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LESOTHO MAPS REPORT--PHASE I

by

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International Division

and

A.I.D. Africa Bureau
Office of Market Development
and Investment (AFR/MDI)

in cooperation with

USAID/Lesotho

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1. INTRODUCTION

This document is a report of Phase I and the beginning of Phase II of the private-sector strategy assessment of Lesotho for USAID/Lesotho. The assessment uses the Manual for Action in the Private Sector (MAPS) methodology developed by J.E. Austin Associates and tested in the Dominican Republic, Sri Lanka, and Costa Rica, and has been modified in Lesotho to focus more directly on agriculture and agroindustry at the request of the Mission.

The Office of Market Development and Investment in the Africa Bureau (AFR/MDI) of A.I.D. uses the MAPS approach to help match USAID programs with appropriate private-sector environments in selected countries. The MAPS exercise can help a Mission better use private-sector resources in its current program and examine new strategies or individual activities. The assessment consists of seven phases:

- Phase I: Defining the current Mission strategy.
- Phase II: Describing and surveying the local private sector.
- Phase III: Diagnosing opportunities and constraints to private-sector growth.
- Phase IV: Engaging in dialogue with the private sector.
- Phase V: Designing A.I.D. private-sector strategy.
- Phase VI: Developing new projects and programs.
- Phase VII: Debriefing and evaluating.

The MAPS assessment team in Lesotho consisted of Ms. Tessie San Martin and Mr. M. Peter Leifert LABAT-ANDERSON Incorporated, the principal contractor with AFR/MDI, and Dean Bernius, Deputy Director, AFR/MDI. Ms. San Martin helped develop the MAPS assessment methodology and was a member of the Dominican Republic MAPS team. Mr. Adrien DeGraffenreid and others of the USAID/Lesotho Mission ably supported the team. The team arrived in Lesotho on November 6, 1988. They completed Phase I of the MAPS process (articulating the current Mission strategy) and started Phase II (describing and surveying the local private sector).

The team interviewed a range of entrepreneurs, government officials, and donor organizations, and using the information gathered from these interviews, refined the private-sector survey methodology to fit local needs and conditions. They then developed terms of reference for and designed a draft survey and drafted terms of reference for collecting and processing descriptive data on the private sector. Finally, they interviewed local consulting firms and made suggestions on contractor selection. The survey will require approximately six weeks to complete and involve an estimated 140 to 150 entrepreneurs. The description of the private sector, which will involve collecting information from secondary sources, will take six to eight weeks.

Mission input to the MAPS assessment effort is essential, because discussions with the Mission help to define the current Mission strategy and provide orientation for the design of future Mission activities. Continued Mission involvement in the MAPS process also is critical to obtaining MAPS exercise objectives.

The next step is for the Mission to finalize the contract(s) for the private-sector description and survey. It is anticipated that both the description and survey work will begin in early to mid-February and be completed by mid- to late March.

LABAT-ANDERSON Incorporated will help AFR/MDI analyze the collected data, identify opportunities and constraints to private-sector-led growth, guide the dialogue with the private sector, and help design new activities and/or modify current projects. The final report will take two to three weeks to prepare and should be completed by mid- to late April 1989.

2. FINDINGS

The MAPS team arrived at four categories of findings that suggest areas of inquiry that might be probed in the description, survey, and dialogue phases of the MAPS process. In addition, these findings provide information that the Mission may be able to use for current projects and as a record of information gathered by the team.

The four categories are as follows:

- Criteria useful for evaluating either new private-sector activities in Lesotho or new private-sector components of the Mission's existing projects. (This item was requested by the Director of USAID/Lesotho.)
- Private-sector promotion activities that USAID/Lesotho may support in the short term.
- Summary of constraints and problems to development of the private sector as expressed to the team during its in-country interviews.
- Summary of recommendations and opportunities for private-sector interventions as expressed by interviewees.

More detail on these last two categories can be found in Annex C, Memoranda of Conversations.

2.1 Evaluating Private-Sector Activities

The MAPS exercise provides data on the private sector's role in a country's economy, and initiates a dialogue with local entrepreneurs and private-sector associations. Ideas for changing existing project activities and for developing new activities will be more competently analyzed when the MAPS exercise has been implemented.

Until then, the following questions and the criteria they represent, which will be refined during the MAPS exercise, can be used when considering activities and strategies that are meant to promote private-sector and market-led growth. In their present form, they are preliminary and not exhaustive.

2.1.1 Self-Reliance

- Is the intent of the activity to produce a product in which the country wishes to be self-reliant?
- If not, is it being produced to earn foreign exchange?
- What is the cost of the product in the Republic of South Africa (RSA) or other anticipated markets or sources?
- What is the projected cost of production in Lesotho?

2.1.2 Policy Change

- Is there need for a significant change in policy?
- Who has control of or can affect the change?
- What is the probability of obtaining such a change in the near term?

- Must the change be achieved before the activity begins?

2.1.3 Constraints

- What are the constraints to achievement of the activity purpose?
- Are these constraints that the private sector has expressed?
- Who has control over these constraints?
- Must they be resolved before the activity begins?

2.1.4 Implementation

- Does private-sector support for the activity exist?
- Does responsibility for implementation lie in the private sector?
- Is the organization or individual capable of discharging its responsibilities on a timely basis?
- If any aspect of implementation relies on the Government of Lesotho, will the Government of Lesotho provide sufficient personnel, financing, and so on?
- Can results be obtained in the short term?

2.1.5 Relation to USAID Strategy

- Does the activity support stated USAID objectives?
- Does the activity complement or support other A.I.D.-funded activities?
- Can the activity be modified to more directly support A.I.D. private-sector goals and objectives?
- How will the activity affect USAID operations?

2.1.6 Financial Implications

- What are the postactivity human resource and cost implications of the activity?
- What are the foreign-exchange implications of the activity?
- Is the activity attractive to local bankers and investors, particularly local entrepreneurs?

2.1.7 Economic and Social Impact

- What kinds and amounts of employment will be generated? At what cost per job?
- How will the activity affect local incomes?
- Is the activity primarily rural or urban?
- Will the benefits be spread throughout USAID's primary target beneficiary group?

- Does a market already exist for the product or must one be created?
- If activity production is for the domestic market, will production help achieve quality-of-life objectives?
- Is "value added" an important consideration in this activity?

2.1.8 Donor Coordination

- Does the activity duplicate or overlap with activities of other donors?
- Is another donor already working in the area?
- Can another donor better handle the activity?

2.2 Possible Private-Sector Activities for Support

Phase I of the MAPS process does not generate ideas for activities. The complete MAPS process must be followed to identify valid actions that the Mission may take to improve project performance and private-sector-led country development. The private-sector descriptive and survey work of Phase II, the donor and private-sector dialogue sessions undertaken in subsequent phases, and the analytical efforts included in the MAPS process, are essential inputs to accurately identifying such promotion activities.

Given, however, that it will be a number of months before the MAPS process generates ideas with validating data, and that the team encountered a significant bank of knowledge and information while in Lesotho, the following ideas for activities are being included in the report. These activities should provide additional information for making decisions about redirecting or reorienting the Mission's current projects and strategies.

Although these ideas should be carefully examined by the Mission before it takes any action to implement them, the team feels that these ideas should be considered because they have the potential to contribute to the development of the country while improving the lot of the private sector. Further, they may be implemented using a minimum of USAID/Lesotho financial and human resources. Many of these activities help strengthen private-sector institutions by working with them directly, thus providing the Mission with alternative implementing agents through which to achieve its development objectives.

2.2.1 Help the World Bank Design and Implement Lines of Credit for the Industrial and Agroindustrial Sectors

The Mission should try to influence the choice of the financial institutions that implement the lines of credit (preferably a commercial bank rather than the Lesotho National Development Corporation (LNDC) or the Agricultural Bank) and seek to persuade the World Bank to limit its loans to new industries or expansions where the controlling equity will be in indigenous hands. The team does not recommend rehabilitation financing, which often involves complex management issues.

Proposed Action: Engage in dialogue with the Government of Lesotho, local banks, and the World Bank.

2.2.2 Help the Government of Lesotho and Other Donors Revitalize Small-Scale Enterprise Promotion Activities

The Mission should concentrate particularly on market-town and other new opportunities resulting from the Highland Water Development Project (HWDP). Given that the Basotho Economic Development Corporation (BEDCO) is not a viable implementing agent, consider nongovernmental organizations and the Chamber of Commerce and Industry (see the memorandum of the MAPS team conversation with the Chamber in Appendix C). The Mission can draw on AID/Washington assistance (through AFR/MDI) to analyze needs and possible actions in this area.

The potential for new small-scale Highland Water Development Project spin-offs may be substantial, especially if the spin-offs are amenable to a market-town approach to development. The new opportunities may include not only construction, materials supply, transport, and catering opportunities, but also general, agriculture-based market-point activities. Individuals in the private sector of Lesotho have expressed interest in being involved, but are uncertain of the opportunities.

The Highland Water Development Authority says it is doing all it can to involve indigenous private-sector business, but is having only limited success. The Authority says that it disseminates information on upcoming activities during quarterly coordination meetings with the Chambers of Commerce of the RSA and Lesotho, and it produces a newsletter (the LHWP Review, Vol. 1 No. 1, 11/12, 1988), but Lesotho businessmen continue to complain about the lack of information on the Highlands scheme and related opportunities.

A.I.D. can gather such information by performing a simple small-scale enterprise study that includes a market-town analysis, and making it available to the private sector through local publications. This should help USAID gain the confidence of private-sector players and orient the Government of Lesotho to the possibilities of advanced market-town planning and more intensive small-scale enterprise promotion. The Mission may also want to help organize a workshop on small-scale enterprise and market-point opportunities, and help organize local suppliers, but these activities need not be planned before the study is completed.

Action Proposed: Analyze, possibly with the help of AFR/MDI, present small-scale enterprise sector promotion efforts, concentrating on the HWDP area.

2.2.3 Examine the Reasons for Success or Failure of Past and Current (Mature) Private-Sector Projects

This study should result in guidelines for determining what constitutes success or failure of private-sector projects. Government of Lesotho, other donor and private-sector players, and Mission staff can each contribute to these guidelines. Other donor projects should be examined to the extent possible, and the results shared through an existing donor-coordination mechanism.

Action Proposed: Conduct a private sector "lessons-learned" study using local resources.

2.2.4 Study the Possibility of Establishing a Private-Sector Venture-Capital Facility For Indigenous Entrepreneurs

While conducting the study, examine the pipeline of project proposals that have been submitted to BEDCO and the LNDC, if the institutions allow it.

The lack of venture capital seems to be an almost universal constraint in less developed countries and has been noted frequently in the literature on Lesotho and by all of the entrepreneurs interviewed by the MAPS team. AID/Washington, through AFR/MDI or the Private Enterprise Bureau (AID/PRE), can arrange a team to undertake this work.

Action Proposed: Request AID/Washington assistance to study the feasibility of establishing a private venture-capital facility.

2.2.5 Study Lesotho's Present and Projected Marketing System and Infrastructure

Existing facilities, such as warehouses, cold-storage facilities, collection depots, and market points, may be inadequate and unable to support future increases in agricultural production. If the marketing system is not understood completely and is not ready to receive and process larger amounts of new products, producers will rapidly return to more traditional practices. In some cases, such as dairy collection points, an industry may evolve only if the marketing infrastructure is in place.

Action Proposed: Conduct a marketing system and infrastructure study (under an existing USAID contract or project if possible).

2.2.6 Investigate Use and Availability of Non-Mission Resources

These resources could be used to help attain private-sector objectives. The new private-sector advisor can be charged with this investigation. Programs in which A.I.D. has a stake, such as the Africa Project Development Facility (APDF/Nairobi), IESC, and EDESA (venture capital) might be coaxed into becoming more active in Lesotho. A volunteer with a U.S. Chamber of Commerce background from the IESC would be able to assist the Lesotho Chamber of Commerce in various ways.

Action Proposed: Review available non-Mission resources and initiate dialogues through the new private-sector advisor.

2.2.7 Investigate Possible Seed Production and Processing Joint Venture

A U.S. company and a Lesotho entrepreneur could participate in this venture. On first inspection, the idea makes great sense because A.I.D. has ample experience in this area, and it could be the way to get the first U.S. company to invest in Lesotho. A.I.D. might have to provide funds to make it work, but the returns could be significant. The new private-sector advisor should be able to handle the initial investigative work without overburdening present Mission staff.

Action Proposed: With the possible assistance of AFR/MDI, explore a U.S./Lesotho joint venture in seed production and marketing.

2.2.8 Explore Opportunities for Privatization

Use the A.I.D. regional indefinite quantity contract (IQC) or AID/PRE Privatization Project to explore privatization opportunities and develop privatization mechanisms in agriculture and agroindustry. The Minister of Trade and Industry, the Managing Director of LNDC, and the Minister of Agriculture stated during interviews that they were ready to privatize various profitable or potentially profitable parastatals. The Minister of Agriculture has requested A.I.D. assistance to rationalize agricultural commercialization, including a look at privatization.

Among the problems with privatization and divestiture that they mentioned were inability to mobilize local capital in the private sector while ensuring that new ownership is not concentrated in a few hands. This is more a problem of knowledge concerning capital mobilization methods than of a lack of private investment capital.

This constraint may be overcome in a variety of ways. For example, a unit trust could be funded by miners' remittances, instead of just taxing these remittances and making the money part of the Government of Lesotho's general revenue tax base. In this case, a small percentage of the repatriated funds would be deposited in a trust that would purchase shares in parastatals from the Government of Lesotho. The trust would be legally incorporated and act as a private development-finance corporation, perhaps using the International Finance Corporation (IFC) or Development Finance Corporation of Kenya as a model.

Control of parastatals would pass from the Government of Lesotho to the trust in accordance with equity share holdings. The trust's board, made up of leaders from the agricultural and agroindustrial sectors, would appoint company directors who would deal with commercial issues on a private-sector basis. Remittances deposited in the trust after the buyouts are completed might be used to capitalize new ventures. A method of capturing funds for the trust may be designed based on a highly successful Brazilian scheme that diverted what would have otherwise been taxes to a development fund for Brazil's underdeveloped northeast.

A limited capital market mechanism in which private banks, insurance companies, and other institutions invest in another form of unit trust might also be established. In this case, the Government of Lesotho would sell shares in the unit trust to the private institutions instead of issuing new treasury bills or bonds. A secondary market mechanism, such as a private discount house or window in the Central Bank, would have to be established to ensure these institutions' liquidity in times of need and only the more profitable parastatals could be offered through this mechanism.

