

FinScope MSME Lesotho 2015



Making financial markets work for the poor

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Acronyms and abbreviations

ALEB	Association of Lesotho Employers and Business
ATM	Automatic Teller Machine
BDS	Business Development Services
BEDCO	Basotho Enterprise Development Corporation
BOS	The Lesotho Bureau of Statistics
DFID	Department for International Development
DWCP	Decent Work Country Programme
EESE	Enabling Environment for Sustainable Enterprise
FGD	Focus Group Discussion
FI	Financial Institution
FMT	FinMark Trust
FNB	First National Bank
GDP	Gross Domestic Product
HDI	Human Development Index
ILO	International Labour Organization
LCCI	Lesotho Chamber of Commerce and Industry
LEMFA	Lesotho Microfinance Association
LNDC	Lesotho National Development Corporation
LPB	Lesotho PostBank
LRA	Lesotho Revenue Authority
MAP	Making Access Possible
MDA	Mineworkers Development Agency
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
MNO	Mobile Money Operator
MSME	Micro Small Medium Enterprise
MTCDT	Matelile-Tajane Community Development Trust
NGOs	Non-government Organisation
POS	Point of Sale
PPS	Probability Proportion to Size
SIYB	Start and Improve Your Business
PCGF	Partial Credit Guarantee Fund
UNDP	United Nations Development Programme

Definitions

TERM	DEFINITION
Access Strand	A measurement of financial inclusion across the formal-informal institutional provider continuum
Adults	Those people aged 18 years or older
Banked	Individuals using one or more traditional financial products supplied by commercial banks
Credit	Obtaining funds from a third party with the promise of repayments of principal and, in most cases, with interest and arrangement charges in exchange for the money
Demand-side barriers	Demand-side barriers to access financial services relate to characteristics inherent to individuals that prevent them from using financial services such as perceived insufficient income, low levels of financial literacy and lack of trust in financial institutions
Enumeration Area (EA)	Enumeration area (EA) is a well identified territorial unit containing the prescribed population size (usually about 80 to 120 households) in which enumeration is to be carried out by a single enumerator within a specified period of enumeration. Each EA has a unique 10 digit geo-code that reflects the province, district, ward and land use sector in which it is located
Formal other	Financial products/services supplied by formal financial institutions which are not banks
Formal products	Products provided by government regulated financial institutions such as commercial banks, insurance companies and microfinance institutions
Formally included	MSME owners using formal financial products supplied by institutions governed by a legal precedent of any type. This is not exclusive usage, as these individuals may also be using informal products
Financial access landscape	A measurement of usage of both formal and informal products across the four main product groups: transactions, savings, credit and insurance
Financially served	MSME owners using one or more formal and/or informal financial products/services
Financially excluded	MSME owners who are not using any formal or informal financial products/services
Financial inclusion	The extent to which the adult population in the country engages with financial products and services, such as savings, transaction banking, credit and insurance, whether formal or informal
Informal products	Financial services provided by individuals and/or associations which are not regulated by government such as savings clubs and private moneylenders
Informally only served	MSME owners who are not using any formal financial products but who are using one or more financial products/services supplied from an informal source, such as a savings club or informal moneylender
Informally served	MSME owners who make use of informal financial products (regardless of whether or not they use formal financial services and products)
MSME	Micro, small and medium enterprises (MSMEs) are defined by the number of employees (according to the "MTICM White Paper). This includes individual entrepreneurs (without any employees), micro businesses (with 1 to 2 employees), as well as small businesses (3 to 9) and medium-size businesses (10 to 49 employees). For the purposes of this survey, the term MSME includes formal and informal businesses. Informal businesses refer to enterprises that are not registered and/or licenced with any government institution within Lesotho. MSMEs also include agricultural activities if 50% or more of the produced goods are sold.
Insurance	Payment of a premium for risk of an event happening, where payout is made if or when the event occurs
Savings	Safeguarding and accumulating wealth for future use
Supply-side barriers	Supply-side barriers to access to financial services relate to factors inherent to financial service providers that prevent individuals from using their services such as location of access points and the cost of using their services
Transactional	Financial services that use cash or other means (such as cheques, credit cards, debit cards or other electronic means) to send or receive payments

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Executive Summary

It is widely acknowledged that micro-, small- and medium-enterprises (MSMEs) are significant contributors 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 government, the business community or the public at large to harness and optimise this potential by implementing strategies to mobilise and enable MSME growth and development. To do so, it is imperative that these interventions are target and evidence-based. However, the lack of accurate up-to-date and reliable information about the sector and the challenges it faces, have been identified as the key constraints in achieving this objective. The study on the MSME sector in Lesotho was done in 2009. There was therefore a need for an update on the status of the sector. It is in pursuit of this objective that the Lesotho Government with support from FinMark Trust (FMT) and UNDP initiated the FinScope MSME Survey Lesotho 2015.

This report provides a synthesis of the findings from FinScope MSME, which was carried out in Lesotho in 2015. The primary aim of the survey was to size and scope the micro-, small-, and medium- business sector in Lesotho as well as the challenges MSME owners face (with particular focus on their financial service needs). The survey involved a comprehensive listing exercise and interviewing a nationally representative sample of 2 182 MSME owners (18 years and over including those who employ less than 50 people or less, as well as individual entrepreneurs without any employees).

Size and scope of the MSME sector: An estimated 120 000 people work in the MSME sector in Lesotho, including MSME owners (18 years and older). As such, the sector provides a huge opportunity for job creation as currently only 7% of the adult population are working in the sector. Further it contributes to poverty alleviation as survivalist businesses play a vital role, especially as a buffer against slipping into deeper poverty and as such reducing individual and household vulnerability. The estimated monthly turnover of the MSME sector in 2015 is estimated to be at least 192 million Maloti. (Note: This only constitutes the 75% of MSME owners who reported their turnover).

MSME owners: The majority of MSME owners are female (59% are female, compared to 41% who are male), located in urban areas (51% of MSME owners reside in urban areas, compared to 49% in rural areas – this partially reflects the distribution of the total adult population in Lesotho). The majority of MSME owners have some secondary level of education (61% have some secondary education and better), but acquired their business skills mainly informally (78%) through internal networks (family, friends, other business owners) or whilst managing the business. 81% of MSME owners are over 30 years of age.

Employees: The majority of MSME owners do not have any employees (83%). The remaining 17% of MSME owners (=about 13 000) employ a total of 55 000 people. Around 60% of employees are full-time employees (32 368). Around 11% of MSME owners employ between 1 to 2 employees (= micro businesses). The remaining 6% employs more than 3 employees (=small and medium businesses). Only 10% of employees in the MSME sector are unpaid, male and female and have equal likelihood of being unpaid.

MSMEs: The MSME sector in Lesotho is largely (52%) driven by wholesale, retail and agriculture. Around 30% of MSME owners claim to work in the wholesale and retail sector mainly selling goods/services in the same form (i.e. do not add value). About 1 in 4 MSME owners (22%) reported to operate in the agriculture sector, largely (53%) rearing livestock with only 15% growing crops. Another 10% and 9% of MSME owners claim to work in accommodation and food services, and manufacturing respectively. MSMEs in Lesotho are relatively established; majority (64%) reported that their businesses are more than 3 years in operation. In total, 19% of MSME owners reported that their businesses are registered (17% licensed business and 18% registered business). Of the registered MSMEs, 82% that is owned by individuals (Sole proprietors), 6% are companies and 5% are in partnership.

Business Sophistication Measure (BSM): The report shows that apart from access to and the cost of finance there is an overall lack of business sophistication in the MSME sector in Lesotho. Around 45% of businesses are classified as least sophisticated (an estimation of 35 000 businesses), followed by 31 000 (41%) emerging businesses. Only 11 000 (14%) businesses were found to have characteristics of a most sophisticated business. The general trend indicates that the incidence of the following variable increase with most sophisticated businesses: registration, location (urban), business owners with higher levels of education, growing and established business, incident of keeping financial records, exporting and importing activities and financial inclusion.

Financial inclusion of MSME owners

Overview: 43% of MSME owners are formally served, including 41% who are banked, and 12% who use/have other formal non-bank financial products/services. Every second MSME owner (38%) uses informal mechanisms to manage their business finances, while 35% do not use any financial products/services, neither formal nor informal (=financially excluded).

Banking: 41% of MSME owners in Lesotho are banked. Product uptake is driven by cash related transactions (withdrawals, deposits and savings). Key barriers to banking relates to low/irregular income. However, the majority (71%) of the business owners use their personal bank accounts for most of their business banking.

Borrowing and credit: In total 2% of MSME owners borrow from a bank, while borrowing from other formal non-bank institutions is minimal. Around 4% borrow from informal groups, 3% borrow from family and friends. 91% of MSME owners do not borrow, mainly because they fear that they won't be able to pay it.

Savings and investments: In total 29% of MSME owners save with a bank, while another 1% save with other formal non-bank institutions. Around 36% save using informal mechanisms such as savings groups/clubs, 12% save at home. Two in five (40%) of MSME owners do not save, mainly because of monetary reasons (example businesses not making enough money to save). Of those who save (60%): the majority (63%) save to expand their businesses.

Insurance: The large majority of MSME owners (98%) are not insured, despite a range of risks they face, such as not being paid by debtors, theft of business stock, drought and rain damage. Key barriers to insurance uptake relate to affordability and lack of knowledge about insurance.

Key challenges: Key challenges mentioned by MSME owners refer to sourcing money, equipment/raw material, not enough customers, transport (e.g. moving stock), finding business premises or operational space, too many competitors, and being owed money/debtors.

Start-up: In total, 49% of MSME owners reported to have problems sourcing money when starting their business. Other challenges during the start-up phase including cash flow (as reported by 19%), not having enough customers (19%) and problems identifying prospect products/services to sell (14%).

Operation and management: The majority of MSME owners (35%) reported to have problems sourcing money and 26% reported to have challenges with cash flow and 22% reported being owed money/debtors. Further, MSME owners claim not to have enough customers (16%) and too many competitors (16%).

Growth: Constraints to growing the business mainly refer to access to finance (as reported by 20%), space to operate (16%), and competition (15%).



I. Introduction and background

I.1 Background to the FinScope MSME study

Despite the average of 4.83 percent economic growth in Lesotho, unemployment remains high and poverty is widespread, particularly in rural areas. In terms of employment, the Government of Lesotho, the mining sector in South Africa and Lesotho textile industry are the major employers. In order to reduce the economy's dependence on the public sector, the government aims to encourage rapid and sustained private sector development. It is widely recognised that the Micro, Small and Medium Enterprise (MSMEs) sector is a significant contributor to job creation, development and economic growth. However, the MSMEs in Lesotho are hindered by inadequate management and entrepreneurial capacity, a poor regulatory framework and low access to finance and markets.

Given the crucial role of MSMEs in the national economy, it is in the national interest to harness and optimise this potential by implementing strategies to mobilise and enable MSME growth and development. The lack of accurate and reliable information about the sector and the challenges they face in Lesotho was identified as a strategic point to be followed during the MAP process. It is in pursuit of this objective that the Lesotho Government initiated the FinScope MSME Survey Lesotho 2015.

The FinScope MSME survey is a nationally representative survey developed by FinMark Trust focusing on small businesses and their financial services needs. The aim of this survey is to build a comprehensive body of evidence. The objectives of the Lesotho FinScope MSME survey include the following:

- To assess the size and scope of micro-, small-, and medium-enterprises (MSMEs) 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; and
- To assist with the development of future policy regarding the MSME sector.

I.2 Methodological approach

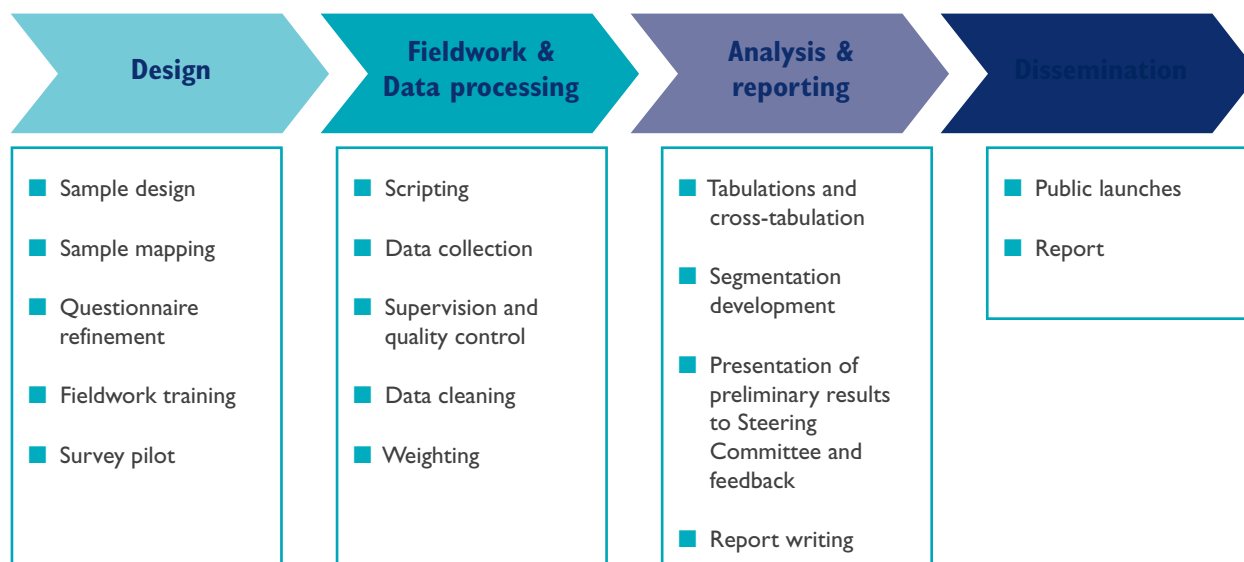
In this survey, MSMEs are defined by the number of employees (according to The Ministry of Trade, Industry, Cooperatives and Marketing (MTICM) White paper) including individual entrepreneurs (0 employees), microbusinesses (1-2), small (3-9) and medium-size-businesses (10-49). For this study, MSMEs also include informal businesses which refers to enterprises that are not registered or licensed with any government institution within Lesotho. The FinScope MSME Survey Lesotho 2015 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 (BOS) and the sample was weighted by Dr Ariane Neethling, under the guidance of AfricaScope and the support of FinMark Trust.

This chapter provides a brief description of the methodological approach employed for the survey. A full and detailed description can be found in the Technical Report (available on request from FinMark Trust).

1.3 Survey implementation

The survey was implemented in four stages as illustrated in Figure 1 below

Figure 1 – Survey implementation stages



1.3.1 Sample design

Target population: The target population for the survey was all adults, aged 18 years and older who own and run their own businesses.

The design of the sample for the survey was carried out by the Bureau of Statistics (BOS). For the purpose of Enumerator Area (EA) selection, a Probability Proportional to Size (PPS) approach at ecological level was used, boosting the EA sample for the smallest ecological zone(s) where necessary to ensure that the sample was representative at reporting levels envisaged. The sample is representative at the following reporting levels:

- National
- Urban and rural
- Ecological zone

All enumeration areas (EAs) within the country were considered for selection in the sample except for any institutions or hostels or national parks as defined by BOS.

The EAs were stratified into urban and rural areas. District and geographic area (urban / rural) were taken as the explicit stratification variable to ensure good coverage and the best possible precision for the survey. Variables such as main place and sub-place, or any other useful variables such as town / village / region were used as implicit stratification variables to improve the representativeness in the sample. The EAs were considered as the primary sampling units (PSUs) and households as secondary sampling units (SSUs).

Because of potentially large differences in the population sizes between the strata, it was meaningful to deviate from proportional allocation. The power allocation rule, a disproportional allocation technique that is applied internationally, was used to determine the number of EAs to be drawn per stratum. The aim of using the power allocation rule was to decrease somewhat the allocation of EAs to the larger strata, and to increase somewhat the allocation to the smaller strata. Hence, with this technique one can ensure, as far as the overall sample size allows, that the sample sizes are large enough in each stratum representing the different districts urban/rural areas within the sampling frame.

A summary of the sample allocation received from BOS is as follows:

A summary of the sample allocation received from BOS is as follows:

Table 1: Sample distribution

District	# of h/h (census 2006)	Power Allocation	EAs
Butha Buthe	27 802	166,7393175	31
Leribe	71 104	266,653333	50
Berea	45 571	213,4736518	40
Maseru	131 264	362,30374	68
Mafeteng	43 704	209,0550167	39
Mohale's Hoek	38 287	195,6706416	37
Quthing	25 573	159,9156027	30
Qacha's Nek	15 027	122,5846646	23
Mokhotlong	21 173	145,5094499	27
Thaba-Tseka	27 992	167,308099	31
Total	447 497	2009,213517	375

1.3.2 Sample mapping

BOS supplied a total of 375 enumeration areas from their Census 2006 Frame for the purposes of the survey. In order to ensure that the field teams could identify each of the selected enumeration areas, AfricaScope mapped all 375 enumerations areas. In addition, AfricaScope used satellite imagery to identify all structures within the selected enumeration areas and number each of these structures in all of the enumeration areas as per the map below:

Figure 2: Mapping of EAs



The mapping of the EAs and the identification of all structures was a critically important element of the survey process. AfricaScope undertook this process because, without the demarcation of the structures no surveys of this nature i.e. involving household listings could be effectively implemented in Lesotho. AfricaScope had a team of GIS specialists and technicians taking 4 weeks to complete the work of mapping the structures and producing the maps while the fieldwork was operational. Without the structures marked on the maps it would have been impossible to randomly select qualifying households and also impossible to return to an identified business owner, once selected.

I.3.3 Questionnaire refinement

The FinScope MSME questionnaire that has been used in other countries formed the basis of the questionnaire development along with local input from the Steering Committee. A series of meetings with the Steering Committee as well as all other stakeholders were held for the purpose of ensuring that relevant local content was included in the questionnaire.

The questionnaire covered the following topics:

- Demographics of MSME owners
- Nature of the business
- Import and export
- Getting involved in the business
- Employees in the business
- Customers
- Registration / compliance of business
- Psychographics and business performance
- Challenges and small business support
- Money management within the business
- Record keeping
- Formal and informal product penetration
- Banking penetration
- Savings and investments
- Borrowing and credit/loans
- Risks and insurance

I.3.4 Fieldwork training

Before sending people out into the field (and with regard to the complexity and status of the FinScope MSME Survey), several training sessions were held in Maseru and conducted over a period of 5 days.

The main purpose of the training sessions was to fully instruct the fieldworkers in all aspects of the FinScope MSME survey, as well as the behaviour expected from fieldworkers during the fieldwork.

A comprehensive training manual was produced to ensure that fieldworkers knew what was expected of them and to have a guideline available should they have questions while in field.

At the conclusion of the training a field pilot was conducted in the Europa area immediately adjacent to the Maseru Club. This area was selected due to its proximity to the training venue and because it was an area not included in the actual survey sample. All aspects of the field operation were tested during the pilot including the reading of maps.

I.3.5 Survey pilot

A comprehensive pilot survey was undertaken to test all aspects of the survey process including:

- Map reading
- Use of tracking devices
- Listing process
- Respondent selection
- Questionnaire administration
- Data capture to the PDAs
- De-brief after fieldwork
- Adjustments/refining of the questionnaire post pilot

1.3.6 Data collection

336 EAs were visited and over 47 000 households were listed, identifying over 4 000 MSME owners. A total of 2 182 face-to-face interviews were completed from September 2015 to February 2016. Field interviewers were grouped into small teams of manageable sizes. Each team comprised one supervisor and up to six enumerators. The supervisors selected sample households in a village and had the enumerators do their work under close supervision.

The following quality control measures were applied to verify fieldwork reliability:

- Verify that the interview took place;
- Proper application of the sampling plan in selecting the business owners;
- The approximate duration of the interview – taken from the Mobenzi system;
- The proper administration of the various sections of the questionnaire;
- Interviewer's general adherence to professional standards.

Material provided to field teams

- PDAs
- Pens and books
- Bags
- Bibs with name tags
- Car stickers
- TrackLocate unit for each supervisor
- GPS navigators

1.3.7 Supervision and quality control

Quality control was performed on a number of different levels to ensure that the highest possible field control could be achieved:

- Sedibeng performed the quality control via supervisor back-checking of respondents during field operations;
- Quality control checks were conducted by the quality control team during the actual fieldwork;
- Each team was provided with navigational GPS equipment to guide them to the centroid of the selected EAs;
- TrackLocate was used to monitor the fieldwork teams and to ensure that the correct survey areas were reached.

1.3.8 Data capture

Data was captured directly by the field workers onto PDAs. The value of using a PDA is that the information collected was immediately captured into a database through the mobile network, which means that the survey could be completed quicker. Also this method of data capture is cheaper than that of a conventional paper questionnaire.

The questionnaire was structured in the PDA to allow the availability of more information to the field workers, and to ensure that skip patterns are strictly adhered to and that compulsory information is collected. A further advantage of the use of PDAs is that the information was immediately stored in the central database, and could be viewed by the researchers to assess how the fieldwork was progressing and to ensure that all the required information was being collected accurately. Summary statistics on all aspects of the survey were easily prepared and made available to FinMark Trust and the project team.

1.3.9 Weighting and segmentation development

A number of statisticians were involved in the weighting of the survey data. The final weighting was conducted by Dr Ariane Neethling under the guidance of FinMark Trust.

Traditional methods of segmenting the MSME sector such as using registration, number of employees or turnover are often problematic due to low levels of any type of registration, firms mostly having one or two employees and the lack of record keeping, under-and over-stating of turnover and confusion between turnover, income and profit. As such, the Business Sophistication Measure (BSM) was implemented.

Dr Michael Muller assisted AfricaScope in the development of the segmentation approach. The BSM allows for greater insights into the MSME sector by segmenting the market into a number of clusters by using more than one or two variables from the dataset. The objective being, to create a segmentation model that complements and enriches the analysis found in the other MSME technical reports. A further objective was to develop a "score card" that would allow practitioners in field to rapidly obtain an understanding of the relative sophistication of any particular business. (see section 3 in the annexure).

