

The Role of Local Governments in Promoting SMEs:

A Case of Rural Development in Monapo District

Final Report

By

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September 2011

Ritsumeikan Asia Pacific University

Master of Sciences In International Cooperation Policy

Acknowledgements

First of all, I would like to express my profound appreciation to the Directorate of Industry and Commerce of Nampula and Japan International Cooperation Agency (JICA) for this scholarship that has made this whole undertaking a reality.

Sincere thanks also go out to my supervisor, Professor Miyoshi Koichi, for his kindness and advice during my studies at the Ritsumeikan Asia Pacific University. I would also like to thank Miyoshi-sensei for allowing me to participate in the JICA trainings that he conducted for the officials from Guatemala and Colombia. The experience provided me with great experience and opportunity to bridge social capital, meet and connect with people from different countries and regions, as well as share and create knowledge that relates to community capacity and regional promotion and development.

I am also grateful to my family especially my mother, Victorina Marques and brother, Hortencio. Thank you for accompanying and providing me with support throughout my studies.

Special thanks also go out to Alma Marku for her encouragement and positive energy, as well as to my other family members, colleagues, friends and acquaintances who have supported me throughout this challenging and rich experience.

Declaration

I, CHACUAMBA Felizardo Vasco Amizade hereby declare that the contents of this Final Report contain only my own original work. Any contributions by others have been cited or acknowledged appropriately.

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List of Abbreviations

ERP	Economic Recovery Program
FRELIMO	Front of Deliberation of the Mozambique
HDI	Human Devevelopment Index
HPI	Human Poverty Index
INE	National Institute of the Estatistic
IESE	Institute of Social and Economic
IIAM	Institute of Agricultural Research of Mozambique
LOLE	Law of the Local Bodies
MIC	Ministry of Industry and Commerce
MAE	Ministry of State Administration
NGOs	Non Government Organization
OIL	Budget for Local Initiative
PARPA	Action Plan for Poverty Reduction
PRES	Social and Economic Rehabilitation Program

SMEs

Small and medium enterprises

UNDP

United Nation Development Program

Abstract

A comprehensive understanding of SME development in rural area requires an analysis of the evolutionary role of government and community capacity. This research discusses the role of local governments in promoting SMEs. Specifically, it focuses on the case of rural development in the Monapo district in Mozambique and how the local government's promotion of SMEs boost rural development.

This paper traces the process of SMEs development in the Monapo district from the colonial period to the post conflict (reconstruction) period. This is a time characterized with high level market flows for agriculture products in the district. In particular, the concern of SME development after the civil war to increase social and human capital through the promotion of farmers association, and the provision of financial support and technical assistance. Community Capacity has registered some changes in terms of their sense and commitment of due to the political approach of the initiative.

During the period identified in this study, the promotion of SMEs was based in the agriculture sector. While changes in the community were already evident immediately after the end of the civil war (reconstruction period), coordination between the local government, NGOs, farmers association and entrepreneurs still needs to be achieved .

CHAPTER 1

INTRODUCTION

Mozambique is a country located in South East Africa. It is trying to achieve rural development through decentralization and the drawing of policies and strategies for the promotion of SMEs particularly in rural area. SMEs are considered vehicles that promote generation of employment, capital accumulation and reduction of social inequality. This ultimately leads to the activation of the development process in the country. As such, the national government of Mozambique has accorded the promotion of SMEs with importance even from the colonial period.

In the 1980s, the local economy of Mozambique was weakened by the civil war. This was caused by the displacement of settlers and severe droughts throughout the entire country. After the country's independence, most of the plantations and factories were owned by the State. It was only in 1990 that the government introduced a free market economy and started Mozambique's reconstruction process.

The goal of this study is to analyze the role of local governments in promoting SMEs in in the Monapo District by using the town's history as a reference for the process. Monapo is one of the 21 districts of the Nampula Povice and is located along the *corridor of development* in the northern region of Mozambique. During the colonial era, the town had

an extensive network of rural shops and agro-process industries. However, these economic infrastructures were destroyed during the civil war.

In particular, the study aims describe how the local government's promotion of SMEs boost rural development in the district. As a social research, the study analyzes the role of local government in promoting SMEs in the district throughout the country's three significant periods (Colonialism, civil war and after civil war or prost conflict) through the use qualitative methods such as documentary analysis (annual report; stretegies and local plan) and interviews with local stakeholders regarding thes development process in Monapo.

As a government officer assigned within the area promotings SMEs, the report may be used as support material for Monapo District's local government. The report also identify strategies that may be implemented by the local government to efficiently promote SMEs. Lastly, the report provides feedback about the different policy approach introduced by local government during the different periods and highlight the changes that occur in terms of community capacity.

1.1. Research problem

After the civil war, Mozambique has been successful in implementing decentralization that it created autonomy for local governments, developed rural area as well as improved the quality of service provided for the citizens. In particular, Decree No. 5/2006 of 12th April proposed the “devolution of management skills of human resources to the Provincial

Governor and District Administrator to ensure the materialization of the Policy Government”.

This decree led to the establishment of the district council, an organ that participates in the local planning process of the district. A local fund (OIL) was also allocated to the local government as a way to achieve decentralization. But despite the provision of funds to support SMEs development, the end outcome is still poor. The Government has to carry out complimentary actions that would allow for legal, political and institutional assistance to SMEs, particularly in rural areas (Valá, 2005).

In general, the problem faced by SMEs in Mozambique are excessive. These include issues such as regulatory barriers; high cost of financing and their limitations; low quality of labour, excessive tax burden and high cost of paying taxes, lack of horizontal and vertical links between companies, and low entrepreneurship. The approved strategies for the development of SMEs were based on these framework so that it could appropriately help and strengthen the District economy and thus undermine the foundations of poverty. (MIC, 2008). Furthermore, the strategy shows a relevant betting entrepreneurial culture, that encourages the youth and women and ensures that the economic environment of the district is ready to accept micro and small initiatives (Valá, 2005).

To describe the components of SMEs, it is necessary to first go over the historical development of the country and the political approach that was introduced during the different periods. An outline of the national strategy for the development of small and medium enterprises should also start from the lowest level as an instrument of work. The

Industrial Policy and Strategy (1997) refers to this as "the industry which should play a proactive role and modernize the economy, boost growth and qualitative transformation. In other words, the industry should work with other sectors, and in a especial way with agriculture to transform and add value to the inputs used in the production process".

A strategic approach to SME development in Mozambique was adopted in 2008 in order to address the challenges faced by SMEs and promote their growth. The government is responsible for shaping the policies at the central level and activate the process of rural development through the promotion of SMEs, contributing to the employment, income generation and to the reduction of poverty.

1.2. Research questions

How does the local government promote SMEs and boost rural development in the Monapo District?

1.3. Research Objectives

General

- To analyse how the local government promote SMEs and boost rural development in Monapo district .

Specific

- To describe the process of evolution of SMEs in Monapo district based on the historical periods;
- To analyse the development of community capacity in the Monapo district;
- To describe the contribution of SMEs in the Monapo District.

1.4. Significance of Research

Currently Mozambique is undergoing a process of decentralization. Since 2001, the primary aim of the movement is to promote autonomy and local development. In line with this, efforts were also made in promoting SMEs as an element of development in rural areas.

During the colonization period (1845-1975), Monapo was an area that was potentially industrialized. Products such as cotton, sisal and cashew nuts, were abundant and were processed in the same district. It is also found in a strategic geographical location known as the *Northern corridor of development* because of its proximity to the international port of Nacala-Porto and the countries of Malawi, Zambia and Botswana. Because of this, the district has an advantage of using its corridor as a mean of securing and promoting enterprises in the region.

This study provides information for the different stakeholders involved in the SME promotion and rural development process; and the political approaches developed by local government in Monapo district during the colonial, civil war and post conflict. It also

provides an overview of the changes in community capacity attributed to the historical political approaches introduced by the Portuguese and the Government of the Mozambique. From this perspective the study describes the way by which the provincial and local government promote SMEs, boost rural development and strengthen the intervention of the stakeholders in the community.

Ultimately, this study shall propose ways through which the government can improve its services to efficiently support SMEs in the Monapo district.

1.5. Structure of research

This study focuses on the role of the local government in promoting SMEs through the discussion of Monapo district's rural development. It shall describe the different policy approaches implemented by government from (1) the colonial period dominated by Portuguese's government, (2) the civil war period marked by the presence of the national government of the Mozambique, and (3) post conflict era.

The study consists of nine (9) chapters. Chapter 1 discusses the research problem, questions, objectives and significance; information relevant to address the problem and the structure. Chapter 2 presents a literature review describing the concept of SMEs, its importance, rural development through SME development, community, and human and social capital that support rural development. Meanwhile, Chapter 3 presents the methodology, design, study area, instrument of data collection, and its limitations. Chapter 4 presents the theoretical

framework of Community Capacity Development and Policy Structure, and details the strategies for building community capacity. Chapter 5 presents the description of Monapo's district development starting with a background of Nampula province, and the background and development of the Monapo district. Chapter 6 provides a historical account of SMEs in the Monapo district based on facts from colonial period (1485-1975), civil war period (1976-1990) and post conflict period (1990-2009). Chapter 7 presents a discussion on decentralization and local government, the production process in Monapo district, financing process of SMEs in Monapo district, and changes in community capacity in Monapo district. Chapter 8 present a description on policies that support SME development implemented during the three periods (colonialism, civil war and post conflict). Finally, Chapter 9 presents the conclusion of the research and further discusses the importance of the coordination process among local government, NGOs and other stakeholders in the rural development process. A short note on how to improve the effectiveness and efficiency of the local strategy for the promotion SMEs at local level will also be included.

1.6. Limitation of the study

One limitation encountered in the conduct of the study was the insufficient data provided by local government that was used to describe the evolution of SMEs at the district level. Similarly, it did not provide the author with the database of development activities during the colonial and civil war period.

The one-year duration for the Master's Degree program completion was another methodological limitations in this study. This time limit prevented the author from collecting data from fieldwork..

CHAPTER 2

LITERATURE REVIEW

2.1. Concept about Development and Rural Development

Issues about the development level of the world have been a major concern among developing countries including Mozambique. There may have been many definitions for the word “development” but most of them are advert to the following factors: economic, social, politic and cultural.