Action Proposed: AFR/MDI can assist in drafting terms of reference for a privatization study.

2.3 Constraints and Problems

The following constraints to private-sector-led development were taken from comments made during interviews with the MAPS team. No attempt has been made to edit, prioritize, or classify by frequency any of the items listed.

- Need for collateral to obtain credit.
- Lack of venture capital.
- Poor production coordination on small-plot agriculture.
- Land-tenure system.
- LNDC thwarting Basotho entrepreneurial initiatives.
- Lack of information on Highland Water Scheme opportunities.
- Moribund marketing division in the Ministry of Agriculture.
- BEDCO problems result in a lack of microenterprise promotion.

- Policy (inhibiting legislation) environment.
- Poor management and technical skills.
- Raw material supplies for new agroindustry.
- Government of Lesotho favors establishment of large-scale enterprises.
- Lack of rural warehouses and collection depots.
- Lack of cold-storage facilities.
- Long-term capital for agriculture (collateral).
- Banks are too conservative.
- Lack of short-term working capital for industry.
- Underdeveloped markets (lower production incentives).
- Too heavy a concentration on staple crops.
- Staple crops are not competitive with RSA.
- Southern Africa Customs Union (SACU) agreement (open competition with RSA).
- Competition with subsidized state-owned enterprises.
- Donor funding of state-owned enterprises.
- Lack of entrepreneurial class.
- Disorganization in Lesotho private sector.
- Donors not supportive of HWDP because of RSA connection.
- Underused plant capacity.
- Lack of knowledge on international market opportunities.
- Insufficient sharing of project information.
- Lack of knowledge of modern technology.
- Ineffective donor projects.
- Too much donor emphasis on agroindustries.
- Insufficient rural banking facilities.

2.4 Recommendations and Opportunities

The following is a list of recommendations and opportunities for activities that the private sector could undertake and that may help the economy develop. The list was culled from comments made in MAPS team interviews, and no attempt has been made to edit them or grade validity.

- Lowland-intensive agriculture.

- Highlands livestock production (more important than crops because of topography).
- Marketing and herd improvement.
- Pinto and refried beans.
- Seed production and processing.
- Spin-offs from the Highlands Water Development Project (wool and mohair scouring, fresh-water fish production, catering, transport, housing, road construction, and other services).
- Venture-capital facility.
- Donor financial support for joint ventures.
- Venture-capital fund using indigenous, not Government of Lesotho funds.
- Government of Lesotho sale of large-scale holdings.
- New incentive package for investments.
- Small-scale industry development incentive package.
- Work with larger "lead" farmers (need incentives).
- Incentives for attracting miner remittances into agriculture.
- High-value cash crops.
- Donors work directly with private sector.
- Assistance in feasibility-study preparation.
- Poultry (broiler) production.
- Soybean production (high-protein meal for animal feed).
- Build indigenous management capability.
- Beneficiary participation in project design to assure commitment.
- Donors be stronger in policy discussions.
- Development bank dedicated to indigenous entrepreneurs.
- Technical assistance and training on competitive bidding process.
- Promotion of joint ventures with experienced bidders.
- Divestiture of parastatals.
- Use of traders as extension agents.
- Market for Basotho goods in PTA and SADCC.
- Licensing agreements.
- Creation of capital markets.

3. STRATEGY ARTICULATION

The USAID Mission in Lesotho has expressed an interest in reviewing its current development strategy and assessing the extent to which alternative mechanisms (in particular private-sector mechanisms) exist to implement that strategy. A number of developments in the political and economic environment have made this a particularly auspicious time to undertake this exercise in Lesotho. The Mission has just signed the Lesotho Agricultural Policy Support Project (LAPSP) with the Government of Lesotho. Under LAPSP, the Mission will engage in a dialogue with the Government of Lesotho, seeking to promote policy changes that support private-sector growth and development. The uncertainty regarding SACU receipts and the increasing government deficit (more than US$80 million for 1988) have made the Government of Lesotho particularly receptive to private-sector promotion projects and programs.

The MAPS process, which clarifies Mission objectives and seeks to identify means to accomplish those objectives through the private sector, is a particularly useful tool in this environment. It is useful in policy discussions with the government and promotes understanding within the government of the effect of public policy on private-sector activity. It also provides the private sector with a forum in which to express its own development priorities to donors and the Government of Lesotho, so that more cohesive and comprehensive policies and projects may be developed.

The first step in the MAPS process is articulating USAID's strategy, particularly as it relates to the private sector. The purpose of this phase is to create a consensus within the Mission regarding what its role is and should be. Successful organizations, both in the private and public sectors, are generally those that have been able to articulate a clear sense of purpose. Morale and productivity are higher in these organizations. Similarly, the better the Mission understands the effects of its actions on the private sector, the easier it will be to coordinate Mission activities to achieve development objectives through the private sector.

In USAID/Lesotho's presentation to Congress for fiscal year 1989, the Mission identified its goal as follows:

> **To improve well-being and help Lesotho become less dependent on the RSA by: (1) increasing agricultural production, diversification, and marketing through the private sector; and (2) education and human resources development.**

Private-sector development has a key role in the Mission's overall strategy for Lesotho's development (see figure 1). A review of Mission project papers, PIRS, SARS, its CDSS, and other documents (see Annexes B and G), as well as consultations with USAID/Lesotho officials has shown that while a significant portion of the Mission's resources are channeled through the public sector (see the budget breakdown of the Mission's activities in Annex B), a fair number of project activities relate directly to the private sector.

The MAPS team, working with staff from USAID/Lesotho, has articulated three key goals. These are related to the Mission's philosophy and promote its development objectives. At this time, most of the Mission's objectives are being implemented through public-sector institutions, though all, to one degree or another, affect the private sector. These goals are as follows:

- **To enhance institutional planning and management capacity.** In Lesotho, private-sector institutions are weak relative to the government, which

directly and indirectly dominates much of the country's business life. Given this reality, the Mission has continued to emphasize programs that enhance the Government of Lesotho's capacity to manage its resources, so that it can deliver technical services and inputs more efficiently and formulate more informed policies that do not impede private-sector growth and diversification. Almost every project currently being undertaken by the Mission has components that support these objectives (see Annex B).

- To help the indigenous private sector grow and diversify. The main objectives under this goal are to increase and diversify agricultural production, to increase self-reliance by improving the capacity to export and substitute imports from the RSA, to promote microenterprises, and to provide the skills education that is required in business concerns. The activities that fulfill these objectives tend to be carried out directly with the private sector, be it in the form of small farmers or small entrepreneurs, or through such institutions as the Lesotho Chamber of Commerce and Industry and credit unions.

- To improve the well-being of the population. Many of the USAID activities oriented to improving well-being promote private-sector growth and diversification, because a more educated and healthier population is also a more productive population.

Phase I of the MAPS process has shown that the Mission has an active private-sector program, and is working through a variety of private- and public-sector mechanisms. This phase of the MAPS process shows the Mission how its various projects are related, how the private sector affects these projects and their goals, and how the projects affect private-sector goals.

The results of this phase also indicate that one of the objectives of the MAPS exercise should be to identify implementing agents other than the government, so that an increased amount of resources can be channeled through the private sector instead of the government. As long as the government knows that it is "the only game in town" it may be less inclined to be responsive to policy changes required by donors. Working directly through the private sector sends a clear signal to the government--that there are other recipients willing and able to work with donors in their own benefit.

The results of the strategy articulation phase should be taken as preliminary and tentative. The Mission should use these comments as a springboard for expanded discussions regarding current goals and objectives and how to best coordinate project activities to reach Mission goals. The questions listed in Annex B should be addressed, and those that are found stimulating should be discussed in an open forum of Mission staff, along with a discussion of the strategy articulation as diagrammed in figure 1.

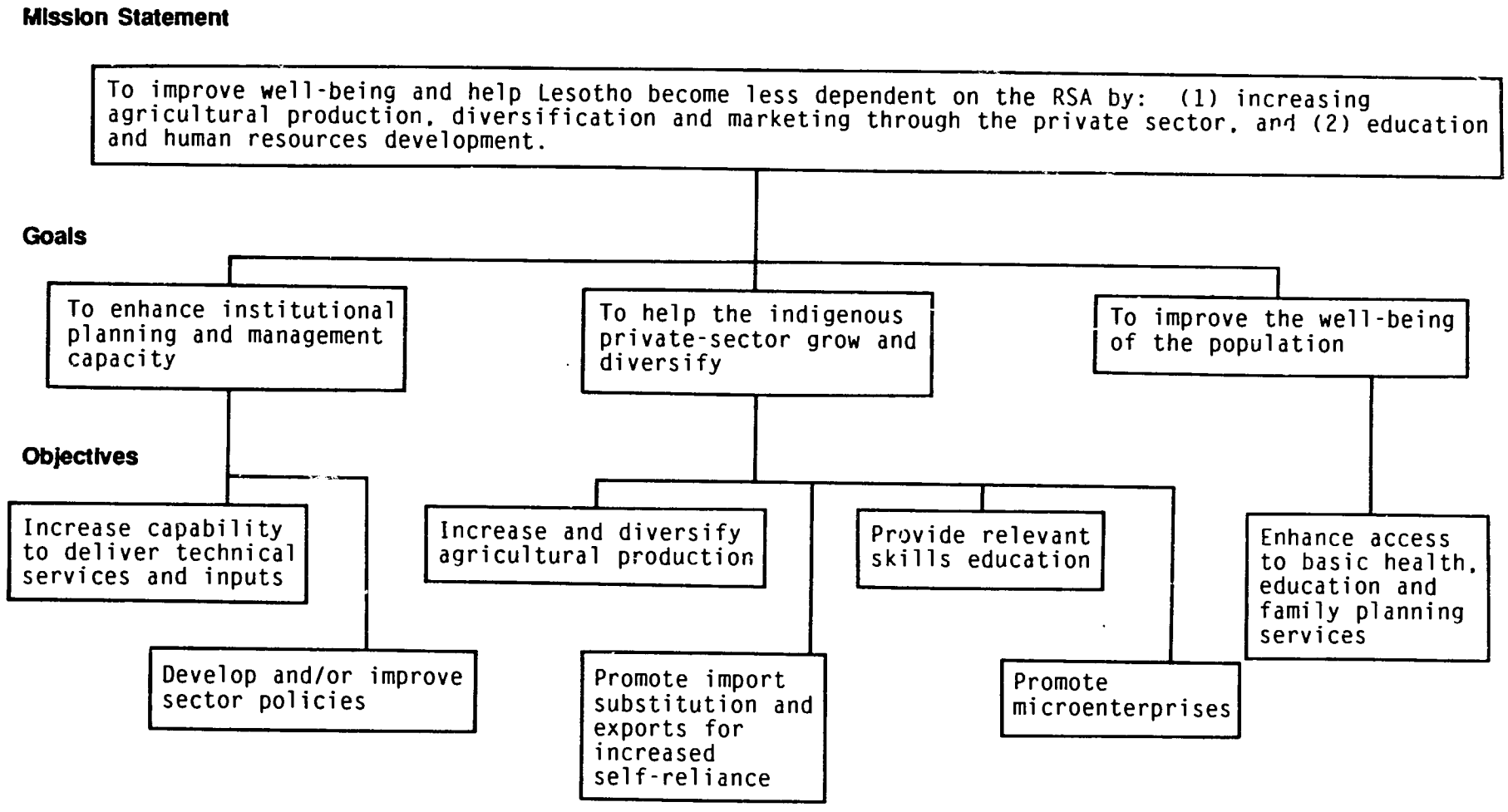

Figure 1. USAID/Lesotho strategy articulation.

4. MAPS IMPLEMENTATION TIMETABLE

Figure 2 is a timetable that the Mission can follow for full MAPS implementation. Note that the Mission will have to undertake some activities before February when the description and survey work are scheduled to begin. These activities are:

- Contracting with local consultant(s) who will undertake data collection activities.
- Identifying and communicating, at least informally, with key entrepreneurs and Government of Lesotho personnel regarding the exercise.

This report includes a list of potential contractors, a brief assessment of their capabilities, outlines of the terms of reference that can be used to draw up the contracts, and the formal responses of the consultants to these TORs, including CVs and their best estimates regarding what the survey and description exercises would cost (see Annexes D through H). It is important that the contracts with the successful bidders be signed and approved by January so that the MAPS exercise may begin in full by early February.

The MAPS team has begun laying the groundwork for the second activity as well. It has met with business and Government of Lesotho leaders to explain MAPS and the Mission's desire to work with the private sector. It has also begun identifying Government of Lesotho private-sector objectives and development priorities. Summaries of the conversations with these persons and detailed reports of their views are included in Annex C. The process begun here should continue. The private-sector officer (if the Mission should decide to hire such a person), assisted by Mr. John Lepele, who has agreed to supervise the MAPS implementation in Lesotho, should participate in the continuing dialogue process with leading entrepreneurs, other donors, and the Government of Lesotho.

The Mission will receive, if it wishes, support in the beginning of the MAPS exercise (weeks 1 and 2 in February) and towards the end (at the end of March and beginning of April), to assist in key areas, such as preparing and organizing the survey, interpreting data, preparing graphics, presenting description and survey results to the Mission, organizing the focus group discussions, and drafting an action paper.

TASK	Nov. 1	Nov. 2	Dec/Jan		Feb. 1	Feb. 2	Feb. 3	Feb. 4	March 1	March 2	March 3	March 4	April 1	April 2	April 3
1. Articulate strategy															
• Orientation	X														
• MAPS design	X	X													
• Presentation		X													
2. Description															
• Outline terms of reference		X													
• Identify local contractors		X													
• Contract			X	X											
• Collect data					X	X	X	X	X						
• Analyze data						X	X	X	X						
• Produce graphics								X	X						
• Presentation												X			
3. Diagnosis															
• Outline terms of reference		X													
• Identify local contractors		X													
• Contract			X	X											
• Draft survey instrument		X													
• Refine and test survey instrument					X	X									
• Implement survey						X	X	X	X	X					
• Enter and process data								X	X	X					
• Analyze data									X	X					
• Produce graphics									X	X					
• Presentation												X			
4. Dialogue															
• Identify private-sector leaders	X	X	X	X	X	X	X	X	X	X	X	X			
• Informal consultation		X	X	X	X	X	X	X	X	X	X	X			
• Focus groups												X	X	X	
• Presentation														X	
5. Private Sector Strategy Development															
• Identify Government of Lesotho priorities		X	X	X	X	X	X	X	X	X	X	X	X	X	
• Identify donor priorities		X	X	X	X	X	X	X	X	X	X	X	X	X	
• Match Mission objectives to MAPS results												X	X	X	
• Options menu													X	X	
• Feasibility														X	
6. Orient programs													X	X	
7. Evaluation and Debriefing															X
Coordinate USAID/ Washington support	X	X	X	X	X	X					X	X	X	X	X

Figure 2. Timetable for MAPS Implementation.

