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ENHANCING DOMESTIC TRADE

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I. INTRODUCTION

1. Domestic trade is a term used in this analysis to describe a general understanding of diverse activities connected with the transaction of goods and services within national boundaries irrespective of whether the items are of domestic or foreign origin. Such transactions embrace a diversity of activities like production, distribution, pricing and financing. Naturally also, it cuts across a wide spectrum of disciplines. Somehow in most African economies, this important sector has tended to be eclipsed by concentration on international trade in terms of policy orientations. Perhaps, because of the foreign exchange generated by the latter, which goes into the development process.

2. For instance Africa's economic strategy for the 1990s and Beyond: the African Alternative Framework to Structural Adjustment Programmes(AAF-SAP) recognises that the heart of successful economic and social self sustainment and transformation has to base itself on endogenisation development¹. Enhancement of domestic trade is a key component of this endogenous strategy. It was with this realization in mind, that domestic trade was accorded equal prominence in the Lagos Plan of Action(LPA) when it was adopted in 1980, by stressing the need, to improve measures intended to enhance domestic trade.

3. Empirical research has established domestic trade as a vital instrument in promoting growth in several ways. It plays a very significant role of linking producers to consumers within the country. It satisfies the basic needs of the people in each country. It is also capable, if properly oriented, to contribute to alleviating poverty. Trading creates incentive for surplus production in farming and manufacturing thereby providing a steady source of income to participants. Expanded markets for locally produced goods would thus spur the development of local entrepreneurial capabilities as well as provide a strong foundation for intra-African trade. Furthermore, it is a major contributor to the process of self-sustaining development. It is these elements that combine in furthering or retarding the process of economic development in any particular country. Other benefits include mitigating the high rate of rural to urban drift particularly among the youth. These positive developments ultimately lead to improving the living standards of the inhabitants.

4. Domestic trade also greatly facilitates transforming production patterns particularly where these patterns concentrate in producing only a few export primary commodities while neglecting the production of food and raw materials for the domestic market.

¹UNECA, African Alternative Framework to Structural Adjustment Programmes.(AAF-SAP) p. 13

5. A number of studies by the ECA secretariat have highlighted several problems connected with nurturing domestic trade. Some emanate from the rigidity of institutional machineries in force in many African countries which have not been dynamic enough to effectively lead the sector to contribute fully to the balanced growth of the countries. Consequently, many countries have been experiencing unduly, extreme scarcities of essential goods and services. There is also a highly skewed distribution structure favouring the relatively well endowed urban centres in contrast to the impoverished rural areas. The need for recasting and focusing problems of the trade sector resulted in the adoption of Strategies for Revitalization, Recovery and Growth of Africa's Trade in the 1990s and Beyond by the African Ministers of Trade in December 1990 ².

6. In the same manner, the Strategies adopted for enhancing domestic trade in the 1990s and Beyond were set out in three categories, namely: improvement of the distribution network; rationalizing the pricing policies and development of infrastructures. It is therefore necessary to point out that implementation of the strategies is envisaged under an entirely different socio-economic and political environment at global, regional and national levels.

7. The study examines the significance of domestic trade. It analyzes the sector within the new environment in the light of the proposed "Strategies for the 1990s and Beyond". It introduces a framework for enhancing its performance and subsequently, the policy measures for enhancing the sector.

II. ANALYSIS AND EVALUATION OF DOMESTIC TRADE

8. Specific aspects of the trade sector are better appreciated when examined in the context of existing socio-economic environment because this is what determines the performance level attained even by the domestic trade sector. To what degree this is done in conformity with the objective and goals set by the region can also be explained on the same basis. Identification of the main problems in the sector makes it easier to establish yardsticks against which appropriate policy framework can be devised. Aspects of the structure of domestic trade will similarly be examined together with the supply and organizational structure of the domestic market, with a view to highlighting the main features of its performance.

²UNECA, Strategies for Revitalization, Recovery and Growth of Africa's Trade in the 1990s and Beyond, E/ECA/TRADE/89/25/Rev. 25.

