DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

SM/85/17

January 22, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Meetings of UNCTAD Group of Experts on the Compensatory Financing of Export Earnings Shortfalls

The attached material for the information of the Executive Directors reports on the meetings of an UNCTAD Group of Experts on the Compensatory Financing of Export Earnings Shortfalls. The Group of Experts held three meetings during 1984 under the chairmanship of Mr. H. Hurtado, Minister of Development of Venezuela.

This material contains a summary report on the Group's meetings prepared by the Fund's Geneva Office (Attachment I), the body of an UNCTAD document reporting on the outcome of the Group's deliberations (Attachment II), and an annex to the UNCTAD document representing a submission made by the Fund staff (Attachment III).

Other annexes referred to in the UNCTAD report will be available shortly for reference from Mr. Kaibni's office, Room 10-320.

Att: (3)

Other Distribution:
Department Heads

ATTACHMENT I

INTERNATIONAL MONETARY FUND

Report on Meetings of the UNCTAD Group of Experts
on the Compensatory Financing of
Export Earnings Shortfalls

Report by the Fund Observers

January 15, 1985

1. Introduction

The Group of Experts held three meetings during April 9-13, July 30-August 3, and November 1-2, 1984 under the chairmanship of Mr. H. Hurtado, Minister of Development of Venezuela. These meetings were held in pursuance of Conference resolution 157(VI) adopted at Belgrade by a majority vote, with the United States voting against and several other members of Group B abstaining or expressing reservations. The purpose of the meetings was to examine a proposal of the UNCTAD secretariat regarding the establishment of a complementary compensatory financing facility designed to compensate for export earnings shortfalls on a product-per-product basis and without reference to balance of payments needs.

After extensive discussion, the experts agreed that there was some justification for establishing a new facility to finance projects or programs designed to correct the root causes of commodity supply instability on a product-per-product basis at the country level; this was seen as promoting sectoral income stability. The administration of such a facility, in the view of the experts, should not lead to the establishment of an independent institution but should be carried out as a Third Account with the Common Fund for Commodities (CF) or, if the CF were not to become operational in a reasonable period of time, as a separate window within the World Bank. The present report summarizes the main conclusions of the experts' report, which is attached. The Fund observers at the meetings were Messrs. Carlos Sanson and Jack Barnouin.

2. Main findings

The experts' report centers on three major topics: the nature of export earnings instability, the role of existing compensatory financing facilities, and the need for and nature of a possible complementary facility.

With regard to the first topic, the experts found that (a) export earnings instability was considerably greater for developing countries than for developed countries and that it had considerably increased in the 1970s when compared with the 1960s; and (b) for all developing countries taken together price instability tended to be greater than volume instability, but that the opposite was true for individual countries as a result of supply instability. The latter finding--which corroborated some previous observations by the Fund staff 1/--led the experts to the conclusion that, given the deleterious impact of export earnings instability on the economic welfare of the developing countries, the international community should adopt policy measures "that address the causes of commodity-specific supply instability and not just its effects."

Turning to existing compensatory financing facilities, the experts noted that the Fund's CFF had played an important role in providing short-term balance of payments assistance to countries affected by export shortfalls but that this facility was not designed to attack the causes of commodity-specific supply instability. They further noted that "a major alteration in the focus of the IMF-CFF from overall balance of payments problems to specific sector problems is unlikely, and would not be desirable as governments have recognized the validity and importance of the IMF scheme as it stands for the achievement of its own objectives." They therefore considered that "redirecting the IMF-CFF to deal with commodity sector instability problems was both not desirable and probably not feasible at the current time."

With respect to the EC's STABEX the experts expressed the view that while drawings from this facility were triggered by a commodity-specific mechanism, they usually had not been used to tackle the causes of supply instability. Moreover, this problem had not been addressed either by the World Bank's Structural Adjustment Loans, given the Bank's multiple operational objectives, or by existing international commodity arrangements which were basically designed to stabilize commodity prices.

1/ See Pamphlet Series No. 34, "Compensatory Financing Facility," page 10, paragraph 3.

In this context, the experts reached the conclusion that a complementary compensatory financing facility could be established to deal effectively with the causes of supply instability even though other measures might be needed as well. Potential access to the proposed facility would be open to any developing country that suffered a specified shortfall in export earnings from a specific commodity as compared with a ten-year trend (i.e., trigger threshold). Such access would be subject to the condition that the commodity concerned would account for a significant share of the country's total export earnings (dependency threshold) but there would not be any balance of payments need requirement. Drawings from the facility would neither be automatic nor necessarily equal to the export earnings shortfall, as they would take place only after agreement has been reached between the agency administering the facility and the developing country concerned on a multi-year program designed to correct the causes of the supply instability. Specified mechanisms for the execution, implementation, and monitoring of the program would be agreed as well. Repayments would occur over a fixed maximum period with possible acceleration whenever export earnings overages occurred. Prior recourse to the Fund's CFF or STABEX would not be necessary for drawings under the facility nor would double compensation be allowed.

The financial requirements of the proposed facility were not assessed by the experts because they depended on the result of negotiations among interested governments on the precise operational features of the facility, including, inter alia, the formula to be used for the calculation of export shortfalls, the levels of the trigger and dependency thresholds, and the criteria to be applied for selecting the sectoral programs which might be financed by the facility. The experts considered, however, that the facility should operate basically on a self-financing commercial basis and should thus rely mainly on borrowing from private financial markets, although capital contributions from governments "along the lines of the Common Fund for Commodities would be appropriate with voluntary contributions to cover any elements of concessionality."

As regards the institutional framework for the new facility, the experts considered that the facility should not require the establishment of an independent institution. In their view, the facility could be administered as a Third Account of the CF or, should the CF not become operational promptly, as a separate window within the World Bank.

3. Follow-up action

At the final meeting of the expert group, the Deputy Secretary-General of UNCTAD informed the experts that their report would be the subject of informal consultations among UNCTAD members in the spring of 1985. As a result of these consultations, the Secretariat expected the report to be forwarded to a special session of the Trade and Development Board, tentatively scheduled to be held following its regular thirty-first session, in the fall of 1985. Pursuant to Conference resolution 157(VI) the purpose of the special session would be to "decide upon requested follow-up action including the convening of a possible negotiating conference for an additional complementary facility."

ATTACHMENT II

TD

Distr.
GENERAL

TD/B/1029
4 December 1984

United Nations Conference on Trade and Development

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Fourteenth special session
Geneva, 10 June 1985

REPORT OF THE EXPERT GROUP ON THE COMPENSATORY FINANCING OF EXPORT EARNINGS SHORTFALLS

GE.84-54313

CONTENTS

CONTENTS (Continued)

---

* Annexes IV to XII are issued separately as document TD/B/1029/Add.1

Letter of transmittal to the Secretary-General of UNCTAD

Sir,

We have the honour to submit herewith our report on the question of compensatory financing of export earnings shortfalls referred to us pursuant to Conference resolution 157 (VI).

Three sessions were held at the Palais des Nations, Geneva - from 9 to 13 April, 30 July to 3 August and 1 to 2 November 1984. Meetings of the Drafting Group were held on 2 to 3 August and 29 October to 2 November 1984. The experts participated in their personal capacities.1/ At the request of the Group, Mr. Héctor Hurtado, Minister of Development of Venezuela served as Chairman and Mr. Hans Lundström, Director, Bank of Sweden, served as Vice-Chairman and Chairman of the Drafting Group.

The Expert Group had before it various background documents, one of which, "Consideration of the substantive issues relating to the question of an additional complementary facility to compensate for the export earnings shortfalls of developing countries, pursuant to Conference resolution 157 (VI), paragraph 3", was circulated as TD/B/AC.37/3 and Corr. 1. Others are reproduced in the annexes to this report.

We wish to express our deep appreciation for the assistance afforded by the UNCTAD secretariat. Thanks are also due to the Commission of the European Communities, the World Bank and the International Monetary Fund.

Although not all signatories to this report subscribe to all the views expressed in it, we believe that it represents a broad consensus on the questions which were referred to us.

Respectfully yours,

E. BACILA H. LUNDSTROM

1/For the list of experts see annex III to this report.

J. BEHRMAN

P. NDEGWA

W. G. DEEKS

E. N. OMABOE

J. B. DONGES

F. RAMPERSAD

P. GUILLAUMONT

M. SAKAMOTO

H. HURTADO

A. SEN GUPTA

P. KHVOINIK

I. SZALKAI

S. LADYKA

WANG HUAIAN Wang Huaian

D. LIM

S. MANGKUSUWONDO

Chapter I

INTRODUCTION

A. Terms of reference

1. In resolution 157 (VI) of 2 July 1983[1] the United Nations Conference on Trade and Development requested the Secretary-General of UNCTAD to convene, after consultation with interested Governments, an expert group on the compensatory financing of export earnings shortfalls.

2. The Expert Group was instructed to consider, without prejudice to an eventual decision on appropriate follow-up action that might be taken by the Trade and Development Board, the following:

(a) The need for an additional complementary facility to compensate for the export earnings shortfalls of developing countries, bearing in mind the needs of those countries which are most dependent on commodity exports, particularly the least developed among them;

(b) The nature of an additional complementary facility;

(c) Sources of finance for an additional complementary facility;

(d) The relationship of an additional complementary facility to existing facilities and intergovernmental organizations.

3. The Expert Group was further requested, in conducting its analysis, to examine, inter alia, the nature and causes of export earnings instability, the role and impact of existing facilities, the impact of export earnings stabilization on commodity markets, the financial and economic costs of stabilizing export earnings, and the possible stabilizing influence of commodity agreements and the Common Fund for Commodities. In doing so, the Expert Group was asked to take due account of relevant studies and suggestions made by the UNCTAD secretariat, other competent intergovernmental organizations, and interested Governments, as well as of previous intergovernmental consideration of the issues involved, particularly the discussions in the Committee on Commodities.

B. Background to intergovernmental discussions[2]

4. Attempts to find solutions to the problem, mainly through price stabilizing international commodity agreements, have a long history which goes back to the early 1930s. In the 1950s and 1960s the concept of compensatory financing emerged in response to the growing awareness of the importance of the export receipts of primary producing countries for meeting their development financing needs, as well as the realization from experience that not only were international commodity agreements difficult to reach but also that, even if established (such agreements being in fact suitable for only a limited range of commodities), they were often not effective in achieving their immediate objective of price stabilization as well as the ultimate objective of maintaining the export receipts of primary producing countries.

---

[1] Resolution 157 (VI) is reproduced in annex II to this report.

[2] The history of intergovernmental discussions on compensatory financing is developed in greater detail in annex IV to this report.

5. A large number of compensatory financing schemes have been proposed since the early 1950s, and these can be classified into two broad categories. The earliest proposals were price compensation schemes. The second category of compensatory financing schemes focused directly on the total export receipts of developing countries and sought to provide international compensatory financing in the event of shortfalls in the export earnings of individual countries.

6. These varieties of compensatory schemes were subject to extensive intergovernmental discussions and detailed analysis within and outside the United Nations during the 1960s. However, from the first session of UNCTAD in 1964, up to the third session in May 1972, given the inauguration of the IMF compensatory financing facility in 1963 and its further extension in 1966, intergovernmental discussions became (and remained) focused largely on the supplementary financing scheme elaborated by the World Bank staff in 1965 but which was never implemented.

7. Since the mid-1970s there has emerged renewed interest in the issue of compensatory financing. This renewed interest has seen the establishment of STABEX in the context of economic relations between the European Economic Community and certain African, Caribbean and Pacific (ACP) countries. Not only has it included calls for further liberalization in the IMF compensatory financing facility, but also, in recognition of the fact that instability in commodity trade is the major cause of instability in the export revenues of developing countries, several Governments have put forward proposals for additional compensatory financing schemes.

8. Compensatory financing was included in the Integrated Programme for Commodities (resolution 93 (IV)) adopted at the fourth session of the Conference in Nairobi on 30 May 1976 as one of a number of measures designed to impart strength and stability to commodity markets. The issue was discussed in greater detail at the fifth session of the Conference, held in May 1979 at Manila, and in resolution 125 (V) of 3 June 1979 the Conference requested the Secretary-General of UNCTAD to prepare a detailed study for the operation of a complementary facility for commodity-related shortfalls in export earnings.[3/] In September 1981, the United Nations Conference on the Least Developed Countries agreed that developed countries trading in primary commodities with least developed countries should study ways and means of helping the least developed countries to offset the damaging effects of loss of foreign exchange earnings arising from fluctuations in the latter's exports of primary commodities to them.[4/]

9. In response to resolution 125 (V), the Secretary-General of UNCTAD presented a series of reports containing proposals for a complementary financing facility for commodity-related earnings shortfalls which were discussed at the ninth session of the Committee on Commodities (September 1980), at its first special session (November 1981) and at its tenth session (December 1982).

[3/] Resolution 125 (V) is reproduced in annex II to this report.

[4/] Paragraph 82 of the Substantial New Programme of Action for the 1980s for the Least Developed Countries (Report of the United Nations Conference on the Least Developed Countries, Paris, 1 to 14 September 1981), United Nations publication, Sales No. E.82.I.8, part one, section A.

10. It is against this background of previous intergovernmental discussions of the issue of compensatory finance as well as the continued severity of the problem of instability in the export trade of developing primary producing countries that the present report has been prepared. While recognizing the importance of long-term aspects of the commodity problem - growth trends, technological change, protectionism and so on - the Group confined itself in accordance with its mandate to the problem of instability. Chapter II summarizes and reviews empirical evidence on the nature, causes and effects of export earnings instability; while chapter III outlines alternative stabilization objectives and the importance of commodity specific measures. Against this background, chapter IV assesses the extent to which existing programmes deal with the commodity instability problem. Chapter V then examines the potential for extending or re-directing existing programmes to deal with commodity sector stabilization and argues the case for additional measures. Chapter VI outlines the nature, main characteristics and mode of operation of an additional facility. Finally, in chapter VII a summary and conclusions of the report are presented.

Chapter II

NATURE, CAUSES AND EFFECTS OF EXPORT EARNINGS INSTABILITY

A. Nature and causes

11. The term instability refers to variations around a trend value over a given period. It thus includes shortfalls and overages. Both shortfalls and overages have certain adverse effects on the economy of primary exporting developing countries. Recent evidence indicates that the duration of shortfalls has tended to be rather long as compared with that of extreme overages. Whether or not prolonged shortfalls are viewed as structural or conjunctural may depend ultimately on the length of the time period over which the trend is viewed.

12. The choice of the length of time for calculating the trend and the choice of instability measure thus depend, to some extent, on the purpose of the analysis. Nevertheless, while the actual magnitude of measured instability may differ depending upon the method of measurement, it is generally agreed that many developing countries experience considerable instability in their export earnings regardless of the choice of the instability measure. In this report a measure of instability which has considerable practical as well as theoretical appeal is used.[5/] We distinguish three levels of instability: international commodity markets, individual countries, and commodity sectors of individual countries. For each level instability is measured for export earnings, unit value (henceforth referred to as price for simplicity), and volume.

13. Our statistical analysis of instability in the commodity exports of developing countries in the period 1961-1980, details of which are presented in annex V of this report, leads to the following conclusions.

14. First, while instability in economic activities is widespread, developing countries experience significantly greater instability in export earnings than developed countries. This is due largely to the fact that they are highly dependent on the exports of primary commodities which have high instability. In fact, fluctuations in export earnings and in prices of primary non-fuel commodities exported by developing countries have been greater than those of manufactured exports (see table 1).

15. Secondly, at the international level, for the majority of individual commodities instability indices are very large both in absolute terms (reaching around 50 per cent in some cases) and relative to the indices for the relevant commodity sub-groups.[6/] Moreover, individual primary commodities have shown substantially greater instability in prices, volumes and values in the past decade than in the 1960s. Instability in all these variables is higher for developing countries than for the world as a whole, and even more so for least developed countries as compared with developing countries generally (see annex V, table III). In particular, it appears that the importance of volume instability tends to increase with lower levels of aggregation of countries. This is not unexpected, because of the greater likelihood that there will be some offsetting in the process of aggregation.

[5/] Instability is measured as the percentage deviation of the variables from their exponential trend levels for a given period; for the formula used see annex V, footnote b.

[6/] For individual commodities see annex V, tables II and IX.

Table 1

Developing countries: Export instability indices for major commodity groups and manufactured goods, 1962-1981

(Percentage)

	Unit value index	Quantity index	Value index
Foods	18	5	17
Agricultural raw materials	19	10	18
Mineral ores and metals	8	7	10
All non-fuel primary commodities	12	5	14
Fuel	39	9	33
Manufactures	9	6	12

Source: UNCTAD secretariat estimates.

16. Third, a more detailed comparative analysis of price, volume and export earnings instability of individual primary commodities at the international level reveals that at all levels of aggregation price instability appears to be more significant for most primary commodities studied than volume instability. Nevertheless, the relative significance of price instability declines sharply at lower levels of aggregation, as table 2 shows. This table indicates, moreover, that at the international level instability in price is partially offset by fluctuations in volume in most cases. By contrast, for developing countries as a group, particularly least developed countries, fluctuations in volume reinforce fluctuations in price. Thus, the lower the level of aggregation, the greater appears to be the compounding effect of volume instability on export earnings.

Table 2

Comparison of unit value instability index with volume and value instability indices of exports of individual primary commodities for world, developing and least developed countries, 1962-1981

	World		Developing countries		Least developed countries	
Instability index	No. of commodities	Per-cent	No. of commodities	Per cent	No. of commodities	Per cent
Unit value index greater than volume index	34	92	26	72	13	59
Volume index greater than unit value index	3	8	10	28	9	41
Total	37	100	36	100	22	100
Unit value index greater than value index	22	59	17	47	7	32
Value index greater than unit value index	15	41	19	53	15	68
Total	37	100	36	100	22	100

Source: UNCTAD secretariat compilations, based on annex V, tables VIII and IX.

