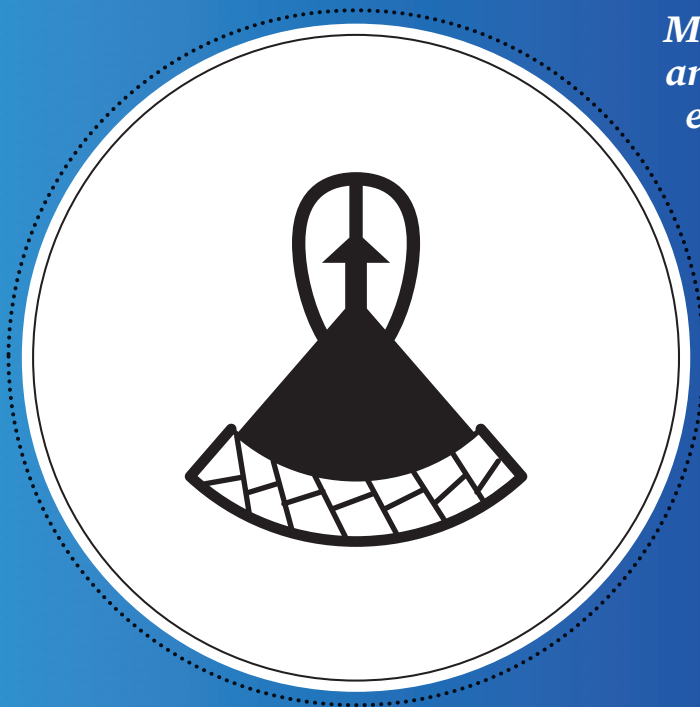


FinScope

*Micro, small  
and medium  
enterprises  
(MSME)  
survey*



**Lesotho 2016**



Empowered lives.  
Resilient nations.



### ***Partnering for a common purpose***

FinScope MSME Lesotho was designed to involve a range of stakeholders engaging in a comprehensive consultative process, thereby enriching the survey and ensuring appropriateness and buy-in. The Ministry of Small Business Development, Cooperatives and Marketing (MSCM) is grateful to all individuals who participated in this project, including the steering committee (SC) constituting of Ministry of Finance (deputy-chair), United Nations Development Program (UNDP), the Ministry of Development Planning, the Ministry of Agriculture and Food Security, Basotho Enterprises Development Corporation (BEDCO), Private Sector Foundation of Lesotho, Lesotho Chamber of Commerce and Industry, FinMark Trust, Bureau of Statistics (BOS) and Africa Scope.

#### ***The cover symbol***

*The cover symbol features the black mokorotlo (a Basotho hat) in the centre, which is featured in the national flag thus emphasising the national importance of the survey.*



## Introduction

*It is widely recognized that MSME sector is a significant contributor to job creation, development and economic growth. Given the crucial role of MSMEs in the national economy it is in the common interest of national governments, the business community or the public at large to harness and optimise on this potential by putting into place strategies to mobilise and enable MSME growth and development. The lack of accurate and reliable information about the sector and the challenges in Lesotho was identified as a challenge during the MAP process. It is in pursuit of this objective that the Lesotho Government initiated the FinScope MSME Survey Lesotho 2016.*

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**Published: October 2016**

## Methodology

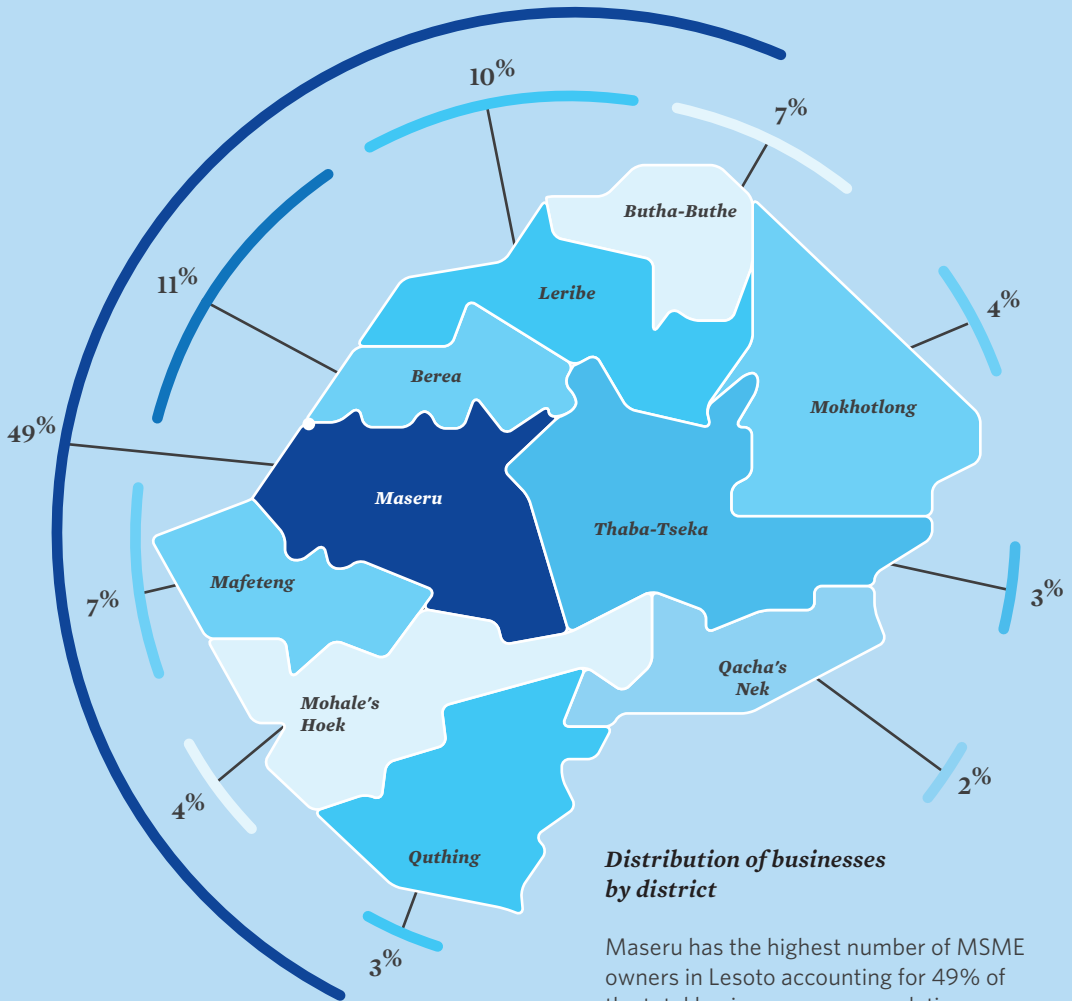
The FinScope MSME Survey Lesotho 2016 was conducted with a sample of 2182 adult business owners who were selected at a household level across the country. The sample for the survey was designed by the Bureau of Statistics in Lesotho and had the following characteristic:

- 18 years and older
- Perceive themselves to be business owners/

- generating an income through business activities
- Employing ANY number of people (including individual entrepreneurs without any employees)
- A comprehensive listing exercise of 336 enumeration areas (EAs) that covered over 47 000 households identifying 4 000 MSME owners
- Data collection was conducted between September 2015 and February 2016

## Survey objectives

- To assess the **size and scope** of micro, small, and medium enterprises in Lesotho
- To describe the levels and landscape of **access to financial products and services** (both formal and informal)
- To identify the most binding **constraints** to MSMEs development and growth with a focus on access to financial markets
- To identify and describe different **market segments** with specific development needs in order to stimulate segment related innovation
- To propose **recommendations** regarding financial assistance to MSMEs and financial policies
- Assist with the development of future policy regarding the MSME sector (including the defining the MSME sector in Lesotho)

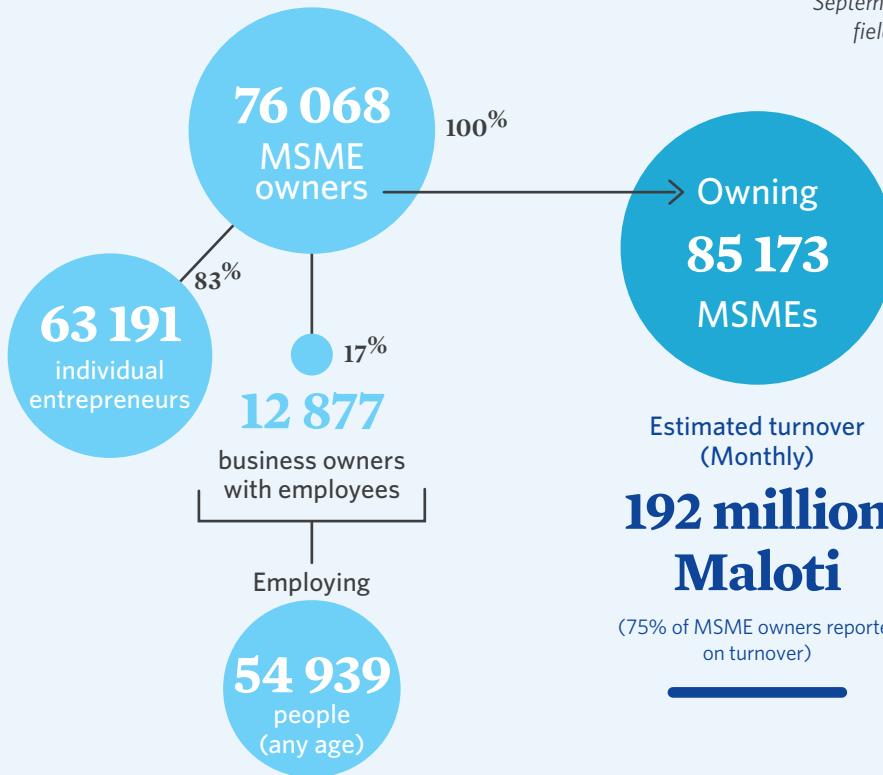


***Distribution of businesses by district***

Maseru has the highest number of MSME owners in Lesotho accounting for 49% of the total business owner population

118 130 people work in the sector  
(this number includes 54 939 employed and  
63 191 individual entrepreneurs)

