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**The Impact of Microenterprises on Poverty Reduction: the Case of
El Quiché — Guatemala**

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Abstract

There is mounting evidence that non-agricultural revenues are an important source of income for rural households in poor regions. The returns achieved out of agricultural production are often not sufficient to guarantee sustainable livelihoods. The province “El Quiché” in Guatemala has for several decades been facing extreme poverty, malnutrition, and disruption of civil organisations due to the 36 years civil war, raising the question to what extent non-agricultural micro-enterprises (MEs) may help to reduce poverty. The main objective of this study is to identify factors influencing the adoption and performance of MEs to supplement farm income; and to assess the role of a rural development project in promoting the success of entrepreneurial activities reducing poverty of rural households. There is a broad variety of ME-branches in the study area. The main handicraft activities are weaving and embroidery. The annual income generated by weaving and embroidery is close to the mean generated by all ME-activities (US \$ 754). A relatively constant demand without seasonal fluctuations implies a great extent of income stability generated by these activities. Determinants identified with a significant impact on the adoption of ME-activities are related to education, social capital, farm characteristics, and the access to markets. Social capital plays an important role in both ME-adoption and the performance of ME-activities. The implementation of a handicraft shop co-operative supported by the project contributes considerably to reduce transaction costs and to increase profits. The allocation of responsibilities among the group members for the collective commercialisation of products and purchase of raw materials reduces transaction costs. An increasing production capacity to accomplish orders on a large scale and an improvement in the quality standard are important preconditions for rising profits. The adoption of an ME-activity is the factor with the strongest impact on the total monetary household income. Against the expectations, the results suggest that ME-adoption has no significant effect on housing and nutrition. By contrast, participation in the project is the most significant determinant with a positive impact on an improvement in the conditions of housing. The project has successfully targeted the poor regarding their nutritional status.

Keywords: Guatemala, microenterprise, poverty