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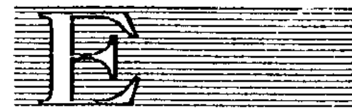

Distr.: LIMITED

E/ECA/TRADE/92/19
August 1993

ENGLISH
Original: FRENCH

UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

United Nations
Economic Commission for Africa

Technical Meeting of Experts of the
Twelfth Session of the Conference
of African Ministers of Trade

Tunis, Tunisia
19-21 October, 1993

MECHANISMS FOR STABILIZING THE EXPORT EARNINGS OF AFRICAN COUNTRIES

(International Commodity Agreements and Commodity Exchanges)

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I. INTRODUCTION

1. The issue of African development has been the topic of numerous discussions over the decades, both on the international and continental political and economic scene. Such debates were concretized inter-alia by adoption of the 1980 Lagos Plan of Action (LPA), as well as the United Nations Programme of Action for African Economic Recovery and Development (UP-PAAERD) and Africa's 1980 Priority Programme for Economic Recovery (APPER). Achieving the objectives of these programmes has however been handicapped by the lack and by the fluctuation of financial resources allocated for African development. The severity of the problem and the challenge it poses to continental development call for exploration of ways and means to get Africa to increase or stabilize foreign exchange resources, which are indispensable for financing its development.

2. African foreign exchange resources come from exports and other external sources under various forms. The recent assessment report on UN-PAAERD showed the blockage causing Africa's strong dependence on external assistance. In fact, this report stated that during the UNPAAERD period, from 1986 to 1990, Africa endured important sacrifices in order to channel its resources to the programme's objectives, while the international community has done very little with regard to its commitments.1/

3. From this point of view, it becomes clear that Africa should henceforth count on its own resources to finance its development, so that any external support does no more than supplement domestic efforts.2/ Besides, such external assistance over which Africa has little control, foreign exchange comes largely from commodity exports. The instability of the earnings from such exports justifies the relevance of the present study entitled: "Mechanisms for stabilizing the export earnings of African countries". (International commodity agreements and commodity exchanges).

4. This study falls in line with the ECA objective of assisting member States with their development efforts. In fact, it aims at setting up the major mechanisms for enabling African countries to stabilize their export revenues by reducing the effects of commodity price fluctuations on their foreign exchange resources.

5. The study will be presented in four chapters. The commodities problem in Africa will be briefly examined in the first chapter. The second chapter will discuss the most important stabilization mechanisms. The third chapter will focus on the African experience with commodity export revenue stabilization, while the fourth chapter will propose recommendations for improving such export revenue stabilization in Africa.

II. THE COMMODITIES PROBLEM

6. The commodities problem has dominated discussions about African development over the last twenty-five years. For African economies, it arises not only with regard to prices which continuously decline
but also with regard to the volumes exported, which have been

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1// ECA (1991) Report of the Twelfth Meeting of the Technical Preparatory Committee of the Whole (TEPCOW), document E/ECA/CM.17/31 pg. 16.

2// Ibidem p. 17.

decreasing for years. The outcome is even more worrying, that these economies heavily depend on such exports.

(a) The commodities of African economies 3/

7. African commodity exports include both mineral and agricultural products. Without underestimating the importance of mineral products, such exports are surpassed by agricultural commodities. Seven countries earn more than 50 per cent of their export revenues from mineral products compared to thirty or so countries dominated by agriculture-based production.4/ This predominance justifies the importance that this study will accord to agricultural products.

8. The data analysis by the Fraser Report, over the period 1982-1986 reveals that in 21 African countries, export of a single commodity supplies more than 50 per cent of total export earnings. The rate rises to 90 per cent in some countries such as Uganda and Zambia. Deeper analysis shows that if two export products are taken into account, at the same 50 per cent dependence rate, the number of countries rises to thirty-four, that is, 66 per cent of the countries on the continent. If the dependence rate increases to 70 per cent and with three export products reckoned, the number of countries falls to 24.5/ If the single year 1987 is considered, it seems that more than 82 per cent of African export earnings flow from commodity exports.6/

3// Petroleum and petroleum products will not be taken into account in this study because the petroleum market is very specifically regulated.

4// United Nations (1990) - The problems of the African Commodity sector: Towards a solution (UNCTAD/EDM/ATF/1) pp127-137 and pg 31. This document is currently known as The Fraser Report.

5// Fraser Report, calculations based on the data in table 2, pp 127-137.

6// ECA (1990 Economic Report on Africa 1990, E/ECA/CM.16/3), p. 36, para 36.

9. Table 1 and figure 1 show the degree of dependence of African economies on commodity export revenues.

Dependence rate (percentage	No. of countries	Total by group	List of countries
Higher than 80	39	39	Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad Comoros, Congo, Côte d'Ivoire, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Guinea, Kenya, Liberia, Libya, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Seychelles, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Zaire, Zambia
50 - 80	7	46	Guinea Bissau, Mauritius, Reunion, Sao Tome and Principe, Senegal, Swaziland, Tunisia.
40 - 50	3	49	Gambia, Morocco, Zimbabwe
20 - 40	1	50	Djibouti

Source: Table partly based on information contained in the Fraser Report, pp 127-137

Comments: The countries which do not appear in this table are not less dependent on commodities but rather, are countries which depend on petroleum and/or petroleum products which the study does not cover. These are Algeria, Angola, Congo, Gabon, Libya, Nigeria and Tunisia.

Egypt and Seychelles fall in the group of countries least dependent on commodities (20 to 40 per cent), not that this is really so, because they depend to a large extent on export of petroleum products (61 and 69 per cent respectively).

Figure 1

Degree of dependence of African countries on primary commodities.

Dependence on Export commodity revenues	Axis 1: No of Countries	Axis 2: Degree of dependence	
Higher than 80%	50 - 80%	40 - 50	20-40%

10. In the form of a graph, the data from table 1 shows that more than 80 per cent of the export earnings of more than 60 per cent of the African countries which are not producers of petroleum products, depend on commodity exports. Thirty-seven countries have a dependence rate higher than 50 per cent, 40 have a rate higher than 40 per cent while all the countries have a rate higher than 20 per cent. By way of comparison, it is convenient to note that the dependence rate of European countries considered to be heavily dependent on the agricultural sector, does not exceed 20 per cent.

(b) Continuous decline of export commodity earnings

11. The continuous decline of export commodity earnings pertains to factors relevant to both supply and demand.

(i) Supply factors

12. The decline in commodity prices observed since the start of the last decade has been the result of complex factors which make it difficult to determine precisely the impact of any one factor taken individually. Nevertheless, it is possible to point out certain elements which explain this situation. It should also be stated straight away that the production growth rate of most commodities exported by Africa remains generally higher than the rate of consumption, causing overproduction which exerts strong pressure on prices.