ANNEX A

MAPS: A SEVEN-STAGE PROCESS

MAPS: A SEVEN PHASE PROCESS

1. DEFINE CURRENT AID MISSION STRATEGY.

2. DESCRIBE THE LOCAL PRIVATE SECTOR.

3. DIAGNOSE OPPORTUNITIES AND CONSTRAINTS TO PRIVATE SECTOR GROWTH.

4. DIALOGUE WITH THE PRIVATE SECTOR.

5. DESIGN AID PRIVATE SECTOR STRATEGY.

6. DEVELOP NEW PROGRAMS AND PROJECTS.

7. DEBRIEF AND EVALUATE.

MANUAL FOR ACTION IN THE PRIVATE SECTOR
(OVERVIEW)

PHASE	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
1. DEFINE CURRENT MISSION STRATEGY	* WHAT IS THE CURRENT MISSION STRATEGY? * WHAT DO AID & OTHERS BELIEVE WILL BE IMPORTANT COMPONENTS OF FUTURE STRATEGY? * HOW SHOULD MAPS BE TAILORED TO RESPOND TO MISSION NEEDS?	* STRATEGY AUDIT * PROJECT INVENTORY * BUDGET ANALYSIS * CONSENSUS BUILDING	* ARTICULATION OF CURRENT MISSION STRATEGY
2. DESCRIBE LOCAL PRIVATE SECTOR	* WHO IS THE PRIVATE SECTOR? * WHERE IN THE ECONOMY IS IT LOCATED? * HOW IMPORTANT IS THE LOCAL PRIVATE SECTOR? * WHAT IS THE SOE'S ROLE? * HOW STRONG ARE THE CAPITAL MARKETS? * WHAT IS THE IMPACT OF PUBLIC POLICY? * HOW HAS THE PRIVATE SECTOR PERFORMED OVER TIME? * WHAT ARE THE LEADING & LAGGING SECTORS?	* DATA GATHERING & ANALYSIS * PRIVATE SECTOR MAPPING	* DATA BASE * PRIVATE SECTOR MAP * PRIVATE SECTOR DESCRIPTION PRESENTATION

MANUAL FOR ACTION IN THE PRIVATE SECTOR
(OVERVIEW)

PHASE	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
3. DIAGNOSE CONSTRAINTS TO GROWTH	* WHAT ARE THE PRIVATE SECTOR'S PERCEPTIONS OF ITS OPPORTUNITIES & CONSTRAINTS? * WHAT ARE THE MOST CRITICAL RESOURCE CONSTRAINTS? * WHAT ARE THE IMPACTS OF PUBLIC POLICY ON THE PRIVATE SECTOR? * WHAT PRIVATE SECTOR INITIATIVES WILL RECEIVE GREATEST SUPPORT AMONG LOCAL LEADERSHIP? * WHAT IS THE IMPACT OF THE COMPETITIVE ENVIRONMENT? * WHAT ARE THE CAPABILITIES OF LOCAL CAPITAL MARKETS & FINANCIAL INSTITUTIONS?	* PRIVATE SECTOR SURVEY * CAPITAL MARKETS SURVEY	* PRIVATE SECTOR DIAGNOSTIC PAPER & PRESENTATION
4. DIALOGUE WITH PRIVATE SECTOR	* HOW DO KEY PRIVATE/ PUBLIC SECTOR DECISION MAKERS VIEW THE DIAGNOSIS? * WILL PRIVATE SECTOR SUPPORT AID INITIATIVES? * WHAT INITIATIVES IS LOCAL PRIVATE SECTOR ALREADY UNDERTAKING? * WHO ARE THE IMPORTANT POTENTIAL IMPLEMENTING AGENTS? * WHAT ARE OTHER DONOR GROUPS DOING? * WHAT FORMAL AGREEMENTS WILL BE REQUIRED & HOW LIKELY WILL IT BE TO GET THEM?	* INFORMAL DIALOGUE SESSIONS * FOCUS GROUPS	* MINUTES OF MEETINGS * SUMMARY REPORT ON DIALOGUE RESULTS

MANUAL FOR ACTION IN THE PRIVATE SECTOR
(OVERVIEW)

PHASE	KEY QUESTIONS	ANALYTICAL TECHNIQUES	OUTPUTS
5. DESIGN STRATEGY	* WHAT ARE HOST GOVT'S PRIVATE SECTOR DEVELOPMENT STRATEGY OBJECTIVES? * HOW ARE GOVT GOALS RELATED TO AID'S OVERALL COUNTRY STRATEGY? * WHAT ARE THE PRIORITIES AMONG ACTION AREAS GIVEN CURRENT LEVEL OF RESOURCES? * WHOSE SUPPORT IN PRIVATE & PUBLIC SECTOR IS CRUCIAL & HOW CAN THE EXISTENCE OF SUCH SUPPORT BE DEMONSTRATED?	* OPTIONS MENU * STRATEGY MATRIX	* PRIVATE SECTOR DEVELOPMENT STRATEGY PAPER (FOR CDSS) * PRELIMINARY FEASIBILITY ASSESSMENT
6. DEVELOP NEW PROJECTS & PROGRAMS	* WHAT SPECIFIC PROGRAMS & PROJECTS WILL MOST EFFECTIVELY ACHIEVE GOALS? * WHO WILL IMPLEMENT THE PROJECTS? * DO THEY HAVE THE NECESSARY INSTITUTIONAL CAPABILITY?	* PIDS * PROJECT PAPERS * PAIPS * PAADS	* PROJECTS * PROGRAMS
7. DEBRIEF & EVALUATE	* WHAT HAVE BEEN THE FINDINGS & RECOMMENDATIONS OF MAPS FOR USAID PRIVATE SECTOR INITIATIVES? * WHAT RECOMMENDATIONS FOR ONGOING AID PROCESS SHOULD BE PRESENTED? * WHAT HAS BEEN LEARNED FROM THE PROCESS FOR SIMILAR FUTURE EFFORTS IN OTHER COUNTRIES?	* MEETINGS WITH AID	* FINAL REPORT

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ANNEX B

STRATEGY ARTICULATION DETAILS

STRATEGY ARTICULATION DETAILS

OBJECTIVE 1: Increase Capability to Deliver Technical Services and Inputs

STRATEGIES:

- Undertake agriculture and health research (LAPIS, CCCD)
- Provide training and technical assistance to:
  - MOA (LAP, LCRD)
  - MOE (BANFES)
  - MOI/VWSS (RW&S)
  - NUL (NUL)
  - MOH (CCCD, FHI, DLMD)
  - NGOs (FHI)
- Provide extension education in health and agriculture (CCCD, LAPIS)
- Create coordinating mechanisms (BANFES, LAPIS, LAPSP)
- Enhance data development, collection, and analysis in MOA and MOH (LAPIS, CCCD)
- Increase ability to plan for economic growth and labor utilization (HRDA)

OBJECTIVE 2: Develop and/or Improve Sector Policies

STRATEGIES:

- Promote privatization (LASPS, RW&S)
- Promote divestiture (LASPS)
- Eliminate subsidies for agricultural inputs (LASPS)
- Establish grazing fees (LASPS)
- Establish land leasing and pricing (LAPIS)
- Rationalize livestock, crop, conservation, and other policies (LAP)
- Fiscal and administrative reforms in educational system (BANFES)
- Land-grazing fees, areas, and associations (LCRD)

OBJECTIVE 3: Increase and Diversify Agricultural Production

STRATEGIES:

- Promote production of high-value cash crops (LAPIS)
- Land conservation and establishment of RMA/As (LCRD)
- Provide small agricultural project assistance (SPA, SSHF)
- Promote tree production and biodiversity (LAPIS)
- Conservation, agriculture, and other construction (FFW)

OBJECTIVE 4: Promote Import Substitution and Exports for Increased Self-Reliance

STRATEGIES:

- Enhance marketing capabilities (LAPIS)
- Training in export marketing (HRDA)

OBJECTIVE 5: Provide Relevant Skills Education

STRATEGIES:

- Provide teacher training (BANFES)
- Provide training in basic skills (BANFES)
- Provide adult education in marketing and business finance (NUL)
- Skills training (HRDA)

OBJECTIVE 6: Promote Microenterprises

STRATEGIES:

- Provide credit, funding, and training to small projects (SSHF)
- Individual training (HRDA)

OBJECTIVE 7: Enhance Access to Basic Health, Education, and Family-Planning Services

STRATEGIES:

- Provide primary education inputs, teacher training, curriculum development, and instructional materials (BANFES)
- Provide immunization and diarrheal disease control, and routine health services (CCCD, DLMD)
- Provide health education (CCCD)
- Provide family-planning education and information (FHI)
- Design, construct, and maintain rural water-supply systems (RW&S)
- Provide legal education (MDTF)
- Provide basic education (SPA, SSHF)

ANNEX C

MEMORANDA OF CONVERSATIONS

MEMORANDA OF CONVERSATIONS

A. Person/Organization: Barry Freeman/LAPIS Team Leader

MAPS Team Participants: Leifert, Bernius, San Martin, Lepele

Date: November 10, 1988

1. Sees opportunities for real profit in lowlands where intensive agriculture is possible. In the highlands, only extensive agriculture and livestock production, which are less profitable and hence of less interest to investors, are possible.

2. Private-sector enterprises may have real opportunity for profit in the marketing and herd improvement areas working with the small farmers.

3. Key problems for the development of a viable private sector in agriculture are access to credit, venture capital, and land tenure.

   a. Credit: collateral requirements are too high, though the banks are said to have (according to Mission economist and various reports read, such as TIPCO periphery study) excess liquidity. Both working capital and long-term capital are difficult to access.

   b. Land tenure: It is important to be able to understand the organizational problems that the present land tenure system presents for any type of larger scale projects. It is difficult to impose collective production idea in the minds of several hundred land occupants, many of whom are the wives of the absentee land owners who are away in the RSA. Government operations have often imposed these collectives without bothering to first deal with the organization problems in the area. Thus, production coordination is poor.

   c. The large land entrepreneurs that do exist have been able to operate by making leasing arrangements with their neighbors. This is the case of the owner of the Upper Qeme Fruit and Vegetable operation. He has been able to consolidate several plots. Apparently he pays not just a cash rent but with social infrastructure (houses, schooling) for the owners of the lands he leases.

4. Pinto beans have farmers excited. Apparently they grow well. A problem, however, may be the market. Grow beans for what? For whom?

5. Related to above, seed production apparently offers some real opportunities--maize, sorghum, wheat, beans (the pinto bean in particular). Could start seed operation in an area farm if only the government were willing to allow the leasing of a large tract of land for such a venture.

B. Person/Organization: Michael Mot'soene/Director of Field Services of Ministry of Agriculture

MAPS Team Participants: Leifert, Bernius, San Martin, Lepele

Date: November 10, 1988

1. Powers related to the development of the private sector are vested in the LNDC. The institution has been endowed with the responsibility of attracting investment into Lesotho. Some areas of LNDC activity are wool scouring with the Chinese, and cannery with the EEC. LNDC wants to appoint managers.

   The LNDC has had a hand, however, in thwarting Basotho entrepreneurial initiatives, such as was the case with the brickmaker who was initially financed by the LNDC but then was chased out of business by the LNDC foreign-capital-financed Loti Brick operation.

2. Government's approach to private-sector development seems to be to build large-scale operations and then have Basotho hired as salaried workers. GOL does not think small. It also shies away from the idea of competition. It seeks a "socialistic approach" to the development of the private sector.

3. Mot'soene identified the fellow who runs the Upper Qeme firm as one of the most successful entrepreneurs in the country. Reportedly, he is quite diversified. Owns tractors and a tractor repair operation. He is a fruit and vegetable producer and distributor, linking with other producers outside the area and marketing their goods in his own retail outlets in Maseru.

4. Since the Government is most interested in private-sector initiatives which promote "equitable distribution" development, selling any private-sector development initiatives to the GOL means they must be packaged in a way that is appealing to this idea of socialistic development.

5. There is considerable interest in the private sector and a lot of Basotho are interested in doing business with the Highland Water Scheme. This could be quite feasible since the development approach and the development authority being created for the Highland Water authority is similar to that created by the Tennessee Valley Authority in the United States.

6. The current Minister is favorable to the idea of leasing/contract farming the large state farms to private entrepreneurs for large-scale production, but given previous comments, it is clear that such projects/approaches must be packaged carefully.

7. MOA has no active marketing division; it exists but is moribund.

8. There are a number of private investors who have been attracted to the area of agricultural machinery parts production and agricultural equipment leasing who are doing well. However, the GOL is not looking favorably upon the idea of microenterprise formation/creation as being the engine of development, nor is much effort being expended in this area by the GOL.

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9. Mot'soene said the LNDC and the GOL always retain majority interest (51 percent) and that the LNDC will always press the new enterprise and insist it be managed by an LNDC appointee. In this manner they create jobs for "senior" officials.

10. Venture capital using indigenous funds was a definite possibility according to Mot'soene. According to him, the Agricultural Bank has a number of good projects ready for funding that in some cases involve foreign companies, but cannot be realized because of a lack of capital on the part of the local entrepreneur. He said USAID can/should (?) help directly (i.e. not through the GOL) in the area of equity participation.

C. Person/Organization: Mr. David Mosebo/Director of Development Administration in the Min. of Planning

MAPS Team Participants: Lepele, San Martin

Date: November 10, 1988

1. The government has been working closely with the UNDP in developing its own private-sector development strategy. A presentation on the constraints currently being faced by the private sector is scheduled for November 14 in Lesotho.

2. Key constraints as he sees it: access to credit, inhibiting legislation, and poor management skills.

3. The private sector is most dynamic and growing in the area of transport and catering.

4. The GOL is not happy with its involvement in large-scale enterprises and would like to get out of this area. Optimally, the GOL would like to sell its shares that depend on the larger enterprises to small business investors, e.g., selling shares of butchery or abattoir to livestock producers.

5. A new investment-incentive package for attracting the private sector to the country is currently being developed. Mr. Mosebo did not yet know what sectors will receive priority or what shape the package will take.

