Market Participation by Rural Households in a Low-Income Country: An Asset-Based Approach Applied to Mozambique

Duncan Boughton, David Mather, Christopher B. Barrett, Rui Benfica, Danilo Abdula, David Tschirley and Benedito Cunguara

published in *Faith and Economics* Vol 50, Fall 2007: 64-101

Author Affiliations: Duncan Boughton is Associate Professor of International Development, Department of Agricultural Economics, Michigan State University; David Mather is an Agricultural Economist and private consultant; Christopher B. Barrett is International Professor, Department of Applied Economics and Management, Cornell University; David Tschirley is Professor of International Development, Department of Agricultural Economics, Michigan State University; Rui Benfica is Poverty Economist, World Bank Country Mission in Mozambique; Danilo Abdula is a Policy Advisor with the Ministry of Agriculture, Mozambique; Benedito Cunguara is a Graduate Research Assistant, Department of Agricultural Economics, Michigan State University.

Acknowledgments: The authors gratefully acknowledge the financial support of the United States Agency for International Development through the Food Security III Cooperative Agreement, the Calvin College Seminars in Christian Scholarship Program, and the valuable comments of two anonymous referees.
Market Participation by Rural Households in a Low-Income Country: An Asset-Based Approach Applied to Mozambique

1. Introduction

Market participation is both a cause and a consequence of economic development. Markets offer households the opportunity to specialize according to comparative advantage and thereby enjoy welfare gains from trade. Recognition of the potential of markets as engines of economic development and structural transformation gave rise to a market-led paradigm of agricultural development during the 1980s (Reardon and Timmer, 2006) that was accompanied by widespread promotion of market liberalization policy agendas in Sub-Saharan Africa (SSA) and other low-income regions. Furthermore, as households’ disposable income increases, so does demand for variety in goods and services, thereby inducing increased demand-side market participation, which further increases the demand for cash and thus supply-side market participation. The standard process of agrarian and rural transformation thus involves households’ transition from a subsistence mode, where most inputs are provided and most outputs consumed internally, to a market engagement mode, with inputs and products increasingly purchased and sold off the farm (Timmer, 1988; Staatz, 1994).

Despite two decades of experience with market liberalization in SSA, structural transformation is progressing agonizingly slowly and with very unequal distribution of the limited welfare gains (Barrett et al. 2007). Part of this appears due to sharp differences in the apparent returns to participation in different markets, differentiated by commodity, function (e.g., storage, transport, retailing), and barriers to entry (Barrett