17. Fourth, at the country level, instability indices of export earnings, volume and price for individual commodities tend to be higher for the majority of countries than the corresponding indices for developing countries as a whole. Nevertheless, it appears that the differences between volume instability indices at the country and aggregate levels are much more pronounced than the corresponding differences between price instability indices (see annex V, tables V and VI). In particular, small exporters tend to have greater volume instability than major producers.

18. Fifthly, and more importantly, as a result of the above tendencies, at the country level, in contrast to the global level, volume instability as is shown in table 3 tends to be significantly higher than price instability and accentuates price instability for a large number of commodities, particularly for small exporting countries, although price instability is itself relatively high. This result is consistent with various observations and indications made in the past that volume instability is substantial and often more important than price instability at the country level.[7/] It also confirms the results of recent independent empirical studies based on samples of developing countries. Moreover, the results as presented here would also seem to be justified on theoretical grounds, as explained below.

19. As regards the causes of instability, a distinction also needs to be made between the causes at the international and at the country level. Generally speaking, export instability is induced by shifts in demand or supply or by a combination of the two. It is not always easy to separate the influence of supply and demand on instability because there are interactions between them through prices. These interactions takes place, for example, through the perpetuation and amplification of price and supply instability once they begin (i.e. the cobweb effect); they also take place through the incentive which instability induces to economize on the use of primary commodities, and through the effect of competition from similar products and the development of substitutes. Nevertheless, the original demand and supply factors are still distinguishable. Fluctuations in demand for imports by consuming countries are among the important factors at the international level. At the country level, changes in supply in other exporting countries are an additional factor affecting demand.

20. Supply factors include variable climatic conditions: variations in the availability and cost of inputs such as fertilizers, pesticides and water supply; the incidence of disease, plant exhaustion, and production cycles; and inadequate quality and supply control, warehousing and storage facilities, farm maintenance practices, equipment repair and replacement, etc. Moreover, changes in producers' income, themselves a result of instability in supply and/or demand, will tend to perpetuate instability through the well-known cobweb effect and investment cycles. Changes in government policies are also sometimes among the contributing factors (as they are in other sectors of the economy). Changes in both supply and demand are also affected by the activities of transnational corporations engaged in production, marketing and processing of commodities.

[7/] Within a country, although data are not available, it seems reasonable, on the basis of the above observations on the pattern of instability at various levels of aggregation, to expect that individual producers would be liable to suffer from volume instability to a greater extent than the sector taken as a whole.

Table 3
Comparison of unit value instability indices with volume instability indices of exports of primary commodities of developing countries at the country level, 1962-1981 a/

Commodities	Threshold b/ 1 per cent and greater: No. of countries	1 per cent and greater: Volume instability greater than unit value instability Percentage of cases	5 per cent and greater: No. of countries	5 per cent and greater: Volume instability greater than unit value instability Percentage of cases
Agricultural				
Groundnuts	7	100	6	100
Groundnut oil	7	88	4	100
Cotton	34	91	21	86
Bovine meat	13	85	7	71
Coconut oil	8	63	4	50
Palm oil	8	63	2	50
Bananas	18	83	11	73
Timber	23	65	12	75
Jute	4	75	2	50
Coffee	36	33	27	11
Sisal	7	43	6	33
Cocoa	23	22	11	9
Sugar	26	27	18	28
Rubber	9	33	6	17
Minerals				
Manganese ore	6	50	-	-
Tin, refined	5	80	3	67
Tin ore	5	80	2	100
Iron ore	14	57	5	60
Copper ore	11	64	6	50
Copper blister	7	57	4	25
Copper, refined	10	40	4	23
Bauxite	6	33	4	40
Phosphate rock	7	14	5	-

Source: UNCTAD secretariat calculations, based on United Nations data bank and national statistics.

a/ In the case of minerals other countries are included because of their importance in world exports. For some countries adequate data are not available.

b/ Percentage of the commodity's export earnings in total export earnings of the country (average 1976-1977).

21. The amplitude of instability depends not only on the magnitude of the shifts in demand and/or supply but also on the degree of commodity and geographical concentration, market concentration and speculation and on the market structure. It also depends, of course, on the short-term price elasticities of demand and supply, These elasticities are usually low for primary commodities and as a result shifts in supply or demand lead to relatively large changes in the export prices and in the export earnings of exporting countries.

22. Although it is difficult to quantify the relative destabilizing effects of supply and demand factors, empirical evidence, including the practical experience of STABEX, indicates that supply factors play a substantial and usually a more significant role than demand factors at the country level. Moreover, some inferences may be drawn from the statistical analysis above about the relative importance of supply and demand factors. At the global level shifts in both demand and supply of primary commodities lead mainly to price instability because the price elasticities of both demand and supply are low. This seems to be an explanation for our empirical results, which show considerably higher price instability than volume instability for the majority of commodities at the global level. At the country level, the supply of primary commodities is also subject to low price elasticity, but the demand facing an individual country, and particularly small producing countries, is more elastic than that of the world as a whole. Demand shifts therefore lead mainly to price instability. Supply shifts, on the other hand, lead mainly to export volume instability.

23. To the extent that our empirical results indicate that volume instability is more pronounced than price instability at the country level, supply factors must be considered an important cause of instability at that level. This finding is consistent with earlier observations and empirical tendencies noted in the literature on the relative contribution of supply and demand factors at the country level.

24. In short, although price instability tends to be high at the country level, it appears that export volume instability, caused mainly by supply factors, often contributes to a greater extent than price to instability in the export earnings of the majority of individual primary commodities.

25. One of the experts is of the opinion that the main causes of instability in export earnings are mostly beyond the control of developing countries. According to this expert, the major sources of instability are fluctuations in demand from leading importing countries who dominate the world market and whose economy is governed by the play of market forces. He considers that this was especially evident in the periods of extreme export earnings instability which coincide not so much with supply scarcity as, principally, with cyclical reduction of demand during recessions in importing countries. This expert also raised the question about the responsibility of former colonial powers for those deficiencies in the economies of developing countries which make them especially vulnerable to world market instability and export earnings shortfalls.

B. Effects

26. The effects of instability in commodity export earnings on the economies of developing countries should be examined at the macro-level as well as at the sectoral level. It is also worth noting that there is a basic difference between supply-induced and demand-induced instability so far as the transmission of the effects of instability in commodity export earnings into the economy is concerned. Demand-induced instability originates outside the economy and is transmitted, mainly in the form of price instability, to the economy through the main macro-economic variables. Instability in these variables also leads to instability at the sectoral level. By contrast, supply-induced instability originates at the producer level and spreads out to other sectors and the economy as a whole. The resultant instability in macro-economic variables will, in turn, have further consequences for growth at the macro- and sectoral levels.

27. At the macro-level, the importance attached by policy-makers and the international community to the harmful effects of excessive instability is recognized *de facto* in the existence of the Compensatory Financing Facility of the International Monetary Fund (IMF-CFF). Notwithstanding the academic controversy on the impact of export earnings instability on the economies of developing countries, our examination of the literature indicates firstly that there are strong theoretical arguments in favour of the hypothesis that instability has a negative effect. According to these arguments, instability affects development adversely through such variables as imports, savings, investment, employment, government revenues and private income. It also creates an uncertain climate which is inimical to planning and investment; it encourages a speculative mentality; involves some opportunity costs in holding excess reserves of scarce foreign exchange; exacerbates inflationary pressures and contributes to the deterioration of the terms of trade of developing countries. By contrast, the main arguments in favour of the positive impact of instability are that it could increase the propensity to save and stimulate entrepreneurship. However, even these effects would depend on the extent of instability and the response to it under particular circumstances.

28. Secondly, at the empirical level, our examination of the literature indicates that on balance, there is more evidence of negative than of positive effects of instability on economic development even though the evidence for the most recent decade, when instability intensified significantly (see section A above) is limited.

29. At the sectoral level, the effect of instability on producers depends to a large extent on the mechanism of transmission of instability to the sector and this in turn depends on the source of instability (i.e. supply or demand), the characteristics of the economy, the nature of government policies and whether or not effective stabilizing mechanisms exist. Nevertheless, even where these mechanisms exist they usually deal only with price, rather than volume, instability. At any rate, at the sectoral level the evidence on the impact of instability is more clear-cut. Instability creates uncertainty and tends to perpetuate itself. The risks associated with instability have negative effects on output and demand, on the efficiency of resource allocation and on the income of producers.

30. It is worth adding that instability in developing countries' exports also adversely affects the stability of global commodity markets and financial markets and the world economy as a whole. For example, instability in commodity markets results in successive periods of over and under-supply which may also affect the security of supply. It also could lead to higher price levels, less trade and lower social welfare for both producers and consumers. Moreover, it destabilizes the export flow of developed countries, adds fuel to inflation in these countries, and increases the need for debt rescheduling and the risk of default.

31. In short, instability in the commodity export earnings of developing countries has been significant and has intensified since the early 1970s (see annex V, table II). Although both price and volume instability are significantly high at the country level, it appears that, in contrast to the international level, volume instability, caused mainly by supply factors, contributes substantially to export earnings instability and often tends to be larger than price instability. Instability in export earnings seems to have adverse effects on the economies of developing exporting countries at both the macro- and the sectoral level. Furthermore, it has negative impacts on world commodity markets and on financial markets and the world economy as a whole.

32. On the whole, therefore, we support the generally held view that export earnings instability, at least when it reaches relatively high levels, does have harmful effects on the economies of primary commodity exporting countries.

33. One implication of our findings is that, in order to tackle effectively the problem of instability in export earnings, current stabilization policies should be supplemented by measures designed to address the root causes of supply instability.[8/] This would not only achieve greater stability at the sectoral, country and global levels in the short-run, but would also contribute to reducing the costs and financial requirements of stabilization policies in the longer run. These issues are elaborated in greater detail in the following chapters.

8/ For a differing view of one expert see annex I.

Chapter III

EXPORT EARNINGS STABILIZATION: OPTIONS

A. Stabilization objectives

34. As the analysis and empirical evidence presented in chapter II have indicated, the instability problem associated with the export earnings of the developing countries exists at three levels - at the level of the overall earnings of a country, at the level of major trade sectors and at the level of world markets for particular products. Stabilization objectives can be, and have been, pursued in relation to these three levels or loci of instability affecting the export earnings of developing countries.

35. At the level of world markets, stabilization objectives include the reduction of price instability for specific products. This objective (market price stabilization) has been pursued with respect to a number of individual commodities, through international commodity agreements or arrangements (ICAs), since the 1930s. Price stabilization for individual traded commodities at the global level, when this objective is achieved, however, does not necessarily imply stability of earnings from the particular product for individual producing countries. This is because export volume instability, which is also a major problem for individual primary commodity producing countries, would also affect the stability of earnings from individual commodities. In any event, the price stabilization objective has been achieved only to a very limited extent and only for a small number of commodities.[9]

36. At the level of the overall export earnings of a country, international stabilization objectives may seek, and have sought, to offset or neutralize the effect of fluctuations (notably shortfalls) in total foreign exchange receipts. This objective has been pursued by the international community, particularly with respect to the developing countries, through the IMF-CFF, in recognition of the fact that short-term fluctuations in the total foreign exchange earnings of developing countries not only can stymie the growth and development of these countries but also can lead to balance-of-payments difficulties, with wider implications for the stability of the international trade and payments system.

37. Lastly, stabilization objectives may also be pursued in relation to particular export sectors at the country level. The commodity sector has been the target sector for stabilization efforts mainly for two reasons. First, world production of and trade in commodities are subject in general to degrees of instability in price, volume and earnings far in excess of those experienced in the case of other product sectors, for example, manufacturing. Second, because of the large relative share of commodities in the GDP and exports of most developing countries, instability in this sector is often the

[9] See annex VII, section D for further discussion.

major source of instability in their overall export earnings and national income.[10]

38. It is important to make a distinction between stabilization objectives which seek to neutralize the deleterious effects of instability associated with the export earnings of developing countries and those which seek to reduce or eliminate the causes of instability. If the aim is to neutralize the effects of instability, then instability will most likely remain a recurring problem. However, if the aim is to reduce or eliminate the causes of instability, then the problem should diminish over time. As earlier indicated, because of variability in export supplies of individual producing countries, the stabilization of commodity prices at the international level does not, in so far as this objective is achieved in practice, imply necessarily earnings stabilization at the country level from the particular commodity. A focus exclusively on price stabilization assumes implicitly that supply-side instability problems are not important or would be taken care of automatically. There is therefore no assurance that international price stabilization would have either offsetting or remedial effects on the export earnings instability problem of individual countries. The objective of stabilizing the overall export earnings of developing countries, on the other hand, would have a direct impact on neutralizing or avoiding the adverse effects of foreign exchange receipts shortfalls on the external payments capacity of a developing country. However, this focus on avoiding short- to medium-term balance-of-payments difficulties does not identify nor does it seek to remedy the causes of export earnings instability. A supplementary approach to the export earnings instability problem of developing countries would have as its principal objective the tackling of the causes of earnings instability. Such an approach should focus remedial measures on the main problem sectors contributing to overall export earnings instability - the commodity sectors which are an important source of instability in the overall export earnings of developing countries.

B. Importance of commodity-specific measures

39. As the empirical evidence discussed in chapter II shows, instability in commodity export earnings at the country level derives to a substantial extent from supply-side instability. Supply instability at the country level stems from a variety of factors. One group of factors relates to producers' responses to price signals, income risks, and fluctuating incomes and to uncertainties regarding both the market price for their produce and the actual quantity of output they will have available to market. A second group relates to factors which affect producers' decisions from the cost-of-production side - e.g., instability in the costs and supplies of production inputs such as seeds, fertilizers, pesticides, seasonal labour, equipment repairs, and bank credits. A third relates to natural and other factors independent of production decisions which affect the quantity finally produced, such as the vagaries of the weather, crop disease, lack of adequate roads and other

---

[10] In recent years, out of a sample of 78 non-fuel commodity exporting developing countries, the percentage share of primary commodities in total exports was in 1980 between 90 and 100 for 29 countries, 70 and 90 for 21 countries and 50 and 70 for 14 countries; moreover, many developing countries depend heavily for export earnings on only one to three commodities (see the report by the UNCTAD secretariat, "Commodity issues: a review and proposals for further action," (TD/273 and Corr. 1-2), to be printed in Proceedings of the United Nations Conference on Trade and Development, Sixth Session, vol. III - Basic Documents (United Nations publication, Sales No. E.83.II.D.8), table 6. See also annex V to the present report, table XII).

transport and marketing facilities, machinery failure, strikes, and mining accidents. The collective and individual importance of these factors varies from country to country, among commodities and over time for particular commodities. Since at any given moment the situation of, as well as factors contributing to instability in, various commodities could be different, commodity-specific measures would be essential to any stabilization effort which aims at combating commodity sector instability at the country level.

40. Not all factors giving rise to commodity sector instability are amenable to remedial action which could be undertaken with external financial assistance. Some important ones are, however, amenable to such action and efforts have been and are being made in a few countries to adopt and implement appropriate measures. In regard to the first group of factors mentioned above, efforts have been made by some countries to institute measures to reduce price instability and/or income uncertainty faced by producers. These include domestic price-stabilizing programmes for export-oriented commodities, sometimes implemented through caisses de stabilisation or marketing boards; revenue-stabilizing mechanisms, such as domestic loan schemes, which make available bridging or rehabilitation finance in cases of output shortfalls; and variable tax rates of various sorts (often profit taxes for mineral production or export taxes for agricultural products). Where these exist they have frequently been implemented with external technical assistance.

41. In regard to the second category, measures could be undertaken, and attempts have been made in some countries where there has been a problem, to stabilize as far as possible the prices and supplies of key production inputs (including, for example, fertilizers, seeds, equipment and repairs). These efforts have or could have included procurement, stocking and distribution programmes for major agricultural inputs, short-term loan programmes for purchase of necessary inputs or equipment repairs, bank credit schemes for producers, etc. All of these have the intention of reducing the production risks to producers and so inducing a reduction in the instability of their output. For most countries they involve committing import expenditures and developing stocking facilities and distribution mechanisms.

42. Third, there is a need to reduce the adverse influence on supply of recurrent natural and other phenomena, through appropriate investments in projects or activities having such an impact. Examples of efforts that could be taken, and have been attempted, in this regard include crop rehabilitation and relocation, irrigation and water control, warehousing, investment in equipment production and repair facilities, investment in domestic input supplies, access to roads and transportation, and land improvement. When such investments are conceived as affecting the continuity of supply, rather than increasing it, they often receive lower priority in investment programmes.

43. Instability in the export earnings of a commodity at the country level results also from instability in the world market price of the commodity - the latter instability itself being a consequence of instability in aggregate world demand and/or supply of the commodity. Because of the low short-term demand elasticities of most primary commodities, small shifts in demand or supply can lead to wide fluctuations in the commodity's price. As indicated in chapter II, instability in world demand for a commodity is due to factors - such as the business, industry and inventory cycles, as well as the macroeconomic policies of major consuming countries - which raise broad and complex issues of world economic management. On the other hand, measures which aim at reducing excessive instability on the supply side for a particular commodity at the national level could help to promote, especially if harmonized with international policies relating to the economy of the

commodity, smoother adjustments of world supply to demand, thereby contributing to world market price stability for the commodity. For example, in a situation of temporary under-supply on world markets due to, for instance, a temporary upward shift in world demand, measures to boost short-term supply at the country level (e.g. the purchase of additional production inputs such as seeds, fertilizers, and pesticides, as well as equipment) would be appropriate. If the under-supply situation results from shortfalls due to drought, floods, crop diseases, etc., then appropriate measures should be taken to restore productive capacity and maintain supplies. In a situation of temporary over-supply for a commodity on the world market, due to a cyclical downturn in demand or a world production overage, there would be a need for some reduction in supply so as to inject a better balance in the international market. Measures at the country level in this regard could include temporary production cutbacks, warehousing and storage. In cases of high instability or persistent over-supply, measures to promote diversification at the national level (over geographical areas and/or products) would be appropriate. It would be important that national adjustment programmes be internationally compatible to ensure that resources moving out of production of one commodity in persistent over-supply are not used to create, or accentuate, a surplus elsewhere.