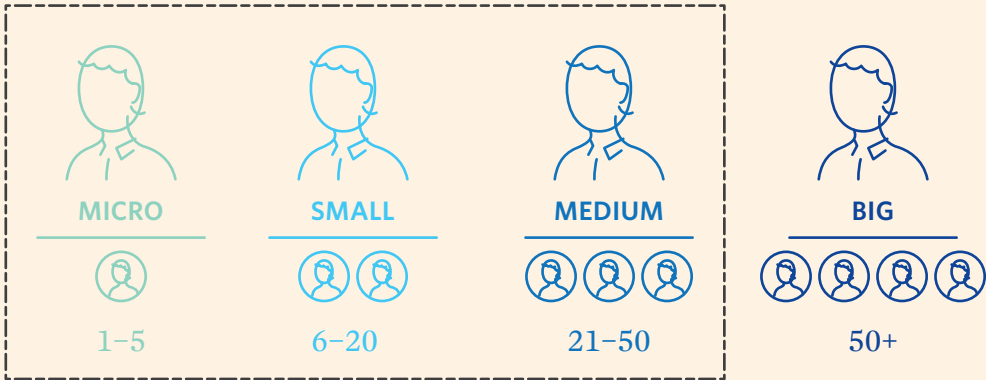
*LSL/US\$ exchange rate in  
September 2015 (start of  
fieldwork) = 14.0172*



Important contribution to employment

## ***Defining MSMEs for this survey (including owner)***

By the number of employees and annual turnover



## ***Definition of small businesses***

Micro, Small and Medium Enterprises Policy for Lesotho defines MSME on a combination of total employees, including the owner, annual turnover, and whether the business is formal or informal.

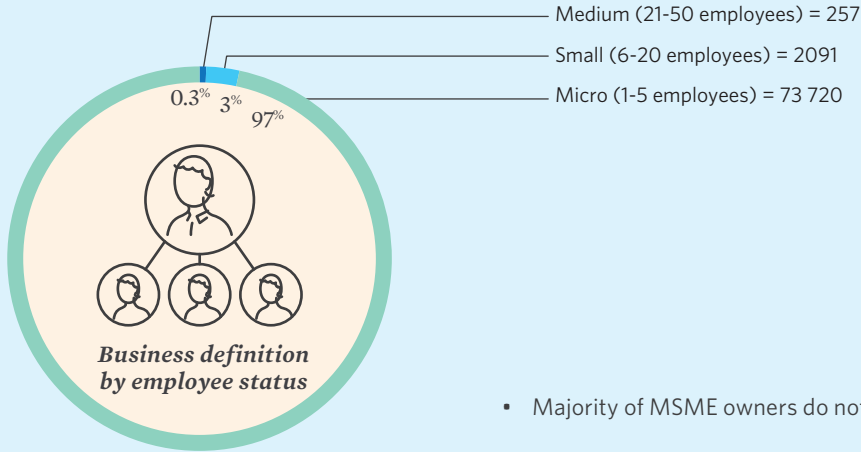
**Micro-enterprise** - Fewer than 6 staff members

**Small enterprise** - 6 to 20 staff members

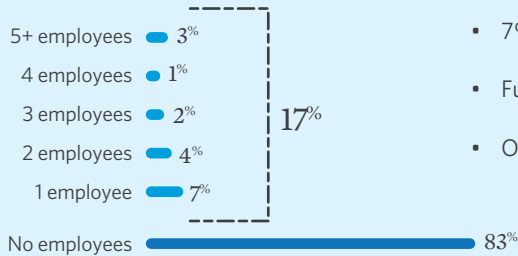
**Medium enterprise** - 21 to 50 staff members

Source: MSME Policy (2015)

**Percentage of MSME owners**

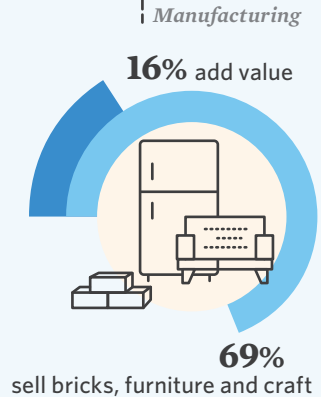
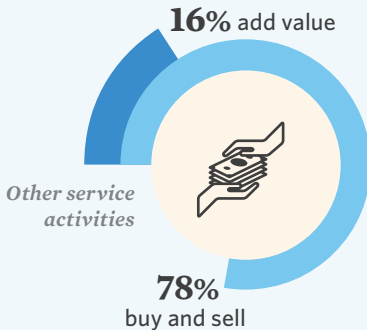
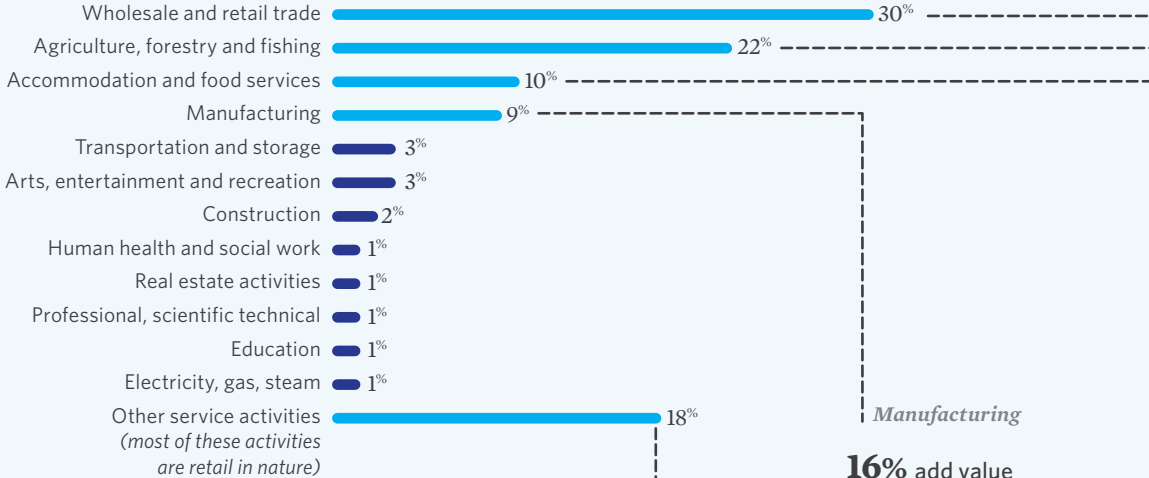


- Majority of MSME owners do not have employees
- Around 17% of MSME owners employ about 55 000 people (excluding the owner)
- 7% of MSMEs employ 1 employee
- Further 7% employ between 2 - 4 employees
- Only 3% employ 5 and more employees



