

# POVERTY, DEVELOPING ENTREPRENEURSHIP AND AID ECONOMICS IN MOZAMBIQUE: A REVIEW OF EMPIRICAL RESEARCH

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## 1. INTRODUCTION

Located in South-eastern Africa, between South Africa and Tanzania, Mozambique (population 19,000,000) is currently one of the poorest countries in the world with only a \$1,300 gross domestic product per capita (purchasing power parity, CIA World Factbook, 2005). In spite of its rich natural resources, because of the chronic history of violence, dire poverty, HIV/AIDS (12.2% adult infection rate) and diseases related to pollution and natural disasters, Mozambique also has one of the lowest life expectancies in the world at 40.32 years (CIA World Factbook, 2005). The recent 2000 Mozambican floods alone displaced a quarter million residents into emergency camps, with the affected population reaching 1 million residents. In overall human and social development, Mozambique currently ranks

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168th out of 177 countries in the U.N.'s Human Development Index (2003 HDI, U.N. Human Development Reports), and 96th among 103 developing countries in the U.N.'s human poverty index (2003 HPI-1, U.N. Human Development Reports).

To many scholars, Mozambique would be classified as an economic "poverty trap." According to Kraay (2005), poverty traps occur as, "self-reinforcing mechanisms whereby countries, or individuals, that start out poor might remain poor. If saving rates, or technology or other positive forces for growth are low precisely because countries are poor, then countries may find themselves trapped at low levels of development." (p. 15). In these situations, good governance and institutions may not be sufficient to pull the country out of its poverty cycle (Sachs et al., 2004).

The focus of this paper is to review the small body of empirical literature that examines components of the small business and entrepreneurial process in Mozambique. In particular, we will examine empirical studies that explore issues related to the importance of micro-enterprises and the shadow economy, the policies and functions of micro-loan institutions, the role of Mozambican labour unions, the successes of international efforts to support micro-enterprise development, and micro-enterprise cross-border exchanges.

## 2. ECONOMIC OVERVIEW

The economic history of Mozambique is quite unique. It was originally colonised by the Portuguese in the early 16th century. In 1885, there was sufficient Portuguese immigration to form the region into a formal colony named Portuguese East Africa. Many of these early settlers were part of the "prazo" system of the 17th and 18th century which encouraged European immigrants, including many felons, ex-soldiers, and destitute Portuguese government officials to seize land in the country (Henriksen, 1978; Newitt, 1996).

During the years following World War II, over half a million indigenous families in Mozambique were producing cotton (Pitcher, 1993). This allowed Portugal to rely on its colonies for 96% of its cotton needs. During this time there were often forced labour events. In the early 1950s, for example, the Portuguese ordered many indigenous Mozambicans to leave their farms and villages to clear more land for forced cotton growing. Cassava and sorghum were also raised. Immigrants from Asia, however, were exempt from forced labour, and were allowed to operate private small

businesses. Where cotton could not grow, farmers were made to grow groundnuts and/or rice. Subsequently, in addition to cotton, cashew nuts became one of Mozambique's major exports. The people of Mozambique, however, relied on the Union of South Africa for energy and basic foods including fish, maize, onions, potatoes and other vegetables through cross-border trade. By 1960, approximately 250,000 Portuguese settlers and their descendants were living Mozambique.

To use Acemoglu, Robinson, and Johnson's (2001, 2004) terminology, the economy during this colonial time was primarily "extractive," with little or no effort by the Portuguese settlers to establish workable economic institutions based on European models, or control the country politically (Westfall, 1984), a situation resulting in depressed economic development.

The guerrilla war for independence began in earnest in the early 1960s, with sporadic outburst of significant violence (Westfall, 1984). Mozambique ultimately gained its independence from Portugal in June 1975 with the new governing Front for the Liberation of Mozambique (FRELIMO) adopting rigid Marxist policies and aligning itself with Soviet Union. At the same time, most of the white population left Mozambique, abandoning their enterprises, farms, and administrative positions (Pitcher, 1993) – currently, only a few thousand Europeans live in Mozambique.

