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**Attenuating through Aid the Vulnerability to Price Shocks**  
by

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**Abstract**

The purpose of this paper is to examine what kind of global measures may be efficiently implemented to help the developing countries to face price shocks, avoiding the past failures, which needs to take into account the long term trend of the markets. Firstly, we recall the nature of the vulnerability to price shocks: this legitimates to make the dampening of these shocks a reasonable goal for the development cooperation policy. Then, we consider the rationality of some international schemes of insurance or of guarantee which could be implemented through international assistance for countries facing price shocks: this assistance should be provided on a macroeconomic level, in particular through debt management, and on a microeconomic level, for instance through an insurance for the producers. The general principle underlying our proposals is that international assistance can enable developing countries to face price shocks, while taking into account the market signals, by offering a guarantee to these countries provided they respect some management rules.

## 1. Introduction

The interest recently shown in global policies on natural resources and raw materials, as part of an effort to improve governance and reduce conflicts, is shedding light once again on the long-standing problem of the international price fluctuations that affect developing countries. This renewal of interest comes after a lengthy period during which the very idea of a global policy to deal with price shocks was out of favor, because of measures that failed to take due account of market mechanisms. During this period, the magnitude of international price shocks did not diminish - indeed increased - and a number of countries obviously remain vulnerable to them<sup>1</sup>. In consequence, after two decades of agricultural market liberalization (leading to the removal of marketing boards and "caisses de stabilisation"), the question of determining how the international community might contribute to dampening price shocks has once again come to the fore.

The primary commodity issue is obviously not limited to the impact of price shocks. Surprisingly enough, the latter are sometimes left out by recent works that deal with the impact of primary commodities on economic growth, and rather consider their positive effect on financial resources, or their negative effect on institutions and behaviors (Easterly and Levine 2003). However, price variability appears in the recent economic literature as a factor that strongly affects the primary commodity market dynamics, through its impact on investment, inventory behavior and production (Pindyck 2002).

Let us recall the time frame of price variations. Developing countries face three sorts of price fluctuations. In the short-run (variations shorter than one year), and in many instances, insurance market instruments allow countries to hedge associated risks. However, these instruments are not readily available for all commodities and to all developing countries. Therefore, there may be room for a development assistance policy that would enlarge this availability, or support the functioning of appropriate financial markets. This kind of assistance is the work focus of the International Task Force on Commodity Management in Developing Countries (1999). In the long run, the problem is not price variability any longer, but rather the long-term decline in the relative price of commodities that are crucial to poor countries. The response to this long term declining trend in relative prices can only come from a change in the production structure so as to further diversify the economy, which is exactly what development is about. Between these two time horizons, in the medium run, developing countries remain vulnerable to year-to-year fluctuations, that may result in extremely strong and costly shocks. In this paper, we focus on this latter aspect of price variability.

The purpose of this communication is to examine what kind of global measures may be efficiently implemented to help developing countries face price shocks, while avoiding past failures and taking into account long term market trends. First, we look at the nature of price shock vulnerability. This will legitimate shock dampening as a reasonable goal for development cooperation policies. Then, we consider the rationality of some international schemes of insurance or guarantee, which could be supported by international assistance to countries facing such price shocks. This assistance should be provided on a macroeconomic level, in particular through debt management, as well as on a microeconomic level, for instance through an insurance for producers. The general principle underlying our proposals is

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<sup>1</sup> For evidence on the magnitude of price shocks in developing countries see for example Collier, Gunning and associates (2000) or CERDI (1998).

that international assistance can enable developing countries to face price shocks, while taking into account market signals, by providing them with a guarantee in exchange of their commitment to abide by a number of good practices and governance criteria.

## **2 The vulnerability to price shocks**

It is difficult to design rational measures for dampening price shocks without inquiring about the reasons why such shocks can jeopardize development. There is clear evidence of the negative effects of export instability on growth (see, for example, Collier, Gunning, and Associates 2000; Combes and Guillaumont 2002 ; Dawe 1996; Fosu 1992; Guillaumont 1987, 1994; Guillaumont, Guillaumont Jeanneney, and Brun 1999) and more generally of economic volatility on growth (Ramey and Ramey 1995). A country's vulnerability to price shocks results from three components: the size of the shocks or price instability, the exposure to the shocks, i.e the channels through which the shocks are transmitted to the economy, and the resilience, i.e the capacity to react to, or to manage, the shocks (Combes and Guillaumont 2002). Our object, here, is not to review the determinants of commodity price instability. Instead, we recall below the transmission channels of price shocks, and show how, besides other factors, development assistance can contribute to increasing the resilience of the economy.