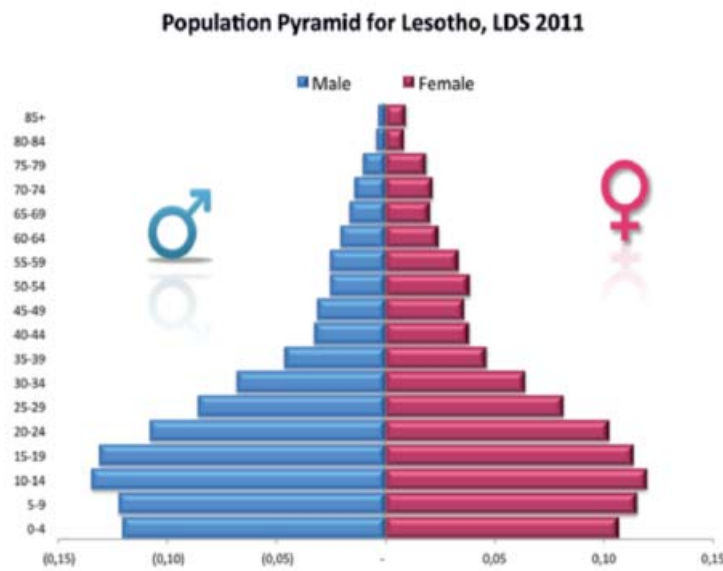
2. Country context

Lesotho, officially the Kingdom of Lesotho, is a high altitude landlocked country (spanning approximately 30 000km²) situated within the borders of South Africa. Lesotho's capital and largest city is Maseru, situated along the border on the western side of the country.

2.1 Population

According to the 2011 Lesotho Demographic Survey Report (Lesotho Bureau of Statistics, 2011), the country consists of a total population of 1,894 million persons. The population pyramid of Lesotho as depicted graphically, indicates a significant youth bulge. The median age of the population is 21,2 years of age, and approximately 70% of the population under 30 years. This is common within developing nations – however the key to whether this becomes a demographic time bomb is dependent upon absorption rate of the youth into employment. It is crucial that many of these young work seekers be absorbed into employment via entrepreneurial upstarts.

Figure 3: Population Pyramid



Gunnar Heinsohn, a German sociologist coined the term the 'youth bulge' referring to those populations that are represented by rapidly growing young populations and frequent widespread unemployment. The youth bulge has often been associated with not only high unemployment but also increased social, political and economic unrest. *"A large proportion of young adults and a rapid rate of growth in the working-age population tend to exacerbate unemployment, prolong dependency on parents, diminish self-esteem and fuel frustrations."* Richard P. Cincotta (Behner, 2007)

2.2. Socio-economic indicators

Lesotho is categorised within the low development sector. The country ranks 161 out of the 188 measured, and has an HDI of 0.497 (UNDP, 2015). Key indicators that contribute to its low Human Development Index are as follows:

Table 2: Human development index indicators¹

Key health indicators	
Life expectancy at birth	49,8 years
HIV prevalence, adult (15 – 49)	22,9%
Under five mortality rate (per 1000 live births)	98
Key education indicators	
Adult literacy rate	75,8%
Expected years of schooling	11,1 years
Mean years of schooling	5,9 years
Population with at least some secondary education (aged 25 and above)	20,9%
Key indicators employment and poverty	
Gross domestic product (GDP) per capita in U.S. (2014)	979,3
Population living below income poverty line	56,2%
Population living in severe multidimensional poverty	18,2%
Employment to population ratio (ages 15 and older)	49,7%
Child labour (of ages 5 to 14)	22,9%
Total unemployment rate (% of labour force)	24,4%
² Youth unemployment rate (% of labour force ages 15 – 24)	34,4%

Although Lesotho's GDP growth has been relatively consistent, it has done little to alleviate the poverty index and high unemployment rates within the country. There are clearly some significant factors that are obstacles to growth:

- Lesotho has the highest HIV/AIDS prevalence rate, which affects the labour force, health care costs, and has psychosocial ramifications.
- Lesotho is completely surrounded by South Africa and is thus highly dependent on South Africa's economy. In fact South Africa accounts for 90% of Lesotho's exports and about half of its imports. The slow economic growth of South Africa in recent years has had an obvious impact on Lesotho.
- The global recession has negatively influenced exports of clothing and textiles from Lesotho. Over 80% of exports in this specific sector are destined for USA and the global crunch has significantly decreased demands for these goods from the States.
- Although Lesotho is an extremely scenic and mountainous country, limited funding and capacity within the tourism sector has hindered growth.
- There have been significant gains in education, specifically with regards to attendance among children of primary school age. However there appears to be a gap with regards to vocational training and preparedness for entrepreneurship, for those youths that drop out of school prior to completion of secondary or tertiary qualifications. According to the Decent Work Country Programme (2012) "Training programmes that are available are not market driven, resulting in a mismatch between supply and demand for labour". This obviously presents significant obstacles to the growth of the MSME sector within Lesotho.
- The extreme poverty is apparent when looking at the significant penetration of subsistence farming. National statistics indicate that up to 69% of the labour force is engaged in subsistence farming activities in some form. This is reportedly higher than the 1997 figure of 50% (Decent Work Country Programme, 2012) indicating that although many may have other forms of employment, pay is not enough to survive on without the added produce from subsistence farming.
- Within the FinScope study it is clear that the MSME owners were significantly concerned about the political environment within Lesotho. Similarly one quarter of the sample indicated that given the opportunity they would leave Lesotho for good. The combination of a populous that is poverty stricken and concerned about political stability creates an atmosphere of trepidation.

¹ (Sources: UNDP, 2015; Trading Economics, 2016)

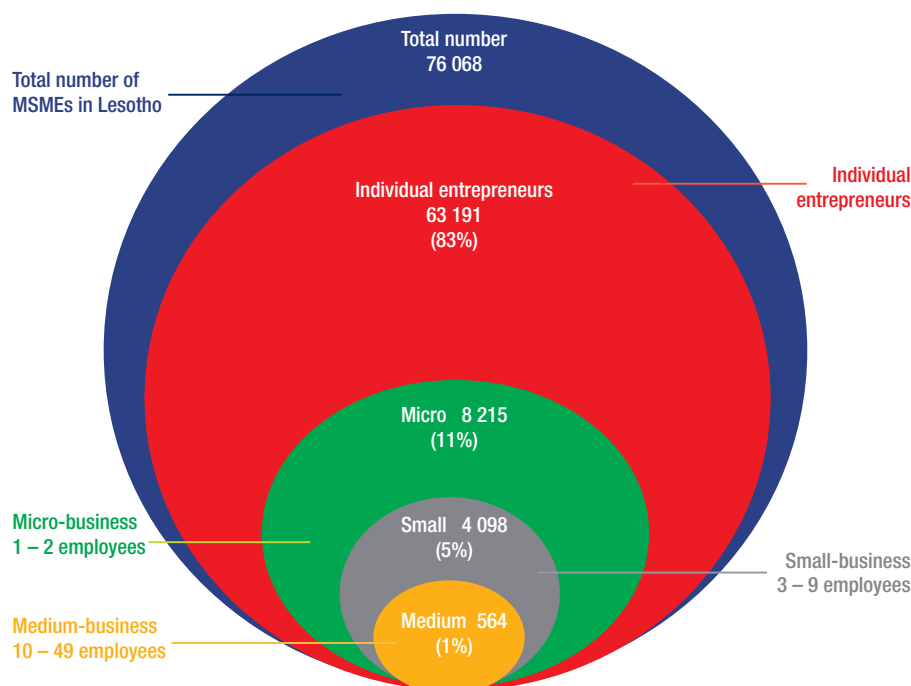
² The United Nations Economic Commission for Africa (2005) reported that youth unemployment rate was more in line with a rate as high as 47%.

3. Overview of the MSME sector in Lesotho

3.1 Size of the MSME sector in Lesotho

The size of the MSME sector in Lesotho is portrayed by a number of indicators, such as the number of MSME owners, the number of businesses they have and the number of people they employ in their main businesses. The following figure provides a broad overview of the sector.

Figure 4: Size of MSME Sector



MSMEs in Lesotho employ a total of 54 939 people, bringing the total number of people that work in the sector to approximately 118 000 (including the number of individual entrepreneurs). This figure represents nearly 10% of the total population of Lesotho over the age of 15. Understandably this denotes a significant proportion of employment emanating from MSMEs.

Table 3: Country comparison

	South Africa (2010)	Malawi (2012)	Mozambique (2012)	Zimbabwe (2012)	Lesotho (2015)
Business owners	16 years and older 200 employees or less	18 years and older 100 employees or less	18 years and older 100 employees or less	18 years and older 75 employees or less	18 years and older 49 employees or less
Estimated adult population	33,5 million	6,1 million	10.8 million	5,9 million	1,1 million
Estimated % of adult population that owns MSMEs	17%	13%	42%	46%	7%
Number of MSME owners	5,6 million	760 000	4,5 million	2,8 million	76 000
Number of MSMEs they own	6 million	1 million	4,9 million	3,5 million	85 000
% of MSME owners with registered/licensed businesses	17% (only CIPC)	3%	14%	15%	19%
Number of employees	6 million	1 million	850 000	2,9 million	118 000
% of individual entrepreneurs	67%	59%	93%	71%	83%
% of businesses with employees	33%	41%	7%	29%	17%

Sources: FinScope MSME surveys

3.2 Demographic indicators of owners of MSMEs in Lesotho

The total rural urban split is almost equal: Rural: 49%, Urban: 51%.

Figure 5: Districts map



Table 4: District distribution

Distribution	% Size
Maseru	49
Berea	11
Leribe-Hlotse	10
Butha-Buthe	7
Mafeteng	7
Mohale's Hoek	4
Mokhotlong	3
Thaba-Tseka	3
Quthing	3
Qacha's Nek	2

As is depicted graphically, Maseru is the dominant entrepreneurial hub. This is not surprising considering it is claimed that Maseru homes around a tenth of the population and almost half of the urban population in the country. It is also the main border link between South Africa and Lesotho, which may also contribute to the dominance of the city as the MSME sector:



In total 59% of business owners are women – however they are far more likely to own survivalist enterprises. About 60% of individual entrepreneurs are women, however this is true of only 44% of owners of medium sized businesses.

The majority of the adult population are married – however a higher proportion of individual entrepreneurs are widowed, which may in fact add an extra strain to these survivalist businesses as they have no back-up resources both economically and practically.



Mapakalitha Molala is one of 25 beneficiaries of a UNDP programme

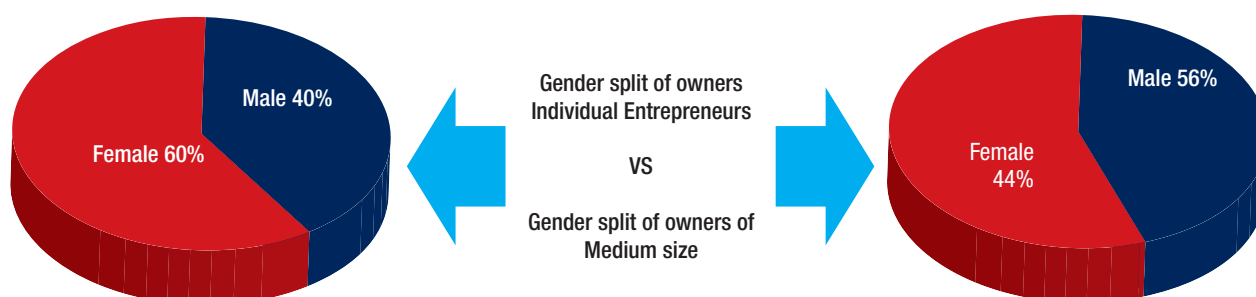
Photo:
UNDP Lesotho/Mark S. Cogan

Table 5: Marital status

Marital Status	Individual Entrepreneurs %	Micro %	Small %	Medium %	Total %
Married in common-law in monogamous married	65	87	66	71	65
Married in common-law in polygamous marriage	1	2	2	2	2
Divorced	2	0	2	0	2
Single	16	12	21	13	17
Widowed	16	0	9	14	15

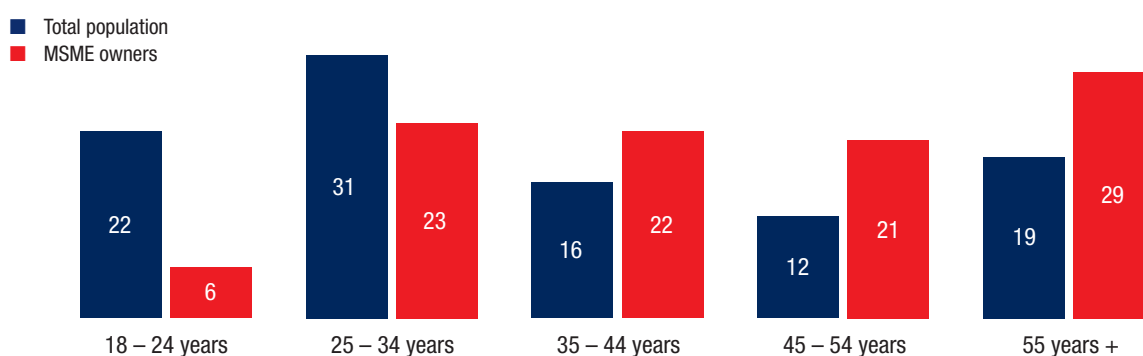
Increased size of the business is directly correlated to the propensity to have a male owner of the business.

Figure 6: Gender Split of Individual Entrepreneur vs Medium Size Business



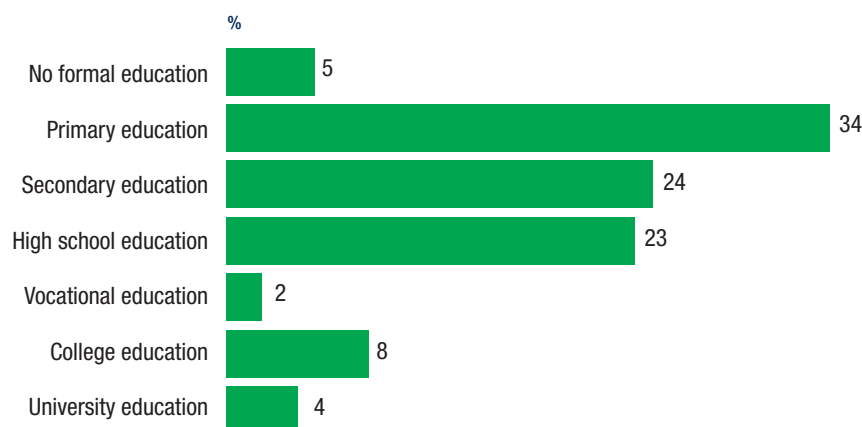
Despite the severe unemployment rate of the youth, over 50% of MSME owners are over 45 years of age. Looking at the age profiles of the total population, to that of MSME owners, there is a clear skew toward the MSME sector attracting older people. Ostensibly the youth are not equipped to enter the entrepreneurial arena and it may be argued that this needs further interrogation considering the extreme levels of unemployment among Lesotho youth, and limited opportunities for employment for the youth in formal sector employment.

Figure 7: Age of total population vs age of MSME owners



As is common among developing nations, older members of society often did not receive the educational opportunities to progress. Considering that the owners of MSMEs tend to be on average older, it is not surprising that nearly 4 out of 10 MSME owners had neither no formal education nor primary school education. A further 24% had only secondary school education. Thus nearly two thirds did not have the opportunity to complete high school.

Figure 8: Level of education of business owners



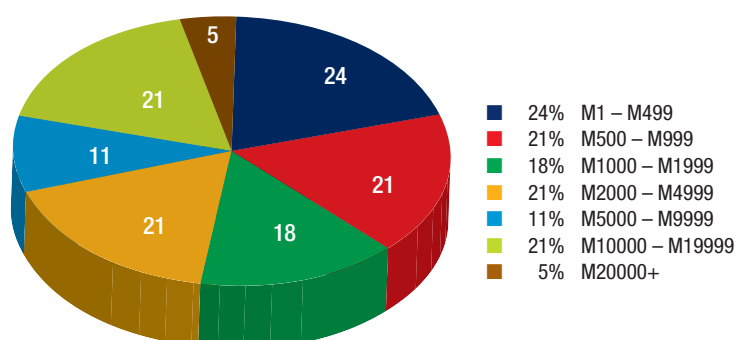
There is a higher propensity for individual entrepreneurs to have only primary school education in comparison to the micro-, small- and medium-size business owners. Small business owners show higher than average propensity toward college education and finally, as would be expected, the medium size business owners show slight tendencies towards university education. Although the differences may be small, there is a significant trend towards business development.

Table 6: Level of education by MSME size

	Individual Entrepreneurs %	Medium %	Micro %	Small %
No formal education	5	2	2	2
Primary education	36	30	21	26
Secondary education	25	24	21	38
High school education	22	26	26	16
Vocational education	2	4	7	1
College education	7	8	15	2
University education	3	6	8	16

The majority of MSME owners indicate that income obtained from their business is their sole source of income (69.5%). As can be seen the majority earn below M2000 and the median personal income is M1730. (Note this chart excludes "Don't Know" and "Refused" responses).

Figure 9: Personal monthly income of business owners

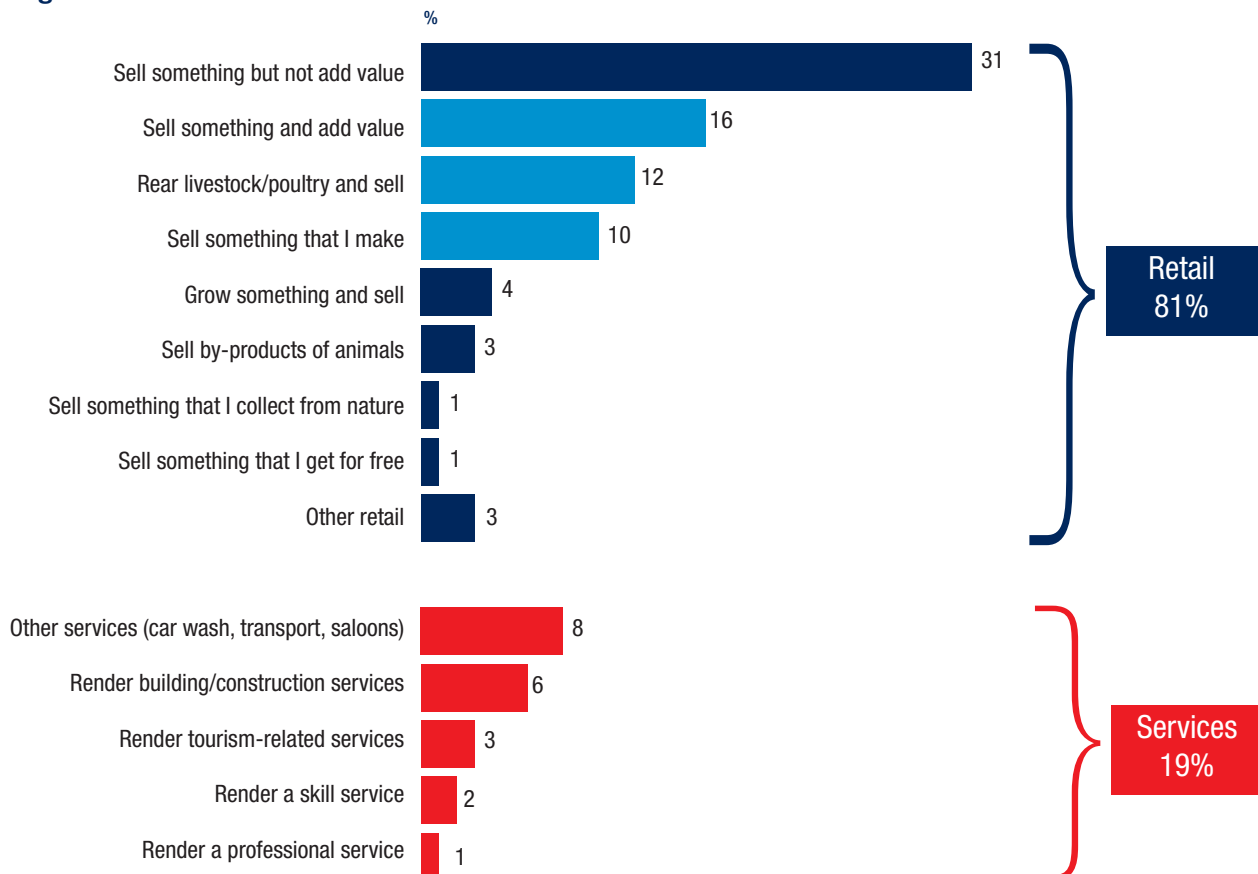


4. Details of the MSME sector in Lesotho

4.1 Business focus and industry

The majority of the MSMEs sold products in the exact form in which they purchased it, followed by those that added value to the product purchased, and those that produced handmade crafts. Rearing livestock and poultry to sell was also featured as a significant business focus.

Figure 10: Business focus



The table below indicates that wholesale, retail and trade features as the top industry for individual, micro-and small-businesses. Smaller numbers were in industry; agro-processing sectors and the services sector – however service related focus was the largest sector for medium size businesses. Construction focused businesses are also significant within the medium sized business. Businesses in the tourism, professions and financial services sectors constituted even smaller proportions of the sample.

Table 7: Distribution of MSME sector by size

	Total	Individual Entrepreneurs %	Micro %	Small %	Medium %
Wholesale & retail trade, repair of motor vehicles etc	30	30	34	25	15
Agriculture, forestry and fishing	22	22	20	22	5
Other service activities	18	18	18	14	35
Accommodation and food service activities	9	9	6	9	10
Manufacturing	9	9	6	8	5
Arts, entertainment and recreation	3	4	2	3	0
Transportation and storage	3	2	3	7	15
Construction	2	1	5	4	10

4.2 Income and turnover

The majority of business owners started the business themselves (91%), and 7 out of 10 indicated that their business is their sole source of income. Despite this, the majority of the businesses produce an income that is relatively hand-to-mouth based (the average monthly business turnover is 3877 Maloti, yet the average expense is calculated to 3052 Maloti). The MSME sector still accounts for an estimated 192 Million Maloti per month and ultimately contributes in the region of 7% of the GDP (as calculated based on figures of GDP provided by the UNDP).