A difficult and chronic period of civil war violence ensued during the years 1977–1992, in which the economy worsened even further. During this time it is estimated that up to 1 million people were killed, 1.7 million became refugees, and another 3.2 million people were displaced (Hanlon, 1996). As a response to the impending disaster, in 1987 the FRELIMO government implemented several macro-economic reforms targeted to stabilise the economy. Concurrent with these policies, Mozambique started to receive substantial donor assistance, not only in direct aid from donor organisations from Europe, the U.S., the IMF, the World Bank, and the U.N., but also assistance, such as training programs and education, by several religious, private and semi-government aid organisations. These transfers and aid programs often came with strict conditions, such as reducing government expenditures, phasing out protective tariffs, relaxing minimum labour standards, and control of corruption (Newitt, 1996; Pitcher, 2002). These measures did not come without controversy, however (e.g., Hanlon, 1996).

The ruling FRELIMO, under Joaquim Chissano, formally abandoned Marxism in 1989, and a new constitution was established which called for multi-party elections. Some state-owned enterprises were privatised. A U.N. brokered cease-fire between FRELIMO and the rebel Mozambique

National Resistance (RENAMO) was implemented in 1992, and in 1994 multi-party elections were held under U.N. peacekeeping force supervision. Joaquim Chissano was subsequently elected to office (see Wood, 1999). By 1995 many of the refugees from the civil war era had repatriated back to their native regions within Mozambique. Elections were held in 1999, and Joaquim Chissano was re-elected; although there were protests regarding the legitimacy of the 1999 elections (U.S. State Department, 2001). Typical of many emerging democracies, subsequent public opinion surveys in Mozambique suggest a wide range of opinions regarding the notion of democracy and freedom (Pereira, Davids, & Mattes, 2002).

The combination of these events (progress towards democracy, movement towards a market-based economy, and controls tied to aid funds) appeared to substantially improve the Mozambican economy (Wood, 1999), resulting in positive economic growth with growth rates in the late 1990s estimated at close to 10% (Economist Intelligence Unit, 2000). Currently, GDP is estimated to grow at about 7.0%, with industrial production growth rates estimated at 3.4% (CIA World Factbook, 2005). However, it must be remembered that the economic statistical base for these growth statistics remains relatively small. In addition, inflation was controlled at single-digit levels for much of the 1990s, but had started to climb to the low-teens by 2003.

In spite of this, the vast majority of the population is still involved with subsistence agriculture and small micro-businesses within the cities. Foreign aid remains a major component of the Mozambican economy with some estimates reporting that foreign aid constitutes around 75% of the state budget. In addition, much of the foreign debt for Mozambique has been either forgiven or rescheduled. In December of 2004, President Chissano stepped down without seeking a third term and Mozambique made the transition to a new government under his FRELIMO successor, Amrando Emilio Guebuza.

This historical chronic unrest, combined with several severe droughts and floods during the last decade, has encouraged migration of the rural population to the urban centres, such as the capital Maputo. This, in turn, has created substantial environmental problems, such as significant pollution of surface and coastal waters. Reports of governmental human right violations continue in Mozambique, although a number of groups including the Catholic Church (Comissão Católica de Justiça e Paz), Protestant Churches (Conselho Cristão de Moçambique), universities, and international organisations such as the U.N. are working hard to control these violations (Fry, 2006).

### 3. REVIEW OF EMPIRICAL LITERATURE: BUSINESS IN MOZAMBIQUE

While there are a number of macro-economic studies that examine economic growth in sub-Saharan Africa including Mozambique, the empirical literature examining business activities at the micro-level in Mozambique is sparse, at best. This review explores some of the important studies that examine critical issues related to entrepreneurial activity in the post-civil war and post-Marxist era of Mozambique. These studies focus on the importance of micro-enterprises and the shadow economy, the policies and functions of micro-loan institutions, the role of Mozambican labour unions, the successes of international efforts to support micro-enterprise development, and micro-enterprise cross-border exchanges. The theme behind this review is that it is difficult, if not impossible, to implement effective macro-economic policies and targeted poverty reducing programs without having a base of empirical knowledge regarding how the small business sector works, and what strategies appear most effective at the individual firm and sector level.

