FinScope

Micro, small and medium enterprises (MSME) survey

Lesotho 2016
**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.

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)
118 130 people work in the sector (this number includes 54,939 employed and 63,191 individual entrepreneurs). 76,068 MSME owners own 85,173 businesses, of which 63,191 are business owners with employees. Estimated turnover (Monthly) is 192 million Maloti (75% of MSME owners reported on turnover).

Important contribution to employment: Quthing, Qacha’s Nek, Thaba-Tseka, Mokhotlong, Mafeteng, Berea, Maseru, Leribe, Maseru, Berea, Mafeteng, Mafeteng, Mafeteng, Mafeteng, Mafeteng, Mafeteng, Mafeteng, Mafeteng, Mafeteng, Mafeteng, Mafeteng.

Distribution of businesses by district: Maseru has the highest number of MSME owners in Lesoto, 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)

76 068 MSME owners

63 191 individual entrepreneurs

12 877 business owners with employees

100%

17%

85 173 MSMEs

54 939 people (any age)

Estimated turnover (Monthly)

192 million Maloti

(75% of MSME owners reported on turnover)

Important contribution to employment

LSL/US$ exchange rate in September 2015 (start of fieldwork) = 14.0172
Defining MSMEs for this survey (including owner)

By the number of employees and annual turnover

- **Micro** - 1 to 5 employees
- **Small** - 6 to 20 employees
- **Medium** - 21 to 50 employees
- **Big** - 50+ employees

**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)*
Businesses in Lesotho by number of employees

- 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

Business definition by employee status

Medium (21-50 employees) = 257
Small (6-20 employees) = 2091
Micro (1-5 employees) = 73,720

Percentage of MSME owners

- 0.3% No employees
- 3% 1 employee
- 4% 2 employees
- 7% 3 employees
- 97% 5+ employees
Business sector

- Wholesale and retail trade: 30%
- Agriculture, forestry and fishing: 22%
- Accommodation and food services: 10%
- Manufacturing: 9%
- Transportation and storage: 3%
- Arts, entertainment and recreation: 3%
- Construction: 2%
- Human health and social work: 1%
- Real estate activities: 1%
- Professional, scientific technical: 1%
- Education: 1%
- Electricity, gas, steam: 1%
- Other service activities: 18%

16% add value

- Other service activities

78% buy and sell

16% add value

- Manufacturing

69% sell bricks, furniture and craft
SIZE AND SCOPE OF THE MSME SECTOR

22% add value and sell

Wholesale and retail trade

69% sell merchandise in the same form

Agriculture, forestry and fishing

15% grow crops

15% rear livestock

25% tourism

Accommodation and food services

28% sell cooked food

31% accommodation construction

78% buy and sell

69% sell merchandise in the same form

22% add value and sell
**Number of years in business**

- 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.

**Business by life cycle**

- 36% are start-ups (2 years and less)
- 24% are in the growth phase (between 3 and 5 years)
- 40% are established businesses (6 years and more)
### Nature of MSMEs by sector classification (business focus)

<table>
<thead>
<tr>
<th>Business Focus</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sell something but not add value</td>
<td>31%</td>
</tr>
<tr>
<td>Sell something and add value</td>
<td>16%</td>
</tr>
<tr>
<td>Rear livestock/poultry and sell</td>
<td>12%</td>
</tr>
<tr>
<td>Sell something that I make</td>
<td>10%</td>
</tr>
<tr>
<td>Grow something and sell</td>
<td>4%</td>
</tr>
<tr>
<td>Sell by-products of animals</td>
<td>3%</td>
</tr>
<tr>
<td>Sell something that I collect from nature</td>
<td>1%</td>
</tr>
<tr>
<td>Sell something that I get for free</td>
<td>1%</td>
</tr>
<tr>
<td>Other retail</td>
<td>3%</td>
</tr>
<tr>
<td>Other services (car wash, transport, salons)</td>
<td>8%</td>
</tr>
<tr>
<td>Render building/construction services</td>
<td>6%</td>
</tr>
<tr>
<td>Render tourism-related services</td>
<td>3%</td>
</tr>
<tr>
<td>Render a skilled service</td>
<td>2%</td>
</tr>
<tr>
<td>Render a professional service</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Retailers
- 38% of retailers process or add value before selling

