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Reforming the Stabex scheme[*]

by

P Collier, P. Guillaumont, S. Guillaumont and J.W. Gunning

The Lome Conventions which have been governing cooperation between Europe and ACP countries (Africa, Caribbean, Pacific) since 1975 involve a specific aid mechanism, referred to as "Stabex": this scheme, which aims at "stabilizing export receipts", consists in the payment of a compensation to ACP countries when there is a fall in the revenue from their exports to Europe of a number of agricultural products, provided that this fall is independent from the willingness of the country and is due to a decrease in world prices or in domestic output (climatic risk). Initially, the purpose of Stabex was to "mitigate the harmful consequences of instability", rather than avoiding it as international commodity agreements have failed to do with respect to instability of world prices.

After more than twenty years of operation, the Stabex scheme, which was initially considered as an innovative scheme, is now the subject of various criticisms; the issue is therefore to decide whether or not it will have to be maintained at the end of the current Lome Convention in 1999.[1] This issue is crucial as underlined by the current weight of Stabex in total European aid to ACP countries: 31% during Lome III Convention and 18% during the first period of Lome IV Convention (62% when considering only the countries that benefit from Stabex).

The fundamental problem which characterizes Stabex is that it is based on two principles which, although relevant, have proved to be hardly consistent. On one hand Stabex was designed as an "automatic" compensation system, because of the exogenous origin of falls and the need to compensate them quickly in order to stabilize export receipts. On the other hand the focus of Stabex was put on the agricultural sector. In the first Lome Conventions, this focus was quite ambiguously mentioned, but it has then be more clearly established through the idea that "the purchasing power of affected populations" has to be preserved"; moreover, this focus is underlined by the fact that compensation is ensured for each eligible product, whatever the evolution of other exported products. The reason is that in ACP countries agricultural producers are usually poor households, who are often not well equipped to cope with negative income shocks due to climatic risk or falls in prices, since they typically have no access to credit or insurance. Their standard of living is therefore dramatically affected; moreover they are systematically compelled to adopt cautious behaviors which hamper innovation and agricultural growth. Stabex involves therefore both humanitarian and productive purposes.[2]

Consistency between the principle of automatic Stabex transfers and specificity of their use was clearly difficult to achieve. The way in which it has been achieved has evolved with the Conventions: with the first Convention a mere "ex-post information" was required. With Lome II, ex-ante information had to be provided. With Lome III, this information had to be "substantial" and evidence was required if the country intended to allocate the funds to another sector than the one "affected by the fall": however, the use of Stabex funds remained so far at the disposal of governments. With respect to this feature, the Lome IV Convention has introduced a fundamental change since two steps are now distinguished; the first one is automatic: funds are deposited in an account in ECU owned by the ACP State but opened with a bank located in the European Union. The second one is conditional and depends on the adoption of a "mutual obligation framework" governing the use of Stabex funds; these funds are then progressively disbursed from the European account as and when required according to their planned allocations. Hence, the consistency between the two principles of

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[1] For a broad discussion of problems related to the renewal of the Lome Convention, see the *Green Book* of the Commission (1997) and the paper written by Collier, Guillaumont, Guillaumont Jeanneney, Gunning (1997a)).

[2] By doing so, we accept the dual fundamental principle of Stabex and we answer to a criticism which has sometimes been made about this instrument; this criticism does not deal with the rules governing use of Stabex funds which are the only issue we address in this paper. The idea is that Stabex would enhance agricultural production and would thus hamper the development of other sectors. However, when considering the experience of economic policies in ACP countries, it has widely been demonstrated that these policies have usually tended to favor other sectors to the detriment of agriculture. Hence Stabex -partially - mitigates rather than creates some distortions.

automatic-quick transfer and agricultural focus of Stabex seemed to be achieved. Nevertheless several basic problems have remained unsolved in practice, and have sometimes even been worsened. However, when pointing out these problems, we do not propose to abandon the Stabex instrument; we rather suggest an in-depth reform so that the principle of automatic transfer and the initial purpose of Stabex could be really conciliated.

