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**A Pre-Project  
Identification  
Document Analysis  
of the Lesotho  
Agricultural Enterprise  
Initiatives Project**

***GEMINI Technical Report No. 35***

6727

**GEMINI**

**GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS  
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**DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International •  
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# **A Pre-Project Identification Document Analysis of the Lesotho Agricultural Enterprise Initiatives Project**

by

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**April 1, 1992**

**This report was prepared under the terms of the USAID/Lesotho buy-in (PIO/T No. 632-0510-3-100010) to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, contract number DHR-5448-Q-41-9081-00.**

## **FOREWORD AND ACKNOWLEDGMENTS**

**This report is based on field work carried out in Lesotho between February 13 and March 12, 1992, under the direction of Mr. Curt Reintsma, Agricultural Development Officer, USAID/Lesotho. In addition to Mr. Reintsma, our efforts were supported by Cris Hartland-Peel, USAID/REDSO; Murry Gardner, WOCCU/CUNA/Lesotho; Seth Vordzorgbe, USAID/Lesotho Program Economist; John Lepele, USAID/Lesotho; and Arcelia Sepilla, USAID/Lesotho.**

**This report has been prepared under the terms of the USAID/Lesotho buy-in to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, Development Alternatives, Inc. (DAI). The authors of this report are Mike Bess, DAI East Africa Region Representative; Don Henry, DAI Senior Enterprise Officer; Donald Mead, professor of agricultural economics at Michigan State University; and Eugene Miller, GEMINI Associate. The views expressed in this report are solely attributable to the authors and do not necessarily reflect those of the affiliated institution or USAID.**

## ACRONYMS

<b>AESU</b>	<b>Agro-Enterprise Support Unit</b>
<b>BAPS</b>	<b>Business Advisory Promotion Service</b>
<b>BEDCO</b>	<b>Basotho Enterprise Development Corporation</b>
<b>BFVC</b>	<b>Basotho Fruit and Vegetable Cannery</b>
<b>CIDA</b>	<b>Canadian International Development Agency</b>
<b>DAI</b>	<b>Development Alternatives, Inc.</b>
<b>DAO</b>	<b>District Agricultural Officers</b>
<b>EEC</b>	<b>European Economic Community</b>
<b>ESU</b>	<b>Enterprise Support Unit</b>
<b>FAO</b>	<b>Food and Agriculture Organization</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GEMINI</b>	<b>Growth and Equity through Microenterprise Investments and Institutions</b>
<b>GNP</b>	<b>Gross National Product</b>
<b>GOL</b>	<b>Government of Lesotho</b>
<b>IEMS/BTC</b>	<b>Institute of Extramural Studies/Business Training Center</b>
<b>ILCA</b>	<b>International Livestock Center for Africa</b>
<b>ILO</b>	<b>International Labor Organization</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>ITDG</b>	<b>International Technology Development Group</b>
<b>LAC</b>	<b>Lesotho Agricultural College</b>
<b>LADB</b>	<b>Lesotho Agricultural Development Bank</b>
<b>LANS</b>	<b>Lesotho American Hi-Bred Seeds Company</b>
<b>LAPIS</b>	<b>Lesotho Agricultural Production and Institutional Support</b>
<b>LAPIS SEP</b>	<b>Lesotho Agricultural Production and Institutional Support Small Enterprise Program</b>
<b>LCCI</b>	<b>Lesotho Chamber of Commerce and Industry</b>
<b>LDTC</b>	<b>Lesotho Distance Training Center</b>
<b>LNDC</b>	<b>Lesotho National Development Corporation</b>
<b>MOA</b>	<b>Ministry of Agriculture</b>
<b>MOE</b>	<b>Ministry of Education</b>
<b>MTI</b>	<b>Ministry of Trade and Industry</b>
<b>NAFC</b>	<b>National Abattoir and Feedlot Complex</b>
<b>NBFI</b>	<b>Nonbanking Financial Institution</b>
<b>NGO</b>	<b>Nongovernmental Organization</b>
<b>NMC</b>	<b>National Mills Corporation</b>
<b>NPA</b>	<b>Nonproject Assistance</b>
<b>PIO</b>	<b>Project Identification Document</b>
<b>PVO</b>	<b>Private Voluntary Organization</b>
<b>REP</b>	<b>Rural Enterprise Program</b>
<b>RSA</b>	<b>Republic of South Africa</b>
<b>SACU</b>	<b>South African Customs Union</b>
<b>SSIP</b>	<b>Small-Scale Industries Project</b>
<b>TEBA</b>	<b>The Employment Bureau for Africa</b>
<b>UHT</b>	<b>Ultra-High Temperature</b>
<b>UNCDF</b>	<b>United Nations Capital Development Fund</b>
<b>UNDP</b>	<b>United Nations Development Programme</b>

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## EXECUTIVE SUMMARY

The Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project fielded a four-person team to work with USAID/Lesotho on a pre-Project Identification Document (pre-PID) to recommend options for USAID project development in the agro-enterprise sector of Lesotho. The team met with numerous individuals from USAID, the government, donors, the private sector, training institutions, and consulting organizations during February and March 1992. The team produced two written reports, in addition to this final report, one on enterprise opportunities (Annex 2) and one on agro-enterprise service organizations (Annex 3). The team carefully examined several existing agro-sector activities to understand better how agro-enterprises operate in Lesotho.<sup>1</sup>

The GEMINI mission team concludes that there are numerous opportunities in the agro-enterprise sector in Lesotho but that these opportunities are difficult to realize for a variety of reasons. The Government of Lesotho plays a preponderant role in the entire agricultural sector in the country, particularly in agricultural product transformation and processing. The linkages the government has established with producers and sellers (and other agents) in each enterprise area (such as dairy, abattoir, feed mill, and cannery) have opened opportunities for many Basotho entrepreneurs and have closed the door to others. These activities, and the policies that have grown up to support them, have effectively distorted the agro-enterprise environment in such a way that very few medium-scale entrepreneurs enter the field without government assistance or protection.

The presence of South Africa, with its large, oligopolistic producers and its large, well-established wholesale and retail outlets and traders has also had a deleterious effect on the agro-enterprise environment. Many potential entrepreneurs serve as agents for South African firms, rather than setting up on their own. This is understandable economic behavior, but it implies that there are few medium-sized entrepreneurs to assist through a new USAID program in agro-enterprise. Donors themselves have strongly influenced (and distorted) the agro-enterprise environment. The European Community has played a major role with the cannery and the asparagus outgrowers, the Austrian/Bauer Group has played a major role in large-scale irrigated high-value crops, and the Lesotho Agricultural Production and Institutional Support Project (LAPIS) has worked with student entrepreneurs. Credit schemes of many forms distort entrepreneurs' incentives and the overall agro-enterprise environment.

The team concludes that, in the present environment, a large-scale USAID agro-enterprise project would be difficult to design and even more difficult to implement. However, things are changing rapidly. The European Community and in a less direct way, USAID, the International Monetary Fund, and the World Bank are pushing for parastatal reform; divestiture; and, in some cases, privatization. The situation in South Africa is changing dramatically and will continue to do so over the short term. These factors will surely influence the agro-enterprise investment climate, although the team notes that it is not clear whether these events will collectively make the agro-enterprise sector more welcome to the medium-scale entrepreneur or more hostile to the aspiring investor.

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<sup>1</sup> Please consult the annexes to this report for more extensive analyses on enterprise opportunities, service institutions, socioeconomics, macroeconomics, etc.

Therefore, the team presents four sets of options that USAID/Lesotho could adopt to work within the agricultural business sector. They include (1) a policy-focused project with considerable nonproject assistance support, (2) a full-fledged private-enterprise support program, (3) an expanded private voluntary organization (PVO) small-scale enterprise project, and (4) a project that supports vertically integrated agribusiness in Lesotho. The team explores both the positive and the negative aspects of each option.

## **CHAPTER ONE**

### **BACKGROUND**

#### **THE MACROECONOMIC ENVIRONMENT**

Lesotho is heavily dependent upon the Republic of South Africa (RSA), which surrounds it. The Government of Lesotho (GOL) depends on customs remittances from the South African Customs Union (SACU) for a good portion of its budgetary revenues. It also depends on taxes paid through deductions from the salaries of Basotho miners in South Africa to provide much of its income for recurrent expenditures.

Although Lesotho's population is primarily rural, the country has a highly monetized economy. Approximately 100,000 Basotho work legally in South Africa's mines. Additionally, an unknown number of Basotho work illegally in South Africa. The country has provided South Africa with mine labor since the late 19th century. Nearly half of all Basotho males are wage earners in the RSA, and remittances from these laborers provide the bulk of rural Lesotho's disposable income. Major South African wholesale and retail firms have outlets in Lesotho's main towns. An ethnic Asian population is also actively engaged in the urban wholesale and retail trade. Historically, far more secure opportunities have existed for wage labor than for trading and entrepreneurship in Lesotho. The GOL is the country's largest domestic employer, employing 10 percent of the wage labor force.

Agriculture accounts for a relatively small portion of Lesotho's overall gross domestic product (GDP) and gross national product (GNP), although it plays a large role in many Basotho households. Agriculture has historically depended on women's labor and continues to be dominated by subsistence farming. Lesotho has been a net food importer for many years. Remittances from South Africa, and, until recently, large international food assistance programs, have provided rural Basotho with the balance of their food requirements. Lesotho has received the highest per capita levels of donor assistance of any country in the developing world.

Lesotho's banking system has developed to serve primarily the government and large private interests. Numerous dedicated credit schemes — such as the LAPIS (Lesotho Agricultural Production and Institutional Support Project) Small Enterprise Program (SEP) Credit Trust, the USAID-funded Lesotho Distance Training Center (LDTC) Assistance Fund, and the UNDP Small Scale Industries Project SSIP Credit Facility — have been put in place over the years to serve specific target groups. The banks and credit institutions have excess liquidity, yet an aspiring Basotho entrepreneur who does not wish to invest in a targeted, often donor-financed field faces tremendous obstacles in obtaining financing. The shortage of secured assets, namely title-deeded land, makes credit even more difficult to obtain. The government is the major landowner in urban and peri-urban Lesotho. Rural land falls under traditional proprietorship, making land generally unusable as a bank security.

## **AGRICULTURAL ENTERPRISE OPPORTUNITIES**

### **Summary and Overview**

The team reviewed secondary data on more than 200 sources, representing some 40 agricultural enterprise opportunities in addition to several other ongoing medium- and large-scale agro-enterprises. The opportunities were divided into four categories: Primary Agricultural Production, Agricultural Processing and Transformation, Agricultural Inputs, and Ag-Input Marketing and Distribution. The team met with more than 100 people during the course of the work.

The GEMINI team developed a methodology that ranked all enterprise opportunities as primary-level potential or secondary-level potential. Those rated as primary-level demonstrate better opportunities for local enterprise development than others. However, the present environment is not conducive to investment in these fields, as described in more detail below. Secondary-level opportunities do not show good potential for enterprise development unless major market, government, or other changes occur. Many primary- and secondary-level opportunities could improve dramatically with changes in government policy.

Most profiles and projects reviewed by the team are for new (nontraditional) activities. They have been generated within the past five years. They reflect the interest of the LAPIS Project, the UNDP, and the FAO to support development of Basotho agro-enterprises.

Many proposals showed weaknesses in locational analysis, for example land ownership and utilities to site, source of management skills and unskilled labor, and financial plans such as cash flow, and profit or loss statements. The influence of the Lesotho government as an incentive or a disincentive was not mentioned in most studies and proposals. Government involvement in such areas as livestock slaughtering and dairy controls, among others, have a marked effect on many enterprises' viability.

Based on information reviewed by the team, the best enterprise opportunities are found in import substitution in such areas as vegetables, poultry, feedlot, dairy, beans and seeds, berries, and stone fruits. This is particularly important when considering the possibilities for sub-contracting production to other enterprises such as cannery, abattoir, dairy. These industries are operating below capacity. For example, the cannery can process additional asparagus and compatible products such as French beans, pinto beans, or soup (asparagus, onion, or potato) if properly managed.

### **Primary Products**

The majority of agricultural enterprise opportunities identified by the team fall into the microenterprise level (employment of 10 or fewer people and the primary production level). This is the area in which the entrepreneur supplies the local market, rather than a regional or export market. Larger markets are dominated by parastatals or South African conglomerates.

Table 1 lists 27 enterprise opportunities that have been ranked in categories of primary or secondary agriculture opportunities. Eighteen of the categories show potential as primary-level opportunities. That is, these appear to be the most profitable enterprises to develop, if today's highly regulated, controlled environment were changed to encourage more investment. However, current conditions restrict many of these investments from being made.

TABLE 1

## RANKING OF PRIMARY PRODUCT ENTERPRISE OPPORTUNITIES

Categories	Levels	
	Primary	Secondary
Vegetables		
a. asparagus	X	
b. onions	X	
c. pumpkins		X
d. tomatoes	X	
e. cabbage	X	
f. green mealies		X
g. leafy greens		X
Poultry		
a. broilers	X	
b. layers	X	
Root Crops		
a. potatoes	X	
b. carrots		X
c. beet root	X	
Forage		
a. grass		X
b. lucerne	X	
c. fodder sorghum		X
Feed lot		
a. mutton		X
b. beef		X
c. pigs	X	
Dairy		
fresh milk	X	
Beans and Seeds		
a. pinto beans	X	
b. small white haricot	X	
c. sunflower	X	
Stone Fruit		
a. peach	X	
b. apple		X
Fruit		
a. strawberries	X	
b. other berries (e.g. blueberries)	X	
Condiments		
a. herbs	X	
b. chillies		X

When looking at primary production, the issue of water is essential for the production of most high-value crops. Lesotho has surplus water in its mountain rivers, but very little of its arable land is close to this water. Where water is found near arable land, it is usually unreliable and expensive to pump. Irrigated production in the mountains and foothills presents special problems due to the harsh and variable climate. By contrast, larger areas of arable land close to rivers exist in the lowlands, especially on the Caledon, Makhaleng, and Senqu rivers and their immediate tributaries. However, all but the Senqu (Orange) River suffer from low water availability during periodic droughts. Additionally, few sites are suitable for gravity-fed irrigation, resulting in these larger arable areas being irrigated by pump or from reservoirs, at a large capital cost and with high maintenance requirements.

Establishment of large-scale, consolidated irrigated farms involves major changes in farmer behavior. The difficulty of maintaining the link between the farmer and the individual plot has resulted in irrigation equipment not being used and capital investment wasted (see the Bauer/MOA schemes in Annex 2A). Large-scale commercial operations such as truck farming are difficult to establish under the current land-use system. Technologies have been developed for low-cost gravity-fed systems suitable for the foothills and other areas USAID-supported Peace Corps projects. Although Lesotho produces horticulture crops on small plots and home gardens in both rural and urban areas, most of these are for home consumption or are sold to immediate neighbors. These are predominantly micro-level enterprises, which are very important to the individual household.

Land tenure, though not an insurmountable issue, poses particular problems for the potential entrepreneur. Usufructuary rights on traditional lands are complicated, and most urban and peri-urban land is owned by various government bodies. Developing local consensus to obtain suitable agricultural land requires considerable effort. Rights have to be clearly established through lengthy discussions, and remuneration is not straightforward. For example, rather than make direct cash payments, remuneration may be expected in kind, perhaps by paying children's school fees, paying funeral expenses, building houses, and so on. These mechanisms can prove daunting to all but the most industrious and innovative entrepreneur.

Many primary production opportunities are influenced (positively and negatively) by the government. For example, fattening sheep is an ideal opportunity for small-scale entrepreneurs. However, no suitable breeds are permitted to be imported into Lesotho even though South Africa has carried out extensive research in developing both quality merino wool and excellent merino meat breeds. This is but one of many examples in which GOL monopolies, rules, regulations, and restrictions, often set up for social equity or to protect Basotho producers, distort the incentive structure for investment and development in the agro-enterprise sector. Other examples include localized restrictions on feed and fertilizer, Co-op Lesotho's historical controls on agricultural inputs, restrictions on wet milk, and regulations regarding sugar, wheat, and other commodity imports.

The lack of wholesale market outlets or, alternatively, functioning farmers' markets, requires direct marketing to outlets such as supermarkets, restaurants, or regional distributors. This is difficult, particularly when problems of transport are considered. Farm gate sales are by far the most important means of selling local produce. Developing effective marketing systems would help to realize the best prices, but such systems at present only in an ad hoc manner. Most transporters collect produce only when it is convenient, (that is, on return trips). Transporters are organized primarily to serve large businesses (primarily South African), particularly in the wholesale and retail trades. They have not organized themselves to serve domestic fruit and vegetable producers. Hence, although there may be many small-scale Basotho fruit and vegetable growers, many higher value-added opportunities are denied them by the absence of these linkages.

### **Transformation and Processing**

Current agricultural product transformation and agro-processing activities cover several large and numerous small and microenterprises in Lesotho. These range from the National Abattoir and Feedlot Complex (NAFC), the Maluti Mountain Breweries, and the National Grain Mills (Lesotho Milling Company) on the one hand to butcheries and hide curing on the other (see Annex 2). Large-scale processing and transformation enterprises are relatively new (virtually all have been established over the past two decades) and generally are import substituting. Opportunities exist for larger-scale parastatals

(such as the dairy and cannery) to form external partnerships through management contracts, buy-outs, and so forth. Smaller enterprises, for instance local beer brewing, tend to be more traditional, and follow local production and demand patterns.

There is also room to work with microenterprises such as small vegetable gardens, poultry operations, and piggeries. However, this is very expensive, given their highly decentralized nature and the wide variety of technical, managerial, and other needs. The team decided not to address the largest scale agro-enterprise industries, specifically the Maluti Mountain Breweries and the National Grain Mill because of the predominant role played by imported primary inputs rather than local raw materials in both enterprises. Downstream industries, including leather working and weaving, though agriculture related, are not properly agro-processing or agricultural product transformation enterprises under current definitions.<sup>1</sup> However, the team discusses expanding the definition of agro-enterprise to include these activities, given their importance to the Lesotho economy and their future potential for utilizing Lesotho raw materials such as hides, skins, and wool (see Chapter 4).

Lesotho's large livestock base and extensive history with livestock should provide opportunities for processing or transforming livestock products in a cost-effective and competitive manner.<sup>2</sup> However, given the current environment, processing and transforming of products are classified as secondary-level opportunities. (Virtually all leather and mohair products currently used in Lesotho are imported from South Africa.) Other processing and transformation opportunities are precluded by the overwhelming presence of government. The livestock subsector is dominated by parastatals, primarily the Lesotho National Development Corporation (LNDC), the MOA, and the Ministry of Trade and Industry (MTI). Parallel legislation and regulations make enterprise opportunity development remote in this area.

The GOL and donors persistently intervened in the ag-processing area during the 1970s and 1980s to stimulate development or to prevent or remove South African domination in particular areas. In no other economic area has donor involvement been so pronounced. These interventions have been driven primarily by an import-substitution bias and, to a lesser extent, by a desire to achieve certain GOL policy or social equity objectives. Financial and business criteria for investment and operations have played a secondary role in virtually all investments in these areas. Investments in the agro-processing and product transformation areas have been fairly capital intensive, and virtually all investments (with the exception of the breweries) are losing money.

## Inputs

The opportunities for commercial agro-industrial input production are reasonably good, again with the caveat of reduced government interference. Of the eight input production opportunities reviewed, good information has been developed for the following:

- Hatchery for layers;
- Irrigation; and

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<sup>1</sup> The export-oriented footwear industry, for example, employs 3,500 Basotho workers, while smaller, more informal footwear producers number more than 2,000.

<sup>2</sup> Reviewed in detail as one of four subsectors during GEMINI's most recent work in Lesotho.

- **Seedling production.**

Other opportunities were reviewed (see Annex 2). A strict subsector analysis revealed that none of the opportunities identified have scope for the manufacture of inputs to supply large regional markets; the markets are primarily local. Enterprises have to compete with established regional producers and distributors (including, in many cases, Co-op Lesotho) to expand their markets.

The current demand for chicks is relatively high. The current supply is from South Africa, although the GOL serves as the exclusive agent for supplying farmers. The government hatchery is closed, and the opportunity for setting up a commercial hatchery might be feasible with GOL approval. A U.S.-based commercial seed producer has recently begun operating in Lesotho. It hopes to compete in the regional market, but it is experiencing problems with its GOL partner, LNDC.

Animal feed mixing for poultry, livestock, and dairy is currently being practiced on a limited scale by one local entrepreneur. Co-op Lesotho is the major retailer of animal feed, which is procured through GOL central buying. Co-op Lesotho's national pricing policies are a barrier to rural production and marketing of privately distributed animal feed.

Farm machinery repair is currently being carried out in the government's rural workshops. With the expansion of mechanical land preparation (tractors) and farm equipment, the prospect for a service industry around farm equipment repair and maintenance is good if the GOL gets out of the business.

The team considers farm machinery, seedling, and animal feed input production to be secondary-level opportunities because the GOL currently is the major player in production or distribution of these products. Intensive GOL involvement in many sectors precludes further development of enterprises and consistently stifles or distorts private entrepreneurial initiative in areas that should offer prime private investment opportunities.

### **Distribution and Marketing**

The establishment of effective marketing arrangements is a precondition for many other types of agro-industrial development. Without a satisfactory marketing system, many other enterprise opportunities are likely to fail. Marketing constitutes an important enterprise opportunity in itself. There are a number of opportunities available to Basotho entrepreneurs. Each of the primary-level enterprise opportunities identified by the team correspond to a primary-level opportunity in the area of marketing. (See Annex 2.)

Rural Lesotho has a high level of disposable income. Experience elsewhere in Africa shows that there should be a thriving private-sector farm input distribution network in such an environment. However, this is not the case. Inputs to the agricultural sector have historically been dominated by Co-op Lesotho, which has, until recently, held a monopoly on the distribution of seeds and fertilizers. Even though that monopoly has been officially withdrawn, considerable ambiguity exists in rural areas regarding merchants' rights to sell seeds and fertilizers. Some entrepreneurs have taken the initiative to purchase animal feed from Co-op Lesotho outlets and resell it in their own stores. Other entrepreneurs have occupied abandoned Co-op Lesotho stores for their bases of operation. These are good examples of how agro-enterprise opportunities are distorted by the GOL and why entrepreneurs seek safe niches from which to operate.

The following points constitute a regularly recurring theme:

- On the supply side, much of what is produced is not marketed at all, or is marketed only in local and informal markets. Many actual or potential suppliers — particularly primary producers — have a poorly developed commercial sense and relatively little commercial experience or orientation.
- On the demand side, a major share of the products consumed in Lesotho is marketed through a few major wholesalers that find it easier and cheaper to bring the products in from South Africa. Although the traders say they are ready to buy Basotho products if the quality and price are competitive, they find this is rarely the case. For export products, the channels all seem to run through a few large traders or buyers in South Africa.

In sum, if the distribution system is the network that links producers with final consumers, that network is poorly developed in Lesotho, and that poor development is a serious constraint on expansion in production.

As stated above, for each such primary or input-based opportunity, there is a corresponding opportunity in the marketing area. Livestock production and marketing could be improved along the lines suggested by recent discussions between officials of the MOA and the Stock Owners Co-operative, Ltd. If the government carries through on its stated intention of removing itself from its dominant position in this market, this may reopen the market to private traders, effectively driven out of the market in 1973. Given the significance of livestock in the Basotho social economy, any moves to regularize and monetize the improved trade in livestock are bound to have major multiplier effects on the entire rural economy.

The marketing and processing of mohair and wool are areas that have been subject to extensive study. No immediate needs or opportunities are obvious here, other than to ensure that the local weaving industry has access to a reliable supply of mohair.

In summary, marketing offers a number of investment opportunities, but competition from Co-op Lesotho, regulations and interventions by the GOL, big South African firms and distributors, well-established market outlets (which people value), and difficult terrain and accessibility in many parts of the country all pose difficulties to the prospective marketer.

## **THE HUMAN RESOURCE BASE**

Annex 4 provides a brief review of the principal sources of information concerning the human resource base in Lesotho. Although the data sources are neither as complete nor as up-to-date as one would like, some major features are clear.

- Out of a total population estimated in the mid-1980s at about 1.7 million people, 623,000 persons are estimated to be economically active. Of these, just over a quarter of the labor force or 155,750 people were working outside the country. Another 23 percent (143,000) were reported to be unemployed, leaving only 315,000 persons employed domestically.

- Of those 315,000, the breakdown by employment status is as follows:

<b>Employers</b>	<b>14,000</b>
<b>Own account workers/farmers</b>	<b>107,000</b>
<b>Unpaid family workers</b>	<b>52,000</b>
<b>Paid employees:</b>	
<b>regular wage/salary earners</b>	<b>110,000</b>
<b>casual workers</b>	<b>22,000</b>
<b>Others</b>	<b>11,000</b>

These statistics imply that almost 50 percent of Lesotho's adult work force is salaried (either locally or in the RSA).

- The estimate of the GEMINI survey that more than 100,000 small- and micro-scale enterprises employing more than 160,000 people means this sector is a major factor in the employment picture of the economy, which is largely ignored in the official statistics. Many people included in the labor force survey as economically inactive are probably in fact engaged in MST activities.
- Although statistics on literacy are not easy to find or interpret, it is widely assumed that the literacy rate in Lesotho is among the highest in Africa. A careful study in 1985 distinguishes between simple literacy — the ability to read and write at a simple level — and functional literacy — simple literacy plus the ability to perform everyday calculations. Based on a national sample (in 1985), the study estimates that 62 percent of all adults are literate, whereas 46 percent are functionally literate. The labor force survey of the same year indicates that 85 percent of all males and 79 percent of all females currently employed have not completed primary school. Only 6.5 percent of all those currently employed have completed the Junior Certificate. This implies that although basic literacy is relatively extensive compared to other countries in Africa, Lesotho does not have a highly educated work force.
- Employment through The Employment Bureau for Africa (TEBA) in the mines of South Africa declined by about 14 percent from a peak level in 1987 until 1991. Current projections imply a further cut-back of perhaps 25 percent in 1992. This reflects a decline in the total mining work force in South Africa rather than a replacement of Basotho workers by South Africans. If the latter change takes place, the decline may be even more severe.
- The 1986 Household Budget Survey indicates that 40 percent of all households (43 percent of those in rural areas) have at least one member working in the mines. Among rural households, only 26 percent reported the main source of their income to be agriculture whereas miners' remittances were the principal source for 52 percent of the households.

In sum, a higher share of Lesotho's labor force is literate, and rural households are more extensively involved in the cash economy than is true of most countries of Africa — although the share of the work force that has received a higher education is still quite limited.

## **THE SOCIOECONOMIC CONTEXT FOR ENTERPRISE DEVELOPMENT**

**Annex 5 explores in more detail some aspects of the sociocultural, physical, and economic environment for enterprise development in Lesotho. Key issues are set out below.**

**The rugged terrain and poorly developed transport infrastructure result in a degree of isolation for many, which limits both the vision and the opportunities open to people who might otherwise grasp new opportunities with enthusiasm.**

**The easy availability of well-paying work in the mines for able-bodied males has taken people with limited education, provided relatively few transferable skills, and paid more than most of these people could hope to earn in new activities back home. Work in the mines has opened far fewer doors to new activities than has work outside the country elsewhere in Africa.**

**An unusually large number of rural households have significant cash incomes, primarily as a result of migrant labor (but also, to a lesser extent, from wage labor within the country). This provides enough rural purchasing power to develop unusually large rural markets for consumer goods and household-based capital goods.**

**Pastoral activities are well suited to the physical environment of the country and can be readily combined with migration of adults to the mines, because care of animals can be entrusted to boys and younger men. Miners have found it convenient to invest their savings in animals, because these yield a satisfactory return and can be liquidated in case of need or on retirement.**

**This pattern suffers, however, from at least three disadvantages. It means that boys and young men are often occupied with their tasks as herder boys, so they attend school less frequently than girls. Second, a continuation of this pattern over the years has resulted in excessive increases in herd sizes, leading to degradation of the soils. Third, as in pastoral societies throughout Africa, for many herd owners, animals are substantially more than an economic asset whose return is to be maximized.**

**Lesotho may be unique in Africa in the limited extent to which rural people rely on crop production as their principal source of income. If one is looking for entrepreneurship in agriculture, it is important to recall that for 65 percent of rural households, farming may be essentially a subsidiary or supplementary activity.**

**A final characteristic of the environment goes beyond the physical and sociocultural dimensions to political and economic factors. Over the past decade, there have been many opportunities for people to earn incomes in Lesotho, particularly in government. The mines have provided an important opportunity in this regard, especially for men with little education and few skills, who have been well paid relative to the alternatives available to them. Aside from this outlet, whose future is clearly uncertain, the major opportunities have often been linked to special situations of one kind or another: donor-funded programs or government-subsidized activities or institutions. Enterprising people take advantage of these opportunities.**

**What is less clear is how many people possess the management skills, the persistence in the face of adversity, and the willingness to take risks that will be required to develop new business openings not linked to artificially created and often heavily subsidized opportunities characterized by much of the entrepreneurial activity of the recent past.**

## **ROLE OF WOMEN IN AGRO-ENTERPRISES**

The bibliography contains many studies about the role of women in the Basotho economy. These studies reach the following conclusions:

- Women play a far larger role in the economy of Lesotho than in most countries in Africa. Largely as a result of men working in mines, women have been forced to take responsibility for large numbers of things, including farming, trading, and (mostly simple) transformation activities.
- Again partly because of the engagement of men in mining and the associated pattern of herding activities for boys, women have generally been much more active in education than their male cohorts. There are more women than men enrolled at almost all levels of education.
- Traditional culture teaches subservience on the part of women and dominance on the part of men. Women entrepreneurs and managers go against this tradition. However, more and more women are entering these positions. It requires more than ordinary persistence to overcome these traditions.
- The legal system is a continuing hindrance, particularly for women in business. The fact that a woman must obtain her husband's concurrence for any official dealings (including the enforcement of contracts) is particularly problematic if the husband is out of the country. This poses a major problem for women in business who must deal with financial institutions.

The implications for USAID in the area of agricultural enterprise development are straightforward. First, it must be recognized that many women are currently operating as entrepreneurs and managers, either openly or behind the scenes. Second, women should be actively sought out and encouraged when selecting target groups with which to work. Finally, donors need to work to help change restrictions that limit women's ability to participate fully in the economy, through the legal system as well as through the practices of financial institutions and other assistance organizations.

## **GOVERNMENT ENABLING ENVIRONMENT**

As much of the above analysis has shown, the GOL is integrally involved in most aspects of agricultural production, transformation and distribution, and product regulation. The government historically entered the marketplace to protect the interests of Basotho producers, for example dairy producers, or to reduce the country's dependence on and vulnerability to South Africa. Donors participated actively in these efforts. However, the net effect is that government involvement is so pervasive that it now precludes private-sector investment in such natural areas as farm input distribution, rural farm machinery repair, the distribution of eggs, and the importation of chicks, to name a few.

The GOL, primarily through the LNDC and the MOA has invested heavily in all major agro-enterprises in Lesotho since the mid-1970s. Such investments include the National Mills Corporation (NMC), the NAFC, the Basotho Fruit and Vegetable Cannery (BFVC), the National Tannery (now defunct), the Lesotho Rural Development Schemes (Bauer-MOA/Mazenod production and processing), the Maluti Maid Dairy (national dairy), and the Lesotho American Hi-Bred Seeds Company (LAHBS),

among others. Moreover, the government of Lesotho has historically controlled the most important areas of farmer input supply (primarily seed and fertilizer) through Co-op Lesotho.

Government protective regulations, controls, prices, and requirements have grown with each new investment. These interventions permeate the agricultural sector, weaving in and out of every subsector, distorting pricing and investment decisions. Opportunities for agro-enterprise development cannot be separated from GOL involvement. The National Abattoir slaughters livestock at a tenth to a quarter the price charged in South Africa. The cannery pays farmers less per kilogram than is paid in South Africa, and contractually prohibits farmers from selling asparagus to any other buyer (in addition to monopolizing the trade of asparagus). The Bauer/MOA schemes receive inputs at subsidized prices and are provided preferential transport to export markets. The National Dairy pays farmers 25 percent higher prices than paid in South Africa. Basotho consumers pay 30 to 40 percent higher prices than their South African counterparts due to restrictions prohibiting imports of fresh milk.

The issues of GOL involvement in the Lesotho agricultural economy are complex. GOL interventions have developed piecemeal, primarily as a means to protect each new infant industry. These interventions have not necessarily made entrepreneurial activity difficult. Rather, they have moved investors into niches, into less risky activities. Dairy farmers are assured payment for whatever milk they produce. Asparagus growers sell all they produce, within the limits imposed by the cannery. Entrepreneurs can obtain Co-op Lesotho concessions within certain limits. Butchers can purchase South African beef (using South African credit) and bring them to the NAFC for subsidized slaughter, then sell the beef at the same price as South African beef.

## **CHAPTER TWO**

### **PROJECT-RELATED SUPPORT AGENCIES AND PROGRAMS**

#### **INTRODUCTION**

The team began its work by examining a broad range of potential enterprise opportunities that appear possible in Lesotho. (See Chapter 1 and Annex 2.) The team's terms of reference called for an examination of the constraints facing agro-enterprises or potential entrepreneurs in the sector.

The greatest weaknesses in nearly all proposals and projects reviewed were in the areas of marketing and business planning. There was a lack of understanding of how markets work, who might buy the products, what channels are available for selling goods and services, and what requirements are necessary to market goods. Likewise, very little attention was paid at the proposal level to the potential source of financing. This constitutes one of the key gaps in previous work done on the agro-enterprise sector.

There has been a lack of attention to business management issues, especially with respect to organizing production and marketing. Issues regarding technology selection and the means to maintain and service technologies appropriate to enterprises are rarely addressed in more than a perfunctory manner. Thus, the team made a thorough appraisal of a number of institutions, governmental and nongovernmental, public sector and private sector, local and regional.

Many agencies and institutions are available to provide credit and assistance to agricultural enterprise entrepreneurs. However, ease of access and utilization ranges from difficult — for example with commercial banks — to easy, with the UNDP/UN Capital Development Fund (UNCDF) SSI facility. The relevance of training programs for agro-enterprise entrepreneurs varies from poor, for example the business skills programs offered by NGOs and churches, to relatively good — several of the South African programs and previous Lesotho programs.<sup>3</sup> The quality and relevance of technical assistance services such as business, management, and technology assistance for the Lesotho agro-enterprise sector are also highly variable. Most local consulting firms work almost entirely with and for the donor community, whereas several others work only with large, established clients. South African training and consulting firms offer a broader range of services but are generally more expensive and difficult for Basotho entrepreneurs to access.

#### **CREDIT INSTITUTIONS**

The major credit institutions are Lesotho's two commercial banks (Barclays and Standard Chartered) and its two development banks (Lesotho Agricultural Development Bank [LADB] and the Lesotho Bank). Nonbanking financial institutions (NBFIs), such as credit associations, projects, and

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<sup>3</sup> See, for example, the discussion of the Institute of Extramural Studies/Business Training Center (IEMS/BTC)'s task-oriented training described in Annex 3.

development agencies (including donor projects and the LNDC) play a significant role in the agro-enterprise sector, but their support is generally targeted, client- or area-specific, and cannot be easily accessed by the wider population of agricultural entrepreneurs.

Both Standard and Barclays operate as conservative commercial banks. They maintain deposit accounts for customers, but they are geared more toward major clients (large firms, donors, and donor organizations) than to smaller customers. They rarely extend credit or small- to medium-scale investors. When credit is extended, it is generally secured entirely by an equivalent equity contribution from the sponsor or client. Most lending occurs through overdraft facilities, and term credit is, for purposes of the agro-enterprises reviewed during this mission, virtually nonexistent.

Lesotho Bank operates more effectively as a development credit agency for agro-enterprises than any other banking institution in Lesotho. However, it is a conservative institution and provides term credit only against secured assets and equity pledged by the sponsor (usually to cover 100 percent of the loan amount). Moreover, it keeps very poor records on its loan portfolio. Lesotho Bank (and to a lesser extent, LADB) is the main banker for GOL investments (primarily parastatals).

Interest rates are high by international standards, and real interest rates are positive. Lesotho's close connections with South Africa, its inclusion in the Rand zone, and its membership in the South African Customs Union (SACU), all mean that whatever credit policies are adopted by South Africa's Central Bank will be reflected almost instantaneously in Lesotho's credit sector.

Term lending is difficult to obtain in Lesotho. It is generally available in conjunction with donor-supported projects such as LAPIS SEP, the UNDP SSIP, and the German Matalile Project rather than through commercial lines operated by the banks and NBFIs. This makes it very difficult for aspiring entrepreneurs to move into business unless they are clients or associates of the government and/or donor projects. To a great extent, the distortions one sees in Lesotho's investment portfolio reflect the distortions the government and donors have introduced through the banking sector.

Loan guarantee schemes and targeted credit services have a generally poor record in Lesotho. The SSIP's portfolio at Lesotho Bank is reportedly 50 percent in arrears. (See Annex 3.) Other targeted credit programs, for example USAID's Assistance Fund with the LDTC described in Annex 3, have a similar poor record.

## GOVERNMENT SERVICE INSTITUTIONS

There are many government service institutions for the agro-enterprise sector in Lesotho. (See Annex 3.) These include the LNDC, Basotho Enterprise Development Corporation (BEDCO), LDTC, and many others. Government ministries, particularly the MOA and the MTI, also play a preponderant role in the agro-enterprise sector. Donor and government programs are rarely coordinated with one another. This further multiplies the number of niches available to aspiring entrepreneurs and distorts the overall agro-enterprise environment by distorting incentives, that is, through technical assistance, training, and subsidized credit.

The most influential ministry in the agro-enterprise field in rural areas is the MOA. Its Livestock Division plays a major role in wool and mohair production and distribution. MOA District Agricultural Officers (DAOs) have a great deal of de facto influence on what agricultural goods can be brought into

the country, for example seed, fertilizer, and feed. MOA rules, regulations, and injunctions play a great role in determining what can be produced, purchased and/or sold in the country and at what price. The ministry's support institutions are strongly livestock-oriented, a fact derived from Lesotho's livestock rural economy. Veterinary services, livestock auctions, and mohair and wool auctions provide the ministry's primary agro-enterprise sector support activities. Additional support is provided through MOA extension agents in rural areas.

The MOA is the lead agency for many donor projects including irrigation (the Bauer and Irish projects), livestock (the LAPIS Project), dairy (the Canadian International Development Agency [CIDA] projects), cash crop outgrowers (asparagus with the FAO, UNDP, and EEC), and integrated rural development (the Irish and the German Matalile Project). Donor support in the form of funding, training, and commodities has provided the bulk of the MOA's support base since the late 1970s.

The MTI strongly influences agribusiness investment decisions through provision of assistance and advisory services, often associated with subsidized credit. The World Bank-financed Business Advisory Promotion Service (BAPS) has six expatriate advisors and receives support from the United Nations' Small-Scale Industries Project credit facility through the Lesotho Bank. (See Annex 3.) BEDCO provides a variety of services to small- and medium-scale enterprises on a preferential basis. BEDCO is supported by several donors and operated at least two subsidized credit schemes for small- and medium-scale businesses until recently. (The SSIP is intended to work through BEDCO.)

The Ministry of Agriculture has invested in its own agro-enterprises such as the Mazonod Freezing/Seed Cleaning-Sorting Plant and the Maluti Maid Dairy. Each investment carries regulations, restrictions, and pricing policies as well as direct subsidies to protect these infant industries. The MOA works in tandem to support LNDC investments in such areas as the BFVC, the NAFC, and the National Grain Mills. LNDC and MOA representatives sit on virtually all agro-enterprise parastatal boards of directors. The extensive involvement of both agencies ensures that the MOA provides numerous direct services to the parastatal agro-enterprise sector. These include plowing for the cannery and Bauer/MOA, extension for the cannery, dairy, NAFC, and others, management in the secondment to the dairy, cannery, and NAFC, and other services.

## GOVERNMENT TRAINING ORGANIZATIONS

Government training institutions operate in a variety of sectors relevant to the agro-enterprise sector. Education is primarily directed toward primary agricultural skills. The Lesotho Agricultural College (LAC) and numerous rural training centers provide direct training in such areas as farming, dairy, farm implement repair, and basic farm management. Other GOL institutions, such as the National University's IEMS/BTC, offer a range of programs for basic skills development in such areas as simple bookkeeping, accounting, and management. The GOL-support Institute of Development Management, in conjunction with Botswana and Swaziland, trains government employees (including parastatal employees) in basic business skills. These programs all have their shortcomings, although the LAC program is probably the best-funded and offers the most relevant training for the agro-enterprise sector.

## **BUSINESS ORGANIZATIONS**

There are many business organizations in Lesotho including the Lesotho Chamber of Commerce and Industry (LCCI), the Lesotho Association of Manufacturers, The Lesotho Business Challenge, and Women in Business, among others. All would like to offer a wider range of business services to their members. However, most of their members seek assistance in nonagricultural areas. Moreover, the services offered are very basic.

## **PRIVATE-SECTOR SERVICE INSTITUTIONS**

There is a variety of private-sector institutions working in Lesotho, but very few actually are able to serve the needs of the agro-enterprise sector. Most of these institutions serve the donor community (primarily providing project design, monitoring, and evaluation) and have very little experience with private entrepreneurs. The largest two accounting firms focus almost entirely on large, established businesses, including the parastatals.

## **REGIONAL SUPPORT INSTITUTIONS**

South Africa is growing rapidly as a center for business-related support. Annex 3 sets out an extensive list prepared for USAID/Pretoria on service and training institutions in the republic. Most are not directly relevant to agriculture or agro-enterprises. Many are exclusive to particular groups of South Africans and would not serve Lesotho citizens. However, several programs that provide excellent in-service training should be explored. (See recommendations, Annex 3A.)

