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**FACILITATING DEVELOPMENT OF RURAL TRADE THROUGH  
PROVISION OF SERVICES, TRADE FINANCING AND RURAL CREDIT**

Table of Contents

I.	<b>Introduction</b> . . . . .	1
II.	<b>Obstacles to Development of Rural Trade</b> . . . . .	2
III.	<b>Trade Facilitation Mechanisms in Rural Areas</b> . . . . .	5
IV.	<b>A Framework for Trade Facilitation and Rural Development</b> . . . . .	8
V.	<b>Conclusion</b> . . . . .	10

## I. Introduction

1. The importance of trade as an engine of growth at a country as well as global level is generally acknowledged. It is in this respect, that notwithstanding strong pressures for protectionism in some industrialized countries, the view is that a more open international trading system is better than a restrictive one because it results in an increase in world output and trade.
2. At a country level, domestic trade allows free flow of goods and services, it permits transfer of goods from surplus areas to deficit areas and, more importantly, it makes it possible for a country to exploit more effectively linkages between agricultural production and manufacturing as inputs and raw materials can be moved from rural areas to urban areas for processing and manufacturing.
3. The need to develop rural trade within the context of strategies needed for developing African economies has been recognized by most African countries since independence. Two related tendencies, in particular, have favoured the role of rural areas in the economic development of African countries. The first is linked to the prominent role of agriculture in the Gross Domestic Product (GDP) of nations, and to the large contribution of the agriculture sector to employment. The second tendency is shown by the willingness of Governments to set up specialized or formal financing and credit structures, with the goal of responding to rural financing needs and to guarantee long-term credits to rural development projects which the commercial banks are not generally prepared to finance. Nevertheless, African agriculture suffers from stagnation in production. The inadequacy of infrastructure, of institutions and of resources allocated to development has caused a situation whereby production has not grown at the same level than the population. The lack of communication infrastructure, of efficient marketing services and of well-adjusted pricing policies has also been cited as a barrier to production growth. It has become evident that it is necessary to ensure improved performance in the agriculture sector, particularly, through more efficient organization of production and marketing services.
4. This paper examines mechanisms needed for facilitating the development of rural trade, particularly as regards the need to provide adequate services in support of such trade including appropriate trade financing and rural credit. The paper will first present main obstacles to the development of rural trade which include: inadequate market infrastructure; lack of and/or inefficient marketing and distribution channels; and underdeveloped financial structures to support rural trade and provide credit. It will then examine the existing trade facilitation mechanisms in rural areas and these include: physical infrastructure; marketing and distribution channels; and financial institutions in rural areas. Proposals for improving trade facilitation systems in rural areas will then be made, including development of an efficient transportation infrastructure which facilitates movement of goods and services not only within rural areas but between rural and urban areas; improvement of marketing and distribution channels, enhancing financial institutions in rural areas; promoting development of cooperatives both at production and marketing/distribution levels; and exploiting existing informal institutional framework in rural trade. More importantly, linkages would have to be developed between agricultural production and manufacturing that will permit the rural population to add value to their produce. Furthermore, there is need to restructure credit and financing mechanisms in support of rural trade so as to ensure effective financial intermediation to take place in rural areas.

5. In recent years, many African countries have embarked on market-oriented reforms which have included trade liberalization. In a number of cases, such reforms have included the dismantling of official marketing organizations, such as marketing boards, in favour of private operators. While it is recognized that in some African countries, marketing boards and other public enterprises, have contributed to problems that have befallen African economies during the last two decades, nonetheless, it is still not clear that private traders have done much better in facilitating trade in African countries. Cases exist in Africa where the private operators have been unable to handle bumper crops of staple foods due to lack of transportation and storage facilities. Accordingly, while acknowledging that a developed private sector is the key to the development of rural trade, nonetheless governments and/or well-managed public enterprises can play a catalytic role in making rural trade an engine of growth.