6. Lesotho is poorly endowed with natural resources, so GOL needs to move beyond its traditional focus on agricultural production. Agroindustry development is a priority, but Mosebo sees problems with obtaining raw materials to get them to work at full capacity. This is consistent with an opinion expressed by Doka of the World Bank (see below) who pointed out that it is best to emphasize smaller scale in agroindustry. Otherwise, the donor or investor will run into the problem faced by the abattoir: having to import raw material to keep the operation going. The cannery has the same problem and it is now reportedly idle 80 percent of the time.

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D. Person/Organization: Y. Doka/World Bank

MAPS Team Participants: San Martin, Lepele, Bernius, Leifert

Date: November 10, 1988

1. The World Bank is examining the possibility of making two lines of credit available to the LNDC, for industrial and agroindustrial projects. Possibly US$10 million available for this undertaking. The industrial line possibly through the LNDC and the agroindustrial line through the Agricultural Bank. The lines might assist rehabilitation, expansion, and new industry projects.

2. The key problem in his opinion is the policy environment. The land-tenure system, for example, presents some real constraints to agricultural development. Another aspect that concerns him is the tendency to favor large-scale agroindustrial projects rather than smaller concerns (see 6 abov). These are more management and import intensive. There was agreement that smaller-scale industry development might be the way to go and that this approach merited a better look.

3. The Bank is in the process of identifying viable agroindustrial projects. They will be coming out with a report over the next few months. The report will have a general section, followed by a "what exists" section and finally a "what's needed" section. The team has been asked to justify the lines-of-credit, which will include GOL policy, particularly land ownership, as a constraint to successfully implementing any new line-of-credit program.

E. Person/Organization: Albert Mokotso/Upper Qeme Fruit and Vegetables

MAPS Team Participants: Leifert, Lepele, Bernius, San Martin

Date: November 11, 1988

1. Mr. Mokotso is a private entrepreneur who has been in business since he was retired from government in 1970. He started producing on his own parcel of land with his wife. Today he has a large-scale fruit and vegetable production enterprise operating south of Maseru. He employs 257 people in this and other enterprises he has.

2. Mr. Mokotso concentrates on producing fresh fruits and vegetables for the domestic market. He imports all his inputs from RSA, including packaging material.

3. Mr. Mokotso controls his own distribution network. He has his own trucks for transporting to market and his own retail outlets in Maseru (the largest vegetable market in the capital).

4. He thinks a bottleneck at this point in his expansion is the lack of warehouses or collection depots in the countryside. There are no facilities to store the production.

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5. Has been able to rationalize production through land subleasing arrangements with tenants and local chiefs. The following are key characteristics of these arrangements:

   a. He leases land for a minimum of four years. The contracting arrangements he has devised give him usufruct of a parcel of land in return for a specific set of services to be provided to the lessee (it is not clear what additional cash payments if any may be involved). For example, he has recently negotiated a four-year lease of 100 hectares of good land. In exchange he has agreed to construct a house for the present holder of this parcel. Mr. Mokotso estimates that the house will cost about M 20,000 to build, but the land is good and the profits from production will more than cover this investment.

   b. At the end of the four years the land goes back to the original holder (though one supposes that lessees often choose to renew).

   c. Mr. Mokotso realizes that drawing up all these individual arrangements is a problem. To make the leasing system manageable he must keep an "extensive filing system" in order to be able to keep track of the various plots--which leases will expire when. He plans to computerize the system soon.

6. Mr. Mokotso feels the major constraint to agriculture production is the lack of long-term capital; he says that it is simply "impossible to get" because of collateral requirements. Lack of working capital is a problem as well, though not nearly as acute in his straight agriculture production operations as in his small industry ventures such as brick (concrete block) making.

7. He is considering selling shares of some of his enterprises to his key management staff to motivate them. Workers receive some sort of incentives as well, such as discounts on products.

8. Besides this agricultural production, he has started a brick-production operation near to his fields. He gets the crushed rock nearby and brings the cement in from Maseru (buys in bulk). He uses his brick output for constructing houses for lessees.

9. Mr. Mokotso feels very strongly that one of the problems in agriculture improvement in Lesotho is the GOL/donor approach whereby people are grouped together whether interested and knowledgeable about becoming part of an agricultural project or not. He thinks that the way out of this is for the GOL and donors to find a way of financing interested entrepreneurial farmers directly.

F. Person/Organization: Mr. Makhooane/AGRIVET

MAPS Team Participants: Leifert, Bernius, San Martin, Lepele

Date: November 11, 1988

1. Mr. Makhooane is a private businessman. His firm provides agricultural inputs and veterinary services. He started his business five years ago and now has two outlets, one in Maseru.

2. The main problems he sees in current government policy:

   a. The approach of working essentially with small farmers. Given that this is where the majority of the rural population resides and from where most of the household income is derived this makes sense in principle, but if the objective is to foment economic growth, there are real limitations in terms of what this approach can do. The government needs to begin working with and consulting the larger farmers and producers, to learn what they need to push ahead in their business, since they are the ones providing much of the employment opportunities.

      A problem in working with small farmers is that many of those who have land are not farming it actively but are absentee landowners. They work in the mines and their wives work the plots some, but generally invest relatively little time and effort. Incentives are needed to attract the capital of the migrant laborers into agriculture (see the figures from the USAID economist, which indicate increased disposable income in the hands of this group; these funds could profitably be directed into agriculture production).

   b. Markets are underdeveloped and thus production incentives are nonexistent. He mentioned the case of the yellow maize producers. They have not been able to sell the yellow maize and thus are not producing as much. They are not able to sell because they have no way to get their production to the market, they lack information on prices and storage facilities. This type of maize has also not gained acceptance by consumers.

   c. Too much concentration on staple crops. This is not where Lesotho has its comparative advantage, as the RSA can produce field crops much more efficiently and cheaply. This point was also mentioned by the USAID economist. Achieving self-sufficiency through the production of staple field crops may be a wrongfully conceived strategy. Achieving self-sufficiency in production may nevertheless leave the country much more dependent on the RSA since these crops require many imported inputs. Lesotho should be concentrating on high-value cash crops, such as the asparagus. He doesn't understand why more asparagus is not being produced.

3. Suggests that the best strategy for fostering agriculture development is the "lead farmer" approach, and providing incentives to these lead farmers. This strategy would put at the disposal of the progressive farmers the resources they need to produce. Their success will inspire other producers.

4. The major obstacles to the development of his business and the private sector in general are:

   a. The SACU agreement. It allows the free flow of goods in and out of the country. Thus, businesses like his are in direct competition with their suppliers. It means that he, for example, ends up only having the smaller (and less affluent) farmers as clients. The larger producers have their own contacts in RSA and order directly from them.

   b. Competition from government parastatals. He gave the example of Coop Lesotho, which sells fertilizer at subsidized prices and

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thus in effect cuts out private-sector firms from the business of fertilizer supply. When the Coop decided on this policy it did not consult with the private sector. Coop Lesotho also receives new trucks from the government, thus enabling it to compete more successfully with the private sector.

In part he says such unfair competition by the parastatals is often fostered by the donors themselves. Few donors work directly with the private sector. They only work with the GOL. They channel funds to the parastatals and this enables them to offer goods at subsidized prices, driving the local entrepreneurs out of business.

5. Areas which offer good prospects for growth and profit:

   a. Seeds. At the moment, seeds grown in Lesotho are sold to the RSA which then processes them and sells them back to Lesotho at a very high price. The RSA is simply cleaning, sorting, and packaging them, adding relatively little value, but selling at a good profit. Makhooane sees no reason why he or another Lesotho businessman cannot do the processing in-country. He has put together a feasibility study on a seed-processing plant called Lesotho Seed Processing. The design calls for contracting with small farmers in Lesotho. He would be interested in talking to U.S. companies on the possibility of a joint venture. He already has the locale, but has not been able to raise capital for the machinery and operation. The World Bank and the African Development Bank are both interested in his project, but have asked that he refine the feasibility study. The Agricultural Bank has also asked for further refinement. He has invested a lot of time and effort in the development of this feasibility study, but donors always ask for another refinement. This suggests that an outfit that can prepare feasibility studies for entrepreneurs and put them in the format required by the lending institutions may be a useful mechanism for facilitating access to capital.

   b. Poultry (broilers). He notes that the number of broilers imported from RSA is significant. Thus, in his view, there is a real market for this product. But though there is real interest in establishing such an operation by the private sector, local businessmen have been discouraged from investing in this area because there is a large project sponsored by the Italian government and GOL which will lend US$15 million to establish a broiler-producing operation.

   c. Wool and mohair scouring. The Highland Water Project will provide a good opportunity to establish a scouring plant, which requires a large quantity of water.

   d. Freshwater-fish production. The Lesotho trout is apparently of very high quality and fetches a better price than the saltwater fish in RSA. There are no commercial hatcheries at this time. Again, the Highland Water scheme may provide better facilities for establishing hatcheries.

   e. Soya bean production. Field trials performed in the country suggest soya grows very well. It can be produced for high-protein meal for animal feed and could compete with RSA imports.

G. Person/Organization: Mrs. O. Moji/Director of New Industries of Lesotho National Development Corp.

MAPS Team Participants: Bernius, Lepele, San Martin, Leifert

Date: November 11, 1988

1. Mrs. Moji said little had been done to promote small commerce in Lesotho. Small businesses in rural areas were not springing up except for cafes and handicrafts ventures. The promotion of small commerce did not come under the auspices of the Lesotho National Development Corporation (LNDC) but was the responsibility of the Basotho Economic Development Corporation (BEDCO), a LNDC subsidiary. BEDCO, however, was experiencing severe problems and was not doing much. When questioned as to the reason for such problems, Mrs. Moji identified too heavy a reliance on external technical assistance and the failure of the donor to build indigenous management capability as the key contributors to the BEDCO situation. Mrs. Moji said it was necessary to revive BEDCO or at least its function because its small-enterprise function was important.

2. In response to a question on how the donor programs could be modified to better support and be more complementary to the private sector, Mrs. Moji noted the following:

   - Inadequate attention has been paid in project design and negotiation to the ultimate beneficiaries and an inadequate effort has been made to involve them in project design. She questioned if people were just taking advantage of an opportunity without understanding or commitment.

   - Institutional weaknesses have prevented the GOL from preparing the people in the rural areas for the arrival of donor projects. The Village Water Supply Project (Rural Water Supply and Sanitation Project) was identified as a project that had been successful because community involvement in the design and implementation of the project had been encouraged.

   - An increased effort must be made to determine the peoples' commitment to the project/program.

   - Decisions are made by the government and not by the people involved in the project, i.e., the rural beneficiary.

3. The following areas were identified as having potential for private-sector growth:

   - Agriculture: increase production (livestock may be more important than crops right now according to Mrs. Moji)

   - Agroindustrial processing (privatization of the cannery is being discussed within the GOL).

4. Mrs. Moji noted that policy changes in a number of areas could facilitate private-sector growth. Further, USAID could assume a stronger position in negotiations with the GOL regarding such changes. Mrs. Moji said that USAID could possibly exercise a stronger influence over policy development if it bargained more strongly.

-M/

5. LNDC provides the following services to new firms;

   - Factory shells for rent. Will help with specialty construction but prefer to only construct shells that can be used readily by another investor in the event the original business fails.
   - Limited loans (as resources permit).
   - Training grants--up to 75 percent of training costs.

6. The GOL will provide:

   - Tax holiday; LNDC will assist with pressing investor's case.
   - Registration.
   - Permits for expatriate personnel.
   - Access to the Financial Rand with freedom to transfer dividends and to sell off equity after a minimum period of time (exact number of years not known).

7. LNDC is looking into a wool/mohair scouring plant, ceramics, agroindustrial, and textile investments as priority-type projects.

8. On general subjects, Mrs. Moji said the government was looking into debt for development, but here again no decisions have been taken. They expect the LNDC to be in strong shape financially in three to five years. At present, the LNDC has lines of credit from the ODA (about exhausted), ADB, IBRD, and the European Investment Bank.

9. Mrs. Moji said the LNDC has received a number of proposals for joint ventures where the proposing Basotho partner was unable to obtain financing (equity) and the deal died even though there were foreign investors in the wings. She thought there might be some opportunity here for donor involvement.

H. Person/Organization: Moruti Mphatsoe/General Manager Loti Brick

MAPS Team Participants: Bernius, Leifert

Date: November 14, 1988

1. Loti Brick (Pty) Ltd. was established in 1980, with assistance from the GTZ through KFW, Inc. of West Germany, and with the Lesotho National Development Corporation (LNDC) holding 100 percent of the equity. It is still a 100 percent LNDC-owned parastatal. Loti has a 1988 production target of 20 million bricks, up from its 1980-1983 production level of 5 million. There is one 14-hour extended shift.

2. Mr. Mphatsoe said that Loti exports to the RSA were halted after local clients raised a fuss over the lack of bricks available in Lesotho. He estimated local demand to be 50 million bricks per year. The demand for Loti bricks in the RSA is still high, he said, because Loti can supply more cheaply than can the brick manufacturers from Bloemfontaine. Loti presently turns down orders for 2.5 million

bricks per month. There is a net profit of 50 Rand per 1,000 bricks.

3. Demand is expected to increase with implementation of the Highland Water Development Scheme. Nevertheless, even with the present unsatisfied demand and good forecasts for future demand, the Minister of Finance, through his position on the Board of the Lesotho Bank, has turned down the Loti Brick request for a loan to purchase needed drying and brick-handling equipment to raise its capacity. Mr. Mphatsoe expressed his confusion over the lack of approval and action by the GOL to expand the factory.

4. Outside investors have submitted proposals for brick-making factories, but Mr. Mphatsoe was unsure if LNDC would approve these potential competitors' applications.

5. On the personal side, Mr. Mphatsoe discussed a problem he has experienced obtaining finance for what he considers a good business proposal. He has not been able to obtain financing for the project because he lacks his own capital to put into the venture. The multinational company he has proposed his project to may implement it on their own (i.e., without indigenous participation) if Mr. Mphatsoe cannot come up with his contribution, but would hire him to manage the business. He considers this a less-than-ideal arrangement. His complaint is that the conservative nature of bankers, who require significant collateral, is stopping potential Basotho entrepreneurs from going into business and slowing the pace of development in Lesotho.

6. In regard to this last, Mr. Mphatsoe said that LNDC can not lend him the money because it says it has no money to lend. He said that Lesotho is in need of a development bank with lendable funds oriented to indigenous businesses because the LNDC, even with funds, favors foreign-company investment proposals.