1 - Problems to overcome

Supporting producers through compensation of the falls has faced two main difficulties:

- lags in disbursement of Stabex funds have eliminated its stabilization feature;
- because Stabex funds are allocated to government budgets, their contribution to the safeguard of the purchasing power of farmers is doubtful.

1.1 - Lags in disbursement: instability not reduced

Typical lags involved by the Stabex scheme

Disbursement of Stabex funds involves delays which cannot be easily reduced. A minimum period of time is required to record the falls statistically, to check if they are independent from the willingness of the country, and especially to verify that they are not due to a diversion of exports to non-European countries; then it is also necessary to calculate the "base of transfer" and to carry out the administrative and financial operation of transfer. These delays have prevailed since the creation of Stabex. Though they hardly exceeded one year, one could consider that they eliminated the very stabilization feature of the mechanism, since transfers were never made within the year of the fall (Herman, 1982). However, since these delays were short and invariable, and since the transfer was automatic, Stabex beneficiaries owned in a way a disposable claim, so they were enabled to smooth their expenditures over time. But these delays have increased and the automatic property of disbursements has been questioned because of two main causes.

Consequences of the lack of resources

The first cause has been that on numerous occasions, available resources have proved to be not sufficient to cope with the recorded fall. Negotiating abatements and seeking additional financing have caused increased delays while compensation has become doubtful with respect to its amount.

Increased delays with the Lome IV Convention

The risk of a lack of resources appears to be far reduced today; however the new arrangements involved in the LOME IV Convention have led to a sharp increase in the length and variability of Stabex delays. Delays in transfers (now to an account opened with an European bank) are clearly quite similar to those prevailing in the previous system; however there are now very significant additional delays concerning the use of funds. For example, during the falls of 1990 and 1991, the study of a sample including some of the main beneficiary countries has indicated that the delay in the transfer to the European bank account was ranging between 11 to 16 months; moreover, 5 to 12 additional months had still been necessary (that is a total delay of almost two years) to sign the mutual obligation frameworks. Finally, one had to add delays in the use of funds. Overall, the average rate of use of resources relating to the 1990 falls was below 60% at the end of 1996... (Guillaumont and alii, 1997). This result underlines the extent to which the new arrangement has led to give up the objective of stabilization.

1.2 - Channeling funds via government budgets: doubtful farmer compensation

Since Stabex funds are provided to governments, one may reasonably wonder who are in fact the recipients. Several points lead to wonder whether or not farmers who operate in sectors that are eligible to Stabex in case of negative shock, have always been better off thanks to subsequent transfers.

Fungibility of public resources and fiscal problems of governments

The first problem lies in the fungibility of public resources: does aid allocated by external donors to one given sector (assume here the case of Stabex funds allocated to expenses that benefit farmers) increase the

total amount of public spending on that sector? There is a risk that expenditures on farmers which were previously financed out of government own resources will be reduced just because of Stabex transfers. Though measuring the extent to which external aid is fungible proves always difficult, there are some particular reasons which raise concern about Stabex funds being implicitly used to finance other expenses than those to which they were assigned.

A fall in agricultural export receipts negatively affects not only agricultural producer income, but also incomes perceived by traders, people in charge of transportation, exporters,..... and fiscal revenue. The latter decreases when there are taxes on these exports, or levying of para-taxes, and because the economic decline due to the reduction in agricultural exports results in a decrease in all other tax receipts. Hence, it seems to be rational that part of Stabex funds are used to compensate for this decrease in government revenue, as well as for the reduction in income encountered by other agents in the "affected sector", in order to avoid a reduction in public expenses or an increase in budget deficit.

If Stabex transfers offset all revenue losses, channeling Stabex funds via government budget could be expected to effectively compensate for the loss faced by each agent. However Stabex transfers only cover income losses on exports to the European Union and are subject to significant abatements in case of lack of resources. In addition, it is very difficult to assess the impact of a decrease in export receipts on incomes of each category of agents and on government finance. When the government implements its own budgetary policy, its priority may therefore not be to compensate farmers for their income losses, even if it formally agrees to allocate some Stabex funds to them. Moreover these funds are only partially allocated to farmers, since in the mutual obligation framework it has been specified that Stabex funds may be used for other purposes than compensating farmers for their income losses.

Indirect macroeconomic impact on producers: relative price effects.