A. Main Characteristics of the Structure of Domestic Trade

9. In most African countries it is the rural population that is more preponderant. This single fact has had a considerable influence on the structure of the domestic market. The situation is compounded by the poor physical infrastructures including poor roads and transportation systems. Production units in most African countries tend to be small because they cater for relatively immobile population. In other words, internal markets of most of these countries are too small to support expansive trade. Dualism is another major characteristic, particularly in the relatively rich urban community with high demand for high quality modern goods. The impoverished rural community, on the other hand, normally get poor quality goods partly because of their low purchasing power. Within the urban areas exist sophisticated, retail trade operations alongside impoverished communities served mostly by traders in the informal sector. These characteristics are considered in greater detail under the respective subtitles that follow.

10. One other characteristic feature of significance in terms of domestic trade, is that areas located along common borders tend to be isolated from the main stream of commercial activities of the major cities in the respective countries. These borders form, in their own right, centres of unrecorded transborder trade. The issue of border trade has been a major topic of concern in many intergovernmental meetings. The discussions have identified various forms through which it takes place. They include (a) physical smuggling of goods through illegal channels utilizing the parallel or black market exchange rates of the countries involved, (b) providing a conduit for disposing of used or second hand as well as stolen goods from neighbouring countries, (c) evading customs duties through falsification of import or export documentations, (d) using it for transiting exportable goods destined to third party markets beyond the border country. The main objective of this is to unofficially earn foreign exchange.

11. Besides the profit and foreign exchange motivated forms of border trade, is a genuine form of border trade involving neighbouring villages that share ethnic loyalties. For this subsector of African society, traders have traditionally conducted periodic markets among the population resident alongside the common border. The majority are least concerned or aware of the technicalities and demands of formal international trade.

12. Quite a wide range of goods are handled across common borders. They range from food items and live animals, beverages to manufactured goods like electronics, detergents, building materials and an assortment of other consumer goods.

13. Border trade, though basically international trade, has great elements of domestic trade activity. It has flourished in situations of wide discrepancies of the value of local currencies between two neighbouring countries. It is also fuelled by the presence of extreme trade restrictions. In case of the former, weak or over-valued currencies tend to encourage trade operators in weak currency to try and gain stronger currency of a neighbouring country. In the latter case, inflexible strict control of allocations of foreign exchange forces traders to smuggle goods to neighbouring countries to earn hard currencies from un official currency dealers. At times also, import restrictions will create shortages in one country vis-a-vis another and therefore encourage across the border smuggling.

14. The impact of the above activities on domestic trade are documented in a "Report on the Impact of Unrecorded Transborder trade in the Informal Sector 3/". These include loss of revenue to affected countries, creating artificial shortages of goods, foreign exchange leakages and the difficulty of statistical documentation and accounting. Yet to some degree, this trade has proved essential not only in satisfying the needs of the people in the area that would otherwise be uncatered for by the respective formal commercial merchants, but in itself a signal of market forces which have to be addressed.

B. The Supply Structure

15. For most domestic markets, the supply of goods and services embraces a number of variables. Prominent of which are the production functions both of agricultural and industrial products. Production of goods and services in most African countries has been rather inadequate since it fails to meet the continent's fast growing needs. Food items, the most basic component of domestic trade in many countries of the region are often in short supply. Early in 1991 the United Nations Food and Agriculture Organization (FAO), predicted a major severe shortfall of the staple grain crop (maize) in all Southern African countries (Malawi, Zambia, Zimbabwe and Mozambique). Another group of countries forming the Horn of Africa (Ethiopia, Somalia and Sudan) that are chronically dependent on emergency food supplies from donor countries to stave off widespread hunger and starvation have not been able to improve their production either.

16. This negative situation has persisted despite positive production figures for the 1990 and 1991 for the region as a whole. However, the overall regional performance in key food items including cereals, fibres and root crops increased. The production

3/, UNECA, Report on the Impact of Unrecorded Transborder Trade in the Informal Sector, E/ECA/TRADE/90/25.

of cereal rose by 13.2 percent in 1991 compared to 1990, while roots and tuber increased by 2 percent in 1991⁴. These increases were not sufficient to stop further imports of cereals which the preliminary regional estimated requirements were put at 10.5 million tons for 1991.

