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Economic Activity Diversification and Livelihood Outcomes in Smallholder Agriculture in Thika, Kenya

By Joseph Franklin Ntale

This study investigates the determinants of entrepreneurship and its effects on livelihood outcomes. Economic activity diversification, resulting from risk-taking, alertness to profit opportunities, innovation and creativity, are viewed as entrepreneurial behaviours, with potential to improve livelihoods. In this study activity diversification encompasses vertical, portfolio and structural aspects of a livelihood, while the associated livelihood outcomes consist of physical assets, social capital, human capital and labour market achievements. There is an apparent lack of consensus among researchers on the determinants and the contribution of economic activity diversification on livelihood outcomes among farmers. The aim of the study is to analyze entrepreneurship and how it affects livelihood outcomes among small-scale farmers.

A cross-sectional survey research design was employed and a multistage sampling technique was used to identify 15 locations of Thika area from which 388 homesteads were picked using line transect sampling technique. Descriptive statistics were used to measure the extent of entrepreneurship among farmers. Linear Probability Model (LPM), Probit and Logit models were used to estimate the results of the study. The results show that only 6% of the small-scale farmers add value to their agricultural produce; 38% participate in non-agricultural businesses, and 88% practiced mixed farming. The determinants of vertical diversification are distance to the market and access to loan facilities. The determinants of structural diversification include farm size, electricity, running water and gender. The factors influencing portfolio diversification are running water, the size of the farm, distance to the market, gender, education level, cost of farming, existence of business opportunities and desire for social status.

The study shows that portfolio diversification has a strong positive effect on labour income, and vertical diversification is associated with significant employment creation. Further, structural diversification is shown to enhance survival chances through human capital formation. The study recommends that a policy be put in place to encourage financial institutions to advance credit to farmers in order to facilitate value addition to farm produce; partitioning of farm land should be discouraged to enable farmers act commercially and entrepreneurship training should be intensified in order to sharpen the ability of farmers in identifying business opportunities in the environment. Further investigation is needed to establish the effect of livelihood outcomes on economic activity diversification and the extent of risk averse among the small-scale farmers.

Key words: *Economic Activity Diversification, Livelihood Outcomes, Small-scale Farmers, Entrepreneurship*