I. Person/Organization: Mr. Moeketsi Masilo, Deputy Chief Executive/Lesotho Highland Water Development Authority (LHWDA)

MAPS Team Participants: San Martin, Lepele, Leifert, Bernius

Date: November 15, 1988

1. He finds the private sector in Lesotho extremely disorganized. The HWDP presents many opportunities to local entrepreneurs, but the local businesspeople have not responded as hoped. For example, the contractors and consultants working in the area need all kinds of food products, so that the local catering business has a golden opportunity to build up clientele. Yet the local businesses have not been able or willing to offer competitive prices and contractors have found it easier to procure vegetables and other food products in Johannesburg.

2. The major contracts for the project will be awarded starting in 1990. LHWDA has sole responsibility for employing and supervising contractors to the HWDP.

3. Besides catering, there are many other areas where the local private sector can find business opportunities: transportation and construction of houses and access roads are examples. Further, that while the LHWDA wishes to give preference to local contractors, they are mostly unable to find any local businesses who are qualified to undertake the proposed work.

4. According to Mr. Masilo, the private sector seems to be unresponsive to LHWDA's requests for proposals. All that the LHWDA does is put to competitive bidding. The LHWDA advertises RFPs through advertisements in the local media, but these RFPs seem to go unnoticed by local firms.

5. In view of this situation, LHWDA has had to alter the way it seeks contracts and the manner in which they put out RFPs.

   a. For example, local firms failed to respond to an RFP for building replacement housing (to replace houses that had to be removed because they were in the way of road or other infrastructure construction undertaken by the project). The LHWDA then went to the chief architect and asked for a full list of local contractors. Using this list they short-listed some ten to fifteen firms that seemed most qualified. They took the RFP directly to these firms and asked them to bid. Only seven of these submitted a bid. Finally they were able to contract two firms, one to do the replacement housing and another to do a small access road. This required a large expenditure of time and effort outside the direct purview of the LHWDA.

   b. Originally they were going to put out three major contracts to undertake the housing program. Since no local firms could operate at the required scale, they split these into eleven smaller contracts.

   c. Sometimes they bend deadlines to give local firms a chance to respond, but even in these cases they may not find locals who can do the job. For example, the LHWDA put out an RFP for catering services, yet few local businesses tendered proposals. A women's organization was late in tendering, but their bid was still allowed by the LHWDA in the hope they would be able to work with them. As it turned out, their bid was unacceptable because they asked LHWDA to get too many things for them: a consultant to tell them which equipment to buy, training for their staff, etc. LHWDA says that it is in the business of implementing the HWDP, not training people. Such support and training should be offered, in his opinion, by the GOL, especially the Ministry of Trade and Industry.

6. In an effort to communicate its needs more effectively to the business community, LHWDA has formed a small liaison committee, which contains representatives of the LCCI and the university.

7. There are no studies that analyze the impact of the HWDP on the economy. ODA is interested in doing such a study.

8. All work in the HWDP which has to do with water transfer is being financed by commercial loans. The part of the project dealing with hydroelectric power generation is being financed with a mix of commercial and concessionary loans.

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9. The project is designed in such a way that the RSA is guaranteed repayment of the loan in advance by discounting charges they would pay for the water. The royalties are based on the difference between what it costs the RSA now to get water and what the costs will be once the HWDP is operational.

10. According to Mr. Masilo, the role USAID and other donors should play in promoting the private sector in Lesotho is:

    a. Facilitate access to investment capital. At the moment it is impossible to get access, mainly because the collateral requirements are too high. Thus, local businesses cannot get the capital to equip themselves and become competitive on LHWDA bids.

    b. Advise/provide technical assistance regarding the bidding process and successful proposal preparation.

    c. Promotion of joint ventures with experienced bidders. A firm in the RSA has already agreed to a joint venture with local businesses to guide them in the provision of catering services to the project. This was done through the auspices of the LHWDA, though he feels that this sort of work should be the responsibility of LNDC.

11. LHWDA has been unable to attract donor interest and support in project promotion related to the water-transfer scheme, only to those projects related to hydroelectric power. Since the water is sold to the RSA, other countries do not want to be involved lest they give the appearance of promoting apartheid. Thus, LHWDA has had a difficult time coordinating its development activities with those of other donors. For example, Sweden is developing regional development plans for the GOL, but their work does not cover the water-transfer area. LHWDA is doing a plan for this area and has been unable to coordinate its activities with the Swedish-sponsored activities.

12. The reservoir created by the project will offer good opportunities for business expansion in the area of fisheries development.

J. Person/Organization: R. Lister, Project Manager and D. Dickson, Plant Manager/Lesotho Dairy Products (Pty) Ltd.

MAPS Team Participants: Lepele, San Martin, Bernius, Leifert

Date: November 15, 1988

1. Work was initiated in September 1984 with the arrival of the three-person technical assistance team supplied by CIDA/Canada. The milk-production plant was completed in December 1986. The legal structure of the company was not decided until its commissioning at the end of 1986. A private (Pty) structure was negotiated with the GOL with share ownership in the hands of the newly created National Dairy Board.

2. The long-term plan is to sell shares in the Dairy to producers in accordance with their production and supply of milk. Shares are presently being sold to groups of suppliers rather than individuals

to minimize the possibility of control by any individual(s). Residual shares are held by the Board.

3. A second phase is planned for September 1989. Facilities will be upgraded and the technical assistance contracts will be extended. CIDA has been requested to grant fund second-phase costs.

4. The dairy's problems revolve around competition from the RSA and obtaining a sufficient volume of milk from widely dispersed, low-individual-volume rural producers. Competition will be addressed by the imposition of import regulations by the GOL wherein the dairy will provide licenses to RSA suppliers to export milk to Lesotho. The wholesale and retail prices of milk will be dictated by the Board. The dairy, in essence, will be granted control on an almost monopolistic basis, with competition coming only from indigenous, low-volume producers. The problem of supply of milk to the dairy will be ameliorated by the construction of additional rural collection facilities.

5. The dairy and the GOL have worked out a system of protection for this new industry. Both believe that complete protection measures are necessary because the dairy can not survive competition from the RSA. In addition, the expatriate technical assistance is still believed to be necessary because of a lack of indigenous technical and management capability. Plans are in place to replace the expatriate technical assistance in the future, but not to remove the barriers to competition imposed on the RSA. The price-fixing system is believed to be flexible enough to neither discourage production nor impose an unreasonably high price on consumers.

K. Person/Organization: Mr. Phallanga Mokhesi, Accountant/Basotho Fruit and Vegetable Canners

MAPS Team Participants: Lepele, San Martin

Date: November 15, 1988

1. The Basotho Cannery is a wholly owned subsidiary of LNDC. It was built in 1976 as part of the Thaba-Bosiu Rural Development Project. The cannery was built with the support of the EEC and it was established to process asparagus of high quality for export to this market. The project established farms for ninety-six farmers in the lowland areas surrounding Maseru. In 1988, it had helped establish and was buying the produce of more than 1,000 farmers who produced only for the cannery. The goal is to have about 2,200 farmers involved in the project by 1991, at which point it is estimated that 2,000 tons will be harvested per year. Lesotho has a very high yield per hectare for dryland asparagus--4.7 tons compared to 3.7 tons for the RSA.

2. In 1988, Basotho Canners are selling about 75 to 90 percent of their processed and fresh asparagus to the EEC. Over 90 percent of their product line is asparagus. The rest is made up by peaches and baked beans in tomato sauce. They are looking into processing rose hip into jelly, but have had difficulty developing a palatable product. All the asparagus farmers operate in a radius of fifteen kilometers from the cannery.

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3. The farmers have an average of 0.2 hectares. The farms are established with the assistance of the cannery. It takes three to four years to establish a farm and bring it to full production. The farmers are given long-term loans of approximately 1,000 rand to prepare the farm. These loans do not have to be repaid until the fourth year. They also have access to short-term loans to help them pay for inputs and harvesting costs. The cannery also has an extension service.

4. The contracting arrangements for asparagus are apparently very informal. There is nothing written. But since there is no local market for asparagus they can only sell to the cannery.

5. The peaches and beans are obtained by advertising over the radio that the cannery is buying these products, with the prices they are offering for different varieties. The beans and the peaches are brought to the cannery by the farmers directly. The cannery has no trucks or collection points for these products, though they do have collection centers for the asparagus.

6. Prior to 1988, the cannery was buying the peaches and the beans from the RSA. This year they have been only buying from local producers since they have been able to get sufficiently high-quality products.

7. The cannery has started its own nursery for cling peaches and is selling to farmers. This is the best type of peach for canning. The peach they used for nectar does not need to be of the same quality.

8. The cannery reports a profit margin of 40 percent on the asparagus sold to the EEC, either canned or fresh. They have very low or almost no profit margin on the peaches and beans processed and sold locally. They continue operating in these products because they want to find ways to make the business less seasonal.

9. Apparently they have done very little market research. They would like to diversify their export line and to get other export markets, but they have very little sense of what other crops present opportunities or what other markets exist for their products. They tried fostering the production of high-quality cut beans, for example, but soon discovered that Kenya was more efficient in this area so they discontinued this project. Likewise, they seem to have few linkages with other agricultural projects in Lesotho. They know projects such as LAPIS are fostering high-value crops, but do not know which crops, or where they are being grown, or if there is potential for linking up their operations with this production in some way.

10. The cannery is, at this point, a seasonal operation. The high season (when asparagus production is taking place) is September to December. At this time they employ about 700 workers. From January to April, when some processing and shipping activity (of asparagus and some peaches) is going on, they employ about 200 persons. From May to July they only employ 50. Many of the purely seasonal workers are female, the wives of miners, and what they make is supplementary family income.

11. In the high season the cannery is operating at 75 percent of capacity. They have the capacity to process twenty tons per day and

now (November 1988) are receiving eight to fifteen tons per day from the field. Their cutter, however, through a design flaw, can only process eight tons per day so they have a production bottleneck. Since harvested asparagus must be canned within twenty-four hours, they have been forced to export the product fresh by airplane to the EEC, instead of canning it all as it was originally envisioned. They are looking into buying a new cutter.

12. By the time all the asparagus farms envisioned in the original project design are producing, they will not be able to handle this production. Thus, they are also analyzing the possibility of expanding their capacity. The problem is that while they are barely able to handle production during the asparagus season, they have excess capacity the rest of the year.

13. They would like to diversify their asparagus production line. They tried asparagus soup, but there was little margin in that due to shipping costs (high water content of the product). They are now considering the development of asparagus soup and would like assistance in the development of freezing technology.

14. Working capital is particularly important in a seasonal business such as the cannery and they have had a difficult time obtaining access to such capital. They must pay farmers about M340,000 per month for the fresh asparagus, plus another M200,000 more for factory labor wages and input. On shipments to the EEC, it takes two to three months for payment to come through. After much negotiating, they were able to establish a line of credit to support these operations through the export financing scheme and LNDC.

15. The cannery's most pressing needs are:

    a. Access to appropriate production technology.

    b. Research and development in alternative processing technologies (freezing, powder), jelly production (particularly rose-hip jelly).

    c. Agricultural and marketing research, particularly to search for other high-value crops that can be profitably produced and processed by the Cannery.

    d. The establishment of marketing infrastructure--collection depots, warehouses, transportation systems--which would allow the cannery to expand its contracting arrangements beyond the present fifteen-mile radius.

L. Person/Organization: Moletsane Mokoroane, Minister of Trade and Industry, Mr. Simon Phafane, Principal Secretary for the Ministry of Trade and Industry, and Mr. A.M. Monyake, Managing Director for the LNDC

MAPS Team Participants: DeGraffenreid (USAID/Maseru), Lepele, San Martin, Bernius, Leifert

Date: November 16, 1988

1. The Minister said that the government needs to be very careful when promoting investment in the country. There are many "fly by night" operations, looking to make a quick buck and move out. They are not interested in these sort of people. He understands that the government may sometimes be too zealous in its screening.

2. Privatization must be undertaken very carefully. It is necessary that the process benefit the people of Lesotho and not just a few wealthy individuals.

3. The GOL is no longer insisting that those who wish to invest in Lesotho go through the LNDC or BEDCO. The GOL does not require majority equity participation in any business establishment, except those which are of "strategic concern" to Lesotho, that is to say domestic-resource-based industries.

4. The Minister and Principal Secretary agreed that a key constraint to agriculture and agroindustrial development is the land-tenure system. No land can go to the individual as his own property because all land belongs to the government. The LNDC, however, has the power to allocate land to development projects.

5. Agroindustry has remained underdeveloped in Lesotho because of a lack of raw materials. Raw materials are scarce because of a lack of marketing infrastructure, low productivity, and bad management. They would like to promote the establishment of a tannery, but realize they lack the raw materials to enable the tannery to operate at a profitable level without having to increase imports from the RSA.

6. Mr. Monyake said that USAID has invested over US$100 million in agriculture in Lesotho. He questioned the results and the effectiveness of these investments. He said that USAID needs to review its strategies, because many of the past programs have not been cost-effective. The Lesotho farmers are very motivated groups. All they need is to have access to credit. There is no longer the same need for extension and technology assistance as in the past. The need now in agriculture is to increase access to credit and to improve and build up the marketing infrastructure.

7. The HWDP is providing many opportunities for the private sector, but in order to be able to take advantage of them, businesses need to operate at a larger scale. They would like to get away from the idea of just promoting SME in rural areas and focus on larger enterprises.

8. The GOL is interested in eventually selling off shares of its parastatals, but have to be very careful regarding who they sell the shares to and when. They want to ensure there is equitable participation in the benefits of growth and development. They

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realize that the private sector is a key agent in the development process of the country, but they seem perhaps a bit concerned with the equity consequences of privatization and investment promotion activities.

9. The LNDC can lend money to local entrepreneurs to raise their share of equity capital, but in return, LNDC demands a role in the board of the corporation to oversee the use of their investment. They will not demand management or board control, unless as mentioned above, it is in a "strategic" area, or the LNDC controls a majority of the equity.

10. Lesotho is the first country in the region to establish an export financing scheme. The GOL officials present felt that this was a unique opportunity for private-sector activity.

M. Person/Organization: G.T. Moneheng (Chairman), T.C. Mofolo (V-Chairman), A.M. Mejara (Assistant Secretary), T.L. Makhooane (Treasurer, Z.B. Molete (Executive Officer)/Lesotho Chamber of Commerce and Industry (LCCI)

MAPS Team Participants: Leifert, Bernius, San Martin, Lepele

Date: November 16, 1988

1. The LCCI has at the moment approximately 1,500 members nationwide. They estimate this represents about 30 percent of the total number of commercial establishments in the country. There are LCCI offices outside Maseru and LCCI representatives from around the country get together for a yearly meeting in Maseru.

