

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

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DECLARATION

This thesis is my original work and has not been submitted for the award of a degree in any other university

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DEDICATION

This thesis is dedicated to Tebyasa family of The Lion clan of the Buganda Kingdom.

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ACRONYMS

| | |
|-----------------|---|
| 2SLS | - Two Stage Least Squares |
| ALRMP | - Arid Lands Resource Management Project |
| ASALs | - Arid and Semi-Arid Lands |
| CDF | - Constituency Development Fund |
| CEC | - Commission of the European Communities |
| DFID | - Department for International Development |
| DIDC | - District Information and Documentation Centre |
| EPHTFCP | - Eastern Province Horticulture and Traditional Food Crops Project |
| EPZ | - Export Processing Zone |
| FAO | - Food and Agriculture Organization |
| GDP | - Gross Domestic Product |
| GEM | - Global Entrepreneurship Monitor |
| GoK | - Government of Kenya |
| HIV/AIDs | - Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome |
| ICT | - Information and Communication Technologies |
| KAPP | - Kenya Agricultural Productivity Programme |
| KENFAP | - Kenya National Federation of agricultural Producers |
| KEPOFA | - Kenya Poultry Farmers Association |
| KFSSG | - The Kenya food security steering group |
| KPCU | - Kenya Plantations and Planters Co-operative Union |
| KTDA | - Kenya Tea Development Authority |
| LPM | - Linear Probability Model |
| MDGs | - Millennium Development Goals |
| MLE | - Maximum Likelihood Estimate |
| MMS | - McGrath, McMillan and Scheinberg |
| MSME | - Micro, Small and Medium Enterprises Competitiveness |
| OECD | - Organization for Economic Corporation and Development |
| OLS | - Ordinary Least Squares |
| SACCOs | - Savings and Credit Cooperatives |
| SLA | - Sustainable Livelihood Approach |
| SMEs | - Small and Medium Enterprises |
| USAID | - United States Agency for International Development |
| VCT | - Voluntary Counseling and Testing |
| WDF | - Women Development Fund |
| YEF | - Youth Enterprise Fund |

DEFINITIONS OF KEY TERMS

| | |
|-----------------------------------|---|
| Agro-entrepreneurship | - The process of an economic undertaking to improve the quantity and/or quality of agricultural produce through creativity and innovation. |
| Economic Activity Diversification | – The entrepreneurial activity of farmers participating in a variety of commercial and non-commercial activities over and above their core business of agricultural primary production. |
| Entrepreneurial Behaviour | – Undertaking of a novel economic activity that leads to better livelihoods. |
| Entrepreneurship | – The creative and innovative process of coming up with new products, new modes of doing business and new technology to displace the old ways of doing things for better livelihoods. |
| Livelihood | - A means of earning a living through capabilities, activities and social and material resources. |
| Livelihood Outcome | - A life improving item or a condition of life resulting from a certain economic activity. An achievement of livelihood strategies of farmers such as more income, improved standard of living, reduced vulnerability and improved food security. |
| Portfolio Diversification | - Farmers’ participation in non-agricultural business activities |
| Small-Scale Farmer | - An individual involved in smallholder agriculture with less than 10 acres of land holding. |
| Structural Diversification | – Mixed farming characterized by a variety of crops and/ or livestock (including fish). |
| Vertical Diversification | – Value addition to the primary agricultural products by processing, branding or packaging. |

ABSTRACT

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.