### Services Provided
- 81% Retailers
- 19% Services Provided

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**SIZE AND SCOPE OF THE MSME SECTOR**
**Below the surface**

**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**

- Sole proprietor: 82%
- Company: 6%
- Partnership: 5%
- Other: 4%
- Do not know: 3%
Registration

Cost, knowledge & complexity of registration process

- Time: About 5 Days
- Cost: At least 500 Maloti

Perceived benefits of registration

- Comply with the law: 49%
- Do not know: 24%
- Access to finance: 7%
- Avoid harassment from authorities: 4%
- No benefits: 4%
- Access to government tenders: 3%

Reason for not registering/licensing

- Business too small, no money: 61%
- Do not know how, too complicated: 28%
- Do not know: 9%

*Source: http://www.doingbusiness.org/data/exploreeconomies/Lesotho#starting-a-business
Estimated turnover per sector (in Maloti)

- Wholesale, retail and repair of motor vehicles (30%)
  - Estimated turnover: 65 000 000

- Agriculture and forestry (22%)
  - Estimated turnover: 39 471 000

- Other services activities (18%)
  - Estimated turnover: 32 333 000

- Accommodation and food services (10%)
  - Estimated turnover: 13 600 000

- Manufacturing (9%)
  - Estimated turnover: 12 700 000

- Transportation and storage (3%)
  - Estimated turnover: 3 146 000

Total Estimated turnover (monthly): 192 million Maloti

(75% of MSME reported turnover)
**Estimated monthly turnover per business size (in Maloti)**

- **MICRO (including owner)**
  - 1–5
  - 184,875,500

- **SMALL**
  - 6–20
  - 5,214,250

- **MEDIUM**
  - 21–50
  - 1,910,250

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**Financial record keeping**

- **Keep financial records**
  - 42%

- **Do not keep financial records**
  - 58%

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

59%  Majority are female

51%  Located in urban areas

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

46%  Motivation to start the business is mainly needs driven (unemployment and to take care of family)

83%  Business is their only source of income

61%  Majority have some secondary or higher education

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

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**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

- **60%**
  - Earn personal monthly income of less than 5 000 Maloti

- **76%**
  - Many work 5 hours a day or more (35% more than 8 hours)

- **35%**
  - Majority are female (81% are over 30 years of age)
How businesses are doing

Opinions about the business

- At risk or in danger of failing: 7%
- Struggling but surviving: 20%
- Struggling but promising: 29%
- Fairly successful: 35%
- Very successful: 9%

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*

- Taught myself: 49%
- My family: 9%
- Training programmes/courses: 9%
- Mentor/advisor: 8%
- Previous job or work experience: 8%
- On the job: 7%
- School: 3%
- University/college: 2%
- Spouse: 2%
- Other: 2%

- 42% keep financial records
- 84% do not get help but keep records themselves
- 96% keep records manually
- Only 6% have a bookkeeper or auditor
### Awareness of organisations offering support services

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>81%</td>
</tr>
<tr>
<td>Lesotho Revenue Authority (LRA)</td>
<td>6%</td>
</tr>
<tr>
<td>The Basotho Enterprises Development Corp.</td>
<td>6%</td>
</tr>
<tr>
<td>Trade and Industry</td>
<td>5%</td>
</tr>
<tr>
<td>Lesotho National Development Corporation (LNDC)</td>
<td>4%</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>3%</td>
</tr>
<tr>
<td>National University of Lesotho</td>
<td>2%</td>
</tr>
<tr>
<td>Mine Worker’s Development Agency</td>
<td>1%</td>
</tr>
<tr>
<td>SMME Support Network Lesotho</td>
<td>1%</td>
</tr>
<tr>
<td>Other business association</td>
<td>1%</td>
</tr>
<tr>
<td>Modiko Trust</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Sources of information