2. About 90 percent of the members are small traders, though the LCCI does not restrict their membership to the commercial sector. The LCCI would like to be able to attract larger businesses and businesses in sectors other than trade. They feel they have the following to offer to these groups:

   a. Farmers can benefit from networking and fostering linkages with the commercial community. Traders are usually relatively wealthy people in their communities. They are also moneylenders. As such, agricultural producers can use them as resources to help gain access to machinery and capital. Traders can form market centers for farmers' produce. The LCCI is an ideal mechanism for building up these linkages between production and marketing. It was suggested that the MAPS survey should try to identify activities that traders can take on in support of agricultural production.

   b. Many of the clients of the larger businesses are the smaller traders. Again, the LCCI can serve as a networking vehicle.

3. Besides networking advantages, the LCCI sees itself as an effective lobbying group. They feel they have influence with government policy. The GOL consults with the LCCI on policy initiatives. The LCCI has prepared position papers on various issues as well.

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4. Other types of services provided by the LCCI are:

   a. Legal representation in cases where there are problems with creditors.

   b. Identification of consultants who can perform feasibility studies.

   c. Answer queries regarding government policies and help interpret GOL regulations affecting businesses, e.g., income or corporate tax provisions.

5. The LCCI is a volunteer organization. It has only four permanent staff. They have at the moment no executive director, though they have been searching for one which will be funded under a USAID grant. They charge each member 20 rand per year in membership dues.

6. The LCCI feels that there has been too much emphasis placed on agroindustries. They say that every donor mission with whom they have spoken always wants to know about projects in agroindustry. There are many other opportunities outside agriculture. Agroindustry only contributes at this point 5 percent to exports because Lesotho has a very competitive neighbor, RSA. It is difficult for them to compete with the RSA and it is impossible to think of exporting anything there.

7. The LCCI members interviewed believe that donors need to think about promoting private-sector growth in areas other than agroindustry. In their view, if Lesotho is to progress and offset its deficit, it must industrialize. There is also a lot of interest in manufacturing activities. They think there are good markets for Lesotho manufacturers in the PTA and SADCC countries.

8. None of the businessmen present in the meeting said they had been unable to get overdraft facilities, though they said that it was impossible to obtain these in the private banks. Further, that they had had sufficient collateral for the size of overdrafts needed.

9. They think there are real opportunities for foreign investors under licensing agreements and joint ventures. These modes are preferable to turnkey operations because that way the foreign investor risks less.

N. Person/Organization: Dr. D.R. Phororo/Minister of Agriculture, Cooperatives and Marketing

MAPS Team Participants: Lepele, San Martin, Bernius, Leifert, B. Hill (USAID/Lesotho)

Date: November 16, 1988

1. The MOA has sent a request to FAO for an indepth comprehensive study of where the country is in its agricultural development. They believe there is already a lot of agroindustrial activity, though most of this activity is in the hands of the government.

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2. Dr. Phororo said that there is real interest in the GOL in privatizing many of these activities. The MOA must confine itself to a purely regulatory, research/development, and promotional (e.g., extension) role. But the privatization must proceed carefully. The GOL wants a privatization scheme that ensures that the profits from these parastatals are reinvested in agriculture to benefit the farmers. The privatization should also promote and support GOL equity goals, so they would not want to allow excessive concentration of power in the hands of a few shareholders.

3. He thinks that irrigation schemes should be run as commercial enterprises, but realizes that the present land-tenure system may be a barrier to this goal. An adequate system of compensating the landholders needs to be devised (maybe equity share in the business). He knows that such leasing/compensation arrangements are possible. He highlighted the experience of the Upper Qeme operation, and the types of leasing arrangements that are possible.

4. The Minister noted that the landholders are usually amenable to leasing arrangements, such as those reached by the Upper Qeme enterprise, because they see the opportunity for greater profit than if they were to work the land directly. He says that at this time the Lesotho and the Agricultural Bank are accepting leasing arrangements as collateral. The commercial banks are not, so that it may be necessary to undertake some regulatory action. Thus, he says that it is possible to undertake commercial farming under the present tenure system.

5. The Minister is interested in proposals for the creation of primary and secondary capital markets as mechanisms for achieving privatization.

6. The Minister is interested in mobilizing banking resources into the rural areas. But at the moment, coordinating mechanisms between the MOA and the Agricultural Bank are weak because the Minister does not have a seat on the Bank's board, though he is supposed to. Evidently the matter is undergoing some form of legal action.

O. Person/Organization: Rony M. Sabah/Counsellor (engineering), EEC

MAPS Team Participants: Bernius

Date: November 18, 1988

1. EEC Counsellor Sabah reported that the EEC program and orientation in general is increasingly focused on the private sector. In Lesotho, the EEC program reflects this focus and is heavily directed to the promotion of the private sector.

2. The EEC has begun negotiations leading to the Lome IV meeting. Sabah said it is not known if the EEC will be able to guarantee the same access as countries have in the past enjoyed. He said the EEC anticipated that certain single-product economies may well be hurt. Competition between African countries to protect their access to EEC markets has begun, but the EEC anticipates certain African countries will be disappointed by the Lome IV outcome.

3. Sabah said the EEC is very pleased with their participation in the cannery. He noted that additional investment in the facility is not being considered at present as capital availabilities are considered adequate. Sabah said the EEC has looked extensively at other vegetable products the cannery might process. To date, however, they have failed to identify a single product that would be feasible to process. Among the products considered are cucumbers, tomatoes, cabbage, and cauliflower. On the question of fruits, Sabah said they were less sure. Efforts to can nectar and peaches have encountered taste problems unrelated to the fruit (i.e., canned fruits were too sweet, etc.). Efforts are under way to resolve these production type problems, but Sabah said they have yet to fully define the market for such fresh or canned fruit. Sabah said the EEC was concerned over the production of such fruit in Lesotho, noting that fruit production was presently limited, was widely dispersed, and posed serious problems in collection and processing for the cannery.

4. On the issue of privatization, the EEC felt there is a growing awareness in the GOL for the need to privatize. He said this realism may be the result of growing financial problems. The GOL was now considering a range of proposals, such as the privatization of certain aspects of the national health system, which would have been previously rejected. He sounded one note of caution: when the GOL and donors talk about privatization they must be willing to recognize that the Basotho are not financially sophisticated and privatization may not mean placing 100 percent of equity in Basotho hands.

5. The EEC is heavily involved in the Lesotho Highlands Water Scheme, both in the financing of the design of the scheme and in peripheral activities connected to the project. A consultant is presently in town to look at marketing opportunities and microenterprise-development possibilities related to the Highlands Scheme. Sabah said the EEC view is that all collateral microenterprise development related to the Highlands project should be in private hands. He said the GOL is not in agreement with this approach and is already planning a fisheries operation that would remain in government hands.

6. In the wool and mohair area, Sabah said the EEC was involved in price stabilization of mohair under their Stabex program. The EEC is also involved and has made available M1 million for the export-enhancement scheme recently approved by the GOL. Sabah said these funds were from counterpart sources and they were not certain, at this point, how effective or active the program would be. The EEC is also involved in a project, now in its second phase, to improve animal strains.

ANNEX D

TERMS OF REFERENCE--DESCRIPTION

OUTLINE OF THE TERMS OF REFERENCE
DESCRIPTION OF THE LESOTHO PRIVATE SECTOR FOR MAPS

1. The key objective of this exercise is to identify data sources and develop reliable statistics that describe the private-sector contribution to GDP, export earnings, investment, savings, and employment, at both the national and sectoral levels.

   a. These statistics will, to the greatest extent possible, cover the period 1978 to 1988.

   b. These statistics should come from the most recent and reliable sources available.

   c. The sectors of interest for this exercise are: Agricultural, Agroindustrial, Manufacturing, and Services. Within each of these sectors, the data gathered will be broken down at the following level of detail, unless otherwise specified:

      i. Agriculture production: Horticulture crops, fruit, field crops, poultry (layers and broilers), wool and mohair, cattle (meat), cattle (dairy), other.

      ii. Agroindustrial production: butchery products, dairy products, processed wool and mohair, weaving with wool and mohair, leather goods, processed fruits and vegetables, milling products, footwear, brewing products, other beverages, agriculture inputs (fertilizer, seeds, other), other.

      iii. Manufacturing: handicraft (pottery, jewelry, etc.), clothing (textile), wood products, bricks, steel and other metal products, other manufactures.

      iv. Services: sales/repairs of vehicles, transportation (including air, road, rail), building and construction, tourism (including catering/hotels), financial and insurance services, wholesale/retail, communications, other services.

2. Using Lotus (or another comparable spreadsheet program), the statistics identified and developed in 1 above will be incorporated into a matrix, which will be used to estimate the following parameters at the national, sectoral, and subsectoral level (as described in 1.c above):

   a. Contribution of private sector to GDP 1978 to 1988 (or for the most recent years available).

   b. Contribution of private sector to employment 1978 to 1988 (or for the most recent years available).

   c. Contribution of private sector to fiscal revenue, compared to other sources of revenue (migrant labor, SACU receipts). This will be done for the years 1978 to 1988 and at the sectoral level only.

   d. Contribution of private sector to investment 1978 to 1988 (at the sectoral level only).

   e. Contribution of private sector to foreign exchange generation (1978 to 1988 by subsector).

f. Contribution of private sector to household income from labor (1978 to 1988 at the national level and by subsector).

g. Contribution of internal and external sources to credit availability (1978 to 1988 at the national level only).

h. Government budget (central and parastatal) as percentage of GDP (1978 to 1988).

i. Government expenditures by source (1978 to 1988).

j. Imports as a percentage of total supply of goods by subsector (1978 to 1988), from RSA and from other countries.

k. Exports to RSA, EEC, and other countries by subsector (1978 to 1988).

3. Identification and development of descriptive statistics on parastatals, including:

a. The contribution of each parastatal to GDP (1978 to 1988)

b. Contribution of each parastatal to direct and indirect employment.

c. Contribution of each parastatal to foreign exchange generation and to volume of exports.

4. Identification of statistics on migrant-labor income 1978 to 1988, including:

a. Migrant-labor wages as a percentage of GDP.

b. Contribution of migrant-labor income to fiscal revenue.

5. Identification and development of descriptive statistics on the microenterprise sector, including its contribution to GDP and employment for the most recent years available.

6. It is not expected that the work detailed in sections 1 through 5 above will require original research; secondary sources of data may be used. Thus, it is recognized that it may not always be possible to develop statistics at the level of detail for the time period specified above. Nevertheless, the MAPS team has been able to establish that many of these statistics are already available. The SAM (social accounting matrix) developed by the USAID Mission economist, Dr. Joe Carvalho, may be used to estimate many of these parameters, in particular the private-sector/non-private-sector breakdown of economic activity in Lesotho. In order to do this correctly, the SAM should be updated with new data out of the Bureau of Statistics for a new year (FY 1987/88 perhaps). However, this would take up considerable resources. Dr. Carvalho estimates four to six person months. Thus, a full update may not be possible in this exercise. However, effort should be made by the contractor to update those parameters related to the areas of interest to the Mission, agriculture, and agroindustry.

7. The MAPS description will include the development of a set of graphics that will illustrate the data estimates described in 1 through 5 above.

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8. These graphs will need to be of high quality (of the sort produced by a software such as Harvard Graphics or Quatro; Lotus graphics capability is inadequate for this exercise). They should be produced in a laser printer for optimal results.

9. It is expected that the description team will provide weekly updates to the Mission and the MAPS team on the progress towards the objectives specified above.

10. It is expected that the time period allotted to this exercise will not exceed four weeks. There should be a bonus awarded for delivery of the final product prior to the deadline.

11. Manpower requirements will be: one or two economists and two research assistants (up to a total of six to eight person weeks of economist time and eight person weeks of research assistant time).

ANNEX E

TERMS OF REFERENCE–DIAGNOSIS (SURVEY)

OUTLINE OF THE TERMS OF REFERENCE
DIAGNOSIS OF THE PRIVATE SECTOR IN LESOTHO

1. The objective is to conduct a survey of Lesotho businesses which will provide unbiased, statistically significant information on the perceptions of local entrepreneurs regarding opportunities and constraints for private-sector development in the country.

2. The survey will cover the following sectors:

   a. Agriculture

   b. Agroindustry

   c. Service sector--firms that directly support agroindustrial and agricultural production activities (e.g., agricultural input suppliers, transportation services, vehicle repair and sales, and wholesale and retail establishments selling agricultural products).

   d. Finance

3. The survey instrument that will be developed by the MAPS team will be structured carefully so that its language and content are appropriate for the level of sophistication and orientation of local businesses. It will be tested on a small number of businesses chosen at random prior to full implementation to ensure that the questions are understandable to the interviewees. It will cover the following areas:

   a. General firm characteristics, including firm's location, size in terms of yearly sales volume and full time equivalent labor force, the composition of the labor force (percentage managerial, secretarial, technical, professional, unskilled, and the percentage of Basotho and expatriate), market orientation (export or domestic), types of products produced, ties to foreign partners, dependency on imported inputs, length of time in operation, and composition of financing used.

      [Note: these questions will need to be altered somewhat for the finance-sector firms]

   b. Past business performance and factors responsible for past performance.

   c. Perceptions regarding future growth potential for business and factors responsible for such growth, including availability of finance for expansion, operation.

   d. Perceptions regarding the most critical resource constraints (capital, labor, raw materials, transportation, etc.)

   e. Perceptions regarding the most critical policy constraints (tax policy, land tenure, interest rate controls, etc.)

   f. Perceptions regarding which subsectors in agriculture and agroindustry offer the highest potential return for investment (and how does the return from agroindustrial and agricultural activities compare with returns from other sectors).

   g. Inventory of business associations providing support to local entrepreneurs and perceptions regarding the type of services they

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provide and the quality and efficiency with which those services are provided.

4. It will be necessary to establish the universe of firms from which the sample will be drawn. This listing will need to be as complete as possible to prevent biasing the sample. Since there is no census of industry, the survey team will have to rely on various directories, including the business directory in the telephone book, the Lesotho Chamber of Commerce and Industry directory of members, the directory of the Exporters Association and the Manufacturers Association, LNDC's directory (if they have one), and BEDCO's directory (for microenterprises). The Bureau of Statistics has a list of registered firms as well.

   a. It may be necessary to consolidate these various directories into one large list and then draw a sample from it.

   b. The sample size is expected to be between 100 and 150 firms. The sample size should be no less than 5 percent of the sample universe.

