The stabilisation of LDCs’ export earnings.
The impact of EU STABEX programme


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ABSTRACT As part of the Lomé Convention, the STABEX programme is one of the instruments of the European Union’s development policy. Its objective is to reduce the instability of the agricultural export earnings of the developing countries which signed the agreement. By working on a commodity-by-commodity basis, this paper provides an empirical evaluation of the effects of the financial transfers disbursed by the EU. The results obtained are substantially different from those by other authors because it is shown that STABEX does have a positive impact on the sectors in which the drop of export earnings occurred. Furthermore, it is argued that the delay concerning the payments in favour of the African, Caribbean and Pacific countries (henceforth ACPs) influences the effectiveness of STABEX, even if no conclusive evidence has been found to support the widely shared opinion that the relationship between these two variables (impact of the transfers and their delays) is negative.

1. Introduction
The shortfalls of the agricultural export earnings of ACPs are partially compensated by the STABEX (French acronym for STABilisation des recettes d’EXportation), which was laid down in the Lomé Convention, the co-operation agreement established between the EC-9 and 46 (now 70) ACPs, in 1975. As for the economic effects generated by the EU compensatory financing system - i.e. the redistribution of income between different countries, the allocation of the transfers within the recipient country and the stabilisation of actual export earning time series - this analysis examines only the effects of the disbursements on the stability of the export earnings. This is why the first two aspects of the financial flows from the EU to the ACPs are typical of any international financial aid to LDCs, whereas the last effect is specific to STABEX, which was set up because the EU believes that ACPs’ export earnings variability has a negative effect on economic growth. In addition, in most of the relevant studies on STABEX, the question of measuring its effects has been approached along national related export revenue lines rather than a commodity-by-commodity process. Consequently, the analyses so far attempted have largely ignored the impact of STABEX on each funded sector and, in effect, it would appear that no attention has been paid to evaluating the real goals of the EU scheme. When the rules of operation of the policy are disregarded, it would be easy to underestimate the impact which the system might have on agricultural exports from the ACPs. These are the main reasons for doing research in this area. Furthermore, another reason for considering why it is useful to analyse the stabilising effect of STABEX deals with the peculiarity of the policy, which is the only export stabilisation scheme working on a commodity-by-commodity basis.

This paper draws on an empirical analysis of a sample of all countries receiving STABEX payments and considers all the agricultural products funded over the period 1975-1993. Section 2 briefly outlines the rules of operation of the scheme and emphasises its goals. By surveying part of the relevant literature on international export earning guarantee systems, Section 3 looks at the reasons why many authors reach negative conclusions regarding the effects of STABEX. Section 4 deals with the aim of this study and the methodology used in the
empirical analysis, the results of which are presented in Section 5. A final section draws the conclusions.

2. The STABEX programme: a brief overview

The STABEX programme for compensating unexpected falls in export earnings has been a constant feature of successive Lomé Conventions. Its objectives have remained fundamentally the same over time. They have been expressed by Lomé IV (article 186.1) in the following way:

With the aim of remedying the harmful effects of the instability of export earnings and to help the ACPs to overcome one of the main obstacles to the stability, profitability and sustained growth of their economies, to support their development efforts and to enable them in this to ensure economic and social progress for their peoples by helping to safeguard their purchasing power, a system shall be operated to guarantee the stabilisation of export earnings ... derived from ACPs' exports to the Community or other destinations ... of products on which their economies are dependent and which are affected by fluctuation in price or quantity or both these factors.