Figure 11: Monthly business turnover and expense

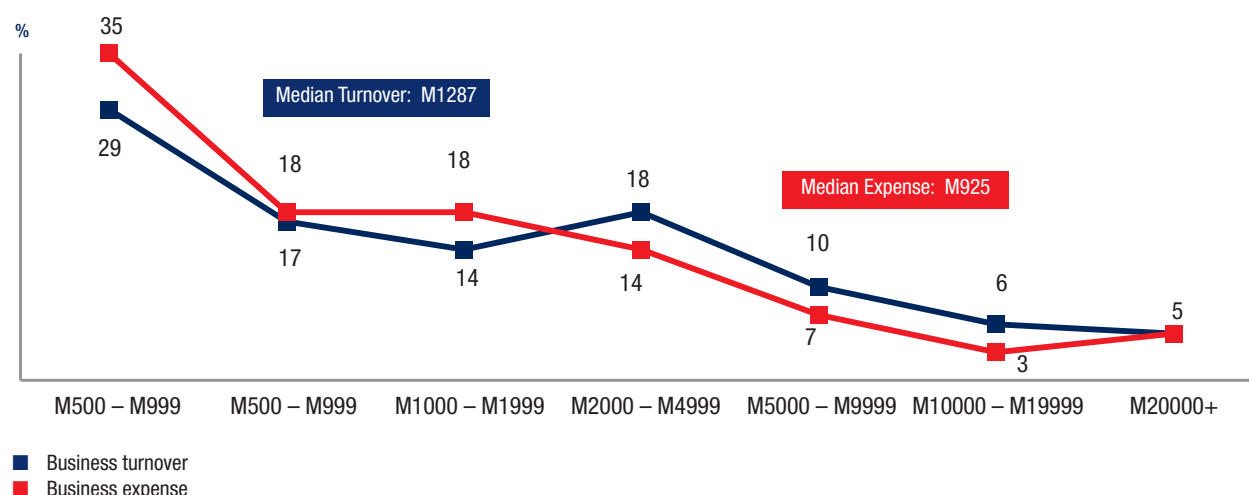


Table 8: Distribution of MSME sector by monthly turnover

Sector	Penetration %	Turnover
Wholesale, retail and repair of motor vehicles	30	65 000 000
Agriculture and forestry	22	39 471 000
Other services activities	18	32 333 000
Accommodation and food services	10	13 600 000
Manufacturing	9	12 700 000
Transportation and storage	3	3 146 000

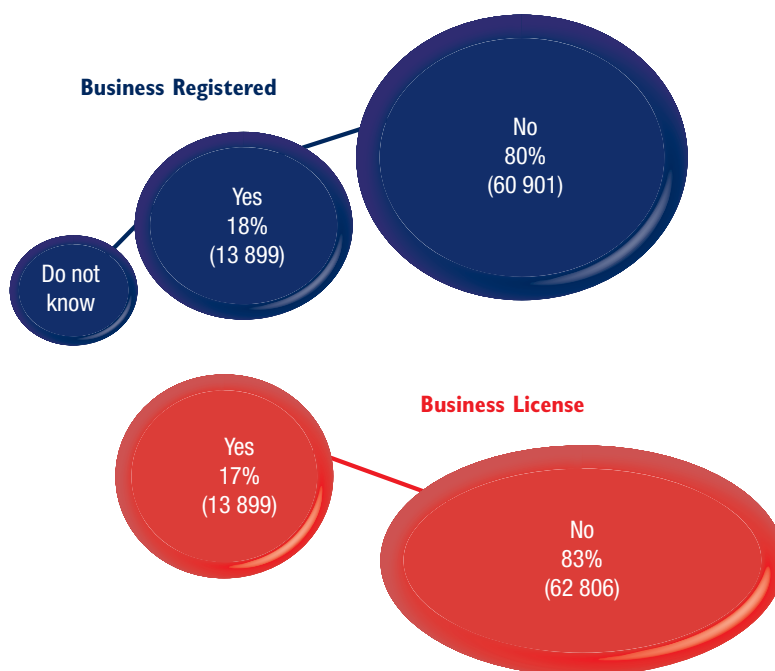
Table 9: Distribution of MSME size by monthly turnover

Business size	Penetration %	Turnover
Individual entrepreneurs	83	153 000 500
Micro	11	23 000 000
Small	5	8 000 000
Medium	1	8 000 000

4.3 Business license and registration

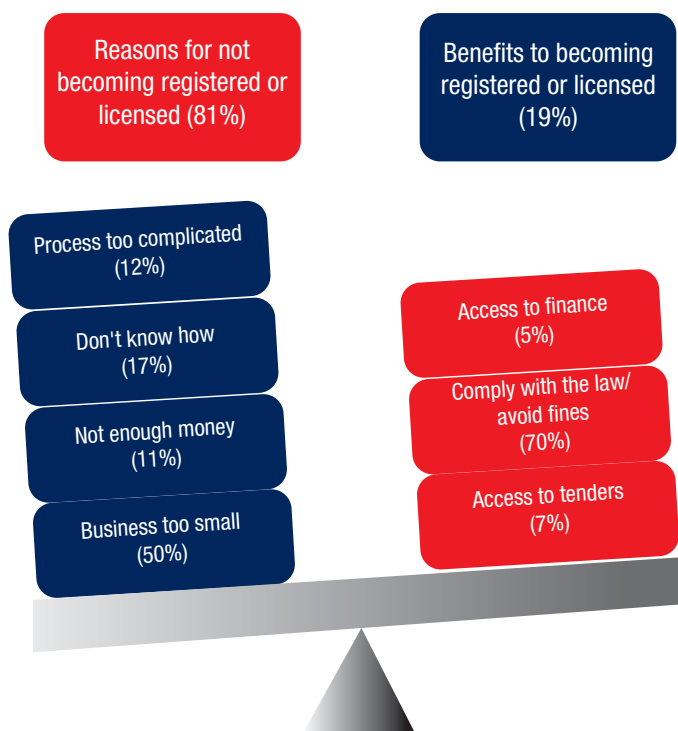
Figure 12 illustrates that the majority of MSMEs are not registered or licensed. The high unemployment rate has urged government to encourage the growth of this sector. The process of registration and licensing needs to become more streamlined to encourage growth, and although there is yet a long way to go, there are indications that there have been improvements. According to the Lesotho Review (2015), Lesotho's ranking has improved from 143rd in 2012 to 128th place in the World Bank's 2015 'Doing Business' report. It is believed that the improvement is directly attributable to "huge improvements having been seen in various indicators, such as 'Starting a Business' and 'Registering Property' (Lesotho Review, 2015). Similarly the 2011 Companies Act, which came into effect during the course of 2012, is aimed at making it easier and more streamlined to open a new company. However it appears that many still believe the licensing process remains too complex and inefficient, and perhaps more inroads need to be made into streamlining the process further.

Figure 12: Business registration and licensing



Below is a detailed summary of the monetary (business too small and not enough money), bureaucratic and legal hurdles faced by entrepreneurs wishing to incorporate and register a new firm in Lesotho, as well as the perceived benefits to registration – mainly law compliant in nature.

Figure 13: Obstacles to registration



Of the MSMEs that are registered, the bulk **are registered** as sole proprietors (82%), which equates to 11 383 businesses. Of those licensed, the majority are licensed through the Ministry of Trade and Industry. What is of interest in relation to business registration or licensing is the apparent skew towards male business owners and positive registration/ license of business, irrespective of business size. The removal of the legal minority status of married women, was instituted in order allow women more control of their land, finances and control over productive resources. Despite the advancement the legislation has made into gender parity, the legacy of gender inequality may still be apparent within the MSME sector (see figure 14 below).

Figure 14: Registration by Gender

Gender of business owner: Total sample (76068 businesses)



But Looking at the number of business that claim to be registered or licensed, there is a significantly higher representation of male business owners (14368 businesses)

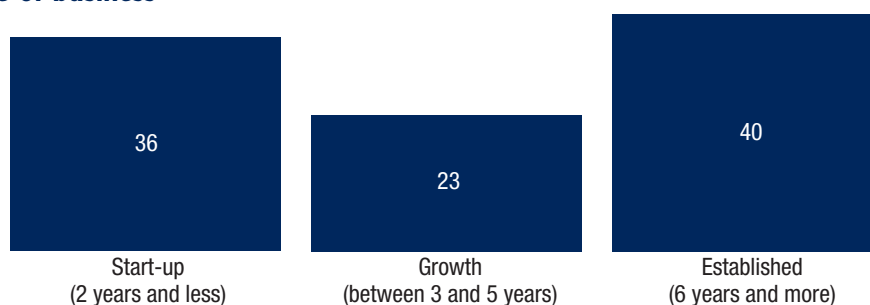


4.4 Skills acquired and time spent on business

Despite the fact that the majority of the businesses do not generate more than 'survivalist' incomes, the business owners spend a great deal of their time at work. 41% spend between 5 – 8 hours a day working and 35% spend 8+ hours working. 65% claim to spend 7 days a week working. By far the busiest month appears to be January, followed by December. Only 11% indicate that their business is seasonal, with 89% indicating that their business is run all year round.

As with many survivalist businesses, their skills remain self-taught (50%), whereby 1 in 10 indicated that a family member taught them. 9% indicated that they learnt their skills through training programmes, indicating that training has an impact, albeit not as big as is desired. 7% indicated that their skills were developed through previous work or job experience. Over a third indicated that the business has been running for under 2 years, a further 23% indicated 3 – 5 years, while the majority of business are established, i.e. been running for 6 years or more.

Figure 15: Age of business

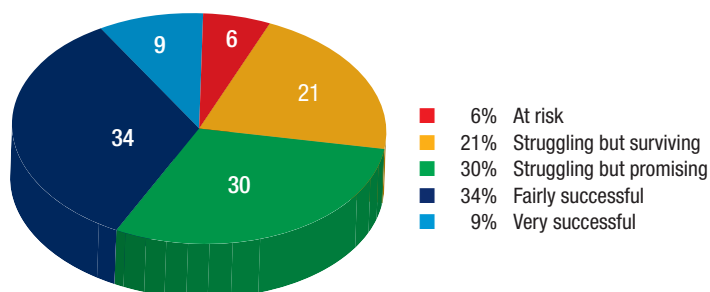


4.5 Success of the business and obstacles to growth

The majority of the businesses have been established from a survivalist perspective. Nearly 4 out of 10 started the business to provide for their families, 18% claim they saw an opportunity and 16% claim that they started their business as they could not find alternate opportunities. Business owners' perception of the success of their business varied.

As can be seen from Figure 16, only 9% believed that their businesses are successful while 6% believed their businesses are at risk of failing. Over all 43% remained in relatively positive territory and 57% with varying degrees of negativity. Despite this 46% stated that business had improved within the past 12 months and 30% indicated it had remained static.

Figure 16: Perceptions of business' success



Despite the hardships faced, half of the MSME owners were satisfied with what they had achieved, nearly 4 out of 10 believe that they don't have the same opportunities as others, and nearly a third are worried that their business would ultimately be shut down.

Figure 17: Psychographics

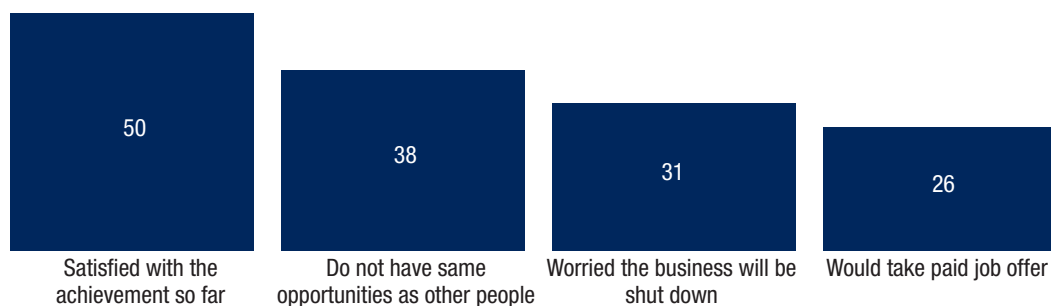
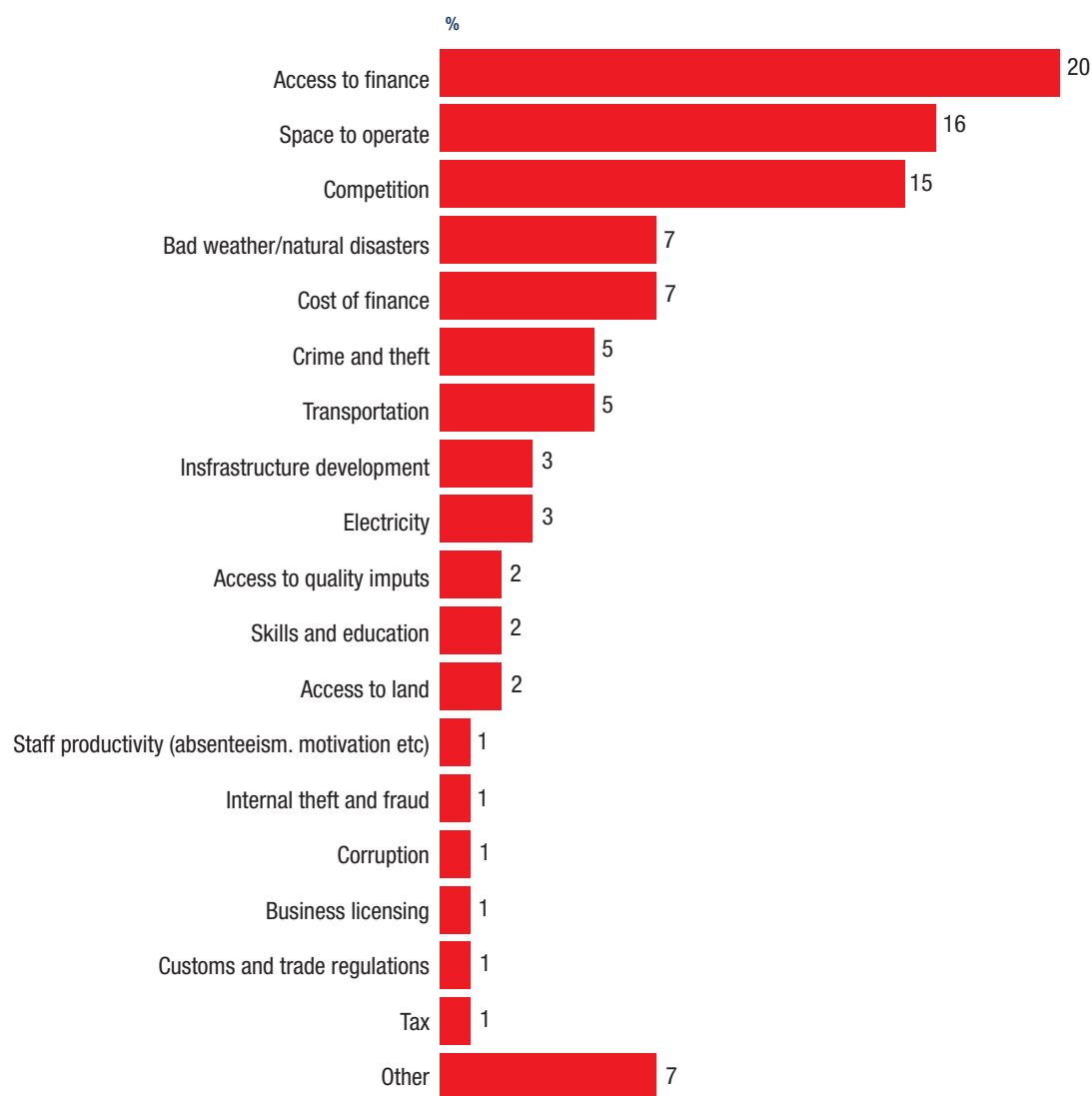


Figure 18: Biggest obstacles to growth

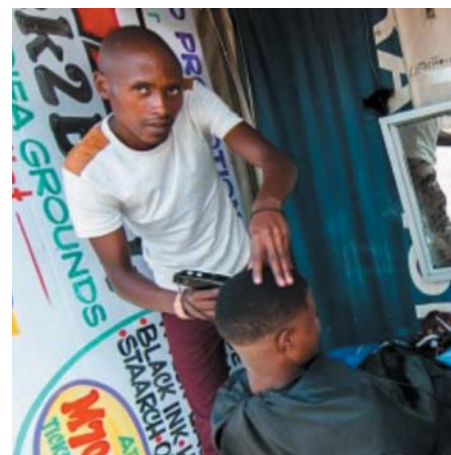
Many believe that the necessary support structures to ensure business growth aren't in place; only 13% of the sample believes that big projects are creating opportunities for growth of their business. On average, there is general consensus with regards to the biggest obstacles to growth among the different business sizes. Medium sized business showed an above average response to access to finance (40%), competition (20%) and cost of finance.

4.6 Business premises, travel and tenders

Around 83% of business owners indicate that they alone are responsible for the day-to-day running and management of the business. The majority of business owners indicate that their businesses operate from a residential property or a street corner and to lesser degree door-to-door sales. Over two thirds indicate that they own the premises from where they operate. Due to the fact that the majority operate from residential premises the time taken to travel to work appears minimal.

Considering that the majority of the businesses are survivalist entities, it is not surprising that only 3.7% have submitted a tender proposal. Despite this however, optimism takes hold whereby about 28% of the MSME owners indicated they would consider submitting a tender proposal in the future.

The overwhelming majority claim that private individuals are the main customer category. Not surprisingly the majority of clients are “walk-in” customers, therefore little advertising is done. Over half claim that customers do return on a regular basis.

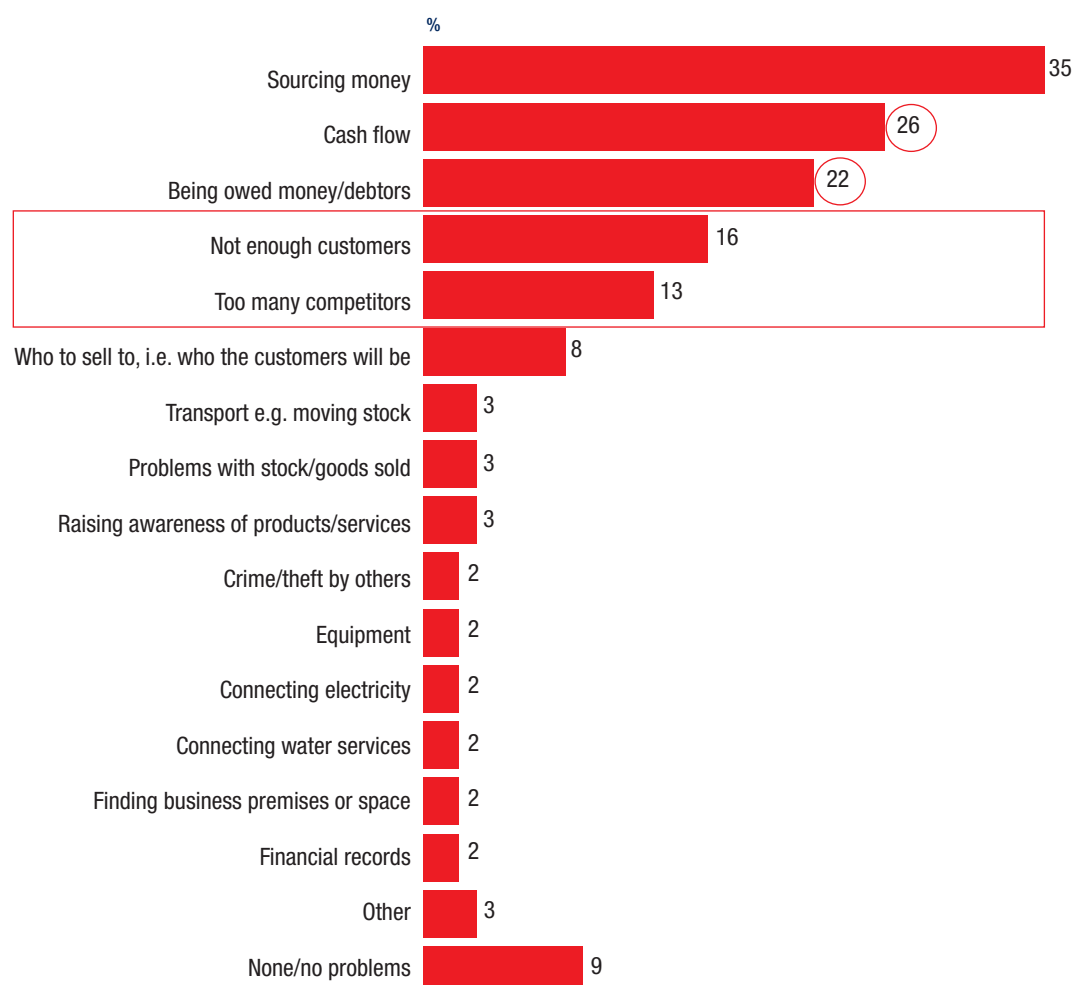


4.7 Key challenges

4.7.1 Operational constraints

In terms of daily operation and management of the business, finance (especially in terms of sourcing money) is perceived to be the biggest challenge as reported by 35% of business owners. Around 48% of MSME owners had problems with business management aspects including cash flow and being owed money by debtors. In addition, a number of MSME owners reported customers' base (16%) and competition (13%) constraints. This could be partially driven by the fact that most of the MSME owners are in retail and the majority do not add value in the products/services they are selling.

Figure 19: Operational challenges



4.7.2 Starting the business

One of the biggest barriers to starting a business or buying an existing business is access to funds. In Lesotho the majority of business owners started their business on an extremely small budget. The majority used their savings to start or take over a business. There were a small number of business owners who used more than one source to obtain sufficient money for the start-up / takeover. In total, 49% of MSME owners reported to have problems sourcing money when starting their business. Further 19% owners reported cash flow limitations, which is linked to access to finance. Other challenges during the start-up phase include difficulties with product/service differentiation including competing for similar customers (19%), what product/services to sell (14%) and too many competitors (13%).

