COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION

on the operation in 1998 of the
export earnings stabilisation system under the
fourth ACP-EC Convention as revised by the
Agreement signed in Mauritius

I. INTRODUCTION

1. Article 31(3) of the Internal Agreement on the financing and administration of Community aid states:

   "Each year the Commission shall draw up a comprehensive report for the Member States on the operation of the system of stabilisation of export earnings and the use made by the ACP States of the funds transferred."

2. This report covers the activities of the ACP-EC institutions and the administration of the system in 1998, paying special attention to the allocation of transfers for 1997, the third year of application of Stabex under the fourth ACP-EC Convention as revised by the Agreement signed in Mauritius.

   For the fourth year of application in a row, it has been possible to cover all transfers.

II. ACTIVITIES OF THE ACP-EC INSTITUTIONS

3. The operation of Stabex was discussed at the 45th meeting of the ACP-EC Committee of Ambassadors (Brussels, 3 April 1998).

4. At its 23rd meeting in Barbados on 7 and 8 May 1998 the AC-EC Council of Ministers authorised the Committee of Ambassadors to decide on Gambia's request for its exports of groundnuts in shell or shelled to Senegal to be funded by Stabex for the 1997 application year (Article 189(1(b)) and (2) of the revised Convention). The Committee of Ambassadors decided on 23 June 1998 to approve Gambia's request.

III. TRANSFERS FOR THE 1997 YEAR OF APPLICATION

5. Calculation of the transfer bases

For the 1997 year of application, the Commission found 11 ACP States to be eligible for 14 transfers under the Stabex arrangements. The 14 country/product groups for which losses of earnings eligible for compensation were recorded are listed in Table 1 of this report (see page 21).

6. After calculating the reduction provided for in Article 197(3) and (4) of the Convention, the transfer bases totalled € 80 644 268.

Under Article 204 of the Convention the transfer basis calculated from the Community's import statistics is reduced to the level of the transfer basis calculated from the statistics on the exports to all destinations of the ACP States concerned, where the latter amount is less than the former.

7. Reductions under Article 203

Trends in marketed output, and total exports to the Community of the products in question meant that, in some instances, consultations under Article 203 of the Convention had to be held between the Commission and the representatives of the ACP States. The consultations resulted in the following reductions being made:

7.1. Reductions applied as a result of significant changes in trends in marketed output of the product in question

ACP State	**Product**	**Reduction**	
		Amount in euro	**% of transfer basis (TB)**
Senegal	Groundnut oil	1 411 098	10.2
Gambia	Groundnuts	388 240	13.7
Rwanda	Coffee	145 281	9.8
Dominica	Bananas	719 442	27.6
Saint Lucia	Bananas	4 699 895	33.4
Saint Vincent	Bananas	4 711 060	42.3
Grenada	Bananas	2 761 011	97.9
Tonga	Vanilla	203 101	14.5

7.2. Reductions applied as a result of a decline in exports to all destinations as a proportion of marketed output

ACP State	**Product**	**Reduction**	
		Amount in euro	**% of transfer basis (TB)**
Tonga	Vanilla	812 318	58.3

8. Calculating the transfers

Following consultation, where appropriate and as required under Articles 202 and 203 of the Convention, the total amount of eligible transfers was therefore calculated as ECU 64 792 822.

For the 1997 application year Stabex resources stood at:

	in €
– Annual allocation for 1997	360 000 000
– Carryover from 1995 to 1997	271 251 306
– Carryover from 1996 to 1997	286 415 194
– Interest at 30 June 1998	20 534 112
Total:	938 200 612

This covered all transfers for 1997.

9. Results by recipient country and product

Table 2 (page 22) gives the results by recipient country. As in 1994 1995 and 1996, the Caribbean countries are the main recipients, their earnings losses on bananas being due to structural problems in the sector.

10. The balance per product (see Table 3, page 23) shows that bananas, at 27.3%, are still responsible for the largest share of the transfers. In many cases the transfers made represent a substantial addition to the recipient State's total export earnings, examples being:

ACP States	**Product**	**Transfers as % of total 1997 earnings from the product concerned (estimated)**
Gambia	Groundnuts	17.9
Saint Lucia	Bananas	18.7
Saint Vincent	Bananas	17.0
Comoros	Vanilla	33.4

11. However, a more precise measure of the effect of the additional Stabex revenue on the sector concerned can be obtained by comparing the amounts transferred with the export earnings from the products for which the transfer is requested:

ACP States	Product	Transfers as % of total 1997 earnings from the product concerned
Senegal	Groundnuts	30.2
Gambia	Cotton	50.5
Madagascar	Coffee	29.9
Dominica	Bananas	13.9
Saint Lucia	Bananas	33.3
Saint Vincent	Bananas	53.0
Comoros	Vanilla	90.7

These proportions can be high, especially when exports of the product in question are fairly low and fluctuate substantially from year to year. When low market prices combine with temporary difficulties in the sector, losses of revenue can be severe and give rise to relatively large transfers. Even when export revenue from a particular product is high, the transfers make a significant contribution.