## **CHAPTER THREE**

### **ANALYSES OF CURRENT AGRO-ENTERPRISE ACTIVITIES**

#### **PURPOSE AND METHODOLOGY**

The team examined the BFVC, the Bauer/MOA projects (Lesotho Rural Development Schemes), and several indigenous Basotho enterprises during Phase III of the mission. The purpose of the exercise was to gain a good understanding of the actual operations and the operating environment of successful enterprises in Lesotho. The Cannery was chosen because it is a large, vertically integrated operation with almost 2,000 outgrowers and great potential for expansion, under proper management. It provides a good example of government and donor involvement in agribusiness with a large export market. The Bauer/MOA projects come closest to a vertically integrated multinational agribusiness (a large-scale enterprise) with estate-type agriculture, processing, and a growing export market in high-value crops. The indigenous enterprises (primary crop production, trading and distribution) provide a thumbnail sketch of how local Basotho entrepreneurs operate in Lesotho and what opportunities they respond to.

The following analyses show some of the key operating incentives and constraints found in the Lesotho agro-enterprise environment. The team met extensively with key individuals working with these activities, both private sector and GOL, and, wherever possible, visited the enterprise premises. The profiles contained herein are not exhaustive but do illustrate key elements of doing business in the agricultural sector in Lesotho. Considerable additional work could be done to make these proper case studies, but the team believes that the information gleaned during the short time available provides enough substance to draw sound conclusions.

#### **EXAMPLES OF AGRO-ENTERPRISES**

##### **The Basotho Fruit and Vegetable Cannery**

The BFVC was founded in 1976 as a result of pioneering FAO/UNDP work with smallholders and asparagus in the Mazenod area, south of Maseru. The cannery became the driving force behind the asparagus outgrowers' scheme, which now involves almost 2,000 farmers (75 percent of whom are women). The cannery spun off its primary outgrower responsibilities in the early 1980s when it founded the Setla Bocha Cooperative, an organization that pays farmers, supplies them with many inputs, and collects payments from the cannery. The MOA, Products Division, also works closely with the cannery, providing eleven extension agents, land preparation and tractor services, and other inputs essential to the proper functioning of a vertically integrated outgrower scheme. The EEC assisted the outgrowers through technical assistance and waterpoint development between 1983 and 1991.

Asparagus was first introduced in Lesotho in 1973 on a trial basis. The hardiness of the plant, with its 3-meter taproot, its drought resistance, and its longevity (yields of up to 15 years) make it an ideal smallholder crop for Lesotho. The success of the early pilot trials led the FAO and the U.N. to assist the LNDC in financing the BFVC in 1976. The cannery has exported asparagus to the EEC under both Lomé Conventions since 1978. Current exports are approximately 1,000 metric tons per annum,

although the theoretical capacity of the cannery plant is 2,000 tons of asparagus per annum (assuming the plant processes only during the production months of September through December).

The outgrower operations provide an excellent example of how smallholder cash crop production can work in Lesotho. Plots are well managed, the quality of production is high, and extension and collection services work. Payments are relatively timely, although this is an area that has suffered over the past few years.

However, it is at the cannery that the problems with parastatal-owned and -managed operations manifest themselves. The cannery employs between 100 and 700 staff, depending on the season. It is a relatively simple facility, with all the necessary equipment to can a variety of products as well as to cool products for shipment to market. But the cannery stands virtually idle for 6 to 9 months of the year. Some French beans, white (haricot) beans, rose hips, and peaches are canned during the nonasparagus peak periods, but this is poorly organized and has historically accounted for less than 10 percent of the cannery throughput. There are no incentives to keep the factory operating at closer to capacity utilization. Management and resident staff get paid the same whether they produce 2,000 tons of asparagus or 1,000, or whether they produce any other products.

The board of directors is chosen by the government, the only shareholder is government, and neither outgrowers nor donors (primarily the EEC) can exert much influence on the cannery. The cannery is the only agent allowed to import asparagus into Lesotho, whether growing stock, raw produce, or canned. It is, by signed contract, the only party allowed to buy from the farmer, even though some farmers sell in breach of their contracts to other agents, such as Bauer. Nearby South African producers are paid 50 percent more per kilogram than their Basotho counterparts. The Johannesburg market sells asparagus for five times the price that Basotho outgrowers receive, but the only refrigerated truck the cannery has ever owned made one trip to Johannesburg and now sits in the cannery yard unused with a nonworking refrigeration unit.

The EEC has made its Second Phase Outgrowers Programme contingent upon privatization of the cannery. The LNDC has refused to budge on the issue, even though the Europeans withdrew all assistance to the cannery and outgrowers in July 1991 and have held up their Structural Adjustment Program assistance until the LNDC moves on privatizing the cannery. Interested investors have been brought to Lesotho, but the LNDC refuses to discuss privatization. Meanwhile, the cannery lost more than 100,000 Maloti in 1990 and stands to lose even more this year with the problems it is experiencing marketing produce. The Europeans commissioned a feasibility study on improving the operations of the cannery and concluded that another cannery could be justified in Leribe, with both canneries expanding to incorporate more than 5,000 outgrowers (affecting 25,000 Basotho) by the year 2000. This would be feasible only if the current cannery and the proposed cannery were operated along private lines.

### **The Bauer/Ministry of Agriculture Rural Irrigated Projects**

Bauer AG, of Austria, entered into an irrigation equipment supply program with the MOA during the early 1980s. More than M37 million worth of irrigation equipment was bought by the MOA and installed at 11 sites in the lowlands between 1984 and 1990. Controversy still surrounds the manner in which farmers were incorporated under the MOA/Bauer Rural Irrigated Project. It was understood at an early stage that the only way to achieve economies of scale for overhead sprinkler irrigation was through consolidating holdings of several hundred hectares within each project (scheme). The MOA, working with local chiefs, brought together between 150 and 350 farmers in each project area, ostensibly under one farm management system in each project area.

There were numerous problems, both technical and social, during the early years of the project. Equipment was sabotaged, farmland was grazed, and farmers proved obstinate partners until the MOA decided to change tactics. Bauer was brought on under a management contract in 1990, rather than a consultant contract as had been the case prior to that. The number of sites was reduced to five, and an incentive scheme was developed whereby the marketing of all produce would be under Bauer's management. A vegetable and fruit processing facility (freezers and coolers) was established, and a seed dryer and sorter installed at the Mazenod project.

The current project represents a hybrid vertically integrated agribusiness. It has some of the trappings of a multinational agribusiness management contract (Bauer) with additional features of a parastatal (MOA, Products Division), and a distinctly different sharecroppers program. Lesotho's land tenure system is responsible for the nature of the sharecropping system. Although on the one hand agricultural land cannot be alienated from the resident, its use is determined by the local chiefs and by local consensus. Once a farmer's land has been brought under the MOA/Bauer Project, she or he may not opt out of the program. She or he may choose any number of means of compensation (crop sharing, profit sharing, wage employment), but may not refuse to have the land under the project's management. Bauer/MOA project managers meet at length with local authorities and farmers to determine what crops will be planted and what sharing and renting schemes will prevail, but once those decisions are made, the farmer merely assumes the role of an estate sharecropper (who can also receive money for labor).

Thus, the Bauer/MOA schemes bear some resemblance to estate agriculture but require more intensive social and community negotiations and management than most estate agriculture. However, the project seems to be moving in the right direction. It exported more than 80 tons of frozen broccoli to Europe during the last season. Dividends of wheat and maize were paid to most participating farmers. Weekly shipments of fresh produce make their way to Johannesburg. Whether the enterprise is profitable and sustainable is an open question. But the fact remains that it is the only agribusiness scheme, outside the cannery, that is exporting significant quantities of produce to South Africa and Europe.

### **Indigenous Basotho Agro-Entrepreneurs**

The team was able to interview and visit several Basotho entrepreneurs during the course of the mission. Team members spoke with two of the most successful commercial farmers in Lesotho, several merchants and traders dealing in agricultural inputs, and transporters and distributors of a variety of products. The team also spoke extensively with various parties working with donors in this area (primarily LAPIS, the Germans, the U.S. Peace Corps, and the Irish).

The team was able to meet with 25 private Basotho businesspeople, of whom 15 were in agro-enterprise (in its broadest sense). Several businesspeople contacted complained of being overstudied by donors. Two, understandably, would not meet with the team. Others were very open about their business affairs. The team could not go into the same level of detail about their businesses as in the cannery and Bauer/MOA cases, for understandable reasons of confidentiality. Therefore, the following analysis remains less direct and more general than the team might have liked but reflects a fairly clear picture of the Basotho agro-enterprise picture.

Government and donors have been instrumental in promoting Lesotho's agro-enterprise sector. The number of poultry producers has increased steadily over the past 15 years, as has the number of piggeries, largely with government support. In Lesotho today, there may be as many as 2,500 poultry

producers (generally household level) and 100 piggeries (average estimated at 10 pigs per piggery).<sup>4</sup> Several small feedlots have grown up over the past several years, although they face competition from the GOL's NAFC. CIDA has worked with the MOA since 1983 to help establish Lesotho's indigenous dairy business. There are now an estimated 530 dairy farmers producing for Lesotho's only dairy, the Mafuti Maid Dairy (built and supported by CIDA).

Most of these producers can be classified as small scale or part time. Many of the enterprises are home based and located in the Maseru peri-urban area, for instance in Khubetsoana, where several chickens, dairy cows, and pigs are raised to supplement family incomes. The extent to which any of these producers are graduating into the more commercial, full-time business level is currently unknown. This area needs to be more clearly understood, as set out in Chapter 5. As noted above and in Annex 2, numerous smallholder vegetable and fruit producers produce and sell most of their crop to local markets, although evidence suggests that some of these producers are expanding into wider markets.

In virtually all cases of medium- to large-scale producers studied by the team, entrepreneurs were benefiting from some concessional advantages brought about by government regulations, guaranteed markets, parastatal preferential treatment, or other GOL interventions. That is, the nature of their entrepreneurial activities, even the fact that some of them entered the marketplace, was strongly influenced by government. Moreover, donor projects played a major role in several of the entrepreneurs' successes, through procurement, preferential treatment, credit, technical, or other assistance.

The team found that the scope and nature of medium-scale entrepreneurial activity was largely defined by the activities of parastatals or donor-funded projects. The same holds true of many of the smaller, part-time businesspeople. Farmers and peri-urban dwellers who have turned to milk production do so under a system of marked preferences, with extension, collection and guaranteed payments made by the Dairy Board (CIDA-assisted). Prices paid for raw milk are 25 percent greater than prices paid in South Africa. Co-op Lesotho (assisted for many years by the Scandinavians) provides rent-free space to businesspeople who have taken over their premises in some outlying areas. Donor projects purchase their inputs from preferred businessmen, as is seen in the German Letilile Project in Mafeteng, and promote local business with these entrepreneurs through their programs, for example LAPIS with the SEP. Butchers are provided subsidized services by the NAFC. Credit is more easily available to entrepreneurs who participate in government and/or donor projects than entrepreneurs who are not connected with such projects.

Thus, medium-scale agriculture sector entrepreneurs find niches in the predominantly government-influenced sector. They realize opportunities offered by GOL monopolies without the risks that one usually finds in a free-market system. Their investment decisions are strongly influenced by government interventions, and they face little competition in finding markets. The team commenced this mission with a view toward examining enterprises from a market-driven point of view. With regard to indigenous agricultural sector medium- and large-scale entrepreneurs, decisions to enter the business or to engage in particular activities appear to be less market driven than opportunity driven. Finding markets does not appear to be difficult once one is plugged into the overall parastatal and donor economy. Almost all the medium- to large-scale entrepreneurs interviewed by the team fit this profile. Much of the literature reviewed by the team supports these findings.

However, at the microenterprise level, things change markedly. As the GEMINI Baseline Survey and other work have shown, thousands of small-scale entrepreneurs are found in the agro-enterprise sector

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<sup>4</sup> LAPIS estimates.

in Lesotho. Most of these enterprises (75 percent) are household or cottage industries engaging household members and no others. However, many of the remainder of the microenterprises identified by the GEMINI Survey were dynamic, showing growth rates well above national averages. Areas of particular interest include leather and wool, repair and maintenance, and basic service operations at a local level. GEMINI did not look at primary agriculture production, but evidence from many sources, including USAID, EEC, and German-supported programs, implies that similar growth is taking place in some agricultural subsectors, such as vegetable farming.

Many of these enterprises, for example knitting, weaving, and sewing, can only in the broadest sense be considered agro-enterprises. CARE's Rural Enterprise Project (REP) has worked successfully with a few of these. Other programs funded by USAID (the SEP) the Irish, Danish, and German governments, and NGOs/PVOs have targeted this group of small- and micro-scale entrepreneurs. These businesses enjoy little if any government assistance or protection (even though some are supported by donors) and engage in a much more rough-and-tumble world of competition than do their medium- and larger-scale cousins in Lesotho. The sheer numbers of participants and their wide dispersal in rural and peri-urban locations make them worth noting. Those same facts also make them difficult to reach.

### **CONCLUSIONS AND PROSPECTS FOR AGRO-ENTERPRISE ASSISTANCE**

The three sets of examples set out at the beginning of this chapter were examined to answer the following questions:

- What markets and major market forces drive the agro-enterprise sector?
- What agro-enterprise opportunities are currently working in Lesotho?
- What are the characteristics of agricultural production, transformation, and distribution operations in the country?
- What role do government, large businesses, and regional and international forces play in agro-enterprise investment and production decisions?
- What are the proper environment and scope of work for an AID-supported project to encourage and strengthen agro-enterprise development in Lesotho?

The most striking feature of the agro-enterprise landscape in Lesotho is the overwhelming presence of the government. South African conglomerates also play a major role in the sector. Preferential treatment, protection, restriction of imports, discretionary credit provision, and other GOL policy and nonpolicy measures all have a major influence on Basotho decisions to enter business in the sector. Government, through its parastatals, exercises a major force on the local, indigenous marketplace.

Government has arrived at this prominent position through a set of generally uncoordinated, ad hoc decisions over the years. The LNDC, BEDCO, the Lesotho Bank, and the LADB all have made investments based on a perception that local Basotho lacked the capabilities to compete (particularly with large South African conglomerates), the maturity (in a business sense) to invest, or the ability to seize opportunities that the government deemed essential for Lesotho's development. It should be noted that

in almost all cases where government has embarked upon significant agro-enterprise investment, donors have been either the promoters or the chief financiers of the activities.

As detailed above, the result is a highly skewed, government-led path of agricultural development. Opportunities in the agro-enterprise area have been largely defined by the government and donors. Hence, medium-scale entrepreneurs, opportunistic as all entrepreneurs are, have opted for the easiest, most lucrative investments and enterprises. There are few entrepreneurs who have set off on less charted, less protected paths, and there is little evidence that this has changed much over the past several years.

This leads the team to some fairly straightforward conclusions. First, microenterprises will continue to grow, particularly if there are fewer outlets for wage labor in South Africa. Lesotho is a highly monetized economy, and the relative availability of disposable income in rural areas is unusually high relative to other parts of Africa. Thus, demand for goods and services to meet local demand (village and district level) will continue to grow. Small enterprises will continue to spring up to meet these demands. However, these enterprises are, by their very nature, widely dispersed and difficult and expensive to reach in any type of outreach, extension, or other assistance program. Extension is costly, and management requirements are high.

Second, vertically integrated enterprises such as the cannery and the Bauer/MOA schemes can work in Lesotho, but under very specific conditions. In the case of the cannery, the only way production (and the number of outgrowers) can expand is with improved cannery management. Available information shows that the cannery loses money; only improved management and a changed price and cost structure will make the cannery financially viable. The cannery must be able to track and supply markets in a more efficient manner. The government should allow other investors to process crops, for example at another cannery, if the production and marketing of processed fruits and vegetables is to expand.

Third, any high-value crop activity that relies on irrigation requires considerable attention to issues of land access and proprietorship.<sup>5</sup> This calls for extensive and micro-scale management, something most commercial firms are unwilling to engage in. The export market for high-value horticultural crops is large, but it is very competitive. Lesotho has few comparative advantages in this area (relative to many other African countries) other than its guaranteed access to European markets and its proximity to Africa's largest consumer (and producer) of high-value crops. Intermediaries in South Africa are reluctant to invest scarce management and technical resources to organize production in Lesotho to supply South African and foreign markets. These resource requirements increase exponentially when irrigation is considered. Centralized collection becomes essential in a fresh produce market.

Finally, all this implies that at present there are few medium-scale entrepreneurs who would benefit from agro-enterprise assistance of the type envisaged in a separate, stand-alone agro-enterprise support unit. Given the sheltered environment within which most operate, there would be little demand for such assistance. So long as a reasonably well-motivated, medium-scale entrepreneur can find a benefactor or a guaranteed buyer in the government or in the donor community, there will be little premium for taking risk. The entrepreneur will naturally seek out the niches that guarantee the highest returns with the least risk.

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<sup>5</sup> See proceedings for "Seminar on Lesotho Irrigation," September 1991.

The type of entrepreneur for which an agro-enterprise project could provide support will be small scale, very large scale, or if medium in scale, few in number. Policy changes could alter this situation quickly, as could political and economic changes in South Africa, but the current situation does not bode well for any dedicated support program for medium-scale agro-entrepreneurs.

## **CHAPTER FOUR**

### **OPTIONS FOR USAID/LESOTHO ASSISTANCE TO BASOTHO AGRO-ENTERPRISES**

The team's analysis has shown that an agricultural enterprise support unit (AESU) is currently not justified based on the current business environment and what the team could identify at this time. However, there are other options that USAID could consider to support agro-enterprise development in Lesotho. The following four options offer possibilities for useful USAID intervention in this field.

#### **POLICY REFORM AND CHANGE**

One of the most prevalent themes in the team's analysis concerns the overriding role the GOL plays in virtually all spheres of agriculture and agro-enterprise activities. Any program supported by USAID must address some policy issues if meaningful agro-enterprise development is to occur.

The land tenure system makes it difficult for producers (agricultural as well as agribusiness) to acquire land in large enough parcels for most productive purposes, making it virtually impossible for people to borrow against their land, and making it uncertain whether people will have enough security on the land to invest in slowly maturing products such as fruit trees. The EEC and other donors have expressed major reservations about continuing agricultural-assistance programs in Lesotho (with the exception of the cannery) under the current land regime. The limited availability of and market for commercial land means that areas that do become available can cost up to ten times as much as comparable locations just over the border in South Africa. Although land tenure problems are common across Africa, in Lesotho they seem to be particularly pernicious and constitute a direct hindrance to growth of agro-enterprises.

Government policy toward parastatals constitutes another major policy area impeding private agro-enterprise development. Publicly owned enterprises have been established in many of the most obvious areas of agricultural product transformation and trade — abattoir, dairy, tannery, cannery, and Co-op Lesotho, among others. Although intervention may have originally been justified by a desire to expand production and trade in the country, the continuing existence of such enterprises clearly has the effect of freezing out private producers, either through an outright prohibition or through implied competition with government-owned enterprises that can continue to operate at a loss.

The treatment of women in the legal and financial system is another policy issue that needs to be addressed with regard to agro-enterprise development. The fact that women are considered minors who must obtain the concurrence of their husbands if they wish to pursue business seriously severely limits the ability to develop as entrepreneurs. The problem is particularly acute for women whose husbands are working outside the country, the very ones who often have both a desire and an opportunity to establish themselves in business through the investment of funds sent home by their husbands.

These are three areas in which current policy clearly constrains the growth of private enterprise in the area of agro-industry.

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The team recommends that, if USAID is to have any program in the agro-enterprise area, it should have at least some policy component. That is, policy reform and changes are not exclusive to any of the other options set out by the team. Each of the three policy issues set out above is a prime candidate for USAID nonproject assistance (NPA). This might take the form of working with appropriate government agencies to undertake studies on the legal changes required to bring about change. It may involve work with other donors such as the EEC or perhaps even the World Bank to strengthen a common approach to encourage change on the part of the GOL in this area.

The team notes, however, that there is no quick fix policy change or set of policy changes that will release most constraints to agro-enterprise development in Lesotho. Almost any activity in a particular subsector, or at a particular agro-enterprise level — for example dairy, abattoir, or cannery — carries with it its own set of policy, regulatory, and legal issues that require some policy change to open up more opportunities in the agro-enterprise area.

The pros for working with policy in the agro-enterprise sector are the following:

- Most policy activities (women, land, and parastatals) would be relatively easy for USAID to manage, that is, would not impose a large management load.
- Policy changes in the three major areas above usually have high visibility, if they work.
- Any movement to reduce GOL involvement in the parastatal sector will also relieve pressure on the government treasury, because almost all parastatals operate at a loss.
- Most successful policy changes, particularly as they relate to parastatals, land, and women, have a high multiplier effect.

The cons for working with policy (specifically the three areas set out above) include the following:

- The present political, cultural, and economic climate is not right for any significant policy changes, particularly any changes that might affect Basotho ownership or management of economic assets.
- Any major policy changes will be dependent on donor consensus and cooperation.
- Important incentives will need to be offered by USAID and other donors to convince the GOL of the benefits of change.

#### **BROAD-BASED ENTERPRISE SUPPORT UNIT**

An appropriate and cost-effective way to provide support for the growth of private enterprises in Lesotho is through a subsector-based approach focusing on improving linkages among producers, traders, and the market. The team's reservations with regard to building a project around this approach in Lesotho arise from the constraints in the policy realm, cited above, and from the disadvantages of

adopting a narrow agro-enterprise focus for activities to be promoted.<sup>6</sup> Expanding the definition of agro-enterprise to include leather products, weaving, and garments could broaden the options for enterprise development substantially, thereby increasing the potential cost-effectiveness of this type of intervention.

Although the team understands A.I.D./Washington's desire to encourage USAID/Lesotho to target its assistance, the team feels that such a narrowing of scope constrains USAID's ability to support enterprise development, particularly rural development. This ultimately reduces the effect of any agricultural sector activity. An enterprise support unit (ESU) would more likely be cost-effective than an AESU. Many of the activities that such a unit might undertake are common to all fields of activity.

Annex 8 elaborates on the approach an ESU might take. The approach is built around four types of activities:

- **Increasing access to credit:** The project would need to explore steps needed to expand the availability of credit to small agro-enterprises. The approach suggested is one of a specialized intermediary working with a commercial bank.
- **Forging business linkages or subcontracting:** To strengthen linkages among enterprises, the project would need to provide intensive direct management assistance to local firms to improve managerial and production capabilities, and would need to encourage the development of business relationships among businesses and between businesses and the government.
- **Improving essential business skills:** The project would need to support training for the agribusiness sector, including training and individual direct management consultations for participating firms. This would be done primarily through linking enterprises with existing training institutions and programs rather than through new ones established by the unit.
- **Promoting and strengthening business associations:** To promote business associations in the agro-industrial area and to improve the overall small agribusiness climate in Lesotho, the project would assist in the formation of agribusiness associations and in the development and improvement of services offered by such associations. Business associations would also need support to engage in activities to improve the general policy environment for small business growth.

A project of this type would primarily serve businesses owned by residents of Lesotho having demonstrable potential for growth. The target group would include established agro-related businesses; individuals with proven managerial and technical skills, a sound business plan, and some capital; and entrepreneurs who have achieved success in one line of business and who wish to diversify into an agro-related business.

To provide an institutional vehicle for assistance to agro-enterprises, the unit would need to be formed as a foundation or trust, independent from the GOL. The operating philosophy would need to be that of a business rather than that of a philanthropic organization. The unit would need to be

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<sup>6</sup> During discussions with USAID, narrow was defined for purposes of the AESU to exclude microenterprises, such downstream enterprises as leather working and weaving and such large enterprises as the brewery.

established as a self-sustaining institution funded through fees generated from services and interest generated from a proposed endowment. Initially, the unit would need to field a team of three professionals — a business development advisor, a credit manager, and a management specialist. In addition, various types of short-term technical assistance would be needed to carry out initial activities.

The pros of an ESU approach are the following:

- Enterprise support services are currently not available in Lesotho to any medium-scale entrepreneurs.
- Enterprise support activities could provide cost-effective, well-leveraged interventions in broad areas of the economy.
- An ESU is commercially oriented and therefore works directly with the private sector to identify its needs and help itself.

The cons of an ESU are listed below:

- It would require high technical assistance, including business advisory services and marketing.
- To achieve economies of scale, the ESU would need a number of clients, which may be difficult to obtain under present conditions.
- The ESU would operate outside government and require USAID support and some degree of management.

### **MICROENTERPRISE ASSISTANCE**

The overwhelming majority of people engaged in agro-enterprises is working in very small producing units: family farms or one-person trading and transformation activities. Studies indicate that a significant minority of these enterprises in small-scale manufacturing and trade has grown very rapidly since being established. The question arises, then, as to what cost-effective things could be done to encourage the growth of small- and micro-scale enterprises in the area of agro-enterprise, such as production of agricultural inputs or the marketing or transformation of primary products.

The issues here are the same as those discussed in the previous section: the improvement of linkages between producers and intermediate and final markets, improved technology and management skills for enterprises, and increased access of producers to inputs of all types. As always in these areas, the most difficult question concerns the provision of assistance that in fact helps the beneficiaries improve their business performance, and the achievement of this goal in such a way that the costs are commensurate with the benefits obtained. Moreover, as numerous other donor programs have demonstrated in Lesotho, it is essential to work with small- and micro-scale enterprises in a way that does not unduly distort investment decisions but ensures that market forces operate as freely as possible.

Micro-scale agro-enterprise support could be delivered in the most cost-effective way and with greatest opportunity for success through some PVO/NGO mechanism, such as the REP with CARE/Lesotho. An NGO/PVO mechanism could provide USAID with a means to work with specific

small-scale subsectors such as poultry, pigs, or dairy. One or more NGOs/PVOs could be contracted by USAID over the next several years to work in this area. The team viewed favorably CARE/Lesotho's current approach of looking at particular products and product transformation activities with a view to establishing commercial viability, promoting the use of commercial markets for purchasing inputs as well as for selling outputs, and testing the commercial viability of any activity before promoting it.<sup>7</sup>

Four of the six technologies promoted by the REP have been dropped because of poor commercial prospects. Two activities (sunflower pressing and baking) appear worthy of continuing promotion; those two have only limited prospects for duplication. However, the current procedures used by CARE/Lesotho for selecting agro-enterprise activities should be encouraged (a market-driven as opposed to a technology-driven approach). USAID could contract NGOs/PVOs to pay more attention to the market potential and to possible linkage effects between primary producers and markets. This might serve to identify and support activities with greater potential for spread effects (upstream and downstream).

Essentially, this means adapting some aspects of the subsector approach, set out earlier in this chapter, to the needs of very small enterprises to search for possible forward linkages with larger and growing markets, and backward linkages to larger numbers of suppliers. The establishment of a complete enterprise support unit of the magnitude discussed above cannot be justified for microenterprises. However, the addition of one expatriate economist or marketing specialist with a subsector orientation might help the project discover opportunities with greater spread effects. These are just several areas in which USAID could address the needs of the micro-scale agro-enterprise sector.

The pros of a microenterprise (essentially NGO/PVO) approach are the following:

- PVOs can be good mechanisms for reaching large target groups, particularly in rural areas and especially in specific subsectors.
- AID has experience working with PVOs in microenterprise and subsector development (and USAID/Lesotho has such experience with CARE).
- The potential impact on rural women is quite high.

The cons of such an approach are these:

- Most PVOs are not commercially oriented, and their experience with commercial activities is fairly limited.
- There is no strong evidence as yet that USAID (or any donor) could offer the microenterprise sector support to help them grow, expand, or graduate to a larger scale.

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<sup>7</sup> CARE's original approach in the REP was very technology driven. Current CARE management has gone far toward correcting that bias and putting REP activities on a more commercial basis. This has resulted in CARE dropping several of the technologies. The team believes, regardless of the NGO/PVO, that this commercial approach is essential to providing services and support to small- and micro-scale enterprises in various subsectors.

## **VERTICALLY INTEGRATED AGRIBUSINESS SUPPORT**

Lesotho offers outside agribusiness investors advantages in several areas, but presents obstacles to investors in others. Labor costs are attractive, and a large unskilled labor force is available. This is an advantage for an agribusiness that requires hand labor. There is also the advantage of exporting to Europe duty free under the Lomé Convention, which is particularly important given the lucrative European winter markets (and Lesotho's location in the Southern Hemisphere).

However, other factors need to be considered. Basotho farmers generally cultivate small parcels of land that are not irrigated. Grouping farmers together with a common purpose takes considerable organizational initiative and time. Lack of clearly understood and well-defined land access and proprietorship makes consolidation of land for larger-scale farming and most outgrowing expensive and unattractive to either the local or the foreign investor. The Bauer/MOA schemes manage large-scale irrigated estates, but it is not at all apparent, given the complexities of working with so many different farmers with such ill-defined access rights, that the schemes are profitable.

These issues are certainly discouraging to any potential investor. These concerns as well as those associated with close GOL participation in larger schemes make large-scale vertically integrated agriculture an unappealing prospect for Lesotho at the present time. However, alternative possibilities, including joint ventures, partnerships, extended management agreements, or export market management, could be more attractive to businesspeople. Opportunities exist with several of the parastatal operations.

If USAID pursues a project or program to encourage or facilitate larger-scale agribusiness, then it should consider existing schemes (or extensions of existing schemes) that have large numbers of smallholder participants (hence, a large rural development impact). The Maluti Maid Dairy and the BFVC both qualify.

The dairy is attempting to privatize its operations. More than 500 farmers supply the dairy. Theoretically, they have the option to purchase 50 percent of the company's stock through their dairy farmers associations. The dairy is running at a loss and is looking for a private investor to assist with management and marketing. Unfortunately, given the dairy's cash flow position and the GOL's involvement, it is currently not an attractive investment. An investor is needed with the capacity to turn around the dairy operation. The dairy operates in a protected environment. This could work to an entrepreneur's advantage. The Dairy Board reserves the right to market ultra-high temperature (UHT) milk. UHT milk is currently not produced in Lesotho. Rather, more than 7 million liters are imported from South Africa annually. There also exists the possibility of introducing other higher value-added products such as yogurt or ice cream.

Another opportunity to work with a GOL parastatal is in the canning industry. BFVC has a good source of raw material, has the capacity to expand into the export of fresh asparagus, and can diversify into other canned products during the off season (January to August). There exists an excellent export and domestic market for canned pinto beans (recently introduced in Lesotho) and other canned products such as French beans. As the current operation services a 25-kilometer radius from the factory, it is possible to start a second asparagus outgrower program in Lesotho, for example in Leribe, as the EEC has proposed, if the GOL would allow private ownership into this protected environment. The EEC is encouraging privatization of the BFVC. It has suggested that financing from the European Investment Bank for a second cannery and the upgrading of the current cannery will be available if the cannery is privatized.

Combined donor efforts along with an established international private firm should be encouraged to privatize the cannery. Privatization will be made easier because of the cannery's ability to organize and manage farmer inputs and payments. Because the start-up costs for a second asparagus outgrowers project are high, including crop establishment, extension with large numbers of new farmers, drilling of wells at collection points, and so forth, there is room for other donor and private-sector participation. The current asparagus project has shown the benefits of this type of scheme, namely a hardy crop suitable to conditions in Lesotho and the positive impact on large numbers of rural farmers. A well-run cannery will increase demands for other crops after the asparagus season, for example pinto beans, French beans, and peaches.

If a new cannery is located in an area where low-cost gravity irrigation can be established, higher-value crops can be grown, including stone fruits (cherries) or berries (blueberries, strawberries, raspberries, and blackberries). If irrigation is not available, then crops such as sunflower or sorghum, which are more tolerant to dry conditions, can be produced along with asparagus. The plant can be constructed with a separate facility for cleaning and bagging these crops.

The pros of the agribusiness approach are the following:

- If successful, an agribusiness (such as asparagus) can reach a large target population in a fairly cost-effective manner.
- Successful agribusiness projects such as asparagus set good models for working in a large-scale commercial agro-enterprise sector.
- The agribusiness approach offers a proven method, the one used by Bauer/MOA for asparagus, to overcome the land and credit constraints so often found in agro-enterprise development.

The cons of the agribusiness approach are these:

- It is not clear why a donor such as USAID should be active in an area where it might be said that large-scale commercial business should take the initiative and not receive support from a donor.
- There are major concerns among Basotho about foreign investment and dominance in economic spheres.

## **CHAPTER FIVE**

### **CONCLUSIONS**

The team notes that the short-term prospects for agro-enterprise growth are not bright. There are too many regulations, too many barriers to entry, and the big players are too well established for a new small- to medium-scale entrepreneur to make her or his mark. Niches are there, primarily as defined by government enterprises and programs and donor-driven activities. There will continue to be a thriving microenterprise sector, particularly in rural areas, and in the agro-enterprise subsector. Likewise, downstream activities including leather working, and cottage textiles will continue to grow.

If certain aspects of government involvement change, such as elimination of subsidies to butchers (charging the true cost for slaughtering animals at the NAFC), then the prospects for opportunities in the primary production area (livestock and dairy) change. The elimination or reduction of government's role in the agro-enterprise sector results in improved viability of some opportunities, and reduced viability in others. These points need to be examined more carefully in light of major changes anticipated in government agro-industrial involvement, particularly in light of IMF, World Bank, and EEC programs.

It also is important to note that, regardless of the size, the most successful interventions, projects, and investments are those that are management intensive, vertically integrated (or strongly vertically linked), have a good eye on marketing, and exhibit tight fiscal control. The larger-scale, vertically integrated opportunities add value to their product by processing (from postharvest handling to canning) and doing their own marketing. The smaller vertically integrated opportunities (such as vegetables) add value by selling directly to the marketplace, a supermarket, or a roadside stand. Whether large or small, successful agro-enterprises exhibit good business skill by responding to market opportunities.

### **FOLLOW-UP**

Further analysis of proposed policy changes is recommended to better determine the beneficiaries of the changes and levels of financial leverage (GOL incentives) likely needed to enact the proposed land, women, and privatization policy changes.

Analysis of the existing USAID PVO micro-scale agribusiness program is recommended with a view to opportunities for expanding the program. The analysis might include potential for more commercially oriented technical assistance, more diverse agribusiness activities, a larger geographic area serviced, and an expanded small-scale client base.

Further analysis of other donors' structural adjustment and privatization of parastatal programs is recommended. Greater coordination among donors may speed divestiture and rationalize donor assistance on activities required during the transition period and in a postparastatal environment.

The new USAID range land project offers potential small- and micro-scale agribusiness opportunities for clients of the current or expanded USAID/PVO agribusiness program. An analysis of possible complementary aspects of these programs and the U.S. Peace Corps program is recommended.

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**ANNEX 1**  
**LIST OF CONTACTS**

## ANNEX 1

## LIST OF CONTACTS

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**Leliemtlelek, Mr. Tseliso, Farmer**  
**Makhakhe, Mr., Businessman, Mafeteng & Matilile Project**  
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#### Others

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**ANNEX 2**

**AGRICULTURAL ENTERPRISE INITIATIVES:  
ENTERPRISE OPPORTUNITIES**

## ANNEX 2

# AGRICULTURAL ENTERPRISE INITIATIVES: ENTERPRISE OPPORTUNITIES

## INTRODUCTION AND METHODOLOGY

### Preface and General Methodology

Annex 2 constitutes a review and presentation of agriculture sector enterprise opportunities obtained from extensive review of secondary materials by the "Lesotho Agricultural Initiatives" Mission. The Mission carried out its work between the February 13th and March 13th 1992 for USAID/Lesotho. Information contained in Annex 2 reflects information obtained from other sources, and from extensive interviews with key individuals and agencies involved in agro-enterprise support and development in Lesotho. Four categories of opportunities are dealt with in this Annex: Primary Agricultural Production, Agricultural Processing and Transformation, Agricultural Inputs, and Agricultural Sector Marketing and Distribution.

### Methodology

The Team started from the premise that the success of any agro-enterprise is contingent upon the degree of linkages to large and/or dynamic markets. Thus, the Team's approach is "market-driven". Second, the Team utilized a subsector approach to analyze opportunities. This approach points to the essential linkages which must be in place if an enterprise is to be successful. Further, the subsector methodology permits the observer to view an enterprise opportunity from the perspective of a variety of linkages which might need to be in place if the product is successfully marketed.

The approach further identifies four major linkages in the chain from production to market: Government, large enterprises, financial institutions and business/trade associations. While all of these agents need not be in place to ensure the success of an enterprise, the relationship between the enterprise and any (or all) of these agents must be understood if a determination concerning the possible success or failure of an enterprise can be made. Thus, from the onset of the analysis, an enterprise is viewed from its relationship to markets, the manner in which it fits a particular subsector (eg, livestock, horticulture, dairy), and its linkages (and interactions) with key actors in the business environment.

The first step in enterprise opportunity identification was extensive review of secondary materials, and, where time permitted, primary interviews with concerned parties. The Team's strategy was to obtain as much information as possible in each area, with as much intertemporal data as possible, to develop initial profiles of enterprise opportunities. Secondly, the Team sought to define the areas where information gaps relating to these opportunities are greatest, in order to develop a clearer picture of the constraints associated with the opportunities. Finally, enterprise opportunity identification generated as clear an understanding as possible of the needs and scope for training, business and technical advisory, management and technology services in these areas of enterprise opportunity.

The Team initially set out a format for screening the wealth of information available on the agriculture sector (and related areas) in Lesotho. The purpose of the screening format (see Annex 2A),



was to enable the Team to rate a number of agro-enterprise opportunities identified over the past several years to determine what opportunities showed the best prospects, in the Team's opinion, for further examination. The screening and rating format follows closely the standard approach applied to business plans, and then enables the reviewer to fit the particular enterprise opportunity within the context of the overall Lesotho and regional setting. Again, the purpose of the exercise is to make a determination as to what agro-enterprise opportunities exist in Lesotho, and the general requirements necessary to realize those opportunities.

Collectively, the ranking and rating of these opportunities provide the Team with the information necessary to determine target areas for enterprise development, as well as with an initial reading of what areas (eg, marketing, management, finance) could be brought to bear to make these opportunities more commercially viable. Furthermore, the review enabled the Team to gauge the quality of the many proposals which have been made in the agro-enterprise sector.

Forty agro-enterprise opportunities were reviewed from the following categories using the above methodology:

**Table 1.1**

Primary Agricultural Production	27
Agricultural Processing/Transformation	5
Agricultural Inputs	7
Ag-Input Distribution	1
<b>Total</b>	<b>40</b>

As the list shows, the overwhelming number of studies and proposals available correspond to primary agricultural production, rather than downstream processing/transformation, or inputs, distribution and marketing. This should not be surprising, given Lesotho's state of development. Moreover, the predominate role played by South African agencies and GOL parastatals (eg, Co-op Lesotho), have limited the number of opportunities identified and proposed over the years.

Each "enterprise opportunity" was ranked as one with "primary level potential" or "secondary level potential." That is, those rated as "primary level" demonstrate good opportunities for local enterprise development, if the overall enabling environment (essentially government policy and credit availability). Those rated as "secondary level" may show some potential, but, due to any of many factors (eg, lack of effective markets, lack of raw materials, government restrictions or regulations, etc.) do not, during the initial analysis, show good potential for enterprise development.

## **SUMMARY OF FINDINGS**

### **Increased Opportunities for Basotho Enterprises**

The Team has discerned some important trends in the agro-enterprise sector which suggest both the importance of the sector as well as a justification for improving linkages with existing Lesotho entrepreneurs. A growing number of Basotho entrepreneurs have entered the marketplace over the past decade. Many new agro-enterprises have been initiated by the Government of Lesotho (GOL) over the

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past fifteen years. Numerous reports and considerable statistical data have been developed over the past ten years to support these developments.

Most profiles and projects reviewed by the Team are relatively new proposals generated within the past five years. They reflect growing interest to support the development of the Basotho agro-enterprise base. Substantial growth and development of new regulatory and service-related government agencies has also occurred over this period. The influence of these GOL regulations and agencies has had both positive and negative effects on various enterprises and potential enterprises.

The results of analysis of agro-industrial opportunities presented below indicates that there are market-driven subsector and industry-specific opportunities which Basotho entrepreneurs could exploit if linkages to markets and business services were made, and if the Government enabling environment were made more favorable.

### Past Patterns of Growth

Two sets of data are available that demonstrate the dynamism of the Basotho economy in the recent past: the official (Bureau of Statistics/BoS) data on growth of national income; and the recent GEMINI survey of micro and small enterprises.

#### Bureau of Statistics (BoS)

The BoS data from the National Accounts report on real growth over the period 1980-1990. The following figures are annual average real growth rates (simple averages, not compounded):

**Table 2.1**

Primary production	-0.5% p.a.
Secondary production	25.1%
Tertiary sectors	15.7%
<b>Total GDP</b>	<b>15.6%</b>

Each of these totals can be disaggregated. Primary production is made up of two components: agriculture, and mining and quarrying. The latter sector declined sharply during the period covered by these data, which explains the negative overall growth for primary production as a whole. For agriculture taken alone, however, the figures are as follows:

**Table 2.2**

Crops, vegetables & fruit	13.6% p.a.
Livestock	11.8%
Agric. services	-1.1%

The information on crops and livestock is also available on a disaggregated basis, as follows:<sup>1</sup>

**Table 2.3**

Crops	5.0% p.a.
Vegetables	5.4%
Fruits	2.9%
Total output	4.8%
Purchased Seeds	6.8%
Fertilizer	10.8%
Milk production	-0.7%
Poultry	5.4%
Eggs	10.2%

In the tertiary sectors, the data are listed separately for 11 subcategories, of which the following are of interest to this study:

**Table 2.4**

Wholesale and retail trade	18.8% p.a.
Restaurants and hotels	11.5%
Transport	12.0%

Secondary production comprises manufacturing and handicrafts, electricity and water, and building and construction. Reported rates of growth of real product are as follows:

**Table 2.5**

Manufacturing and handicrafts	31.5% p.a.
Electricity and water	21.9%
Building and construction	22.2%

This is not a picture of a stagnant economy, but rather of one showing impressively high overall rates of growth in real output.