C. Need for additional international efforts

44. Some developing countries have attempted to institute domestic stabilization programmes for their commodity sectors which have included some or all of the above elements. Whilst these individual efforts should be encouraged, they are apt to meet with limited success if not internationally supported, for several reasons. For one thing, to the extent that instability in a developing country's export commodity sector is due to erratic movements in world commodity prices outside its control, the country's efforts, if acting on its own in isolation, are likely to be of limited effectiveness. Furthermore, even in other situations where national efforts could prove fruitful, commodity sector stabilization may still pose difficult problems for individual developing countries.

45. One major obstacle is the problem of raising additional revenue to offset the adverse effects of, and/or to undertake remedial measures to prevent, excessive earnings instability in a particular commodity sector. For many developing countries, foreign trade taxes or income taxes generated by export earnings are the main source of fiscal revenues. A shortfall in a principal export sector implies therefore a corresponding contraction in the tax base. Raising the rate of taxation on other sectors not only to prevent fiscal revenues from falling but also to finance programmes in the shortfall sector may have disincentive and adverse resource allocation effects involving real costs to the developing economy far out of proportion to the marginal revenue raised, especially in low-income countries where even the agricultural sectors with overages are low income sectors. Alternatively, a government might seek to raise the additional revenues by increased public sector borrowings on the domestic financial market. However, this is likely to put further strains on fragile domestic financial markets and to reduce the availability of domestic loanable funds (savings) for financing productive investments in other sectors of the economy, especially by private producers (the "crowding out" effect). In view of the problems associated with the preceding two ways of revenue-raising, a government might be tempted to obtain additional funds through domestic credit creation or by simply printing money. However, this approach would merely fuel inflation in the economy and give rise to destabilizing macroeconomic effects, with consequent adverse impacts on employment and growth far out of proportion to the transitory purchasing power acquired.

46. Lastly, it might be supposed that a government should, from general or sectoral incomes and foreign exchange earnings, accumulate and hold reserves for use in time of need to deal with commodity sector instability problems. However, for a developing country already short of resources - especially foreign exchange - to meet its development financing needs, the opportunity cost of holding adequate reserves to offset wide and unforeseen fluctuations in export earnings is likely to be very high indeed.

47. Aside from these difficulties of raising additional revenue in developing countries, commodity sector stabilization programmes of individual developing countries are likely to meet with limited success, and hence the incentive to devote scarce resources for such purposes correspondingly reduced, if compatible policies and reactions are not encouraged on the part of other producers and of consumers - i.e., without the expectation of complementary policies for the commodity at the global level. For example, in situation of over-supply, a cutback by one producer may simply lead to a loss of its market share without an overall decrease in aggregate supply on the world market, or in cases of under-supply an expansion or rejuvenation of production may coincide with similar expansions by many other producers and so to smaller benefits than anticipated. Both of these examples pose especially difficult constraints for commodities with relatively long gestation periods (e.g., minerals and tree crops).

48. In view of these constraints on the efforts of individual developing countries, international financial support and co-operation would be necessary if the objectives of reducing instability in the commodity export earnings of developing countries are to be achieved consistent with stability in the world commodity economy. These twin objectives can be served by measures for commodity sector stabilization designed to establish systematic links between compensatory finance for commodity sector earnings shortfalls of developing countries, on the one hand, and measures to deal with the root causes of this earnings instability, on the other.

49. International financial support to developing countries for a programme of commodity stabilization is not without benefits for developed countries and the international economy as a whole. The Group took note of a study prepared by Prof. Lawrence R. Klein and Dr. C. Andrea Bollino, "The impact on the world economy of compensatory finance to developing countries for shortfalls in their commodity export earnings",11/ which attempted to trace the economic effects of commodity-related compensatory loans to developing countries on the world economy, and particularly on the growth, employment and trade of developed and developing countries. This exercise used the world econometric model LINK with a baseline projection of spring 1983 and certain characteristics of an additional compensatory facility as outlined in the above-mentioned study and it was assumed that financing would be obtained through commercial loans. The proposal of commodity-related compensatory loans was found in the study to be a way of modestly contributing to world economic betterment which is not economically costly to the industrialized countries.

11/ See annex VI.

Chapter IV

EXISTING PROGRAMMES AND THEIR SHORTCOMINGS IN DEALING WITH COMMODITY SECTOR STABILIZATION

50. There are two compensatory financing facilities which have been in operation for some time; the compensatory financing facility of the International Monetary Fund (IMF-CFF) and the STABEX of the EEC-ACP Lomé Convention. There are also two other existing international programmes of relevance to commodity sector stabilization efforts; the policy-based programme lending of the World Bank, and international commodity agreements and the Common Fund for Commodities of the Integrated Programme for Commodities in UNCTAD. The role, operations and impact of these programmes were reviewed with the help of the material made available by the respective administering agencies and the UNCTAD secretariat.

A. The Compensatory Financing Facility of the International Monetary Fund

51. With regard to the IMF-CFF, the Group noted that this facility, which is one of several IMF facilities, was designed to compensate for temporary shortfalls in export receipts, particularly for primary-producing countries, when a country had balance-of-payments difficulties and the shortfall was of a short-term character, largely attributable to circumstance beyond its control. The idea was to reduce short-term fluctuations in export earnings and thus to mitigate the adverse impact of such fluctuations on the development planning process.

52. In reviewing the paper provided by the staff of IMF on the IMF-CFF (annex VII, A) the Group also noted the large increase in funds made available under this facility over the years but recognized the limits put on country use especially in relation to quotas in IMF and the requirement of a balance-of-payments need. Annual drawings during 1976-1983 averaged SDR 1.42 billion, with particularly large annual drawings being made after the 1975 recession (SDR 2.31 billion in 1976) and after the 1981-1982 recession (SDR 2.63 billion in 1982 and SDR 2.84 billion in 1983). During the first six months of 1984, five drawings, worth SDR 689 million, were made. Over the last four years an average of 23 countries have drawn in any one year. Outstanding drawings as of end-May 1984 of SDR 7.46 billion represented about 23 per cent of total outstanding Fund credit; 87 per cent of the total outstanding CFF drawings was accounted for by developing countries. Note was also taken of the decrease in quota limit from 100 per cent to 83 per cent in 1984 (125 per cent to 105 per cent when excess cereal imports are included). The implications of the conditions for drawing from the IMF-CFF in relation to that of other IMF facilities were discussed, including their advantage in making the facility semi-automatic, at least up to 50 per cent of quota. There is no material available on the actual uses or effects of CFF purchases on a country-to-country basis, mainly because the support is of a general, fungible balance-of-payments sort.

53. While there have been other types of suggestions made for improvement in the IMF-CFF, the Group concentrated on those limitations relevant to commodity sector stabilization following the reasoning of chapter III. As a facility which provides short-term balance-of-payments assistance to maintain import capacities of countries affected by an export shortfall, it addresses one of the effects of instability mentioned in chapter II in terms of the macro development of developing countries. While this is in itself important, such

a facility is not designed or intended to address the specific problems of sectoral instability or to attack its causes. In fact, as a semi-automatic mechanism, the specific actual uses of funds are left to recipient Governments. It could play a role in assisting to stabilize commodity sectors if Governments could finance their stabilization efforts in the firm anticipation of being able to recoup through drawings on the CFF. But since eligibility and the size of drawings are not entirely predictable, Governments would be restrained in undertaking sectoral commodity stabilization activities based merely on potential financial assistance from this source. Thus, the Group felt that the IMF-CFF, while useful in its own context, is not an appropriate mechanism for tackling commodity-sector instability problems.

B. STABEX

54. The Group reviewed the objectives and implementation of STABEX (see annex VII, B for the paper provided by the Commission of the European Communities). It noted that STABEX was designed as a commodity-specific compensatory financing scheme, limited in its coverage of countries (to the ACP countries) and of trade flows (primarily ACP exports of selected commodities to EEC). While an underlying intention was that STABEX could provide an effective means of channelling financial support to producers of export commodities, there are, however, no formal obligations to use STABEX transfers in this way.[12/] The funding for STABEX comes from the European Development Fund, which receives financial contributions from the EEC member States, and is of a fixed amount for a five-year period - 375 million u/a (about $400 million) for 1975-1979 and 550 million ECU (about $550 million) for 1980-1985, or about 12 per cent of EDF financial resources.

55. The Group noted that STABEX primarily covers agricultural products and that support for a limited number of minerals is given through SYSMIN, a long-term soft loan programme aimed at restoring or maintaining existing productive capacities; that the least developed among the ACP States are given special treatment, including no obligation to repay, and that a higher percentage of their claims have been met in years of shortage of funds; and that while a substantial part of the transfers were not used in the triggering sector, when they were so used they were efficient in stabilizing sector income.

56. With regard to the objective of commodity sector stabilization, two main limitations of STABEX were discussed. First, it was recognized that STABEX is a regional scheme with limited country and trade coverage, and as such cannot be expected to cope with a problem on a global scale. Secondly, while STABEX was designed as a commodity-specific scheme and transfers are triggered by shortfalls in specific commodity sectors, the kind of conditionality put on the use of funds has meant that, because of other pressing needs of recipient countries, transfers have often not been used to tackle commodity instability problems. However, many of the practical features and experiences of STABEX were useful in evaluating the implications of various export earnings stabilization options.

[12/] See article 23, paragraph 2, of Lomé II. "In order to attain these objectives, transfers must be devoted to maintaining financial flows in the sector in question or, for the purpose of promoting diversification, directed towards other appropriate sectors and used for economic and social development."

C. The World Bank

57. The Group reviewed the activities of the World Bank which are of relevance to the commodity sector stabilization objective (see annex VII, C for the paper provided by the staff of the World Bank). Although the Bank's main emphasis has remained on the ways to cope with the slow growth of export earnings as a serious obstacle to the growth of income of member countries, the Bank has long recognized the need for commodity stabilization programmes.

58. The World Bank's specific involvement with the problem of instability in the export earnings of developing countries began in the early 1960s. In 1965, the Bank put forward, in response to a recommendation adopted by the first session of the United Nations Conference on Trade and Development, a report on possible supplementary financial measures.[13/] The existing international financial machinery at that time did not include a mechanism designed to prevent the disruption of sound development programmes or policies by unexpected shortfalls in export earnings, when their nature and duration was such that they could not adequately be dealt with by short-term balance-of-payments support. To fill this gap the Bank proposed a scheme by which additional financial resources could be made available to developing countries in connection with export earnings shortfalls, but based on a judgement of their disruptive effect on development programmes. The scheme was further considered in UNCTAD, but its implementation was indefinitely deferred by the Bank because of limited support among potential donors.

59. Between 1967 and 1969, the staff of the Bank, in collaboration with that of IMF, undertook a series of studies on the stabilization of prices of primary products and specific financial measures and other ways by which the World Bank Group might assist in finding solutions to the instability problem. This led to a set of decisions taken by the Executive Board of the Bank, concerning ways of assisting developing countries to deal with their commodity problems.[14/] They included the financing of commodity-specific diversification projects and of research and development efforts in agriculture; long-term financial assistance to help member countries participate in suitable commodity arrangements within the context of the Bank's programme of development loans and credits to a member country; and studies on the significance of trade barriers for the economic justification of development projects.

60. In 1973 the issue of appropriate development policies for countries highly dependent on exports of primary products was again taken up by the Executive Board of the Bank, which approved a set of policy guidelines. These included financing of new production of primary commodities facing inelastic demand to be limited to countries with few export alternatives, expanded assistance to the least developed countries in evaluating their comparative advantages and special assistance for research in agricultural production and marketing.[15/]

13/ IBRD, Supplementary Financial Measures, Washington, D.C., December 1965.

14/ IBRD, Stabilization of prices of primary products; Report by the Executive Directors of IBRD, Part II, Washington, D.C., 1969.

15/ IBRD, Development Policy for Countries Highly Dependent on Exports of Primary Products, Washington, D.C., January 1973.

61. Finally, in 1978 the Bank addressed again the specific problem of export revenue instability, in a joint IBRD-IMF staff report submitted to the Development Committee.16/ The report proposed that temporary shortfalls in export revenue should be dealt with by improvements in the IMF-CFF. In cases of medium-term revenue shortfalls, after study of the member country's situation, co-ordinated action by the Bank and the Fund should take place. On the basis of a satisfactory medium-term adjustment programme, financial assistance should be provided. It was envisaged that Bank financing could be provided through programme lending.

62. The Articles of Agreement of the World Bank and IDA provide that loans should be made or guaranteed, except in special circumstances, for specific projects of reconstruction or development. Thus, most Bank lending is for development projects, with the investment, disbursement of funds and repayments being long-term in nature. Sector loans are also approved, with the objective of focusing on sector objectives, policies and planning and the development of sector-wide institutions when conditions are right for further growth and efficient use of resources in a sector. Programme loans provide quicker disbursements to help countries to meet unforeseen temporary difficulties which would otherwise affect longer-term development goals. There have been basically four types of situations in which programme loans have been made, one of which is a sudden fall in export earnings where the economy is critically dependent on a single export item. Up to 1980, some programme loans were made, for large commodity-specific export shortfalls (Guyana, sugar, 1979; Jamaica, bauxite, 1978; Peru, fishmeal, sugar and copper, 1979; Zambia, copper, 1977). During 1976-1979, 25 programme loans of all types were made, averaging between 3 and 9 per cent of total Bank commitments in any one year. Most programme loans were one-shot operations as a result of an emergency situation.

63. Since 1980, practically all programme lending has been in the form of structural adjustment loans to countries where structural weaknesses have helped create balance-of-payments difficulties and where Governments are willing and able to formulate and implement explicit programmes of institutional and policy reforms, and wish to have Bank financial and technical support for such programmes. Such structural adjustment loans (SALs) are predicated on the existence of a national balance-of-payments stabilization programme, normally supported by a Fund stand-by or an Extended Fund Facility (EFF) arrangement. Also, before loans are approved there must be a firm understanding between the Bank and a Government on monitorable action programmes, specifying both the steps to be taken and the studies required as a basis for further progress. Up to June 1984, 16 countries had received one or more SAL, with total resource commitments under this programme remaining below the ceiling of 10 per cent of total commitments of the Bank in any one year.

64. Although loans to offset the export shortfalls in particular commodities due to price and volume instability have been rare, the World Bank, in line with its role as a development institution and consistent with its limited resources and a multiplicity of important operational objectives, has tried to deal with the problem of export revenue instability in a diversified and realistic fashion. It has paid a good deal of attention to the foreign exchange needs of its member countries in programme lending. It has incorporated specific attention to commodity problems in its project lending through lending for crop diversification and support of agricultural

16/ IBRD/IMF, Stabilization of Export Earnings, Washington, D.C. May 1978.

research. It has offered limited, but significant assistance to international commodity agreements aimed at greater price stability. By devoting time and resources to commodity price forecasting, the Bank has followed a framework for project lending based on an explicit consideration of market trends and expected market changes, which have provided guidance on the commodity composition of lending appropriate for the situation of each member country. When declines in relative commodity prices were expected to be non-temporary in nature, the Bank has explicitly limited its lending for the commodity in question to specific countries (usually those faced with the most stringent lack of investment alternatives) or for specific objectives (productivity-enhancing projects within a framework of production ceilings compatible with the expected market demand evolution). These are the cases of tea, sugar and other tropical beverages, for which Bank lending has in the past been limited.

65. Structural adjustment loans are not designed to deal with problems associated with short-term fluctuations in primary commodity prices and/or production. However, to the extent that the balance-of-payments pressures resulting from such fluctuations lead Governments to tackle underlying structural issues, SALs may have relevance in such situations. For example, the SAL programme in Jamaica includes reforms of the four external marketing organizations (coffee, cocoa, citrus and pimento) and the improvement of pricing policies for export crops through the development of specific pricing formulae. An action programme led to major changes in the sugar industry . A major restructuring of the Government Banana Company has been implemented and the industry has been reorganized. The structural adjustment programme in Mauritius aims to diversify the economic base from sugar by promoting the development of export-led manufacturing and tourism and agricultural diversification. It also aims to increase the efficiency of the sugar industry. The structural adjustment programme in Malawi aims at increased diversification of foreign exchange earnings or savings through the development of new smallholder and estate crops, accelerated smallholder export crop growth and expanding livestock and forestry industries and agro-businesses.

66. In addition to programme loans and SALs, sector loans are approved by the Bank to address important sectoral objectives and constraints. These objectives include diversification of commodity production, research and development efforts in agriculture, improving the supply of critical inputs in the production sectors and institutional reforms. Recent examples of such loans are Mexico (export development), Brazil (agricultural and industrial sectors), Nigeria, Yugoslavia and Malawi (fertilizers) and Ghana (reconstruction imports).

D. International commodity agreements and the Common Fund for Commodities

67. The Group considered the programme of ICAs and the Common Fund (see annex VII, D for a review of these activities). It noted that there are only four price-stabilizing commodity agreements in existence, i.e. those for cocoa, coffee, rubber and tin,[17] which account for about 13 per cent of the non-fuel commodity exports of developing countries. There are also three ICAs (olive oil, jute and tropical timber) which are concerned with long-term research and development measures. It was recognized that it is unlikely for

[17] Effective 1 January 1985, the International Sugar Agreement will not include price provisions.

the present that there will be price-stabilizing ICAs for many commodities of export interest to developing countries and that therefore the coverage by ICAs of developing country exports of commodities will remain low. While it was theoretically clear that one could not determine a priori the effects of price-stabilizing ICAs on the stability of export earnings of a country, they were believed to have at least some positive influence. The Group also recognized that ICAs have not, for the most part, been able to attain the full extent of price-stabilizing objectives agreed to. Nevertheless, with all their shortcomings ICAs in general are the main international commodity price and market-stabilizing instruments in the interests of both exporting and importing countries.