**Businesses in Lesotho by number of employees**

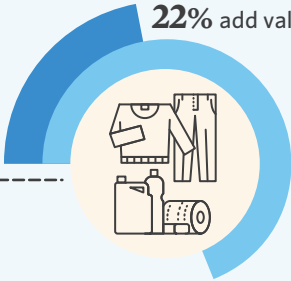
**Business sector**





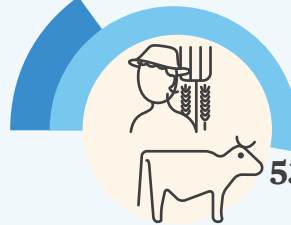
## SIZE AND SCOPE OF THE MSME SECTOR

**22%** add value and sell



**69%** sell merchandise in the same form

**15%** grow crops

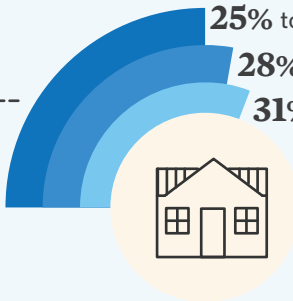


**53%** rear livestock

**25%** tourism

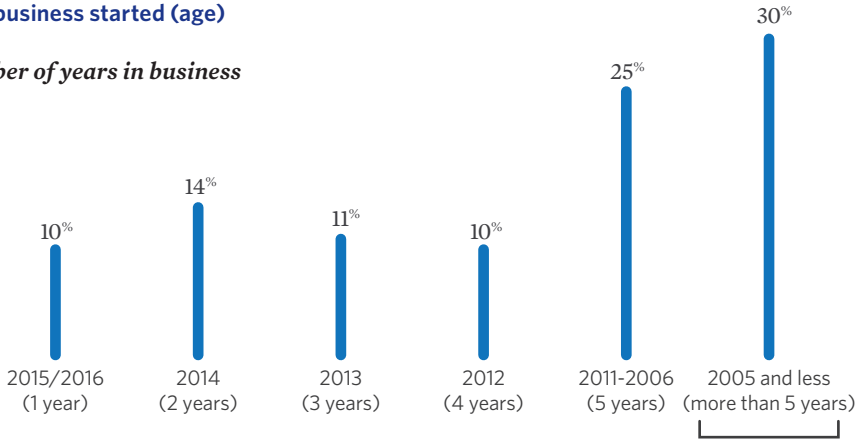
**28%** sell cooked food

**31%** accommodation construction

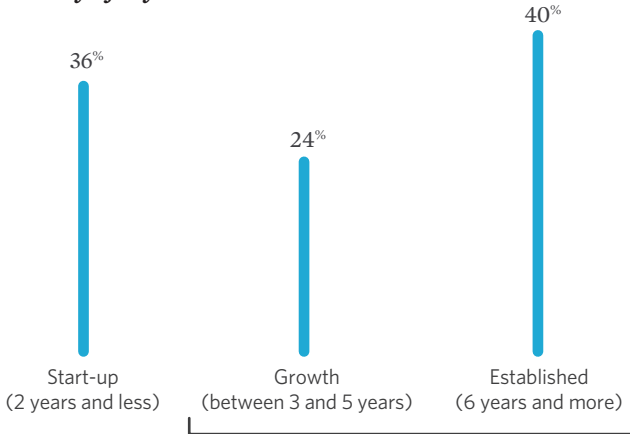


## Year business started (age)

### *Number of years in business*

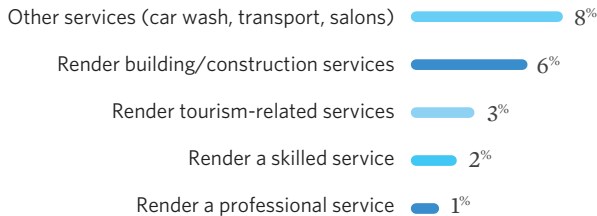
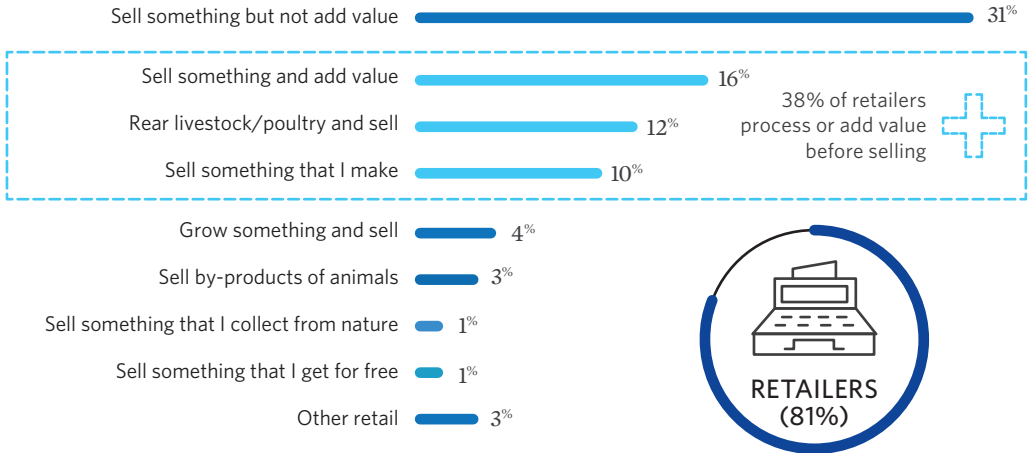


### *Business by life cycle*



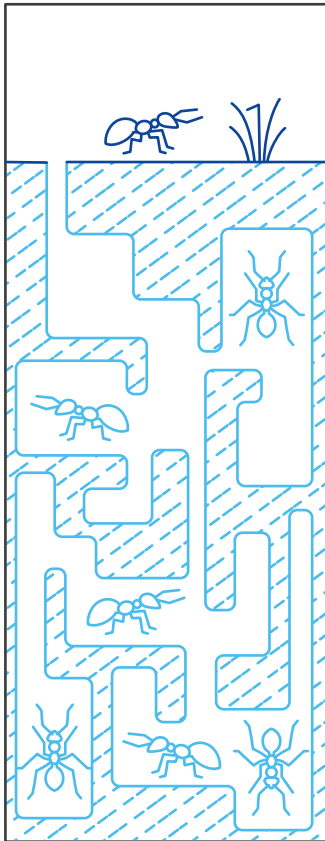
- 30% have been in business for more than 11 years, thus indicating that businesses are either in the growth phase or are established businesses
- There was a slight decline in the formation of business in 2015/2016 compared to 2014
- The majority of the businesses (64%) have been in business for more than 4 years

### Nature of MSMEs by sector classification (business focus)



## LEGAL STRUCTURE

### Below the surface



**82%**  
are not registered



### < *Current focus of interventions*



**18%**

Formal MSME sector (13 899)

### < *FinScope MSME Survey*



**82%**

Informal MSME sector (62 168)

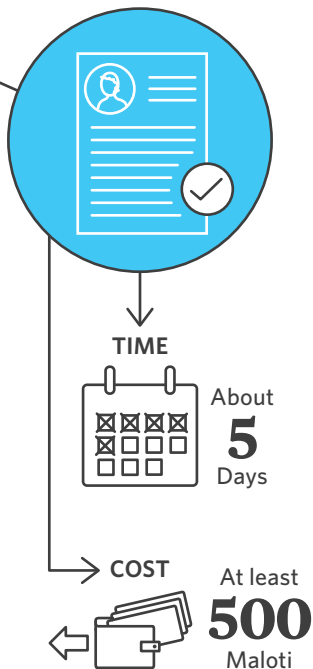
Limited (financial) resources and information preclude the possibility of spreading policy initiatives to include the entire MSME sector

### *Type of registration*

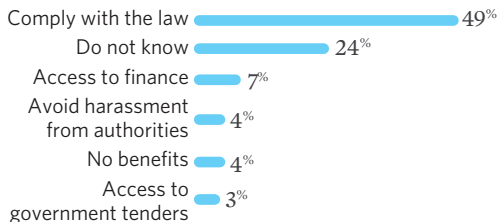


Registration

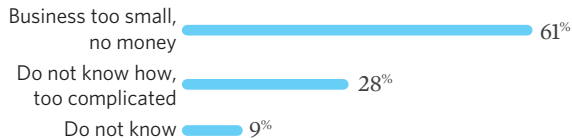
*Cost, knowledge & complexity of registration process*



*Perceived benefits of registration*

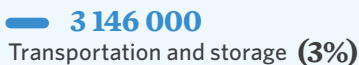
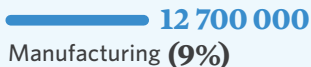
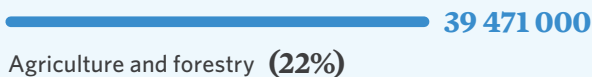
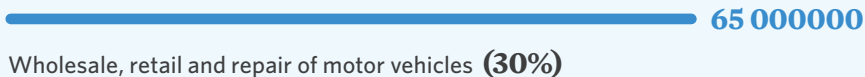


*Reason for not registering/licensing*



\*Source: <http://www.doingbusiness.org/data/exploreeconomies/Lesotho#starting-a-business>

*Estimated turnover per sector (in Maloti)*



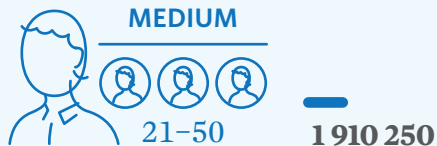
Estimated turnover  
(monthly)



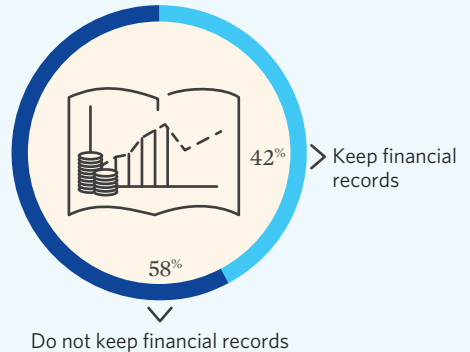
**192 million  
Maloti**

(75% of MSME reported  
turnover)

*Estimated monthly turnover per business size (in Maloti)*



Financial record keeping



*LSL/US\$ exchange rate in September 2015 (start of fieldwork) = 14.0172*



**83%**

Mainly individual entrepreneurs

**46%**



Motivation to start the business is mainly needs driven (unemployment and to take care of family)



**MSMS owner**



**59%**

Majority are female

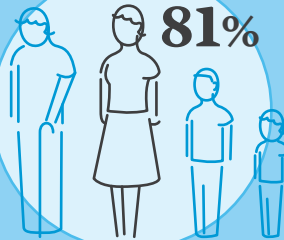
**51%**

Located in urban areas



**81%**

Usually older  
(81% are over 30 years of age)  
= more experienced





## SIZE AND SCOPE OF THE MSME SECTOR

*MSME owners*



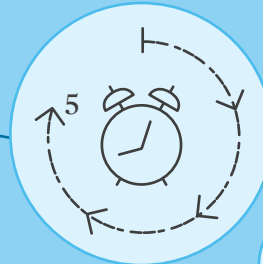
**70%**

Business is their only source of income



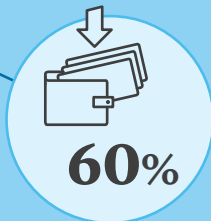
**61%**

Majority have some secondary or higher education



**76%**

Many work 5 hours a day or more (35% more than 8 hours)



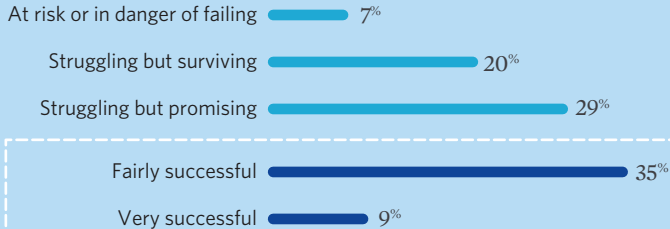
**60%**

Earn personal monthly income of less than 5 000 Maloti

**35%**

## How businesses are doing

### *Opinions about the business*

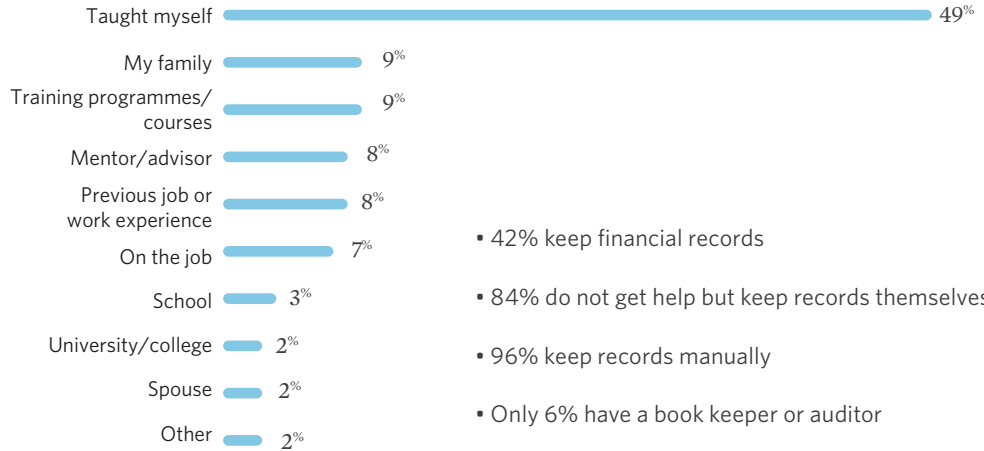


The owners with successful business are more likely to be registered, keeping financial records and claim that their businesses performed better than the previous season

