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Market Orientation, Diversification and Market Participation of Smallholders: Evidence from Ethiopia

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Abstract

Commercial transformation of subsistence agriculture is an indispensable pathway towards economic growth and development for many agriculture dependent developing countries. Commercialisation entails market orientation (agricultural production destined for market based on market signals) and market participation (amount or proportion of agricultural surplus offered for sale). However, the literature on commercialisation of smallholders makes little differentiation between market orientation and market participation of smallholders. Moreover, the literature on commercialisation of smallholders focuses on the output side of commercialisation, giving little attention to the input side. This paper is aimed at empirically testing (1) whether the determinants of market orientation and market participation are consistent, and (2) whether higher market orientation is translated into higher market participation. The paper is also aimed at analysing the determinants of the intensity of use of purchased inputs for annual crop production, as a measure of household commercialisation from the input side; analysing the effect of land fragmentation on crop diversification and market orientation, and analysing the effect of crop diversification on household participation in crop output and input markets as seller. Results show that the determinants of market orientation and market participation are not necessarily the same, although they are not inconsistent. Market orientation strongly translates into market participation. Land fragmentation is the most important determinant of crop diversification. There appears to be a U-shaped relationship between crop diversification and crop input market participation of household as buyer. Results imply that policy and institutional strategies to enhance smallholder commercialisation need to target enhancing market orientation at the production planning level, and market participation at the post-harvest level, and these strategies may be different. Reducing land fragmentation has potential to enhance smallholder commercialisation in Ethiopia. Improving productivity and production is an important determinant of market participation of households. The extension service, although effective in enhancing market orientation, failed to have significant effect on market participation, suggesting that the marketing extension component of the extension service needs to be strengthened.

Keywords: Commercialisation, diversification, market orientation, market participation