Within the manufacturing sector, the BoS has made separate estimates of patterns of growth of large and small enterprises. Their estimates are as follows:

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<sup>1</sup> These figures are from the disaggregated national accounts statistics, and are in real terms. Since there are substantial variations from year to year, perhaps as a result of weather, the data are presented here using averages of the first three years (1980-82) up to the average of the last three years for which data are available (1988-90), all expressed as simple averages per year.

**Table 2.6**

	Large Enterprises	Small Enterprises	Total
Food and beverages	36.6%	-2.6%	22.0%
Textiles, clothing and leather	117.6%	12.5%	69.2%
Wood and furniture	23.3%		23.3%
Printing and publishing	36.7%		36.7%
Chemical products	24.0%		24.0%
Non-metallic products	60.0%	12.5%	32.9%
Metals	22.5%		22.5%
All other manufacturing	27.5%		27.5%
<b>Total, Manufacturing</b>	<b>50.1%</b>	<b>-1.7%</b>	<b>31.5%</b>

While these figures imply a rapid expansion of large enterprises in the manufacturing sector, they presents a very pessimistic picture of the growth of small enterprises. In fact, the reported figure is heavily influenced by the rounding in the data. The underlying assumption behind these estimates is that most small enterprises grow at the same rate as population, which is taken to be 2.6% p.a.

### GEMINI Survey

The data from the GEMINI survey provide direct and more reliable information on patterns of growth among small enterprises. A special questionnaire was administered to a sample of 630 enterprises, collecting supplementary information about the enterprise. From these data, one can calculate the average annual growth rate in employment in the enterprise from the time of its start until the time of the survey. While these data are for employment rather than real value added (the focus of the BoS National Accounts statistics), these normally should follow some of the same patterns. Broken down by major sectors of the economy, the figures are as follows:

**Table 2.7**

Manufacturing	10% p.a.
Construction	17%
Trade	10%
Transport	27%
Restaurants & bars	6%
Other	7%
<b>Average</b>	<b>10%</b>

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At a more disaggregated level, the figures are as follows:

**Table 2.8**

Food and beverages	1% p.a.
Textiles & leather	13%
Wood & wood products	9%
Non-metallic minerals	20%
Metals	66%
Repairs	13%
Other manufacturing	3%
Construction	17%
Restaurants & bars	9%
Retail: food	18%
Retail: other ag products	8%
Other retailing	1%
Wholesaling	6%
Transport	27%
Other manufacturing	7%
Average	<u>10%</u>

These figures, which report on actual increases in employment among a sample of small enterprises, show considerably more dynamism than that reflected in the national accounts. In particular, from among the agro-industrial sectors, small producers in the area of textiles and leather products, wood products, and trade and transport all showed significant increases in employment.

These figures tell only a part of the story, however, and perhaps not the most interesting part. In fact, the great majority of small enterprises did not grow at all in their level of employment. For the relatively small group that did grow, the average growth rates were substantially higher than those reported in the tables above (which are the average of "growers" and "non-growers" taken together). The following table provides information, by sector, on the share of all enterprises in the sample that had expanded their employment at all since they were first established, and the percentage increase in employment among those that did grow.

**Table 2.9**

	% of all enterprises that grew	Of those that grew, % growth rate per year
Manufacturing	20%	57% p.a.
Construction	35%	49%
Trade	25%	44%
Transport	33%	83%
Restaurants & bars	37%	26%
Other	13%	60%
Average	<u>22%</u>	<u>51%</u>

At a more desegregated level, the figures are as follows:

**Table 2.10**

Food and beverages	10%	31% p.a.
Textiles & leather	20%	72%
Wood & wood products	28%	32%
Non-metallic minerals	33%	69%
Metals	71%	94%
Repairs	47%	35%
Other manufacturing	50%	5%
Construction	35%	49%
Restaurants & bars	50%	2%
Retail: food	27%	37%
Retail: other ag products	15%	125%
Other retailing	24%	39%
Wholesaling	37%	26%
Transport	33%	83%
Other manufacturing	13%	60%
Average	<u>22%</u>	<u>51%</u>

For sectors connected with agro-industries (food and beverages, textiles and leather, wood and wood products, trade of food and other agricultural products, and transport), only a small share of all small enterprises increased their level of employment. However, of those that did, in several categories, the increases were very impressive. This is a picture of somewhat selective growth, but of quite substantial growth for those that did expand. This demonstrates to the Team that, with the right features in place, agro-enterprises can grow very rapidly in Lesotho.

The data permit a disaggregation of these growth figures by gender of the proprietor and by location of the enterprise (major towns vs. rural areas). The growth patterns are substantially different in each of these dimensions. Among enterprises owned by women, only 15.8% grew while 33.8% of male-owned firms grew since business establishment. Average growth rates of those businesses that grew were 55% per annum for male-owned firms, but only 46% per annum for women-owned firms. With regard to breakdown by locality, 17-20% of enterprises in rural areas grew, while in the urban localities, 24% grew since establishment. Growth rates of those enterprises which expanded were 59% per annum in urban areas, but only 30% in rural areas.

Two sets of data are available that demonstrate the dynamism of the Basotho economy in the recent past: the official (Bureau of Statistics/BoS) data on growth of national income; and the recent GEMINI survey of micro and small enterprises.

### **AGRO-ENTERPRISE OPPORTUNITIES**

As set out above, the Team divided agro-enterprise opportunities into four arbitrary, but convenient, categories: Primary Agricultural Production, Agricultural Processing and Transformation, Agricultural Inputs, and Agricultural Marketing and Distribution (specifically Input Marketing and Distribution). These categories enabled the Team to determine the extent to which opportunities exist in

these areas, and the gaps in the information base provided. Moreover, these profiles provide the Team with its first-cut reading of what needs exist to service agro-enterprises (eg, marketing assistance, training assistance, etc.).

It will be noted that the overwhelming number of enterprise opportunities reviewed fall in the Primary Product category. This should not be surprising, given Lesotho's level of development. The Team take the analysis one step further by making a determination of whether or not each opportunity studied falls into a "primary level" or "secondary level" opportunity. A primary level opportunity is, in the Team's view, one which offers good prospects for enterprise development and/or investment. A secondary level opportunity is, in the Team's view, one in which the prospects for enterprise development are, at this point in time, limited.

Given the Team's ranking criteria, virtually all areas for enterprise development in the agro-enterprise transformation and processing area are secondary level opportunities. This derives from the primacy of Government in the sub-sectors. Government investments, and often accompanying legislation and regulation, make enterprise development (and private investment) remote in this area. The preponderance of Government in other areas also limits the potential for primary product enterprise development, although to a lesser extent than ag-processing and transformation.

The Team note that if certain aspects of Government involvement change, such as elimination of subsidies to butchers (ie, charging the financial cost for slaughtering animals at the National Abattoir), then the prospects for certain opportunities in the primary production area (eg, livestock and dairy) change. In some cases, the elimination or reduction of Government's role in the agro-enterprise sector results in improved viability of some opportunities, and reduced viability in others. These points need to be examined more carefully in light of major changes anticipated in Government agro-industrial involvement (particularly in light of IMF and World Bank programs).

## **Primary Product Agro-Enterprises Opportunities**

### **Scope and Methodology**

The methodology used to screen the enterprise opportunities ranked those on the basis of primary level opportunities and secondary level opportunities. Primary level opportunities represent good prospects for investment and/or expansion of agro-enterprises.

### **Sources of Information**

Major sources of documentation were Lesotho Ministry of Agriculture (Lesotho Agriculture Production and Institutional Support Project-LAPIS), Lesotho Ministry of Trade, Industry and Commerce (MTIC), and USAID/Lesotho. Visits were made to Alpha Estates, RSA, the Basotho Fruit and Vegetable Cannery, the Maluti Maid Dairy, the National Grain Mills and other enterprise. Interviews were held with numerous individuals (see Annex 1).

### **Review of Enterprise Opportunities**

The following (Table 3.1) is a listing of twenty-seven enterprise opportunities that have been ranked into categories of primary agriculture opportunity. Each category is rated as a primary level

opportunity or a secondary level opportunity. Seventeen of the 27 categories have been shown to be primary level opportunities.

### Analysis of Information Reviewed

The secondary data reviewed showed that most of the opportunities fall into the micro-enterprise level (employment of 10 people or less). When first looking at the secondary data, LAPIS and SEP had both incorporated a rating system into their proposal. It was from this base that the proposal was first viewed as an agronomic activity with linkage to major markets with growth potential. Although there was information showing this linkage it was not strong enough to give sufficient supporting information on the market (ie, size, competition, strategy for entry).

Other areas that are important to a business plan that were missing in the secondary data reviewed were: locational analysis (ie, land ownership, utilities to site, area of site, quality of roads, relationship to market or source of inputs); source of management skills and unskilled labor; and complete financial plans (ie, cashflow, profit/loss statement, balance sheet and source of working capital and funds for major purchases). In some categories the influence of the Lesotho Government was not mentioned as either an incentive or disincentive. As noted in above, Government involvement in such areas as livestock slaughtering, dairy controls, etc. could have a marked effect on an enterprise's potential viability. This will be examined at more length during the next phases of this Mission.

**Table 3.1**  
**Ranking of Primary Product Enterprise Opportunities**

Categories	Levels	
	Primary	Secondary
<b>Vegetables</b>		
a. asparagus	X	
b. onion	X	
c. pumpkin		X
d. tomato	X	
e. cabbage	X	
f. green mealies		X
g. leafy greens		X
<b>Poultry</b>		
a. boilers	X	
b. layers	X	
<b>Root Crops</b>		
a. potatoes	X	
b. carrot		X
c. beet root	X	
<b>Forage</b>		
a. grass		X
b. lucerne	X	
c. fodder sorghum		X

Table 3.1 Continued

Categories	Levels	
	Primary	Secondary
<b>Feed Lot</b>		
a. mutton		X
b. beef		X
c. pig	X	
<b>Dairy</b>		
a. fresh milk	X	
<b>Beans and Seeds</b>		
a. pinto beans	X	
b. small white haricot	X	
c. sunflower	X	
<b>Stone Fruit</b>		
a. peach	X	
b. apple		X
<b>Fruit</b>		
a. strawberries	X	
<b>Condiments</b>		
a. herbs	X	
b. chilies		X

There are enterprise opportunities in import market substitution in such areas as vegetables, poultry, feed lot, dairy, beans and seeds, and stone fruits, based upon information which examined the agro-enterprise in light of linkages to the marketplace. This is particularly important when considering the possibilities for sub-contracting production to other enterprises (eg, cannery, abattoir, dairy, etc.). There are industries in place which are operating at less than capacity that could assist in providing the linkage from the enterprise to the market place. For example, the canning industry might have the capacity to process additional asparagus or compatible products such as pinto beans or soup (asparagus, onion or potatoes) for a fee with the necessary technical assistance. The marketing of such processed goods would, of course, require linkages with appropriate importers and would have to be determined through proper business analysis.<sup>2</sup>

The issue of sufficient water should be stressed when addressing the needed inputs for high value crops. There is a rainy season, but it typically has a dry period in between rains. Lesotho also suffers from periodic drought, as is the case this year. Supplemental irrigation is required for high value crops, and is a major impediment in certain areas for the production of these crops when not available.

The problem of high (imported) feed cost is noted. Likewise, the low carrying capacity of rangeland should be determined when examining the livestock industry. This analysis places forage crops (eg, lucerne) in a strong agro-enterprise position. This type of industry fits well with the need for winter supplement feed for the livestock industry. Additionally, a crop like lucerne helps to improve poor soil.

<sup>2</sup> See the section on Agro-Enterprise Transformation and Processing, below, for a brief analysis of the Basotho Vegetable and Fruit Cannery (BVFC) with regard to potential for expansion into other lines of production.

It also will help if a feedlot industry is developed. Another example is grass as a cash crop. Grass is a perennial crop that has a high yield and is good on marginal soils. There is high local demand, but, at this time, no one other than GOL is growing grass on a commercial basis. However, grass is a bulky crop. Therefore, transportation is a problem. Establishing the crop is expensive, as is the seed. The yield in the first few years is low until the crop is established. The crop is not labor-intensive, but care to keep livestock out is required.

Climatic conditions, such as hail, create a special set of criteria when selecting agro-enterprise opportunities, and have been considered when rating the opportunities. From this viewpoint asparagus rates high as it is resistant to hail and with its deep root system. Asparagus can withstand some drought, once established. Another factor was observed, that planning for off season sales through manipulation of climatic factors (eg. artificial light for layers), also created special enterprise opportunities.

The lack of wholesale market outlets, or farmers' markets, requires direct marketing to outlets such as supermarkets, restaurants or regional distributors. Farm gate sales are possible in the right location, during the early stages of enterprise development. The data reviewed showed the best prices were obtained when direct marketing (ie, without intermediaries) was used.

Vegetable production (ie, truck farming) holds special opportunities, when looking at the profit potential. Tomatoes offer the highest return, but are subject to hail. They also require irrigation (that is, irrigation is needed to realize profit potential). The cost of establishing the crop is high, as the inputs, such as fertilizer and pest control, are expensive. Transportation to the marketplace has to be handled in such a way as not to bruise the tomato. Satisfactory storage is required.

These illustrative examples demonstrate that, while numerous opportunities for primary product agro-enterprises exist, careful attention to technique, to markets, to planning needs to be paid, if the opportunity is to be profitable. The range of primary level opportunities in primary production is great, but so are the requirements for applying good business.

### **Bauer-Ministry of Agriculture Irrigation and Food Processing**

Rudolph Bauer AG, of Austria, sold irrigation equipment to the Lesotho Government in 1986 with Austrian soft loan development assistance. Bauer entered into a contract to provide technical assistance on the equipment which ended in 1990 after "being deemed to be unsuccessful". Management problems were cited as the major reason for the Project's lack of success. Bauer then entered, in 1990, into a two-year contract with the MOA to provide management services to operate five of the original 10 projects. This included the freezing plant (Basotho Pride) and the newly-constructed grain drying and cleaning facilities in Mazenod.

The funds to operate were received March 1991 at which 450 ha of wheat were planted and 250 of lucerne were planted. In October 1991 an additional 350 ha of maize, 250 of sunflower, 200 ha of beans, 50 ha of seed maize were planted. There was a drought in 1991 and a decision was made to irrigate the 50 ha of seed maize. In addition, cash crops were planted including broccoli and melons which proved to be commercially successfully.

The contractual agreement is prepared such that Bauer prepares a working document, including all operating costs, in which the GOL will add to the working document their additional out-of-pocket expenses. This is done on a project basis. With the costs established, a trust fund was opened at the LADB. Money is deposited into that account by the GOL. When sales are made, money is deposited into

the same account. This forms the basic operating account. Any profit left over from each crop is distributed between the farmer and the Project.

Ownership of the Project is based upon the total number of hectares such that the number of shares equals the number of hectares. The farmers' ownership of shares is proportional to the number of hectares (or portion thereof) she/he owns.

There is a five person committee at each Project site which negotiates with the farmers and the chief in each location to determine which crops are to be grown. Most disputes, if any, occur at this level and revolve around the amount of maize to be grown at each project. There is also a GOL (MOA) project manager at each site.

There is also a "Controlling Body" which is comprised of representatives of the Ministry of Agriculture (Products Division), the Ministry of Finance, representatives of village committees, and Bauer. Project management from each project site submit a proposed operating plan to the "Controlling Body". The Board then decides on the actual allocation of crops

An approximate profit to the Project is M200 per hectare for maize and wheat, M300-400 per hectare (average) for lucerne, and M800 to M1,000 per hectare (average) for broccoli and melons. Some farmers elect to have payment in wheat and maize rather than in a share in the dividends. This is determined at time of payment. Additionally, some farmers elect to lease their land at a flat fee of R400-500 per season (eg, for broccoli). Farmers have first right to any jobs offered at the project sites.

The freezing plant/grain handling depot also prepares an operating budget. It is submitted also with the other budgets to the Controlling Body at the same time the other project sites select their budgets.

The Project produced, froze and shipped 68 tonnes of broccoli to Germany during the last year. The Project also sold 10 tonnes of broccoli to Woolworths, South Africa. They presently send a full refrigerated truck to the Market Deep in Johannesburg every Tuesday. The Project sells frozen "scalloped" melons (melon balls) to Europe and South Africa. They sold 2,000 boxes of fresh melons (six melons to the box) at R8 per box, to City Deep market in Johannesburg during the last growing season. They have confirmed markets for 1,000 tonnes of broccoli and 1,000 tonnes of melon balls in Europe.

The Project sold 150 tonnes of confectionary sunflower, some to the USA. Sold 75 tonnes of beans to the United Nations for refugee assistance in Mocambique. They produce cabbages for the local market and "sell all they produce". Some cauliflower was produced on a trial basis during the last growing season. Lucerne is grown on all project sites. It sold for R8 per bale in Quthing (primarily for horse feed).

The freezing plant is also processing asparagus. Outgrowers from the asparagus project sell their crop to the freezing plant at collection depots for R2.40 per kilogram. The freezing plant employs 30-35 personnel during peak season and 15 during the slack period.

Each Project site negotiates with the MOA for access to tractors and harvesting equipment. Each site has a fully equipped maintenance facility with its own mechanics. The Project pays incentive fees of R2 per hour to drivers who are salaried at R420 per month. This ensures better performance. Daily labor R8 per day for irrigation, R6-7 per day for greenhouse and R5 per day for field labor.

The amount of reported dividend paid out last year to farmers was R117 per hectare for sunflowers, R122 per hectare for dried beans. Payment to farmers was made for wheat at 11 bags per hectare (estimated value R50 per bag in the lowlands and R80 per bag in the mountains). A flat fee was paid at R400-550 per hectare for broccoli and melons. The landholder can make an additional R250 as a laborer on the project sites.

Produce exports from Lesotho to the EEC are eligible (under the Lome Convention) for full tax and duty exemption. This amounts to approximately 30% of the landed value of broccoli in Western Europe.

They have processed green beans (French beans), peas and tomatoes from private producers not working directly with the Project. They have their own greenhouses in Mazenod which produces seedlings for all five projects.

The Bauer schemes comprise a M37,682,000 (2,519 hectares) high cost irrigation system at 11 sites implemented in 1986 through the Ministry of Agriculture with equipment and technical assistance provided by R. Bauer AG of Austria. The schemes encountered many serious problems in their operations especially with the farmers whose land had been "chosen" for irrigation (farmers individual plots of land had been consolidated into block without prior consultation). Many of the schemes continued with pair farming after consolidation and did not move into irrigation. Irrigation only took place on a substantial basis at Tsikoane, Seaka, Masianokeng, Tele and Maphutseng (1,326 hectares).<sup>3</sup>

As a result of these implementation problems a new approach was taken in the extension to the schemes signed in 1990 between the Ministry of Agriculture and R. Bauer AG of Austria. Over a two year management contract Bauer will provide a team of four agricultural experts and one service technician to manage 1,258 hectares (Maxenod, Peka, Seaka, Tele, Ha Tsboahlane). An additional two schemes will be incorporated later (Molelle, Ha Mohlokaqala) bringing the total area under irrigation of 1,792 hectares. Under the new management contract the field owners are incorporated as shareholders into the business and have a right to formulate the cropping pattern together with the managing agent. Once the cropping pattern has been decided on, the implementation of the day to day management lies in the hands of the managing agent.

Field owners enjoy preferential treatment when it comes to the hiring of casual labor for field operation and will get dividends at the end of the year depending on the profit/loss of the project. The cropping pattern is maize, lucerne, dry beans, wheat, confectionery sunflowers, cabbage, and broccoli/cauliflower. The broccoli and cauliflower is grown at the Masianokeng project and is processed at the near by parastatal packing plant "Kingdom Harvest" which was established in 1989. R. Bauer is providing the export marketing service. This example, although an improvement over the original scheme, is difficult to manage due to dependence on the parastatal packing plant and seed cleaning/drying plant and coordination with the Ministry of Agriculture (eg. it took six months to obtain funds for the approved operating budget). It is too soon to tell if the "new" method of using a managing agent is feasible.

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<sup>3</sup> Proceedings of a Seminar held at The Maseru Sun Hotel, September 5, 1991 - Irrigation in Lesotho.

### **Alpha Estates: Ladybrand South Africa**

Alpha Estates is a 300 hectare irrigated fruit tree operation located in Ladybrand, South Africa. In their packing plant they process plums, pears, peaches, nectarines, apples and vegetables. Mr. Amm owns his own refrigerated trucks for regional or export sales. This example is mentioned because Alpha Estates has the packing capacity and marketing structure to be the market outlet for Lesotho products such as berries (strawberries, blue berries, blackberries), beans (pinto, kidney), flowers, or tree crops such as cherries (Bernard Amm suggests the Lesotho project stay away from vegetables because the return is not high enough). Since Alpha Estates is ready to buy a high quality, marketable product, which can be supplied in a reliable quantity (including all the asparagus he can get), there is little information here to suggest Lesotho farmers are ready to take advantage of this situation. Because of the intense management structure required, which is the ingredient supplied by the Bosothe Fruit and Vegetable Cannery, and with the Bauer scheme, the team believes that this is the linkage needed to make a vertically integrated agro-economic system work.

### **Agro-Enterprise Transformation and Processing**

#### **Scope and Methodology**

Agricultural product transformation and agro-processing cover several large, and numerous small (micro) enterprises in Lesotho. These range from the National Abattoir and Feedlot Complex (NAFC), the Maluti Mountain Breweries and the National Grain Mill (Lesotho Milling Co.), on the one hand, to artisanal butcheries and hide curing on the other. Large-scale processing and transformation enterprises are relatively new (virtually all have been established over the past two decades) and generally of an import-substitution nature. Smaller enterprises tend to be more traditional, and follow local production and demand patterns (eg, local artisanal beer brewing and hide tanning).

For purposes of this exercise, the Team decided not to focus on micro-enterprises (eg, home beer brewing), given their highly decentralized nature. Moreover, any central enterprise service organization would face numerous constraints and high delivery costs to have any appreciable impact at what is essentially a household economic level. However, the Team believe good scope exists to work with micro-enterprises through, say, and expanded CARE OPG (for the Rural Enterprise Project).

Likewise, the Team decided not to address the largest scale agro-enterprise industries, specifically the Maluti Mountain Brewery and the National Grain Mill, because of the predominant role played by imported primary inputs (ie, grain imports) rather than the utilization of local raw materials in both enterprises. Downstream industries, including leatherworking and weaving, while agricultural-related, are not properly agro-processing or agricultural product transformation enterprises. A broader scope project, which deals with the general enterprise development sector, as opposed to a narrowly-defined agro-enterprise sector, could work with leatherworking, sewing, weaving, and other craft industries.

Thus, the Agro-Enterprise Initiative Mission's focus is on the following enterprise agriculture-related opportunities:

- Hides and skins;
- Abattoir and butcheries;
- Wool and mohair processing;

- Milk processing and dairy products; and,
- Canning.

The methodology adopted for examining each of these areas has been set out in 1, above.

### **Sources of Information**

Considerable documentation exists on major agro-processing and transformation enterprises in Lesotho. The FAO's Technical Cooperation Programme, and its series on "Rationalization of Agricultural Commercialization" in Lesotho provides extensive information (of variable quality) on the Lesotho National Dairy Board (and the Lesotho Dairy Maid Ltd. dairy), the National Abattoir and Feedlot Complex (NAFC), and the Basotho Fruit and Vegetable Cannery (Pty) Ltd. The World Bank's 1990 "Staff Appraisal Report on Lesotho Industrial and Agroindustries Development Project" also provides some useful information on agro-processing and agricultural product transformation industries in Lesotho. USAID's extensive information base, including that generated under the LAFIS Project, proved very useful during the Team's initial identification of enterprise opportunities. The Canadian International Development Agency (CIDA) has provided extensive information on the dairy sector.

Other reports were obtained from the Lesotho National Development Corporation (LNDC), the Ministry of Agriculture (MOA) and the Ministry of Trade and Industry (MTI) relating to specific industries and enterprise opportunities. Initial interviews were conducted with representatives of each of these organizations, including the National Dairy Board. Finally, several interviews were conducted with donor organizations (eg, CIDA, FAO and ODA), and service organizations (eg, the Lesotho Chamber of Commerce and Industry/LCCI, BAPS) to obtain more information on the agro-processing and agricultural transformation enterprise area.

### **Review of Enterprise Opportunities**

The Team believes the potential for agro-enterprise growth and development in the field of agriculture product processing and transformation is relatively good. Opportunities for expanded and new development in livestock-related sub-sectors show the greatest promise in the agricultural sector. However, agricultural processing and transformation enterprises, and opportunities, are dominated overwhelmingly by Government and parastatals, primarily the LNDC, the MoA and the MTI. These investments have caused two major sets of distortions to Lesotho's agro-based economy.

First, Government and donors have persistently intervened in these areas during the 1970s and 1980s to stimulate development, or to prevent or remove South African domination in particular areas. In no other economic production area has donor involvement been so pronounced. These interventions have been driven primarily by an import-substitution bias, and, to a lesser extent, by a desire to achieve certain GOL policy or social equity objectives. Financial, business criteria for investment and operations have played a secondary role in virtually all investments in these areas. Investments in the agro-processing and product transformation areas have been fairly capital intensive, and virtually all investments (with the exception of the brewery and the national mill) are subsidized (indeed, losing money).

Second, Government has intervened in agro-processing and agricultural product transformation to stimulate the agricultural sector in the absence of private sector initiatives in this area. Government has implicitly (and in some cases explicitly) invested in the agro-processing and product transformation

areas on the basis that local entrepreneurs were unwilling or unable to do so, and with the often implicit assumptions that sub-sectoral growth (particularly livestock) will be hindered without such investments.

These investments (and interventions), some of which are nearly twenty years old, make it difficult to evaluate the present scope for entrepreneurial investment or participation in these areas, given the poor performance of the existing (or defunct) enterprises. Based upon available information, and the Team's extensive experience in enterprise development, the following enterprise opportunities are rated:

**Tanning and Leather.** Lesotho's most important comparative advantage in the agricultural sector rests with its long history and relatively good environment for livestock. Lesotho's livestock sector is integrated into the South African livestock sector to a major extent. Basotho ranchers have traded with their South African counterparts for a hundred years. South Africa is one of the world's most important hides and skins, and leather exporters. Therefore, the opportunities for Lesotho to produce good quality hides and skins for the South African (and world) market looks, at first blush, like a good enterprise opportunity.<sup>4</sup>

It was with this in mind that the LNDC set up the National (Basotho) Tannery in the late 1970s. The Tannery was designed to accommodate 100,000 hides and skins, and was set up primarily for goatskins. However, the location, the size and the management of the Tannery all resulted in under-utilization and continual losses. The Tannery's inability to compete on a quality or price basis with South African tanneries further eroded its position. It ceased operations in 1990, leaving the country without any tannery.

All the assumptions upon which the tannery investment was made need to be reexamined. The market for skins needs to be carefully studied, particularly in South Africa. The possibility for setting up small, decentralized tanneries (in tandem with small, decentralized abattoirs), particularly in some of Lesotho's more cattle-rich and isolated areas should be more carefully examined. Finally, the potential for selling locally-treated skins (ie, flayed, non-cured skins) needs to be examined with an eye to marketing these through agents to South Africa.<sup>5</sup>

**Abattoir and Butcheries.** The National Abattoir and Feedlot Corporation (NAFC) dominates Lesotho's dressed meat market. The National Abattoir was established in 1985 with Danish assistance, in conjunction with the National Feedlot (established with Italian assistance). The National Abattoir replaced a small abattoir in Maseru. As cited by the World Bank:

"Government policy for meat and meat products establishes a close linkage between the Abattoir and implementation of a range destocking policy. GOL policy also requires payment of a price subsidy of 30-45% to livestock producers and controls butcher fees representing a 71% subsidy of the market fee. The same subsidized price is paid regardless of the quality of the animal."<sup>6</sup>

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<sup>4</sup> See W. Grant, et al, "Lesotho Small and Microenterprise Strategy - Phase II: Subsector Analysis, GEMINI Technical Report No. 9 (November 1990)

<sup>5</sup> See South African Meat Board, "Republic of South Africa Livestock and Meat Statistics", August 1990.

<sup>6</sup> World Bank "Staff Appraisal Report: Lesotho Industries and Agroindustries Development Project," November 1990, and, for further discussion, see FAO, Technical Cooperation Programme: Rationalization of Agricultural Commercialization, "National Abattoir and Feedlot Complex".

The Abattoir lost more than M2 million in 1988 and 1989. The Abattoir does not meet international standards (hence, exports to the RSA and Europe are not possible). Moreover, it subsidizes butchers who can buy South African livestock on credit, and have those stock slaughtered at subsidized prices. This benefits butchers, penalizes consumers, and does not meet GOL objectives of valorizing Basotho livestock and reducing stock size on ranges. Enterprise opportunities could exist for smaller abattoirs, particularly in conjunction with decentralized, small-scale primary tanning operations, were the National Abattoir not such a significant player.

**Wool and Mohair Processing.** Lesotho exports approximately 1% of the world's mohair and substantial amounts of wool, through South Africa, into the international markets. Private and public shearing and marketing channels have proven very effective in providing Basotho stockholders with a fairly efficient means of generating cash income from one of the country's best resources. Over 35,000 Basotho ranchers sell wool and mohair through the Lesotho Livestock Product Marketing Service and numerous private Basotho and South African agents.

Several attempts have been made over the years to set up a wool and mohair scouring plant in Lesotho, first with IFC, and later with AfDB, funds on a joint venture basis with the LNDC. USAID, the GOL's Ministry of Agriculture, and wool and mohair producers have all resisted these efforts on sound economic grounds. In short, most Basotho growers believe the current mohair and wool marketing system works fairly efficiently, benefits producers well, and that any tampering with the system, such as setting up a Government parastatal with potentially exclusive rights of purchase, would jeopardize these arrangements. Based upon these arguments, the Team believe that any primary processing of mohair in Lesotho does not provide a viable enterprise opportunity.<sup>7</sup>

**Milk Processing and Dairy Products.** The Canadian Government (CIDA) has worked closely with the GOL's Ministry of Agriculture since the early 1980s to establish a viable dairy industry in Lesotho. CIDA is now in the final stages of its Phase II Lesotho Dairy Development Project.<sup>8</sup> The goal of the Canadian project was to improve Lesotho's dairy stock, and to make milk more easily and cheaply available to Basotho consumers. The Lesotho Maid Dairy, under the Ministry of Agriculture, currently has a capacity to process 15,000 liters of milk per day. Three refrigerated collection centers, in addition to the Maseru Dairy itself, have been inaugurated. Plans for two more collection centers are well-underway.

The Lesotho National Dairy Board (under the Ministry of Agriculture) has succeeded in restricting the importation of fresh milk from the RSA. Ostensibly, all fresh milk sold in Lesotho comes from the dairy. Surveys conducted show that, because of dairy production, collection and marketing constraints, fresh milk consumption in Lesotho has dropped 50% since 1986, being replaced by imports

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<sup>7</sup> See LNDC/Musiyambri, "Proposed Wool and Mohair Scouring Project for Lesotho", LNDC/AfDB, Draft, March 1987; Hunter and Mokitimi, "The Development of Lesotho's Wool and Mohair Marketing System: Options for Continued Institutional Change" ISAS Research Report No. 25, National University of Lesotho, March 1990, and, various USAID correspondence, 1988 - 1991.

<sup>8</sup> CIDA, "Plan of Operation for Lesotho Dairy Development Project - Phase II Lesotho", 10 January 1989

of ultra-heated milk from the RSA.<sup>9</sup> The plant operates at less than 50% capacity, and has suffered an operating deficit (only on plant operations) since it was commissioned. Government and CIDA subsidies amounted to keep the plant operating have increased steadily since 1986.<sup>10</sup> Opportunities for producing higher-value products (eg, yoghurt and cheese) cannot be explored until the plant is on a sounder managerial and financial footing. The potential linkage effects with dairy producers are large, but management and technical issues need to be addressed urgently.

**Cannery.** The Basotho Fruit and Vegetable Cannery (BFVC) was built in 1976 with FAO/UNDP finance to support donor-assisted asparagus production under the Thaba Bosiu Rural Development Programme.<sup>11</sup> The Cannery was installed to can asparagus for the European market. EEC assistance to asparagus producers and the Cannery has been extensive since the early 1980s, and continues to the present. The Cannery was taken over by the LNDC in 1980. It has operated at a loss over the past decade, and, according to the FAO, requires significant overhaul and modifications to operate competitively or to diversify production into other areas (eg, beans and fruits).<sup>12</sup> The plant employs 700 workers, yet operates at less than 50% capacity, due to the marked seasonality of asparagus production.

There are major technical and managerial issues that the Team feel need to be answered before the extent of enterprise opportunity in the canning area can be properly assessed. Proposals for expanded canning of pinto beans, fruits and other products should be judged on a more thorough assessment of the Cannery's capacity, plant, technical process, labor utilization and management. The potential for other, micro-canneries, could be large in Lesotho, particularly in the more agriculturally-rich areas of the country, but the economics of such will be governed, to a great extent, by the current Cannery's operations and plans, and by Government policies in this regard.

The plant is rated at 20 tonnes, but actual throughput is less than 15 tonnes. It is said that current capacity is incapable of handling peak production during October. Some asparagus is wasted as a result. Due to this shortfall in capacity, and due to insufficient management skills, the Cannery's management is seeking to purchase a M1.5 million dehydration plant. This would, in management's opinion, would overcome these constraints, as well as the fact that 20% of the harvest is rejected in the fields because it does not fit European canned asparagus size specifications. A recent study commissioned by the LNDC states that could be marketing in excess of 800 tonnes of dehydrated asparagus powder per year. Since the plant lacks marketing capacity, the Cannery is seeking assistance for both dehydrated asparagus, fresh asparagus and fresh green asparagus. European buyers prefer white asparagus. All materials for canning are imported from South Africa.

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<sup>9</sup> See, Cole, Philip A.P., "The Market for Imported Fresh Dairy Products in the Lowland Districts of Lesotho: Lesotho/Canada Dairy Plant Development Project", Maseru, July 1991, and World Bank "Staff Appraisal Report", 1990.

<sup>10</sup> See FAO Technical Cooperation Programme, Rationalization of Agricultural Commercialization, "Annex 4: Milk Processing Plant and Collection Centres", 1989, and Lesotho Dairy Marketing Board, various documents.

<sup>11</sup> See, "Asparagus Innovators: Part I: Socio-Economic Characteristics, Evaluation Study No. 4", August 1975. Thaba Bosiu Rural Development Project.

<sup>12</sup> See, FAO, "Technical Report: Financial, Management, Organizational and Operational Review of Agro-Industries Operated as Projects Under Ministry of Agriculture, Annex 8: Vegetable Cannery", Rome 1989. (TCP/LES/8953 Technical Report)

**Asparagus Outgrowers.** The Cannery purchases asparagus from approximately 2,000 farmers who are organized through the Setla Bocha Co-operative, within a 25 km radius of the Cannery. The Cannery would expand assistance to outgrowers if they could handle the capacity.

The Cannery has a purchase agreement (contract) with the Setla Bocha Co-operative from all the Co-operative's member farmers at the current price of M2.30 per kilogram, less M0.14 for transportation associated with collection. Thus, the Cannery pays the Co-operative, M2.16 per kilogram of asparagus delivered.

During the 1991 growing season the Cannery processed 920 tonnes, compared with the 1,150 tonnes anticipated. The shortfall was due to exceptionally cold conditions during October 1991.

Smallholder production averages 4.5 tonnes per hectare, but can range as low as 1 tonne per hectare and can reach as much as 7.5 tonnes per hectare on the best small holdings. Harvesting takes place between September to December; October is the peak harvest month. The Cannery ships 95% of its canned asparagus to Germany and Belgium, under Lome Convention conditions. Approximately 90% of the Cannery's throughput is asparagus. The remaining 10% is comprised of French beans (haricots verts), small-white haricots, and peaches.

Some experimental work has been done with refried pinto beans for test trials with Capetown Cannery (who have indicated a willingness to purchase the refried beans to market under their label).

The Cannery has a Horticultural Officer who oversees all technical aspects of asparagus production and collection. The Cannery employs 5 Extension Agents who move daily from one collection depot to the next. The Cannery also operates 3 open trucks which move from depot to depot collecting asparagus and transporting it to the Cannery. Each farmer is registered with the Cannery through the Co-operative. A monthly tally sheet is maintained by both the farmer and the Cannery agent. The agents arrive at the depot, weight the asparagus offered by the farmer, and both farmer and agent register the weight of asparagus against the date. The asparagus is then transported to the Cannery where it is weighed again, in bulk. The farmers are paid on the basis of the Cannery weight, rather than the field-recorded weight. There is a difference of 2-3% per kilogram in weight from depot to Cannery, primarily due to drying.

There are 80 collection depots (collection points), each equipped with fresh water washing facilities (pumps) and sheds. The farmers bring asparagus to the collection depots, wash it and keep it in a variety of containers, including buckets and wheelbarrows, filled with water. They wait at the depots until the agents arrive.

The Cannery has traditionally supplied all the farmers with "crowns" for planting asparagus at its nurseries. Farmers request to grow asparagus.

**Organization.** The organization of production and processing is relatively straightforward. Farmers are organized at a village level into a Village Committee. There are presently 80 village committees supplying the Cannery. Each village committee has a nine-member board comprised of producers. The 80 village committees are then organized into five "Production Areas". Each production area is managed by a nine-member Production Area Committee. The five production areas constitute the Setla Bocha Co-operative, which has a General Executive Committee, with representatives from each area (4) and 9 other members.

The Co-operative serves as the primary intermediary between producers and the Cannery. The Co-operative operates a "revolving fund" which provides inputs and operating capital to farmers. The "operating account" of this fund, is utilized to procure fertilizer, tools, and other inputs. It is used to pay for "ridging" and as a start-up capital fund for new farmers. Finally, the operating fund makes payments to farmers for their crop. The Co-operative receives payment from the Cannery, at which time it deducts approximately 5% to cover the difference between the farmers' recorded field weight of asparagus and the Cannery's recorded gate weight. In principle, the Co-operative pays the farmers the difference between actual factory weight and the 5% deducted at the end of each season. Also, in principle, farmers should be paid at the middle of each month following collection. However, recently payments by both the Cannery to the Co-operative, and the Co-operative to the growers has lagged by three months. It should be noted that the Cannery pays the Co-operative for each month's deliveries by one monthly payment. It is then the responsibility of the Co-operative to make payments to the individual growers.

Cannery management notes that "farmers always claim that the weight differential does not work in their favor".

The cannery grows the seedling and prepares the farmers land for planting. The farmer takes out a loan with the Co-operative of M1000 per 2000 meters to cover these start up costs (ploughing, disking, seedling) which is deducted from the farmers sales of asparagus. This is repaid at 20% the 2nd year of harvest, 40% the 3rd year and 40% the 4th year of harvest. The cannery uses the ministry of agriculture's tractors and charges the cost to co-operative which include the land preparation for new farmers plus the yearly ridging charge. The planting is done in march and it takes 18 - 24 months to harvest the first crop. The ridging is done in May - June and the first sprout is seen in August.

Harvesting is done when the ridge cracks and a top is seen. The spear is cut below the ridge and the dirt is ridged back up. The harvest period is from September to December. In January the ridge is taken off and the crown is exposed. The plant goes to seed and the fern is cut off in May and the process is started over again. The fertilizer program is to apply 750 kilos per hectare of 2-3-2. The co-operative is importing the fertilizer from South Africa at a cost of M20 per bag of 50 kilos. There are no insecticides or herbicides used on asparagus.

The quality standards are 14 cm long and a minimum diameter of 10 mm and maximum of 24 mm.

When the asparagus is harvested the correct length is cut in the field and the diameter is selected. The cut asparagus is placed into a crate with a wet burlap bag on top. The crate is taken to the shed where the asparagus is washed and placed into water while waiting to be weighed. After bringing weighed on a 25 kilo scale by the fieldman and the weight recorded, the asparagus is transported to the plant in an open 4 ton truck. The asparagus is weighed at the plant a second time after arriving.

The asparagus normally is canned but some has been sold as fresh. In 1988 - 1989 fresh asparagus was trucked to Johannesburg in a open truck with ice on top at night. In 1990 a closed truck was purchased with a refrigeration unit. The refrigeration unit did not work and when the truck arrive at Johannesburg the asparagus was a complete loss. National motors (seller of truck) has not corrected the problem to date.

Using an average yield of 900 kilos for 2000 meters (.2 of an hectare is the normal allocated size) and a price of M2 per kilo (the cost of transportation has been deducted) a gross income would be M1,800. Using an estimated time of 117 hours of labor[10 days weeding, 1 day applying fertilizer, 1 day cutting flowers, and 105 days harvesting (2 people x 30 days x 3.5 months)] and using M5 per day

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average pay, the labor cost would be M585. This would leave a net of M1,215. There are additional cost which have to be deducted such as harvesting tools and weeding tools.

**Additional Cannery Products.** The cannery operates between September and December to process white asparagus. Between January and June several additional crops are processed, depending upon their availability. Green beans are purchased through the Co-operative in much the same manner as asparagus (ie, at the same collection points, with the same vehicles). The cannery deducts transportation (M0.16) from the purchase price of M2.00 per kilo of French beans. The other input cost are arranged between the Co-operative and the farmer. Forty hectares of French beans were planted this year. Unfortunately, there was not a harvest because of the drought. Small white haricot beans, peaches and rose hips (for jam) are occasionally purchased by the Cannery through announcements on the radio. There are certain quality standards which have to be followed. The purchase price for white beans is M1.20 per kilo and M1.10 per kilo for peaches. The purchase price is reduced if transportation is provided by the Cannery. The Cannery usually requires farmers deliver haricot beans, rose hips and peaches to the factory site.