This article is very important because it avoids any misunderstanding about the goal of STABEX. It is clear that the EU and ACPs want to stabilise the earnings of some agricultural exports from each ACP to the EU market or elsewhere, because exports stability is considered beneficial for their economies as a whole. EU and ACPs hope that the primary effect of STABEX is the stabilisation of the export earnings and, therefore, the reduction of the negative effects related to instability. Behind the establishment of STABEX there is the belief that there is a negative correlation between export earnings variability and economic growth. In other words, the EU has accepted the validity of the argument against export instability, although economists in this field have not reached a consensus on the hypothesis that export instability damages economic growth. A report by the Commission of the European Community (1981) supports this argument, on the grounds that export instability impedes the supply of foreign currencies necessary to the ACPs to import capital goods. This makes investment planning difficult and, consequently, discourages the creation of domestic capital. In a later work (Commission of the EC, 1984), the EU Commission points out the difficulty of programming growth and economic development when export earnings are unstable. It should be borne in mind that some ACPs are dependent on one export commodity [(i.e., in 1993, coffee still represents almost 90% of Burundi’s registered exports and more than 30% of Cameroon’s). Other examples include cocoa in Ghana (70%), Ivory Coast (28%) and Sao Tomé and Prince (40%), copra in Western Samoa (more than 35%) and Kiribati (22%) and groundnut in Senegal (23%)] and any drop in the international price of these products causes a reduction of the export proceeds, with catastrophic effects on the domestic economies. A similar opinion is expressed by the World Bank in its 1983 report and in FAO (1996, p. 25).

In pursuing its objective to remedy the harmful effects of the instability of export earnings, STABEX has established rules for funding important sectors in ACPs economies which have suffered a substantial drop in the level of export revenues. The scheme is activated if, in the year preceding that of application, the exports of an eligible product represented at least 5.5% of total export earnings from an ACP to all destinations (art. 196 of Lomé IV). This condition is called “dependence threshold” and it was “devised to ensure that the system
keeps close to reality and to make it possible to give an advantage to the ACPs that need it the most" (Commission of the EC, 1984, p. 38).

The qualifying criterion behind the fluctuation threshold states that an ACP can claim compensation if, during a calendar year, the exports to the EU market (or to all destinations, where this is specified) of any STABEX-product are at least 6% below the reference level. At the moment, the reference level is equal to the average export earnings of the six calendar years prior to the one of application, minus the two years with the highest and lowest figures (art. 197.2 of Lomé IV). Up to 1989, the reference level corresponded to the average of export earnings in the four calendar years preceding the year of application.

3. Two approaches to analysing STABEX: commodity-by-commodity vs. overall exports

The literature on the effectiveness of STABEX comes to the conclusion that the stabilising impact associated with the transfers paid by the EU is negligible. This section will attempt to survey the rudiments of some factors involved in explaining STABEX performance and, in particular, it deals with the delays concerning payments to the ACPs and the fact that STABEX functions on a commodity-by-commodity basis. It does not consider the issues which regard the scarcity of financial resources and how the beneficiary ACPs use the funds received.

As stated in the Lomé Convention, each ACP can claim compensation in advance and receive the transfers during the year of shortfall itself. Actually, the ACPs have rarely used this opportunity, because of the difficulty in elaborating the monthly trade statistics to be submitted to the Commission (Lim D., 1991; Ravenhill J., 1984), so that the STABEX rules determine the regular payment of transfers in the year following the one in which the shortfall of the export earnings occurs. So, the conclusion that the impact of STABEX can either be stabilising or destabilising is correct. The effect, evidently, is biased by the level of export earnings in the year following the year of application.

