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REPORT

on the operation between 1987 and 1991 of the system of compensation for loss of export earnings for least-developed countries not signatory to the third ACP-EEC Convention

(presented by the Commission)

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1. Background

1.1 At the Paris conference on the least-developed countries in September 1981, the industrialized countries were asked to examine the possibility of helping these countries to offset the adverse effects of loss of foreign exchange earnings from exports of commodities.

1.2 In response to this request, the Community undertook to consider the possibility of extending the benefits of a system like Stabex, applied to the ACP States since 1975, to the least-developed countries not signatory to the Lomé Convention. Although initially a common position could not be reached on whether its decision to set up such a system should be dependent on an identical commitment from other donor countries, in October 1985 the Community reached an agreement on extending the Stabex system. It announced its intentions at an UNCTAD meeting in Geneva devoted to a mid-term review of the Substantial New Programme of Action.

1.3 The principles underlying the new system were drawn up in 1986 and officially adopted by the Council on 9 February 1987 in the form of:

- a framework Regulation (No 428/87);[1]
- an implementing Regulation (No 429/87)[1]

2. How the system has developed

2.1 When the system was set up, eight countries classified by the United Nations as among the least-developed and not signatory to the Lomé Convention, were eligible for the system (see Annex II of the implementing Regulation).

To date four of the eight potential recipient countries have not made use of the system. These are:

(a) the Kingdom of Bhutan, virtually all of whose exports go to India;
(b) the Lao People's Democratic Republic (see point 3.3 below);
(c) the Republic of Maldives, which has exported to the Community only very small quantities of the products covered by the system, thus not reaching the threshold of dependence referred to in Article 6(1) of Regulation 429/87;
(d) the People's Democratic Republic of Yemen (see point 3.4 below).

1 OJ No L 43, 13.2.1987.

The other four countries (People's Republic of Bangladesh, Republic of Haiti, Kingdom of Nepal and Yemen Arab Republic) have received several transfers for various products during the five years of the system's application, the details of which are shown in the tables in the Annexes.

2.2 In August 1988 the Commission proposed to the Council that Burma (Myanmar) should be included in the list of countries eligible for the system and that the estimated budgetary cost of implementation should therefore be altered. Although Parliament gave its approval in January 1989, the Council's final decision on the inclusuion of Burma was none the less kept fairly low key because of the country's political situation.

2.3 In 1990 the number of countries eligible for the system had fallen from eight to six for the following reasons:

(a) having acceded to the fourth ACP-EEC Convention, Haiti will, from the 1990 application year (1991 financial year), be covered by the Stabex system set up under that Convention. In July 1990 the Commission therefore proposed to the Council that the Republic of Haiti should be removed from the list of countries eligible under the system of compensation for loss of export earnings for least-developed countries not signatory to the ACP-EEC Convention. At the same time the system's overall budget was cut to ECU 47 million.

(b) The two Yemens (Arab Republic and People's Democratic Republic) joined together in May 1990 into a single sovereign state called the Republic of Yemen.

3. Implementation of the system

3.1 Since Community cooperation with some of the recipient countries under the new system began only shortly before the system was officially set up, or had never been established with others, its implementation posed some difficulties.

3.2 At the outset many of the difficulties were connected with statistical cooperation. The fact had to be faced that most of the countries concerned were unable to take on quickly the tasks assigned to them by the Regulations.

In some cases, losses even had to be calculated on the basis of Community import statistics to ensure that these countries were not excluded from the system. This situation has improved over the years and, although not perfect, it is at present relatively satisfactory.

Of the countries which have already benefited from the system since its implementation, this is particularly the case for Bangledesh and Nepal, but less so for Haiti and the Yemen Arab Republic.

3.3 Laos seems to be having great difficulty in changing course after long years of unadulterated socialism. Following recent political changes, there are signs of an attempt to set up a market economy, but much remains to be done. Its geographical situation as a landlocked country does not, moreover, make the task any easier.