### **Analysis of Information Reviewed**

The information base available on agro-processing and agricultural product transformation enterprises (or enterprise opportunities) is generally of good quality. The fact that enterprises have been up and running in all areas examined by the Team provide a fairly good sense of the historical development of ideas, and the strengths and weaknesses of operations which are in existence. However, market information is piecemeal, and is generally of marginally useful quality. Management problems are cited in most reports, but very little concrete analyses exists to provide the outside observer with guidance on how to address those issues. Likewise, many reports point to present and historical technical problems, ranging from supply of inputs, to actual processing issues, without sufficient documentation to provide the reader with sound information on how to respond to these weaknesses.

However, based upon the above, it can be stated that managerial assistance, better bookkeeping and accounts, improved marketing and higher quality technical inputs need to be made available to existing enterprises if they are to operate more efficiently. Likewise, one would expect that these same service areas will be important to any new enterprises in the agro-processing or agricultural transformation area. The most fundamental need, and the greatest historical weakness, is for sounder, more critical marketing information, on an on-going basis.

Additionally, most of the information reviewed and discussions held during Phase I point to several important issues which need to be addressed before enterprise opportunities in the agro-processing and transformation enterprise area can be expanded. First, there needs to be a much better understanding of Government policy as it affects particular sectors or industries, as the GOL is the primary player in virtually all existing enterprises. The GOL's position on various issues (eg, restrictions on imports of fresh milk, fees charged for slaughtering animals, prices paid to producers, etc.) must be more clearly understood before the Team can speak further on the opportunities available to entrepreneurs in this area.

Second, given the highly technical nature of most of agro-processing and agricultural product transformation enterprises (or opportunities), there needs to be a better understanding of the technical aspects of improving operations (eg, plant and equipment, labor skills and management). Third, in virtually all cases, management issues need to be examined and/or explored carefully. Finally, technical skill levels need further analyses.

## **The Marketing and Distribution System**

### **Introductory Comments**

The establishment of effective marketing arrangements is a precondition for many other types of agro-industrial development. Without a satisfactory marketing system, many other enterprise opportunities discussed in this paper are likely to fail. It is important to recognize, on the other hand, that marketing constitutes an important enterprise opportunity in itself. In our judgement, there are a number of opportunities of this type available to Basotho entrepreneurs. One could say that each of the priority ("type a") enterprise opportunities identified in this report has along with a corresponding "type a" enterprise opportunity in the area of marketing. Failure to grasp these marketing opportunities can place in jeopardy the associated primary production, input or transformation activities. In an important sense, then, the discussion of this section could be considered as a discussion of conditions for success in other dimensions of the activity as much as of enterprise opportunities in their own right.

### **Scope and Methodology.**

As we use the terms here, the marketing and distribution system includes the assembling, grading, transporting, storage, wholesaling and retailing of agro-industrial products as well as inputs used in agro industries. In essence, it involves a process of linking one producer with another (in dealing with inputs), or producers with final consumers (for finished products). In subsequent discussion, the short-hand expression "traders" is used; it should be clear that the person involved is doing substantially more than simply trading.

The approach used in this consultancy involved reviewing all documents we could find that examined the marketing and distribution system for agro industrial products. Some of these were focused on particular products or product groups (e.g., "The Development of Lesotho's Wool and Mohair Marketing System"); others were much broader in their orientation (e.g. a consultancy report aimed at providing guidance for the MoA's fledgling Marketing Department). There are many other documents focusing on the development of particular products or product groups that make incidental reference to the importance of marketing to the success of the activity. Some of these have fairly detailed analysis of the markets in which the products will be sold; very few of them pay any attention to the marketing agents that will link the target producers with the target markets, the steps that may be needed to ensure that these agents perform the required functions, or the opportunities that this may provide for productive employment for those engaged in the marketing activities themselves.

### **Findings of the Documents Reviewed**

In the documents reviewed, the following points constitute a regularly recurring theme:

- On the supply side, much of what is produced is not marketed at all, or is marketed only in local and informal markets. Many actual or potential suppliers - particularly primary producers - have a poorly developed commercial sense and relatively little commercial experience or orientation.
- On the demand side, a major share of the products consumed in Lesotho are marketed through a few major wholesalers that find it easier and cheaper to bring the products in from South Africa. While the traders say they are ready to buy Basotho products if the quality and price are competitive, they find this is rarely the case. For export products, the channels all seem to run through a few large traders or buyers in South Africa.
- In sum, if the distribution system is the network that links producers with final consumers, that network is poorly developed in Lesotho, and that poor development is a serious constraint on expansion in production.

### **Enterprise Opportunities and Developmental Needs**

Many person-years of work have been invested in trying to address this situation in Lesotho, including work by some of the world's leading experts in the field. Much of this work has focused on public sector institutional structures: the construction of farmers' markets, an improved supply of market information providing timely information about prices and quantities traded in various localities, the targeting of extension work to products for which markets have been identified, etc. All of these involve the creation of the physical and institutional infrastructure that is needed if a market system is to work; these are appropriate and desirable functions of government. But there remains a crucial missing link, which comprises the traders themselves. For the marketing system to perform its required role, there must be professionals engaged in carrying out the functions discussed above: assembling the product, grading, storing, transporting, and selling it either to retailers or to final consumers. There may be low-cost primary producers on the one hand and dynamic markets on the other, but unless these functions are being performed in an efficient and reliable way, there is a serious risk that producers will give up and turn to other activities while the markets will be served by other sources of supply.

While this issue can be addressed in the context of an examination of particular product groups, as a number of earlier studies have done, it is common to all agro industries.

Whether this type of activity constitutes a true economic opportunity for a domestic entrepreneur depends on a variety of factors, relating to issues on the product supply side (volume, quality, regularity and cost) and the demand side (a similar list). There must be a sufficient margin between buying and selling prices for the trader to cover his costs, to reward him for his efforts and for the risks he incurs. Traders incur a variety of costs in the course of their work. They must pay the cost of transport - either by hiring someone to undertake the task, or by buying the transport facilities themselves. They will have expenses of storage facilities, as well as the working capital costs of inventories they hold. They bear risks of product losses as well as of unpredictable and unfavorable shifts in prices. They face risks that the government may change the rules in mid-stream, leaving them with purchased inventories whose value has been undermined; delays in getting approvals and permits can cause spoilage and loss. If farmers expect that they can sell at the farm gate at the same price as the wholesale price in town (i.e. with no

margin for the trader), the farmers will be disappointed, the trading system may not work, and the investment opportunity may disappear.

The establishment of a satisfactory marketing system is just as important for input supplies as for the distribution of final products. In Lesotho, the development of private marketing channels for inputs has been hindered by the operations of Coop Lesotho. Although they are reported to be a relatively high-cost operation that a private trader should be able to out-compete, their ties to the government have meant that they have not had to cover their costs from fees charged. That plus their policy of pan-territorial pricing for the products they sell has effectively blocked private traders from entering the markets where they operate, since the prices they charge have not had to reflect their costs. The removal of Coop Lesotho from the domestic market could well open up important new opportunities for domestic traders; the need for such traders may have an important impact on the economics of enterprises that have previously relied on this source of supply for their inputs.

Another important issue in the marketing system is that of ensuring that prices reflect differences in qualities of products traded. Without such differential pricing to reflect differences in qualities, suppliers have no incentives to maintain or improve the quality of their products. By ignoring this factor, parastatal organizations in other countries have often undercut efforts of private traders to improve the quality of the product supplied to fill a market niche. It is not clear to what extent this is a problem in Lesotho.

As indicated above, enterprise opportunities in the agro-industrial area are closely linked to the identification of productive opportunities in the area of primary production or of input supply. For each such primary or input-based opportunity, there is a corresponding opportunity in the marketing area. Among those discussed in the documents reviewed from a marketing perspective, the following appear to be particularly significant.

- Improving linkages between domestic growers of vegetables and the local market is an endeavor with a long history, dating back at least to the early 1980s. It includes the establishment of market centers (farmers' markets) in three towns, improved information for farmers about markets and prices, and work with particular farmers in focused extension work. All of these make sense; all are appropriate responsibilities of the Ministry of Agriculture. What may be lacking in the previous approaches is attention to the need for traders to take advantage of the infrastructure and institutions being established by the government but that operate on a strictly commercial basis to provide the commercial links between growers and markets. An obvious appeal from the national (and USAID's) point of view is the likely multiplier effects: if this activity succeeds, it would open up new outlets for a substantial number of farmers.
- Similar opportunities may arise for sale of vegetables in regional markets such as in Bloemfontein. It is plausible to think of this as a second step, once major inroads have been made into the local market, since transport costs will surely favor sales within the country.
- With regard to livestock products, there are things to be done in improving the marketing of animals, along the lines suggested by recent discussions between officials of MOA and the Stock Owners Cooperative Ltd. Those are largely in the purview of the Ministry of Agriculture, having to do with the regularity of livestock markets, visits by farmers to the abattoir in Natal, extension work aimed at improving the quality of the products, etc. If the government carries through on its stated intention of removing itself from its

dominant position in this market, this may re-open the market to private traders, effectively driven out of the market in 1973.

- Other questions could be raised about the marketing and processing of mohair and wool. Again, this is an area that has been subject of extensive study. Currently, a farmer has the option of using either of two channels for sales of wool or mohair: the LPMB, or private traders. From all reports, the system seems to be working well; no immediate needs or opportunities are obvious here, other than that of seeking to ensure that the local weaving industry has access to a reliable supply of mohair.

In sum, our review suggests that there are a number of interesting investment opportunities in the area of marketing. It is particularly important to bring these to the attention of potential entrepreneurs, since failure to take advantage of them may have important negative costs in terms of the backward and forward linkages that may be precluded. For this reason, it is more than usually important to try to make sure that these opportunities are realized.

### **Input Production Agro-Enterprise Opportunities**

The opportunity for commercial agro-industrial input production for primary level opportunities defined in the previous sections is very high. The listed commercial agro-industrial enterprises input opportunities reviewed here are drawn from an analysis of the key inputs used by the proposed key agro-industrial primary production and transformation industries.

#### **Scope and Methodology**

The following opportunities are ranked as primary or secondary opportunities, using the methodology identified above in this Phase I Report.

#### **Sources of Information**

Of the eight input production opportunities presented herein, profile information have been found for:

- hatchery for layers,
- irrigation; and,
- seedling production.

The remaining opportunities have been evaluated based upon information gathered from interviews.

#### **Primary Level Opportunities**

- |    |  |   |
|----|--|---|
| 1. | Irrigation system design and equipment | engineering/pumps/<br>piping/instillation |
| 2. | Poultry and layer hatchery             | 18 week old chicks                        |
| 3. | Seed production                        | vegetables, tubers, grasses               |

- |    |   |  |
|----|---|--|
| 4. | <b>Seedling production<br/>tree crops</b> | <b>tree crops (apple, peach, pear)</b> |
| 5. | <b>Feed mixing</b>                        | <b>Poultry, livestock and dairy</b>    |

#### **Secondary Level Opportunities**

- |    |  |                                       |
|----|--|---------------------------------------|
| 1. | <b>Hydrated Lime</b>                             | <b>soil conditioner</b>               |
| 2. | <b>Seedling production<br/>vegetable</b>         | <b>asparagus, strawberry, tomato,</b> |
| 3. | <b>Farm machinery repair<br/>and maintenance</b> | <b>tractors, irrigation equipment</b> |

Using a strict subsector analysis approach, none of the opportunities identified have scope for the manufacture of input to supply large regional markets. The markets are primarily local. Enterprises will compete from their location comparative advantage with established regional competitors.

#### **Analysis of Information Received**

Irrigation development for commercial high value crops is well-documented and is in practice in many locations in Lesotho. The major supplier of irrigation equipment in the country has closed and there is currently no formal sector irrigation equipment and service supplier. The economics of applying irrigation to annual and perennial crops are covered in the primary production analysis for those crops. LAPIS information on the appropriate introduction and use of irrigation for high value crops is included in the enclosed reports.

The current demand of 18-week chicks is 70,000 per year. The current supply is from South Africa with the GOL acting as importing agent for farmers. The government hatchery is closed and the opportunity for setting up a commercial hatchery appears feasible.

The Pioneer Seed Company is a USA-based commercial seed producer which competes in the regional market. Opportunities for subcontracting need to be explored with the firm.

Seedling production is not commercially practiced in Lesotho. Most of the current seedling are supplied regionally for apple and peach. With the expansion of fruit production local opportunity for seedling production will increase.

Animal feed mixing for poultry, livestock and dairy is currently being practiced by a local entrepreneur. Co-op Lesotho is the major retailer of animal feed which is procured through GOI. central buying. Co-op Lesotho pan-territorial pricing policies are a barrier to rural marketing of privately distributed animal feeds.

Little information has been uncovered on the calcareous content of the limestone deposits in Lesotho. The market for a steady supply of hydrated lime, as a soil conditioner, is very good. Currently hydrated lime is supplied regionally.

**Asparagus seedling production is currently performed by the GOL through the Basotho Fruit and Vegetable Cannery. The prospects for expanding seedling production for diversified crops like strawberry and tomato appear very promising as those crops are commercialized.**

**Farm machinery repair is currently being carried out in Government rural workshops. With the expansion of mechanical land preparation (tractors) and farm equipment the prospect for a service industry around farm equipment repair and maintenance is good.**

**The farm machinery, seedling and animal feed input production opportunities have been placed as secondary level opportunities because GOL currently is the major player in production or distribution of those products. As cited in the section Summary of Findings, intensive GOL involvement in several sectors preclude the further development of enterprises, and appear to stifle private entrepreneurial initiative in areas which would be prime private investment opportunities.**

**ANNEX 2A**

**LESOTHO AGRO-ENTERPRISE INITIATIVES:  
DOCUMENT REVIEW CHECKLIST**

REVIEWER (Your initial) | \_\_\_\_\_ | WHO SHOULD REVIEW? | \_\_\_\_\_ |

**LESOTHO AGRO-ENTERPRISE INITIATIVES DOCUMENT REVIEW CHECKLIST**

Type, title and author of enterprise opportunity (specify):

PP, IN, PT & DIS | \_\_\_\_\_ |

SUMMARY OF DOCUMENT (Other side of page, if needed): \_\_\_\_\_

**THE ENTERPRISE PROPOSAL**

Rating PgRef

- 1.0 Quality of rating enterprise opportunity: \_\_\_\_\_
- 2.0 Quality of marketing plan: \_\_\_\_\_
- 3.0 Quality of competition analyses: \_\_\_\_\_
- 4.0 Quality of enterprise locational analyses \_\_\_\_\_
- 5.0 Availability of management cited: \_\_\_\_\_
- 5.1 Quality of management cited \_\_\_\_\_
- 6.0 Availability of skilled personnel cited: \_\_\_\_\_
- 6.1 Quality of skilled personnel cited: \_\_\_\_\_
- 7.0 Quality of financial plan set out: \_\_\_\_\_
- (good = cashflow, profit/loss statement, balance sheet)
- 8.0 Audit plan (auditors/accountants cited) \_\_\_\_\_

**AVAILABILITY OF SUPPORTING INFORMATION**

- 9.0 Resume(s) \_\_\_\_\_
- 10.0 Letters of intent \_\_\_\_\_
- 11.0 Purchase orders \_\_\_\_\_
- 12.0 Job descriptions \_\_\_\_\_
- 13.0 Any other supporting info (specify): \_\_\_\_\_

**OUR RANKING OF THE ENTERPRISE OPPORTUNITY**

- 14.0 Market (economic size, ownership, growth pattern) \_\_\_\_\_
- 14.1 Domestic \_\_\_\_\_
- 14.2 South Africa/Regional \_\_\_\_\_
- 14.3 Export \_\_\_\_\_
- 15.0 Investment profile \_\_\_\_\_
- 15.1 Capital intensity (high, medium, low) \_\_\_\_\_
- 16.0 Source of funds \_\_\_\_\_
- 16.1 Owner's equity \_\_\_\_\_
- 16.2 Bank/NBFI finance \_\_\_\_\_
- 16.3 Joint venture \_\_\_\_\_
- 16.4 Other equity (specify): \_\_\_\_\_
- 17.0 Employment potential (overall) \_\_\_\_\_
- 17.1 Employment potential (women) \_\_\_\_\_
- 18.0 Government enabling environment \_\_\_\_\_
- 18.1 Land availability (title, lease, sales, etc.) \_\_\_\_\_
- 18.2 Taxes \_\_\_\_\_
- 18.3 Licenses (other permits, etc.) \_\_\_\_\_
- 18.4 Government incentives/disincentives (specify) \_\_\_\_\_

19.0 Expected enterprise profitability \_\_\_\_\_

**RANKING SCALE: 0 = NONE, 5 = EXCELLENT**

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**ANNEX 3**

**AGRO-ENTERPRISE TRAINING AND SERVICE ORGANIZATIONS**

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## ANNEX 3

### AGRO-ENTERPRISE TRAINING AND SERVICE ORGANIZATIONS

#### INTRODUCTION AND METHODOLOGY

The GEMINI Agricultural Enterprise Initiatives Mission commenced Phase II of its work during the week of February 24th 1992. Phase I of the Team's activities concentrated on examining extensive documentation relating to "enterprise opportunities" in Lesotho. The Team found numerous promising opportunities in the primary production field, such as in high value horticulture production, dairy and other livestock, as well as in agricultural input supplies, and marketing and distribution.

Phase I was also designed to point to areas of weakness, both in proposal or project preparation, and in fields of expertise the Team believes are essential to realize successfully any enterprise opportunity. The greatest weaknesses found by the Team, in nearly all proposals and projects reviewed, was in the area of marketing and business planning. The lack of clear understanding of how markets work, who might buy products produced, what channels are available for selling goods and services, and what requirements are necessary to market goods was notably weak. Likewise, very little attention was paid at the proposal level to the potential source of financing. This constitutes, in the Team's view, one of the key gaps in previous work done on the agro-enterprise sector.

Second, the Team noted a definite lack of attention to business management issues (particularly the depth of management skills required), especially with respect to organizing production and marketing. Third, issues regarding technology selection, and the means to maintain and service technologies appropriate to enterprises, were rarely addressed in more than a perfunctory manner.

Phase II of the Team's activities, therefore, was intended to determine what training, marketing, technical, management, credit/banking, technology provision and other services are available in Lesotho and in the region (especially South Africa). This Report represents the interim findings of the Team with regard to these issues. Much of the information contained herein has been obtained through primary sources (mainly interviews and visits, see Section 2). Other information has been obtained from secondary sources (see Section 3).

It should also be stressed that much of this information has been developed at various times for USAID/Lesotho for a variety of uses. Of particular interest are the "List and Description of Lesotho Private Sector Institutions" (undated), the "Summary and Review of Services Offered by Selected Small Business Support Agencies in South Africa (BANFES Trip Report, July 1989), "List of Lesotho Business Associations" (undated), "Women in Business", and "Firms in Lesotho" (from the MAPS Survey). Numerous memoranda and reports generated through the LAPIS and BANFES Projects point to the capabilities of locally- and regionally-based individuals and institutions who could provide training and services for any agro-enterprise initiatives program.

Annex 3A (of this report) sets out a list of training agencies, firms and organizations in the Republic of South Africa. The list was kindly provided by USAID/Pretoria for this assignment. The Team wishes to thank USAID/Pretoria for its assistance in this area.

## PRIMARY INFORMATION ON TRAINING AND SERVICE AGENCIES

Primary information was obtained through interviews, either in person or by telephone. A survey instrument (see Annex 1), was administered to training institutions, technical assistance organizations, banks and credit institutions, and business associations.

### Lesotho-Based Training Institutions

**Business Training Division/Centre (LTC), IEMS, Main South 1, Private Bag A 47 Maseru 100, Telephone 322038, Fax 340000 (Roma)**

The Business Training Centre, of the Institute of Extra-Mural Studies (IEMS), National University of Lesotho, was established in 1974 in order to help business persons with training in management of their business." IEMS's headquarters are on the outskirts of Maseru, with offices in each district. The BTC tries to offer "business advice" at the centers.

Mr. Joseph M. Lebusa (Management and Marketing) is the Head of the IEMS and the Business Training Division. He is assisted by Mr. David Lephoto (Accounting), Ms. Tsenang Mochaba (Accounting), and Ms. Renetloe Lesoli (Accounting) at the BTDC. They have trained over 3,000 individuals since 1988 from a variety of areas. They work with the National University of Lesotho (NUL) and the Ministry of Trade and Industry (MTI). They cooperate with a number of institutions, primarily the Lesotho Bank, the Institute of Development Management (IDM), the LOIC, the Business Advisory Promotion Service (BAPS) and BEDCO.

BDS has been supported by USAID since the 1970s. Their field centers train a number of individuals, primarily identified by the MOA. They operated a successful program of in-service training until it was abandoned due to insufficient funding in 1987. This program took rural entrepreneurs, primarily traders, owners of cafes, hotels and restaurants, and worked with them for one three-day weekend each month, over a period of 9 months. Each participant paid M260 for the course. The weekend sessions were problem- and task-oriented, in which each participant set out his or her own needs, was assisted to set out a plan of action for the next month, and worked towards addressing the need or solving the problem. Over 200 participants worked through the program. The fact that so many business people participated, and paid a relatively high fee, shows the significance of the program to the beneficiaries.<sup>1</sup>

Today, the BTDC's program is fairly ineffective with regard to agro-enterprise training. Most training is for farmers and small business people at one day workshops. Participants pay a M1 nominal fee.

**Lesotho Distance Teaching Centre, LDTC Service Agency, P.O. box 781, Maseru 100, Telephone, 316961, Fax 310245 (Contacts: Mr. J.B. Maime, Director; Mr. Mohajane, Dep. Director; Mrs. Sekoane, Coordinator of Service Agency and Mrs. Mofokeng, Trainer.**

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<sup>1</sup> See S.W. Rembe, "Evaluation of Business Training Division (BTD), February 1991.

The LDTC is a GOL service agency under the Ministry of Education. Its focus in enterprise-related fields is in :

- basic bookkeeping;
- basic business accounting; and,
- "assistance fund" loan provision.

The LDTC depend, to a large extent, upon the MoA, BEDCO and other GOL agencies to provide technical assistance to rural groups. LDTC work only with organized groups, which range from women's groups, wool and mohair growers' associations to range management associations.

The LDTC operate an "Assistance Fund" which was established with M500,000 in USAID funds in 1982. Loans are offered to qualifying groups at 15% interest per annum, on a three-year basis. No formal ceilings or thresholds for loans have been set.

The Assistance Fund has been utilized for some 41 loans since that time. A recent survey sponsored by the UNDP found over 50% of those loans in default or in arrears.<sup>2</sup> The Assistance Fund is a revolving fund, intended to lend to rural groups (eg, womens' groups, mohair growers' associations, etc.). Loan applications are processed with LDTC Trainer assistance. They are presented to two boards for approval: the Screening Committee, comprised of LDTC staff, the LDTC Deputy Director, the Heads of LDTC's Accounts, Research and Education Sections, and the LDTC's Service Section. The Assistance Fund Management Sub-Committee makes final approval of the loan, and is comprised of representatives from the Ministry of Finance, the Lesotho Bank (where the funds are located), Central Planning, the P.S. of Education, the Director of LDTC and the Head of LDTC's Service Agency.

The Service Agency of the LDTC, which administers the Assistance Fund, cite the lack of marketing skills and understanding, the lack of proper business planning, the absence of technical information for the failure of many of the projects supported by the Fund. The LDTC depend on the MoA's District extension service to provide these skills, but find the MoA unable to meet such demand.

**Institute of Development Management (IDM): P.O. Box 1318, Maseru 100, Telephone 322868, Fax 310084**

The Institute of Development Management is a trilateral agency established by the Governments of Lesotho, Botswana and Swaziland. It has a branch in Maseru, with four instructors. The Gabarone institute is the largest branch, with over 20 instructors. The IDM branch in Maseru has trained over 2,000 individuals since 1984. One third of the trainees come from parastatals, the rest from various Government agencies. To date, the IDM have not trained any private sector personnel.

IDM offer a variety of courses, ranging from bookkeeping and accounting, to department planning. Their government orientation reduce the relevance of the Institute to the private sector. Furthermore, they have little to offer, at present, in the area of agriculture and agro-enterprises. They offer short courses, courses of over four weeks, and a consultancy service. Consultants are drawn from

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<sup>2</sup> See L. Opande, UNDP "Evaluation of the Lesotho Distance Teaching Centre: Draft", February 1992.

the instructors located at all of the Institute branches. Again, their clients are invariably government agencies (including parastatals). They have a fee structure for both training and consultancy.

**Basotho Enterprise Development Corporation (BEDCO):** P.O. Box 1216, Industrial Area, Maseru 100. Telephone 312094, Telex 4370 LO.

Mr. S. Phafane is the Managing Director of BEDCO. BEDCO was established in 1982. BEDCO provides sites, services and buildings to Basotho entrepreneurs. It provides common workshop facilities, and provides technical assistance from a common pool. Marketing assistance is provided to members/clients. It is a typical developing country "industrial estate" with three locations in Lesotho. The Industrial Development Authority of Ireland provide key technical assistance through an IBRD/IDA loan facility. These personnel comprise the finance manager and technical manager. BEDCO is connected to the Business Advisory Promotion Service (BAPS), UNDP-supported project. Business advisory training is provided on a personalized and group basis to BEDCO clients.

Collaborating institutions are LADB and the Lesotho Bank, which provide finance for BEDCO clients.

BEDCO clients consist of carpenters, small manufacturers, seamstresses and knitters. Fees are charged for the service, although on a highly subsidized basis.

**Management Consulting Associates (MCA):** P.O. Box 1513, Maseru 100. Telephone: 323314. Mr. Ted Jongerius, Director.

MCA is a consulting firm which specializes in business skill development workshop. They charge \$1,500 for a 5-day workshop and \$3,000 for a 10 day workshop, for 10-20 participants. MCA provide training in "improving small business operations", "marketing and sales for small businesses", "financial management for small businesses", among other courses.

### **Lesotho-Based Banks**

**Lesotho Agricultural Development Bank (LADB):** P.O. Box 845, Maseru 100, Telephone: 323277, Fax 310139.

The Team met with Mr Phoofole, the Credit Manager for the LADB in Maseru. LADB has 25 branches in Lesotho. They provide working capital, and term capital. They are now registered as a deposit corporation under the Banking Act. That is, LADB are now a full-service bank. Their portfolio extends beyond agriculture into small-scale manufacturing. The portfolio ranges from M0-5,000, M5,000 - 200,000 and M200,000 up. The Central Board of Directors, which meets four times per year, approves any loans above M200,000. Branch Directors are allowed to approve loans up to M10,000. Central office staff can approve loans from M10,000 - 200,000. The LADB have a reputation for fast processing of loans up to M200,000, while the Bank is strongly criticized for its ability to handle the M0-5,000 portfolio. The Bank ascribes its reluctance to loan in this area to the heavy arrearages amongst clients.

### **Basotho Business Associations**

**Women in Business:** 2nd Floor, LNDC Centre, Private Bag A169, Maseru 100, Telephone 316490, Fax 310230.

Ms. May Ada Moteane is the President of the Women in Business. Women in Business is a business association representing Basotho businesswomen established in 1989. It provides information for women on business practices, regulations and marketing. WIB provides business training in the area of management. WIB has an executive secretary funded through a small grant from CRS. The organization has 700 members. WIB charged M50 per annum. Everyone in the organization gets information.

**The Lesotho Business Challenge:** Motikoe House, Private Bag A448, Maseru 100. Mr. Makalo Ishmael Monare, President.

The Lesotho Business Challenge is a newly-formed Basotho business association, a non-governmental organization registered under the Societies Act. The Team met with four members of the Board of Directors: Mr. A.K. Makara, Mr. R.P. Molapo, Mr. F.N. Thaanyane and Mr. I.M. Monare (President). The LBC was established in mid 1991. It already has over 700 paid up members. Membership costs M50. Furthermore, every LBC member must pay M50 each month to a Trust Fund which has been set up at the LADB. The Trust Fund is designed to provide members with the collateral for bank loans, and as a future means for investment.

Furthermore, the LBC has established a private limited liability company (registered under Lesotho's Companies Act) called Phaphama Distribution Co. (Pty) Ltd. "Phaphama" is Lesotho for "wake up". LBC members have voluntarily contributed between M1,000 and M10,000 to buy shares in the company. Thus far, M200,000 has been obtained through the sale of shares to LBC members. Phaphama has purchased a Shell Service Station franchise from the LNDC. They have sent Service Station personnel for training with Shell South Africa. The goals of both the LBC and Phaphama are to make businesses in Lesotho more accessible to Basotho business people. Most of their members also belong to the LCCI. In their words:

"The burning issue is that Government is reluctant to take on the man in the street. The foreign owner and investor has been favored by Government policy, including Government investment. The foreign investor is not interested in the man on the street or Basotho businessmen. The LBC wants to make more opportunities for ownership and cooperation in the business sector open to Basotho."

Their current membership is predominantly traders, although farmers are well-represented. They see themselves as strong lobbyists.

**The Association of Lesotho Exporters (ALE):** Private Bag A21, Maseru, Telephone 326045, 312240

The Team met with Mr. Victor Sidnell, Managing Director of PAL Products (a leather products exporting company). The Association provides trade information, participates in international trade fairs and coordinates members' participation in those fairs, coordinates export marketing with members, and identifies potential regional and international buyers and traders for its members. Mr. Human and Mr. Sidnell are the key executives of the Association. They have 70 members. Their key collaborators are the Ministry of Trade and Industry, Export Division; the Association of Manufacturers, and the LCCI. Their members are generally small industry involved in leather, and larger industries are engaged in

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textiles. Shoe manufacturing figures prominently. Agro-enterprises (eg, high value crops, primary leather production) are not represented in the Association. M100 per year is the annual membership charge, and M5 is charged as a joining fee.

**Lesotho Chamber of Commerce and Industry (LCCI):** P.O. Box 79, Maseru 100, Room 2, 1st Floor, Fairways, Kingsway, Telephone 323482.

The Team has met several LCCI advisors and members. The LCCI is a broad-based chamber, with over 1,000 members. It receives support from a number of donors, including USAID and the US Peace Corps.

### **Lesotho-Based Enterprise Service Agencies**

**Sechaba Consultants:** Maseru Sun Cabanas, 709 Maseru Sun, Private Bag A84, Maseru 100, Telephone 324660

Sechaba Consultants are one of the most reputable socio-economic development consultants in Lesotho. Sechaba do economic surveys, project evaluations, rural development work, and baseline surveys. They have limited commercial, private sector experience. Their principals are Mr. Thuso J. Green (Forester and Land Use Specialist) and Mr. David Hall (Socio-economist). They have several associates, including Dr. John Gay (Sociologist), the University of the Natal and the National University of Lesotho. They also work closely with the Lesotho-based NGO/PVO, Transformatin.

They have completed a "Poverty Mapping Survey" for the Food Management Unit, MoA, funded by the EEC, a "Community Forestry Assessment" of the ODA's Village Woodlot Project, a conservation project assessment for CIDA, "Situational Analysis" for UNICEF, a "Reappraisal of the Highland Water Community Project" with the EEC and CARE/International, and a "Dairy Production Study" for CIDA. They are currently in the process of doing a pinto bean market distribution study for the LAPIS Project.

**KPMG Peat Marwick:** 1st Floor, Maseru Book Centre, P.O. Box 1252, Maseru 100, Telephone: 313929, Fax 310254, and Telex 4547 LO.

Peat Marwick have been established in Lesotho accountancy and auditing firm. There are three principal partners in the practice: Mr. Peter Parks, Managing Director; Mr Peter Barrett, Director; and Mr Alok Chibbar, Director. All three hold British FCA qualifications.

KPMG Peat Marwick Lesotho are associated with their Johannesburg regional office. They have limited in-country marketing experience, but, can, if needed, call upon such consulting services from their regional affiliates. They have over 100 private clients, of which, 10 provide 50% of their business. They have worked for USAID on several audits.

**BUSSA (Business Support - Southern Africa) Pty Ltd.:** Suite Number 715, Maseru Sun Cabanas, Private Bag A84, Maseru 100, Telephone: 325458

BUSSA is a small consulting firm with three associates, Mr. Michael Mhlanga, economist (Managing Director); Mr. Lawrence Africa (Statistician); and, Ms Muletsane (economist). They have been in operation since 1987, working primarily in the fields of macro-economics, project appraisal,

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agricultural feasibility, planning and baseline surveys. Their principals have worked on the feasibility studies for the Lesotho National Mills, the National Abattoir and Feedlot Complex (NAFC), and the Basotho Vegetable and Fruit Cannery (BVFC) with the MoA's Central Planning Office. The firm worked on USAID's Lesotho Agricultural Policy Support (LAPS) Baseline Survey on the design of monitoring and evaluation systems, the WFP's "School Self-Reliance Activity", and the evaluation systems for the University of Lesotho's IEMS.

**Deloitte Pim Goldby:** P.O. Box 699, Frida House, Mabile Road, Maseru 100, Telephone 322943, Fax 317104

Tony McAlpine is the principal partner and Managing Director of Deloitte Pim Goldby. They are affiliated with the South African group of DRT International. They are a mainline accounting and auditing firm with little capabilities in other fields such as marketing or technical assistance.

**Agricultural Management Consultants (AMC):** P.O. Box 7711, Maseru 100, Telephone 317366, Fax 310130.

The Team met with Mr. M.G. Khalikane, Director of AMC. AMC essentially consists of Mr. Khalikane and one partner. The firm was established in 1987 to provide consultancy services in land use planning, environmental issues, policy issues, project evaluation and training programs. They draw upon a wider pool of consultants, as needed. AMC primarily serve the donor community, primarily USAID, UNDP, World Bank, SIDA and NORAD. AMC has relationships with the NUL and ITHACH Internation (New York). Mr. Khalikane grows his own horticultural crops on contract with several local hotels.

**TAB Consultants:** Ha Mabote Machache Centre, Private Bag A72, Maseru 100, Telephone 335498, Fax 330000

Dr Paul Kwaku Tabirah and Mrs Ina Tabirah are Directors. TAB is an Independent consulting firm registered in Lesotho, owned by Paul Tabirah (Ghanaian) and Ina Tabirah (German). Have been in Lesotho for 8 years. Mr Tabirah is a natural scientist. Have done work in irrigation projects, currently one in Ghana, on the management side. Strengths are their contacts with local people (ie, they know the local scene, what works, who is doing things). They pull in people as they are needed. They are registered with the World Bank, UNIDO, IFAD, the EEC, UNDP, among other organizations.

They done little in agriculture, although one in irrigation for crops. Are now working on an irrigation project in Ghana.

**Camelot (Pty) Ltd.:** 20A Princess Margaret Rd. P.O. Box 1175, Maseru 100, Telephone 314244, Fax 310130. Contact: Mr. Yrauda Danziger.

Management, marketing and feasibility studies. Irrigation technical assistance. Involved with the LAPIS pinto beans development. Work on other high value horticulture product production and marketing.

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**Maluti Irrigation Co (Pty) Ltd., P.O. Box 964, Maseru 100, Telephone 323915**

Started in 1981 "to design, supply and maintain irrigation schemes, and water systems. They also perform borehole drilling, sell pumps and install them and are a general sales outlet." They offer

- information
- technical services
- skill development
- business advice

All of the above services are given free of charge to clients who have purchased irrigation supplies." Maluti Irrigation is a private company which services its clients.

**Baffoe and Associates (Pty) Ltd. (Nkhatho Bldg above Kea ~~and~~ Fried Chicken), P.O. Box 7590, Maseru 100, Telephone 312269, or 312962.**

General consulting firm (Ghanaian). "The company combines research, training and consultancy with strong focus on development issues of Lesotho and the southern Africa sub-region. Say they provide business advice. (p. 163)

**US Peace Corps: P.O. Box 554, Maseru 100, Telephone 325210.**

The Team met with Mr. Don Russell, Director, and Ms. Nancy Yuill, Associate Peace Corps Director, Private Enterprise Development. The Peace Corps have been here since 1978. They are providing two volunteers at the LCCI, a volunteer with the LAC/SEP, a volunteer working with the Lesotho Council of Women, one with BEDCO, and one with the Handicrafts Centre in Teyameyanong. The Peace Corps strive to work with private sector organizations, to assist secretariats to provide direct services to associations' memberships.

Services include business advice, technical advice, and training in areas of bookkeeping, business planning, pricing/costing, and other business management skills. The Peace Corps Private Enterprise Program has assisted, through the organizations worked with, over 100 members over the past 3 years. The only Peace Corps Private Enterprise program which focuses directly on the agro-enterprise sector is through the Lesotho Agricultural College's LAPIS-support "Student Enterprise Program" (SEP). Contributions from organizations assisted include housing for volunteers. Furthermore, some fees are charged members assisted by the service organizations.

**CARE/International in Lesotho: P.O. Box 682, Maseru 100, Telephone 400693.**

CARE/International in Lesotho is an international private voluntary organization (PVO) with 13 staff. CARE/Lesotho started operations in 1968. They provide on-the-job training, some loans and grants, technical services, and skills development. CARE has been active in agro-forestry (with an emphasis on fruit trees), and, more recently, in the area of edible oil production. The had a small business advisor in

Lesotho until 1991, working primarily on appropriate rural technologies. The Team met with Mr. Peter MacAllister, Country Representative.

CARE/Lesotho promote rural enterprises through their Rural Enterprise Promotion (REP) Project. Services include provide business advice, technical assistance and technology support for edible oil pressing, roofing tiles, candlemaking, baking, fence-making and wheat threshing. CARE/Lesotho employ a manager for each of these six technology areas. They have 250 womens groups producing candles. The candlemaking operates on a very small margin. It is effective because the Ministry of Agriculture provides transportation. There is one bakery group operating an inexpensive oven.

CARE has helped establish five oil presses for sunflower seeds. Each oil press should serve 20 acres. Farmers have just begun to plant sunflowers. CARE does not know whether sunflower production will catch on with farmers, or whether or not the oil presses will work. There is one roofing tile operation with 10 full-time employees. The tile-making enterprise is profitable. The total roofing tile investment was M15,000 which was paid back to CARE within one year. Fence-making proved to be an unappealing venture, as the market is too volatile. Wheat threshing is currently not practiced as this component of CARE's portfolio is being studied further.

**Miser Consulting (Pty) Ltd., Parck Centre (Ex-BNP Centre), Corner of Aerodrome and Parliament Roads, P.O. Box 7611, Maseru 100, Telephone 317700, Fax 323171.**

Miser Consulting is owned by Mr. J. Sebatane, who also owns Triple Nine (Pty) a personnel support company (located in the LNDC Centre).

**Lesotho American Hi-Bred Seeds (Pty) Ltd, 305 Carlton Centre Kingsway, Private Bag A427, Maseru, Lesotho, Telephone 325537, Fax (09266) 310266**

Ahmed Kamel is the General Manager of Lesotho American Hi-Bred Seeds (LAHBS). Pioneer Seed Co. (USA) is a joint partner with LNDC, who own 51% of the shares of LAHBS. Pioneer provide technical staff for the growing seeds as well as technical assistance from Pioneer Seed Co. (USA). The joint venture has had mixed success. The greatest difficulty has been with the board of directors. Investment and joint ventures are possible in Lesotho without going in with LNDC.

### **Lesotho Parastatal Business Support Organizations**

**Business Advisory Promotion Service: Ministry of Trade and Industry, P.O. Box 747, Maseru 100, Telephone 322138**

BAPS started in 1991 as a parastatal. Ms. M. Moeketsi is BAPS's Director. The Business Advisory Promotion Service is a coordinator for the technical assistance MTI provide through its 10 District centers. The major function of BAPS is information collection and dissemination, marketing analyses, and serves as an agency for the UNCDF "Small Business Credit Guaranty Fund" (\$1.5 million). The senior advisor is Mr. Joe Wheelan, Project Director for the BAPS Project, funded under Irish Aid.

Six technical personnel from the MTI collect information and provide market analyses out the BAPS's headquarters. They provide direct assistance to personnel in the 10 district centers. Their focal areas are in trade and industry. Very little agro-enterprise technical capability is located within the BAPS.

No fees are charged to clients. Key collaborating institutions are the UNCDF, UNDP, the Lesotho Bank and BEDCO.

**United Nations "Small-Scale Industries Project" (SSIP):** Lesotho Bank, P.O. Box 301, Maseru 100, Telephone 311115, Fax 310042.

Ms. Ngozi Awa is the Chief Technical Advisor to the SSIP, at the Lesotho Bank. A credit guaranty forms the basis for the SSIP. The SSIP is intended to train BEDCO, MTI, Women and Business and other intermediary agency personnel and extensionists to package loans for financing through the Lesotho Bank (guaranteed by the SSIP). The key personnel are the designated representatives of the participating organizations and the Chief Technical Advisor.

Seventy-one business people were assisted in 1991. These include small industries, services, and agro-enterprises. Agriculture-related enterprises comprised only 9 businesses assisted during the first year of the program. The SSIP staff maintain that this proportion represents the applications profile (ie, less than one in seven applicants from the agro-enterprise sector). Under the SSIP Guaranty Scheme, no collateral is required from clients (ie, 100% of loan amount is guaranteed by the SSIP), and the Lesotho Bank is responsible for analyzing the loan proposal/application, as well as for evaluating the creditworthiness of the applicant.

