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Lesotho Small and
Microenterprise
Strategy — Phase II:
Subsector Analysis

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Lesotho Small and Microenterprise Strategy — Phase II: Subsector Analysis

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EXECUTIVE SUMMARY

In October-November 1990, the Growth and Equity through Microenterprise Investment and Institutions Project (GEMINI) carried out a series of subsector analyses as the Phase II of USAID/Lesotho's countrywide small and microenterprise (MSEs) strategy exercise. Starting from data on MSEs collected during the Phase I survey of more than 7,200 MSEs, these analyses help us understand the role of MSEs in the economy of Lesotho, their linkages with the formal sector, and their potential for growth. The final stage of the strategy development (Phase III) will draw from the crosscutting constraints and opportunities identified in Phase II and evaluate the existing institutional structure to develop a strategy to respond to those constraints.

The subsector approach for developing a strategy flows out of an overall assessment of the structure and status of MSEs in the country. The studies analyze the vertical marketing and production channels within each subsector, identify the linkages between large and small firms, analyze the competitive forces between and within channels, and identify those points that provide the greatest leverage for growth. By providing decision makers with a hierarchical ranking of possible interventions across subsectors, the subsector approach allows them to make better informed decisions on the points of intervention that will have the greatest impact on the growth of each subsector.

Lesotho is one of the first applications of a complete MSE strategy exercise in Africa utilizing the subsector methodology as the core analytical tool. As a pilot exercise, it provides an opportunity to identify the strengths of the subsector methodology, as well as those elements which must be adapted to respond to the rigors of strategy development. The results of the assignment show that the subsector methodology provides invaluable insights into the roles and conditions facing MSEs in the economy, but that the analyses on their own are not sufficient to realize an entire strategy.

The Phase II team developed a methodology to select four important subsectors for analysis: garment manufacture, weaving, construction, and leather goods. This methodology considered the major programmatic emphases of USAID/Lesotho on generating employment and increasing value added. The subsectors were prioritized and selected following a review of the general structure of each subsector, based on the results from the Phase I survey, and taking into consideration the number of firms, employment and sales in each subsector; estimates of the potential for growth and expansion (derived from household consumption figures); the number of women employed in the subsector; and use of local inputs into the product (potential for value added).

OVERVIEW OF THE MSE SECTOR IN LESOTHO

There are more than 100,000 MSEs employing over 150,000 people in Lesotho. With approximately 30 percent of all households involved in MSEs activities, MSEs play a very important role in the Lesotho economy. Since four-fifths of the MSEs are in rural areas, they play an important income-generating role for the rural population. MSEs are dominated by beer brewing (33 percent) and garments manufacture (14 percent) in the manufacturing subsectors, and vending (17 percent) and wholesale/retail (12.7 percent) in the nonmanufacturing subsectors. Women make up 75 percent of all MSE proprietors and employees.

Garment Subsector

Major Findings and Conclusions

The garment subsector has a high proportion of female proprietors and employees, and apparent growth potential on both the large and small scale. At the small scale (firms employing fewer than 50 personnel), GEMINI survey data suggest employment of 28,000 (90-percent female) while data on large-scale exporters indicate total employment of 7,500. The recent emergence of the large-scale export sector combined with the apparent expansion of the small sector suggested the potential of the garment industry for generating employment, especially for women.

Clothing is the second largest household expenditure (16.9 percent) in Lesotho, after food. However, local small-scale production captures only 25 percent of these expenditures. Firms selling imported garments (ready-made clothes — RMCs), on the other hand, capture 75 percent of clothing expenditures. This evidence suggests opportunities for the small sector to capture a larger share of local demand. There are about 14,500 small- and micro-scale dressmaking firms with over 20,000 employees and gross sales of about 41 million Maloti.

Input supply, marketing, and working capital are the major constraints faced by small businesses in the garment subsector. MSEs prefer to purchase inputs, especially cloth, in the Republic of South Africa (RSA) rather than Lesotho. Entrepreneurs claim that local prices are twice those of prices in South Africa. Lack of working capital results in entrepreneurs taking more trips than are cost-effective. Marketing problems derive from a lack of understanding of how to market and increasing subsector competition among small producers.

Despite the relatively large influx of so-called "trained" dressmakers graduating from technical, vocational, and private sector schools, the quality of the production of the average, small garment manufacturer is mediocre. Training organizations are generating people for employment rather than self-employment. For the most part, they do not provide commercial or business management courses with technical training.

Strong culturally influenced gender roles in Lesotho steer women toward traditionally female activities and businesses. These are a narrow range of economic subsectors. More and more women are entering a narrow range of subsectors in search of income to meet the educational costs of their children. This movement is fostering increased competition in limited market niches.

Principal Recommendations

- Promote a Garment Manufacturing Association to focus on the input supply and marketing problems of the subsector.
- Study the constraints to private local wholesaling to understand which market failures have limited the development of local wholesaling businesses.
- Reorient training to place a greater emphasis on quality to allow producers to compete successfully with imported goods.

- Facilitate the mobility of women out of the garments subsector into nontraditional subsectors with market prospects through training and sensitization.
- Add commercial courses to the vocational training in the formal institutions to provide instruction in practical small business management.
- Address the legal constraints faced by female entrepreneurs.

Weaving Subsector

Major Findings and Conclusions

The weaving subsector is small and oriented toward a tourist and upscale export market. It employs a relatively small number of female workers and subcontractors (spinners) but has strong links to agriculture, good export potential, and all the value of the final product is added locally. Moreover, there is potential for increasing the participation of local Basotho¹ female spinners, located in the rural areas and in need of cash income, and weavers. Thus, the subsector has potential for increasing enterprise and employment opportunities for the relatively large female labor force.

There is one market channel within the weaving subsector, dominated by approximately a dozen firms (mostly expatriate managed), employing between 750-800 people. These firms subcontract with a sizeable number of spinners, totalling at the upper limit 1,000.

The major constraint of the expatriate-owned weaving firms is the scarcity of qualified weavers and hence insufficient production to meet the demands of the export market. Frequent labor disputes between the small cadre of skilled weavers and spinners and the expatriate owners is cause for concern. Weavers perceive that their wage is out of line with the high price of the final product produced by their scarce skill.

Basotho-owned and-managed weaving cooperatives and firms making tapestries have not been able to break into the export market because of lack of knowledge of this market and design skills to meet sophisticated international tastes. These organizations too often focus on production while lacking a market. Organizations focusing on spinning, however, have successfully established complementary linkages with expatriate-owned weaving firms.

There will soon be a significant demand for yarn as the existing supplies of mohair yarn, produced under the CARE project, are depleted. This opens opportunities for increasing existing complementary linkages between spinners in the rural areas and private weaving firms.

Principal Recommendations

- Provide additional training in both advanced and beginning courses in weaving technique and design, working in collaboration with weaving firms. Scholarships should be made available to promising students to study textile design abroad, where they might improve their design skills while being exposed to international tastes.

¹ The people of Lesotho are called Basotho. The singular form is Mosotho.

- Build on the CARE project's efforts to identify an export market for yarn and expand training for spinners in rural areas, to provide the Basotho weaving sector.
- Facilitate links between Basotho weaving cooperatives and firms, which lack markets, and expatriate-owned firms that cannot meet market demand.
- Improve the performance of the Trade Promotion Unit. Its civil servant staff has little marketing experience and has difficulty promoting Basotho products successfully in international markets. The unit provides limited assistance to local firms. Travel grants or subsidies should be given to enable weaving firms to attend international trade fairs, especially in North America, Europe, and the Far East.

Construction

Major Findings and Conclusions

The construction subsector is a large employer of workers and a high-potential growth subsector. There are approximately 32,000 people employed in the construction subsector, 11,200 of whom are employed in MSEs. A small number of women are involved, mostly in unskilled and low paying jobs. Current national consumption statistics show that for every additional Maloti earned, the percentage of the budget spent on construction will increase by 1.33 percent. In addition to being a high-potential growth subsector, it also provides shelter in the rural areas where approximately 60 percent of expenditures for construction are incurred.

The subsector is divided into two major sets of activities, formal and informal. The informal channel provides simple residential dwellings in rural and urban areas. This channel employs artisanal construction workers and uses a high content of locally manufactured building materials. Such construction is usually managed by the owner rather than contractors, and is financed out of savings.

The formal channel builds office and commercial buildings and medium- and high-income residences primarily in the urban areas. Approximately 360 contractors operate in the subsector, divided into four categories by size and expertise. The contractors' clients are government, corporations, and wealthy individuals. These clients get financing from banks and the Lesotho Building Finance Corporation (LBFC). The contractors' work is done according to regulations and specifications, so the buildings contain a high content of imported raw materials.

The allocation system of free government urban land functions poorly. The market for other land in urban and peri-urban areas tends to exclude persons with low incomes.

Credit is a constraint at the individual and the firm level. It is difficult for persons with low incomes to obtain loans to build their own houses. Despite the existence of a development bank for building finance (LBFC), low income people do not yet have ready access to loans (and these are the main clients of small construction firms). It is almost impossible for small businesses to obtain credit through formal channels to expand their enterprises. Small manufacturing enterprises for construction and building materials cannot get loans from commercial banks because they usually do not have a long-term relationship with the bank, cannot furnish accounts and other financial information, and cannot provide the kind of collateral that banks require.

There is a shortage of skilled construction workers, which is affecting the performance of contractors, particularly the smaller ones. Vocational training schools are currently putting their graduates onto a job market hungry for skills, but firms are not employing them because their training is not appropriate.

Recommendations

- Assist the Government of Lesotho to review the legal framework within which credit is provided, including an analysis of why previous donor assisted loan programs have failed, and seek to improve the legal channels by which lenders can protect and recover their investments fairly and rapidly.
- Assist the LBFC to revise its procedures to meet the needs of low income borrowers, and start identifying new sources of funding.
- Facilitate the creation of a local construction association, in cooperation with local business organizations and the parastatal corporations, to increase linkages between small and large construction firms;
- Upgrade training programs in construction-related skills, in association with the private sector (construction association), particularly nonformal vocational training and courses in small business management and entrepreneurship. The former should conform to that of the Building Industry Federation of Southern Africa.

Leather Goods

Major Findings and Conclusions

Lesotho has a relatively large and virtually unexploited skins and hides supply. It provides potential for increasing value added within the country and generating productive employment. The skins and hides trade in Lesotho is at an infantile stage. Less than 15 percent of the available supply is being captured in the commercial marketing channels. The Basotho have no tradition of using skins and hides beyond simple bedding and clothing, so they attach virtually no value to the skins and hides. When compared to the value of the animals as income generators from wool, mohair, and meat, their role as forms of investment and their social value as dowries, the perceived value of skins and hides is minimal.

The number of firms involved manufacture of leather goods is estimated to be under 150, and is comprised of about 125 artisan manufacturing (MSE) firms, totalling fewer than 300 employees, producing for the domestic market; two semi-industrial manufacturing (medium-sized) firms with 90 employees, producing high-quality goods mostly for export but with some local retail sales; and seven industrial manufacturing (large-scale) firms employing 4,000 people and producing nearly exclusively for export.

The absence of a tannery severs the flow of skins and hides to the producers of leather goods. This diminishes local supply with a noticeable impact on employment at the MSE level and a loss of

potential value added to the country of more than 10 million Maloti per annum. Nearly all firms import their leather directly from the RSA, which is particularly hard on MSEs that must travel to procure small quantities of hides and skins.

Among the MSEs, there is very strong segmentation along the lines of product manufacture and little crossover between production from skins and production from hides. Most MSEs are less than a few years old, in particular those that manufacture goods from hides, for which there has never been a tannery in Lesotho. Enterprises involved in skins products are older, with the first ones having started in the late 1970s following the emplacement of the sheepskin tannery.

There is potential to increase the number of MSEs in leather goods manufacture, particularly for hides products such as sandals and saddles. This is seriously constrained by the difficulty and cost of procuring the tanned hides and skins and by the limited number of skilled leather workers capable of producing the range and quality of products needed to capture greater market share. Marketing constraints focus on seasonality and on limited exposure of products to the possible market.

There are significant linkages from the firms in the second channel and the MSEs. The MSEs are dependent on the larger firms as suppliers of raw materials, generators of ideas for products, and often the source of the skilled labor required to start the enterprises. There are no linkages in the other direction.

Principal Recommendations

- Remove the supply constraint which will be the major catalyst to growth in the subsector. USAID and other donors should assist the Government of Lesotho to establish appropriately scaled and financially viable tanneries for leather goods, for sheepskin and hair-off tanned leathers.
- Develop a firm-level program for upgrading the skills of leather workers, which will concentrate on existing workers since these are the greatest source of innovation and training of additional workers.
- Provide assistance through USAID and other donors to develop a dynamic private trade of skins and hides, which will collect the skins and hides at the rural levels and aggregate them for tanning or export.

IMPLICATIONS FOR A MSE STRATEGY

Common themes that surface from the four subsector analyses and should be addressed in Lesotho are access to processed inputs, weak management and technical skills, the business climate and regulatory and policy environment, capital constraints, and missing links in the value added chain. Gender issues are woven throughout these theme areas.

All four subsectors analyzed have promise for increasing value added and generating employment for the male and relatively large female labor force. The variations in potential impact vary by the size of the existing activities in the subsectors. When we compare the potential across the subsectors we find that concentrating on the *missing links* will probably generate the most important rapid changes and bring

the greatest immediate value added. But they cannot be the only activities undertaken because they do not address the issues that will generate the greatest long-term growth, the markets. This is a more complex problem that needs improved quality, better marketing programs, and changes in the policy environment. Therefore, a possible order for the interventions, based on immediate versus long-term benefits, follows:

- **Invest in the missing links** by implementing activities to generate increased value added and generate employment through leather goods tanneries and mohair processing and spinning. These subsector-specific leverage points will generate rapid benefits if the technical issues involved can be overcome.
- **Facilitate the immediate supply of raw materials** for the leather goods, garments, and weaving subsectors by helping to establish the market-supply links.
- **Attack the weak management and technical skills** through training programs that are centrally managed, held at times and locations convenient for women, but that work to modify the curricula of the existing training organizations and work directly with the firms to address their specific issues. This will address the marketing, costing, and quality control issues.
- **Strengthen the supporting environment** by working with the associations that already exist to represent firms and promoting those which meet the needs of female entrepreneurs. These associations will be the best spokespeople for the policy issues that must be changed to enhance the environment. Without stronger representational groups, changes in the policy environment will have to be constantly generated from the outside rather than from the inside.

ACRONYMS

BEDCO	Basotho Enterprise Development Corporation
BOS	Bureau of Statistics
CCI	Chamber of Commerce and Industry
CP	Current Prices
GDP	Gross Domestic Product
GNP	Gross National Product
LBFC	Lesotho Building and Finance Corporation
LH&S	Lesotho Hides and Skins
LSPP	Lesotho Survey and Physical Planning
LHDA	Lesotho Highlands Development Authority
LEHCO-OP	Lower Income Housing Corporation
LNDC	Lesotho National Development Corporation
LHLDC	Lesotho Housing and Land Development Corporation
LMCA	Lesotho Master Contractor's Association
NAFC	National Abattoir and Feedlot Complex
RMC	Ready Made Clothes
MSE	Small and Microenterprise
MPC	Marginal Propensity to Consume
TPU	Trade Promotion Unit
USAID	U.S. Agency for International Development
GOL	Government of Lesotho
KP	Constant Prices

CHAPTER ONE

BACKGROUND AND OVERVIEW TO THE ASSIGNMENT

INTRODUCTION

Rationale for the Strategy Exercise

In early 1990, USAID/Lesotho decided to investigate the possibility of developing a program to promote private enterprise led, broad-based economic development in Lesotho through small and microenterprises (MSE). In conjunction with A.I.D./Washington,¹ the Mission agreed to develop a country-wide small and microenterprise strategy based on a three phase activity: a survey of MSE in the country (Phase I) to understand the magnitude of MSE involvement in Lesotho; a series of subsector analyses (Phase II) which would provide in-depth understanding of the role of MSE in the economy, their linkages to the formal sector, and potential for growth; and the final strategy development (Phase III) which would draw from the cross cutting constraints and opportunities identified in Phase II and evaluate the existing institutional structure to develop a program to respond to those constraints.

This report presents the findings from Phase II of the exercise, the subsector analyses. By employing a subsector methodology as the basis for the strategy, the strategy will provide decision makers with a framework for viewing the overall structure of enterprises in the economy from which to make their decisions. Traditionally, most MSE projects start with a particular point of intervention in mind and then develop their assistance to support that group. These programs generally provide their assistance on a horizontal level, i.e. to a strata of firms of the same size. They rarely start from a solid overall understanding of the role of MSEs in the country, their linkages to larger enterprises, and those points where they offer the greatest potential for growth, either in value added or in employment.

A subsector approach, by contrast, flows out of an overall assessment of the structure and status of MSE in the country as a whole. It analyzes the vertical channels within each subsector, identifying the linkages between large and small firms, analyzing the competitive forces between and within channels, and identifying those nodes which provide the greatest leverage for growth. By providing decision makers with a hierarchical ranking of possible interventions across subsectors it allows them to make better informed decisions for the points of intervention which will have the greatest impact on the growth of each subsectors.

Goals and Approaches for Phase II

The specific goals for the phase II study are to analyze the existing structure of three or four subsectors, to try to determine their past patterns of growth and the development potential of different

¹ Africa Bureau's Office of Market Development and Investment (AFR/MDI) and the Growth and Equity through Microenterprise Investment and Institutions (GEMINI) Project funded by the Bureau for Private Enterprise's Office of Small, Micro, and Informal Enterprise (APRE/SMIE).

participants in the subsectors. To perform this analysis it is necessary to identify the competing channels within each subsector, the backwards and forward linkages between firms, the profitability related to scale of enterprise, and the constraints hindering growth which arise from the policy and regulatory environment as well as access to supply, labor, credit, markets, and marketing practices. This analysis will identify the major opportunities that provide the greatest amounts of leverage for enhancing growth in the subsectors and developing employment potential.

To implement the study, a four person team spent three weeks in Lesotho. Working in two groups of two people, assisted by research assistants from local resource institutions, the team analyzed four subsectors. The first week was spent reviewing the documentation, working with USAID/Lesotho to identify and select the subsectors to be studied, carrying out preliminary interviews with subsector members, and drafting the initial subsector maps. The second and third weeks were spent interviewing small businesses outside of Maseru, meeting with government officials and representatives from private resource institutions, and drafting the report. A full debriefing was presented to USAID/Lesotho in the middle of the third week, along with a draft report submitted prior to the team's departure.

The Lesotho MSE Strategy is a pilot exercise. It is the first complete application of this methodology in Africa, leading to a nationwide strategy. In addition to developing a MSE strategy for Lesotho, it simultaneously serves additional roles:

- It is a demonstration activity which will hopefully lay the groundwork for carrying out a series of strategies in other countries;
- It provides an opportunity to experiment with the use of the subsector methodology, heretofore used only on a single subsector at a time, to determine its strengths and weaknesses as a tool for cross subsectoral analysis; and
- It serves as an opportunity to train staff members from the GEMINI core contractors in the application of this relatively new methodology. Future strategies will attempt to incorporate more local participation in the analysis and strategy design phases.

CONTEXT FOR THE STUDY

Historical and Geographical Context for MSE

Lesotho is only 150 years old and is entirely surrounded by the Republic of South Africa. Its highly mountainous terrain provided a refuge for its early inhabitants fleeing from the surrounding regions in South Africa. The diverse backgrounds of its inhabitants and the young age of the country have played an important role in shaping the nature of the economic activities which are performed by population.

Coming from a variety of ethnic backgrounds, there was little social cohesion in the first century of the country's existence and very limited urbanization. The heavily rural settlement patterns with 87 percent of the population living in rural areas, have led to interesting impacts on MSE development by geographic region, discussed more fully below in Section Three.

The young age of the country is also reflected in the limited development of many indigenous economic activities which one would expect to have been more fully developed. The subsector analyses in Chapter Two highlight some of these contrasts. A specific example is the poorly developed tanning

and leather goods industry, despite the plentiful availability of skins and hides. This most likely stems from the fact that the refugees were not used to working with skins and hides and that they were able to procure many of the most important goods from the already developed South African trading networks. Similarly, the underutilization of local wool and mohair products may stem from the ready availability of machine manufactured textiles and blankets when the refugees arrived, so they were not forced to learn how to make them.

Macroeconomic Situation

The economy has performed reasonably well. During the 1970's, it grew at an average real rate of seven percent for GDP and eight percent for GNP. This growth reflected an increase in outside investment, an expansion of migrant worker's remittances; an expansion of diamond mining; a large volume of external assistance, and growing customs revenues. Inflation remained on a par with South Africa, at about 12 percent per annum.

In the 1980s, real GNP has slowed to an annual average of 2.3 percent during 1982/83-1986/87. This was the result of a slight drop in domestic output caused by poor agricultural production and the closure of the principal diamond mine in the early 1980's. Inflation increased significantly to 19 percent in 1986/87 before declining to 14 percent.

Lesotho's domestic production accounts for less than 60 percent of the GNP, the rest coming from remittances from the miners in the Republic of South Africa (RSA). The budget of the GOL accounts for 38 percent of GNP, which is two thirds financed from revenues and one third from debt (one half of this financed domestically). The small size of the domestic output makes it that much more difficult for the GOL to raise revenues locally, so if the fiscal deficit remains above 20 percent of GDP, it is a heavy load for the economy to finance.

Over the period 1979 to 1985, Lesotho's balance of trade became increasingly negative, rising steadily from negative 234 M.M. to negative 680 M.M. per annum. Its limited export base and large requirements for food imports, often exacerbated by droughts, were the cause of these gaps. Only worker's remittances allowed the country to finance this negative trade flow.

Linkages to the South African Economy

Lesotho has limited natural resources a very narrow productive and export base and relies heavily on remittances from miners working in the RSA. Lesotho's economy is dependent on its large neighbor and regional economic power, the RSA which surrounds the country. The RSA provides it with ready access to any goods it may need and provides an economic framework to which Lesotho must adapt. Since the Maloti is convertible with the Rand, some fiscal support is provided to the Basotho by the RSA.

The RSA is Lesotho's main trading partner. Remittances from the miners working in the RSA (45 percent of the adult male labor force) account for over 40 percent of the Lesotho's GNP. This is a tremendous resource for Lesotho at present, but brings with it the risk of severe employment difficulties as the mines mechanize and the miners return home. The remittances have financed the highly negative trade balance which is fueled by the imports from the RSA.

Lesotho's proximity to the RSA provides it with ready inputs and links it into a reliable transport network for supply of raw materials and evacuation of finished goods. These factors have spurred the development of its small industrial base which is operating in the industrial zones in Lesotho, essentially in complement to the sanctions placed on the RSA. These supply linkages and access to easy export routes are the major reasons for the development of this industrial base since it relies on virtually nothing from Lesotho. This raises obvious fears of rapid disinvestment from Lesotho by the industrial firms if/once the sanctions are lifted on the RSA, since these firms will be better served within the RSA than they are in Lesotho.

Social Considerations

Basotho Attitudes toward Entrepreneurship

There is relatively little tradition of business or commerce in Lesotho. Most reports contend that entrepreneurship has typically been viewed disparagingly. The school system, which is very academically oriented, has fostered more formalized education and generally ignored vocational and business education. Educated Basothos have tended to look, not to business, but to government for employment, while the uneducated men have been able to find relatively lucrative employment in the South African mines. Uneducated women have traditionally been left behind to care for the children, livestock, and fields. While market economies developed in other African countries, commerce in Lesotho has been dominated by South Africa, even in more remote areas of the country. One can only surmise that this has propagated both a dependency on South Africans and a barrier to the development of indigenous markets. Nevertheless, in recent years more Basotho have entered self-employment in search of new sources of income and, in the urban areas, independence from employers.

The lack of tradition of business has generated some difficulties in adjusting to profit seeking behavior and especially success in generating income. Informants noted that because of the close knit social networks in Lesotho, it was often difficult to run a firm in a business-like manner. Employees, who are either friends or relatives, look for favors and forgiveness of absences. Moreover, jealousy of success was an often cited problem among entrepreneurs which tends to generate quarrels, accusations, and the like. This prompts entrepreneurs, especially women, to mask their profits. Wives say that when their husbands return from the mines they must neither have been unprosperous or too prosperous or their will be fighting.

Female Participation in the Private Sector

The gender ratio of the labor force in Lesotho is significantly weighted toward women as a result of the large male Basotho labor force working in the mines in South Africa. The numbers of de facto female-headed households in especially large in the rural areas, where men have out-migrated either to South Africa or Maseru in search of wage employment. A 1987 ILO study shows that 27 percent of Basotho households are de jure headed by women and a further 28 percent are de facto headed by women as a result of the high numbers of male household heads working in South African mines. Moreover, the gender ratio of the de facto labor force is heavily skewed toward women; in 1978/79 females represented 64 percent of the total labor force employed in Lesotho (Annual Statistical Bulletin, 1982).

Data on the employment status of women reveals their concentration in self-employment. In 1978/79, over 11 percent were employed in salaried jobs either by the government or some private firm,

48.5 percent were self-employed, and 40.3 percent were unpaid family workers. The significant increase of the employment of women since the mid-1980s by large-scale garment manufacturers has likely changed the share of women in self-employment as compared to salaried employment in private firms, at least in the Maseru and Maputsoe. Nevertheless, GEMINI's 1990 survey of the small and microenterprise sector in Lesotho shows that women make up approximately 75 percent of the proprietors and/or employees. Within the garment subsector, women make up over 88 percent of proprietors and 89 percent of employees; within the wood-based subsector, 32 and 25 percent respectively; within straw/grass, 95 and 95 percent respectively; within foods 41 and 74 percent respectively; within beer brewing 97 and 94 percent respectively; within ceramics 15 and 12 percent respectively; within other manufacturing 6 and 30 percent respectively; within retail/wholesale 41 and 63 percent respectively; within vending 84 and 79 percent respectively.

Key Constraints and Opportunities for Women

Women in Lesotho have limited legal rights. Under Roman-Dutch law, which is the general civil and commercial law in Lesotho, women younger than 21 cannot enter into a contract unless assisted by their guardian. Women who are married are regarded as adults but, since the basic form of marriage is "in community property," the husband is regarded as family head. He exercises marital power over his wife, meaning that she has no power to deal with the outside world without her husband's authority. Her husband must authorize all contracts entered into by his wife with the following exceptions:

- She may purchase household necessities on her own;
- She may enter into contracts connected with public trade if her husband gives initial approval for her to enter into business;
- She may have a bank account or insurance policy in her own name and under her own control; and
- If employed, she is entitled to receive her own wages.

Under customary law, the household head has control over property. Contracts are understood to be made between the entire family and another party, not between individuals. The household head has ultimate responsibility for and authority over his family. A rural or unemployed woman is thus limited in her ability to obtain credit, since the only collateral she could offer is regarded as under the husband's control. An urban woman, on the other hand, is able to control her salary, bank account, and so forth (Gay, 1982).

As a result of these laws, women cannot legally start a business or enter a contract of any kind, including a loan, without the consent or signature of their husband or other male "guardian." Besides the obvious restrictions on women's rights, these policies are out of line with the reality of most households in Lesotho, where men are living and working at a distance that can make just the logistics of obtaining this consent difficult. The logistics are even more problematic when husbands fail to come home for long periods.

According to civil law, a husband has the right to take his wife from a job or take her business from her since she is not legally able to enter a contract without her husband's consent. While this does not occur often, the separation between wives and husbands working in South Africa fosters unstable and sometimes volatile conjugal relationships. This volatility is evidenced in the prevalence of wife beating

and desertion. The instability of conjugal relationships combined with the legal rights husbands have over their wives puts women in a vulnerable position. If women are successful in business, they have few rights with which to safeguard their investments or to ensure their economic future. Consequently, women more often work at a small scale where they can mask their profits and develop informal working relationships.

The opportunities most easily captured by female entrepreneurs at present are within subsectors in which they already participate in significant numbers. However, few of these subsector enterprises have significant potential. To expand the opportunities available to women, efforts are needed to assist women to move into nontraditional subsectors. This will require institutional support to improve access to credit, technologies, and skill training.

Multiple Enterprise Portfolios

A number of researchers (Cobb, 1985; Gorton, 1989; and Gay, 1982) write of the tendency for female entrepreneurs to have portfolios of multiple enterprises. Cobb writes that women in Lesotho are engaged in, not income generation, but "enterprise generation." Over 85 percent of her rural sample of women relied on more than one income generating activity.

Multiple enterprise portfolios are a strategy for managing risk, evening out one's income stream, and amassing start-up and working capital. It may be a response to the seasonality, shallow and risky markets, and a lack of access to finance. Multiple enterprise portfolios have important implications for subsector studies since the subsectors chosen may represent only a small slice of the activity important to women producers. Sewing and knitting, for instance, may only represent 10 percent of their entire portfolio. Consequently, interventions within the subsector may have only a limited impact on women's income and their entrepreneurial success. On the other hand, subsector investments, if they successfully promoted the industry, might foster greater specialization and productivity.

SMALL AND MICROENTERPRISE ACTIVITIES IN LESOTHO

Findings from the Phase I Survey

The Phase I survey provides an in-depth look at the structure of MSE in Lesotho. Without repeating all that is in that report, the survey of more than 7,200 MSEs reveals several important findings that need to be highlighted on the number of MSE in Lesotho, their economic impact on the family budget, the role of females, the differences between rural and urban, and industrial distribution.

Prevalence of MSEs in Lesotho

Without looking at macro-economic variables, about 30 percent of all Basotho households have MSE activities. The survey concludes that there are more than 100,000 MSEs in Lesotho. It is probable that this figure understates the true number of MSE in the country, because, while many households may have more than one enterprise, only the principal one was captured by the questionnaire. Table 1 presents an extrapolation of the global number of MSEs and employment in Lesotho relative to overall population.

TABLE 1
 EXTRAPOLATION OF THE NUMBER OF SSEs
 AND EMPLOYMENT FOR THE WHOLE COUNTRY

Stratum (Also sub- stratum for Maseru and EAs.)*	Population Figures (1986 Census)		Extrapolated Figure/s				
	Numbers	%	Enterprises		Employment		% Women
			Number	%	Number Total	% Total	
Maseru	113,427	6.60	12,371	12.01	28,733	17.82	80
Small Towns	76,004	4.42	6,978	6.78	12,924	8.11	79
Rural Towns	28,279	1.65	1,695	1.65	3,113	1.93	77
All Urban	217,710	12.67	21,044	20.44	44,770	27.86	
EAs:							
-Lowlands	642,930	37.42	30,000	29.72	40,841	25.12	
-Foothills	375,474	21.86	29,238	28.40	41,427	25.69	
-Mountains	296,243	17.24	9,971	9.68	16,584	10.28	
-SRV	185,784	10.81	12,115	11.76	17,662	10.95	
All EA's:	1,500,431	87.33	81,924	79.56	116,514	72.14	75
TOTAL	1,718,143	100.0	102,968	100.0	161,284	100.0	76

* EA - Enumeration Area.

The population figures given on this table are from those of the Bureau of Statistics. However, there seems to be great variability in the size of populations of some localities between the SSEs survey and the DOS figures even after allowing for annual growth rates.

Though employment figures per enterprise are small, averaging 1.6 employees per enterprise, MSE still employ over 160,000 people. This figure is adjusted downwards to 153,000, accounting for seasonality and part-time and child labor, to reflect **full-time equivalent adult workers**. Fisseha concludes that it is plausible to assume that between "500,000 and 700,000 family members may be supported to a various degree by MSE activities".

Rural versus Urban MSEs

With 87 percent of Lesotho's population living in rural areas,² it is to be expected that there is a large concentration of enterprises in the rural areas. The survey found that four fifths of the MSEs and three fourths of the employment are in those areas. The survey also found interesting contrasts between the urban and rural areas, and between the rural areas themselves. Table 2 demonstrates that as one moves down the scale from the larger urban areas (Maseru) to the rural areas, the percentage of manufacturing enterprises increases, while trade/commerce and service activities decrease.

Within the rural areas, the concentration of MSEs increases with altitude. The greatest density of MSEs, with a predominance of manufacturing MSEs, is found in the mountainous regions in the interior of the country. This may be accounted for by the fact that these isolated regions are difficult to access and are hence more dependent on their own production, while in the lowlands areas, access to larger commercial suppliers is easier.

Industrial Distribution

Five industrial groups dominate MSE activities, accounting for 90 percent of all of the enterprises across all of the geographical areas: beer brewing, garments manufacture, services, vending, and retail/wholesale activities.

Beer brewing is the single largest economic activity and accounts for over 33 percent of all enterprises and employment in MSE in Lesotho. Garment manufacture is the second largest manufacturing subsector and has 14 percent of total enterprises. Non-manufacturing sectors account for 41 percent of total enterprises, led by vending with 17 percent, and wholesale/retail with 12.7 percent.

The density of these subsectors reflect the few market niches where Lesotho's comparative advantage dominates over the products coming from the RSA: sorghum beer has a short shelf life and travels poorly, so local manufacture is an advantage; garment manufacture captures niches where economies of scale do not exist, such as the school uniforms, and South African firms can't compete on standard products; vending, wholesale/retail, and services respond to internal demand with very small scale economies; brick and block making also reflect transport advantages. Therefore, a question of importance to Lesotho is whether it can develop new market niches to allow it to compete on a larger scale with goods coming from the RSA, particularly among locally manufactured items.

Economic Importance of MSE

In addition to being widespread, MSE are a significant source of household income. Nearly 75 percent of MSE owners get more than half of their household income from their business activities. While a higher percentage of the male owners (78 percent) get more than half of their income from their principal business than is the case with females (68 percent)³, it is still an important addition to the family income.

² Bureau of Statistics, 1986 Census.

³Fisseha, p. 48, 68% for women and 78% for men

TABLE 2
 PERCENTAGE DISTRIBUTIONS OF SSEs AND EMPLOYMENT
 AMONG MAJOR SECTORS
 (Stratum and SSEs Groups Weighted)

Sector	Maseru	Small Towns	Rural Towns	Enumeration Areas	Total
A. SSEs					
1. <u>Within Stratum:</u>					
Manufacturing	36.1%	40.8	52.5	62.8	58.0
Trade/Commerce	40.7	43.7	34.5	26.9	29.8
Services	23.2	15.5	13.0	10.3	12.2
Column Total	100.0	100.0	100.0	100.0	100.0
2. SSEs					
<u>Within Sector:</u>					
Manufacturing	7.5	4.8	1.5	86.2	100.0
Trade/Commerce	16.4	9.9	1.9	71.8	100.0
Services	22.9	8.7	1.7	66.7	100.0
	12.0	6.8	1.6	79.6	100.00
B. Employment					
1. <u>Within Stratum:</u>					
Manufacturing	35.8	37.4	42.7	56.8	51.2
Trade/Commerce	46.1	46.3	43.9	31.7	35.7
Services	18.1	16.3	13.4	11.5	13.1
Column Total	100.0	100.0	100.0	100.0	100.0
1. Employment					
<u>Within Sector:</u>					
Manufacturing	12.5	5.8	1.6	80.1	100.0
Trade/Commerce	23.1	10.2	2.4	64.0	100.0
Services	24.7	10.0	1.9	72.3	100.0
	17.8	8.0	1.9	72.3	100.0

Note: For the Maseru column, the 'Within Stratum' figures that manufacturing, trade/commerce and services SSEs account respectively for 36.1, 40.7, and 23.31 of all enterprises found in Maseru. The 'Within sector' figures say that Maseru accounts for 7.6, and 22.9 percent respectively of all the manufacturing, trade/commercial and services SSEs (or 12 percent of all SSEs) found in Lesotho.