If income losses faced by producers are not compensated or only partially offset, farmers may be worse off because of Stabex transfers. Under this assumption, farmers suffer from the fact that the evolution of relative prices is more harmful to them with than without Stabex. Stabex mitigates the decline in the price of the product they sell; however this positive effect is matched, Stabex also mitigating the decline in the price of the products they purchase, since there is an increase in demand for domestic products ("non-tradable goods") because of revenues distributed by the government. This process, referred to as "Dutch Disease", may cause a "perverse effect" of Stabex transfers, as soon as the priority is not to use these transfers to compensate farmers for their income losses: in this case farmers gain less from compensation than they lose because of the increase in the relative price of "domestic" goods. This Dutch Disease effect is especially likely to occur when Stabex flows represent a significant part of public revenue and domestic spending. For example, during certain years of the Lome IV Convention, Stabex funds accounted for 24% of revenue in Ethiopia and Uganda, 37% in Sao Tome...

2 - Proposed solutions

Given the criticisms about the rationale and the functioning of the Stabex scheme, one may suggest to give it up. However this solution should be dropped for two main reasons.

Since its creation, Stabex has been considered as an innovative scheme; giving it up would therefore imply to abandon a European specificity in the field of cooperation, and would be perceived as a "vulgarization" or a "normalization" of European cooperation. In addition, an instrument aimed at stabilizing agricultural export receipts in ACP countries seems to be as relevant today as when it was created in 1975. During the last fifteen years, in ACP countries, instability of agricultural exports has been as high as in the seventies and is still explained both by fluctuations in world prices and in output; international agreements for price stabilization have almost completely disappeared which has reinforced the need for a mechanism which compensates for the effects of instability even if it fails to avoid it. In addition, a increasing number of studies have demonstrated the negative effects of export receipt instability on global economic growth and more specifically on agricultural production growth and welfare of rural population. Finally, the impact of the numerous policy reforms implemented in the agricultural sector (liberalization of commercialization, prices, reform of credit policies,....), useful as they are, has usually been an increased transmission of world price instability to producers, who have nevertheless not been better equipped than before to cope with instability.

A mechanism such like Stabex is therefore still relevant provided that it ensures quick use of funds and effective targeting to farmers.

2.1- Some guidelines

Preliminary agreement on certain rules

To achieve effective stabilization of producer incomes, Stabex funds have to be quickly used, which implies that their use must have been decided even before the fall in income occurs. In the reformed Stabex scheme, the agreement about the use of Stabex funds should focus on rules, previously defined, which would involve *insurance mechanisms*, in a broad sense, against risks (price risks or output risks) faced by agricultural producers in ACP countries. These producers would commit themselves to comply with these rules in case of a fall, which would allow a draw without any delay or condition. An ex-post evaluation would check whether or not the way transfers have been used is consistent with these agreed rules; the right to draw on funds in the future would then depend on the compliance with these rules.

The mutual obligation frameworks (MOFs) are perfectly suited to such reform, provided that they are negotiated in advance in the event of a fall. The planned insurance or secure mechanisms should encourage the creation of new institutions: the role of Stabex would therefore involve both structural and stabilization aspects. In ACP countries, it would help to promote rules and institutions that would enhance an improved management of instability. Moreover, since this process would be based on mutual agreements, appropriation by the country would be facilitated.

This reformed Stabex scheme would be consistent with the new conception of aid recommended by the European Commission, which has suggested to reform the conditionality of aid to adjustment[3] : to make ACP countries more responsible for economic policy choices, global performance evaluation would be preferred to in-advance prescription of detailed policy measures.

It is necessary to ensure that funds are effectively allocated to farmers so producers can unambiguously benefit from Stabex resources; this implies that funds should not be channeled via government budgets because of public resource fungibility. Defined rules should therefore stipulate which institutions, either private or public provided that they are independent from the government, would be granted Stabex funds in case of a fall in export receipts. This reformed Stabex scheme would thus be entirely different from aid to structural adjustment, which consists in support to government budgets.

