

**THE ROLE OF NON-FARM SOURCES OF INCOME
IN RURAL POVERTY ALLEVIATION IN THE BOANE
DISTRICT OF MOZAMBIQUE**

by

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DEDICATION

To my wife Lúcia and my children Sandra, Leila and Euler.

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Department: Agricultural Economics Extension and Rural Development
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ABSTRACT

In 2001, the Government of Mozambique completed the Plan of Action for the Reduction of Absolute Poverty (PARPA), which defines the development priority areas and the main areas of action. Agriculture and Rural Development constitute one of the six main priorities of PARPA, but the contributing role of the rural non-farm sector in poverty reduction seems to have been overlooked, while international experience and evidence indicates that non-farm activities provide an important source of primary employment in developing countries. Because of the potential contribution of non-farm enterprises in generating employment and income in rural areas, some policymakers view the development of the non-farm sector as one way to alleviate poverty. As a result, the non-farm sector has become important in discussions about rural economy. The view of considering rural non-farm enterprises as the sole solution to the development problems of rural areas is primarily caused by the success of rural industrialization in China and East Asia, and the relative failure of previous development strategies oriented towards industrialization, and the current agricultural intensification strategies that have had only a limited capacity to absorb labour.

Generally, in Mozambique, the proportion of households that derive their income from non-farm activities in rural areas is unknown. Other aspects, such as level of income and the poverty incidence among this group, as well as the composition of the non-farm sector are also unknown.

With the objective to provide tools for policymakers and place the discussion of non-farm sources of income in a proper development perspective, research was carried out to find a response to some of these questions. The actual survey took place in January 2002, in the Boane District, South of Mozambique and involved thirty-seven households from eight villages. The study was designed to assess the role and contribution of rural non-farm sources of income to the alleviation of poverty in the district.

The results of the study revealed that the majority of the households continue to rely on agriculture as the main source of income; it also revealed that the proportion of households relying on non-farm sources is higher in the Boane district than in most other rural districts of Mozambique. While agriculture is the major source of income, the non-farm sector generates most of the employment for the wage employees. The sectoral composition of the non-farm sector in the district is narrow. Six types of non-farm enterprises were found, and construction is the leading enterprise employing most of the wage labour.

The average income as estimated by the consumption level was found to be 8 186.6 Meticais (MZM) per person per day, which translates into approximately US\$0.34 or R3.74 per person per day as per January 2002 exchange rate. Comparing the income of different socio-economic groups, female-headed households have on average a higher income, and the households who rely on non-farm sources have the lowest household income. The incomes differ significantly at 95 percent confidence level.

The district poverty estimates based on the aggregate poverty line for Maputo Province, revealed that the district's poverty rate (headcount) is 57 percent, indicating that more

than half of the population live in a state of absolute poverty. The district poverty index is also high at 32.9.

In general, poor households tend to be less educated and live in larger households than non-poor. The poor have more dependants than non-poor. Poor households have twice as many dependants as the non-poor and so their dependency rates are significantly higher than non-poor households.

The district exhibits most of the correlates associated with growth of the non-farm sector. The existing infrastructure and high population density deserve special attention, and should be explored more to broaden the composition of the non-farm sector in the district. Good infrastructure, mainly roads and telecommunications, is important for the development of the non-farm sector since it significantly decreases transaction costs for operators. These decreases can improve the efficiency with which rural labour and financial markets channel inputs into activities that will yield the highest returns. Moreover, decreased transport costs open up rural resources and markets to viable exploitation. All this facilitates movements to a more specialized productive rural economy. A high population density makes the attainment of minimum efficiency scales for full specialization in a given activity more rapid. After all, the emergence of a service sector depends on close physical proximity between purveyors and clients. The missing key factor for sustained broad-based development of the non-farm sector continues to be agricultural productivity. Without a strong agricultural sector, the non-farm sector cannot be sustainable over a long period of time. Agricultural productivity is regarded as the first step in the process of agricultural transformation. Early industrial development is frequently based on the processing of agricultural products. The policy interventions to improve agricultural productivity are discussed.