Importance for Females

Females play a dominant role in the MSE sector in Lesotho: they account for three fourths of the ownership and about 80 percent of the labor force of MSE. Given the large number of men who are away at the mines, women are therefore able to greatly supplement their incomes through MSE activities (Table 3).

This general information on the status of MSE in Lesotho is invaluable for the identification and selection of the subsectors which were analyzed in Phase II. The survey concludes that block or brick making, knitting, weaving, tailoring, and masonry are enterprise types that may be promising for growth and development, most of which were included in the Phase II analyses. The results of the MSE survey are an integral part of the selection process for the subsectors which is described in Chapter Two.

TABLE 3
SUMMARY OF BASIC LESOTHO SSEs CHARACTERISTICS

Characteristics	Maseru	S-Towns	R-Towns	EAs
1. <u>Small Scale Enterprises:</u>				
a. Each stratum's share of the total estimated SSEs	12.0%	6.8	1.6	79.6
b. One-person operated SSEs	76%	74	72	81
c. SSEs with labor force >5	6.5%	4.1	1.8	1.4
d. Months of operation/year	11.5	11.8	11.5	11.4
e. SSEs owned by Masotho	95.5%	97.5	100	99.5
f. Sole proprietorship as a form of ownership	93.3%	95.3	94.7	97.2
2. <u>Total SSEs Labor Force:</u>				
a. Arithmetic mean/SSE	2.1	1.7	1.5	1.4
b. Share of proprietors and family members	87.4%	83.0	81.2	84.5
c. Share of females in	80.1%	79.3	77.1	75.4
d. Share of children in	0.0%	0.0	1.2	0.0
e. Part-time workers' share	1.9%	2.3	1.2	0.0 ^a
3. <u>Distribution of all SSEs:</u>				
a. Manufacturing	36.1%	40.8	52.5	62.8
b. Trade or Commerce	40.7%	43.7	34.5	26.9
c. Service	23.2%	15.5	13.0	10.3
4. <u>Female-owned SSEs:</u>				
a. As percent of all SSEs	75.6%	76.3	74.8	71.3
b. Their Share in total employment	50.4%	58.1	56.5	59.0
5. <u>SSEs Household Income > 50%</u>				
	75.5%	73.7	63.5	72.0

^a A percentage value of 0 indicates the result is less than 14.

CHAPTER TWO

SUBSECTOR ANALYSES AND GROWTH PROSPECTS FOR SMALL ENTERPRISES

SECTION ONE SUBSECTOR SELECTION CRITERIA

General Principles

The purpose of undertaking the in-depth analysis of individual subsectors is to identify specific prospects for growth within subsectors and to generalize across the MSE sector. Mead identifies three principal factors governing the prospects for growth of MSE¹ which can shape that decision: domestic demand; export markets; and bottlenecks. In addition, given the domination of the Lesotho economy by the RSA, targeted import substitution may be the source of additional growth.

Increased **domestic demand** emanates from growth in the primary sectors such as agriculture and natural resources or from outside influxes of capital such as from remittances. Remittances do serve as a major source of growth for demand for services commonly provided by MSEs. Multipliers for increases in agricultural income vary, but in other less developed and highly rural countries, such as the Sahelian West Africa, range between 1.3 and 1.5 (Haggblade and Hazell, 1989), meaning that a one dollar increase in local output will generate 30 to 50 cents in non-farm income.² Therefore, increased domestic production, or capturing the benefits from existing production through increased commercialization of products, will stimulate demand for local MSE products.

Lesotho has a large potential **export market** which is easily accessible and may promote MSE activity. Production in the RSA is very sophisticated and currently outclasses local Basotho capabilities, but there is potential for Basotho firms to produce for export in niches where economies are not important and small Basotho firms are competitive. Increased sales outside the country will lead to indirect employment benefits within the country, particularly if it is small firms which are exporting.

Elimination of **bottlenecks** can release economic potential and improve economic efficiency with relatively little investment. Particular breeding grounds of bottlenecks which have come under increasing scrutiny lately are the policy and regulatory environment which often create biases against MSEs in favor of less economically efficient enterprises. Other bottlenecks are found in poor information about markets, sources of supply, new technologies, as well as social and institutional constraints.

¹ Mead, et al. Prospects for Enhancing the Performance of Micro and Small-Scale Nonfarm Enterprises in Niger, p.17.

² Mead et al., p.17.

Firms from the RSA dominate Basotho markets with their goods through their well developed network of retail outlets. But there is increasing room in this market to **substitute** domestically produced goods for **imports** as the basotho improve the quality and scale of their production or target lower scale markets where the economies of scale of the South African firms is not applicable. Given the proximity of the South African market and the similarities in taste across the borders, increased production for specific niches in Lesotho can be exported to local markets just across the border.

Subsector Selection

Choosing the specific subsectors to analyze requires a logical and informed decision which addresses the specific objectives of the study: employment generation, rural-urban linkages, income distribution, increasing local value added, or distribution of benefits along gender lines. The goals of the USAID Mission in Lesotho focused on employment generation, addressing gender issues, and increasing local value added from the agricultural sector.

With these goals in mind, the criteria for selecting subsectors was based on size of employment and sales, the involvement of women, linkages to the rural areas, multiplication effects, interest on the part of donors and the government, as well as, and in particular, growth potential of the subsector. The criteria of ensuring that women predominated as entrepreneurs and employees in at least two of the four subsectors analyzed relates to the high level of de facto and/or de jure female headed households in Lesotho (55 percent).

In using domestic demand as a method for targeting subsectors for analysis, respective elasticities of demand for those products must be analyzed. Subsectors with elasticities greater than one offer the most appealing opportunities, particularly if that elasticity is found among the lower income brackets which are usually the greatest consumers of MSE products. Table 4 summarizes the elasticities for broad categories of goods and services.

TABLE 4

INCOME ELASTICITIES

Variable	Low		Middle		High	
	Income	Elast.	Income	Elast.	Income	Elast.
Food and Beverages	43	0.74	100	0.39	161	0.45
Clothing/Footwear	14	1.56	53	0.62	104	1.06
Rent, Fuel, Power	6	0.84	15	0.52	27	0.57
Furniture & Hs'hold	8	1.19	25	2.04	104	1.97
Medical & Health	2	0.56	4	1.29	12	0.82
Transport & Comm.	4	0.84	10	1.94	40	1.48
Educ'n & Rec'n/Misc.	2	1.68	8	1.94	32	2.46
Goods & Services	<u>9</u>	<u>1.31</u>	<u>30</u>	<u>2.52</u>	<u>147</u>	<u>2.52</u>
TOTAL	88	1.00	245	1.00	624	1.00

Source. Consumption Budget Survey, 1986.

Table 4 clearly indicates that among the low income families, the greatest increases in their consumption patterns is in recreation and education (1.68), clothing and footwear (1.56), miscellaneous goods and services (comprised mainly of construction, 1.31), and furniture and household effects (1.19). As people have more money, they are more likely to increase their consumption of miscellaneous goods and services (2.52), furniture and household expenses (2.04), education and recreation (1.94) and transport and communications (1.94).

While elasticities of demand are important for helping to identify and target growth subsectors, they do not always reflect the actual amount which is being consumed, measured through the percentage of the household budget. It may turn out that one area which is losing percentage share of the total budget still accounts for the greatest percentage. A slow percentage increase of a large amount is still greater than a larger percentage increase of a much smaller amount. This is seen most clearly by the contrast in growth of food and beverages and the growth of education and recreation. The former increase by 120 M. per day (a four fold increase) between the lowest and highest income brackets with elasticities below one, while the latter has elasticities near 2 and measures an 18 fold increase, but only moves up by 30 M. per day. Therefore an appropriate mixture of share of household budget and elasticities of demand is needed, reflected in the following Table 5 on consumption behavior.

Armed with this information, as well as rough figures for employment, average firm size, and the percentage of women involve, the garments, weaving, construction, hides and skins, brewing, and five purely service subsectors were reviewed as candidates for analysis. Based on the Mission's agenda to address employment, gender issues and domestic value added, four subsectors were selected for review: construction, leather goods, garment manufacture, and weaving. These were identified as reference points for a broad range of issues and presenting opportunities for growth. Some overall characteristics about these subsectors are summarized below in Table 6.

TABLE 5
OVERVIEW OF CONSUMPTION BEHAVIOR IN LESOTHO

	Cash Exp./HH per Month	Average Budget Share	Share of Add'l Income Spent on Each Commodity (MPC)
1. Food & Beverage	71	37.8%	22.0%
2. Clothing & Footwear	33	17.6%	16.8%
-garments (cloth & knit)	(17.9)	(9.5)	(9.1)
-footwear	(9.2)	(4.9)	(4.2)
3. Rent/Fuel/Power	11	5.6%	3.9%
4. Furn. & H.H.	23	12.2%	17.9%
5. Med. & Health	3	1.6%	1.9%
6. Transport & Communication	10	5.3%	6.7%
7. Educ. & Recr.	7	3.7%	5.6%
8. Misc. Goods & Services	30	16.0%	25.7%
-Bldg. Mats/Cem.	(12.2)	(6.5)	(8.4)
-Const. Serv.	(7.9)	(4.2)	(5.5)
TOTALS	188	100%	100%

TABLE 6
PROFILE OF SELECTED SUBSECTORS

	Cloth Weaving	Building Garments	Construction	Hides/Skins & Leather
1. SIZE				
a. Sales (Mill. M)				
MSE	2	41	180	2
Total ^a	10	252	75	N/A
b. MSE Employment	1,800	28,000	12,000	300 ^b
c. Total Employ. (include large scale)	2,000	35,500	32,000	9,000
d. Number of Firms	12	19,875	4,000	125
2. MSE LABOR INTENSITY				
a. Emp./M.M. Sales	750	502	150	150
3. GROWTH POTENTIAL				
a. Domestic Sales (Elasticity of demand)	0.96	0.96	1.3	0.87
b. Share of HH Budget	0.0%	9.5%	6.5%	4.9%
c. MPC as % of HH expenses	0.0%	9.1%	7.5%	4.2%
d. Export Sales (Existing MSE, M.M.)	2.0	1.0	2.0	1.0
4. AVERAGE FIRM SIZE				
	50 ^c	1.4	4.2	1.8
5. % FEMALE EMPLOYMENT				
	92%	90%	< 10%	14% ^d

a Including Imports and Large Scale manufacturing.

b Though the subsector includes over 2,500 employees, most are doing shoe repair and are not included.

c There are 12 medium scale firms, everyone else is self employed. The relationship between spinners, weavers, and the firms is sometimes fair'y loose so firm size is difficult to measure.

d Small and micro only, large scale have 90 percent female employment.

SECTION TWO THE GARMENT SUBSECTOR

Rationale for Selecting the Garment Subsector

The selection of the garment subsector was largely based on its size in terms of employment, high proportion of female proprietors and employees, and apparent growth potential. Extrapolations based on data generated from GEMINI's 1990 census of the MSE sector indicate that the garment subsector contains about 20,000 MSE firms employing 28,000 workers, 90 percent of which are female. This subsector ranks second only to beer brewing in terms of number of MSE manufacturing firms and employment and was chosen over beer brewing because of its greater potential for growth and income multiplication effects.

The garment subsector also includes large-scale, export-oriented firms that employ over 7,000 workers, the large majority of which are female.

Description of the Garment Subsector

Markets for the Garment Subsector

The garment subsector sells to both domestic and export markets. Although MSEs are primarily oriented toward the domestic market, they also export ready-made clothes (RMCs) to South African urban centers and markets serving South Africa's mines. The only other exporting firms are large-scale multinationals that import all inputs from their parent organization and export all outputs to overseas markets.

The domestic market is also shared by MSEs and large-scale firms. But whereas small and large firms target very different export markets, on the domestic market, they compete for the same consumers. Since the large-scale firms are largely South African-based, highly capitalized, and modern, they are able to sell cloth, acrylic yarn, and RMCs to the Lesotho market at prices that are typically lower than what Basotho MSE manufacturers can match. As a result, these large-scale firms have been able to capture three-quarters of domestic expenditures on clothing (1986 data).

In order to compete on the domestic market, MSEs are forced to specialize in product markets with low economies of scale. The product markets identified by MSE dressmakers, tailors, and knitters include school uniforms, traditional dresses, and, to a lesser extent, made-to-fit RMCs and knitted jerseys. MSEs are able to capture the school uniform market because this product is so highly differentiated in Lesotho. Each school requires, especially for girls, a uniform of different colors and a different pattern than the next. Consequently, these uniforms cannot be mass produced cost-effectively by the large-scale manufacturers based in South Africa.

Traditional dresses are also associated with low economies of scale and thus are a product market in which Basotho-owned MSEs can compete. Traditional dresses are constructed of varied and complicated patterns and require detailing that can only be done by hand.

On the other hand, made-to-fit RMCs made by Basotho MSEs face stiff competition from South African-manufactured garments. The comparative advantage of MSE RMCs is that they are made to fit; consumers can choose their preferred cloth and pattern; and the quality is often better. Nevertheless, the

higher price of MSE RMCs as compared to mass produced RMCs narrows their market to consumers with sufficient income to choose quality over price. In many instances, these clientele are very fashion conscious and thus demand styles and quality that only the best MSE dressmakers can meet.

Knitted jerseys also face considerable competition from less expensive, South African-manufactured jerseys. Despite this apparent competition, GEMINI's census of the Lesotho MSE sector indicates a high participation level in knitting. Many of the knitting "enterprises," however, are part-time and typically combined with other part-time, income-generating activities.

Jerseys are included in the garment subsector because they are manufactured and sold through the same channels and by many of the same subsector participants as garments made from cloth. Initially, knitting was combined with the weaving/mohair subsector, on the assumption that knitting relied on inputs of wool and weaving on inputs of wool and mohair. Research revealed, however, that all wool produced in Lesotho is exported to South Africa, where it is processed. Only a small amount is re-imported. The vast majority of knitters use acrylic rather than wool yarn, because of the relatively high cost of the latter. Acrylic yarn like cloth is imported from South Africa, transformed into jerseys either by RMC manufacturers in South Africa or MSE knitters/dressmakers, and wholesaled and retailed by the same variety of large and small firms.

The Garment Subsector Map

A subsector map is a description of subsector participants, principal functions involved in transforming raw material into finished products and distributing these products to final consumers, and backward and forward linkages or channels through which inputs are obtained and outputs are marketed. Subsector channels, illustrated in Figure 1 for the garment subsector, are differentiated based on market orientation, size of firm, technology, and source of supply and type of inputs. The utility of subsector maps derives from their illustration of vertical, competitive, and complementary relationships of participants. Moreover, by clarifying the principal channels through which raw materials are supplied, transformed, and distributed to final consumers, subsector maps can facilitate the identification of bottlenecks within the subsector that hamper productivity and growth.

The garment subsector is made up of a matrix of ten functions and five channels (see Figure 1). The important functions to the Lesotho garment industry include those in South Africa. Since Basotho firms are dependent on South Africa for most of their inputs and because large-scale firms selling to the domestic market are largely subsidiaries of firms based in South Africa, it is impossible to understand or explain Lesotho's industry without referring to manufacturers and wholesalers in South Africa. Figure 1 shows manufacturing, wholesaling, and retailing of cloth and acrylic yarn as well as the manufacturing and wholesaling of RMCs operations in South Africa.

South African cloth and yarn manufacturers are generally separate from RMC manufacturers-wholesalers-retailers. Cloth manufacturers operate mills in Durban and Johannesburg, where they both manufacture and sell wholesale. The majority of Basotho dressmakers and tailors travel to these mills from rural and urban Lesotho to buy their inputs at prices unmatched by Lesotho wholesalers.

Important garment subsector functions in Lesotho include cloth, acrylic yarn, and RMC wholesaling and retailing and MSE manufacturing. Wholesaling of imported cloth and garments is not an effective nor particularly significant function in Lesotho. South African firms perform this function more effectively, attracting most of the Basotho demand.

The functions described above are organized by firms into five channels, shown in Figure 1 and described below:

Small & Micro Integrated Domestic-Oriented Dressmakers are dispersed throughout the urban and rural areas, with the small producers of 10 or more employees concentrated in Maseru and the small towns located close to the South African border along the western crescent of Lesotho. These small and micro dressmakers, tailors, and knitters are generally firms with integrated manufacturing, wholesaling, and retail functions. Their average size in terms of employees is less than two and they typically use sewing and knitting machines that are either foot-operated or electric. Many of these firms specialize in school uniforms during January, February, and March, sometimes adding additional employees to meet the demand during peak periods. During other months they combine dressmaking, in which clients bring cloth and/or designs for a dress to be made, with the manufacturing of RMCs, including traditional and fashion dresses.

School uniforms for girls include jerseys for the winter months as well as dresses (boys uniforms are generally manufactured in South Africa). In order to capitalize on their investment in a knitting machine, most small knitters and sewers make fashion as well as school jerseys.

Traditional dresses are made of "Basotho patterned" cloth, manufactured in England. These dresses have increased in popularity over the years, particularly among middle-aged women, partly as a result of efforts to promote and preserve Basotho culture against South African influence. More creative dressmakers have invented new designs in order to expand their market to more fashion-conscious women employed in the formal sector. Traditional dresses are sold both domestically and in South Africa. Typically, dressmakers either hire vendors or ask husbands or relatives to take a stock of dresses to the markets at the mines or into towns. The preference of Lesotho designs by black South Africans and the disposable income of miners make these markets relatively lucrative.

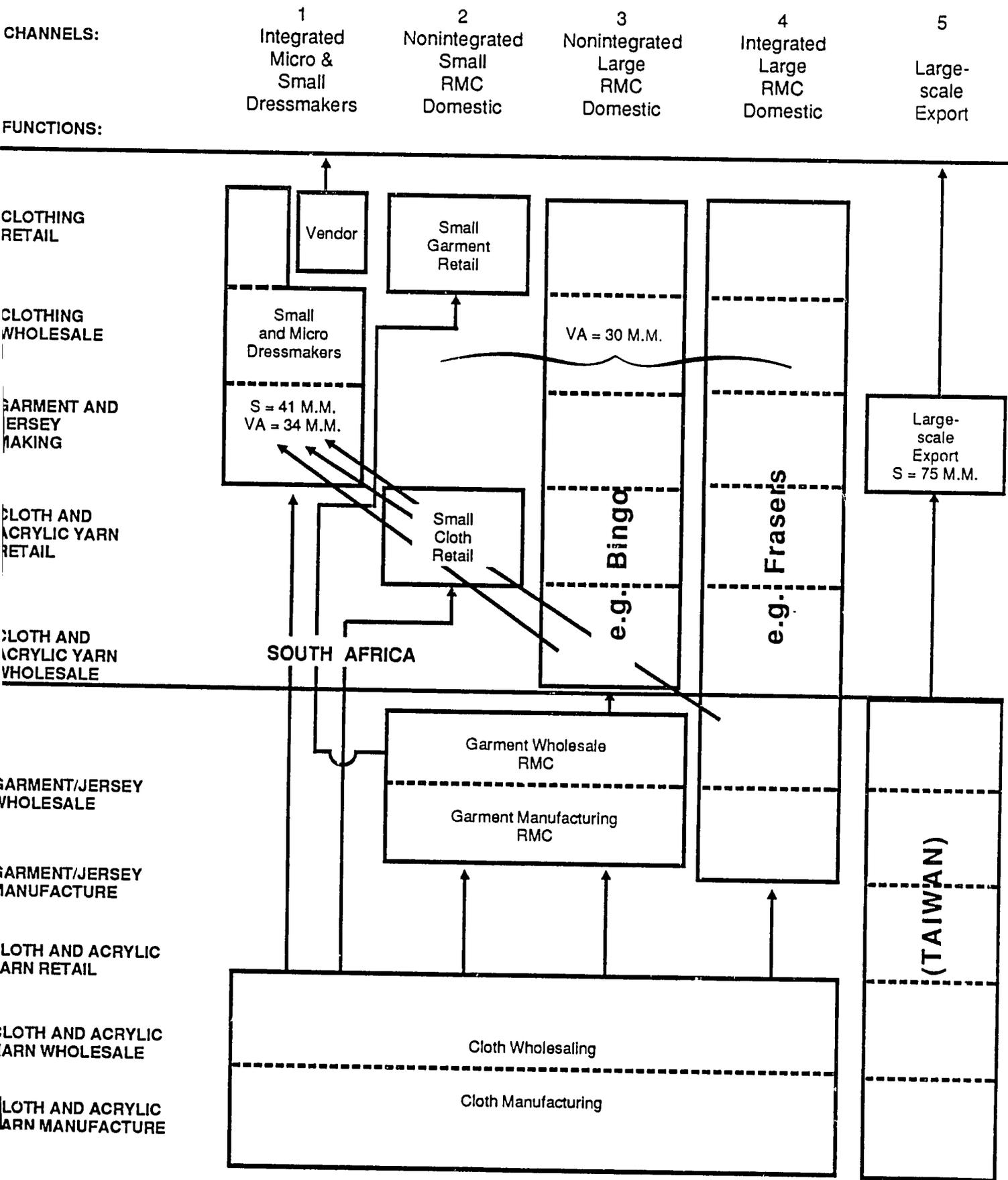
Whether selling to a domestic or an export market, many small and micro dressmakers hire vendors either as employees or on a commission basis to sell their finished garments. This reliance on vendors derives from dressmakers' lack access to centrally located retail- or workshops. MSE subsector participants generally purchase inputs — including cloth, sewing machines, acrylic yarn, and thread — from wholesalers in Durban and Johannesburg. Reportedly, the wholesale price of cloth in Lesotho is twice that of the price in South Africa. Even dressmakers located in mountain villages stated that they travelled to South Africa for inputs rather than buying them locally.

Small Non-Integrated Domestic-Oriented participants in the garment subsector include garment and cloth retailers selling imported goods. The major market for cloth retailers is private individuals rather than firms. Small-scale garment retailers tend to sell imported clothes from South Africa and Europe and the U.S. to a fashion-conscious clientele willing and able to pay relatively high prices. These small stores are able to compete with the larger-scale garment importers by targeting a more specialized clientele with a more up-scale product.

Large Non-Integrated Domestic-Oriented firms include South African and Asian-owned retail and/or wholesale chain stores (eg. Gains, Peps, Berger, Bingo, Anwary, etc.) that sell retail and/or wholesale cloth and clothing imported largely from South Africa. These firms sell either directly to consumers or to small and micro firms unable to buy in South Africa. These chain stores are located in Maseru and have branches in most of the small towns along the western border of the country. They buy their inputs from wholesalers in South Africa.

FIGURE 1

GARMENT SUBSECTOR
SALES AND VALUE ADDED



Large Integrated Domestic-Oriented include firms that have integrated manufacturing, wholesale, and retail functions that bridge the South African-Lesotho border. Frasers is the most well known. This large firm has cloth wholesale and retail functions and garment manufacturing, wholesaling, and retailing functions in South Africa that supply cloth and garment wholesale and retail branches in Lesotho. More than any other firm of its type, Frasers is dispersed throughout the rural areas such that it usurps much of the local demand even at the village level. In describing the extent of Frasers' market saturation, a number of informants stated that these stores could be found every 10 kilometers throughout Lesotho. Frasers sells fresh produce grown in South Africa, cloth, RMC, other dry goods, hardware, agricultural inputs and even buys wool and mohair from farmers to sell to the South African Wool and Mohair Board; in short, it meets most of the rural demand for consumption goods.

Large Export-Oriented firms each employ hundreds of female, Basotho workers. This, however, is their only impact on the local economy. They do not sell their goods to local consumers or, with one exception, have any complementary linkages with domestic firms. Rather they rely on imported inputs and overseas markets. The majority of these firms are subsidiaries of larger, integrated firms based in South Africa, Taiwan, or Hong Kong. Their inputs are imported directly from South Africa, Taiwan, or homeland China and their outputs are exported to the U.S. and/or Europe by sea freight. Asian firm managers noted that the choice of locating in Lesotho was based primarily on the relatively low cost of labor and U.S. sanctions against South Africa. A Taiwanese claimed that a port location which would obviate overland costs and where the infrastructure is more developed was preferable to a Lesotho location. However, sanctions and incentives provided by LNDC motivated them to locate in Lesotho.

Inter-Channel Linkages

Inter-channel linkages exist, as displayed in Figure 1, but do not appear to be of major importance. Small and micro dressmakers and tailors purchase some cloth wholesale from large-scale, integrated and non-integrated firms located in Lesotho. These local purchases, however, are outweighed by the much greater number of wholesale cloth purchases in South Africa. Entrepreneurs claimed that they only buy cloth locally when they need small amounts or on the occasion when they are unable to make a trip to South Africa.

Large-scale, export-oriented firms do not sell their goods to local consumers or firms. As is the case with many goods produced in Lesotho, these garments, after being made in Lesotho, are transported across the border to large-scale wholesalers that sell to export and South African markets. Only from South Africa can Basotho entrepreneurs gain access to these goods.

The pattern of inter-channel linkages highlights the lack of reciprocity between South African-based and Basotho firms. Although Basotho firms purchase inputs from South-African firms, these firms have few, if any, linkages with Basotho firms. The dependence of Basotho firms on South African inputs and the unwillingness of South African firms located in Lesotho to buy Basotho-made intermediate goods generates resentment that appears to manifest itself in an increasing preference for locally made garments and labor disputes between expatriate firm owners and Basotho workers.

Number of Firms and Employment by Channel

Extrapolations based on GEMINI's survey sample combined with Bureau of Statistics' (BOS) data on employment of large-scale export firms yield estimates of 19,900 firms and employment of 35,500 for the entire garment subsector. Estimates for the MSE component of the subsector indicate 19,842

firms and 28,031 workers. This amounts to over 95 percent of total subsector firms and 80 percent of total subsector employment. The channel of **integrated micro and small dressmakers** (which includes tailors and knitters) is comprised of 14,552 manufacturing firms employing 20,591 workers as well as 3,958 vending firms employing 4,366 vendors.

Firm and employment estimates for the channel of **small-scale, non-integrated firms**, i.e. retailers of cloth and RMC, indicate a total of 1,332 firms and 3,074 employees, as shown below in Table 7 and visually depicted in Figure 2.

TABLE 7
SSE EMPLOYMENT AND NUMBER OF FIRMS
IN THE GARMENT SUBSECTOR

SSE Group	# of SSEs	%	Employment	%
Garment Manuf'g	14,552	73	20,591	73
Garment Retail	1,332	7	3,074	11
Garment Vending	<u>3,958</u>	20	<u>4,366</u>	16
TOTAL	19,842		28,031	

Source: 1990 GEMINI Census Survey

No data was available on **non-integrated, large-scale, domestic-oriented firms**, such as Pep's, Bingo, Gains, etc. Unlike Frasers, whose outlets are densely located throughout the rural areas, these retail and wholesale outlets are concentrated primarily in Maseru and small towns. These chain stores also sell much more clothing, thus employment estimates must be weighted for employment devoted to garments. Employment estimates for this channel are 250.

The **large-scale, integrated firms selling domestically** are dominated by Frasers, consisting of 57 branches and total Lesotho employment of about 1450 people. The majority of these employees, however, do not sell garments. An estimate of employment in this channel is 250. Table 8 displays an amalgam of data on the **large-scale export channel** from the BOS, Chamber of Commerce and Industry, and LNDC. This data reveals about 20 firms employing about 7,000 female workers, almost 20 percent of total subsector employment.

FIGURE 2
GARMENT SUBSECTOR
FIRMS AND EMPLOYMENT

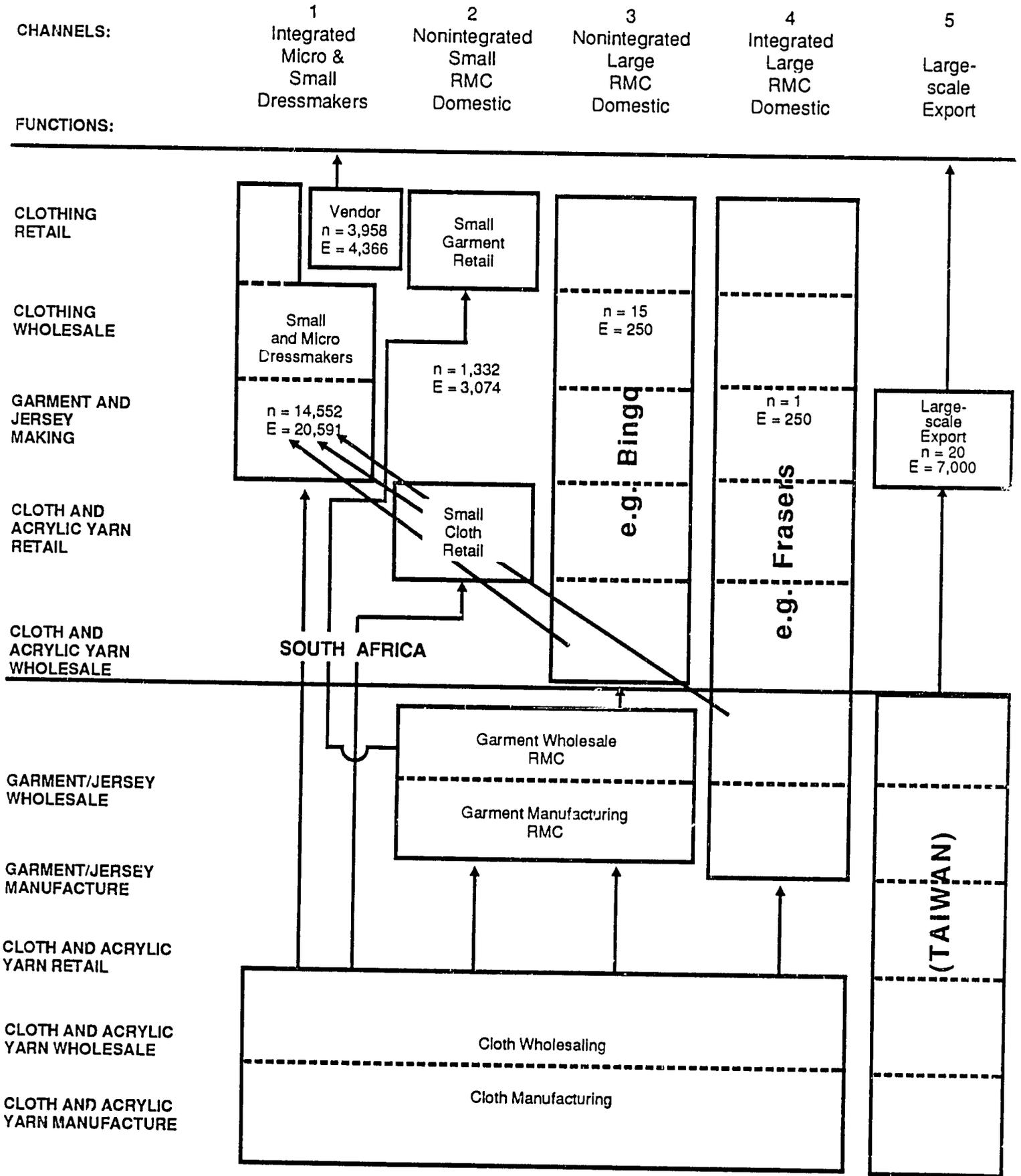


TABLE 8
LARGE-SCALE, EXPORT-ORIENTED SECTOR EMPLOYMENT

Firm	Employment	Source	Material Year Estab.
Lesotho Textiles	300	SACU	1982
Poltex	450	Hong Kong	1985
Tenleader	150	Hong Kong	1988
Morija Textiles	240	SACU	1988
Basotho Jeans	250	Taiwan, SACU	1986
Jeantex	450	n/a	n/a
Lesotho Haps	750	Taiwan	1987
Maseru Clothing	385	PTA, SACU	1986
Focus Clothing	180	SACU	1984
Gallant Clothing	360	SACU, SADCC	1977
Bright Garments	250	Hong Kong	1987
Lesotho Clothing	450	SACU	1980
Lesotho Hinebo	600	Taiwan	1988
Galberk	143	SACU	1988
CGM Industrial	650	Taiwan, SACU	1987
Lesotho Handknits	611	Lesotho	1980
Lesotho Hawk Intern'l	596	Taiwan	1990
Stephanie B Clothing	140	n/a	n/a
Wing On Garments	160	Taiwan, Hong Kong	1989

Source: BOS, Chamber of Commerce and Industry, and LNDC.

Sales and Value Added by Channel

Gross sales for the approximate 20 large-scale, export-oriented firms totals M 75 million and averages M 3.75 million per firm. Estimated gross sales for micro and small producers is M 41 million generated by about 14,500 firms, for an average of M 2,800 per firm. These figures translate into about M 2,000 per worker in the micro and small channel and M 11,000 per worker in the large scale export-oriented firms. Clearly the greater labor productivity of the large-scale firms derives from modern high capacity equipment.

The value added generated by the small and micro channels approximates M 34 million. The remainder of the subsector, excluding the large exporters, contributes M 30 million to local value added. Thus, the small-scale firms, with their local manufacturing functions, generate somewhat more value added than the domestic-oriented, large-scale channels, with only retail and wholesale functions in Lesotho. Figure 1, above displays available data on value added by subsector channel.

Constraints to and Dynamics of Firm Growth

This section explores factors which inhibit or promote firm growth. These include policies, gender-related constraints, linkage and ownership patterns, labor characteristics, technology, and financial constraints. A number of these factors and/or constraints as they affect all subsectors are discussed at length in appendices; these include policies, financial constraints, and gender issues. Here only those factors which are particularly salient to the garment subsector are examined.

Policies

The policies having the greatest impact on the garment sector include licensing regulations and sales taxes. Although producers are required to purchase a license or permit to operate, a report on regulatory policies and laws affecting the private sector (Monyobi, 1990) attests that this regulation, more than any other, is susceptible to violation. Licensing regulations governing wholesaling are similarly disregarded, misunderstood, or unenforced by officials or business people.

According to some entrepreneurs, obtaining a wholesale license takes as many as 7 or 8 months. As a result, entrepreneurs illegally share these cards among one another. Moreover, since wholesale cards do not restrict what can be purchased wholesale, they can be and are used to purchase wholesale goods for business and nonbusiness purposes.

For small entrepreneurs, wholesale licenses are obtained by completing fairly simple forms. However, firms with more than nine employees fall into the industrial classification (see Appendix B), and the forms are much more complicated, requiring nine pages of information that most firms do not have. The license cost for firms with more than nine employees is M 100 upon approval; this M 100 fee is applied to firms with 10 employees and 100 employees alike.

Wholesalers in South Africa do not appear to require a license. Anyone willing to buy in the required amounts can buy at wholesale prices. The easier regulatory environment in South Africa is an incentive for buying there, especially for those unable to obtain wholesale licenses in Lesotho.

Many small entrepreneurs complained that the 13 percent sales tax in Lesotho was too high and thus a disincentive to starting a business. Small entrepreneurs who buy in South Africa are supposed to pay this 13 percent tax on their purchases at the border. It appears, however, that some circumvent the tax by paying a bribe to customs agents. Wholesale traders with sales greater than or equal to M 500,000 and whose record keeping methods are in accordance with established accounting systems can obtain licenses which exempt them from paying sales taxes. Reportedly, these larger wholesalers lend their tax free cards to friends. This ability to circumvent the sales tax, either through bribery or gaining access to a tax-free card, is an additional incentive for purchasing cloth in South Africa.