Despite this targeting to agricultural producers, part of Stabex funds could nevertheless finance government budget, since tax receipts are themselves negatively affected by a fall in agricultural exports. The disbursement of these funds, which should not be targeted to a specific category of expenses, would however be conditional on some pre-defined rules; one of them would be the government commitment to maintain a low planned rate of taxation on agricultural exports. A kind of "tax agreement" would therefore be signed with governments.

We have elsewhere suggested a "menu approach" for cooperation between ACP countries and the European Union, which would involve various options of cooperation with mutual obligations that ACP countries would be free to choose; this approach has been referred to as the "Lome menu" (*"Lomé à la carte")*[4] . What we propose here for Stabex is an application of this general principle: various options of Stabex use would be proposed, an individual country being free to choose any of them for each product eligible to Stabex.

A wide range of options may be considered. Two broad categories of options are briefly described here. They have been designed by referring primarily to the initial role and objectives of Stabex:

- the first option corresponds more directly to the Stabex purpose of *insurance* against climatic risks and price risks;
- the second option is to create "*stabilization funds*" for producer prices; these funds would be completely reformed compared to the past *"caisses de stabilisation",* provided that the statutory rules that would regulate them would be laid down; thus they could efficiently play their role, and the failures that occurred so frequently in the past would then be avoided.

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[3] see European Commission (1995), (1996), and work of the authors on this subject: Collier, Guillaumont, Guillaumont, Gunning, (1997c), and Guilllaumont and Guillaumont (1994).

[4] Collier (P.), Guillaumont (P.), Guillaumont (S.) and Gunning (J.) (1996, 1997a, 1997b).

2.2 - The "insurance fund" option

The double objective of an insurance fund: climatic risk and price falls

The purpose of Stabex was initially to cope with falls in receipts arising because of exported quantities as well as prices; during the first Lome Convention, these falls have actually been caused by quantities rather than prices. Similar guidelines may be used to design the creation of insurance funds against falls in production due to climatic risk and falls in prices below a specified benchmark. Whatever the selected system of insurance, either against crop risk or against price risk, the producer will have to take out an insurance policy, clearly at a low rate, for a given crop volume. Since Stabex disbursements depend on the evolution of export receipts, that is on the joint evolution of prices and quantities, trigger thresholds on prices and yields will have to be low enough to avoid a potential lack of resources. [5]

Insurance normally faces three difficulties: self-selection, moral hazard and high costs of contract administration.

Self-selection of beneficiaries

By self-selection is normally meant the tendency of the worst risks to come forward for insurance: people who know that they are sick are more likely to seek health insurance than those who know that they are well. This is why self-selection is usually referred to as adverse selection. However, given the objectives of Stabex, self-selection is precisely what is required: the pay-outs of the insurance policy have to be targeted on those who are most in need of it, namely those particularly exposed to variations in crop value. In these circumstances, self-selection is not adverse but beneficial.

Consider a product which provides some insurance against a fall in the domestic price (or in the production) of coffee: it would be taken up by coffee farmers, since other households are not significantly exposed to such risk. But there is considerable variation among coffee farmers themselves as to both their exposure to risk and their capacity to bear it. Their need for risk-bearing varies greatly, and depends upon the totality of very many characteristics which cannot be observed by potential insurers. For example, wealthier households, or those with more diversified income streams, or those with access to credit or, finally, those with liquid assets which can be used to smooth consumption will have less demand for insurance than other households. However there is no need for the insurer to have this information. Households which particularly need the insurance will purchase the product from the insurer, other households will purchase less or none.

The advantage of an insurance scheme involving a low contribution which depends on the amount of crop to be insured is to allow very quick disbursement of funds since potential beneficiaries have been previously identified, as well as the amount of crops to be insured. In addition, the required contribution ensures that Stabex funds will be effectively allocated to risk-adverse agents.

Controlling for moral hazard

Moral hazard arises if the household purchasing the insurance can affect the outcome which is being insured. Two cases have to be distinguished: crop insurance and insurance against a fall in prices.

If crop yields are insured the farmer may obviously take less care with the crop. However, one may design an insurance based on unexpected causes of a fall in crop yields, for instance lack of rain or inappropriate periodicity of rains, rather than on the fall in individual production itself, which is moreover hardly observable.