## II. Obstacles to Development of Rural Trade

6. The main obstacles in Africa to development of rural trade have included an underdeveloped infrastructure in support of such trade, especially poor transportation networks and marketing/distribution channels. Furthermore, lack of adequate financing to support rural trade has also tended to inhibit the development of this sub-sector. The absence of linkage opportunities to enable the rural population to transform their produce into high value-added commodities has meant that the rural population sells its produce mainly in an unprocessed form and/or as raw materials for urban industries.

7. The poor transportation networks existing in African countries have not only inhibited development of domestic trade but also intra-African trade. Within national boundaries, underdeveloped transportation networks and poor communication facilities have often hindered efficient movement of produce from surplus, often rural areas, to deficit areas, usually urban areas. Similarly, movement of agricultural produce from producing areas to storage facilities is made more difficult by inefficient transportation networks. The result has been in some cases a significant wastage of produce.

8. It is estimated that in the majority of African countries around 90 to 95 per cent of foodstuff marketed is transported by road.<sup>1</sup> The inadequate road networks existing in most African countries and the poor state of road maintenance have been major constraints to the development of domestic trade in general, and rural trade in particular. The neglect of rural secondary and feeder roads has also been an impediment to the development of intra-regional trade. For many African countries, isolated enclaves in hinterland regions exists without proper access to urban cities. In Cameroon, for example, isolated enclaves of rich forested areas that produce food surpluses are unable to transfer such surpluses to deficit areas in the South and East of the country due to poor transportation networks.

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<sup>1</sup> "Infrastructural constraints to Intra-Regional Marketing and Trade in Food Commodities", Report to the Council of Ministers of the Niamey-based MULPOC, United Nations Economic Commission for Africa, Document JEFAD/AMS/90/30, June 1990, pp. 30.

9. The high cost of transportation and distribution has also been a major impediment for the development of rural trade. In Mali, for example, the cost of transporting sorghum from rural markets to the urban areas has been estimated to be around 38 per cent of the consumer price.<sup>2</sup> This makes it unprofitable to transport such produce long distances. African populations have responded to the high cost of road and rail transportation by developing alternative modes of transportation, which have included animal power and bicycles as well as use of porters. In Ethiopia, it is estimated that nearly 70 per cent of the national territory is not accessible by road and accordingly 50 per cent of the marketable agricultural surplus is carried by donkeys and porters.<sup>3</sup>

10. African railway systems remain geared mainly for support of external trade and large-scale industrial developments, such as mining activities.<sup>4</sup> Accordingly, most African rural areas and hinterlands are not accessible by rail. Furthermore, railways systems in a number of African countries have experienced serious financial and managerial problems. Many have been unable to maintain their infrastructures and rolling stocks let alone make new investments. Additionally they continue to be overburdened by inefficient and bureaucratic management structures. Although in recent years efforts have been made to rationalize and streamline operations of African railways, nonetheless, many are not able to effectively service rural areas. Access to rural areas is still therefore heavily depended on road transportation with its attendant high cost. As the majority of African countries are not oil-producers, they import most of their petroleum requirements. As the cost of oil imports has escalated so has the cost of transportation.

11. Africa has abundant in water resources, as evidenced by the number of inland lakes as well as rivers existing on the continent. Furthermore, all of Africa is surrounded by oceans and seas, a factor which should have facilitated the development of maritime transport. Notwithstanding this resource endowment, Africa continues to be one region with the most underdeveloped maritime transportation network and many of its large rivers remain under-utilized as means of transportation. The defective state of road networks should, under normal circumstances, have made the development of maritime transportation imperative. However, this has not been the case. In West Africa out of the 16 countries of the sub-region, thirteen (13) are situated on the coast; a factor which should have made the development of maritime transportation linking these countries much more easier. Major cities on the West African coast, such as Dakar, Abidjan, Lomé, Cotonou, Lagos, Monrovia could be more effectively linked and at lesser cost by maritime transportation than by road or air. However, inter-country maritime

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<sup>2</sup>"Food Products which can be Traded Between West African Countries, as well as Measures for Expanding Production and Marketing by Small Farmers", Niamey MULPOC, United Nations Economic Commission for Africa, February, 1990.