With respect to the commodity-by-commodity approach followed by STABEX, it is useful to point out that in the extensive literature on the stabilising impact of STABEX, the analyses have generally been based on the total export earnings of the country. This is perhaps because in this way the authors obtain results which can be compared to those given by studying the IMF-CCFF system. The working of STABEX justifies the attempts to clarify whether the EU-ACP agreement tries to stabilise the national export earnings or the export earnings of each product. If the stabilisation of overall export earnings is the main purpose of STABEX, a problem arises: given the commodity-by-commodity approach of the scheme, it would be very difficult, if not impossible, to stabilise the national export earnings when only a few products are funded (in many cases the number is very small), and/or whether their value with respect to total export earnings of the country is marginal. In other words, it is hard to believe that STABEX stabilises the total exports of a country just by working on a single product or on a limited number of products. Herrmann, raises this issue when he says "that a stabilising effect on the earnings of the ACP exports to the EU for one particular product does not necessarily mean a complementary stabilisation of the country's total export revenue" (Herrmann R., 1982, p. 8). This means that only a large proportion of the sustained STABEX-products over total exports guarantees the stabilisation of overall export earnings. On the other hand, the view indicating the stabilisation of the export earnings of each funded sector as the main goal of STABEX would seem more valid. This is the EU official position and, although, shared by many authors it does not seem to have ever been tested.
In addition, the STABEX stabilising effect has been evaluated by considering the trade flows from each ACP to the rest of the world\textsuperscript{11}, but, again, there seems to be no justification for such an approach, when in fact, the EU gives financial support on an ACP-EU export flow basis\textsuperscript{12}. To base the analysis of the effect of STABEX on the total ACP exports to all destinations is not particularly useful, except for the few ACPs receiving STABEX funds for shortfalls in their exports to the rest of the world (Burundi, Cape Verde, Comoros, Ethiopia, Guinea Bissau, Leshoto, Rwanda, Solomon Islands, Swaziland, Tonga, Tuvalu and Western Samoa). This is so because most of their national export revenues do not come from trade with the EU (art. 189.3 of Lomé IV) and with respect to these countries it is correct to analyse the STABEX effect by considering the exports of each product to all destinations.

To sum up, there are two arguments against the analysis of total export earnings in order to investigate the stabilising effect\textsuperscript{1} of STABEX. Firstly, STABEX effects on a particular product depend on the performance and importance of the other products not covered by the system and of STABEX-products for which no compensation has been received. It is difficult to think that STABEX generates any effects on the export earnings associated to these products - at least in the short run - and clearly, in these cases the STABEX effect could not be completely evaluated. Secondly, STABEX has been assigned goals which it does not have - the stabilisation of total export earnings from each ACP to all destinations (see i.e., Herrmann R., Burger K. and Smit H.P., 1993; Lim D., 1991) and, consequently, the STABEX effect has not been clearly verified.

4. Data and methodology

This study evaluates the impact of STABEX based on how the system actually works. This implies that the empirical analysis is based on the nominal export earnings of each and every agricultural product receiving STABEX payments since 1975. For each STABEX product and for each ACP an index of instability is calculated by considering the exports in value, with and without STABEX transfers, to the EU market (or to all destinations, if appropriate) over the period 1973-1993\textsuperscript{13}. Next to the commodity-by-commodity analysis, total export earnings from each ACP to the EU or elsewhere have been also considered. This has been done to assess the results obtained by working on a commodity basis and to allow for comparisons with the results achieved in other studies.

The analysis is based on two different groups of ACPs, derived from the 51 ACPs which received STABEX funds during the period 1975 to 1993 (the entire group of ACPs is called ACP\textsubscript{51}). The two sub-groups are called ACP\textsubscript{39} and ACP\textsubscript{12}. The acronym ACP\textsubscript{39} indicates the 39 ACPs that have obtained STABEX compensation by virtue of the performance of their STABEX-product exports to the EU market, whereas ACP\textsubscript{12} indicates the 12 ACPs that have received STABEX funds on the basis of the performance of their STABEX-product exports to all destinations\textsuperscript{14}.

Export instability is considered to be an "unpredictable" deviation over an observed time series with respect to its trend. Therefore, in order to work on a de-trended data basis much attention has been dedicated to specifying the trend function employed to estimate the residual variability in export earnings: each method of measuring trend generates a different set of residuals and, therefore, a different measure of instability. The literature concerning the relationship between export instability and economic growth shows how sensitive the results are in using different trend functions. In this field, the widely shared view is that the functional form used to eliminate the trend must be deducted directly from the actual performance of each time series\textsuperscript{15}. The trend factor has been determined by estimating (using OLS method) a
linear, a quadratic, a log-linear and a log-quadratic trend function and by selecting the one showing the best fit.

Export earnings instability is evaluated by the index proposed by Cuddy-Della Valle (1978). It is defined as follows: \( I_x = CV \sqrt{1 - R^2} \), where CV is the coefficient of variation of the time series of the export earnings and \( R^2 \) is the corrected coefficient of determination of the trend function that best fits the actual export proceeds. If the t-test, F-test and DW-test are statistically significant at least at the 5% level, the index \( I_x \) has been calculated by selecting the trend function having the highest \( R^2 \). When (a) the test statistics are not significant and/or (b) \( R^2 < 0 \), the unmodified CV is chosen.