13. The fundamental causes of this expansion of supply may be sought in the nature of the products in question. In the first place, the price inelasticity of supply of commodities, especially agricultural products, is due mainly to the fact that producers cannot easily change their occupation or their source of revenue, in the short-term. They cannot therefore adjust rapidly to demand variations due to falling prices. Secondly, the damaging effect of lowered product prices on declining export revenue and on the balance-of-payments in African countries, has forced the latter to increase their production with the aim of compensating for the price decline with sale of larger quantities. Finally, some macro-economic policies such as currency devaluations and export subsidies have aggravated supply pressure, causing a doubling of the costs to national economies.

14. Other external factors complicate an already difficult situation and prevent African countries from effectively managing their commodity trading. The effect of variations in the dollar exchange rate may be cited, inter-alia. This effect was characterized by strong revaluation especially during the first half of the 1980s. Furthermore, the very high interest rates, especially at the beginning of that decade, had the effect of increasing the storage costs of commodities and consequently, growth in supply led to a fall in prices. Finally, it should be underscored that some actions which influenced the decline in export earnings, such as commodity-market speculation, were really factors affecting Africa over which the continent had no control.

15. Thus, the prices of principal commodities exported by Africa have continued to fall in recent years (with the exception of the prices for minerals and metals which increased over the 3 year period from 1987 to 1990). In 1990, for example, the year which recorded the lowest price levels in 15 years for the two major exports, coffee and cocoa, the price index for these products was no more than 36.8 and 48 respectively in comparison to 1980 values.7/ On average, a given quantity of commodities exported by Africa in 1986-1987 could buy less than a half of what it bought in the previous 35 years.8/ UNCTAD statistics covering the last three years and the first half of 1992 confirm this tendency. Between 1989 and 1992, the average annual prices for coffee, cocoa, tea, cotton copper, etc have continued to decline on different export markets.9/ This fall in prices

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7// Rapport Economique sur l'Afrique 1991.

8// Mark Gersovitz and Christina H. Paxson, "The Economies of Africa and the Prices of their Exports" in Princeton Studies in International Finance, no. 68, October 1990.

9// UNCTAD (1992), Bullatin Mensuel des prix des produits de base, volume XII, No 7, July 1993.

emphasized the deterioration tendency in the terms of trade, which, by indicators, fell from 100 to 40 between 1980 and 1988 10/, while the purchasing power of exports fell from 100 to 59 between 1980 and 1990, as figure 2 demonstrates.

(ii) Demand factors

16. The continuous decline of export revenues in African economies is often blamed only on the fall in prices, losing sight of the fact that Africa has also lost important shares in traditional markets, to Asian and Latin American competitors. It would be interesting to undertake indepth research on this subject in order to find an appropriate solution to this situation.

17. The statistics show that for about two decades the share of African export commodities has declined on world markets. In 1988 for example, Africa lost ground on the markets for cocoa, coffee, cotton and copper in proportions ranging from 20 to 40 per cent of 1970 market shares. 11/ The values, volumes and purchasing power of African exports are presented in figure 2.

Figure 2

Title: Trends in export indices (volume, unit value and purchasing power, 1980 = 100

Title - Export indices: Trend 1980 = 100
Axis 1: - Indices
Axis 2: - Years
Key - Volume, unit value, purchasing power.

18. The question raised by reading this graph is how to determine the reasons behind this decline in export volumes since 1970 and in value since 1980. The most salient causes 12/ should be reviewed here as they seem to be largely linked behaviourly to the demand for primary commodities.

19. The main reason for economic stagnation in Africa is that, as already mentioned in this study, the exports from the continent are dominated by agricultural commodities. However, African countries export their products without fully taking into account the changes in consumer markets, in this case in the developed countries of Europe and North America. In fact, during the last decade, the fall in the incomes of consumers as a result of the economic crisis combined with low price elasticity, has strongly influenced the fall in demand for primary commodities.

20. Exporting countries have not integrated into their export policies the importance of income elasticity and the increasing price elasticity of demand for tropical products. On the other hand, traditional consumers at the same time increase their self-sufficiency by production of substitutes,

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10// ECA (1990) Review of Trends, Policies and Prospects for Trade in Primary Commodities in Enhancing Africa's Export Performance (E/ECA/TRADE/90/20)p. 4.

11// Fraser Report 1p. 19.

12// Bela Belassa (1964) developed an interesting analysis of this subject in chapters 3 and 5 of his work entitled: Trade Prospects for Developing Countries, Richard D. Irwin Inc. Homewood, Illinois, 450p.

or rechannel their consumption towards products coming from other regions. This was the case for example, with the reduced consumption of "robusta" coffee, which is the dominant variety in African export; in preference for "arabica" coffee, which is mostly produced by Latin American countries. To such factors must also be added the protectionist policies instituted by many Western consumer countries as another factor which significantly reduced African exports to these markets.

21. Finally, one should not lose sight of the fact that, as Balassa's estimations predicted relatively well, the per capita consumption of most products under analysis here, especially tropical drinks, would reach saturation point in many developed European countries, by the beginning of the 1970s.13/ It is also evident that to a certain extent, the loss of traditional markets to Africa has been the result of structural problems linked to a system of production which is outdated and unable to face competition from other developing regions. Finally, in explaining such market losses, the impact of the non-existence or the non-adaptation of the marketing policies of African countries for international markets must also be mentioned.

22. In concluding this chapter, it should be noted that the continuous drop in the prices of raw materials, twice the decrease in export volume, led to a heavy fall in export earnings. This fall in revenue in its turn, has mortgaged the continent's development chances. The general deterioration in economic conditions in Africa, especially during the 1980s, has forced leaders of African economies to term the past decade "the lost decade for Africa".14/ It is against this background that the following chapter tries to analyze the export revenue stabilization mechanisms for primary commodities of particular interest to Africa.

III. MAIN MECHANISMS FOR STABILIZING EXPORT EARNINGS FROM PRIMARY COMMODITIES

23. The impact of the decline and the fluctuation in export earnings from the primary commodities of African economies calls for careful scrutiny of the existing stabilization mechanisms and the extent to which African countries can gain more profit. These mechanisms are subdivided into two groups: those which act directly on export revenue such as "compensatory financing mechanisms" and those which stabilize revenues by stabilizing prices.

(a) Compensatory financing mechanisms

24. By their ex-post impact, compensatory financing mechanisms work on an insurance principle. When the loss in revenue reaches a certain threshold, such mechanisms compensate by granting financial resources in an amount determined by the following set formula:

$$Y_{it} = P_{it} \cdot Q_{it}$$

with

Y_{it} = Export revenue from product i in year t
P_{it} = Export price of product i in year t
Q_{it} = Volume of product i exported in year t
If $Y_{it} < Y'_{it} \rightarrow$ The mechanism intervenes

13// Bela Balassa (1964) op. cit., p. 112.

14// Economic Report on Africa 1999 p.4.