Figure 20: Challenges when starting a business

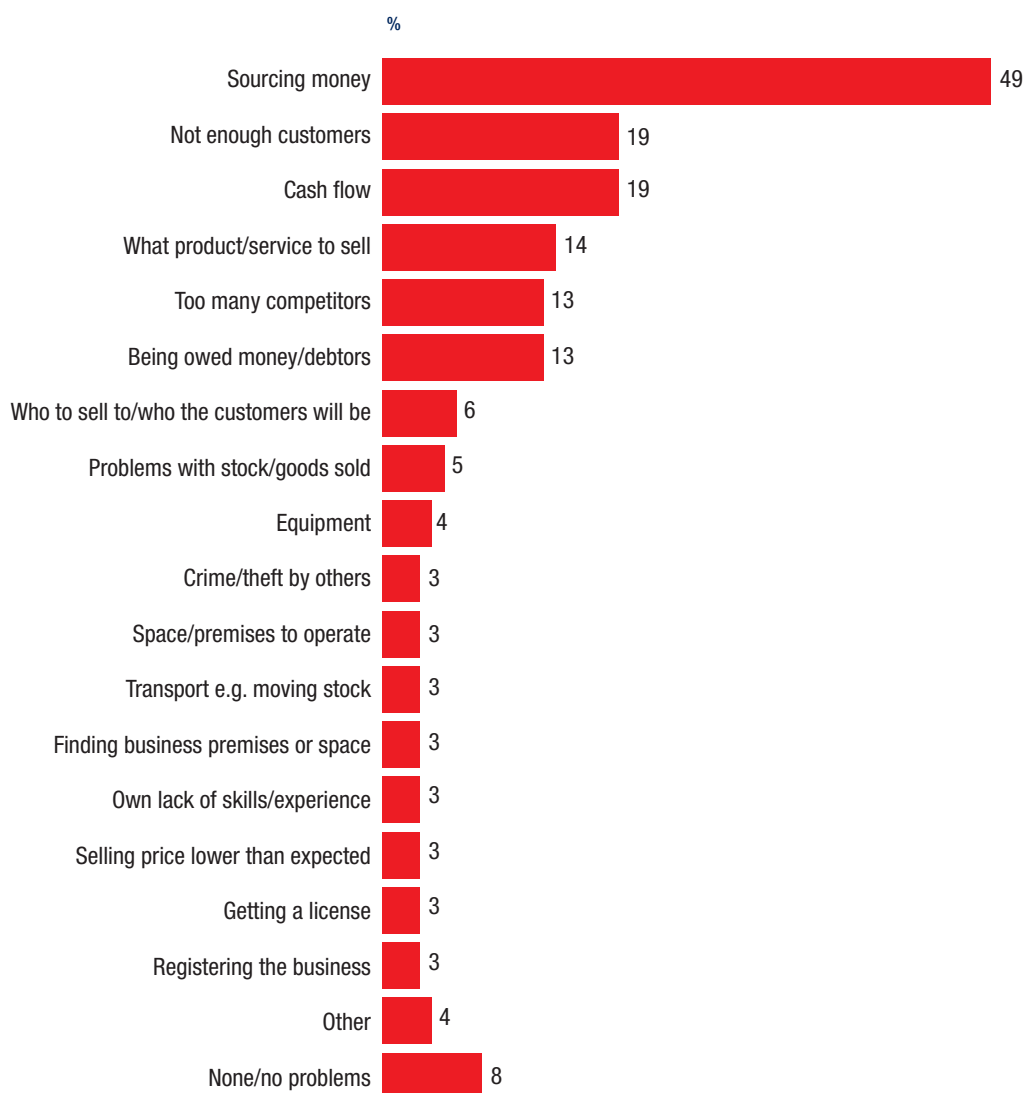


Figure 21: Money used to start/buy the business

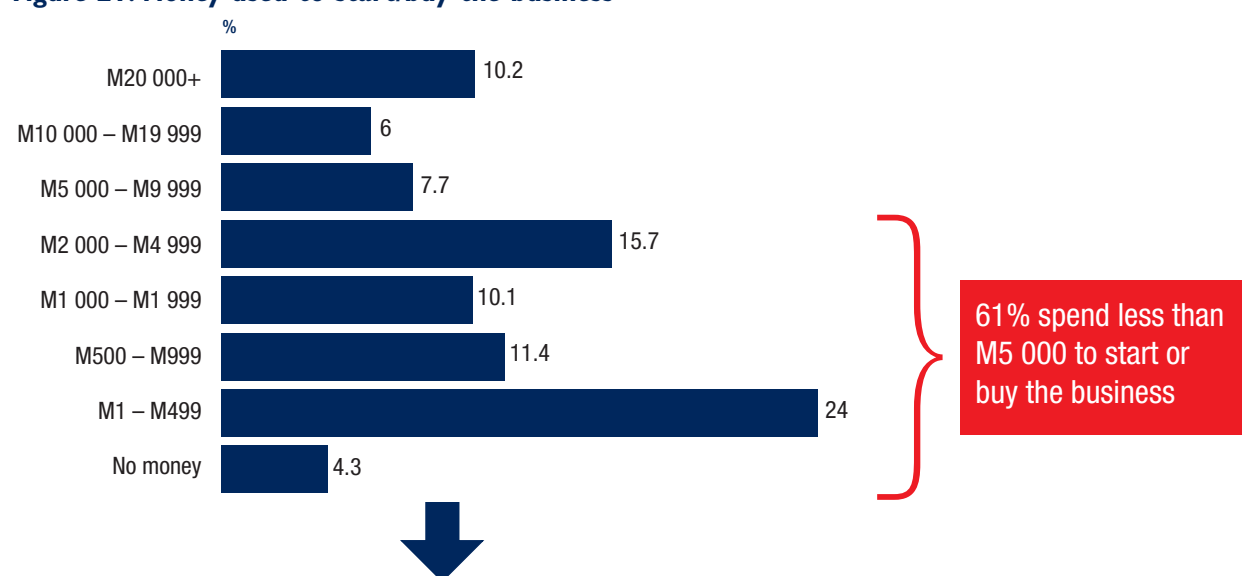


Table 10: Sources of money used to start / buy the business

Top 10 money sources	%
Retrenchment package	45
Friends /family	13
Salary	10
Spouse/partner	10
Government grant	9
Money from another business	3
Sold some assets	3
Personal loan	2
Pension / retirement policy	2
Savings group	2

4.8. Business Sophistication Measure (BSM)

4.8.1 Introduction

Policymakers, service providers, donors and other stakeholders often need to segment businesses into groups that show differences among businesses, within a defined continuum. Dividing the business landscape into component parts facilitates the efficient and effective targeting of policy, assistance, products and services.

To be useful, the segments must be well defined, and while related to each other within defined parameters, sufficiently differentiated to discern one segment from the next. The segments must also not be so small that they are too numerous to address, but also not so large that they are barely discernible from the overall market. Traditionally policymakers and service providers have tried different ways to segment business in Lesotho and around the world. Many use the number of employees as a way to define and segment the market. Others may cluster businesses according to whether they are registered or not. Annual income, asset sizes, business sectors, and demographic attributes, such as age of the business owners also offer potential axes on which to segment the market.

A segmentation approach already used in Lesotho seems to be classification of businesses by the number of employees. The MTICM White Paper on defines the MSME segment in the following way:

Table 11: MSME segments

Micro	Small	Medium	Medium
1 – 2	3 – 9	10 – 49	50+

Source: MTICM White Paper

Using the FinScope survey as a base, we find 93% of businesses in the 1 to 2 employee category and relatively few in the remaining categories. Just under 71 000 of the 76 000 businesses fall into the 1 to 2 employee category. 99% of businesses employ fewer than 10 people.

Table I2: Size of businesses

Number of employees		%
1 to 2 Employees	70 856	93
3 to 9 employees	4 374	6
10 to 49 employees	838	1
Total	76 068	100

Much debate about enterprises in Lesotho focuses on whether or not businesses are formally registered. Again, the FinScope survey indicates that only 19% of the MSMEs in Lesotho are licensed or registered (approximately 14 300 out of the total of 76 000).

Although both are logical approaches, it would seem that both of these measures may not meet the basic tests of useful segmentation to support efficient and effective targeting of policy, support, and product or service provision.

Both of these measures would create segmentations that comprise a large, and mostly undifferentiated, mass of either very tiny MSMEs or unregistered MSMEs. Attempts to divide the market by bands of turnover or assets may provide more differentiation, but as the survey in Lesotho and other surveys have shown, these numbers, as reported by MSMEs (especially with such a large proportion being unregistered and not keeping reliable financial records), are often questionable and incomplete, thereby undermining the integrity of any segmentation based on such figures.

4.8.2 The BSM explained

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

The traditional methods, described above, of measuring the market often do not provide much insight into the MSME market because of the large numbers of businesses that fall into one or the other of the traditional categories. In turn, policy, support and commercial ventures may not work at all or only work sub-optimally, because they rely on insufficiently differentiated market segmentation. For example, a government or donor programme designed to target 'micro-enterprises', based on a definition deriving from the number of employees, may find it untenable to efficiently and effectively deliver services to 90% of all MSMEs. Government dialogue with 'large business' about tax or import/export regulations may prove more fruitful if entered into with the segment of the business population which consider this issue a relatively greater priority. To assist in providing greater insight into the MSME market, the Business Sophistication Measure (BSM), which attempts to segment the market into a number of clusters by using more than one or two variables from the dataset. This segmentation model complements, supplements, and enriches the analyses found in the other MSME technical reports.

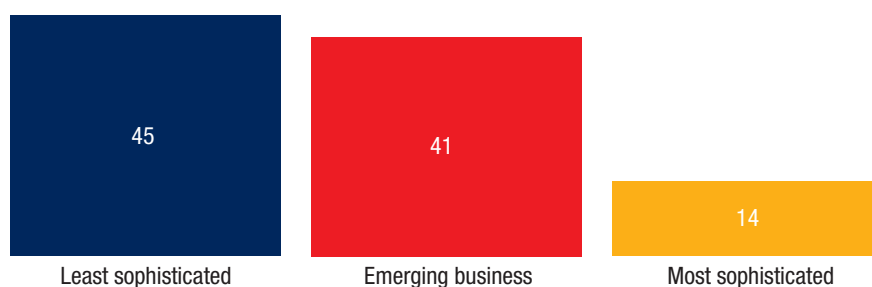
For example, the access to finance section of the report shows dramatic differences in access, based on whether or not an enterprise is rural or urban. The BSM segmentation model therefore provides composite sketches of MSMEs. For example, instead of proceeding with policy or other interventions to broadly promote more finance in rural areas, application of the BSM may allow policymakers and others to discern and implement interventions that focus on a finer, more appropriate level of detail. The BSM segments include further delineation of which rural areas, the kinds of enterprises in those particular areas, the typical educational profile of the business owners in those areas, and other factors that would nuance the approach. This enables the allocation of resources to more manageable segments of the MSME population, rather than just 'rural enterprises'.

4.8.3 Application of the BSM in the FinScope MSME Lesotho Survey

The FinScope survey estimated there to be approximately 76 200 Micro, Small and Medium Enterprises (MSME) in Lesotho. Using the BSM segmentation methodology, the firms are divided into the following categories:

1. Least sophisticated of which there are approximately 34 500
2. Emerging Businesses of which there are approximately 31 000
3. Most sophisticated of which there are approximately 10 700

Figure 22: BSM segments



The general trend indicates that the incidence of the following variables increase slightly with the most sophisticated businesses: incidence of residing in the urban areas, business owners with higher levels of education, keeping financial records, number of employees, business being the only source of income, cell phones and other business assets, and uptake of financial products/services (including banking account, savings and credit).

The next sections depict how BSM segments can be used to give meaningful insights:

4.8.4 Motivation to start business

A summary of the motivations given for starting the business indicate that there is a strong motivation to start a business to provide for their families. This is most evident in the more sophisticated businesses. 18% of the least sophisticated businesses indicated that the motivation to start a business was that they could not find alternative employment. This motivation indicates that the MSME sector does in fact play an important role in job creation.

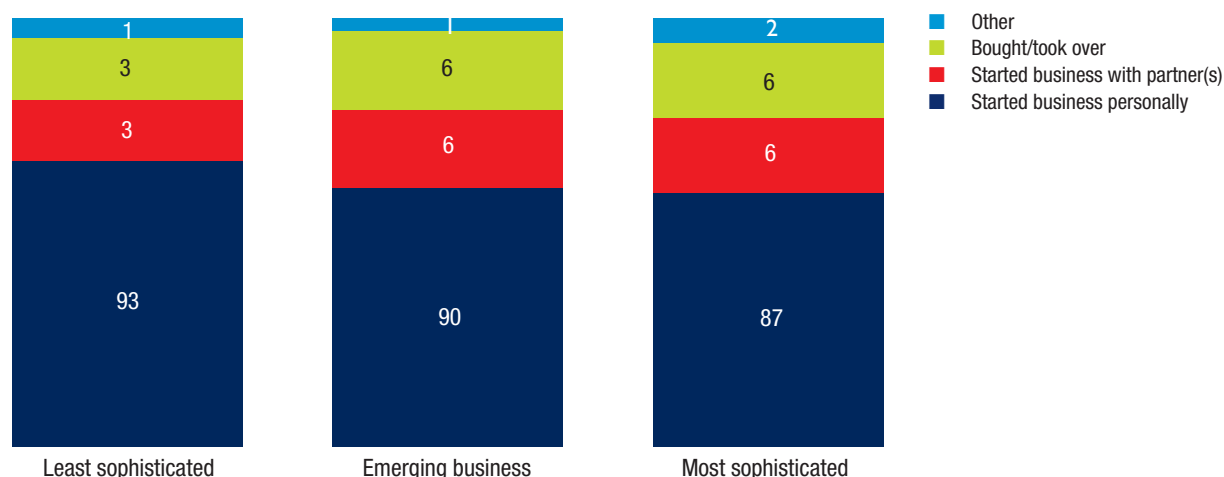
Table: 13: Motivation to start business

	Least sophisticated	Emerging Businesses	Most sophisticated	Total
To provide for my family	35	36	42	36
Saw an opportunity	20	19	18	19
Couldn't find a job/unemployed	18	14	11	15
To make more money	6	7	6	6

4.8.5 Starting the business

We see that the least sophisticated are more likely to start the business on their own. This fact, coupled with the fact that they tend to seek informal sources of information regarding their businesses shows the importance of the need for business development services (BDS) for this sector. The more sophisticated business tend to be the ones that bought the business from someone else.

Figure 23: Starting the business by BSM



4.8.6 Growing the business

In order to grow the MSME sector it will be important to address those obstacles that are perceived to be the most pressing. The figures below highlights in red the biggest obstacles faced by the various BSM segments. Clearly it is not possible to tackle all challenges at once and therefore by focusing efforts in particular areas, challenges can be more easily dealt with. The most sophisticated businesses are facing challenges in the form of access to finance, cost of finance, competition and infrastructure development. Emerging businesses face challenges in access to finance, space to operate and access to electricity and land. The least sophisticated businesses face challenges of space to operate, competition, crime and theft, transportation and access to land.

Table 14: MSMEs challenges to grow by BSMs

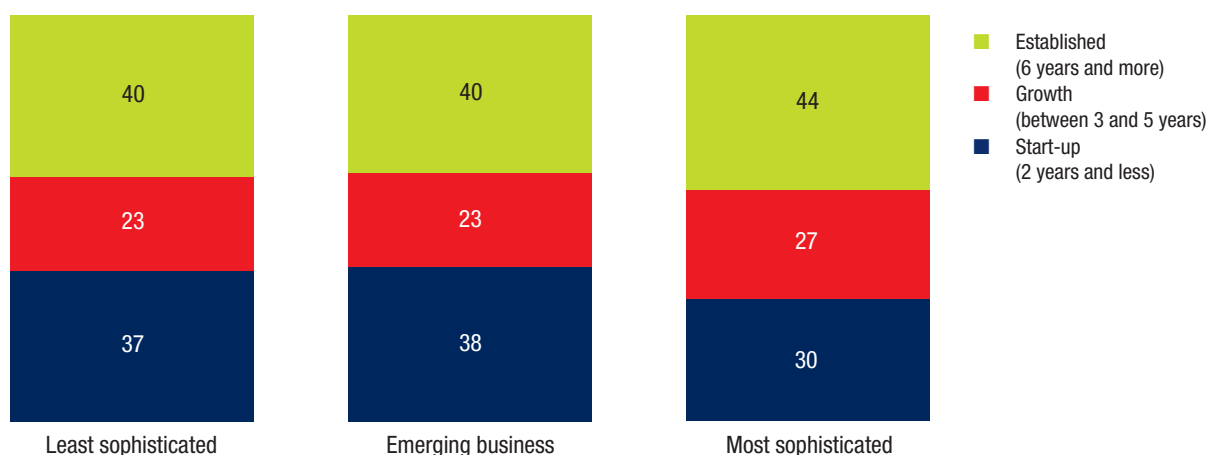
Biggest obstacle to growth	Least sophisticated %	Emerging businesses %	Most sophisticated %	Total %
Access to finance	18	21	21	20
Space to operate	16	17	14	16
Competition	16	14	17	15
Cost of finance	6	7	10	7
Crime and theft	6	5	3	5
Transportation	5	4	2	5
Electricity	2	5	3	3
Infrastructure development	2	2	3	2
Access to land	2	2	0	2

For every stakeholder with an interest in the small business sector; their particular objectives – whatever they may be – will be chieved through the growth of these small businesses. In order to gain the biggest return on investment in the development of small businesses, it is important that this investment be made in those areas with a high likelihood of growing. Therefore, investment needs to be in businesses (and business owners) with clear indications of capacity to grow.

4.8.7 Age of the business

Only 30% of the most sophisticated businesses said that they had been in business for two years or less. On the other hand 44% of these businesses have been around for 6 years or more. In the least sophisticated businesses, 40% of the owners said that they have been in business for six years or more. What it does say is that although they made be fragile, they do have longevity and these businesses need to be nurtured to develop further.

Figure 24: Age of the business by BSM



4.8.8 Business sector

Overall about a third of businesses are focused on the wholesale and retail trade. 41% of the most sophisticated businesses are involved in wholesale and retail trades. This indicates good possibilities for expansion of this sector. Only 10% all MSMEs are focused on manufacturing and this involvement is lowest in the most sophisticated businesses. There is a need to look at ways of stimulating the growth of the manufacturing sector. The most sophisticated businesses are somewhat less involved with agriculture and in the service sector but slight more involved in the accommodation and food services sectors.

Figure 25: Business sector by BSM

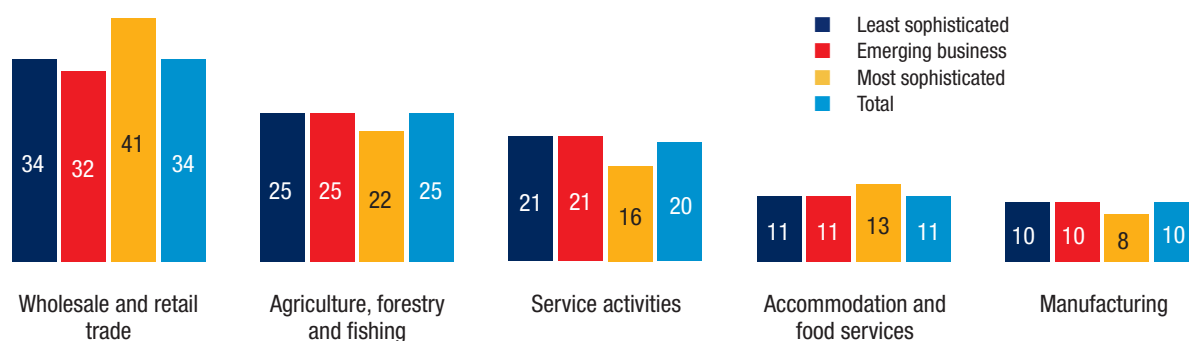


Table 15: Business sector by BSM

	Least sophisticated	Emerging Businesses	Most sophisticated	Total
Total market	34 487	30 881	10 699	76 067
Professional advice source				
Professional consultant	648	1 029	125	1 802
Government institution	160	96	14	270
Small business support organisation	251	392	65	708
Business association	69	8	97	174
Currently using professional advice	1 128	1 525	301	2 954
Potential Market	33 359	29 356	10 398	73 113
Possible gains	10%	40%	60%	
Probable market	3 396	11 742	6 239	21 317

Registration of businesses

There could be a significant increase in the number of businesses registered by addressing the reasons:

- Business is too small
- No benefit to registering
- Process too complicated
- Don't 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 16: Registration by BSM

	Least sophisticated	Emerging Businesses	Most sophisticated	Total
Total market	34 487	30 881	10 699	76 067
Currently registered	5 618	5 507	2 774	13 899
Potential Market	28 869	25 374	7 925	62 168
Possible gains	10%	40%	60%	
Probable market	2 887	10 150	4 755	17 792

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 don't 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:

Table 17: License by BSM

	Least sophisticated	Emerging Businesses	Most sophisticated	Total
Total market	34 487	30 881	10 699	76 067
Currently licensed	5 296	5 468	2 498	13 262
Potential Market	29 191	25 413	8 201	
Possible gains	10%	40%	60%	
Probable market	2 919	10 165	4 921	18 005

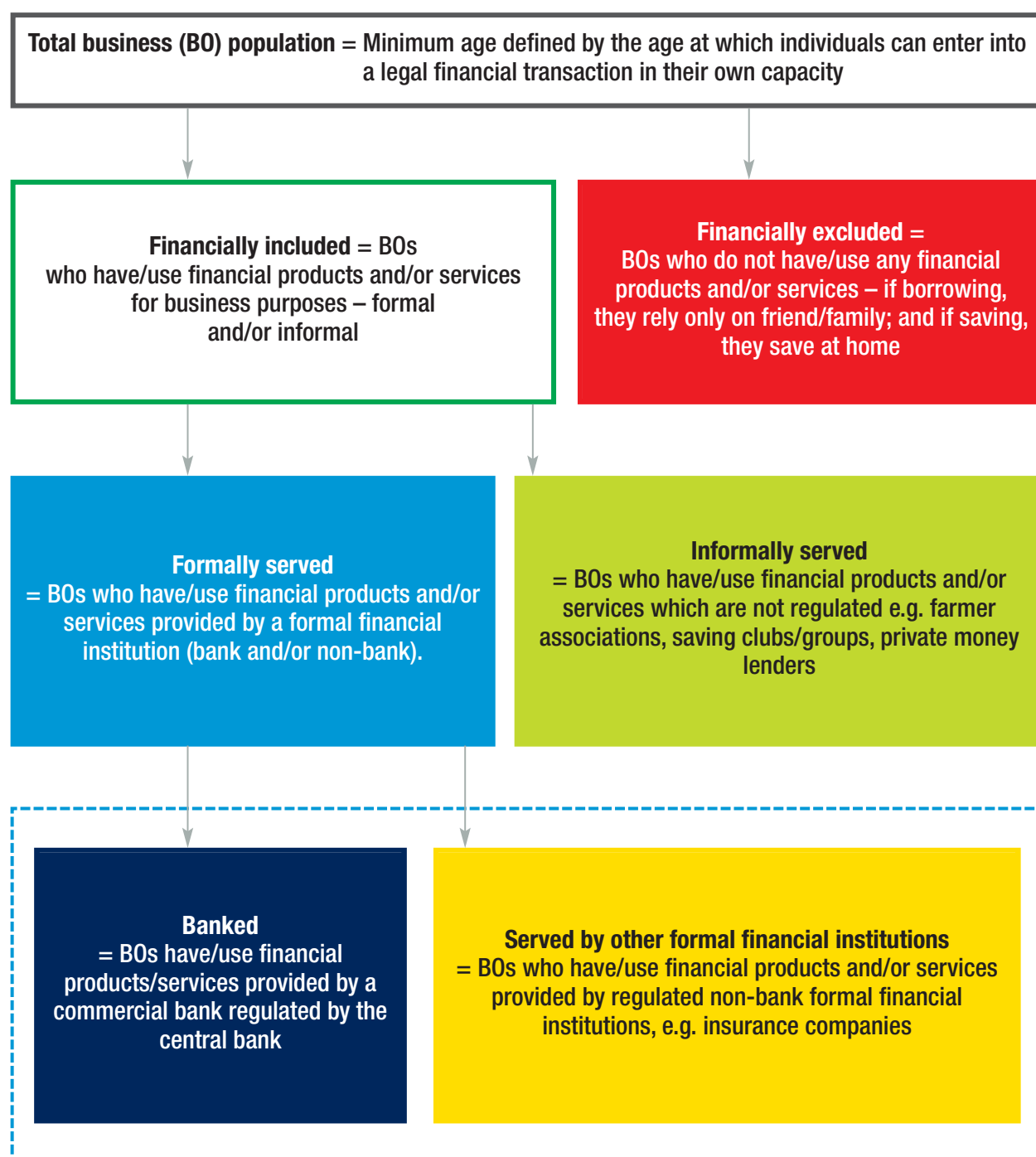
5. Financial inclusion

Financial inclusion is important for all businesses regardless of their turnover or profits because access to financial institutions and their services will improve the standard of their business as well as their personal lives.