Moss (2007) emphasized that “[Although] there is no agreement on exactly what *development* means...[its] different definitions are far from mutual”. However, a simplified concept proposed by Oliveira (2002) defined development as “a complex process of change in the economic, political, and especially in human social development”. Moss (2007) adds “development is ultimately not about bricks and budget systems but about social change”. Todaro and Smith (2009) also shares that “ development has to be more concerned with enhancing the lives we lead and the freedoms [we have]”. In this regard, the tobjectives of the development have been identified to include “[the] increase in availability and wisdom, the availibility of life-sustenaing goods, the rise in the level of living and the expansion of economic and social choices”.

Rural development, in recents years, has become a new concept and a challenge for the governments of developing countries. In particular, it became a way to promote economic

growth through SMEs in rural areas. An understanding of all the components identified in this report is necessary to achieve a deep understanding of community capacity and the rural development framework. It also takes into account the recognition of SMEs as a vehicle for employment, income generation and capital accumulation in the Monapo District.

Ferrari et al (1998) described rural communities as “ low population densities, located far from the major urban centers...[with] severe restrictions in access to public services and private markets, [and may be found] even in countries where public expenditures per inhabitant are higher in rural than in urban communities”.

2.2. Definition of the SMEs

There is no universal definition for SMEs. Its concept changes from the country to country. In fact, each country may define SMEs according to its different stages of economic, social and political development. However, in general, SMEs may be described based on the number of workers employed, the potential energy and investment.

The most common basis for defining SMEs is employment. Ayyagan et. al. (2007) notes that the common aspects of SMEs in Mozambique are “ employment, investment and power supply.” Table 2.1 describes how SMEs are classified in Mozambique.

Table 2.1: SMEs classification in Mozambique

Size	Investmentl (USD)	Potencial energy (KvA)	Number of worker
Medium	Upto or Superior 2.500.000	Igual ou Superior a 500	Upto or Superior 125
Small	Upto or Superior 25.000	Upto or Superior 10	Upto or Superior 25
Micro	Igual or inferior 25.000	Upto or inferior 10	Upto or inferior 25

Source : MIC of The Mozambique

2.3. Importance of SMEs

Actually, it is unquestionable that small and medium sized enterprises play an important role as *economic agents*. Particularly in rural areas where there is a need for a more active local economy. SMEs importance generally results not only from the generation of jobs but also from the the new innovative ideas it introduced into the business sector. According to Kornijezuk(2004, p.11): “[...] micro and small sized enterprises play a relevant role in the generation of jobs, use of raw material, meeting local market needs, income distribution and in social mobility”. Pirrilli (2007) also says that “in the present world of globalization, small and medium enterprises are key actors in almost every production system. In all continents they represent the largest number of firms and [they] also contribute significantly to both employment generation and GDP formation”. This general definition alone already proves SMEs relevance to all countries, most especially for developing countries.

Hence, in Mozambique, post civil war policies promoted SMEs with a focus on rural areas where the most of the agriculture resource are found.

Moss (2007) enumerates services as one of the most complex development issues. Africa has been actively involved in long-distance specialized international trade for more than a millenium. Boosting trade is now of vitally importance to Africa's current development prospects because it serves as a potential way to improve income". Parrilli (2007) found that "[s]mall and medium enterprises are much more than simple economic agents, they are social and cultural conveyors of values, trust, self-realisation and welfare. Supporting their development means helping people to increase their own welfare". On the other hand, Jeppesen supports the argument about the importance of SMEs by saying that "small businesses can contribute to promoting more equitable development, as well as enhance the competitiveness of local industries within a global economy. While small, micro, and medium-sized enterprises (SMEs) may have a role to play in creating jobs, and generating and redistributing wealth". Finally Ayyagari et al (2007) in their study identified "small and medium enterprise (SME) sector[s] as core elements in [a community's] strategy to foster economic growth, employment and poverty alleviation".

The improtance of SMEs in Mozambique became crucial in rural areas because it promoted economic growth. In fact, SMEs can be the factor through which productivity is increased and income generation for household local community is improved.

2.4. Rural development through SME development

With over one billion people worldwide living in poverty (International Fund for Agricultural Development, 2001, p. 1; Quibria, 1993, p. 1), there is a need to focus on development and poverty alleviation (Sachs, 2005). The bulk of impoverished people residing in rural communities (International Fund for Agricultural Development, 2001, p. 2) are calling for greater attention in those areas in order to achieve its development and poverty alleviation goals. Fortifying rural economies has benefits far greater than just improving the lives of people in rural communities; it can also contribute to food security and reduce rural-urban migration, thus reducing urban poverty and related issues (International Fund for Agricultural Development, 2001, p. 2; Sachs, 2005, p. 232). According Christodoulou (2003) *rural development* can generally be thought of as meeting the following three principle objectives: to enhance food security, to alleviate poverty, and to encourage the sustainable management of natural resources.

The field of rural development began growing in the 1950s and now encompasses more than just economic development; it is also considered multi-disciplinary (Behera, 2006, p.7). The reluctance of the global community to recognize rural development as an integral part of international development initially slowed its progress. Rural development has its roots in community-based development and employing a bottom-up approach to improving rural communities through decentralization, participation, and governance (Behera, 2006, p. 14; Erni, 2006, p. 29; Robinson, 1997, p. 31). Rural development may be defined as the development of regions excluding urban areas such as the towns and cities. Smaller settlements such as villages, farmsteads, and market towns are normally included within the

concept of rural, while most of the land area are expected to be used as agricultural land, forest or in its natural state (Apostolides, 1999).

In the context of rural areas, SMEs located there face many challenges such as (1) the small size of local markets; (2) the characteristics of rural labour markets; (3) the availability of business premises; (4) transport and communications infrastructure; (5) access to information, advice and business services; (6) access to finance; and (7) the institutional environment (OECD.2006). Hence, in order to promote SMEs in rural areas the local government has to convert the negative into a positive opening, an opportunity for SMEs to penetrate the urban and international market, to ensure the infrastructure, access to market information as well as the access to finance.

As a proposal to support the promotion of SMEs in rural areas the OECD (2006) proposes the following activities:

- Prioritize support for network development in rural areas, which link nascent and new entrepreneurs to their more experienced counterparts and to relevant institutions;
- Promote and support the development of latent clusters of business activity in rural areas;
- Promote the social enterprise option to rural communities, as a means of generating enterprise activity to improve rural service provision, for businesses and/or rural people;

- Ensure that rural social enterprises have access to high-quality business advice and support; Prioritise the provision of marketing support for new and small rural firms, such as through joint marketing initiatives and meet-the-buyer events.

2.5. Defining community

Firstly, the focus of the study is in the rural areas, the Monapo district, where SMEs interacting within the community is relevant in the establishment of the concept of community. The proposed definition of community arises from sociology. In fact, the concept of community has been the concern of sociologists for more than two hundred years. However, Bell and Newby (1972) proposed that “[t]he concept of community has been the concern of sociologists for more than 200 years, yet a satisfactory definition of it in sociological terms appears as remote as ever”.

Israel (2004) in his study of Health Education and Community Empowerment, defined community as “a place or domain that is characterized by the following elements: (1) membership - a sense of identity and belonging; (2) common symbol systems -similar language, rituals, and ceremonies; (3) shared values and norms; (4) mutual influence - community members have influence and are influenced by each another; (5) shared needs and commitment to meeting them; and (6) shared emotional connection-members share common history, experiences and mutual support”.

This concept addresses several elements that characterize several components about the community. With regard to the case study of this research, the main elements that describe

this community are: sense of identity, belonging, sharing of values, commitment, mutual support and common history. Chaskin et al (2001) defines community as referring “to social attributes and interests such as languages, customs, class or ethnicity...and commonly used to designate them as collective entity”. As such, *community* in this study is understood as a social system made up of people bound by several factors such as language, culture and political dimension; it also includes several actors (individuals, organizations, government and non-government institutions).

In the meantime, Ferrari et al (1998) characterized rural communities based on “low population densities, located far from the major urban centers...severe restrictions in access to public services and private markets, even in some countries where public expenditures per inhabitant are higher in rural than in urban communities”.

2.6. Social and human capital, networks to support rural development

2.6.1 Social Capital

According Perreaul (2003), “[t]he concept of social capital provides a valuable conceptual framework for analyzing the multiscale processes of environmental management, rural development, and resource conflicts with which many rural social movements are involved”. To which Claridge (2004) adds, “social capital is a term that is commonly used; however the concept is often poorly defined and conceptualized. Social capital is an old concept but the term has only been coined fairly recently (Bankston & Zhou 2002; Labonte 1999; Lazega & Pattison 2001; Portes & Sensenbrenner 1993; Putnam 1995)”. Social

capital is a fundamental component that is interacting within the community in a different way.

The concept of social capital has been used by a great number of authors from a variety of disciplines since the early decades of the twentieth century. As such, it is not surprising that the views on social capital in literature are many and varied (Oorschot, Arts and John Gelissen., 2006). In general, the term *social capital* refers to “the resources individuals can tap from the possession of more or less institutionalized relationships of mutual acquaintance and recognition. Like other forms of capital, social capital is productive. For example, it makes the achievement of certain individual ends possible, that in its absence would not be possible”.

Social capital is considered a sociological concept that identifies important roles in the community; it is an important element in talks about the development of SMEs in the community level, such as that in this study. Chaskin et al (2001) argues that “there is an increased recognition of the potential role of social capital and networks in community development, both for understanding it conceptually and for strengthening practice”. This is converged through different actors. In this sense, the potential significance of network actors to strengthen the development process of rural areas and help deliver economic success has been increasingly recognized in recent years (Quereja, Landart and Wilson, 2008).

Coleman (1988) functionally defines social capital as “a variety of different entities with two elements in common: they all consist of some aspect of social structure, and they

facilitate certain actions of actors – whether persons or corporate actors – within the structure”. This concept is related to community capacity such that it expresses the interactions within organized groups working in the community in order to achieve their overall goals. Two main types of social capital have been identified: bridging social capital, and bonding social capital (Gittell & Vidal 1998; Putnam 2000). Bridging social capital “brings together people or groups who previously did not know each other” whilst bonding social capital on the other hand “brings closer together people who already know each other” (Gittell & Vidal 1998, p.15).