Y'_{it} = Revenue threshold at which compensatory financing should intervene (for product i in year t)

There are basically three compensatory financing mechanisms of interest to African countries: STABEX and SYSMIN, within the framework of the ACP-EEC Convention, as well as the Compensatory Financing Facility of the International Monetary Fund (IMF).

(i) STABEX

25. Instituted by the signing of the First Lome I Convention in 1975, STABEX the system for stabilizing export earnings) is a compensatory financing mechanism operating within the framework of ACP-EEC agreements. It aims at stabilizing the gross export earnings of 49 agricultural products (see article 87 of the Lome IV Convention from ACP countries. The action of the mechanism is linked to two conditions, the rate of dependence and the level of assistance released.15/

26. STABEX comes into play then partly when the export earnings from the product in question is at least 5 per cent of the country's total export revenue the previous year. This measures the dependence rate.

$$Y_{it} > 0.05 \; Y_{t-1}$$

This level is reduced to 1 per cent for the least developed ACP countries, land-locked or insular.

$$Y_{it-1} > 0.01 \; Y_{t-1}$$

It is also partly necessary to calculate a reference threshold which is fixed by the arithmetical average of exports over the previous 6 years in relation to the deficit year. This calculation excludes the two years which recorded the highest and the lowest levels of export earnings.

If $Y_{it} < Y'_{it} \rightarrow$ the mechanism makes a transfer

27. The amount of the transfer is obtained by calculating the difference between actual income obtained and the amount of the reference threshold. From this difference is subtracted 4.5 per cent of the amount of this reference point.

$$X_{it} = (Y_{it} - Y'_{it}) - 0.045 \; Y'_{it}$$

For the poorest ACP countries, the deduction is 1 per cent.

$$X_{it} = (Y_{it} - Y'_{it}) - 0.01 \; Y'_{it}$$

15// These issues are addressed in the relevant articles of the Lome IV Convention, especially articles 196 and 197.

The loan thus agreed is reimbursable over 7 years, without interest and with a 2 year grace period. The conditions rule that the funds be utilized in conformance with the objective of regaining balance-of-payments equilibrium.16/

(ii) SYSMIN

28. In 1981 STABEX was supplemented by a similar mechanism for stabilizing the export earnings from certain mining products, that is, SYSMIN. The Lome IV Convention gives the list of products covered. This includes copper, cobalt, phosphates, manganese, bauxite and alumina, tin, iron and uranium. In order to benefit from the transfers through such a mechanism, the dependence rate has to be 15 per cent for the products taken individually or 20 per cent for mining products taken globally, excluding precious minerals other than gold, petroleum and natural gas. In the case of the poorest countries, these levels fell to 10 and 12 per cent respectively.17/ The request for compensatory financing should come from a country which has experienced a collapse in total export revenue of at least 10 per cent of the year preceding the one in which the request is made.

(iii) The Compensatory Financing facility (CFF) of the IMF

29. Established in 1963, the Compensatory Financing Facility is a mechanism which, like STABEX and SYSMIN, was set up to compensate for the increasing decline in export revenues from primary commodities originating in IMF member States. In 1983, this mechanism was extended and opened up to countries facing rising food import costs. In 1988, the IMF further extended the Facility by adding the "unexpected" element. It thus became "The Facility for Compensatory and for the Unexpected". This element was specifically included to allow recourse to the Fund within the framework of the structural adjustment programmes. In practice, only developing countries have access to this Facility.

30. Once a country's request is accepted by the Fund, it may withdraw amounts in accordance with the level of revenue loss. Nevertheless, that country cannot go over 105 per cent of the share size of its quota. The fall in revenue was assessed by calculating the geometric average of the earnings (DTS) for five years based on the year of deficit. Such credits are reimburseable over five years, at reduced interest rates, with a 3-year grace period. The conditions are soft: the country must try to restore balance-of-payments equilibrium.

(b) Price stabilization mechanisms

31. The major limitation of compensation financing mechanisms is that they act a posteriori. Thus, they cannot prevent the risk of a fall in export earnings. It is true that these mechanisms cannot do otherwise, given that they were set up to compensate for the growing decline in these earnings. Nevertheless, it is clear that the risk has become structural and chronic. This has aroused interest in ex-ante stabilization mechanisms acting on the main export revenue instability factor, namely, price fluctuation. This section examines commodity agreements, exchange marketing techniques
and the UNCTAD Common Commodity Fund as price-stabilization mechanisms.

16// S. Calabre (1990), Trends in the Prices of Primary Commodities Paris, Economomia, p.86.

17// Lomé IV Convention, article 215

(i) Commodity agreements

32. The method by which commodity agreement functions is to stabilize price by controlling supply, to ensure a relatively stable equilibrium price. The regulation of primary commodity markets dates back a long time. In 1861, sugar producers concluded their first associational pacts for influencing market prices, while the first international agreement on tin was signed in 1931. More recently, five primary-product agreements have functioned relatively well. These include the agreements on coffee, cocoa, sugar, tin and natural rubber. Stabilization by means of such commodity agreements works in two ways which may be complementary, the buffer stock method and the quota system.

33. Analysis of the medium-term price trends for a commodity reveals a self-maintained cyclical process.18/ High costs in the medium term lead to overproduction (by the combined effect of encouraging production and discouraging consumption). This situation causes prices to fall and discourages production while encouraging consumption at the same time. The shortage which results leads in turn to a price increase and the cycle recommences. Such price fluctuations are amplified by speculation on futures markets.

34. In this context of acting to balance prices, the role of buffer stock is to break the cycle by opposing its direction of movement. In periods of overproduction, the buffer stock the surplus quantities which otherwise would lower prices beyond the minimum reference price. In the opposite case, the buffer stock releases quantities on the market to prevent a shooting up of prices beyond the ceiling reference price. Such effects have significant impact on production and consumption.

35. The system of regulation by quota, in this regard, involved the assignment to each member of the agreement, a production (or export) quota in the global production (or export) of the group. This is a production or export control system which acts on the medium-term supply-linked factors of instability. Quotas are lowered in a situation of overproduction and are raised in times of scarcity, in proportion to previous market shares. The difficulties raised by implementation of production quotas usually cause commodity agreements to serve generally as export quotas.

36. Price stabilization of primary commodities, whether by buffer stock or by quotas, is influenced by exchange markets. These offer fresh stabilization possibilities by permitting coverage against the price variation risk through the technique of hedging.

(ii) Exchange-marketing techniques19/

37. Primary commodity exchanges may be defined as places where forward contracts are negotiated for specific primary commodities. Such markets are concentrated in the developed countries. For example, one may cite the New York Cocoa Exchange, the London Commodity Exchange and the Paris Produce Exchange for Cocoa; the New York Coffee and Sugar Exchange, the London Commodity Exchange, the Paris Produce Exchange and the Havre Produce Exchange for Coffee; the New York Cotton Exchange or the Liverpool Cotton Association for Cotton; the London Metal Exchange and the New York Commodity Exchange for copper. The activities

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18// Calabre, op. cit, p.72

19// For further details, read Y. Simon (1980) Commodity Exchanges and Futures Markets, Dalloz, Paris, 208 p.

conducted in these places more or less directly influence the prices for produce traded there. Taking account of the fact that exchange marketing techniques are less used in Africa in comparison to previous mechanisms, this section will aim at presenting further details for describing their operations more clearly.