Large-scale exporters have different constraints related to government policies. Labor problems are relatively common in Lesotho. Resentment between workers and expatriate owners and its manifestation in the form of labor unrest is a critical problem for large-scale exporters. Expatriate owners stated that policies aimed at enforcing labor laws and protecting owners are not implemented consistently.

Gender-Related Constraints

Women's limited legal rights are a critical constraint to female entrepreneurship, regardless of subsector. These constraints are manifested within the garment industry in the resultant insecurity of women's ownership rights and inability to enter contracts in their own name. Although interviews indicated that women were able to obtain licenses and permits, it is not clear whether these can be legally contested by husbands.

Another constraint relates to the strength of gender-specific role models in Lesotho, perpetuated by donors, that steer women into a narrow range of subsectors. The concentration of women in sewing and knitting, beer brewing, and basket making, over time, translates into atomistic competition. The numerous training activities and sewing and knitting schools in Lesotho have exacerbated women's subsector concentration, while failing to find a market for the increasing number of subsector participants.

Female garment manufacturers, many of whom are female-headed households, incur significant monetary and non-monetary costs in travelling to South Africa to purchase inputs. These costs accrue from their absence from work as well as the expense of hiring a caretaker for their children.

Training in traditional subsectors, such as dressmaking, knitting, and weaving, is fairly widely available. Only a few programs exist, however, to train women in nontraditional skills.

In the rural areas, women face severe time constraints due to their major responsibilities in agriculture and the scarcity of male labor. Without access to male labor, women are forced to take responsibility for tasks that are typically male, including plowing of the fields. This heavy workload combined with the increasing costs of their childrens' education and thus the need to generate income leave women with little time to devote to their businesses. Consequently, women tend to choose relatively low-return and part-time activities that they can combine with domestic responsibilities.

Ownership Patterns

Small and micro scale dressmaking firms are almost entirely Basotho owned, while the majority of the large-scale firms are owned by expatriates. The dominance of expatriate owners among the largest and most profitable enterprises results in resentment among Basotho. Despite recent increases in wages, Basotho employees feel that their wages and working conditions are unacceptable. These perceptions result in chronic labor problems and quarrels over pay and quality of output.

Labor Productivity

Large-scale, expatriate-owned garment manufacturers state that the productivity of local Basotho labor is "below average." Despite efforts by Asian managers to improve worker productivity through attractive incentive packages, worker productivity remains low. Relatively frequent labor unrest in the form of strikes exacerbates problems of absenteeism and low productivity. Expatriate managers assert that part of the problem relates to cultural differences and miscommunications. This perception is confirmed by Basotho firm owners' claims that their Basotho employees are hard working, easily trained, and high productive.

Reportedly, labor problems between expatriates owners and managers and Basotho employees derive from a long-term feeling of exploitation on the part of Basotho that is exacerbated by the enormous flow of South African imports into Lesotho and the paucity outflow of Lesotho exports. Moreover, Basothos resent that they must compete with expatriates who are more highly capitalized, have easier access to credit from Lesotho banks, receive tax breaks for which small producers are not eligible, and the like.

Managers of large, export-oriented firm claim that when sanctions imposed by the U.S. and European countries on South Africa are lifted, these firms will be relocated unless labor problems are addressed by the government.

Production Constraints

The major production constraints hampering the garment subsector relate to input supply, lack of skilled labor, and insufficient working capital. The most critical of these constraints, cited by almost every small- and micro-scale dressmaker, were the transaction costs associated with purchasing inputs. These costs include travel expenses, averaging M 70, the opportunity costs of absence from work, and the costs of child care.

Despite these costs, estimates reveal the substantial savings gained from buying cloth in South Africa. To illustrate, assume that a producer buys 40 meters of cloth at M 12 in Maseru equalling M 480. In Durban, this producer would pay M 7 for the same amount of cloth, equalling M 280. When the travel costs of about M 70 are added to the cloth costs, the total equals M 350. This represents a savings of M 130 from buying in South Africa rather than Lesotho. Many dressmakers stated that they travelled to Durban to purchase cloth once per month. Thus over a year, the savings can amount to over M 1500.

Input supply problems also exist in acquiring sewing machines, spindles, thread, etc. Dressmakers claimed that sewing machines are twice the cost in Lesotho as in South Africa and that small spindles and other attachments for sewing machines were difficult to purchase, especially outside of Maseru.

Despite the plethora of training opportunities in Lesotho for dressmakers and knitters, the subsector lacks highly skilled dressmakers and knitters. Technical and vocational schools in Lesotho are generating about 700 students per year. Reportedly, BEDCO has trained 1000 dressmakers. The National Council of Women reports more than 200 graduated trainees in sewing and knitting since 1981. Furthermore, there are about 27,000 female students in secondary schools, some of whom are taking home economics courses in which sewing is taught. However, these schools and training institutions focus more on quantity of people trained and insufficiently on the quality of the people they produce. As a result, employers must train many of their employees on-the-job.

Entrepreneurs in Lesotho also lack working capital. The smaller entrepreneurs appear to be able to use savings to finance their businesses. However, as businesses begin to grow and orders require greater up-front investment, entrepreneurs have difficulty making this leap without access to formal credit. Donor projects aimed at addressing this constraint have tended to diminish Mosotho financial discipline and undermine the development of self-sustaining financial intermediaries. BEDCO's loan program, like many others, resulted in extremely poor repayment rates. An UNDP project with a credit component received no repayment the first year and was quickly decapitalized. These programs along with government loan forgiveness programs have served to convince Basotho that loans are synonymous with grants. Lending is further complicated by the land tenure system in Lesotho in which no one can own land.

Marketing Constraints

The marketing of locally produced goods is hampered by the lack of a well developed marketing infrastructure. For example, there is no rural periodic market system, as there is in most other regions of Africa, where local producers can sell their goods and obtain important market information on prices, demand, and supply. The Basotho markets that do exist in rural towns are not as visible or well located as the modern, South African- and Asian-owned retail and wholesale stores. Even in Maseru, the market, while in excellent condition, appears to have few customers. Outside the market, vendors are crowded along the strips of street between expatriate-owned stores. Here the traffic of customers exceeds the traffic within the market.

The lack of vitality of Basotho markets is clearly related to the competition with expatriate-owned firms. The competition with South African imports and expatriate-owned stores relegates local goods and the local market to a less important position than is the case in other African countries.

Basotho dressmakers generally must hire vendors to sell their goods because the locations of their workshops are not close or visible to potential customers. Also, because of the increasing number of entrepreneurs in the few niches unfilled by South African imports, some dressmakers must hire vendors to sell at distant markets to avoid both Basotho and expatriate competition in larger market centers.

The dominance of South African retail and wholesale operations within the local economy has also appeared to hamper the development of both marketing skills. Basotho entrepreneurs, for the most part, do not employ aggressive marketing skills. For instance, dressmakers rarely approach schools for uniform orders or provide discounts for quantity purchases. Knitters too often waited for customers to come to their workshop rather than devising schemes for marketing their products.

Market Analysis

Competitive Analysis

There is no inter-channel competition among subsector participants for export markets since large- and small-scale firms sell different products to different international and domestic markets. Stiff competition arises, however, among those selling domestically. To illustrate, Table 9 shows comparative prices for fashion dresses, a product common to all four domestically oriented channels. Prices within channel 1, MSE dressmakers, range from M 100 to M 185; within channel 2, the small scale retailers (non-integrated MSEs), from M 200 to M 289; within channel 3, the large-scale integrated firms, from M 23 to M 73, and within channel 4, large non-integrated firms, from M 27 to M 110.

TABLE 9
COMPARATIVE PRICES OF DOMESTICALLY-ORIENTED FIRMS

Channel	Price Range for Fashion Dresses
Channel 1: Integrated MSEs	M 100 - M 185
Channel 2: Non-integrated MSEs	M 200 - M 289
Channel 3: Non-integrated Large	M 27 - M 110
Channel 4: Integrated Large	M 23 - M 73

Small-scale retailers (non-integrated MSEs) in channel 2 compete by targeting a relatively high-income segment of the market with expensive (M 200 to M 289) imported fashion dresses. Non-integrated and integrated large-scale firms and integrated MSEs, however, generally vie for the same medium- and low-income clientele. In order to compete against the generally lower-priced imported garments, MSE dressmakers must either compete on a non-price basis or specialize in products not sold by large-scale firms. They do both.

In the fashion dress product market, MSE dressmakers attempt to compete by offering higher quality garments made-to-fit and of a pattern and cloth selected by the customer. To be successful, however, the quality must be very good. Rural-based dressmakers employ creative marketing strategies to avoid urban-based competition. They hire vendors to sell in more remote areas both in Lesotho and across the border in South Africa.

MSEs have been most successful, however, in product markets where they face no competition with larger firms. MSEs earn at least two-thirds of their income from school uniforms and traditional dresses. The other third is derived from fashion dresses and dressmaking services, in which customers purchase their own cloth, often at wholesale prices and dressmakers earn profits only from their labor. Although MSEs prefer to sell RMCs as compared to only providing a dressmaking service (because of the greater potential profits), the latter is a more secure source of income, since dresses are made on request and thus the sale is more assured.

Locally knitted fashion jerseys (made from acrylic yarn) like fashion dresses are susceptible to competition from other channels. Prices for Basotho knitted jerseys range from M 35 to M 85. At the low end of this price range, locally produced jerseys face competition from the variety and high styles of imports. At the high end of the price range, they compete with handknitted wool and mohair sweaters. Moreover, the quality of the local machine knitted jerseys is too often uncompetitive, except perhaps in more remote areas with limited access to imported garments.

Competition within the traditional dress and school uniform product markets is concentrated within the single channel of small and micro producers. While prices for traditional dresses are relatively standard, ranging from M 100 to M 150, a great deal of non-price competition has emerged.

Dressmakers compete by adding creative details to the basic design or generating patterns that attract a more fashion-conscious consumers.

Competition within the school uniform product market has increased substantially over the last five years as very small firms even in the rural areas have entered the subsector in increasing numbers. After 1982 and the beginning of substantial local production of school uniforms, rural people came to Maseru to buy school uniforms. But increasingly, local rural dressmakers have begun to meet the rural demand for school uniforms, thereby diminishing Maseru dressmakers' market.

Prices for school uniforms among producers in the small and micro channel are fairly standard. The sole source of competition accrues from small retail outlets selling imported uniforms at significantly higher prices. For example, small and micro prices range from M 29 to M 52, depending on size and style, while small retailers' prices for imported uniforms range from M 56 to M 69. Imported school uniforms only meet a small segment of the demand since large manufacturers are unable to produce more than a small variety of the colors and patterns for girls uniforms required by rural and urban schools. However, MSE dressmakers and tailors find it more difficult to make boys uniforms as cost-effectively as large-scale South African manufacturers. Boys uniforms are both less varied in pattern and color and require zippers and other details that are more easily done by large manufacturers.

Potential Complementary Linkages

As discussed earlier, there are scarce linkages within Lesotho between expatriate- and Basotho-owned firms. In general, Basotho firms are only able to find opportunities for complementary linkages with other Basotho-owned firms. For example, small dressmakers contract out to local vendors. Only one example was found of an expatriate firm contracting to a Basotho-owned firm for the manufacturing of intermediate goods. This pattern of linkages suggests a dual Basotho/expatriate economy, in which the Basotho firms only link with South African firms through backward linkages, and South African firms only link with Basotho firms through forward linkages.

There appear to be few potentials for new complementary linkages without improved productivity and quality on the part of the Basotho and a greater openness to Basotho products on the part of South African proprietors. Within the ethnically defined Basotho subsector channels, however, there may be opportunities wholesaling of cloth.

In order to be feasible, local cloth wholesaling must be able to compete with operations in South Africa. At present, wholesalers in Lesotho sell at twice the price and refuse to offer discounts based on volume. At first glance, it appears that local wholesaling, given the direct and indirect costs of travelling to South Africa to purchase cloth, could sell cloth at a price sufficiently attractive to persuade dressmakers and tailors to buy locally. However, Basothos traditionally do not offer discounts based on quantities purchased as South African wholesalers do. Basothos noted that this is "not part of our culture." Moreover, the real price paid by Basotho is not that quoted by Durban wholesalers, who commonly offer attractive discounts. If buyers in South Africa are able to bring cloth across the border without paying the full 13 percent sales tax but rather a smaller bribe, it becomes even more questionable as to whether Basotho wholesalers could compete.

Potential for Growth

Existing Patterns of Growth

Most studies and statistics reveal that the major growth in the garment subsector over that past 5-10 years has taken place in the large-scale export sector. Table 10, displaying the value of clothing exports, demonstrates the dramatic growth of the large-scale sector since the mid-1980s. Similarly, Table 11 shows the greater contribution of the industrial or large-scale sector to GDP as compared to the small-scale sector.

But while the large-scale sector contributions have increased over time, Table 11 above also indicates that growth in the smaller sector, while not as dramatic as the larger, has kept pace with GDP. Table 12, showing the value of clothing imports between 1980 and 1986, further indicates the growth in the small sector. Whereas the population during the 1980-86 period grew an estimated 18.8 percent, textile imports at constant prices decreased 19.3 percent. This suggests that during the first half of the 1980s the micro and small dressmaking sector captured an increasing share of domestic demand.

Potential for Future Growth

The trend since the mid-80s of declining imports of clothing and increasing exports underscores the future growth potential of the MSE garment subsector. The decline in imports, typically sold by South African-based firms, may indicate that Basotho firms are capturing a greater share of the domestic market. Interviews confirmed that this has been the trend in school uniforms. As the popularity and diversity of school uniforms has expanded, the share of the domestic market met by imported uniforms has diminished dramatically. Concurrently, there has been an increasing demand for traditional dresses, partly as a result of recent programs aimed at promoting awareness of Basotho culture.

According to estimates based on Lesotho's 1986/87 household budget survey, the total expenditure on clothing in 1986/86 was M 126 million. Table 13 estimates that of this M 126 million only M 32 million or about 25 percent was captured by the small sector. The marked decline in imports in recent years suggests the competitiveness of MSE products on the domestic market and the potential for the small and micro sector to capture a larger share of clothing expenditures. This will require, however, that MSE manufacturers improve the quality and design of their products or compete with the imported RMC sector on the basis of non-price incentives.

TABLE 10
 VALUE OF EXPORTS OF CLOTHING
 (M millions)

Year/	80	81	82	83	84	85	86	87	88
CP	.6	1.3	1.1	1.9	3.7	6.0	6.8	25.1	49.3
KP	.6	1.1	.8	1.3	2.3	3.4	3.4	11.2	19.2
Deflator	100.0	119.8	129.8	144.2	157.1	175.2	196.9	224.8	256.1
% change in KP		67%	-21%	56%	80%	45%	0%	225%	72%

CP = current prices KP = constant prices

Source: Lesotho National Accounts 1980-88, Analytical Tables.

TABLE 11
 CONTRIBUTION OF TEXTILE AND LEATHER SUBSECTORS TO GDP
 (CP = current prices KP = constant prices)

Year/	80	81	82	83	84	85	86	87	88
Indust.									
CP	.7	1.2	2.7	2.9	5.0	6.5	10.0	13.6	20.7
KP	.7	1.1	2.2	2.1	3.2	3.8	5.2	6.2	8.2
Small Scale									
CP	.8	.9	1.0	1.2	1.4	1.5	1.8	2.0	2.4
KP	.8	.8	.8	.8	.8	.9	.9	.9	.9
Total									
CP	1.5	2.1	3.7	4.1	6.4	8.0	11.8	15.6	23.1
KP	1.5	1.9	3.0	2.9	4.0	4.6	6.0	7.1	9.1

Source: Lesotho National Accounts 1980-88, Analytical Tables.

TABLE 12

VALUE OF CLOTHING IMPORTS
(M millions)
(CP = current prices KP = constant prices)

Year/	80	81	82	83	84	85	86
CP	55.2	63.2	86.2	119.1	115.5	--	90.9
KP	55.2	54.5	67.4	82.1	74.0	--	44.6
Deflator	100.0	116.0	128.0	145.0	156.0	180.0	204.0
% change KP		-1%	24%	22%	-10%	--	40%
Popul. (millions)	1.33	1.37	1.40	1.43	1.46	1.50	1.58
% change	3%	2.2%	2.1%	2.1%	2.7%	5.3%	

Source: Lesotho National Accounts 1980-88, Analytical Tables.

TABLE 13

ESTIMATE OF MSE MARKET SHARE OF DOMESTIC CLOTHING EXPENDITURES

Year: 1986/87	Estimate (million Maluti)
Total domestic expenditures on clothing	126.00
Imports of clothing	- 86.50
Locally manufactured clothing by MSEs + Sales of inventory by large retail firms	39.50
Locally manufactured share of 39.50	32.00

Source: Lesotho National Accounts 1980-88, Analytical Tables.

Income elasticities further suggest the growth potential of the garment subsector. Table 4 (p. 14) shows that among low income groups, the income elasticity for "clothing/footwear" (1.56) was second only to "education and recreation" (1.68). As income among the largest segment of the population, the poor, expands by 1 percent expenditures on clothing and footwear are estimated to increase by 1.56 percent. Data on income elasticities combined with average share of the household budget (9.5 percent) indicate both the relative and absolute potential for growth of the garment subsector.

Given current ratios of sales to employment in the MSE as compared to the export sector, an increase in gross sales of M 1 million is estimated to generate 502 jobs in the MSE sector and 78 jobs in the large-scale sector. Assuming that the decrease in imports between 1983 and 1986 of M 37.5 million (in constant prices) was captured by the MSE sector, it is estimated that this increase in sales generated more than 18,825 jobs over the three year period or 6,275 new jobs per year. If, to be conservative, increases in exports between 1986 and 1988 of M 15.8 million (in constant prices) are attributed solely to the large-scale sector, estimates indicate that this increase resulted in over 1,200 new jobs during the two year period or 600 jobs per year. Clearly, interventions aimed at expanding the MSE sector have a greater pay-off in terms of employment generation than do those aimed at promoting large-scale firms.

Within the MSE sector, how can interventions best promote employment generation? How can the MSE sector capture a greater share of domestic expenditures on clothing and/or otherwise increase gross sales? The subsector has three major product markets: school uniforms (which include jerseys), traditional dresses, and fashion dresses and jerseys. Makers of school uniforms have little competition with South African manufacturers. Traditional dresses, while a unique product, can be substituted for imported RMCs. Consumer preference for traditional dresses, however, has generated significant demand that has expanded in recent years. The potential for export of this product could further expand demand in the future. MSE-made fashion dresses and jerseys face the greatest direct competition with imported RMCs. Expanded demand for these products will depend on non-price advantages and improved quality and styles.

Growth Potential for School Uniforms

Table 14 presents an estimated net profit statement for school uniforms, indicating the low start-up costs associated with production in this product market. Start-up costs for small firms of 4 employees are estimated at M 1,550 and those for one-person micro firms at M 600. The potential profits generated from these low start-up costs are surprisingly high. A small four person firm can generate about M 26,000 in a three month period, while a micro-scale, one-person firm can earn a net profit of M 6,000 during the same three month period. Given that the average wage of a trained employee in the small sector is optimistically M 250 per month, the net profit of the one-person firm of M 2,000 per month is significant. However, the school uniform market is seasonal, lasting only three months. Entrepreneurs earn a substantial portion of their annual income during this period.

Interviews underscored the substantial growth in the school uniform market since the requirement for uniforms among secondary and primary schools in urban to rural areas has diffused. Before the increasing popularity of school, South African manufacturers supplied the market for school uniforms. But as the demand for diversified products increased, a niche was created for local small dress- and jersey makers.

The growing population and thus the increasing numbers of children in school ages suggest that the market for school uniforms will continue to be good. **The 1987 Socio-Economic Indicators of Lesotho**

reveals that the total number of school enrollees increased by almost 17 percent between 1976 and 1981 and increased another 23 percent between 1981 and 1986. This 23 percent increase over a five year period yields an annual growth rate of 4.02. The population, however, is increasing at annual growth rate of 3.10 percent. Using this more conservative estimate for the annual growth rate of the female student population, data on 1989 enrollment for female students, and estimates on expenditures per student based on 1989 data, Table 15 estimates the employment generation potential of this product market. Over a ten year period, the school uniform product market is estimated to generate 12,755 jobs.

TABLE 14
ESTIMATED NET PROFIT STATEMENTS
FOR A SCHOOL UNIFORM OPERATION (3 MONTHS)

DESCRIPTION	DETAILS	UNIT COST	SMALL FIRM (4 PEOPLE)	MICRO FIRM (1 PERSON)
CAPITAL EQUIPMENT & STARTUP COSTS:				
SEWING MACHINE	DEPRECIABLE	520.00	1040.00	520.00
SMALL SCISSORS		2.60	5.20	5.20
LARGE SCISSORS		15.00	15.00	15.00
PINS		4.80	9.60	9.60
NEEDLES		1.25	2.50	2.50
PRESSING/CUTTING TABLE		150.00	150.00	0.00
IRON		100.00	100.00	50.00
OFFICE TABLE		80.00	80.00	0.00
CHAIRS		40.00	160.00	0.00
TOTAL CAPITAL EQUIPMENT & STARTUP COSTS			1562.30	602.30
REVENUE:				
	6.67 DRESSES/DAY x 22.5 DAYS/MTH x 3 MTHS			
SMALL DRESSES (30.00)	ONE THIRD		18009.00	4502.25
MEDIUM DRESSES (35.00)	ONE THIRD		21010.50	5252.63
LARGE DRESSES (40.00)	ONE THIRD		24012.00	6003.00
TOTAL REVENUE			63031.50	15757.88
OPERATING COSTS:				
RAW MATERIALS	10.00/METER			
SMALL DRESSES (1.25M)		12.50	7503.75	1875.94
MEDIUM DRESSES (1.75M)		17.50	10505.25	2626.31
LARGE DRESSES (2.25M)		22.50	13506.75	3376.69
COTTON		1.00	1800.00	600.00
BUTTONS		1.44	2592.00	864.00
TOTAL RAW MATERIALS			35907.75	9342.94
LABOR				
DRESSMAKERS (MTHLY WAGE)	3 MTHS	200.00	800.00	200
INDIRECT COSTS				
DEPRECIATION (10%)	3 MTHS		26.00	13.00
RENT (MONTH)	3 MTHS	60.00	180.00	0
TOTAL OPERATING COSTS			36913.75	9555.94
ESTIMATED 3 MONTH NET PROFIT			26117.75	6201.937

TABLE 15

ESTIMATE OF POTENTIAL ANNUAL GROWTH RATE OF
EMPLOYMENT GENERATED BY SCHOOL UNIFORMS

Year	Female Employment	Expenditures per Student	Gross Sales	Jobs Created
1989	218,657	M 6m	M 13.7 million	n/a
1990	225,435	M 72	M 16.2 million	1,108
1991	232,424	M 83	M 19.2 million	1,142
1992	239,629	M 95	M 22.8 million	1,177
1993	247,058	M 109	M 27.0 million	1,214
1994	254,716	M 126	M 32.0 million	1,251
1995	262,612	M 145	M 38.0 million	1,290
1996	270,753	M 166	M 45.0 million	1,330
1997	279,147	M 191	M 53.4 million	1,371
1998	287,800	M 220	M 63.3 million	1,414
1999	<u>296,722</u>	<u>M 253</u>	<u>M 75.0 million</u>	<u>1,458</u>
Total New Jobs Created 1989-1999				= 12,755

Source: 1987 Socio-Economic Indicators of Lesotho.

The rate of entry into the subsector, however, has been fairly high, thereby heightening competition within the MSE sector. One study claimed that while the perception of market demand is high for school uniforms, "nearly 69 percent of these enterprises felt there are too many competing businesses" (urbanization study). The future profitability of the school uniform product market is, to some degree, dependent on the extent to which new producers enter the subsector. Sewing schools are generating income from student fees with little concern for or knowledge of how these students will be able to find a market for their products. These schools as well as other institutions involved in training may be saturating the future market and thus dampening future profits.

Growth Potential for Traditional Dresses

Traditional dresses are an important product market for Basotho dressmakers. Earnings from these dresses help to even out entrepreneurs' annual cash flow after demand for school uniforms has waned in March. Traditional dresses are typically made by local Basotho dressmakers and street vendors to Maseru and small town markets, peripatetic vendors to surrounding mountain villages, and "micro exporters" to markets located at South African mines and urban centers. Dressmakers have also attempted to establish linkages to an export market through trade shows. The potential appears to exist for exporting high-quality traditional dresses to surrounding SADCC countries.

Growth Potential for Jerseys

School uniforms include jerseys; the prospects for this segment of the jersey market are relatively good. Nevertheless, most knitters, having made the investment in a knitting machine also make jerseys for daily wear. GEMINI's survey estimates that there are almost 6,000 knitting firms in Lesotho employing over 8,000 workers. The average firm size is 1.39, indicating the very small scale at which most knitters are operating. Over 70 percent of these "enterprises" are located in the rural areas outside of rural towns. Women likely combine their knitting "enterprises" with a number of other seasonal and part-time activities in order to generate sufficient income to support their families. Given the numbers of knitters in the subsector and the higher prices of local jerseys as compared to imports, the future market for locally-made fashion jerseys does not appear to be significant.

Only very few firms export jerseys. Export firms are owned by expatriates-owned and specialize in Irish knit sweaters that are not subject to fashion trends. Although these exporters have been relatively successful, for most firms in Lesotho, the international fashion market, so fickle in terms of styles and colors, is virtually impossible to respond to successfully.

Conclusions and Recommendations

The garment industry is an important source of employment for women. Other than beer brewing, it is the most the important manufacturing activity to female entrepreneurs and employees. Average firm size is small, 1.42 employees/firm, indicating that most subsector participants are proprietors.

According to the 1986/87 household budget survey, clothing is the second largest household expenditure (16.9 percent) after food. Local small and micro entrepreneurs capture only 25 percent of total household expenditures on clothing. South African-based firms, selling imported RMCs, capture 75 percent of domestic clothing expenditures. However, there has been a significant decrease in clothing imports since the mid-1980s, suggesting that domestic manufacturers are their increasing sales in comparison to import-oriented firms.

The major channels in the garment subsector include:

- Integrated small and micro scale dressmakers, tailors, and knitters totalling over 14,500 firms and 20,500 employees. The gross sales of this channel is estimated at M 41 million. This channel also includes over 1,300 vending enterprises, employing over 3,00 vendors;
- Non-integrated small sellers of imported cloth and RMCs;
- Non-integrated, large-scale retailers and wholesalers of imported cloth and RMCs, eg. Bingo, Gains, Peps, etc. These firms are located in Maseru and small towns;
- Integrated, large-scale retailers and wholesalers of imported cloth and RMCs, eg. Frasers. These stores are widely diffused throughout the rural area, operating even at the large village level; and
- Large-scale exporters, consisting of about 20 firms and employing 7,000 female workers.

The garment industry is segregated by ownership, with larger firms owned by expatriates and small firms by Basotho. Large-scale, expatriate-owned firms have not only usurped the export garment market but also captured much of the local market, leaving Basotho entrepreneurs in search of the few niches in which they can compete. These niches have tended to be in activities with low economies of scale and small, fragmented markets. The segregation of the industry is also evident in the existent pattern of inter-channel linkages. Expatriate-owned firms sell intermediate goods to small Basotho-owned firms but do not buy any goods in return. Thus complementary linkages are only in one direction.

Input supply, marketing, and working capital are the major constraints faced by MSEs in the garment subsector. Entrepreneurs claim that the price of locally available inputs, including cloth, sewing machines, and thread, is twice that of the price in South Africa. The income spent by MSE entrepreneurs on trips to South Africa to purchase inputs is estimated at over M 17 million per year. Lack of working capital forces entrepreneurs to make more frequent trips to South Africa or purchase inputs from local wholesalers at twice the price. Lack of working capital also impedes MSEs from accepting large orders that require up-front investment that might allow them to graduate to higher levels of profitability. Marketing problems derive from a lack of understanding of how to market and increasing subsector competition among small producers.

While female entrepreneurs interviewed never cited the legal system as a constraining factor, the recent forum held in Maseru to discuss the legal status of women suggests that the impact is significant, even in urban areas. It appears that urban women find ways of mitigating this impact, either through agreements with their husbands or circumvention of the laws. Reports concerning regulations indicated that they are not consistently enforced and, in some cases, ignored. More research is needed to ascertain the precise impact of legal constraints on private sector participation of women in both rural and urban areas.

In most African countries illiteracy and innumeracy is higher among women than men. This is not the case in Lesotho. Especially in the rural areas, women are for the most part the better educated. Boys are kept home from school to tend the flocks, while girls attend school. Upon reaching adulthood, most males search for work in South African mines, where education is not rewarded. Thus, there is little incentive at the household level to educate boys. As employment for Basotho at the mines diminishes, as predicted, the relative lack of education of men will become a more critical problem.

Recommendation: To address the shortage of working capital to purchase inputs, it is suggested that private local wholesaling businesses be encouraged. Local wholesalers might be able to establish close working relationships with Basotho producers and compete with South African wholesalers through the provision of credit to selected clients.

Recommendation: Training in marketing skills is needed. Training programs are needed that address the marketing difficulties faced by local entrepreneurs, that is competition with South African-based firms. The capabilities of BEDCO and local Manufacturing Associations should be assessed to evaluate the extent to which these organizations can bolster the subsector. The Manufacturing Association in Leribe is investigating the possibilities of establishing warehouse facilities for wholesale items. This possibility needs to be assessed to see if it is feasible and whether it has potential in other areas.

The quality of the average, small garment manufacturer is mediocre. There is a relatively large influx of so-called "trained" dressmakers being graduated from technical, vocational, and private sector schools. The inadequacy of their training means that as these people enter employment, they require further on-the-job training. This is a drain on the resources particularly of small sector producers. Moreover, training organizations are generating people for employment rather than self-employment.

For the most part, they do not provide commercial or business management courses with technical training. Additionally, existing training institutes and schools are contributing to subsector competition and the lower overall quality of goods being produced.

Relatively few entrepreneurs take advantage of the business courses offered by training institutions. Moreover, these courses tend to be limited to simple accounting. Marketing and financial management are rarely addressed, though they are critical to the success of small businesses. Government business extension agents and commercial officers are viewed as taxing agent, rather than sources of information and training. These government officials are transferred every 2-3 years, and thus are rarely able to establish a close working relationship with the local business community.

The strength of gender-specific roles in Lesotho steers women toward activities and businesses that are traditionally female. Women's increasing entry into a narrow range of subsectors is contributing to increased competition in limited market niches.

There may be opportunities for women to enter the weaving subsector as entrepreneurs rather than only as employees. However, because the products of this subsector are aimed at an upscale export market, market access, product quality and design, and market information are critical. At present, it appears that potential for Basotho women to export directly are not good, given their lack of understanding of the tastes of this market. In order to achieve the longer-term goal of direct export, female entrepreneurs might best start by selling intermediate goods to firms that currently have export market access.

Recommendation: Training within the garment subsector needs to be reoriented away from an emphasize on quantity of students trained and toward a greater emphasis on quality of students. Improved technical schools and design skills are needed if small producers are to compete successfully with imported goods.

Recommendation: Beyond improved technical training, producers need instruction in practical small business management. Commercial courses should be added to vocational training in the formal institutions and improved instruction is needed at adult education centers. Ideally, instructors should be small business people rather than government functionaries or graduates from teacher training schools.

Recommendation: National, district, or school-wide competitions might be a means for improving the quality of craftsmanship in the subsector. Prizes in the form of investment or working capital could promote small business development.

Recommendation: Training is needed in non-traditional subsectors, such as construction, shoe manufacturing and repair, and sheepskin handicrafts. To make these training efforts useful and effective, other support systems will be needed to give women access to credit, technology, and appropriate business networks. Given the strong sex-typing of activities in Lesotho, support systems and perhaps promotional campaigns will also be needed to facilitate the acceptability of female-owned, non-traditional enterprises. The Lesotho Women's Business Association could play an important role in designing and spearheading such an effort.

Unless labor problems are resolved, foreign-owned, export-oriented firms, which employ up to one-third of the subsector's labor force, may leave Lesotho once the sanctions against South Africa are lifted. These labor problems also contribute to low productivity, another disincentive for export-oriented firms to locate in Lesotho.

Given the number of jobs created by the large-scale export sector, the pay-off for investing in the above interventions are significant. American investors from Levi Strauss (blue jean manufacturers) visited Lesotho while the field research was conducted. Discussions with the Levi Strauss representative revealed the potential for growth in the large-scale export sector if, and only if, problems of labor disputes and low labor productivity can be addressed.

Recommendation: Forums are needed where expatriate owners and labor representatives can share views and solve problems. Skills in collective bargaining and labor relations could be supported through training, and mediators identified to bridge cultural and communication gaps and build mutual trust.

Recommendation: The government needs to review its statutes on labor disputes, revise them if needed, and consistently enforce them.

SECTION THREE THE WEAVING SUBSECTOR

Weaving is not indigenous to Lesotho. It was introduced by European missionaries during the last century and early 1900s. The formal sector is a recent. Weaving firms have been operating in the country only since the 1970s and many have started even more recently, in the mid-1980s. The firms produce a limited range of luxury products for the export market — rugs, tapestries, shawls, sweaters and scarfs — with some specializing in high valued rugs and tapestries. All of the successful enterprises are expatriate owned and managed. There have been attempts, by development agencies, to improve the results of nationally owned organizations. The results have not been good and, interestingly, three of the former foreign development workers are now owners and managers of their own operations.

The most extensive development effort was CARE's attempt to improve the local contribution to the subsector. The project cost millions of dollars to train hundreds of spinners in the rural areas, establish a local processing and dyeing operation, and develop an export market for Lesotho mohair yarn. A combination of over ambitiousness and improper management and supervision stopped the project. The trained spinners, however, are now the principal source of subcontracted spun yarn for the local weaving industry.