17. Factors contributing to the continuous food deficit include the unpredictability of weather conditions, poor logistics, inadequate infrastructures and poorly developed marketing systems, compounded by continued civil strife in a number of countries in the region⁵. Added to the above has been the overall decline in agricultural productivity caused by wrong micro-economic policies pursued by certain African governments. Persistent food deficit has led to increased prices of basic food items much to the misery of the poor. The overall impact on domestic trade sector is reduced dynamism in internal exchanges.

18. The bulk of manufactured goods in the domestic markets consists of mass consumer goods including basic food items (sugar, salt, oil, soap and cereals) together with other import substitutes like clothing and metal works. Production of the manufacturing goods for domestic sector has generally been poor. The regional Manufacturing Value Added (MVA) continued its downward slide from 2.1 percent in 1990 to 1.3 percent in 1991. The poor performance in this sector has been attributed to the continuing bottleneck of poor management, non-availability and high cost of imported inputs as well as the low level of new investments. Some local products are less competitive with imported counterparts in terms of quality. It is partly these trends coupled with poor performance in both agricultural and manufacturing production that prevents the development of domestic trade to contribute to the economic growth of each respective country.

19. Furthermore, the supply base for domestic trade has been adversely affected by the poor performance of the Africa's exports because it has reduced the countries' purchasing power. Africa's exports shrunk in value terms by 5.6 percent in 1991 inspite of increased volumes by 2.4 percent. The fall in oil prices, even for the oil exporting countries resulted in severe revenue losses.

C. The Organizational Structure

20. The organizational structure of domestic trade in the region is as diverse as the nature of markets encountered in each country.

⁴ UNECA, Economic Report on Africa 1992, E/ECA/CM.18/2. p.2

⁵ UNECA, op. cit., E/ECA/CM 18/2 p. 2

However, commercial operators fall under the following broad categories: a) modern private sector, (b) informal sector, (c) rural sector, (d) state agencies or parastatals and (e) marketing cooperatives.

(a) The modern private sector

21. The modern private sector in most African countries is a collection of a diversity of both national and foreigner operators mainly in the urban areas. The establishments themselves range from numerous small retailers to large supermarkets and department stores. It is well serviced by the few available support services including communication, banking and coordinated distribution channels that cater mainly for affluent minority.

(b) The Informal Sector

22. The informal sector according to one ECA study has definitional problems in literature. However, there is a consensus as to what ought to constitute the sector itself. Thus, a catalogue of criteria is provided in one of ECA document⁶ based on the level of capitalization, the size and type of employment.

23. In another survey by Jobs and Skills Programme for Africa (JASPA) of the International Labour Organisation, it was found that trading activities represented on the average 50 percent of all enterprises in the informal sector in four West African countries of Benin, Burkina Faso, Guinea and Nigeria. Furthermore 37 percent of employment was in this sector. This survey provided additional evidence to support the view that trading activities of the informal sector surpass all other sector activities. It is a major employer for unskilled and semi-skilled people, school drop-outs, migrants from rural areas and generally a nook for the unemployable. Entry into trade is also relatively easy with the result that informal trading sprawls in every street corner in the major urban centres, handling all sorts of goods and services.

24. Besides the dominance of informal activities in trade, other informal activities are carried out in sectors which are key and supportive to trade activities. Trade in the informal sector is usually associated with petty trade conducted by vendors, hawkers, peddlers and numerous other micro-activities.

25. Almost every individual has interacted with informal activities in one way or another. There is also the aspect of its linkages with the formal sector estimated to account for about 80

⁶UNECA, The Study on Role of The Informal Sector in African Economies, E/ECA/PSD.7/13 3 Dec. 1991 p.4

percent of the materials purchased from the modern sector. The other significant role of the informal sector in domestic trade is the creation of employment, apprenticeship training and the capacity to mobilize savings and credits for enterprises that indirectly boost as well as sustain the development of internal trade.