38. Transactions on future markets do not involve the physical products but rather "papers" called contracts. They are not negotiated to lead to actual delivery of the physical produce, but rather, for protection against price and speculation risks. In fact, in almost all cases, a futures contract is concluded by an initial investment: the initial seller buys back a contract that the initial buyer resells the same day. This procedure allows the operator to cash the difference between the prices of the two transactions.20/ Futures markets are different from future delivery markets which are similar to spot (cash) markets.

39. Two categories of actors operate on the futures markets: "arbitragers in hedging assets" and "speculators". The former include businesses whose concern is protection against price risk. Speculators are occasional or professional investors, who track price variations which they are in a good position to anticipate, in order to profit from the capital appreciation. To carry out such activities, various operators work as commission agents.

40. How do forward markets offer African primary commodity producers possibilities for revenue stabilization? In other words, how can they protect against price falls? Two situations are possible. The forward price trend may or may not be parallel to the spot price. The second hypothesis is more realistic because it would be rather exceptional that the spot price and the forward price should evolve in a strictly parallel way. There is always a phenomenon of the "instability of instability"21/. The difference between these two prices is called the "basis". This represents a "premium rate" when the spot price is lower than the forward rate, while the basis becomes a "backwardization" in the opposite case. The exporter is covered against price falls by absorbing a large part of the depreciation from the sale of the physical produce by a simultaneous sale by forward contract, which he plans to buy back at a very low price by a given date. The appreciation realized on the second operation would act to counterbalance the depreciation incurred on the physical sale.

41. The facilitate understanding of this mechanism, let us use a fictitious example. Suppose an industrialist buys cocoa at a value of 100 to resell as finished chocolate products after 6 months. He must stock raw materials but fears a price fall in the months to come. To do something, he decides to sell a contract on the same produce for a value of 90 (the difference between the contract rate and the physical produce rate is in gross terms the/hedging cost borne by the speculator). Let us suppose that, eventually, the price for cocoa plummets by 30 per cent. In selling his chocolate, the industrialist will suffer a depreciation of 30 but, at the same time, by buying back a forward contract at 63, he will realize an appreciation of 27. The global outcome of the operation then will be a depreciation of 3 which is for less than the depreciation of 30 which he would have suffered if he had not resorted to hedging.

20// Ibidem, p7

21// D. Badilly, J. P. Dalloz (1985). Market, Speculation, Stabilization, Paris Economica, p.133

42. Hedging has costs implied. There is also a technique of choice of dates which minimizes costs. The seller may, for example, use the technique "buy and keep" or "buy and sell" according to the trend in market parameters. The quality of the coverage depends largely on the relevant forward and spot rates and the way in which such information in anticipated. The information plays an essential role in such mechanisms. As David Nicholas stresses22/, futures market commodity traders are without doubt among the agents who control the most trade information. They need a constant flow of information from all corners of the globe, in all its different aspects and varied substance.

43. Finally, it must be emphasized that African countries exporting primary commodities respond to criteria defined by Yves Simon in explaining the need to resort to hedging:23/

(a) They have a great dislike of price risks;

(b) The volume of stocks held is high;

(c) Their price forecasts are poorly defined and are uncertain;

(d) The price variability of their exports is great in comparison to that for imports;

(e) The price risk is an important component of the total risk of their export earnings; and

(f) The commodity price is a key element in determining export revenue.

44. Considering such criteria, it appears that African economies must succeed in embarking on the exchange marketing route, in the search for solutions to the problem of stabilizing the export earnings from their commodities.

(iii) The UNCTAD common commodity fund

45. In 1980, resolution 93(iv) was adopted in Nairobi by the Integrated Commodities Programme of the fourth United Nations Conference on Trade and Development. In June 1989, the prerequisite conditions for entry into force of the agreement establishing the Fund were defined. The UNCTAD Common Commodity Fund was officially set up on 19 June 1989.

46. The Fund focuses on two lines of activities:

(a) The first line concerns the financing activities of international organizations, working within the framework of international commodity agreements which have buffer stock mechanisms. Strict conditions regulate the granting of funds, for example, they may not be used for speculative purposes. Moreover, it should be noted that it is not Fund capital which is given as credit, but the resources generated by loans guaranteed by the buffer stock, as well as by the capital subscribed by members of the institution associated with the fund.

22// David Nicholas (1985) Commodities Futures Trading A Guide to Information Services and Computerized Services, Monsell Publishing Ltd, London, 144 p.

23// Y. Simon, Op.cit, p.32

(b) The second line of credit finances activities other than buffer stocks, such as development research, increased productivity and improved quality, market development, promotion of the processing of local produce as well as the search for new product uses.

47. By its nature, the second line should be more active than in former times while the first will serve commodity organizations. The Fund will set up a framework and set the mutual cooperation conditions.

48. This chapter has traced the general context of stabilizing export revenue from commodities. In reference to this context, the following chapter will stress the experience of African countries with stabilizing export earnings from primary commodities.

IV. AFRICAN EXPERIENCE WITH STABILIZING EXPORT EARNINGS FROM PRIMARY COMMODITIES

49. African economies are found to be de facto specialized for commodity exports. The strong dependence which has resulted and the instability of the export earnings from such produce have forced African countries to take action to counteract these effects. Such action, undertaken nationally and internationally, have greater or lesser impact on the stabilization of export revenue.

(a) National stabilization measures: Marketing Boards

50. Most African countries have instituted Marketing Boards to try to counteract the adverse impact of commodity price instability in their economies. Such stabilization instruments were created by the State to serve first as intermediaries between the producers and the world market, and later, for ensuring the stabilization of producer prices. New functions have emerged, grafted unto these two business functions, which have sometimes surpassed the latter in importance. In fact, due to the considerable capital they have been assigned to manage, such Boards have become important links in the machinery of national development. In some countries, they are even becoming institutions with considerable political weight. In Côte d'Ivoire, for example, the "Agricultural Commodity Price Stabilization and Support Board," created in 1962 to stabilize producer prices, was slowly turned into a centre for the Ivorian political system, doubtlessly because of its large membership throughout the country and its financial importance.24/

51. In most African countries, the Marketing Boards were created by the colonial powers. After independence, they were often subjected to many changes which enlarged their activities but protected their central role as intermediaries between producers and the world market. By way of example, and with reservations about what changes may have occured, the following table gives some examples of Marketing Boards or Commodity Boards, as they are called in some African countries.