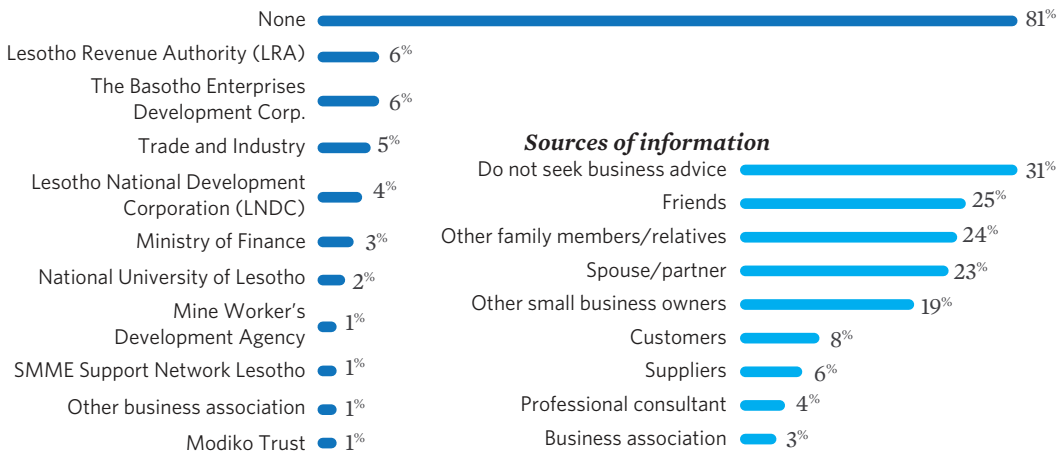
- 37 300 (49%) business owners describe their businesses as struggling
- 7 400 (20%) of these are owned by those younger than 30 years of age
- 5 480 (7%) say that the business is in danger of failing of which 15% are owned by younger business owners
- 33 287 (44%) say that the business is successful

### Business skills

#### *Acquiring business skills*



## Awareness of organisations offering support services



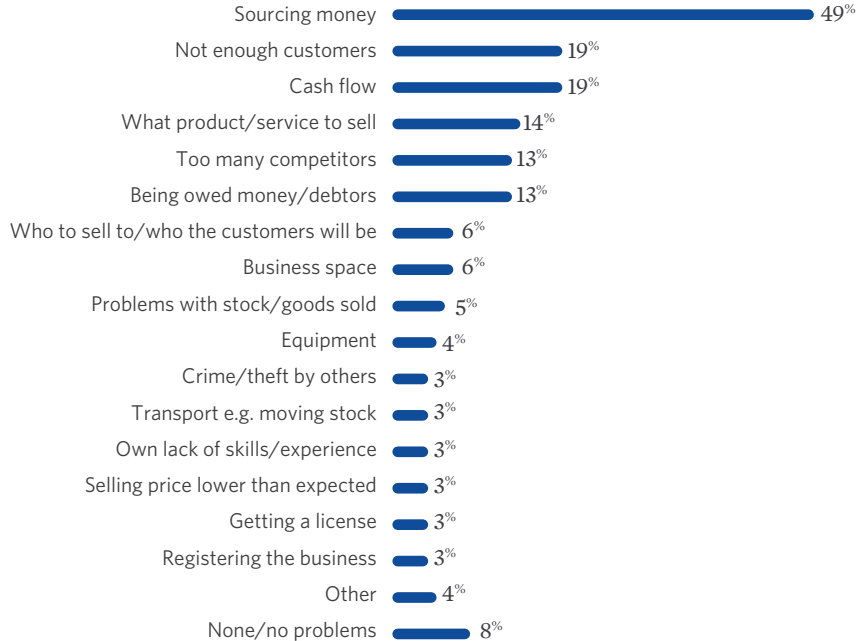
## Organisations made use of (those who are aware)

- Lesotho Revenue Authority (14%)
- Trade and Industry (8%)
- Basotho Enterprises Development Corporation (8%)
- Civil Society Organisation (3%)
- NGO (2%)
- National University of Lesotho (2%)
- Mine Workers Development Agency (2%)
- Private Sector Development (1%)
- None of these (53%)

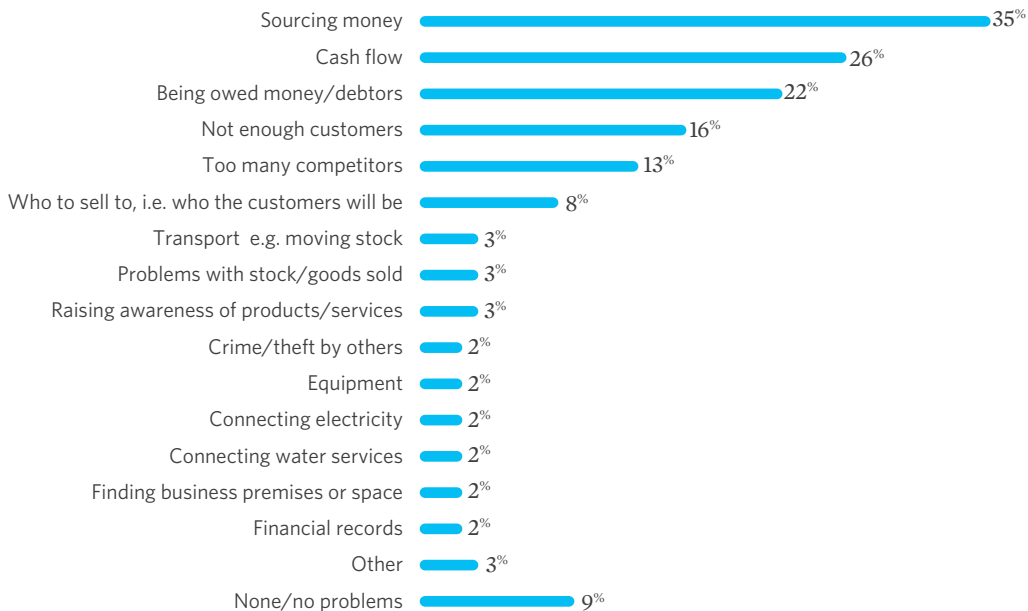
## Sources of information



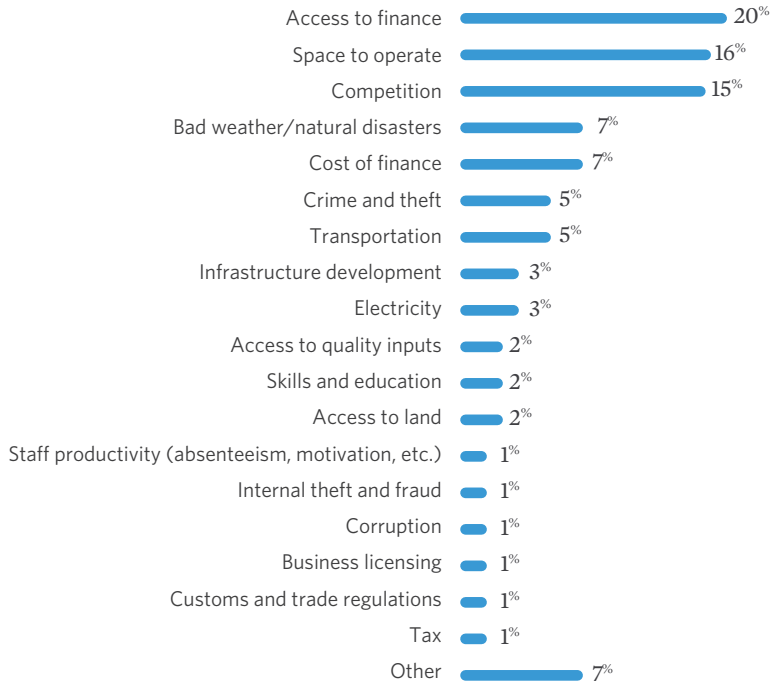
*Main constraints to start a business*

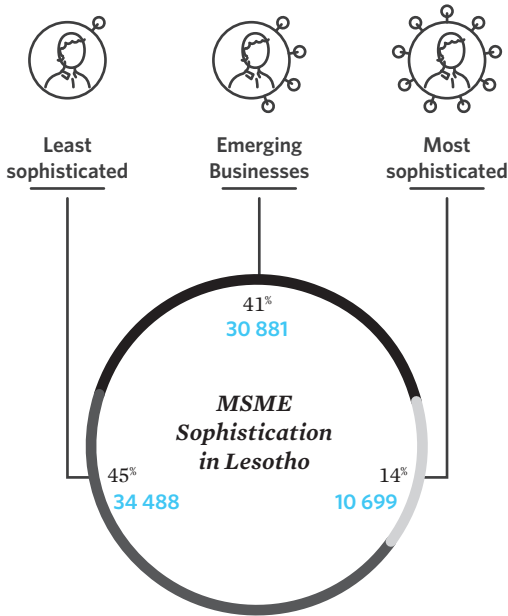


## *Operational constraints*



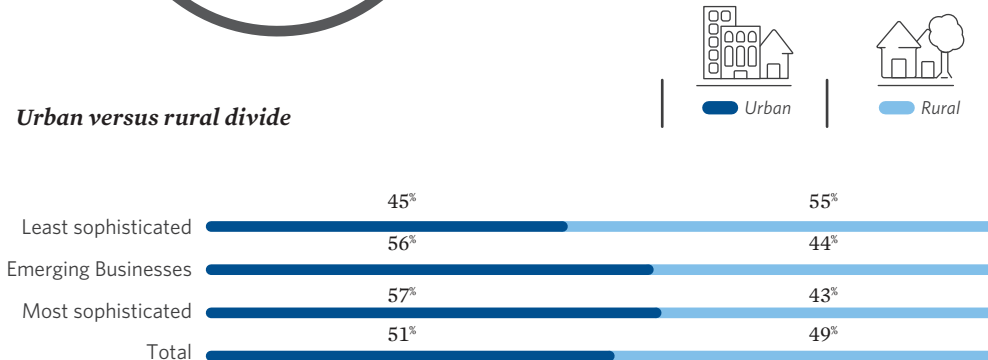
*Obstacles to growing the business*





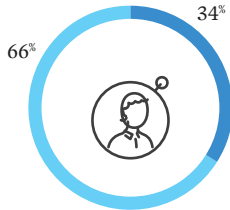
The Business Sophistication Measure (BSM) is a segmentation tool developed by FinMark Trust to identify and describe different market segments and to assess the degree of sophistication of MSMEs in Lesotho.