- Do not seek business advice: 31%
- Friends: 25%
- Other family members/relatives: 24%
- Spouse/partner: 23%
- Other small business owners: 19%
- Customers: 8%
- Suppliers: 6%
- Professional consultant: 4%
- Business association: 3%
- Small business support organisation: 3%
- People I regularly network with: 2%
- Government institution: 2%
- Bank: 2%
- Mentor/advisor: 1%
- Employees: 1%

### 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%)
Main constraints to start a business

- Sourcing money: 49%
- Not enough customers: 19%
- Cash flow: 19%
- What product/service to sell: 14%
- Too many competitors: 13%
- Being owed money/debtors: 13%
- Who to sell to/who the customers will be: 6%
- Business space: 6%
- Problems with stock/goods sold: 5%
- Equipment: 4%
- Crime/theft by others: 3%
- Transport e.g. moving stock: 3%
- Own lack of skills/experience: 3%
- Selling price lower than expected: 3%
- Getting a license: 3%
- Registering the business: 3%
- Other: 4%
- None/no problems: 8%
Sourcing money (35%)
Cash flow (26%)
Being owed money/debtors (22%)
Not enough customers (16%)
Too many competitors (13%)
Who to sell to, i.e. who the customers will be (8%)
Transport e.g. moving stock (3%)
Problems with stock/goods sold (3%)
Raising awareness of products/services (3%)
Crime/theft by others (2%)
Equipment (2%)
Connecting electricity (2%)
Connecting water services (2%)
Finding business premises or space (2%)
Financial records (2%)
Other (3%)
None/no problems (9%)
Obstacles to growing the business

- Access to finance: 20%
- Space to operate: 16%
- Competition: 15%
- Bad weather/natural disasters: 7%
- Cost of finance: 7%
- Crime and theft: 5%
- Transportation: 5%
- Infrastructure development: 3%
- Electricity: 3%
- Access to quality inputs: 2%
- Skills and education: 2%
- Access to land: 2%
- Staff productivity (absenteeism, motivation, etc.): 1%
- Internal theft and fraud: 1%
- Corruption: 1%
- Business licensing: 1%
- Customs and trade regulations: 1%
- Tax: 1%
- Other: 7%
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.

MSME Sophistication in Lesotho

Urban versus rural divide

<table>
<thead>
<tr>
<th>Category</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least sophisticated</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Emerging Businesses</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>Most sophisticated</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>Total</td>
<td>51%</td>
<td>49%</td>
</tr>
</tbody>
</table>
Seek business advice from others

Least sophisticated: 66% Yes, 34% No
Emerging Businesses: 70% Yes, 30% No
Most sophisticated: 74% Yes, 26% No

Keep financial records

Least sophisticated: 39% Yes, 61% No
Emerging Businesses: 43% Yes, 57% No
Most sophisticated: 51% Yes, 49% No
### Motivation to start business

<table>
<thead>
<tr>
<th>Motivation to start business</th>
<th>Least sophisticated</th>
<th>Emerging Businesses</th>
<th>Most sophisticated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>To provide for my family</td>
<td>35%</td>
<td>36%</td>
<td>42%</td>
<td>36%</td>
</tr>
<tr>
<td>Saw an opportunity</td>
<td>20%</td>
<td>19%</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Could not find a job/unemployed</td>
<td>18%</td>
<td>14%</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>To make more money</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

### Age of the business

- **Start-up** (2 years and less)
  - Least sophisticated: 40%
  - Emerging Businesses: 40%
  - Most sophisticated: 44%

- **Growth** (between 3 and 5 years)
  - Least sophisticated: 37%
  - Emerging Businesses: 37%
  - Most sophisticated: 30%

- **Established** (6 years and more)
  - Least sophisticated: 23%
  - Emerging Businesses: 23%
  - Most sophisticated: 27%
### Biggest obstacle to growth (%)