Financial inclusion is linked to a country's economic and social development and plays a significant role in reducing poverty. It correlates positively to growth and employment and is believed to impact growth.

The following model is used by FinScope to calculate financial inclusion. Key elements are, formally served, informally served, banked and served by other financial institutions. See below the framework of the model used.

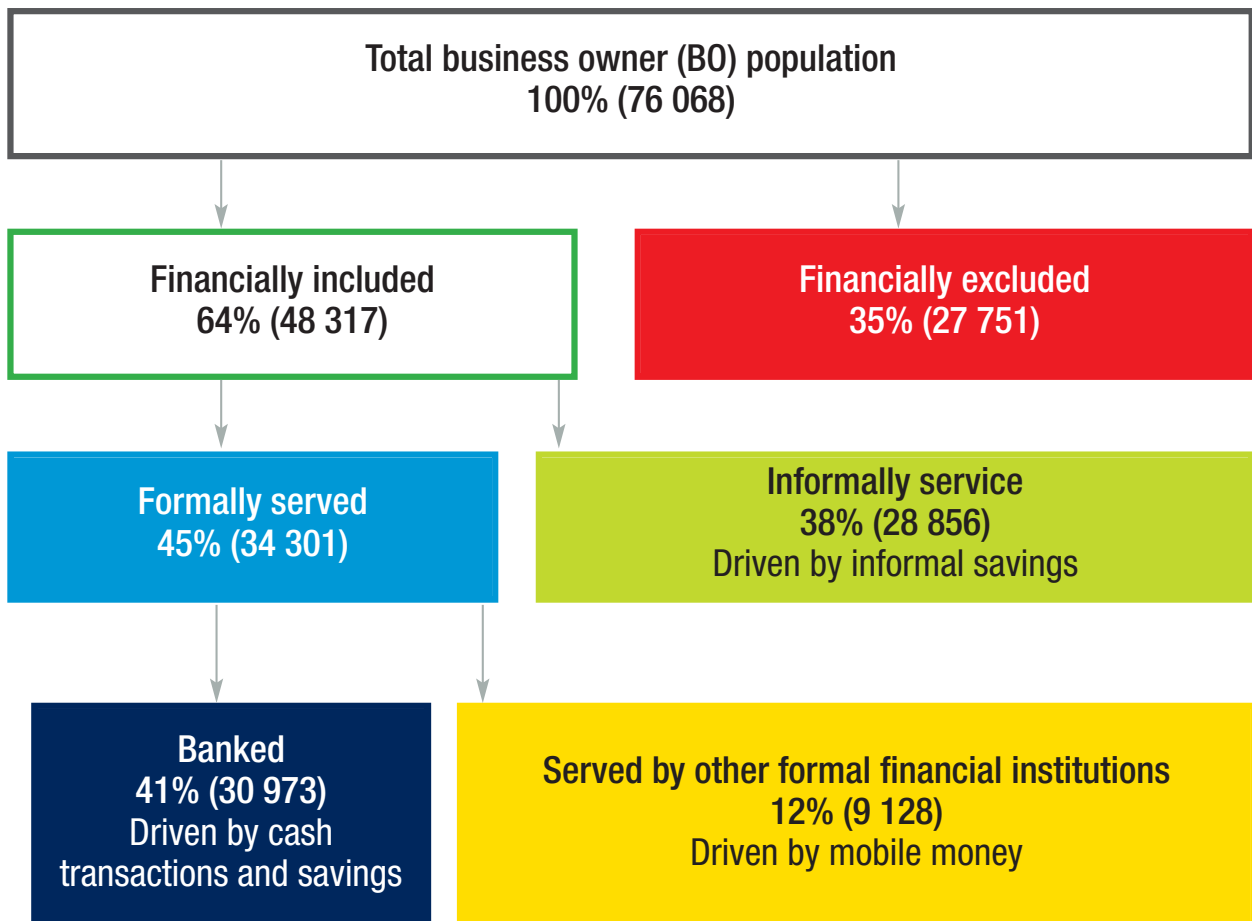
Figure 26: Financial inclusion model



5.1. Overview

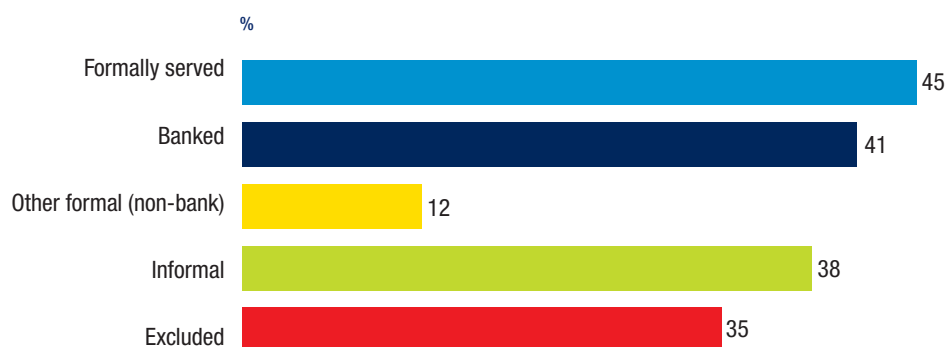
Approximately a third (27 751) of the 76 068 businesses in Lesotho are financially excluded, i.e. they do not use any financial products or services (neither formal nor informal) to manage their business finances. If they borrow, they borrow from friends and family; if they save, they save at home. Around 64% (48 317) are financially included of which 45% (34 301) are formally served and 38% (28 856) informally served. About 41% (30 973) are banked and a further 12% (9 128) are served by other formal financial institutions (mainly driven by mobile money). See below for more details:

Figure 27: Financial inclusion amongst MSME businesses in Lesotho



The overlaps in product usage need to be considered here, thus figure 28 adds up to more than 100%. The overlaps in product usage are depicted using the Venn diagram (figure 29), while the dark blue depicts the banked, yellow describes the usage of other formal non-bank products/services, and green the uptake of informal products/services such as savings groups. Product uptake for those who use bank products/services is driven by bank savings and transaction products. While other formal non-bank products/services are driven by mobile money, informal mechanisms are largely driven by savings (e.g. savings groups), particularly among female MSME owners.

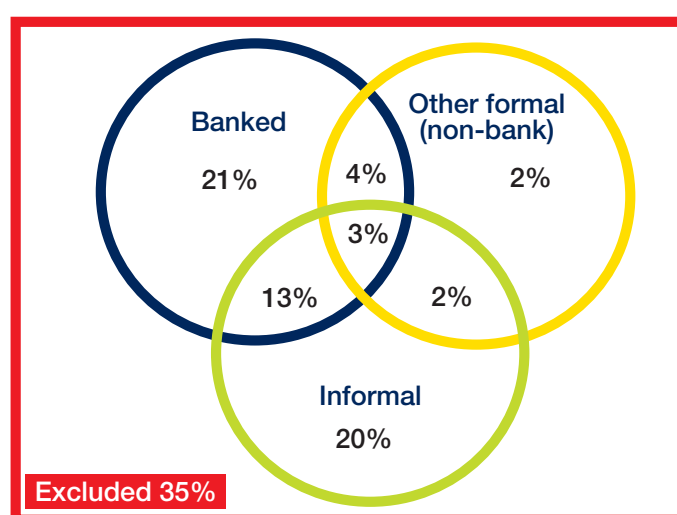
Figure 28: Overall levels of financial inclusion



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

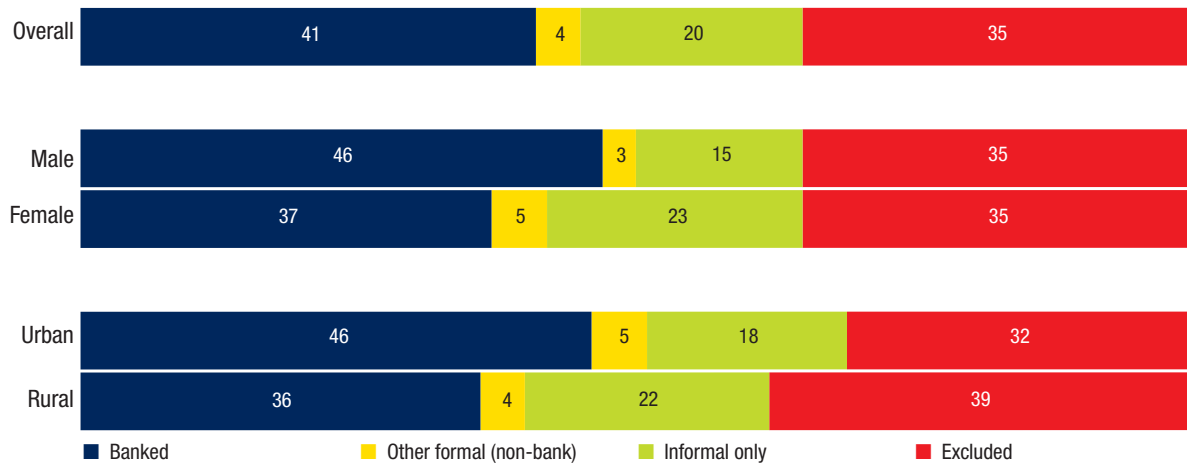
Figure 29: Financial inclusion overlaps



In calculating the Access Strand (figure 30 below), the overlaps are removed and a hierarchical approach is used in order to depict:

- The percentage of business owners who are banked (banked) – identifying business owners using commercial bank products. This is not necessarily exclusive usage – these individuals could also be using financial products from other formal financial institutions or informal products as well as bank products = 41%;
- The percentage of business owners who are formally served but who are not banked (other formal) – identifying business owners using financial products from formal financial institutions which are not commercial banks such as microfinance institutions or insurance companies. This excludes bank usage, but is not exclusive in terms of informal usage – these business owners could also be using informal products = 4%;
- The percentage of business owners who are not formally served but who are informally served (informal only) – business owners using informal financial products or mechanisms only. This is exclusive informal usage and does not include business owners who are within the banked or other formal categories of the access strand that also use informal services = 20%;
- The percentage of business owners who are excluded/un-served – business owners using no financial products to manage their financial lives – neither formal nor informal and depend only on family/friends for borrowing and save at home if they save for business purposes = 35%.

Figure 30: Lesotho MSME financial Access Strand



As shown above, informal financial mechanisms play a vital role for MSME owners in Lesotho, pushing out the boundaries of financial inclusion.

Comparing the Access Strand across location (above), districts, business size, type and age (figures 31 – 34) reveal that levels of financial inclusion are higher:

- In urban areas (68%) compared to rural areas (61%);
- In Maseru (69%) compared to Mokhotlong (47%);
- Among small/medium-size businesses (75%) compared to micro-businesses (70%), as well as individual entrepreneurs (63%); and
- Among service providers (67%) compared to retailers (64%).

Figure 31: Access Strands by MSME classification

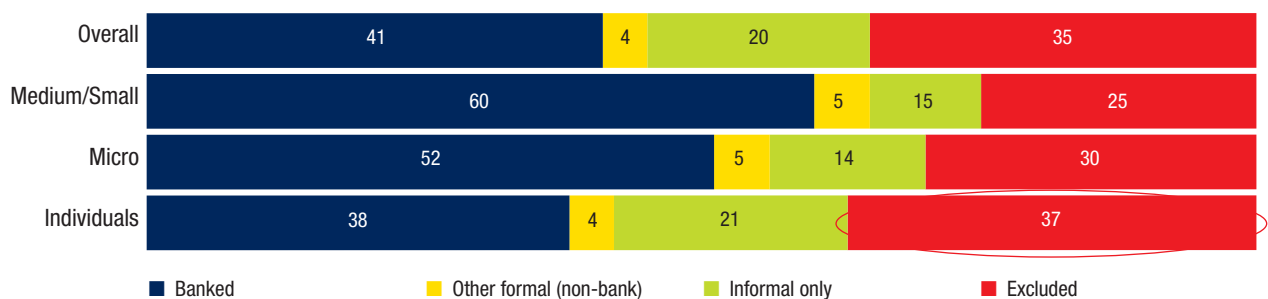
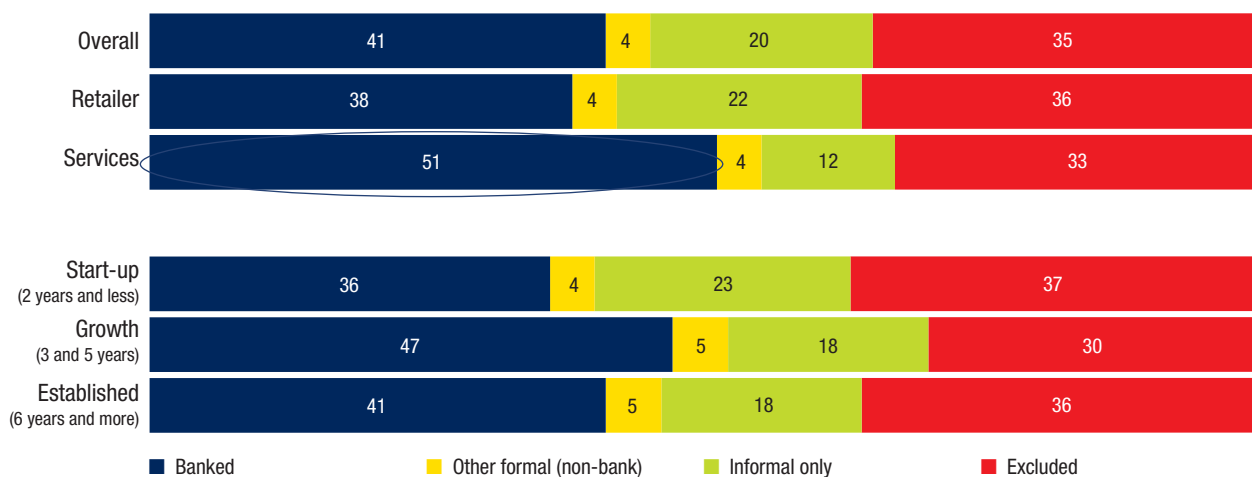
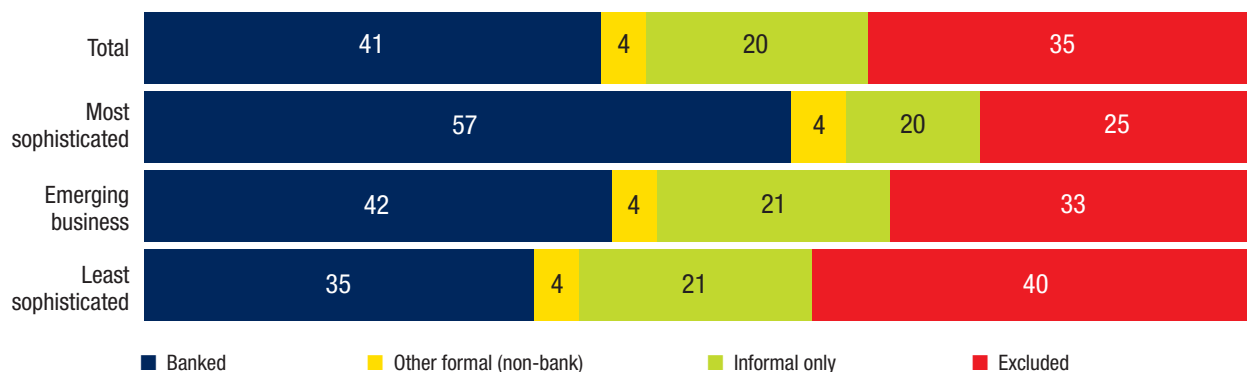


Figure 32: Access Strands by MSME type and business age



About 6 in 10 of the more sophisticated businesses have a bank account. Only 25% of the most sophisticated segment are excluded from financial inclusion whereas 40% of the least sophisticated are excluded (significantly above the national average of 35%).

Figure 33: Access Strands by BSM segments

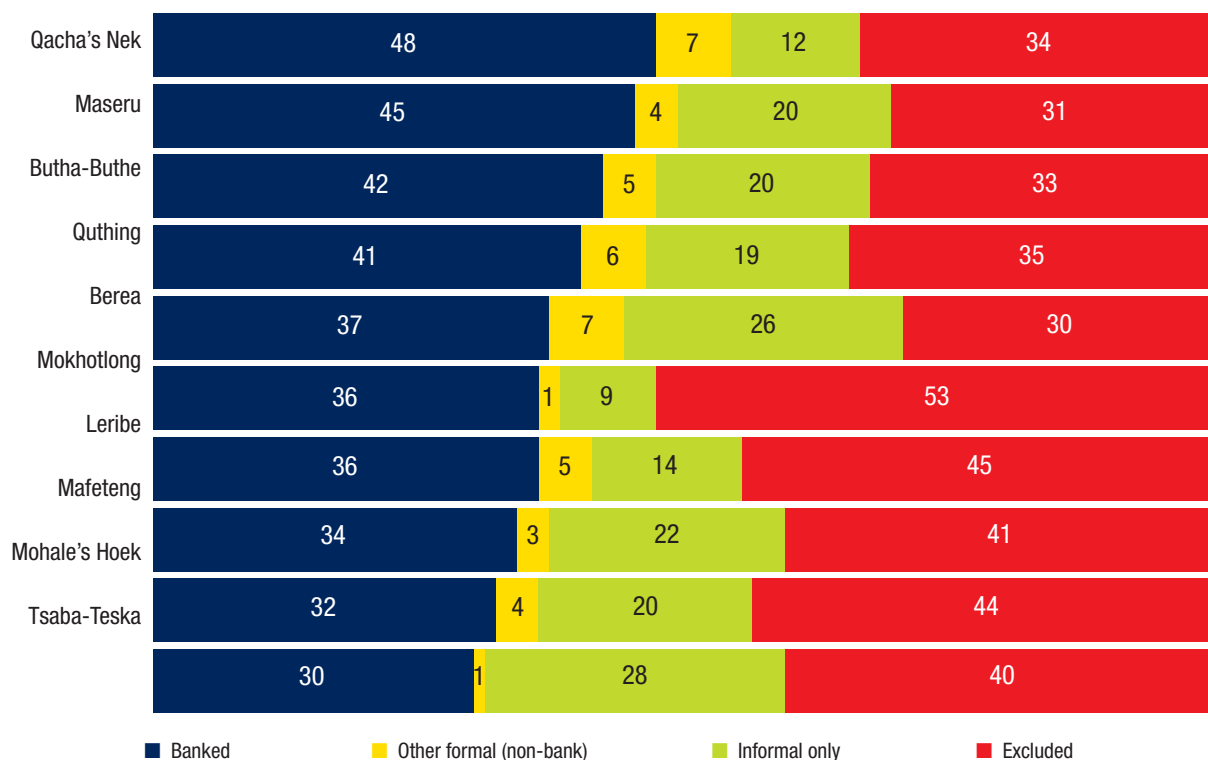


This segmentation allows us to see that 6 075 out of the 10 700 business owners in the most sophisticated segment have a bank account with a commercial bank. That means that there are potentially 4 625 sophisticated business without an account with a commercial bank. By focusing on banking these businesses financial inclusion in the country can be much improved.

The segmentation also shows that just on 6 500 emerging businesses are using informal products. Many of these businesses are located in urban areas and display characteristics which could cause them to be banked with commercial banks.

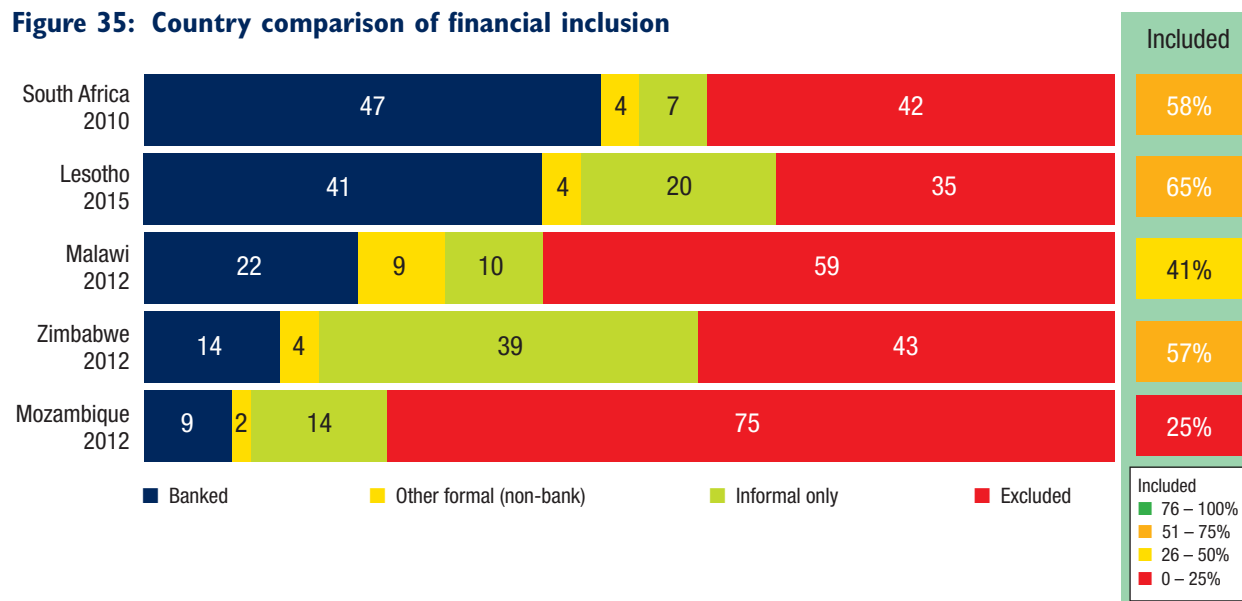
Carefully targeted strategies by financial service providers such as the deployment of mobile money products and systems could dramatically improve the extent of the financial inclusion of businesses in Lesotho.

Figure 34: Access Strands by districts



Financial inclusion for MSME's in Lesotho is significantly better than the levels of financial inclusion that were measured for other African countries in 2012. However, Lesotho is not yet at the ideal level of at least 76%.

Figure 35: Country comparison of financial inclusion



Financial institutions offer various products that meet different needs. Most businesses tend to have various financial needs and therefore make use of a combination of financial products which leads to an overlap of financial inclusion. In Lesotho only 21% of business owners rely only on banking services and 20% rely only on informal financial services. Approximately 18% use a combination of formal and informal products.

