

Title Transaction costs and small-holder farmers' participation in banana markets in Burundi

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Abstract

Markets and improved market access are of critical and immediate importance to rural poor households as a prerequisite for enhancing agriculture-based economic growth by improving the competitiveness of the farming enterprises and improving rural incomes. Despite this, participation of small-holder rural-based farmers in domestic markets in most developing countries is still low due to a range of constraints. One of the important constraints faced by small-holder farmers is linked to poor market access resulting from high transactions cost and market risks. This study assesses the role of transaction costs in participation of small-holder farmers in banana markets in Burundi. The small-holder farmers' discrete decision of whether to participate in banana markets is separated from the continuous decision of how much to sell or buy conditional on participation. An endogenous switching regression model that corrects for selectivity bias caused by the exclusion of unobservable factors affecting both discrete and continuous decisions has been applied. Results indicate that access to market information, household size and time taken to reach the market (which proxies market access in terms of proximity and quality of road infrastructure) increases the probability of participation by sellers, while land holding size, possession of some means of transport such as a bicycle increases banana quantities transacted, conditional on participation. Access to information is crucial in reducing fixed transaction costs which influence market entry while household characteristics such as size of the household and land holding size are crucial as they comprise productive assets that enable a household to produce marketable surplus large enough to offset transaction costs of trading. In the continued absence of public investments to improve market access in most developing countries, the policy challenge is to identify institutional innovations that reduce a range of transaction costs and increase small-holder farmers' competitiveness in domestic markets.