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

### External buyers and suppliers

<table>
<thead>
<tr>
<th></th>
<th>Export to customer outside Lesotho</th>
<th>Suppliers outside of Lesotho</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>7%</td>
<td>11%</td>
</tr>
<tr>
<td>Business owners</td>
<td>Estimated adult population (million)</td>
<td>Estimated % of adult population that owns MSMEs (%)</td>
</tr>
<tr>
<td>-----------------</td>
<td>--------------------------------------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>18 years and older 100 employees or less</td>
<td>6.1</td>
<td>13</td>
</tr>
<tr>
<td>18 years and older 75 employees or less</td>
<td>5.9</td>
<td>46</td>
</tr>
<tr>
<td>18 years and older 100 employees or less</td>
<td>10.8</td>
<td>42</td>
</tr>
<tr>
<td>18 years and older 49 employees or less</td>
<td>1.1</td>
<td>7</td>
</tr>
<tr>
<td>16 years and older 200 employees or less</td>
<td>33.5</td>
<td>17</td>
</tr>
<tr>
<td>COUNTRY</td>
<td>Number of MSME owners</td>
<td>Number of MSMEs they own</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Malawi 2012</td>
<td>760 000</td>
<td>1m</td>
</tr>
<tr>
<td>Zimbabwe 2012</td>
<td>2.8m</td>
<td>2.8m</td>
</tr>
<tr>
<td>Mozambique 2012</td>
<td>4.5m</td>
<td>4.9m</td>
</tr>
<tr>
<td>Lesotho 2016</td>
<td>76 000</td>
<td>85 000</td>
</tr>
<tr>
<td>South Africa 2010</td>
<td>5.6m</td>
<td>6m</td>
</tr>
</tbody>
</table>
**Financial inclusion - Framework**

Total business owner (BO) population = Minimum age defined by the age at which individuals can enter into a legal financial transaction in their own capacity

- **FINANCIALLY INCLUDED**
  BOs who have/use financial products and/or services for business purposes – formal and/or informal

- **FINANCIALLY EXCLUDED**
  BOs who do not have/use any financial products and/or services - if borrowing, they rely only on friend/family; and if saving, they save at home

- **FORMALLY SERVED**
  BOs who have/use formal financial products and/or services provided by a formal financial institution (bank and/or non-bank)

- **INFORMALLY SERVED**
  BOs who have/use financial products and/or services which are not regulated, e.g. farmer associations, saving clubs/groups, private money lenders

- **BANKED**
  BOs who have/use financial products and/or services provided by a commercial bank regulated by the central bank

- **SERVED BY OTHER FORMAL FINANCIAL INSTITUTIONS**
  BOs who have/use financial products and/or services provided by regulated non-bank formal financial institutions, e.g. insurance companies
Financial inclusion among MSME owners in Lesotho

<table>
<thead>
<tr>
<th>Total business owner (B) population 100% (76 068)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIALLY INCLUDED</strong></td>
</tr>
<tr>
<td>65% (48 317)</td>
</tr>
<tr>
<td><strong>FORMALLY SERVED</strong></td>
</tr>
<tr>
<td>45% (34 301)</td>
</tr>
<tr>
<td><strong>BANKED</strong></td>
</tr>
<tr>
<td>41% (30 973) Driven by cash transactions and savings</td>
</tr>
</tbody>
</table>

‘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

- Formally served
  - Banked
  - Other formal (non-bank)
  - Informal
  - Excluded

- 45% of businesses are formally served.
- 41% of businesses are banked.
- 12% of businesses use other formal (non-bank) products/services.
- 38% of businesses use informal mechanisms only.
- 35% of businesses are excluded.

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

- 41% of businesses use commercial bank products/services.
- 4% of businesses use other formal (non-bank) products/services.
- 20% of businesses use informal mechanisms only.
- 35% of businesses are excluded.
“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**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Overall</th>
<th>Retailer</th>
<th>Services</th>
<th>Start-up (2 years and less)</th>
<th>Growth (3 years and 5 years)</th>
<th>Established (6 years and more)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>41%</td>
<td>38%</td>
<td>51%</td>
<td>36%</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>20%</td>
<td>22%</td>
<td>12%</td>
<td>23%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>36%</td>
<td>33%</td>
<td>37%</td>
<td>30%</td>
<td>36%</td>
</tr>
</tbody>
</table>