<sup>3</sup>"Alternative Patterns of Domestic Trade Structures and Mechanisms: A Case Study of Ethiopia", United Nations Economic Commission for Africa, Document E/ECA/TRADE/98, 6 November 1987.

<sup>4</sup>"Sub-Sectoral Strategies: Rail Transport", Programme for the Second Decade of Transport and communications Development in Africa, UNTACDA II, 1991-2000, Document UNTACDA/STRAT/91/09.

transportation networks on the West African coast are underdeveloped. Furthermore, many African ports are dilapidated and not efficiently managed.

12. Africa has an endowment of inland lakes, rivers and streams which traverse several regions and several countries. A developed inland maritime transportation network could prove the most effective way for integrating inland countries because many share lakes and rivers. Furthermore, this would help in opening up of hinterlands and contribute to the development of trade between various regions of the African continent. Africa has three of the world's largest inland lakes, which include Lake Victoria, Lake Tanganyika and Lake Malawi. The continent also has numerous other lakes in the Great African Rift Valley, stretching from Egypt to Mozambique, as well as in other regions. The development of inland waterways is, therefore, a necessary and important element in developing not only domestic trade of various African countries but also in promoting intra-African trade. Improving maritime transportation on Lake Victoria could not only result in increased domestic trade within countries bordering the lake, such as Kenya, Uganda, Tanzania and Rwanda but also promote trade among these countries. Similarly, developing maritime transportation on Lake Tanganyika would promote trade between countries of Burundi, Zaire, Tanzania and Zambia. This also applies for countries bordering Lake Malawi such as Tanzania, Malawi and Mozambique. Major rivers in Africa that could be exploited for development of maritime transport include the Nile River, the Zambezi River, the Congo River and Niger River. These rivers could prove important transportation linkages not only for various regions within African countries, but also among countries.

13. Air transportation networks in many African countries remain rudimentary. Air transportation in a majority of African countries is characterized by a lack of developed national and regional networks and its heavy-orientation towards the cosmopolitan cities of Europe. A large proportion of the air traffic carried by African airlines is destined for European cities. Furthermore, foreign carriers remain dominant operators in Africa. It is in this respect, that eighty percent of the air-traffic in Africa is handled by 27 European and 26 African companies. A number of factors have been cited for the underdeveloped nature of air transport in Africa and include: high operating costs, low priority accorded to the aeronautical sector, financial difficulties facing African countries, and small size of many African markets. Notwithstanding these constraints, some African airlines have been able to operate effective intra-African and international airline networks, among which is the Ethiopian airline. In general, however, the airline industry in Africa has not been able to promote development of domestic trade as well as intra-African trade. Many women entrepreneurs in West Africa and East Africa use airlines to undertake intra-regional and intra-African trade in the absence of effective intra-country road networks. The cost of transporting goods by air is usually exorbitant and such trade has been possible only in the presence of overvalued exchange rates and black market operations. This in itself is an inefficient and costly way for conducting intra-African trade. Accordingly, air transportation has made an insignificant contribution to the development of domestic trade in Africa, let alone rural trade.

14. Marketing and distribution networks remain a major constraint for the efficient development of rural trade, and domestic trade in general. In addition to this, the lack of water and electricity, the absence of adequate administration due to over-centralisation of decision making and the lack of coherent integrated approach to development which pays due attention to the development of the potentials of the rural areas, are also been cited as barriers to rural

trade development. Availability of adequate physical infrastructures where trade can take place is necessary for the development of rural trade; as is the availability of an efficient distribution network. African countries have tried to promote development of rural markets, rural-urban centres, and cooperative societies as a way of promoting rural trade. Many established marketing boards as one way of dealing with the problems of an underdeveloped marketing and distributional infrastructure needed to support domestic trade. Furthermore, many of them also established state-trading enterprises to fill the gap that existed in distribution networks.