Additionally, the Lesotho Bank is responsible for monitoring the loan. All lending is at commercial interest rates. The Lesotho Bank is allowed to draw upon the Guaranty after 90 days of non-performance. While the SSIP is new (one year), over 50% of all loans are currently in default. The Lesotho Bank is unable to monitor clients or to apprise the SSIP Advisor on a monthly basis with regard to various loan performance. Applications made by the Lesotho Bank for drawing on the Guaranty have been delayed because of disagreements on loan review procedures.

**Lesotho National Development Corporation (LNDC):** Private Bag A96, LNDC Bldg, Maseru 100, Telephone 324430, Fax 312238

The Team met with Mr. Mateka Mohale, Managing Director. LNDC is a parastatal charged with the responsibilities of a development corporation. LNDC carry out feasibility studies, provides marketing analyses, project analyses, equity finance and management assistance to large-scale investments. The LNDC usually has a majority shareholding in its investments, and welcomes foreign (but little Basotho) investment. There are over 300 professionals accredited to LNDC and its affiliates.

## **SECONDARY INFORMATION ON TRAINING AND SERVICE AGENCIES**

### **Lesotho-Based Training Institutions**

Most of the following training institutions have only marginal importance to agro-enterprise business skills development. They are either governmental or donor agencies. These institutions work primarily with small-scale artisans (or potential artisans) and farmers. Business skills taught tend to be basic bookkeeping and accounts, and some costing. Very little attention is (or can be) paid to such areas as marketing and management.

**Thaba Tseka Skills Training Centre, P.O. Box 267, Thaba Tseka, Telephone 90201.**

**"The centre trains their students to become competent in a trade or skill and then trains them how to utilize that trade or skill in business." TTSTC offers " business advice and consultations and business management".**

**Commercial Training Centre (CTC), P.O. Box 16, Maseru 100, Lesotho, Telephone 323175**

**Started with German assistance. Run by GOL. Offers**

- **accounting**
- **costing**
- **business law**
- **shorthand**
- **typing**

**Centre for Accounting Studies, Private Bage A51, Maseru 100, Lesotho, Telephone 314257**

**Irish bilateral aid. "It is a training are of the Lesotho Institute of Accounts." It offers information, technical services and skills.**

**Rural Technology Unit, Thaba-Tseka Project, P.O. Box 125, Thaba-Tseka 550, Telephone 90233.**

**Started with Canadian assistance in 1978. Run now by the MoA. "The Unit is focused on serving local farmers and other persons with services related to metal and leatherwork."**

**Plenty Canada, P.O. Box 21, Mount Moorosi, Lesotho, Telephone 314467.**

**Provides on-the-job training, skills development and technical advice.**

**Christian Council of Lesotho, P.O. Box 547, Maseru 100, Telephone 323639.**

**The CCL was formed in 1967. They provide information, skills development and financial assistance.**

**Thaba-Khupa Ecumenical Centre, P.O. Box 929, Maseru 100, Telephone 62284.**

The TKEC was founded through the Christian Council of Lesotho "to demonstrate that young people with different church and political backgrounds can live and work together." They offer technical services, information, the usual, business advice and farm management.

### **Lesotho-Based Banks and Credit Institutions**

Two international commercial banks, Barclays and Standard Chartered Bank, operate in Lesotho. The Team met with representatives of the banks and non-banking financial institutions (NBFIs) to verify some of the information obtained from USAID's Credit Advisor, particularly with regard to these banks' views of agro-enterprise potential, their requirements for security/collateral, and for investor/client equity. The issue of client equity requirements is of key importance to this Mission.

### **Lesotho-Based Service Organizations**

**Monitor Business Planning Management and Accounting Services (Pty) Ltd., Oxford Bldg, P.O. Box 1843, Maseru 100, Telephone 325140**

The company was registered in 1986. "The focus of the company has been business consultancy, bookkeeping, and accounting services. The company provides training for the business community. The company has embarked upon computer consultancy and training. The company...offers:

- technical services
- help in making project proposals
- help in filing application forms for loans on behalf of clients"

They expect 40% of the total charge upon commencement of the service.

### **Regional Training Institutions**

A number of South African training institutions work with the agro-enterprise sector, including some working in small enterprise development. The USAID/South Africa Mission has developed a list of these organizations. The Team would like to visit USAID/Pretoria to discuss this work, and to contact several of the organizations directly. In addition, two regional training institutions have been identified during the course of the Team's work.

**Mananga Agricultural Management Centre (MAMC): P.O. Box 20, Mhlume, Swaziland, Telephone 31133, 31334, Telefax 31135**

They do an Agricultural Marketing course in conjunction with the Food Studies Group, Queen Elizabeth House, University of Oxform. It is "a four week course for experienced staff of marketing boards and other marketing managers responsible for the distribution of agricultural products."

**Institute of Development Management: Swaziland and Botswana (see 2.1.3, above)**

### **Regional Enterprise Service Agencies**

The names of the following South African firms have been obtained from various sources.

#### **Agricultural Product Marketing**

City Deep is South Africa's major agricultural market, and is located in Johannesburg. The largest marketers, transporters and agents in City Deep, Johannesburg, are:

- Daaper Bros
- Marco (Tel: 11-6136981)
- RSA Market Agents

Woolworths (South Africa) are currently buying strawberries from Bauer (Lesotho), and will buy any quality berries produced in Lesotho.

#### **Packaging**

Packaging and shipping are areas of key concern for agricultural product marketing. One of South Africa's largest packaging agents are Kohler Packaging, located in Johannesburg (Telephone 11-8131360) and Bloemfontein (51-343871). Another major packaging firm who would be interested in packaging quality Lesotho agricultural products is Nampak in Johannesburg.

#### **Canning**

The largest canning company in South Africa, Langeberg Foods Ltd., has had contacts with the Basotho Fruits and Vegetables Cannery (BFVC). Their contact personnel are Mr. J. R. Burg, Group Research/Development Manager and Mr. Arrie van der Schyf:

P.O. Box 1055  
Oakdale (Cape Province) 7534  
RSA  
Telephone: 021-946-3400

#### **Irrigation**

South Africa has some of the most sophisticated irrigation installation, consulting and servicing firms in the world. Two of the largest sprinkler firms are:

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- AquaPerm (Johannesburg)
- Andracht Bros. (Capetown)

Mike Cohen designs, installs and services drip irrigation systems. He is located in Johannesburg), Queen Gil No. 10, Jo'burg, 011-482-2440

### **Complete Food Handling Service Companies**

Two large South African firms can provide a wide range of technical assistance (turnkey to plant construction). Robinson MacForemen (Johannesburg) and van Opstal (Pretoria).

## **SUMMARY AND CONCLUSIONS**

Most of the training institutions located in Lesotho are parastatal, GOL bodies. They provide services primarily through existing GOL mechanisms, such as the MoA's District Agricultural Offices and the Ministry of Trade and Industry's District Officers. Agencies, such as IDM, train Government and parastatal staff from Lesotho, Swaziland and Basotho. Most other agencies which offer training are non-governmental organizations (NGOs) who offer limited business and home economics training to small-scale entrepreneurs and individual farmers. The larger accounting firms, and a few specialized consulting firms (eg, computer companies) offer tailor-made training to participants. Virtually none of the agencies or institutions based in Lesotho, reviewed thusfar, provide training directly relevant to agro-enterprises, or to commercial agriculture.

Lesotho-based business services are geared primarily to the donor and donor-related community. The private consulting firms, excepting the accounting agencies, contract for the overwhelming majority of their work with bilateral and multilateral aid agencies. The donor-supported service agencies (eg, BAPS and SSIP) work through Government channels, and provide few direct services in the agro-enterprise area.

In discussions held in Lesotho and South Africa, and from contacts elsewhere, several service and training agencies, relevant to Lesotho, are located in South Africa. The Team will investigate these leads further during the next phase.

**ANNEX 3A**

**SOUTH AFRICAN BUSINESS SUPPORT AND SERVICE AGENCIES**

**ANNEX 3A**

**SOUTH AFRICAN BUSINESS SUPPORT AND SERVICE AGENCIES<sup>3</sup>**

**SOUTH AFRICAN AGRO-ENTERPRISE SUPPORT ORGANIZATIONS**

The following list of South African support organizations is derived from the USAID/BANFES mission to South Africa in 1989.

**Laborel Advisory Services CC**

Mr Johann C. van der Westhuizen, President, ICSB Southern Africa  
LABOREL  
1928 Rivonia 2128  
75 Maude Street  
Sandown, Telephone 011-884-1993

**Sunny Side Group, Gwynne Main**

P.O. Box 1198, Johannesburg SA 2000, Tel. 403-5500

**The Urban Foundation,**

Keith Foster, National Coordinator for Economic Advancement  
P.O. Box 1198, Johannesburg SA 2000, Tel. 011-403-5500

**Small Business Development Corporation**

Sonny Tarr, Gen. Mgr of Operational Service  
Richard Napier, Coordinator of Special Projects  
Aida van der Walt, Public Relations Liaison Officer  
Head Office,  
Small Business Development Corporation  
Box 7780  
30 Wellington Road  
Johannesburg 2000, Tel. 011-643-7351

**Get Ahead Foundation**

Israel B. Skosana, Deputy Managing Director  
Daphne Motsepe, Business Loan Officer  
Pro Malepe, Training Officer  
Price Mabula, Marketing Officer  
P.O. Box 3776, Pretoria 0001  
and  
1098 Burnett St.  
Hatfield 0083

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<sup>3</sup> The following is derived almost entirely from a draft report presented to USAID/Pretoria, with confirmations and further discussions with appropriate agencies (where indicated).

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The following list was provided by USAID/Pretoria:

**Contractor Development Agency (an affiliate of the South African Urban Foundation): P.O. Box 1198, Johannesburg, Telephone 011-403-5500.**

The Contractor Development Agency provides centralized marketing, engineering and technical assistance, with financing and training in financial management and planning skills on a one-to-one basis to a limited group (25-30) of skilled black contractors. The CDA seeks to foster strong growth for participating businesses.

<b>Type of Training:</b>	<b>Financial planning and management.</b>
<b>Duration of Training:</b>	<b>Two years per group.</b>
<b>Facilities:</b>	<b>Central office. However, CDA trains on the contract sites.</b>
<b>Years in Operation:</b>	<b>Two years.</b>
<b>Targets:</b>	<b>Skilled black building contractors. Standard 2 to MBA level.</b>
<b>Clients in 1991:</b>	<b>Group of 25.</b>
<b>Sector served:</b>	<b>Construction.</b>
<b>Major Source of Funding:</b>	<b>Development Bank of South Africa and the Urban Foundation</b>

**Gazankulu Training Trust: P.O. Box 270, Giyani, Telephone 01525 -2115/6/7**

The Gazankulu Training Trust (GTT) assists and promotes the provision of training, extension, business and employment skills training and work-placement, mainly for drop-outs.

<b>Type of Training:</b>	<b>Start-up business training, technical skills training for building, motor, metal, electrical industries, secretarial, agricultural, sewing and literacy.</b>
<b>Duration:</b>	<b>Two days to 3 months.</b>
<b>Facilities:</b>	<b>Central office and five training sites.</b>
<b>Years of operation:</b>	<b>Four years.</b>
<b>Number of Professional/ Training Staff:</b>	<b>62</b>
<b>Target group:</b>	<b>Unemployed drop-outs.</b>
<b>Clients in 1991:</b>	<b>3,000</b>

**Sector served:** Various  
**Major Sources of Funding:** Government

**Kangwane Economic Development Corporation:** P.O. Box 935, White River, Telephone 01311-031101.

**Assists in the promotion of viable sustainable businesses.**

**Type of Training:** Township MBA, financial courses for club committees, cost and pricing.  
**Duration:** Various lengths, ranging from several days to several months.  
**Facilities:** Training center.  
**Years in Operation:** two years.  
**Number of Professions/  
Training Staff:** 15 trainers plus 80 professionals in the Division of Small Business.  
**Targets:** Small-scale enterprises.  
**Clients in 1991:** Not available.  
**Sector served:** Manufacturing, retail, service and construction.  
**Major source of Funding:** Government.  
**Constraints:** Funds and suitably qualified staff.

**Kwazulu Training Trust:** P.O. Box 10094, Ashwood, Telephone 031-703-1155.

**Principle features:** Training for job creation.  
**Type of Training:** Retail management, building management and agricultural contracting.  
**Duration:** 15 days to 10 months.  
**Facilities:** Training center.  
**Years of Operation:** 11  
**Number of Professional/  
Training Staff:** 60  
**Targets:** 80% informal sector, 20% formal sector businesses.  
**Number trained in 1991:** Not available.

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**Major Source of Funding:** Government

**Constraints:** Funding, and a consequent inability to completely service the demand due to size of market, lack of basic infrastructure.

**Private Sector Counselling Organization (an Urban Foundation Project):** P.O. Box 1198, Johannesburg, Telephone 011-403-5500

The DSCO's goals are to develop black middle managers by training them as counselors to black entrepreneurs over an extended period as the enterprise demonstrates increased viability.

**Type of Training:** Courses and on-the-job training for counselors; technical assistance as needed by and for the entrepreneur.

**Duration:** 24 month counselling relationship

**Facilities:** Counselling takes place on-site in the townships.

**Years of Operation:** 3

**Number of Professional/  
Training Staff:** 28

**Targets:** Black small scale entrepreneurs.

**Clients in 1991:** 250

**Sectors Served:** Manufacturing, retail, service, construction and transport.

**Major Source of Funding:** Urban Foundation, secondment of counselors from companies.

**Constraints:** Lack of counselors.

**Small Business Development Corporation Ltd.:** P.O. Box 7780, Johannesburg, Telephone 011-643-7351.

Provide enterprise development assistance through financing, business support services (eg, training, information, advice, counselling, mentoring), and providing business premises.

**Type of Training:** General business skills and special topics.

**Duration:** Ranges from 3 hours to 3 months.

**Facilities:** 40 facilities in 13 areas of operation.

**Years of Operation:** 10

<b>Number of Professional/ Training Staff:</b>	89
<b>Targets:</b>	South African small- and medium-scale enterprises.
<b>Clients in 1991:</b>	5,266
<b>Sectors Served:</b>	All
<b>Major Source of Funding:</b>	Fees and revenues.
<b>Constraints:</b>	Funding, number of staff.

**PRIVATE SECTOR SMALL-SCALE ENTERPRISE TRAINING AND DEVELOPMENT  
ORGANIZATIONS**

**Baynesfield Training Centre:** P.O. Box Baynesfield, Baynesfield. Telephone: 0332-410094.

Provides modern training in agricultural production.

<b>Types of Training:</b>	Technical agricultural skills
<b>Duration:</b>	3 days to several weeks.
<b>Facilities:</b>	Hostel, dining room and 5 lecture rooms.
<b>Years of Operation:</b>	6
<b>Number of Professional/ Training Staff:</b>	8
<b>Targets:</b>	Farm workers, managers and owners.
<b>Clients in 1991:</b>	1,013
<b>Sectors Served:</b>	Construction, agriculture and transport.
<b>Major Source of Funding:</b>	Private sector

**Business Skills and Development Centre:** 4 Loop St., Capetown, Telephone. 021-418-1690.

The BSDC provides relevant, practical business skills for black women to start office-related businesses or to enter as employees

<b>Types of Training:</b>	Bookkeeping and accountancy, developing business plans.
<b>Duration:</b>	15 weeks

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**Facilities:** 2 training rooms and computer room

**Years of Operation:** 5

**Number of Professional/  
Training Staff:** 5

**Targets:** Black women

**Clients in 1991:** 100

**Sector Served:** Service

**Major Source of Funding:** Private sector

**Cooperative Planning and Education:** P.O. Box 185, Witswatersrand. Telephone 011-339-6752.

The CPE provides training to develop viable businesses owned by cooperatives and communities.

**Type of Training:** On-site training in developing business plans, feasibility studies, management skills

**Duration:** One month

**Years of Operation:** 2

**Number of Professional/  
Training Staff:** 7

**Targets:** Cooperatively owned businesses, civic associations wishing to establish and run businesses.

**Clients in 1991:** 50 organizations and civic associations.

**Sectors Served:** Service, construction and transport.

**Major Source of Funding:** Donor agencies.

**Foundation for Entrepreneurship Development:** P.O. Box 18404, Dalbridge. Telephone: 031-301-0681.

The FED works to develop cottage industries through a variety of training means.

**Type of Training:** Assorted business skills, basic sewing skills, cottage industry skills

**Duration:** 6-17 weeks

**Facilities:** Offices in Johannesburg, Pretoria and Durban  
**Years of Operation:** 4  
**Number of Professional/ Training Staff:** 17  
**Clients in 1991:** 200  
**Sectors Served:** Manufacturing, cottage industries.  
**Major Source of Funding:** Fees and revenues.

**Get Ahead Foundation:** P.O. Box 3776, Pretoria. Telephone 342-2186

The Get Ahead Foundation provides credit, counselling and training services to help develop black small-scale enterprises.

**Type of Training:** General business, credit/loan management, marketing, costing, bookkeeping, production management  
**Duration:** Usually 3 days  
**Facilities:** 15 offices in Cape Town, Durban, Northern Transvaal, Pretoria-Witwatersrand-Vaal  
**Years of Operation:** 7  
**Number of Professional/ Training Staff:** 61  
**Targets:** Black small-scale enterprises  
**Clients in 1991:** 7,000  
**Sectors Served:** Manufacturing, retail service, construction, transport  
**Major Source of Funding:** Donor agencies.

**Get Up Lending Trust:** P.O. Box 67488, Bryanston, Telephone 702-1158

Get Up Lending Trust provides unsecured loans to those businesses unable to borrow from formal lending institutions.

**Type of Training:** Stock-control, bookkeeping, dressmaking, quality upgrade, manufacturing for job creation, developing business plans.  
**Duration:** Variable

**Facilities:** Training is done in Pretoria-Witswaterrand-Vaal, Orange Free State, Cape Town, Port Elizabeth, and Namibia, mainly in townships.

**Years of Operation:** 6

**Number of Professional/  
Training Staff:** 7 paid and volunteer staff

**Clients in 1991:** 445

**Sectors Served:** Manufacturing, retail, service, construction and transport

**Major Source of Funding:** Private sector, fees and interest

**HODECO:** P.O. Box 6378, Johannesburg. Telephone 011-495-8389.

HODECO focuses primarily on entrepreneurial development of black building contractors and black businesses allied to the housing industry (eg, estate agents, draftsmen, etc.)

**Type of Training:** Management skills

**Duration:** One month

**Years of Operation:** 6

**Facilities:** All training and services provided on-site

**Number of Professional/  
Training Staff:** 12 full-time staff, 5 part-time staff

**Targets:** Black building contractors and allied industry entrepreneurs

**Clients in 1991:** 100

**Sectors Served:** Construction

**Major Source of Funding:** Private sector

**Informal Business Training Trust:** P.O. Box 405, Rondebosch, Cape Town, Telephone: 021-686-9063

Provide" business training for survivalist entrepreneurs in the informal sector".

**Type of Training:** Comprehensive course in developing business plan, pricing, credit/loan management, business management, marketing and stock control.

**Duration:** 5 days

**Facilities:** 3 training rooms

**Number of Professional/  
Training Staff:** 6

**Targets:** Black informal sector business entrants, predominantly women.

**Clients in 1991:** 2,000

**Major Source of Funding:** Private sector

**Institute for Democratic Economic Development:** P.O. Box 24289, Lansdowne. Telephone 021-73-3868

The Institute works to build capacity of black business organizations mainly through information dissemination.

**Years of Operation:** 2

**Number of Professional/  
Training Staff:** 2

**Targets:** Black businesses

**Major Source of Funding:** Private sector

**Matchmaker Services:** P.O. Box 2155, Johannesburg. Telephone 011-331-3937.

"Stimulating self-employment in the informal sector."

**Type of Training:** Business skills and sewing-related technical skills.

**Duration:** 8 weeks

**Years of Operation:** 13 training centers in townships

**Number of Professional/  
Training Staff:** 41

**Targets:** Undereducated informal sector business entrants

**Sectors Served:** Manufacturing

**Major Source of Funding:** Private sector

**COMMERCIAL BUSINESS COLLEGES AND TRAINING COMPANIES**

**Sullivan's Practical Business Courses: P.O. Box 16746, Boksburg. Telephone 4252241/2**

**Provides post-matriculation level business training.**

<b>Type of Training:</b>	<b>Courses in basic and advanced bookkeeping, developing business plans, financial management, business management, developed by Damelin Management School</b>
<b>Duration:</b>	<b>10 days to 3 months</b>
<b>Years of Operation:</b>	<b>1</b>
<b>Number of Professional/ Training Staff:</b>	<b>1 full-time, 4 part-time lecturers.</b>
<b>Targets:</b>	<b>Matriculants who want business skills.</b>
<b>Clients in 1991:</b>	<b>150</b>
<b>Sectors Served:</b>	<b>Service</b>
<b>Major Source of Funding:</b>	<b>Fees</b>

**Hampton College: P.O. Box 47253, Greyville, Durban. Telephone 031-368-3393/4.**

**Provide business diploma course.**

<b>Type of Training:</b>	<b>Credit control, business management</b>
<b>Duration:</b>	<b>3 months to 1 year</b>
<b>Facilities:</b>	<b>5 rooms and resource library</b>
<b>Years of Operation:</b>	<b>7</b>
<b>Number of Professional/ Training Staff:</b>	<b>18</b>
<b>Targets:</b>	<b>Small scale enterprise owners and aspirants</b>
<b>Clients in 1991:</b>	<b>270</b>
<b>Sectors Served:</b>	<b>Manufacturing, retail and service</b>
<b>Major Source of Funding:</b>	<b>Fees and private sector</b>

**The Learning Methods Group: P.O. Box 2395, Primrose. Telephone 011-51-8071**

**"Develops, markets and delivers need-based experiential training programs."**

**Type of Training:** Business counsellor training, business skills, building customer relations  
**Duration:** 2 days to 2.5 months  
**Facilities:** Office  
**Years of Operation:** More than 10  
**Number of Professional/  
Training Staff:** 6  
**Targets:** Organizations needing training services  
**Sectors Served:** Manufacturing, service and transport.  
**Major Source of Funding:** Private sector

### **MEMBERSHIP ORGANIZATIONS**

**National African Federated Transport Academy: P.O. Box 4752, Johannesburg. Telephone 011-886-3936**

**They work to change skills to orient people into entrepreneurs and owners of small businesses.**

**Type of Training:** Transport management, personal development and passenger transport.  
**Duration:** 5-10 days  
**Facilities:** 8 training rooms, and hostel and dining facilities  
**Number of Professional/  
Training Staff:** 9  
**Targets:** Black potential entrepreneurs with transport industry skills, exclusively male  
**Clients in 1991:** 17 companies  
**Sectors Served:** Transport  
**Major Source of Funding:** Private sector and fees

**National African Federated Chamber of Commerce and Industry (NAFCOC):** Private Bag X81, Shoshanguve. Telephone 01214-3204

The NAFCOC is a membership organization "devoted to economic empowerment of the black community through advocacy and programs."

**Type of Training:** Recordkeeping, stock control, VAT, business management

**Duration:** 1-5 days

**Years of Operation:** 7

**Number of Professional/  
Training Staff:** 16

**Targets:** Black-owned small-scale and medium-scale enterprises

**Clients in 1991:** 100,000 members

**Sectors Served:** all

**Major Source of Funding:** Private sector, fees and revenues

**Project Spear:** P.O. Box 269, Pretoria. Telephone 012-325-6123

Project Spear is a project of the Southern Africa Black Taxi Association. It offers technical training in driving for the black combi-taxi industry. It also works to ensure that members continue their licenses.

**Type of Training:** Defensive driving

**Duration:** 1-2 days

**Facilities:** Franchised nationwide.

**Years of Operation:** 2

**Number of Professional/  
Training Staff:** 4

**Targets:** Black taxi drivers

**Clients in 1991:** 52,000 members

**Sectors Served:** Transport

**Major Source of Funding:** Private sector, donor support

**PUBLIC SECTOR UNIVERSITY OR TECHNICIAN-BASED TRAINING AND  
DEVELOPMENT ORGANIZATIONS**

**Bureau for Development Research and Training (BDRT): Private Bag X1, University of Transkei, Umtata**

Work to develop small business sector in Transkei through training, consultation and advisory services.

**Type of Training:** Retail management, basic bookkeeping, cash management

**Duration:** 3 days to 7 months

**Years of Operation:** 5

**Number of Professional/  
Training Staff:** 6

**Targets:** Informal businesses, some formal small-scale enterprises needing assistance

**Sectors Served:** Retail and service

**Major Source of Funding:** Government

**Institute for Small Business:** University of the Western Cape, Private Bag X17, Bellville. Telephone: 021-959-2620

The Institute for Small Business promotes "development and growth of an entrepreneurial culture through training courses, seminars to improve business skills, improving the survival and growth of small firms through consultation and advisory services; researching needs, problems and constraints of small firms."

**Type of Training:** Starting your own business, cashflow management, bookkeeping

**Duration:** Varies, usually 2-3 days

**Facilities:** 4 training rooms and comprehensive library

**Years of Operation:** 9

**Number of Professional/  
Training Staff:** 7

**Targets:** Small-scale enterprises, unemployed aspiring entrepreneurs

**Clients in 1991:** 800

**Sectors Served:** All except agriculture

**Major Source of Funding:** Government

**EKSO:** P.O. Box 339, University of the Orange Free State, Bloemfontein. Telephone 051-401-2768.

**Type of Training:** Management, marketing, financial management

**Duration:** Several days.

**Facilities:** Training center.

**Years of Operation:** 10

**Number of Professional/  
Training Staff:** 6

**Targets:** Small-scale enterprises

**Clients in 1991:** 1,000

**Sectors Served:** Retail

**Major Source of Funding:** Government

**ANNEX 3B**  
**QUESTIONNAIRES**

QUESTIONNAIRE 1

LESOTHO AGRO-ENTERPRISE INITIATIVES SERVICE SECTOR  
REVIEW TRAINING QUESTIONNAIRE

1. DATE \_\_\_\_\_ NAME OF INTERVIEWER \_\_\_\_\_

2. NAME OF ORGANIZATION \_\_\_\_\_

3. ADDRESS (POST OFFICE BOX) AND LOCATION (STREET/ROUTE): \_\_\_\_\_

TELEPHONE NO. \_\_\_\_\_ FAX NO. \_\_\_\_\_  
TELEX (IF APPROPRIATE) \_\_\_\_\_

4. TYPE (EG, GOVERNMENT, PRIVATE MGT, PRIVATE ACCOUNTING)  
OF ORGANIZATION: \_\_\_\_\_

5. NAME AND POSITION OF PERSON INTERVIEWED: \_\_\_\_\_

6. WHEN WAS ORGANIZATION ESTABLISHED? \_\_\_\_\_

7. TYPE OF BUSINESS SKILLS TAUGHT (LIST BY ORDER OF PRIORITY)  
1. \_\_\_\_\_  
2. \_\_\_\_\_  
3. \_\_\_\_\_  
4. \_\_\_\_\_

8. ARE BUSINESS SKILLS TAUGHT (TICK WHERE APPROPRIATE):  
IN-HOUSE \_\_\_\_\_  
EXTRA-MURALLY \_\_\_\_\_  
ON-THE-JOB \_\_\_\_\_  
OTHER (SPECIFY): \_\_\_\_\_

9. WHAT TYPE OF CERTIFICATE/LICENSE/DEGREE/ETC. AWARDED UPON COMPLETION OF  
TRAINING:  
1. \_\_\_\_\_  
2. \_\_\_\_\_  
3. \_\_\_\_\_

10. NAMES AND QUALIFICATIONS OF KEY TRAINING STAFF (AND FIELDS THEY SPECIALIZE  
IN)?  
1. \_\_\_\_\_  
2. \_\_\_\_\_  
3. \_\_\_\_\_

11. NAMES OF KEY INDIVIDUALS/ORGANIZATIONS TRAINED AND LOCATIONS:  
1. \_\_\_\_\_  
2. \_\_\_\_\_  
3. \_\_\_\_\_

12. HOW MANY INDIVIDUALS/ORGANIZATIONS TRAINED IN PAST 3 YEARS (ESTIMATE)  
INDIVIDUALS \_\_\_\_\_ ORGANIZATIONS \_\_\_\_\_

13. PLEASE OBTAIN PROSPECTUS/QUALIFICATION STATEMENT FROM ORGANIZATION

14. DOES THE ORGANIZATION CHARGE A FEE TO THE TRAINEES/BENEFICIARIES?  
YES \_\_\_\_\_ NO \_\_\_\_\_

15. IF SO, ON WHAT BASIS AND AT WHAT RATES (EG, PER HOUR, PER WEEK,  
PER TERM, ETC. AND SPECIFY DURATION):  
1. \_\_\_\_\_ PER \_\_\_\_\_  
2. \_\_\_\_\_ PER \_\_\_\_\_

QUESTIONNAIRE 2

LESOTHO AGRO-ENTERPRISE INITIATIVES SERVICE SECTOR  
REVIEW BANKING QUESTIONNAIRE

1. DATE \_\_\_\_\_ NAME OF INTERVIEWER | \_\_\_\_\_ |

2. NAME OF BANK \_\_\_\_\_

3. ADDRESS (POST OFFICE BOX) AND LOCATION (STREET/ROUTE): \_\_\_\_\_

TELEPHONE NO. \_\_\_\_\_ FAX NO. \_\_\_\_\_  
TELEX (IF APPROPRIATE) \_\_\_\_\_

4. TYPE (IE, GOVERNMENT, COOP, PRIVATE, ETC.) OF BANK \_\_\_\_\_

5. NAME AND POSITION OF PERSON INTERVIEWED: \_\_\_\_\_

6. WHEN WAS BANK ESTABLISHED? \_\_\_\_\_

7. TYPE OF BANK SERVICES PROVIDED (LIST BY ORDER OF PRIORITY)  
1. \_\_\_\_\_  
2. \_\_\_\_\_  
3. \_\_\_\_\_

8. ARE BUSINESS SKILLS PROVIDED TO CLIENTS (SPECIFY): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9. NAMES AND QUALIFICATIONS OF KEY PERSONNEL (AND FIELDS THEY  
SPECIALIZE IN)?  
1. \_\_\_\_\_  
2. \_\_\_\_\_  
3. \_\_\_\_\_

10. HOW MANY CLIENTS/CUSTOMERS ASSISTED/SERVED IN PAST 3 YEARS (ESTIMATE)  
INDIVIDUALS | \_\_\_\_\_ | ORGANIZATIONS | \_\_\_\_\_ |

11. PLEASE OBTAIN PROSPECTUS/QUALIFICATION STATEMENT FROM ORGANIZATION  
| \_\_\_\_\_ |

12. ALSO OBTAIN LENDING EXPERIENCE/BANK POLICIES/BOARD GUIDELINES/SPECIAL  
ISSUES/CAPITAL DEVELOPMENT/ WORKING CAPITAL/ LEASING/ JOINT VENTURES  
FRANCHISE/EQUITY PARTICIPATION  
1. : \_\_\_\_\_  
2. \_\_\_\_\_

13. TYPES OF CLIENTS/CUSTOMERS RANKED BY AGRO-ENTERPRISE (TICK APPROPRIATE):  
TYPE LOCATION

IRRIGATION		
HIGH VALUE AGRICULTURE		
LIVESTOCK		
POULTRY		
FEEDLOT		
TRANSPORT		
TRADING WHOLESALE, RETAIL, STORAGE		
FARM LEVEL CAPITAL IMPROVEMENTS		
OTHER (SPECIFY): _____		

14. BANKING SYSTEMS: \_\_\_\_\_  
15. FUNCTIONING OF INTERNAL ACCOUNTS PROCEDURES: \_\_\_\_\_

QUESTIONNAIRE 3

LESOTHO AGRO-ENTERPRISE INITIATIVES SERVICE SECTOR REVIEW BUSINESS, TECHNICAL, TECHNOLOGY, MANAGEMENT AND MARKETING SERVICES QUESTIONNAIRE

1. DATE \_\_\_\_\_ NAME OF INTERVIEWER \_\_\_\_\_

2. NAME OF ORGANIZATION \_\_\_\_\_

3. ADDRESS (POST OFFICE BOX) AND LOCATION (STREET/ROUTE): \_\_\_\_\_

TELEPHONE NO. \_\_\_\_\_ FAX NO. \_\_\_\_\_  
 TELEX (IF APPROPRIATE) \_\_\_\_\_

4. TYPE OF ORGANIZATION (IE, GOVERNMENT/PRIVATE MGT SERVICES, ACCTING, ETC.) \_\_\_\_\_

5. NAME AND POSITION OF PERSON INTERVIEWED: \_\_\_\_\_

6. WHEN WAS ORGANIZATION ESTABLISHED? \_\_\_\_\_

7. TYPE OF ADVISORY SERVICES PROVIDED (LIST BY ORDER OF PRIORITY)

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

8. NAMES AND QUALIFICATIONS OF KEY PERSONNEL (AND FIELDS THEY SPECIALIZE IN)?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

9. HOW MANY CLIENTS ASSISTED/SERVED IN PAST 3 YEARS (ESTIMATE)  
 INDIVIDUALS \_\_\_\_\_ ORGANIZATIONS \_\_\_\_\_

10. PLEASE OBTAIN PROSPECTUS/QUALIFICATION STATEMENT FROM ORGANIZATION  
 \_\_\_\_\_

11. PLEASE LIST KEY ASSOCIATE/COLLABORATING FIRMS:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

12. TYPES OF CLIENTS RANKED BY AGRO-ENTERPRISE (TICK APPROPRIATE):  
 TYPE \_\_\_\_\_ LOCATION \_\_\_\_\_

IRRIGATION	_____	_____
HIGH VALUE AGRICULTURE	_____	_____
LIVESTOCK	_____	_____
POULTRY	_____	_____
FEEDLOTS	_____	_____
TRANSPORT	_____	_____
TRADING WHOLESALE, RETAIL, STORAGE	_____	_____
FARM LEVEL CAPITAL IMPROVEMENTS	_____	_____
INFRASTRUCTURE (ELECTRIFICATION)	_____	_____
OTHER (SPECIFY): _____	_____	_____

13. HAS FIRM DONE WORK IN LESOTHO? YES \_\_\_\_\_ NO \_\_\_\_\_

14. FEE STRUCTURE (SPECIFY) \_\_\_\_\_

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QUESTIONNAIRE 4

LESOTHO AGRO-ENTERPRISE INITIATIVES SERVICE SECTOR REVIEW  
BUSINESS ASSOCIATIONS QUESTIONNAIRE

1. DATE \_\_\_\_\_ NAME OF INTERVIEWER \_\_\_\_\_

2. NAME OF ORGANIZATION \_\_\_\_\_

3. ADDRESS (POST OFFICE BOX) AND LOCATION (STREET/ROUTE): \_\_\_\_\_

TELEPHONE NO. \_\_\_\_\_  
TELEX (IF APPROPRIATE) \_\_\_\_\_

FAX NO. \_\_\_\_\_

4. TYPE OF ORGANIZATION (IE, GOVERNMENT, PARASTATAL, PRIVATE, ETC.) \_\_\_\_\_

5. NAME AND POSITION OF PERSON INTERVIEWED: \_\_\_\_\_

6. WHEN WAS ORGANIZATION ESTABLISHED? \_\_\_\_\_

7. TYPE OF ADVISORY SERVICES PROVIDED (LIST BY ORDER OF PRIORITY)

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_

8. NAMES AND QUALIFICATIONS OF KEY PERSONNEL (AND FIELDS THEY SPECIALIZE IN)?

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_

9. HOW MANY ACTIVE MEMBERS IN THE ASSOCIATION? \_\_\_\_\_

10. BREAKDOWN OF MEMBERS BY AGRO-ENTERPRISE CATEGORY:

IRRIGATION	_____
HIGH VALUE AGRICULTURE	_____
LIVESTOCK	_____
POULTRY	_____
FEEDLOTS	_____
TRANSPORT	_____
TRADING WHOLESALE, RETAIL, STORAGE	_____
FARM LEVEL CAPITAL IMPROVEMENTS	_____
INFRASTRUCTURE (ELECTRIFICATION)	_____
OTHER (SPECIFY): _____	_____

11. WHAT ARE MEMBERSHIP FEES (SPECIFY ANNUAL, BY UNIT SOLD, OTHER)? \_\_\_\_\_

12. HOW MANY MEMBERS ASSISTED/SERVED IN PAST 3 YEARS (ESTIMATE) | \_\_\_\_\_ |

13. PLEASE OBTAIN PROSPECTUS/QUALIFICATION STATEMENT FROM ORGANIZATION \_\_\_\_\_

14. PLEASE LIST KEY ASSOCIATE/COLLABORATING FIRMS/ORGANIZATIONS, IF ANY:

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_

15. FEE STRUCTURE FOR SERVICES (SPECIFY) \_\_\_\_\_

16. LIST MAJOR NEEDS OF MEMBERS WHICH ARE CURRENTLY NOT MET, AND WHY, AND WHO COULD BEST MEET THOSE NEEDS? \_\_\_\_\_

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**ANNEX 4**

**LABOR FORCE AND EMPLOYMENT INFORMATION FOR LESOTHO**

## ANNEX 4

**LABOR FORCE AND EMPLOYMENT INFORMATION FOR LESOTHO**

In the absence of detailed information from the 1986 population census, there are three principal sources of data about the structure of employment and the labor force in Lesotho: the labor force survey of 1985/86; the household budget survey of 1986/87; and the Bureau of Statistics data on employment in the industrial sector. A fourth set of information here concerns employment in the mines, derived from The Employment Bureau of Africa Limited (TEBA).

**FROM LABOR FORCE SURVEY, 1985/85 (LFS)**

This survey was undertaken in two rounds in urban areas, and in five rounds in the rural parts of the country. To date, only the results of the first round have been compiled and published. This carefully designed study provides important information about the overall structure of the population and the labor force. Their estimates for 1985/86 are as follows (in thousands):

	Males	Females	Total
Total population	853	900	1,753
Population 0-11 years old	318	311	629
Population 12 + years old	535	589	1,124
Economically inactive (students, homemakers, others)	126	374	500
Economically active (labor force)	409	215	623
Of which: migrant workers outside Lesotho	154	11	166
Economically active, inside Lesotho	254	203	458
Unemployed	89	54	143
Domestically employed	165	149	315

(Source: LFS, pp. 25 & 27)

Note that, according to these figures, in spite of 154,000 males working as migrants outside the country, there were more males employed domestically than females. This is largely because 63% of the adult females were considered as economically inactive (mostly: "homemakers"). This significantly understates the role of women in the economy.

Of the 315,000 people domestically employed, the breakdown by employment status is as follows (in thousands):

Employers	14
Own account workers/farmers	107
Unpaid family workers	52
Paid employees:	
regular wage/salary earners	110
casual workers	22
Others	11

(Source: LFS, p. 42)

Of the 143,000 unemployed persons, 56% had previously been employed, while the other 44% had never previously had a job.

The labor force participation rate (i.e. share of the adult population that is in the labor force) varies sharply by gender and by education level, as the following table shows:

	Males	Females
No formal education	88.6	31.9
Some primary education	70.7	34.6
Primary education completed	67.0	38.0
JC completed	70.9	46.5
COSC completed	78.5	79.2
Post COSC	78.5	62.5
Other vocational or technical training	74.8	61.9
Total	76.4	36.5

Source: LFS, p. 52.

The interpretation of this table is as follows: of males with no formal education, 88.6% were in the labor force, whereas only 31.9% of females with no education were in the labor force. For women, the table shows the striking extent to which increasing education is associated with increasing participation in the labor force; education draws women into the labor force. Among males, by contrast, the highest participation rate is among those with no formal education at all.

The relationship between education and employment can also be presented in a different way, showing the percentage breakdown by education level of those currently employed:

	Males	Females
No formal education	36.0	11.5
Some primary education	48.9	67.1
Primary education completed	8.3	15.1
JC completed	3.5	4.0
COSC completed	1.8	1.2
Post COSC	2.1	0.8
Other vocational or technical training	0.4	0.2
Total	100.0	100.0

(Source: LFS, p. 58)

This table shows that fewer working women than working men are in each of the extremes of the education pyramid: fewer have no education at all, but fewer also have the school certificate or more. It provides an important qualification to the oft-heard assertion that women in the labor force (i.e. the 423,000 that are recorded as actually working) are more educated than men.

The survey provides some interesting information about migrant workers outside Lesotho (all in percent of all migrants):

Males	93.1%
Married	79.7%
Not completed primary education	81.3%
Born in lowlands	47.6%
Have been employed abroad for 12 months or more	80.4%

Perhaps the most striking of these figures is that over 80% of those working outside the country have not completed primary school.

**HOUSEHOLD BUDGET SURVEY, 1986/87:  
"INCOMES, EXPENDITURE AND CONSUMPTION OF BASOTHO HOUSEHOLDS:  
MAIN RESULTS" (HBS)**

Among the interesting findings from this survey are the following.

40.4% of all households have at least one member of the household working as a migrant worker. In urban areas, this figure is only 25.2%, while in rural areas, it is 43%. (HBS, p. 30). For 35% of all households (37.4% of those in rural areas), migrant cash remittances are the main source of household income (HBS, p. 29). Both of these figures are lower for mountain areas, and substantially higher for

the rural lowland areas, the main source of migrant labor and the area most reliant on migrant remittances. One striking finding here is that, among rural households, only 26.7% of all households reported that the main source of their income was agriculture. For 52.7%, the main source was worker's remittances. Other non-farm sources in rural areas were wages and salaries, and business income.

Average monthly income per household in Maseru is almost exactly double the comparable figure for rural Lesotho. Households whose primary source of income is migrant remittances had average household income which was about 28% above the national average, but was still below that of those households primarily reliant on business income or on wages and salaries (HBS, p. 45).