(c) Domestic trade in the rural sector

26. In the rural areas where labour is not often specialized, producers participate directly in trade as vendors at periodic markets or as wholesalers to itinerant traders operating in the area. The proportion of licensed shops is generally low and the few that exist tend to be rather scattered, a situation that exposes the rural buyer to the mercies of middlemen. Wholesaling in rural areas tends to be negligible as the market capacities and capabilities are generally small and local purchasing power is inadequate to sustain such activities⁷.

(d) The State Agencies

27. With the advent of independence, most African governments started to intervene through State Trading Organizations (STOs) in the distribution and pricing of goods and services destined both for external and internal markets. Among some of the reasons for such intervention included the need to: (a) provide continuity of commercial activities following a vacuum created in some countries by the premature removal of foreign economic enclaves following the attainment of independence; (b) creating an enabling environment to the indigenous business allowing the people to acquire entrepreneurial skills and financial viability required to run such enterprises; (c) control of strategic commercial activities of agriculture and mining and the distribution of essential goods; (d) enhancing diversification of export channels and import sources which could only be possible through state action⁸. The other aspect why governments wished central control of all marketing channels emanated from deliberate policies pursued by those that then embraced a socialist ideology.

28. Activities of STOs and given the wide areas over which they operate, especially with regard to agricultural produce makes them to be very significant determinants of domestic trade. Their role in mitigating market failures by creating a nuclei of enterprises and distribution channels have been crucial. However, the act of

⁷ UNECA, General Domestic Trade Structures and Institutions in African Countries, E/ECA/TRADE/90/4

⁸ UNECA, Structures and Management of State Trading Organizations in African Countries, E/ECA/TRADE/89/18

facilitating the diversification of economies through engaging in manufacturing of import substitutes has not been very successful for many of them. Thus the later part of 1970s brought a wave of disillusionment with the management of most STOs in the region. In point of fact, most of them were associated with gross malpractice and perpetual drainage of governments' finances not to good purpose^{2/}. One of the main causes was excessive political interference in their management as well as pursuing warped commercial objectives.

29. The future role of many public enterprises in the domestic market is in the balance as the wave of privatization policy demanded by the donor agencies sweeps the continent. Given the continuous structural weakness of African markets, some STOs will continue to have a useful role. Therefore in an attempt to streamline some of them, everything should be done to discard those that retard entrepreneurial development while ensuring that commercial competitiveness and accountability remain the hallmarks of the ones that are retained in order that positive contribution to the domestic trade sector is achieved.

(e) Cooperatives

30. Cooperative societies have been another important contributor to the organizational structure of domestic trade. Marketing and consumer cooperatives are two types commonly prevalent in domestic trade. The former have been historically associated with the marketing and primary processing of small holder produce particularly agricultural raw materials like coffee, cotton, tobacco, tea and cocoa. The later part of the 1960s and early 1970s, saw governments increase their use, as channels for implementing certain agricultural policies in the same way STOs had been used to achieve import substitution and distribution of trade goods and services. In this particular case, cooperatives were used in the promotion of certain crops, particularly, some export crops like coffee, cotton and pyrethrum as in case of most East African countries and cocoa in some West African countries. Similarly, there was a deliberate effort to transfer the responsibilities of produce marketing from the stranglehold of some alien groups to indigenous farmers with the objective of increasing the farmers' bargaining power and ultimately their remunerations from the sales. This latter motive was true, for instance in the case of the Indian merchants in the East African countries.

31. With increased government involvement in the affairs of the cooperative societies, their activities expanded to embrace

^{2/}E/ECA/TRADE/89/18, op. cit.

See also Jonathan Chileshe, Nothing Wrong with AFRICA except...., Vikas Publishing House (1988) p.98

controlling the marketing of staple food items like grains and other cereals, as well as distributing agricultural inputs and channelling credit and extension services.