The comment by Duggan (1979) on the Cuddy-Della Valle's article points out how the autocorrelation of the errors modifies the values of the index \( I_x \). Therefore, in order to use index \( I_x \) correctly the autocorrelation of residuals was tested and it was also taken into account that the inconclusive range of Durbin-Watson statistic is narrowed when a trend model is estimated (King M.L., 1981). Finally, to eliminate the effects on the least-squares estimators of autocorrelation, the Cochrane-Orcutt iterative process was used and it was always assumed that the disturbance term follows an AR(1) scheme.

The STABEX stabilising effect exists when the difference \( I_x^{with} - I_x^{without} \) is negative, where \( I_x^{with} \) and \( I_x^{without} \) represent, respectively, the Cuddy-della Valle's index of instability for export earnings \( (X_t) \) with and without STABEX transfers. Two different series of export proceeds with STABEX funds \( (X_t^{with}) \) have been calculated:

1) \( X_t^{with} = X_t^{without} + ST_t \)

2) \( X_t^{with} = X_t^{without} + ST_{t-1} \)

where \( ST_t \) is the STABEX transfer obtained by each ACP at time \( t \). In (1) it is assumed that the compensation occurs during the same year in which the export proceeds drop (henceforth Scenario "A"). In this case, a substantial stabilising effect was expected in all cases examined, but it should be much more significant on a commodity level rather than on overall export earnings. On the other hand, in (2) it is assumed that the payments were delayed by one year with respect to the year of application (henceforth Scenario "B"). Therefore, at the time \( t \), the export earnings with STABEX are given by the sum of the export earnings without STABEX and the compensation related to what happened to the export earnings in year \( t-1 \) that the EC settles at time \( t \). In this case, either a stabilising or a destabilising effect was expected. The rationale behind the equation (2) is based on the fact that the EU commission must "take a decision concerning all transfers" by July 31 following the year of application (art. 207 of Lomé IV). In addition, both in 1975-1979 and 1988-1992 the Commission paid compensation within 9-10 months after the year of reference (Di Costanzo S., 1993; Lim D., 1991).

The comparison of the results obtained by using equation (1) and equation (2) represents the basis to test if, and to what extent, the effectiveness of STABEX is sensitive to the delay in the disbursements.

Before presenting the results of the analysis, it would be useful to give a brief overview of STABEX payments made during the period 1975-1993. These transfers were 3630 Million ECU and they were received by 51 out of 69 ACPs. Their distribution was concentrated both in terms of country and product. Almost 73% of the total transfers were, in fact, received by 10 major beneficiary countries - Ivory Coast, Cameroon, Ethiopia, Senegal, Sudan, Papua New Guinea, Kenya, Ghana, Uganda and Rwanda. The first five alone received more that 50% of the total. At the opposite end, there are 31 ACPs which individually received less that 1% of the
total STABEX transfers and which together account for less than 9%. The distribution of STABEX payments by product has been much more concentrated than that by country: between 1975 and 1993 only two products (coffee and cocoa) obtained more than 57% of STABEX funds. This share is almost 83% when groundnut products, cotton and wood are added, whilst with copra and palm products it is more than 90%. The high degree of concentration of STABEX funds is stressed in Table 1, which illustrates the compensation received for the most important products in each of the 10 major beneficiary countries. It appears that the transfers are generated by the export earning performance of a limited number of products (coffee, cocoa, groundnut, wood, palm and copra) exported by only 10 out of 51 ACPs. The 15 cases examined represent almost 65% of total STABEX payments. Data in Table 1 show that the transfers received for coffee in 7 ACPs (Cameroon, Ivory Coast, Ethiopia, Papua New Guinea, Kenya, Uganda and Rwanda) are more than 82% of the total STABEX compensation obtained for coffee. Furthermore, Cameroon and Ghana's cocoa exports to the EU market receive almost 64% of the total STABEX payments given to cocoa exports (by adding Ivory Coast's cocoa exports this percentage is more than 75%). Papua New Guinea's palm product exports received most (65%) of the total STABEX transfers given to the palm sector. More than 86% of the transfers received by the wood sector were allocated to the Ivory Coast's wood exports (Table 1).

