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October 29, 1991

WP/91/101
Correction 1

Subject: Mozambique - Economic Rehabilitation and the Poor

The attached page iii of WP/91/101 was inadvertently omitted.

Att: (1)

Summary

Following years of war and natural disasters, by the mid-1980s, poverty had become pervasive in Mozambique. This paper seeks an overview of this poverty and of the impact on the poor of the policy measures included in the 1986-90 economic recovery program.

The paper presents a socio-regional profile of the poor, their income, and their expenditure patterns. The percentage of the population meeting the U.N. criterion of absolute poverty is estimated at 62-66 percent (including refugees). Rural areas have been worse off than urban areas because of widespread disruptions caused by war. In urban areas, a rationing scheme provides a minimum degree of food security. In rural areas, emergency aid is provided to the populations severely affected by the war, but a lack of security, insufficient supplies, and inadequate transportation have kept food assistance below the amounts required.

Limited data restrict the scope of the quantitative analysis, which focuses on changes in relative prices and wages. The minimum wages for three categories of workers are utilized as income references. To measure purchasing power, the official CPI is used, as well as an alternative price index developed according to the expenditure patterns of the poor. The results indicate that between 1987 and 1990, despite surges in official prices, minimum and low wage earners improved their purchasing power. During certain periods (in 1987 according to the CPI index, and in 1988 according to the expenditure-weighted index), however, real wages were subject to temporary erosion, as wage adjustments lagged behind price increases. Official producer prices were allowed to rise, and in areas with adequate security, food production and commercialization increased substantially, improving the condition of small farmers. Overall economic activity responded to better incentives, and GDP grew at an average yearly rate of about 4 percent during 1986-90. Exports and emigrants' remittances also rose in response to exchange rate adjustments.

To ensure food for the poorest urban households, an income supplement scheme was introduced in 1990 with a view to complementing the ration scheme. In rural areas, the Government is seeking to improve health, education, and communications while providing farmers with needed inputs and incentives. Mozambique remains nevertheless highly dependent on emergency relief aid in its effort to combat poverty.