24// Read Richard C. Crook, 'Politics, the Cocoa Crisis and Administration in Côte d'Ivoire in the Journal of Modern African Studies Vol. 28, Number 4, December 1990 Cambridge University Press, pp. 649 to 669.

Table 2: Some Examples of "Commodity Boards" or Marketing Boards"

Country	Name	Produce
Gambia	• Gambia Produce Marketing Board (1973)	• Groundnuts, palm oil products, cotton and rice
Nigeria25/ (1974)	• Cocoa Board • Groundnut Board • Cotton Board • Palm Produce Board • Rubber Board • Grains Board • Root Crops Board	• Cocoa, coffee, tea • Groundnuts, soya beans, castor beans, ginger karite almonds • Cotton, Kenaf and other fibres • Palm nuts palm oil and copra • Rubber • Food cereals • Roots and food tubers
Tanzania	• Coffee Authority of Tanzania (1977)	• Coffee
Cameroon	• National Commodity Marketing Office (1976) • Cameroon Banana Organization (1973)	• Coffee • Cocoa, coffee, cotton • Banana
Congo	• Agricultural and Forestry Marketing Board (1978)	• Coffee, cocoa, tobacco and rough timber
Gabon	• Coffee Marketing Board (1977)	• Coffee
Côte d'Ivoire	• Agricultural Commodity Marketing Board (1962)	• Coffee cocoa palm oil, copra also finances production of other products

Source: D. Badillo, J. P. Dalloz, Op.cit pp.258 to 259

52. Marketing Boards faced enormous difficulties at the beginning of the 1980s. Although they were able to guarantee remunerative prices to commodity producers for a time, they afterwards proved incapable of maintaining this policy. The continuous decline of commodity prices since the beginning of the 1980s and their low competitiveness in comparison to commodities from other developing regions have led these institutions into a situation where they are unable to guarantee

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25// The Nigerian Commodity Board System was dissolved in 1986 as one of the deregulation measures for the national economy.

the foremost commitment which justified their creation, that is, to grant a remunerative price to producers. In some cases, they fall purely and simply into bankruptcy. In other cases as in Nigeria, such institutions have been dissolved or are on the way to being dissolved following the deregulation of the economy undertaken within the context of structural adjustment programmes. The outcome was a fall in producer prices combined with a great setback to development, taking into account the dimension which these institutions had achieved in the national development process. For example, in 1989-1990, 1kg of exported cocoa cost the Ivorian State 700 CFA but it did not get more than 350 CFA per kg. In July 1989, the Ivorian producer price for cocoa reached 400 CFA/kg, at 250 CFA.26/ One of the direct consequences of this situation was the decline in the quality of Ivorian cocoa which caused problems with sales. However, it seems useful to stress here that in the case of Ivorian cocoa, producer prices were set very high in comparison to these of other African producers.

(b) International stabilization measures

53. African countries have also participated in multilateral export revenue stabilization mechanisms for primary commodities described in the preceding chapter. The results have varied in accordance with the nature of the mechanism in question.

54. STABEX has without doubt had a positive impact on the economies of African countries, especially those of, the poorest countries, the landlocked and the insular. The speed of intervention has had a positive impact on the growth and development of some countries. However, although STABEX worked relatively well until the beginning of the 1980s, African countries have bitter memories of the "STABEX at 50 per cent" exercise of 1980-1981. Later information warned of the risk that the mechanism would not be able to meet its commitments for 1991. In fact, the system found itself faced with a problem for which it was not prepared that is the collapsing trend of export earnings. In this regard, the effects on stabilization cannot be anything but limited. Moreover, despite the progress achieved in the design of the last STABEX of the Lome IV Convention, the system of calculating the threshold trigger mechanism in a context of continuously declining earnings, without the situation improving, causes African countries to be unable to benefit from transfers that have been increasingly less since 1981. Finally, the absence of conditions, especially in Lome I, reduced the effectiveness of transfers which were often diverted for uses for which they were not intended (namely, reabsorption of budgetary deficits).

55. With regard to SYSMIN the notable progress achieved by Lome IV meant the inclusion of two new products: uranium in the list of products covered by the first window and gold in the dependency rate calculation. Taking into account the functional similarities, the above criticisms of STABEX is also valid for SYSMIN.

56. Some critics go too far in blaming the Compensatory Financing mechanisms such as STABEX or SYSMIN, for perpetuating inefficient production with their compensatory system for revenue loss. To state some rather radical reservations about this position, it must be admitted that sometimes, the funds transferred by such mechanisms do not have a real stabilization affect but are merely a "doping" of the economy with massive injections of capital, concentrated over a short period.

26// Ibidem, pp 660-661

57. In other respects, African countries have been able to benefit from the varied effects of export stabilization by the Compensatory Financing Facility of the IMF. The following table shows the effect of the CFF on stabilization of the export earnings of 31 African countries.

Table 3: Estimate of the impact of CFF on stabilizing the export revenue of some African countries (1975-1985)

	Instability Index			Percentage change	
Country	(1)	(2)	(3)	(1-2)	(1-3)
Burundi	17.63	18.94	18.79	-7.40	-6.55
Cameroon	7.33	7.03	7.01	4.00	4.27
Central African	7.87	8.00	7.87	-1.58	0.00
Republic	19.77	17.94	18.23	9.24	7.79
Chad	14.63	14.47	14.42	1.12	1.45
Congo	8.04	8.08	7.89	-0.53	1.90
Côte d'Ivoire	10.62	10.48	10.50	1.25	1.09
Egypt	24.95	23.66	23.29	5.16	6.68
Equatorial Guinea	9.70	8.80	9.02	9.22	6.97
Ethiopia	14.15	11.83	11.65	16.40	17.67
Gambia	8.63	7.72	7.87	10.56	8.80
Ghana	9.15	7.99	8.10	12.67	11.41
Kenya	6.10	6.24	6.36	-2.28	-4.22
Madagascar	11.99	10.75	11.19	10.35	6.67
Malawi	11.85	11.80	11.64	0.40	1.82
Mali	10.67	10.25	10.28	3.94	3.60
Mauritania	6.38	5.80	5.66	9.14	11.34
Mauritius	7.40	6.70	6.69	8.42	9.59
Morocco	10.72	11.10	10.96	-3.56	-2.26
Niger	10.58	9.71	9.76	8.24	7.76
Senegal	10.91	8.60	8.84	21.16	18.97
Sierra Leone	12.68	10.01	10.01	21.09	21.09
Somalia	11.80	10.38	10.41	12.10	11.82
Sudan	12.78	12.82	12.81	-0.33	-0.23
Swaziland	10.26	9.42	9.44	8.25	7.99
Tanzania	10.58	10.13	10.23	4.28	3.37
Togo	8.37	8.13	8.07	2.89	3.53
Tunisia	15.91	14.10	14.04	11.37	11.77
Uganda	9.17	7.52	7.83	17.98	14.58
Zaire	13.74	11.48	12.12	16.41	11.77
Zambia	7.69	7.61	7.62	1.12	0.94
Zimbabwe	10.76	10.00	10.04	4.86	5.24
Average					

(1) Instability index before purchases of CFF credits
(2) Instability index after purchase of CFF credits
(3) Instability index after purchase and buy back

Source: This table was based on data contained in the article by Manmohan S. Kumar "The Stabilizing Role of the Compensatory Financing Facilities in IMF Staff Papers, Dec. 1989, pp 771-809. The averages are geometric recalculated on the basis of data from 31 countries.