IV. USE OF TRANSFERS

12. Framework of Mutual Obligations

12.1 BENIN

Application year:	1995 + balance of 1st Financial Protocol		
Product:	Palm products	1995 balance 1st FP	€ 205 442 € 5 465
Date of payment:	9.10.96 (1995) 10.10.96 (balance)		
FMO signed:	18.08.1997		

Summary:

The Stabex funds will be used to finance:

1. activities relating to the renewal of village plantations of selected oil palms:
   - practical training for private nurserymen
   - artificial pollination and production of dry seeds
   - production of germinated seeds
   - supply of seedlings to nurseries
   - supervision of planters
2. export support activities.

12.2 CENTRAL AFRICAN REPUBLIC

Application years:	1992 and 1993 + balance of 1st Financial Protocol		
Product:	Coffee	1992	€ 1 853 182
	Coffee	1993	€ 4 556 992
	Coffee	1993 (add)	€ 187 632
	Coffee and cotton	balance 1st FP	€ 219 043
Date of payment:	03.05.1994 (1992) 01.12.1994 (1993) 01.10.1996 (1993 add) 04.03.1998 (balance)		
FMO signed:	06.02.1998		

<u>Summary</u>

The FMO covers:

- support for restructuring of trade organisations in the coffee sector;
- support for institutional restructuring in the sector;
- support for revival of production and improvement of the financing system in the sector;
- help in reducing transport costs.

12.3 DOMINICA

Application year:	1995	
Product:	Bananas	€ 12 779 624
Payment date:	23.12.1996	
FMO signed:	16.07.1998	

Summary

see "Saint Lucia"

12.4 ETHIOPIA

Application years:	1990	balance and interest	€ 33 076 940
	1991	balance and interest	€ 13 842 230
	1992	balance and interest	€ 10 390 537
	1993	balance and interest and balance of 1st Financial Protocol	€ 5 102 692
		Total	€ 62 412 399

Products: Coffee, hides and skins

Date of payment: 20.11.1996 (balance)

FMO signed: 18.12.1998

Summary

The total of € 62 412 399 includes the balances for 1989 to 1993, interest since the Stabex funds were transferred and € 2 025 044 resulting from the redistribution of reductions under the 1st Financial Protocol of Lomé IV.
(Balance € 20 243 781 + interest € 42 168 618 = € 62 412 399).

It has been agreed that Stabex funds will be used in line with the objectives drawn up under the terms of the FMOs signed for the application years in question and more specifically for coffee, leather, transport, agricultural inputs, agricultural studies, support for the exchange market, evaluation and auditing.

12.5 THE GAMBIA

Application year:	1991
Product:	Groundnut products € 354 307
Payment date:	30.10.1992
FMO signed:	24.04.1998

Summary

1. Starting initial actions for a programme to produce "Registered and Certified Seeds";
2. Establishment of a credit line to finance procurement of input (seeds and fertiliser).

12.6 EQUATORIAL GUINEA

Application years:	1994 and 1995 Balance of 1st Financial Protocol		
Products:	Cocoa	1994	€ 1 586 713
	Cocoa	1995	€ 793 922
	Balance 1st FP		€ 91 084
Dates of payment:	13.12.1995 (1994) 11.06.1997 (1995) 16.06.1997 (balance)		
FMO signed:	23.10.1998		

Summary

The funds allocated under the FMO will mainly be used to finance:

- extension of the programme to replant cocoa plants and shelter trees;
- provision of access to production areas;
- modernisation of harvesting, drying, fermenting and marketing;
- diversification of production;
- financing of rural infrastructure;
- flanking measures;
- audits, evaluations, studies and technical assistance.