32. The African experience with agricultural marketing cooperatives has not been a very happy one, though the principles behind establishing cooperatives arrangements are still valid, particularly in Africa's rural areas where the smallholder is isolated by poorly developed infrastructures. However, cooperatives have been beset by numerous problems some of which are a direct consequence of excessive government control and patronizing attitude. Many cooperatives have come to rely on government subsidies and thus have not bothered to be financially viable. The effects of agricultural pricing policies have on various occasions reduced their usefulness to farmers. In many countries, cooperatives have been riddled with inefficiency, corruption, mismanagement of funds and members' property¹⁰.

33. The future role of cooperatives in Africa in an era of privatization and market oriented competitiveness need to be seriously analyzed to ensure their full contribution in channelling resources of small scale farmers' produce.

34. Consumer cooperatives in urban and rural areas distributing essential consumer goods are found in very few countries. Their overall impact on domestic trade is consequently rather minimal. Yet if properly organized they could be useful catalysts in promoting and developing domestic trade of most African countries.

D. Features in the Performance of Domestic Trade

(a) Physical Infrastructures

35. Devising efficient distribution systems remains a major challenge faced by many African countries as was reiterated during the Workshop on Domestic Trade Promotion¹¹. Empirical evidence indicates that channels through which it takes place tend to be long and fragmented. In this case, proliferation of intermediaries accounts in part for increased distribution costs. Additionally, the existence of wide discrepancies between rural and urban areas in the distribution network hampers progress of domestic trade. Lack of adequate or modern infrastructural facilities, particularly

¹⁰Joanna Kinsey, Marketing in Developing Countries, London: Macmillan (1988), p. 166;
see also, Hans Hedlund, Cooperatives Revisited, Scandinavian Institute of African Studies, Uppsala, 1988, p. 98

¹¹ UNECA, Report of the Workshop on Promotion of Domestic Trade, E/ECA/TRADE/90/10

efficient road network, modern telecommunications and financial facilities has contributed to entrenching this rural -urban discrepancy. These obstacles have to be tackled in order that domestic trade can contribute to development both in the urban and rural sectors of the economy.

36. One of the reasons why the transport network in many countries is not helpful to developing domestic trade in the rural areas is that it had traditionally been developed to facilitate external trade essentially of agricultural raw materials and minerals and importation of manufactures. It is therefore not a mere coincidence that the main highways generally link principal cities to ports with the consequences that the infrastructure is unfavourable to developing domestic trade. The same infrastructure is also incapable of bridging the imbalances in the distribution of essential consumer items, as well as needed production inputs. A factor that greatly contributes to limiting the competitiveness of the local production. Supplies from the rural to urban centres to this day and age, in many African countries, continue to be transported by rudimentary modes. For instance using pack animals, human portage or on bicycles. Other modes of transport such as waterways, trains or air have very limited capacities, apart from being rather expensive and therefore minimally used in exploiting the potential of domestic trade.

37. Problems related to lack of physical infrastructures extend to lack of warehouses and storage facilities which are few and almost wholly concentrated in urban areas. This has been a major source of post harvest losses in the rural areas for many crops which are relatively easier to store and the mainstay of domestic trade exchanges like, cereals and pulses.

(b) Pricing Policies

38. Pricing policies can be quite central in influencing the performance of domestic trade in almost all African countries. Unfortunately, the pricing mechanisms adopted by many of them have gone beyond the role of rationalizing the allocation of goods and services. Governments have on various occasions intervened excessively in the price setting process for social and political reasons. Some of the reasons advanced in support of the later have included the need for redistribution of incomes and making certain goods more affordable to the poor. More often than not however, the underlying reasons were to use the pricing policies to achieve political objectives.

39. Outside government control, have been incidence of operators in the distribution channel manipulating prices to their personal advantages. Similarly those in oligopolistic positions including transnational corporations have had a freer hand in setting price

levels at will. Price manipulation in the domestic markets by African countries is largely due to imperfections in the market and the rigidity of supply and demand.