6. Banking

The majority of business owners do not have a bank account in the name of their business BUT use their personal bank account for business purposes (71%). Only 15% make use of a business account in the name of the business.

Figure 36: MSME owners' banking status

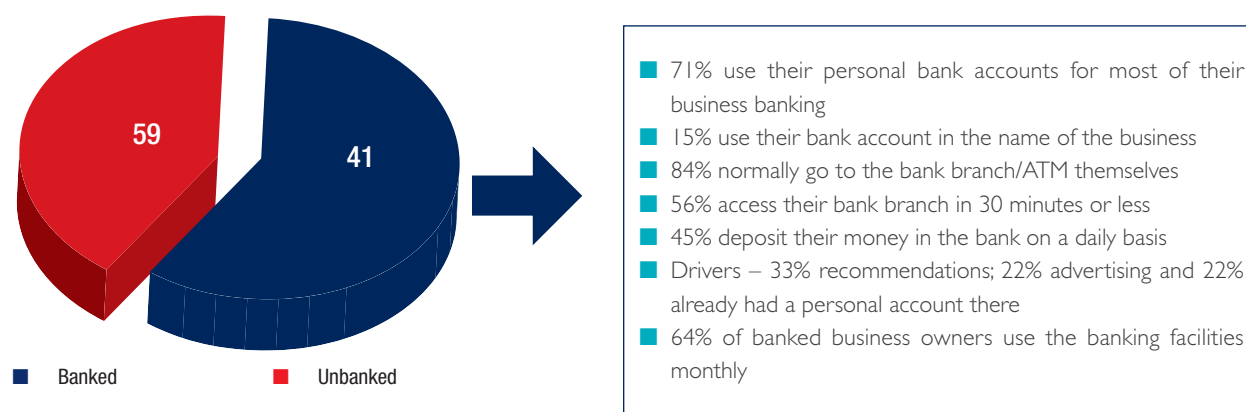


Figure 37 shows that the product uptake of those who are banked is driven by transaction and savings products. Around 45% of the banked MSME owners deposit their money in bank branches daily and the majority (84%) normally go to the bank branch personally.

As the majority of businesses are small and informal, business owners feel that their businesses are too small and do not generate enough income to justify opening a bank account. In addition, income generated by their business is irregular and they believe they do not have a need for a bank account.

Qualifying for a bank account as well as the expenses associated with a bank account e.g. the bank charges and minimum balances are also concerns amongst the unbanked.

Figure 37: What drives banking uptake?

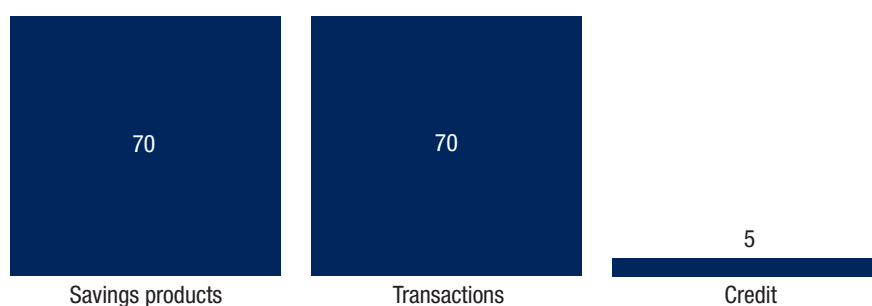
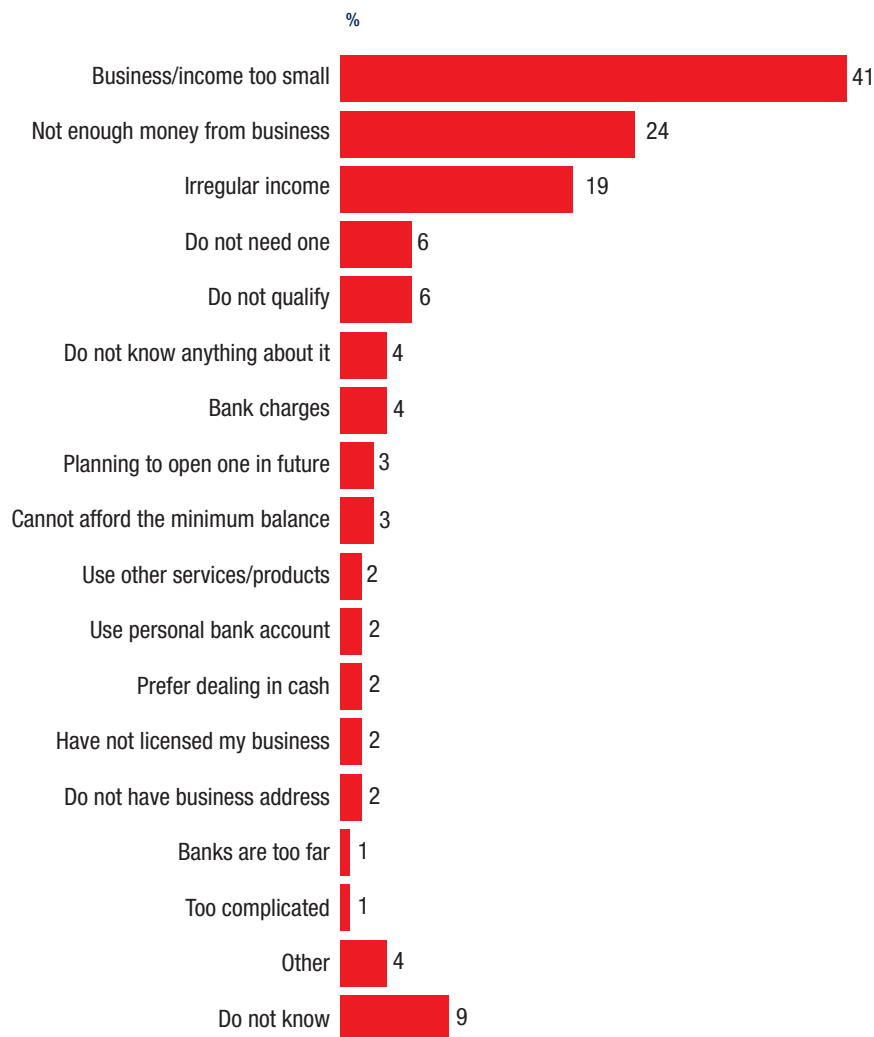


Figure 38: Barriers to being banked

Currently banks in Lesotho are not easily accessible as it takes anything between 20 minutes to more than an hour to get to the nearest bank. Banking has to be more accessible to business owners if they want to penetrate this market and increase the banking population.

Table 18: Time taken to access the nearest bank

Time it takes to the nearest bank from place of visit	%
10 Minutes or less	9.2
Between 11 and 20 minutes	13.7
Between 21 and 30 minutes	21.3
Between 31 minutes and an hour	16.9
More than an hour	11.9
Do not know	27.0

6.1. Banking: Perceptions and attitudes towards the banking industry in Lesotho

It is clear that there is limited knowledge about banks as the majority of the business population could not answer the questions. The limited knowledge can also be an attributing factor to the majority being unbanked. Banks in Lesotho will have to invest in educating the population (MSME owners) about the benefits of being banked. Education should focus on:

- Products and services designed for businesses and how they can benefit from it;
- How businesses can benefit from opening a bank account;
- How to open a bank account;
- Emphasise that it is easy to open a bank account;
- Explaining bank charges;
- Instil confidence that banks engage in responsible lending and will help their customers so that they do not face financial difficulty.

Table 19: Attitudes regarding financial institutions

	% Agree	% Agree	% Do not Know
It is difficult to open a bank account	17	49	34
Bank charges are high	35	22	42
Financial institutions do not explain how things work	19	31	49
Financial institutions are not understanding when you cannot make your repayments	18	21	61
Financial institutions give too much credit	13	23	64
Financial institutions take advantage of poor people	14	27	59
Financial institutions have products and services designed for people like you	25	14	61
Getting a loan is difficult	24	16	61
Can manage without a bank account	39	27	35
Banks provide good service	44	8	48
Women are less likely to obtain a loan	5	32	63
Trust banks	56	13	30

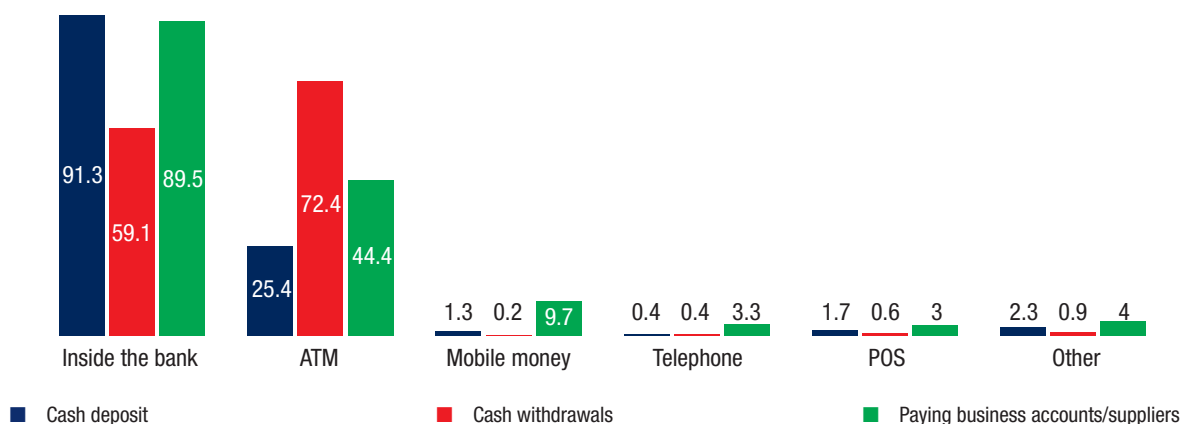
Positive
 Need more info
 Negative

6.2. The banked and their banking behaviour

The majority of the banked business owners use their own personal bank account for business purposes. As mentioned before the banking behaviour is basic and centered around cash e.g. cash deposits, cash withdrawals and paying business accounts and suppliers.

The majority of the transactions take place at either the ATM or inside a bank. However, "inside the bank" is the preferred method when cash is deposited and when they pay their suppliers or accounts. By conducting the transaction inside the branch, business owners believe that they have more control over the transaction with proof. ATMs are convenient, easy to use and provide immediate access to cash and are therefore preferred for cash withdrawals.

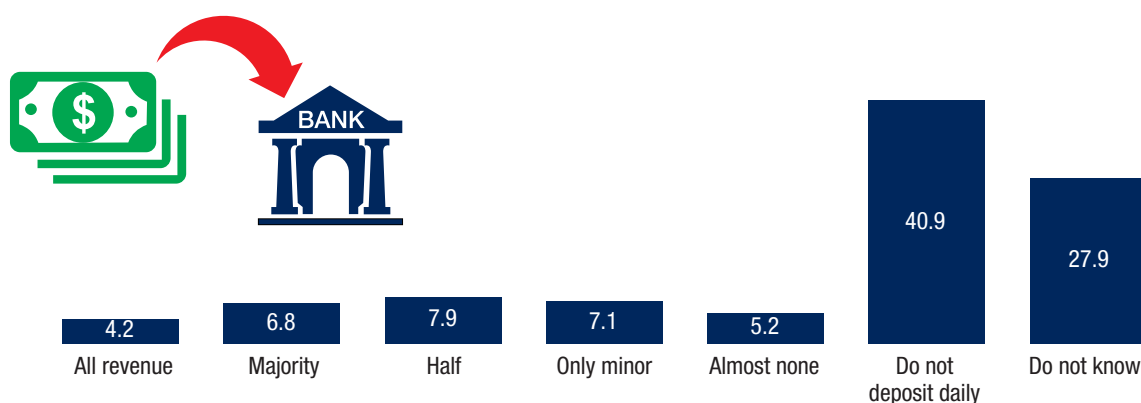
Figure 39: Where banking transactions take place



Business owners prefer to conduct their banking themselves. Bigger businesses do sometimes send some of their employees to the bank for day-to-day banking transactions such as depositing cash, making payments and obtaining petty cash.

As the majority are individual entrepreneurs and micro-business owners they generate small amounts of daily revenue. Revenue generated by the business (in most cases small amounts of cash) are used in order to pay for daily living expenses and therefore 41% do not deposit their takings on a daily basis into a bank account. As these business owners also tend to use their personal bank accounts for business purposes, it is evident that there are no distinctions between business and personal when it comes to money matters. Only 11% deposit the majority (70% – 100%) of their revenue into a bank account daily. These tend to be the bigger businesses with more formal book-keeping structures in place.

Figure 40: Deposit revenue



7. Usage of loans

There is still a great deal of negativity and fear associated with loans. People fear not being able to pay back the loans and therefore taking out a loan is mostly a last resort. In total, only 9% of MSME owners borrowed money in the past 12 months for business purposes (that excludes money used to start or take over the business). Only 2% of MSME owners borrow from a bank. The findings show no uptake of credit from microfinance institutions (MFIs), providing a huge opportunity to the policymakers to position MFIs in this gap.

Figure 41: Borrowing overview



In constructing the Credit Strand the overlaps in financial product/service usage are removed, resulting in the following segments:

- MSME owners who do not borrow (91%);
- MSME owners who only borrow from friends and family (3%) and do not use any formal or informal mechanisms to obtain credit;
- MSME owners who borrow from informal sources such as money lenders but do not borrow from formal sources (bank or other formal non-bank institutions) (4%) – however, they might also borrow from friends and family; and
- MSME owners who borrow from formal institutions (total 2%, driven by credit from commercial banks) – they might also borrow from friends and family.

Figure 42: Borrowing access strand



Almost 9 out of every 10 business owners did not borrow any money or taken goods on credit. The main reasons for this behaviour are:

- They do not have a need for borrowing money or buying goods on credit;
- Business is slow;
- Do not believe in borrowing money;
- Do not qualify for a loan; and
- Are scared.

Figure 43: Barriers to credit

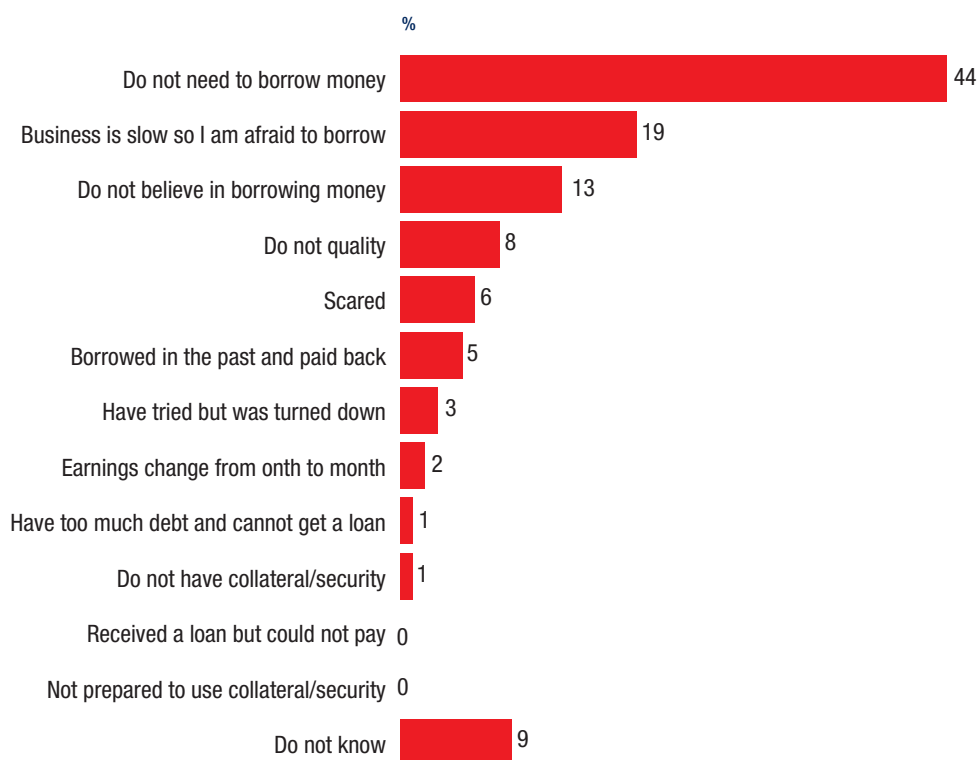
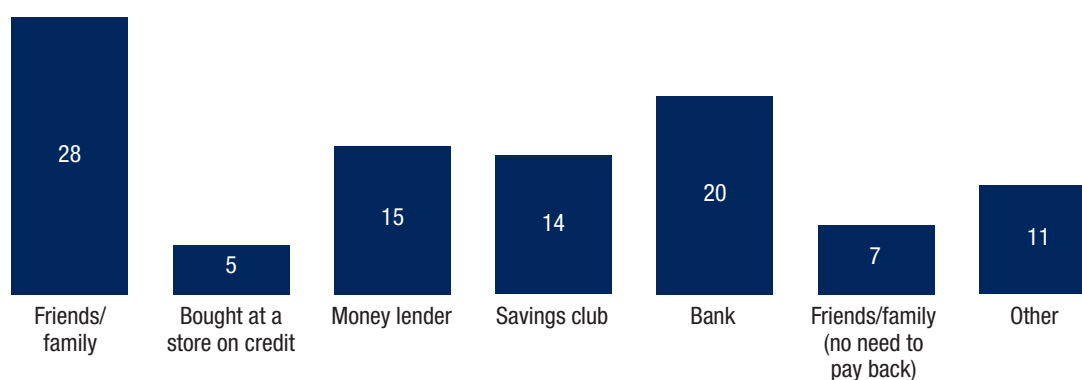


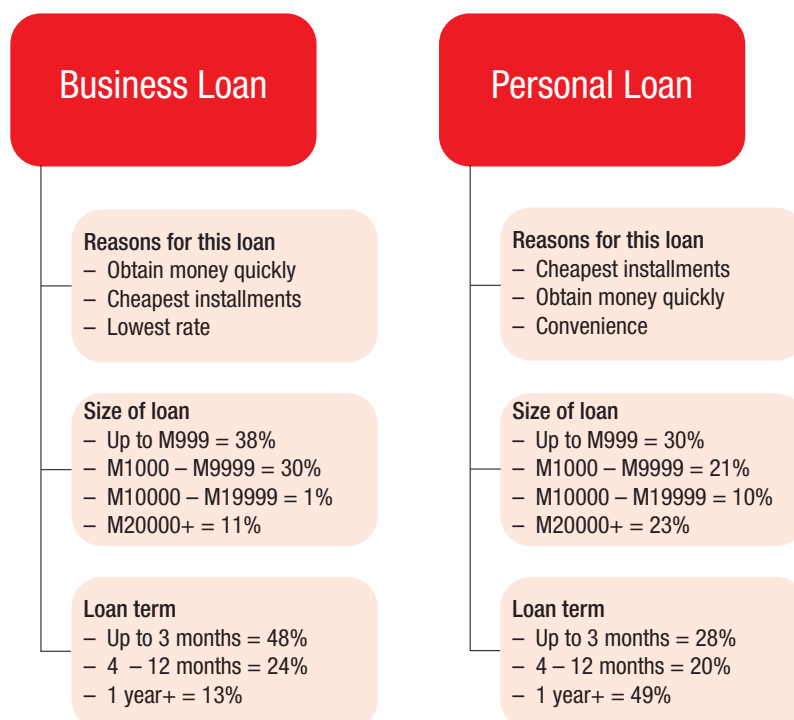
Figure 44 shows the borrowing mechanisms of those who are borrowing (9%). Almost 30% of MSME owners who borrow obtained loan(s) from friends and family and 20% had credit from commercial banks. About 3 000 MSME owners obtained their loans from informal mechanisms (moneylenders and savings groups).

Figure 44: Credit sources



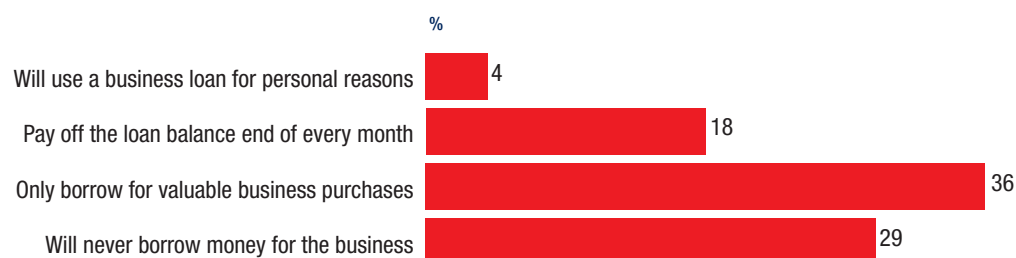
The majority of business owners who took out a formal loan preferred a business loan (53%) versus a personal loan (22%). It is however, important to note that 1 in every 4 people who have a loan have no idea whether it is a business or personal loan. Of those who borrowed, the money was used to grow the business, maintain the day-to-day running of the business and upgrade the business facilities. Figure 45 shows that users of business loans versus personal loans have different profiles with reference to the reasons for the loan, the term and the amount of the loan.

Figure 45: Differences between Business loans and Personal loans



Although business owners fear falling into the debt trap they do acknowledge that loans do provide them with more options and opportunities and the majority will consider a loan to expand their business or to start a business. Having access to money during an emergency has caused many sleepless nights for business owners. 47% have managed to put money away in case of emergencies. 2/3 of the business owners have also mentioned that they are lucky that they can turn to family or friends for money in the case of an emergency.

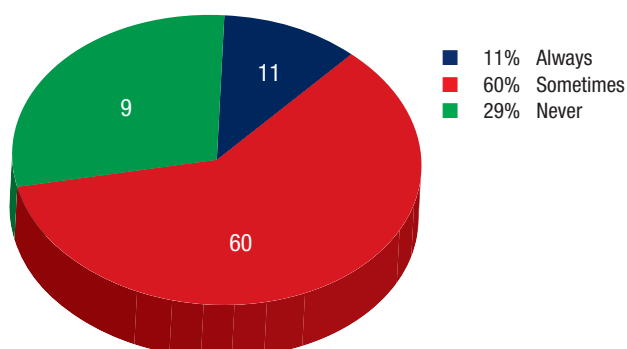
Figure 46: Attitudes regarding loans



7.1 How businesses manage the money within the business?

The majority of businesses get paid for their goods / services in cash (98%). This also confirms why the majority of banking transactions are cash deposits and cash withdrawals. Businesses do sometimes offer their goods or services on credit to their customers. However it is important to note that because of the size of the business the credit arrangement is an informal arrangement.

Figure 47: How often businesses offer their goods/services on credit



When providing credit facilities, businesses usually specify the payment period BUT do not charge any interest nor do they charge interest on late payments. They also do not have any policies in place on how to handle late payments. The majority however, do keep written records of payments owed.