### BUREAU OF STATISTICS DATA ON INDUSTRIAL EMPLOYMENT

Bureau of Statistics publications indicate employment in mining and manufacturing of 23,603, of which about 35% (8,238) are in enterprises with less than 50 workers.<sup>1</sup> This could be compared with an estimate from the GEMINI survey of employment in manufacturing enterprises with less than 50 workers of 92,000, more than ten times the BoS estimate. The BoS report states that "about 80% of the industrial employment is accounted for by establishments with 50 or more persons employed" (p. 2). If one believes the results of the GEMINI survey, this proportion is backwards; over 85% of all manufacturing employment is in enterprises with less than 50 workers. It suggests that the BoS data on manufacturing leave out major segments of the economy.

### THE EMPLOYMENT BUREAU OF AFRICA LIMITED (TEBA)

This is an organization operated by the Chamber of Mines of South Africa to handle their recruitment of miners for gold (the principal market) as well as platinum, copper, tin and coal. It operates in all of the countries of Southern Africa where there is recruitment of miners for the mines.

The Basotho complement on TEBA member mines has evolved as follows:

1960	45,698
1970	62,576
1980	100,458
1987	108,895
1988	105,116
1989	105,000
1990	103,040
1991	93,319

These are annual average figures; by December, 1991, the figure had declined to 90,826. This number was supplemented by 4,693 workers recruited to work in the coal mines; this is a new activity, which is helping take up some of the slack from declining recruitment for gold and platinum mines.

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<sup>1</sup> Statistical Report No. 4:1991, April, 1991, p. 3. This estimate, which refers to the first half of 1990, includes small scale establishments, based on data from 1987 presented in this same source, assuming that each enterprise has only one worker.

Basotho workers currently constitute approximately 22% of the total work force on the mines, a figure which has been rising slightly in recent years. If that percentage remains at that level, and given the projected total employment in the mines for 1992 (330,000), this would imply a decline of the Basotho complement in 1992 to about 72,600 persons. Thus, the total recruitment through TEBA had already declined by about 14% from its peak in 1987 until 1991; it is projected that mining recruitment will decline by an additional 25% in 1992.

Since the mid-70s, the industry has been operating with approximately 60% South African and 40% foreign workers (before 1974, those percentages were reversed). Basotho miners are favorably viewed by the industry, for a whole variety of reasons. They are currently the biggest foreign supplier of labor to the mines. It is impossible to predict how this will change in the future.

The TEBA office has made estimates of industry average earnings per mine worker, as follows (in rand per month):

1970	R 17.33
1980	169.75
1985	578.00 (incl. 120 of benefits)
1991	1,000.00

These are average figures; there is a wide range around these averages. In 1980, 8.9% of the recruits were classified as novices. That share has declined over time with the cut-back in total new recruits; it is now in the range 2-4%. Up to now, anyone who has worked on the mines has an almost automatic right to renew his contract, if he so wishes. With the declining total numbers recruited, that has meant only very limited opportunities for new people to enter the system; with further declines, it seems likely that even that right will disappear.

**ANNEX 5**

**THE SOCIOCULTURAL, PHYSICAL AND ECONOMIC ENVIRONMENT  
FOR THE GROWTH OF AGRO-INDUSTRIES**

## ANNEX 5

### THE SOCIOCULTURAL, PHYSICAL AND ECONOMIC ENVIRONMENT FOR THE GROWTH OF AGRO-INDUSTRIES

The issues to be addressed here can be presented in terms of three questions:

- Is there a shortage of people in Lesotho with an entrepreneurial spirit?
- What factors in the environment affect the extent to which and the ways in which this entrepreneurial spirit expresses itself?
- What are the implications of these social, cultural and environmental factors in terms of project design?

These three questions are handled in turn.

1. Is there a shortage of individuals in Lesotho with an entrepreneurial spirit? The evidence seems clear that the answer is no. In discussion of this question with a variety of people, Basotho as well as foreign, each was ready to tell stories about individuals who are acting in ways that are thoroughly entrepreneurial, responding to new opportunities by selling in new markets or by producing new products in response to shifts in demand. At a more systematic level, one of the recurring themes of studies by sociologists and anthropologists in Lesotho is the diversity of creative ways in which people respond to new opportunities or to pressures on old lines of activity. Examples include:

- the rapid expansion of the number of traders, following the construction of the Southern Perimeter Road. As soon as the road was built (and in fact, even before it was completed), the numbers of cafes, grocers and general dealers had jumped by almost 50% (see Judith Gay, 1985, p. 111);

- the rapid expansion in the number of skilled artisans, responding to rising demand as a result of increasing incomes; "there is so much activity in home construction that many masons, roofers and carpenters have as much work as they can handle" (see Judith Gay, 1984, pp. 14-16);

- a substantial number of people expressing a strong wish to buy fruit trees, particularly improved peaches, apples and apricots, in an exploration of interest in different types of new activities for the ICFARM project (John Gay, 1986, pp. 28-29);

- a shift of emphasis among rural non-farm enterprises, as people move away from traditional activities (such as grass weaving) towards more modern activities (such as block making) (Senaoana, 1984, p. 19).

These and other similar detailed sociological investigations confirm the fact that, when new opportunities arise, there are significant numbers of people waiting to respond to those opportunities.

The final piece of evidence to be advanced here is derived from the GEMINI survey. That survey explored the numbers of small and micro enterprises in the country. Since the same approach was also followed in four other African countries, it is possible to present some comparative data. The results, expressed as the numbers of enterprises per thousand people in the relevant population, are as follows:

	Lesotho	Swaziland	Zimbabwe	Kenya	South Africa
Major city/cities	77	49	80	60	36
Secondary towns	68	43	97		
Rural areas	40	73	74		
Whole area surveyed	44	64	78		

There are several things of interest in this table. In a comparative context, it suggests that the number of small enterprises per thousand people in Maseru is comparable to that in the two major cities of Zimbabwe, and is substantially higher than in Mbabane/Manzini (in Swaziland), or in the urban, low-income urban areas studied in Kenya and South Africa. In rural areas, by contrast, the numbers of enterprises in Lesotho was substantially lower relative to the population than in the other two countries studied (the Kenyan and South African studies were restricted to urban locations). In absolute terms, if the average Basotho household is made up of 5.2 persons, this implies that about 40% of all urban households and 21% of all rural households were engaged in some form of non-farm, income-generating activity other than wage employment. These figures make clear that the number of people engaged in commercial activities in urban areas of Lesotho is quite high. In rural regions, it is lower than in the other countries studied, although by no means negligible.

On the whole, these studies suggest that Lesotho has plenty of people ready to develop new commercial activities and to take advantage of commercial opportunities as they arise.

2. What factors in the environment affect the extent to which and the ways in which this entrepreneurial spirit expresses itself? There are several important dimensions of this.

A first point refers not to socio/cultural factors but to the physical environment, and concerns the rugged terrain and poorly developed transport infrastructure in large parts of the country in the past, and in some parts of the country today. The result is a degree of isolation which limits both the vision and the opportunities open to people who might otherwise grasp new opportunities with enthusiasm. Reference has already been made to the response to the construction of a new road; a study of that development has documented a significant shift of population seeking greater access to the outside, as well as a move into new economic activities made feasible by this opening up of the region.

A second factor here would seem to be the easy availability to healthy adult males, at least in the past, of well-paying work in the mines. In the mid-1970's, it was estimated that 14 days of work in the mines would earn the same amount as a whole year of work in traditional agriculture; this must have been an over-riding factor in many people's calculations. The issue goes more deeply, though, reaching to the nature of the mine work experience. In many other countries of Africa, people who have worked outside the country have come home with broader visions, new ideas and new, transferrable skills, in addition to some money; these people often play a key role in entrepreneurial activities. Mine work

seems to have that effect only to a lesser extent. It has taken people with limited education (the 1985/86 Labor Force Sample Survey reports that 81% of the miners had not completed primary school), provides relatively few transferrable skills, and pays more than most of these people can hope to earn in new activities back home. Work in the mines appears not to have been a door to new activities to nearly the same extent as work outside the country elsewhere in Africa.

A third factor, following from the second, is the unusually high level of cash income earned by rural households, primarily as a result of the migrant labor (but also, to a lesser extent, from wage labor within the country). The resulting rural purchasing power means that the market in rural areas for consumer goods and household-based capital goods is unusually large. Migrants send or bring cash home; they also bring back gifts from South Africa. That plus the availability of glossy advertisements in mail-order catalogs from the Republic can easily instill a preference for South African goods and a bias against products made in Lesotho.

A fourth factor concerns the role of livestock in the rural economy. Pastoral activities are well suited to the physical environment of the country, and can be readily combined with migration of adults to the mines since care of animals can be entrusted to boys and younger men. Miners have found it convenient to invest their savings in animals, since these yield a satisfactory return and can be liquidated in case of need or on retirement. This pattern suffers, however, from at least three disadvantages. It means that boys and young men are often occupied with their tasks as herdboys, so they participate less frequently than girls in schooling. Second, a continuation of this pattern over the years has resulted in excessive increases in herd sizes, leading to degradation of the soils. Third, and in common to pastoral societies throughout Africa, it is a well-known fact that, for many herd-owners, their animals are substantially more than an economic asset whose return is to be maximized. Anthropologist James Ferguson's exploration of "the bovine mystique" in Thaba-Tseka makes clear that even young, intelligent and experienced Basotho are ambivalent in their view of cattle as an economic asset. It will not be easy for most to adopt a commercial attitude towards the upgrading and marketing of their animals.<sup>1</sup>

A fifth factor, closely related to ones that went before, concerns the role of crop production in the rural economy. Lesotho may be unique in Africa in the limited extent to which rural people rely on crop production as their principal source of income. A recent study reports on the main source of household income, and the ways in which this has evolved over time:<sup>2</sup>

	1978/79	1985/86	1986/87
Agriculture/livestock	49	37	34
Home industry/business	3	4	3
Wages/salaries in cash	10	13	17
Migrant workers' remittances	30	37	35
Other	8	10	11
Total	100	100	100

<sup>1</sup> *The Anti-Politics Machine*, esp. chap. 5.

<sup>2</sup> Bureau of Statistics, "Labour Force Survey 1985/86, Round I," p. 23. The earlier data are taken from the 1978/79 Labor Force Survey, while the final year is from the Household Budget Survey.

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The share of households primarily dependent on agriculture is higher in the mountains and lower in the lowlands, but is strikingly low throughout the country. If one is looking for entrepreneurship in agriculture, it is important to recall that for 65% of rural households, farming may be essentially a subsidiary or supplementary activity.

A sixth factor here concerns the educational system. Lesotho ranks high among African countries in terms of both literacy and rate of enrollment of people of school age. Yet a recent study reported that 38% of people age 6-15 were not attending school, while more than a third of all students did not have desks or chairs to sit on.<sup>3</sup> A 1985 study found 46% of the adult population to be functionally literate.<sup>4</sup> While this is a relatively high figure by African standards, there has been a problem in the past that, like many other countries in Africa, the focus of education has been on things appropriate to Cambridge, England, or at best to the Basotho administrative bureaucracy, with little attention to the things required to become a successful entrepreneur in Lesotho. The Ministry of Education's BANFES project has made considerable headway in refocussing the curriculum to make it more relevant to the socioeconomic challenges facing the country, but change comes slowly here, and it will be some time before these new ideas permeate the society.

A seventh factor concerns the role and position of women in the society. The central fact to emphasize here is that the overwhelming majority of entrepreneurs in the country are women. Although one has to look closely to confirm it, this is almost certainly true of farming, where the absence of men has left the women as the true entrepreneurs and managers of the majority of the farms of the country. Even though women don't usually do the plowing themselves, they frequently manage the plowing activity (as well as most other functions relating to farming). When one looks beyond farming, the GEMINI survey reported that 72% of all small enterprises were owned by women. One immediately thinks of beer brewing, which is overwhelmingly a female activity; but there are plenty of others, relating to garment making and weaving, to basketry and ceramics, to food preparation and distribution, and in fact to trade in general, where enterprise ownership is overwhelmingly female. Many studies have indicated that, in all of these domains, women face special problems - attitudinal, legal, institutional; but in spite of those problems, it is evident that the majority of entrepreneurs in Lesotho today are women.

An eighth and final characteristic of the environment goes beyond the physical and socio-cultural dimensions to political and economic factors. Over the past decade, there have been many opportunities for people to earn good incomes in Lesotho. The mines have provided an important opportunity in this regard, specially for men with little education and few skills, who have been well paid relative to the alternatives available to them. Aside from this outlet, whose future is clearly uncertain, the major opportunities have often been linked to special situations of one kind or another: donor-funded programs, or government-subsidized activities or institutions. One sees evidence all the time that there are enterprising people ready to take advantage of these opportunities. It is less clear that there are people with the management skills, the persistence in the face of adversity and the willingness to take risks that will be required to develop new business openings not linked to artificially created and often heavily subsidized opportunities that have characterized much of the entrepreneurial activity of the recent past.

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<sup>3</sup> *Poverty in Lesotho: A Mapping Exercise.*

<sup>4</sup> Lesotho Distance Teaching Centre, "Adult Literacy in Lesotho: Part I, Results of an Assessment of Reading, Writing and Arithmetic Skills," Dec. 1985, p. 63. Note that their definition of functional literacy includes the ability to perform everyday calculations, in addition to the ability to read with understanding and to write, both at a simple level.

3. The third question to be addressed here concerns the implications of these characteristics of the socio-economic and physical environment for project design.

A first major conclusion may be that, while there are large and increasing numbers of people in Lesotho today engaged in the ownership and management of commercial enterprises, true entrepreneurial activity - people with the vision to see new and different opportunities and who are willing to take the risks involved in moving into these new lines - are only a small share of the total. This is true everywhere in the world - there are always far more owners and managers than entrepreneurs - but in Lesotho the proportion seems to be even smaller.

This suggests that one should not expect rapid changes involving large numbers of Basotho entrepreneurs. Projects that require large numbers of people responding rapidly to economic incentives will be less successful than ones that involve picking a few winners and backing them. The goal of involving large numbers of people is a valid one, but may be slow and gradual in attainment.

Many of the factors discussed above are clearly changing. They will change even more rapidly in the future under the pressures of economic stress: the mining option is already becoming less easily available, while increasing rural densities and soil degradation are making traditional agriculture and livestock even less appealing. Success stories of what enterprising people can do, on the other hand, serve to incite people to new initiatives. There are plenty of examples of individuals who do not follow any cultural stereotypes. As these people succeed, others will follow suit. Many people, including many currently engaged in economic activity, may find themselves trapped in socio-cultural or economic circumstances that either make them not wish to grow or that preclude such growth; but there clearly are others ready to jump into new endeavors, if they have the opportunity. A strategy of helping those seeking to make changes so their efforts are rewarded by success is desirable not only because of its impact on the target beneficiaries; by showing that success is both possible and rewarding, this is also one of the most effective ways of making more people more ready to aspire to become more entrepreneurial.

In terms of things discussed in this project design exercise, these ideas are consistent with a focus on traders as linking agents. If they can expand their role as intermediaries, it only takes a few trader/entrepreneurs to make a big difference, releasing constraints for larger numbers of self-identified and existing primary suppliers by assuring them of a profitable market. But one must be realistic about the speed with which significant numbers of farmers will jump in to supply a commercial market, and also about the management skills of the traders as well as the farmers. The management of change is a complex process. It appears that many people who have been engaged in this process have benefitted from a great deal of help, often provided in a subsidized way. It is less clear how they will respond to an environment that is less generous in the support it is ready to offer.

An important part of the analysis is the conclusion that one must give a central role to women in any future work in this area. They are better educated than their male colleagues, they are often more entrepreneurial in their behavior, they have plenty of experience at managing small businesses (including farms); perhaps most important, they have not had the option of working in the mines, so they are under great pressure to seek new opportunities. Some have suggested that husband-and-wife teams can combine the best of both worlds: the husband's access to capital and outside contacts, the wife's abilities, managerial skills and education. While the men may tend to be the natural spokesmen for such arrangements, the women may in fact play a more important entrepreneurial role that can be recognized as such and strengthened in any future project work.

Perhaps the strongest impact of these sociological and environmental factors is that Lesotho's small and often disorganized national supply system becomes even more of a disadvantage when one recognizes that future supply responses may be slowed down. In the absence of major management inputs from the outside, and other than for narrowly-focused specialty markets, it may take time to build a up a major supply system to a point where it is self-sustaining and profitable.

**ANNEX 6**

**THE LEGAL AND REGULATORY ENVIRONMENT  
OF THE PRIVATE SECTOR IN LESOTHO:  
AN EXPLORATORY REVIEW**

## ANNEX 6

### THE LEGAL AND REGULATORY ENVIRONMENT OF THE PRIVATE SECTOR IN LESOTHO: AN EXPLORATORY REVIEW

#### LEGAL ENVIRONMENT

Market economic systems operate within a legal framework that covers contracts, tort and property rules, as well as corporation, securitization (issuing shares, etc) and bankruptcy. Private investment requires an effective legal framework that protects property rights and enforces contracts fairly, effectively and efficiently. In order to determine the adequacy of the legal environment for private business in Lesotho, the analysis reviews relevant aspects of the legal system with implications for the following: property rights, contracts, commercial law, banking and insurance. The aim is to determine the conduciveness of the legal environment for investment and private sector business operations, including:

- performance of the legal system with regard to settling business disputes, enforcement of contracts and property rights, etc
- investment guarantee and protection
- difficulty with which financial institutions collect defaulting loans, etc.

#### Legal System and Contracts

Lesotho's legal system follows the Roman-Dutch common law of contracts (while RSA's common law of contracts is very much the English common law).

Unless explicitly or tacitly expressed otherwise, the proper contract law governing contracts concluded in Lesotho is that of Lesotho. Most cases of private international law involve RSA and due to the unequal relation with RSA and the large number of business contacts with the RSA, commercial contracts are often driven by RSA business practices. In some cases, credit contract provisions explicitly allow RSA laws to govern the transactions or for jurisdiction by RSA courts. These instances retard the development and rule of Lesotho law.

The Lesotho courts resolve disputes according to laid down procedures within the structure of the judicial system. However, the courts appear to be seriously overburdened with civil, criminal and other cases and are unable to cope with the number of business cases they have to handle; thus, long delays in adjudging business cases are common. It often takes some time to implement seizure of bonded immovable property offered as security by defaulting partners to a contract. Consequently, arbitration is becoming an increasingly common practice of dispute resolution. Contracts need not contain a clause for arbitration but the Arbitration Act 1980 stipulates formal procedures for contending parties to conduct proceedings. Even the LHDA is using this procedure. A new trend is emerging in RSA whereby people volunteer to be called upon to settle disputes and are called Dispute Resolution Panels - this is a modified form of arbitration which is yet to be adopted in Lesotho.

One major defect in the legal system is the tardy and inadequate information on existing laws. Several government officials responsible for administering relevant private sector-related laws are unaware of the legal documentation supporting the regulations they administer. Also, printed copies of recent legislation are unavailable for public consumption: as at March 1992, the most recent annual volume of Lesotho Laws available for sale at the Government Printer was that of 1986.

A major contributory factor to the defects of the legal system with respect to maintaining investor confidence is that law enforcement leaves a lot to be desired. For example, culprits of scores of bank fraud involving stolen cheques drawn on Lesotho banks being used in RSA have not been apprehended and prosecuted. A consequence of this crime is that cheques drawn on a bank in Lesotho are generally not accepted in RSA, thereby increasing the transaction costs of doing business with RSA.

### **Property Rights**

Property rights cover intellectual property, immovable property and movable property.

#### **Intellectual property**

Legal protection for creators of knowledge and products is essential in providing incentives for private sector growth and economic progress. Protection of intellectual property (trademarks, copyrights and patents) rights is important in facilitating legitimate technology transfer and as a government revenue source. The governing legislations are the Trade Marks Act 1984 and Patents Act 1984 which are administered by the Registrar of Deeds. The legislation deals with a simplified form of intellectual property protection based on World Intellectual Property Organization (WIPO) conventions.

The Law Office also registers foreign patents in the context of the British and RSA markets, especially those from subsidiaries of large foreign companies. Foreign registrations have included USA patents and trademarks. Under the old system, protection was accorded only if property was registered in both the U.K. and RSA prior to registration in Lesotho, because Lesotho followed the system in the two countries. RSA staff did most of the work, including preparation of certificates, and the Law Office staff merely noted the registration and sent the documentation back to RSA for certification. The old law was very comprehensive and accorded complete protection.

Lesotho has limited experience with the new legislation and has no expertise in and facility for patent examination. Patents are sent to Geneva for examination. It will take some time to develop the expertise to examine patents. The new patents law originated from the need to increase Lesotho's revenue rather than the in-country expertise to examine patents. In effect, the situation makes Lesotho look like an examining country whereas in reality, it is not. The Law Office prepared adequately for the introduction of the new arrangements, including procuring computer equipment and hosting an international seminar for practitioners. But there is no stability in the Law Office to develop the expertise to examine patents due to high staff attrition. The principal legal expert in the Office has departed and there is inadequate incentive to keep the remaining staff. Basotho legal experts are unsure of the ability of WIPO headquarters (Geneva) to assist Lesotho deal with complicated patents in a timely manner. Thus, there are legal provisions to protect intellectual property but the administrative mechanism is inadequate to effectively ensure that protection.

### **Immovable property**

Rights to these are governed by the Land Act 1979 and Regulations. The Act, which came into effect on June 16, 1980, is the most important legislation effecting immovable properties. Land is vested irrevocably in the Basotho nation and no person, other than the State, can hold any title to land except as provided under customary law or the Act. Traditionally, only subjects of chiefs could be allocated land and access to land is contingent upon demonstrating proof of need; once the need to use is abandoned, the use-right is lost. Under the Act, land cannot be bought or sold, but lease-rights can.

The primary allowable right to land introduced by the Act is a lease. Lease rights cannot be obtained for less than 10 years and are up to 60 years for commercial and industrial property and 90 years for residential, professional, and educational property. In rural areas, the Act converted registerable titles to leases but left the option of converting non-registerable titles (mainly subsistence farming land) to leases to title holders. Public response to the option of conversion has been extremely slow: as at March 1984, the Commissioner of Lands had received only 6 applications. The Act automatically converted tenure in agricultural land in urban areas to licenses and commercial, industrial and residential tenure to leases. A lessee has exclusive possession of the leased land but requires the Minister's consent to sell the lease or sub-let or mortgage the title, except for disposal by a valid will or surrender of residential, commercial and industrial land. The option of transferability created an opportunity for a market in land to emerge in Lesotho. Furthermore, the provision for surrendering residential, commercial and industrial land interest without the Minister's consent reduced the difficulty of using such property as collateral. Applications for title are sent to Land Committees which, upon approval, issue Form "C1" or "C2" for rural titles and form "C3" for urban titles. A Land Tribunal arbitrates on appeals and disputes. All lessees, except Basotho citizens of Lesotho, and all licensees pay ground rent.

Under Section 6 (1) of the Act, foreigners cannot hold title to land, except if s/he holds a permit for indefinite stay granted under the Aliens Control Act 1966. Business enterprises eligible to hold titles are companies incorporated or registered under the Companies Act 1967, conduct business in Lesotho and with 51 percent Basotho majority shareholding; corporations set up under Basotho law; or partnerships with majority of Basothos. Companies with minority Basotho shareholding can only hold title to land already held at the beginning of the Land Act 1979. Cooperatives and other entities registered under the Societies Act 1966 are also eligible to hold titles, as are foreign governments and public international organizations with the permission of the Minister. However, subsection (2) allows persons prohibited under sub-section (1) to hold subsidiary rights, such as sub-leases and mortgages, subject to the Minister's approval. This provides an effective loophole against the limitation on ownership by non-Basotho.

The GOL introduced the 1979 Act, among others, to protect investors and promote credit lending; the Act, by legalizing leasing through Ministerial consent, allows investors to bond leased property in order to, for example, raise credit against land security. Once consent is obtained, banks are, in theory, willing to lend against a lease title. Prior to the Act, when banks called up the bonds of defaulting customers who borrowed against the security of developed plots, the defaulters would inform chiefs that since banks were not their subjects, they (banks) cannot possess the land and can only remove the developments on the land! With the enactment of the Act, banks and legal practitioners view lease rights as valid as ownership rights when used as security for loans. The major problem with calling up land bonds of defaulters is the time spent on the court process and the possibility of not finding buyers or losing on the sale. Since there are limitations on the amount of landed property banks can hold as part of their assets under the Central Bank's regulations on commercial bank asset holdings, banks prefer developed land which can be sold quickly since only undeveloped land situated in selected residential

areas bear high values. Consequently, contrary to expectations, undeveloped land leases generally have low collateral value.

The Land Act 1979 was enacted to also stop the emerging practice, mainly by foreigners, of land speculation, since under the customary system, land is viewed as a social asset that must be available to both the rich and the poor, and consequently, the poor cannot be alienated from it by their inability to buy land. However, the Act has been ineffective in curbing the practice. Speculation is necessary in determining land values and in developing a property rights market. Speculators develop and sell plots of sizes allowed under the Regulations and people are beginning to sell undeveloped land - but this is an unlawful practice since Ministerial permission cannot be obtained for that purpose. In very recent times, a plot of less than 2000 square meters at Hill's View in Maseru was sold for M 30,000.00 through public auction.

Survey results have indicated that the private sector does not view the land tenure system as a serious constraint to investment, although delays in issuing the approval form "C" reduce the ease of acquisition. There are ways round the limitation on ownership by non-citizens. Title rights, especially leases, afford adequate security of tenure and allow freedom of use within the context of statutory or other pertaining conditions. However, the value of developments on land is weakened by the uncertainty of continuous use rights, since the land itself cannot be owned. Furthermore, the use of title to undeveloped land as bank credit collateral is not as widespread as expected from the enactment of the Act.

#### **Movable property**

Movable property is rarely accepted as loan collateral; since their collection depends on possession their security value is low. The porosity of the border with RSA makes diversion easy making them unreliable as collateral.

#### **Corporation and Commercial Activity**

The major legislation governing for-profit companies, associations, partnerships and syndicates in terms of corporation, securitization and bankruptcy is the Companies Act 1967 which was based on the English Companies Act 1896 and the RSA Companies Act 1926. Partnerships are also registered under the Partnership Proclamation 1957.

The Companies Act 1967 is very comprehensive (315 articles and nine schedules) and covers seven broad areas including incorporation (memorandum and articles, contracts, etc.), share capital and debentures (prospectus, allotment, commission and discounts, transfers, etc.), company management and administration (registration, meetings and proceedings, accounts and audit, inspections, officers, etc.), winding up and judicial management (court procedures, liquidators, voluntary winding-up, etc.), external companies, and general provisions (offenses, legal proceedings, rules of procedures, etc.). Foreign companies in Lesotho must not contravene local business practices in their operations, must provide documentation as required under the Companies Act (Section 285) and are subject to the laws of Lesotho, unless provided otherwise through specific agreement by contract parties. Indications are that the Companies Act provides sufficient and necessary basis for operating non-financial and non-insurance businesses in Lesotho.

Trade and professional businesses requiring licenses to operate in Lesotho (38), enterprises excluded from non-Basotho (16), definitions of enterprises as well as licensing procedures and general provisions are covered by the Trading Enterprises Regulations 1988.

### **Banking and Finance**

The definition of a bank in Lesotho follows the universal one of an institution that accepts deposits and makes loans. Banks are first incorporated as a public company under the Companies Act 1967 and then licensed under the Financial Institutions Act 1973. Operations of the Building Finance Corporation are guided by the Building Finance Institutions Act 1976 and those of the Central Bank by the Monetary Authority Act 1978 and Amendment Act 1982. Prior to the enactment of the 1973 Act, banks were operating under the Banks' Statements Act of 1865! Banks mainly used to collect deposits in Lesotho for investment in RSA until Section 21 of the 1973 Act required them to maintain specified amounts of local assets and Legal Notice No 8 of 1981 set the minimum local asset requirement at 85 percent to total assets. There are specific provisions (Section 24) of the 1973 Act barring banks from engaging in trade, holding share capital of commercial, agricultural, industrial or other activities and holding, leasing or selling immovable property for non-banking purposes, except to secure debts.

Banks rely on the Lesotho common law, such as contract law, to guide several contractual operations but generally follow RSA banking practices. Following RSA procedures often creates problems since RSA banking practices are backed by RSA legislations. An example relates to women. Since, according to Lesotho law, Basotho women cannot save in banks without the consent of their husbands or other males, such savings are legally part of their husbands' estate and can, thus, be attached to defray their husbands' debts, say, upon their husbands' death. However, banks do not allow this, which is a contradiction between banking practice and Lesotho law! Some bank procedures are not conducive to efficient business operation in Lesotho. For example, it takes on average 6 weeks to clear foreign checks deposited, including checks drawn by corresponding banks in RSA. Currently, at Barclays bank, withdrawals of more than M500.00 require two approvals or authorizations by senior management before payment by cashiers.

There are no specific provisions in the 1973 Act on procedures for banks to follow in debt collection, except for the provision allowing banks to sell collateral property of defaulter. They have devised their own procedures, generally following those of RSA. For example, the Lesotho Bank notifies defaulters by letter before applying the security, if the security is fixed deposit, savings book or such collateral. In the case of mortgage bonds on landed property, the defaulter is first served a letter of demand, followed by a letter of summons for court action, if there is no response or default continues. According to the 1973 Act, assets or property pledged for security must have collateral value of at least 15% more than the amount of the obligation secured and property security must be insured to the extent possible. In general, banks have only recently started using the legal system to recover defaulting loans. Some banks, such as the Lesotho Bank, do not have legal departments, but rely on hired outside legal representation.

Under the Act, depositors are protected by statutory financial requirements and limitations necessary for prudential operations, such as reserve requirements and size of advances, and a provision for special reserve accounts or insurance to make good loss from negligence or dishonesty of officials. In the event of the Commissioner of Finance granting consent for a bank to wind down, the Commissioner shall serve a notice to depositors and all claimants within 14 days. If a bank cannot pay its debt, any free balance shall be applied to deposits and interest up to an amount not exceeding R500 per depositor, and Lesotho nationals or resident depositors shall benefit first. Banks' claims shall be

extended by 6 months and no attachments or lien, except made 6 months before, shall hold.

The Act does not require banks to disclose the charges of their services and they do not, even in loan documents; thus customers do not know in advance how much bank services will cost. The Act does not also require banks to report on the quality of their portfolio classified in various risk grouping. Directors, officers or other employees of banks are not protected from action, claim or liability in respect of acts done in good faith in pursuing powers or duties under the Act. The law does not cover the operation of a money or securities market nor of a stock exchange. With the possible development of stockbroking activities, there is the need for a stock market law.

### **Insurance**

The Central Bank is also responsible for supervising insurance, in addition to banking institutions.

There is an Insurance Act 1986 but it is not operating; in effect, there is no law. The insurance industry operates on the common law of insurability and interest.

One reason the law is not functioning is the requirement that premiums from life policies are invested in Lesotho where there is generally excess liquidity. A recent breakthrough is the decision of IGI Ltd to offer life policies.

There is the need for an effective insurance law to regulate the industry.

## **REGULATORY AND POLICY ENVIRONMENT**

Laws reflect public policy and provide the legal environment within which policies and regulations operate. Hence, a complete review of the business environment requires an examination of the policy and regulatory setting. This involves a review of relevant aspects of the following public policies:

- **State participation/ownership controls** (legal basis; areas reserved for state participation; percentage foreign ownership allowed; joint ownership requirements; enforcement agency; distribution of private sector ownership; perceived investment impact [telecommunication equipment supply is by LTC/just gave licenses for private sector supply])
- **Business licensing and approval** (trades/occupations and manufacturing: processes; timeliness; hindrances to speedy approval; separate requirements for foreign investment; [when a company is formed to undertake businesses that require license under the Trading Enterprises Regulations, it must first obtain the registration certificate and Memorandum and Articles of Association under the Companies Act or the deed of partnership. License applications also require accompanying documentation including title to the business premise and health certificates])
- **Labor conditions and employment regulations** (legal basis; conditions for hiring and firing; existence and enforcement of host country national employment stipulations; residence requirements for foreign nationals; minimum wage structure and levels; [61

strikes in 1991; 13 foreign investors withdrew investment))

- **Product pricing** (extent of price controls: products with administrative price controls; pan-territorial pricing)
- **Marketing** (distribution controls: products)
- **Trade** (import controls including tariffs, quotas, QRs: products and levels; export controls including restrictions, licensing, taxes: products and levels; )
- **Foreign exchange system** (ease of access for business; repatriation controls on capital, income and profits including taxes)
- **Taxation** (legal basis; major categories/structure; levels; administration, enforcement and policing; discrimination against foreign firms; perceived investment impact)
- **Investment incentives** (legal basis; scope and magnitude; process of application and approval; number of beneficiaries; ease/difficulty in granting; transparency of process; performance requirement regulations on local content, exporting a percentage of production and technology transfer; perceived investment impact)

The aim is to determine the focus and impacts of the regulatory environment on:

- **Competition, including entry and exit of businesses**
- **Competitiveness and profitability.**

## **SELECTED LAWS AFFECTING THE PRIVATE SECTOR IN LESOTHO**

(As at July 1990 - Some amendments have not been captured)

### **Ministry of Interior, Chieftainship Affairs and Rural Development**

1. Aliens Control Act 1966 and Amendment Regulations 1989
2. Market Regulations 1971
3. Abattoir Regulations 1972
4. Land Act 1979
5. Town and Country Planning Act 1980
6. Land Survey Act 1980
7. Lesotho Housing and Land Development Corporation Order 1988
8. Range Management and Grazing Control Act 1980 and Regulations 1986

### **Ministry of Finance**

1. Sales Tax Act 1982, Amendment Act 1983, Exemption Regulations 1985, Amendment No.2 Order 1986 and Amendment Order 1987
2. Income Tax Rates Act 1969, Act 1981, Amendment Act 1983, Amendment Order 1986 and Regulations 1986
3. Lesotho Monetary Authority Act 1978, Amendment Act 1982, Central Bank of Lesotho Amendment Act 1984
4. Exchange Control Regulations 1975, (Repealed by) Exchange Control Regulations 1989
5. Financial Institutions Act 1973 and Amendment Act 1984
6. Building Finance Institutions Act 1976 and Amendment Act 1978
7. Customs and Excise Act 1982 and Amendment Act 1983, 1984
8. Import and Export Control Act 1984
9. Insurance Act 1976 and Amendment Act 1983

### **Lesotho National Development Corporation**

1. L.N.D.C. Act 1967 and Amendment Act 1978

### **Basotho Enterprises Development Corporation**

1. BEDCO Act 1981 and Regulations 1982

**Ministry of Trade and Industry**

1. Companies Act 1967
2. Industrial Licensing Act 1969
3. Pioneer Industries Encouragement Act 1969 and Amendment Act 1978
4. Hire Purchase Act 1974
5. Price Control Act 1979
6. Trading Corporation of Lesotho Act 1984
7. Trading Enterprises Order 1973, 1987 and Regulations 1988

**Ministry of Employment and Social Welfare**

1. The Employment Act 1967, Amendment Act 1977 and Regulations 1988
2. Regulation of Wages and Conditions of Employment Act 1969 and Order 1978
3. Essential Services Arbitration Act 1977 and Amendment 1978
4. Trade Unions and Trade Disputes Law 1964, Rules 1967 and Regulations 1984
5. Workmen's Compensation Act 1977
6. Aliens Control Regulations 1982 and Amendment Act 1983

**Ministry of Agriculture, Cooperatives and Marketing**

1. Agricultural Marketing Act 1967, Amendment Act 1975, Regulations 1978
2. Cooperative Societies Act 1966
3. Importation and Exportation of Livestock and Livestock Products Amendment Act 1984
4. Wool and Mohair Proclamation Amendment 1984
5. Livestock Marketing Corporation Act 1973
6. Importation and Exportation of Livestock and Livestock Products Proclamation 1952 and Amendment Act 1984

**Ministry of Tourism, Sports and Culture**

1. Hotels and Restaurants Act 1984

**Ministry of Transport and Communications**

1. Road Traffic Act and Regulations 1981
2. Road Transport Act 1981 and Amendment Act 1982

**ANNEX 7**

**MACRO- AND SECTOR-LEVEL ENVIRONMENT  
FOR AGRICULTURE-RELATED BUSINESS IN LESOTHO**

## ANNEX 7

### MACRO- AND SECTOR-LEVEL ENVIRONMENT FOR AGRICULTURE-RELATED BUSINESS IN LESOTHO

#### MACRO LEVEL ENVIRONMENT

The macro level environment of agriculture in Lesotho, as with that of all business in Lesotho, is heavily influenced by the business environment in South Africa. Lesotho is a member of the Common Monetary Area (CMA) and the Southern African Customs Union (SACU). The currency is pegged at par to the South African Rand. Further, in 1990 94% of imports come from and 60% of exports go to South Africa, and South Africa is a major source of employment and remittances for Lesotho where approximately half of adult males work.

The composition of Lesotho's GNP is radically different from many other countries as can be seen from Annex 2. Specifically, factor incomes from abroad (principally remittances) and transfers from abroad (principally from donors) comprise 53% of GNP. Put another way, domestic sources of income only generate 47% of the country's gross national product. These figures are official figures but in reality there is considerable income generated by the informal private and agricultural sector that is not recorded. This is supported by data such as 85% of the population is rural whereas only 6% of GNP originates from the agricultural sector.

Lesotho's economy is both positively and negatively affected by that of South Africa's economy. Specifically, the size of the Lesotho economy is 1% of that of South Africa although Lesotho's population is approximately 5% of that of South Africa. Indeed, the growth of the South African economy since 1985 is double Lesotho's GNP and four times GDP. Further, as regards the sources of the Lesotho government's revenue before grants, receipts in 1989/90 from the SACU accounted for M 355 million (57.8%) of government revenue (down from 65% in 1983/84) and sales taxes generated a further 18%. Other sources of income such as income tax are minor (6%) on account of the limited size of the formal sector. Grants, principally from donors, amounted to approximately M 205 million and represented one third of government revenue. Without the grants the budget deficit would have been in substantial deficit.

#### RECENT DEVELOPMENTS IN THE SOUTH AFRICAN ECONOMY

Further, in the past few years economic policy in South Africa has changed significantly. Specifically, monetary policy has received an increasing focus and interest rates have become positive in real terms and, according to the South African Reserve Bank, they are now positive to the extent of 2%-3% as against being largely negative during the 1980's. Further, the growth of the broad monetary aggregates has slowed from over 25% in 1988 to 16% in late 1991, and, which compares with an inflation rate of approximately 16%. Reflecting this slowdown, credit extended to the private sector in South Africa has slowed from 28% in early 1989 to under 20% during 1991.

In conjunction with a tight monetary policy being adopted in South Africa, fiscal policy has been slack, except for 1990/91, with a budget deficit of over 3% being recorded since the mid-1980's. The

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size of the budget deficit was due not so much to expenditure increases but rather to the slowdown of revenue resulting from the continuing recession which is now in its third year.

The recession is, however, mild in that it is less deep than during previous recessions. One factor that is different in this recession is that unemployment is higher as companies have laid off staff in reaction to declining profitability whilst the numbers seeking work has increased. Further, from 1985 to June 1991 average remuneration per employee has risen 135%, representing an annual increase of 15.6%. Indeed, from 1987 real wages per non-agricultural worker rose at an annual rate of 2.25%. Further, wage negotiations procedures in South Africa have not only become more centralized but also have been associated with broader social and political issues together with maximizing short-term benefits for union members. Thus, employment in the mining sector has fallen 15% and that of the important manufacturing and construction sectors has declined 7% and 3% respectively.

### AGRICULTURE IN SOUTH AFRICA

The agricultural sector in South Africa determines to a large extent the development of the Lesotho agricultural sector. In this respect several points are noteworthy.

Firstly, agriculture's contribution to South African GDP is 5.2% and compares with other sectors where value added is high, eg mining and manufacturing which are two and five times as important than agriculture.

Secondly, agricultural producer prices have fallen in relative terms to other prices. Thus, during the period 1985 to September 1991 agricultural producer prices rose in South Africa by 89.7% whilst other producer prices rose 126.4%; moreover it should be noted that during this period farming input prices rose by 123.2%. Thus, overall, farmers have faced a fairly severe cost squeeze.

Thirdly, farmers from 1990 onwards have experienced below average rainfall which has adversely affected output. In this respect, maize production in 1990/91 was some 14% lower than in the previous year and, because the drought, the 1991/92 crop will be lower still. Notwithstanding this, maize prices have not increased significantly as South Africa will be importing any harvest shortfall which according to press reports could amount to 3 million tons.

Although Lesotho has considerable trade linkages with South Africa these are not complementary and, except for some exports have few agricultural linkages. To put the trade in perspective imports from South Africa are almost 17 times as great as exports (M 1,558 million vs M 93 million).

**Imports:** Unfortunately, there are no up to date available statistics on the composition of imports but based on past information these comprise plant, equipment, vehicles and consumer items, both durable and non-durable, most of which come from South Africa and which in urban areas are distributed by South African retail chains.

**Exports:** Lesotho exports to South Africa comprise primarily wool and mohair (M 14.6 million), which are sold through the South African auctions, as well as foodstuffs and live animals (M 18.0 million). These generally are unprocessed goods and hence there are few linkages to add value. Manufactured goods comprise garments, textiles, footwear and processed food (M 91 million) which are mainly exported to Europe and the USA.

Again these are import intensive as with garments which are made on a cut, make and trim basis.

In reviewing Lesotho exports the prices of wool and mohair are principally governed by the two major producers - Australia and South Africa respectively. From data made available to the mission wool is the predominant product accounting for 82% of production. Wool prices at the beginning of the 1980's represented only 27% of mohair but, because of changes in world prices this had narrowed to 92% by 1989. However, since then wool prices have halved because of world over supply and this will inevitably affect the value of the Lesotho wool clip.