Laos has not, therefore, taken advantage of the system so far.

3.4 The former People's Democratic Republic of Yemen is probably in a similar situation, although the country has never been visited. Following its merger with the Yemen Arab Republic, it will be interesting to see how the new Republic develops.

3.5 The former Yemen Arab Republic has received only one transfer for coffee for the 1986 application year. Since then its transfer requests - in 1988 and 1989 for coffee and hides and skins - have been refused, either because they were presented too late (in 1988) or because the request was statistically insignificant (1989).

In 1990 and 1991 this country did not submit any transfer requests.

3.6 Haiti has received four large transfers for coffee and cocoa under the 1987 and 1988 application years. In 1990, however, its requests could not be accepted because they were presented too late.

3.7 Bangladesh and Nepal presented requests for Stabex transfers for a variety of products in each of the five years of the system's application. The results of these requests are shown in the tables in the Annex.

4. <u>Financial management</u>

4.1 Article 4 of the framework Regulation states that: "the estimated budgetary cost of implementing the system ... should not exceed ECU 50 million for the five-year period".

4.2 As a result of Haiti's withdrawal from the list of eligible countries in 1990, this sum was reduced to ECU 47 million because there were then fewer eligible recipient countries in financial year 1991 (1990 application year).

4.3 During the five years that the system has been applied, the breakdown of appropriations entered in the budget of the corresponding financial year was as follows:

Application year	Financial year	CA (ECU million)	PA (ECU million)
1986	1987	6.25	5
1987	1988	13.75	15.0
1988	1989	10.0	10.0
1989	1990	10.0	10.0
1990	1991	6.0	7.0
	Total	46.0	47.0

4.4 Justified transfer requests, by contrast, amounted to:

Application year	Financial year	Justified transfer bases
1986	1987	ECU 9 405 850
1987	1988	19 058 102
1988	1989	15 188 487
1989	1990	3 306 986
1990	1991	64 213
	Total	ECU 47 023 638

4.5 By comparison with "the estimated budgetary cost of implementing the system" (Article 4 of Regulation No 428/87), namely ECU 50 million, subsequently reduced to ECU 47 million, it could be supposed that losses were virtually totally covered (99.95%).

In fact, however, because of the budget appropriations available for each financial year, the Commission had to reduce the transfer bases fairly substantially in 1988 and 1989. These reductions amounted to 44.4% and 34.16% respectively.

Consequently, when the amount of the justified transfer bases (ECU 47 023 638) is compared with that of the transfers actually paid (ECU 33 371 199) the cover is no more than 70.97%.

5. Use made of transfers

5.1 The following operations have been planned by the recipient countries

Year	Country	Product	Planned use	
1986	Nepal	Hides and skins	In the sector:	Improvement of processing techniques. Market surveys and trade promotion. Imports of machines and equipment.
"	Bangladesh	Tea	"	Improvement of road and telecommunications infrastructure. Preventive health care. Irrigation.
		Jute	"	Improvement of quality and new manufacturing processes. Search for new possibilities of using jute in local industries. Trade promotion. Rural regional development.
1987	Nepal	Hides and skins	In the sector	Improvement of SMEs' processing techniques and extension services.
"	Bangladesh	Jute	"	Free distribution of seeds. Intensification of jute growing. Development of new seeds
		Tea	"	Improvement of infrastructure. Irrigation. Education. Trade promotion.
"	Haiti	Coffee/cocoa	In the sector "	Improvement of road infrastfucture. Improvement of production and marketing. Execution of microprojects in production areas.
1988	Nepal	Hides and skins Lentils	In the sector	Improvement of quantity and quality of products. Modernization of infrastructure. Purchase of equipment.
"	Bangladesh	Jute	"	Rationalization of cooperatives. Training of labourforce.
"	Haiti	Coffee/Cocoa	"	))same three schemes as in 1987.)