Concerning the fall in prices, the scope for moral hazard may appear to be reduced, since the fall in the domestic price of export crops is beyond the control of producers. Nevertheless a moral hazard problem can arise with respect to the behavior of the government. Once farmers are insured against a fall in the domestic price of the export crops, the government may have an enormously powerful incentive to increase its taxation

[5] Another possibility, although more complex, would be to make the agreed trigger threshold for insurance pay-outs conditional on the rate of contribution: farmers who are more risk-adverse would agree to pay more.

on exports, since the tax will be borne by the insurer (in effect the European Union) rather than by farmers. To control for this moral hazard problem, the insurance provided through the Stabex scheme would require the government to pre-commit to particular behavior. This solution cannot be implemented with private insurers. However the European Commission is in a different position to that of a private insurer. Since it has credible threats through its larger aid program, it is in a position to trust a government undertaking not to raise export taxation or to revert to over-valuation of the exchange rate. The provision of such undertaking by the government would therefore form one pre-condition for a Stabex-funded producer price insurance scheme.

Secondly, there is a risk of collusion between producers and traders who may be willing to declare prices which are below their actual level. In some ACP countries, as in Kenya, there are regular auctions for the crop: so the price which can be specified in the insurance policy would be the auction price. In other countries, one possible solution is that domestic prices would be observed by an independent agency; another solution is that normal prices would be directly derived (using a pre-agreed formula) from export unit values (using the same statistics as those used to calculate the rights to Stabex transfers, namely European import data). The latter solution would simultaneously eliminate the moral hazard problem arising from the behavior of the government; there would then be no need for the above-mentioned conditionality on tax policy.

Limiting the costs of administration

The remaining problem is that of high *costs of administering* insurance contracts. However, considering a fall in the domestic price, we argue that managing this risk is quite simple.

The idea is to offer insurance based on self-selection by selling put options which become valuable when the market price falls below the exercise price of the option. According to the contract with the European Commission, the role of a local option-selling contractor would clearly not be to bear risk, but only to conduct the sales of options and pay-outs upon them in a "cost-effective" manner. A very important objective of this scheme, which could be made possible with the Stabex, would be to sell the options at odds very favorable to buyers, that is, the purchase cost of the option would not reflect its true cost. The problem with offering such a "under-priced" option is that financially sophisticated agents would be willing to purchase unlimited amounts of it. To control for this problem, options would be sold only in low denominations, and sold mainly in small towns and rural areas, so that the transactions costs could be made prohibitive for the financially sophisticated while being made more appropriate for the target group. The contractor would be required to report the amount and location of sales per period. Another possible solution would be to sell options individually to farmers only, according to the size of their farms; however costs of administration would be increased.

A second respect in which the Commission would need to constrain the contractor is in the time period over which the option could be exercised. The most appropriate horizon for the option would probably be a year. Options at a particular price should only going one sale for a period which clearly pre-dated the option period to prevent circumstances in which options could still be purchased after they had become more valuable than their purchase price.

This market would differ from a normal option market in being one-sided; the farmer would not be allowed to buy more than one put option. Secondary trading is of course possible: a producer may for example wish to reduce his cover by selling some of the options he holds. But the primary supply would entirely come from a single agent: the Commission. Stabex funding would correspond to the "under-pricing" of the options: the EU would fund the entire difference between the pay-outs on the options and the total receipts from option sales. Physical delivery would be unnecessary: when exercising his option the owner would simply get a pay-out equal to the difference between the exercise price and the market price on that date.

A notable feature of this proposed scheme is that the administrative costs are likely to be low compared to the current costs of selecting and monitoring projects suitable for Stabex financing.[6] Using Stabex to subsidize put options tied to the price of the export crop would partly, but not fully, improve targeting.

[6] Such a scheme could be run at very low cost. To give a practical example, in Uganda a private company is currently running a mass lottery in which low denomination tickets are sold to poor people, with the conduct of the lottery announced on commercial radio stations. The administrative costs of running an insurance on the coffee price should not be significantly different from those of running a lottery. The major difference is that the purchase of a lottery ticket increases risk whereas the purchase of an option on the coffee price aims at reducing risk. If it is possible for a private company to make a profit out of selling increased risk to poor people, there should be scope for selling reduced risk.

