilities allow IMF members to receive very quickly financing to respond to large natural or health shocks, without being submitted to traditional IMF conditions i.e. without the need to have a full-fledged IMF program in place, and benefitting from one-off payments as an urgent balance-of-payments rescue. Already \$50 billion available via these IMF's rapid-disbursing emergency facilities, on the basis of 50% of the individual member quotas at IMF:
- RCF has \$10 billion at zero interest terms for low-income countries, has a grace period of 5½ years, and a final maturity of 10 years; RCF is accessible to low income members, which have no arrears with IMF and World Bank, on track to have a debt sustainable, that faces urgent balance of payments needs, and that is pursuing appropriate policies to address the crisis.
 - RFI is subject to the same financing terms as the Stand-By Arrangement (interest rates are currently about 1½ percent), and should be repaid within 3¼ to 5 years. RFI excludes those emerging economies with high level of reserves or steady access to the financial markets, or existing IMF precautionary facilities. Are also excluded those without financing gap, with no adequate policy against the crisis, or with arrears or unsustainable existing debt.

Furthermore, the ISFIR could propose to its members to negotiate with IMF, WB and other creditors, the possibility to get a conditional mandate for playing the role of IMF in the monitoring of the disbursements and fulfilments of conditions, acquiring progressively credibility for even being the go-between and the technical assistance for its members for bargaining the conditionality in the “letters of intent” for getting concessional loans from IMF. This decentralization of IMF role is of course an objective for the second and third steps of the ISFIR. This system would permit a better ownership of conditionality and adaptation of the local realities, and would give authority to ISFIR in front of its respective countries and their governments.

- 4.7. Different Instruments composing the ISFIR range of actions: in the first step of emergency operations, three main categories, (i) an intervention facility and (ii) a crisis facility, (iii) guarantees to firms and SMEs.
- Intervention facility addresses to restore the damages provoked by the crisis as to accelerate a return to normality and stimulate socially and economically the region affected by the crisis: for example, restore the transportation system, improve the health system, needed/or restore infrastructure, implement a monitoring system of the migratory movements and sanitary criteria ...

- Crisis facility serves to bridge and support organizations and institutions from a disaster situation up to a normal one (mobilizing technical elements, organize a social communication system, have access to key technical, financial and human resources....
- Credit guarantee preventing collapse of private sector output and employment, especially for SMEs

Such activities will be developed and implemented through the national development bank of the member states (or another organization identified by the member state) and monitored by IFSIR.

4.8. The first step will focus on identifying the different local crisis-issues and bottle-necks for organizing a fast and efficient the response both to the health crisis (sanitary and social safety-net, infrastructure supports) and to the output drop (financial supports to banks, corporate and SME/micro self-employed combined to public demand for organizing key-collective goods as education, security, crop and seeds furniture, solar energy, internet connections etc...)

4.9. In the second step, after taking the most urgent actions in health systems and for fighting the depression effects and financial distress, the ISFIR should dedicate resources for accelerating the region integration according to agreed priorities taken in the framework of the IGAD programmes, the AfCFTA objectives and the Agenda 2063 (namely the seven aspirations and the five objectives of the first plan 2014-2023). The credibility of the ISF professional management would ensure the capture of important external funds as well as associated private investments and borrowing from international markets, directed to high profitability either directly for the shareholders of the ISFIR, or by synergy for member economies and the associated public/private investors who could join the projects as associated partners. The ISF could even open its capital to institutional investors, and generate attractive yields for financing additional regional projects. It should be a benefitting institution for its members, generating synergies and additional resources for IGAD.

This IGAD initiative will fit perfectly the “African Marshall Plan” proposed by the last EU Commission. Furthermore, IGAD could also join the voices for asking to G-20 and IMF a massive issue of SDR or even the transformation of IMF into the still missing Multilateral Lender-of-Last-Resort able to create costless resources when global liquidity is under stress¹, and dedicating these liquidity to funding emergency and sustainable investments in LDCs and emerging economies. This would sustain global demand and would increase global potential output in a global win-win game.

5. Proposal of fast expertise in a two articulated phases

The urgency of the situation does not allow to use the standard norms of such an expert mission and study. Therefore, the proposal needs for two intertwined reports in a single study but through two separate budgets:

1. An immediate coordination between the IGAD Secretariat, the ISFRI and the national representatives for fixing the regional emergency plan from each national emergency

¹ See Ghymers, C., 'Whatever it takes' in times of pandemic & financial shocks: There exists an efficient “monetary vaccine” against the lethal virus of the coming global liquidity crunch, *IRELAC Policy Brief paper*, 21 March 2020

structures that IGAD has to require from national authorities; the purpose is to analyze how to spur the monitoring, identifying, and assessment of the emergency measures already taken by national authorities and agencies, in order to make the ISFRI able to take the best decisions for emergency actions. The study has to precise how the embryo of ISFRI will work inside the IGAD secretariat in order to win time in this first step. The modalities of coordination between the respective national structures and stakeholders will be formalized in order to get quasi-immediately an inventory of available expertise, competences and available versus needed resources for facing each local crisis situation. It is also the fastest and best way to attract external resources by acting at regional level. Also this allows to discover, analyze, and assess the capacities and the potential difficulties and obstacles to the building of the ISFIR; therefore, this urgency-phase provides the necessary inputs for the second part of the study;

2. The technical mission that will elaborate in details such project proposal that will embody the following elements
3.
 1. IFSIR Mission and Objectives
 2. IFSIR Governance, statutes, organization
 3. Relationship with Member States, IGAD Secretariat and External organization
 4. Funding: 1-Capital 2-Intervention funds 3-Crisis funding coming from Member States, International Financial Institutions, Regional and International Organizations, Bilateral funding, International NGO's , others ...
 5. Basic principles of the manual of operations with criteria of intervention and cooperation with the National Development Bank of every member State
 6. Activities
 7. Strategic steps and precise calendar for launching IFSIR

Such a double mission assumes that IGAD would take all the institutional dispositions allowing the first step to start i.e. to set-up an IGAD emergency structure, to require from member states to establish their own national emergency plans, and to receive the mandate to coordinate the design of the regional emergency plan. The mission could take a maximum of three months of consulting to a team of five international and regional experts (international lawyers, experienced staff of international financial organization with an African experience, a former director of an international and regional organization).