68. The Group noted the existence of ICAs with provisions for encouragement of diversification, expansion of processing of primary products, improved competitiveness, expansion of research and development, harmonization of production of synthetics and substitutes of primary products, or improved marketing, distribution and transport systems. It was recognized that there was limited experience with such agreements and that their objectives were not directly concerned with instability problems or solutions to them.

69. The role of the Common Fund for Commodities was discussed, in terms of its capacity to take an overall view of commodity problems, the role of its First Account in supporting the financing of buffer stocks for associated ICAs, and the activities of its Second Account in supporting long-term commodity research and development projects of interest to both producers and consumers. The advanced stage of ratification of the Common Fund was noted and the expectation was expressed that it would soon be brought into operation.

70. With regard to the limitations of the ICAs and the Common Fund to deal with commodity sector instability, the Group felt that price-stabilizing ICAs make a contribution to this objective at the level of international commodity markets and prices. However, ICAs presently cover only a limited number of commodities and the evidence does not suggest that agreements for many additional commodities would be concluded. The performance of ICAs has not for the most part met expectations. It was also recognized that the influence of ICAs on the instability in commodity sectors at the country level is not sufficient to correct the supply-related causes of that instability. Price-stabilizing ICAs do not contain mechanisms for curing the causes of instability on the supply side, nor do they contain mechanisms which provide an incentive for tackling structural changes in the balance of supply and demand in commodity markets.

71. It was felt that projects sponsored through ICAs or other international commodity bodies (ICBs) and the Second Account of the Common Fund could have a longer-term positive effect on the development of commodity sectors. However, it is difficult to predict whether or not the measures and methods envisaged would have a positive effect on reducing instability in the long term, since they were neither explicitly designed for such an objective nor are they necessarily focused thereon. In any event, the limited amount of finance likely to be available through the Second Account (around $255.5 million of voluntary contributions have been pledged), the need for joint sponsorship of projects by producers and consumers through an ICB, and the long-term criteria for projects would be limitations on this programme.

Chapter V

IS THERE A NEED FOR ADDITIONAL STABILIZATION MEASURES?

72. In view of the importance of earnings from commodities for the developing countries, the relatively high levels of instability experienced in these earnings and the concern repeatedly expressed by developing countries regarding the deleterious impact of this instability on their economic welfare and prospects for development, the Group agreed that it is desirable to seek to reduce instability in the commodity sectors of developing countries. The Group recognized that, whilst instability in commodity markets is due to both demand and supply factors, the instability in supplies at the country level is a principal source of instability in commodity export earnings of individual developing countries. The Group agreed that an approach to dealing with the commodity earnings instability problems of the developing countries which sought to eliminate or to reduce the causes of such instability was likely to reduce the recurrence of, and to contribute to a long-lasting solution to, the problem. While recognizing that efforts by individual developing countries are necessary, the Group considered that, due to the limited resources available to developing countries, as well as to the external dimensions of instability, these efforts were likely to prove of limited success without international support. After examining the existing international programmes, the Group concluded that they do not currently address this problem directly, except in the limited case of STABEX. However, before considering the need for a new international programme, it was felt necessary to consider whether there is a potential for extending or redirecting any of the existing programmes to deal with commodity sector instability.

A. The potential for extending or redirecting existing programmes to deal with commodity sector stabilization

73. The Group considered the potential of each of the four main international programmes:

1. IMF-CFF

74. The Group considered that, while some further improvement of the CFF in terms of its own aims might be possible, though constrained by the tight liquidity position of the Fund and the Fund's avowed intention of maintaining the present balance between the conditional and unconditional uses of its resources, the scope for change to deal with commodity sector stabilization would be limited by policy and constitutional limitations on the Fund's operations. These include such factors as quota subscriptions and their distribution and the related drawing rights and limits, repayment rules, non-discrimination among members in terms of access to funds and loan conditions and the undesirability of the extension of conditionality on the use of CFF funds for sector-specific stabilization activities when this facility represents the major source of funds with low conditionality for developing countries from IMF.

75. While decisions on any suggested changes are the perogative of the members of IMF through the appropriate IMF bodies, it would seem fair to say that a major alteration in the focus of the IMF-CFF from overall balance-of-payments problems to specific sector problems is unlikely, and would not be desirable, as Governments have recognized the validity and importance of the IMF scheme as it stands for the achievement of its own

objectives. Therefore, the Group considered that redirecting the IMF-CFF to deal with commodity sector instability problems was both not desirable and probably not feasible at the current time. Such a conclusion is, of course, without prejudice to further efforts on the part of IMF to increase the resources available to assist developing countries with their balance-of-payments problems, including improvements to the CFF.

2. STABEX

76. The STABEX scheme is part of the Lomé Convention, an agreement between ACP States and EEC covering a wide range of economic and other relations. Its modification or extension is inherently linked to the renegotiation of this Convention and is the perogative of the States parties to the Convention. Thus there are constitutional limitations to extending STABEX to a global scheme. Also, as a regional scheme it cannot be expected to cope with a global problem, as it covers only limited trade flows and beneficiary and contributing countries. Thus it seemed to the Group that there would be little scope for modifying or redirecting STABEX to meet a global commodity sector stabilization objective.

77. The Group, however, also felt that as STABEX is the only existing commodity-specific compensatory financing mechanism, its experiences in terms of both its attainment of objectives and its operations were of great interest and assistance in considering appropriate global measures. For example, while a STABEX drawing is triggered by a commodity-specific mechanism and is, in principle, designed and intended to stabilize earnings of specific commodity exports to EEC, in practice its resources have been often used for purposes which are not specific to commodity sectors. As such, it has been a useful aid supplement to ACP countries, and where the resources have been channelled to the affected sector it has helped to attenuate the consequences of instability in that sector; but it has had limited effect in treating the causes of the instability. Thus, it is necessary to consider mechanisms which would ensure appropriate uses if the causes of instability are to be treated and/or their effects are to be better mitigated. Also, the limited geographical trade and commodity coverage and the limited funds available under STABEX were seen as constraints on its being able to perform adequately the task of treating instability. More operational aspects of the day-to-day business of STABEX were also discussed and were useful in considering the appropriateness of export earnings stabilization mechanisms (see chapter VI).

3. The World Bank

78. As was seen in chapter IV, the World Bank has occasionally extended policy-based loans under special circumstances either because of a large commodity-related shortfall to maintain import capacities while pursuing adjustments in the sector, or because some sector-related adjustment process involving policy and institutional changes was called for. However, these loans have been few and far between and, despite earlier efforts by the staff to call attention to commodity-related problems, there has not been in the Bank a policy focus and concerted effort to tackle commodity sector instability problems.

79. The Group recognized that there is always a possibility to extend or redirect World Bank programmes - this has been done in the past in regard to, inter alia, energy, population, structural adjustment, and poverty alleviation, usually by establishing a distinct sub-category of policies and

loan programmes within the Bank framework. Another method used has been to change the emphasis made in designing loans in a related area or a related project.

80. Thus, there should be a possibility to put increased emphasis on commodity sector stabilization activities in the existing country lending programmes within which country projects are co-ordinated. While this could be viewed as useful, it has limitations. Country programmes and projects are developed within a longer-term development context. Given the multiplicity of country operational objectives, particular aims like commodity stabilization may not receive sufficient emphasis. In addition, although global demand and supply considerations are taken into account in project decisions, evaluating the feasibility of new projects to expand commodity production from a country perspective may lead to global demand and supply imbalance. It may thus be preferable to go beyond absorbing this function into ongoing projects and programmes.

81. Another possibility would be to expand the non-project lending of the Bank to include a larger volume of lending aimed at commodity stabilization. This would entail increasing aggregate Bank resources. Otherwise, the increased emphasis on commodity stabilization would be at the expense of competing priorities. Nevertheless, the comprehensive and far-reaching policy and institutional reform requirements of non-project lending are a caution against including within policy-based lending more limited objectives such as commodity stabilization.

82. The third possibility is to set up in the Bank a special window or facility with resources earmarked for the purposes of commodity stabilization activities. This would give the programme the visible concrete and co-ordinated policy focus which is required. This possibility is further considered in chapter VI, section B.

83. The above possibilities all have the attraction of using existing World Bank infrastructure and policy and technical assistance facilities and of commodity stabilization activities being co-ordinated with World Bank country lending programmes. They also imply a cheaper cost of funds, given Bank credit ratings and loan conditions. However, their scope would be limited and they would require a certain re-orientation of the Bank's lending policies.

4. ICAs and the Common Fund for Commodities

84. While international price-stabilizing commodity agreements can be a useful part of the package of international measures to tackle the problem of commodity sector stabilization, it is likely that ICAs will only exist, as in the past, for a limited number of commodities. Also, the contribution of ICAs to stabilization of commodity sector earnings is not necessarily in the same direction or of the same magnitude for all producing countries. Furthermore, the performance of existing ICAs has been mixed in terms of maintaining their price-stabilizing objective. ICAs can make a partial, limited positive contribution to the objective of commodity sector stabilization through their influence on price signals, but they do not contain mechanisms for tackling the causes of instability or for handling structural imbalances, and thus need to be supplemented by other mechanisms to ensure this objective is met.

85. The Common Fund for Commodities when it comes into existence would be of assistance, through its First Account, to ICAs with buffer stocks. Its Second

Account would help with longer-term research and development aspects for commodities which have international commodity bodies (ICBs). Thus, the Group recognized the potential of the Common Fund as an international institution specifically with a commodity focus where problems and solutions at the national and international levels for specific commodities could interact. Once the Fund comes into operation, the incorporation of such additional functions and mechanisms could be accomplished by amending its Articles of Agreement.[18/] Before the Fund comes into operation it is probably not realistic to consider modifying or redirecting its programmes, since that would be likely to affect the status of the present ratifications and could necessitate further negotiations.

B. The case for additional measures

86. The above international programmes make some contribution to stabilizing the export earnings of developing producing countries. The IMF-CFF and STABEX contribute to neutralizing the effects of instability on export earnings through maintaining import capacity and easing the balance-of-payments difficulties induced by earnings shortfalls or through maintaining purchasing power in the sector. World Bank projects and programmes assist with the longer-term development of developing countries. ICAs (to be assisted by the Common Fund) attempt to stabilize the international prices of commodities, albeit for a limited number of commodities and with limited effectiveness. None of these programmes was specifically designed to address the causes of commodity sector instability. As has been indicated above, the possibilities of extending or re-directing these existing programmes in order to tackle directly the causes of commodity sector instability seem limited. Existing programmes have their own raison d'être and the Group does not suggest that one programme be substituted for another.

87. The Governments of producing developing countries have repeatedly emphasized their concern about the harmful effects arising from instability for individual producing countries and for international markets. The Group feels this is a sufficiently serious problem to warrant effective corrective action. This would entail supplementing present international efforts by action to deal directly with the causes of commodity instability. Such an additional effort should therefore be designed to facilitate national endeavours to address the commodity problem in a manner that would also contribute to the greater stability of international commodity markets.

88. The mandate of the Expert Group is to consider how a complementary compensatory finance facility could be an appropriate means to deal better with commodity instability. Since the Expert Group has identified supply instability to be a major cause of the commodity problem, the Group considered that a new compensatory financing facility must be used in a manner that is different from addressing the aggregate balance-of-payments effects of commodity instability as in the IMF-CFF. For this reason, the Expert Group

---

18/ Amendments to the Agreement can be adopted by the Governing Council by a Highly Qualified Majority (three quarters of the votes cast). See Agreement establishing the Common Fund for Commodities, (TD/IPC/CF/CONF/25 and Corr. 1), United Nations publication, Sales No. E.81.II.D.8 and corrigendum (article 51 of the Agreement).

defines the complementary facility to be a commodity-specific facility which links the uses of compensatory finance to the needs of supply adjustment. The Group wishes to note that although it focuses below on such a facility as a means of tackling supply problems, this does not imply that there may not be other useful channels for dealing with them.

89. The approach put forward is that compensatory finance would be linked to measures to deal with commodity sector instability at the country level in a manner that is also consistent with stability in the world commodity economy. Such an approach could, by providing compensatory assistance to developing countries, not only provide support for measures to deal with the causes of commodity instability at the country level, but also facilitate the adjustment of developing producing countries to world market conditions for particular commodities. Thus, by contributing to achieving smoother adjustments of world supply to demand for specific commodities, such an approach would also contribute to greater world commodity market price stability.

90. In principle, developing countries could use generally fungible external resources (such as those of the IMF-CFF) to assist in carrying out programmes of commodity stabilization. In practice, however, they are inhibited from instituting such programmes by the lack of assurance that the additional resources required would be met, particularly in a situation where payments deficits are large and where there are sharply competing national priorities. In the Group's view, an effective means of addressing the commodity instability problem is to organize a programme with such an explicit policy objective, with identified resources and in-built evaluation procedures. The international community has recognized in numerous instances the advantages of directly attacking sectoral problems in such a specific manner, whether it be the problem of food, poverty alleviation, population, energy, buffer stocks, cereal prices, trade promotion, or structural adjustment, to mention only a few. The Group feels that a similarly direct and specific treatment of the problem of instability in the commodity sector - a sector which constitutes the principal economic activity for most developing countries - would make an important contribution to development efforts and to international economic stability.

91. There are a few definite attributes that a new programme of measures should have. These include the ideas that assistance should be triggered by a commodity-specific mechanism, that the funds lent should be used to reduce that instability over time, according to country/commodity specific reasons for it, and that due consideration should be given to the world market situation and prospects for each specific commodity. Thus, the Group concludes that if the international community is determined to tackle effectively the long-standing and endemic problem of commodity instability, it would be desirable to institute an additional set of measures intended to deal with those causes of instability that are amenable to solution.

Chapter VI

THE NATURE, MAIN CHARACTERISTICS AND MODE OF OPERATION OF AN ADDITIONAL FACILITY

92. The additional measures discussed in the preceding chapter could take various forms. In this chapter the Group presents a prototype of a facility which links the uses of commodity-specific compensatory finance to the needs of supply adjustment based on the features previously identified. By putting in concrete terms the nature, main characteristics and mode of operation of such a facility we would hope to assist Governments in visualizing how it could be designed.

A. Nature and design

93. In considering the nature and design of an additional facility for compensatory financing of export earnings shortfalls the Group emphasized four basic features, whatever be the institutional arrangements. First, the availability of finance provided by any such additional facility would be linked to shortfalls in proceeds from specific commodities. Second, the use of these funds would be linked to the causes of instability in commodity sectors so as to reduce the extent of that instability. Third, the uses would be consistent with international commodity objectives and arrangements. Fourth, the facility would be operated basically on self-financing, commercial principles. It would thus rely mainly on borrowing from private capital markets but it would be structured to provide concessionality in certain cases. The Group noted that these basic features were also common to compensatory financing schemes put forward in the past and to many of the proposals and suggestions submitted by Governments for present purposes.[19]

94. The Group proposed that the essential characteristics and mode of operation of an additional facility should be as follows:

Objective

95. The objective of the facility should be to reduce instability in specific commodity sectors consonant with national and international policies and arrangements.

Membership

96. Membership of the facility should be open to all States. Given the nature and effects of the problem, it would be appropriate that access to loans be restricted to developing countries.

Commodity coverage

97. All primary commodities, i.e. those included in SITC sections 0, 1, 2, 4 and division 68 should be eligible, with the exception of fuels, gold, diamonds and precious stones.

---

[19] See annexes VIII and IX.

Capital structure

98. The capital structure of an additional facility would depend to some extent on institutional arrangements. In particular, these would affect the ratio of paid-in capital to total capital. The Group felt that the minimum ratio of paid-in capital to total capital for a new financial institution with lending exclusively to developing countries would be 20 per cent. This compares with 8.5 per cent for the World Bank. Specific provisions would have to be made for the phasing of the subscription of paid-in capital. The Group suggested that one-half should be contributed initially, whilst the remainder should be phased over a period of time. Borrowing by the facility would be secured against the collateral of the callable capital (i.e. total minus paid-in capital).

99. As regards the currency of capital subscription, the Group, after reviewing arrangements in several international and regional financial institutions, was of the view that there should be a common rule for all member countries. To this end, it proposed that all members should pay their contribution to the paid-in capital in the following manner: the first half, to be contributed initially, should be paid in "usable currencies" as defined by IMF. The second half, which would be contributed at the tempo agreed on in the phasing arrangements, should be paid in domestic currency. For the callable capital, any payments should be made in usable currencies or in the currency required to discharge the obligation for which the call is made.

100. The capital structure should also provide for segregated accounting for any elements of concessionality offered by the facility and for technical assistance operations (see paragraphs 111 and 114 below).

101. The Group considered different models for the distribution of contributions, including those of several international financial institutions, particularly the World Bank, IMF, IFAD and the Common Fund for Commodities (see annex X). It felt that, in principle, universality of participation should be the aim. Since the facility would be commodity-related, a distribution along the lines of that of the Common Fund for Commodities would be appropriate.

Sources of finance

102. Government contributions would be the source of the facility's equity capital and all member countries should contribute, as proposed above. The facility should also be empowered to accept voluntary contributions from Governments, international financial institutions and other acceptable sources for approved uses, such as to finance any element of concessionality and technical assistance.

103. As regards borrowed capital, the facility's needs would be variable and therefore access to both short-term and medium and long-term markets would be needed. Short-term sources would include stand-by arrangements with commercial banks. Medium and long-term sources would include both the public and private sectors. The main public sector sources are the international financial institutions and the central banks of member countries. The main private sources of medium-term funds are "private placements" and "public issues" markets. Longer-term borrowing from private sources includes the bond market as well as syndicated bank credit. Cofinancing with other international financial institutions, including regional development banks, as

well as with private sources of capital, is also a possibility. This would help to reduce the facility's borrowing needs. Indeed, a strong interest in and financial commitment to reducing the instability of commodity markets on the part of the international community could stimulate private capital flows to developing countries for that purpose.