**Access Strand by MSME classification**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Overall</th>
<th>Medium/small</th>
<th>Micro</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>41%</td>
<td>52%</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>13%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>35%</td>
<td>35%</td>
</tr>
</tbody>
</table>

*Legend: Blue = Banked, Yellow = Other formal (non-bank), Green = Informal only, Red = Excluded*
Access Strand by MSME owner’s gender and area type

Overall
Male
Female
Urban
Rural

Access Strand by The Business Sophistication Measure (BSM)
Access Strand by country comparison

- Malawi 2012: 22% Banked, 9% Other formal (non-bank), 10% Informal only, 59% Excluded
- Zimbabwe 2012: 14% Banked, 4% Other formal (non-bank), 39% Informal only, 43% Excluded
- Mozambique 2012: 9% Banked, 2% Other formal (non-bank), 14% Informal only, 75% Excluded
- Lesotho 2016: 41% Banked, 4% Other formal (non-bank), 20% Informal only, 35% Excluded
- South Africa 2010: 47% Banked, 4% Other formal (non-bank), 7% Informal only, 42% Excluded
Access Strand by MSME distribution: districts

Access Strand

- **Qacha's Nek**: 48% Banked, 7% Other formal (non-bank), 12% Informal only, 34% Excluded
- **Maseru**: 45% Banked, 4% Other formal (non-bank), 20% Informal only, 31% Excluded
- **Butha-Buthe**: 42% Banked, 5% Other formal (non-bank), 20% Informal only, 33% Excluded
- **Quthing**: 41% Banked, 6% Other formal (non-bank), 19% Informal only, 35% Excluded
- **Berea**: 37% Banked, 7% Other formal (non-bank), 26% Informal only, 30% Excluded
- **Mokhotlong**: 36% Banked, 1% Other formal (non-bank), 9% Informal only, 53% Excluded
- **Leribe**: 36% Banked, 5% Other formal (non-bank), 14% Informal only, 45% Excluded
- **Mafeteng**: 34% Banked, 3% Other formal (non-bank), 22% Informal only, 41% Excluded
- **Mohale's Hoek**: 32% Banked, 4% Other formal (non-bank), 20% Informal only, 44% Excluded
- **Thaba-Tseka**: 30% Banked, 1% Other formal (non-bank), 28% Informal only, 40% Excluded
DRivers of financiaL inclusion

- Savings products: 70%
- Transactions: 70%
- Credit: 5%
- Mobile money services: 66%
- Insurance: 16%
- Savings: 11%
- Credit: 2%
- Savings products: 96%
- Credit: 10%

Banking

Other formal (non-bank)

informal
Banking Status

- 41% of business owners are banked
- 15% use bank account in the name of the business
- 45% deposit their money in the bank on a daily basis
- 56% access their bank branch in 30 minutes or less
- 64% of banked business owners use the banking facilities monthly
- 71% use their personal bank accounts for most of their business banking
- 84% normally go to the bank branch/ATM themselves

**Drivers** - 33% recommendation; 22% advertising and 22% already had personal account there
Barriers to banking

- Business/income is too small: 65%
- Irregular income: 19%
- Do not need one: 6%
- Do not qualify: 6%
- Do not know anything about it: 4%
- Bank charges: 4%
- Planning to open one in future: 3%
- Cannot afford the minimum balance: 3%
- Use other services/products: 2%
- Use personal bank account: 2%
- Prefer dealing in cash: 2%
- Have not licensed my business: 2%
- Do not have business address: 2%
- Banks are too far: 1%
- Too complicated: 1%
- Other: 4%
- Do not know: 9%

Business/income is too small, not enough profit and irregular business income are main barriers to opening a business bank account.
**Mobile money drivers**

- Using utilities bills Mobile Money
- Customer payment Mobile money e.g. Mpesa/ecocash
- Paying business accounts with Mobile Money
- Buy cell phone or airtime for business Mobile Money
- Cash deposits for the business Mobile Money
- Money transfers between my bank accounts Mobile Money