In the book "Social Capital and Development: The Coming Agenda," Fukuyama (1999) explains that “social capital, is based on "shared norms or values that promote social cooperation, instantiated in actual social relationships". He also found that “ social capital is not only a necessary precondition for successful development, but also a strong rule of law and basic political institutions necessary to build social capital’”. According to this, Fukuyama believes that a strong social capital contributes to economic growth. Coleman (1988) in his journey indicated that “social capital eventually leads to the creation of human capital for the future generation’”.

2.6.2 Human Capital

In studies related to development issues, the concept of human capital is particularly important for a better understanding of case studies in social science. Human capital refers to the stock of competences, knowledge and personality attributes embodied in the ability to perform labor so as to produce economic value (Arthur & Shifrin.2003). While human

capital is considered as the most critical source of competitive advantage, it is also the most difficult to measure (Ceridian UK 2007). Education and training are generally regarded as two of the most important human capital investments one can make in an individual because it forever contributes his or her knowledge and skills (Becker 1993). Bluman (1999) identifies ‘‘human capital as one of the factors that explain growth within localities’’. Based on this definition, the human is considered as fundamental elements for the development of SMEs and consequently for rural communities. One of the main factors that improve competitiveness is innovation and the role of knowledge infrastructure, institutions and (investments in) human and social capital is important (EAAE Board and Programme Committee.1998).

For one, human capital enhances the ability of local businesses to adopt new technologies and respond to changing economic conditions. Second, a well-educated labor force improves a community’s chance of attracting new businesses to the area. Labor force quality is especially important in attracting establishments from high technology industries and businesses with significant employment in skilled and technical occupations. Third, entrepreneurial activity and small business development in a community benefits from the availability of skilled people in management, technical, and entry-level positions. (Barkley. Henry & Li., 2004)

In summary, social capital is recognized as one of the most important factors in the community along with human and financial capital. As such, the existence of SMEs interacting with each other depends largely on good interaction and collaboration of the social capital.

CHAPTER 3

METHODOLOGY

3.1. Research design

This study is a single-case study that discusses the role of local governments in promoting rural development through SMEs in the Monapo district. The design of the study is qualitative-descriptive method. Hence, the description of the study is based on *community capacity and policy structure model* framework borrowed from Chaskin et al (2007) and Miyoshi and Stenning (2008). The analysis of the case is focused on the policy approach for SMEs development throughout three (3) historical periods namely, colonization period (1840-1975), civil war (1978-1999) and post-conflict period (1999-2010) of the Monapo district.

3.2. Study area

The case study focuses on northern Mozambique's Nampula province, specifically in the Monapo district. This district is one of the twenty-one (21) districts located in the province of Nampula. The north of the district is bordered by Nacaroa and Mongicual and in the west with the district of Nacala-Velha and Mosuriril.

The Monapo district has an area of 3581 square kilometer, a population of 226.968 and the population density of about 78.4 inhabitants. Monapo district has a history somewhat different from others districts in terms of the evolution of SMEs, its community capacity as well as food production process in Nampula province. Actually, the Provincial Government focused its attention in revitalizing SMEs in this region due to its close proximity to the port.

3.3. Instrument of data collection

The general description is based on data from official documents (historical documents, annuals reports, national strategy of SMEs) and the experience of the author as a stakeholder involved in the process of promoting SMEs in the rural area, boosting rural development.

The other instrument utilized in the study is a non- structured telephone interview with three (3) actors in the development process of the Monapo district namely:

- Technician for local government
- Head of the Provincial Department of Rural Development
- Head of agriculture sector.

CHAPTER 4

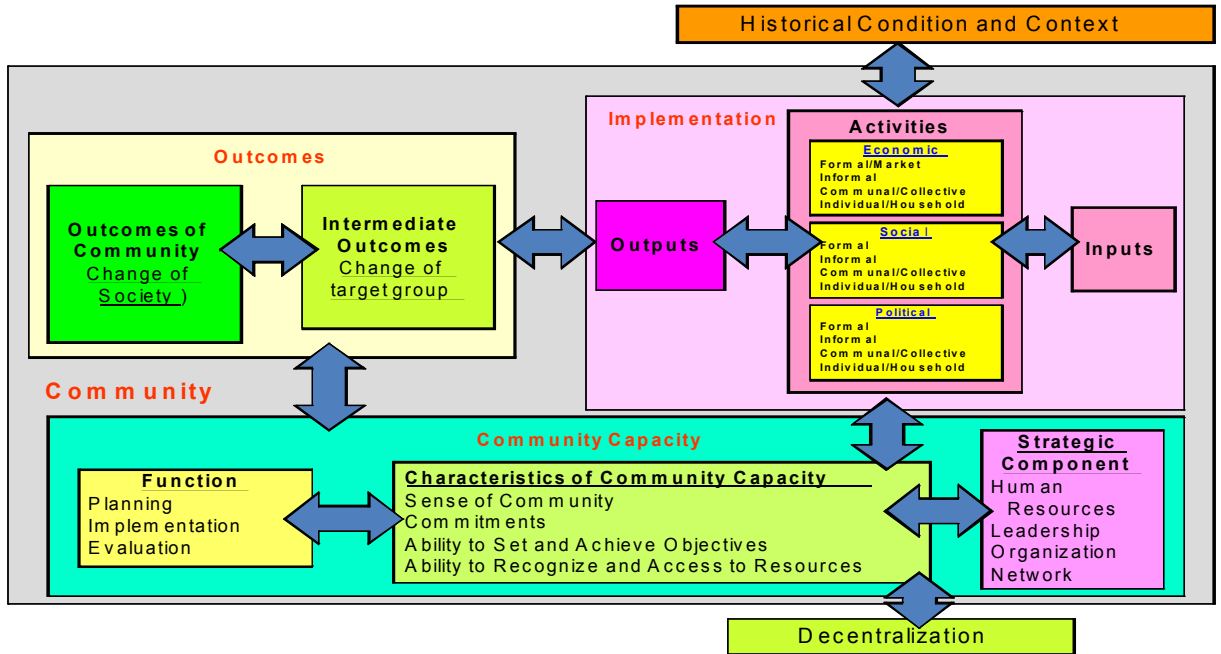
THEORETICAL FRAMEWORK

4.1. Community capacity

In analysing the data for this study, the framework of community capacity was fundamental in describing the changes in community capacity. The definition of “community capacity” is not so different from various scholars. Generally, it is based on the involvement of communities in solving their problems and needs. The definition of community capacity used in this research is based on Chaskin et al (2001). It states community capacity as the interaction of human capital, organizational resources, and social capital existing within a given community that can be leveraged to solve collective problems and improve or maintain the well-being of that community. It may be done through informal social processes and/or organized efforts by individuals, organizations, and social networks that exist among them and between the large system of which the community is a part of (Chaskin et al 2001).

The description of community capacity in this study is focused on the aspects related to the interaction of various actors in promoting and developing SMEs in the Monapo district. The framework for analysis is the “community capacity development and policy structure” of Miyoshi (2010) & Stenning and Miyoshi (2008) et al (2001) as describe in Figure 4.1.

Figure 4.1: Community Capacity Development and Policy Structure Model



Source: Miyoshi (2010) & Stenning and Miyoshi (2008)

Basically, the demonstrated framework is useful for a deeper analysis of rural development issues. This is a dual function model aimed at developing community capacity, and introducing and implementing a higher value added and well-placed policy structure, which consists of economic, social and political activities to change the life of the community (Miyoshi & Stenning, 2008b, p.40).

Furthermore, this framework of “community capacity development and policy structure” allows making in-depth analysis of issues related with rural development. The model illustrates the process of community activities through a logical framework approach whereby activities are conceptualized as a process that entail: (i) Inputs (human resources, funding, time), (ii) Activities, (iii) Outputs, (iv) Intermediate Outcomes (changes in target

group (s), and (v) End Outcomes (changes in society). In addition, it describes community capacity as characterized by the followings elements: sense of community, commitments, ability to set and achieve objectives, ability to recognize and access resources. The characteristics of community capacity presented by Chaskin include: sense of community, commitment, problem-solving ability, and access to resources (2001, p.13).

The model presented in Figure 4.1 changed in the aspect of characteristics of community capacity as described by Chaskin *et al.*; ‘problem-solving ability’ was supplanted with ‘ability to set and achieve objectives’ and ‘access to resources’ with ‘recognition of and access to resources’.

4.2. Strategies for building community capacity

Specific understanding of community capacity as the ability of the community to produce outcomes through its actors by utilizing the resource (human, social, physical, organizational and financial) at its disposal (Chaskin et al.2001; Myoshi and Stenning 2008).

4.2.1 Leadership

In this paper the approach to leadership development took into account the role of the local leader within community and the description about how the community was conducted from one point to another. Several authors have proposed definitions of leadership but until the present time there is no universally accepted concept of leadership that can integrate its

various aspects. Banyai (2008) shares that “[l]eadership is a complex phenomenon that is present in any context where people are charged with accomplishing some goal or task. It can be found in classrooms, courtrooms, households, companies, or sports teams for instance”. To properly define leadership Northouse (2004) enumerated the following components “(a) process, (b) influence, (c) a group context, and (d) goal attainment”. This is consistent with Banyai’s position about leadership as a process that makes use of noncoercive influences to direct and coordinate the activities of the members of an organized group toward the accomplishment of group objectives. As a property, leadership is the set of qualities or characteristics attributed to those who are perceived to successfully employ such influence (Jago. 1982).

The kind of leadership studied in this essay combines principles that are proactive in a group context such as organizational, distributed, evocative, participative and cultural leadership (Bass, 1981; Coe, 1987; Goldstein, 2003; Kezar, 2000; Kime, 2001; Kirk & Shutte, 2004; Trice & Beyer, 1991). *Organizational leadership* is the capacity of the organisation to respond to endogenous and exogenous motivation, which present themselves as challenges, opportunities, and threats to the organization (Kime, 2001, p.2). This definition looks at leadership capacity as the ability to respond the challenges and the objectives that any organization embodies and not just a few individuals. This concept can be applied to community such that it describes the way by which various community agents can take leadership action and respond when necessary.

In the past, most scholars have focused their attention on the individual components of leadership (Angell, 1951; Bonjean & Olsen, 1964; Morris & Seeman, 1950) without much consideration for the capacity of the community as a system.