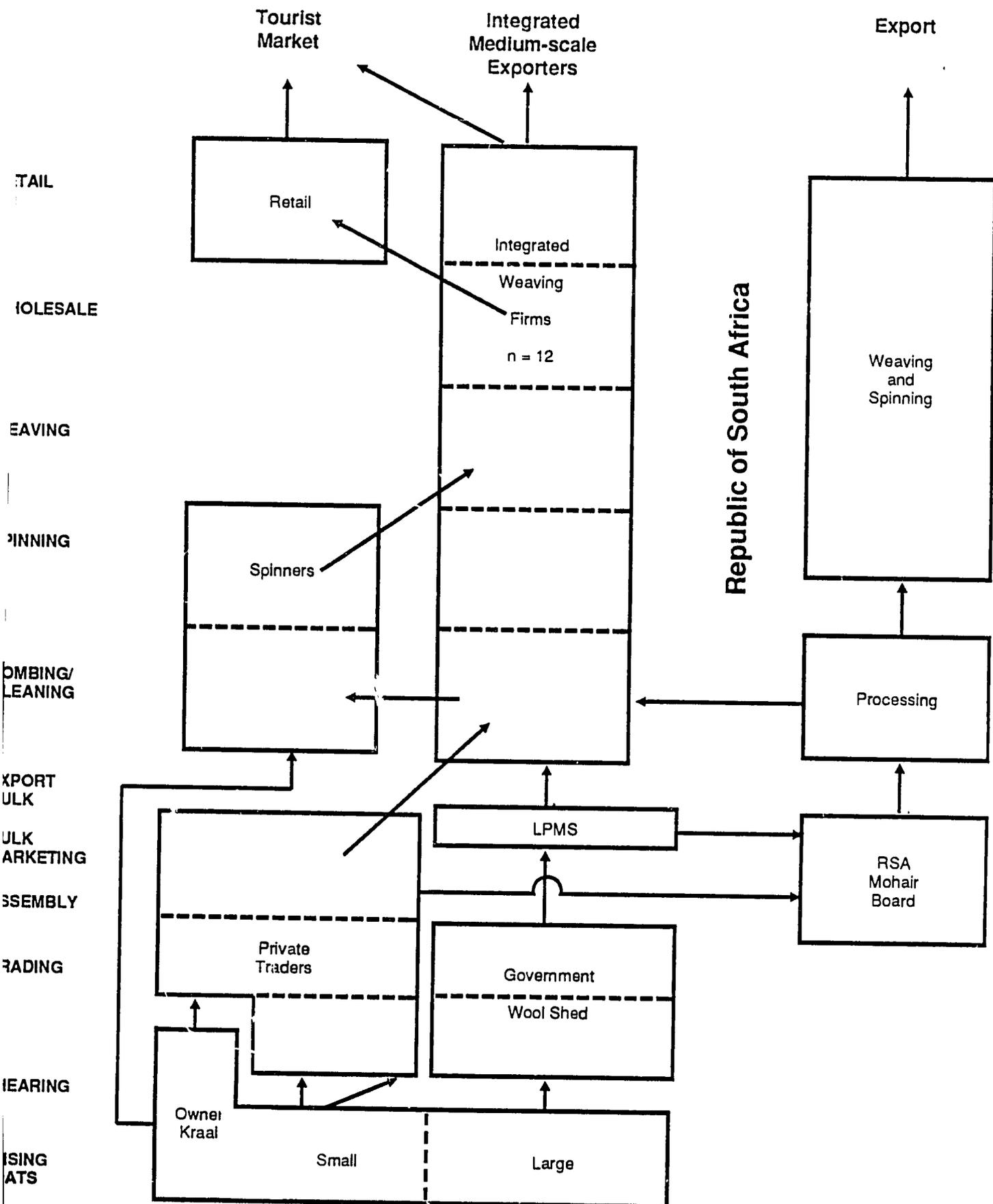
The Weaving Subsector Map

Figure 3 on the following page depicts the flow of products in the weaving subsector, from the shearing of the goats through to the weaving of tapestries and export of the products. Woven products are essentially export oriented and must respond to international standards. That portion which is sold domestically is considered an indirect export since the market consists of tourists and expatriates who take the goods out of the country. It must still stand up to international standards.

The weaving subsector relies on mohair rather than wool. All but a very small quantity of the wool produced by Lesotho is exported to South Africa for processing and never returns to Lesotho — only Thorkild Hand Weaving uses significant amounts of wool. A relatively larger amount of mohair remains in Lesotho for use by local weaving enterprises.

The government used to be the sole legal buyer for raw mohair. This led to feelings of exploitation of the farmers and therefore a dual buyer system was enacted, allowing licensed traders to purchase from

FIGURE 3
WEAVING
FIRMS AND EMPLOYMENT



farmers. Weavers can now legally purchase mohair domestically from either private licensed traders or the LPMS. There is still some illegal marketing to smugglers (for export) and to local processors (individual spinners in the rural areas) who in turn sell the yarn to weaving firms -- it is even illegal for the producer to process his/her own mohair.

Weavers get their raw material in several ways. Most firms seek official permission to legally purchase raw mohair domestically from the two legal buying channels, but some import cleaned and spun mohair from the RSA. Raw mohair is transformed into yarn through cleaning, combing and spinning. This is done totally in-house by integrated weaving operations; processed by weaving firms and then spun by sub-contracted spinners having long standing relationships with the firms; or processed and spun entirely by sub-contractors. In the latter case, the raw mohair is either bought by the weaving organization and sold to the processor/spinners, or else the independent rural processor/spinner (mostly trained under the CARE project) buys it illegally from the farmers.

The final product determines the buying source. High quality tapestries, sweaters, and shawls require finely spun yarn, while lower quality rugs and tapestries can use much coarser and artisanal yarn. Private traders have rough quality mohair which makes coarse yarn. The LPMS sells better quality fiber which produces higher quality yarn. Cleaned and combed mohair imported from the RSA is of the highest quality, making the highest quality yarn. Most firms purchase their mohair locally, though Setsotho, the oldest and largest firm, relies strictly on imported mohair. One of the newer weaving firms recently experimented buying raw and spun mohair from South Africa but found the price too expensive. The importance of the quality of the spun yarn to the value of the final product makes it necessary that the weaving firm exercise close supervision, even if the processing and spinning is not handled internally.

There is no organized mohair cleaning and combing process in Lesotho. The spinners generally comb the mohair individually and by hand to prepare it for spinning. Even spinners inside the integrated weaving firms were combing by hand. This is highly labor intensive and could be simplified by available small scale cleaning and combing technology which does not appear to be in use. If mohair is to become an important product for Lesotho, this technology would need to be introduced and accepted.

The spun yarn is then woven by master weavers into tapestries, rugs, scarfs, shawls, and other items for the local tourist or export market. The local market for mohair products is very small. Expatriate owned firms sell mainly to Europe and North America. One, because of ownership, sells to South Africa. Locally owned enterprises market domestically to foreign tourists or development workers. There is no significant export of processed or spun mohair by Lesotho. South Africa exports most of its and Lesotho's mohair in raw form.

An important consideration for developing the mohair weaving industry in Lesotho is the quality of the domestically produced mohair and its applicable uses. Since Basotho goats are range fed and the quality of their feed varies by season, the fiber they produce is of uneven quality. The individual strands often vary in thickness reflecting the dry and wet seasons between shearings. By contrast, mohair from the RSA is from goats which are fed consistent diets and produce uniformly thick fibers. This uneven quality of the Mosotho mohair leads to shorter fibers limiting its uses; for instance, since machine knitting requires yarn made from long thick fibers, Mosotho mohair is only suitable for hand knit products, greatly limiting the marketability of Mosotho mohair yarn.

Number of Firms and Employment

There are fewer than a dozen private firms and cooperatives producing woven mohair products. Most of the final product manufacturers are profitably run sole proprietorships or partnerships. Loosely structured cooperatives and associations are found as independent yarn producers. Two of the smallest and least profitable final product manufacturers are also cooperatives.

The weaving firms have less than 1000 permanent employees with firm size varying between 20 and 300. Although the four major organizations employ over 50 percent of the permanent work force, this statistic is deceiving since most organizations have extensive and flexible ties with non-permanent part-time processors and spinners. The number of individuals in this flexible situation varies throughout the year and according to demand for the finished woven product. It is estimated that there are currently no more than 1000 such processor/spinners.

Sales and Value Added

The most recent estimates by owners show that gross sales generated by the weaving subsector is under M 10 million per year. There are no reliable figures for export/local sales -- official statistics conflict with volumes reported by the firms -- but conversations with the weavers suggest that the bulk of sales is export oriented. Almost all of the value added generated by the subsector is captured by Lesotho since labor, management, processing, equipment and raw materials -- with the exception of imported dyes -- are found in-country.

An extremely important factor for the industry is the relatively low value of the mohair in each of the tapestries, accounting for less than 25 percent of the value of the end product. This means that most of the value added comes from the quality of the weaver and the design and pattern they are producing. This has important implications for the creation and scale of a viable mohair processing industry in Lesotho, since the overall value of the mohair in the products is under M 2.5 million per year.

Constraints to and Dynamics of Firm Growth

Policies

The major policies affecting the weaving sector include regulations governing the sale of mohair through strict government controlled channels, duty-free access to the EEC market, minimum wage policies, and government programs to promote pioneer industries. As stated earlier, mohair cannot be legally purchased directly from herders³ but must be obtained either from a licensed private trader or the government wool sheds. This means that spinners in the rural areas do not necessarily have direct access to mohair from neighboring herders. It is extremely difficult for small spinners to use the legal sources because of their small size purchases and bureaucratic procedures for authorization. In many cases, spinners travel several times back and forth to the urban-based weaving organization to obtain and remit mohair. These transaction costs can be significant given the low level of income generated by spinners. Weaving firms have less trouble utilizing official buying channels. Their raw material

³ The level of enforcement is unclear on this point.

problems are not the main constraints and are caused by the seasonal shearing cycle and low supplier inventory levels.

Weaving firms can take advantage of the duty-free trading relationship Lesotho has with the EEC and South African markets. Lesotho also enjoys tariff benefits in North America. Expatriate owned firms have access to LNDC loans and subsidies. They can take advantage of generous tax savings as well as collect training rebates through government programs to foster pioneer industries.

The government's recent wage policy, on the other hand, which raised the minimum wage by 51 percent has resulted in increased costs/prices and eroded Lesotho product competitiveness in South Africa where woven mohair articles are also produced. The higher prices do not seem to have significantly affected sales in other international markets.

Gender Issues

Women are prominent in the industry from processor to manager/owner. While the manager/owners are almost all expatriate, Basotho weavers, all of which are women, are trained on-the-job and, once trained, in demand. This puts them at an advantage in bargaining for work conditions. One result of this advantage is that they are given incentives for higher productivity and are allowed to work on a flexible schedule. This allows them to meet their domestic responsibilities while having steady employment. Additionally, women can easily leave one enterprise for another, if dissatisfied. Women's bargaining power has led to significant increases in wages in recent years.

Nevertheless, Basotho female weavers resent the fact that very few weaving enterprises are Basotho owned. Those initiated by locals have tended to fare badly because of lack of access and understanding of international markets and thus inability to tailor designs to compete successfully. One weaving cooperative, owned and operated by a consortium of women, has cited lack of capital as a binding constraint. But, in fact, this cooperative was able to raise start-up capital; they spent it, however, in production before identifying a market. The most severe constraint appears to be market related.

Training is needed to improve the quality of weaving, marketing skills, and tapestry design. While training can be obtained on-the-job, Basotho need access to independent training, particularly in design, to facilitate entry into self-employment. Management training is fairly limited and management practices scarcely employed by small, female entrepreneurs.

Ownership and Performance

Basotho owned and managed weaving operations have not fared well. They are production rather than demand driven operations with inexperienced management. This is their major shortcoming. Due to their small revenues and low profitability the organizations cannot keep quality personnel from leaving. Exposure and access to the international market — the major market — has been narrow because of lack of contacts and working capital. There is therefore a limited understanding of marketing and consumer tastes in design, coloring and quality. Designs do not change from year to year. For these firms the main market is that segment of the small local tourist industry seeking simple traditional village oriented scenes or rustic shawls and sweaters, which has low quality barriers.

In sharp contrast, expatriate owned and managed concerns have a definite international orientation with designs changing according to current consumer preferences. The most successful firms market, through foreign dealers and trade shows, a high quality blend of modern abstract designs and impressionistic rural images. The local tourist market — mostly composed of South Africans having access to similar products in their country — is a minor source of revenue. The largest firm estimates having no more than 5 percent of revenue from local sales. Others sell only a slightly larger percentage.

Labor Productivity

The productivity of labor was listed as a problem in the expatriate weaving subsector as well as in the expatriate-owned garment subsector. A number of employers have instituted incentive packages to improve productivity, including payment by piece work and bonuses for high volumes with limited success. Workers however continue to view management as exploitative. The Leribe Handicrafts Center — which is not a profit oriented institution — appears to have the best output from its staff, not because of higher wages but due to the better quality of the relationships. Low labor productivity was not cited by the locally owned cooperatives as a critical consideration. It is obvious that a change in management style would improve worker performance. Perhaps a profit sharing arrangement would be more satisfactory. The low level of management expertise in the environment and recent history suggest that new worker owned/locally managed organizations would not fare better than those already in existence.

Production Constraints

As a corollary to the labor productivity issue, the most salient constraint reported by the expatriate weaving enterprises is at the production level where there is a scarcity of well-trained and motivated weavers and designers. As a result, firms cannot meet the demand of the export market. Staff turnover is frequent and competition for skilled technicians high. It should be noted that staff turnover is not related to gender-based constraints, and since expatriates own almost all firms, the traditional gender-based production constraints do not hold. The major constraint is access to international markets; the industry has not developed sufficiently for Basotho to allow gender-based constraints to emerge.

Supply constraints

The Supply of raw material remains a significant problem, sometimes for the weavers but particularly for the independent spinners. As noted under the policy constraints, above, it is very difficult for rural spinners to get access to local mohair. When the CARE project was functioning it supplied the rural spinners with mohair, keeping hundreds of them employed. Since that project has folded, these spinners continue to spin, but express severe difficulties accessing the raw mohair, reducing their production to just a fraction of what it was.

For the weavers, the quantity and quality of the domestic mohair is a problem during the periods when goats are not shorn. Since the majority of the mohair is exported to the RSA, the systems are set up to facilitate this flow rather than to ensure regular quantities for domestic sale. This can cause inventory constraints to the smaller firms which purchase domestic mohair and are dependent on more frequent local purchases. This is not a constraint for the firms which import from the RSA.

Market Analysis

Competitive Analysis

The industry produces high-valued luxury items for the international buyer. Sales fluctuate with world economic conditions. Competition is directly with other luxury "art" goods, where design and quality are critical, such as paintings, statuettes, and wall hangings as well as with natural fiber rugs and tapestries from other countries. The second line of goods — sweaters, shawls and scarfs -- face stiffer competition from a multitude of natural and man-made fiber clothing products.

The export oriented Lesotho firms do well. The most successful ones sell mainly rugs and tapestries. While some organizations do sell to South Africa, particularly Leribe Crafts, the competition is quite stiff since there are numerous weavers in the RSA making similar items. The European and U.S. market is considerably larger, more profitable and less competitive, but far more difficult to penetrate due to the distance and limited contacts.

There is strong competition within the very limited market which exists in Lesotho. Design and quality are important here also. Expatriate-owned firms do better than local cooperatives because of superior workmanship, even with the tourist market.

Existing and Potential Complementary Linkages

Developing and strengthening relationships between locally owned and expatriate owned firms would benefit the entire industry. There is already one such example: a craft center in a rural town, specializing in shawls, is selling to a private firm in Maseru with stronger marketing links. This firm, in turn, sells the woven shawls locally as well as exports them. This model can serve as a mechanism for other local firms, especially Basotho-owned firms, unable to market overseas successfully. Since the more established firms have production rather than marketing constraints and Basotho firms suffer more from marketing problems, the expatriate firms would act as wholesalers and design/quality consultants for the Basotho. This is then an avenue for the Basotho to gain expertise in the industry while earning increased income from already established marketing channels. These linkages would not be totally satisfactory to the Basotho who have ambitions to be independent. However, they are an effective means for strengthening Basotho managerial and technical expertise.

The strongest complementary linkages, detailed in a prior section, exist between weaving firms and spinners who operate as cooperatives, associations or individuals. The relationship gives the weavers flexibility to increase yarn production according to need without carrying unnecessary fixed costs. It provides income to spinners who would have trouble finding employment otherwise. Increases in final product sales translates into increased work for the spinners.

Growth Potential

The weaving subsector is small but since it targets an international market, the potential for growth is large. At present it does not have the capacity to generate gross sales of a magnitude that would significantly affect the local economy, but it does offer opportunities for increased Basotho employment and entrepreneurship if the skilled labor constraints in weaving can be eliminated. According to the

exporting organizations present demand for their woven products exceeds supply and additional international markets can be found.

There also appears to be additional growth potential in spinning for the local weavers now that the supply of yarn from the former CARE project is exhausted. The CARE project had a enormous amount of unsold yarn when it closed. The inventory was gradually sold off to weaving firms resulting in reduced requirements of new yarn from spinners. The demand for new yarn should now increase, generating employment opportunities for the spinners trained under the CARE project.

There is an opportunity to increase value added through more processing in Lesotho, either simply cleaning and combing or taking it through to yarn manufacture. This needs to be studied carefully from several angles. Since Lesotho is dependent on the RSA's mohair marketing network, it may find barriers put in its way if it tries to actively compete with the RSA.

The export of mohair yarn could be a new market. One firm noted that while CARE unsuccessfully attempted to sell lower quality yarn to an up-scale European market, there may be more proximate buyers in Southern Africa that are less demanding. If such a channel could be established there would be opportunities for improving the quality and the color of the yarn for export outside of Africa. Developing a large scale spinning operation would need to examine carefully the number of local spinners it would displace.

Conclusions and Recommendations

The weaving subsector is small and oriented towards a tourist and up-scale export market. As a result, quality is essential and skilled crafts people are much in demand. The industry's dependency on a small cadre of skilled weavers and spinners combined with frequent labor disputes are a major cause for concern among expatriate owners. Weavers perceive that their wage is out of line with the high price of the final product produced by their scarce skill. Thus quarrels are common.

Recommendation: Labor mediation similar to that recommended in the garment subsector. A labor relations consultant attached to the Chamber of Commerce could play such a role.

Basotho-managed firms which have been unable to identify export markets for their products because of lack of knowledge and design skills to meet sophisticated international tastes. Contrary to this, expatriate-owned firms face production constraints that prevent them from meeting market demand. These production constraints essentially derive from a scarcity of skilled labor.

Recommendation: One or more of the technical/vocational training schools should provide courses in weaving technique and design, linked to the firms which are the ultimate consumers of the trained weavers.

Recommendation: Scholarships, should be made available to promising students to study abroad, where they might improve their design skills and at the same time be exposed to international tastes.

Recommendation: Linkages should be established and reinforced between Basotho weaving cooperatives and firms, which lack access to a market with expatriate-owned firms that cannot meet market demand. Expatriate-owned firms might serve as wholesalers for products of Basotho-owned firms and thereby link them to a market. The expatriate firm could also provide assistance in design.

The principal market for subsector products is Europe and North America. The major export products are tapestries and rugs. The local tourist market is limited to development workers and South Africans, who have access to their own well-developed weaving industry. The most successful weaving firms utilize marketing strategies which include an aggressive search for overseas markets, attendance of regional trade shows, and adaptation of designs to client tastes. Enlarging the export market will increase employment and income in the subsector.

Recommendation: The performance of the Trade Promotion Unit needs to be improved. This agency, responsible for promoting products internationally, is staffed by functionaries with little marketing experience. The Unit should be sensitive to opportunities for woven mohair products and spun mohair yarn even if it means working more closely with expatriate owned firms.

Recommendation: Travel grants or subsidies should be given to enable weaving firms to allow them to attend international trade fairs, especially in North America, Europe, and the Far East.

Poor management skills hamper the development of Basotho weaving operations. This applies to the weaving cooperatives and centrally located marketing outlets such as the Basotho Hat and Shield. These organizations too often focus on production while lacking a market.

Recommendation: Training in marketing and business management should be given to the Basotho Hat and Shield Cooperative and other Basotho businesses in the subsector. The Peace Corps may be able to provide this training.

SECTION FOUR THE CONSTRUCTION SUBSECTOR

The Lesotho Laborforce Survey of 1985-86 estimates that 32,000 people (4.2 percent of the labor force) were employed in construction related activities. The survey Phase I survey estimates that about 12,000 people were employed in small businesses in the construction subsector. The construction subsector provides employment opportunities of many different kinds which are appropriate to varying levels of skills in the indigenous work force. It is also a flexible employer, and can provide temporary work for the unemployed and underemployed from other sectors.

Construction makes an important contribution to the Lesotho economy. For example, sales of construction materials and services in 1990 were an estimated M.252 million. There is growing activity in the sector because many Basotho, particularly migrant mineworkers, are now favoring houses over cattle as a form of investment.

The construction subsector supplies the population with a growing need for shelter. By far the greatest amount of construction activity in Lesotho is in rural housing, to which nearly 60 per cent of national construction expenditure is allocated.

The Subsector Map

Figure 4 on the following page presents a thorough schematic of the construction subsector from the markets to the raw materials.

The Building Market

The building market can be divided into four broad categories, as follows:

Urban Residential

The demand for different types of housing is largely determined by income group (high, medium or low). Types of houses vary according to nature and quality of their component materials, finish, provision of services and density. Houses are invariably built as investments for occupation or rent. There is very little speculation in residential property, which means that once a house has been built, it is either lived in or rented.

Rural Residential

There is some differentiation between types of rural houses according to income criteria (as above), however the vast majority of rural houses are simple dwellings, made from whatever material is locally most cost-effective (mud, stone or cement, etc.). Rural residences vary widely, however, in the level of services (roads, water, electricity, etc.) to which they have access.

Urban Commercial and Offices

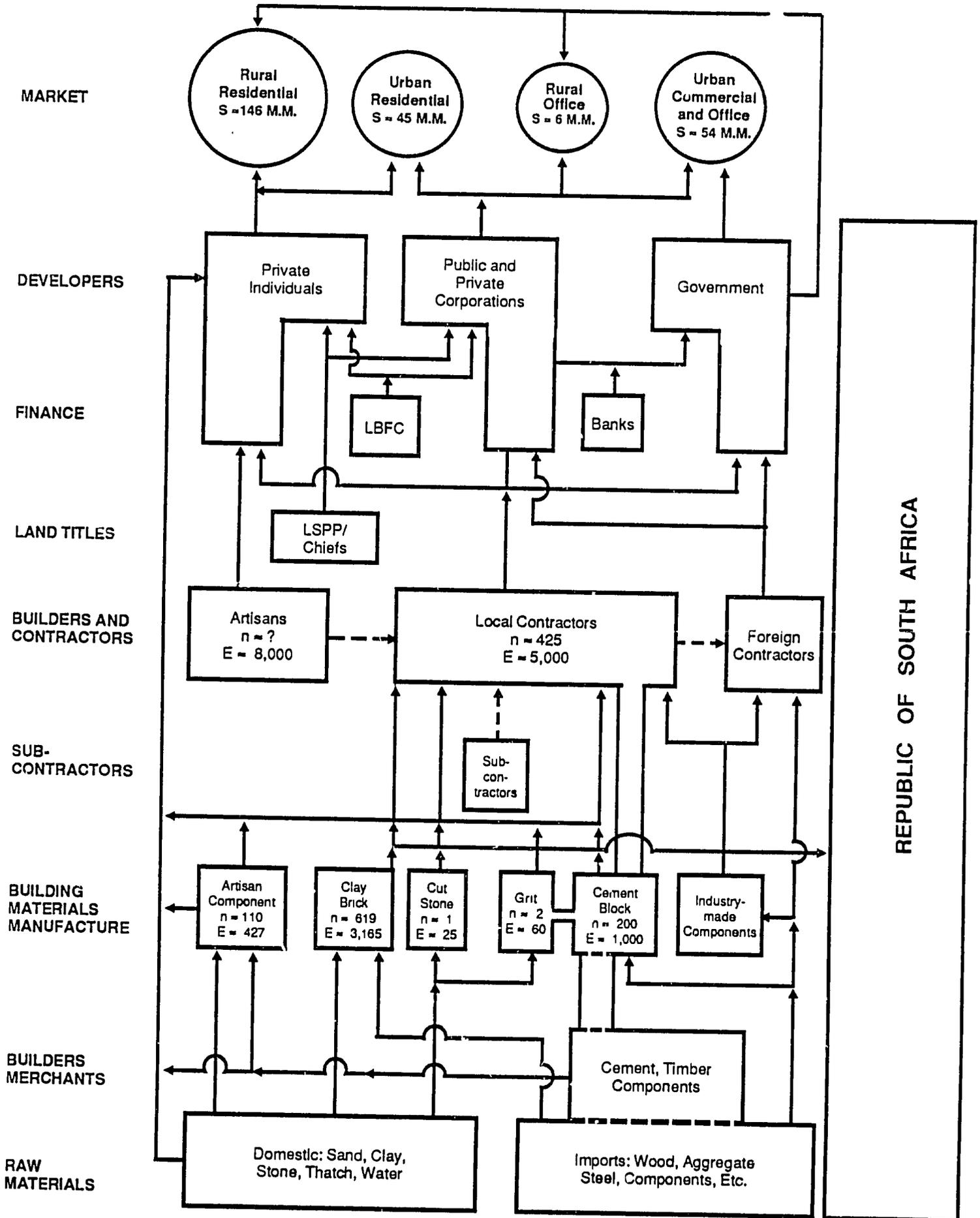
Urban commercial and office buildings are modern facilities which are constructed to a standard equivalent in most developed countries. These will include, factory buildings on industrial estates, office blocks, and public buildings such as offices and schools.

Rural Commercial and Offices

Rural commercial and office buildings are usually constructed to a similar standard as those in urban areas, but will differ greatly according to the level of services to which they have access.

FIGURE 4

CONSTRUCTION FIRMS AND EMPLOYMENT



Activities in the Construction Subsector

Provision of Raw Materials

Available domestic raw materials are river sand, hard stone (for aggregate), sandstone (for blocks), clay, thatching and water.

All other raw materials used in construction, such as steel, timber, cement and plastics are imported into Lesotho. A proportion of sand, crushed stone and thatching is also imported to supplement locally available supplies.

Importation of Manufactured Building Materials

Most manufactured building materials, particularly those with high value-added, such as steel and plastic components, electrical and plumbing components and paints are imported. These are supplied to large sophisticated wholesale/retail outlets (many of which are owned by South African companies) by competitive South African manufacturers.

Local Manufacture of Building Materials

Clay Bricks. There is one large brick factory, Loti Brick, producing medium quality face bricks. Industrial methods are used to mix the clay and process it with water and coal before the mixture is extruded and the wet bricks are mechanically formed. The bricks are then sun dried and fired in artisanal kilns. The factory produces about 20 million bricks a year, but these are not of the quality and uniformity of face bricks produced in South Africa.

At least as many bricks are made by a number of small firms that produce brick by low-technology means. Clay is dug on site, and blended with water, coal ash and coal dust. The mixture is formed into bricks using hand-molds. After being left to dry for 1 to 2 weeks, the bricks are stacked with more coal dust to make a free standing kiln which is usually sealed with mud before being fired. The kiln takes about a week to burn and usually produces 40 to 60 thousand bricks. The porosity and lack of uniformity of these bricks means that they can rarely be used for quality construction. However, artisanal bricks are about half the cost of Basotho factory bricks, and therefore supply a large market for low cost housing. There is even some export from brickworks close to the border, into South Africa. The MSE Survey estimates that there are about 619 brick manufacturing firms employing about 3,165 people.

Cement Blocks. Cement Blocks are used widely for building in preference to other traditional materials throughout Lesotho. They are produced by a proliferation of small enterprises in urban and rural areas. The smallest firm is a one-person operation employing a simple mould, and using a mixture of cement and coarse river sand, usually manufacturing close-by the building site. Larger firms use a manual machine requiring six people that presses blocks from a mixture of cement and coarse river sand and lays them onto a large concrete production platform. The largest firms use a similar production platform but have power-driven machines to mix and make the blocks requiring six to ten operators. Such machines use a mixture of cement, sand and crushed stone. In all the production processes, blocks are formed, dried and then cured by being regularly soaked for one week. The strongest blocks are produced using crushed stone, but manual techniques using river sand make an acceptable product.

Strong demand and competitive markets induce observance of rigorous quality control during production. Both large and small customers for blocks purchase locally, and small amounts produced in border towns are exported. A recent study on peri-urban⁴ areas in Lesotho estimated that 80 percent of all new houses are made from cement block. This would indicate a lot of firms in this channel, apparently contradicting the MSE Survey, which identified only about 100 firms employing 383 people.

Crushed Stone. There are two quarries producing aggregate from Dolorite in Lesotho on an industrial scale. These quarries, that are further from Maseru than a larger quarry in Ladybrand (South Africa), provide a proportion of the country's need for stone for concrete and roads.

Industrially Processed Components. There is some processing of imported raw materials, of which steel fabrication is the only noteworthy activity. Three companies produce about 80 per cent of the country's requirement for steel building reinforcement.

Cut Stone. A new venture has started to quarry sandstone building blocks, which are cut from the bedrock by a large machine in uniform size, then hand finished by masons. The company, which is currently producing about 1,500 square meters of blocks a month is aiming to sell most of its output in South Africa. Cut stone is also produced by artisans, who quarry and dress the blocks as close by the building site as material is available. This labor intensive form of mason work is now dwindling as other modern building techniques are more economical.

Artisanally Manufactured Components. There is a limited amount of local manufacture of building components like doors, window frames and security bars, by carpenters and metalworkers. Ready made components from South Africa, however, are very competitively priced and are available everywhere.

Builders and Contractors

Artisans. Most houses are built to simple standards by masons and carpenters who have learned their trade through apprenticeship. These artisans are hired by the job, using materials made available by the client, and build without technical drawings. Artisans own their own basic tools, and may employ one or two laborers or apprentices.

Small Contractors. Small contractors employ five to fifty people, and may own a pick-up or larger truck and other equipment. They tender for contracts, providing materials as well as construction services, and usually build to plans. They are usually registered, and a small number have bank accounts. Their clients are normally private individuals requiring middle or upper income houses, or commercial premises. Some smaller contractors are registered with the ministry of works to undertake public works projects. The Ministry of Public Works recognizes about 400 small contractors (classes C and D), which employ about 4,000 people.

Large Contractors. Large contractors employ 50 to 350 people. The larger the firm, the larger the contracts it seeks. The largest firms are mainly engaged in building offices, commercial premises and other public buildings. Such companies are usually adequately capitalised and are formally managed.

⁴ Peri-urban areas are those smaller communities which are in proximity to urban centers. These may have existed before and the urban areas have expanded to include them, or they may be new developments on the periphery of the towns where land is cheaper.

There are about 25 first tier companies (Class A) and another 25 or so firms just a little behind them in quality and competence (Class B). These firms employ about 2,000 workers.

Foreign Contractors. Foreign contractors are major international companies that come to Lesotho for a specific period to undertake major public works projects. Foreign contractors also include South African companies that register in Lesotho without investing, in order to obtain specific large contracts.

Sub-Contractors. There are a number of small companies providing specialized services such as roofing, electrical, plumbing, and floor-finishing to the larger contractors.

Land Titling and Building Permits

Obtaining Land. In Lesotho, all land is public property but private persons are able to obtain land by lease. These leases are for 90 years for residential purposes, 60 years for commercial purposes and 30 years for gas stations. Land can be obtained free to persons not already owning land by applying to the commission of Land Survey and Physical Planning (LSPP) or in rural areas by application to the local chief. In important cases, land can be allocated by the Minister of the Interior. Otherwise, leases can be purchased from existing holders, or from the Lesotho Housing and Land Development Corporation.

Acquiring a Lease. Leaseholding was introduced under the 1979 Land Act and has become the formal instrument of title in the urban areas. Leases are issued by the LSPP following survey, conveyancing, and registration at a nominal charge. A lease is required by any person wishing to obtain a mortgage or a building permit.

Building Permits. Before building, or altering an existing structure in an urban area, a person must submit a building plan to the LSPP, or in Maseru to the city council. Building permits are issued at a small charge. In peri-urban and rural areas (i.e. on lands under traditional control) there are no building formalities.

Financing

Lesotho Building Finance Corporation (LBFC). The LBFC is a parastatal organization, and is the only institution providing building loans in the country. It provides mortgages for up to 95 per cent of a building's construction cost, for up to 20 years for individuals, 10 years for businesses, for amounts up to Maloti 200,000. Eligibility depends on earnings (repayments cannot exceed 25 per cent of gross salary). Normally, applicants must be in possession of a lease, a house plan, a building permit, and three contractor's quotations. Businesses seeking to apply must furnish three previous years financial statements.

Banks. Commercial Banks do not provide property loans, but may provide loans for up to five years which businesses can use for such purposes. The banks also provide finance to government, which may be used for construction projects. The Lesotho Agricultural Development Bank provides some loans for construction of premises by agriculturally-related businesses. Banks require the use of contractors to carry out works they finance to ensure completion and quality.

Self Financing. The great majority of construction activities are financed out of savings. For many families, mineworker remittances are an important means of accumulating such funds. Private construction is usually done in stages as funds come available using informal labor. Businesses normally finance construction out of accumulated profits.

Developers

The term developer is used broadly to refer to the party initiating and overseeing the construction project. These include:

Private Individuals. Private individuals initiate most of the construction in Lesotho. Most of it is in the form of low-cost urban or rural housing for occupation or rent. This is built in an informal way without plans or procedures, usually hiring local artisans. A small proportion of individuals qualify for the formal system and obtain leases, plans, permits, loans and use building contractors.

Public and Private Corporations. Most public and private corporations construct premises purely for their own use. A few develop property for hire or sale to others. There is only one private company doing speculative property development, otherwise this activity largely initiated by public corporations.

The function of the Lesotho Housing and Land Development Corporation (LHLDC) is to obtain tracts of land from the government to be developed for residential purposes. LHLDC prepares master plans, surveys and subdivides building lots, arranges leases with the LSPP, puts in services (roads, electricity and water), and on-sells the lots to be built on by private individuals.

The Lesotho National Development Corporation (LNDC) constructs commercial and industrial premises for lease or rent to small and large businesses.

Government. The government initiates public works and infrastructure projects, constructs and repairs public buildings and builds houses which it makes available to civil servants at low rent. The government requires the use of prequalified formal contractors for all of its construction works to ensure quality and responsibility.

Linkages Through and Between Different Channels

Two distinct channels can be identified in the construction subsector; these can be labelled "formal" and "informal".

The Formal Channel

The formal channel provides buildings for commercial and office purposes, as well as for medium and high income housing. The clients for such buildings are the government, the corporations and a small number of wealthy individuals. Building projects are initiated in conformity with regulations regarding leases and building permits, often with financing from banks and other institutions. Projects planned and programmed by architects and quantity surveyors, and put out for tender by building

contractors. When building takes place the contractor manages all logistics, and builds with materials that are largely imported because these better meet specifications (the more sophisticated the structure and finish, the higher the content of imported materials).

The Informal Channel

The informal channel provides low income, and some medium income, housing. The developers in this case are private individuals who have usually obtained sites by traditional means. Building is initiated without plans and permits. Projects are financed out of family savings and are generally implemented in stages as funds come available. Construction services are provided by artisans with basic skills, but all logistics are managed by the individual who initiates the project. Such buildings are constructed with a relatively high proportion of locally available and locally manufactured building materials (the more traditional the structure, the higher the content of domestic materials).

Linkages Between Different Channels

Although the informal channel uses proportionately greater amounts of local building materials than the formal channel, it is still heavily reliant on imported inputs (particularly cement, timber products, door and window frames, and galvanized iron).

When domestically manufactured materials compete with imports on quality as well as price, then the formal sector uses them (for example, locally produced cement blocks are accepted as standard inputs).

There is some linkage between artisan masons and contracting companies. In periods of slack demand, artisans take on temporary work with contractors. The experience they gain tends to increase their skills.

Linkages Between Participants Within Channels

In the informal channel, the linkage between participants is weak. In the formal channel, some linkages are evident. Block manufacturing, for example, is an activity that marries well with others: building materials supply companies have made a forward linkage into block manufacturing; stone crushing operations have made a forward linkage into block; construction companies have made a backward linkage into block manufacture; block companies themselves, have made a forward linkage into construction.