### *Transmission channels of price shocks.*

Price shocks have both a microeconomic and macroeconomic impact on growth and development. On the microeconomic level and in the agricultural area, when international price instability is transmitted directly to agricultural producers, its effects are more damaging to agricultural supply when producers are poor and unable to obtain insurance. In such circumstances, farmers are inclined either to scale back their investment and innovation owing to their apprehension about using riskier techniques or, even in a period of price drops, to forgo educating their children - a rather irreversible outcome. On the macroeconomic level, unstable international prices, insofar as they lead to instability in export earnings, are also a factor responsible for real exchange rate instability - that is, instability in the relative price of tradable and non-tradable goods, which occurs regardless of the nature of exchange rate regime. By disrupting signals about long-term market trends, this instability leads to poor resource allocation and, hence, to lower factor productivity.

Moreover, the impact of export earning fluctuations on the real exchange rate is not necessarily symmetric, notably owing to domestic price rigidities. An increase in export earnings during a boom period results in an appreciation of the real exchange rate, and in a loss of competitiveness of tradable good sectors that are not associated with the boom (a phenomenon generally referred to as the "Dutch disease"). In a fixed exchange rate regime, the shortfall in exports earnings is usually not likely to generate by itself a real depreciation that would improve competitiveness; in a floating exchange rate regime, the nominal depreciation may be much more important than the earlier appreciation, owing to imported inflation.

The instability of export earnings also extends to public finance, which may generate serious imbalances. During expansionary periods, the growth of tax receipts, as well as an easy recourse to external borrowing, lead to an increase in public expenditures. This results in public deficits during periods of declining prices. These deficits are in turn difficult to absorb,

owing to the downward rigidity of expenditures, especially those on wages and salaries. As a result, inflation and public indebtedness become a chronic problem.

Amongst public expenditures, the debt service is likely to be most affected by commodity price shortfalls. The recurrent payment incidents in sub-Saharan African countries are easily explained by the size of the shocks as compared to budgetary resources. The HIPC initiative and its bilateral complements admittedly aim at restoring long term debt sustainability, but they do so in a framework that does not take into account the risk of transitory but major price shocks, likely to lead to a severe liquidity crisis. In the occurrence of such a crisis, without appropriate support, the country may not be able to meet its debt service obligations and may be subject to sanctions. External financing is then interrupted, while the country's rating on financial markets deeply and durably deteriorates. The ensuing recession is likely to transform the initial liquidity crisis into a new solvency crisis.

Beside debt service, public investment constitutes one of the most flexible components of public expenditures. Its instability, induced by that of exports, results in a lower average rate of return, due to the low return of many investments launched in boom periods, compared to the higher return of those given up when short falls occur (Guillaumont, Guillaumont Jeanneney, and Brun 1999).

Lastly, through the several channels we have just pointed out, the instability in export earnings and the related relative price instability are likely to lead to political instability, due to their significant impact on absolute and relative incomes. Thus, this export (price) instability may be an important explanation for the relation found between the share of the primary commodities in the exports and the risk of conflicts: Collier and Hoeffler (2002), who emphasized this relationship, suppose that the presence of primary commodities gives rise to a rent seeking behavior, and favors the financing of rebels. However, the instability of exports earnings - greater when exports are mainly primary commodities- exacerbates feelings of frustration. When the instability of exports, weighted by the rate of openness, is included in a conflict determination model *à la* Collier-Hoeffler, not only does the risk of conflict increase significantly, but also the significance of the share of the primary commodities in exports vanishes (Chauvet and Guillaumont 2003). The impact of export earning instability on political instability therefore seems to be an important channel through which growth sustainability is disrupted (Arcand, Guillaumont and Guillaumont-Jeanneney 2001).

#### *Aid as a Factor of Resilience to Price Shocks*

The recognition of the harmful nature of commodity price instability on the economies of exporting countries contributes to justifying external assistance for such countries. Aid is all the more justified that in vulnerable countries (those subject to highly unstable world prices) it has proven to be more effective in terms of growth than it has been in countries that are economically less vulnerable. As much as sound policy, vulnerability makes aid more effective or, to put it differently, aid dampens the negative consequences of vulnerability (Chauvet and Guillaumont 2004; Guillaumont and Chauvet 2001). In particular, aid is marginally more effective during periods of declining commodity prices (Collier and Dehn 2001). The various studies referred to here document both the negative effect of instability or of price declines (an additive variable in econometric estimates) and the attenuation of this effect thanks to aid (multiplicative variable).