5. Depending on the quality of the final list of firms in the universe, the sample will preferably be drawn using stratified random sampling, stratifying by sector. Due to the small number of firms, some subsectors will be surveyed completely.

6. It will be necessary to assemble a team of personnel experienced in survey work to implement the actual survey. The team should be in charge of recruiting and training the interviewers, testing the survey instrument, overseeing the survey at the field level to ensure quality control, and codifying the survey responses in a manner adequate to facilitate data entry and analysis.

   a. The team of surveyors should have a fairly high level of education. This sort of exercise is best done by business or economics majors.

   b. The interviewer is paid by the number of surveys finished correctly, which means that the survey supervisor needs to approve each completed survey before the interviewer is paid.

7. It will be necessary to assemble a team to enter the codified responses into a data-base processing system that can be imported into a statistical package adequate to analyze the responses, such as SPSS.

8. The output expected from the data processing will include the following:

   a. Frequency distributions of responses to all the questions in the survey instrument.

   b. Cross-tabulations of specific responses using key firm characteristics as control variables. The control variables used for the cross-tabulations will include sector in which the firm operates, size (employee and/or sales volume), and market orientation.

   c. Nonparametric tests to measure the statistical significance of relationships between categorical variables (such as the chi-square) for specific cross-tabulations.

9. It will be necessary to produce high-quality graphics to illustrate key survey results. The MAPS team will draw up a list of the graphics needed after analyzing the output described above. Approximately fifteen to twenty such graphics will be produced. These can be produced by

importing (probably manually) the data into a package such as Harvard Graphics or Quatro.

10. It is expected that the survey work will take thirty-five to forty-eight days. The time requirement is broken down as follows:

    a. Four to eight days to draw the list of the universe and draw the sample.

    b. Two days to test the survey instrument and train the interviewers.

    c. Fifteen to twenty days to implement the survey and codify survey responses.

    d. Five to ten days to enter and process the data.

    e. Four to eight days to analyze the data and obtain refinements on the desired output.

    f. Five days to create high-quality graphics.

11. The survey work has the following personnel requirements:

    a. One to two field supervisors

    b. Ten interviewers

    c. Two data entry

    d. One data processor

12. A bonus will be awarded to the survey team for product delivery prior to the deadline for project completion.

ANNEX F

SURVEY INSTRUMENT

(Note: There are two draft survey questionnaires in this annex. The first is for all subsectors except finance. The second is the finance subsector instrument.)

SURVEY QUESTIONNAIRE

[DRAFT--FOR COMMENTS ONLY]

The purpose of the following survey is to gather information about the beliefs held by business executives in Lesotho on different aspects of the economy and the general investment climate. This study is financed by the U.S. Agency for International Development (USAID). USAID will use this information in its private-sector development projects. The information obtained here will be treated in a private and confidential manner. Nevertheless, questions deemed inappropriate do not have to be answered.

Questionnaire No.

Name of Interviewer:

Approved by:

Position of the person interviewed:
1. Managerial
2. Professional
3. Technical
4. Other

Date the survey was performed:

[NOTE TO THE READER: THE FOLLOWING IS A DRAFT. CHANGES AND ADDITIONS WILL BE MADE UPON REVIEW BY USAID/LESOTHO OFFICIALS SO THAT THE INSTRUMENT RESPONDS TO MISSION NEEDS. IT IS IMPORTANT THAT THE INSTRUMENT DOES NOT OVERBURDEN RESPONDENTS WITH INFORMATION REQUESTS, HOWEVER. THE SURVEY SEEKS TO GATHER DATA ON PERCEPTIONS. SOME BASIC DATA ON FIRM CHARACTERISTICS ARE GATHERED ONLY FOR USE AS CONTROL VARIABLES IN THE ANALYSIS AND TO JUDGE THE REPRESENTATIVENESS OF THE FIRMS SAMPLED.]

FOR CODIFIERS ONLY

SECTION 1: GENERAL INFORMATION OF THE FIRM

1. Location of the firm:

   1. Maseru 2. Mafeteng 3. Laribe 4. T.Y. 5. Other

2. Please indicate the number of persons you employ (full and part time):

   1. Fewer than 10
   2. 11 to 50
   3. 51 to 100
   4. More than 100

3. What proportion of your workforce (approximately) is female?:

   1. Less than 10 percent
   2. Between 11 and 50 percent
   3. Between 51 and 75 percent
   4. More than 75 percent

4. Number of employees according to the type of work they do :

   1. Administration/ Management
   2. Secretarial
   3. Technical
   4. Semiskilled
   5. Skilled

5. Sector in which your business operates:

   1. Agriculture production (go to #6)
   2. Agroindustry (go to #7)
   3. Services (go to #8)
   4. Financial (go to #12)
   5. Other

FOR CODIFIERS ONLY

6. Mark the appropriate subcategory if involved in the agriculture sector:

   1. Horticulture crops (fruits and vegetables)
   2. Field crops (maize, etc.)
   3. Poultry (layers and broilers)
   4. Wool and mohair
   5. Livestock
   6. Other

7. Mark the appropriate category if involved in the agroindustrial sector:

   1. Butchery products
   2. Dairy products
   3. Processed wool and mohair
   4. Leather (including footwear)
   5. Brewing products
   6. Textiles
   7. Other

8. Mark the appropriate category if involved in the service sector:

   1. Wholesale industry
   2. Retail Industry
   3. Transportation
   4. Agriculture inputs
   5. Other

9. Where do you sell your products?:

   1. Domestic market only
   2. Export to RSA mostly
   3. Export to other than the RSA
   4. Both the domestic and the export markets are important to my business.

FOR CODIFIERS ONLY

10. Do you have some foreign equity holders?

    1. YES 2. NO 3. Don't know

    [if NO or Don't know, go to #12]

11. What is the extent of foreign equity participation in your firm?:

    1. Less than 20 percent

    2. More than 20 percent

    3. Unsure

    4. Not applicable

FOR CODIFIERS ONLY

SECTION 2: FACTORS ACCOUNTING FOR BUSINESS PERFORMANCE

[FOR ALL FIRMS]

12. Indicate whether you agree or disagree with the following statement:

    The environment within which my firm operates is better today than it was a year ago.

    1. Agree 2. Disagree 3. Unsure/don't know

[FINANCE SECTOR FIRMS GO TO QUESTION]

13. Have the following factors affected the performance of your business over the last year?:

	No effect	Some Effect	Large Effect	Don't Know
1. Input prices	1	2	3	4
2. Interest rates	1	2	3	4
3. Exchange rate	1	2	3	4
4. Taxes	1	2	3	4
5. Output prices	1	2	3	4

14. How has your sales volume changed since February of 1988?

    1. Increased more than 20 percent
    2. Increased 20 percent or less
    3. Has not changed
    4. Decreased 20 percent or less
    5. Decreased more than 20 percent
    6. Unsure/don't know

FOR CODIFIERS ONLY

15. What do you think will happen to your sales between February of this year and February 1990?

    1. Increase 20 percent or more
    2. Increase 20 percent or less
    3. No change
    4. Decrease 20 percent or less
    5. Decrease 20 percent or more
    6. Unsure/don't know

16. Specify the extent to which you agree with the following statements:

    16.a. If I could produce more, I could sell more

    1. Agree 2. Disagree 3. Unsure/don't know

    16.b. I am unable to sell all that I produce

    1. Agree 2. Disagree 3. Unsure/don't know

17. Specify how important the following factors have been in influencing your sales last year:

	Very Important	Somewhat Important	Not Important	Not Apply
1. Competition from other Lesotho firms	1	2	3	4
2. Competition from RSA firms	1	2	3	4
3. Low demand for my product	1	2	3	4
4. Lack of market infrastructure (such as warehouses, cold-storage facilities).	1	2	3	4
5. Transportation to market	1	2	3	4
6. Lack of market information	1	2	3	4

SECTION 3: RESOURCE CONSTRAINTS AND GOVERNMENT POLICIES

FOR CODIFIERS ONLY

18. Please indicate if the following factors have had a large effect on the productivity of your firm:

	Large Effect	Some Effect	None	Not Apply
1. Access to credit	1	2	3	4
2. Access to inputs	1	2	3	4
3. Access to land	1	2	3	4
4. Access to labor	1	2	3	4
5. Access to services (energy, transport, etc)	1	2	3	4

Please specify the extent to which you agree with the following statements:

19. Land use restrictions have hindered the growth of my firm.

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

20. There is confusion regarding land titling

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

FOR CODIFIERS ONLY

21. I have had to invest a lot in training my employees

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

22. Unskilled and semiskilled labor wages are too high

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

23. Technical personnel salaries are too high.

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

24. Professional personnel wages are too high.

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

FOR CODIFIERS ONLY

25. For the following personnel categories, please specify how difficult it has been to obtain persons with the training needed in your firm:

	Difficult	Average	Easy
1. Administrative personnel	1	2	3
2. Secretarial personnel	1	2	3
3. Professional personnel	1	2	3
4. Technical personnel	1	2	3

26. Please provide an estimate of the percentage of your capital (long and short term) that comes from the following categories:

	Less than 20%	Between 21-50%	More than 50%	Unsure
1. Local commercial banks (Lesotho Bank, Barclays, Standard)	1	2	3	4
2. Development bank (LNDC)	1	2	3	4
3. Foreign sources (RSA)	1	2	3	4
4. Foreign sources (other)	1	2	3	4
5. Remittances	1	2	3	4
6. Family/friends	1	2	3	4
7. Personal	1	2	3	4
8. Other	1	2	3	4

Specify the extent to which you agree with the following statements:

FOR CODIFIERS ONLY

27. Collateral requirements make it difficult to obtain financing.

1. Strongly agree
2. Agree
3. Unsure/don't know
4. Disagree
5. Strongly disagree

28. It is more difficult to obtain long-term capital than it is to obtain working capital.

1. Strongly agree
2. Agree
3. Unsure/don't know
4. Disagree
5. Strongly disagree

29. I have left unrealized many projects because of lack of venture capital.

1. Strongly agree
2. Agree
3. Unsure/don't know
4. Disagree
5. Strongly disagree

30. Have you had difficulty obtaining the inputs that you need to operate?

1. YES [if YES go to 31]
2. NO
3. NO ANSWER

[if NO or NO ANSWER, go to 32]

FOR CODIFIERS ONLY

32. Specify how important the following factors have been in creating difficulties for obtaining inputs:

	Very Imp.	Somewhat Import.	Not Imp.	Unsure
1. Lack of financing	1	2	3	4
2. Lack of foreign exchange	1	2	3	4
3. Inadequate transportation	1	2	3	4
4. Scarcity	1	2	3	4
5. Other	1	2	3	4

Specify the extent to which you agree with the following statements:

33. Reliable and accurate information on the local market trends for my product is available.

1. Strongly agree
2. Agree
3. Unsure/don't know
4. Disagree
5. Strongly disagree

34. Accurate and reliable information on the international market for my product is available.

1. Strongly agree
2. Agree
3. Unsure/don't know
4. Disagree
5. Strongly disagree

35. Specify the sources which you use to get information on the market for your product:

FOR CODIFIERS ONLY

1. The Ministry of Commerce and Trade
2. Foreign partners
3. Personal contacts
4. The Exporters Association
5. The Chamber of Commerce
6. The bank
7. Journals and newspapers
8. Other

FOR CODIFIERS ONLY

SECTION 4: OPPORTUNITIES

36. Specify how interested you are in investing in the following areas:

	Very int.	Some what	Not int.	Unsure
1. Personnel training and development	1	2	3	4
2. Improved production technology	1	2	3	4
3. Physical capital (plant improvement)	1	2	3	4
4. Marketing	1	2	3	4
5. Developing new sources of financing	1	2	3	4

37. Which ONE of the following areas do you believe offers the best return on investment?

1. Agriculture production for domestic market
2. Agriculture production for export market
3. Agroindustry for export
4. Agroindustry for domestic market
5. Manufacturing
6. Construction
7. Catering
8. Other services [specify]:
9. Other [specify]:

FOR CODIFIERS ONLY

SECTION 5: ASSOCIATIONS

38. Are you affiliated with any type of trade association?

1. YES 2. NO 3. Unsure

[if YES, #39] [if NO or Unsure, #42]

39. Please specify which associations:

1. The Lesotho Chamber of Commerce and Industry
2. Manufacturers Association
3. The Exporters Association
4. The Poultry Producers Association
5. Others?? to include
6. Other

40. Specify the extent to which you agree with the following statement:

The associations to which I belong are effectively representing my business interests.

1. Strongly agree
2. Agree
3. Unsure/don't know
4. Disagree
5. Strongly disagree

41. What measures can the associations take in order to enhance the growth potential of your organization?

1. Provide access to credit
2. Provide technical assistance
3. Develop personnel training services
4. Provide lobbying efforts
5. Other

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42. Specify which one best describes why you do not belong to an association:

FOR CODIFIERS ONLY

1. Lack of time
2. Unwilling to pay dues
3. Not able to pay dues
4. I don't think they can help me
5. Other

QUESTIONNAIRE FOR THE FINANCE SECTOR

[DRAFT--FOR COMMENTS ONLY]

The purpose of the following survey is to gather information about the perceptions of the finance community operating in Lesotho on different aspects of the economy and on the general investment climate. This survey is part of a larger survey of businesses being financed by the U.S. Agency for International Development (USAID). USAID will use the data gathered through this study in its private-sector development projects. The information being obtained here will be treated in a private and confidential manner. Nevertheless, questions deemed inappropriate do not have to be answered.