40. The effect of price controls and interventions have been devastating on the smooth distribution of goods in countries experiencing chronic scarcities of the essential consumer items like staple cereals, sugar, soap and oil. Governments' resort to fixing prices to ensure that these goods are affordable by most people has not always been successful. The consequence, however, has been to encourage the emergence of parallel markets and speculative hoarding. In the end, goods have ended up being sold at prices higher than decreed by governments. The setting up of government distribution channels and barring private operators from handling certain 'essential' items by a government has also often resulted in similar abuse, rather than benefiting the intended consumers.

41. STOs as government arms, have been very instrumental in setting prices to be paid to producers of controlled agricultural commodities, especially food staples and certain export crops. However some of the prices have often been set in total disregard of economic considerations, including the cost incurred for inputs by the farmer. Naturally, this has sapped the incentive of farmers. Many are discouraged from producing controlled commodities in sufficient quantities which would have satisfied domestic and export demand. Where production of staple cereals are by law, channelled through STOs to millers and distributors, farmers have been forced to repurchase the commercially milled grains at costs between 10 to 80 percent higher than if they were locally milled¹².

42. The pricing mechanism has been further influenced by a situation of rampant inflation and trading in overvalued currencies. This has particularly affected the terms of trade between locally produced food items vis-à-vis imported food cereals, particularly wheat and rice. The use of substantial price subsidy due to local currency overvaluation has tended to encourage imports at the expense of trade in and consumption of the indigenous food crops such as roots, tubers and certain cereals (sorghum, millet and locally grown maize).

43. While consumers need to be protected from unscrupulous middlemen in the face of market imperfections that cause production and distribution shortfalls, measures taken should not be allowed to hurt the very people that they are meant to protect. Market mechanisms should give priority to national,

¹² IMF, "Searching for Household Food Security in Africa", Finance and Development, December, 1991 p.4

subregional and regional food self-sufficiency as well as to manufactured goods produced in the region. Such measures should also ensure that domestic trade is a beneficiary.

c. Financing Domestic Trade

44. Trade finance plays a significant role in determining the rate and extent of expansion of the domestic trade sector. Commercially viable enterprises require adequate funds and their access to domestic financial institutions must not be impeded. The various operations of production, distribution and the exchange of goods involving producers, distributors, retailers and wholesalers must have access to fixed and working capital to ensure the smooth flow at all stages of the process and in order to sustain domestic trade. Financial needs vary with different enterprises and stages of the marketing process. Some depend on a number or a combination of factors. For instance, the duration before the final transactions are concluded, the nature of commodity or whether the goods are to be imported or locally produced and the size of the commercial operation itself. Nevertheless, if markets are to expand and benefit from the economies of scale derived there from, timely commercial credits are indispensable.

45. Modern financial institutions such as banks, credit and loans agencies are well established and have been in operation for many years in all countries of the region. However, their role in financing domestic trade, especially in the informal sector has not been as dynamic as would justify their existence. Banks are mainly concentrated in the principal towns and therefore remain inaccessible to small-scale traders and consumers in the rural areas.

46. Commercial banks that are branches of transnational banking corporations are more preoccupied with financing export trade and less with promoting domestic trade and supporting local manufacturing companies for the latter. Small scale businesses that are usually the main backbone of domestic trade face considerable difficulties in qualifying for loans. The grace period is also not often consistent with the seasonality of the business. Their problems are further compounded by the dire shortage of capital in some of the financial institutions themselves due to low levels of internal savings in most African countries.

47. The growing demand for financing small enterprises, has spurred a growing significance of informal sector financial mechanisms. Informal financial mechanisms are popular in many countries under various local names even though they basically serve the same purpose. These are de facto savings and credit or loans funds organized among groups of friends, relatives,

residential neighbourhoods. Some operate as fixed funds associations while others are rotating loans ¹³. There are ample evidence of various successful operations in countries as wide apart as Cameroon, Zimbabwe, Malawi, Ghana and Nigeria.