There are also some dynamic linkages between small and large contracting firms. Larger firms sub-contract specific tasks to smaller ones. This is not as lucrative for small firms as contracting independently (smaller contractors complain of subcontracts) but other benefits can accrue in terms of experience. Similarly, larger local contractors take sub-contracts from foreign contractors (evident at present with Lesotho Highlands Development Authority (LHDA) contracts).

Employment and Distribution of Firms

According to the Lesotho Laborforce Study of 1986, 4.2 per cent of the national work force, or 32,000 people, were employed in construction-related activities. The Michigan State University MSE Survey for USAID in August, 1990, estimated that about 12,000 people were employed in small firms in the subsector (but given the predominance of building activity in the rural areas, this may be a low estimate). The breakdown is visually depicted in the figure on the following page as well as directly below:

<u>Activity</u>	<u>Total Employees</u>
Brick Making	3,165
Block Making	383
Construction and Masonry	8,021
Metalwork and Welding	427
Total	<u>11,996</u>

It should be pointed out that the estimate for blockmaking is probably in error. The author saw as many block making firm employees during field visits to a limited number of firms over a two week period.

The average size of these firms was 3.2 persons, with brick making firms employing an average of 5.1 persons, block making firms employing an average of 3.7 persons, and construction and masonry firms employing an average of 2.4 persons. The team uncovered no evidence on female participation in this subsector.

Sales and Value Added in each of the Channels

Table 16 below provides a rough estimate of the values assigned to each stage of the construction subsector, which is usually depicted in Figure 5.

FIGURE 5
CONSTRUCTION
SALES AND VALUE ADDED

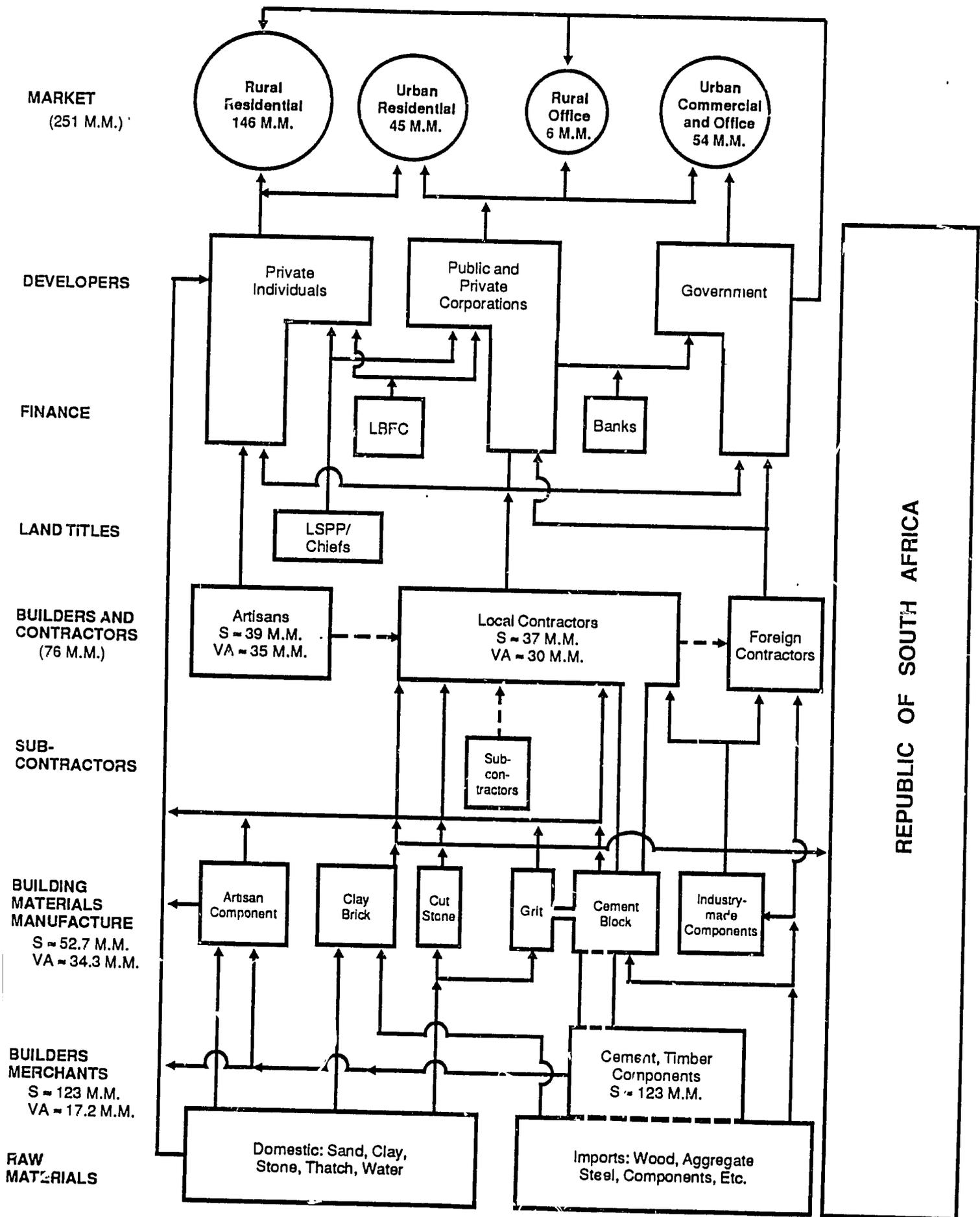


TABLE 16

VALUE ADDED IN THE CONSTRUCTION SUBSECTOR
(M millions)

	Rural Resident		Rural Office	Urban Residential		Urban Office	TOTAL
	Indiv.	GOL		Indiv.	Other		
Market in 1986 ⁵	95.2	0.4	3.4	23.8	5	32	159.8
Market in 1990 ⁶	146.2	0.7	5.7	36.6	8.4	54	251.7
Contractor Services	36.56	0.3	2.30	11.9	3.4	21.6	76
Building Material	109.7	0.4	3.5	24.7	5.1	32.4	175.7
Block & Bricks	32.9	0.1	1.0	7.4	1.5	9.7	52.7
Value added	21.4	0.1	0.7	4.8	1.0	6.3	34.3
Cement & Metal	76.8	0.3	2.4	17.3	3.6	22.7	123.0
Value added	10.8	0.1	0.3	2.4	0.5	3.2	17.2
Total Value Added							127.48
% of Total Exp.							50.65%

Of an estimated total amount of M.252 million spent on construction materials and services during 1990, M.127.5 million was value added by firms in Lesotho, or 50.6 percent of the total. Of a total M. 146 million spent on rural housing, M.68 million (46 percent) was value added, whereas of M.54 million spent on urban commercial and office buildings, M.31 million (56 per cent) was value added. These figures indicate the relatively lower ability of traditional small businesses operating in the informal channel than large modern firms in the formal channel, to add value.

Dynamics of Firm Growth

In the construction subsector, there are three activities that integrate large numbers of indigenous small businesses, which are brick making, blockmaking and building and contracting. Each activity provides a somewhat different context for firm growth.

⁵ Calculated from HH survey.

⁶ Extrapolated from 1985 figures.

Building Material Firms

Brick Making

Technology

There are two types of brick making in Lesotho. The traditional low-technology type of process uses hand tools and is mainly labor-intensive. The process, which involves mixing clay soil with ash and coal dust before molding and firing, produces a porous non-uniform product. A constraint which firms are currently facing is obtaining supplies of ash, which come from coal-burning factories. Increasing numbers of firms are forced to buy ash from South Africa at considerable cost in transport as local supplies become scarce. Availability of hydro-electricity in Lesotho in the near future will continue to discourage industrial coal burning.

Industrial brick manufacture does not use ash. The Loti Brick Factory in Maseru produces semi-industrial bricks. The production process is automated up to the point of drying and firing. Because artisanal techniques are used at the final stage, the quality and uniformity of the product suffers. Large contractors prefer to buy South African bricks because the standard is uniform and breakages are about 5 per cent, instead of 15 to 20 per cent with Loti. Loti Brick is now in the process of mechanizing its drying and firing process in order to compete with imported brick on quality, and will increase its output from 20 to 30 million. The estimated market for industrial bricks within a 80 kilometer radius of Maseru is 50 million bricks a year.

Financing

Artisanal bricks are produced with a minimum requirement in investment, unless the owner wishes to buy a truck, which often provides a competitive advantage. There are no formal sources of finance open to such firms. Industrial brick manufacture requires capital therefore availability of financing is a critical issue.

Regulation

Small producers usually pay a registration fee of Maloti 30 but otherwise operate informally. A more important issue for artisanal producers is obtaining a site, and this is done by application to the authorities. Difficulty in expansion or in obtaining a new site can severely affect a business.

Management

Artisanal brick production is managed along traditional lines, and firm size is often limited by the owners personal ability to increase and command the work force. Industrial brick making is obviously an activity requiring modern management, and complex ownership.

Skill Level

Artisanal production is totally informal, and skills are acquired by through practice. Industrial production is complex, and parts of the process must involve training.

Conclusion

Artisanal and Industrial brick making are effectively two separate activities, serving two distinct markets (industrial bricks sell at around M.350 per 1000, whereas artisanal bricks sell at around M.175 per 1000) and requiring significantly different levels of investment. As such, there are few opportunities for graduation from one type of process to the next.

Cement Block Manufacture

Technology

There are three types of processes being currently used to make cement blocks which are hand moulds, manual machines and power driven machines. The hand mould is normally used by an individual, who makes blocks close to the client, or close to a source of river sand. This is a low technology operation where concrete made of cement and river gravel is mixed by hand, shaped and shaken in the mould, then laid out to cure for a week requiring occasional soaking. A hand mould costs between M. 150 and M. 300, depending on the quality, so investment barriers are limited.

At a more advanced level blocks are made using a manual machine requiring about six operators, which costs about M.6,000. Concrete made of cement and river gravel is mixed by hand and then fed into the machine which by action of levers, molds three blocks and lays them on the ground. Such a machine requires a concrete production platform. Manual machines produce about 600 blocks a day.

The most sophisticated process employs gasoline or electric powered machines, which cost about M.20,000. These machines use a concrete mixture that is mechanically blended and uses crushed stone as well as cement and sand. Blocks are molded and laid for curing on a concrete platform. Each machine needs six to ten operators, and produces about 1,000 blocks a day.

Financing

Obviously, financing is an important issue for firms wishing to upgrade from one technology to another. Bank financing for such purposes can only be obtained by larger firms, otherwise expansion is financed mainly from a firm's retained earnings. No sources of formal credit for small business seem to be available to block makers, and the role of informal credit is unclear. Most firms with machines can buy cement on 30 days credit, but this is usually 10 per cent more expensive.

Regulations

Manufacturers with fixed premises pay an annual registration fee of M.30 to M.50. Most firms seek to avoid taxation and other regulation, and apparently manage to succeed. Only the formalized firms (integrated with building supply or contracting) respect the minimum wage.

Management

Most block firms are indigenously owned, except for a few larger ones which are integrated into bigger concerns such as construction companies, quarries and building materials merchants. The management factor is particularly significant for an entrepreneur wishing to graduate from using manual moulds to machines. Upgrading from manual to power driven machines, or expanding the number of machines is more of an incremental step. Few block plants, however, operate more than three machines or employ more than 20 people. This appears to be partially a function of the market which requires decentralized production because of transport costs, and partly a function of manpower supervision, which becomes more difficult as the laborforce exceeds this number. As blockmaking is a fairly simple process, it can be managed fairly easily by relatively inexperienced entrepreneurs. For this reason, it is not unusual to meet owners of firms that have graduated up from one-man ventures to mechanized firms with 20 laborers.

Skill Level

Block manufacture uses unskilled labor, however, owners of firms complain that they suffer from staff turnover as newcomers require an induction. This is more a function of wage levels than training.

Conclusion

Cement block manufacture is apparently the most thriving small business activity in Lesotho today. Unlike artisanal brick makers, block makers are not confined by their market and sell both to the formal and informal construction markets. In addition manufacturers are not as constrained by technology, as relatively low cost small-scale equipment is freely available. This means that the prospects for dynamic growth of firms in the activity are favorable.

Building and Contracting Firms

Technology

Builders and contractors provide services, but the level of sophistication with which these are delivered alters dramatically as the size of firm and the nature of its market increases. At one extreme is the Artisan who has simple tools and builds simple houses, and at the other is the large contractor with sophisticated equipment who builds multi-story offices. Technology imposes critical barriers to the movement of entrepreneurs from the informal to the formal sector, and within the formal sector itself, as firms seek to grow. Technology is also closely married to skills and management.

Financing

At the informal level, Artisan builders (who do not really operate enterprises at all, as they do not manage resources) sell their services, and have no need for financing. Contractors, on the other hand need financing both for purchase of equipment and working capital. Smaller firms finance themselves out of retained earnings, supplier credit, and with advances from the client. As contracts become more important, contractors are required to provide a bond of 8 per cent against completion. In addition, on completion the client retains 5 per cent for 12 months as a warranty. Contracting at this level requires the involvement of the banks and possibly insurance companies, to provide bonds and overdrafts. A critical step in growing from a small contractor to a large one is in establishing a relationship with the bank. According to contractors the most important element here is collateral, so firms seek to become as heavily capitalized as possible. Many of the larger firms divest earnings into property for this reason.

Regulations

Artisan builders operate completely informally. Contractors however, are subjected to closer scrutiny by the authorities than most other forms of business. The smaller contractors often circumvent building regulations, but firms with prospects for growth seek to comply with procedures as much as possible (though, apparently, not tax procedures). An important step to growth is registering with the Ministry of Works. This involves filling out a very detailed 11 page form. Contractors that fill out the form correctly are automatically classified. Classifications range from A to D and are awarded according to a number of criteria including number of years in business, capitalization, number of employees and value of contracts completed. Registration costs M.250 per year. Once registered, a firm can tender on public works contracts appropriate to its classification. All firms pay an annual business license registration fee of M. 100.

Management

Management is an important constraint on firm growth at two stages. The first is graduation from artisan builder/construction worker to contractor. Few artisans or workers can acquire the management skills essential to contracting. Most new contractors have experience running other businesses, or have higher education of some form. The second is graduation from small to large contracting. Contracting is a skilled matter, where financial margins are often sensitive, particularly in a country with an inflation rate of 14 per cent. Smaller contractors tender without assistance from architects, quantity surveyors and accountants (whose services they cannot afford), so there is high potential for error. Also, at the smaller level, the client can usually squeeze the contractor on price because of competition and this further exposes his risk. This often means that small contractors scrape along, until at some point they hit either the right or the wrong calculation, and succeed or go bankrupt.

Skill Level

Skill Levels in a firm alter a great deal as the firm becomes larger. Larger contractors employ workers with highly specialized trade skills, and these are currently in short supply in Lesotho. Unfortunately, graduates of the national technical schools have not been hired by the contractors who feel that they are inappropriately trained. The Lesotho Master Contractors Association (LMCA), which currently represents the 25 largest firms, and the Ministry of Education have begun to address this issue.

In March, 1991, the curriculum of the technical schools will be changed to correspond more closely to the private sectors needs.

Presently, none of the technical schools are offering further education. Workers in the construction trades are not able to take evening or release courses in order to upgrade their skills. The LMCA members are now considering introducing their own further education program for employees, funded by payment of a training levy paid by each firm on each of their employees.

It is worth noting that the LMCA only represents large firms, but says that it would like to incorporate members of all sizes. To date smaller indigenous firms have not joined because they consider the association to be the domain of the large foreign-managed firms.

MARKET ANALYSIS

The Potential for Growth in the Construction Subsector

The Housing Market

The 1986 census of Lesotho recorded a population of 1.58 million, with an average annual growth rate (1976-86) of 3.12 per cent. During 1946 to 1986, the population doubled, and is estimated to double again between 1986 and 2010. The proportion of people finding work outside Lesotho declined from a high of 19 per cent of the population in 1956 to 8 per cent of the population in 1986. Population increase will mean that the need for housing will continue to grow, but the dampening effect of work migration will continue to diminish.

Urban growth has been rapid. During 1976 to 1986 the proportion of the total population living in urban areas increased from 11 per cent to 15 per cent (about 225,000 people). Presently urban areas are growing at a compound rate of over 6 per cent a year. Maseru itself is growing at a compound rate of 9 per cent a year, mainly through in-migration, but also through population increase. The population of Maseru is expected to grow in numbers as follows:

Date	Population
1990	145,000
1995	200,000
2000	300,000

Source: Lesotho Housing Policy Document

The 1986 census enumerated 330,000 households in Lesotho, of which about 278,000 were rural and about 52,000 were urban. Urban houses had an average of 5.5 persons per unit, compared to 4.9 for rural households. The Lesotho Housing Policy Document of 1987, estimates that 2,000 to 5,000 urban units need replacement, and that 9,000 additional units are needed to provide each family with a house. To keep pace with population increase an average of 4250 urban units per family would be required per annum, 70 percent of which would be in Maseru.

Of course, there is a big difference between estimated housing "need", and actual demand. Demand is a function of family income, and the way in which the family chooses to dispose of it. It is also a function of supply, particularly in this case of land, and of basic services such as water.

Acquisition of building land in rural areas has not been a constraint. In urban areas, however, land is usually allocated to the economically able. It is virtually impossible for an individual to obtain government land in Maseru town by following the application procedure, although leases may be purchased. In peri-urban areas, land may be obtained less formally from a chief, but usually at a cost.

Obtaining tenure to urban land has proved a serious constraint. Since leasehold tenure was introduced in 1979, the Lesotho Survey and Physical Planning (LSPP) office has been faced with a demand for services that it cannot meet. LSPP has few surveyors and cannot retain staff, so that its capacity to survey and provide tenure documents is very limited.

The Lesotho Housing and Land Development Corporation (LHLDC) is providing a potential solution to the acquisition and titling problem. LHLDC obtains large pieces of government land. It surveys the land and draws up a master plan of serviced residential lots. This plan is then submitted to LSPP for bulk preparation of tenure documentation. LHLDC has two schemes in Maseru, at Matala where 700 low-cost sites are being prepared, and at Thetsane, where 1,760 sites are being prepared, 60 per cent of which will be low-cost. LHLDC also has schemes in four regional towns. Allocation of the Maseru sites will begin in March, 1990. LHLDC's policy for low-cost housing is to provide plots with very basic services (gravel roads, water kiosks) that may be upgraded as owners can afford it. LHLDC will "sell" plots at an amount calculated to offset its own development costs, to persons of limited means, determined by LHLDC guidelines. Purchasers will be responsible for construction according to their resources, but will be supervised and may be provided with technical assistance (with quantity surveying and design) by LHLDC. All of the construction work is expected to be done by artisan builders.

LHLDC's clients are supposed to be able to obtain building loans from the Lesotho Building Finance Corporation (LBFC). It is not clear at present whether this will be possible. The LBFC has a portfolio of 646 personal mortgages worth Maloti 31 million, and 64 commercial mortgages worth Maloti 6 million; savings deposits total Maloti 15.7 million (31 October 1990). To date, personal mortgages have only been provided for medium and high income housing. LBFC's loan application procedure is designed for educated, salaried candidates; the volume of applications it processes is low; its available funds are limited. Although the LBFC has made recent efforts to waive its requirement of architect's plans and site supervision for small projects, its system is set up to deal with the formal sector. LBFC is not ready for many hundreds of applications for informal construction of homes from the low earners.

It is worth noting, that an earlier low-cost housing loan scheme managed by the Lower Income Housing Company (LEHCO-OP), an organization that has now been incorporated into LHLDC, had a very poor debt collection record. Under the scheme, LEHCO-OP made the loans and LBFC collected the repayments. The scheme failed because there was a lack of capacity to enforce agreements, lack of collection mechanisms, and poor communication between institution and borrower. Furthermore, the legal system dealt slowly and ineffectively with debt collection cases. This program is no longer active, but the issues that contributed to its failure will have to be addressed before there is further lending into the low-cost housing sector.

Usually, families finance their construction activities from savings. Cash accumulation from earnings from migrant mine labor have paid an important role in this regard. At such time that urban sites come available, therefore, it appears that there will be a rising number of opportunities for small construction enterprises in the urban housing sector. For the larger firms, the increase in demand for

medium and high income housing that has been stimulated by the large influx of Lesotho Highlands Water Project personnel seems likely to continue in the near future as project activity increases.

In conclusion, therefore, trends in the housing market indicate that residential construction in rural areas will increase steadily. Demand for medium and high income houses is also likely to increase steadily over the short term. A high demand, however, for low income houses (built by small firms) should soon be evident in the urban areas, notably in Maseru.

The Market for Commercial and Office Buildings

The market for public, commercial and office buildings is quite buoyant at present, and contractors appear to have plenty of work. A recent development in the construction subsector has been the implementation of the Lesotho Highlands Water Project (LHWP), a very large scheme to construct dams, hydropower stations, and water distribution tunnels. The first phase has a budget of Maloti 4.5 billion. Although the major work will be undertaken by international contractors the project will provide a number of opportunities for larger local contractors. The main benefit of this project for the local construction sector will probably be delayed until 1996 when Lesotho is scheduled to receive its first royalty payments at a rate of Maloti 60 million a year on water provided to South Africa. A proportion of these funds will be invested in government buildings and public works and other construction projects.

Competition and Complementarity Between Businesses in the Subsector.

Competition Between Businesses

In the informal channel, where there are many micro businesses and small clients, expansion or contraction of the market translates itself into a rise or fall in activity of the individual businesses, and competition is accommodated not fought.

In the formal channel, an expansion in the construction market will create competition between all contractors, both large and small, for skilled labor. At the current level of demand, contractors are having difficulty in finding and keeping competent workers. The small firms are affected more than the larger ones, that normally offer their employees better conditions. The large local contractors have already had some of their best workers poached by the foreign contractors on the LHWP, who are paying 50 per cent over normal minimum wages.

Local manufacturers of building materials which supply the formal channel face competition from South African firms as soon as they have difficulty in meeting an order. In fact, many of the larger firms shop first in South Africa for bricks and crushed stone just because they have had delivery problems with local suppliers in the past. Lesotho has an overcapacity in block production so that increased demand is unlikely to stimulate imports. Also, the critical factor in competition between block producers is delivery cost. Because of this, large producers have difficulty squeezing out smaller producers who set up business close to the market.

Complementarity Between Businesses

Complementarity is particularly important between builders and contractors, but particularly between large and small contractors, and specialized sub-contractors. Larger firms employ smaller firms in subcontracting arrangements, and this provides the large firms with flexibility as they are able to increase their capacity without having to increase their overheads. In turn, smaller firms gain knowledge and skills by working alongside larger ones.

Leverage in the Construction Subsector

Several clear nodes with high leverage potential stand out in this subsector in land titling, land development, financing, and training. Several institutions are central to the process of opening up the construction subsector, discussed briefly below.

Given the heavy investment cost required to finance the construction of a house, mortgage financing is one way to stimulate growth in the market. Since there is only one bank which specializes in mortgage finance, working with the LBFC will have leverage in terms of improving the financing for the consumers in the subsector.

Land titling is a slow process handled by a single agency, the LSPP. Improving their operations and efficiency will also have a widespread effect. The LHLDC is also the only agency handling development for housing tracts, and it can leverage the LSPP and financial institutions if properly prepared.

Finally, the LMCA is centrally concerned with the quality of skill training and can be effectively used to address the training issues with the Ministry of Education.

Potential for Employment Generation

The prospects for increased employment generation in the construction subsector are quite good. As noted in Table 6 at the beginning of this chapter, construction enjoys an elasticity of 1.3 which means that as incomes rise, resources will be channeled into the subsector as a whole at an increasing rate. However, employment in construction is very closely tied to new housing starts which is related to the state of the economy as a whole.

At the subsectoral level, one job is created for every M. 8,000 which are spent. The cost of job creation at the micro level and in the informal channel is even lower, running just over M. 6,600 per job, because they tend to use greater amounts of locally (often artisanally) produced inputs which have greater backward linkages through the subsector, generating more jobs.

Based on population and economic growth estimates, there should be an annual increase of about 600-1000 jobs, 2-3 percent per annum, just to respond to the increasing demand from the local population. The rate of housing construction in the rural areas is still only about 5 percent of the households per year, so this growth trend will continue for quite a while as the rural households continue to modernize their accommodations.

As the LHDA funds start to flow into the GOL coffers in five years, there will be a steady increase from the GOL for construction services. Local firms will be constrained to respond, given the low supply of qualified skilled workers unless this is addressed in the near future.

The points where outside assistance will facilitate the generation of new jobs, however, lie increasingly in the more formal channels which will be able to respond to outside stimulation. The informal channel is functioning quite well and is largely beyond help. The true limiting factor to increased employment is the rate at which individuals can get the financing and land approval to undertake the construction, and this is being constrained at several points in the system: the LSPP and the LBFC. Addressing the logistical constraints facing those institutions will increase demand. As demand increases at the formal levels, the next set of constraints will be with the construction firms themselves, and their ability to provide a quality response to the demand.

CONSTRAINTS ON THE CONSTRUCTION SUBSECTOR

- It is difficult for most people to obtain building plots in urban areas.

The allocation system of free government land functions poorly. The market for other land in urban and peri-urban areas tends to exclude persons with low incomes. Obtaining title to property through LSPP is a further obstacle. The LHLDC may now provide the means by which plots can be made available, but its schemes have not yet been implemented.

- It is difficult for persons with low incomes, **especially women**, to obtain construction loans.

Despite the existence of a development bank for building finance (LBFC), low income people do not yet have ready access to loans (and these are the main clients of small construction firms).

- It is almost impossible for small businesses to obtain credit through formal channels with which to expand the enterprise.

Small construction and building materials manufacturing enterprises cannot get loans from commercial banks because they usually do not have a long term relationship with the bank, cannot furnish accounts and other financial information, and cannot provide the kind of collateral that banks require. Until legal procedures change, small business credit funds will, as in the past, be misappropriated and fail to provide sustained resources to large numbers of businesses.

- There is a shortage of skilled construction workers, which is affecting the performance of contractors, particularly the smaller ones.

Vocational training schools are currently providing training which is inappropriate to private sector needs. This may alter when the vocational training centers adopt a new curriculum for post-secondary education in July 1991 which will be a modular competency-based program designed by the construction sector to meet its own needs. Such programs are open to school leavers, but are not available to informally apprenticed artisan construction workers. Furthermore, there is no provision for further skills training for skilled workers employed by contractors.

- There is no representative organization or association which succeeds in bringing members of the construction sector together.

Organizations such as the Manufacturers Association represent particular interest groups, but none yet exists for the construction industry. At present the Lesotho Master Contractors Association is the domain of the larger companies, however the industry would benefit from an association which grouped and represented both small and large enterprises for purposes of advocacy, training and to achieve other benefits such as a credit line for members like the Manufacturers Association.

Weak business skills prevent trained artisans from entering the more complex world of construction contracting.

Contractors are most usually business men that move into construction, not construction men that move into business. Construction workers cannot get a knowledge of contracting, except by trial and error. Because contracting is an unforgiving business, few artisans graduate onto larger activities.

RECOMMENDATIONS

- That USAID, involving other donor organizations, assist the GOL to review the legal framework within which credit is provided. The limited legal rights of women severely restrict their ability to collateralize a loan, sign for a loan or any contract without the need for a male co-signature, or own land, a business, or other capital assets. Given the high percentage of female headed households in Lesotho (55 percent) and women's major involvement in the small enterprise sector, review of the legal framework should include those laws that have an impact on women.

This process will probably involve a thorough review of the reasons why previous donor assisted loan programs have failed, and seek to improve the legal channels by which lenders can protect and recover their investments fairly, and rapidly. This may involve setting up a mortgages court or a small business loans court that can process cases with minimum delays.

- That the Lesotho Building Finance Corporation revise its procedures to meet the needs of low income borrowers, and start identifying new sources of funding.

In order to stimulate the provision of low cost housing (built by small construction firms), the LBFC will have to rethink both its procedures, its methods of processing mortgage applications, and its methods of interfacing with the client. If the LBFC is to provide financing for the construction phase of LHLDC's developments, then it will need to start looking for capital. Possible sources are local insurance companies, or miner remittance funds held at the Lesotho Bank.

- That USAID, in cooperation with local business organizations and the parastatal corporations, facilitates the creation of a local construction association.

The Lesotho Master Contractors Association presents itself as the umbrella organization for the industry. Smaller firms have not joined, however, because its members are big and there is not enough indigenous representation. Because important benefits can accrue from bringing small and large firms together in an association, the construction related firms need help to set up an organization in which everyone can be accommodated.

That USAID, in association with the private sector (construction association), upgrade training programs in construction related skills.

Nonformal vocational training needs to be addressed. This should be available to already employed construction workers and those without secondary school qualifications who have been apprenticed. Trainers should have substantial experience in the job rather than simply a school background. The training course should conform to that of the Building Industry Federation of Southern Africa in order that qualifications can be recognized regionally. Courses in small business management and entrepreneurship should be given alongside targeting the small (category D) contractors.

The training program should be organized in conjunction with the private sector (ideally, through a construction association). Firms should contribute a monthly training levy on each worker employed, toward the cost of the program. Members of the Lesotho Master Contractors Association have preliminarily agreed that a levy of Maloti 3 per employee per month would be a reasonable amount. By involving the private sector financially, a donor or government organization can assure its interest and commitment in making training correspond to its needs. Co-financing can also leverage donor funds.

SECTION FIVE THE LEATHER GOODS SUBSECTOR

The selection of the leather goods subsector is a special one for Lesotho. With about 1460 MSEs employing slightly more than 2600 people and a total monetized consumption valued under fifteen million Maloti (\$6.0 million), the subsector has much lower employment figures and total sales value than the other three subsectors selected. However, it is precisely these small figures, reflecting uncaptured benefits, which make the leather goods subsector a critical one to understand in Lesotho.

Lesotho is essentially a pastoral country, with a very high percentage of Basotho owning livestock. Therefore it is surprising that hides and skins are so underutilized. Large quantities of skins and hides are simply thrown away, not even given preliminary treatment to enable them to be sold. There is virtually no tradition of artisanal tanning, only elementary scraping, and skins and hides are used in only the most menial ways. Therefore the leather goods subsector, starting with skins and hides, has remained an anomaly for Lesotho.

Recognizing the potential of the natural resource the high quantities of livestock provide, the GOL has made livestock management and encouraging the development of the leather goods industry a priority since the third development plan, in the early 1980s. Unfortunately, there have been almost no results to date. The following rapid analysis will lay out a picture of the market channels as they exist today, a review of the changes those channels have taken over the past decade, and an assessment of the potential for increasing MSE activity in the subsector.

DESCRIPTION OF THE LEATHER GOODS SUBSECTOR

A complete analysis of the leather goods subsector runs from the raw materials up the different channels to the final markets. Figure 6 on the next page depicts the three main markets for leather goods emanating from Lesotho. Understanding the end markets currently or potentially available to the Basotho is the first step towards analyzing the constraints along the channels.

The Market

The present market (1990) for leather goods in Lesotho is quite small, falling into two principal categories: (a) domestic rurally produced leather goods, and (b) commercially produced finished leather goods. In addition it is important for Lesotho to consider the potential to be generated from a third very important market, (c) the export of finished and semi-finished goods. A fourth market which is not analyzed at all is shoe repair services. It is peripheral to leather goods production, but actually accounts for the greatest percentage of current MSE employment in the subsector, probably employing more than 2,000 individuals.

Domestic Rural Production

With 87 percent of Lesotho's population living in a traditional, rural environment with a strong pastoral tradition, there is some utilization of skins and hides in the rural area. This consumption generally falls into a self contained channel, using the skin as a by-product from a slaughtered sheep or cow. The 1987 survey by Swallow and follow-up studies by Swallow, et. al., on livestock development and range utilization demonstrate that more than half of the local production of skins and hides goes to the rural manufacture of bedding, rugs, simple clothing (belts and hats), and animal harnesses. This is generally not acquired through commercial channels, but has an estimated value of more than 3 million Maloti (see Annex D).

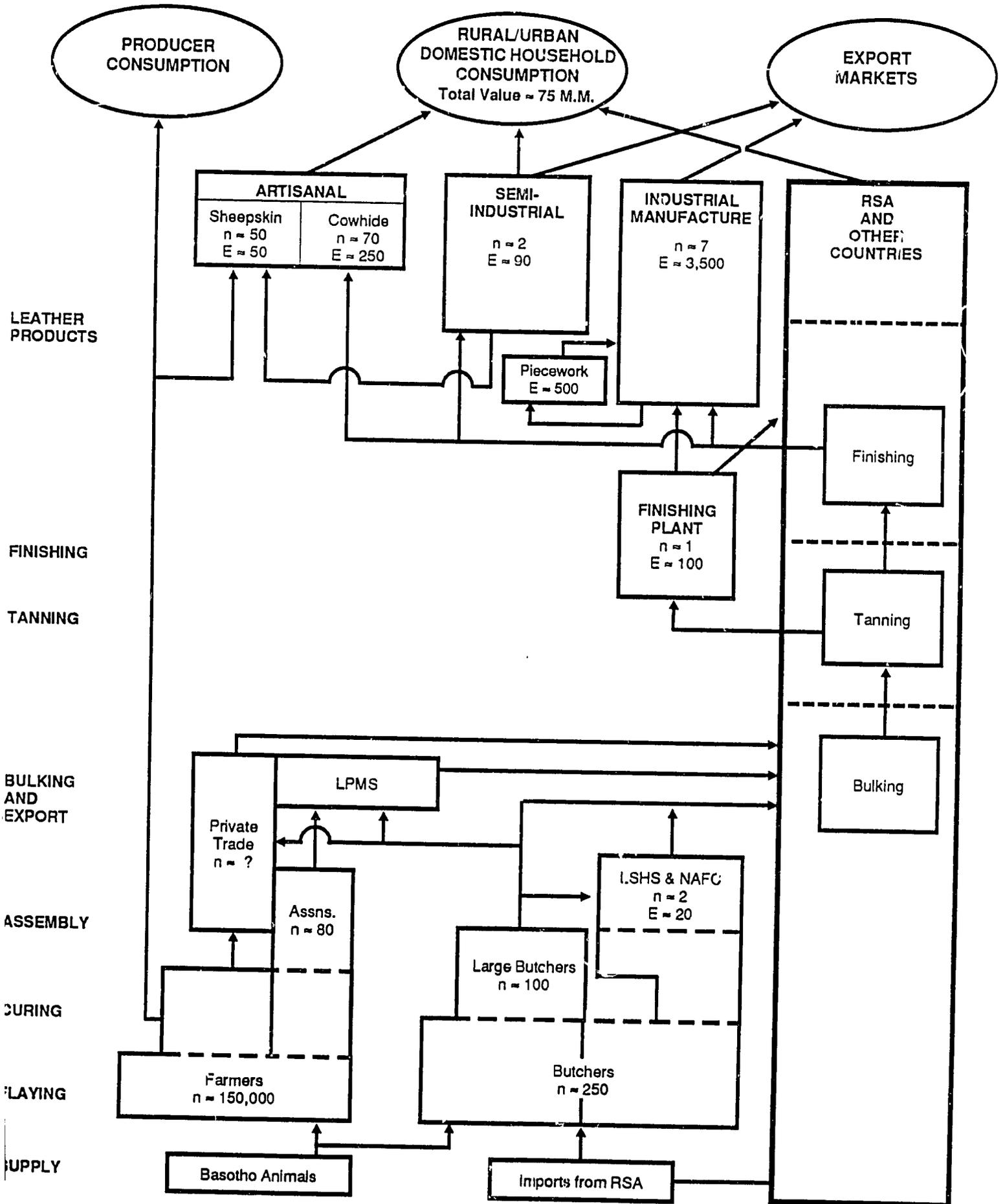
Domestic Commercial Production

Domestic commercial consumption of leather goods can be lumped into three major categories: saddles and harnesses, other finished goods, and footwear. The market for saddles and harnesses is met almost entirely by imports from the RSA since the quality of work is presently beyond the capacity of local leatherworkers. As the saddles and harnesses wear out, there is a lot of local repair work done on them. The annual market for saddles and harnesses was about 1.5 million Maloti in 1986, or close to 3 million today.