TABLE OF CONTENTS

DEDICATION	II
ACKNOWLEDGEMENT	III
ABSTRACT	IV
TABLE OF CONTENTS	VII
LIST OF TABLES.....	XI
LIST OF FIGURES.....	XII
CHAPTER ONE: INTRODUCTION	1
1.1 Background	1
1.2 Problem Statement	3
1.3 Objectives of the Study	4
1.4 Outline of Subsequent Chapters.....	4
CHAPTER TWO: REVIEW OF RELATED LITERATURE.....	7
2.1 Introduction.....	7
2.2 Key Definitions.....	7
2.3 The Role of Non-Farm Enterprises in the Rural Economy.....	10
2.3.1 Employment Generation	10
2.3.2 Income Distribution	11
2.4 Characteristics of Rural Non-Farm Enterprises	12
2.4.1 Size and Composition	12
2.4.2 Capital Requirements.....	12
2.4.3 Seasonality	13
2.5 Growth Potential and Economic Efficiency	13

2.5.1 Correlates of Growth.....	14
2.6 Determinant Factors for Diversification of Activities by Rural Households	16
2.7 Farm and Non-Farm Linkages.....	17
2.7.1 Factor Markets	17
2.7.2 Product Markets.....	19
2.8 Non-Farm Sector over Time and Major Constraints to Growth.....	21
2.9 Summary.....	23
CHAPTER THREE: DESCRIPTION OF STUDY AREA AND RESEARCH PROCEDURES.....	25
3.1 Introduction.....	25
3.2 General Description of the Study Area.....	25
3.3 Research Method and Survey Procedures.....	26
3.3.1 Sample Design	26
3.3.1.1 Village Selection.....	28
3.3.1.2 Determination of the Sample Size	28
3.3.1.3 Determination of the Household Sample Size per Village.....	29
3.3.1.4 Household Selection	29
3.3.2 Survey Procedures	30
3.3.2.1 Stages	30
3.3.2.2 Brief Description of Variables and the Questionnaire Content	31
3.4 Data Processing, Analysis and Interpretation	32
3.5 Summary.....	35
CHAPTER FOUR: RESULTS OF THE STUDY.....	37
4.1 Introduction.....	37
4.2 Socio-economic Characteristics of the Population	37
4.2.1 District Population Profile	37

4.3 Sources of Income.....	38
4.3.1 Wage Employees	39
4.3.2 Self-Employment	40
4.3.3 Other Sources of Income	41
4.3.3.1 Remittances.....	41
4.3.4 Share of Farm and Non-Farm Sources of Income in the District Economy.....	41
4.4 Level of Income	42
4.4.1 Household Expenditure Categories.....	42
4.5 Poverty Measurements.....	44
4.5.1 Poverty Estimates.....	44
4.5.2 Poverty Profile	46
4.5.2.1 Household Poverty: The Relationship with Household Size.....	46
4.5.2.2 Relationship of the Level of Poverty with Source of Income, Gender and Level of Literacy	47
4.6 Sources of Income Among the Poor and Non-Poor Households.....	48
4.7 Summary	49
CHAPTER FIVE: DISCUSSION OF THE RESULTS.....	51
5. 1 Introduction.....	51
5.2. The Proportion of Households Relying on Farm and on Non-Farm Income Sources.....	51
5.3 Sectoral Composition of Non-farm Enterprises.....	52
5.4 Income Level of Different Socio-economic Groups.....	53
5.5 Poverty in the District	54
5.5.1 Characteristics of the Poor	56
5.6 Sources of Income among Poor and Non-poor Households.....	57
5.7 Summary	58



CHAPTER SIX: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	60
6.1 Summary	60
6.2 Conclusions.....	62
6.3 Recommendations.....	67
6.3.1 Policy Interventions	67
6.4 Limitations of the Study.....	70
REFERENCES.....	72
APPENDIX ONE	79
APPENDIX TWO	90

LIST OF TABLES

Table 3.1. Boane District Population by Village January 2002	27
Table 3.2. Allocation of Sample Strata	31
Table 4.1. Wage Employment of the heads of the household and Type of Enterprise Boane District, January 2002	39
Table 4. 2. Crops Produced by the Sixteen Households Heads in Self-employment, Boane District, January 2002	40
Table 4.3. Mean Income of Different Socio-Economic Groups in the District	43
Table 4.4. Poverty Estimates, Boane District, January 2002	45
Table 4.5. Poverty Relationship with Size of the Household	46
Table 4.6. Household Poverty Relationship With Sources of Income, Gender and Literacy, Boane District, January 2002	48
Table 4.7. Source of Income Among the Poor and non-Poor Households, Boane District, January 2002	49