12.7 KENYA

Application years:	1992, 1993 and 1993 (add) + balance of 1st Financial Protocol		
Products:	Coffee	1992	€ 16 457 108
	Tea	1992	€ 282 596
	Coffee	1993	€ 16 048 216
	Coffee	1993 (add)	€ 655 030
	Balance 1st FP		€ 6 003 475
Dates of payment:	16.06.1995 (1992) 07.08.1995 (1993) 09.09.1996 (1993 add) 30.05.1997 (balance)		
FMO signed:	12.10.1998		

Summary

It has been agreed that Stabex funds will be used in accordance with Articles 186(2) and 209(4) of Lomé IV under Kenya's economic policy and in line with the National Indicative Programme.

They will be used:

- to boost funds to develop tourism primarily to promote the marketing of Kenya's products through participation in trade fairs and the production of publicity material;
- to promote and diversify exports through market prospecting and product promotion;
- to support the programme to reform state and parastatal services and other export-related institutions in areas targeted by Community aid under the 7th and 8th EDFs to improve the services in question;
- to support public research and analysis policy through the KIPPRA (Kenya Institute for Public Policy Research and Analysis), and the ACFB (Africa Capacity Building Foundation);
- to support monitoring and evaluation of the use to which Stabex funds are put.

12.8 MADAGASCAR

Application years: 1991, 1992 and 1993 (add)
+ balance of 1st Financial Protocol
(final FMO after 2 partial FMOs)

Product:	Coffee	1991	€ 14 019 429
	Vanilla	1991	€ 1 637 168
	Cloves	1991	€ 615 451
	Essential oils	1991	€ 313 036
	Coffee	1992	€ 9 083 993
	Vanilla	1992	€ 398 558
	Cloves	1992	€ 497 677
	Coffee	1993	€ 3 752 286
	Cloves	1993	€ 542 199
	Coffee	1993 (add)	€ 153 155
	Cloves	1993 (add)	€ 22 131
	Balance of 1st FP		€ 2 908 254
	Total:		€ 33 943 337

Dates of payment: 19.02.1993 (1991)
30.08.1994 (1992)
05.01.1995 (1993)
09.09.1996 (1993 add)
19.03.1997 (balance)

FMO signed: 04.11.1998 (€ 14 400 000)

The final FMO was preceded by two partial FMOs of € 12 and 15.25 million signed on 03.09.1996 and 13.12.1997 respectively. Total transfers (€ 33 943 337) plus interest at the time the final Convention was prepared was € 41 650 000 from which € 14 400 000 was committed under this FMO

Summary:

It has been agreed that Stabex funds will be used to help attain the objectives of developing traditional exports and diversification by providing access to production areas, ensuring secure land tenure and through decentralisation.

Funds allocated under the FMO are intended to:

- improve production conditions, product quality and producer incomes;
- enable the export sector to maintain export performance and competitiveness;
- help provide access to agricultural and shrimp fishing areas by rehabilitating roads;
- produce and multiply extension tools to help planters and vanilla producers;
- take measures to promote and protect natural vanilla at regional and international level among purchasers, processors and consumers;
- provide institutional support for the national authorising officer;
- improve the way in which cash crop producers are organised.

12.9 MALAWI

Application year:	1995	
Product:	Tea	€ 8 106 680
Payment date:	02.10.1996	
FMO signed:	30.04.1998	

Summary

The programme on which the earmarked funds will be utilised aims at:

- increasing yield per hectare and the quality of Malawi tea by accelerating a tea replanting programme, mainly in the estate subsector;
- increasing production and productivity of the smallholder tea sector;
- continuing the on-going coffee research programmes;
- assisting the transition from the existing Smallholder Coffee Authority to a farmers' cooperative, as well as
- assisting the completion of the training centre at the Tea Research Foundation.

The Malawi Government is supporting this programme through tight fiscal and monetary policies, which have already led to a sharp decline in inflation and interest rates. This has resulted in more stability with regard to the cost of inputs for the agricultural sector, in general, and the tea and coffee sectors, in particular, and should thus improve incomes in these sectors.

12.10 SAINT LUCIA

Application year:	1995	
Product:	Bananas	€ 17 706 294
Payment date:	11.10.1196	
FMO signed:	07.04.1998	

Summary

In the Memorandum of Understanding signed in Castries on January, 16, 1998, the Governments of the Windward Islands and the European Commission agreed that the overall objectives to be pursued in the allocation of 1995/96 Stabex transfers shall be the sustainable improvement of the welfare of the population and the reduction of poverty, through continued support to making the banana industry internationally competitive, agricultural diversification including cocoa where appropriate, general economic diversification (including the development of the private sector), education and skills training to meet new employment possibilities and the strengthening of community and social capacities to combat poverty. The Governments of the Windward Islands undertake to pursue prudent macro-economic management and coherent sector policies, designed to achieve these objectives.