Determination of export earnings shortfalls

104. The Group considered different measures of export earnings shortfalls. The results of these different measures for different periods and groupings of commodities and countries are shown in table 4 (further details are given in annex XI). The Group concluded as follows:

(a) Calculation of shortfalls on a gross (i.e. commodity-by-commodity) basis is more appropriate than that on a net (i.e. aggregated) basis in relation to the objective of reducing instability in individual commodity sectors (as distinct from that of offsetting a shortfall in a country's total foreign exchange receipts);[20]

(b) The reference period should be sufficiently long to accommodate most commodity cycles, particularly in periods of protracted economic recession. A ten-year period was preferred to the five and four-year periods used by the IMF-CFF and STABEX, respectively. The use of an exponential or a linear function was recommended and, in practice, the one which gives the best fit to trends in commodity earnings should be adopted;

(c) Whilst measures in real terms are theoretically more appropriate,[21] their use would give rise to practical problems such as inadequate and defective information on import prices of individual countries. In practice, therefore, nominal values may have to be used;

(d) A trigger threshold as well as a dependency threshold should be applied to the shortfall estimates. These thresholds should, however, be applied at a lower level for countries designated as eligible for concessional terms. The trigger threshold is the minimum percentage shortfall required for a country to become eligible for loans. It thus focuses on the higher levels of instability; reflects a burden-sharing norm as between producing and consuming countries; and reduces the burden of administering large numbers of very small claims. The dependency threshold sets a minimum level for a country's dependence on a commodity for total merchandise export earnings as the requirement for access to loans. It thus gives priority to those commodities which have a relatively greater impact on a country's economy. Shortfall estimates are reduced by about 35 per cent when trigger and dependency thresholds of 5 per cent are applied. The Group considered this an appropriate level.

---

[20] The average percentage difference between gross and net shortfalls has been only about 10 per cent in recent years because prices for the major commodities have tended to move in the same direction, rather than in opposite directions.

[21] Measurement in real terms would be a better basis for distributing the pattern of shortfalls over time but would not significantly change their overall magnitude.

Table 4: Average export earnings shortfalls for various groups of developing countries a/
(Billions of dollars)

Country coverage b/	Description of the sample of countries: Original sample: Number	Original sample: Primary commodity exports: Average value 1979-1981	Original sample: Primary commodity exports: Per cent	Shortfall calculated c/: Number	Shortfall calculated c/: Primary commodity exports: Average value 1979-1981	Shortfall calculated c/: Primary commodity exports: Per cent	Commodity coverage d/	Shortfall (average annual value): 1973-1977	Shortfall (average annual value): 1978-1982	Shortfall (average annual value): 1973-1982
Least developed countries (36)	33	6.20	6.4	30	5.69	5.9	1. Aggregated series			
							A. Primary commodities	0.05	0.47	0.26
							B. IPC	0.06	0.53	0.29
							C. IPC + 11 others e/	0.06	0.46	0.26
							2. Commodity groups f/			
							D. IPC (gross)	0.12	0.79	0.45
							E. IPC (net)	0.06	0.75	0.40
							F. IPC + 11 others e/ (gross)	0.14	0.85	0.49
Low-income countries (54)	47	17.43	18.0	44	16.92	17.5	1. Aggregated series			
							A. Primary commodities	0.29	2.48	1.38
							B. IPC	0.23	2.07	1.15
							C. IPC + 11 others e/	0.22	2.17	1.19
							2. Commodity groups f/			
							D. IPC (gross)	0.37	1.44	0.90
							E. IPC (net)	0.29	1.39	0.84
							F. IPC + 11 others e/ (gross)	0.41	1.61	1.01
Low-income or commodity-dependent countries	96	82.43	85.1	92	81.74	84.4	1. Aggregated series			
							A. Primary commodities	1.07	10.77	5.92
							B. IPC	1.02	8.62	4.82
							C. IPC + 11 others e/	1.04	9.20	5.12
							2. Commodity groups f/			
							D. IPC (gross)	1.73	7.89	4.81
							E. IPC (net)	1.23	7.39	4.31
							F. IPC + 11 others e/ (gross)	1.89	8.55	5.22
All developing countries (159)	134	96.86	100.0	110	93.67	96.7	1. Aggregated series			
							A. Primary commodities	1.43	12.46	6.94
							B. IPC	1.19	9.38	5.28
							C. IPC + 11 others e/	1.24	10.42	5.83
							2. Commodity groups f/			
							D. IPC (gross)	1.75	7.97	4.86
							E. IPC (net)	1.24	7.48	4.36
							F. IPC + 11 others e/ (gross)	1.96	8.66	5.31

Sources: UNCTAD data bank and UNCTAD secretariat calculations.

a/ The shortfalls are calculated on the basis of a 10-year exponential trend value in nominal terms. The figures shown in the table are the sum of shortfalls for the countries which experienced a shortfall. The possible offsetting of shortfalls and overages is made only at the country level, depending on the method of calculation (gross versus net shortfalls).

b/ The list of countries is given in the UNCTAD Handbook of International Trade and Development Statistics. Low-income countries are countries with a per capita GDP of less than $500 (in 1980). Commodity-dependent countries are countries for which primary commodity exports account for more than half of total merchandise exports. The maximum number of countries is given in brackets.

c/ Shortfalls are calculated only for countries with sufficiently complete commodity export earnings series.

d/ Primary commodities: SITC 0 + 1 + 2 + 4 + 68 less 233, 266, 267 (synthetics).
IPC commodities: bananas, bauxite, cocoa, coffee, copper, cotton and cotton yarns, hard fibres and products, iron ore, jute and products, manganese, meat, phosphates, rubber, sugar, tea, tropical timber, tin and vegetable oils and oilseeds.

e/ Alumina, beverages, cereals, fish and products, fruits (other than bananas), hides and skins, meat (other than bovine), dairy products, spices, roots and tubers, tobacco. When aggregated with the IPC commodities these products represent (in value) around 80 per cent of total developing country exports of primary commodities.

f/ For the calculation of shortfalls on commodity groups, a dependency threshold and a fluctuation threshold were used. They were both set at 5 per cent and reduced to 2 per cent for the least developed countries.

Lending criteria: guidelines, mechanisms, monitorable actions and technical assistance

105. An additional facility of the kind proposed here could not be based on a mechanical and automatic relation between shortfalls and loans. The link between the causes of instability and the proposed corrective measures for which compensatory financial assistance is sought would have to be established for each country and each commodity on a case-by-case basis. A necessary feature therefore would be a process of discussion between the facility and client countries leading to a written agreement on a multi-year commodity stabilization programme with due respect for the sovereign rights of the States receiving compensatory financial assistance. Such a process and programme should preferably be initiated before the first request by a country for use of the facility. The extent of assistance offered by the facility would not necessarily be equal to any pre-determined percentage of a given year's shortfall. Nevertheless, within the context of such multi-year commodity programmes, shortfalls would signal the existence and extent of the problem, indicate the reduced capacity of the country to continue the programme or implement aspects of it and trigger a country's eligibility for assistance under the facility.

106. These commodity stabilization programmes should include details on the agreed uses of the resources. Whilst these uses should contribute to the common aims of reducing instability at the national level and promoting international objectives and policies for the commodity concerned, there can be no universal model to be routinely implemented. The content of these programmes would necessarily vary, their main features evolving over time on a case-by-case basis. In general, however, the basic principle that should be followed is that compensatory finance should be used to address the root causes of supply instability. Some causes of instability are inseparable from the effects. For example, unstable income is a consequence of commodity sector instability but commodity sector income fluctuations and uncertainty affect the stability of future production.

107. A wide variety of measures can be used to achieve the agreed objective, depending on the particular sources of instability and the practical possibilities for corrective action. In chapter III (paragraph 39) various sources of instability were identified and a number of examples of related corrective measures were outlined in paragraphs 40 - 43 of that chapter. As stated there, most eligible projects would fall into four broad categories. To summarize, the first category are price and income stabilization measures at the national level intended to reduce producers' uncertainty and risks in order to elicit more stable subsequent supply responses and more efficient patterns of resource use. The second category includes schemes aimed at stabilizing to some extent the prices and supplies of key production inputs, particularly those that are imported. The third category is comprised of specific projects, varying with the country and commodity concerned, that would reduce the adverse influence on the stability of supply of recurrent natural and other occurences. The fourth category is the financing of adjustment measures aimed at correcting imbalances between demand and supply, particularly those that are persistent in character. Production adjustment measures as well as the transitional foreign exchange cost of diverting exports to domestic markets should be included. Country programmes most likely would consist of a package of stabilization measures.

108. Whilst these commodity programmes would be initiated by countries, the facility should be given the discretion itself to propose to the Governments

of producing countries, individually or in groups, adjustment measures that would contribute to reducing instability in particular international commodity markets.

109. These commodity stabilization programmes should also specify the mechanisms for executing the measures proposed. Here again there cannot be a universally applicable model of government action. A wide variety of mechanisms can be used by Governments in discharging stabilization functions. They include, for example, the use of marketing boards, caisses de stabilisation, co-operative societies, national development banks, national rural development finance institutions, farmers' finance banks, central and local government authorities. Such mechanisms are already in use by those Governments which attempt stabilization. The basic principle that should be followed in commodity programmes is that the mechanisms, whether already existing or proposed, should be clearly identified and their ability to perform the designated functions assessed.

110. Finally, commodity programmes should provide for specific monitorable actions, including the use of tranching arrangements whereby disbursements of funds could be phased depending on progress made in the implementation of agreed measures. Monitorable actions should neither be too loose, involving only pro forma reporting of the uses to which funds have been put, nor overly rigid, involving detailed time-tables and conditions which cannot be fulfilled by Governments. The experience of STABEX and the World Bank SAL may illustrate the types of problems which can arise.

111. The capacity of developing countries to formulate commodity stabilization programmes is likely to be extremely variable and for this reason it would be desirable for the facility to be empowered to offer technical assistance to countries interested in such assistance. Technical assistance should also be extended, if desired, at the later stages in the execution of projects to help countries overcome implementation problems which could impede disbursement of subsequent tranches of approved loans. Technical assistance should be financed out of voluntary contributions and should be subject to separate accounting. Wherever appropriate and desirable such technical assistance should be organized through inter-agency co-operation.

Repayment criteria

112. The Group recognized that whilst repayment linked exclusively to overages is the criterion most consistent with the stabilization objective, its use would damage the credit rating of a facility which depended heavily on access to private capital markets. This is because lenders would not feel they could bank on a sure inflow of funds for repayment by the facility to them. On the other hand, repayment based only on a pre-determined, fixed schedule would not take into account repayment capacity as indicated by the time pattern of shortfalls and overages. The Group concluded that a schedule which blends a fixed amortization schedule with an overage criterion would meet the requirements of both borrowers and lenders. Such a principle should be implemented so as to require countries to amortize their debt over a fixed maximum number of years, with repayments accelerated to an agreed extent whenever overages reach a pre-determined level.

Double compensation

113. The Group felt that prior recourse to the IMF-CFF and STABEX should not be a pre-requisite for loans under the proposed additional facility. Claims

for double compensation should not, however, be entertained. This point was also emphasized in proposals and suggestions made by Governments. There are basically two approaches to the double compensation problem. In the first approach, any facility could deduct commodity-related drawings from the other two facilities from the shortfalls of the commodities concerned as calculated under its own rules. This approach is rather untidy, given the fact that the three facilities have different bases, operational rules and purposes.[22] In the second approach, any facility could treat commodity-related drawings from the other two facilities as export earnings of the commodities concerned for the period in question when calculating shortfalls under its own rules. This is a cleaner and more direct approach and it preserves the possibility of any of the three facilities to be the lender of first resort. The Group favoured this second approach.

Concessionality for least developed and other low-income countries

114. The Group recognized that an additional facility operating essentially on self-financing commercial principles would be able to offer concessionality only to the extent that it received voluntary contributions for this purpose. Concessional terms should therefore be reserved for the countries most in need, i.e., low-income countries heavily dependent on the export of primary commodities.[23] Preferential treatment may take a variety of forms, such as the use of lower dependency and fluctuation thresholds for the purpose of determining the extent of compensable shortfalls, grants, reduced interest charges, more liberal repayment terms and greater access to technical assistance. As mentioned above, segregated accounting should be used for any elements of concessionality offered by the facility. It should be noted, however, that the facility would be able to offer to all members drawing on it interest rates lower than those at which they could borrow on the market, on account of its callable capital backing and income earned on its paid-in capital.

Relationship to existing facilities and intergovernmental organizations

115. The relationship of an additional facility to existing facilities and intergovernmental organizations would depend ultimately on its operating features and its institutional framework. Depending on where the facility is located, the most crucial links that an additional facility should establish are with existing facilities dealing with compensation of export earnings shortfalls, namely the IMF-CFF and STABEX, and with international institutions whose functions are complementary to its own, particularly the World Bank, the Common Fund for Commodities, UNCTAD, UNDP, FAO, IFAD and international commodity organizations. This relationship should involve regular

---

22/ In the case of STABEX, the amounts of its transfers are not reduced on account of drawings under the IMF-CFF. In the case of the CFF, the STABEX transfers are taken into account only in assessing the member's balance-of-payments need and no deduction is made from shortfalls calculated for drawings under the IMF-CFF. This procedure is considered by IMF as sufficient protection against possible double compensation.

23/ Countries at least 50 per cent dependent on commodities for their export earnings and with a per capita income of less than $500 in 1980. 46 countries fall into this category, including all the least developed countries (see annex V, table XII.)

consultation with the staffs of these organizations and care should be taken to prevent unnecessary duplication of work.

116. In the case of the IMF-CFF and STABEX, as mentioned earlier, close co-operation with the additional facility would be necessary to avoid double compensation. Depending on where the facility is located, co-operation with the World Bank and the Common Fund would be necessary to ensure that commodity projects and programmes are complementary and mutually consistent. Wherever possible and desirable, cofinancing arrangements should be encouraged. The additional facility should make the fullest possible use of World Bank expertise in country and commodity analysis, in project feasibility analysis and project financing. Inter-agency activities should take fully into account UNCTAD's mandate and competence in the field of commodities; these activities should involve co-operation between the additional facility and in particular UNCTAD, UNDP, FAO, IFAD and the World Bank, fully exploiting the potential for the exchange of information, joint analysis and missions and the joint financing and conduct of technical assistance. The international commodity bodies particularly should be fully consulted in regard to the current international situation and expected future developments in regard to their respective commodities.

117. The Group felt that abundant opportunities exist for constructive co-operation among the many institutions involved with various aspects of the commodity problem and that there would be an advantage in formalizing the additional facility's relationship with other institutions through co-operation agreements.

B. Institutional options

118. Options in regard to institutional arrangements include the use of an appropriate existing international financial institution or the Common Fund for Commodities when it comes into operation, and setting up a new institution. In regard to existing institutions, IMF was not considered a possibility since, as pointed out in chapter V, a major alteration in the focus of any IMF activity from overall balance-of-payments problems to specific sector problems such as commodity stabilization is unlikely and may not be desirable, given the importance of that institution's objectives. Also, IMF is not presently empowered to augment its resources by borrowing from the private capital market. STABEX forms part of a convention between certain African, Caribbean and Pacific countries and the European Economic Community, which covers a much wider ambit of economic and other relations among the parties concerned. It is not constitutionally a relevant possibility. These views on the IMF-CFF and STABEX are, of course, without prejudice to efforts to further expand the resources available under them.

119. As far as the World Bank is concerned, a reference was made in chapter V, section C, to the possibility of setting up a special window or facility with resources earmarked for the purpose of financing a commodity stabilization programme. The Group noted that this option presents certain advantages. Considerable benefit could be derived from using the Bank's country lending programmes and its related technical assistance and policy advice to combat the inter-connected problems of commodity sector instability and shortfalls in export earnings. Another advantage of using the Bank is that it is well established in international capital markets. The ratio of paid-in to callable capital for a facility integrated into the structure of the Bank would be much lower than that for a separate entity.

120. There are at the same time, reservations about the advisability of using the World Bank. The capacity of this institution for adaptation has not extended sufficiently to the commodity instability problem - despite the serious concern expressed by developing countries about this problem virtually continuously over the past 30 years, despite repeated study and recognition of the problem by the Bank and despite promptings to tackle the problem. Although, as shown in chapter IV, section C, World Bank operations have addressed commodity issues in a number of ways, lending with the primary aim of stabilizing specific commodity sectors has been limited. Moreover, with most programme lending since the 1980s being done in the form of SALs, programme loans with a specific focus on commodity stabilization objectives have declined in the 1980s as compared with the late 1970s.

121. The Common Fund option has certain distinct advantages and, as a specialized institution for commodity problems with potentially universal membership, it could well be a suitable location for the proposed facility. The Articles of Agreement of the Fund provide that it should serve as a key instrument in attaining the agreed objectives of the Integrated Programme for Commodities. It will be operating in the complementary areas of price stabilization and commodity development measures. And it is charged with promoting co-ordination and consultations with a view to providing a commodity focus. However, the Common Fund is not yet in operation. In any event, changes to its Articles of Agreement are likely to be necessary, particularly to expand its functions and its capital structure. This could be a difficult and time-consuming process. Also, as a new financial institution with an uncertain credit rating it is unlikely to secure the best terms in the private capital market and would probably need a significantly higher paid-in capital ratio as compared with that of established international financial institutions.