Other consumed finished goods include products made from sheepskin such as car seat covers, jackets, hats, and bags. This is largely a recent market, developed over the past ten years since the sheepskin tannery and leather products operation began in the late 1970's. The size of this market varies largely on the availability of stock, but can get as large as 3 million Maloti.

FIGURE 6

LEATHER GOODS
FIRMS AND EMPLOYMENT



Domestic consumption of footwear falls in two forms: manufactured shoes available in the large South African owned retail shops, and a recently developed market (essentially over the past five years) for artisanally manufactured sandals. The past decade has also seen a nascent formal shoe manufacturing industry, but this is for export markets rather than for domestic consumption. The total market for footwear was 34 million Maloti in 1985, dominated by imported shoes. The current estimated size of the market is 65 million Maloti.

Exports

There is a sizeable market for exports of leather goods from Lesotho which is limited mainly by Lesotho's capacity to supply the raw materials as well as develop the marketing links. Historically, nearly all of the exports have gone to the RSA, with only small quantities being exported to Europe and beyond. Exports of finished leather products from Lesotho have varied greatly depending on the situation of the sheepskin tannery and attached leather products workshop. From a high of about 500,000 Rand in 1983 these exports dropped to near zero in 1985 when the tannery virtually shut down operations. It picked up a little between 1985 and 1990 until the tannery was closed in August 1990. Since that time, exports have come mainly from two small companies Pal Products and Kabi Leather.

Exports of shoes, as noted above, have been increasing steadily, but are mainly industrially manufactured goods. They include only a small number of artisanally manufactured sandals, which are generally exported in batches of 10 and 20 pairs.

Functions in the Channels and their Participants

The subsector map provides an overview of the channels and the participants at each of the different phases of the channel. Because of the obvious gap in the channels due to the export of all skins and hides to the RSA and eventual reimport of tanned and finished leathers the phases can be divided into two distinct sets of operations: supply of skins and hides and final production of the leather goods. We will come back to the impact of the missing middle of these channels later on. The major functions are:

- The flaying of the dead animals and the rapid curing of the skins. Poorly skinned animals or improperly cured skins are unmarketable, so this first step is an important one in the process of supplying the basic raw material.
- The second major set of steps in each channel consists of the assembly and bulking of the skins and hides for the tanners.
- The third major step in the process is the tanning and processing of the leather to make it usable in a finished manufactured product.
- Following the tanning phase, the finishing is necessary to make the skins usable and often adds significant value.
- The final stage, manufacturing the finished leather goods, also adds significant value and is the one which generally receives the most attention because it is at this stage that the majority of the small enterprises.

Flaying and curing

The leather goods market for Lesotho is particularly interesting because of the large available supply of raw material which is available: live animals owned by over 50 percent of the households. The slaughter of animals is handled by three main sets of actors: individual slaughter at the farm level; slaughter by butchers at the local abattoirs; and slaughter and skinning at the National Abattoir and Feedlot Complex (NAFC).

Curing the skins is closely tied to the slaughter and flaying since it must be carried out very soon after the animal is killed if the skin or hide is to be preserved. Therefore it is considered to be essentially part of the same process to begin the production of useable skins and hides. Although more than 95 percent of all the butchers properly cure their hides and skins properly, very few of the farmers do. This may relate to the relative absence of men in the rural areas who have responsibility for this task. Nevertheless, the Lesotho Hides and Skins (LH&S) purchases the skins and hides directly from virtually all the butchers in Maseru, still wet, and cures them.

Assembly and Bulking

The assembly and bulking of the skins is primarily a trading operation which, in the commercial channels, requires a large amount of working capital to effectively generate the participation of the suppliers (farmers or butchers). It is currently carried out by LH&S, by private traders and by the wool growers associations. The NAFC sells its own hides and skins directly to the RSA, but does not buy any additional ones.

In addition to the Maseru skins, the LH&S receives skins and hides from many of the butchers in rural areas. The LH&S does not collect, however, so it is up to the butchers to bring them to the depot in Maseru. LH&S usually pays its suppliers on a monthly basis, since it is collecting from the same ones every week.

Selling skins and hides is relatively new for the farmers and they often do it through the wool growers' associations, in conjunction with the Livestock Product Marketing Service. They generally must wait for up to six months to get their money.

Private traders, travelling into the districts, have collected many skins and hides in the past. Private traders usually pay cash for the skins and hides, but at a much lower price than LH&S. Basotho Tanning was the major collector from butchers and larger farmers up until this year when it went out of business. No one has yet picked up the slack and there are thousands of skins currently being stored by the larger butchers because there is no outlet. Some of the butchers, who do several hundred skins a month are going to the trouble of exporting them directly to buyers in the RSA.

Tanning

The tanning phase is the missing link in Lesotho. At present all marketed hides and skins are exported to the RSA. From there they are either tanned or re-exported to other countries such as Turkey for tanning along with many South African skins and hides. Surprisingly Lesotho has no history of tanning, despite its wealth of livestock.

Lesotho had a sheepskin tannery which functioned off and on for about thirteen years before virtually ceasing production in 1988 and finally closing its doors in 1990 due to poor management. There are currently two small artisanal tanneries functioning in rural areas, but these are used for teaching purposes at trade schools rather than for commercial tanning.

For industrial purposes, Lesotho would require different kinds of tanneries to process the different kinds of hides and skins. Given the relatively small available quantity of skins, care must be taken to get an appropriate sized operations which will respond to the needs of the market as well as respect the supply constraints.

Finishing

Finishing is most complicated for good leather products, but less complicated for sheepskin with the wool on. Lesotho currently has a new finishing plant, which is getting its supplies primarily from the RSA and from Zimbabwe where this plant has a sister tannery. Its production will go primarily to the large factories in Lesotho and be exported to the RSA and beyond.

Manufacturing

After virtually disappearing into the RSA with the export of the skins, the subsector's three channels reappear at the manufacturing level which is supplied by imported leathers from the RSA. The subsector is comprised of three main channels: industrial manufacture of shoes for export; semi-industrial manufacture of garments (including slippers) and handbags for both the domestic and export markets; and artisanal manufacture of sandals, shoes, hats, seat covers, and hand tanned skins, primarily for domestic consumption.

Market Flow of Hides and Skins

Given the large percentage of animals slaughtered at the farm level, there are no accurate figures as to the real offtake in the country. Annex A presents an analysis of the total offtake per annum (including those dying of natural causes), summarized as follows:

TABLE 17
LIVESTOCK OFFTAKE
('000s)

	Flayed Animals	Sold	Cons.*	lost	Skins/Hides Production from butchers	Total Marketed
Cattle:	70	6	38	26	12	18
Goats:	88	7	47	35	0.6	7.6
Sheep:	155	10	51	95	65	75

Source: Annex D, compiled from calculations derived by Swallows et al.

These figures point out two very important factors which are represented in figures 7 and 8: that less than ten percent of the potentially available domestic skins and hides make it into the commercial channels; and that more than half of the skins and hides are underutilized (consumed) at the household level in the most rudimentary forms. The production from the butchers consists primarily of the skins and hides of animals from the RSA in the districts along the border, with only the interior districts, like Thaba Tseka culling local animals. The butcher's skins and hides are considered to be 99 percent marketed.

Figures 7 and 8 represent the actual flows of skins and hides up the channels to the point where they are exported or could be sold to a local tannery. The quantities are roughly estimated based on data provided by the major actors (LH&S, NAFC, and the LPMS) and from the livestock survey carried out in 1987. The butchers are the primary source of the sheepskins and cowhides which are marketed. The big mystery is what happens to the skins and hides at the farm level where large quantities are simply thrown away or improperly cured. What is particularly astonishing is that the farmers only market a few hides through the LPMS.

The total value of the skins and hides which are marketed is optimistically estimated to be just over 1 million M. in 1989 (using 1988 prices) as compared to a potential 4.5 million M. if they had reversed the percentages to reach an 85 percent marketed rate. This points out the scope of the income which is lost along with the skins. This income is lost primarily at the farm level where it has the potential to bring the greatest benefits.

With 150,000 households owning and slaughtering animals every year, they represent the largest source of skins and hides in the country. Unfortunately only a few people cure the skins with salt, sun dry them, and then store them properly. Therefore, the vast majority of the skins and hides are improperly prepared so there is only a limited quantity which could be marketed, and of that only a fraction actually is marketed (see below). An important consideration for farmers who are curing their skins and hides is the availability of sufficient salt to cure the skins.

Another fact which jumps out from Table 17 is that there are virtually no goats slaughtered by butchers and hence their skins do not enter the commercial channels. Though the statistics show that goatskins are sold by the farmers, they do not show up anywhere else in the system.

It is interesting to note that even when the tannery was functioning at its most effective level in the early 1980's, it was importing all of the skins that it consumed rather than using local skins. The domestic collection process has never been organized to the extent that it could supply the needs of the tannery of about 180,000 skins per year (which still exceed the total of skins currently being commercialized in Lesotho). In addition, the tannery was able to get more regular skins with the standard length of wool necessary for their products.

There are many social and some economic considerations which affected the available supply of skins. The first is the perceived value of the skin relative to other values attributed to the animals. According to the survey by Swallow, sheep and goats are kept primarily for their capacity to produce wool and mohair, their value as an investment, and finally their value as meat (for the sheep in particular). Cattle are prized for their value as an investment, their role as dowry, the value of the meat, and the importance of their ongoing by-products milk and manure. The value of the skins and hides as a by-product is not yet automatically recognized, most likely because the value of the skins and hides is minimal, relative to the rest of the animal, usually only 1-2 percent of the value of the meat at the time of slaughter.

FIGURE 7

FLOW OF SHEEPSKINS
(Estimated 1989 figures)

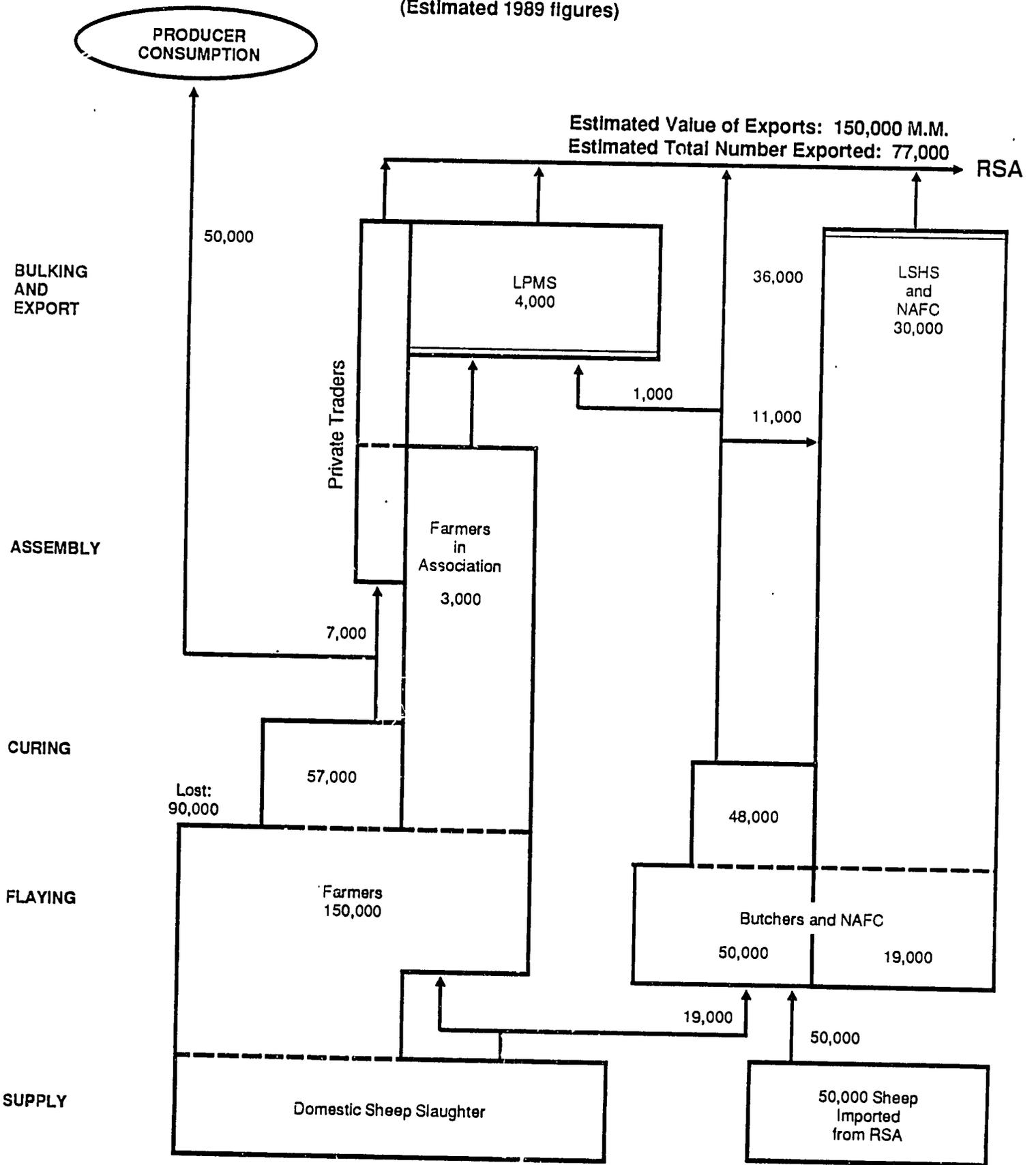
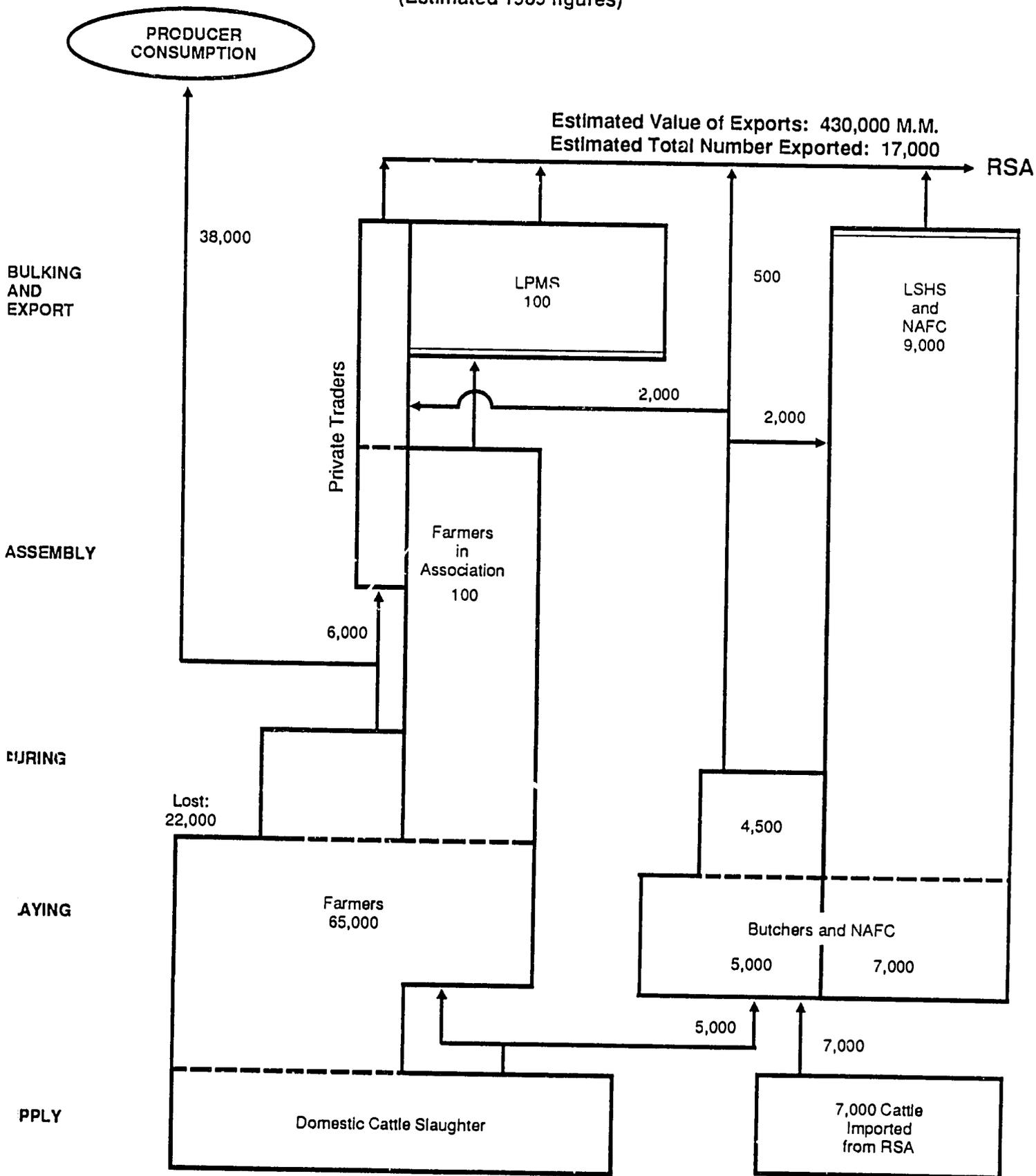


FIGURE 8

FLOW OF COWHIDES
(Estimated 1989 figures)



In addition to the socio-economic reasons there are some sound business reasons why the farmers are not trading their skins and hides. Proper curing requires sufficient salt, a potential financial constraint. The last, and probably most important reason of all, however, is that the market for skins and hides has never been commercially developed in Lesotho. While there are exports, no one has succeeded in organizing a viable collection network which can pay the farmer upon collection and provide him/her with the incentives to treat the skins properly.

One policy issue which arises and which may have an impact on the flow of skins and hides is the requirement to produce the Brevasse (check for spelling), or certificate of ownership of the animal before one can officially sell the skin or hide. The Brevasse must be issued by the local chief and is designed to protect against theft of animals. To issue a Brevasse, the chief must visually inspect the animal and then will issue the certificate. For animals about to be sold, this does not present a problem, because the value of the animal makes the trip worthwhile. However, if the animal is to be slaughtered on the farm, it is hardly worth taking a day to walk the animal to the chief for his certificate, just to earn one or two Maloti. Not having discussed this with farmers, there is no way of knowing whether this is a constraint, but it appears that it may well be.

There is an export tax which is charged on all exported skins and hides of 5 cents per skin and 20 cents per hide. This is either paid to the district agricultural officer, the wool growers association, or the LPMS. If not paid in Lesotho, it is supposed to be collected by the large cooperatives which usually purchase the skins in the RSA, and which is then sent back to Lesotho. Private traders trying to avoid this tax may be one of the causes for the poor statistics on this subject.

Firm Size, Employment, and Gender

Figure 6, displayed at the beginning of this section, breaks out the number of firms and total employment in the channel in each of the functions. The small and micro firms at the manufacturing level of the subsector only account for about 300 employees for 120 firms, versus 90 employees in the two medium-sized firms, and 4,000 employees for the seven large firms including approximately 500 full-time equivalent pieceworkers. The 2,300 people involved only in shoe repair services are not taken into consideration, though they are possible entrants into the productive slice of the subsector.

Women comprise the vast majority of total employment in the formal manufacturing channel of the subsector. More than 95 percent of the employees of the industrial firms are women. The semi-industrial firms also rely heavily on female labor. This reliance on a largely female labor force may reflect the low wages offered, which women more than men are willing to accept. It may also be related to the sex-typing of repetitive and detailed work, which cross-culturally is viewed as female.

Among MSEs, all sheepskin firms are female operated, though it is not clear whether women control the income earned. On the other hand, hide firms, at the MSE level, employ a majority of males, who are largely firm owners.

Since women work as unpaid family laborers in shoe-manufacturing and repair MSEs, there may be opportunities for women to enter this subsector as entrepreneurs rather than workers, if credit and training were made available. However, the strength of gender-based role models in Lesotho could be a significant barrier to entry.

Sales and Value Added

Figure 9 presents the total sales through the channels. Since there are no concrete figures available on the amount of these sales, they are best estimates based on the number of firms and employment in each of the channels. It is estimated that channel one sells about two million M. of goods to the domestic house hold market, a small percentage of which is then exported by people buying in small quantities (10-20 pairs of sandals at a time). The medium sized business sold about one million M., three fourths of which went for export. Exports at the industrial level were over 40 million M.

At the manufacturing end of the scale, there is roughly 100 percent value added at the MSE level and roughly 50 percent value added for the medium sized firms, and 33 percent for the large manufacturing firms.

Table 18 breaks out the cumulative value of individual skins and hides at each step of the collection and processing channel to the finished hide or skin. The table highlights two major points of interest:

- Lesotho is currently exporting about 27 percent of its potential supply of skins and hides, under very optimistic assumptions; and
- Without a tannery, Lesotho is losing more than 75 percent of the potential value added from the skins and hides which are collected and eventually processed.

An important consideration which is not portrayed in the table is that the majority of the benefits which are currently being captured are from the sheep and cattle imported from the RSA by butchers and the NAFC. Therefore, these benefits which are largely accruing to butchers rather than to the farmers are not coming from skins and hides of true Mosotho raised animals (with all of the ecological costs involved) but from South African animals.

FIGURE 9

LEATHER GOODS
SALES AND VALUE ADDED

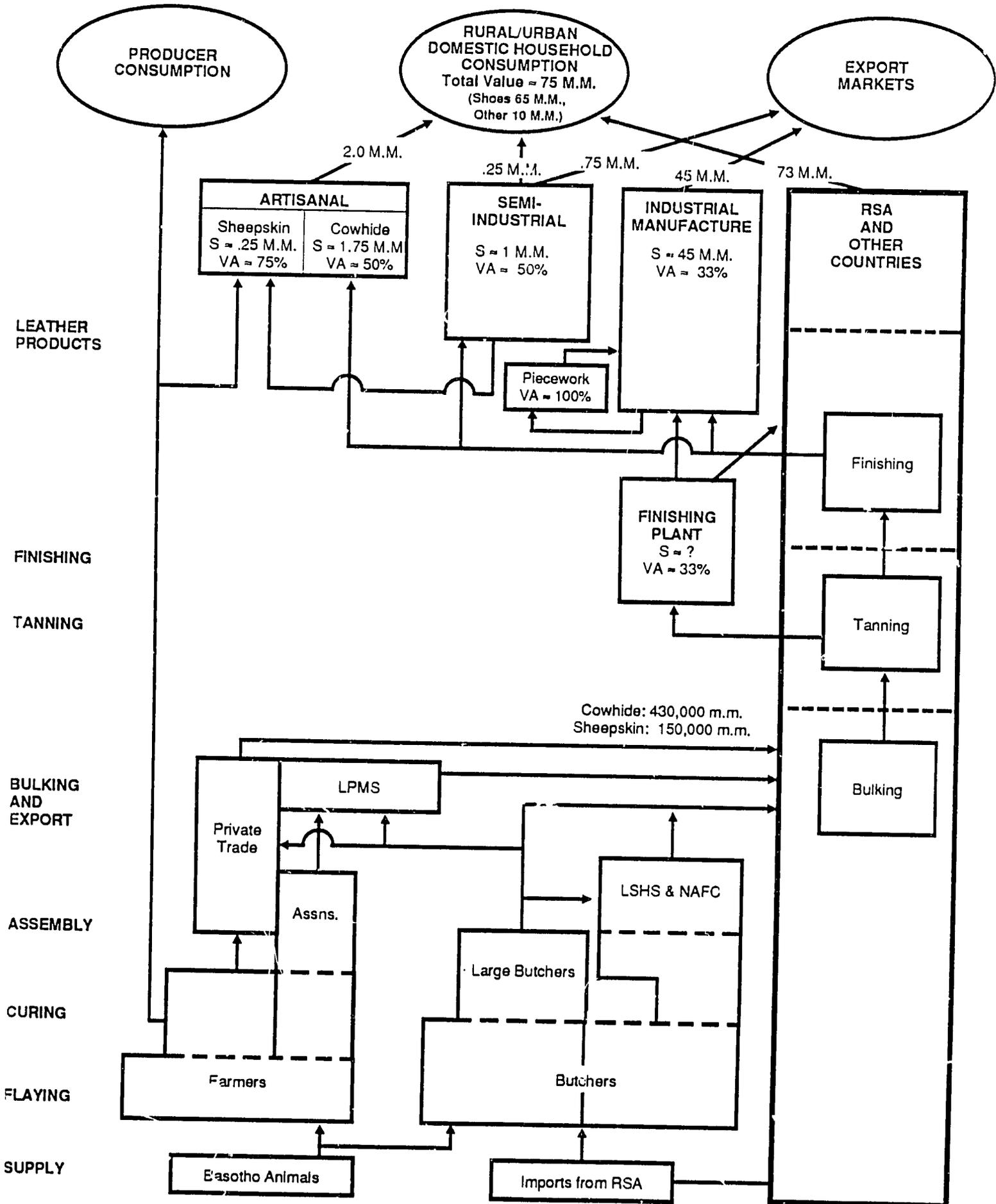


TABLE 18
ESTIMATES OF VALUE ADDED FOR HIDES AND SKINS

HIDES =====	Prices		Quantity Sold ^a	Value	Potential Quantity	Potential Value
	June 1988	June 1990				
(top quality average weight 20 kg)						
Purchase price for farmer/butcher	24	24	18000	432,000	80,000	1,920,000
Value added (price minus salt and Transport)	21	21		378,000		1,680,000
Sale Price to RSA (ex Lesotho)	48	48	17000	816,000	79,000	3,792,000
Value added (@50%)	12	12		204,000		948,000
Sale Price to Tannery	60	60	16000	960,000	78,000	4,680,000
Value added (@ 50%)	6	6		96,000		468,000
Value of Wet Blue ^b	90	90	16000	1,440,000	78,000	7,020,000
Value added (@ 40%)	12	12		192,000		936,000
Value of Crust	119.7	119.7	16000	1,915,200	78,000	9,336,600
Value added	11.88	11.88		190,080		926,640
Value of finished leather (ex plant)	179.55	179.55	16000	2,872,800	78,000	14,004,900
Value added	23.94	23.94		383,040		1,867,320
Total Value added	86.82			1,443,120		6,825,960
Value added being lost	53.82			861,120		4,197,960
SKINS =====						
(top quality average weight 3 kg)						
Purchase price for farmer/butcher	2	0.15	77,000	154,000	220,000	440,000
Value added (minus salt and Transport)	1.4	-0.45		107,800		308,000
Sale Price to RSA (ex Lesotho)	3.3	0.4	76,000	250,800	218,000	719,400
Value added (@ 50%)	0.65	0.125		49,400		141,700
Sale Price to Tannery	4.5	0.75	75,000	337,500	215,000	967,500
Value added (@.8)	0.96	0.28		72,000		206,400
Cost of sheepskin (ex tannery)	25	25	75,000	1,875,000	215,000	5,375,000
value added (@ 25%)	16.4	19.4		1,230,000		3,526,000
Cost of sheepskin wholesale RSA	30	30	75,000	2,250,000	215,000	6,450,000
value added (@ 50%)	2.5	2.5		187,500		537,500
Cost of sheepskin (retail in Lesotho) ^c	30	NA	75,000	2,250,000	215,000	6,450,000
Total Value Added per annum	21.91	21.86		1,646,700		4,719,600
Value added being lost	20	22		1,489,500		4,269,900

^a Though a maximum of 13,000 hides were sold in 1989, they were not all top quality. This figure therefore presents a ceiling on possible exports and value added.

^b Based of 37 sq. ft of hide and 18-20 sq ft of splits per 20 kg hide.

^c Grade 1 sheepskin not available, only grade 2.

FIRM DESCRIPTION, ENVIRONMENT AND DYNAMICS

The Firms Within the Channels

Because of the rupture in supply of the skins, the subsector is divided into a top half and a bottom half, which are at present unrelated. The bottom half, focused on the flow of skins was discussed above. The three channels in the top half, the manufacturing process, are differentiated by size, quality of products, markets, and the technologies they use. The three channels described below are artisan, semi-industrial, and industrial manufacture.

Channel 1: Artisan Manufacture

There are three distinct kinds of firms within the artisan channel: microenterprises working with skins, microenterprises working with hides, and workshops (which are focused on hides).

Microenterprises: Hides Products

The most common firm producing leather goods is the microenterprise operation (1-3 employee) concentrating on the artisanal manufacture of goods from hides, primarily sandals but including some saddles. These small firms produce and sell between 50 and 150 sandals per month primarily during the summer months, September through April. During the winter months, demand for sandals drops considerably because they are worn less in the cold and the schools are not in session so demand for children's shoes decreases. During this time, these small firms do a reduced business concentrating on shoe repair.

Maseru has the greatest concentration of these small firms, with up to two dozen of them in operation. Outside of Maseru there are generally about three small firms per regional town and maybe one per small town. These firms are located primarily in or near the market places to enhance their retail sales. There has been a proliferation of these small firms over the past five years, with the average operation being in business for under three years. Prior to 1985, there was almost no production of sandals, only shoe repair.

The sandals are made primarily from harness leather which provides the topsoles and the leather strips used for straps and laces. Rubber sheeting is used for the bottom soles plus a few rivets, some glue and a small buckle. The lowest end manufacturers will make the sole completely out of rubber, using the leather only for the straps.

Investment and start-up costs in these firms are very low. The market permit includes rent for a few Maloti/per month and the equipment they need to start work consists of several knives, a hammer, a hole punch and the raw materials for their first shoes. As they develop more cash flow, they can complete their tools with a shoe iron, a grinder, and some shoe forms.

Since there is no manufacture of tanned hides in Lesotho, supply comes primarily from the RSA. There is one store in Maseru which carries sheets of harness leather off and on, but it is a retail operation and specialize in selling small portions to shoe repairmen rather than those making sandals. One sheet

of harness leather costs about 195 M., when available, and goes for considerably more in smaller pieces. By contrast, this same sheet is available in VelCome or Durban for under 120 M., and at slightly higher rates in Bloemfontein where most of the microentrepreneurs shop. Even though the materials are cheaper in the RSA, travelling still adds extra cost, both in time and money. Though these may not be perceived by the entrepreneur. The added financial cost is for the bus fare (20 M. round trip to Bloem.) There is also an opportunity cost of the one-day trip to Bloemfontein to purchase the materials, particularly since it is usually the owner of the MSE which makes the trip, and he is the most productive member. Since they generally make a trip once every two weeks, they are losing about 10 percent of the time of the most productive member of the firm.

None of the small firms were able to give an accurate detail of their costs of production because both the size of the sheets of leather and their price fluctuate with every purchase. It is estimated that the raw materials required to make one pair of low end sandals, selling for an average price of 35-40 Maloti costs about 15 Maloti⁷ if the leather is purchased directly in the RSA and more than 20 Maloti if purchased locally in Maseru. Overhead on the smallest operations is quite low, with their space renting from between 1.5 to 5 Maloti per month, depending on whether their space is covered. Because they are based in the markets or on the streets, they do not have to register with the Department of Trade, they simply pay for a monthly permit to the market master (which also qualifies as their rent). The cost of labor is far more difficult to estimate because there are no fixed quantities produced over any specific period of time and they generally pay very low wages, since they are not regulated, considered as artisans.

Approximately five small and microenterprises specialize in manufacturing saddles in addition to sandals. These firms are primarily in the interior of the country where they are closer to the specific market, as well as farther away from competition from South African imports.

Microenterprises: Skins Products

A relatively thriving industry in Maseru (not witnessed in any town outside of Maseru) is the individual manufacture of sheepskin and other leather handicrafts from the offcuttings coming from the medium-sized companies. These MSEs are women owned, and more than 50 women are involved in this activity, buying bags of cuttings and then sewing the pieces together to make hats, slippers, bags, and car seat covers. It is essentially the only use of sheepskin at the microenterprise level in the country. This is a new industry in Lesotho, which had its beginnings after the opening of the original tannery (Maluti Sheepskin Products) in 1975. While many of the goods produced by these women are for the tourist trade, the sheepskin products are largely purchased by Basotho for local utilization or for taking to the mines in bundles of 10-20 for retail sale there.

Method of Production. The women used to have their choice of buying full skins from the tannery to manufacture seat covers and other goods or to take the pile of scraps and sew together a complete piece. Some sample budgets are presented in Table 19.

Their overhead costs are essentially nonexistent since they do their work at home and simply pay the 1.50 M. monthly fee to the Market Master.

⁷ See budget for Sandal manufacture in Annex D.

TABLE 19
VARIOUS BUDGETS FOR SHEEPSKIN MICROENTERPRISES

<u>Budget no. 1</u>		
Cost to purchase one bag of clippings:		75 M.
Other costs:		10 M.
Product from one bag:		
2 bench covers @ 150 M. each:	300 M.	
20 hats @ 15 M. each:	300 M.	
Labor:		
bench cover @ two full days/cover:	4 days	
Hats @ five hats per day:	3 days	
Selling: depends on the season	1-2 weeks.	
Potential Revenue per Month	680 M.	
<u>Budget no. 2</u>		
Purchase 6 sheepskins @ 26 M. each:		156 M.
Other costs		5 M.
Sale price per seatcover:		250 M.
Labor required: 1 day		
Sales: 2 days		
Potential Revenue per Month:		720 M.
<u>Budget no. 3</u>		
Purchase a long hair goatskin @ 5 M/skin		
Travel to the interior to collect skins, assume one week to buy 5 skins.		
Sales price of the skin after washing scraping and combing is 30 M., can sell 2 skins per week.		
Labor required: Travel time to the rural areas plus 2 days to wash and scrape		
Potential Revenue per Month:		250 M.

Source: firm level interviews.

Therefore these women have several choices of income generating activities over the course of a month. They can net sums ranging from 250 M. to about 700 M. per month from each of the activities. In addition, these activities are not mutually exclusive. Since the greatest amount of time is spent selling the products, they can also be producing during that time. These operations have different benefits at

different times of the year. During the winter months when the products sell very well (April-September), they would prefer the rapid turnover. In the slow months, they prefer the more labor intensive method of culling and sewing the scraps. When there is no tanned sheepskin available at all, they can pursue the skins from the interior. Based on discussions with the women, their income can reach 1000 M. per month during the peak seasons (winter months) and drops to about 300-400 M. during the summer.

The principal constraint they are now facing is one of supply. With the closing of the tannery it has been extremely difficult for them to purchase full skins locally. They have been dependent on the offcuts from Kabi Leather and from Pal products, but of late these smaller firms too have ceased to supply their offcuts because they are salvaging virtually everything themselves. These women have never gone to the RSA to purchase skins, or tried to organize such an operation. Bus service is good to RSA, so the explanation for not using this source of supply lies elsewhere, perhaps with prices.