The role of aid as a cushion against developing countries' vulnerability to price shocks appears to mainly take place through an increase in their resilience. As shown by the experience of past international agreements on prices, it is hardly possible to act efficiently on the evolution of international prices, or on the size of the shocks (Guillaumont and Guillaumont-Jeanneney 2003). Regarding exposure to shocks, action can only take a long-term perspective as it involves a diversification of exports that results from development itself. However, aid increases the resilience to price shocks not only through its volume, but also through its modalities. A brief examination of the several channels through which international price instability affects development reveals that dampening price shocks has both *macroeconomic* (through government budget, the real exchange rate, political stability) and *microeconomic consequences* (in sectors directly affected). Aid can intervene at these two levels to attenuate vulnerability to international price instability.

### **3. Aid to Dampen the Macroeconomic Consequences of International Price Instability**

The expression "dampening price shocks" most often refers to dampening price drops. However, price shocks may be positive as well as negative. One clear lesson from the past thirty years is that rapid rises in international prices have drawn economies into situations that were particularly difficult to manage when prices later fell. Hence the occurrence of *positive and negative shocks in succession*—in other words, price instability—is at the root of the problem.

It is as if price booms were perceived as permanent shocks, i.e as information on long term trends, likely to sustain a higher level of expenditures, and shortfalls as transitory shocks, to be compensated. A well-designed dampening policy has to avoid this mistake and to always refer to long term signals. It must help developing countries to face the risks linked to short term price fluctuations, through an improvement of the management of their export booms so that they can increase their resilience to following price shortfalls.

The international community cannot content itself with emphasizing the importance of sound domestic macroeconomic management for purposes of dampening shocks, because such shocks precisely make the conduct of economic policy more difficult. The role of the international community in response to shocks could be to act simultaneously to provide insurance and promote sound management. The general idea is that the international community could help introduce automatic stabilization mechanisms by financing their costs subject to the adoption of agreed and controllable management rules. In short, the international community would offer a guarantee in exchange for a commitment to rules. Such "ex-ante" conditionality is essential to justify an automatic response to shocks, without attempting to subject the use of funds made available to other forms of conditionality.

The financial instruments used to compensate shocks and implemented at the international level were not exactly in accordance with this principle, and have shown their limit: neither the IMF compensatory financing created in 1963, nor the export earnings stabilization system, so called Stabex, which worked out during the Lomé Conventions, covering the period 1975-2000, have correctly met this automaticity principle. Even if the compensatory financing had been initially implemented with a less severe conditionality than the standby agreements, it simply became an additional mechanism in complement to other IMF mechanisms, in particular the SAF and of the ESAF for the lower income countries, and was therefore submitted to the same conditionality. The Stabex has increasingly suffered from the contradiction inherent to its two basic principles: automatic stabilization and targeting stabilization funds to agricultural sectors affected by price shortfalls. This is the reason why,

along with the successive conventions, under the pressure of European countries, the control of the Commission on the use of Stabex funds became increasingly important, implying longer and longer delays in disbursements and removing their contracyclical effects, without guaranteeing any real compensation for the farmers affected by price shortfalls (cf. Collier, Guillaumont, Guillaumont-Jeanneney and Gunning 1999 and CERDI 1998). The new mechanism, the “support in case of short term export earnings fluctuations”, which has replaced Stabex in the Cotonou Convention, seems to be closer than Stabex to genuine budgetary support, but it also requires agreement on the allocation of the funds. However, it may be possible to amend its working rules towards more automaticity.

A convenient way to insure automatic compensation to shocks is to link debt service to the evolution of export prices or export revenues. But another solution has to be found for the poor countries with a low level of indebtedness.