#### 3.1. *The Importance of the Shadow Economy: An Ethnographic Study*

Dana (1996) performed an ethnographic case study of Mozambican small business and economic conditions in 1995, immediately following the first elections in 1994. Ethnographic research in business research focuses on immersion and close field observation of a socio-economic phenomenon. From an institutional and infrastructure perspective, Dana noted that travel by roads was problematic due to piracy, and in some cases unexploded land mines left over from the civil wars. Violent crime was prevalent, and general anarchy prevailed. Public transportation was weak, and communication and power grids were often reported down. Dana also estimated that about 10% pilferage was occurring at the Port of Maputo, in spite of a well-organised private guard. Most government buildings in the major cities were in poor condition, remnants of the previous Marxist economy. Dana also remarks that many signs were hand-painted, with previous Marxist or Communist references or names crossed out, or simply missing.

From a government and banking perspective, Dana reported that profits from all legal business entities were still being taxed at 50%, and it appeared difficult to obtain a business loan from the local banks without paying bribes. In addition, developing new ventures within the legal sector was

difficult due to bureaucracy, petitions, forms, and taxes. This obviously encouraged the development of a shadow, extra-legal economy. At the time of Dana's report, the government had made efforts to decrease the shadow economy by passing legislation that required all business activities to be withdrawn from residential houses.

At this time formal unemployment ran over 80%. From an entrepreneurial perspective, it is clear from Dana's study that the vast majority of Mozambicans participated in the shadow economy. He noted that crime was an established business activity, with car thefts ranking high. In fact, a Mercado Estrela, or "Thieves Market" was openly operating in Maputo where stolen goods were sold and bought. It should also be noted that Mozambique is now regarded as the primary South African transit point for South Asian hashish and heroin, and a major transit point for South American cocaine destined for European markets (CIA World Factbook, 2005).

In spite of the dangerous streets, Dana (1996, p. 69) also observed that the marketplaces were a "bastion of small enterprise, where traditional remedies and potions are sold alongside animal tails, shells, and snake heads, as well as live sheep, mangoes, and wood. Among the countless dealers are some selling cooling oil in Canada Dry bottles. Others sell gasoline in Russian Coca-Cola bottles ..." (see Photos 1 and 2).



Photograph 1. Shadow Market Economy, Female Vendors in Mozambique (1995).  
Source: Leo Paul Dana.



Photograph 2. Selling Fuel in Soda Bottle: Mozambique (1995). Source: Leo Paul Dana.

Dana indicated that a number of entrepreneurs provided services parallel to the formal governmental services, such as private busses competing with public transportation and local small private security companies competing with the police force. For example, he reported approximately 3,000 "mercenaries" had been hired to protect local entrepreneurs.

Several important small business assistance programs in Mozambique were discussed by Dana. First, was the Trust Fund for the Development of Small Industry, which due to required paperwork, did not appear to be very effective. Another was the U.N.'s Urban Micro-Enterprise Support Fund. Approximately \$2 million funds were distributed to almost 300 micro-enterprises (<10 employees), with a reported creation of approximately 2000 jobs. Most of the entrepreneurs were fishermen, confectioners, and construction-related firms. Dana did not report on the longevity of these firms, or whether the micro-loans were ever repaid.

Dana concluded from his study that supplying credit was not enough and that despite the government's official policy to support small enterprise, misguided economic policies survived immediately following the transition to a market economy, which hindered small-scale firms. Dana argued that in contrast to the republic of South Africa, where informal enterprise was encouraged, in the immediate post-election era (1995) municipalities in Mozambique actively persecuted street vendors, although these were

performing an important economic function, and vigorously attempted to reduce the informal economy by enacting "residential restriction" laws.