15. Marketing boards and state trading enterprises have since independence played a role in providing marketing and distribution outlets. However, in many African countries they turned out to be inefficiently managed and often a drain on government resources. Many needed government subventions to cover even operating costs and became heavily subsidized. In a number of cases, they absorbed more than fifty (50) per cent of the export price of agricultural produce sold to them and accordingly paid the farmer low prices. It is now acknowledged that the fall in agricultural output in some African countries is due to poor operations of such marketing boards which tended to "milk" the farmer rather than to support him. It is not surprising, therefore, that market-oriented reforms in Africa have been accompanied by privatization of marketing and distribution arrangements of agricultural products.

16. The process of privatization of marketing arrangements in rural areas has not been without its problems. Private traders often shy away from inaccessible rural areas because of the high costs of maintenance of their vehicles operating on poor roads. In this respect, certain rural areas that produce bumper harvests find it difficult to move such produce because of lack of marketing and distribution outlets. The marketing boards which provided such outlets have either been wound-up or privatized. Many private traders lack adequate storage to handle large volumes of produce and capacities to preserve such produce. The problems of storage and preservation of produce are encountered at stages of marketing and distribution and the length of storage and preservation varies according to the type of produce. Perishable goods usually have a short shelf life and generally need refrigeration or specific forms of food processing. This problem calls for action in various levels such as, the establishment of storage, preservation and processing facilities for produce, with the help of qualified staff.

17. The problem of storage and preservation of produce is even more acute in rural areas where smallholder producers do not always have the means to construct, on an individual basis, appropriate adequate storage. Cooperative efforts and government support are in this case needed to ensure that some form of storage capacity exists to handle various types of produce. Inadequate storage and poor preservation methods often cause a high-level of post-harvest losses of food and agricultural produce. Furthermore, poor handling of agricultural produce can result in the farmer not only losing income but a nation losing scarce foreign exchange earnings. The need to adopt appropriate storage and warehousing techniques from the level of the farmer, to the private trader, the marketing boards, and export firms is crucial if African countries are to effectively compete in international markets. Quality control and health standards have become more stringent in many industrialized countries. Accordingly, Africa will have to intensify its efforts and invest in appropriate storage and warehousing facilities as well as in handling techniques that will enable it to meet such standards. These efforts will need to start at the level of the producer, who is often based in rural areas.

18. Lack of adequate financial infrastructure and institutional framework to support rural trade has also been a major obstacle to the development of rural trade. The banking and other non-bank financial structures in most African countries do not adequately support rural areas. This has often led to the development of informal arrangements which not only provide avenues for savings but also for supply of credit to rural populations. African governments have tried to develop various support mechanisms to respond to the specific needs of the rural people. Many of them have tried to promote the development of specialized financial intermediaries and/or created government agencies to provide financial support to rural people. Nonetheless, the problems of financing production and trade in rural areas persist. Whatever institutions have been established have often failed to address the specific peculiarities of the rural population, especially lack of bank collateral by rural people. It has been argued that the banking system and formal financial institutional framework has not adequately addressed the needs of rural populations and the end result has been the developed of "informal financial markets". The preponderance of such arrangements in Africa renders credence to such arguments.

### III. Trade Facilitation Mechanisms in Rural Areas

19. Facilitation of rural trade would invariably have to deal with problems of inadequate infrastructure in support of such trade, rationalization and improvement of marketing/distribution channels, improvement of institutional framework as well as enhancing the role of the rural producer and trader. For many African countries, this is indeed a formidable task as many of the factors needed to facilitate rural production and trade are either non-existent or at a rudimentary stage.

20. Another important factor that needs consideration is the fact that in a number of African countries the women population comprises a larger proportion of the labour force in rural areas and accordingly, gender issues need to be considered in policies designed to facilitate rural trade. As a matter of fact, women are the main traders and also handle most of the traffic of goods and services between rural and urban areas in most African countries.