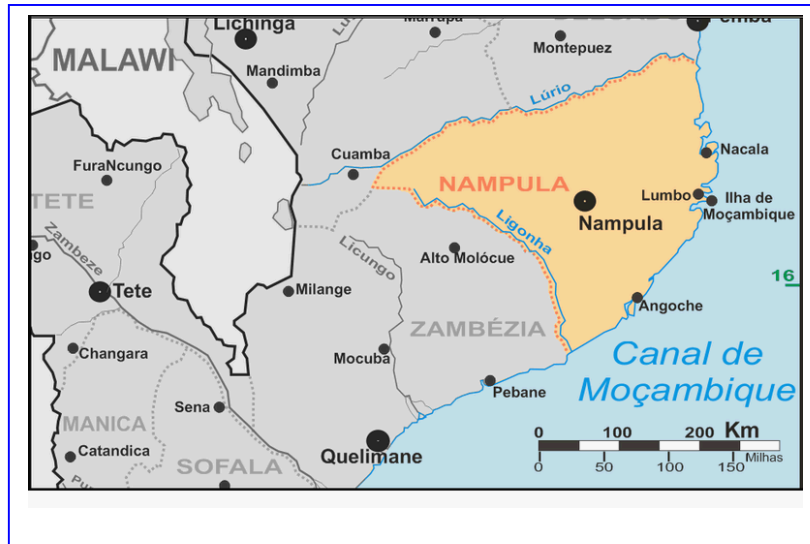
CHAPTER 5

MONAPO DISTRICT'S DEVELOPMENT

5.1. Background of Nampula Province

Nampula province is located on the north of Mozambique. Its boundaries include: the Province of Cabo Delgado and Niassa in the north; the province of Zambezia in the south; the channel of Mozambique in the east; and Niassa, Zambezia and the Indian Ocean in the west. Nampula province has 3.888,356 inhabitants with an increase of 26.9% within ten years. It is considered the most popular province in the country.

Figure 5. 1: Background of Nampula's Province



Economy: Agriculture is the main economic activity in the province of Nampula and the potential for the development of agriculture is 4,500,000ha for rain-fed agriculture, 74,000 ha for irrigated agriculture and 83,000 ha for forestry. Nampula also has favorable conditions for livestock husbandry practices, especially in bovine, goat, sheep and poultry in the districts of Mogovolas, Moma, Angoche and Nampula-Rapale which have some infrastructure for the expansion of the activity ¹.

Human development: Data from the 2007 report on human development show that Nampula is the third worst province in the country with respect to the Human Development Index (HDI) (2.24), Human Poverty Index (HPI) (53.6), and life expectancy at birth (44.3 years), ahead only of the provinces of Cabo Delgado and Zambézia. Nampula is the fifth worst province with respect to poverty incidence (69% of the population), and child vulnerability. More than 92% of the population does not have access to electricity, 78% are deprived of access to radio and clean water, and 75% has no access to health assistance.²

Infrastructure: The infrastructure development in Nampula is very limited. In fact, infrastructures are concentrated in Nampula city and in some district headquarters. Despite the efforts of the government, the general preservation and condition of the province's infrastructures is unsatisfactory. The network of water pumps, roads and bridges needs to be stabilized and maintained. In the rainy seasons, for instance, roads and bridges are mostly not passable in the province.

¹ Japanese Embassy and a team of the Institute of Social and Economic Studies (IESE), Report on "the current situation in Mozambique of the private sector development its implication on Japan's economic cooperation" case study of Nampula. Mozambique, 2010

² Idem

Commercial network and agro-industry: Most agro-industrial enterprises are inoperable or operate in poor conditions using manual devices. In some districts, the placement and installation of industries is dependent on the arrival area of the national energy network. Nobody is interested in maintaining high operating costs when factories can be built and operated nearby at relatively low cost. Small local industries such as fishing, carpentry and crafts serve as alternatives to farming, or extension of their business.

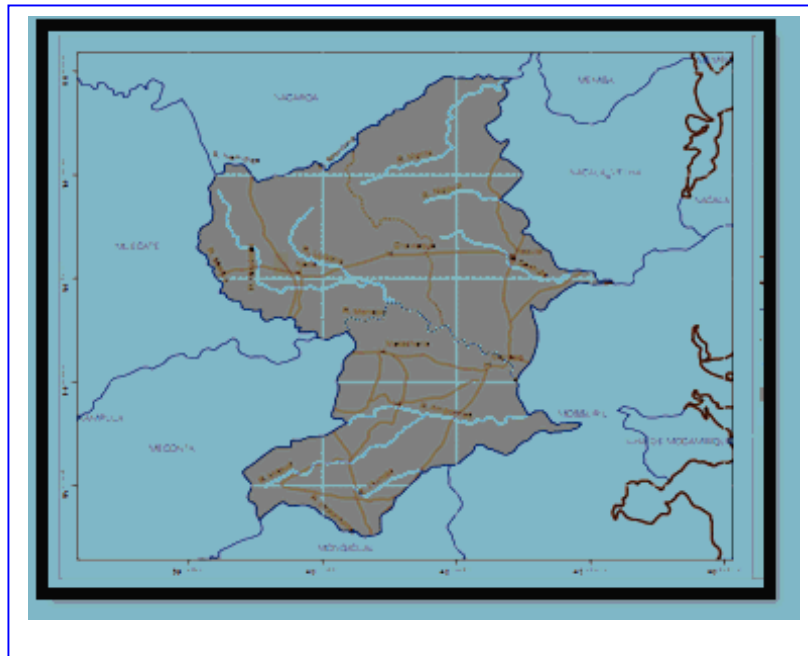
5.2. The background and the development of Monapo's district

Location: The district of Monapo is one of the 21 districts located in the province of Nampula. It is located in the western part of the province. The north of the district is bordered by Nacaroa and Mongicual; in the west by the district of Nacala-Velha and Mosuril.

Area: The Monapo district has an area of 3581 km² with a population of 226.968 people and a population density of about 78.4.

The economy: Agriculture is the main source of the income of the households and the people depend on it for their livelihood. Because of climate conditions, the agricultural production has been unsuccessful because of the drought. In addition, agricultural production is done traditionally and is practiced without the use of technology. The usual produce of the district is maize, beans and cassava; they also yield cashew nuts, sesame and

Figure 5.2 : Map of Monapo's district



peanuts. The land is also rich in mineral resources that are not yet explored such as tourmaline, aquamarine and phosphate.

The district has been recognized for its economical growth compared with other districts.

Population : According to INE (1997) the population of the Monapo district is mostly composed by the youth (46%) under 15 years. The rate of urbanizations is 9% concentrated in Monapo side with 2272.400 of total population. The Table 5.1 shows the distribution of population in the district of Monapo based on age:

Table 5.1: Estimated population by sex in 2007

Designation	Total	Age group				
		0-4	5-14	15-44	45-64	65+
Women	136.445	27.971	34.971	60.880	11.103	2.357
Men	135.955	26.650	37.750	55.774	12.681	3.096
Total	272.400	53.784	72.724	116.654	23.784	5.454

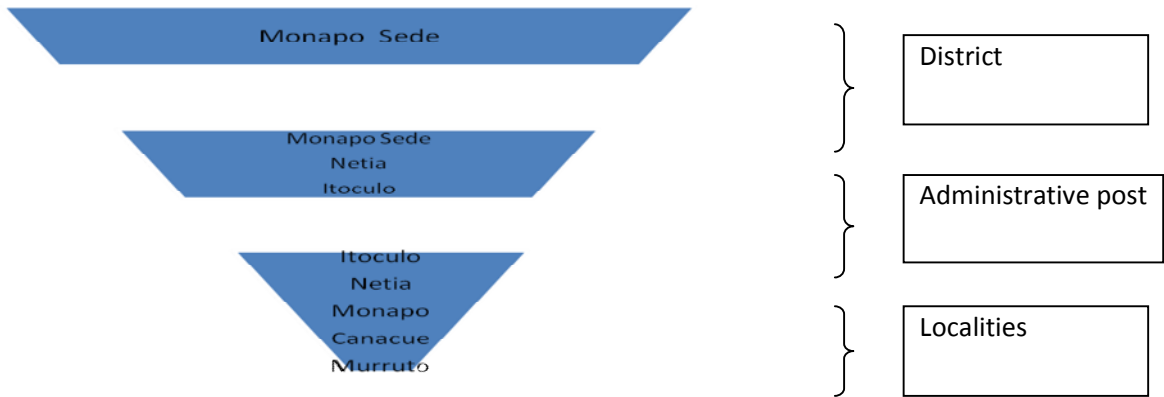
Sourec: MITIER, based in INE Censo 1997

Administrative division: According LOLE³ (Laws of the Local Bodies) No 8 / 2003, there are administrative posts and localities endowed with legal capacity that reinforces and operationalizes the importance of local governance." Thus, the district of Monapo, like any other district in Mozambique, has the administrative competency at the local level. Figure 5.3 shows the model of organization of the district.

The pyramid demonstrates the interdependence between the desired province and the lowest level. The Monapo district is one of the villages that is divided into three levels: District, Post Administratives and Localities. In terms of responsibilities, the local government is located in the Monapo side. It is directed by the administrator of the district who represents the Provincial Governor. On the other hand, there are administrative posts represented by the head of the same administrative posts.

³ law that underlies the functioning of local organs

Figure 5.3: Administrative division of Monapo's district



Source: Adapted by author

In the lowest level are the localities that are represented by the head of the villages. It is a kind of top down responsibility to achieve the policies of the local government where all the staff have the support of traditional authorities that exercise strong leadership in the community at different levels (lords, heads of group of villages and towns chief).

CHAPTER 6

HISTORICAL CONTEXT OF SME'S IN THE MONAPO DISTRICT

The Monapo district suffered throughout the following three periods that marked the history of Mozambique: the period of colonization, civil war (destabilization) and post-war period. All these stages affected the process of the town's development.

6.1. Colonial Period (1485-1975)

The process of colonization in Mozambique began in 1484 with the arrival of the Portuguese in the island with the main goal of exploiting the local resources. This period is marked with the Portuguese government in the lead of operating the country's economic resources.

1885-1926 was a period characterized by an economy dominated by large plantations operated by private companies. A period when the Portuguese was not practicing monoculture of export crops (sisal, copra and sugar) in the center and north of the country, based on cheap labor. The private companies controlled the market. This period was also characterized by a specialized workforce in countries such as Rhodesia, Malawi (Nyasaland), Tanganyika, Belgian Congo and in some cases in South Africa (WUYTS, 1980:12-13).

