



Paper presented on Thursday, 10th of October 2002

Title:

**The Impact of Microenterprises
on Poverty Reduction in Rural Areas:**

The Case of El Quiché - Guatemala

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Microenterprises as additional income source

In poor regions the lack of income sources is a severe problem

In rural areas the limited variety of income sources is still more remarkable

The returns achieved by agricultural production are often not high enough to guarantee sustainable livelihoods for the households



An additional income source is required to secure basic needs

Definition of the terminology “Microenterprise (ME)”
applied in this study

**All self-employed non-farm
enterprises which are not
directly involved in crop and
animal activities**

Main objectives

- identify factors influencing the adoption and performance of MEs to supplement farm income
- to assess the role of a rural development project in promoting the success of entrepreneurial activities reducing poverty of rural households.

Selected counterpart organisation

Rural development project “Programa de Desarrollo Rural regional en El Quiché – **PRODEQ**” is promoted by “**Deutsche Gesellschaft für Technische Zusammenarbeit – GTZ**”, implemented in 1996.



Objective

To Improve the economic and social frame conditions of the rural population

Location of Guatemala and the province El Quiché



Poverty in El Quiché

The population is most severely affected by the 36 years lasting civil war

Adverse social and economic impact

- **45.52 %** of human rights violations during the war occurred in El Quiché, followed by Huehuetenango (15.6 %)
- **77.7 %** is living in poverty (country average 69.9 %)
- **90 %** Indian population (country average 44 %)
- **63 %** Illiteracy rate (country average 29.8 %)

It is hypothesised that

- Social capital has a positive impact on the adoption of MEs
- Membership in groups for collective action enhances the outcome of ME-adoption and higher priced sales
- Personal relationships to suppliers and clients favor the outcome of weaving and embroidery ME-adoption
- ME-adoption and the participation in PRODEQ has a positive impact on the monetary household income
- ME-adoption and the participation in PRODEQ has a positive effect on housing and nutrition

Research methods applied for the data analysis

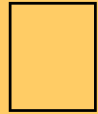
Quantitative methods

- **Comparative analysis**
- **Correlation analysis**
- **Regression analysis**

Qualitative methods

- **Group discussions**
- **In-depth interviews**

Survey Design



Multi-stage random sampling

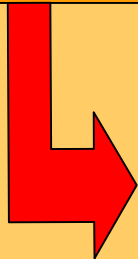
5 districts are operated by PRODEQ
Total size of sample = 300 households