*Automatic adjustment of debt service to price shocks: an ex ante management of price shocks.*

The proposal to link public debt service to the evolution of export prices offers a macroeconomic application of the principle of not only compensating for price shortfalls but also for price instability. Alleviating public debt service when prices are low, but increasing it when they are high induce a contracyclical effect on public finance: the lowering of external debt service allows the economy to maintain other domestic expenditures in spite of the decrease in tax revenues induced by the export shortfall. In the opposite situation, increasing the debt service avoids the risk of a destabilization and of a hardly reversible increase of public expenditures that could result from the rise in prices and receipts. Such a system could be implemented for any commodity dependent country willing to adopt it and to effectively commit to increase the public debt service when export prices and revenues increase. Clearly, credibility and respect of this commitment are the most sensitive issues for such a system to work properly.

The implementation of such a scheme obviously raises several questions: (i) the nature of the reference indicator (the price of one or several primary commodities, or export earnings), (ii) how to compute this reference indicator, (iii) the modalities of adaptation of the debt service (canceling or delaying the installments). The answer to the first question depends on whether the loan is sovereign or not. Referring to a single commodity price is not conceivable except for the case where the loan is contracted with a firm or an organization whose activity is mainly linked to one particular commodity<sup>2</sup>. When a loan is made to a government, the main primary exports, or even the whole range of exports are to be considered as a reference. The question is then to know whether the reference must be an average price of the exports or the export revenues. The advantage of the second solution, which was that used in the Stabex compensatory financing facility, is to take into account both price and quantity shocks resulting from exogenous events, such as climatic events, or from the price evolution itself. The advantage of the first solution is to enable the mechanism to rely on international rather than on national data and to be independent from domestic behaviors and policies that could influence export revenues.

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<sup>2</sup> For instance, a loan granted to the North Province of Nouvelle-Calédonie by the AFD in 1990 in order to finance the repurchase of the shares of a mining firm was dependent on an “increase or delay of the capital payments if the nickel price LME is above or under 3,75\$/£b or 2,5\$/£b respectively, while the length of the loan cannot last over 13 years”.

The second question deals with the definition of a price or a revenue reference to derive the threshold triggering the mechanism. It seems logical to refer either to a trend value or to a price considered as reasonable by the main producers and consumers. To avoid the mechanism to be permanently activated, minimum deviation from the reference value have to be defined . These questions have been extensively studied in the context of the various types of compensatory financing schemes (e.g. CERDI 1998).

Two approaches are conceivable about financing. A global approach would be to modulate total public debt service. This would require a multilateral rescheduling fund, financed by the supplementary debt service paid by debtors facing temporarily higher prices, or possibly by insurance contracts subscribed by governments and supplemented by official development assistance, at least for the initial endowment. This solution allows for an equitable burden sharing between creditors. A loan by loan approach would consist in experiencing new loan contracts including an automatic adjustment of payment modalities. This second approach has the advantage of emphasizing the responsibility of both creditors and debtors, as they cannot rely, as a last resort, on an external structure to provide risk coverage by an external structure. However, this solution could not be fully effective as long as a new generation of loans has been substituted to the existing one.

Beside loans with adjustable debt service, whose management is necessarily complex, other schemes can be conceived that deserve examination. For example, any concessionary loan is in fact a combination of a classical loan and of a grant. We can therefore imagine a financing scheme based on loans with constant annuities complemented with grants that could be raised in case of an exogenous temporary (negative) shock and that would then help cover the debt service, partly or entirely. These grants could be financed by a decrease in the concessionality of the loan, resulting from a smaller interest bonification or by a shorter period of amortization<sup>3</sup>. This kind of scheme avoids the difficulty of increasing the debt service when export prices or revenues increase. The management of the loan repayment would remain classical, but some payments could be covered, partly or entirely, by the associated grant activated in case of decreasing prices. If no shock occurs, we could imagine to use the grant, or a part of it, to substitute for the last payments<sup>4</sup>. However, the disadvantage of this approach is that it doesn't work symmetrically in case of an increase or a decrease in prices and that it provides no incentive for a sound management of the booms. We could imagine that, to be covered by such an insurance, countries would have to commit to sound economic policy rules .

These examples emphasize the potential for financial instruments indexed on the shocks faced by poor indebted countries. However, their technical, juridical, financial and political feasibility are still to be analyzed, as is the way to articulate them with the other ODA instruments. Obviously, adopting such an approach raises the question of the coordination between the various creditors: without any coordination, a prisoner dilemma appears; no creditor has any incentive to propose to adjust his instruments to price shocks, lest he would thus facilitate payment of the debt service owed to other creditors without any improvement for the beneficiary country.