The colonial economy in Mozambique lasted for many years because of its dependence on two systems: migrant labor and agriculture coercive⁴. Portuguese colonialism introduced a mechanism that impeded the growth of the local people through their own agriculture or commercial activities. Thus, although there was a distinction of class among the locals ('Kulaks' and small traders), the system of agricultural and industrial production remained in the hands of the Portuguese bourgeoisie (FIRST, R., Manghezi, A., et al, 1983). This meant that the Portuguese took the control of the economy of Mozambique.

During this period, Monapo's main crops were cashew nuts, cotton and sisal. These products were exported thereby feeding Portuguese industries (CEA, 1998; WUYTS, M. & O'Laughlin, B., 1981). The community of the Monapo district worked many years as laborers in the plantations that fed the economy of Portugal. Table 6.1 enumerates the policies implemented by the Portuguese during the colonization period and their outcomes with description of the facts based on police structure approach.

Based on this table, it is evident that during the colonial period the Portuguese were controlling all SMEs. This system forced the local community to work hard in the plantations with the goal of producing local raw material in support of foreign-owned industries.

⁴ System established by Portugal to exploit the local workforce.

Table 6.1: Policy structure of colonialism period (1485-1975)

End outcomes	Intermediate Outcome	Outputs	Activities	Inputs
Promoted development of SMEs in Portugal	Increased the raw material and capital for SMEs in Portugal	Increased sisal, cotton and cashew nuts production	Sisal production Cotton production Cashew nuts production	Portugues technicians Funds Agriculture seeds
	Increased local SMEs in Portugal	Reduced local labour	Work in mines of South Africa	Local labour

Source: Adapted by author.

Table 6.2: Characteristic of community capacity during colonialism period

Sense of community	Identified sisal and cotton as crops for export to Portugal
Commitment	The local community had not commitment to produce for local area
Ability to set and achieve objectives	Based on colonial interest the community did not have opportunity to develop local SMEs and in order to promote rural development
Ability to recognize and access to resource	Not developed to be used locally

Source: Adapted by the author

Similarly, it is during this period that the community developed self-dependence in order to achieve local their goals. Although most of the population were involved in coercive agriculture, some were involved in a war that sought to establish freedom and independence. The community was poor and the objective of the movement was focused on fighting against the colonizers as shown in Table 6.2, the development and the influence on the SMEs and rural development.

6.2. Civil war period (1976-1990)

Mozambicans fought for their freedom against the Portuguese regime. This fight was organized and lead by FRELIMO. The process of liberation of Mozambique started from the need for freedom from the Mozambican people against the regime of Portuguese exploration. This process was waged in different fronts of the country (north, center and south), led to strong leaders Mozambicans such as the first of FRELIMO⁵ Mr. Samora Machel, who after having proclaimed independence nationalized the entire economic infrastructure in July 25. 1975.

This period was marked deeper by changes in the delivery of economic infrastructure to the Government of Mozambique. The transition left most of the companies and rural shops without the human capacity for management and as such many of them were bankrupt. Between 1974 and 1976, the production of exporting crops decreased to 40%, the corn to 20%, cassava to 61% and agricultural production of the settlers (vegetables and food stuff

⁵ The movement that fought for independence called the National Liberation Front

to supply to cities) to 50%. In 1974 and 1983, the process of nationalization of all sectors of the economy and the political guidance from the Government began. This led to the socialization⁶ of the economy through the creation of collectivist structures. During this period, state enterprises took advantage of over political protectionism. Their managers were essentially political and military elites backed by the state in power (Cetano, 1999).

Attempt to reverse the negative trends of economic growth through a structural re-adjustment introduced the Economic Recovery Programme (ERP) in 1987 and the Program for Economic and Social Rehabilitation (PRES) in 1990. The structural adjustment program is a package that involves free trade, deregulation and privatization.

In 1982, approximately 73% of companies, industries, commerce and agriculture were already state-owned companies or "intervened", while only 27% of companies remained private. In the heyday of the intervention period and nationalization, the state sector included about 600 companies; many of them created from the merger of several former colonial enterprises. With some notable exceptions, the state controlled most sectors strategically and economically, managing large and small companies in the north and in the south (Pitcher, 2003). Large companies remained active in the production of sugar, copra, sisal and cotton, as well as cashew processing. The country produced only 7% of food products on the market, and 50% of the supply of copra (Caballero, 1990, pp. 33-55). In 1979, the President Samora Machel declared that the private companies "must be supported by different government bodies and financial resources in order to ensure fulfillment of

⁶ Mozambique introduced the socialism regime as a way to achieve to develop the economy appropriating all the SME's and introduced collectivism in agriculture sector.

tasks that fit under the Plan. We will coordinate our forces to carry out targets', (News, August 5, 1979). In terms of economic issues, agriculture continued to be the “basis of national development.” Meanwhile, the same industry emerged as the 'driver of national economy. However, the state replaced direct intervention with stronger regulatory role by committing themselves to regulation, by promoting economic growth and national development, and recognizing contributions to the process of foreign and domestic investors⁷ (Mocumbi, 1997).

Table 6.3: Policy structure during the civil war period (1978-1992)

End outcomes	Intermediate outcome	Outputs	Activities	Inputs
Nationalization of all sectors of the economy, political guidance from the Government.	Reduced exportation and index of SMEs	73% SMEs were owned by government	Owned all the SMEs	Introduced socialism
	Reduced the level of production Small incomes	Intervention in the local market	Price control	Introduced collectivism in the agriculture sector Introduced PRE Local human resource

Source: Adapted by author

⁷ Speech of Mr. Pascoal Mocumbi, "Prime Minister of the Republic of Mozambique I Summit Pan African Investment, in "Privatization in Practice: The Restructuring of State-Owned Enterprises in Africa into the Next Millennium ," March 17,1997, Johannesburg, South Africa, Mimeo

Table 6.4: Characteristic of community capacity during the civil war period

Sense of community	Started to identify local agricultural product as a way to promote local development.
Commitment	Agriculture started to be done collectively to boost development of local communities
Ability to set and achieve objectives	Fearful of change and less capable to cultivate and produce
Ability to recognize and access to resource	Agricultural product as cotton, cashew nuts were the most cultivated product. The community started to take control of the agricultural resource

Source: Adapted by author

During this period, the government also started to take control over SMEs at all levels by introducing policies that promote work in the agricultural area and the production of agricultural products. This period was characterized by the trend of nationalization of enterprises.

For the community to become aware of their duties as a key actor to local development, the development of agricultural activity was kept as the center of community development..

The goal of local production was to maintain the functioning of industries through the management of the local government. Agriculture also became the activity for subsistence

of the community. However, the level of production still declined due to the lack of technology, agricultural inputs and machinery.

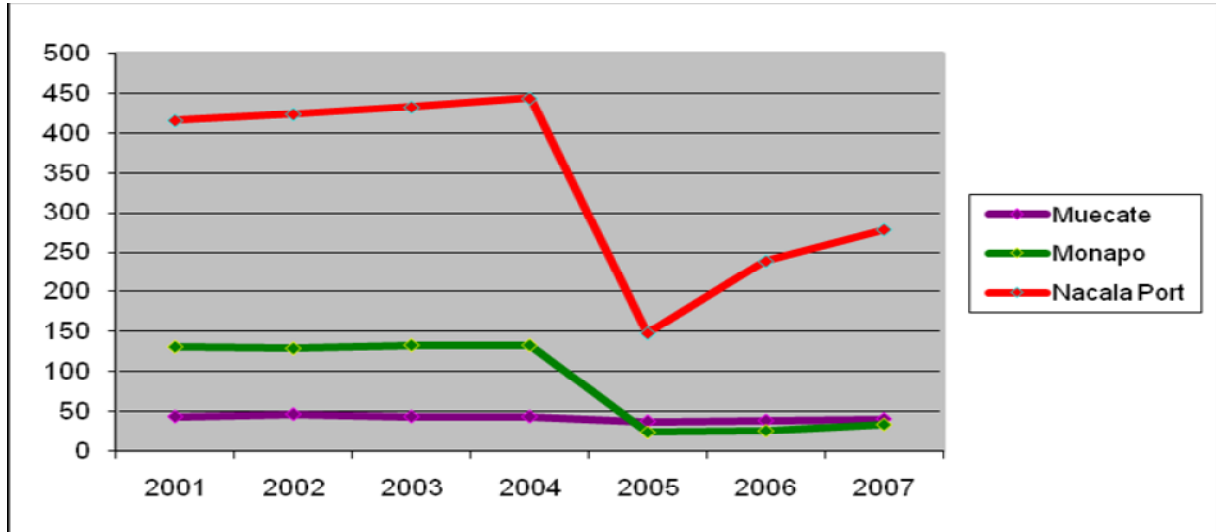
6.3. Period of post conflict (1990-2009)

Two years before the signing of the peace agreement, the 1990 constitution of Mozambique offered the clearest indication of a change in policy. For one, the state replaced direct intervention with a stronger regulatory role; pledging to regulate and promote growth economic and national development and recognize the contribution to the process of foreign and domestic investors (Pitcher, 2003). According to Article 102 of the Constitution of the Republic of the Mozambique (1990) “agriculture is the basis of national development.” Similarly, Article 104 recognize that “industry is a key driver of the national economy.”

In the Monapo district, the commercial rural shops,⁸ industries and most SMEs were paralyzed after the privatization of companies and the departure of the Portuguese. This is due to the local government’s lack of capacity to reactivate the activities. Figure 6.1 presents data on the evolution of rural shop networks in three districts of Nampula province: Muecate, Monapo and Nacala-porto.

⁸ It refers to the network of small scale of rural shops that sell local products.

Figure 6.1: Situation of rural shops after the civil war period



Source: Provincial Directorate of Industry and Commerce of Nampula

According to the table, the rural shops slightly decreased in Monapo between 2002-2006 due the absence of the Portuguese administrative machinery and the inadequate capacity of the Local Government to maintain the functioning infrastructure. Many of them ended up collapsing while the others were in a state of degradation. This condition was found not only at the level of the commercial network (that was significant in the distribution of local products) but also in other industries. As such, local governments made efforts at the district level to promote the revitalization of rural trade network through the sale of the premises encouraging community utilization.