21. Facilitating rural trade would need to start with improving transportation road networks in rural areas as well as the means of transportation. Improvement of rural road networks makes it possible for rural populations to improve the means and instruments of transportation. Access roads make it feasible for rural people to graduate their means of transporting produce from human labour to use of ox-drawn carts or even motor vehicles. Accordingly the existence of good road networks in rural Africa is a necessary condition for boosting rural trade. Improving the transport infrastructure is crucial for promoting rural trade; and more importantly in reducing wastage of raw materials that can be used in manufacturing. In Ethiopia for example due to difficulties of transportation, nearly 40 per cent of tanned leather and 20 percent of animal skins and hides are not marketed. This important resource is, therefore, wasted both in terms of loss of valuable income to the rural population and scarce foreign exchange earnings for the country.

22. Many African countries have recognized the consequences of underdeveloped transportation networks and accordingly have initiated projects for opening up rural areas. They have started constructing rural roads and highways to link rural areas as well as rural and urban areas. In Cameroon, programmes have been put in place to construct rural roads and highways



in order to facilitate movement of food produce from surplus to deficit areas. Similarly, the Nigerian government has been encouraging the opening up of isolated rural enclaves.

23. Adequate marketing and distribution channels is also important for facilitating rural trade. In this respect, promoting development of marketing infrastructures, such as rural markets, and improving channels of distribution are all essential. Efforts at facilitating rural trade need to deal with the problem of lack of appropriate markets in rural areas as well as distribution channels. Similarly, improving storage facilities has to be part of a programme designed to facilitate rural trade. A number of African countries are making conscious efforts to deal with these problems. Many African countries are promoting the development of rural markets either on a self-help basis and/or with government assistance. Similarly, local authorities have been used to oversee construction of rural markets. In Nigeria, a government-funded project has supported the construction of fifty storage depots and grinding mills as a way of improving availability of facilities in rural areas.

24. Improving availability of financial services to rural areas is also essential for facilitating rural trade. Lack of rural structures for savings, insufficient financial assistance to the rural commercial sector, and inadequate financial infrastructure have been major obstacles to rural trade. However, since independence many African countries have exerted efforts to improve delivery of financial services to rural areas. These have taken various forms and include: formal financial institutions; cooperatives; associative systems; and government-supported schemes. Furthermore, numerous informal financial systems exist in Africa that support various activities in rural and urban areas. Formal financial institutions that have operated in rural areas are often subsidiaries of urban banking structures. It is estimated that close to 90 percent of banking institutions in developing countries are located in urban areas and rural areas receive less than a quarter of total credit disbursed by such institutions. In Africa, this situation could even be worse. Formal banking institutions have often shown reluctance to provide credit to rural people with low incomes and without the usual bank collateral. Commercial banks consider loans to rural small businesses as high risk, which offer little profit due to high administrative costs.

25. Cooperative financial arrangements have been used in various African countries and have included: rural savings and credit schemes, people's banks, credit societies, and saving and credit cooperatives. These cooperative financial arrangements exist in many African countries. In Cameroon, for example, there were 123 credit schemes and 154 pre-credit banks serving more than 50,000 members in 1984. The credit schemes are generally affiliated to the "Cameroon Cooperative Credit Union League (Camcul)". In Kenya, a number of similar cooperative financial arrangements exist. In Niger, 10 savings and credit cooperatives were set up between March 1991 and July 1992 with the aim of promoting popular savings and credit schemes. These institutions have the support of the World Council of Savings and Credit Cooperatives (WOCCU). In Nigeria, savings and credit cooperatives have been formed into unions and cooperative banks also exist.

26. Associative financial arrangements also exist in a number of African countries. These arrangements are distinct from cooperative arrangements in that they are based on voluntary cooperation and services are adjusted to specific financing problems. In Zimbabwe, savings clubs were started in 1963 by Zimbabwean rural women as a result of inadequacy of government programmes in support of rural women. Those clubs now number 5,700, with membership

estimated at 200,000 and of which 97 percent are women. These institutions receive technical assistance from a non-governmental organization called "National Council of Savings Clubs". In Rwanda, associative systems have evolved on the basis of the "Muvandime formula" which combines elements of informal financial systems and the formal systems (cooperatives).