The Governments of the Windward Islands and the European Commission have further agreed that, "consistent with these objectives, and with transparent and efficient budget planning and sound fiscal management, the allocation and commitment of 1995/96 Stabex funds may be made through direct budgetary support targeted for capital investments in social, physical and economic infrastructure (with possible limited contributions to the associated recurrent costs), within mutually agreed sectoral programmes, subject to the favourable opinion of the Member States of the European Union, or through direct financing of projects, as has been the practice for 1994 Stabex funds.

In accordance with the before said, 1995 Stabex funds allocated to Saint Lucia (Saint Vincent and Dominica) will be used with the overall objective to achieve sustainable growth of the economy and poverty alleviation.

Specific objectives are:

- The development and implementation of macro-economic and sector policies by the central Governments;
- The strengthening and upgrading of the capacity of public and private institutions, in order to increase their efficiency and effectiveness;
- The improvement of banana productivity and quality by those farmers who are considered to be able to survive in a fully competitive market environment;
- The development of a diversified agricultural sector.

The Governments of Saint Lucia (Saint Vincent and Dominica) commit themselves to pursue a macro-economic policy, which will promote an increase in public savings, and allow financing of future essential investments in human capital and infrastructure.

Governments, furthermore, undertake to continue their adherence to economic diversification, the alleviation of poverty, the promotion of human resource development, the restructuring of the banana industry and the diversification of the agricultural sector.

12.11 SAINT VINCENT

Application year:	1995	
Product:	Bananas	€ 13 481 457
Payment date:	05.12.1996	
FMO signed:	14.05.1998	

<u>Summary</u>

See "Saint Lucia"

12.12 SÃO TOME & PRINCIPE

Application year:	1992	
Product:	Cocoa	€ 791 978
Date of payment:	20.10.1994	
FMO signed:	12.11.1998	

<u>Summary</u>

The FMO provides for:

- awareness raising and development of rural communities including training for managers and organisers of infrastructure maintenance and rehabilitation;
- import or on-the-spot purchasing of material for rehabilitation or construction of infrastructure and housing;
- rehabilitation or construction;
- coordination, management and daily monitoring of awareness raising and development programmes.

12.13 SENEGAL

Application years:	1995 balance of 1st Financial Protocol 1993 (add)		
Product:	Groundnut products	1995 balance 1st FP 1993 (add)	€ 2 926 845 € 617 301 € 1 863 584
Dates of payment:	06.12.1996 (1995) 06.12.1996 (balance) 16.09.1996 (1993 add)		
FMO signed:	24.02.1998 (€ 5 407 730)		

Summary

All the measures to be taken by the government under the Framework of Mutual Obligations are a logical continuation of those which it has been able to carry out through commitments under FMOs for previous transfers. They will pave the way for a programme to breathe new life into the groundnut sector.

The FMO focuses on:

1. help to implement initial projects resulting from feasibility studies undertaken under the programme to redevelop groundnut production in Senegal;

2. consolidation of existing instruments and help in introducing new financing and competitive measures which are necessary or useful for future projects;

3. diversification:

   - in the Vallée du Fleuve in the form of benchmark trials for a larger intensive agricultural programme in the area;

   - in traditional areas to develop the production of table or confectionery groundnuts.

12.14 SIERRA LEONE

Application years:	1993, 1993 compl. 1994, 1995 and 1996 + balance of the 1st Financial Protocol		
Products:	Coffee	1993	€ 1 595 960
	Coffee	1993 compl.	€ 65 141
	Cocoa	1993	€ 1 011 865
	Cocoa	1993 compl.	€ 41 301
	Coffee	1994	€ 194 261
	Cocoa	1994	€ 1 180 755
	Balance 1st FP		€ 140 055
	Cocoa	1995	€ 1 204 511
	Coffee	1996	€ 916 761
Payment dates:	06.08.1998 (1993, 1993 compl., 1994, 1995 and balance) 21.08.1998 (1996)		
Framework signed:	10.11.1998 (€ 6 350 610)		

Summary

During nearly two decades, the Sierra Leonean economy has suffered considerable devastation. In late 1989 the Government initiated an economic recovery programme which sought to correct macroeconomic imbalances and included structural reforms. The military coup in May 1997 led the country to an unprecedented economic downturn. GDP was estimated to have declined by about 25 percent in nominal terms and economic activity came to a standstill.