Small Firms

While the microenterprises produce only sandals and repair shoes, a handful of firms (fewer than a dozen) have grown to the stage of employing five or more employees and can be considered small enterprises. These are defined as workshops by the Department of Trade and must pay 30-50 Maloti for their license. They generally have larger and more fixed workspaces, either in shops downtown or located in BEDCO. They pay more rent for their space than the microenterprises, running between 20 and 240 Maloti per month depending on the location and the amount of space.

They have diversified their production a little to include real shoes or other products which sell better during the winter months, in addition to doing shoe repair. Approximately five firms also specialize in saddle manufacture, but these are located in the rural districts. Because these firms are licensed, they are supposed to respect the official wage rates established by the GOL. Though they do pay higher wages than the pure artisans, they often avoid respecting the official wage rates by classifying their employees as *learners*. Wages in these workshops ranged from between 100 to 250 M. per month depending on the location (Maseru or smaller town) and on the skill level of the worker.

The owners of the workshop are usually skilled craftsmen, having usually learned the trade in another country. Only one workshop owner encountered had been trained in Lesotho. Sales from the workshops will generally vary between 100 and 500 pairs of sandals per month depending on the size of the workshop and the season (December is the biggest month) during the summer months. In the winter, sales drop off considerably, as with the microenterprises, above. The cost of raw materials is similar to that of the microenterprises,⁸ but the level of complexity of the product increases and the workshops generally offer a range of styles with prices ranging between 35 and 60 M. per sandal.

Most of the existing workshops started as microenterprises and grew to their present size over the course of the past few years, so there appears to be a ready graduation process up to the workshop level. Their level of investment is not necessarily much higher than the microenterprises, though they usually have at least one electric machine (grinder) and a greater stock of shoe forms. The biggest difference is the increased and more permanent workspace.

⁸ See Annex A.

The small firms face the same supply situation as the microenterprises. Since these firms deal in larger quantities, they will nearly always do their purchasing in Durban since prices are lower there than in Bloemfontein (10 - 20 percent). This adds to the cost of the transport (65 M. instead of the 20 M. to Bloemfontein) as well as adds living expenses since it is a two day trip. The two days also increase the opportunity cost to the owner who makes the purchases.

Channel 2: Semi-Industrial Manufacture, or Medium-Sized Firms

Lesotho currently boasts two medium-sized firms in the manufacture of leather goods: Pal Products (65 employees) and Kabi Leather (18 employees). The first medium-scale leather goods shop in Lesotho was attached to the tannery and has failed along with the tannery. All of these firms concentrate on skin products, rather than hide products. These firms are considered industries and are registered with the Department of Industry instead of the Department of Trade. Their registration process is different (see Annex A), taking longer and requiring an annual fee of 100 M. In addition, these firms are required to keep books, pay corporate income taxes, and they must respect the minimum wage laws (in contrast to the smaller firms).

Kabi Leather concentrates on a narrow range of sheepskin products: slippers, coats, and hats which sell best during the winter months (April - August). During the summer months (October - March), they add the production of leather sandals to their product line to make up for the drop in the market for the slippers. Kabi Leather is managed owned and managed by a partnership including one expatriate.

Pal Products, which also has a European manager, has a far more diversified product line, manufacturing a wide range of leather bags made from cowhide, ostrich, goat, and hairless sheepskin, in addition to sheepskin slippers and boots. Pal's products are manufactured primarily with stitching machines and the operation is relatively more capital intensive than Kabi.

Both firms produce mainly for export. Kabi concentrates on the market in the RSA, but also sells about 5-10 percent of the product on the local market. Pal Products sells about two thirds to export (one third for RSA, one third for other) and the rest on the local market. Both firms' major problem on the local market is poor location for retailing and the lack of a good network to distribute their products.

Working capital is a serious problem for both firms, since banks are not interested in financing their working capital needs, which grow with their sales, particularly since both firms are in a loss situation. Therefore both firms have had to make special arrangements and have very high costs of capital, normally paying interest rates above 25 percent.

In addition to the financial constraints these firms face, they feel their cost of labor is high. Both firms respect the official wage rates and their employees are unionized (garment union). The two recent large increases in the wage rate have hurt their profitability seriously. The firms are also apprehensive about changes in the labor law which makes it more difficult and expensive for them lay off workers, which might cripple these financially weak firms in the event of a recession.

Employee turnover is not a problem with Pal Products, but is greater with Kabi (20 percent in the last year). The two firms use different technologies, which reflects the level (and source) of investment at their creation. Pal is heavily capitalized with sewing machines and leather cutters, while Kabi is run more like an efficient workshop (verify) with a lower level of capital investment. The technology each firm uses may be one of the criteria affecting the rate of turnover of employees, as an employee used to

working with higher levels of technology may perceive the equipment as necessary and hence a barrier to starting his own firm.

Channel 3: Industrial Manufacture, or Large Firms

Though the large firms are essentially out of the scope of this study, they have very important employment benefits for the subsector and are a potential supply of the pool of skilled labor needed to expand the number of MSEs in the subsector. The seven large firms employ about 3,500 full time staff and account for the full time equivalent of another 500 pieceworkers.⁹

Management and labor force. The management of these firms is heavily expatriate, though there is an increasing number of specialized Mosotho line and unit supervisors. These staff are learning the complete process of shoe manufacture. Wages grow with the amount of responsibility, starting at the official minimum wage of 180 M./month and peaking at about 550 M./month for local employees (these would be unit supervisors).

These firms employ mainly women, ratio of about 30-1, but as one moves up the management scale, it drops to about 3-1 for unit supervisors. The pieceworkers are all women.

Supply and Market. The source of the raw materials varies heavily by the quality of the shoes being produced. All leather is imported, some coming from the RSA but a fair quantity also coming from Italy for the high end shoes. The recently opened finishing plant in Thetsane will provide these firms with some locally finished leather, but its range will not be sufficient to meet all needs. The finishing plant will primarily export to larger South African firms.

The large firms are producing almost exclusively for export since the retail market in Lesotho is controlled by South African owned firms and receive their supplies from the RSA. The market for these firms is primarily South Africa, though they do export to other countries.

Constraints. Large firms encounter a variety of problems, stemming primarily from the lack of understanding of an appropriate business environment in Lesotho. Financial services do not reflect real business needs in speed and flexibility. Government services are slow to respond to install utilities and respond to service problems. The licensing process for large businesses can take up to six months and depends heavily on whether the industry is in the development plan of the country.

A major constraint is the lack of a means of recourse in the event of default by debtors. Small claims court only goes up to 3,000 M., and any claim above that must go to the Supreme Court, which is an expensive and tedious process. There is no intermediate level. The recession in the RSA is also causing problems as there is a three year wait for cases in the commercial courts, providing clients with an incentive not to pay quickly, if at all, particularly considering the approximate 25 percent interest rate on funds.

The current policy and investment package framework does not provide great incentives for firms to remain beyond four years. While labor unrest does not appear to be a problem in the shoe manufacturing industries, the four year plateau after which employers must pay an extra two weeks per

⁹ The actual number of pieceworkers is much greater, but they only get work every second or third day.

year worked as retirement benefits is an issue of concern. This meshes with the four year tax holiday available under the investment program to make the cost of staying beyond four years increase greatly.

Evolution and Linkages within the Subsector

Because there is such a distinct difference between the firms working with skins and the firms working with hides, firm evolution and linkages are also quite distinct, so they are treated separately below.

Skins Products

The element with the greatest leverage for spinoffs and growth linkages in the channel appears to be the tannery. Both medium sized firms started because of the original sheepskin tannery. Kabi Leather, is privately owned, but its two principals (one European and one Mosotho) were both affiliated with the tannery until they spun off to start their own firm. Pal Products is owned by the LNDC and was originally conceived as a spinoff to the tannery, being created as a parent company to one of the tannery's South African affiliates. Both firms were created based on the local availability of tanned skins for them to manufacture with, but over the past few years, since the tannery has ceased to produce, they have managed to switch to imported raw material coming primarily from the RSA. Without the tannery to help them get off the ground initially, they would not be functioning today.

There are also forward linkages to microenterprises, initially from the tannery and its shop and subsequently from the other two firms. The easy access to both fully tanned skins or the offcuts produced by the medium sized manufacturing firms provides small handicraft producers with the raw materials necessary to manufacture a steady flow of products for which there is good demand. As the supply of skins to the medium firms is difficult and expensive and the markets are often slow, these firms are often salvaging their own offcuts to make small articles, rather than selling them. As this flow of offcuts diminishes from the medium sized firms, a major supply constraint is created for these microenterprises. In contrast, as the production from these firms increases and there are more offcuts, there is a greater production from the micro-handicraft businesses.

Hides Products

As noted earlier, the manufacture of hide-based products is done primarily on a very small scale for sandal manufacture, or else on a very large scale for shoe manufacture. The few workshop-sized firms which have developed are primarily in Maseru where there is the greatest local market in the country. The linkages between the large shoe manufacturers and smaller firms have been limited to date, witnessed primarily on the training of skilled employees at the factor level who may then be capable of developing their own smaller workshops. In fact one of the most dynamic workshops, which has grown from 1 to 7 employees over the last three years, is owned and operated by a highly skilled worker who left a shoe company. The relatively young age of the large shoe manufacturers and the fact that they have not yet trained many skilled Basotho shoe makers has limited the transfers through this link.

By contrast, there has been more of an evolution between the small workshops and the microentrepreneurs. Even though the small workshops only employ a handful of people, there is an annual turnover of about 20 percent of their personnel. Since the people hired into the workshops generally have no skills at the time of employment, this turnover is producing a core of skilled workers

who can start their own businesses. Most of the microenterprises are run by people who have either left a workshop to start their own operation or else have graduated from one of the five leather goods training schools.

It appears that the low salaries which are paid by the workshops is one of the incentives for the high rate of turnover. Since the highest paid workers in the workshops get only as much as 250 M./ month, a skilled leather worker on his own selling only five pairs of sandals per week can earn more than that. Therefore, once the skilled worker is confident that he can branch out on his own and has saved the few hundred Maloti necessary to start his own operation (purchase rudimentary equipment and get his first small inventory of raw materials), he often leaves.

It is interesting to note that while female employment is extremely high in the production of goods from sheepskins (over 95 percent in the factories and averaging 50 percent in the workshops), most of the micro sandal makers are men. Because it is not necessary to get a license to manufacture on the street, this should not be an issue.

A small linkage between the shoe factories and the smaller workers is the offcuts which the factories sometimes sell. These offcuts are not easily useable for the manufacture of sandals, so little impact is seen there. These offcuts are usually used by tailors or other handicraft workers who can use the small pieces, or by the workshops which are occasionally manufacturing shoes.

An important new enterprise with potentially large linkages between most of the leather working firms in Lesotho is the new leather finishing plant in Thetsane attached to the Shoe Company. Just in its second month of production (still at a very small scale) this industrial firm produces highly specialized leather, made to order for other industries in Lesotho or in the region. It has equipment to process and finish all kinds of skins and hides to any specification. While it is uneconomical for the plant to make small runs to meet the quantities needed at the small firm level, it may be possible for the small local manufacturers to make arrangements to add smaller orders to larger runs for other industrial sized companies. As the plant comes into full production, there should be greater opportunities for linkages to Basotho companies which need the finished leather.

PAST PROJECTS AND INSTITUTIONAL SUPPORT

The Skins and Hides Sector has been a focus of the GOL for the past decade and it tried to get a leather tannery in Lesotho from 1980 until 1986 when the LNDC closed the dossier. The size tannery being discussed was unrealistic at 100,000 hides per year, and it is probably good that it was never realized because the supply is simply not available, even if it could be collected. At the same time, the GOL was discussing the preparation of an improved skins and hides collection program which never got off the ground. This program is critical to really stimulating and integrated industry within the country.

The original tannery was an LNDC investment effort, along with Pal Products. Unfortunately the tannery was plagued with problems common to developing countries: poor management for much of the time and investors with agendas which did not necessarily include succeeding in the small business. Serious management with realistic goals is critical to success of an investment of this size. In addition, if the LNDC makes such an investment, it must support it with the necessary working capital to provide the cash flow to enable it to operate effectively.

For leather goods themselves, there are currently five centers which are providing elementary training in Quthing, Thaba Kupa, Maseru, Thaba Tseka, and Leribe. While graduates from these schools are found in the markets, the percentage who actually enter the trade is small and their qualifications are minimal. Thaba Kupa is now offering special advanced three week improvement courses for practicing leather workers, but their trainer could use additional training himself, particularly in management skills. These schools usually do not offer training in elementary marketing and financial management of enterprises which are critical skills for the entrepreneurs to understand.

MARKET ANALYSIS

Judging by the number of new firms which have opened over the past few years and the apparent lack of previous firms in the area, there appears to be continued room for a continued significant increase in the number of small and microenterprises in the leather goods subsector. Unfortunately, given the small number of firms operating in the subsector, this will not lead to a great increase in the overall levels of employment in the near term, though it will have more impact over the long term.

Potential for Growth in the Skins and Hides Subsector

Several factors are very important for determining the potential for growth of the leather goods subsector: the size of the total market, the amount of that market which is currently controlled by Basotho businesses, the propensity of the population to spend money in this subsector, and the ability to differentiate their products from imported substitutes.

The total market for leather goods is hard to estimate, but it essentially covers several different kinds of products with footwear and sandals as the two primary articles. From the 1986 consumption survey we know that the average Masotho household spent an average of 9.2 Maloti per month on footwear or a total of 34 million M. per annum in 1986. The 1985 figures for imports of footwear show that over 33 million M. of this market was covered by imports, or 98 percent. With inflation and growth in the economy, we can estimate this figure to be approximately double that figure today, or 68 million M. From the estimates of firms in the subsector today, and the number of shoes and sandals they are selling per month, it is safe to estimate that the value of total shoe and sandal sales into this market is under 2 Million M./year, or less than 3 percent of the market. While use of such macro level statistics does not properly reflect the differentiated niche which Lesotho's leather footwear is competing for, it still provides an idea of the capacity for expansion.

In addition to the footwear market are other goods such as sandals, garments made from sheepskin (coats and hats), car seat covers, bags, etc. While no figures are available for the consumption of these other leather goods, we can extrapolate from the import figures of 1985 that showed 2.696 Million M. worth of leather and manufactured leather goods. Assuming that these imports represent more than 50

percent of the total market, there was an existing market of approximately 5 million M.¹⁰ in 1985, which has probably increased to about 10 million M. today.

The small size of this total market is reflected in the opinions of the two medium sized companies which account for the majority of this other production consider the domestic market to be a small percentage of their total sales (which are also quite small at less than 2 million). Therefore a critical question for the Basotho producers is their ability to capture even a small additional portion of the market over the border and in the mines.

An important consideration for businesses in the leather goods industry is that the marginal propensity to consume (MPC) leather goods, based on available figures from the footwear consumption survey, is about 4.2 percent of the average household budget. It is worth noting that this figure is higher in Maseru where the MPC is 4.8 percent of the household budget, while it is lowest in the small towns where there is only a 2.7 percent MPC.

Competitive Analysis

Competition from South African Imports

Given this cursory overview of the market for leather goods in Lesotho, we must analyze the competition for goods between domestically produced and imported goods. Imports from the RSA dominate the Lesotho market, so Lesotho manufacturers are facing competition for future market share from the very well positioned South African retailers.

Bearing this in mind, this study notes that there has been an increase in both the number of firms and the quantity of leather sandals being produced in Lesotho. This implies that these products, which were unavailable before the early 1980s, have encroached on the South African-controlled retail shoe market which is dominated by firms like Pick-a-Pair and Select-a-Shoe. In discussing the reasons why these sandals are increasing in popularity, consumers tend to associate them with greater durability than the retail store models. In a developing economy where durability is very important, such a perception may provide the differentiation necessary for these products to capture an even larger share of the domestic market. Some potential constraints which may need to be addressed in the future are that they are currently slightly more expensive than the imports and not as polished.

¹⁰ While 440,000 M. of this figure is for soft tanned leather, most likely for use by the two local manufacturing firms, with a value added of approximately 100 percent it represents 880,000 M. worth of goods. Since the statistics for 1985 show that there were only 28,000 M. in exports, the majority of this must have been locally consumed, purchased by tourists, or carried over the border to RSA. The 1,257,000 M. of Saddlery and Harness leather in this figure can probably be divided between real saddles and tack and imports of harness leather, which is the main source of leather for sandals and the soles of shoes as well as locally manufactured harnesses. Therefore adding 100 percent Value Added to 625,000 M. we reach a total of about 1.9 Million M. in this category. When we add to that the 1 Million M. of other leather goods with a 15 percent mark-up (1.15 Million) and assume approximately 25 percent in additional consumption which was otherwise missed, we reach 5 million M. in total.

In addition, the general characteristics of much of the market just across the border and in the mines bears some similarities to the Lesotho market, so there should be greater potential for market penetration there, too, as long as they can compete favorably on price and maintain their overall quality.

For other goods, such as sheepskin products and leather bags, the domestic production is able to compete very well against imports, since the medium-sized firms producing these goods have some established markets in the RSA.

The capacity of locally produced saddles to compete with imports remains unclear. This study has no evidence one way or the other. At present, good quality South African saddles are widely available in building supply stores in all towns for prices ranging between 400 and 650 Maloti. In contrast, the fully burdened cost to a leather worker to manufacture a saddle locally, including his labor and cost of capital, is 380 Maloti per saddle.¹¹ Therefore, if the quality is good and there is sufficient supply, local saddles should be able to compete.

Competition between the Firm Sizes and Channels

Since the three major channels of production are responding to largely different markets, there is virtually no competition between them for existing markets at present. Should the local shoe manufacturing companies decide to target domestic consumption rather than export, the large firms which dominate that channel would tend to compete with the South African imports and the South African retailing network rather than the locally produced artisan goods.

Similarly, there is very little competition between the two medium sized firms and the MSEs. The medium sized firms target exports and only have a small percentage of their production marketed domestically. Given the higher quality of their products, they do not regard the other local firms as strong competitors for their market. Both firms consider that their products appeal to a different level of consumer (differentiated by the quality of their products) and regard their lack of effective retail capacity to be a greater problem.

Competition between the workshops and the micro producers is a little fiercer. They use the same approximate levels of technology and the same inputs, so their products must be differentiated based on the quality of the craftsmen doing the work. As noted above, there are relatively few artisans capable of differentiating their products, and most of the microentrepreneurs are of the same quality as the employees in the workshops so they often end up competing head to head. However, since one of the constraints facing these small firms is their capacity to reach new markets, the more people retailing their articles, the better it will be for the subsector as a whole.

Complementarities and Opportunities for Leverage within the Channels

As noted in Section three, above, there is a great potential for leverage among firms in this subsector, particularly if there can be backward integration down the channel. The large firms are a potential source of many of the skilled workers which this subsector is so seriously lacking, but this

¹¹ Rural Enterprises, lesotho Highlands Water Project Environmental Study, Environmental Resources Ltd., January 1989.

would be a horizontal transfer. Critical weaknesses in the vertical channel are at the tanning, collection, and retailing nodes offering opportunities for leverage.

A Tannery, the Missing Link

A hides or skins tannery would resolve the supply problem while providing multiple spin-off opportunities for MSE and capturing increased value added. There were clear economic benefits from the establishment of the first tannery, which would have been even greater if it had been properly run. Identifying the appropriate level of tannery, both from supply and demand as well as managerial perspectives, will be critical. Making it operational will be the second challenge.

The leather finishing plant which has just opened in Thetsane should be able to provide linkages to domestic firms. It offers excellent forward and backward leverage within the subsector as a source of supply to producers as well as a market for a prospective tannery.

Skins and Hides Collection

It is clear that the only organized trade of raw hides and skins exists at the level of the butchers. In order to organize the market to capture the lost skins and hides, nodes for communication and education must be identified where the impact of the limited value of the skins and hides can be overcome. One such node or leverage point could be the school system where private traders could work with teachers to train students how to properly flay, cure, and prepare a skin or hide. Skins and hides could be collected at the schools on a regular basis. Even if the skins and hides have little or no value to the parents, for young children any extra cash has value. The children would be in a position to convince their parents to let them have the skins and hides after slaughter of the animals and bring them into the collection points conveniently located at the schools.

Retailing

Because so many of the domestically produced goods are produced in a very limited quantity, they are not well known products, which hurts their marketability. Since it appears that these goods are competitive with products from South Africa, the more of them there are on the market, the greater the awareness of the market to the products, which should stimulate demand even more.

Potential for New Employment Generation and Increased Value Added

In absolute terms the direct employment generation potential within the leather goods subsector is quite limited in the short run. By contrast the capability of the GOL to capture more benefits from local skins and hides and to increase value added in the subsector is important, and will have spin off benefits to increased MSE activity and employment. There is the potential to capture an additional 10 million Maloti of value added per annum within Lesotho. Half of this will be at the lowest levels of the economy where the employment repercussions on MSE will be greatest, leading to additional consumption which should indirectly generate an additional 500-1000 jobs in the economy in general (on the basis of an average of 4000-5000 M. of increased consumption equals one more job).

The productive side of the leather goods subsector is still largely untapped. As noted in this analysis the smallest scale firms are all young and are increasing steadily in number as skills are transferred. The impact of an improved supply of raw materials from a tannery, along with increased skill levels, product selection, and better managed marketing will certainly facilitate at least a doubling of the number of employees at the MSE level in a few years. Currently 300 producers account for about 2 million M. of sales. If they are able to increase the share of the domestic market which they control, employment will increase by about 150 per additional million Maloti of sales. The upper end of the employment potential is about 1000 new jobs for the domestic market, but potentially far more if they are able to begin exporting greater quantities to surrounding areas.

CONSTRAINTS AND RECOMMENDATIONS

Difficulty and Cost of Supply

As discussed above, the major constraint throughout the subsector is the regular supply of reasonably priced raw materials. This affects firms at all levels working both skins and hides, except the large shoe manufacturing firms. To stimulate major growth in the leather goods subsector, this supply constraint must be removed.

Recommendation: In the long run the greatest benefits for stimulating small and microenterprises will come from the revitalization of the skins tannery or the creation of a financially viable small scale hides tannery. In the short term, increased linkages need to be developed between the small and the larger firms to help resolve the supply constraints.

Shortage of Skilled Workers

The small available supply of skilled workers provides the second constraint to the subsector. As small firms train their workers, there is expansion of the subsector, but the skill levels they are reaching are still very low, limiting the kind and quality of the goods they can produce. With few highly trained leather workers in the subsector, there are few good teachers to train the other workers. The fact that the few craftsmen with the skills to manufacture artisanal shoes (more than just sandals) receive many orders for their shoes implies that there could be room for expansion if the skills were there.

Recommendation: The skills need to be upgraded beyond the level of a simple sandal maker. This should concentrate on improving the skills of the existing artisans at the workplace rather than training new people.

Underdeveloped and Seasonal Markets

Underdeveloped market. Since the bulk of the MSE's real market is footwear in general, their principal competitors are the South African retail outlets which are selling cheaper quality and less durable goods for lower prices. Because of the abundance of these retail outlets and the fact that these outlets currently control the market, it is not financially viable to establish retail outlets for craft products at this time. However, exports to South Africa are often handled in the tourist shops or in the larger market areas by a wide range of people selling just a few articles at time which increases the exposure of the product. Knowledge of the product and its availability appears to be one of the constraints to

increased demand for the product. If the product gets better exposure and it is perceived to be readily available, demand should increase.

Recommendation: Since retailing appears to be a constraint, the MSEs should develop better linkages to potential retailers, either in Lesotho, across the border, or in the mines. In addition to the retailing, if a hides tannery becomes operational in Lesotho it will have an important impact on lowering the cost of production, which will make the goods more soct competitive, enhancing their profile in the market.

Seasonality. The markets for most MSE leather products is highly seasonal. The sheepskin products sell well between April and September and the hide based sandals very well the rest of the year. And yet the artisans tend to focus on one line of products or the other, but not on both. At present diversification of production is very limited, focusing on shoe repair for the sandal makers and other tourist goods for the sheepskin manufacturers. They are not leveraging their leather working skills across raw materials.

Recommendation: Introduce some product diversification into the activities of the MSEs which takes advantage of their leather skills and addresses the different needs of each season. It is important that initially the number of products should be limited to keep the diversification within the capacity of the MSEs to manage.

Management

Very few of the MSEs visited kept any sort of usable records and only one was able to estimate his cost of production (he did keep good records of his sales). The principal resource available was usually a receipt book, but one where the monthly totals were never calculated. If the entrepreneurs had a better understanding of the utilization of their inputs and the return from their outputs, they would be able to manage their production and address some of the questions arising from the seasonality of the markets. However, introducing such concepts can only be accomplished if there is an interest on the part of the entrepreneur.

Recommendation: Develop simple record keeping tools and elementary costing techniques specialized for the leather goods industries based on the inputs and their relevant measures (sheepskin or hide). There are many existing training organizations which could implement simple courses on this subject, if the demand was expressed.

Working Capital

Working capital is always an expressed constraint, and is a real one for many of the microenterprises, but it is exacerbated by the fact that most of the entrepreneurs must travel to towns in the RSA on a regular basis because there is no reasonably priced regular supply in Lesotho. The cost of travelling is felt both in time and money. There is lost productivity since the owner who is usually the most highly skilled and productive worker often goes to do the purchasing. In addition the round trip to Durban or Johannesburg costs about 65 Maloti making it more economical to make larger purchases which require greater amounts of working capital. This adds to the cost of the goods in process by the small firms, increasing their need for working capital.

Recommendation: As noted above, resolving the supply question and addressing the management skills will address the major issues surrounding working capital.

Further Development of the Hides and Skins Marketing and Commercialization

The constraints and recommendations refer to the manufacturing firms, separate from the domestic supply. However, capturing the available supply of raw hides and skins, even if just for export and not for domestic tanning, can lead to an increase of up to 3.5 million M./annum in newly captured benefits. The constraints to this activity revolve around socio-economic issues as well as the inability for anyone to introduce a reliable and efficient collection process which reaches the farmers. Because they are not used to the process, the farmers have not developed the proper flaying, curing, and storage techniques, as well as understanding the demands of the tannery which can increase the value of their hides and skins. Removing these constraints will take time, but is possible.

Recommendation: Provide support to private businesses which are interested in capturing the potential of the skins and hides trade in Lesotho by going in and collecting the skins. This needs to be a privately managed operation, but which is monitored strictly for regularity of payment to the farmers and butchers. This should not be done through the LPMS.

Recommendation: While financial incentive will play an important role in improving the collection of the skins and hides, the GOL should renew their efforts to extend the proper techniques for curing, followed closely by the buyers.

Recommendation: Remove the export tax, small as it is, on the export of skins and hides and the requirement for the Brevasse for the sale of hides and skins as they only serve as nuisances.

CHAPTER THREE

IMPLICATIONS FOR A MICROENTERPRISE STRATEGY

The subsector analyses present us with many important lessons and much valuable insight for designing a microenterprise strategy for Lesotho. These begin with the driving forces behind MSE growth and the importance of linkages to larger sized firms in the private sector. This chapter reviews some of the cross cutting issues to identify important points for the strategy development in the next Phase.

DRIVING FORCES BEHIND A STRATEGY

The strategy must respect the driving forces behind enterprise development in identifying the constraints and opportunities to be addressed.

Demand

Demand is the underlying issue of all private enterprise activities. Demand for some products exists naturally, for other products it can be developed at the expense of others. The strategy should focus on those areas where existing or potential demand are greatest.

Competition

Realistic analysis of competition between firms and across channels is a necessity in devising programs to strengthen one or another of the subsets of firms in a subsector. From a sound understanding of the competitors, competitive advantages can be identified to be strengthened and developed through the proposed programs. Competition is usually analyzed on a horizontal basis: firms compete to provide specific services or products and competitive advantage is located at each level of the channel.

Verticality

The linkages between firms usually run along vertical lines, with the competition at the horizontal level. Growth of the firms will most likely be constrained at some point along the vertical channel, either because of missing or underdeveloped links relating to MSEs.

Coordination

Coordination also has a major impact on developing the linkages between firms. To establish supply and market relationships, there must be good coordination between the collaborators. If this

coordination is missing, then it is impossible to establish the linkages. Policies and the regulatory environment often affect the ability of firms to coordinate their functions effectively usually by (not) providing the legal structures for sound business relations. In some instances outside assistance is necessary to establish the institutions or firms which can fulfill that coordinating role in the short term, either through a trade association or helping to found a private company.

Leverage

The search for leverage remains a critical element from the subsector analyses: identifying those points offer the greatest impact with the least amount of input. The concept of leverage must be transmitted through any strategy which is designed for Lesotho. Points which offer the possibility for significant leverage include nodes in the marketing channels, technological change, and policy reform.

MAJOR AREAS FOR STRATEGY FOCUS

Realistically there are only a limited number of possible interventions from which to choose in establishing programs to address needs of MSEs:

- Improve entrepreneurs' access to capital, through increased supply, simplified loan application and approval procedures, and/or accessible deposit facilities. To increase access to capital for the large number of female entrepreneurs, collateral and male-signature requirements will need to be addressed;
- Train entrepreneurs and their staff in either technical or managerial skills to respond to weaknesses. Arrange training in places and times appropriate for female participation;
- Facilitate technological change to provide improved and affordable technology to respond to the scale of the MSE. The transfer of technologies to women may require mechanisms to ensure that women are able to maintain control over activities once new technologies are introduced;
- Stimulate policy and regulatory reform to eliminate artificial constraints repressing MSEs and private sector development in general, focusing particular attention on the legal restrictions that constrain female entrepreneurs; and
- Develop systems and organizations which will facilitate coordination to enhance linkages between different functions in related subsectors. Women, in particular, may need assistance in forging complementary linkages, because of their limited access to business information and networks.

The following discussion of the major constraints and opportunities across the subsectors will address the different interventions which can best eliminate those constraints.

Supply

Access to processed inputs such as textiles, tanned skins and hides, quality yarn, and quality building materials was an important constraint in all of the subsectors. The fact that the inputs are available from the neighboring RSA is an important asset for Lesotho, but they are not provided to Lesotho in a cost effective or efficient manner. The supply of these goods, when available in Lesotho, is far more expensive than across the border, so local manufacturers tend to prefer to travel to the RSA to procure their own inputs, leading to increased opportunity and travelling costs.

These supply constraints provide opportunities for interventions to enhance the availability of the inputs at reduced costs which will enhance the competitive status of the Basotho firms. The interventions must concentrate particularly on the coordination aspect since it addresses linkages between levels of the channels, but may lead to the creation of new firms which specialize in the supply of these products, in competition to the South African chains which now dominate the wholesale and retail supply functions.

Other opportunities which directly address the supply question are related to developing the capacity within Lesotho to manufacture some of these processed inputs, discussed below.

Weak Management and Technical Skills

The subsector analyses indicate that technical skill levels are generally quite low in Lesotho. Weak technical skills lower the quality and range of products which can be provided. This is a major handicap given the markets which Lesotho can target and the competition it faces from the industrial production in the RSA. Weak skill levels also lead to greater competition at the bottom end of the scale, generating greater internal competition at this level which lowers their own returns, rather than allowing them to compete for the larger market which is controlled by South African firms.

The principal management weaknesses that affect MSE relate to costing and marketing. Poor understanding of these subjects hamper the ability of the firms to compete and to grow.

Training can address a range of these technical and managerial problems, however, it is important to target the training to respond to the appropriate problem facing the appropriate people.

Technical skills

Basotho firms presently rely heavily on internal training mechanisms to develop the skills which are needed in their businesses. However, because there are so few highly qualified practitioners who are experienced enough to raise the overall level of the industry, they are simply producing greater numbers of operators with elementary skills.

Government and donor sponsored training for Basotho needs to concentrate on increasing the skill levels of existing practitioners rather than putting more people into the system with only an elementary knowledge of what they are doing. Programs should target existing enterprises and raise their level of skills as well as the range of products which they can produce (particularly in leather goods, weaving, and garment manufacture). These programs must vary subsector, where the conditions and capabilities differ widely:

- The cooperatives and firms in the weaving subsector have some extremely well qualified weavers and designers, so incentives should be provided at their level to help them cover the costs of training new weavers;
- In leather goods, there are only a handful of people capable of producing the quality articles which are in demand both in Lesotho and in neighboring RSA, so must the initial skill improvement training needs to be held outside of the individual workshops.
- The construction subsector needs to work from within to improve its grading structure and provide greater incentives for increased training which reflect the skills which the individuals have developed;
- In knitting and sewing, too many new people are being trained in rudimentary skills which is doing little to expand the market for their products causing increased competition and decreasing returns, so training must focus on higher quality greater variety.

These programs need to fit within the existing framework of these companies if they are to stimulate enterprise growth rather than hinder it.

Management skills

Management levels among the Basotho are still at elementary levels. In all four subsectors, leather goods, construction, weaving, and garment manufacture, firms which had succeeded in graduating from micro to small and medium sizes benefitted from expatriate management expertise. The limited number of Basotho managers arises largely from the limited exposure which the Basotho have had to enterprise management. This problem must be overcome if purely Basotho firms are to be able to effectively capture those market niches which are available in competition with South African firms.

Costing

At the micro level, where the cost of labor is rarely assessed properly due to excess capacity and low opportunity costs of labor, proper costing techniques need to focus on understanding the use of raw materials and fixed assets. Products at this level are very simple, but few producers have any idea what it really costs them to produce their principal product.

As firms grow and have more regular labor, however, costing tackles the issue of accounting for employees which is more complex and has other implications for growth (see below on labor relations). In addition, product selection (numbers and variety) become important as firms grow and the managers must understand the impact of carrying an increased line of goods. Therefore, since the management issues differ by the size of the company, training programs must reflect this.

Marketing

Training to address marketing weaknesses must reflect the specific nature of the problem at each level of firm size. At the micro level firms rely exclusively on local markets. Just to reach the medium size level, however, firms must rely on some exports, either to the RSA or beyond, and must compete directly with imports from the RSA.

Micro level firms don't know who their market is, how to get their product out to a wider range of customers, and have little concept of product differentiation. As a result they are within a slow growing captive market where there is often increasing competition from new entrants (as is the case of the dressmaking and jersey knitting). These firms need a better understanding of what other products they could produce and how to distribute them to a wider audience.

The only subsector with a captive market that is large enough to support wholly indigenous, medium sized firms is construction, so marketing is not as important issue as costing and proposal preparation. Firms in all the other productive subsectors must rely on marketing skills which can allow them to compete with their South African competitors. This is one of the reasons that the only proven successful medium sized firms have included expatriate managers. Even within these firms, the weak skills include market segmentation, establishing sound marketing links (at the retailing and wholesaling levels), identifying different products which respond to the changes in the markets over the year. Training on relevant management issues should be incrementally developed for each technical specialty and introduced along with the technical training.

Training at the medium size level will best occur through a hands-on application of skills. This should be along the lines of internal consulting to help the managers to understand their problems and to identify and implement solutions rather than to train the management in these skills. As there is increased understanding of these problems and the solutions, management will improve. Assistance to medium sized firms could be predicated on increased involvement by Basotho in the management positions.

The Business Climate and Regulatory and Policy Environment

Business Climate

The business climate in Lesotho is not necessarily discriminatory to MSE in particular, but it makes it difficult for enterprises in general. The general business climate is not conducive to fostering allegiance from the large scale manufacturing enterprises which provide significant quantities of employment. Most of these firms are located in Lesotho only because of the special marketing status afforded to Basotho firms, while still being able to take advantage of the inputs and infrastructure provided by the RSA. Should the sanctions against South Africa be lifted, there will be an exodus of many of these firms, unless the climate for doing business in Lesotho improves.