27. Government-supported financial support to rural areas has in Africa taken the form of either providing credit to producers through government-supported rural development projects; subsidizing inputs; and/or earmarking credit to selected groups. Many African governments designed after independence financial support schemes to assist rural producers. In Cameroon, government authorities set up agricultural credit systems aimed at promoting rural production. These systems are supposed to function in accordance with semi-banking principles, with interest rates higher than the rediscounting rate of the Central Bank. In Ghana, the African Development Bank has helped to rationalize government-supported financial assistance to rural producers. The system has replaced the defective cooperative system and producers receive credit on the basis of belonging to a "farmers group" of between 5 to 10 members. The grouping allows for risk-sharing as well as acts as a control to ensure repayment of loans. In Morocco, a three-pronged agricultural credit scheme has been set-up comprising of, the National Bank for Agricultural Credit (UNCA), which sets over all policy; regional agricultural credit banks (CRCA), which give loans to large farmers; and cooperatives and local agricultural schemes, which give loans to small farmers.

28. African governments in collaboration with multilateral international financing institutions have also supported schemes linked to development projects and geared to providing financial assistance to specialized groups. In Cameroon, the "Micro-Projects for Production by Women in Cameroon (MPPF-CAM)" is a project funded by the Canadian Government and executed by the Ministry of Social and Women Affairs and the Canadian Organization for Solidarity and Development (DOSD) and supports women's groups with training, undertaking of appropriate studies and management of projects. Niger reached an agreement with the Cooperative League of the United States (CLUSA) to execute a project aimed at providing financial assistance to cooperatives associated to CLUSA. Such credit is guaranteed by the fund administered by the Banque Internationale pour l'Afrique Occidentale (BIAO) of Niger. Swaziland has a project which targets financial assistance to rural women. The project trains women, helps with technology transfer and acquisition of raw materials.

29. However "the great bulk of the African population makes little use of formal savings and lending institutions"<sup>5</sup>. Informal savings clubs and societies and credit union are to be found in many African Countries. They may take various forms such as: mutual aid loans, interest bearing loans from local money lenders, loans from credit and savings associations known as "Ikub" (Ethiopia), "Djanggi" (Cameroon), "Tontine" (West Africa), and "Chilemba" (Uganda, Malawi, Zambia and Zimbabwe). The informal sectors mobilize significant savings in West African countries and have become the most popular method by which most urban working people and rural dwellers save towards the acquisition of semi-durable goods. In Zimbabwe, the

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<sup>5</sup> ECA, Agricultural Credit and the Mobilization of Resources in Rural Areas, (Addis Ababa, May 1986), Page 30, cited by ADB/ECA "Economic Report on Africa, 1987. Page 36.

Saving Development Movement has since 1963 brought together over 5,500 savings clubs, and has centralised their needs for agricultural supplies and marketing <sup>6</sup>. Informal financial arrangements are known to exist even in developed countries such as Japan, and are called "Cheetu" in Sri-Lanka. It should not be understood, therefore, that the existence of informal financial markets reflects the underdeveloped nature of the financial structure. It has been observed that informal financial markets respond to the needs of some sections of society more effectively, and rules and regulations in such markets are more flexible. Furthermore, these arrangements are less bureaucratic than formal banking arrangements and borrowing does not require collateral. Such arrangements are more personalized than formal banking arrangements. Facilitating rural trade would need to recognize the existence of the informal financial markets in many African countries and accordingly examine ways and means of energizing this sub-sector of the financial system to promote rural trade.

#### IV. A Framework for Trade Facilitation and Rural Development

30. Policies and measures needed to facilitate trade in rural areas would need to deal with transportation problems inhibiting the development of such trade; improving marketing/distribution arrangements; enhancing financial intermediation in rural areas, including availability of credit; and how to effectively utilize existing informal institutions in Africa as well as traditional forms of organizing rural populations.