### Urban versus rural divide

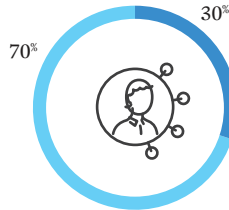




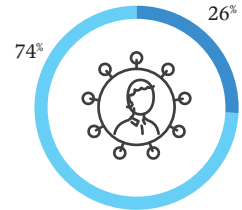
*Seek business advice from others*



Least sophisticated



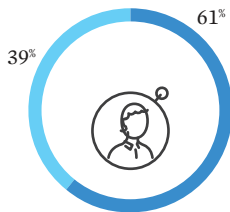
Emerging Businesses



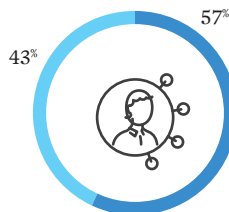
Most sophisticated



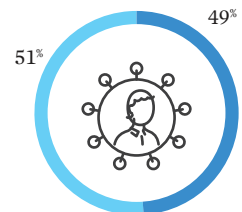
*Keep financial records*



Least sophisticated



Emerging Businesses



Most sophisticated



### Motivation to start business

Least sophisticated

Emerging Businesses

Most sophisticated

Total

To provide for my family



Saw an opportunity



Could not find a job/unemployed

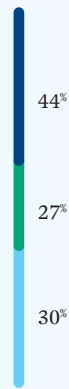
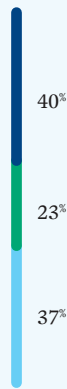
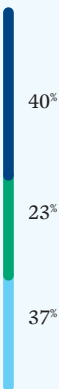


To make more money



### Age of the business

- Start-up (2 years and less)
- Growth (between 3 and 5 years)
- Established (6 years and more)





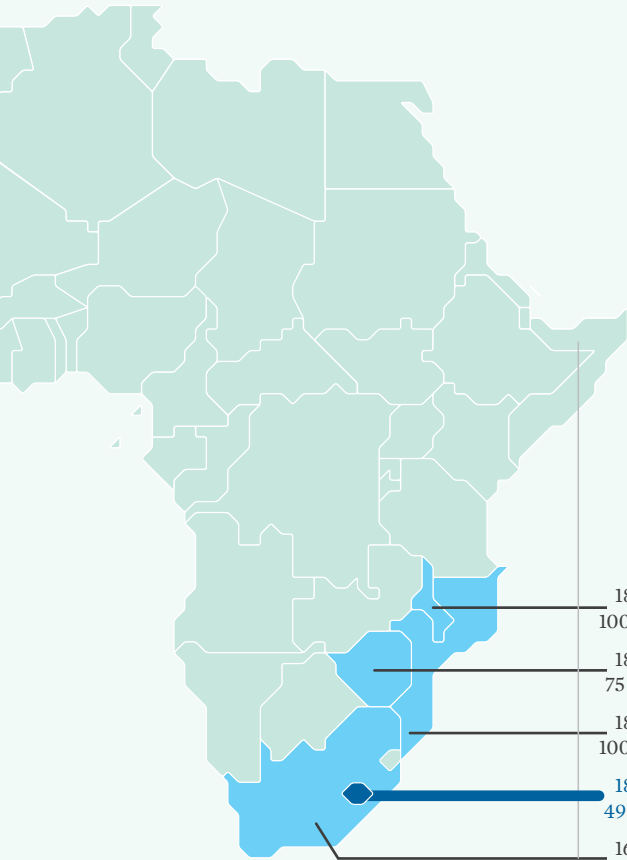
**Biggest obstacle to growth (%)**

	Least sophisticated	Emerging Businesses	Most sophisticated	Total
Access to finance	18	21	21	20
Space to operate	16	17	14	16
Competition	16	14	17	15
Cost of finance	6	7	10	7
Crime and theft	6	5	3	5
Transportation	5	4	2	5
Electricity	2	5	3	3
Infrastructure development	2	2	3	2
Access to land	2	2	0	2
Other	26	23	26	24

**External buyers and suppliers**

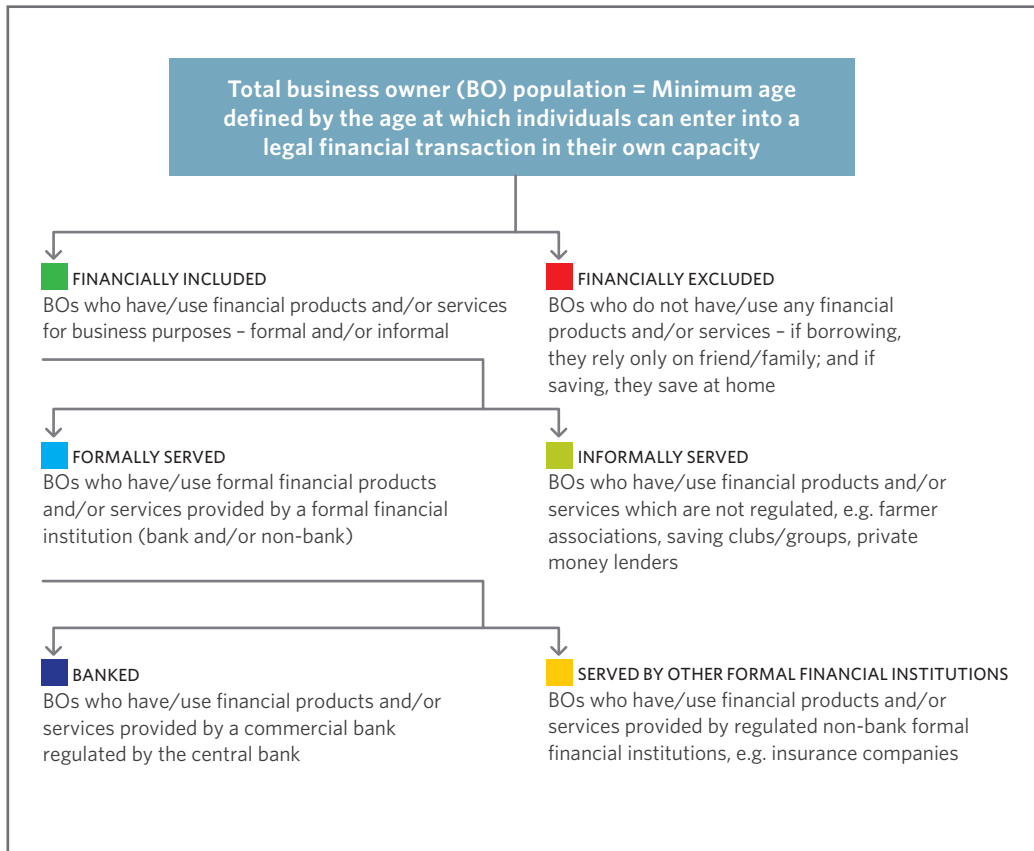
- Export to customer outside Lesotho
- Suppliers outside of Lesotho





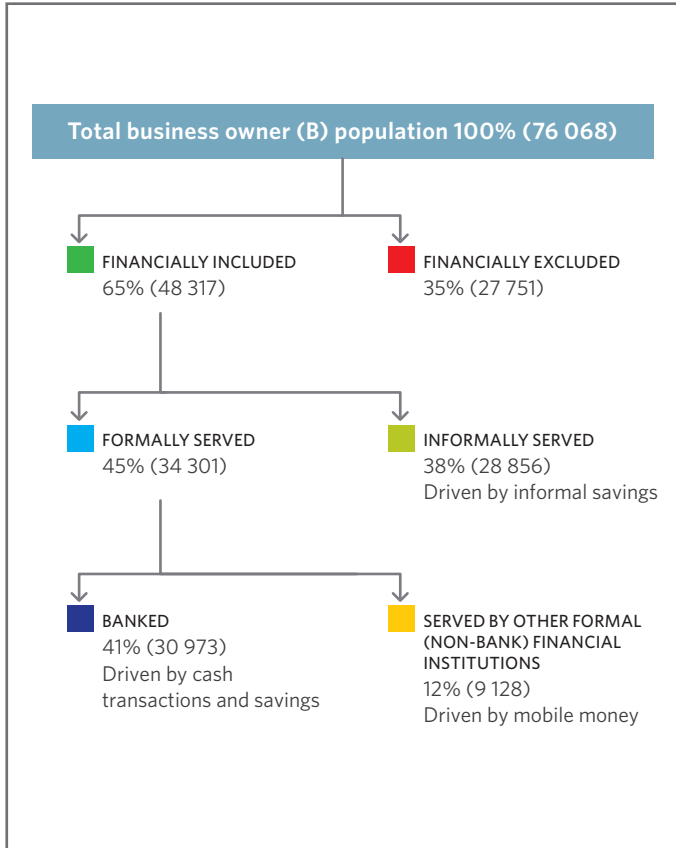
Number of MSME owners	Number of MSMEs they own	% of MSME owners with registered businesses (%)	Number of employees (excluding the owners)	% of individual entrepreneurs	% of businesses with employees	
760 000	1m	3	1m	59	41	Malawi 2012
2.8m	2.8m	15	2.9m	71	29	Zimbabwe 2012
4.5m	4.9m	14	850 000	93	7	Mozambique 2012
<b>76 000</b>	<b>85 000</b>	<b>18</b>	<b>118 000</b>	<b>83</b>	<b>17</b>	<b>Lesotho 2016</b>
5.6m	6m	17	6m	67	33	South Africa 2010

**Financial inclusion**  
**- Framework**





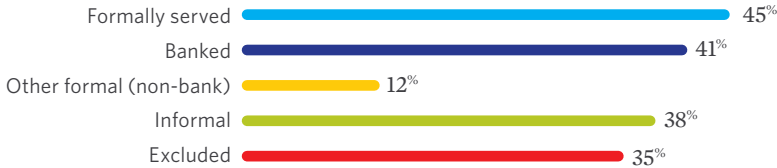
*Financial inclusion among MSME owners in Lesotho*



‘Formal’ is a category classifying products or services as regulated or supervised by a formal institution or any other formal regulator/agency. This is also synonymous to ‘other formal’ or ‘other formal (non-bank)’ to differentiate it from the banked which are mostly commercial and development banks.

