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## Market Participation of Small Scale Crop Farmers under Transaction Cost: Evidence from the Free State Province of South Africa

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### Abstract

The paper analyses the factors determining the decision to participate in crop market and level of commercialisation of South African small scale farmers with a particular emphasis on transaction costs. Transaction cost differs among households due to asymmetries in access to assets, market information, extension services and remunerative markets. To achieve this objective an Agricultural Household Model incorporating transaction costs is designed and based on an Agricultural Household Survey that was collected from 200 households in all five districts of Free State province, namely Motheo, Lejweleputswa, Thabo mofutsanyana, Xhariep and Northern Free State, a Heckman selectivity procedure is employed. The results support previous studies that existence of transaction costs constrains households from selling. The result suggests that having a good road condition (access) and an increase in the arable land by a hectare will lead to an increase in crop sells by R<sup>3</sup>861 and R55 respectively. However, sells would decrease by about R997 for every additional household member in the household. The result also suggests an increase in off farm income by R1 and extension visits by 1 day lead to increase sales by R6 and R<sup>2</sup>3 respectively. The other positive factors include household education, ownership of vehicle or tractor and being a female farmer. The ownership of livestock, distance to nearest town and age were negative but only ownership of livestock was found to be significant in terms of influencing participation in crop markets. The study recommends the need for policy and institutions to support access to productive assets (such as land), markets and better infrastructure.

**Keywords:** South Africa, small scale crop farming, transaction costs