5. Results

The impact of STABEX on ACPs’ export instability is briefly presented in table 2. As for the ACPs as a whole, the values of the aggregate (-4.6% in Scenario A and -5.1% in Scenario B) and the average effects (3.1% in Scenario A and -2.7% in Scenario B) indicate a stabilising effect determined by STABEX compensation on the national export earning time series (Table 2). The results are different on a country-by-country level in both supposed scenarios. For example, if the Commission settles STABEX payments within the year of application, (Scenario A), the instability related to ACPs’ total export earnings is reduced in 40 out of 51 cases and the highest and the lowest stabilising effects occur for Western Samoa (-26.3%) and Belize (-0.02%). On the other hand, the most significant destabilising effect is associated with Guinea Bissau (+7.7%). Besides the variability of STABEX effect, it should be noted that in 23 ACPs the effect of STABEX compensation is a reduction of national export revenues by less than 0.5%, whereas in 12 ACPs the stabilising effect is less than -2%. Only 5 ACPs experience a significant stabilising effect [Cape Verde (-12.78%), Comoros (-11.06%), Grenada (-17.96%), Solomon (-13.34%) and Western Samoa (-26.29%)]. The effects of STABEX are qualitatively the same even when the transfers are paid systematically one year after the year of application (scenario B).

Based on these results it might seem reasonable to conclude that over the period 1973-1993 STABEX was not very effective. Although the aggregate and average effects have always been stabilising, it could be pointed out how in many cases STABEX causes a destabilisation rather than a stabilisation of ACPs’ total export earnings. For other countries, the stabilising effect has been negligible, whereas only in a few cases has it been relevant. Furthermore, if previous remarks are important from a general point of view as regards the effects generated by STABEX up to 1993, they do not add any qualitative element to the findings obtained elsewhere. If we confine ourselves to analysing total export earnings to all destinations, the results may explain why the effectiveness of STABEX has been so pessimistically described in the literature: the tendency has always been to consider the total export earnings from ACPs to
all destinations. However, if the focus is on each single commodity exports the picture that emerges is radically different from that observed above.

As for ACP₃⁹, the value of exports of 99 agricultural products to the EU market have been analysed. In Scenario A, the effect of STABEX is a reduction by -7.29% of the aggregate export earnings variability of these products, while the average effect is -9.4%. That is, values greater than those obtained when the total export from ACP₃⁹ to EU (-4.3% and -4.2%) and to all destinations (-2.6% and -2.2%) have been considered. Similarly, if Scenario B is considered, with payments assumed to be delayed by one year, the aggregate and the average stabilising effects on the level of products are -11.24% and -9%, while the aggregate and the average effects on the total-related export proceeds from ACP₃⁹ to the world and to EU obtained, as discussed above, were -2.8% and -2.2% and -4.8% and -3.9%, respectively (Table 2).

Analogous results are obtained when the impact of STABEX on the exports of ACP₁₂ is examined. In fact, by aggregating the export of the 35 agricultural products, a stabilising effect is obtained (-11.94% in Scenario A and -5.6% in Scenario B) and it is always greater than the effect determined by the STABEX funds on the aggregate export earnings from the ACP₁₂ as a whole to all destinations. Finally, when the transfers are made within the year of the export shortfall (Scenario A) the average impact per product is -9.54%, while it is -5.4% when the compensation is one year late (Scenario B). Again, this effect is always higher than the average stabilising effects realised on overall export earnings whatever the destination, except in the case of the total exports to the EU, where the average effect in Scenario B is -6.7% (Table 2).