58. This table reveals that, with the exception of Burundi, Central African Republic, Côte d'Ivoire, Madagascar, Niger and Swaziland, resorting to CFF has a positive effect, although very modest, on the instability of the export earnings of the 31 countries surveyed, with a rate of more than 80 per cent. The basic advantage of the CFF is the "soft" element of its requirements, which makes it a special-interest source of financing within the IMF. Moreover, these various readaptations which have followed the trends in the needs of developing countries in general and of African countries in particular represent a willingness on the part of the fund to come to their aid in order to alleviate the problems related to their trade deficits.

59. The assistance which the CFF brings to economies overwhelmed by trade balance deficits is, however limited. The credit ceiling fixed at 105 per cent of the share subscribed is very restrictive in a context where those African countries most affected by the hazards of export earnings are the ones which have the smallest shares in IMF. Consequently, they have the most limited access to CFF credits. Furthermore, repayment conditions as earlier discussed, are relatively strict and limit the ability of poor countries use this mechanism. It should also be emphasized that the method of calculating the average lead to automatic reduction of the amount of CFF credits, due to the fact that export revenues continue to decline. Finally, it should be noted that some aspects of CFF financing can play a destabilizing role. This is the case especially during the deficit period and when the wait-period for the country's getting the loan is very long. Or, when the repayment period does not correspond with the recovery of export revenue stability. Or, finally, in the case where important errors in forecasting export revenue are made, which lead generally to destabilizing effects at the time of loan repayment. It is therefore not surprising, that although positive, the effect of CFF assistance on African economies should be weak. As the preceding table shows, this impact is on the order of about 5 per cent on average.

60. What has been the effect of Africa's participation in commodity agreements? Since 1962, Cameroon, Côte d'Ivoire, Ghana, Nigeria and Togo participated in the first international cocoa agreement. Although they have played some role in price stabilization, the various cocoa agreements have operated very unsatisfactorily. Currently, these agreements have disintegrated and the cocoa market is not regulated by any mechanism. Efforts continue for renegotiating a fresh agreement.

61. With regard to coffee agreements, the first dating back to 1959 was followed up in 1960 with the creation of the Inter-African Coffee Organization (IACO) which grouped African coffee exporters. The main objective of this organization was to stabilize coffee prices on world markets. The history of the last decade showed that this objective was far from being accomplished. The last agreement having expired in 1990, the international coffee market, like that of cocoa, is not regulated by any stabilization agreement. Very difficult negotiations are in progress, for its renewal.

62. Coffee and cocoa agreements have had both adverse and positive effects on the structural variables of the market instability of such commodities, in terms of production and consumption. Moreover, the dissuasive role of a buffer stock on the market is of very significant psychological interest, by blocking speculation, while the quota system has enabled supply regulation to some extent.

63. The failure of these agreements was nevertheless predictable, given the numerous problems associated with their implementation, such as the exorbitant cost of accumulating a buffer stock, the impact of speculation, errors in forecasting price margins, as well as the distortions of fixing production quotas and the resulting "flight". Furthermore, the difficulties of reaching consensus on export quota shares between various member States have often been the causes of the breaking

of such agreements and they continue to complicate renegotiations. Finally, it must be remembered that some consumer countries do not wish to handle this type of agreement which they accuse of breaking economic laws. Such reluctance was, for example, one of the key reasons for the opposition of the United States and Great Britain to renewal of the Cocoa Agreement in 1980. This divergence of interests between consumer countries and producer countries has very much penalized African countries whose market deregulation has eroded the earnings formerly enjoyed.

64. In addition to these two agreements which are of particular importance to African economies, African countries have also participated in other agreements. Nigeria and Zaire participated in the International Tin Agreements. After the collapse of prices in 1984, the association of tin-producing countries (among which were Nigeria and Zaire) decided to take over from the International Council which until then had administered the various agreements. As a result of this action, market improvement and higher revenues from tin exports were recorded in 1989.

65. The genesis of sugar agreements, goes back to 1861. More than a century later, the market for sugar is still always unstable. The most recent agreement, that of 1987, does not have price stabilization measures. Few African countries are sugar exporters. Mauritius is the country relatively most dependent on sugar exports. It benefits from preferential treatment under ACP-EEC agreements. (It has been estimated that Mauritian sugar exported to EEC countries costs three times the free market world price). Other countries such as Malawi and Mozambique are only marginal exporters with an export dependence rate on sugar lower than 10 per cent. Their economies have therefore been little affected by sugar price fluctuations.

66. Finally, the International Rubber Agreement is of little interest to Africa. Only Liberia with a dependence rate of 17 per cent is relatively dependent on exports of natural rubber. The 1987 Agreement and the setting of ceiling prices which followed in July 1990 had very little impact on African economies in general.

67. The participation of African countries in commodity futures markets is almost non-existent despite the potential offered by this alternative for export revenue stabilization. This is because of a range of factors including the limited number of markets, their "closed-door" policy to new comers, their heavy financial and technical requirements, etc. In other words, participation in such markets poses requirements which most African countries cannot easily meet. Among other causes, this difficulty of access to international commodity exchanges gave birth to the idea of a regional commodity exchange in Africa, especially within the Eastern and Southern African Preferential Trade Area (PTA). Unfortunately, a feasibility study undertaken in 1981-1982 is still not followed up. This was perhaps due to the fact that various prerequisite conditions for setting up such exchanges have not converged up until now.27/ Nigeria

is currently the only African country to have set up a commodity exchange28/.

27// The details of this study are contained in the Report on the Establishment an Agricultural Commodity Exchange for Eastern and Southern Africa ECA/MULPOC/LUSAKA/V/3(ii), presented in March 1982.

28// See "Commodity Exchange Market: Possible Impact on Nigeria's non-Export drive" in Monthly Business and Economic Digest, Vol.15, No.4, April 1992.

68. With regard to the UNCTAD Common Commodity Fund for price stabilization, it seems too soon to assess results because it is hardly operational. Two comments may be made however, with regard to its potential impact on African economies in the immediate future:

(a) Most African countries are poorly informed about how the Fund can help them;

(b) Taking Fund objectives into account and the amount of financial resources required for their achievement, it is very probable that available resources will be inadequate and this will compromise the effectiveness of the Fund.