## Overall levels of financial inclusion, overlaps and Lesotho MSME Access Strand

### Overalls with overlaps



In constructing this strand, the overlaps in financial product/services usage are removed, resulting in the following segments:

- Financially excluded business owners (35%).

- Business owners who have/use informal mechanisms only but *no* formal products/services (20%).

- Business owners who have/use other formal (non-bank) products/ services but *no* commercial bank products

(4%) - they might also have/use informal mechanisms.

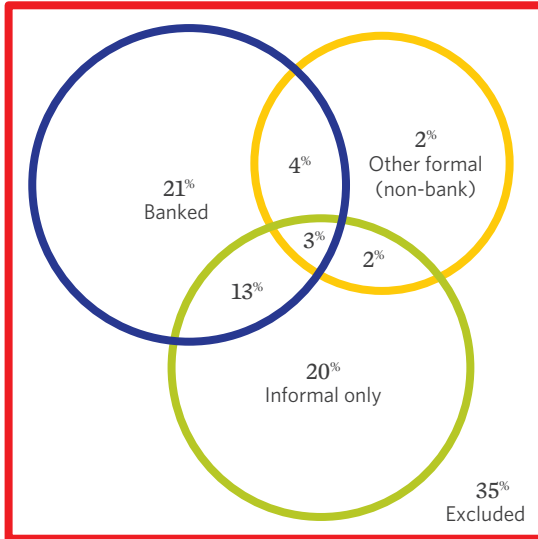
- Business owners who have/use commercial bank products/services (41%) - they might also have/use other formal (non-bank) and/or informal mechanisms.

### Access Strand





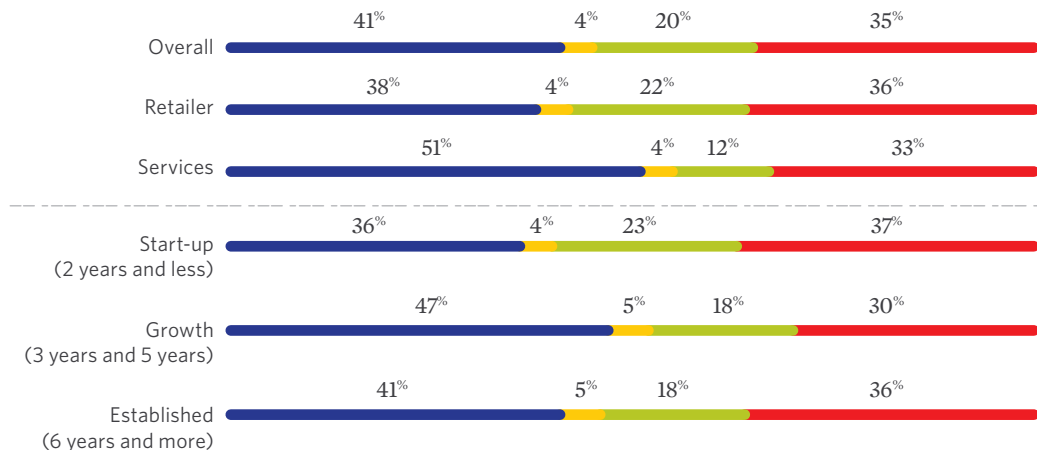
Overlaps



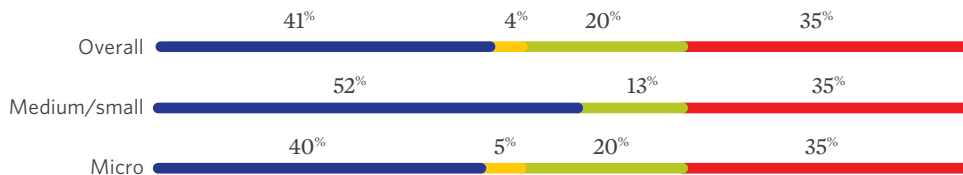
*“Business owners generally use a combination of financial products and services to meet their financial needs”*

- Only 21% (about 16 000) of business owners rely exclusively on banking services
- Around 18% use a combination of formal and informal mechanisms to manage their financial needs, thus indicating that their needs are not fully met by the formal sector alone
- 20% (15 000) of the small business owners ONLY rely on informal mechanisms such as savings groups and loan sharks

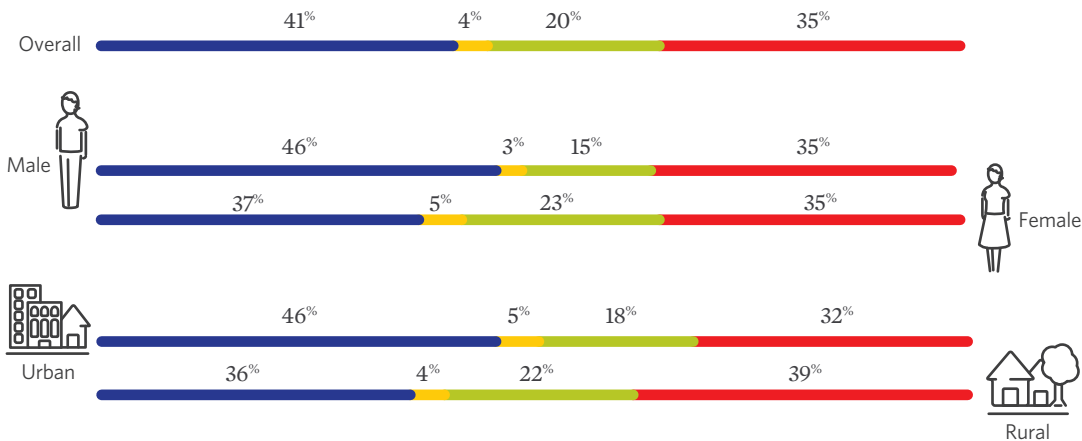
### Access Strand by MSME sector and age of business



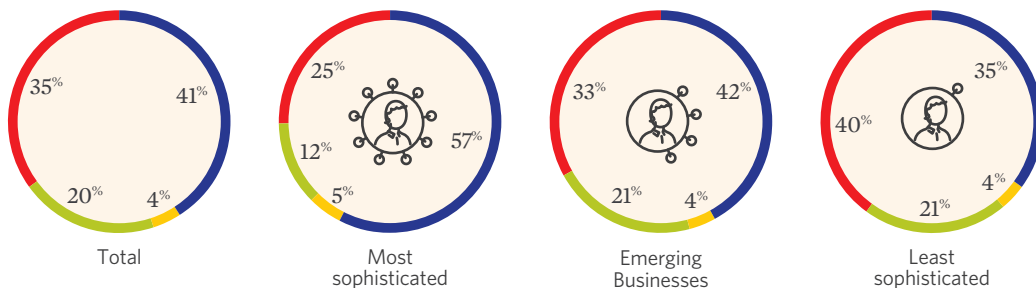
### Access Strand by MSME classification



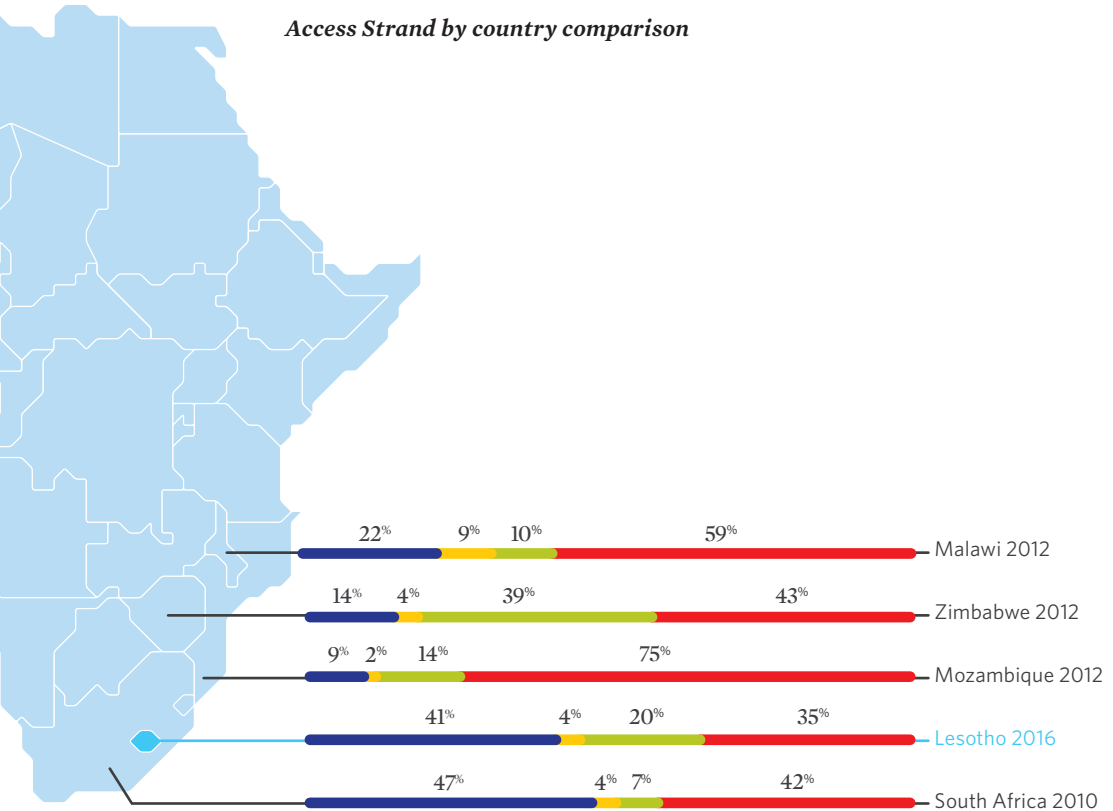
**Access Strand by MSME owner's gender and area type**