122. The final option is to set up a new institution. The advantage of a new institution is that it can concentrate on the special function for which it was designed. It is thus not impeded by major conflicts of priorities in the use of resources that often reduce the effectiveness of established international financial institutions with very wide mandates. This option, however, suffers from well-known drawbacks, apart from the frequently encountered opposition to expanding the international bureaucracy, especially in times of severe budgetary constraints. A new institution is likely to be more costly in terms of its infrastructure and personnel emoluments than a similar service located in an existing institution, where advantage can be taken of a variety of economies of scale. Almost certainly, too, a new institution, without an established credit rating, would secure less attractive terms in the capital market and would have to maintain a higher paid-in capital ratic than those of a well established international financial institution.

123. The Group felt that the establishment of a new international organization should be avoided. A suitable location would be in the Common Fund, as a third window with its own additional paid-in capital and callable capital, borrowing and lending rules. If this option cannot be realized within a reasonable period of time, the location of the facility in the World Bank would offer some advantages. Among the different possibilities for implementing such an arrangement, the best would be to set up a special window for commodity stabilization compensatory finance with defined objectives and allocated resources.

Chapter VII

SUMMARY AND CONCLUSIONS

124. The Expert Group, as requested, has considered: the nature, causes and effects of export earnings instability; export earnings stabilization options; existing programmes and their limitations in dealing with commodity sector stabilization; and the need for and the nature of a complementary facility for compensatory financing of export earnings shortfalls.

125. Review of the evidence indicates that instability in the commodity export earnings of developing countries has long been substantial and has intensified since the early 1970s. Instability, when high and sustained over a long period of time, has adverse effects on the commodity producing sectors, the developing economies and on the world economy as a whole.

126. Demand and supply factors contribute to such instability, which is considerable for both commodity volumes and commodity prices. Both price and volume instability are larger for specific commodities at the country level than when data are aggregated for countries. At the world level, price instability tends to be greater than volume instability. However, volume instability tends to be relatively more important at the individual country level. The volatility of commodity supplies is a major factor for such volume instability. Whilst, then, the focus of attention turns, in the present context, to the supply side, this should not be taken to mean that greater efforts should not also be made to reduce instability originating from the demand side.

127. Supply instability at the country level is caused by factors such as variations in the costs and availabilities of production inputs, the vagaries of nature, supply-demand imbalances, and producers' responses regarding future production to current price and income fluctuations. These factors operate at the individual commodity sector level. In order, therefore, to deal more effectively with commodity instability, policy measures should include ones that address the causes of commodity-specific supply instability, and not just the effects.

128. Existing international programmes do not currently adequately address the causes of commodity supply instability. The IMF-CFF aims at softening the effects of overall export instability by providing short-term balance-of-payments assistance. STABEX has limited international coverage and, while drawings from it are triggered by a commodity-specific mechanism, they usually have not been used to tackle the supply causes of commodity instability. The World Bank provides some loans which have been used to reduce the impact of a drop in import capacity and to bring about structural change in the commodity sectors responsible for the shortfall. However, these loans have been few, and, given the multiplicity of operational objectives of the World Bank, insufficient emphasis has been placed on commodity instability-related problems. The ICAs can contribute to commodity sector stabilization by stabilizing the prices upon which producers act, but do not address directly the commodity-specific causes of supply instability. Likewise, the Common Fund for Commodities, when it becomes operational, will deal with the effects and not the causes of supply instability and with other issues not targeted explicitly towards supply instability.

129. The Group agreed that it is desirable to seek to reduce commodity supply instability for the developing economies given the importance of commodity earnings to such economies, the relatively great instability in these earnings, and the deleterious impact of such instability on the current and prospective economic welfare of developing countries. The Group also agreed that, in so far as they contribute to a long-run reduction of commodity instability, measures addressing the causes of supply instability generally have advantages over measures that deal transitorily with the current effects of instability. While recognizing that efforts by individual developing economies to deal with commodity instability are necessary, the Group further agreed that most of these efforts are likely to be of limited success without international support because of the limited resources of the developing economies and the international consequences of commodity supply instability. A new programme should have an explicit policy objective, identified resources and built-in evaluation procedures and should be consistent with international commodity objectives and arrangements.[24]

130. The Group then considered whether a complementary compensatory financing facility, the subject of its mandate, could be utilized to address effectively the causes of supply instability. In this regard, two points were emphasized. First, compensatory finance is here defined differently from the way it is used in the IMF-CFF, to include supply adjustment measures. Second, the Group's focus on a compensatory financing facility to deal with supply instability does not mean that there may not be other useful measures to address that problem.

131. The Group considered the following to be essential characteristics of a prototype commodity-specific facility which links the uses of compensatory finance to the needs of supply adjustment. The principal objective of the facility would be to reduce supply instability in specific commodity sectors consonant with national and international policies and arrangements. Membership would be open to all States. All primary commodities (i.e. those included in SITC sections 0, 1, 2, and 4 and division 68) would be eligible, with the exceptions of fuels, gold, diamonds and precious stones. The details of the capital structure would depend to some extent on institutional arrangements, but governmental contributions from all member countries, along the lines of the Common Fund for Commodities, would be appropriate, with voluntary contributions to cover any element of concessionality. The facility would operate basically on self-financing and commercial principles. Potential access to the facility would be limited to developing countries, that suffer a shortfall in earnings above a trigger threshold from a specific commodity as compared with a 10-year trend, subject to a dependency threshold that the commodity accounts for at least a certain share of the country's export earnings (with a possibility of lower trigger and dependency thresholds for countries eligible for concessional terms). Loans would not be automatic, nor necessarily equal in magnitude to the export earnings shortfalls. Actual provision of loans for those eligible would occur after an agreement, preferably worked out prior to triggering shortfalls, has been signed between the facility and the applicant developing country on a multi-year programme directed towards addressing the causes of the supply instability, with

[24] For a differing view by one expert see annex I.

explicit mechanisms specified for executing and monitoring the specific programme. Repayment would occur over a fixed maximum period, with acceleration to a prior agreed extent whenever overages reach a pre-determined level. Prior recourse to the IMF-CFF and STABEX would not be a prerequisite, nor would double compensation be allowed. To the extent that voluntary contributions made it possible, concessional terms for low-income countries heavily dependent on primary commodity exports would be incorporated.

132. The Group thought that, if such a facility is instituted, it should not be established as a new independent institution. A suitable location would be as a third account with the Common Fund for Commodities when that Fund becomes operational. Should the Common Fund not become operational within a reasonable period of time, a possible institutional arrangement would be as a separate window within the World Bank.

ANNEX I

Observations by Professor P.I. Khvoinik on the report of the Expert Group

My approval of the report in general should be regarded first of all as a recognition of the great importance of the export earnings instability problem and as a tribute to the very valuable work done by the Group and the UNCTAD secretariat. It is self-evident that, being compiled by so many experts, with different views, the report inevitably bears the character of a compromise. Nevertheless, whatever the merits of a broad consensus could be, it seems to be preferable to present the whole variety of opinions within such a consensus. This would enable the achievement of well-balanced practical decisions. I feel that this is the best way to fulfil the mission of the Group.

Consequently, and since to my mind the report does not fully enough reflect my views on several important matters, I should like to take this opportunity to clarify at least some of them.

1. Roots of instability. The main causes of instability in export earnings are mostly beyond the control of developing countries. The major sources of instability are fluctuations in demand from leading importing countries who dominate the world market and whose economy is governed by the play of market forces. Important factors are also the policies of transnational monopolies and their influence on world market prices. Due attention must be paid to the responsibility of former colonial powers for those deficiencies in the economies of developing countries which make them especially vulnerable to world market instability and export earnings shortfalls.

2. Supply and demand sides of instability. Instability in world commodity trade is caused in general not so much by fluctuations in the volume of supply as by alterations in demand. This is especially evident in periods of extreme export earnings instability, which coincide not so much with supply scarcity as principally with cyclical reductions of demand during recessions in importing countries. This underlines the importance of tackling the problem first of all at the international market level from which the instability is transmitted to developing countries. The real state of affairs does not justify the idea that the "first-best" policies are those dealing with supply instability at the country level.

3. Theoretical and practical aspects of compensatory financing. From the theoretical point of view there are serious doubts about the stabilizing abilities of compensatory financing. Even by definition, this method is to compensate for certain consequences of instability but not to eliminate its roots. These doubts are aggravated by the contradictory results of various compensatory schemes. Besides, a distinction should be made between the benefits (if any) of compensatory financing to the national economies of developing countries and the benefits derived from the same source by transnational corporations operating in the commodity sectors of developing countries.

4. Evaluation of existing stabilization programmes. The report tends to overestimate the role of the compensatory schemes within EEC, IMF and the World Bank and to underestimate that of international commodity agreements. With all their shortcomings, ICAs in general have proven to be the main international price and market stabilizing instruments in the interests of both exporting and importing countries.

5. The case for an additional facility. For the reasons stated above it should be concluded that the very idea of creating an additional facility dealing with instability from the supply side is highly controversial. All the proposed options suffer from various drawbacks and it would be too early at this stage to recommend any practical actions, however desirable. The instability problem is so important and so complex that it deserves further fundamental and realistic consideration.

ANNEX II

Texts of Conference resolutions 125 (V) and 157 (VI)

125 (V) Compensatory facility for commodity-related shortfalls in export earnings

The United Nations Conference on Trade and Development

Requests the Secretary-General of UNCTAD:

(a) In consultation with the International Monetary Fund, to prepare a detailed study for the operation of a complementary facility for shortfalls in earnings of each commodity, taking account of its financial requirements, possible sources of financing, its financial feasibility, institutional arrangements and the modalities and considerations that would provide adequate compensation in real terms to developing countries, paying attention in particular to the situation of the least developed countries. This facility should be additional to the improvement of the Compensatory Financing Facility of the International Monetary Fund, other facilities and to actions taken under the Integrated Programme for Commodities to deal with the problem of price stabilization in real terms;

(b) To complete this study at the earliest possible date with a view to facilitating its consideration by the Committee on Commodities and the Trade and Development Board after the completion of the negotiations on the common fund.

171st plenary meeting
3 June 1979

157 (VI) <u>Compensatory financing of export earnings shortfalls</u>

<u>The United Nations Conference on Trade and Development</u>,

<u>Recalling</u> its resolution 93 (IV) of 30 May 1976 on the Integrated Programme for Commodities and particularly section I, paragraph 2, and section III, paragraph 2 (f), thereof,

<u>Recalling also</u> its resolution 125 (V) of 3 June 1979 on a complementary facility for commodity-related shortfalls in export earnings,

<u>Reaffirming</u> the objective of improving and sustaining the real income of individual developing countries through increased export earnings and of protecting them from excessive fluctuations in export earnings, especially from commodities,

<u>Taking note</u> of the measures to improve and enlarge compensatory financing facilities for stabilization in response to the changing circumstances affecting the export earnings of developing countries, notably the Compensatory Financing Facility of the International Monetary Fund and STABEX of the Lomé Convention, and taking note further of the forthcoming review by the International Monetary Fund of the operation of its Compensatory Financing Facility,

<u>Taking note also</u> of the relevant studies prepared by the UNCTAD secretariat[1/] and of the consideration of these issues in other international forums,

<u>Taking note further</u> of agreed conclusions 19 (S-1) of the Committee on Commodities and of the report of the Committee on Commodities on its tenth session,[2/]

<u>Conscious of</u> the particular and urgent needs of the least developed countries, especially in the context of their heavy dependence on commodity exports for their foreign exchange earnings,

1. <u>Invites</u> the International Monetary Fund to complete expeditiously the forthcoming review by the Executive Board of its Compensatory Financing Facility, and to consider the establishment of special arrangements for the benefit of the least developed countries;

2. <u>Requests</u> the Secretary-General of UNCTAD to convene, after consultation with interested Governments, an expert group on the compensatory financing of export earnings shortfalls;

[1/] Reference is made, <u>inter alia</u>, to documents TD/B/C.1/234, TD/B/C.1/237 and TD/B/C.1/243.

[2/] <u>Official Records of the Trade and Development Board, Twenty-sixth Session, Supplement No. 4</u> (TD/B/944 - TD/B/C.1/247).

3. Instructs the expert group to consider, without prejudice to an eventual decision on appropriate follow-up action that may be taken in accordance with paragraph 6 below:

(a) The need for an additional complementary facility to compensate for the export earnings shortfalls of developing countries, bearing in mind the needs of those countries which are most dependent on commodity exports, particularly the least developed among them;

(b) The nature of an additional complementary facility;

(c) Sources of finance for an additional complementary facility;

(d) The operational rules and modalities of an additional complementary facility;

(e) The relationship of an additional complementary facility to existing facilities and intergovernmental organizations.
In conducting its analysis the expert group should examine, *inter alia*, the nature and causes of export earnings instability, the role and impact of existing facilities, the impact of export earnings stabilization on commodity markets, the financial and economic costs of stabilizing export earnings, and the possible stabilizing influence of commodity agreements and the Common Fund for Commodities. It should, in so doing, take due account of relevant studies and suggestions made by the UNCTAD secretariat, other competent intergovernmental organizations, and interested Governments, as well as of previous intergovernmental consideration of the issues involved, particularly the discussions in the Committee on Commodities. The expert group may wish to draw upon the expertise of the staff of the International Monetary Fund and of other international bodies;

4. Invites Governments of member countries to transmit to the Secretary-General of UNCTAD, prior to 31 December 1983, any suggestions and proposals they may have concerning the above and related issues;

5. Instructs the expert group to complete its work not later than 30 September 1984;

6. Requests the Secretary-General of UNCTAD to transmit the report of the expert group to a special session of the Trade and Development Board not later than 31 December 1984, and instructs the Board to decide upon requisite follow-up action, including the convening of a possible negotiating conference on an additional complementary facility.

200th plenary meeting
2 July 1983

ANNEX III

Members of the Expert Group

Prof. E. Bacha
Professor of Economics
Pontifical Catholic University
of Rio de Janeiro
Rio de Janeiro
Brazil

* Prof. J. Behrman
William R. Kenan, Jr. Professor
of Economics
University of Pennsylvania
Philadelphia
United States of America

Mr. W.G. Deeks
Executive Vice-President
Noranda Sales Corporation Ltd.
Toronto, Ontario
Canada

* Prof. J.B. Donges
Vice-President
Professor of Economics
Kiel Institute of World Economics
Kiel
Federal Republic of Germany

* Prof. P. Guillaumont
Director
Centre d'études et de recherches
sur le développement international
University of Clermont I
Clermont Ferrand Cedex
France

H.E. Mr. H. Hurtado
Minister of Development
Ministry of Development
Caracas
Venezuela

* Prof. P. Khvoinik
Chief Researcher
Institute of World Economy and
International Relations
Academy of Sciences of the USSR
Moscow
USSR

Prof. S. Ladyka
Head of the Institute for Economy
and Policy of Foreign Trade
Central School of Planning
and Statistics
Warsaw
Poland

* Prof. D. Lim
School of Modern Asian Studies
Griffith University
Brisbane, Queensland
Australia

* Mr. H. Lundström
Director
Bank of Sweden
Stockholm
Sweden

Mr. S. Mostefai
Advisor
Algiers
Algeria

Mr. P. Ndegwa
Governor
Central Bank of Kenya
Nairobi
Kenya

* Mr. E.N. Omaboe
Chairman and Managing Director
E.N. Omaboe Associates Ltd.
Accra
Ghana

Mr. F. Rampersad
President-Designate
National Institute of Higher Education
Port of Spain
Trinidad and Tobago

Dr. M. Sakamoto
Chief Economist
Institute for International Trade
Japan Foreign Trade Council, Inc.
Tokyo
Japan

* Dr. A. Sen Gupta
Special Secretary
Office of the Prime Minister
New Delhi
India

Dr. I. Szalkai
Director
Magyar Nemzeti Bank
Budapest
Hungary

Dr. Suhadi Mangkusuwondo
Director General for Research and Development
Department of Trade
Djakarta
Indonesia

Mr. Wang Huaian
Associate Research Fellow
International Trade Research Institute
Ministry of Foreign Economic Relations and Trade
Beijing
China

---

* Members of the Drafting Group

I. The Compensatory Financing Facility of the IMF

A Report Prepared by the Staff of the International Monetary Fund

July 1984

This paper describes the main features of the compensatory financing facility (CFF) and provides a brief outline of its evolution. The paper contains three sections and two annexes. Section I describes the main features of the CFF; Section II provides an overview of the evolution of the CFF since its establishment in 1963; and Section III examines the Fund's experience with the CFF, focusing primarily on drawings after the first major liberalization in December 1975. The first annex contains the guidelines on cooperation for use of the CFF; the second annex contains statistical information on use of the CFF after the 1975 liberalization.

I. Main Features of Current CFF

The purpose of the compensatory financing facility is to provide financial assistance to members experiencing balance of payments difficulties resulting from export shortfalls or cereal import excesses that are temporary in nature and due largely to factors beyond the member's control. The facility is open to all Fund members, but it is used mainly by developing member countries. Coverage of the facility was expanded in 1979 to include earnings from services (workers' remittances and tourism) and in 1981 to include cereal imports, as well as merchandise exports, but the dominant use of the CFF has been in respect of shortfalls in merchandise exports.

With regard to shortfalls in merchandise exports (or in aggregate earnings from merchandise exports and services), the amount that a member may draw from the Fund is limited by the amount of the calculated shortfall, subject to a quota limit and the requirements of need and cooperation (see below). The quota limit constrains a member's maximum outstanding compensatory financing (CF) drawings at 83 percent of the member's quota in the Fund. The calculated shortfall is the amount by which export earnings in the shortfall year are below their medium-term trend value, defined as the five-year geometric average of export earnings centered on the shortfall year (i.e., normally the latest 12-month period for which actual export data are available). Exports for the two post-shortfall years are projected by the Fund staff in conjunction with the authorities of the member concerned.