**Mobile money usage**

- 8% use mobile money
- 47%
- 51%
SAVINGS

Overalls with overlaps

- 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

- Saving money to expand the business: 63%
- Saving money: 45%
- Saving money to have money when I need it: 41%
- Saving money for the future: 23%

Barriers

- The business is not making enough to save: 73%
- All money is put back in the business: 28%
- Do not believe in saving: 7%
- Other: 5%
CREDIT

**Overalls with overlaps**

Formally served: 2%
Bank credit products: 2%
Other formal (non-bank): 0.2%
Informal: 4%
Family/friends: 3%
Not borrowing: 91%

**Credit Strand**

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

- 3% rely on friends and family only
- 4% rely on informal mechanisms
- 91% of business owners did not borrow money in the 12 months prior to the survey
- Only 2% of business owners have loans from formal institutions such as a commercial bank

2% 4% 3% 91%
Barriers to access credit

- Do not need to borrow money: 44%
- Business is slow so I am afraid to borrow: 19%
- Do not believe in borrowing money: 13%
- Do not qualify: 8%
- Scared: 6%
- Borrowed in the past and paid back: 5%
- Have tried but was turned down: 3%
- Earnings change from month to month: 2%
- Have too much debts and cannot get a loan: 1%
- Do not have collateral / security: 1%
- Do not know: 9%

- 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

Businesses have insurance

Insurance drivers for business owners

- Life insurance: 26%
- Workman's compensation: 24%
- Disability: 21%
- Funeral plan: 16%
- Business contents: 14%
- Accident insurance: 13%
- Motor vehicle insurance: 11%
**Insurable risks experienced**

- Death of owner: 15%
- Not being paid by debtors: 15%
- Competition: 12%
- Theft of business stock: 12%
- Drought: 10%
- Rain damage: 9%
- Theft of business equipment: 6%
- Flood/fire/natural disaster destroyed premises: 6%
- Loss of income: 4%
- Illness of owner: 3%
- Theft of livestock: 3%
- Business equipment failure: 2%
- None: 30%

**Perceived biggest risks**

- Theft of business stock: 25%
- Not being paid by creditors or people: 18%
- Competition: 17%
- Theft of business equipment: 14%
- Drought: 12%
- Illness of owner: 10%
- Damage to my place of business: 10%
- Loss of income: 10%
- None: 10%
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 SOPHISTICATION SEGMENTATION**

<table>
<thead>
<tr>
<th></th>
<th>Least Sophisticated</th>
<th>Emerging Businesses</th>
<th>Most Sophisticated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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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 relay 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:

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

<table>
<thead>
<tr>
<th>Least sophisticated</th>
<th>Emerging Businesses</th>
<th>Most sophisticated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total market</td>
<td>34 488</td>
<td>30 881</td>
<td>10 699</td>
</tr>
<tr>
<td>Currently registered</td>
<td>5618</td>
<td>5507</td>
<td>2774</td>
</tr>
<tr>
<td>Potential market</td>
<td>28 869</td>
<td>25 374</td>
<td>7 925</td>
</tr>
<tr>
<td>Probable market</td>
<td>2 887</td>
<td>10 150</td>
<td>4 755</td>
</tr>
</tbody>
</table>

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 clearing expounded on. It is estimated that there could be an additional 18 000 business licensed in Lesotho:
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:

<table>
<thead>
<tr>
<th></th>
<th>Least sophisticated</th>
<th>Emerging Businesses</th>
<th>Most sophisticated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total market</strong></td>
<td>34 488</td>
<td>30 881</td>
<td>10 699</td>
<td>76 068</td>
</tr>
<tr>
<td><strong>Currently licensed</strong></td>
<td>5296</td>
<td>5468</td>
<td>2498</td>
<td>13262</td>
</tr>
<tr>
<td><strong>Potential market</strong></td>
<td>29 191</td>
<td>25 413</td>
<td>8 201</td>
<td>62 805</td>
</tr>
<tr>
<td><strong>Probable market</strong></td>
<td>2 919</td>
<td>10 165</td>
<td>4 921</td>
<td>18 005</td>
</tr>
</tbody>
</table>

**RECOMMENDATIONS**
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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