CHAPTER 7

DECENTRALIZATION AND LOCAL GOVERNMENT

Since 1994, the need for improved forms of decentralization and democratization have been increasingly acknowledged and articulated at the political level. There is no doubt that the influence wielded by the international donors has been a major factor in this respect. But a related set of important internal socio-economic and political factors also propelled the FRELIMO government to this direction⁹.

Public sector reforms in Mozambique is considered a driving factor in the development of economic activities, especially with regards to the promotion of SMEs at the level of communities. The reform process in Mozambique began during the post-independence period and continues until the present time. For one, a constitutional reform of multiparty democracy was enacted in 1990; while the General Peace Agreement was signed in Rome in 1992. During the same year, a Local Government Reform Programme (PROL), sponsored by the World Bank was set up within the Ministry of State Administration of Mozambique (MAE) (Cuereneia, 2001).

In 1998, the Decentralized Planning and Financing Programme (PPFD) was introduced to the Monapo district and other districts. This gave local governments the authority to plan,

⁹ United Nations Development Programme MOZ/98/001, United Nations Capital Development Fund MOZ/98/C01

decide and *execute* expenditures for the maintenance of local institutions under them. Some critical assumptions were also being considered. For instance, Law 8/2008 (LOLE) gave the district power to plan, budget and implement local initiatives (district as budgetary unit) (Massuanganhe, 2005).

At national level, the decentralization process was considered a mechanism to establish the autonomy of the local governments during the post-conflict period. This started the process of the decentralization of powers from the highest level to the lowest level. It was describe as:

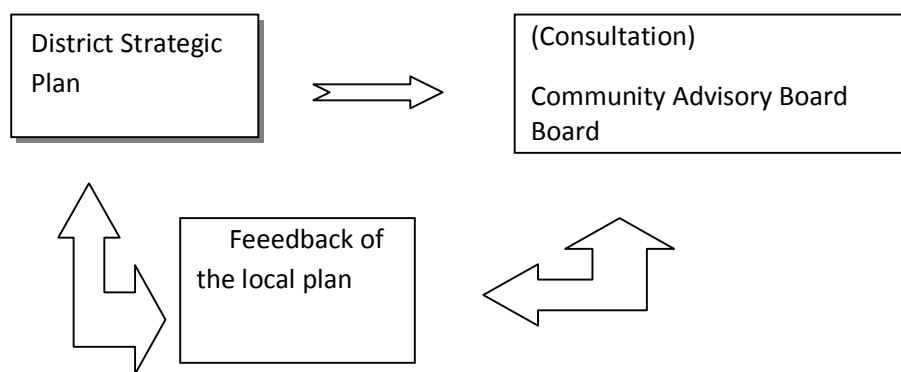
The district in Mozambique was defined as the basic unit of planning and socio-economic development of the country, which ultimately never realized due to the problems of lack of means and capacity to several niveis. In a predominantly rural context as is the case of Mozambique is at the district level that the link between decentralization and planning development can be done more easily. The district administration, assisted by the heads of administrative post, is the lowest administrative level of infrastructure and basic organizational politics, where the major organs of the state are represented. They are likely to drive which has the closest bond with interest groups and the local community and are certainly the meeting point and the main link between the local, provincial and central. (www.ilo.org/public/portugue/region/eurpro/lisbon/pdf/descentra_mocambique)

The process of decentralization in the Monapo district is considered as a successful example in terms of budget allocation for the local development initiatives. Several laws were enacted during this period. For instance, a legislation for the establishment of farmers associations at the community level. This was done in partnership with the provincial government.

Local governments started the process of establishing farmers association with the objective of increasing the production and diversification of products. During this period, several producers and local NGOs were legally recognized by the local government. Similarly, the decentralization process established a Local Development fund for the promotion of economic activities focused on SMEs. The fund was opened with the assistance of a Community Advisory Board.

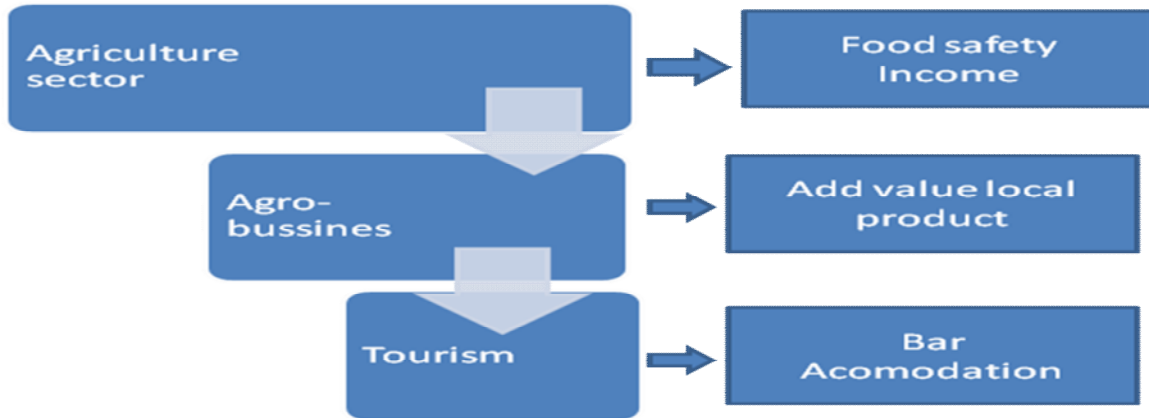
Figure 7.1 illustrates the planning process of funding from 2006-2009 in the Monapo district. It shows how the Community Advisory Board intervened in the process of reform. Strategically, efforts for the development of the district moved towards the area of food production, promotion of economic activities, SMEs and employment. In general, the actual decentralization process took place without major issues such as the budget and the growing need of the local organizations involved in the planning process.

Figure 7.1: Planning process in Monapo's district



Source: Adapted by Author

Figure 7.2: Intervention Priority of the local government from 2006-2009



Source : Adapted by the author

Meanwhile Figure 7.2 enumerates the intervention priority of the local government from 2006- 2009. It describes, that the development priority of the community in the Monapo district is based on supporting agricultural initiatives through the empowerment of local farmers in lieu of its potential agriculture resource. It is then followed by agri-business and finally, tourism. From 2006 to 2009 the number of local farmers increased significantly partly due to the encouragement of the local government and NGO-associated sites.

7.1 Production process in Monapo

Local government intervention is more engaged in the provision of agricultural production assistance to the producers. This is done as a mean of increasing production for income and food security as well as attracting investment capital in the area of agro-business export.

This intervention was developed with the support of the provincial government under a food security program and the Green Revolution¹⁰ lunched in 2006. Its primary purpose was to increase the production and productivity of small farmers; and a competitive and sustainable increase in the supply of food.

Eventually, the *Green Revolution* demonstrated significant results in the community of Monapo as efforts to increase production soon bore fruit and the promotion of partnerships in production and business generation increased from year to year. Table 7.5 shows the evolution of agricultural production in the Monapo district in recent years.

Table 7.5: Evolution of agricultural production in post conflict period

Produts	2006	2007	2008	2009
Maize	11.362	16.812	13.854	25.589
Sorghum	10.058	13.683	7.295	10.176
Millet	0	2.104	1.800	973
Rice	22	1.400	1.900	2.520
Beans	120	3.614	4.103	5.880
Peanuts	3.251	4.919	3.998	3.909

¹⁰ The Green Revolution in Mozambique is a government program that seeks solutions to increase production levels and agricultural productivity through use of improved seeds, fertilizers, tools of production, production technologies suitable to local conditions, agricultural mechanization, including animal traction, construction and operation of dams for irrigation and for watering livestock, among other actions. It is a multi-dimensional strategy to combat hunger and poverty. Its ultimate goal is to increase production and productivity of land competitive and sustainable manner.

Source : Provincial Directorate of Agriculture of Nampula.

The process of the agricultural production in the Monapo district increased and diversified after the civil war period due to the government's provision of technical assistance by rural extension worker, NGO's and private companies. The Green Revolution Program contributed significantly to the allocation of agricultural instruments for the local community.

One of the NGOs that significantly contributed to the development of commercial agricultural production is called IIKURO.¹¹ The group provided technical assistance in agricultural production by facilitating the process and providing funds for marketing the products -- with an emphasis in the export of sesame, cashew nuts and peanuts. IIKURO contributed so much to the increase in farmer associations and in facilitating their participation in the fair market. Actually, theyI are the main exporters of the sesame, peanuts and cashew nuts produced by farmer association in Monapo district.

Another institution that has been contributing to the increased agricultural production in the district is IIAM.¹² The group has been doing agricultural studies and introduced seeds that were highly productive and resistant to Monapo's soil conditions.

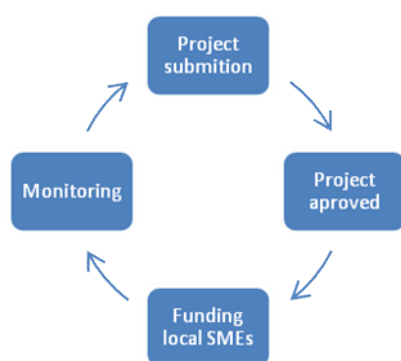
¹¹ IKURU is the recipient of a Global Development Alliance grant from USAID and receives technical assistance from the Cooperative League of USA and other Alliance partners in multiple areas: establishing and capitalizing the producer-owned trading company; designing and installing needed management and record-keeping systems; obtaining Fair Trade certification; gaining experience in local, regional and export trading; training board directors; and strengthening the existing links between IKURU and its farmer members .