Once a member chooses to base its request on earnings that include or exclude receipts from workers' remittances and tourism, it is bound by that choice in any subsequent request for a period of five years. In addition, a member may base its request on data that include cereal imports, in which case it is bound by that option for a period of three years. For a member that has decided to include cereal imports, the amount of the drawing, consisting of either an export or cereal component or both, is the net amount of the export shortfall and the cereal import excess (either of which could be positive or negative), subject to quota limits and the requirements of need and cooperation. The quota limits constrain the maximum outstanding drawings at 83 percent of quota in respect of each the export shortfalls and the cereal import excesses, and total outstanding drawings at 105 percent of quota in respect of both components. The cereal import excess is calculated as the cost of these imports in commercial terms in the same 12-month period as the export shortfall year less their arithmetic average for the five years centered on that year. Cereal imports for the two post-excess years are projected by the Fund staff in conjunction with the authorities of the member concerned.

The early drawing procedure of the CFF allows a member to use estimated data in the shortfall year for up to six months in the case of exports, and for up to 12 months in the case of receipts from workers' remittances and tourism or cereal imports. This provision makes it possible for some members with long delays in compiling their trade statistics to use the facility, and also improves the timeliness of assistance by providing compensation earlier than would be the case if the calculations were based on actual data. If, however, subsequent calculations based on actual data for the shortfall (excess) year indicate that the member had been overcompensated, the member is expected to make a prompt repurchase of the amount of overcompensation.

The financing terms of the compensatory financing facility include a rate of charge plus a one-time service charge of 0.5 percent; from May 1, 1984, the rate of charge on drawings has been 7 percent per year. Repurchases are normally made in eight equal quarterly installments during the three-to-five-year period after the drawing, subject to earlier repurchase if the member's balance of payments and reserve position improve sufficiently.

Use of the CFF is subject to certain criteria: (1) there must be a balance of payments need; (2) the export shortfall or cereal import excess must be temporary and largely beyond the control of the member; and (3) the Fund must be satisfied that the member will cooperate with the Fund in efforts to find, where required, appropriate solutions for its balance of payments difficulties. In respect of requests that have the effect of raising outstanding CF drawings above 50 percent of quota (upper tranche), the Fund must be satisfied that the member has been cooperating with the Fund in efforts to find appropriate solutions for its balance of payments difficulties. The guidelines on cooperation associated with requests for drawings in the lower as well as in the upper tranches are contained in Annex I of this paper.

The guidelines on cooperation have remained essentially unchanged throughout the years of the facility's operations. However, the distinction between the cooperation requirements associated with drawings in the lower and the upper CF tranches has become somewhat blurred with the emergence in recent years of balance of payments difficulties for many countries that are far more extensive than those that may be attributed to reversible shortfalls in their export earnings. The application of the test of cooperation depends on the circumstances of each case, in particular the policies pursued by the member concerned in relation to the nature of the balance of payments problem that it faces. If the balance of payments problem is solely the result of a reversible shortfall in the member's export earnings and if the member has been following appropriate policies, there is no need for policy changes, whether the member's request is in the lower or upper tranche of the CFF.

II. Evolution of the CFF

Since it was established in 1963, the CFF has been reviewed on a number of occasions as the Fund gained experience in its implementation and as the needs of members evolved. As a result of these reviews, several changes were made involving the following aspects: (i) access; (ii) method of estimating the medium-term trend of exports; (iii) coverage; (iv) reclassification of noncompensatory drawings as compensatory; (v) early drawings; and (vi) avoidance of double compensation. Most of these changes were introduced during three major reviews of the CFF in 1966, 1975, and 1979; the cereal decision was adopted in 1981.

With regard to access, when the CFF was established in 1963, the limit on outstanding drawings was 25 percent of a member's quota. In 1966 the limit was raised to 50 percent, with drawings of no more than 25 percent of quota in any 12-month period. At the same time, a two-tranche system was established regarding the requirement of cooperation, whereby a stricter test became associated with requests that would raise outstanding drawings above 25 percent of quota. In 1969, with the establishment of the buffer stock financing facility, a joint limit of 75 percent of quota was introduced on outstanding drawings under the CFF and the buffer stock financing facility (BSFF). The limit on outstanding drawings under the CFF was raised to 75 percent of quota in December 1975, with no more than 50 percent in any 12-month period; the threshold for the upper-tranche cooperation requirement was raised to 50 percent of quota, where it has remained ever since. The joint limit of 75 percent of quota for aggregate drawings under the CFF and the buffer stock financing facility was removed. In 1979, the limit on outstanding drawings was raised to 100 percent of quota and the limitation on drawings in any 12-month period was removed. When financing of cereal import excesses became possible in 1981, the 100 percent of quota limit on outstanding drawings was also applied to cereal drawings, with a joint limit of 125 percent of quota on outstanding export and cereal drawings. Finally, in 1984 on the occasion of major quota increases for members, the separate limits on outstanding drawings related to export shortfalls and to cereal import excesses were reduced to 83 percent of quota with a joint limit of 105 percent of quota.

Total potential supply of CF resources, therefore, has expanded greatly since the mid-1960s. For example, for 120 developing countries, the potential supply of CF resources, calculated by multiplying their aggregate quotas by quota limits on outstanding CF drawings for exports shortfalls, increased from less than SDR 2 billion in the early 1960s to over SDR 20 billion at present; even with the reduction in quota limits in 1984, total potential supply of CF resources increased slightly as a result of increases in members' quotas.

The method of estimating the medium-term trend of exports has changed several times during the life of the facility. Attempts were made under the 1963 decision and under the 1975 review to establish formulas for projecting exports, neither of which worked satisfactorily. 1/ The judgmental forecast method has been used in the vast majority of cases, and the most recent attempt to establish a formula in 1975, although never used in practice, was formally abandoned in the 1979 review. Upper and lower limits were placed on export forecasts in the 1966 review, but were removed in the 1975 review. 2/ The arithmetic average of export earnings for the five years centered on the shortfall year was used as the estimate of the medium-term trend until the 1979 review, when it was decided to change to the geometric average. 3/

The option to include receipts from tourism and/or workers' remittances in export calculations was introduced in the 1979 review, and the option to include cereal import costs was introduced in 1981 for an initial period of four years. In the 1966 review, provision was made for the reclassification as CF drawings of previous noncompensatory drawings made no longer than six months earlier, provided that an export shortfall was found to exist on the basis of the latest available data. The time limit for previous noncompensatory drawings was extended from 6 to 18 months in the 1975 review, but no use has ever been made in practice of this reclassification procedure. The early drawing procedure (discussed above) was introduced

1/ Under the 1963 decision, the medium-term trend of exports was estimated by combining the results of a formula with those of a judgmental approach. Under the formula the trend was estimated by applying weights of 0.25 to exports in each of the two pre-shortfall years and 0.50 to exports in the shortfall year. The judgmental approach involved combining actual export data for three years and forecasts based on market appraisal and available information for the two post-shortfall years. In the 1966 review, it was decided to rely mostly on the qualitative method involving judgmental forecasts. In the 1975 review, an extrapolation formula for estimating the medium-term trend of exports was introduced, but in practice the formula produced unrealistic results and was abandoned in favor of the judgmental method.

2/ An upper limit was established for the average of post-shortfall exports of 10 percent above the pre-shortfall average, and a lower limit was set at the actual level in the shortfall year.

3/ The decision to change to a geometric average was taken because it was shown that the nominal value of export earnings tends to increase geometrically (i.e., at a constant rate) rather than arithmetically (i.e., by a constant amount).

in the 1975 review. Procedures were adopted in the 1966 review for avoiding double compensation arising from previous drawings (both compensatory and noncompensatory) from the Fund. In the 1979 review, the provision for reclassification of noncompensatory drawings as CF drawings was abolished, as well as the procedures for avoiding double compensation regarding previous noncompensatory drawings, but the procedures for avoiding double compensation in respect of previous CF drawings were maintained.

III. Experience with CFF

Total drawings under the CFF have expanded substantially since the establishment of the facility in 1963. This expansion has occurred primarily as a result of five general quota increases and three increases in the quota limits on CF drawings, although liberalizations of other aspects of the CFF have also contributed (e.g., expansion of commodity coverage, elimination of annual limits on drawings, and elimination of limits on projections). Annual drawings during the past eight years (1976-83) averaged SDR 1.42 billion, which is roughly equal to the aggregate amount of drawings of SDR 1.22 billion made during the entire 13 preceding years (1963-75). In particular, total drawings rose after the 1975 liberalization of the CFF.

The level of annual CFF drawings has followed a cyclical path, reflecting the influence of world economic activity on exports. Thus, total annual drawings were particularly large after the 1975 recession (SDR 2.31 billion in 1976) and after the most recent recession in 1981-82 (SDR 2.63 billion in 1982 and SDR 2.84 billion in 1983). In response to the world economic recovery and the consequent increase in commodity prices since early 1983, only five CF drawings amounting to SDR 689 million have been made during the first six months of 1984 (Table 1).

CF drawings accounted for 25 percent of the total credit extended by the Fund since January 1976. The predominant use of the CFF has been by the developing countries, which accounted for 81 percent of total CF drawings 1/ (Table 2). Outstanding drawings as of end-May 1984, at SDR 7.46 billion, represented about 23 percent of total outstanding Fund credit; 87 percent of the total outstanding CF drawings was accounted for by developing countries.

1/ Developing countries are defined in accordance with the UNCTAD classification; they include countries other than industrial countries, as defined in International Financial Statistics, and Botswana, Lesotho, South Africa, Swaziland, Greece, Malta, Portugal, Yugoslavia, and Israel.

(In millions of SDRs)

	Drawings			Repurchases			Outstanding Drawings (End of Period)		
	All Fund Members	Developed Countries 2/	Developing Countries	All Fund Members	Developed Countries 2/	Developing Countries	All Fund Members	Developed Countries 2/	Developing Countries
963 Decision									
1963	76	--	76	--	--	--	76	--	76
1964	--	--	--	--	--	--	76	--	76
1965	11	--	11	--	--	--	87	--	87
966 Decision									
1966	24	--	24	16	--	16	96	--	96
1967	198	33	165	18	--	18	261	33	228
1968	69	4	65	78	29	49	251	8	243
1969	13	--	13	37	--	37	227	8	219
1970	3	--	3	97	8	89	132	--	132
1971	70	--	70	70	--	70	132	--	132
1972	299	--	299	51	--	51	380	--	380
1973	113	--	113	34	--	34	460	--	460
1974	107	--	107	32	--	32	535	--	535
1975	239	51	188	51	--	51	722	51	671
975 Decision									
1976	2,308	787	1,521	317	--	317	2,713	837	1,876
1977	241	29	212	187	--	187	2,756	866	1,890
1978	578	171	407	387	86	301	2,921	952	1,969
1979 3/	279	139	140	353	31	322	2,847	1,059	1,788
979 Decision									
1979 4/	293	--	293	290	189	101	2,850	870	1,980
1980	980	139	841	1,039	381	658	2,791	627	2,164
1981	1,243	--	1,243	762	229	533	3,272	399	2,873
1982	2,628	658	1,970	502	129	373	5,398	927	4,471
1983	2,839	267	2,572	708	148	560	7,529	1,046	6,483
1984 5/	322	--	322	389	--	389	7,462	1,046	6,416

1/ Includes drawings under the cereal facility.
2/ According to current UNCTAD classification. Includes industrial countries as defined in the IFS, plus Botswana, sotho, South Africa, Swaziland, Greece, Malta, Portugal, Yugoslavia, and Israel.
3/ January-July 1979.
4/ August-December 1979.
5/ January-May 1984. The amount of drawings for June 1984 was SDR 368 million; amount of repurchases in June is not ot available.

Table 2. Aggregate CF Drawings in Relation to Other Uses of Fund Credit (January 1976–June 1984)

	Amount			Shares					
				By Types of Use			By Country Groups		
	Total	Developed Countries	Developing Countries	Total	Developed Countries	Developing Countries	Total	Developed Countries	Developing Countries
	(In billions of SDRs)			(In percent)					
Total use of Fund credit	46.22	9.54	36.68	100	100	100	100	21	79
CFF	11.71	2.18	9.53	25	23	26	100	19	81
Other facilities 1/	34.51	7.36	27.15	75	77	74	100	21	79

Source: Annex II Table 1.

1/ Includes credit tranches and extended Fund facility, oil facility, and buffer stock financing facility.

The 88 CF drawings of SDR 3.41 billion made under the 1976 decision were about 50 percent of the calculated shortfalls, while the 113 purchases of SDR 8.43 billion made under the 1979 decision were about 62 percent of the calculated shortfalls. The ratio of drawings to shortfalls increased in recent years, from 49 percent in 1981 to 63 percent in 1982 and 76 percent in 1983 (Table 3). According to this measure, therefore, the capacity of the CFF to mitigate the adverse effects of export fluctuations is shown to have increased during a period of greatly increased instability in the commodity markets.

Table 3. Aggregate CF Drawings as Percent of Aggregate Shortfalls (January 1976-June 1984)

	Number of Drawings (1)	Drawings (2)	Shortfalls (3)	Drawings as Percent of Shortfalls (2)/(3)x100
		(In billions of SDRs)		(In percent)
1975 Decision	88	3.41	6.86	50
1979 Decision	112	8.43	13.58	62
Of which:				
1981	29	1.18	2.41	49
1982	28	2.52	4.03	63
1983	24	2.84	3.75	76

Source: Annex II Table 2.

Guidelines on Cooperation for Use of the CFF

Lower tranche

The criterion--namely, that the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties--implies a willingness to receive Fund missions and to discuss, in good faith, the appropriateness of the member's policies and whether changes in the member's policies are necessary to deal with its balance of payments difficulties. Where the Fund considers that the existing policies of the member in dealing with its balance of payments difficulties are seriously deficient or where the country's record of cooperation in the recent past has been unsatisfactory, the Fund will expect the member to take action that gives, prior to submission of the request for the purchase, a reasonable assurance that policies corrective of the member's balance of payments problem will be adopted.

Upper tranche

The additional criterion of the upper tranche--namely, that the Fund is satisfied that a member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties--means that in the light of the action taken by the member and the balance of payments policies being pursued the Fund is satisfied with the member's record of cooperation. The existence of a satisfactory balance of payments position (apart from the effects of the shortfall) or the existence of and broadly satisfactory performance under an arrangement with the Fund, or the adoption of such an arrangement at the time the request for a CFF purchase is made, will be considered to provide evidence of cooperation. However, the existence or the adoption of an arrangement is not a prerequisite. If a member's current and prospective policies were such as would, in the Fund's view, meet the criteria of the use of resources in the credit tranches, the member would be deemed to have been satisfactorily cooperating with the Fund, even though such use was not contemplated at the time of the CFF request.

Table 1. CF Drawings in Relation to Other Uses of Fund Credit 1/

(In billions of SDRs)

	All Fund Members			Developed 2/			Developing		
	Total	1976-79	1979-84	Total	1976-79	1979-84	Total	1976-79	1979-84
Total use of credit	46.23	11.46	34.77	9.54	6.23	3.31	36.68	5.22	31.46
CFF 3/	11.71	3.41	8.30	2.18	1.12	1.06	9.53	2.29	7.24
Buffer stock financing facility	0.53	0.05	0.48	0.06	--	0.06	0.47	0.05	0.42
Tranche facilities	31.86	5.87	25.99	5.75	3.56	2.19	26.11	2.31	23.80
Credit tranches	(19.74)	(5.24)	(14.50)	(5.75)	(3.56)	(2.19)	(13.99)	(1.68)	(12.31)
Extended Fund facility	(12.12)	(0.63)	(11.49)	(--)	(--)	(—)	(—)	(0.63)	(11.49)
Oil facility	2.14	2.14	--	1.55	1.55	--	0.59	0.59	—

1/ The period 1976-79 refers to the period from January 1976 through July 1979 (the period of the 1975 CF decision); the period 1979-84 refers to the period from August 1979 through May 1984 (the period of the 1979 CF decision).

2/ Based on the UNCTAD definition; includes industrial countries, as defined in the IFS, plus Botswana, Lesotho, South Africa, Swaziland, Greece, Malta, Portugal, Yugoslavia, Israel.

3/ Includes drawings under the cereal facility.