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<sup>3</sup> As the long periods of payments delays for the sovereign concessionary loans would seem less justified if the financing scheme were not tied to the only intern characteristics of the project.

<sup>4</sup> The Net Present Value of the grant would be inferior, because it would only be engaged at the end of the repayment. The part of concessionality of that scheme would not be entirely expectable, but would be limited within a known range, depending on the moment where the grant would be called for.



HIPC countries, which are particularly dependent on primary commodities, might find an interest in such schedules, even if they already took advantage of debt cancellation. The aim of the HIPC initiative is to converge to a debt to export ratio equal to 150%. However, sustainability at this level is analyzed assuming a growth rate of exports, without any explicit mechanism to adjust the level of the debt and its service to the evolution of the exports price. We could apply the schedule we detailed above to the remaining debt. The benefit for HIPC countries would crucially depend on the reference threshold of the export price. As a matter of fact, at the completion point, the international price of several commodities was relatively low and therefore could not be used as a reference threshold.

More generally, maintaining sovereign concessionary loans in countries highly vulnerable to price shocks may imply to move from an ex post to an ex ante management of price shocks as regards their impact on the external debt service. The volume, or profile, of the debt service would be, directly or not, adjusted according to these shocks. It is a major challenge both for the provisional fiscal planning of donor countries, and for coordination among donors, financial engineering of ODA and measurement and management of concessionality in ODA. This kind of approach would not have to be restricted to the debt stock of the countries eligible at the HIPC initiative. It would provide a significant step towards a new indebtedness strategy more realistic, appropriate and sustainable.

*Price shocks management in poor countries financed by grants : a special fund for LDCs ?*

This type of proposal should not mask the reality that other countries, while not heavily indebted, remain extremely dependent on their commodity exports and subject to significant price shocks. It would be paradoxical for a new international initiative intended to address such shocks not to take such countries into account or to exclude them for the simple reason that they are not heavily indebted. The logical response would then be for automatic assistance to be extended to them in the event of price drops beyond a certain threshold, subject to the condition that they undertake to repay the aid at a pace that itself depends on price developments. In this spirit, a reasonable proposition would be to create a new mechanism for automatic assistance in the event of price declines that is reserved for "Least Developed Countries". Let us recall that this category has been established by the United Nations with a view to ensuring differential treatment and is based on criteria whereby they may be identified as particularly vulnerable low income countries<sup>5</sup>. We also remember that aid is even more effective for economic growth as a country is more vulnerable (Guillaumont and Chauvet 2001). This aid, extended in grant form, would be distinct from the International Monetary Fund's compensatory financing. It should correspond to partial compensation subject to the sole condition that the country previously committed to limit the growth of its public expenditure during periods of high prices. The country would thus be prompted to set aside a portion of the gains registered when prices are high in order to maintain its spending levels when prices decline to the extent such drops are not offset by the international community<sup>6</sup>. This would thus play the role of insurance and constitute an incentive for self-

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<sup>5</sup> On the method for identifying the Least Developed Countries (LDCs), see United Nations (2000, 2003).

<sup>6</sup> Of course, there is no guarantee that this mechanism constitutes a sufficient incentive to induce a smoothing behavior.

insurance. It should be possible to mobilize the resources necessary for this mechanism insofar as it would be limited to the category of “Least Developed Countries”.<sup>7</sup>

#### **4. The role of Aid as an Instrument to Face Sectoral and Microeconomic Impact of International Price Instability.**

Since price instability has unfavorable effects on both the macroeconomic and sectoral levels, it is logical for the mechanisms to be designed in such a way as to remedy the effects of instability at each of these levels. Our focus here is on mechanisms aimed at attenuating the effects of price instability in the agricultural sector.

##### *Combining Macroeconomic and Sectoral Support*

The intensity with which international price instability is transmitted to exporters and agricultural producers depends on the tax and parafiscal policies of the government as regards agricultural exports. In the absence of such levies, price changes are transmitted in their entirety, which does not preclude an influence on general tax receipts owing to the impact of price changes on national income. In the case of levies that are proportional to the value of exports and constant, the direct income gain or loss is shared by the government and the sector, which may result in greater producer price instability than international price instability if marketing costs are rigid. Naturally, by modifying its tax rates, the government changes the conditions under which gains or losses are divided between itself and the stakeholders in the sector. For this reason, the external support for a policy aimed at using insurance mechanisms to reduce the risks incurred by producers owing to price variability must ensure that it does not constitute a pretext for a greater transfer of risk from the government to producers. In other words, it must be accompanied by fiscal conditionality.