Since the return of the civilian government in March 1998, steps have been taken to restore the economic and financial conditions, which still remain critical.

The main objective of the Government's fiscal programme for the remaining 1998 fiscal year is to limit the Net Domestic Financing, especially the Bank Financing of the budget.

The Bretton Woods Institutions have already undertaken a first assessment mission and discussions on a new Structural Adjustment Programme are planned during the last quarter of the 1998 fiscal year.

As economic recovery will continue to be impeded by the uncertain security situation, mostly in the coffee and cocoa areas, Stabex 93-96 foreign exchange support will be provided mainly in the form of a General Import Programme (GIP) including an agricultural inputs component. Counterpart funds will be used to (i) support the 1998 budget (goods & services) for agriculture, social sectors and infrastructure rehabilitation in order to ensure a minimum functioning of the country and (ii) to directly support projects in the agriculture sector.

TABLE 1:

CALCULATION OF TRANSFER BASES 1997 (in €)

Country code	Country	Product	Loss of earnings	"Excess clause"	Transfer basis after deduction of excess clause	Article 202/203 consultations*	Transfer basis after consultations	Article 194(2) reduction	Article 194(4) reduction	Amount of transfer
224	Sudan	Gum arabic	15.131.857	404.352	14.727.505	0	14.727.505	0	0	**14.727.505**
248	Senegal	Groundnut oil	16.194.320	2.454.318	13.740.002	1.411.098	12.328.904	0	0	**12.328.904**
252	Gambia	Cotton neither carded nor combed	132.699	0	132.699	0	132.699	0	0	**132.699**
		Groundnuts in shell or shelled	2.895.427	68.780	2.826.647	388.240	2.438.407	0	0	**2.438.407**
324	Rwanda	Green or roasted coffee	1.470.158	0	1.470.158	145.281	1.324.877	0	0	**1.324.877**
370	Madagascar	Green or roasted coffee	11.098.935	526.783	10.572.152	0	10.572.152	0	0	**10.572.152**
		Vanilla	3.078.135	140.364	2.937.771	0	2.937.771	0	0	**2.937.771**
375	Comoros	Vanilla	1.768.900	0	1.768.900	0	1.768.900	0	0	**1.768.900**
		Essential oils	480.188	0	480.188	0	480.188	0	0	**480.188**
460	Dominica	Green bananas	3.714.935	1.114.480	2.600.455	719.442	1.881.013	0	0	**1.881.013**
465	Saint Lucia	Green bananas	16.890.582	2.845.112	14.045.470	4.699.895	9.345.575	0	0	**9.345.575**
467	Saint Vincent and the Grenadines	Green bananas	12.570.112	1.439.170	11.130.942	4.711.060	6.419.882	0	0	**6.419.882**
473	Grenada	Green bananas	2.953.576	135.211	2.818.365	2.761.011	57.354	0	0	**57.354**
817	Tonga	Vanilla	1.469.404	76.390	1.393.014	1.015.419	377.595	0	0	**377.595**
		Total:	**89.849.228**	**9.204.960**	**80.644.268**	**15.851.446**	**64.792.822**	**0**	**0**	**64.792.822**

Table 2:

Breakdown by recipient country
Application year 1997

	Country	Amount in euro	% of total
1	Sudan	14.727.505	22,73%
2	Madagascar	13.509.923	20,85%
3	Senegal	12.328.904	19,03%
4	Saint Lucia	9.345.575	14,42%
5	Saint Vincent and the Grenadines	6.419.882	9,91%
6	Gambia	2.571.106	3,97%
7	Comoros	2.249.088	3,47%
8	Dominica	1.881.013	2,90%
9	Rwanda	1.324.877	2,04%
10	Tonga	377.595	0,58%
11	Grenada	57.354	0,09%
	Totals	**64.792.822**	**100,00%**

TABLE 3:

BREAKDOWN BY PRODUCT
APPLICATION YEAR 1997

	Product	Amount in euro	As % of total
1	Groundnuts in shell or unshelled	2 438 407	3.763
2	Groundnut oil	12 328 904	19.028
3	Green or roasted coffee	11 897 029	18.362
4	Cotton neither carded nor combed	132 699	0.205
5	Green bananas	17 703 824	27.324
6	Vanilla	5 084 266	7.847
7	Essential oils	480 188	0.741
8	Gum arabic	14 727 505	22.730
	Totals:	**64 792 822**	**100.000**