In each district 3 villages were randomly selected



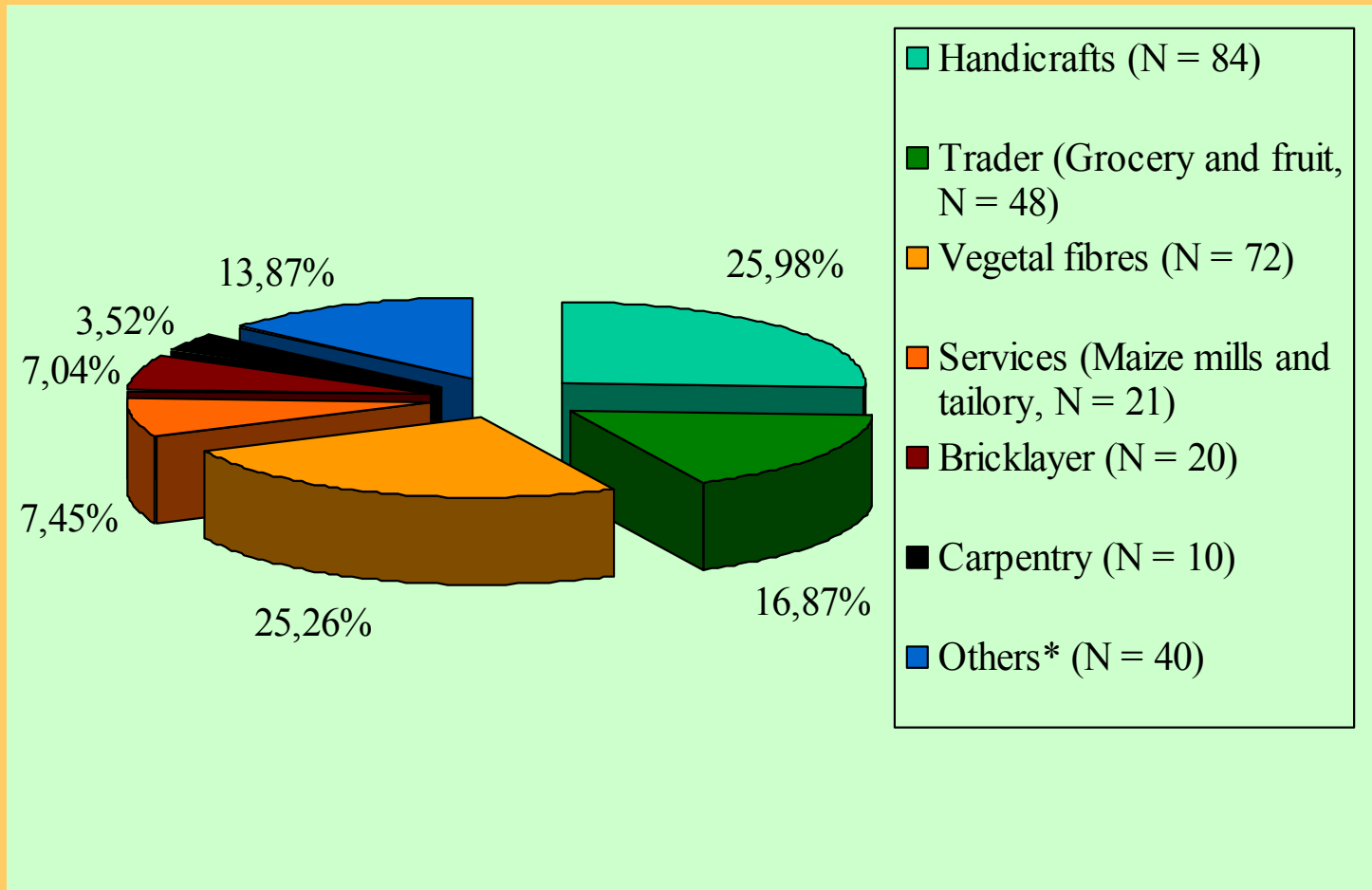
Stratified random sampling of the households



10 households participating in PRODEQ
and 10 non-participants were randomly selected

Empirical Results

Proportions of ME-branch groups in the research area



* The category “Others“ encompasses bakeries, restaurants, transportation services, repairs of bicycles, medical service, sweet manufacture, and trade of woods, metal grids, and photographs

ME-adoption

Summarised results of determinants

Determinants of decision to adopt

- Social capital (Participation in social/ME-related groups) (+)
- Education (+)
- Access to markets (distance) (-)

Determinants of the income proportion generated by MEs

- Social capital (Time spent in social/ME-related groups) (+)
- Education (+)
- Access to markets (distance) (-)
- Farm characteristics (-)

Collective action

Collective entrepreneurial activities focus on

- Commercialisation of products
- Standardisation of prices
- Purchase of raw materials



Results obtained in the case study

- The allocation of responsibilities allows an increase in profits and to reduce transaction costs
- The diversification and scale of production needs to be expanded further

Impact on poverty reduction

- Adoption of a ME-activity has strongest impact on monetary household income
- Participation in PRODEQ has the strongest impact on housing and a significant effect on nutrition
- The project targeted the poor regarding their nutritional status

Against the expectations ME-adoption has no significant effect on housing and nutrition

Conclusions and Perspectives

Affirmations and rejections of hypotheses

Hypothesis	Result
<i>“Social capital has a positive impact on the adoption of MEs”</i>	Rejected
<i>“Membership in groups for collective action enhances the outcome of ME-adoption and higher priced sales”</i>	Affirmed
<i>“Personal relationships to suppliers and clients favor the outcome of weaving and embroidery ME-adoption”</i>	Rejected
<i>“ME-adoption and participation in PRODEQ has a positive impact on the monetary household income”</i>	Affirmed
<i>“ME-adoption and participation in PRODEQ has a positive effect on housing and nutrition”</i>	Rejected

Perspectives

- Great potential for ME-activities to reduce poverty
- An increase in profits will depend on the achievement of a production capacity towards a larger scale

Need for further research

To improve policy measures and to strengthen the project design

- Identify more determinants of ME-adoption
- Use of base line data for impact assessment
- Explore why more women pursue ME-activities than men
- Explore sources of unbalanced educational level between women and men