V. ACTION PROPOSALS FOR STABILIZING EARNINGS FROM AFRICAN EXPORT COMMODITIES

69. The limited effectiveness of current price stabilization mechanisms and the failure of commodity agreements to meet the challenge posed by the continuous decline of commodity export earnings in African economies, require global sustained action. Measures have to be taken nationally, sub-regionally, regionally and internationally, to attack this tendency of revenue decline for African commodity exports.

(a) National measures

70. African countries could increase revenue from commodities exports by implementing inter-alia the following measures:-

(i) To improve the competitiveness of their commodities by reducing production costs. This does not in any way mean reduction of producer prices which would risk adverse effects on production. This may be done instead by reducing the costs linked to some stages in the structure of production costing such as collection costs, (for coffee and cocoa for example) export duties and taxes general costs, transport costs etc. The components of the CIF value of Ivorian coffee and cocoa processed in France are presented in the annex as an example.29/ To reduce such costs, a systematic analysis of the cost structure of all exported products is required, to be able to see where compression is possible;

(ii) To institute a macroeconomic policy for encouraging production and marketing of primary commodities. In this context, producer prices have to refer to world market prices, while fiscal measures favourable to the commodities sector should be taken. For example, importation of fertilizer, machines and tools and other inputs should be exempt from custom duties. Similarly, export taxes on primary commodities should be considerably reduced or completely abandoned;

29// The reader will please excuse the fact that the study is unable to supply more recent figures in the two tables in the annex. Nevertheless, the objective of the latter is to show that the structural analysis of commodity production costs can help to determine certain costs which can be reduced to increase product competitiveness. This was true ten years ago and is still true. Although the information in the annex is a little over 10 years old this does not change the reality of the problem described above.

(iii) To ensure the competitiveness of African commodities in terms of price and quality so that Africa does not lose its traditional markets. To do so essential factors include modernization of production through agricultural mechanization, fertilizer utilization and use of modern mining technologies, etc. In fact, it is because of the last three decades' of maintenance of obsolete production methods and lack of competitiveness that important market shares for Africa have been lost, to the benefit of more competitive Asian and Latin American countries. The creation of quality-control standardization centres in such countries as Senegal and Burundi is an encouraging factor for producing goods which meet international standards of quality and which can become widespread;

(iv) To integrate the commodities sector vertically, by ensuring greater processing of agricultural and mining products. By increasing their value-added, exports of such products would supply more revenue to national economies. On the other hand, their integration in the national production process with more value-added would reduce the heavy dependence of the economies on exports of primary commodities;

(v) To rationalize production operations and distribution and marketing of commodities, by involving the private sector more in this area, for a longtime the reserve of State monopoly. Some countries have already advanced to this idea. Burundi, for example, has started gradual privatization of its coffee industry which, until recently, had left production and some collection under state monopoly;

(vi) To set up or strengthen modern infrastructure for production, storage and marketing of commodities. This is all the more necessary because most African countries depend on the structures inherited from colonization thirty years ago, while the environment and conduct of commodity trade have quite literally changed;

(vii) To direct export earnings to socio-economic development in order to alleviate the living standards of the people and to create "take-off" conditions. Increased earnings to the population would allow more investment in the production of commodities, more competitiveness also more production diversification and, consequently, less dependence.

(b) Subregional and regional measures

71. To be competitive on the world market African economies have to satisfy certain requirements collectively, since it is difficult to respond individually. This should be the duty of numerous subregional and regional cooperation institutions which exist in all parts of Africa. Collectively, African countries should, inter-alia:

(i) Undertake joint promotion of commodity exports. Countries sharing the same commodity export product interests should form export marketing

groups30/. Within this context, they should continuously conduct studies on the supply and demand for their products to help to define their sales strategy. Increased knowledge of consumer markets will also allow them to market their products themselves, thus reducing the high cost of the business intermediaries to whom they are often forced to resort. This could be done by assigning this task to permanent business agents in the major consumer markets. The cost of such an operation could be shared among the participating States as a pro rata on sales. Such export marketing groups could, for example, be set up to resemble already-functioning producers and exporters associations such as the Inter-African Coffee Organization, the African Groundnuts Council, the African Timber Organization, etc. Such permanent collaboration among producers would also allow greater control of growth in production capacity and would strengthen market position;

(ii) Establish regional research and technology institutions targeted on the promotion of specific products such as coffee, cocoa, timber, cotton or tea. Such institutions would undertake specific studies on the effect of synthetic substitutes. This would enable production and sales strategy adaptation to this important factor which Africa has unfortunately neglected for a long time. Such centres, with assistance especially from the UNCTAD Common Commodity Fund, would also aim at studying new uses for African products, in order to reduce the heavy dependence on external markets. Such research into new markets would be facilitated by a marketing campaign of the type "Buy African", which would encourage Africans to consume their own products. However, this is not possible unless inter-African trade encouragement policies are implemented. The framework offered by the Treaty establishing the African Economic Community is ideal for achieving this objective;

(iii) To set up and/or increase the number of African financial institutions specializing in external trade financing operations. The project by the African Development Bank Group to create an Import-Export Bank comes at a good time. Moreover, barter trade where this is possible, would increase the volume of intra-African trade by reducing the use of often inadequate foreign exchange;

(iv) To develop a trade - information gathering and dissemination system on the possibilities for intra-African trade and trade between Africa and the rest of the world. Such a system would have to be coordinated by units which could gradually evolve and later act as commodity exchanges;

(v) To plan to have a unit within the ECA secretariat specifically responsible for administering African commodities. Such a unit should inter-alia carry out indepth analysis of all existing stabilization mechanisms, make recommendations for their eventual improvement, assist all African countries on a case-by-case basis to obtain greater profits and to explore all the ways

30// For more information, please refer to Creation and Management of Export Marketing Groups, published by the International Trade Centre, Geneva, 1973

and means to make African commodities more profitable to the national economies.

(c) International measures

72. It is currently acknowledged that trade is one of the essential factors justifying international cooperation. African countries share this context that offers a cooperation framework which they should always use to greater advantage. For the future, African countries should:

(i) Strengthen their negotiation capabilities in multilateral trade cooperation institutions such as GATT, UNCTAD, the ACP-EEC Convention, especially by active participation in all their organs. This means that African countries have to redouble their efforts to prepare seriously, for these negotiations, with indepth knowledge of the dossiers because this has not always been the case in the past. It is against this background that such countries should specifically negotiate preferential terms for the entry of their products onto the markets of developing countries. Great efforts have to be made to forward this plan because the absence, or the presence of a poorly-prepared Africa on such occasions often causes decisions to be made which do not necessarily take its interests into account. The ECA should play a major role by further strengthening their assistance to African countries in such multilateral negotiations;

(ii) Reopen negotiations on agreements for commodities on which most African countries depend for export earnings. Despite their imperfections, such agreements constitute a preferential negotiation framework for stabilizing the export earnings from such products. Consequently, African countries should begin a multi-pronged campaign and should plan on adequate resources for renegotiating these agreements. Similarly, it is to be hoped that African countries will initiate or intensify strong international cooperation among producers and consumers of primary commodities. Attacking the problem of price instability together, which in the opinion of Badillo and Dalloz, is one of the major causes of current economic crises31/, would benefit both producers and consumers.