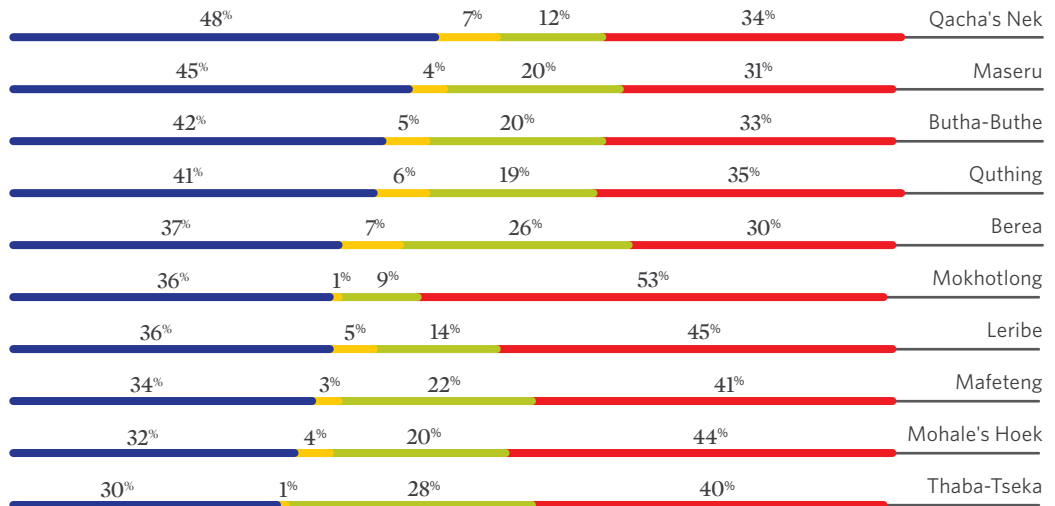
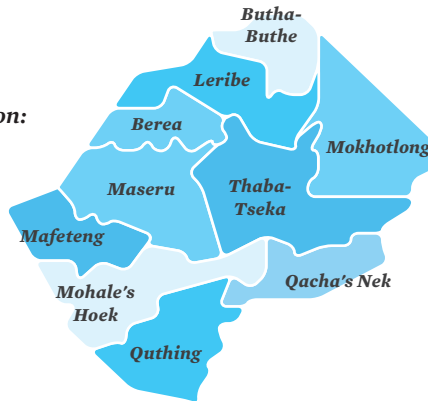
**Access Strand by The Business Sophistication Measure (BSM)**



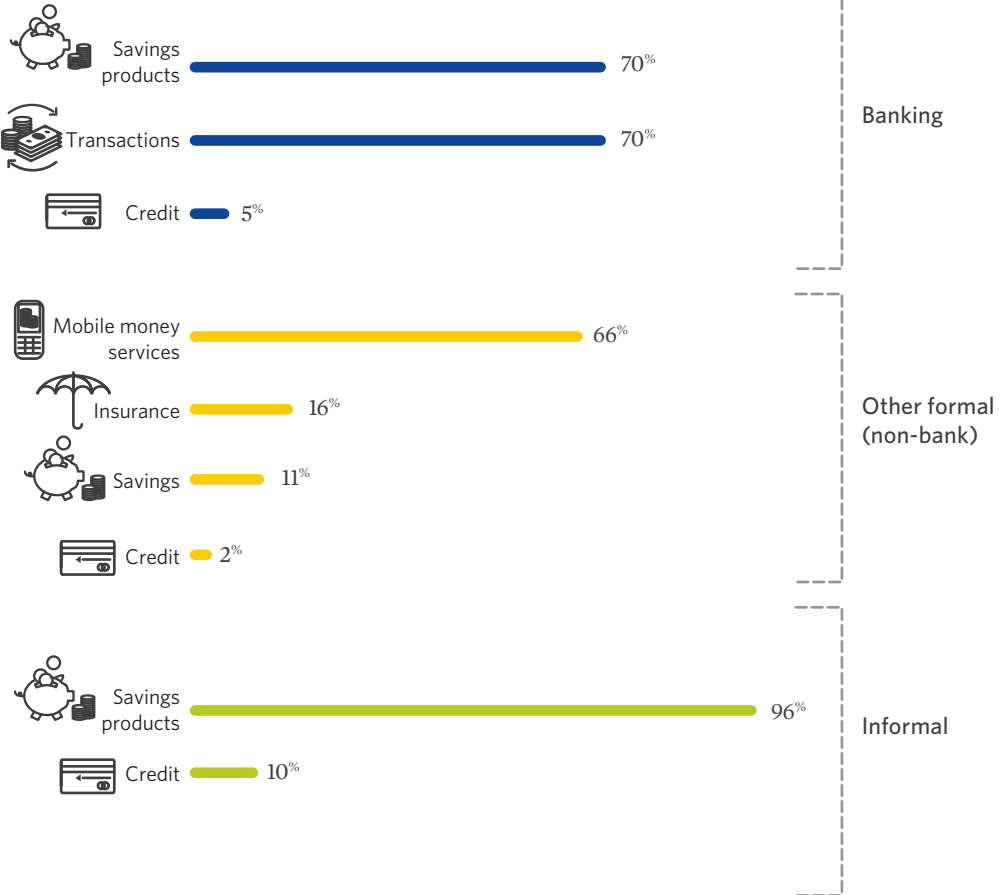
## Access Strand by country comparison



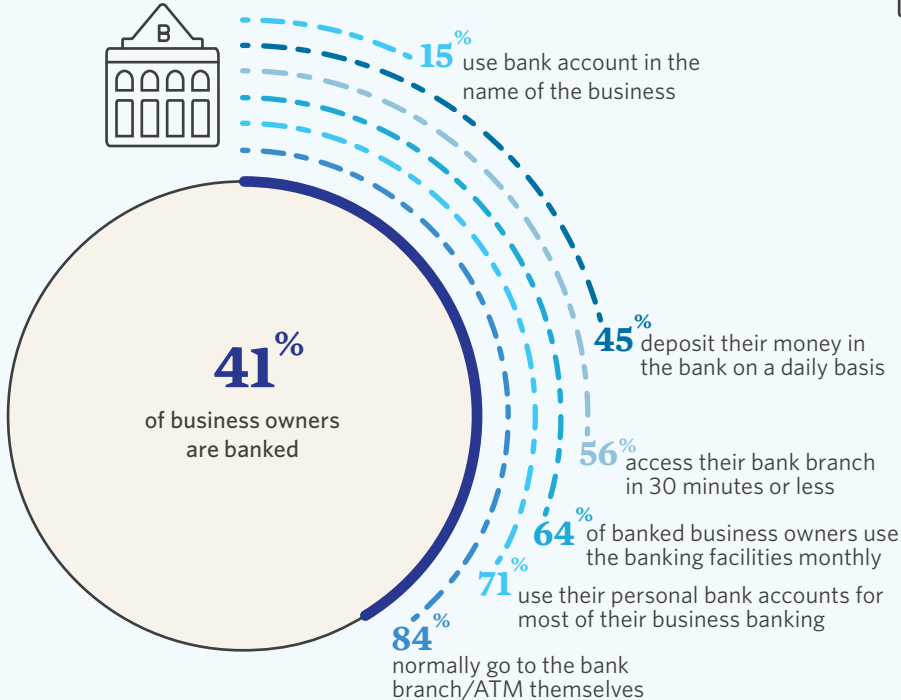
Access Strand by MSME distribution: districts



## DRIVERS OF FINANCIAL INCLUSION



Banking Status



• **Drivers** - 33% recommendation; 22% advertising and 22% already had personal account there

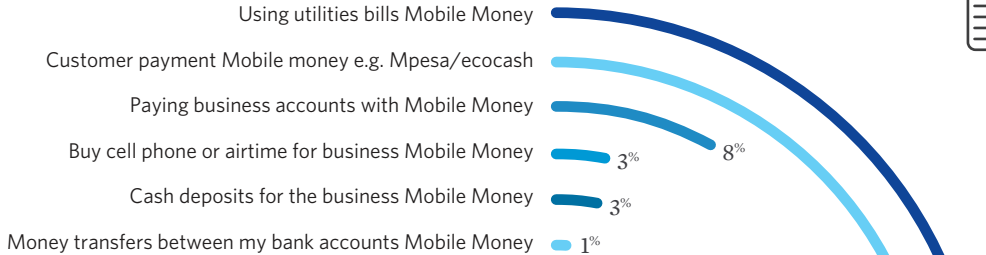
## *Barriers to banking*



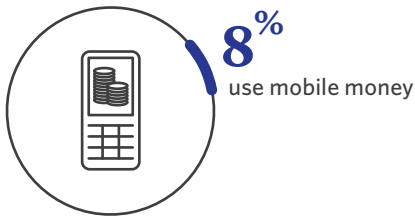




**Mobile money drivers**

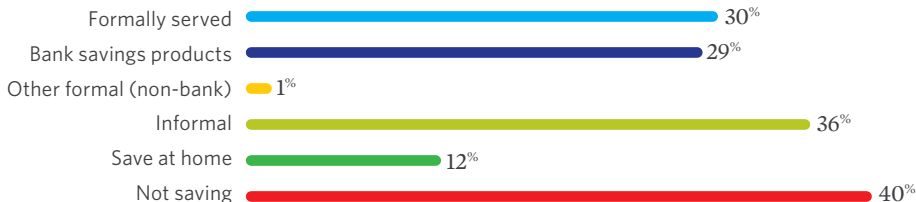


**Mobile money usage**



## SAVINGS

### Overalls with overlaps



In constructing this strand, the overlaps in financial product/ services usage are removed

- 40% of business owners do not save for business purposes
- 6% keep all their savings exclusively at home

- 25% rely on informal mechanisms such as savings groups (they might also save at home, but they do not have/use any formal savings products)
- 30% have/use formal savings products (29% commercial bank and 1% other formal (non-bank))

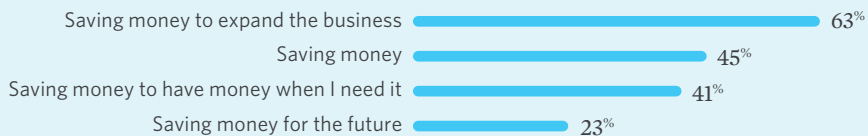
### Saving Strand



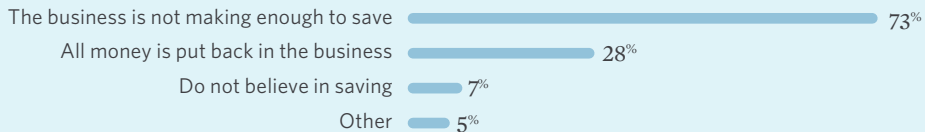


## *Drivers and barriers*

### *Drivers*



### *Barriers*



## CREDIT

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### Overalls with overlaps



### Credit Strand

In constructing this strand, the overlaps in financial product/services usage are removed

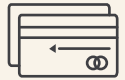
▪ 91% of business owners did not borrow money in the 12 months prior to the survey

▪ 3% rely on friends and family only

▪ 4% rely on informal mechanisms

▪ Only 2% of business owners have loans from formal institutions such as a commercial bank





### *Barriers to access credit*



- The majority of business owners claimed that access to financial is the main obstacle in growing their business and business operation.
- They save money in order to grow their business
- Is there a need for a campaign on developmental credit?