#### Cereal production in Lesotho during 1990 comprised

Maize	119,000 tons
Sorghum	28,000 tons
Wheat	20,000 tons

However, domestic cereal production only accounts for 41.7% of domestic needs and the balance is imported. Production figures depend to a large extent on weather conditions which in 1988/89 and 1989/90 were reasonable. Weather conditions for both the 1990/91 and 1991/92 have been adverse through drought and as a result production will fall.

Livestock production comprises cattle and sheep and goats. From the latest data available the cattle population amounted to 642,000, that of sheep to 1,543,000 and goats to 835,000. From Central bank data livestock value added to agriculture was 51% whilst that of crop, vegetable and fruit production was 49%. The relative contribution of each fluctuates with that of cereals falling during drought periods. Nevertheless, agriculture's contribution to GDP is low (Annex 2) but is most probably understated on account of subsistence agriculture and unrecorded production.

As regards the secondary sector agricultural linkages are poor except for maize most of which is milled domestically. Beverage production, comprising beer and soft drinks, is dependent on imported inputs and franchises and thus has a low value added. This sector, however, is important as it provides a substantial proportion of indirect tax revenue. As already mentioned most wool and mohair is sold in an unprocessed form into the South African wool auctions and hence there is little value added by the manufacturing sector. As regards cattle, one of Lesotho's principal tanneries has closed down and leather processing is limited. Textile production is based upon cut, make and trim operations which were established during the 1980's to overcome sanctions imposed on South Africa during that period. It should be noted that the textile sector is import intensive in that most of the inputs are imported. Other industries in the manufacturing sector are small.

## SPECIFIC POLICY CONSTRAINTS

### Land Tenure Arrangements

One of the most important constraints relating to agriculture in Lesotho relates to land tenure and this affects both the arable and livestock sectors. Specifically, agricultural land is communal land with no fixed title. Arable land is allocated by the chief to an individual who then is able to farm it. Arable land tends to be planted with maize and plowing is seen to be using the land. These issues have been

well documented and are not elaborated further. However, from a policy reform point of view they are considerable as they affect much of the population and carry considerable political and social risks for the government.

### **Parastatal Agro-industrial Enterprises**

Agro-industries dominate the industrial sector in terms of employment and value added and, within the sector, parastatals contribute over 60% of industrial GDP. Financial performance has been poor which has required substantial budgetary resources to finance their losses and investment programs; budget transfers, according to IBRD increased nearly five fold during the five years to 1988. The reasons for this poor performance relate primarily to poor management and organization and an inappropriate policy environment where these parastatals were used as instruments to achieve specific policy objectives. Details of the issues and the problems are set out in the IBRD report on the Industrial and Agro-industries Development Project dated November 1990.

### **Industrial Infrastructure and Premises**

Adequate industrial infrastructure is lacking in Lesotho. Approximately 80% of industrial space is situated in Maseru with the remaining 20% located in two other centers. Problems are associated with telephone and electricity connections and is an essential element of an attractive investment environment is lost.

Further, the two organizations concerned with providing industrial space (BEDCO and LNDC) are constrained for resources and further do not sell industrial premises to tenants so as to increase their resources. Further, LNDC has significant commercial real estate holdings which, generally, are low yielding. LNDC should consider divesting this real estate so as to generate the necessary resources. Further, as regards "priority projects" the government has pursued a policy through LNDC of requiring a 51% share of such projects. It is important to improve the availability, transferability and collateral quality of land and this could be achieved through the private development of small industrial workshops, institutional finance and through LNDC and BEDCO divesting their real estate holdings.

### **Wage Policy**

Lesotho has a minimum wage policy that from time to time is increased substantially with little consultation with entrepreneurs. Thus several years ago the minimum wage was increased 51% and presently there is a wage demand placed of over 40%.

### **Privatization**

The November 1990 IBRD Industrial and Agro-industries Development Project contained many specific proposals relating to upgrading the managerial and operational ability of parastatals through recruiting profession staff to run and subsequently train Basotho staff to manage the enterprises. Few of these recommendations have to date been implemented. This, as a matter of urgency, should be accelerated.

Privatization can be regarded as important in a broader sense in that it will free resources for government to develop other activities. According to the Lesotho Central Bank 1990 report interest

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payment on the government debt is projected to amount to M 82 million representing 18.4% of government spending. This is almost four times that spent on agriculture and 14 times that spent on the mining and industry sector. In this respect, Government should not limit itself to the privatization of agro-industry parastatals but aim to privatize other public sector owned organizations, such as Lesotho Bank, the telephone company and the electricity utility, say, through the Johannesburg Stock Exchange which is the most developed stock exchange in Africa.

Additionally, the Government owns considerable real estate, either directly (civil servants's houses and other land) or indirectly through parastatals (eg LNDC, BEDCO and municipal housing) which are managed in a relatively poor manner. If this land were to be transferred to private sector investors, eg houses sold to civil servants and other tenants, and commercial real estate to real estate investors this would generate funds for the government, provide liquidity to inherently illiquid real estate investments and provide a stimulus to the construction sector through renovation. Importantly, it would also provide a source of collateral to individuals and investors in an inflationary environment.

### **Entrepreneur Development and Training**

Without entrepreneur development and training there is likely to be only limited development. As noted above, half the adult males in Lesotho work in South Africa. It is documented that wage rates in South Africa are five times that of rural employment and over twice that of urban employment. In order to reverse this and/or retain future migration and working in Lesotho has to be made more attractive. This is not a case of raising wages but rather improving productivity so that individuals who work earn more and thus do not migrate. Initially, such people will have to be trained to begin their own businesses. Presently, the activities of LNDC do not encourage Basotho entrepreneurial development, shareholding or management to participate as LNDC itself is the shareholder rather than Basotho individuals. To this end, the involvement of Basotho individuals in LNDC's joint venture arrangements should be promoted and the activities of BEDCO should be considerably strengthened.

### **Problems Faced by Basotho Entrepreneurs**

The problems faced by the Basotho entrepreneur can be summarized as

- Poor management skills and lack of business experience. In this respect financial, administrative and overall management skills have been inadequate.
- Poor marketing skills - the emphasis in the past has been on production rather than fulfilling customer requirements.
- Poor technical and production skills. The concentration of large parastatal enterprises has resulted in an administrative type management culture which results in the poor training of managers for any future role in the private sector. Further, the large size of the parastatals and their capital intensive nature makes them inappropriate from a role model for smaller entrepreneurial businesses to develop.
- Little or no assistance in basic needs such as bookkeeping, secretarial and other business services.

A key requirement, however, is that people with ideas are supported by institutions to give pre-feasibility study advice on viability, the identification of problem areas, the preparation of feasibility studies once viability has been established, the preparation of feasibility studies and business plans so that bankable projects can be presented to a financial institution for finance. The development of these activities is by nature labor intensive, expensive and with an uncertain success rate.

### **Availability of Information**

One real problem faced by entrepreneurs relates to the availability of information, statistics, marketing information, how to set up in business. Indeed, government and NGO's do not know how many enterprises there are, in which sector they operate and how many people they employ. Further, there are no business economic services, provided either through government or NGO's such as views relating to business confidence, sales, inventory levels, employment prospects, etc. This service which could be easily established would provide feedback and information to both government and employers of prospects.

### **Finance**

Finance, per se, is not a problem in Lesotho as the banks have liquidity. However, for the entrepreneur start-up finance is a problem since the entrepreneur is likely to have little bankable collateral. The normal sources of collateral found in many countries are not available. Specifically, mortgage finance on an entrepreneurs house or land is not available. As has been previously noted Government controls either directly or indirectly large amounts of real estate, both residential and commercial and hence the tenants have no equity available. If these properties were owned by individuals such collateral would be available.

### **Non-Banking Sources of Finance for Entrepreneurs**

Secondly, liquidity in the real estate market is poor. Very few houses are bought and sold and no one any has any idea of the value of their house or land as there are no past transactions on which to base value. Further, the banks' lending portfolio are skewed to more risky lending as residential mortgage lending generally carries lower risks in view of the large number of individuals and transactions and that people go to considerable lengths to keep their mortgages current so as to prevent foreclosure.

In urban areas LNDC and BEDCO own and manage real estate but are constrained in their activities to provide new industrial units through lack of funds. To overcome this both LNDC and BEDCO should consider developing new industrial units with the private sector and/or consider selling some of their industrial units to established tenants rather than waiting for them to move on as their premises become too small. This policy would generate funds for these institutions which have come to rely on their property investments as a source of income.

In rural areas the problem is worse because of communal land ownership and the absence of title. Thus, there is no bankable collateral available unless a special dispensation is made. This is highly political and vested interests are affected. Likewise, rural people view their livestock as their assets but which has no liquidity and does not rank as bankable collateral.

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### **Linkage with Existing Programs**

Existing programs and NGO's are well intentioned but poorly developed. This was admitted by most, if not all, the organizations visited. The principal organizations are

**BEDCO**  
**LNDC**  
**Business Training Centre**  
**UNCDP - SSI project**  
**Lesotho Chamber of Commerce & Industry**  
**Lesotho Manufacturers Association**  
**Women in Business**  
**National Council of Women**

**Technical and vocation schools**  
**Leribe Craft Center**  
**Lerotholi Technical Institute**  
**Leloalekg Technical School**  
**St Elizabeth Technical School**  
**Lesotho Business Challenge**  
**Bishop Allard Vocational School**  
**Thaba Khupe Ecumenical Center**  
**Lesotho Distance Teaching Center**

**Lesotho Opportunities Industrialization Center**

However, there is little coordination between these organizations and many are under funded. However, we were told that an NGO umbrella organization is being formed to improve coordination.

However, what is needed is not additional organizations but properly funded, professional and effective organizations that can help both the existing and potential enterprises. Initially more employment and growth would be achieved through getting existing enterprises operating rather than through developing new enterprises as many enterprises are operating at low levels of capacity utilization and/or are operating on short time.

### **CONCLUSION**

As indicated above it is government that holds most of the assets, controls the regulatory and legal environment and is the principal actor in the Lesotho business scene. Thus, initially, what is needed is Government action to release its grip and develop an enabling environment for the private sector to flourish. Thus,

- Assets should be sold to private sector investors be it residential or commercial real estate,
- Private sector involvement in parastatals should be encouraged instead of stone walling as at present.

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- **Public sector utilities and financial institutions should likewise be privatized so as to raise revenue but more importantly to become private sector oriented serving the needs of their customers. As noted above the Johannesburg Stock Exchange could serve as a very powerful tool and ally in developing this policy.**

**The result of this policy would be to generate funds for developing entrepreneurial centers, provide technical assistance and pre-feasibility advice concerning new opportunities and how to get into business as well as the more formal need of developing business plans and operating a business.**

**To this end, it is felt that (i) the Lesotho Chamber of Commerce and (ii) the Lesotho Manufacturers Association should be supported and in the public sector BEDCO and the BAPS unit of the Ministry of Trade and Industry should be supported in their activities.**

## VISIT REPORT

**Ms Moeketsi, Director of Business Advisory & Promotion Service (BAPS)  
Ministry of Trade & Industry**

**Mr J Whelan Advisor, on secondment from Irish Government**

**February 10, 1992**

1. **Ms M outlined the activities of BAPS and the background to industrial and commercial activities in Lesotho. She indicated that SMSE development had been haphazard and much of the country's activity was in the informal sector. She estimated that some 60%-70% of activity was in the informal sector. The industrial sector comprised some 400-500 companies of which the most important had been set up with the assistance or through LNDC or BEDCO and were involved in the food processing, garment construction and wood working sectors.**
2. **Both LNDC and BEDCO provided industrial accommodation but there were problems of availability through funding constraints of these two organizations.**
3. **BAPS saw its role of coordination of other interests and through providing industrial intelligence and marketing information through its district offices. However, Ms M said that, in general, Lesotho entrepreneurs had little confidence in their competing in the South African market.**
4. **I discussed the concentration of industrial activity in LNDC (see LNDC annual report) and the issue of privatization. This I was informed was a sensitive issue and that no decisions had been made. It should be noted that both IBRD and the IMF rank this as one of the most important issues.**
5. **Ms M said that BAPS had little or no data base of industrial/commercial activity in the country and that this was a common constraint of many other organizations and NGO's.**
6. **The Pioneer Industries Act had attracted inward investment but much of this had been oriented to (i) textiles and garments so as to overcome sanctions placed on South Africa during the 1980's and (ii) hotels so as to develop casino operations, which are illegal in South Africa.**
7. **Ms M provided a list of government and NGO organizations that offered support and advisory services to the enterprise sector. These are:**

**BEDCO  
UNCDP - SSI project  
Women in Business  
Leribe Craft Center  
Leloalekg Technical School  
Lesotho Business Challenge  
Thaba Khupe Ecumenical Center  
Lesotho Chamber of Commerce & Industry  
Lesotho Opportunities Industrialization Center**

**Business Training Centre  
Lesotho Manufacturers Association  
National Council of Women  
Lerotholi Technical Institute  
St. Elizabeth Technical School  
Bishop Allard Vocational School  
Lesotho Distance Teaching Center**

**There is little coordination between these organizations and many are under funded. However, I was told in a subsequent meeting that an NGO umbrella organization is being formed to improve coordination.**

**VISIT REPORT**

**Mr Bob Matji, Lesotho Chamber of Commerce & Industry**

**February 13, 1992**

- 1. Mr M made mention of the 1987 Industrial Sector Study that had been made by Louis Berger so as to provide information. He did not have a copy.**
- 2. Many of the investments that had been made in Lesotho were franchise type operations from South Africa.**
- 3. Mr M said that education was a major constraint. Most of the higher education was in humanities with very few graduates going into business. Further, as there was no industrial/commercial tradition entrepreneurship and commercial experience was limited. He saw it as very rational that Lesotho nationals should confine themselves to retail small scale activities where the risks of doing business were limited.**
- 4. Mr M outlined the activities of LNDC and BEDCO. He made no comment as to how they could be improved.**

**VISIT REPORT****Mr Clive Drew, LAPIS project****February 10, 1992**

1. **Mr Drew is part of the LAPIS project organized by USAID in Lesotho. Mr Drew outlined the dairy, egg and poultry sectors to me. We did not discuss in depth land tenure systems and its effect on agriculture.**

2. **Dairy:** Milk prices, both producer and retail, are regulated. Farmers receive R 0.89/0.91 per litre and this compares with R 1.45 for farmgate sales. The regulated milk selling price is R 1.52 per litre giving the dairy a 67% margin to cover collection and processing costs. Farmgate sales are principally rural as people do not go to shops to buy the milk but directly to the farmer. Thus, only the surplus is sold to the dairy. Further, demand for pasteurized milk has dropped because of quality problems of milk collection and the dairy.

CIDA of Canada no longer has its technical assistance program with the dairy and this has contributed to the dairy's problems. Further, because of breakdowns of vehicles, poor roads in some areas and cooling equipment breakdowns at collection points, the quality of milk is sometimes poor.

**Eggs:** Lesotho produces approximately 70% of its egg requirements. Attached are details of egg production and prices. Egg prices are regulated and in the past have only been adjusted every two years; however, in 1989 and 1990 there were annual increases. Distribution margins are narrow being 15% for the wholesaler and 3% for the retailer.

**Wool/  
Mohair** See attached report.

3. **Tractor utilization is poor and in most areas tractors are inappropriate because of the small size of fields and fragile soils. Further, because of poor maintenance tractor utilization rates are low.**

**ANNEX 8**

**AGRO-ENTERPRISE SUPPORT UNIT:  
OUTLINE OF A POSSIBLE INSTITUTIONAL APPROACH**

## ANNEX 8

### **AGRO-ENTERPRISE SUPPORT UNIT: OUTLINE OF A POSSIBLE INSTITUTIONAL APPROACH**

#### **INTRODUCTION: GOALS AND APPROACHES OF AN ENTERPRISE SUPPORT UNIT**

In this Annex, we lay out an approach that might be used in establishing an agricultural enterprise support unit, if USAID/Lesotho chooses to proceed with work in this area.

An enterprise support unit would have as its objective the increase in income and employment among enterprises engaged in primary production of crops and livestock; secondary processing and transformation of products using agricultural inputs as a raw material; the production of inputs used by agro-industry; and the marketing and distribution of any product or service related to the agro enterprise sector.

The unit would seek to achieve these objectives through a combination of support services aimed at improving the efficiency with which producers and traders are linked to each other and to final markets. The unit would operate by offering the following services:

**Increased access to credit:** while the financial system in Lesotho seems to have sufficient liquidity, there are consistent reports of problems of access to credit on the part of agro enterprises not connected to particular donor projects or government programs.

**Assistance in forging business linkages:** to strengthen the commercial links between agro businesses, the project would provide direct management assistance to local firms to improve their managerial and production capabilities, and to encourage the development of business relationships between enterprises.

**Improvement in essential business skills:** the project would support training for the small scale agro-business sector, including both training and individual direct management consultations to participating firms.

**Promotion and strengthening of business associations:** to promote agro-industrial business associations and to improve the overall small agro-business climate in Lesotho, the project would need to assist in the formation of agro business associations and assist in the improvement of the quality of services offered by business associations.

The discussion in section two of this Annex provides an elaboration of interventions proposed under each of these four headings. Section 3 of the Annex examines institutional issues relating to the establishment of the support unit.

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## **ACTIVITIES OF THE ENTERPRISE SUPPORT UNIT**

### **Credit activities**

#### **Rationale for an agro-business credit program in Lesotho**

Convenient access to working capital and fixed asset finance are essential ingredients for agro-business growth. There is compelling evidence that although most small agro-businesses are established and can operate with own savings, informal borrowing, trade credits and internally generated cash, sustained growth almost always requires access to external sources of funds. The significance of the finance constraint on agro-business development is often overstated, but there is no question that timely availability of credit for working and fixed capital needs of sound projects can facilitate both the growth and the transformation of small enterprises.

The reasons that small agro-businesses do not generally have access to credit are well known. Application of typical bank lending practices with commercial bank cost structures, overheads, and interest rate policies renders small loans uneconomic. Inflexible collateral requirements exclude many who do not own (or cannot document ownership of) assets. Record keeping practices of a large proportion of small agro-business persons do not support reasoned financial analysis of investment plans or agro-business performance. Special credit programs have, in general, proved unsuccessful. Although some programs have achieved disbursement targets, most have been short lived because of high costs, poor repayment, and artificially low interest rates.

The situation in Lesotho reflects this general pattern. There are three commercial banks of which one, the Lesotho Bank, is represented by 25 branches throughout the country. For 15 years until about 1989, two government public enterprises, the Business Enterprise Development Company (BEDCO) and the Lesotho Agriculture Development Bank (LADB), were mandated to provide loan capital to small agro-businesses. For a variety of reasons, these lending activities have been constrained, with BEDCO concentrating on its industrial estate program providing rental accommodation for small enterprises and the Lesotho Agriculture Development Bank under pressure to stop making loans to small agro-business enterprises because of its large outstanding loans portfolio.

In recent years, the UNCDF and others have stepped into the vacuum created by the withdrawal or slowing of lending activities of BEDCO and the LADB by establishing two loan guarantee schemes with the participation of the Lesotho Bank, to promote general small business development and to assist in the growth of exports. These schemes are recent initiatives, and it is still too early to gauge their long-term success. The export promotion scheme is a more recent innovation and has been used primarily by larger companies. As of the end of February 1992, the small business loan guarantee scheme had provided 70 loans. The SSIP portfolio recorded a 48% default rate over the short period that the scheme has been operational.

The Government of Lesotho has also provided assistance to larger agro-business entities through the parastatal Lesotho National Development Corporation (LNDC), and through the Lesotho Agriculture Development Bank.

Unfortunately, with only a handful of exceptions, most programs around the world focusing on small agro-business credit through formal financial institutions have gravitated toward larger loan sizes favoring larger companies. Loan sizes in most small agro-business credit programs start in the \$50,000 range, rather than in the \$5,000 to \$10,000 range required by truly small firms.

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This situation is troubling. There is an immense gap between the kinds of entrepreneurial activity supported by micro-credit programs and those served by formal financial institutions. For the most part, this gap is not being filled by any program. This is evidenced, in practice, by the virtual abandonment of the notion of graduation of clients from micro-credit programs to commercial banks.

A few microenterprise credit programs have been successful in promoting enterprise growth. These programs are now becoming aware of the need for innovative solutions to meet the financial needs of the growing micro- and small agro-businesses among their clients. FINCA in El Salvador, the BRI in Indonesia, ADEMI in the Dominican Republic, the Get Ahead Foundation in South Africa, and Opportunity International are just a few of the grass-roots organizations now concentrating on expanding this frontier.

#### **A possible approach: specialized intermediation**

The approach to small agro-business lending proposed here bridges the divide between traditional small agro-business lending and some of the successful experiments with microenterprise credit. This approach is differentiated from more typical (and unsuccessful) small agro-business finance efforts by acknowledging that commercial banks will not (and should not) retail small loans. Against all hopes, well-intentioned pronouncements, and a plethora of financial and nonfinancial inducements (including guarantees), the character, practices, and cost structures of commercial banks make small agro-business lending an uneconomic proposition.

Traditional approaches to small agro-business finance have directed their energy toward inducing commercial banks to become retailers of small loans. This type of program will often show early success, engineered by attractive spreads that reflect short-term subsidies rather than real long-run costs. Commercial banks participate for the low-risk profits, but only for as long as the subsidies flow. Some loans are made, but no progress is made toward developing a commercially viable, sustainable flow of financial services.

The proposed scheme is based on a different rationale. Rather than trying to encourage general providers of financial services (banks) to take on a specialized market segment (small agro-business), the proposed program begins by asking how financial services can be delivered to a specialized market segment that is not attractive to general providers.

The answer to this reformulated question has been termed "specialized intermediation." There are numerous examples in developed and developing countries where this type of bridging has proved commercially viable. Specialized intermediaries arrange and broker mortgages, insurance, consumer financing, and agro-business loans for clients who otherwise could not obtain these services. Moreover, every example of a successful microenterprise finance program can be characterized as a specialized intermediary. The specialized intermediary retails services, while the general provider (bank) serves as wholesaler. This is precisely the role of the AESU. In this fashion, the bank has a way of capturing earnings from the large potential market represented by small firms, but without excessive risk exposure or uneconomical transaction costs.

These distinctions between the AESU's credit program and traditional small agro-business finance programs and loan guarantee schemes are subtle, but of critical significance (Table 2). For the AESU credit program to be effective, these differences must be reflected in the establishment and implementation of the program.

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TABLE 2

## COMPARISON: TRADITIONAL VERSUS AESU FINANCE

Traditional Finance	Specialized Intermediation
Commercial banks retail small loans	Commercial banks act as wholesalers; intermediary retails small loans
Subsidies to encourage banks to participate	No direct subsidies; intermediary role reduces transaction costs for bank
Low-risk profits, but only as subsidies flow	Bank can capture earnings from large market, but without excessive risk exposure
Poor record of performance, trying to force general credit provider into focus on specific market segment	All successful small enterprise credit programs use this method, creating new institutional structures to serve market segment not attractive to general providers

**Particulars of the Proposed Credit Approach**

The AESU's credit unit would serve as a specialized intermediary — marketing, packaging, appraising, and supervising loans disbursed and collected by the bank. The credit unit would be commercially oriented, established with the explicit objective of becoming financially self-sustaining within the AESU. The credit unit would earn income from fees paid by borrowers as a percentage of the loan value and would earn interest on the guarantee fund. Later, it is likely that the unit could negotiate to earn fee income directly from the bank for successful collections. Costs would include all staff salaries and related AESU overheads incurred in operations. In addition, any debits to the guarantee fund resulting from a call on the guarantee serve to reduce interest earnings.

The Lesotho Bank would serve as the loan wholesaler, the AESU as retailer. The nonperformance risk would be underwritten by a guarantee held by the bank in the form of an interest-earning time deposit. On the basis of detailed performance standards, the bank would hold the right to debit the guarantee account to recover nonperforming loans and overdue interest.

Critical parameters in completing the general arrangement with the bank include the following:

- Interest and spread, as agreed upon by both parties, must not be subsidized and must reflect the costs and risks borne by the bank;

- The graduated risk (leveraging to 10 times the amount of guarantees provided over time — five to six years — based on mutually agreed performance standards) should be considered reasonable by the bank; differential leveraging between the Small Loan Program and the Loan Assistance Program is expected;
- The bank must accede to the AESU's authority in the selection and approval of borrowers, under carefully negotiated guidelines; the loans will be granted by the bank directly to the individual borrowers in a timely manner; and
- Guarantees provided under the agreement would allow immediate and automatic debiting for any loan (principal and interest) past due for 90 days or more, once proper documentation has been sent to the AESU and the borrower.

Once agreement is reached on these general terms, more specific concerns must be addressed. Among these are the means for accurately tracking the performance of the loan portfolio;<sup>1</sup> acceptable terms and conditions of loans; and the process for establishing portfolio performance to secure additional leverage.

The experience of the Get Ahead Foundation of South Africa, which runs a similar program, has been mixed. In two years, Get Ahead achieved 2:1 leverage on disbursements. However, the bank has proved less reliable than expected at providing routine performance information on the portfolio. This was complicated by the fact that much of the lending under the program has been open-ended, permanent credits, making recoveries impossible to track. This experience reinforces the need to work carefully on the products offered as well as standards for reporting from the bank.

Operational procedures will be developed relating to credit operations in line with the strategic performance objectives of the program. The performance of the credit program depends on two key factors: the quality of the portfolio and the efficiency of operations.

**Portfolio Quality.** The importance of maintaining a high-quality portfolio cannot be overstated. Arrearage and defaults directly affect the cost structure of the program, eat away the value of the guarantee fund, and diminish the image of professionalism and competence of the entire organization. An approach to maintaining portfolio quality and a long-term loss ratio of below 5 percent includes the following:

- Efficient, timely, and accurate monitoring of loan performance: reporting of portfolio status is the single most important responsibility of the bank. The AESU must be firm in setting the parameters of the reporting system in the program agreement. Loan monitoring and supervision are the responsibility of the AESU and demand clear operational policies and procedures.
- Quick, responsive, consistent, and decisive follow-up on nonperforming loans: loan monitoring, and after-loan services are critical to the identification of problem loans and as a front-line defense against nonperformance. Direct technical assistance, loan work-outs, and rescheduling will be among the options available to the AESU. The AESU

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<sup>1</sup> The bank will track the financial performance of account transactions, including disbursement and payments of loan accounts and the status of the guarantee fund, and routinely report this information to the AESU, that will monitor all program information.

must, however, develop clear and rigid guidelines for classifying loans as nonperforming and accompanying steps to follow up decisively. The example of swift but fair treatment for these cases will go far toward building the credibility of the program;

- **Positive repayment incentives:** it is proposed that a prompt payment incentive be structured into the agreement with the bank. The prompt payment initiative is an interest surcharge of, for example, 0.5 percent per month, collected as a part of routine payments. This is essentially an up-front penalty for failure to pay loan installments on time. The fee will be refunded to the borrower on an annual basis (or at the term of the loan for loans of less than one-year maturity) if all repayments are made per the payment schedule. If a single installment is one day late, the prompt payment initiative reverts to the AESU;
- **Repeat loan policy:** prospects of repeat loans have proved a strong motivator for responsible repayment. It is recommended that borrowers be classified into five categories on the basis of their repayment record, and these classifications establish the maximum subsequent loan. This performance-based loan limit would range from a 10 percent increase in loan size for perfect performers to no loan for those whose final payment is more than two months late; and
- **Collateral.** Collateral is critical in establishing the tone of the relationship between lender and borrower. Taking collateral does not imply that foreclosure will be an option for handling nonperforming loans. Formal legal realization will be more costly and time consuming than justifiable. The documentation of collateral for each loan is to establish the borrower's serious intent to repay and not to provide a basis for legal action or an alternative source of loan repayment. The AESU, not the bank, should hold the collateral. This will allow the establishment of reasonable and flexible policies on security. The AESU should accept any asset (land, buildings, house plots, motorcycles, machinery and equipment, assignment of wages, and possibly even inventory). Rules on documentation should also remain lax for smaller loans and become more rigid as loan size increases. Cosignatories may also serve as the source for security.

As a final safeguard, the AESU should adopt a policy, consistent with (but slightly more restrictive than) the bank agreement, that halts all lending operations if arrearage and defaults approach dangerous levels.

**Operational Efficiency.** Unless operating costs are kept extremely low, the financial viability of the loan programs is highly doubtful. Internal accounting and information systems must treat the credit program as an independent cost/profit center for budgeting and reporting. The credit unit should only provide credit services. Non-credit-related technical assistance and training should be housed and accounted for elsewhere. In addition, continuing efforts need to be directed toward cost-reducing appraisal and monitoring that effectively maintain portfolio quality.

Three aspects of program operations merit comment.

- **Appraisal.** AESU appraisal should be quick and efficient, focusing on three vital elements: client character and credit history, market potential, and cash flow. An appraisal committee will hold meetings at two-week intervals until volume dictates changing the frequency.

An example of appraisal efficiency is found in the lending technology of the BRI Unit Desa system in Indonesia, which may well define the state of the art for appraising loans in the \$400 to \$15,000 range. The operational systems of the Unit Desa are a model of efficiency and can easily be replicated. The BRI has adopted a modified character-based appraisal system. Factors considered in making a loan include collateral, enterprise cash flow, character references/credit history, and other guarantees such as the right to garnish wages. The main criterion for loan approval is the credit-worthiness of the borrower. Borrowers are required to provide proof of income sources or a certification of their agro-business activities. Most loans have a cosigner, who is normally the applicant's spouse. An important feature is progressive lending — loan ceilings grow with successful repayment. Prepayment incentives offer a significant interest differential to prompt and regular payers. Applications take only hours to complete, loans are processed in a matter of days, and administrative costs are in the 7 to 10 percent range.

- **Loan Monitoring.** Monitoring procedures will focus on catching problem loans at an early stage and identifying the type of problem the client is experiencing. The credit unit would work with the Agro-business Advisory Unit of the AESU and the client to find an appropriate response to identified problems.
- **Management Information System.** It is important to institute a computerized financial and nonfinancial management information system that would track information on borrowers. The system would provide a comprehensive data bank including information on every credit applicant, every successful application, all current status monitoring and repayment information, and a beginning and end-of-loan agro-business status report including information covering employment and turnover.

As a specialized intermediary, the AESU must adopt a businesslike view of clients as customers, not as beneficiaries. Fees will be charged for services and the services must have value for the customer.

The AESU would develop a loan application consistent with credit policies and appraisal procedures. Instructions for completing the applications would be available in brochure form and would be the subject of a regular training program of the unit. It is anticipated that the vast majority of customers would require assistance in preparing the application.

Costs and the level of assistance would have to be kept to a minimum. All credit program costs must be covered by the fees charged to the customers. The largest loans under the graduated guarantee program would be E20,000 (US\$8,000) and would earn E2,000 in fees. Most of the loans would be well below this limit and would generate proportionally lower earnings.

The AESU would work on a fee basis with potential clients to prepare, package, appraise, and monitor loans disbursed and collected under the bank agreement. Services provided by the credit unit should be restricted to those directly associated with the lending program. Other technical assistance and training may be arranged through the advisory services offered by the Trust.

The AESU would set out to establish a commercially viable and self-sustaining specialized intermediary. This would not be an easy task under the proposed volume of lending. For the program to be sustainable, the portfolio would need to grow as quickly as staff capability and bank arrangements

allow. We estimate that volume would have to be high and the portfolio must contain a significant number of larger loans if full self-sustainability is to be achieved.

### **Nonfinancial services**

#### **Introduction: the challenge of providing non-financial services in a cost-effective way**

**Programs of nonfinancial assistance to small enterprises face a common fundamental challenge: trade-offs between the cost of service delivery and its effectiveness.<sup>2</sup>**

When nonfinancial assistance is tailored to the needs of individual small agro-businesses, it becomes, like management consulting for larger agro-businesses, extremely expensive. The agro-business and technical problems faced by small firms can be complex and can vary considerably by firm. Reasonably high skill levels are required to diagnose and solve these problems effectively, raising delivery costs. Because target firms are small, the potential impact of even successful interventions is limited. Direct benefits are rarely sufficient to justify the cost of assistance, making full fee recovery unfeasible.

Mass-produced or generic training and technical assistance packages can sometimes be delivered efficiently, but are less likely to meet the needs of any particular firm. Efficiencies are achieved by spreading material development costs across a large number of trainees, and designing materials that can be delivered by instructors rather than more expensive problem solvers. These materials address common problems in general terms and therefore result in low to moderate direct benefits in a low percentage of trainees. Assessing the magnitude of benefits in relation to cost is extremely difficult. Some donor assisted programs have successfully recovered partial delivery costs through fees.

Hence, the critical tasks facing designers and implementers of nonfinancial assistance programs are to find techniques that allow assistance to be delivered cheaply while effectively addressing real needs or, alternatively, to seek more expensive interventions that generate the level of impact required to justify their high cost.

The Team proposes three different strategies for the AESU to follow to attack the challenge of delivering cost-effective nonfinancial assistance.

- **Leverage** — Seek opportunities for intervention that create benefits for many firms at a single stroke. Examples of leveraged interventions include developing commercial-led agro-business linkages, strengthening institutions that can sustain service flows to the sector, and influencing the policy and regulatory environment.

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<sup>2</sup> The issue of cost-effectiveness of direct assistance to enterprises is the subject of a major portion of DAI's GEMINI project research agenda and has been a major corporate interest since 1982 when DAI began its involvement in the design and implementation of the Central Java Enterprise Development Project in Indonesia — one of A.I.D.'s earliest efforts in private-sector-based, nonfinancial assistance to small enterprises. The lessons learned from this innovative project were published in 1988 and were instrumental in DAI's selection to lead the worldwide assessment of A.I.D.'s programming in microenterprise, the Microenterprise Stocktaking, and, in 1989, the GEMINI project.

- **Market-led Assistance** — Seek opportunities for intervention that create almost certain benefits by assisting firms to exploit real agro-business opportunities. When opportunities for new markets appear — through linkages or export opportunities, for example — the AESU must rapidly and efficiently deploy its tools to help firms capitalize on potential new agro-business.
- **Commercial Assistance** — Seek opportunities for interventions where beneficiaries (customers) are prepared to pay a significant proportion of the full costs of the service. This can occur for low-cost general skills training and in cases in which the agro-business persons see real opportunities and have confidence in the Trust's ability to help them capture these opportunities.

Successful implementation of these strategies demands that AESU programming be informed by a thorough understanding of the context in which small firms operate, the nature of opportunities for agro-business growth, and a clear sense of the forces constraining the ability of small firms to capture these opportunities. These are not small agro-business issues, but issues related to the entire industry or subsector in which individual firms participate.

For a agro-business poised for growth, constraints and opportunities are conditioned by the dynamic forces that shape competition in the markets in which they participate. Among the forces affecting change, the following are often key: market demand, technological change, profitability of different market niches, risk, barriers to entry, large-firm behavior, input supply, and policies and regulations. The process of understanding and responding to these agro-business forces constitutes the essence of the subsector approach to enterprise development.

The Team proposes that AESU activities incorporate the subsector approach to enterprise development as a fundamental strategic principle.<sup>3</sup> The most important implications of the subsector approach for the project are straightforward.

First, AEI Team proposes that the AESU approach enterprise development on the basis of industry-specific problem solving rather than on the small agro-business-only (cross-industry) basis more commonly employed in donor-assisted efforts. The subsector approach suggests that when cross-industry programs are conducted, they be based on induction from analysis of a variety of industries and be tailored to their varying needs.

Second, we propose that potential activities be identified within subsectors by looking up and down the production-distribution system, from raw materials to final consumers, in order to understand clearly constraints and opportunities for the beneficiary enterprises.

The Africa Bureau of A.I.D. has invested heavily in the GEMINI subsector agenda and how-to manuals are being published that would increase the number of effective practitioners. DAI/GEMINI's newly published Training Resource Guide, "A Field Manual for Subsector Practitioners," is the first of these practical training materials.

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<sup>3</sup> The most thorough discussion of the subsector approach as it relates to enterprise development can be found in James Boomgard, S. Davies, S. Haggblade, and D. Mead, "A Subsector Approach to Small Enterprise Promotion and Research," GEMINI Working Paper No. 10, Development Alternatives, Inc, January 1991, and forthcoming in *World Development*.

The activities proposed for the AESU in the area of non-financial services would provide (or enable others to provide) technical assistance, training, and other services to agro-enterprises and their associations. These programs focus on three broad areas.

- **The Agro-business Linkage Program** would assist small firms to develop commercially sustainable linkages with large-scale agro-businesses and the government. These market opportunities would provide clear direction for cost-effectively targeting AESU training and technical assistance efforts.
- **The Agro-business Associations Strengthening Program** would support the development of institutions that provide an efficient conduit for services to member business persons and empower small firms to participate actively in the political economy of Lesotho.
- **The Agro-business Skills Training Program** would develop and strengthen local training services to impart critical skills to existing and potential entrepreneurs, and do this cost-effectively.

These three components are discussed in turn.

#### **Opening new markets through the development of agro business linkages**

The Agro-business Linkage Program would open new markets for small firms with large-scale agro-businesses and the government. Linkages are an important lever. Influencing the decisions of a single large buyer can open markets for many potential suppliers. Targeting technical assistance and training to the requirements of real agro-business opportunities is a market-led assistance strategy for generating real benefits at a minimum of cost. Once the AESU establishes its legitimacy and credibility, linkage development would offer significant opportunities for commercial assistance. The direct benefits to clients would justify cost-recovering fees for service.

The linkage program would result in an increase in sales from small firms to large-scale agro-business and to the Government of Lesotho.

The small Lesotho market for the products of local firms is eroded by the South Africa Customs Union and the unchecked competitive presence of the comparatively huge and efficient economic giant, the Republic of South Africa. The Government of Lesotho and large-scale enterprises operating in the country currently source their intermediate goods and services through direct purchase from other medium- or large-scale enterprises in the Southern African region. Currently, the products provided by Lesotho small-scale agro- enterprises are largely unacceptable to these two client groups. For successful linkages to occur, appropriate products and services must be offered at the standards, price, and quality acceptable to these consumers. The Agro-business Linkage Program would demonstrate by example that the economic, cultural, attitudinal, and locational gaps that separate the small-scale sector from these desirable markets can be overcome.

Sophisticated agro-businesses dedicate considerable attention to decisions about procuring inputs, supplies, and services. There is an economic calculus that enters into decisions to purchase in the market, procure through contract suppliers, or produce in-house. These decisions depend on cost factors, but more commonly are influenced by perceptions of dependability, quality, and consistency. Price comparisons of alternative supply sources are only part of the story. It is the transaction cost of

procurement — including price, the costs of doing business, and the risks of poor performance — that determine the way large agro-businesses source inputs.

The Agro-business Linkage Program would be constructed around three pillars: identifying opportunities for transactions, supporting buyer-supplier interactions, and providing technical assistance and training to producers based on that interaction. The program is based on the assumption that appropriately targeted transactions cost subsidies combined with responsive assistance to small agro-enterprises would exert a positive influence on the level of intra-industry sales and thereby on employment and income in small agro-enterprises. By targeting product lines in which small Basotho producers are likely to have a long-term comparative advantage and delivering appropriately targeted assistance, successful project activities can result in long-term, self-sustaining exchange relationships.

**Identifying Opportunities for Transactions.** During the first few months of the project, the AESU staff would cast a wide net to identify as many potential opportunities for developing linkages as possible. The program would be publicized; discussions would be held with business leaders in several industries, and the management structure of the AESU would be enlisted to scout for potential areas of opportunity. Examples of existing subcontracting relationships would also be identified.

Based on this informal information, the AESU would select three or four industries in which there appears to be potential for real transactions to develop. Among the candidates may be the fruit and fruit-processing subsector; livestock or livestock products; transport and storage; and poultry production. A rapid subsector appraisal of each of these industries would be conducted. Special attention would be paid to the production potential of small agro-enterprise firms and candidate buyers among the large-scale firms.

Armed with a detailed understanding of these agro-industries and with active participation of the Board of Directors, the AESU would meet with the Chief Executive Officers of candidate buyers. There are two objectives for these meetings. First is to explain the Agro-business Linkage Program and to enlist the endorsement of the Chief Executive Officer for his or her company's participation. Second, to obtain a detailed listing of candidate products or services for the program and establish technical-level liaison with the buying firm.

Once the program is established, this personalized approach to identifying opportunities may be less important. Using directories that would be developed by the AESU, or working through lower-level contacts, may be sufficient to identify real opportunities. These kinds of systems probably would not be sufficient in the early stages of implementation.

**Supporting Transactions.** In setting up these deals, the AESU has two main things to offer: transaction support, and technical assistance and training to suppliers. These would often be related, but for clarity of presentation we focus on transaction support in this section and technical assistance and training in the next.

Once the AESU obtains a general endorsement and an indication of specific products, the serious work begins. There are several steps in the development of buyer-supplier relationships. Although the particulars would vary by industry and product, most products that are potential candidates for linkage relationships are unique. Even for many generic-type intermediate inputs, there are particular design elements specific to the buying firm. When high-potential opportunities are found, the AESU would work with both buyers and sellers to identify those factors that stand in the way of initial trial orders.

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The buying firm ordinarily begins by asking the candidate supplier to produce a prototype based on a sample. The buyer may also be willing to provide its own technical assistance at this stage. This is a critical juncture for AESU assistance. The AESU can assist potential suppliers to grow and/or manufacture or plan growing and/or manufacturing systems, and to cost prototypes operations. Initially, the AESU may also share risks by underwriting a part of the costs of initial development. In our experience, the most difficult hurdle at this stage is the ability of the small firm to read and interpret costs and specifications. As the number of firms grows, training in these skills can pay dividends. This is another example of targeting training based on real agro-business opportunities.