The comparison between the aggregate and average effects obtained on a commodity-by-commodity basis and on an overall export earnings shows that analyses based on the impact on total export earnings may lead to a underestimation of the effectiveness of STABEX and, consequently, of the benefits that accrue to ACPs. Further evidence concerning the misleading results obtained by the overall-related export earnings approach could be provided by comparing in every country the effect related to each product and that associated to the export earnings to all destinations. As for ACP₃⁹, by taking into account both scenarios, the results allow us to argue that if the analysis had considered only total export earnings from each ACP₃⁹ to all destinations, an underestimation of STABEX impact would be obtained in 137 out of 192 possible cases²³. In addition, it would be significant in 50 cases, that is as many cases as the difference between the two effects is, in absolute terms, higher than -10%. On the other hand, by applying only the product-by-product approach, a gross underestimation of the effectiveness of STABEX would result in just 5 cases²⁴. The analysis based on the total export proceeds from the ACP₁₂ to the world provides an undervaluation of the effectiveness of STABEX in 35 out of 70 cases and in 5 of them²⁵ it is more than 20% In the remaining 50% of cases, the effectiveness of STABEX compensation is less evident when it is analysed on a product level instead of an aggregate one.

Finally, the rapidity in disbursement of funds has often been considered crucial for the determination of STABEX effects (Herrmann et al., 1993; Lim D., 1991; Ravenhill J., 1984). Hence, it is useful to investigate whether the effectiveness of STABEX is sensitive to delays in payment. The findings in table 2 are indicative that from the point of view of the ACP states, it was not so important whether compensation were received during the year when the export earnings dropped or in the following one. In fact, only in the case of the aggregate agricultural exports of the ACP₁₂ (from -11.94% in Scenario A to -5.62% in Scenario B) a one year delay in payment generates a significant change of STABEX effect. In all the other cases, the STABEX impact is insensitive to delays in payment, whatever the groups of products and countries and whatever the destination (Table 2). But, it must be considered that the results
are very different when the impact of STABEX is examined country-by-country and product-by-product. In such cases, the effectiveness of STABEX is strongly influenced by the lag of one year in the payment of compensation, even though it is not in general possible to conclude that the payment lag makes the impact of the system worse. In fact, for several countries or products - i.e. when the stabilising (destabilising) effect registered in Scenario A becomes bigger (smaller) in Scenario B, or when the destabilising effect in Scenario A becomes stabilising in Scenario B - the one year delayed payment determines an improvement of the effectiveness of STABEX. On a product-by-product level this phenomenon occurs in numerous cases (see Figure 1) and, therefore, the results do not substantiate the thesis that considers the time-lag between the period of the shortfall and the date of the disbursement as one of the most important reasons for the alleged lack of success of the STABEX programme.

6. Concluding remarks

Much empirical research about the effectiveness of STABEX has been made by taking into account only the total related export earnings from ACPs to all destinations. By not taking fully into consideration the mechanics and the aims of the scheme, many studies have not paid sufficient attention to the impact of the compensation on the export earnings instability of each funded sector.

This paper attempts to fill this gap by considering the value of each ACP to the EU (or to all destinations, where appropriate) of every agricultural product receiving at least one payment over the period 1975-1993. The stabilising effectiveness of STABEX has been estimated through an index on instability for the de-trended export earnings with and without transfers. If the export earnings time series of each agricultural product were more stable with the STABEX payments than without, then the ACP-EU agreement would be effective.

From the results obtained, two important outcomes emerge. Firstly, STABEX does have a significant positive influence in stabilising export earnings of the ACPs. On average, it has stabilised both the export earning time series of the sectors which caused the payment and the total related export earnings of the ACPs, even if, as expected, the stabilising effect has always been much greater on a commodity-by-commodity level than on an aggregate one. This means that the STABEX has achieved its primary objective, the stabilisation of the nominal export earnings of the agricultural products covered by the scheme. The second is that the effects of STABEX compensation are shown to be very sensitive to delay in payment, even though no evidence emerges to support the hypothesis suggesting a negative correlation between the STABEX impact and the ex-post facto basis followed in the transfers.

