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## Transaction Costs and Banana Marketing in Southern Ethiopia: Implication for Enhancing Farm Income

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### Abstract

A shift from traditional crop production to high value crops is considered as an important and alternative option in increasing smallholders' income and boosting rural development. Since high value agricultural products have higher market values than traditional ones such a shift is a recommended strategy in achieving development objectives. Smallholders in the southern Ethiopia region produce about half of the national fruit production. The production of fruits by small holders in the major producing areas is predominantly traditional. Market and institutional problems like high transaction costs, poor roads, and information asymmetry and market imperfections are detrimental for smallholders' market integration. High transaction costs, particularly, are major obstacles for smallholder market integration. Transaction costs in the form of information and search, bargaining and negotiation, as well as monitoring and enforcement costs are likely to influence smallholders' marketing behaviour. This study hypothesises that the level of income generated from banana sales in the Chamo-Abaya irrigated banana livelihood zone in southern Ethiopia is influenced by transaction costs. Regression analysis shows that the depth of marketing is significantly influenced by transaction costs. Transaction costs are mainly related to ownership of means of transport, access to communication, and access to main road. Membership in a cooperative, as a major institutional factor, also influences the depth of marketing. Results from a block-recursive regression analysis show that the level of income generated from selling banana is determined by the depth of marketing, the size of allocated land for banana and investment on farm inputs. The implication of the finding is that households with lower transaction costs, sizeable allocated land and adequate investment on farm inputs are expected to generate higher income from banana. Hence, investment in public goods such as roads, telecommunications and appropriate institutions, as well as farmer support services in terms of input supply and marketing information, may enhance farm income by and in turn improve the livelihood of the rural poor.

**Keywords:** Market integration, banana, Ethiopia, farm income, marketing, transaction costs