### 3.2. *The Effectiveness of Micro-Enterprise Business Assistance Programs*

A study by Kaufmann and Parlmeyer (2006) involved a sample of 1,037 PAPIR Mozambican client firms in 1998 and 1999. PAPIR, or *Projecto de Apoio as Pequenas Industrias Rurais*, was designed to support small-scale manufacturers in the post-war period. The firms studied were clients of the Danish PAPIR project in Sofala Province, Mozambique. PAPIR provided a number of micro-finance and consulting services, including training. The details of this study are provided in another chapter of this volume, but the results indicated that the major barriers were lack of capital and access to credit, and that the failure rate was very high. In addition, the study indicated that formal training did not appear to contribute to success in the micro-enterprises interviewed (see Kaufmann & Parlmeyer, 2006). The key policy recommendation was that the Mozambican government, and other countries in similar impoverished development stages, need to develop different programs targeted to the informal sector versus the formal sector.

### 3.3. *Strategies of Micro-Loan Institutions*

Van de Ruit (2001) examined micro-finance and donor roles in Mozambique, with her primary empirical research taking place in 2001. She found approximately 30 institutions serving 16,000 clients in Mozambique. This effort was part of the 2001 Mozambique Structural Adjustment Program which focused on agricultural small businesses and micro-finance; however, she noted that most rural areas did not have access to these institutions. Van de Ruit (2001) also found that the attrition of these institutions was high, with 10 institutions closing in the previous five years. The major donors to the institutions were the EC member states, the Canadian International Development Agency (CIDA), the UK Department for International Development (DFID), and the U.S. Agency for International Development (USAID). She argued that historically, micro-finance efforts in Mozambique had not been very effective, partly due to claims of fraud and corruption. She noted, however, that current (2001) micro-loan efforts were (a) focused on urban centres with the argument that successful economic growth must first start in the urban centres, and the opportunities are

greater in urban centres; (b) offering financial products based upon a "group solidarity lending model" (c) since financial sustainability was now an objective of many micro-loan institutions, these loans were not reaching the "ultra-poor" (d) donors had become much more aggressive in demanding financial sustainability; (e) few of the micro-finance institutions were managed by native Mozambicans, instead relying on foreign expertise; and (f) the Mozambique government had done little in this sector, or provided policies that assist in its implementation.

Van de Ruit (2001) concluded that overall, the "minimalist" model of credit had been largely unsuccessful in Mozambique, that micro-loan programs with a primary poverty alleviation strategy was somewhat at conflict with the notion of sustainability, and that future loan programs and financial products needed to be more specific to the notion of "livelihood" ideas. In addition, the study raised important issues about collateral for loans as it related to rural land titles. De Vletter (1999) also provides a good summary of microfinance strategies in Mozambique during the post-Marxist transition period.

### 3.4. *The Role of Mozambican Labour Unions*

Labour unions played a critical role in supporting the war for independence, and later became a dominant political power within the FRELIMO Marxist dictatorship (Westfall, 1984). After the 1994 elections, labour unions in Mozambique still retained substantial power, which included calling for a number of labour stoppages in the post-1994 period (U.S. State Department, 2001).

Webster, Wood, and Brookes (2004) performed the first systematic attempt to empirically examine the effect of liberalisation of industrial relation practices at the firm level in Mozambique. In their study, the authors noted that there were currently 21 unions in Mozambique, grouped into two federations, the OTM and the CONSILMO. The OTM (Organisation of Mozambican Workers), which had ties to the pre-liberalisation Marxist FRELIMO government, had approximately 90,000 members. Since the early 1990s, however, the OTM generally had "become a persistent critic of the government's (current) economic policies" (Webster et al., (2004, p. 9), see also Pitcher, 2002). The CONASILMO (Confederation of Free and Independent Trade Unions) was formed in 1998 by union groups that broke away from the OTM.