(iii) Undertake the necessary negotiations for achieving the participation of Africa on the international commodity exchanges. By confining themselves to the "physical" level, African economies can take advantage of "contract" markets or "hedging". In fact, the latter would allow them especially, to guarantee future harvests or stocks which they hold for "short-term hedging" operations, or to profit from market fluctuations by resorting to "intermittent hedging". On the other hand, on the physical market, these same economies can resort to operations for "fixing prices" (following the forward prices forecasted by the agents). These same economies can "make use of conditional markets", especially "premium collections".32/ Futures

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31// **D. Badillo, J.P. Dalloz, Op. cit, p.103.**

32// Ibidem, p. 219.

markets offer new and important possibilities for trade strategy which African countries have not yet begun to exploit. Unfortunately, as they themselves acknowledge, members of these futures markets in New York, Chicago, Paris or London, form a "closed club". Africa must do all it can to penetrate this circle by resorting inter-alia to negotiations through international commodity organizations or through multilateral trade cooperation bodies. Such agents should establish themselves gradually around these markets to master the techniques first before attempting full participation;

(iv) Encourage the establishment of joint enterprises with developed countries to facilitate capital transfers (especially in the form of direct foreign investment) and technology transfers from the developed world to the African commodities sector. This may be done inter-alia by formulating incentive investment codes both for foreign capital and for investment in the primary commodities sector. However, this will not be possible unless Africa is stable politically, to eliminate the fear of foreign investors of falling victim to the numerous political hazards in Africa.

VI. GENERAL CONCLUSION

73. The crisis in African economies which is currently evident is the result of a complex of factors. This crisis is characterized mainly by its persistence since the start of the 1980s. This is explained to a great extent by the continuing depression of commodity markets on which these economies are largely dependent. Thus, for example, the African debt crisis at the beginning of the 1980s has resulted in lack of capability by African countries to guarantee debt servicing, following the sharp decline in foreign exchange earnings traditionally obtained from commodity exports.

74. The commodities crisis therefore constitutes an important bottleneck in the development of Africa. To try to overcome it, African countries resorted to existing export-revenue stabilization mechanisms. Unfortunately, whether by STABEX and SYSMIN of the ACP-EEC Convention, or the IMF Compensatory Financing Facility, stabilization effects, although not negligible, have been very limited. Designed to alleviate the effects of "accidental" declines in export earnings, such programmes have proved to be ineffective in attacking a problem which is structural and chronic. On the other hand, some five international commodity agreements more or less functional, have come to an impasse. The cocoa and coffee agreements have collapsed, the sugar agreement has no buffer mechanism, while those for tin and natural rubber are of little interest to African countries.

75. Stabilization of commodity export earnings in Africa has become on obsessive fear to the leaders of African economies. If on one hand it is recommended that they should work unremittingly to revitalize and obtain the highest profit under existing stabilization frameworks, on the other hand it is a priority that new ways be explored. In this context, it should be forcefully stressed that these countries ought to form commodity exchanges to benefit from the various advantages offered by hedging operations. It is a little-tried technique and the outcome would interest many countries. It is also recommended that African countries should be able to determine individually as well as collectively and with institutions such as the ECA, the modalities by which the UNCTAD Commodity Fund can assist them. With regard to the idea of establishing regional commodity exchanges in Africa, the current low volume of intra-African trade and the barriers against it, the excessive controls that government place on business activities and on prices, the lack of product varieties meeting international standards of quality, inter-alia are factors which are not encouraging. The creation of such exchanges should be more a gradual process overriding all

impediments. This is not to say that commodity exchanges are not viable in Africa. The recent setting up of a commodity exchange by Nigeria confirms the contrary. This should moreover inspire other countries and/or subregions which are interested in this issue. The Nigerian exchange could for example, constitute the nucleus which other west African countries could join, especially under the ECOWAS umbrella.

Annex 1: Differentials: Operational costs (Coffee)

Campaign 79/80, 1.10.79			
Producer Purchase Price			
Domestic Handling Costs			300
Collection		11,969	
Storage and handling		3,443	
Cartage sacks		0.622	16,034
Transport, Transit, Warehousing: Africa			
Transport			
Warehouse entry	PM		
Warehouse rental		0.363	
New sacks	PM		
Warehouse exit		6,719	
Truckage to wharf		0.363	
Transit commission		1,964	
		0.976	10,385
Exit duties and taxes			
Customs			
Port duty		57.50	
		0.457	57,957
Maritime freight			
Freight/France			
		17,671	17,671
Insurances			
Intermarketing insurance			
CIF insurance value (maritime)		0.683	
		2,168	2,851
General and Financial costs			
A. General costs			
Factory costs			
Factory wastes		3,599	
By-products		3,224	
Lighterage		6,449	
Loan deductions		1,723	
Inter. export costs		0,115	
Port surveillance		2.42	
Brokerage		0.45	
Maritime waste		2,168	
General contract costs		1,951	
		2,113	24,212
B. Financial costs			
Interest loss (centre)			
Third party holdings		2,443	
Interests on CIF value	PM		
		1,994	4,427
CIF value (France)			
FF/100kg			433,537
			867,074

Annex 2: Differentials: Operational costs (Cocoa)

Campain 78/80 1/10/79			
Producer purchase price			
Domestic handling costs			300
Collection cost		11,969	
Storage and handling		3,443	
Cartage sacks		0,711	16,123
Transport, Transit, Warehousing: Africa			
Transport			
Warehouse entry	P.M		
Processing and handling		0.364	
Warehouse rental		2,364	
New sacks		0,321	
Warehouse exit		6,772	
Truckage to wharf		0.364	
Transit commission		1.964	
		0,976	13,107
Exit duties and taxes			
Single custome duty			
Port duty		50.6	
		0.457	51,057
Freight			
Freight/Europe			
		17,574	17,574
Insurances			
Warehouse insurance (com)			
Domestic insurance CIF	PM		
Insurance valume (maritime)		0,672	
		3.29	3,962
General, financial costs			
A. General costs			
Wastes			
General Wharf costs		4,824	
Lighterage		2,055	
Loan deduction		1,723	
Inter-export costs		0,101	
Surveillance		2.14	
Brokerage		0.5	
Maritime waste		2,991	
Buffer stock		6,409	
	PM		20,743
B. Fiancial costs			
Interests loss (con)			
Third-party holdings		2,462	
Interests on CIF/Europe	PM		
		2,265	4,727
CIF value/Europe			
FF/100kg			427,293 854,586