Notes

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1 The ACPs are the following: Angola, Antigua & Barbuda, Bahamas, Barbados, Belize, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibuti, Dominica, Dominican Republic, Equatorial Guinea, Ethiopia, Fiji, Gabon, Gambia, Ghana, Grenada, Guinea, Guinea Bissau, Guyana, Haiti,
Ivory Coast, Jamaica, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Papua New Guinea, Rwanda, Saint Christopher and Nevis, Sao Tomé & Prince, Senegal, Seychelles, Sierra Leone, Solomon, Somalia, St Lucia, St Vincent, Sudan, Suriname, Swaziland, Tanzania, Togo, Tonga, Trinidad & Tobago, Tuvalu, Uganda, Vanuatu, Western Samoa, Zaire, Zambia and Zimbabwe.


3 STABEX covers the following 49 agricultural products classified in Combined Nomenclature Position: cocoa beans, cocoa husks, shells and skins and other waste, cocoa paste, cocoa butter, cocoa powder, raw or roasted coffee, extracts, essences and concentrates of coffee, groundnuts in shell or shelled, groundnuts oil, cotton not carded or combed, cotton linters, coconuts, copra, coconut oil, palm oil, palm kernel oil, palm nuts and kernels, leather of bovine animals, sheep and lamb skin leather, goat and kid skin leather, wood in the rough and squared wood, sawn wood, fresh bananas, dried bananas, tea, vanilla, cloves, wool not carded or combed, fine animal hair of angora goat mohair, gum arabic, pyrethrum, saps and extracts of pyrethrum, essential oils, sesame seed, cashew nuts and kernels, pepper, shrimps and prawns, squid, octopus and cuttlefish, cotton seed, oil cake, rubber, peas, beans, lentils, nutmeg and mace, shea nuts, shea nut oil and mangoes (art. 187.1 of Lomé IV).

4 The dependence threshold is 4% in the case of sisal and 1% for the least-developed, landlocked and island ACPs (art. 196). It is useful to remember that the dependence thresholds have been reduced over time. In Lomé I, it was 7.5%, 5% for sisal and 2.5% for the least-developed, landlocked and island ACPs. In Lomé II and Lomé III, the respective Figures were 6.5% and 6%, 5% and 4.5% and 2% and 1.5%.

5 Some articles of Lomé IV suggest that actually the “full” dependence threshold is applied only for 12 ACPs (Angola, Cameroon, Congo, Gabon, Kenya, Ivory Coast, Liberia, Nigeria, Senegal, Zaire, Guyana and Suriname), because the other 57 are considered the least-developed and/or landlocked and/or islands (artt. 330, 333 e 336 of Lomé IV).

6 Lim used data concerning the limited cases of payments in advance, to assert "that stabilising the export revenue of the triggering sector may never have been the factor which sustains the EEC's support for STABEX nor the main reason for ACPs applying for STABEX transfers" (Lim D., 1991, p.132). Such a conclusion would appear to be rather extreme. The limited use of payments in advance only suggests the necessity to improve the elaboration of data in the ACPs regarding international trade. The problem seems to be related to the instruments of STABEX and not to its objectives.
Twenty-four ACPs have only received transfers for one or two products. The following list includes some of these countries, the funded products and how many transfers they received during the period 1975-1993. One product: Fiji (copra oil/6), Belize (sawn wood/1), Chad (cotton/6), Congo (wood in the rough/1), Djibouti (raw hides & skins/3), Jamaica (bananas/1), Mauritius (tea/1), St. Lucia (bananas/2). Two products: Dominica (bananas/6; copra products/1), Equatorial Guinea (cocoa/7; coffee/3), Kenya (coffee/8; tea/1) Somalia (raw hides & skins/3; bananas/3).


The starting year is 1973, because when Lomé I was applied, STABEX transfers were based on the export performance before 1975.

Data on STABEX payments are from various European Commission publications (Commission of the EEC, 1990b, 1993, 1994b). The statistical information used in this research concerning exports in terms of value from the ACPs to the EU is from the COMEXT database by EUROSTAT (EUROSTAT, 1995). The source of data on the export earnings from each ACP to all destinations is the AGROSTAT database by FAO (FAO, 1995). Because EUROSTAT does not provide information regarding trade with countries outside the EU data from FAO were utilised. These data were expressed in US dollars and have been converted into ECUs by using the ECU/$ exchange rate time series published by the EU (Commission of the EEC, 1994a).