¹² Investigation Agrarian Institute of Mozambique

7.2 Financing process of SMEs in Monapo

The funding for SMEs in the Monapo district started through the process of reforms in the public sector that was focused on the district level or local community. This initiative was launched in 2004 by the President of Mozambique, Mr.Armando Emilio Guebuza. He proposed a package for promoting community development. The plan established a financing package for local development activities called OIL as well as a local development fund¹³. The main objective of the budget is to fund food production, creation of SMEs and wealth accumulation. The management system of the funds in Monapo includes the participation of the District Advisory Council. This system determines the decision process through which projects will be financed in the community. Figure 7.3 presents the flow of funding SMEs in the Monapo district;

Figure 7. 3: Flow process of SME funding in Monapo district



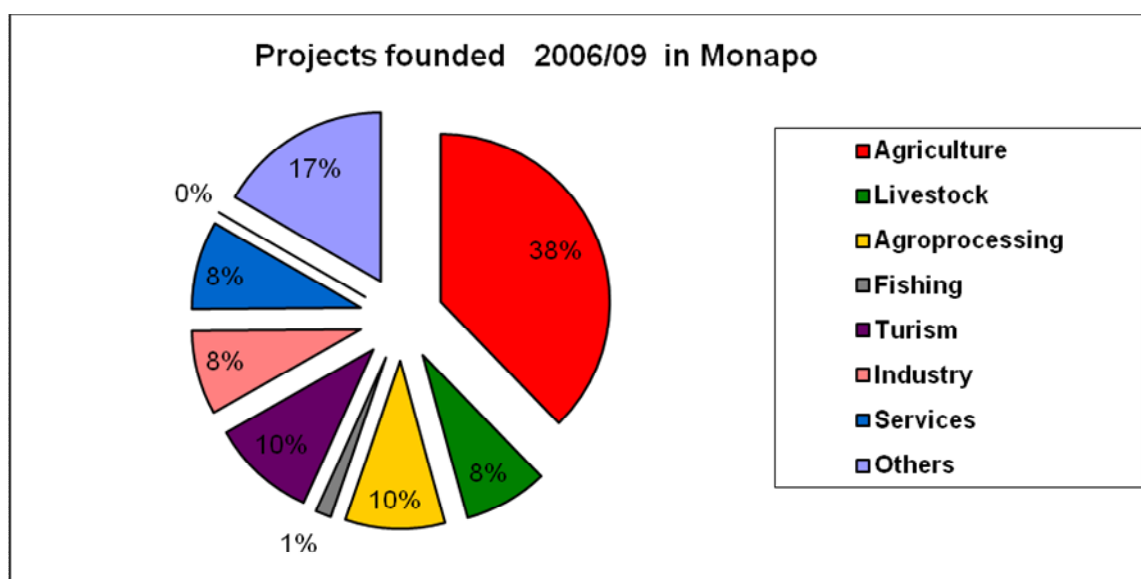
Source : Adapted by Author

¹³ Locally called *Fundo de Desenvolvimento Local* approximately \$ 300,000 annual for promotion of SMEs, food security and employment generation in rural communities.

First, the project is submitted to the local government who then submits the proposal to the Local Advisory Council for its approval. After which, the local government will conduct a final assessment of the project based on the decision of the Local Advisory Council. In this regard, the government does not only finance the projects but they also monitor the project's implementation.

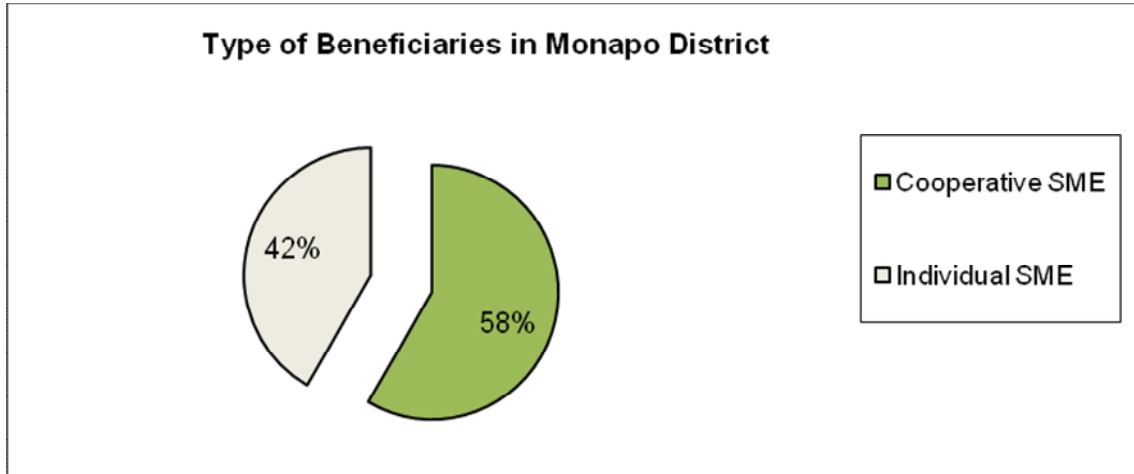
Figure 7.4 describes the scenario of funding under the local development fund of the Monapo district from 2006-2009. Based on the figure, the process of financing SMEs is focused primarily in the area of agriculture followed by tourism and agro-processing. The process of financing of the SMEs was developed without consulting borrowers, without the

Figure 7.4: Projects founded in the Monapo district from 2006-2009



Source: Adapted by author

Figure 7.5: Beneficiaries percentage from 2006/2009



Source : Adapted by author

creditors asking for fundamental requirements and with the weak capacity to monitoring contributions to weakening back money. Figure 7.5 illustrates the indicators of the beneficiaries of the fund for the promotion of SMEs in the district of Monapo from 2006-2009 .

First, the funding process was directed more to the individual activities. However, the emergence of a new political approach called the green revolution made reference to the promotion of farmers' associations. During this period, the local government directed its attention to the farmers' association and contributed significantly to the establishment of new associations related to agricultural production. In this sense, the approach of promoting of farmers association begun from the local government and NGOs. The initiative meant to increase production and sustain the activities of communities. As a result of the financing

Table 7.6: Level of local association up to 20010

Category	Number of association	Men	Women	Total
Officialized	107	2216	917	3173
Non officialized	0	0	0	0
Total	107	2216	917	3173

Source: DPA- Provincial Directorate of Agriculture of the Nampula Province

process, around 45 projects from SMEs were funded in 2009 that generated 343 jobs.

Table 7.,6 presents the number of local associations in Monapo's district.

According to this table, the number of associations (agricultural and livestock) demonstrated positive growth in contrast to the colonial and civil war period due support of local government and local NGO's. The policy to provide incentives for farmers' associations was considered successful. In fact, under the decentralized system the local government gained the legal power to legalize these associations. It is also one of the criteria to get funding in the community.

7.3 Capacity of local government and the strategy of SMEs

From the framework of reforms arose and fostered networks that aimed promote SMEs in Mozambique. The Government then set a strategy for development with the intention of contributing to the revitalization of the SME sector. According to the Strategy for SMEs

(2008), the objectives for the growth and development of SMEs in Mozambique include the following: (I) Establishment of liaison with foreign capital and consequently a global value chain; (II) Increase in the establishment of new enterprises, and (III) Improvement in the competitiveness of existing firms. In general, the strategy of SMEs was designed in order to developed the all industries throughout the country.

Table 7.7 presents the framework of the SME Strategy during the post-conflict period.

In this respect it appears that at the district level, the local government has little knowledge of the instrument of work.¹⁴ This was due to the lack of dissemination of the instrument. In terms of inputs, SMEs promotion at the district level has no connection to the national strategy. In general, it is difficult propose close interactions between the activities of SME promotion and the activities being developed by the local government.

Based on previous experience, projects financed by individuals SMEs were negatively recognized as sustainable because most of them failed. The local government is inclined to finance SMEs established by farmers that have appropriate project outlines.

Ultimately, the sense of community during the post-conflict period started to change (Table 7.8).

¹⁴ National Strategy of SMEs 2008/13

Table 7.7: Policy in post conflict period (190-2009)

End outcomes	Intermediate outcome	Outputs	Activities	Inputs
Revitalization of SMEs at the district level	Increased income of the local SMEs	Increased local production	Promotion of local production	Extensionist Local funds Green revolution
	Improved the production and export of cashew nuts	Diversified the production of local crops	Promotion of farmers association	
	Introduced sesame production for export	Increased the number of local SMEs	Funding local SMEs involved in agriculture sector	
Improved commercial sector	Improved the technique for local production	Increased the knowledge in agriculture production	Building capacity in crops production	Local NGOs

Source: Adapted by author

Table 7.8: Changes in community capacity during the post conflict period

Sense of community	Identity as cashew and sesame producers
Commitment	Committed to cashew nuts, peanuts, cassava and sesame production with export oriented system Sharing work as farmers groups (SMEs)
Ability to set and achieve objectives	Established cashew nuts and sesame companies
Ability to recognize and access to resource	Increased network between farmers association and local NGOs and enterprises. Local community started to gain skills and technology in cashew nuts production Introduced funds for SME development

Source: Adapted by author

The community became more confident and hopeful with the support of local government and local NGOs. In fact, the government went beyond creating a fund for the promotion of local development. It also promoted the creation of a network of producers at the local level with the objective of uniting efforts among them and facilitate income-generating activities. These activities were led by provincial agricultural organizations with the support of

several local NGOs. They worked to promote the commercialization of agricultural products. The main activities employed to promote the establishment of associations included the sensitization of individual producers to join their activities. This meant to increase production and sell products.

Eventually communities started working in groups as a way of achieving their objectives. They were able to identify the necessary technical assistance from government and local NGOs in terms of production and in the market process.

CHAPTER 8

POLICIES TO SUPPORT SME DEVELOPMENT

This chapter focuses on the policies developed during the different periods by the local government in order to promote SMEs in the Monapo district. The succeeding discussion is based on the different policies implemented and the understanding of how the process of SME development has influenced rural development.

8.1. SME development during the Colonial period

Colonization had a strong influence in SME development. For one, it was during this period that infrastructures were built to support industrial and commercial activities in the Monapo district. Second, direct interventions in the management process transformed the community to a workforce. It means that local production was not for the promotion of the local economy rather most of SMEs were created by the Portuguese to produce the raw material (i.e. cashew nuts) and supply industries in Portugal. The cashew and sisal were recognized as main products exported from the Monapo district to Portugal. Human capital during this period was not well developed; most experts came from Portugal and provided SMEs with support in the administrative area. Migrant labor coming from South Africa, reduced the workforce to support the local activities. During this period, agriculture remained the key factor for the town's development. However, it did not contribute to the

income of the local community. It may be considered, therefore, that SMEs during this time were created to respond the needs of the Portuguese government and not to promote the development of the Monapo district because the community were not asked to work for a company. As such, the community committed themselves to fight against colonialism in order to establish their freedom and liberty.