31. Policies designed to improve transportation networks in support of rural trade need to address not only the necessity for linking rural with urban areas but also rural areas themselves. Accordingly, policies of African governments need to deal with the issue of improving access roads to rural areas. However, government efforts need to be supplemented by self-help schemes for construction of feeder roads and village roads. In a number of African countries this approach of combining government efforts with community self-help has proved extremely successful in the construction and maintenance of rural and feeder roads. In Malawi, the District Road Improvement and Maintenance Project (DRIMP) has proved extremely successful in opening up rural areas and giving the rural population easy access for their produce to urban centres. Similar efforts have been made in Ghana and Zimbabwe. Poor transportation networks can be a significant obstacle to the development of rural areas and inhibit agricultural production. Incidence have been cited where countries have produced bumper crops but have been unable to move such produce due to poor transportation networks. For example, Zimbabwe in one year called on its military to assist in the harvesting and movement of grain because the private sector marketing arrangements could not handle a bumper crop

32. Lack of adequate marketing/distribution infrastructures have also proved a serious constraint to the development of rural trade. In this respect, to facilitate rural trade, African central governments and local authorities should put in place programmes for phased construction of rural markets as well as provide the enabling environment for the development of wholesale and retail distributional networks. Efficient distributional networks are an essential chain link in the facilitation of rural trade. Under the current market-oriented reforms now underway in many African countries, the private sector is being given pivotal role in marketing and

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<sup>6</sup> Ibid.

distribution of produce in many African countries.

33. Post-harvest wastage is significant in many African countries because of poor handling and storage. Accordingly, African governments should promote adaptation and construction of appropriate storage facilities both in rural and urban areas. Furthermore, the rural population needs to be educated in handling and preservation of produce. Quality control and health standards have become more stringent in many markets of the industrialized countries. Accordingly, unless quality control and health standards are observed at all levels of handling produce, starting with the producer to the exporter, African countries are bound to lose further world market shares of primary products. It is, therefore, imperative that African countries incorporate programmes of quality control and health standards in promoting rural trade. It should also be observed that certain methods of preserving foodstuffs have been declared health hazards in many industrialized countries. Knowledge of these preservatives and its dissemination to the rural population will ensure that African exports will not be rejected on health grounds.

34. Improving the institutional framework within which domestic resource mobilization and credit takes place is also important for facilitation of rural trade. This institutional framework includes, intermediation through the formal banking and non-bank financial system; finance channelled through the informal or unorganized money markets; government bonds and money creation to finance budget deficits; direct capital transfers; and external finance. The process of financial intermediation that takes place in each of these institutional frameworks dictates the extent to which policies and strategies needed to enhance domestic resource mobilization will be successful or not. For example, standard traditional monetary policy tools that may be applicable to the formal banking sector are of no relevancy in determining the behaviour of actors in the informal or unorganized financial sector. Accordingly, these realities of the segmentation of the African financial system will need to be taken into account when devising policies and strategies for improving financial services to the rural population.

35. The financial system in many African countries is dominated by state-owned financial institutions whose large proportion of the portfolio supports government deficits and inefficient public enterprises. Furthermore, in many African countries the banking and non-bank financial institutions are concentrated mainly in urban areas. Accordingly, most rural areas of Africa are poorly serviced by banks and non-banks. Given the shortcomings of the performance of banks in rural areas, the informal or unorganized financial sector has played an important role in providing for the needs of the rural people.

36. To improve the flow of financial resources to the rural population, broad-based measures need to be put in place which take into account the following factors: the characteristics of rural producers, the nature of demand for financial services by rural people, the type of collateral or lack of collateral, and existing institutional arrangements providing financial assistance to such people. Innovative measures are, therefore, needed to address the issue of mobilization of savings in rural areas and financial instruments required to provide credit to such a population. A combination of promoting expansion of the banking and non-bank financial networks into rural areas with enhancing the functioning of existing informal financial arrangements may yield better results than emphasis on formal banking arrangements only. It is essential to observe that a number of specialized financial institutions emerged in the Newly Industrializing Economies of Asia and the Asian-4 during their take-off stages to support various sectors of the economy.