Table 2. Drawings Under the Compensatory Financing Facility (January 1976-June 1984)

			End of Short-fall Year	Date of Drawing	Quota	Short-fall 1/ 2/	Drawing 2/	Outstanding After Drawing as Percent of Quota
					(In millions of SDRs)			
1	CENTRAL AFRICAN REP.		9/75	2/ 3/76	13.0	5.1	5.1	39.2
2	PHILIPPINES	*	12/75	4/ 5/76	155.0	256.0	77.5	68.8
3	SIERRA LEONE		12/75	3/24/76	25.0	7.0	7.0	28.0
4	ICELAND		12/75	3/16/76	23.0	--	11.5	50.0
5	IVORY COAST		10/75	3/22/76	52.0	--	26.0	50.0
6	ZAIRE		12/75	3/26/76	113.0	--	56.5	75.0
7	URUGUAY		12/75	3/31/76	69.0	25.9	25.9	56.3
8	ARGENTINA		12/75	3/30/76	440.0	--	110.0	64.5
9	TURKEY		12/75	4/ 2/76	151.0	--	37.8	50.0
10	NEW ZEALAND		11/75	4/28/76	202.0	--	50.5	50.0
11	TANZANIA		10/75	4/ 7/76	42.0	26.5	21.0	50.0
12	MAURITANIA		12/75	4/ 2/76	13.0	--	6.5	50.0
13	UGANDA		10/75	4/ 9/76	40.0	--	20.0	50.0
14	MOROCCO	*	6/76	4/ 8/76	113.0	115.0	56.5	50.0
15	ROMANIA		12/75	4/28/76	190.0	--	95.0	50.0
16	PERU	*	3/76	5/ 4/76	123.0	316.0	61.5	50.0
17	CYPRUS		10/75	5/ 3/76	26.0	15.4	13.0	50.0
18	YEMEN, P.D. REP.		12/74	5/10/76	29.0	2.5	2.5	8.6
19	SUDAN		12/75	5/19/76	72.0	26.7	26.7	62.1
20	LAO P. D. REP.		12/75	6/ 9/76	13.0	6.8	3.3	50.0
21	ZAMBIA	*	12/75	6/ 3/76	76.0	285.0	19.0	50.0
22	KOREA		11/75	6/ 3/76	80.0	1115.0	40.0	50.0
23	CHILE		12/75	6/ 9/76	158.0	235.8	79.0	75.0
24	EGYPT		12/75	6/16/76	188.0	121.0	94.0	75.0
25	PAPUA NEW GUINEA		12/75	6/16/76	20.0	61.0	10.0	50.0
26	PAKISTAN		12/75	7/ 9/76	235.0	90.5	90.5	38.5
27	CAMEROON		12/75	7/ 6/76	35.0	31.2	17.5	50.0
28	PORTUGAL		12/75	7/ 1/76	117.0	132.8	58.5	50.0
29	AUSTRALIA		2/76	7/ 8/76	665.0	376.5	332.5	50.0
30	JAMAICA		6/76	9/22/76	53.0	53.8	13.3	50.0
31	DOMINICAN REPUBLIC	*	12/76	9/23/76	43.0	46.0	21.5	50.0
32	SIERRA LEONE		7/76	9/23/76	25.0	6.7	5.5	50.0

			End of Shortfall Year	Date of Drawing	Quota	Shortfall 1/ 2/	Drawing 2/	Outstanding After Drawing as Percent of Quota
					(In millions of SDRs)			
33	KENYA		12/75	7/26/76	48.0	28.4	24.0	50.0
34	TOGO	*	9/76	8/ 2/76	15.0	41.2	7.5	50.0
35	THAILAND		3/76	8/ 5/76	134.0	131.0	67.0	50.0
36	CHAD		12/75	8/ 2/76	13.0	12.1	6.5	50.0
37	BANGLADESH		3/76	8/ 5/76	125.0	40.0	39.1	75.0
38	ISRAEL		12/75	8/ 9/76	130.0	76.2	65.0	50.0
39	MALAYSIA		2/76	8/ 5/76	186.0	266.6	93.0	50.0
40	WESTERN SAMOA		5/76	11/ 1/76	2.0	2.2	0.5	50.0
41	GREECE		2/76	9/13/76	138.0	58.0	58.0	42.0
42	MEXICO		6/76	11/ 1/76	370.0	284.0	185.0	50.0
43	JAMAICA		9/76	11/10/76	53.0	40.0	13.3	75.0
44	SOUTH AFRICA		8/76	11/16/76	320.0	230.0	160.0	50.0
45	SRI LANKA		6/76	11/15/76	98.0	15.8	15.8	41.1
46	NEW ZEALAND		5/76	12/ 2/76	202.0	84.8	50.5	75.0
47	GUYANA	*	12/76	12/16/76	20.0	18.6	10.0	50.0
48	PANAMA		7/76	12/27/76	36.0	19.6	18.0	50.0
49	BARBADOS	*	12/76	1/ 3/77	13.0	3.5	3.5	26.9
50	CONGO	*	12/76	2/ 4/77	13.0	7.0	6.5	50.0
51	VIET NAM		6/76	1/17/77	62.0	45.8	31.0	50.0
52	WESTERN SAMOA		11/76	2/ 3/77	2.0	0.8	0.5	68.0
53	GAMBIA, THE		9/76	3/30/77	7.0	6.0	3.5	50.0
54	ZAMBIA		12/76	4/27/77	76.0	63.0	19.0	75.0
55	PAKISTAN		12/76	4/25/77	235.0	34.2	27.0	50.0
56	ZAIRE		12/76	5/ 3/77	113.0	99.8	28.3	75.0
57	MAURITIUS		3/77	7/18/77	22.0	16.9	11.0	50.0
58	FIJI		12/76	7/28/77	13.0	11.2	6.5	50.0
59	PORTUGAL		3/77	7/29/77	117.0	149.3	29.3	75.0
60	TUNISIA		3/77	8/17/77	48.0	38.4	24.0	50.0
61	ROMANIA	*	6/77	9/14/77	190.0	63.5	47.5	75.0
62	BARBADOS	*	12/77	10/17/77	13.0	4.3	3.0	50.0
63	SPAIN		7/77	2/ 8/78	395.0	98.8	98.8	25.0
64	ZAMBIA	*	3/78	5/ 2/78	141.0	107.6	48.8	75.0
65	TURKEY		1/78	4/27/78	200.0	163.0	74.5	74.5
66	MOROCCO		12/77	8/16/78	150.0	93.0	56.0	75.0
67	THAILAND	*	9/78	7/ 3/78	181.0	80.0	68.8	75.0
68	BOLIVIA	*	9/78	7/ 6/78	45.0	19.4	15.0	33.3
69	JAMAICA	*	6/78	6/30/78	74.0	26.1	15.0	75.0
70	NEPAL		4/78	7/27/78	19.0	12.5	9.5	50.0

			End of Short-fall Year	Date of Drawing	Quota	Short-fall 1/ 2/	Drawing 2/	Outstanding After Drawing as Percent of Quota
					(In millions of SDRs)			
71	GUYANA		12/77	7/31/78	25.0	36.8	8.8	75.0
72	ISRAEL		6/78	9/13/78	205.0	72.4	72.4	67.0
73	PERU	*	6/78	9/20/78	164.0	108.0	61.5	75.0
74	SUDAN	*	12/78	9/20/78	88.0	81.1	21.3	75.0
75	SENEGAL	*	12/78	11/ 2/78	42.0	90.8	21.0	50.0
76	GAMBIA, THE	*	9/78	11/27/78	9.0	6.0	4.5	69.4
77	WESTERN SAMOA	*	12/78	11/24/78	3.0	1.0	1.0	65.6
78	CYPRUS		9/78	1/17/79	34.0	9.9	9.9	56.7
79	DOMINICAN REPUBLIC	*	12/78	1/25/79	55.0	49.8	6.0	50.0
80	ROMANIA		12/78	4/11/79	245.0	161.3	41.3	75.0
81	SOLOMON ISLANDS		12/78	4/12/79	2.1	2.9	1.1	50.0
82	GUINEA-BISSAU		12/78	4/26/79	3.9	1.1	1.1	28.2
83	TANZANIA	*	12/78	5/ 2/79	55.0	40.4	20.3	75.0
84	NICARAGUA		1/79	5/17/79	34.0	24.1	17.0	50.0
85	PHILIPPINES		12/78	6/14/79	210.0	44.2	44.2	57.9
86	YUGOSLAVIA		12/78	5/31/79	277.0	239.5	138.5	50.0
87	ETHIOPIA		12/78	8/ 2/79	36.0	27.3	18.0	50.0
88	MALAWI		2/79	8/ 8/79	19.0	15.5	9.5	50.0
89	KENYA		3/79	8/23/79	69.0	99.8	69.0	100.0
90	UGANDA		3/79	8/29/79	50.0	59.3	5.0	50.0
91	NICARAGUA	*	9/79	8/29/79	34.0	-24.6	--	50.0
92	JAMAICA	*	10/79	9/26/79	74.0	63.8	31.8	100.0
93	DOMINICAN REPUBLIC	*	12/79	9/20/79	55.0	-85.3	--	50.0
94	BURUNDI		6/79	11/ 7/79	23.0	9.5	9.5	41.3
95	COSTA RICA		6/79	10/31/79	41.0	41.9	20.5	50.0
96	MALAWI		5/79	11/ 5/79	19.0	11.3	9.5	100.0
97	SUDAN	*	12/79	11/13/79	88.0	62.2	36.0	100.0
98	LIBERIA		6/79	12/20/79	37.0	20.5	20.5	55.4
99	MAURITANIA		6/79	1/ 2/80	17.0	22.3	10.5	100.0
100	DOMINICA	*	12/79	12/27/79	1.9	1.0	1.0	50.0
101	ETHIOPIA		6/79	12/27/79	36.0	35.6	18.0	100.0
102	UGANDA		9/79	1/ 9/80	50.0	64.2	25.0	100.0
103	GUYANA	*	12/79	1/17/80	25.0	17.8	6.3	100.0
104	YUGOSLAVIA	*	12/79	2/ 6/80	277.0	156.2	138.5	100.0
105	TURKEY	*	12/79	2/26/80	200.0	181.8	71.6	100.0
106	PHILIPPINES		8/79	3/ 3/80	210.0	93.3	93.3	83.4
107	MALI		12/79	3/31/80	27.0	5.1	5.1	18.9
108	ROMANIA		12/79	5/21/80	245.0	159.6	121.3	100.0
109	MADAGASCAR		12/79	7/ 2/80	34.0	29.2	29.2	85.9

			End of Short-fall Year	Date of Drawing	Quota	Short-fall 1/ 2/	Drawing 2/	Outstanding After Drawing as Percent of Quota
					(In millions of SDRs)			
110	KØREA	*	6/80	7/21/80	160.0	203.0	160.0	100.0
111	EQUATØRIAL GUINEA	*	5/80	7/ 3/80	10.0	5.8	5.8	58.0
112	INDIA		3/80	8/12/80	1145.0	266.0	266.0	23.2
113	NEPAL	*	7/80	9/22/80	19.0	16.1	10.5	100.0
114	TANZANIA	*	3/80	9/18/80	55.0	34.9	15.0	92.8
115	SUDAN	*	12/80	11/18/80	88.0	53.4	21.8	100.0
116	CHAD	*	12/80	1/12/81	24.0	13.0	7.1	50.0
117	CENTRAL AFRICAN REP.	*	12/80	1/19/81	24.0	8.8	8.8	42.3
118	DØMINICA	*	12/80	2/11/81	2.9	4.1	2.0	100.0
119	GRENADA	*	12/80	4/ 1/81	4.5	1.4	1.4	31.1
120	ST. VINCENT	*	12/80	3/25/81	2.6	1.4	1.3	50.0
121	ST. LUCIA	*	3/81	4/ 1/81	5.4	1.2	1.2	22.2
122	EQUATØRIAL GUINEA		10/80	4/13/81	15.0	4.7	4.7	74.0
123	MAURITIUS	*	5/81	4/15/81	40.5	45.2	40.5	100.0
124	WESTERN SAMØA	*	6/81	4/ 9/81	4.5	3.2	2.0	82.6
125	SUDAN	*	12/80	4/13/81	132.0	31.6	31.6	87.2
126	JAMAICA	*	12/80	4/16/81	111.0	20.8	20.8	85.4
127	ETHIØPIA	*	6/81	5/13/81	54.0	31.6	18.0	100.0
128	TANZANIA	*	6/81	6/ 4/81	82.5	-24.0	--	42.7
129	UGANDA	*	6/81	6/ 4/81	75.0	123.2	45.0	100.0
130	OAMBIA, THE	*	6/81	6/ 8/81	13.5	10.8	9.0	100.0
131	SRI LANKA		12/80	6/17/81	178.5	25.3	25.3	16.4
132	RØMANIA		12/80	6/22/81	367.5	428.6	169.5	100.0
133	CØSTA RICA		3/81	6/19/81	61.5	30.1	30.1	81.9
134	THAILAND		3/81	7/15/81	271.5	309.3	186.0	100.0
135	EL SALVADØR	*	5/81	7/30/81	64.5	35.1	32.3	50.0
136	SENEGAL	*	6/81	9/16/81	63.0	56.6	42.0	100.0
137	GUINEA-BISSAU		3/81	9/21/81	5.9	2.0	1.9	50.0
138	IVØRY CØAST	*	12/81	9/21/81	114.0	191.5	114.0	100.0
139	MALAWI		6/81	9/21/81	28.5	1.5	1.5	72.0
140	MALAYSIA	*	6/81	9/21/81	379.5	597.0	189.8	50.0
141	ZAMDIA		6/81	10/15/81	211.5	256.7	59.3	50.0
142	PAPUA NEW GUINEA	*	6/81	11/10/81	45.0	69.2	45.0	100.0
143	GUATEMALA		6/81	11/10/81	76.5	93.0	76.5	100.0
144	HAITI		9/81	12/28/81	34.5	17.0	17.0	49.3
145	HONDURAS		6/81	1/13/82	51.0	23.3	23.3	45.7
146	KØREA		9/81	1/27/82	255.9	106.2	106.2	104.0
147	DANOLADESH	*	3/82	2/17/82	228.0	36.9	36.9	16.2
148	FIJI	*	3/82	2/ 0/82	27.0	15.7	13.5	50.0

			End of Short-fall Year	Date of Drawing	Quota	Short-fall 1/ 2/	Drawing 2/	Outstanding After Drawing as Percent of Quota
					(In millions of SDRs)			
149	ZAIRE	*	12/81	3/22/82	228.0	302.4	106.9	50.0
150	MOROCCO	*	3/82	4/29/82	225.0	258.5	236.4	123.8
151	DOMINICAN REPUBLIC	*	8/82	5/11/82	82.5	104.1	36.0	50.0
152	PERU		12/81	6/11/82	246.0	301.7	199.9	100.0
153	KENYA	*	12/81	6/14/82	103.5	61.5	60.4	125.1
154	LIBERIA		12/81	6/23/82	55.5	19.3	7.0	49.6
155	MADAGASCAR		12/81	7/14/82	51.0	30.9	21.8	100.0
156	EL SALVADOR		3/82	7/21/82	64.5	134.5	32.3	100.0
157	PAKISTAN		6/82	8/ 5/82	427.5	180.2	180.2	42.2
158	URUGUAY	*	9/82	8/12/82	126.0	44.1	44.1	35.0
159	JAMAICA		3/82	8/30/82	111.0	19.4	19.4	71.9
160	SRI LANKA	*	7/82	8/30/82	178.5	13.0	13.0	21.5
161	BANGLADESH	*	9/82	8/30/82	228.0	51.9	22.4	26.0
162	LIBERIA		6/82	10/ 4/82	55.5	27.7	27.7	99.4
163	BARBADOS	*	6/82	10/ 6/82	25.5	11.7	11.7	45.9
164	SOLOMON ISLANDS		6/82	10/28/82	3.2	1.6	1.6	50.0
165	GUYANA		6/82	11/10/82	37.5	13.7	5.9	49.8
166	HONDURAS		6/82	11/10/82	51.0	23.1	23.1	91.0
167	HUNGARY		6/82	12/13/82	375.0	72.0	72.0	19.2
168	SOUTH AFRICA		6/82	11/ 8/82	636.0	1099.3	636.0	100.0
169	ICELAND		9/82	12/17/82	43.5	27.0	21.5	49.4
170	ZAMBIA		6/82	12/16/82	211.5	94.4	34.0	50.0
171	BRAZIL	*	12/82	12/16/82	997.5	930.0	498.8	50.0
172	BURMA		9/82	12/23/82	109.5	25.6	25.6	23.4
173	CHILE		9/82	1/13/83	325.5	295.0	295.0	90.6
174	BOLIVIA	*	12/82	1/13/83	67.5	37.7	17.9	32.1
175	DOMINICAN REPUBLIC		9/82	1/26/83	82.5	89.1	42.8	100.0
176	ARGENTINA	*	9/82	1/27/83	802.5	660.6	520.1	64.8
177	SIERRA LEONE		6/82	2/17/83	46.5	20.7	20.7	44.5
178	MALAWI		9/82	3/ 3/83	28.5	12.2	12.2	97.8
179	PHILIPPINES		9/82	3/ 2/83	315.0	259.0	188.5	100.0
180	SUDAN		6/82	3/16/83	132.0	95.1	39.1	100.0
181	BRAZIL		12/82	3/ 3/83	997.5	466.3	466.3	96.7
182	ZIMBABWE	*	12/82	3/28/83	150.0	68.6	56.1	37.4
183	ZAMBIA		12/82	5/25/83	211.5	97.2	97.2	93.0
184	SWAZILAND	*	12/82	6/27/83	18.0	26.1	9.0	50.0
185	PANAMA		12/82	6/29/83	67.5	58.9	50.9	87.3
186	WESTERN SAMOA		12/82	6/29/83	4.5	1.1	1.1	80.4
187	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

			End of Short-fall Year	Date of Drawing	Quota	Short-fall 1/ 2/	Drawing 2/	Outstanding After Drawing as Percent of Quota
					(In millions of SDRs)			
188	NIGER		12/82	7/ 7/83	24.0	47.2	12.0	50.0
189	INDONESIA	*	3/83	8/ 3/83	720.0	721.0	360.0	50.0
190	GHANA		12/82	8/ 8/83	159.0	120.5	120.5	75.8
191	BURMA		3/83	8/31/83	109.5	38.4	29.2	50.0
192	COSTA RICA	*	2/83	9/12/83	61.5	36.3	18.6	100.0
193	NIGER	*	12/83	10/11/83	24.0	40.5	12.0	100.0
194	PORTUGAL	*	3/83	10/13/83	258.0	354.0	258.0	100.0
195	ECUADOR		7/83	11/29/83	105.0	85.4	85.4	81.3
196	ZAIRE		3/83	12/30/83	228.0	114.5	114.5	97.1
197	PERU		12/83	5/ 1/84	330.9	141.9	74.7	83.0
198	BRAZIL		12/83	5/14/84	1461.0	855.0	247.9	83.0
199	KOREA		12/83	6/13/84	462.8	557.1	279.7	82.0
200	JAMAICA		12/83	6/26/84	145.5	100.5	72.6	83.0
201	MADAGASCAR		12/83	6/29/84	66.4	14.4	14.4	82.0

1/ NET OF DOUBLE COMPENSATION AND STOCK ADJUSTMENT.
2/ IN CASES OF EARLY DRAWING FOR WHICH ACTUAL DATA FOR THE SHORTFALL YEAR ARE AVAILABLE,THE SHORTFALLS ARE THE ADJUSTED FIGURES;IF EARLY REPURCHASES OF OVERCOMPENSATION HAVE TAKEN PLACE,THE DRAWINGS ARE FIGURES AFTER THE EARLY REPURCHASES (INDICATED BY SINGLE ASTERISK).