Webster et al. (2004) surveyed 177 commercial firms in Mozambique using a stratified sample of different geographical locations. The average firm

size was 267 employees, with many firms being much smaller. Most of the sample firms were in construction, transportation, and manufacturing. Thirty-six percent of the firms had no union representation, while 64% had some or complete union representation. Overall the results indicated that only 22% of the firms had formal employee relations training, and about one-third indicated that they do not honour labour agreements. About 69% of the firms indicated that job training was by shadowing.

The major conclusions of the study were that; (a) unions in Mozambique appeared to have diminishing effect on enterprise due to the emergence of the large non-formal, shadow economy and the strategy of many smaller firms to use casual labour defined under Mozambique labour rules; (b) that Mozambican unions had little effect reaching marginal, low paid workers; (c) that even if a collective agreement was in place, many firms did not abide by the agreement; and (d) that within the formal economy, employment practices still appear to be based upon "informalism and autocratic managerialism," that may have its roots in Mozambique's "historical legacies."

Other useful studies or reports cited by the authors regarding labour practices in Mozambique, and the Southern region in Africa in general, included Kimenia (2000), Wood and Els (2000), Levy (2003), and Gumende (1999).

### 3.5. *Micro-Cross Border Trade: The Role of Small Entrepreneurs*

The informal economy in most chronically depressed countries involves more than micro-enterprises simply serving a small, localised market. These informal and shadow sectors often expand to the exporting and importing of products through cross-border trade. While there appears to be interest by many policy makers and donor agencies in understanding the impact of micro-enterprises on poverty reduction and economic development, particularly as they relate to the development of successful micro-loan institutions and strategies, the importance of these micro-enterprises in cross-border trade, or technically the import and export markets, is often overlooked.

Peberdy (2000) argues that part of this oversight is due to lack of empirical data. Likewise Ackello-Ogutu (1996) observes that cross-border trade is often ignored and recommends collection techniques such as selecting appropriate border observation sites and using a 12-month duration of border observation for tracking goods to quantify cross-border trade and fit specific circumstances that prevail in Eastern and Southern Africa. Similarly, Little, Teka, and Azeze (1998) examine appropriate research methods for cross-boarder trade in the Horn of Africa.

In fact, in an early study, the USAID estimated the nature and economic value of the informal cross-border trade sector between Mozambique and other neighbouring countries (e.g., MaCamo, 1998), concluding that the informal sector exceeded the formal sector in trade value and volume. Peberdy (2000) concludes that these studies suggest that, "the informal sector cross-border trade plays a significant role in regional trade relationships and is a significant part of small, micro and medium enterprise activity in Mozambique" (p. 362), and thus provides a motivation for additional empirical research in this area.

In addition, there is a growing literature examining the role that borders have with respect to the entrepreneurial activities of migrants and immigrants (e.g., Portes & Sensenbrenner, 1993; Light, 2004; Galbraith, Stiles, & Benitez-Bertheau, 2004) as well as whether or not the movement of immigrants, capital, and goods at a informal and micro-level represents an overall "globalisation" trend of trade barrier reduction, and the potential homogenisation of localised culture (e.g., Basch, Schiller, & Blanc, 1994; Peberdy & Rogerson, 2000).

Thus while Dana's (1996) study focused on the micro-enterprise and the informal economic sector within Mozambique, the empirical study reported in Peberdy (2000), Peberdy and Rogerson (2000) and Peberdy and Crush (2001) examined the active cross-border trade between South Africa and Mozambique. Peberdy and her colleagues interviewed 101 cross-border traders and 40 formal sector shops in late 1999 and early 2000. Interestingly, the results indicated that "cross-border trade between South Africa and Mozambique was dominated by women traders" (2000, p. 364), particularly Mozambican women from Maputo. While many of the women traders were unmarried (52.4%), the traders generally supported families (average three children per trader), and other dependents (average 2.37 other dependents than children).