8. Savings/Investments

As shown in Figure 48, 60% of MSME owners in Lesotho save, including all forms of savings. The majority of business owners who save money do so to expand their business, to have sufficient money available to run the business effectively on a day-to-day basis and to have money when they need it. Commercial banks are the preferred option for saving money. However, a quarter of all business owners that save, keep their money at a secret hiding place either at their home or at place of work.

Figure 48: Having savings for business purposes

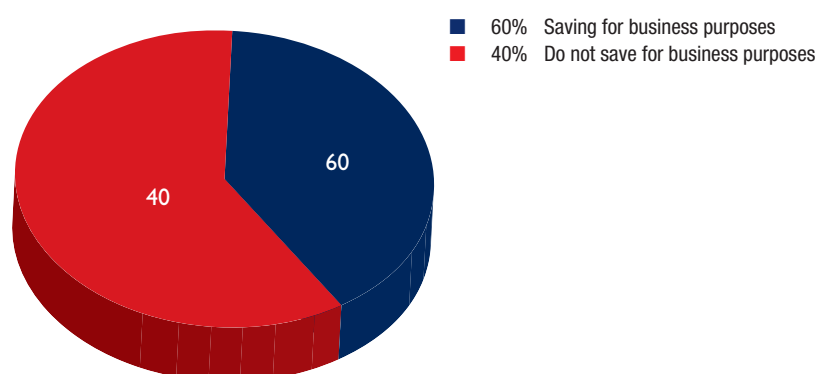
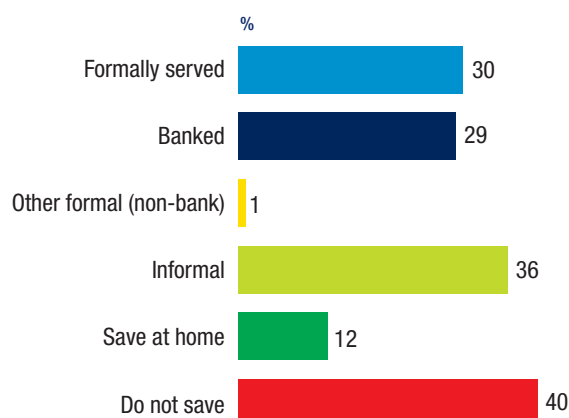


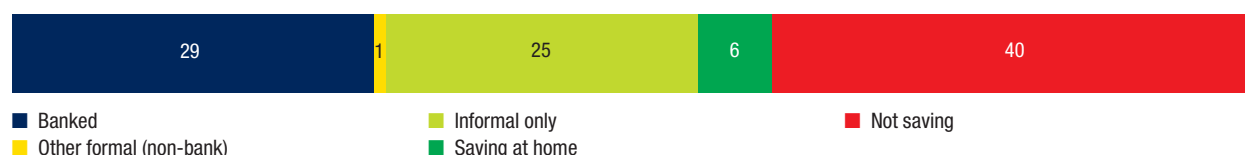
Figure 49: Savings overall



In constructing the Savings Strand the overlaps in financial product/service usage are removed, resulting in the following segments as shown in the figure below:

- MSME owners who do not save (54%);
- MSME owners who only save at home (24%) and do not use any formal or informal mechanisms;
- MSME owners who save through informal sources (15%) such as savings clubs but do not save using formal products/services – however, they might also save at home;
- MSME owners who save through formal institutions (8%) – they might also be part of savings clubs, and/or save at home.

Figure 50: Savings Strand



Comparing the Saving Strand with the figure 46 (above) shows that there are several overlaps, especially looking at the usage of informal mechanisms (e.g. savings groups) and savings at home.

The savings overview (figure 49) shows that informal savings (36%) is higher than formal savings (30%) for businesses in Lesotho. With regards to informal savings the majority belong to a savings group (86%) whilst 29% belong to a savings society. The biggest advantages of belonging to such a scheme are:

- Receiving a lump sum which they can use in the business;
- Provides opportunities for networking;
- Can obtain business advice;
- Opportunities available to market or advertise their business.

8.1 Drivers and barriers to saving

The majority who do not save cannot because they do not have enough money available to save. When they do have money available, they put this back into the business. Although business owners claim to try their best to save regularly this does not mean that they do in fact save. The amounts saved are also quite often small. Approximately 45% mentioned that they sometimes will go without certain basics to ensure that they are still able to save. Savings provide a nest egg not only for emergencies but also for business purposes.

Figure 51: Drivers and barriers for savings

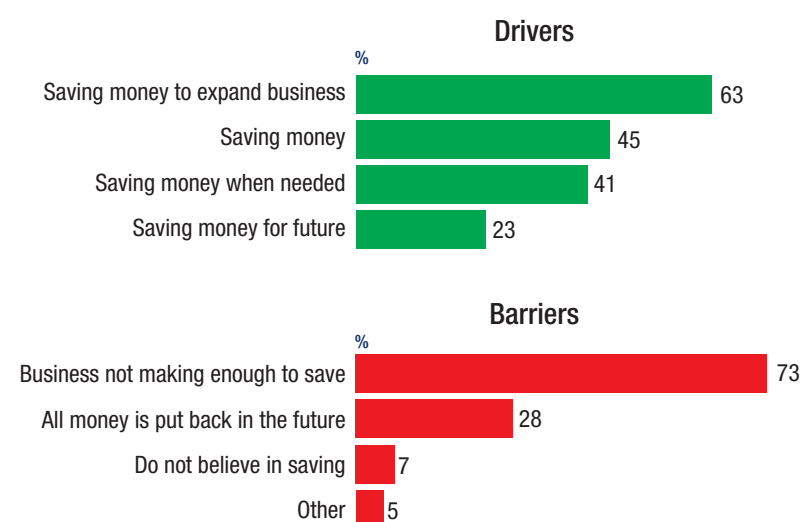
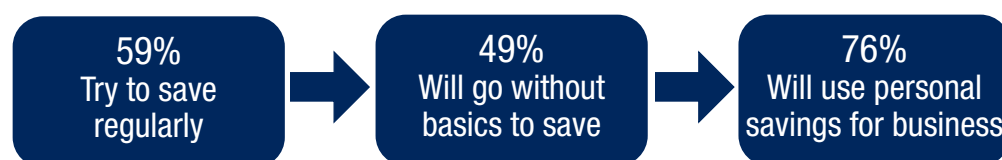


Figure 52: Business owners who agreed with the statements regarding savings



As earlier indicated, there is no clear distinction between personal and business money. It is therefore not surprising that 76% mentioned (figure 52) that if they have personal savings they are quite prepared to use it for the business if needed.

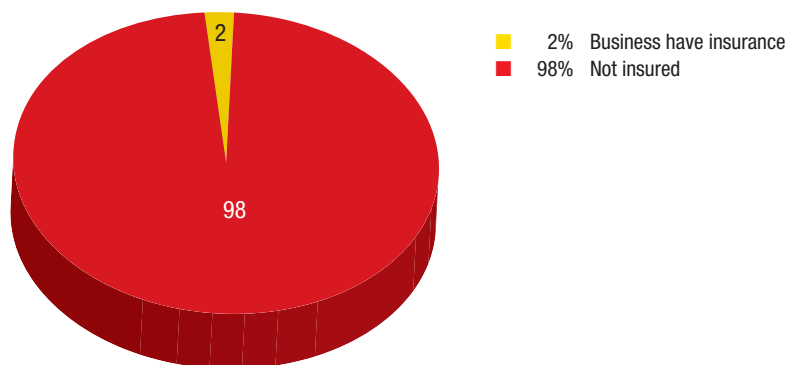
9. Risk and money management by the MSME sector in Lesotho

9.1 Exposure to risks and how to manage them

Entrepreneurs understand that owning and operating a business involve various risks. The amount of risk varies between businesses and is an important factor in determining a business's value. However risks can have a significant financial impact. Small entrepreneurs usually do not have sufficient cash flow to carry the financial impact of a risk and it quite often means that the business owner either has to sell goods or default on its commitments e.g. the rent and/or wages or close the business.

Business owners in Lesotho are concerned about a number of risks that can potentially affect their business and/or income. Approximately a quarter of the business owners mentioned that they have not experienced any business risks in the past. Unfortunately the majority of businesses do not have any measures in place to help them deal with the financial impact of these risks and therefore usually have to fall back on their savings / investments or cut down on their household expenses in order to cope with the financial impact. Only 2% mentioned that they have any kind of insurance that will protect them against potential risks that they are exposed to.

Figure 53: MSME insurance uptake



Business owners are exposed to numerous potential risks. Table 20 illustrates the top 10 potential risks mentioned by businesses. The top 10 mentioned risks experienced by businesses in the past differ from those that businesses think might affect the business e.g. although the death of business owner is the risk experienced in the past that received the most mentions, it is not on the list of top 10 risks mentioned that might affect the business.

Table 20: Comparison of top 10 risks business that might affect the business VS the top 10 risks experienced in the past

Biggest risks that might affect the business and/or income – Top 10		Risks experienced by businesses in the past – Top 10	
1.	Theft of business equipment	1.	Death of business owner
2.	Flood, fire or natural disaster	2.	Not paid by creditors
3.	Rain damage	3.	Theft of business stock
4.	Not paid by creditors	4.	Competition
5.	Competition	5.	Drought
6.	Draught	6.	Rain damage
7.	Loss of income	7.	Flood, fire or natural disaster
8.	Damage to the business	8.	Theft of business equipment
9.	Illness of owner	9.	Loss of income
Cope with the financial impact of the risk by:			
1. Use available savings and/or investments			
2. Cut down on household expenses			

9.2 Drivers of and barriers to insurance uptake

Although only 2% of businesses own an insurance product, the majority have at least 2 different insurance products, the most popular of which are life insurance, workman's compensation, disability insurance/cover and funeral plan/cover.

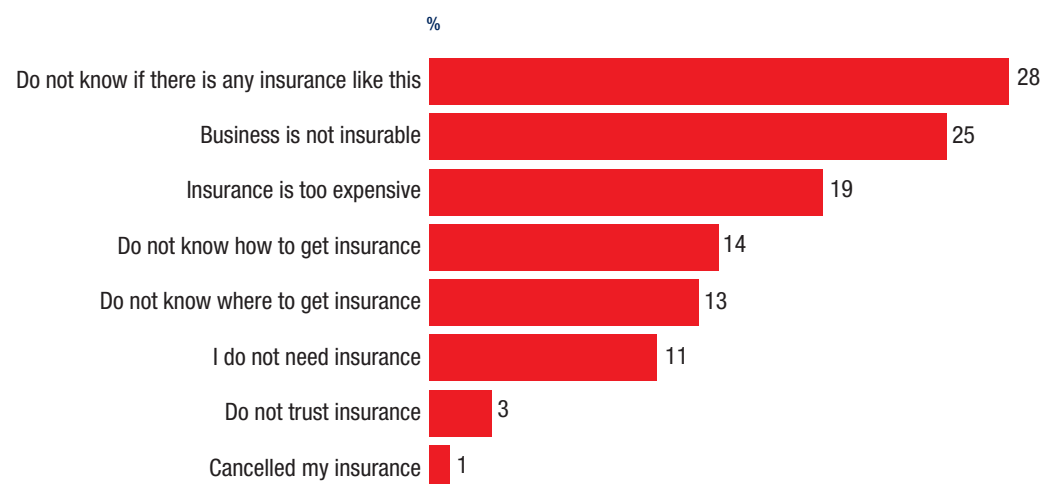
Table 21: Drivers of insurance for business owners

Insurance product	%	Insurance product	%
Life insurance	26	Property structure insurance	8
Workman's compensation	24	Accidental damage to goods in transit	7
Disability insurance	21	Accidental damage to goods in transit	6
Funeral cover	16	Cellphone insurance	6
Business content insurance for office equipment	14	Travel insurance	6
Personal accident insurance	13	Hospital plan	4
Motor vehicle insurance	11	Loss of earnings insurance	4
Medical aid/medical scheme	10	Home content insurance	4
Home property/building insurance	9	Professional indemnity insurance	4
Business content insurance – Specialised tools/machinery	8	Public liability insurance	4

Personal insurance is important as almost 2 in every 5 businesses will have to close down if the business owner is unable to work. Businesses that will continue doing business should something happen to the owner will only be able to continue if it is taken over or managed by the family.

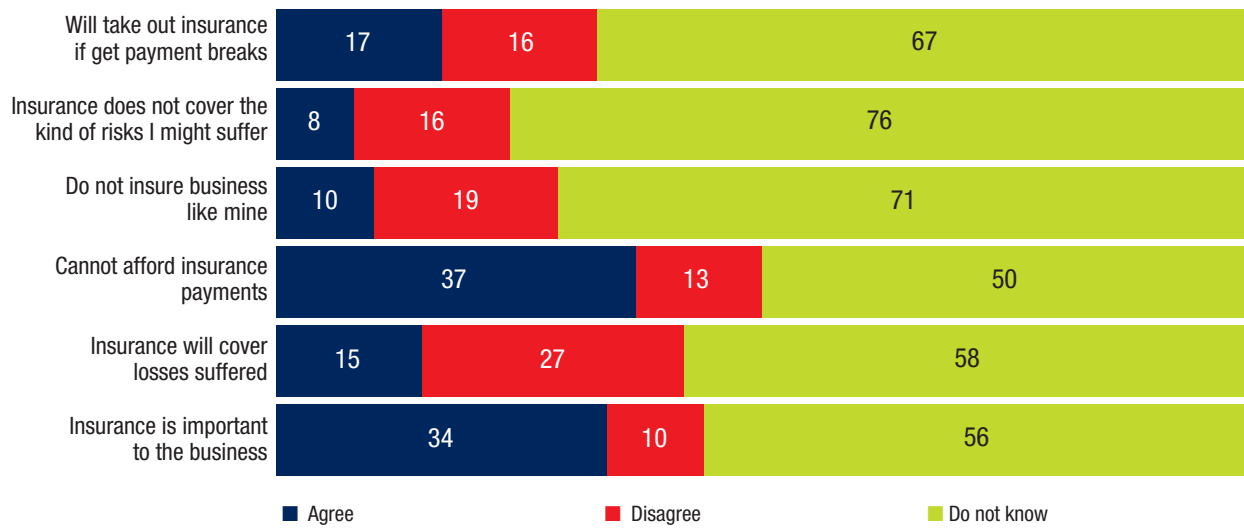
A lack of knowledge regarding how and where to obtain insurance, and what to get needs to be addressed by insurance companies before they can expect a significant increase in the uptake in insurance. The 98% of businesses who do not have any kind of insurance gave the following reasons:

Figure 54: Barriers to insurance uptake



It is important to note that businesses know so little about the industry and the product offered. In most instances, they do not have strong opinions/views and thus were not able to answer certain questions. See the graph below for the large number of "do not know" respondents.

Figure 55: Statements made about insurance



10. Conclusions and recommendations

10.1 Conclusions

The MSME sector within Lesotho employs approximately 120 000 people. This figure represents 10% of the total population over 15 years, indicating that the MSME sector within this country is crucial to economic survival. The majority of MSME owners indicated that income obtained from their business is their sole source of revenue, enforcing the importance of this sector for economic advancement.

The majority of the MSMEs within this study are survivalist enterprises, with a tendency towards matriarchal businesses. The significant skew toward older women as survivalist entrepreneurs, could possibly be as a consequence of high male migrant labour rates, specifically men that cross over into South Africa to find employment, as well as higher than average rates of individual entrepreneurs being widowed. In relation to gender parity, although legislation within Lesotho has been amended to ensure that women have equal rights and access to land and business ownership, there still remains a skew towards male registration of businesses. However it is clear that it is not only gender disparity that discourages the registration or licensing of businesses, as the vast majority are unlicensed/unregistered. The claimed hindrances to registration are complicated methods related to registration; respondents are also unsure how to go about starting the process, and a perception that their business is too small. Benefits to registration mainly centre on access to finance and tenders, as well as legal compliance.

The lack of penetration of youth into the MSME arena is concerning. Lesotho has an extremely elevated youth unemployment rate, and concerns have been raised over the future stability of the country if large proportions of young adults are left unemployed and psychologically frustrated.

Albeit a long-term solution, increased education rates bode well for business development. Higher educational status of the business owner is directly correlated to increased size of the business. Medium size business owners show slight inclination towards university education and although the differences may be small, there is a trend, which is of significance to business development.

Although Lesotho is an extremely scenic and mountainous country, limited funding and capacity within the tourism sector has hindered growth. Tourism only accounted for 2% of the business focus within this sample. The majority claimed business focus concentrate around wholesale retail, which is typical of a survivalist business. Agro-processing sectors and service related sectors were also significant.

Although training of MSMEs is having an impact, 9% indicated that they have learnt their skills through training programmes – hopefully improvements within this share will be made. The majority of the respondents claimed that their skill was self-taught (50%). However, further training could be administered to aid in the day-to-day running of businesses and not only core skills. A case study put forward by the UNDP showed how assistance had been made to MSMEs not only in the form of microloans but also bookkeeping and calculations of profitability.

The majority of MSMEs within Lesotho remain unbanked. Qualifying for a bank account and expenses associated with a bank account are the main reasons cited for remaining unbanked. It is also likely that a lack of understanding of the benefits of being banked contributes to this. Parallel to this however, is the inaccessibility of banks, which is also an influencing factor; it takes anything between 20 minutes to more than an hour to get to the nearest bank.

Banked MSME owners tend to have rudimentary banking dealings. Of those business owners:

- Less than 1% have anything other than a basic transactional account;
- The majority use their personal banking account synonymously with their business account.

Although business owners do understand that their business is exposed to risks that could ultimately lead to the demise of the business, they do not clearly understand the benefits and consequences of being insured.

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:

10.2 Recommendations

The recommendations offered are centred within a three-pronged approach:

10.2.1 Formal financial products/services knowledge

The approach of phase one is to create a deeper understanding of business processes –these are ultimately a precursor to being banked. Targeted training programmes that focus on training MSME owners on managing their business, basic bookkeeping skills, analysis of profit and loss as well as identification and understanding of supply and demand. This should be conducted in line with a macro-approach to conduct a needs analysis of targeted vocational training for unemployed youth of Lesotho.

Once a deeper understanding is gained of how to expand, grow and manage a business from a financial and skills perspective, then phase two could be implemented.

10.2.2 Phase two – Banking knowledge

Phase two would involve education on banking, banking processes and broader economic benefits to being banked. This would involve a detailed educational drive that would show how banking could add to the expansion of the business. It would entail an overview of:

- Products and services designed for businesses and how they can benefit from it;
- How they can benefit from opening a bank account;
- How to open a bank account;
- Explaining bank charges;
- Instil confidence that banks engage in responsible lending and will help their customers so that they do not get into financial difficulties.

10.2.3 Phase three – Hand-holding

Phase three is a period of 'hand-holding', and ensuring that the cross-over to being banked remains a smooth one, through offering assistance to the banking process when concerns or queries arise. This phase will be crucial in ensuring that business owners do not revert to old business practices considered their 'auto-pilot' or comfort zone.

Once the targeted business owners within urban areas are fully trained within all three phases, these business owners could become mentors and involve themselves in the process of further training of other business owners. This would ultimately lead to a slow, gradual yet domino-effect of knowledge gathering of both basic business practices and banking utilities.

10.2.4 What Should Government do to Assist Small Business?

- Generally businesses suffer from a lack of access to finance and Government should explore ways in which the market could simplify the loan conditions, particularly for the less sophisticated businesses. The process should explore ways in which the financial markets can work at providing access to finance for MSME businesses as well as providing funds and working capital.
- Government needs to explore and encourage innovative approaches to providing access to finance among financial service providers especially for financial literacy, financial access, particularly to the middle and lower end segments
- Government should explore ways to introduce a low cost insurance product designed to protect the fragile sectors of the market and encourage the use of technology, particularly in the areas of mobile communication and banking.
- Government should assist in creating markets for products by working on supply chains and developing markets for Lesotho products.
- Providing business services will be a critical role for departments involved with MSME development. Government should work with international agencies in the provision of these services. Improving skills and training is an important part of future MSME sector development and growth.
- Government needs to address the supply and use of:
 - Business Development Services across the entire MSME sector.
 - Managerial skills training, particularly technical know-how if the MSME sector is going to significantly grow the overall economy in Lesotho.
- Skills and training of workers is also a critical role that Government departments need to address through mentorships and training colleges.
- Government should look at ways to assist in the creation of business groups who focus on MSME development issues.
- Providing better health service for workers is an important area that needs to be explored. Smaller businesses do not have the means to develop these on their own.
- An ongoing mission should be the easing of regulations controlling business to ensure that more businesses are registered and more are included in the tax net.

- Government needs to improve the infrastructure particularly with regard to water and electricity supply in order to improve the productivity of the MSME sector and transportation is also a critical issue in terms of obtaining goods from suppliers and getting goods to market.
- Government needs to address the issue of harassment of businesses by officials at various levels of authority.
- Government should address issues relating to the regulations controlling business and reducing "red tape" and to examine the barriers of access to markets which are limiting the growth of many in the MSME sector and develop a more targeted approach to interacting with them and their various requirements.

The future development of the MSME sector in Lesotho cannot have a "one size fits all" approach to the MSME sector. There is a need to develop a targeted approach to the problems facing the sector and to consider the needs of each subsector. Stakeholders to identify those areas where the most impact can be made most rapidly

10.2.5 BSM recommendation

- The BSM segmentation methodology provides an interesting added dimension to the other data analysis.
- 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.
- The segments are of sufficient size and provide sufficient differentiation to allow for in-depth analysis and sound policy making
- 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.
- There is a need to increase the level of business acumen in the MSME sector particularly among the least sophisticated businesses.
- Access to finance and the cost of finance remain challenges for all levels of sophistication in business.
- The more sophisticated businesses are those who are exporting and importing as attention should be focused on these businesses for incentives and customs clearance challenges.
- 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.
- There is an urgent need to address the supply and use of Business Development Services across the entire MSME sector.
- There is a need to introduce a low cost insurance product designed to protect the fragile sectors of the market.
- There is a need to examine the barriers of access to markets which are limiting the growth of many in the MSME sector.
- 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.
- Encourage innovative approaches to providing access to finance among financial service providers. The research highlights a number of possibilities.
- Encourage the use of technology, particularly in the areas of mobile communication and banking.
- Transportation is also a critical issue in terms of obtaining goods from suppliers and getting goods to market.
- 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.

Annexure I:

Sampling considerations FinScope MSME Lesotho 2015

Prepared by AfricaScope on behalf of FinMark Trust

I. Sample frame and survey methodology

The sample for the survey was drawn by the Bureau of Statistics, Lesotho. The target population for the survey was all adults, 18 years and older who own and run their own businesses.

The design of the sample for the survey was carried out by the Bureau of Statistics (BOS).