48. The importance of these informal arrangements is not only in their ability to offer alternative sources of finance in remote areas not served by the modern banking sector, but also their flexibility in adapting to a vast social and cultural environment. Furthermore, their capacity to instill saving habits among the poor is an additional positive contribution that benefit sustaining domestic trade activities. Despite their versatility and usefulness, particularly to the most neglected sector of the population, the extent to which they can support a truly growing and dynamic domestic trade sector is severely limited.

49. It is necessary in the light of the growing awareness of the potential of these informal financing mechanisms in mobilizing domestic funds and providing limited credit facilities, that existing formal sector financial institutions find effective ways of assisting these informal mechanisms and enable them increase their capacity in mobilization and channelling domestic savings with a view to enhancing domestic trade. Rwanda for instance, is experimenting with this mechanism through Banques Populaires in mobilizing savings and extending loans to micro-businesses in rural areas ¹⁴. African countries should offer incentives to encourage and popularize these informal societies as a recognition that they certainly have a potential to fill the financing gap of small-scale domestic enterprises.

III. THE MAIN COMPONENT OF THE FRAMEWORK FOR ENHANCING DOMESTIC TRADE

50. The low performance of domestic trade in African countries is a reflection of the over all structural weakness of the respective national economies and the socio-economic crisis that these economies have undergone during the last decade:

- Predominance of the subsistence sector;
- A narrow and disarticulated productive base;
- A neglected rural sector;
- Lopsided development strategy biased towards the urban areas in terms of policies and amenities;
- Excessive dependency on the outside world;

¹³ World Bank, Sub-Saharan Africa From Crisis to Sustainable Growth, Washington: D.C (1989), p. 171

¹⁴ World Bank, op.cit, p.172

- Vulnerability to external developments;
- A socio-economic situation that produces what countries do not consume and promotes consumption of commodities that countries do not produce.

51. Tackling these structural weaknesses is a sine qua non in enhancing domestic trade. In other words, to enhance domestic trade requires promoting production for domestic market, rationalisation of domestic distribution channels, improvement of physical infrastructures; strengthening of the financial sector that has a new orientation in favour of domestic trade, establishment of effective institutional framework to promote social and economic activities supportive of domestic trade.

A. Promoting Production for Domestic Markets

52. Given that the major hindrances to the growth of domestic trade in many African countries has been the limited supply base of many consumer goods, due to rigid structure of domestic production, promoting production for domestic market entails diversifying away from the essentially monocultural production system based on a few commodities for export. Industrial production that has hitherto focused on producing a narrow range of import substitutes mainly for the urban consumers should be re-examined and made to take into account domestic trade. Import substitution industries should no longer be heavily dependent on imported inputs which have proved unsustainable but should be encouraged to utilize domestic raw materials as a way of encouraging domestic trade exchanges. In other words, industrial production must be more integrated into the internal resource base. This dimension can be extended by promoting small scale industries in rural areas to increase rural incomes and discourage rural to urban drift.

53. Diversifying production patterns and focusing on production for internal and regional markets, as advocated under the Lagos Plan of Action (LPA), is essential in bringing about the realization of self-sustaining development. Production for internal markets has additional desirable attributes:

- (a) it serves as an engine of growth and lessens heavy reliance on mainly export commodities that make an economy vulnerable to external shocks. It therefore insulates national economies from external vicissitudes;
- (b) it exploits fully the potential of the rural market that has been marginalized far too long. This will be possible, only to the extent that government policies are directed towards increasing agricultural

productivity by providing essential inputs, field extension services and instituting other incentives including enlightened pricing policies;

- (c) by expanding domestic market activities it creates employment opportunities.

B. Rationalizing the Distribution Channels

54. Distribution channels that enable the flow of goods and services have to be effective and efficient to be capable of stimulating development in the production sectors of the economy. Admittedly, the nature and structure of these channels is highly influenced by several other factors other than economic considerations. They include cultural traditions and the country's economic and social environment. The long history of West African "Mummy" traders dominating the markets while there are hardly any counterparts in Eastern and Southern African markets is a reflection of divergent cultural influences. Nevertheless, the evolving distribution pattern in most urban areas suggests that cultural convergence may be taking place across Africa. The emerging pattern found in urban areas is evolving closer and closer to the pattern of developed market economies. There, is thus, scope to improve the distribution channels in African countries and to increase their capacity to cater for their growing populations.