However, even a perfectly targeted intervention would partly be transferred to other agents through relative price changes: this erosion of the real value of Stabex for its main beneficiaries is in fact unavoidable.

2.3 - The "stabilization fund" option

Objectives of reformed stabilization funds and the role of Stabex

The insurance scheme, as well as Stabex, does not aim at stabilizing producer prices relative to world prices. The objective is rather to increase prices when world prices are very low without lowering them when world prices are particularly high[7]. However in some countries, there is a tradition of stabilization schemes for producer prices. If some countries wish to achieve this price "stabilization" - which does not necessarily imply public commercialization - the "menu" should allow them to allocate Stabex funds to a stabilization fund; however, measures should be adopted to avoid the failures which often characterized public stabilization systems in the past: in fact, in booming periods these institutions served as a mean to accumulate surpluses that were appropriated by governments to finance their own expenditures, and were therefore not available anymore when a fall in world prices occurred.

An inter-annual stabilization fund of real producer prices[8] may also improve macroeconomic stability if it helps simultaneously to stabilize government revenue while avoiding an increase in export taxation. Including compensation of government losses in the stabilization scheme will precisely help to ensure that Stabex funds will not only be used just to achieve this compensation, and that a significant part of resources will simultaneously be allocated to farmers. Otherwise, farmers may be worse off because of the effect of Stabex transfers on the price structure.

Unlike the insurance scheme which we have examined above, the stabilization fund system cannot be used to cover crop risk. Nevertheless it provides a more effective cover against price risk since available funds include not only Stabex funds, but also surpluses that were accumulated when prices were high. Allocating Stabex transfers to this stabilization fund would allow to set higher producer prices on average, since there would be no need for deficits to be entirely financed out of surpluses.

Beyond this financial aspect, the Stabex could play a crucial role since operating the scheme would be conditional on the adoption of rules that would imply an efficient use of funds. In particular, the accumulated funds would be placed outside the government control and the EU would then play the role of an external monitoring agency chosen by the country itself. The government would chose to bind itself, especially by placing the funds accumulated in good years outside its own control. The automatic draw on Stabex funds would ensure that this system can work. Prices would be credibly secured with Stabex.

Requirements for an appropriate operation of the system

To be efficiently used, while avoiding past failures of "Caisses de stabilisation", and to involve automatic use of Stabex funds, these new stabilization funds should meet the following requirements. [9]

The "secured" producer price should be calculated using a f.o.b. price on exports, and then "stabilized" after subtracting all usual costs of commercialization, transportation and processing; to some extent, it would represent a "normal" or "recommended" producer price, which would be clearly announced and spread. This stabilized price (as well as the exercise price of the option in the above-mentioned insurance scheme), should not be fixed, but rather progressively adjusted to the trend of the world market, so that the trend of domestic relative prices would not be disconnected from the trend of world relative prices.

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[7] In case of a positive shock, stabilization only arises in the sense that the producer pays for an insurance policy corresponding to the purchase price of the option.

[8] If the stabilization fund is simply used to secure a stabilized price over a commercialization period, rather than to ensure inter-annual stabilization, it should not be funded with Stabex resources (which are aimed at compensating for a fall which is recorded in comparison with several previous years). Moreover the agency which would be in charge of managing this fund could itself stabilize its export price in the short run on forward markets.

[9] Cf. Guillaumont (P. and S.) (1990), (1993).

The government should levy a constant percentage - which in all cases would be low - of the value of exports measured at this stabilized price; in other words, it would commit itself not to appropriate the gains from a rapid increase in world prices. Once paid the secured price and the stabilized taxes, potential surpluses from the export sector would be allocated to the stabilization fund; hence, if a fall in world prices occurs, the fund can be used to maintain both the level of secured prices and the level of "normal" tax receipts with the support of Stabex.

Finally, in order to be secured by Stabex, fund resources should be placed outside the Treasury channels and deposited either with a bank in member countries of the European Union (as Stabex funds themselves before their allocation), or with the local Central Bank provided that there is a statutory limit on advances of the Central Bank to the Treasury; hence it ensures that fund resources remain available at any time, since they are placed out of the government control (credibility of the system), and that their use will be counter-cyclical instead of being pro-cyclical.