For the purpose of Enumerator Area (EA) selection, a Probability Proportional to Size (PPS) approach at ecological level was used, boosting the EA sample for the smallest ecological zone(s) where necessary to ensure that the sample was representative at reporting levels envisaged. The sample is representative at the following reporting levels:

- National
- Urban and rural
- Ecological zone

I.1. Sample design: FinScope MSME Lesotho

The design of the sample for the survey was conducted by the Bureau of Statistics (BOS) in Lesotho. The methodology assumes a total sample size of about 3 000 adults (374 EAs), including an initial listing exercise. The sample should be representative at the following levels: national, urban/rural, and ecological zone. Although the country was extensively covered allowing for a good understanding of the MSME market segment throughout Lesotho, only 336 EAs were completed and 38 were not reached due to different circumstances such as inaccessibility (12 EAs).

I.2. Sample frame

The sample frame is the 2006 Census enumeration area dataset as defined by BOS in Lesotho. All enumeration areas within the country will be considered for selection in the sample except for any institutions or hostels or national parks defined by BOS.

The EA's will be stratified into urban and rural areas. District and geographic area (Urban / Rural) will be taken as the explicit stratification variable to ensure good coverage and the best possible precision for the survey. Variables such as main place and sub-place, or any other useful variables such as town / village / region could be used as implicit stratification variables to improve the representativeness in the sample. The EAs will be considered as the primary sampling units (PSUs) and households as secondary sampling units (SSUs).

Because of potentially large differences in the population sizes between the strata, it could be meaningful to deviate from proportional allocation. The power allocation rule, a disproportionate allocation technique that is applied internationally, could be used to determine the number of EAs to be drawn per stratum. The aim of using the power allocation rule is to decrease somewhat the allocation of EAs to the larger strata, and to increase somewhat the allocation to the smaller strata. Hence, with this technique one can ensure, as far as the overall sample size allows, that the sample sizes are large enough in each stratum representing the different provinces urban/rural areas within the sampling frame.

The EAs in each of the above explicit strata are ordered according to main place, sub-place (or other meaningful variables) and EA number upon which the predetermined numbers with the number of households per EA as measure of size. All institutional, recreational and industrial EAs will be excluded from the survey design. To obtain a representative sample with good precision, 375 EAs with 8 to 12 households in each EA will be drawn depending on the number of households with businesses discovered during the listing.

All households within the selected EAs would then be listed. The listing entailed the field teams identifying the boundaries of the EA in the field using the fieldwork maps. Each structure was given a unique code. Residential and non-residential structures were identified. Household details would only be recorded for residential structures. The details collected for the households listed included: name of head of household, list of all persons in the household, gender and ages of household members – details listed from oldest person to youngest person. From this list the 18 plus year olds would be identified. All persons who own and operate their own businesses will be identified.

It is anticipated that the listing would be performed on day one of the team reaching the EA, and then the actual interviews will be conducted the following day after completion of the listing. The listing will be verified by supervisors in field. The supervisors will also select the survey households in field. Quality checks will be performed to ensure that the respondent is selected without bias.

The households to be selected for the survey would be one that contains at least one household member that owns and runs their own business. Should a household be selected where there is more than one business owner; the respondent will be selected by using a Kish Grid.

Households will be chosen by selecting a random starting point within the boundaries of the EA and then using a systematic “serpentine” approach, the identified, sample households will be selected. The TOR calls for 8 households per EA. This means that the sample interval would be determined by dividing the total number of households in the EA by 8. Therefore, if the EA has 120 qualifying households the sample interval would be 15. In other words, from the random starting point every 15th household would be selected.

Within selected households, where there is more than one qualifying respondent, the Kish Grid will be used to randomly select the one household member with whom to complete the interview (this individual will be the ultimate sampling unit). If a selected person is unavailable, then up to three recalls at different times of the day and days of the week are made to maintain the integrity of the sample. If a person is repeatedly unavailable or refuses participation, then very strict substitution rules are applied. No substitutes will take place within a household.

No substitution of individuals within a household is allowed. If a household has to be substituted due to refusals/nobody at home, etc., the best method to use is oversampling. The suggested method would be to draw, from the beginning, 10 households instead of 6. Four of these (say numbers 1, 4, 7 and 10) can then be used as possible substitutes if necessary.

1.3. Sample allocation

A summary of the sample allocation received from BOS is as follows:

Table 22: Sample allocation

District	# of h/h (census 2006)	Power Allocation	EAs
Butha Buthe	27 802	166,7393175	31
Leribe	71 104	266,653333	50
Berea	45 571	213,4736518	40
Maseru	131 264	362,30374	68
Mafeteng	43 704	209,0550167	39
Mohale's Hoek	38 287	195,6706416	37
Quthing	25 573	159,9156027	30
Qacha's Nek	15 027	122,5846646	23
Mokhotlong	21 173	145,5094499	27
Thaba-Tseka	27 992	167,308099	31
Total	447 497	2009,213517	375

AfricaScope received the sample from BOS in Maseru, as well as securing of the sample EAs and the most recent satellite imagery to establish the number of structures in each EA.

The sample size was as follows:

- Survey Sample EAs = 374
- EAs completed = 336
- EAs not completed = 38
- EAs with no businesses = 22
- EAs not accessible = 12
- EAs refused access = 2

In order to verify the field activities, all relevant data was converted to a GIS format and mapped to verify the data.

Figure 56: Complete versus non-completed EAs



Only members 18 years of age or older and owning a business were qualifying members for the survey.
Excluded from the survey were:

- Family members who live or are working elsewhere;
- Visitors temporarily staying in the house;
- Those employed by the household such as housemaids, babysitters, drivers and gardeners; and
- Those that are mentally challenged.

1.4. Listing of the households in the sample EAs

In the absence of recent population census data, the population of the survey area needed to be counted. Once the boundaries of the enumeration area were determined, every structure within the boundary was visited. Individual households within the structures were identified.

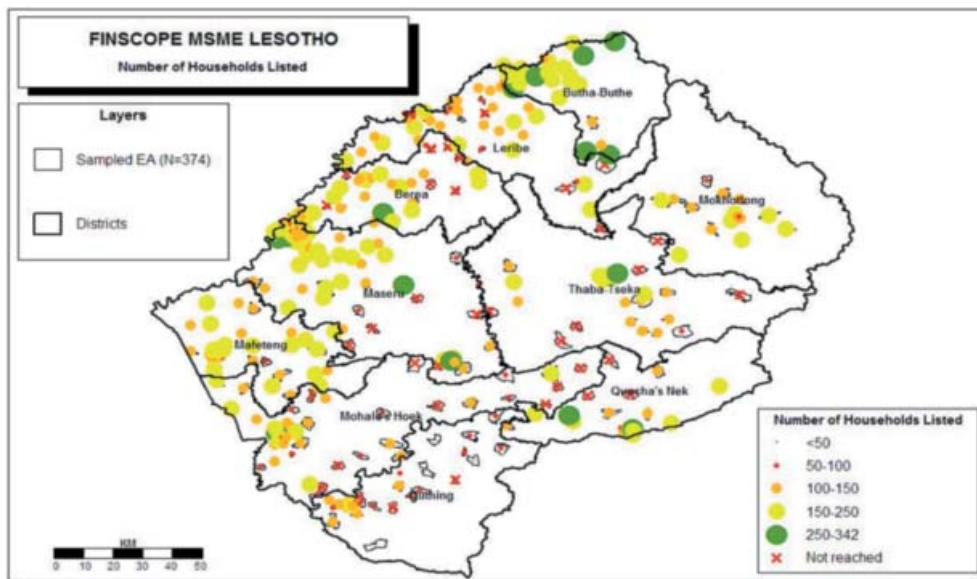
In order to ensure that all structures were identified, AfricaScope produced maps of all the selected EAs for provision to the field teams. Each and every structure within the EA was identified and provided with a unique structure number. This methodology was the only way to ensure that all structures were visited.

Figure 57 Example of EA



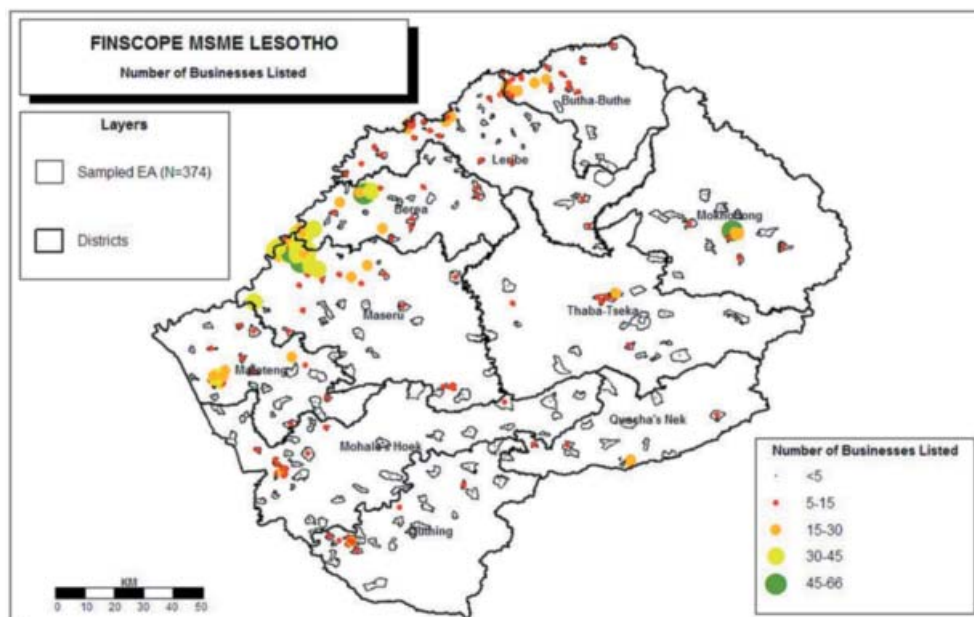
- Address of the household (if any)
- Name of household head
- Total number of adult members (18 years and older)
- Total number of businesses in the household

Figure 58: Households listed



In terms of the numbers of businesses listed, the teams found that the rural EAs were more likely to have fewer than 5 businesses, while EAs in urban areas had significantly more. In all about 4 000 businesses were listed:

Figure 59: Spread of business across the country



1.5. Selection of the households in the sample EAs

Once the field teams had completed the listing of all structures within the EA, they returned to a central point and provided the supervisor with all the listing forms for the EA. The listing forms contained the structure number and whether or not there was a household and a business owner within the household. The supervisor checked the structure numbers recorded by the enumerators against the numbers on the maps to ensure that the EA had been properly covered. The supervisor then randomly selected between 8 and 12 households with business owners to visit. Due to the distances between villages in many EAs, this process took a considerable amount of time to complete.

1.6. Selection of the eligible respondent within each household

Only adults 18 years or older who owned and ran their own businesses could qualify for the survey. If there was more than one qualifying person in the household, a Kish Grid was used to randomly select the respondent.

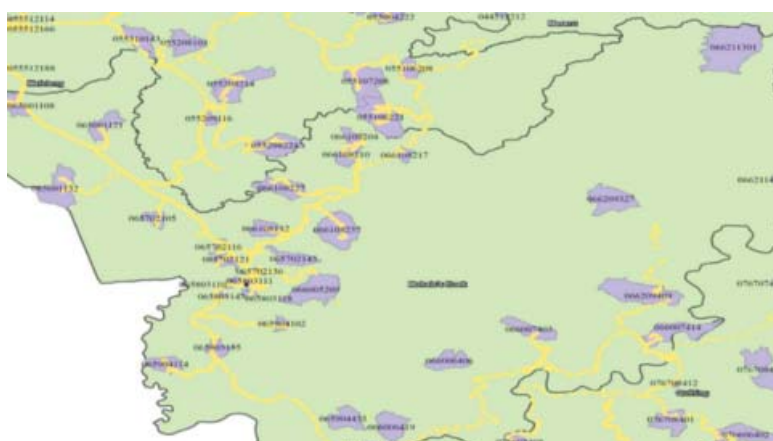
1.7. Tracking of the field teams

Ensuring that the enumerators actually went to where they were supposed to go, particularly in difficult terrain, was vital for survey quality. For this reason AfricaScope implemented a system for the tracking of the field teams. The system tracked the teams in live-time as they moved across the country and recorded whether the teams entered the selected enumeration areas. The following two maps show the movement across the country and the movements within a specific region:

Figure 60: Fieldwork tracking map



Figure 61: Overall survey coverage



2. Survey weighting

Weights are assigned to make weighted sample records represent target population as closely as possible. A weight (w_i) indicates number of population elements "represented" by a single sample element. Therefore, the sum of the weights, $\sum w_i = N$

should be equal to the population total of elements.

Weights are usually developed in different stages to compensate for:

- unequal inclusion probabilities;
- non-response;
- non-coverage and skewness resulting from sample design and fieldwork.

The weights for the survey were calculated as follows: In order to obtain a representative sample of the population, a multistage stratified sample was designed with District and Zone as the explicit stratification variables. The sample was designed in three stages. In the first stage primary sampling units (PSU) – i.e. the enumerated areas (EA) – were selected with probability proportional to size (PPS) from the 2006 census population sampling frame information.

$$W_{PSU} = \left(n_{EA} \frac{PSU_{HH06}}{POP_{HH06}} \right)^{-1}$$

where n_{EA} is the number of realised EAs in the stratum, PSU_{HH06} the number of households in the selected EA and Pop_{HH06} is the number of households in the selected stratum.

These weights are adjusted by taking the listing number of household information into account:

$$W_{PSU}^* = W_{PSU} * \frac{PSU_{HH_Listing}}{PSU_{HH06}}$$

(These weights are tested on the number of households, and a realistic number of households were found.)

In the second stage, households with at least one business owner were selected from the listing information in each PSU in the sample. The household (with business owner(s)) weight per PSU is given by

$$W_{HH} = W_{PSU}^* \left(\frac{n_{HH}}{PSU_{HH \text{ with Business owner}}} \right)^{-1}$$

where n_{HH} is the number of interviewed households per PSU and $PSU_{HH \text{ with Business owner}}$ is the number of households with at least one business owner in the selected PSU.

In the final stage, a person who is an owner of a business was selected from the drawn household. In order to ensure that all businesses in the household were considered, the question in the dataset "Other businesses in household" was used. If the category 'Me and other household members own different small businesses/enterprise', was marked, it was assumed that two persons in the household are business owners. Based on this, the respondent weight is calculated by:

$$W_{PP} = W_{HH} * n_{owners}$$

where n_{owners} is the number of business owners (one or two) in selected household as explained above.

Finally, the design weights are benchmarked. Since no recent population figures are available, they are estimated as follows:

- 1) Calculate the percentage of business owners according to what was found in the listing.
- 2) Determine the 2015 18+ population from document LESOTHO 2006-2026 PROJECTIONS (FULL REPORT)02072010.docx
- 3) Calculate the estimated number of business owners (Urban/rural-by-gender), by using the information found in 1) and 2).

The following estimated population number of business owners were obtained and used for benchmarking:

Table 23: MSME population distribution

Urban		Rural		Total
Males	Females	Males	Females	
15 856	22 981	15 468	21 763	76 068

3. Construction of the BSM for the FinScope MSME 2015 Lesotho Survey

3.1. Background and summary

This report describes how the construction of a Business Sophistication Measure for Lesotho FinScope MSME survey was approached. The methodology used broadly follows the approach used for the Tanzanian BSM. Some changes in the approach had to be made owing to the less sophisticated nature of the small business sector in Lesotho.

As in previous BSM surveys, questions were coded as 1 or 0 for yes or no. Principal Component Analysis and Principal Coordinate Analysis were then used to identify underlying factors. Ten dimensions were obtained using the Principal Coordinate Analysis and these served as input for k-means cluster analysis, which was used for segmentation.

The first Principal Coordinate was interpreted as an overall measure of business sophistication and the average scores of the businesses in each segment were used to rank the segments. Unlike a segmentation based only on the first principal component, however, the segments differ not only in overall sophistication but also in other aspects derived from the other seven factors that are expected to be useful in formulating policy to cater for a variety of business situations in both the rural and urban areas. A shorter 20-item version of the BSM scale was also produced to enable a BSM score to be easily obtained for any business in future.

3.2. Data Coding and Variable Selection

The survey data set contained over 1 600 items, most of which were binary. The Numerical variables were first grouped into categories and the categories then converted into binary variables as well

A large proportion of these possible options were chosen by only a few businesses, leaving many binary variables with a low number of endorsements. Binary variables with less than 5% endorsement were removed as they did not have the potential to contribute in a major way to the process of segment formation. A number of conditional questions were also removed as these were only answered by a small proportion of the sample. A smaller number of other questions were also omitted from the analysis as it was judged that they would not contribute to the formation of useful segments. After all these processes were completed 183 binary variables remained for further analysis.

3.3. Principal Component Analysis and Principal Coordinate Analysis

In constructing the Tanzanian BSM Principal Component Analysis was used to form the BSM scale and this worked well. In situations where binary variables are being used and especially where there is a low level of endorsement of many variables it may however be the case that Principal Component will not produce meaningful results. This was found to be the case for the Lesotho survey and the results from the Principal Component Analysis did not possess face validity in term of the signs of the variables forming the rotated or un-rotated components.

For this type of data an alternative analysis called Principal Coordinate Analysis (Gower, 1967) may be more appropriate. This permits the use of any coefficient of similarity and not just the Pearson correlation coefficient. The correlation coefficient is most appropriate for normally distributed data and is not suitable for binary data where there is a fundamental asymmetry between 0 (absence of an attribute) and 1 (presence of an attribute). In similar situations in ecological applications the Ochiai similarity coefficient that measures joint presence of attributes rather than joint absence of attributes is often used. Using this similarity coefficient to produce Principal Coordinates yielded a solution with very good face validity. The first Principal Coordinate was accordingly identified as the measure of business sophistication (Full BSM scale).

3.4. Construction of a Short BSM Scale

As the full BSM scale requires values for all 183 variables it would be difficult to use to assign a BSM score to businesses not included in the original sample. For this reason Stepwise Linear Regression was used to construct a shorter scale that would yield a good approximation to the full BSM scale. Using the full BSM score as the dependent variable and the 183 original variables as independent variables stepwise regression analysis was carried out starting with one variable and continuing until no significant improvement was obtained by using additional variables.

It was found that using the best 20 variables identified by the stepwise regression gave a high correlation of 0.964 with the full BSM scores. Furthermore the signs of the regression coefficients made intuitive sense, yielding a scoring procedure with high face validity. The items in the BSM20 and the regression coefficients are shown in Appendix B. The short BSM scale was standardized to have a minimum of 0 and a maximum of 100. It can thus be roughly interpreted as a percentage. It must be borne in mind, however, that a score of 100 does not represent a very highly sophisticated business by the standards of developed countries.

This shorter scale (BSM20) is very easy to administer to other businesses and still gives a very good approximation to the full BSM score. Administration could be done using an Excel spreadsheet to calculate the BSM20 score using the regression weights given in Appendix B with appropriate adjustments to give a scale ranging between 0 and 100. A simpler approximate procedure would be to simply use a score of 5 for each correct response and 0 for each wrong response. The correct responses would be “Yes” for the positively signed items and “No” for the negatively signed items as shown in Appendix A. As the weights do not vary over a very large range this would not be an unreasonable scoring procedure to use.

3.5. K-Means Clustering

BSM segments were constructed using k-means cluster analysis. Weighted factor scores based on the ten Principal Coordinates were used as input to a proprietary k-means clustering program.

K-Means analyses were made with the specified number of clusters varying from two to eight. The stability of the solutions was evaluated by randomly dividing the sample into a “training” sample and a validation sample. The solution found in the training sample was tested in the validation sample using the measure of prediction strength of Tibshirani and Walther (2005). Each analysis was repeated from four different random starting points with the same specified number of clusters and the maximum predictive strength obtained for each number of clusters was recorded. From this analysis it appeared that the best solutions were those with either three or five clusters. Three such solutions were submitted to the client and it was agreed that the final three-cluster solution should be adopted as the BSM segmentation.

3.6. Final Construction and Ordering of BSM Segments

The average BSM score for each cluster was used to rank them to give the final BSM segments. These average BSM scores and the weighted population percentage represented by each cluster are given in Table One.

Table 24: Average Business Sophistication Measure and Population Percentage for each Segment

Segment	Average BSM Score	Population Percentage
BSM1	29	45.3
BSM2	46	40.6
BSM3	71	14.1

It can be seen from Table One that the bulk of the population of small businesses score low or very low in overall sophistication. While the segments are ranked on the basis of the overall measure of business sophistication, the segments can differ on variables representing other characteristics of businesses as well that are relevant to policy formulation or resource allocation. The primary interpretation of the segments is thus in terms of their profiles on all the survey variables on which they differ substantially. Tables profiling these segments on a large number of the survey variables have been prepared by Africascope and are presented in the main report.

3.7. References

Gower, J. C (1967). Multivariate Analysis and Multidimensional Geometry. Journal of the Royal Statistical Society. Series D (The Statistician) Vol. 17, No. 1 13-28.
Tibshirani, R & Walther, G (2005). Cluster validation by prediction strength. Journal of Computational and Graphical Statistics, 14(3) 511-528.

Appendix A: BSM20 items and regression weights (Unstandardised)

Variable Name	Average BSM Score	B	T
(Constant)		0.138	276.359
List_of_things_business_might_hI	Electricity	0.03	123.731
List_of_things_business_might_02	Phone/cellphone	0.027	115.423
Money_to_start_business_rec	Over M1000	0.023	109.333
Getting_customers _Come through_r	Come through references or recommendations by other customers	0.022	103.976
Motivation_Saw_an_opportunity	Saw an opportunity		
Services_and_functions_businessO	Services and functions business uses Accounting/bookkeeping	0.042	103.62
List_of_things_business_might_hO	Running water from outside	0.02	84.766
Analysing_competitors	You regularly analyse your competitors	0.017	77.82
List_of_things_business_might_OS	None of these	-0.024	-76.044
Turn_to_friends_or_family_ emergency	Turn to friends or family- emergency money	-0.02	-85.337
Seeking_advice_from_others	Seek business advice from other	-0.02	-87.617
Working_hard_more important_than	Having drive/working hard is more important than doing careful research on the b	-0.04	-103.938
Calculated risks	Taking calculated risks is not a problem for you	-0.039	-104.054
Organizations_that_give_advice05	Organizations that give advice None	-0.027	-105.134
Borrowing_to_start_another business	Borrowing to start another business	-0.025	-107.686
Unable_to_work_Close_down	Impact on business if unable to work Close down	-0.023	-111.185
Membership_of_organisations_or_5	Membership None	-0.027	-130.576
Go_without_basic_things_to_save	You would go without basic things to save for the purposes of the business	-0.031	-135.615
Various_financial_products_None_	None of the financial products	-0.047	-186.841
Things_used_by your_business_	Non None of the above	-0.053	-206.304

Note: (This is for BSM20 before standardisation to range from 0 to 100)

Contact

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