An exodus of the large firms from Lesotho would have extremely serious impacts on domestic employment as well as the important links these firms provide to MSE in terms of supplying raw material, training ground for skilled laborers and management needed by local entrepreneurs. In addition, the issues which are most important for the large firms, labor laws, labor relations, and financing arrangements, also have a major impact on any smaller firm wishing to graduate to the medium sized level, where regulations on minimum wage and hiring and firing procedures must be respected. Therefore, addressing the issues necessary to maintain the existence of the larger scale, export oriented firms must be an important part of any GOL Strategy to stimulate microenterprise activity.

Taxation and Business Registration

The GOL has relatively loose laws relating to taxation for MSE, which is beneficial for stimulating MSEs. There are some inconsistencies within the Ministry of Trade and Industry as to the laws and policies which the MSE must observe, which need to be resolved, most specifically identifying whom the MSE need to register. There is a subjective system for determining when a firm graduates from being a workshop, falling under the Department of Trade to becoming an industry, falling under the rules governing Industry, which entail very different procedures.

Business registration becomes a larger problem at the medium to large scale enterprise where the firm must fit within the GOL's overall industrialization scheme in order to benefit from smooth sailing through the registration process. If a firm does not fall within the special investment schemes, it must go through the formal channels and can take several years to be approved.

Regulations affecting women most critically are those related to their ability to enter a contract. Under customary law, women cannot legally own a business or any other property. Civil laws are only slightly less restrictive. Still women cannot enter a contract "unless assisted by a guardian," her husband if she is married. All contracts entered into by a wife must be authorized by her husband with a few exceptions. She may, on her own account, engage in trade; she may have a bank account or insurance policy in her own name; and she does have a right to her wages, if employed.

The 13 Percent Sales Tax

The 13 percent sales tax is the source of disgruntlement at all levels. In general it raises the cost of goods sold, lowering effective demand for most products. However, the weak enforcement by customs agents of the 13 percent sales tax laws at the borders hinders the effective start-up of small Basotho owned trading firms which might compete with Frasers and Bingo. Those micro firms that travel to the RSA to procure their inputs are often able to import them free of the tax which makes it impossible for local firms to compete financially with suppliers based in South Africa.

Access to Land

Land titling is a constraint in the construction (development) subsector and for larger businesses which need a site to operate from (for which it is a requirement to get a license). Though the GOL is resolving some of the problems on the housing and development side through the Lesotho Housing Finance and Development Corporation, the slow manner in which this is dealt with is a constraint to the overall business climate.

Responsive Claims Court

Only two legal structures exist for commercial claims: small claims court and the supreme court. The first is limited to 3,000 Maloti, which is fine for microenterprises (who are never aware of their rights anyway), but causes many difficulties for slightly larger firms and banks in particular. The latter is very expensive and time consuming. There is no middle ground to respond to the majority of the commercial claims needs.

Subsector Specific

In addition to the broader issues, there are several subsector specific issues and policies which have negative impacts on the development of firms in those subsectors. These include:

- Taxing the export of skins and hides discourages rather than promotes the development of this underexploited resource;
- Requiring the brevasse (certificate of ownership) in order to sell a skin or a hide is a formality which leads to the disposal of many skins and hides rather than their commercialization;
- The Lesotho Building Finance Corporation must revise its procedures to meet the needs of low income borrowers and start identifying new sources of funding;
- The required sale of mohair and wool through the government controlled channels makes it illegal for local spinners to acquire local mohair for them to spin.

Capital Constraints

Access to capital is nearly always cited as a constraint by MSE. In most cases, access to capital is simply a solution to resolve constraints caused by other problems such as poor access to regular supply or bad management. There are several cases, however, where lack of credit is a serious constraint to growth of the subsector and where more efficient credit systems would lead to greater growth. Capital constraints, where real, are particularly severe for female entrepreneurs, restricted by customary and civil law from owning a business and accepted forms of collateral.

Particular areas of importance are for the slightly larger producers of goods who have already identified markets and established contract relationships, but need the funds to fulfill their orders. This includes firms ranging from the small to medium construction companies who are totally dependent on supplier credit since they cannot get bank financing as well as small to medium sized manufacturing firms in weaving and leather goods.

In addition to tight credit to producers, which slows the capacity of the firms to produce and grow, tight credit to consumers also restricts the rate of growth of the markets as a whole. This is particularly acute in the construction industry where the lack of mortgage financing greatly reduces the market for construction companies and slows the growth of the subsector.

The strategy may address these issues through developing programs to improve the financial tools and systems which can target finance to MSE. These tools may need to be customized for each of the subsectors, such as mortgage financing for would-be small homeowners, working capital credits to small and medium sized manufacturers, an improved export financing scheme (building on the existing one), and facilitating access to miners savings.

Missing Links in the Value Added Chain

Missing links in the vertical channels are often the functions which provide much of the value added within the channel. In addition to losing the economic benefits of adding value within the country, the absence of these processing and production activities restricts supply opportunities for the expansion of MSE. Principal examples are in tanning and finishing of skins and hides for leather goods or processing of mohair and wool for yarn used in knitting and weaving. By contrast, it is very difficult to try to identify the benefits for MSE by improving the brick manufacture at the Loti Brick Company, even though this is an important opportunity for value added within Lesotho.

This value added may occur through a large scale intervention, such as a tannery or a processing plant, or it may be smaller level technologies. The decision for whether Lesotho should invest to try to capture the value added within the country and, if so, the proper scale of technology to be adopted should be carefully examined. The decision must be based on information regarding the competitive prospects for the industry vis à vis South Africa, the potential market, and the existence of small scale producers who might be replaced.

Taking these factors into consideration, some form of tannery development either with the hair on (sheepskins) or the hair off (hides and skins) would have widely beneficial impacts for MSE in Lesotho. The scale of any tannery would have to be relatively small, by world standards, but this would ensure the greatest likelihood of success over the long run. As discussed in the leather goods subsector analysis, the spin-off effects on MSE creation from having a tannery are significant, but the tannery would have to have export markets to survive in the short run until the domestic capacity to use the skins and hides improves. The finishing plant which opened in September provides an ideal link and certain market for nearly all of the tannery's production, as long as the coordination is ensured.

For mohair combing and spinning, the question of scale is critical and needs to be carefully studied from the technical and market perspectives before a final decision on the appropriate intervention is taken. It is likely that an industrial level mohair spinning operation is not economically viable because of shortage of supply of raw mohair, or it may be squeezed by the South African marketing boards with whom they would fall into direct competition. At the same time the quality of the artisanally spun mohair is not appropriate for industrial use, so would have to be restricted to artisanal production activities, such as tapestry weaving. Development of any processing operation for mohair must be done in conjunction with an analysis of the subsector as a whole, not in isolation.

Order of Priorities

All four subsectors which were analyzed have promise for increasing value added and generating employment. As has been shown, the variations in potential impact vary by the size of the existing activities in the subsectors. When we compare the potential across the subsectors we find that concentrating on the *missing links* will probably generate the most important rapid changes and bring the greatest immediate value added. But they cannot be the only activities which are undertaken because they do not address the issues which will generate the greatest long term growth, the markets. This is a more complex problem which needs improved quality, better marketing programs, and changes in the policy environment. Therefore, a possible order for the interventions, based on immediate versus long term benefits, follows:

- **Invest in the missing links** by implementing activities to generate increased value added and generate employment through leather goods tanneries and mohair processing and spinning. These subsector specific leverage points will generate rapid benefits, if the technical issues involved can be overcome.
- **Facilitate the immediate supply of raw materials** for the leather goods, garments, and weaving subsectors by helping to establish the market-supply links.
- **Attack the weak management and technical skills** through training programs which are centrally managed but which work to modify the curricula at the range of different existing training organizations and by working directly with the firms to address their specific issues. This will address the marketing, costing, and quality control issues.
- **Strengthen the supporting environment** by working with the associations which already exist to represent the firms. They will be the best spokespeople for the policy issues which must be changed to enhance the environment. Without stronger representational groups, changes in the policy environment must be constantly supplied from the outside rather than being generated from the inside.

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ANNEX A
TERMS OF REFERENCE
LESOTHO SUBSECTOR STUDIES

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ANNEX A

TERMS OF REFERENCE
LESOTHO SUBSECTOR STUDIES

The subsector studies in Phase II of the Lesotho Microenterprise Strategy will build on the results of the Phase I microenterprise survey to identify and analyze subsectors with substantial growth potential to respond to the Mission's Growth Strategy. The focus of the work is to provide sufficient understanding of the dynamics within the selected subsectors to generalize more fully across other subsectors to eventually identify critical constraints which can be resolved through policy reforms, institutional strengthening, or direct intervention at the microenterprise level.

Methodology

Based on the results of the Phase I survey, three or four subsectors will be selected for in-depth analysis. For each of the activities or subsectors selected, the analysis will examine the existing structure, past patterns of growth and development, potential of different participants in the sector, the backward and forward linkages within the subsector and between the subsector and other sectors of the economy, constraints hindering growth arising from regulations, policy problems, availability of raw materials, labor or credit, market or marketing constraints.

Selection Criteria. Criteria for the selection of the subsectors rest heavily on their potential for growth rather than simply the alleviation of poverty. An important additional consideration will be the gender mix among the economic actors in the subsector. Preliminary results from the survey in Phase I highlight the importance of the construction subsector, particularly looking at construction itself as well as the manufacture of construction materials; and the garment subsector, with particular focus on knitting, tailoring and dressmaking activities. Other possible candidates for examination include shoes and leather; retailing activities, particularly the retailing and vending of food; and repair activities, including garages as well as electrical repair. The team will review the full range of activities under consideration with the Mission and interested representatives from the Government of Lesotho (GOL) to finalize the selection.

Timing of Actions.

Pre-departure

(a) Before departing Washington, the team will review existing documentation on the private sector in Lesotho, including the MAPS study, the study of local financial markets, the study of women's non-traditional enterprise activities, and other related institutional analyses.

Week 1.

(a) During the first two days in country, the team will work with the Mission to identify and define the important and representative subsectors to be targeted during the assignment. At this point the team will prepare interview guides appropriate to the selected subsectors.

(t) During the following two days, the team will proceed with a very rapid overview to map out the subsectors from input supply through production to the markets. These maps will include the major participants, firm types, geographic nodes, the principal linkages within each subsector, and the principal interacting institutions.

(c) After the mapping, the team will review the maps of each subsector and, as a group, identify critical issues for additional follow-up including analyses of competition and complementary opportunities. At this point the interview guides will be modified to reflect the better understanding of the subsectors.

Week 2.

(a) With a sound understanding of the institutional setting and the preliminary maps, the second week of the assignment will be spent gathering more in-depth data and analyzing the individual subsectors. This will include interviews with the major participants along the subsector channels, focusing primarily on the small and micro entrepreneurs, but also including larger scale enterprises which represent either potential competition or linkages to micro and small scale enterprises.

The precise number of interviewees, as well as their location, will vary by subsector. The team will spend most of the second week outside of Maseru analyzing the rural to urban linkages, with the specific locations to be selected on the basis of the target subsectors. Assuming that the team splits into two groups to carry out this research, the team will meet in the middle of the week to compare findings and early conclusions.

The team will take into consideration institutional constraints and support to the microenterprises within those subsectors. Where possible, the team will meet with representatives from these institutions at the local levels to determine their interaction and links to the subsectors.

Week 3.

The team will spend much of the final week analyzing the data and following up on major constraints and opportunities which were identified during the second week's data gathering. It may be necessary to confirm identified legal and regulatory constraints with appropriate officials at government agencies and other sources. During this time the team will draft their report and debriefing the Mission and GOL officials of the results and implications of the analyses. The mission debriefing will take place on November 5, 1990

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Meetings

Throughout the exercise, the team members will be meeting on a regular basis to review their individual findings and to provide insights into their teammates work. In addition, the team will meet with the AID project manager at least once a week to discuss progress of the research and preliminary findings.

Team Composition:

The team will be comprised of four specialists in small and microenterprise development with complementary skills including financial institutions, women's enterprises, agricultural economics, and prior experience with rapid appraisal techniques and subsector analysis. In addition, each member of the team will have substantial African experience.

Each of the team members will conduct one complete subsector analysis as well as review the work of the other team members to ensure that they have covered all the important elements relating to finance, gender issues, institutional support, and basic cultural factors. The positions are:

Microenterprise Financial Institutions Specialist who will provide insight into the main issues surrounding access to credit and the capacity of local credit systems to respond to the needs of the sector;

Women's Enterprise Specialist who will provide insights into the gender issues most likely to be encountered in each of the subsectors:

Enterprise Management specialist who will provide insight into the strategic management issues facing the competitive nature of the microenterprises within the subsector as a whole; and

Economist to provide economic analysis of the role of microenterprise activities within the subsector.

In addition, the team will benefit from one week of time from an agricultural economist experienced in in-depth subsector analyses.

Logistics

The team will be self sufficient in computers, printers, and computer supplies. If needed they will rent office space, and will rent vehicles necessary to carry out the subsector analyses.

The team will most likely need to hire local research assistants from the members of the survey team to serve as interpreters and guides and to provide insight into additional cultural and ethnic factors which may become important in the analysis. The Mission will be requested to assist with the identification and selection of these assistants based on its knowledge of the available local expertise.

Reports

The team will produce a draft report to be left with the Mission describing and analyzing the subsectors studied. This report will extract major constraints and opportunities in the subsectors, as well as highlighting the ones which run across subsectors. The report will present recommendations for addressing the constraints and opportunities to serve as a basis for the third phase of the strategy elaboration.

ANNEX B

**BUSINESS LICENSING, REGISTRATION AND TAXES FOR SMALL AND
MICRO-ENTERPRISES**

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BUSINESS LICENSING, REGISTRATION AND TAXES FOR SMALL AND MICRO-ENTERPRISES

Licensing businesses in Lesotho is technically a relatively regular and simple process. The Ministry of Trade and Industry is charged with the principal responsibilities for licensing, handling the paperwork, and receiving the payment. However, there are two separate licensing procedures, one for trade and one for industry, with each department handling its own licensing. This presents a minor confusion to small manufacturing enterprises (i.e. shoe manufacture, tailoring, block manufacture, etc.) because it is not clear from whom they must get a license. While the Department of Industry licenses all enterprises involved in manufacturing large or small, the Department of Trade considers these to be within their domain.

At the Department of Trade, an applicant will visit the bureau of licensing in any District and pick up a four page application form, available in English or Sesotho. When the applicant returns the form, he/she must submit the following documentation to the Department of Trade:

Pay Application Fee	<u>Cost</u>
Proof of Ownership of Business Premise (Land Title, Lease, sub-lease)	5 Rand
Health Certificate of Business Premise	
Proof of Citizenship (Passport) or Identity	

Where applicable:

- Articles of Association, certificate of incorporation
- Registered deed of partnership

The application is presented at the monthly meeting of the licensing committee, comprised of the District Officer (President), the Commercial Officer (secretary), the Security Officer, the Health Officer, and the representative from the Chamber of Commerce (LCCI). Decisions are passed down at that time, with 25-50% failing to get a license for a variety of reasons including no site, insufficient references, or not filling out the paperwork properly. When approved, the applicant pays the license fee for his particular category, costing either 50, 100, or 150 Rand. The licensing fee depends on the type of firm, regardless of the size (see the attached list for details by type of firm).

Two exceptions to this process are the Hawker's license and a market permit. The Hawker's license can be issued on the spot at the licensing bureau, with payment of the 5 Maloti application fee and 24 Maloti representing the first three months of payment of his annual fee (with the assumption that the hawker cannot afford to pay the entire fee up front). A market permit allows a person to operate a business from a non permanent emplacement along the street or form a stall within a market place. The monthly fee, ranging between 1 and 3.5 Maloti allows the person to carry out his business while also

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covering his rent for the space occupied. While a market permit allows a person to work, it does not provide him/her with an official license which allows them the privilege of accessing the wholesale stores.

At the Department of Industry, the process is simpler for small firms, who simply get registered, and much more complex for large firms. Large scale applicants will pick up the 14 page form, which is available only in English. Requirements:

- No Application fee
- Proof of Citizenship, Resident's Card, or Work Permit
- Articles of incorporation
- Properly filled in form, in eight copies

The committee process can take a long time for approval, often up to six months. The information must be verified and analyzed for its fit within the overall development strategy of that sector.

For small firms (defined as 1-9 employees) wishing to register with the Department of Industry, there is a one page form, available in both English and Sesotho. There is no charge to register and the registration is immediate. However, there are no apparent benefits to registering (VERIFY). Large manufacturing firms are charged a 100 Rand fee for their license.

With both of these licenses, existing businesses said the process is quite efficient. While the passport may be considered a constraint, there are passport offices in all of the districts and most people already have them, since they are necessary for travel to South Africa. Otherwise they take one day and cost 15 M.

While it is apparent that a small manufacturer is considered a trader, it is uncertain at what point he becomes the responsibility of the Department of Industry. This seems to be done on a subjective basis, up to the people in the Ministry to decide.

Sales Tax

The Southern Africa Customs Union (SACU) has a universal 13% sales tax which is charged to all end consumers of goods. This is collected either at the wholesale level or at the retail level, depending on the size and sophistication of the firm selling the end product. Verify the following with SAM. When a small producing/retailing firm receives its license, and it is expected that it will be selling directly to the end consumer they may apply to the Department of Sales Tax for a sales tax number if they will do more than 500,000 Maluti per annum. This allows the firm to purchase its goods at the wholesale store without paying the 13% sales tax. If a firm is doing this much business, it is assumed that they are sophisticated enough to collect and keep track of sales tax for the Government.

However, most small firms are incapable of keeping the books necessary to manage the taxes collected. Therefore, they must pay the 13% sales tax at the time when they purchase the raw materials and supplies. This has two counterbalancing effects on the small and microenterprises:

- It raises the cost of their goods in process and in inventory, which is often a large percentage of the SME's total available capital;
- There is a reduction in the cost of the goods sold to the consumer, because there is no sales tax on the final good, while there is for the goods purchased at the larger stores.

The trade off between these two issues depends on whether the major constraint facing the SME is market or working capital. Obviously, if availability of working capital is the constraint, then the higher cost of raw materials is important. However, since the 13% sales tax at the large retail stores is applied to the finished good, rather than simply to the raw materials, it comes out to a much higher amount, it adds significantly to the end price to the consumer. This should have a greater impact at the market level.

There is always the issue of whether the SME can evade the sales tax altogether. Since this is a SACU wide tax, if one has paid the sales tax in RSA, then one does not need to pay the sales tax a second time in Lesotho. However, if one purchases goods in the RSA for final consumption (this includes SMEs without sales tax numbers) and one manages to not pay the sales tax, then the customs authorities are supposed to collect it at the border. Should the goods get across the border without the tax being collected, then it is virtually impossible for the tax authorities to collect this. This provides an incentive for small producers, dealing in limited quantities of raw materials to cross the border and try to smuggle the goods back.

Income and Corporate Taxes

Corporate income taxes of 40 percent are charged to all firms doing more than 500,000 M. of business per annum, or which are licensed by the Department of industry. Small firms are not taxed by the Government¹ until they reach a determined size, then they are informed by the tax authorities that they are taxable and will be expected to pay at the end of the year.

Claims Court

Businessmen have two choices to seek adjudication for disputes related to commercial activities: they can pursue it in the small claims court if it is under 3,000 Maluti, or take it to the Supreme Court for any amount over that. The small size of the former and the great expense required to use the latter create a gap between these two levels in which it is uneconomical to pursue legal action. This missing level of claims procedures is a constraint to the proper management of the adjudication of business complaints.

¹ Except for cafés or firms which are expected to do a large turnover and are required to keep books.

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APPENDIX C
GENDER AND MICROENTERPRISE DEVELOPMENT IN LESOTHO

APPENDIX C

GENDER AND MICROENTERPRISE DEVELOPMENT IN LESOTHO

I. Basotho Attitudes toward Entrepreneurship

There is relatively little tradition of business or commerce in Lesotho. Most reports contend that entrepreneurship has typically been viewed disparagingly. The academically-oriented school system, based on the British system, has tended to ignore vocational and business education. Educated Basothos look, not to business, but to government for employment. Boys' education has tended to suffer in comparison to girls. Because of their responsibilities for tending the herds of livestock, boys are commonly kept home from school. As these uneducated males reach employment age, they seek out jobs in the mines, where wages are relatively high and education is not required. Uneducated women have traditionally been left behind to care for the children and the fields.

While markets have evolved in other African countries, commerce in Lesotho has been dominated by South Africa. As a result, domestic markets and local entrepreneurship are relatively undeveloped. Nevertheless, in recent years more Basotho have entered self-employment in search of new sources of income and, in the urban areas, independence from employers.

Women, in particular, have entered self-employment at an increasing rate. They more than men have had to bear the burden of the rising costs of feeding and educating children. The costs have escalated as a result of the increasing popularity and expense of school uniforms. Cobbe's (1985) research in rural Lesotho revealed the impact of these increasing financial burdens on women. More women have become entrepreneurs. In the rural areas, women have expanded their participation in non-farm enterprises from traditional beer brewing to new enterprise opportunities.

GEMINI's census reveals the subsectors that women have entered in increasing numbers. Beyond beer brewing, these include dressmaking, knitting, vending, spinning, and even block making and stone cutting.

However, the lack of tradition of business in Lesotho has resulted in difficulties in adjusting to profit seeking behavior and success in generating income. Because of the close-knit social networks in Lesotho, Basotho entrepreneurs can find it difficult to operate a firm in a business-like manner. Employees, who are either friends or relatives, look for favors and forgiveness of absences. Moreover, jealousy of success was an often cited problem among entrepreneurs; one which generates intra-household dissension. Wives claim that when their husbands return from the mines they must neither have been unprosperous nor too prosperous or their will be fighting.

II. Female Participation in the Private Sector

The sex ratio of the labor force in Lesotho is significantly weighted toward women as a result of the large, male Basotho labor force working in the mines in South Africa. The numbers of de facto

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female-headed households is especially large in the rural areas, where men have out-migrated in search of wage employment. A 1987 ILO study shows that 27 percent of Basotho households are de jure headed by women and a further 28 percent are de facto headed by women as a result of the high numbers of male household heads working in South African mines. Moreover, the sex ratio of the de facto labor force is heavily skewed toward women; in 1978/79 females represented 64 percent of the total labor force employed in Lesotho in 1978/79 (Annual Statistical Bulletin 1982).

Official statistics on the employment status of women reveals their increasing participation in the formal and private sector. In 1978/79, over 11 percent were employed in salaried jobs either by the government or some private firm, 48.5 percent were self-employed, and 40.3 percent were unpaid family workers. Since the mid-1980s, the share of employed women has surely increased as a result of the emergence of large-scale, export-oriented garment firms in Maseru and Maputsoe. To-date, these firms employ 7,000 female workers.

GEMINI's 1990 survey of the small and microenterprise sector in Lesotho shows that women make up approximately 75 percent of all the MSE proprietors and/or employees.

III. Women's Legal Constraints

Women in Lesotho have limited legal rights. Under Roman-Dutch law, which is the general civil and commercial law in Lesotho, women younger than 21 cannot enter into a contract unless assisted by their guardian. Women who are married are regarded as adults but, since the basic form of marriage is "in community property," the husband is regarded as family head. He exercises marital power over his wife, meaning that she has no power to deal with the outside world without her husband's authority. Her husband must authorize all contracts entered into by his wife with the following exceptions:

- She may purchase household necessities on her own;
- She may enter into contracts connected with public trade if her husband gives initial approval for her to enter into business;
- She may have a bank account or insurance policy in her own name and under her own control; and
- If employed, she is entitled to receive her own wages.

Under customary law, which applies in matters of family relations for most Basotho, every person is considered a member of a family and every family has a head, normally the husband. If the husband dies the eldest son or widow becomes head. The family head acts as representative to the outside world, conducting any agreements which affect the family and giving authority to contracts entered into by family members. Property is regarded as belonging to the family, not to individuals. Thus, the household head has control over property. Contracts are understood to be made between the entire family and another party, not between individuals. The household head has ultimate responsibility for and authority over his family. A rural or unemployed woman is thus limited in her ability to obtain credit,

since the only collateral she could offer is regarded as under the husband's control. An urban woman, on the other hand, is able to control her salary, bank account, etc. (Gay, 1982).

As a result of these laws, women cannot legally enter a business or a contract of any kind, including a loan, without the consent and/or signature of their husband or other male "guardian." Besides the obvious restrictions on women's rights, these policies are out of line with the reality of most households in Lesotho where men are living and working at a distance that can make just the logistics of obtaining this consent difficult. They are even more problematic when husbands fail to come home for long periods.

According to civil law, a husband has the right to take his wife from a job or take her business from her since she is not legally able to enter a contract without her husband's consent. While this does not occur often, the separation between wives and husbands, working in South Africa, fosters unstable and sometimes volatile conjugal relationships. This volatility is evidenced in the prevalence of "wife beating" and desertion. The instability of conjugal relationships combined with the legal rights husbands have over their wives put women in a vulnerable position. If women are successful in business, they have few rights with which to safeguard their investments or to ensure their economic future. Consequently, women more often work at a small scale where they can mask their profits and develop informal working relationships.

IV. Women's Multiple Enterprise Portfolios

A number of researchers (Cobbe, 1985; Gorton, 1989; and Gay, 1982) write of the tendency for female entrepreneurs to have portfolios of multiple enterprises. According to Cobbe, women in Lesotho are engaged in, not income generation, but "enterprise generation." Over 85 percent of her rural sample of women relied on more than one income generating activity. Cobbe describes one respondent's pattern of enterprise generation as follows:

Mapetso had at least seven active enterprises and three or four 'in the works' at the time I was doing my field work. She sew clothing, sold it, operated two cafengs, rented flats, stored and transported goods, and sold eggs and vegetable. She was in the final stages of establishing a bottle store, restaurant, butchery, and poultry selling business.

Mapetso claimed that her drive to generate enterprises was related to the increasing costs of feeding and educating her children. And in fact, Cobbe's research revealed that the rise in "enterprise generation" was coincident with an increase in school fees and the institution of school uniforms. Female entrepreneurs also stated that multiple enterprises were a means of evening out their income streams and spreading the risks of any one venture. Cobbe argues that especially those at subsistence levels look to auxiliary activities to sustain the momentum of their main source of income, that is to provide income during times when their main activity is at a lull.

Women also used multiple enterprise portfolios as a means of accumulating investment capital. For instance, they may initiate an "auxiliary" commercial activity in order to finance the start-up costs or early development of a "main" enterprise. For example, when Mapetso started her cafeng, she

depended on income from other sources to support it. When her cafeng was relatively new she often found herself without income to replenish her stock. Thus she started making and selling "fat cakes." However, as her cafeng and its profits grew, Mapetso used the profits to start yet another business. When asked why she did not specialize in one activity, she responded that this was too risky.

Multiple enterprise portfolios in Lesotho appear to be a strategy for managing risk, evening out one's income stream, and amassing start-up and working capital. They may also be a response to seasonality and shallow and risky markets as well as a lack of access to finance.

Multiple enterprise portfolios have important implications for subsector studies since the subsectors chosen may represent only a small slice of the activity important to women producers. Sewing and knitting, for instance, may only represent 10 percent of their entire portfolio. Consequently, interventions within the subsector may have only a limited impact on women's income and their entrepreneurial success. On the other hand, subsector investments, if they successfully promoted the industry, might foster greater specialization and productivity.

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ANNEX D
STATISTICAL TABLES

TABLE D-1A

INDICATORS OF DYNAMICS UNDER WAY IN THE HIDES
AND SKINS SUBSECTOR, LESOTHO

1. As income rises, how fast will domestic demand grow?

a. for footwear (note this includes leather and non-leather products)

Rural Areas	Other Urban	Maseru	All Lesotho
5.0%	3.9%	4.7%	4.9%
0.86	0.68	1.02	0.87
4.3%	2.7%	4.8%	4.2%

n. average budget share, 1986
b. income elasticity of demand
c. marginal propensity to consume garments

77.8% 8.3% 13.9% 100.0%

Share of total household expenditure

2. Trends in imports of key inputs and finished goods.

a. value (M '000)

	1975	1980	1985	1986
1) hides and sk	18	369	2	1
2) leather	0	26	440	332
3) harnesses an	52	626	1,257	1,179
4) other leathe	17	162	999	1,869

Total nat'l imports 37,958 360,757 796,554 853,008

3. Trends in exports of key commodities.

a. value (M '000)

	1975	1980	1985	1986	1987	1988
1) hides and sk-		81	282	411	514	1,087
2) leather	0	0	0			
3) harnesses an	0	0	0	147	418	155
4) other leathe	0	0	0			

Leather and leather manufactures

Total nat'l exports - 45,277 49,997 58,153 94,223 144,859

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TABLE D-1B

1. Imports of finished goods (From Bureau of Statistics, 1986))			
Saddles and Harness		1,179,000	
Other finished goods		1,869,000	
Tanned Leather		332,000	
Hides and Skins		1,000	
2. Local Use of dried untanned skins			
	hides	sheep skin	goat skin
production	47310	341620	114122
- losses (20%)	37848	273296	91298
of the remainder:			
unprocessed, direct to local use (85%)	32,171	232,302	77,603
assembled for tanning (15%)	5,677	40,994	13,695
Value of unprocessed at:	40	3	5
	1,286,832	696,905	388,015
Potential Value of processed:			
Wet blue (15% VA)	261,151	141,431	78,744
Crust (15% VA)	300,324	162,645	90,556
Finished (30 VA)	390,421	211,439	117,723
Value of Transformed	585,632	317,158	176,584
Exports:			
Hides and skins	282,000		
Leather manufactured	28,000		

TABLE D-2
FIRM AND EMPLOYMENT DATA FOR LEATHER (INC. SKINS AND HIDES)

	Maseru	S-Towns	R-Towns	E-Areas	Total
GENERAL LEATHER					
Enumerated Firms	2	7	5	3	17
Total Firms	13	14	9	200	236
Total Workers	44	36	18	600	699
Female Workers	0	10	2	67	79
Hired Workers	32	20	7	400	459
Trainees	0	0	0	0	0
Avg. Size of Firm	3.5	2.6	2.0	3.0	3.0
SHOES					
Enumerated Firms	52	61	19	10	142
Total Firms	329	122	35	667	1153
Total Workers	677	200	44	800	1721
Female Workers	114	28	6	0	147
Hired Workers	297	80	6	67	450
Trainees	6	2	0	0	8
Avg. Size of Firm	2.1	1.6	1.3	1.2	1.5
OTHER LEATHER					
Enumerated Firms	1	0	0	1	2
Total Firms	6	0	0	67	73
Total Workers	6	0	0	200	206
Female Workers	0	0	0	133	133
Hired Workers	0	0	0	67	67
Trainees	0	0	0	67	67
Avg. Size of Firm	1.0	0.0	0.0	3.0	2.8
Total Firms	348	136	44	933	1462
Total Workers	720	236	63	1600	2626
Total Female	114	38	7	200	359
BUTCHERIES					
Enumerated Firms	18	18	16	4	56
Total Firms	114	36	29	267	446
Total Workers	658	132	59	667	1516
Female Workers	329	82	41	533	985
Hired Workers					
Trainees		0			
Avg. Size of Firm	5.8	3.7	2.0	2.5	3.4

TABLE D-3
STATISTICS ON LIVESTOCK AND OFFTAKE

CATTLE

Year	Total Stock*	Hide Offtake* (Official)	Hide** Offtake (Est.)	Marketed (est.**)	Consumed (est.**)	Lost (est.**)	Licensed Butchers	Total Mktd Skins
79/80	593,929	91,112	74,241	6,531	42,592	25,118	15,851	22,382
81	590,021	94,582	73,753	6,489	42,312	24,953	14,655	21,144
82	562,372	83,617	70,297	6,184	40,329	23,783	10,171	16,355
83	537,517	80,719	67,190	5,911	38,546	22,732	5,166	11,077
84	529,175	79,833	66,147	5,819	37,948	22,379	6,998	12,817
85	522,125	85,455	65,266	5,742	37,443	22,081	8,581	14,323
86	524,675	47,310	65,584	5,770	37,626	22,189	10,164	15,934
87	625,269		78,159	6,876	44,839	26,443		6,876

* Source: 1988 National Accounts, Bureau of Statistics

**Source: Estimates prepared C. Drew, et al., based on 1987 survey by Swanson

GOATS

Year	Total Stock*	Skin Offtake* (Official)	Skin** Offtake (Est.)	Farmer Sales (est.**)	Consumed (est.**)	Lost (est.**)	Lic. Butch.	Total Mktd Skins
79/80	784,346	85,664	67,766	4,987	35,976	26,804	600	5,587
81	766,535	104,108	66,228	4,874	35,159	26,195	600	5,474
82	930,413	98,537	80,387	5,915	42,676	31,795	600	6,515
83	872,145	97,886	75,352	5,545	40,003	29,804	600	6,145
84	856,900	100,707	74,035	5,448	39,304	29,283	600	6,048
85	1,028,625	126,504	88,872	6,540	47,180	35,152	600	7,140
86	978,013	114,122	84,499	6,218	44,859	33,422	600	6,818
87	1,125,074		97,205	7,153	51,604	38,448	600	7,753

* Source: 1988 National Accounts, Bureau of Statistics

**Source: Derived from estimates prepared by C. Drew, et al., based on 1987 survey by Swanson

SHEEP

Year	Total Stock*	Skin Offtake* (Official)	Skin** Offtake (Est.)	Marketed (est.**)	Consumed (est.**)	Lost (est.**)	Lic. Butch.	Total Mktd Skins
79/80	1,043,561	201,147	117,166	7,566	37,985	71,614	85,793	93,359
81	1,168,404	239,220	131,182	8,472	42,529	80,181	84,968	93,440
82	1,337,448	307,076	150,162	9,697	48,683	91,782	93,534	103,231
83	1,279,498	266,881	143,655	9,277	46,573	87,805	53,145	62,422
84	1,280,975	257,719	143,821	9,288	46,627	87,906	57,744	67,032
85	1,412,188	272,414	158,553	10,239	51,403	96,911	65,053	75,292
86	1,391,625	341,620	156,244	10,090	50,655	95,500	64,314	74,404
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* Source: 1988 National Accounts, Bureau of Statistics

**Source: Estimates prepared C. Drew, et al., based on 1987 survey by Swanson.

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TABLE D-4
BUDGET FOR SANDAL MANUFACTURE

Raw Materials	
Harness Leather	135
Rivets and Buckles	10.5
Rubber Soles	146
Glue	36

Total	327.5
Labor	
3 people for 2 days*	40.91
Other	
Transport	14 **
Depreciation	1 ***
Rent	8.33 ****

	23.10
Total cost for 30 prs.	391.51
Avg. Cost/pair	13.05

(Based on Thaba Kupa Calculations for manufacture of 30 Sandals from 1 sheet of Harness Leather with a 3 person workshop capable of manufacturing 15 prs/day).

* Based on avg of 150 M./Month.

** Based on 1 RT every two weeks to purchase new materials in RSA

*** Based on Equipment of 1000 M. depreciated over 5 yrs.

**** Based on Rent of 100 M. month.

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