1989	Nepal	Hides and skins	"	Improvement of production and products. Vocational training. Modernization of technical infrastructure.
"	"	Lentils	"	Improvement of production and products. Identification of new schemes.
"	Bangladesh	Tea	"	Continuation of operations programmed/undertaken in previous years.
1990	Nepal	Lentils	"	As in 1989 (subject to acceptance by the Nepalese government of the recommendations made by the consultant auditor in his final report, see point 5.2 below).

5.2 With regard to carrying out the planned projects, it cannot be denied that delays, sometimes considerable, have held up their implementation.

5.2.1 For example, after a long period of political upheaval in Haiti, it was only in the spring of this year that the operations that had been decided actually began.

5.2.2 In Nepal, uncertainty about how best to use the resources transferred led the Commission to postpone payment of the 1989 transfers (see point 15 of the 1990 report on administration of the system) and to send a consultant auditor to examine the question in situ. It emerged from this fact-finding mission, which took place this spring, that political and ideological disagreements on the use of the funds - for example, whether they should be invested in existing private firms or used to create new public sector centralized installations under government control - were at the root of the delays. These disputes appeared to be over at the end of last year when the decision was taken to promote the private sector. According to the auditor's final report, following recent political changes and decisions in Nepal, a 90% rate of utilization of the resources already transferred (ECU 1 714 265 for the two sectors in question in the first three application years) can be hoped to be achieved by the end of this year.

5.2.3 As stated in the 1990 report on administration of the system (see point 18), implementation of projects and schemes financed with Stabex funds in Bangladesh in the jute and tea sectors is under way, although more slowly than expected. In this case, lengthy and complex procedures on the part of the recipient country (e.g. for the approval of work plans and budgets, the appointment of consultants, the purchase of equipment and the award of contracts) and the need to involve several bodies (often from outside the sector) are the main causes of delay.

As a result, to date only some 10% of the total funds allocated to Bangladesh between 1987 and 1990 (ECU 19.5 million) seem to have been actually used. The resources which have not been used are frozen on interest-bearing accounts.

5.2.4 The transfer received by the former Yemen Arab Republic in 1987 for the 1986 application year (ECU 379 013) has not yet been spent, although there were plans for it to be used under the regional development programme in Al Mahwit. This delay is due, among other things, to the process of uniting the Yemen Arab Republic and the People's Democratic Republic of Yemen into a single sovereign state and consequently, establishing a new administration.

5.2.5 On the whole there is no doubt that the Stabex system for least-developed countries in Latin America and Asia has acted as a very useful instrument of guarantee and insurance in the case of crises or serious external influences on the key sectors of the recipient countries concerned. By means of transfers of quick-disbursing resources, the system has helped not only to mitigate the adverse affects of these upheavals at a macroeconomic level but have also had an enormous impact on the sectors and people affected.

Although major structural problems in a number of the affected sectors have hampered efficient programming and although the use of transfers has in some cases been harder and slower than expected, in others, such as the jute sector in Bangladesh, the system has begun to make a considerable contribution to achieving viable structural solutions.

This aspect, namely the "longer-term structural effects" of Stabex LLDC-ALA transfers, in addition to the more immediate relief they provide, deserves particular emphasis.

6. Conclusions

Clearly any new system requires a certain amount of time to get off the ground and for those involved, particularly the "users", to familiarize themselves with the system, before it becomes fully operational. This is also true of the system of compensation for loss of export earnings for least-developed countries not signatory to the Third ACP-EEC Convention, set up by the Council in February 1987.

The first transfers paid under this new instrument were authorized by the Commission in December 1987 and were made available to the recipient countries at the beginning of 1988, in other words just three and a half years ago. This is a short amount of time considering the situation obtaining in the public administration of the countries concerned - the poorest in the world - and their lack of infrastructure.

Furthermore, although these countries' financial aid requirements are large, the constraints imposed by the Regulations with regard to the use of funds, although justified, have not made it any easier for the transfers to be used promptly.

It is, however, clear that the funds already spent, however small the amounts, have begun to bear fruit and to have an impact on the people in the countries concerned. Since teething problems are in the process of being overcome, or have already been overcome, this impact is bound to grow.