These institutions permitted effective intermediation between savers and investors to take place.

37. Policies will also need to be put in place to improve the process of financial intermediation which takes place in the informal and unorganized financial sectors.<sup>7</sup> The issue that is often raised is whether transforming informal/unorganized financial markets into formal markets would result in improved financial intermediation. Arguments for and against such a process have been raised. Those arguing for the transformation of such markets into formal financial institutions argue that this would improve mobilization of domestic resources and hence financial intermediation. Those against, state that the fact that such markets exist is a clear indication of the weaknesses inherent in formal financial markets in supporting the needs of certain sections of the African population. Accordingly, rather than integrating informal and unorganized financial markets into formal markets efforts should be made to enhance their role in African societies. Pakistan is cited as an example where efforts have been successfully made to utilize such informal financial arrangements to support productive sectors.

38. Promotion of cooperative societies and associations in rural areas is an important way of building on institutional organizational arrangements already existing in many African countries. Unfortunately, cooperative societies and Associations in many African countries have been politicized and therefore become ineffective "economic agents". The effective use that countries like South Korea and Taiwan, and now the Republic of China, have made of cooperatives and associations is evidence that these entities can become effective agents for promoting development. They need, however, to be properly conceptualized as well as managed. They have to be embedded in traditional culture and values prevailing in various African societies and not imposed by central governments. Their management has to be on the basis of consensus as opposed to bureaucratic management. The benefits accruing from membership of such organizations have to be tangible and visible and not merely a perceived concept. Such cooperative efforts have to address the basic needs and problems of the producers, retailers, wholesalers and other groupings in rural areas. African countries can learn from each other, and from other regions, in promoting the creation of such cooperatives.

## V. Conclusion

39. Policies to facilitate rural trade in African countries have to respond to require to deal with a multitude of sectoral issues ranging from improving transportation networks in rural areas to providing financial services to the rural population. They also include the need to enhance marketing and distributional networks in rural areas, creating linkages between agricultural production and processing of produce as well as training rural businessmen and women in managerial techniques.

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<sup>7</sup> For further reading on informal and unorganized financial markets see: Mr. Hyuha, Mr. O. Ndanshau and Mr. J.P. Kipokola: Scope, Structure and Policy Implications of Informal Financial Markets in Tanzania, African Economic Research Consortium (AERC), April 1993; and Dr. C. Chipeta, Mr. M.L.C. Mkandawire: Links Between the Informal and Formal/Semi-Formal Sectors in Malawi, African Economic Research Consortium, November 1982.

40. Many African countries have come to embrace market-oriented reforms which have included opening up of African economies to private sector initiative. Many of these countries have adopted economic liberalization programs whose main elements have been: trade liberalization, privatization of public enterprises, price decontrols and currency devaluations as well as liberalization of marketing and distribution of produce. These measures have been undertaken in the belief that they will provide an enabling environment in which private enterprise can be the engine of development.

41. Providing an enabling environment is an essential element in ensuring that the private sector is able to become the engine of development. Facilitating rural trade is one way of providing this enabling environment. This paper has argued that a comprehensive policy for facilitating rural trade would invariably have to deal with problems of poor transportation networks existing in rural Africa; lack of adequate market structures, storage and distributional networks; inadequate financial services in support of rural trade; and inefficient institutional arrangements. Many African governments have come to recognize the importance of the rural sector in the development process and many have initiated programmes designed to dynamize energies of the rural population. Support programmes aimed at removing obstacles to the development of rural trade have been tried in many. Furthermore, efforts have been made to utilize existing traditional institutional arrangements in African societies for organizing cooperative societies and associative organizations. However, further efforts are needed by both African governments and African rural communities to effectively integrate rural trade into the main stream of African countries domestic and international trade. This will require planning, designing and implementing appropriate strategies to facilitate rural trade. A large proportion of the African population being in rural areas improving economic opportunities in these areas is one effective way of alleviating poverty in Africa, and reducing rural to urban migration.