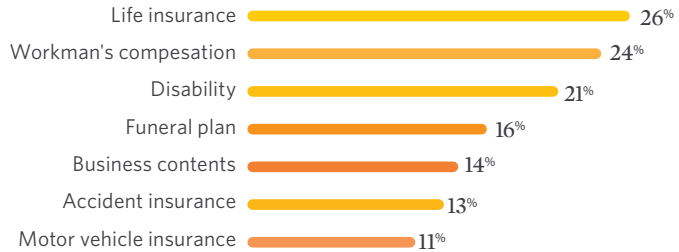
## *Insurance penetration*



2%

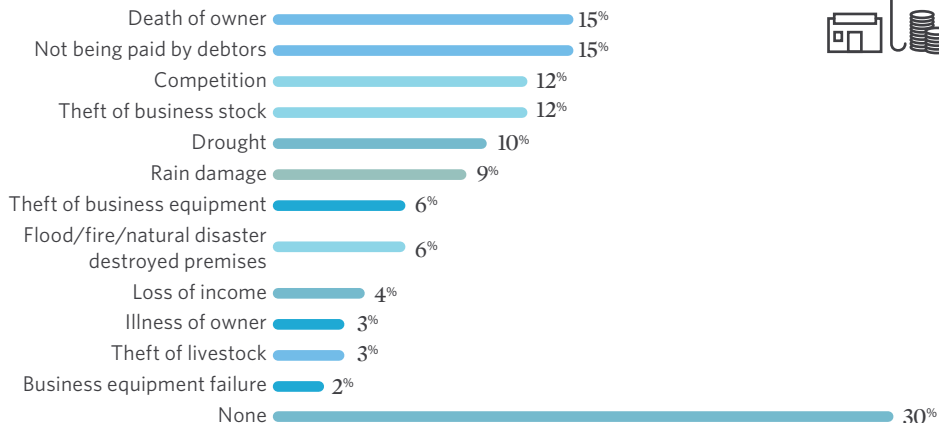
Businesses have insurance

## *Insurance drivers for business owners*

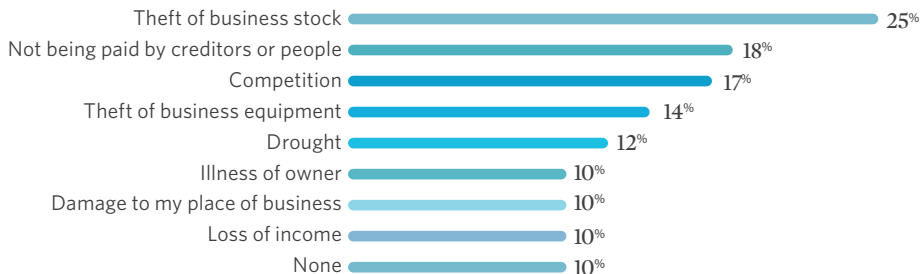




### *Insurable risks experienced*



### *Perceived biggest risks*



## BUSINESS SOPHISTICATION SEGMENTATION

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1. The BSM segmentation methodology provides an interesting added dimension to the other data analysis.
2. The segmentation assists in showing policy makers and service providers where the highest return on investment lies within the MSME segment as a whole. That is, where the low hanging fruit is located.
3. The segments are of sufficient size and provide sufficient differentiation to allow for in-depth analysis and sound policy making
4. Infrastructure and service delivery of essential services such as electricity, water and sanitation are lacking in the MSME sector and must be addressed in order to develop the sector.
5. There is a need to increase the level of business acumen in the MSME sector particularly among the least sophisticated businesses.
6. Access to finance and the cost of finance remain challenges for all levels of sophistication in business.
7. The more sophisticated businesses are those who are exporting and importing as attention should be focussed on these businesses for incentives and customs clearance challenges.
8. Despite the higher levels of education in the more sophisticated businesses, there is little use being made of BDS services. There is a need to examine ways of providing business training at school/post schooling facilities.
9. There is an urgent need to address the supply and use of Business Development Services across the entire MSME sector.
10. There is a need to introduce a low cost insurance product designed to protect the fragile sectors of the market.
11. There is a need to examine the barriers of access to markets which are limiting the growth of many in the MSME sector.
12. There is a need to develop a targeted approach to the problems facing the sector in order for various stakeholders to identify those areas where the most impact can be made most rapidly and not to have a “one size fits all” approach to the MSME sector.
13. Encourage innovative approaches to providing access to finance among financial service providers. The research highlights a number of possibilities.
14. Encourage the use of technology, particularly in the areas of mobile communication and banking.
15. Transportation is also a critical issue in terms of obtaining goods from suppliers and getting goods to market.
16. There is an urgent need for skills training, particularly technical know-how if the MSME sector is going to significantly grow the overall economy in Lesotho.



**Business Development Services**

Apart from access to and the cost of finance there is an overall lack of business sophistication in the MSME sector. The analysis in this report shows the extent to which businesses rely on informal sources of information rather than professional advice.

There is a critical need to expand efforts in Lesotho to provide BDS services to the MSME sector. It is estimated that the potential size of the BDS market for various services could be as high as 21 000 businesses.

This estimate is arrived at by looking at the size of each BSM,

taking the number of business owners who say that they are currently using professional advice into consideration and then assuming that the industry could attract, from the potential market, 10% of the least sophisticated segment, 40% of the emerging segment and 60% of the most sophisticated:



Least sophisticated



Emerging Businesses



Most sophisticated

Total

	Least sophisticated	Emerging Businesses	Most sophisticated	Total
<b>Total market</b>	34 488	30 881	10 699	<b>76 068</b>
<b>Professional advice source</b>				
Professional consultant	648	1029	125	<b>1802</b>
Government institution	160	96	14	<b>270</b>
Small business support organisation	251	392	65	<b>708</b>
Business association	69	8	97	<b>174</b>
<b>Currently using professional advice</b>	<b>1128</b>	<b>1525</b>	<b>301</b>	<b>2954</b>
Potential market	33 359	29 356	10 398	<b>73 113</b>
<b>Probable market</b>	<b>3 336</b>	<b>11 742</b>	<b>6 239</b>	<b>21 317</b>

## Registration of businesses

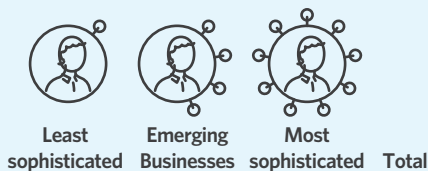
There could be a significant increase in the number of businesses registered by addressing the reasons why businesses say that they are not registered. The majority provide the following reasons:

- Business is too small
- No benefit to registering
- Process too complicated
- Do not have the money to register

These perceptions can easily be addressed through advertising

and direct business contacts. If addressed it is estimated that an additional 17 800 business could be registered.

This estimate is arrived at by looking at the size of each BSM, taking the number of business owners who say that they are currently registered into consideration and then assuming that the registration authorities could attract, from the potential market, 10% of the least sophisticated segment, 40% of the emerging segment and 60% of the most sophisticated:



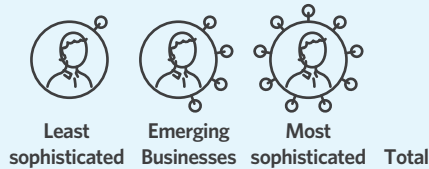
	Least sophisticated	Emerging Businesses	Most sophisticated	Total
<b>Total market</b>	34 488	30 881	10 699	<b>76 068</b>
<b>Currently registered</b>	5 618	5 507	2 774	<b>13 899</b>
Potential market	28 869	25 374	7 925	<b>62 168</b>
<b>Probable market</b>	2 887	10 150	4 755	<b>17 792</b>

## Licensing of businesses

As with registration, there could be a significant increase in the number of business licensed in Lesotho. The challenge is to address the perceived reasons why businesses are not licensed. The majority of business owners say:

- They do not know why they are not licensed
- The business is too small
- There is no benefit to licensing
- Too expensive

These, largely negative and inaccurate, perceptions need to be addressed and the benefits of licensing more clearly expounded on. It is estimated that there could be an additional 18 000 business licensed in Lesotho:

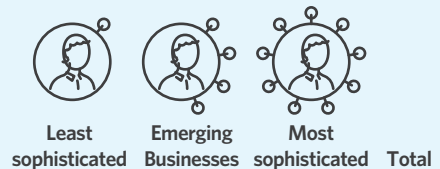


<b>Total market</b>	34 488	30 881	10 699	<b>76 068</b>
<b>Currently licensed</b>	5296	5468	2498	<b>13262</b>
Potential market	29 191	25 413	8 201	<b>62 805</b>
<b>Probable market</b>	2 919	10 165	4 921	<b>18 005</b>

### Banking Sector

The banking sector could increase the number of banked businesses, through product and service innovation, (particularly Mobile and Internet Banking) by over 12 000.

This estimate is arrived at by looking at the size of each BSM, taking the number of currently banked into consideration and then assuming that the industry could attract, from the potential market, 10% of the least sophisticated segment, 40% of the emerging segment and 60% of the most sophisticated:



<b>Total market</b>	34 488	30 881	10 699	<b>76 068</b>
<b>Currently banked</b>	11 929	12 969	6 075	<b>30 973</b>
Potential market	22 558	17 912	4 624	<b>45 094</b>
<b>Probable market</b>	2 256	7 165	2 774	<b>12 195</b>



Completed 

Underway 

### **FinScope MSME Survey**

*Comprehensive study focusing on individual entrepreneurs, and owners of micro-, small- and medium enterprises (MSMEs) and their financial services needs.*

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Lesotho 2016 please contact:

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