Peberdy noted that while other studies of African borders appear to indicate that cross-border traders tend to be more educated, the Mozambican traders were seen to be uneducated and poor, although they did appear to have higher literacy rates than the general Mozambique population – a conclusion that might indicate that although micro-enterprise informal sector entrepreneurs may have less formal education and be poor (which may limit their entry into the formal economy), there appears to be some possible socio-economic characteristics (such as high literacy, support of large families) that might characterise this type of entrepreneurial behaviour.

One of the key findings of the Peberdy study was the difficulty in separating the informal sector from the formal sector. For example, an

“extra-legal” cross-border sourced product from South Africa may be sold in a formal sector retail shop in Mozambique – Perberdy reported about 25% of goods may take this form. Another finding was the mobility of this sector, that informal traders often travelled between a number of neighbouring states.

In terms of economic goods transported, the pattern of informal cross-border trade appeared to mirror the formal sector statistics, that is, clothing, textiles, household goods, and food products tended to be imported into Mozambique (many which find their way into the Mozambican market places) while food products were the major informal export to South Africa. Perberdy (2000) estimated the value of goods transported generally above the US\$400 level. While this appears low, it is actually double the estimated average monthly income of Mozambicans. Profit margins were estimated in the 15–30% range.

Two important points made in the Perberdy study were that the informal trade process recovered rapidly, within only a couple of months, after the devastating 2000 floods, and that most of the traders (61.4% of Mozambican respondents) interviewed indicated they employed other people in their enterprises.

The important conclusions of the Peberby study are: (a) that it was difficult to separate the informal sector from the formal sector; (b) that the entrepreneurs tended to network around the formal border barriers; (c) that the cross-border entrepreneurial activities from these micro-enterprises were vibrant, active, and provided substantial cross-border economic activity; and (d) these entrepreneurs tended to respond quickly to opportunity, such as the quick recovery of trade seen after the 2000 floods in Mozambique. Peberdy (2002) offered several policy recommendations in light of these findings.

#### 4. CONCLUSIONS

Throughout its history, Mozambique has suffered a multitude of devastating events. From a 400-year extractive colonial economy, to tragic floods and droughts, violent civil wars, a brutal Marxist dictatorship, the HIV/AIDS pandemic and even unexploded land mines that limit travel in certain areas, Mozambique appears to be stuck in a classic economic “poverty trap.” It is not surprising that there is considerable interest in finding mechanisms to help pull Mozambique out of its poverty cycle. In fact, there are literally hundreds of internationally sponsored programs, development agencies, and donor organisations all targeted to Mozambique.

Clearly, it is recognised that aid and assistance that targets the small business and micro-enterprise entrepreneurial level of the economy is critical for economic development (e.g., De Vletter, 1999). However, in spite of the *Report on the Millennium Development Goals for Mozambique's* (U.N., 2002) assessment that shows “strong” support for reducing extreme poverty in Mozambique the vast majority of discussions on how to accomplish this tend to be overly broad-brushed and non-specific. And the fact remains that, in spite of innumerable reports, suggestions, programs, and aid dollars, it appears that only a little progress has been made over the years in Mozambique.

One reason for this failure is perhaps the lack of real empirical data at the micro-level of the economy. Without a real understanding of the true nature of entrepreneurial activity at the micro-level, and its critical role in economic development within chronically impoverished nations, it is difficult, at best, to develop more macro-economic strategies or aid assistance programs.

This short review attempts to shed a little empirical light on several important elements of the Mozambican economy, particularly at the small enterprise level. This includes the importance of micro-enterprises and their related shadow economy, the policies and functions of micro-loan institutions, the role of Mozambican labour unions, efforts to provide direction and advice to micro-enterprise development, and micro-enterprise cross-border exchanges between Mozambique and its neighbours.

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