55. Many countries in the region still lack efficient distribution channels as demonstrated by recurrent and mounting shortages of essential goods and services, geographical imbalances, hoarding and the imperfect pricing mechanisms. The gravity of these trends could be alleviated through transparent distribution channels where the roles and responsibilities of key operators are clearly designated. Similarly, reinforcing coordination among the specialized marketing activities in the distribution channels could not only reduce overall costs but release excess labour into other productive activities.

C. Improving the Physical Infrastructures

56. Physical infrastructures of roads, railways, storage and warehousing facilities that constrain the capacity of the market need priority attention. If these could be improved, previously isolated areas particularly, rural and border areas could be opened up to the mainstream of the modern sector. Apart from extending infrastructural facilities, it will also be necessary to rehabilitate and maintain existing systems. This has been one criticism of orthodox structural adjustment programmes whose conditionalities include reducing government spending and ultimately undermines the provision of basic and physical

infrastructures as well as rehabilitation and maintenance of existing ones.

D. Policy Framework

57. In a successful policy framework, all components must be closely coordinated by an effective institutional structure. The framework itself would need to be backed by strong political commitment and follow-up mechanisms. Responsibilities should be appropriately assigned to institutions which would facilitate the expeditious implementation of the necessary measures. The mechanisms for monitoring and regular appraisal of progress of the programme should also be instituted. The policy framework therefore entails ensuring that domestic trade is clearly addressed within the development plans of the respective countries.

IV. MEASURES FOR ENHANCING DOMESTIC TRADE

58. Measures designed to enhance domestic trade are based on elements identified under the framework for tackling structural weaknesses in the sector. Each one of them has certain policy implications as elaborated below:

(a) Promoting Production for Domestic Market calls for:

(i) Incentives that promise remunerative prices for producers but also provide fair prices for consumers without necessarily overburdening the Exchequer through uneconomic subsidies. The same is true for those that produce and consume industrial raw materials;

(ii) Increasing the share of foreign exchange allocations for imports of essential inputs that are used for production intended to support domestic trade;

(iii) Encouraging the consumption of domestically produced goods particularly through improving the quality and lowering the cost of both production and processing of local produce, followed by intensive promotional campaigns;

(iv) Liberalizing domestic trade channels of key produce;

(v) Governments creating an enabling economic climate and encouraging the development of small scale local producers;

(vi) Encouraging the formation of associations for the purpose of bulk purchasing of inputs to reduce unit costs, especially for goods and services that are part of domestic trade;

(b) Complementary infrastructural support to make the above measures effective include:

(i) Land reforms designed to allow easy access to land particularly for those previously deprived groups like women. This will ensure increase in surplus production;

(ii) Initiating programmes designed to access credit by the small scale business operators by introducing less stringent borrowing terms and low interest rates;

(c) Measures for improving distribution channels:

(i) There is a need to conduct surveys at the national level in order to establish the type of most suitable channels for the various product groups. The results thereof could form the basis for formulating regulatory measures;

(ii) Promote business associations to facilitate the exchange of ideas as well as fostering coordination; relevant Ministries need to create information systems linked to the national information network to make distribution channels more transparent.

(iii) Provide extension training of enhancing domestic trade for operators involved in the channels in order to increase their efficiency.

(d) Measures to improve the domestic trade infrastructures:

(i) Increasing the network of feeder roads in rural areas particularly in those areas having potential to produce food items and industrial raw materials. Local labour could be utilized with preferential use of labour intensive mechanisms. This will not only generate incomes in the rural areas but improve the flow of goods.

(ii) Rehabilitate the transportation system;

(iii) Ensure installation of warehouses and storage facilities strategically, in both rural and urban areas. Traditional storage facilities in rural areas could be improved through research in order to reduce the magnitude of loss due to poor storage.