

**THE IMPACT OF RISK ON LAND INVESTMENTS IN KITUI
AND MACHAKOS DISTRICTS OF KENYA**

Bowen M.K.

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MOI UNIVERSITY



20048282

ABSTRACT

The study collected data from Machakos and Kitui districts at village and household levels with a multi-stage sampling approach. The research investigated the role of objective risk and attitude towards risk on land investments. The study took an econometric approach under the safety first theory to determine farmers' attitude towards risk and used variability in crop yields to measure objective risk. The probability of crop failure due to unreliable rainfall is approximately 60%. Given the risky environment in the study area, farmers have devised various ways to manage these risks which include diversification, reduction in investments, migration, social insurance and irrigation. The results further high levels of terracing with mean percentage of 81.7 as share of the farms terraced. Further, majority (66.1%) of the farmers are risk averse. The results also reveal that the risk averse invest significantly less in terracing than the risk takers. There is an inverse significant relationship between risk and land investments. The implication is that farms with less investment in terracing have higher variability in crop yields. The inference from this is that investment in terracing reduces risk. This has further implications given that majority of the farmers are risk averse. Despite the aversion to risk, the farmers are rational and see a way of reducing risks by investing in terracing. The theory that risk reduces investments can be extended a bit. That risk averse farmers will invest even in the presence of risk if the investments will reduce the risks. The agricultural investment portfolio in terms farm inputs also reflects risk aversion. Though terracing is widely adopted, this in itself is not sufficient for households to realize the potential of their farms. Terracing should be combined with the appropriate use of inputs such as the correct quantity of manure, fertilizer, high yielding seed varieties among others. The study proposes appropriate policy measures to reduce risks faced by the farmers and improve productivity.