The lack of infrastructure referred to above has meant that some countries, such as Laos, have never been able to make use of the system. This "unfairness" will now be got rid of, if the system is extended, because the new Regulation will be based on EEC import statistics.

This system should therefore be continued.

ANNEX I

BREAKDOWN OF LLDC-ALA STABEX TRANSFERS

(in ECU)

A. BY FINANCIAL YEAR

Financial year	Justified transfers	Reduction applied	Final transfers	Cumulative total
1987	6 228 876	–	6 228 876	6 228 876
1988	3 176 084	–	3 176 974	9 405 850
"	19 058 102	8 463 952	10 594 150	20 000 000
1989	15 188 487	5 188 487	10 000 000	30 000 000
1990	3 306 986	–	3 306 986	33 306 986
1991	64 213	–	64 213	33 371 199
TOTAL	47 023 638	13 652 439	33 371 199	

ANNEX I

B. BY COUNTRY

LLDC-ALA	Application year	Amount of transfer(s)	Cumulative total	Percentages
BANGLADESH	1986	8 794 078	8 794 078	93.50*
	1987	4 940 801	13 734 879	46.64*
	1988	3 108 425	16 843 304	31.08*
	1989	2 636 394	19 479 698	79.72*
				58.39**
				41.45***
HAITI	1987	5 133 808	5 133 808	48.46*
	1988	5 929 610	11 063 418	59.30*
				33.16**
				23.54***
NEPAL	1986	232 759	232 759	2.47*
	1987	519 541	752 300	4.90*
	1988	691 965	1 714 265	9.62*
	1989	670 592	2 384 857	20.28*
	1990	64 213	2 449 070	100.00*
				7.34**
				5.22***
YEMEN	1986	379 013	379 013	4.03*
				1.14**
				0.81***

* Of the amount paid by comparison with total transfers calculated for that year.

** Of total transfers paid between 1987 and 1991.

*** Of the overall budgetary cost (ECU 47m).

C. BY PRODUCT/COUNTRY

Country	Product	Application year	Amount of transfer	Cumulative amount
BANGLADESH	jute	1986	6 739 646	
		1987	3 089 889	9 829 535
		1988	3 108 425	12 937 960
		1989	291 648	13 229 608
	tea	1986	2 054 432	
		1987	1 850 912	3 905 344
		1989	2 344 746	6 250 090
HAITI	coffee	1987	4 854 941	
		1988	4 069 866	8 924 807
	cocoa	1987	278 867	
		1988	1 859 744	2 138 611
NEPAL	hides and skins	1986	232 759	
		1987	519 541	752 300
		1988	853 838	1 606 138
		1989	557 893	2 164 031
	lentils	1988	108 127	
		1989	112 699	220 826
		1990	64 213	285 039
YEMEN (Arab Rep.)	coffee	1986	379 013	379 013

ANNEX II

Reasons for refusing transfer requests

Year	Country	Product	Grounds
1986	Bangladesh	shrimps and prawns	No loss
	"	hides and skins	"
	Yemen Arab Rep.	hides and skins	"
	"	cotton	dependence threshold not reached
1987	Nepal	lentils	no loss all destinations
	Bangladesh	hides and skins	no loss EEC
	"	shrimps and prawns	"
	Yemen Arab Rep.	hides and skins	late request
	"	coffee	" and no loss
1988	Bangladesh	hides and skins	no loss all destinations
	"	tea	"
	"	shrimps and prawns	"
	Yemen Arab Rep.	hides and skins	no loss
	"	coffee	statistically insignificant request
1989	Bangladesh	hides and skins	no loss
	"	shrimps and prawns	no loss all destinations
1990	Bangladesh	jute	)no loss, either for exports to all
	"	shrimps and prawns	)destinations or for those to the
	"	hides and skins	)EEC
	"	tea	no loss all destinations
	Nepal	hides and skins	no loss all destinations