##### *Insurance Schemes or Guarantee Funds ?<sup>8</sup>*

First, the international community could assist with establishing insurance mechanisms for agricultural producers in low-income countries who currently find them out of reach owing to their cost. Producers could then take out insurance at a modest price, in the form of an option to sell a given volume of their harvest. The price at which the option is exercised should be set in terms of the past trend for the international price. There would be no risk of adverse selection, but rather a beneficial selection, as it affects those with the greatest need, and there would be no moral hazard in that farmers, at least those producing export crops, cannot influence prices and the government’s behavior is subject to conditionality. The external support should both cover a portion of the costs of managing the options and guarantee the financing of the possible gap between the option exercise price and the producer price corresponding to the international price at the time the export product is sold.

The advantage of this solution is that the sale of options could be managed by private operators. Moreover, it could be associated with insurance on the volume of harvests. To be

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<sup>7</sup> It would not be out of the question to use in this way the “support in cases of short-term fluctuations in export earnings” provided under the Cotonou Agreement to the African, Caribbean, Pacific (ACP) countries with, moreover, less rigorous eligibility criteria for the ACP which are members of the category of the Least Developed Countries as defined by the United Nations.

<sup>8</sup> This section is based on Collier and others (1999) and on Guillaumont P. and S. Guillaumont Jeanneney (1990)

sure, the ease with which this approach could be implemented would vary from country to country, depending on the scale, location, and dispersal of producing units. The major drawback is that it would dampen only negative shocks, as it is difficult to conceive of circumstances in which producers would undertake to pay back a portion of their earnings in the event of unusually high international prices.

This highlights the objective of reducing the variability of the prices paid to producers, notwithstanding the flaws in the operation of stabilization funds. Conceivably, the international community could provide its support to guarantee funds whose operation would meet a number of conditions. The two key conditions pertain to the flexibility of the reference price and the placement of the monetary assets involved.

The price guaranteed to the producer should be calculated on the basis of an international price that is gradually adjusted toward the international market trend and reflects normal marketing, transportation, and processing costs and perhaps a rate of public levies itself determined in light of the international trend price. This guaranteed price should be widely disseminated by the government throughout the country by the radio and other media. However, the risk of predation by intermediaries is high in some countries (e.g. Assidon 1989), but is reduced when strong producers' organizations exist. The guarantee fund would be credited by the positive differentials between the effective international price and the trend price and be debited by the negative differentials.

The cash assets of the guarantee fund, built up both by contributions from producers during periods of high prices and by international assistance, should be managed by a body that is independent of the government and preferably has international status. These funds would thus be beyond the government's reach, which is necessary in order to ensure the credibility of the system and would make it possible to use them countercyclically.

The operation of such a guarantee is compatible with trade liberalization and can accommodate various forms of marketing, including those that give producers' associations an important role. In order to prevent different systems in neighboring countries from favoring informal reexports to the country where the highest price is offered, it would be advisable to design the guarantee system in a regional context.

International community support for this kind of guarantee fund would be all the more justified should it cover products whose prices are structurally depressed and for which price variability is boosted by the subsidies that industrial countries pay to their own producers, in particular in the event of price declines.

## **5. Conclusion**

The negative consequences of commodity price instability on the political stability and economic development of poor countries have now been sufficiently documented to legitimate international answers. Recent declarations of the French President at the Summit of the Heads of State of Africa and France and the coming G8 meeting offer an opportunity for new thinking and new initiatives in this field.

Lessons have been drawn from numerous measures which have been implemented for forty years and have failed, mainly because they have ignored long term market trends. New

solutions exist, however, that respect market trends and rely on contracts between the international community, States and producer organizations. The common feature of the measures presented in this communication is to offer a guarantee in exchange for some commitments to rules, likely both to improve the macroeconomic management of the shocks and the protection of poor producers.

These solutions could be combined with the treatment of highly indebted countries' external debt and with schemes based on contra-cyclical grants for the Least Developed Countries. Resources needed to implement such guarantees would not seem to be enormous. Moreover it is conceivable to redirect existing schemes, such as, after amendments, the Compensatory Finance Facility of the I.M.F., or the "support in case of short-term fluctuations of export earnings", included in the Cotonou Convention.

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