The growth of SMEs paved the way for the building of infrastructures by the Portuguese to support industries such as sisal, cashew nuts and cotton. Rural shops were also established to aid the distribution of commercial and industrial products produced in the district.

Table 8.1: The implementation of SMEs during the colonial period

Policy approach	Capital social development	Strategy to build community capacity	Main Market
Direct exploitation of local resource based on Portuguese policies	Based on local workforce (community) Selected local people to participate in production activity	Limited education for local community Direct collaboration between local SMEs as raw material producer with SMEs in Portugal	Export for International market as Portugal

Source: Adapted by author

The local government was composed generally Portuguese Officials that aim to explore and exploit all the local resource of the community. Table 8.1 presents the interventions implemented by the Portuguese government and its strategies to develop the Monapo community.

Summary

Accounts from the colonial period show that the local community did not have the autonomy to promote income generating activities. In fact, all its economic resource were under control of Portuguese government. The political approach during this period aimed to exploit local resources without the intervention of the local community. The rural development process of the Monapo district was focused on building economic infrastructure that support Portuguese Industries through the provision of technical support from experts from Portugal.

8.2. SME Development During the Civil War Era

With Mozambique's declaration of independence in 1975, a new scenario pertaining to the development of SMEs came about. In 1978, all the SME's were "declared private units of the state" by President Samora Machel. The state also replaced direct intervention with a stronger regulatory role by committing to regulate and promote economic growth. Agriculture was still considered the base for development through the collectivism system.

Price control and production were the main features of the economy during this period. Table 8.2. describes the role of the state in community development during the civil war period. This was the time when the community started to participate in economic activities as stakeholders through their participation in collective activities planned by central government. Access to education was no longer limited since it was considered as a means to promote the indiscriminate development of the country.

Summary

Table 8.2 highlights how the role of the local government during the civil war period contributed to the many changes in the community through the incorporation of the socialist system with regard to the right to (1) education, (2) participate in the collective production, and (3) the management of local resources

The lack of financial and human resources to cope with the development led to the collapse of many of these industries. This caused the low production of cotton, cashew nuts and sisal in the Monapo district. Because of this, the state started to develop direct controls that address the management issues in the community. This led to the second phase of the civil war period which was the liberalization of the market and the promotion of competitiveness based on PRES. This allowed for the resurgence of small individual initiatives and the growth of some farmers in the community.

**Table 8.2: Interventions of the Government in Promoting SMEs
during the Civil War Period.**

Policy approach	Capital social development	Strategy to build community capacity	Main Market
Privatization of the all SMEs by the state Introduced PRE (Politic for Economical Rehabilitation) and PRES	Bridging: The community started to develop local spirit to work together based on a socialist system (collectivism).	The right for education and support in production became important instrument to promote the development	Rural and urban market take place

Source: Adapted by author.

8.3. SME Development during the post-conflict period

The post-war period was characterized by enormous changes brought about by the introduction of new policies in the development of the Monapo district. Based on the decentralization process, the role of the government at the community level became relevant and visible. The local government started paying attention to the local planning including the participation of the local community. Similarly, the local government with the support of the local NGOs contributed positively to building social and human capital

through technical assistance in the agriculture sector and the creation of farmers' associations. Table 8.3 shows the contribution of this political policy approach during this period.

Table 8.3: Policy approach and its contribution to the rural development of Monapo

Policy approach	Capital social development	Strategy to build community capacity	Market
Promoting the rural development through decentralization process Promoting SMEs through farmers association approach Involvement of the local community in planning	Increased bridging and bonding of capital social through local NGOs and farmers association	Wider access to national education Improved capacity of human capital through technical assistance for farmers association Introduced financial system to support SMEs	Export of diversified products (cashew nuts, sesame and peanuts) driven by the producers, local farmers' association with support of local NGOs

Source: Adapted by author

Summary

Table 8.4 shows the changes that occurred after the civil war period within the community. This was due not only to decentralization but also the introduction of new approaches to promoting SMEs such as the introduction of a financial system to support local

Table 8.4: Comparative Analysis of the Policies and SME Development during the three periods

Category	Colonial period	Civil War	Post conflict
Intervention policies	Direct control of the economy. An economy dominated by large plantations	Nationalization of all sectors of the economy and introduced socialism	Decentralization to promote rural development. Created policies to support SMEs Introduced financial support to SMEs
Situation of SMEs	Agricultural and the production of the SMEs remained in the hands of the Portuguese with high level of production, productivity and export.	Government ownership of SMEs. The export crops decreased by 40%, Bankruptcy of many industries in agro-business sector (cashew nuts)	Revitalization of the agricultural production sector (cashew nuts, sesame seeds, sisal, cassava); Introduced new crops in agricultural production.
Stakeholders	Portuguese Government, local labor.	Government of Mozambique and socialist's countries (URSS) and local community.	Local government, civil society, farmers association, individual, private sectors.

Source: Adapted by author

development, involvement of the local advisory council in the local planning and the promotion of farmers' association. On the other hand, the Green Revolution has been contributing significantly to the increasing productivity of agriculture product.

8.1.4 Changes in Community Capacity in the Monapo district

Community Capacity is the main factor that contributes change in local communities. It is necessary for business and trade purposes, governance and diplomacy, and the improvement in the quality of life of all stakeholders at all levels of community. There should also be firm avenues for the exchange of activities and information between them (Banyai, 2010).

Sense of the community: Basically during the colonial period, community capacity was very limited especially with regard to the development of human and social capital. The limited access to education of the locals greatly contributed to the weak capacity of the human capital in the community. Sense of community was also very restricted due to forced labour.

During the independence and civil war period, the community was encouraged to work together based on a socialist philosophy in order to promote local development. However, the lack of financial and human resource contributed to its eventual bankruptcy and decrease in the local production. The post civil war period was recognized as a period

reconstruction during which the sense of local community increased and the locals gained confidence and became more proud of the local products.

Commitment : Commitment has changed a lot from the colonial to the post conflict period. For one, agricultural production during the colonial period employed forced labor. The local community was also more focused on the pursuit of independence so that local resource management could actually benefit the native people.

Upon the declaration of independence, agriculture remained as the basic element of subsistence and industries slowly began to drive the economy. The participation of the native people started to become more active and the commitment at the community level also became stronger especially after the transition period. Similarly, the involvement of the local authorities, local NGOs and international NGOs became more active. The production of cashew nuts and new cash crops such sesame and peanuts flourished due to the technical assistance to farmer associations provided by the local government and NGOs. These activities contributed significantly to strengthening the capacity of the local community.

Ability to set and achieve objectives: The ability to set goals and achieve objectives during the colonial period were formulated based on the objectives of the Portuguese government and not the native people. The declaration of independence of the Mozambican government allowed for the set up of agricultural resources for wealth generation. This approach continued up to the post-conflict period during which the goals are based on the PARPA

(National Plan for Poverty Reduction) which at that moment was in the second phase of its execution.

Ability to recognize and access to resources: Agricultural products such cashew nuts, cotton and sisal were recognized as cash products. Table 8.5 shows the changes in community capacity in the Monapo district during three periods of analysis of this study.

Table 8.5: Analysis of the changes in Community Capacity in the Monapo district

Component	Colonial period	Civil war period	Post conflict period
Sense of community	Local community was limited to development activities that benefit the colonizer. They were fulfilling the legacy of the Portuguese Government	The community started to gain the confidence to improve their capacity and work together.	More confident. Started to develop human and social capital. Shared activities in order to diversify and increase local production.
Commitment	Agriculture was considered the main source of income The community was involved in the production of cashew nuts, cotton and sisal. Committed to fight to free themselves from exploitation. The	Agriculture continued to be considered as the driver of the economy and industries as the booster for country development.	Development of SMEs based on the agricultural resources. Introduction of new products and increase productivity. The vision to reduce absolute poverty became the main task for the local government.

	activities of SMEs were export oriented.		
Ability to set and achieve objectives	The community was conditioned to fulfill the objectives of the Portuguese domination (cashew nuts, sisal and cotton production) Lack of human resource development due to limitation to education	The ability to set and achieve objectives improved due to easier access to education. The assistance of the local government contributed a lot to human and social capital development. Access to education was proclaimed free for all Mozambican.	The community became more confident to work together through farmers' association. The networks became stronger and served as a way to achieve local development.
Ability to recognize and access to resource	At the community level it was limited.	The agriculture was the drive to promote the local economy.	Agriculture started to diversify and contribute to income.

Source: Adapted by author

CHAPTER 9

CONCLUSION

The process of development in the Monapo district has distinct features marked by the evolution of SMEs. A longitudinal analysis of the study shows that during the colonial period, the Portuguese government did not significantly contribute to the development of the local SMEs due to direct exploitation of the local resources. They built small economic infrastructures that only supported their own objectives and not of the local community.

According to the study, the policies introduced during the civil war period did not also significantly contribute to the growth of the SMEs. In fact, this period was considered a stagnant period in terms of SME growth in the Monapo district. A lot of enterprises went bankrupt, export of products were reduced and there was a significant lack of human development as well as financial resource.

At present, the decentralization process, introduction of local planning as well as the intervention of local NGOs promoted significant changes in terms of rural development. Throughout the three historical periods, the role of the local government concentrated in providing support for agriculture production and the export of primary products such as cashew nuts and cotton. The colonial and post conflict periods were also identified as period of marketing flows. Actually, the role of the local government is focused on the promotion of farmers' associations, financial support and technical assistance in the

agriculture sector rather than providing market assistance and price information as well as creating linkage between customer and sellers.

Community capacity has improved gradually through the provision of financial and technical support as well as strong social capital and networks developed among the farmers association. The growth of SMEs contributed for the creation of the income and employment of local people in the agriculture sector.

9.1. Lesson learned and suggestions

This study found that national and local strategies need to be efficiently articulated and harmonized at the community level in order to have better coordination and achieve goals successfully. In this context, studies about decentralization and community participation and development as well as evaluation provide fundamental information on the transformation of rural. To improve end outcomes, strong coordination between the local government and NGOs is fundamental to promote sustainable rural development in the community. Because of the inability of local governments to promote local resource and SMEs in rural areas, they need the support of an efficient non - profit organization to link entrepreneur and farmers association and to capitalize on the potential resources available in each district. The local government must extend support to SMEs by providing market place, marketing assistance and training on quality management.

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ANNEX 1: MAP OF MOZAMBIQUE