The AESU would have to test different strategies for selecting potential supplier firms with which to work. Initially, this would involve working with a limited number of the best small firms that are interested. Later, approaches working through associations or other less-management-intensive processes for candidate selection can be used. The AESU can afford few client-selection risks at this stage of building its credibility.

If the quality of the prototypes are to specification — quality and price — a trial order may be placed. Again, in the early stages, the AESU may wish to subsidize the difference between the target price for the product and the cost of producing a limited order. Small firms do not have deep pockets to absorb much risk in new diversified product or crop development, and the AESU would not have earned sufficient credibility (or perhaps even have the confidence) to enlist participation, especially if it is costly and risky.

Successful trial orders lead to real agro-business. However, early transactions would still be on shaky ground. Can the producer actually meet target costs and prices? Would quality and delivery schedules be maintained? Issuing buyers with guarantees of quality, delivery, and price can be a strong inducement to initial program participation and the taking of a prototype idea through to actual orders. These guarantees must be time limited, usually based on numerous products or orders.

The AESU must be innovative in using its available tools to provide transaction support. Each industry, each large firm, and possibly each product would require a different combination of deal-makers. Among those that have been used in the past are:

- Assistance in developing specifications for particular products;
- Assistance in developing intermediate technologies to allow small agro-firms to meet rigorous technical and quality specifications;
- Development of model contracts and agreements;
- Underwriting the risk of late delivery or poor quality for first (or early) orders; and
- Subsidizing start-up price differentials for limited transactions.

In all cases, these deals must be grounded in market realities. The credibility of the AESU would be jeopardized quickly if it is perceived as promoting charity instead of business.

**A Note on Linkages and Credit.** By helping to structure transactions, the AESU would be well informed about the terms of transactions and the distribution of financing responsibility. This provides a natural link with the AESU credit program. In many cases, however, the large buyers are fully able to shoulder a major part of the financing burden by providing raw materials, advances, or quick

payments. The AESU should actively guard against the possibility that buyers off-load risk by negotiating excessively long payment periods, shifting financing costs to small firms (that may be borrowing through the AESU).

**The Government of Lesotho as Buyer.** Potential linkages with the government represent a special case. Government procurement procedures would be examined in detail to identify possibilities for greater participation by indigenous Lesotho agro-businesses. The AESU would work with the government tender board to modify tendering procedures as needed to ensure that the small-scale sector can competitively bid for larger numbers of government tenders. Two areas of focus for this activity are:

- Tender splitting, to allow small-scale enterprises to compete effectively; and,
- Linking capable small entrepreneurs with larger firms that usually compete successfully for government tender agro-business.

The Board of the AESU would play an important role in the issue of local tendering. The Board would stress to the leadership of the government and its extensive network of parastatals, national priorities and the internally consistent logic of using local firms and "Buying Lesotho." The Board would be in a unique position to give substance and form to the good will that exists in the government and agro-business community for the goals and objectives of the AESU tenders linkage activity.

#### **Strengthening agro business associations as a conduit for business services and advocacy**

Agro-business associations serve two primary roles in the mission of the AESU: associations are an efficient institutional channel for cost-effectively providing leadership and services to groups of small agro-businesses; and associations are a natural institutional vehicle for empowering small firms to influence the policy and regulatory environment in Lesotho.

The program envisaged here would result in more and better services from agro-business associations to their members. In addition, associations would be better prepared to represent the interests of their members in dialogue with responsible public and private sector entities.

One important advance in development thinking during the past decade has been the realization that the private sector is best positioned to recognize its own needs and to take responsibility for finding solutions to its own problems. Sustainable development demands that local actors, individually or collectively, assume initiative and responsibility for creating change. Agro-business associations are one important institutional vehicle for harnessing and focusing such collective action.

The emergence of serious agro-business associations representing the interests of small or otherwise disadvantaged firms is an important development in the organizational landscape of the Lesotho private sector.

Historically, agro-business associations have developed by themselves on the basis of some concrete benefit for collective action. Agro-businesses would come together and act collectively only when doing so serves their own individual interests. The economics are straightforward: the long-run benefits of participation must exceed the costs.

Associations representing small agro-businesses face many of the same kinds of developmental constraints that affect their members. The capacity of members to fund fully a serious level of operations

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is limited. The associations suffer because they must rely on voluntary staff labor, they do not have dedicated space or equipment, and they have few resources for program activities. These problems place small agro-business associations on fragile soil, eroding the prospects that real benefits would be derived from membership.

There is an important caveat: not all "associations" are real. Countless associations and groups have sprung up around the world, not as legitimate member-sponsored organizations but as vehicles for tapping into the flow of donor or government subsidies for the benefit of political entrepreneurs seeking private gain. Any program designed to support associations must develop sensitive filters to screen out the good organizations from the bad.

The AESU would provide assistance to emerging agro-business associations. These associations would be selected by AESU management, the AESU Board, and USAID. Services would include the following: institutional assessments, strategic and operational planning assistance, targeted direct assistance including commodity and programming support, and studies and policy analysis.

The AESU would conduct institutional assessments to examine the legitimacy, viability, strengths and weaknesses of organizations. These assessments would focus on a broad range of issues and would, by their very nature and thoroughness, be a form of direct assistance to the associations. The scopes of work for the assessments would be developed by the AESU and would include the following areas of focus: mission and objectives of the organization, existing strategic and operational plans, structure and organization, membership and participation, management, and financial practices and plans.

On the basis of the institutional assessments, the AESU would help associations better define their vision, strategy, and operational plans, particularly as they bear on providing services to members, advocacy functions, and financial operations and sustainability.

The AESU would have many tools in its arsenal for assisting associations to overcome constraints in implementing viable strategic and operational plans. These would include commodity support (vehicles, computers, and other office equipment), technical assistance, training, and studies. The AESU would be flexible in matching support to the needs of individual organizations and would be cautious in ensuring that its assistance is vital to organizational success.

Although associations are best positioned to identify significant policy and regulatory issues that affect their members, they generally do not have the resources to analyze particular issues systematically. The AESU can assist the associations to carry out policy studies and analyses or can, itself, carry out studies of relevance to associations.

In addition to the studies, the AESU would convene seminars, workshops, and roundtables to discuss the implications of their findings and analyses with key decision makers. Also, the Team proposes two large-scale national policy conferences — one on women in small agro-enterprise development that would address constraints to women participation in small agro-business growth, and one on small agro-business credit.

There are other types of assistance that the AESU could provide to associations. The AESU could sell contract services to associations for the design and implementation of workshops, trade fairs, studies, and publications. These might also include preparation of specialized agro-business directories, promotional campaigns, proposal preparation services, and fund raising. The AESU would seek out opportunities to sell valuable services to agro-business associations that can fund such activities.

In addition to direct commodity support, the AESU should consider establishing common service facilities. These facilities might involve space, office equipment, or staff. The AESU should examine the feasibility of charging fees for these or other similar services.

Lastly, the AESU can serve as a focal point for association networking. The AESU can sponsor workshops, roundtables, or other events to promote and facilitate communication between associations, with the government, between small and large agro-business, and with regional and international organizations as appropriate. As the number and specialization of agro-business associations increases, the formal and informal use of these networks can play a catalytic role, supporting information and communication dissemination and linkages.

**Cost-effective agro-business management and technical skill development: AESU training activities.**

Technical assistance and training activities of the AESU would have two characteristics: they would make use of existing training centers and institutions to a maximum extent possible; and they would be focused on the requirements of particular products and transactions. A particular concern is maintaining cost-effectiveness.

There are several strategies for efficient provision of technical assistance and training. By focusing efforts on a limited number of subsectors, economy of effort is obtained. By precisely targeting assistance towards identified agro-business opportunities, the benefits associated with any particular intervention are maximized. Moving to lower-cost service providers would also improve efficiency. AEI Team has assembled a range of local and regional institutions as a starting point for local reliance; the AESU would develop far more integrated linkages with local sources of technical assistance and training.

An essential ingredient for success in this area is the active involvement of potential market beneficiaries in the development and implementation of training programs. Large agro-firms are often in the best position either to provide or at least to help design needed technical assistance programs for potential suppliers.

Linkage efforts offer a natural starting point for mutually beneficial (and cost-reducing) group action, as a means to meet large-quantity orders and to sort through potential suppliers. The AESU would assist in organizing these groups (which may be new groups or subsets of existing organizations). The groups provide a natural point of leverage for providing technical support.

In cooperation with local agro-business associations, the AESU would develop and implement training plans and programs to impart critical skills cost-effectively to owners, managers, and employees of small agro-businesses. Training would focus on technical skills, agro-business operations, management, and marketing.

A wide variety of agro-business and technical training is available in the region. In light of the significant regional investment in general agro-business training, the comparative advantage of the AESU is to see that the best resources are deployed in ways that contribute most to the development of small agro-business in Lesotho. The use of specialized training resources from outside the region would be proposed only when all reasonable attempts to use locally available resources have proved unsuccessful, or when there are special sociocultural, professional, or other significant considerations that dictate in favor of using external resources.

Several different types of training activities may be appropriate for the AESU:

**General Skills Training: Small Agro-business Improvement Workshops.** The AESU would sponsor small agro-business improvement workshops on general agro-business and technical topics. To the extent possible, these workshops would be organized and implemented by agro-business associations. When that is not possible or appropriate, the AESU would serve as the sponsor.

Where possible, general training sessions would be organized so that groups are made up of trainees from the same activity. Even though the materials would be general, having a single-industry focus can enable the sessions to concentrate on materials of greatest relevance to that group. Ultimately, the driving concern should be cost-recovery, and final decisions on the implementation strategy for the general agro-business skills training would be made on the basis of commercial considerations.

Technical workshops would be organized on a subsectoral basis for groups of agro-businesses. Specific technical assistance for various sectors would be identified in such areas as selection and use of equipment and materials, production techniques, and quality control. Whenever possible, these courses would be tailored to specific agro-business opportunities. Topics would be more along the lines of "Reading South African Bureau of Standards Technical Specifications on Insecticides" or "Use of Rainbird Packaging," rather than "the Theory of Modern Agriculture."

**Direct assistance to individual or small groups of agro-enterprises:** these would be provided on two tracks. Much of the effort would focus on support required under the linkage program. In addition, other market-led opportunities may emerge that are of particular strategic value or when full cost recovery is possible.

This assistance would be directed at small agro-businesses with significant growth potential, and is designed to complement the group training courses. It is anticipated that a large number of clients in this program would be identified through the credit program as requiring periodic marketing and technical and agro-business advice to expand their operations.

Over time, AESU would develop a variety of specific training products that may be marketable. These may include guides to agro-business planning, feasibility studies, technical analyses, market studies, production assistance, financial analyses, management consulting, personnel policy and training, accounting services, sourcing and procurement assistance for technology and inputs, and quality and standards controls.

Training workshops and roundtables would be a regular feature of AESU programming. The project would use Lesotho specialists drawn from consulting firms, agro-businesses, and academia. Each time a consulting team completes a policy study mission in Lesotho, it would be expected to present a roundtable or workshop during the final week of the expatriate's stay in country.

## INSTITUTIONAL STRUCTURE FOR THE AESU

### General Principles

To provide an institutional vehicle for assistance to the agro-related business sector, the AESU would need to be established as a private, tax exempt, non-profit legal entity. It could best be established as an independent Foundation or Trust, independent from the GOL. The board of the AESU would need

to be made up of prominent businesspeople, bankers, legal and accounting practitioners with perhaps one government non voting member on the board. The operating philosophy would be that of a business rather than that of a philanthropic organization.

The AESU would need to be established as a self-sustaining institution which would be funded through fees generated from services and interest generated from a proposed endowment. USAID has established a number of endowments in South America country programs for the purpose of subsidizing costs of development type operations. The Africa Bureau has shown interest in this experience. The concept is an important element in the establishment of the AESU Foundation. Full cost recovery on training and business association development is not likely under the current proposed project elements.

Initially the AESU and its employees would need to be managed through a management contract. At the start, it would require a team of 3 professionals consisting of 2 expatriates (Chief of Party/General Manager) and a Business Development Advisor, and a Credit Manager. In addition, the unit would need to provide various types of short-term technical assistance.

Building a financially sustainable nonprofit institution is a formidable challenge, with only a few scattered examples among thousands worldwide to look to as models of success.<sup>4</sup> The discussion here will focus on six aspects of the institutional development of the AESU: development of the Board, the institutional framework, human resources, management and financial information systems, financial planning systems, and relationships with the external environment. Each is considered in turn.

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<sup>4</sup> DAI has had considerable experience in developing institutions in many of our long-term implementation projects. In the small enterprise field, we are currently working with two very different types of local institutions. FondoMicro, a local foundation in the Dominican Republic, is being helped by DAI to develop a self-sufficient portfolio of credit and services to micro- and small-scale enterprise support institutions. Through the Financial Institutions Project in Indonesia, DAI has had considerable success in developing a financial and technically sustainable financial services program in hundreds of small institutions in seven provinces.

### **Institutional Leadership: Development of the Board**

The Board of Directors may be the single most important factor in the success of a nonprofit organization. The Board of the AESU will play a critical role in shaping the vision of the Trust and in establishing its legitimacy within the political economy of Lesotho. Even more important, however, is the role of the Board in sustaining the character of the AESU as it evolves during the lifetime of the project and beyond. The Board must assume the necessary leadership to guide the AESU through its transition from project funding to local control and financial independence. And the Board must be given adequate training to ensure that this happens.

Development of the capacity of the AESU Board will be of vital importance to achieving sustainability for project benefits, and is critical to shaping the AESU's vision and establishing its legitimacy within the Lesotho environment. A primary responsibility of the Board is the financial health of the organization. The Board's other functions are to provide policy direction to staff, to promote the AESU in the community, to approve work plans and budgets, and to develop a vibrant functioning network for the organization. The project must help the Board understand this role, and assist its members in developing their own job descriptions and measures of performance success. They need also to develop a Board profile, to ensure that future members are recruited to meet the needs of the Trust as these change over time. The team also proposes that the Board and Lesotho personnel would benefit from visiting similar organizations in the region and elsewhere.

### **Developing the Institutional Framework**

The handful of nonprofit institutions that have attained financial and technical sustainability are characterized by having clearly articulated institutional goals, a conscious objective of becoming financially self-sufficient (to be weaned from donor funding as soon as possible without sacrificing developmental objectives), and clearly defined management policies and procedures.

The AESU will need to articulate its mission and goal and develop its key strategic objectives. This process includes developing the appropriate indicators and time frame for monitoring progress in reaching these objectives. The determinate theme will be a market-driven commercial focus, with clear goals of achieving financial self-sustainability and institutional viability. Articulating AESU's mission and strategic objectives will be accomplished through a participatory approach involving AESU staff, the long-term advisors, and short-term specialists in organizational development.

Further organizational development sessions and techniques, including specialized Board training sessions, management retreats, and staff cross-training exercises, will be used throughout the life of the project. The primary objective of these activities will be to develop staff capacity to prepare goals and budgets based on annual strategic plans, work plans, and reports, and to instill methods of performance-based monitoring. Technical assistance and support in the course of the project will stress and monitor progress and compliance with the key objectives established in the planning sessions.

### **Developing the Human Resources of the AESU**

Human resource development includes not only training and skills transfer, but also assisting the AESU to build commitment and to reward superior performance.

The AESU's operations will only be as good as its staff, and staff development involves a number of steps, including accurate determination of skills needed in positions; energetic recruitment; job-specific training, including broad orientation in the purposes and concept of the Trust; and administrative and personnel policies, including the development of a formal job description and personnel management system that will retain good employees.

The quality and image of the AESU will depend primarily on its personnel and their ability to earn a leadership role in the field. Personnel will need to be recruited on the basis of strategic staffing needs to fulfill the AESU's objectives.

### **Management and Financial Information Systems**

The ability of the AESU to continue offering quality services beyond completion of the project depends on the existence of effective systems that can be implemented by AESU staff. As a result, the project will dedicate considerable attention to developing management systems and procedures that:

- are essential to the efficient and effective implementation of the project;
- provide useful and essential support to daily operations, management decision making, strategic planning, and reporting; and
- can be operated and maintained by AESU after direct technical assistance is ended.

The major systems required by the AESU include an accounting and financial management system; a credit management system; a procurement management system, to maintain accurate and complete records on commodities procured and distributed through the project; and a agro-business association management and reporting system, including fixed asset controls and monitoring. These will be developed as an integrated, coordinated management and information system to provide the AESU with the tools needed to manage the institution effectively and efficiently. Where appropriate, user-friendly computerized programs will be developed to manage data collection, storage, and reporting of the individual systems.

### **Financial Planning for Sustainability**

It is highly unlikely that the AESU will be financially self-sufficient by end of the project life. It will, however, have made demonstrable progress toward covering a significant portion of its costs through self-generated income. Even more important, the Trust will have clearly prepared written financial and management plans and a realistic time line for reaching sustainability goals. The team propose a three-pronged strategy to build toward financial sustainability:

- **Cost Recovery through Service Fees.** The Trust might institutionalize a system of partial cost-recovery by charging service fees. The AESU can, over time, also sell nonprogram services to the public and private sectors. The acid test of the viability of the AESU and the usefulness of its services is its ability to withstand the market test of building a client base willing to buy its services. If the AESU cannot do this, it should fail — as it will;
- **Full financial transparency** would be maintained in order to assess whether the benefit generated by each component warrants its continued subsidies. The cost accounting system will provide indicators to document impact, and will provide the Board and staff

with the information on which to base strategic decisions concerning program expenditures and subsidies; and

- **Fund Raising.** A portion of AESU activities will not be amenable to cost recovery. This will include developmental programs in which the benefits are widely distributed and fee collection is impractical, and areas in which continued subsidies are deemed appropriate. Supplementary sources of funding are therefore a necessity. Careful attention must be paid to specifying needs, identifying potential funding sources, developing presentations that appeal to the potential donors' interests, and keeping donors informed and involved with AESU activities.

### **Linking With the External Environment**

Developing a successful institution requires that the AESU function within an economic and social environment that is beneficial to (or at least neutral to) small agro-business development and to AESU's role in it. This will include such activities as networking, addressing policies and regulations, and establishing the way the AESU will identify and overcome negative forces in the agro-enterprise environment.

Two important links will be provided through the Agro-business Advisory Committee and the target agro-business associations. The Agro-business Advisory Committee will be formed early in the project and will be made up of representatives of the AESU target group and other interested parties. This group will ensure that direct dialogue and feedback from the beneficiary group to the AESU Board and staff occurs throughout project implementation. Although the Agro-business Advisory Committee's formal role will be purely consultative, AESU management must take seriously the feedback of the Agro-business Advisory Committee on programming and effectiveness.

**ANNEX 9**

**BASELINE AND FOLLOW-UP SURVEYS  
FOR USAID/LESOTHO CPSP MONITORING;  
AGRICULTURE-RELATED ENTERPRISES**

## ANNEX 9

### BASELINE AND FOLLOW-UP SURVEYS FOR USAID/LESOTHO CPSP MONITORING; AGRICULTURE-RELATED ENTERPRISES

#### INTRODUCTION: TARGET ENTERPRISES

In thinking about information needed for the purpose of monitoring the effects of USAID's Country Program Strategic Plan in the area of agriculture-related enterprises, two questions arise: what sectors and activities are included as agriculture-related enterprises? and what types and sizes of businesses are the focus of the activity? The following discussion is based on the assumption that agriculture-related enterprises include primary production (crops and livestock) as well as the production of agricultural inputs (including irrigation and other agricultural equipment as well as seeds, fertilizer etc); the transformation of primary products (including milling and baking, brewing, the making of garments and leather products); and the transport, trade and distribution system that supplies inputs and that markets the primary and transformed products. On the size issue, the data suggest that over 80% of the employment in agro enterprises, as defined above, is in producing units with less than 10 workers. That being so, it seems evident that a monitoring system should include enterprises of all sizes, small as well as large. If one is willing to concentrate only on enterprises with 50 or more workers, the task would become a great deal easier - but it would miss over 90% of the employment in the sector.

#### OVERVIEW: SUGGESTED APPROACH

The information needed from this exercise can be briefly summarized (references are to CPSP):

Table I, Second Sub-Goal,

Indicator B: Increase in income from agro-enterprises.

Table II, Strategic Objective 1.0,

Indicator E: Capital productivity

Indicator F: Labor productivity

Table II, Target 1.2

Indicator A: Change in sales volume

Indicator B: Change in employment

Indicator C: Number of new enterprises

Indicator D: Total number of enterprises

**Table II, Subtargets for 1.2**  
**Indicator A: Number of loans made**  
**Indicator B: Assistance services utilized**

The required information falls into three categories: information to be collected from producing units (or enterprises) on a periodic basis (every three years); information to be collected annually from enterprises; and information to be collected annually from institutions providing support to agriculture-related enterprises. Beyond this, studies completed or under way require that one differentiate between the following different categories of enterprises:

- Primary production:**  
 Fruits and vegetables  
 Grain  
 Intensive livestock  
 Estates (i.e. non-household production)
- Transformation, input supply, and trade**  
 Small enterprises (50 or less workers)  
 Large enterprises.

It is assumed that range livestock monitoring is to be handled separately, in the range management part of the CPSP; it is excluded from subsequent discussion here, although this discussion includes intensive livestock.

Starting first with the periodic (or baseline) data, in the area of primary production, the forthcoming survey of fruit and vegetable growers will provide a good source of information on numbers of households engaged in the growing and marketing of fruits and vegetables, as well as (approximate) information on the quantity and value of production and sales.<sup>1</sup> Three things are missing from this data, from the CPSP data needs point of view: no information is being collected on employment; and neither livestock nor grains are covered. It is suggested that the production of grains can be left aside from this analysis, since no part of USAID's agricultural development strategy relates to these farmers. If it is not too late, it would be most desirable to add one page to the questionnaire to collect basic information about the numbers of people (broken down by gender) engaged in the production of fruits, vegetables, and livestock; and the number of animals owned, and the numbers sold over the past year. The information to be collected would not need to be extensive, since one of the main purposes here is to provide a sample frame for a more detailed examination of a smaller number of households, in annual follow-up surveys (see below).<sup>2</sup>

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<sup>1</sup> The "approximate" is because the quantities for fruits are only by categories, not by actual numbers produced and sold.

<sup>2</sup> If it is too late to add these questions to the forthcoming questionnaire, there are two alternatives for grains: to ignore them in the monitoring system; or to undertake a separate baseline survey for grains only. The latter seems to be a particularly undesirable option. For the employment question, if necessary, one could skip this in the baseline survey and pick it up in the annual follow-up questionnaires for a sample of households. While one of the goals of the annual surveys would be to add depth to the analysis of employment, it would be desirable to capture the overall magnitude and structure of employment in the baseline survey.

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For non-primary activities (transformation and trade) with up to 50 workers, the 1990 GEMINI survey provides the required baseline information. While some further processing of the data from that survey will be needed, that should not present a problem. The survey provides baseline data on numbers of enterprises by sector and locality, as well as information on employment.

This leaves the larger (estate, or non-household-based) primary producers, and the larger (more than 50 workers) non-primary enterprises. For transformation and trading enterprises, the task is a relatively simple one. Working with information from the Bureau of Statistics, from other government offices and from the MAPS study,<sup>3</sup> it should be possible for one researcher to compile a list of these enterprises, with details of sector, location and current employment, in no more than three weeks. This information will be needed to provide a sample frame of large enterprises comparable to that already available for the smaller ones. For the larger enterprises, one should aim to collect this information with a 100% coverage of the universe, not just a sample of the type used in the GEMINI approach.

Baseline information for non-household-based primary producers will also need to be collected. I do not know how many of these exist in the country. I would suggest approaching this through discussion with informed people to build up a list. Again, three person-weeks of time might be adequate for this task, specially if one can draw on the expertise of the LAPIS team.

The timing of this baseline information for different categories of producers is not symmetric. The fruits and vegetables survey will be completed in mid-1992; presumably, the compilation of data on larger enterprises, both primary and non-primary, could also be done in 1992. But the GEMINI data are from August-September, 1990. If one starts from the idea that this baseline information is to be gathered every three years, this would imply repeating the GEMINI work in the summer of 1993. If it is felt important that all of these start from a common point in time, then the repeat of the GEMINI work would have to be advanced to 1992. That would make for greater neatness in the presentation and analysis, but it hardly seems justified. It should not be too difficult to work around these staggered data bases. The baseline surveys to be done in 1992 would then be repeated in 1995.

It is suggested, then, that the three-yearly data for smaller (up to 50 workers) non-primary activities be collected approximately three years after the first GEMINI survey, i.e. in August-September 1993. This second triennial survey should go back to the same localities covered in the 1990 survey, and should follow the same general approach, to ensure comparability. This approach would provide the necessary data, for non-primary activities with up to 50 workers, for 3 of the 4 indicators specified under CPSP target 1.2 (item B, change in annual person-years of employment, by gender; item C, number of new enterprises, by gender of owner and operator; and item D, total number of enterprises, by gender of owner and operator). Incidentally, it would also provide information about enterprise deaths. If the responses can be matched between the two surveys, this could shed important new light on the characteristics of enterprises that disappear; such information can help target assistance to enterprise categories where it will have the maximum impact.

The approach of the 1990 baseline survey, and that proposed for the 1993 follow-up, makes use of stratified cluster sampling. Unlike the approach in the fruits and vegetable survey, this involves

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<sup>3</sup> The MAPS Phase II Report lists 40 such enterprises, of which 7 are in food and beverages and 22 in garments. That Report also lists 43 large-scale enterprises (with more than 50 workers) that are at least partly owned by the LNDC. There is much overlap between the two lists. It is striking that the employment figures are rather different in the two lists, suggesting that the data collection might not be entirely straightforward!

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collecting information about **all** enterprises found in the selected localities. The approach involves collecting a limited amount of information from a large sample of respondents. For this approach to work, one must limit the survey to information that can be collected fairly quickly and easily (the GEMINI survey is one line long for each respondent, compared to 15 pages for the fruits and vegetables survey); this is the way one gets a more comprehensive, overview picture. For more complex information, it is usually necessary to focus on a smaller group of enterprises (the GEMINI survey collected information from 7,200 enterprises, based on interviews with 24,000 households; the fruits and vegetables survey will cover approximately 2,750 households).

The overview provided by the baseline makes it possible to select a sample for the follow-up work which is stratified in several dimensions (e.g. sector, location, enterprise size, perhaps gender of the proprietor), but which uses random selection procedures within the strata. For all categories of enterprises, it is suggested that information on value of sales, on income earned, and on value added, be based on such a restricted sample. This would provide the required information on the indicators for subgoal B (increase in income from agro-enterprises); for strategic objective 1.0, indicator F (labor productivity, measured in terms of value added per employee); and for target 1.2, indicator A (change in annual sales volume).

For the analysis of the subgoal ("increase in income from agro-enterprises"), it will be important to generalize the findings from the smaller sample to the economy as a whole. This can be done through the use of coefficients reflecting income earned per person employed (derived from the smaller sample) blown up to the whole population through estimates on total numbers involved in the activity, collected in the broader, 3-yearly exercises.

Capital productivity (Strategic Objective 1.0, indicator E) is a useful and interesting measure of the efficiency of resource use in a particular enterprise. The measurement of capital productivity, however, requires substantially more information, and information that is substantially more difficult to collect, compared to the other indicators under discussion here. The approach one might use to address this point is discussed in more detail in section 3.3 below.

Indicators for the subtargets of target 1.2 can best be approached through more narrowly focused data collection efforts. For the first part of 1.2A (numbers of loans made), the best approach would be through the banks or other financial institutions rather than from the beneficiaries; information should also be collected on repayment rates for loans. For the second part of this subtarget (assistance services utilized), one can start from the number of enterprises receiving such services. It makes sense, though, to go beyond this enumeration to some analysis of the resulting changes at the level of the beneficiary enterprises. This could best be done on a sample basis, and designed taking account of the nature of the services being provided (which is not yet determined).

Baseline information with regard to subtarget 1.2B (number of input suppliers operating in the country) appears to be available from an earlier survey (LAPSP). Subtarget 1.2C could best be monitored first at a macro level, specifying the policy changes needed and introduced, then at a micro level in the annual surveys of a sample of enterprises, to determine the extent to which these changes have been carried out in the field. This would require the specification of the particular policy changes to be monitored in this way. This ideas can be summarized in the following table.

## CPSP DATA REQUIREMENTS

	3-yearly	Annual, sample of enterprises	Annual, other
Table I, 2nd Subgoal, Indicator B: increased income from agro-enterprises	x	x	
Table II, Strategic obj. 1.0:			
Indicator E: Capital productivity (IRR)		x (?)	
Indicator F: Labor productivity (VA/emp)		x	
Target 1.2: Increased business activity			
Indicator A: Change in annual sales volume		x	
Indicator B: Change in annual person-yrs of employment	x		
Indicator C: No. of new enterprises	x		
Indicator D: Tot. no. of enterprises	x		
Subtargets for 1.2			
1.2A Increased use of needed resources			
Indicator A: Loans made			x
Indicator B: Services provided			x
1.2B Competitive input supply system			
No. of supply firms operating			x
1.2C Improved policy environment			
TBD		?	

## DETAILED DESCRIPTION OF SURVEY APPROACHES

### Triennial Baseline Surveys

For fruits and vegetables, the survey instrument has already been designed. As indicated above, the only modifications suggested here would be to add information on the number of animals owned and sold, and some simple information on the numbers of people engaged in crop production (without separation by crop). This latter might be in a simple table with the following format:

	Numbers of persons	Number of months over the year when some work is done
Adult male family		
Adult female family		
Adult male hired		
Adult female hired		
Children		

Turning to the small (less than 50 worker) non-primary activities, it would be highly desirable to return to the same localities previously surveyed in 1993, permitting a detailed comparison of enterprise numbers by sector, size, and gender of ownership, with corresponding information about employment. Several simple modifications have been introduced into this questionnaire since the summer of 1990, permitting one to explore additional aspects of the past patterns of growth in respondent enterprises, all of which should be of direct interest to the Mission.

Since the focus of the Mission is now explicitly focused on agro industries, care should be taken with the classification scheme in the survey design to ensure that the industrial classification reflects the interests of the Mission. If it is felt to be desirable, the survey could be expanded to include primary production, although this would not be an easy task, and the fruits and vegetables survey seems to obviate the necessity of such an expansion. It is strongly suggested, however, that the survey not be restricted only to agro industries. It takes very little extra time to complete the simple questionnaire for all types of non-farm activities, and that additional information will be of considerable interest to many users beyond the focus of the CPSP (including, one strongly suspects, the USAID Mission, in their general reporting on patterns of change in the economy as a whole). To limit the survey only to agro industries would save very little money, and would sacrifice a substantial amount of useful information.

As indicated above, the GEMINI survey would only cover enterprises with up to 50 workers, while the fruits and vegetable survey focuses only on household-based activities. Information on the larger enterprises in each category would need to come from separate baseline surveys. At this stage, the goal would only be to enumerate the enterprises, determine the nature of their activities, and get as much information as seems appropriate about employment and its breakdown. Since many of these enterprises would also be covered in an annual follow-up survey, this would be more in the nature of a listing, with some basic information on activities and employment. It should aim to cover all the

enterprises in the two target groups. The groups to be enumerated here are the larger transformation and agricultural marketing enterprises, on the one hand (the larger counterparts of those covered in the GEMINI survey), and non-household-based primary producers (the larger counterparts of those covered in the fruits and vegetables survey).

### **Annual Surveys of Enterprises**

The goal here would be to choose a representative sample of enterprises from which more detailed data would be collected annually, permitting estimates to be made of income from the enterprise (Table I, Second sub-goal, Indicator B); labor productivity, or value added per employee (Table II, Strategic Objective 1.0, Indicator F); and changes in annual sales volume (Table II, Target 1.2, Indicator A). Note that it is suggested that the last of these be switched from a 3-year reporting to an annual reporting category, although only for a sample of firms.

To approach these targets, one would need to collect the following information from respondents in the sample:

i. **Employment.** The simplest approach here would follow the format used in the GEMINI baseline survey. This involves collecting information on the "usual number of workers," with the total broken down in two different ways: working proprietors, unpaid family workers, paid workers, and apprentices; and of the total, the number that are females, part-time, and children under 15. A more ambitious approach would move beyond stocks to flows: from numbers of workers to person-days or person-hours of work. To do this, one would need to supplement the information collected about numbers of people with information on the number of days each works per month and the number of months worked per year.<sup>4</sup> Each of these extensions is, in principle, desirable; to the extent that respondents are able to provide accurate answers, each makes the response and the resulting analysis more precise. The question to be decided concerns whether the additional accuracy justifies the extra costs. There is no a priori correct answer here. My own suggestion would be to try to collect information on days worked over the past month and months worked over the past year, but not about hours worked per day.

ii. **Volume and value of sales, and costs of inputs.** These are discussed together. The first provides information for the first indicator under target 1.2 (change in annual sales volume); the second and third, taken together, make it possible to estimate value added; when combined with the employment figures, one can make an estimate of labor productivity. Going further, if one follows a more comprehensive measure of input costs to be deducted, one arrives at an estimate of income to the enterprise. The basic relationships here are as follows:

Volume of sales x price per unit

= value of sales

- cost of purchased, non-factor inputs (goods and services purchased)

= Value added

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<sup>4</sup> For even greater accuracy, one might ask about the number of hours worked per day. This seems like too much detail for this exercise.

- cost of payments for purchased factors of production (wages of hired labor, rental payments, interest expenses)

= gross income

- cost of capital (depreciation charges)

= net income.

The detailed design of a questionnaire to capture all of the complexities of these relationships is beyond the scope of this consultancy. One will need to make decisions about the extent to which it is feasible and desirable to capture variations in inventories (both finished products and inputs); the treatment of taxes (a sensitive issue for the respondents!); the treatment of capital costs (e.g. procedures for estimating depreciation, including the cost basis); and the treatment of a variety of other detailed items (insurance, electricity, etc). It is because this is a complex process that one seeks to restrict the size of the sample to a manageable total. The issue for each of these questions is not what is analytically correct, but rather what is feasible, given the need not to be too complex (to minimize data collection and analysis time) and not too intrusive (the survey will be dependent on the willingness of respondents to provide answers voluntarily; the intention is to go back to the same panel each year, so it must not be too much of a burden for them or they will send the enumerators packing).

The most difficult analytical issue that arises here concerns the time period for which the data will be collected. For large firms with audited accounts, one can simply use the accounts for the most recent year. For smaller enterprises, this option is usually not available, so one is forced to adopt a time period that is most likely to give meaningful responses. The approach may be different for primary producers (crops or livestock), for traders, transporters, or those engaged in transformation of agricultural products:

For primary products, the appropriate time period would normally be a crop cycle, from land preparation through harvesting. This is (at least conceptually!) straightforward for annual crops, but is considerably more complicated for tree crops, livestock, or other multi-year activities (e.g. asparagus). This part of the survey should be designed by someone with considerable experience in this type of analysis of primary production.

For transformation activities (i.e. agro industries such as grain mills, tanneries or bakeries), the approach is normally more straight-forward. For small enterprises, the key issues are ones of trading off memory recall against seasonality and lumpiness of inputs. In general, one can collect the most accurate information using the shortest time period (e.g. one week); but one needs to balance that against the variability of output over time. One frequently-used approach would be to make the calculations of sales, value added and income for the previous week (or month), then ask the respondent for quantity figures on production or sales over the previous year, to make estimates on an annual basis assuming constant value added and income coefficients. This is not perfect, but in practice the alternative of asking about annual income and value added will generally be even less accurate.

For transporters, the critical input will normally be the vehicle. The key issue to be determined has to do with the useful life of the vehicle, and its rate of utilization over the year. Other, variable costs are normally easier to collect.

For traders, specially smaller traders, while the general outline of the accounts presented above is still valid in principle, it may not be realistic to make the calculations in this way. For this group, it

may be necessary to ask about gross sales, then ask the respondent for an average trading margin to estimate value added.

In spite of these differences by sector, with the possible exception of primary production, the overall questionnaire might be a standard one, with differences appearing in the instructions for those who will administer it. This seems preferable to trying to develop a different questionnaire for each type of activity.

The end point of the table above is referred to as "net income;" this is the net income to the enterprise. It is also important and useful (and often considerably more precise!) to collect information about wage rates, for paid workers with a range of skills (if there are any). This is often a good indicator of the economic health of the enterprise: an enterprise that can expand its employment while paying good (and rising) wage rates is in a different category from one where wage rates are declining, or where employment is stagnant.

If one wishes to move beyond income and labor productivity to direct measurements of capital productivity, several things change in the analysis. For one thing, one must make estimates over a period of time (in principle, over the life of the capital assets, normally several years). One must make assumptions about the efficiency with which all resources are used and how this will change over time; about the rate of utilization over time of the capital assets; and about prices of inputs and outputs. For smaller enterprises, the amount of capital in use is often quite small; calculations of rates of return are quite sensitive to alternative assumptions about the valuation of existing capital stock (replacement cost? original cost, adjusted for price changes? if the latter, using what price index?). It does not seem like a wise use of USAID's resources to make such calculations for any but a few larger enterprises with published accounts; even for these, to redo the calculations each year does not seem sensible, nor can one tell much about patterns of change in the sector as a whole by looking at internal rates of return in a few large enterprises. On balance, it seems better to delete this measure from the list of indicators to be examined.

If one is going to survey a sample of enterprises each year, this provides a wonderful opportunity to collect some additional information: about the nature and patterns of change in the enterprise during the year, about problems the enterprise has faced, about assistance received (from particular projects or otherwise), about the impact of particular policies or policy changes on the enterprise, etc. This becomes a very important vehicle for understanding what is going on at the level of the enterprise, and whether policy changes announced at the top or project assistance programs are actually reaching supposed beneficiaries. This provides an important part of the details needed for the indicators under Subtarget 1.2A of the CPSP.

### **Annual Surveys Focused on Assistance Institutions**

The indicators for subtarget 1.2A specify that information is to be collected concerning loans made and services provided for target enterprises. This information will need to be collected, in the first instance, from the supplier institutions. As suggested above, this will be supplemented by information from the annual survey of enterprises, to determine the extent to which they have actually received the supposed assistance, and whether in fact it has helped them.

One question that arises here concerns the numbers of assistance organizations and credit institutions to be covered in the survey. There appear to be large numbers of NGOs, PVOs and donor-funded projects that provide technical assistance and/or credit to small producers in Lesotho; to collect

comprehensive information from all of these on an annual basis could be a major task. Clearly any programs supported by USAID should provide such information on a routine and regular basis. For others, a decision would have to be made during the final design process as to how extensive this effort should be, and whether one should rely on published reports or should make annual field visits to each agency or institution. A suggested guiding principle would be: make sure the most important institutions and programs are covered.

### **Sample Size for the Annual Enterprise Surveys**

The issue here, as for this whole exercise, is one of a trade-off between the validity of the sample as a representation of the agro industrial sector as a whole, the accuracy of the answers one can expect (which generally declines as sample size increases), and the cost of the activity. As an indication of orders of magnitude, I would suggest aiming for about 200 enterprises in the sample: 50 - 75 each of primary producers, enterprises engaged in the transformation of agricultural products, and traders and transporters. In each of these three categories, one could use stratified random sampling procedures drawn from the baseline data to seek a diversity of sizes and types of enterprises as well as of localities. As suggested above, an effort should be made to return to the same enterprises each year, to obtain comparability over time in the results.<sup>5</sup>

### **Preliminary and Indicative Costing of the Activity**

For the baseline surveys, the information on fruits and vegetables is already planned and programmed. There will need to be a repeat of the GEMINI survey, in 1993. The previous survey cost \$67,000; a repeat three years later, with allowance for inflation, might cost \$80,000. The collection of baseline data for non-household-based primary producers and larger non-primary producers would require about six person-weeks of work for the two categories, presumably using a local consultant. If some "baseline-type" work is to be done in identifying institutions providing credit or technical assistance to enterprises, this would be an additional task, for which an additional one or two weeks of work should be sufficient.

The most difficult part of the costing would be the annual surveys of approximately 200 enterprises. These would be in all agro industrial sectors, would cover enterprises of all sizes, and would be spread all over the country. This task should be put out for bids by local consulting firms, as was done with the fruits and vegetables survey. It would require some sensitivity in its implementation (it is not the kind of work that could be done well by junior enumerators). Mission people have a better feel than I for what this would cost; as a rough indication of orders of magnitude, I would think of \$40-50,000 per year, including the final design of the questionnaire, selection of the sample, actual enumeration, data processing and report writing.

The final task concerns the annual survey of assistance organizations. As suggested above, this could be done at any of several levels of comprehensiveness and detail. At its simplest, this could be limited to gleaning data from published reports of each of the relevant institutions. One step beyond that would involve some visits to the institutions, first to make sure they send the latest reports, and second, to discuss the reports and their interpretation. All of this should require no more than two person-weeks of time per year.

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<sup>5</sup> Changes over time in the number of enterprises would be captured in the triennial surveys.

**SUMMARY**

**This information can be briefly summarized, in terms of the required surveys and data collection exercises.**

**Baseline data:**

**Household, Fruits and vegetables: already programmed for 1992; livestock and employment to be added.**

**Non-household-based primary products enterprises: required, 1992**

**Transformation, trade and input supplies:**

**Up to 50 workers: done in 1990; repeat in 1993**

**Larger enterprises: required, 1992**

**Input supply firms: done through LAPSP; to be repeated?**

**Annual sample of enterprises:**

**Approx. 200 enterprises drawn from all categories above: annual, starting in late 1992 or 1993**

**Annual survey of financial institutions and assistance organizations/agencies: all major players, starting in late 1992 or 1993.**