In the applications of Cuddy-Della Valle’s index, the presence of autocorrelation in the models estimated to eliminate the trend has not been considered. See, i.e., Cuddy J. D. A. and Della Valle P.A. (1978); Herrmann R., Burger K. and Smit H.P. (1993); Di Costanzo S. (1993), Herrmann R. and Weiss D., (1995).
17 It is worth recalling that some ACPs are forced to give back part or all of the funds received from the STABEX. Therefore, this rule should be taken into account in the equations 1 and 2, and, consequently, the STABEX transfers should be net of the amount repaid by each ACP. We have not been able to take such a problem into account for the following reasons: (a) from 1975 to 1989 the funds reimbursed by the ACPs have been a small share (8.5%) of the total transfers (EU Commission, 1990); (b) there is no indication about the product and/or the year which the repayments refer to; (c) since 1990, the year when Lomé, IV came into force, the STABEX compensation are paid as donations; and, finally, (d) since 1990, the ACPs have been free to give back the replenishments received during Lomé I, Lomé, II and Lomé, III.

18 The criterion to refer the STABEX transfers to the year of application and not to the year of disbursement is followed in all European Commission official publications.

19 For ensuring that the system works efficiently and rapidly, the claimant must notify the Commission of all the relative statistical data not later than 31 March of the year following that of application (art. 199 of Lomé IV).

20 The ACPs that received no STABEX compensation are the following: Angola, Antigua & Barbuda, Bahamas, Barbados, Botswana, Guinea, Guyana, Haiti, Liberia, Namibia, Nigeria, Dominican Republic, Seychelles, Suriname, Trinidad & Tobago, Zaire and Zambia. Haiti is not analysed, even though it received some compensation in the period preceding the year (1990) of its adhesion to the Lomé Convention. These funds were paid in application of COMPEX programme and not of the STABEX one.

21 The aggregate total exports from the ACPs to the world are given by adding year-by-year the total related export earnings from each ACP to all destinations. The total STABEX funds obtained in each year by each ACP are considered in order to determine the exports in values in both Scenarios assumed. Any other aggregate variable has been calculated in the same way.

22 In order to shorten the paper, tables and figures presenting individual country/product results have been omitted. A larger version of this article, containing this information, can be requested to the author.

23 The maximum (-50.8%) and the minimum (-0.08%) undervaluation would be related to Gambia's oil cake exports to the EU (Scenario B) and to Central African Republic's wood exports to the EU (Scenario B), respectively.

24 Mozambique's tea exports to EU (Scenario A), Niger's hides and skin exports to EU (Scenario A), Grenada's banana exports to EU (Scenario B), Benin's oil cake exports to EU (Scenario B) and Mozambique's copra exports to EU (Scenario B).
25 Burundi’s coffee exports to the world (Scenario A), Guinea Bissau's groundnuts exports to the world (Scenario B),
Rwanda's raw hides and skins exports to the world (Scenario A), Solomon's copra exports to the world (Scenario A),
Tuvalu's copra exports to the world (Scenario A).

26 By considering total export earnings from each ACP to all destinations, there is a relevant difference (more than 5%) between the effect in Scenario A and that in Scenario B in 11 cases (Burundi, Cape Verde, Dominica, Gambia, Ghana, Guinea Bissau, Mali, Mozambique, Rwanda, Togo and Western Samoa); it regards 14 countries in the case of the total trade flows to the EU (Burundi, Comoros, Ethiopia, Grenada, Guinea Bissau, Ivory Coast, Kiribati, Mozambique, Senegal, Sudan, Tanzania, Tonga, Tuvalu and Western Samoa). For 14 products exported by ACP, the effects obtained in Scenario A are greater - at a level 10% (in absolute terms) - than those associated with Scenario B. For other 25 products this difference ranges between 5% and 10%. As for the ACP, in 18 out of 35 products exported to the world the difference of the impact in the two alternative scenarios is, in absolute terms, more than 5%. Ask the author for details concerning such outcomes.

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