The creation of a stabilization fund system, involving subsidies or taxation at the boarder, is perfectly consistent with trade liberalization. In practice, it will be implemented as any tax system. If one considers that private traders can best minimize commercialization costs and provide the highest earnings to farmers for a given world price, this is still valid when the price at the boarder is corrected through a stabilization scheme. However, stabilization creates an incentive for unofficial re-exports to neighboring countries when prices are high (and subject to taxation) or for imports from the neighboring country when prices are low (and subsidized). This is the reason why it would be relevant to design such a scheme at a regional level.

2.4 - Comparison between the two options

Advantages and drawbacks of the two above-mentioned options arise from their differences, as they are briefly displayed in the following comparative table:

	Insurance	*Stabilization*
Covered risks	price risk and quantity risk	price risk only
Symmetry or asymmetry	insurance against falls below a given threshold	mitigate falls and increases
Target value		
. for prices	deviation from the market trend in the long run	id.
.for quantities	deviation from usual (climatic) conditions	non applicable
Compulsory or voluntary	voluntary, individual choice	compulsory, collective choice
Private or public	private or public	public or private (professional groups)
Additional financing apart from Stabex	payments from insured people	levying of surpluses in booming periods

The advantage of the insurance system, which is more innovative, is to allow to cover risks of a fall in crop yields, not only in prices, though it would be more difficult to operate with respect to yields than to prices.

Secondly, this scheme is voluntary, whereas the stabilization system corresponds more or less to a compulsory insurance. As explained above, the advantage of a voluntary system is to be targeted on those who will best use it: farmers can choose the magnitude of their exposure to risks depending on their risk aversion, their income, their capacity to bear risk by themselves, and so on... However, in some cases compulsory insurance may be preferred if there is a risk that people who are not well equipped to bear risks (the poorest farmers) are reluctant to take out the insurance policy, the benefit from insurance being therefore appropriated by other agents... This problem may occur if farms are small and spread all over the country, if farmers are not well educated, or if they have no confidence in financial arrangements from outside institutions; in this case, administrative costs of a voluntary insurance scheme are high.

The advantage of a stabilization fund, which involves levying of surpluses when a transitory increase in prices occurs, is that self-financing of the insurance scheme may be enhanced and that consumption

smoothing may be improved for farmers. Moreover its stabilization impact at the macroeconomic level is potentially higher provided that there is strict compliance with the above-mentioned rules governing an appropriate use of funds.

However, as mentioned above, the choice between the two options should be made by the ACP country which has the willingness to use Stabex, provided that it complies with corresponding rules.

Conclusion

The reformed use of the Stabex scheme that we have outlined in this paper would correct the main failures of the present system. Automatic use of funds would be restored, so that the mechanism would really ensure stabilization. Fungibility would be avoided since funds would not be channeled via the government budget anymore. Nevertheless we may imagine the criticisms that such reform may raise.

Some criticisms may be "ideological", proclaiming that such reform would bring back to the past failures of the "Caisses de stabilisation": however the purpose is not to create again a system which has failed, but on the contrary, using past experience, to support ACP countries which attempt to create decentralized mechanisms, preferably private or semi-public, in order to cope with risks faced by poor farmers; in fact, since producers are not well equipped to bear risks, agricultural growth is deeply hampered and poverty increases. Again, the threat that funds would not be disbursed in case of problem strongly ensures that countries will comply with the agreed rules. In any case, providing to poor farmers, who are especially numerous in ACP countries, modern and accessible means to cope with risks is probably one of the most crucial challenges of development today.

Other criticisms are more practical: this scheme is new, and it implies a deep change in the habits of people in charge of European cooperation and of ACP partners; the selection of eligible rules requires experimentation, and so on. This is why during a transitory period countries may also be allowed to use Stabex as a complement to structural adjustment, taking into account that they would then be first required to sign an agreement with the I.M.F. and to negotiate how to allocate the funds, or even to face general review of their public expenses.

When Stabex was created, many uncertainties were also prevailing, which have progressively been removed. Reforming Stabex will act as a test of the capacity for institutional innovation in the relationship between European and ACP countries.

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