Questionnaire no.:

Name of Interviewer:

Date survey was performed:

Position of person interviewed:

1. Executive
2. Managerial
3. Other [specify]:

FOR CODIFIERS ONLY

1. Please indicate the number of persons you employ by the type of work they do:

   1. Administration/Management

   2. Secretarial

   3. Technical

   4. Professional

   5. Other

2. Do you have branches in other parts of Lesotho?:

   1. YES 2. NO

[if YES, go to #3] [if no go to #5]

3. Where are the other branches located?:

   1. Mafeteng

   2. Leribe

   4. T.Y.

   5. Other

4. How many branches outside Maseru do you have?

   1. One

   2. 2 to 3

   3. More than 3

5. Which of the following best describes the reason why you have you not opened branches outside Maseru?

   1. The market outside Maseru is limited.

   2. It is too expensive to open branches.

   3. We have not been able to recruit qualified personnel to work outside Maseru.

   4. There is no need for our services outside Maseru.

FOR CODIFIERS ONLY

5. We have not explored the possibility of moving operations outside Maseru.

6. The areas outside Maseru are already being served by another institution.

7. Other [specify]:

8. Don't know/no answer

6. Is this a private or public institution?:

1. Private

2. Public

7. Please indicate the volume of loans processed in 1988:

8. Please indicate the sectors to which you have lent:

1. Agriculture production (go to #9)

2. Agroindustry (go to #10)

3. Services (go to #11)

4. Manufacturing (go to #12)

5. Other [specify]:

9. Mark the sectors in agriculture in which you have placed loans in the last twelve months:

1. Horticulture crops

2. Field crops

3. Poultry

4. Wool and mohair

5. Livestock

6. Other [specify]:

FOR CODIFIERS ONLY

10. Mark the sectors in agroindustry in which you have placed loans in the last twelve months:

    1. Butchery
    2. Dairy
    3. Processed wool and mohair
    4. Leather (including footwear)
    5. Textiles
    6. Brewing products
    7. Other [specify]:

11. Mark the areas in the service sector where you have placed loans in the last 12 months:

    1. Catering (tourism)
    2. Transportation
    3. Construction
    4. Wholesale/retail
    5. Communications
    6. Other [specify]:

12. Why have you not place loans in some sectors:

    1. We have not seen any good feasibility studies to convince us they are good investments
    2. It is too risky
    3. We lack the personnel with the knowledge necessary to evaluate the projects being proposed
    4. We do not have the funds
    5. Other [specify]:

FOR CODIFIERS ONLY

13. Are all the investments you make discretionary, or are there certain percentages prescribed by the government:

    1. Discretionary

    2. Government directs investment to certain areas (if #2, go the question 14)

14. What percentage of your loan portfolio is to be directed to specific sectors?

15. To which sectors are the loans directed?

    1. Agriculture

    2. Agroindustry

    3. Manufacturing

    4. Services

    5. Other [specify]:

16. What percentage of your labor force is Basotho?

17. What types of loan guarantees do you require?

18. Do the types of guarantees depend on the sector in which the investment is being made?

    1. YES 2. NO

19. What percentage of your loans go to:

    1. Short-term loans

    2. Long-term loans

Indicate whether you agree or disagree with the following statement:

20. The environment within which my firm operates is better today than it was a year ago.

    1. Agree 2. Disagree 3. Don't know/unsure

21. Have the following factors affected the performance of your business over the last year?:

FOR CODIFIERS ONLY

	No Effect	Some Effect	Large Effect	Don't Know
1. Input prices	1	2	3	4
2. Interest rates	1	2	3	4
3. Exchange rate	1	2	3	4
4. Taxes	1	2	3	4
5. Output prices	1	2	3	4

22. How has your volume of business changed since February of 1988?

1. Increased more than 20 percent
2. Increased 20 percent or less
3. Has not changed
4. Decreased 20 percent or less
5. Decreased more than 20 percent
6. Unsure/don't know

23. What do you think will happen to your volume of business between February of this year and February of next year (1990)?:

1. Increase 20 percent or more
2. Increase 20 percent or less
3. No change
4. Decrease 20 percent or less
5. Decrease 20 percent or more
6. Unsure/don't know

24. Specify how important the following factors have been in influencing your business performance last year:

FOR CODIFIERS ONLY

	Very Import.	Somewhat Important	Not Imp.	Not Apply
1. Competition from other Lesotho firms	1	2	3	4
2. Competition from RSA firms	1	2	3	4
3. Low demand for my service	1	2	3	4
4. Lack of market infrastructure	1	2	3	4
5. Difficult to reach potential customers	1	2	3	4
6. Lack of market information	1	2	3	4

Please specify the extent to which you agree with the following statements:

25. Land-use restrictions have hindered the growth of my firm.

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

26. Confusion regarding land titling affects lending policy.

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

FOR CODIFIERS ONLY

27. I have had to invest a lot in training my employees.

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

28. Unskilled and semiskilled labor wages are too high.

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

29. Technical personnel salaries are too high.

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

30. Professional personnel wages are too high.

    1. Strongly agree
    2. Agree
    3. Unsure/don't know
    4. Disagree
    5. Strongly disagree

FOR CODIFIERS ONLY

31. For the following personnel categories, please specify how difficult it has been to obtain persons with the training needed in your firm:

	Difficult	Average	Easy
1. Administrative personnel	1	2	3
2. Secretarial personnel	1	2	3
3. Professional personnel	1	2	3
4. Technical personnel	1	2	3

Specify the extent to which you agree with the following statements:

32. In Lesotho it is more difficult to obtain long-term capital than it is to obtain working capital.

1. Strongly agree
2. Agree
3. Unsure/don't know
4. Disagree
5. Strongly disagree

33. Reliable and accurate information on the local market trends is available.

1. Strongly agree
2. Agree
3. Unsure/don't know
4. Disagree
5. Strongly disagree

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FOR CODIFIERS ONLY

34. Accurate and reliable information on the international market is available.

1. Strongly agree
2. Agree
3. Unsure/don't know
4. Disagree
5. Strongly disagree

35. Specify how interested you are in investing in the following areas:

	Very int.	Some what	Not int.	Unsure
1. Personnel training and development	1	2	3	4
2. Improved production technology	1	2	3	4
3. Physical capital	1	2	3	4
4. Marketing	1	2	3	4
5. Developing new sources of financing	1	2	3	4

36. Which ONE of the following areas do you believe offers the best return on investment?

1. Agriculture production for domestic market
2. Agriculture production for export market
3. Agroindustry for export
4. Agroindustry for domestic market
5. Manufacturing
6. Construction
7. Other

FOR CODIFIERS ONLY

37. Are you affiliated with any type of local business association?

1. YES 2. NO 3. Unsure

[if YES, #39] [if NO or Unsure, # 42]

38. Please specify which associations:

1. The Lesotho Chamber of Commerce

2. Other [specify]:

39. Specify the extent to which you agree with the following statement:

The associations to which I belong are effectively representing my business interests.

1. Strongly agree

2. Agree

3. Unsure/don't know

4. Disagree

5. Strongly disagree

40. What measures can the associations take in order to enhance the growth potential of your organization?

1. Provide technical assistance

2. Develop personnel training services

3. Provide lobbying efforts

4. Other [specify]:

41. Specify which one best describes why you do not belong to an association:

1. Lack of time

2. Unwilling to pay dues

3. Not able to pay dues

4. I don't think they can help me

5. Other [specify]:

ANNEX G

LOCAL CONSULTANTS

THE IDENTIFICATION OF LOCAL TALENT TO ASSIST IN LESOTHO MAPS IMPLEMENTATION AND RECOMMENDATIONS REGARDING CONTRACTING

1. Terms of reference for the description and the survey phases of the MAPS exercise were given to four firms and two individual consultants in Lesotho. Their formal responses are included at the end of this memorandum.

2. Below is a short summary of the proposals submitted and the MAPS team's preliminary assessments of their capabilities.

   a. MB Consulting (MB House, opposite Maseru Club, P.O. Box 1071, Maseru, Tel. 323441)--Mr. Gerhard Dedorath, Economist and Chief Executive Officer. This firm was very highly regarded several years ago, when Mr. Frank Baffoe was still there. After Mr. Baffoe left, the firm apparently started to disband. Mr. Dedorath is an economist whose salary is paid in part by the German government, as part of the GTZ's activities in private-sector promotion. Mr. Dedorath is an experienced economist and has undertaken the task of reviving the company.

      The firm seems to have fairly good facilities, including several Zenith PCs and a facsimile machine. They have Lotus 123 and use Wordstar software for word processing. At the moment they have four permanent staff and hire stringers as needed. They used to have a permanent computer specialist, but this person is no longer there (he is working at USAID). The firm seems to be most experienced in survey work. They did a marketing study for BEDCO under the auspices of KFW (the German Development Bank) and another survey of microenterprises for the Danish government.

      MB Consulting responded to both TORs. Total costs for the description as stated in their proposal are US$8,125 (approximately M18,700). Total costs for the survey is US$10,325 (approximately M24,500). They have accepted the TORs as they were presented.

      The people they have suggested for each of the exercises seem to have good qualifications. In particular, they have included Fuzile Macha, an economist and computer specialist with a very good reputation. Their formal proposal is included with this report.

   b. KEM Consulting (P.O. Box 252, Tel. 323008)--Mr. C. Ntsame, Chief Executive Officer. This firm has been formed recently and has yet to prove itself. Mr. Ntsame is a former Government Secretary. His connections and knowledge of GOL data sources may be useful.

      His firm has reviewed both the description and the survey TORs. They decided to bid only on the description work. Mr. Ntsame thinks his firm can meet the timetable in the TOR for the description. They will be assigning one economist and one data processor full time and will have a statistician working part time on the project. These professionals will be assisted by two research assistants. They estimate that they could fulfill the terms of reference for approximately M30,000. They seem to be genuinely excited by this project and are eager to land their first contract. This is a plus. Also a plus is the firm's connections to the government. The obvious minus is Mr. Ntsame's inexperience in consulting and the fact that we have no way of assessing the quality of his work.

c. Business Support Southern Africa (BASSO)--Mr. M. Mhalanga and Mr. Laurence Africa. Mr. Africa is a Ghanaian statistician married to a Masotho. He has been in the country for many years. His wife is also a statistician at the Bureau of Statistics, which may be a definite asset in the description work. Mr. Africa comes highly recommended as an expert in economic statistics by Mr. John Gay and his wife Judy (see point 3.b below). This also is a plus. Mr. Mhalanga is an economist.

   BASSO has expressed interest in bidding on both the survey and the description work. Mr. Africa would be in charge of supervising the survey and Mr. Mhalanga would supervise the description work.

   As their proposal expresses, they do not think the timetables in the TORs are reasonable. They feel each of these activities (the survey and description) would take about six to eight weeks. This is in line of what Dr. Carvalho, the Mission economist, thinks and we have amended the outline of the TORs included in this report to reflect this. They are also concerned about the level of disaggregation required in the description exercise and about the availability of data for a time series. Again, Dr. Carvalho expressed similar concerns, and USAID may wish to amend the TORs in the final contract to reflect this.

   BASSO has submitted a minimum and a maximum amount that both tasks would take:

   Survey: minimum M22,000 - maximum M33,800
   Description: minimum M17,700 - maximum M28,600

d. Baffoe and Associates--Mr. F. Baffoe. This is perhaps the most experienced of all the consulting firms in Maseru, though apparently the quality of their work has not always been as high as expected. Mr. Baffoe has expressed an interest in bidding in the survey exercise. He has done survey work with Louis Berger recently. Mr. Baffoe was out of the country until the last day of the MAPS team's stay in Lesotho. As a consequence, he had little time to review the TOR's and submit a proposal. Nevertheless he was able to submit a formal offer which is incorporated in this report under separate cover. Mr. Baffoe also thinks that the timetable for survey implementation is too limited.

3. Other consultants who did not respond formally but may nevertheless be available for the MAPS exercise:

   a. Mrs. Agnes Mothibeli (Tel. 312923)--National Curriculum Development Center. Mrs. Mothibeli is a Ministry of Education employee presently seconded to the NCDC. Dr. Rick Johnson has been working with her for some time and recommends her highly as someone qualified to perform the survey work. She does this after hours, since she has a full-time job at NCDC. In any case, she would only be supervising the process, since the actual survey work will be carried out by a team of people she carefully recruits for this type of work. We were not able to contact her early enough to give her a chance to prepare a formal response to the TORs. She should still be considered, if only as a backstop the Mission can contact if it is not able to negotiate with the consultants we have short listed. She is also able to work with SPSS and may be an important backup for the data processing and data analysis work.

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b. Mr. John Gay (Tel. 314463). Mr. Gay believes that he is one of the most experienced persons in Lesotho in terms of data processing in SPSS and survey design and implementation. Mr. Gay will not be available to MAPS full time, but has expressed interest in providing assistance in the design of data entry and data analysis programs for the survey work. His rate is US$30 per hour.

c. Mr. David Hall. Mr. Hall was recommended highly by Mr. Gay as a person with experience in survey design and survey implementation. Apparently he has access to an experienced group of interviewers, though he seems weaker in the area of data entry and data processing. Mr. Hall lives in a town south of Maseru and has no telephone, so contacting him was impossible during our brief stay. Nevertheless, Mr. John Lepele, our MAPS supervisor in-country has agreed to contact him in the following weeks to assess the degree to which he would be willing and able to participate in the survey implementation portion. This option may be important if negotiations with the bidders we have short-listed were not to bear fruit.

d. Creative Communications (PTY) Ltd. (P.O. Box 1561, Maseru, Tel. 311539)--Theresa Muller. This outfit does good graphics work. They may be able to provide support in the development of the graphics that will present the results of the survey and the description.

3. Recommendations regarding contracting arrangements:

a. Revise the terms of reference for the contract to provide additional time for both the survey and the description. The contractors should be given six to eight weeks to complete the work delineated in the TORs.

b. Provide performance incentives. It is advisable to design the contract in such a way that the contractor will be paid a base figure for completing the work in eight weeks and a bonus for completing the work in six weeks. In past MAPS implementations, contractors were offered a bonus of 20 percent for work completed prior to the deadline. This mechanism proved most successful.

c. Make at least small advances (10 to 15 percent of the total value of the contract) available to the successful bidders. Much of this work relies on clerical and support personnel who are paid on a piece rate basis (the survey interviewers and the key-punch people usually work this way). These personnel must usually be paid upon performance of the task assigned. The contractors identified above are all small businesses, and may find it difficult to bankroll these expenses directly. People who are under severe budgetary constraints are not happy and do not provide good results for the most part. Past MAPS implementations have been successful because the contractors had enough resources to be able to get the work done. USAID should be flexible in its contracting and realize that part of this exercise is precisely to support the growth of private-sector firms in the area of data collection and analysis. At the very least advances should be made to the successful survey team to cover the cost of paying the surveyors as well as their transportation and meals.

d. Be willing to farm out some subsections of the TORs outlined in this report. If a contractor cannot perform all the work specified by the TORs, then be prepared to go to a backstop to get support. This may be the case in the development of high-quality graphics. If no contractor is able to show such capability, be willing to farm out this portion of the work to someone else, or request assistance to

the MAPS team. It may be able to identify appropriate shareware which can be made available to the Mission and its contractors. On the other hand, avoid the tendency to farm out too many bits and pieces of the TORs. This will make management difficult.

4. The survey and implementation work will be supervised by Mr. John Lepele. He has met with all the potential bidders and should be included in the process of choosing the consultants and drawing up the terms of their contracts.

ANNEX H

PROPOSALS

(UNDER SEPARATE COVER)

ANNEX I

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