



More than 20 years of
making financial markets
work for the poor

FinScope Micro, Small and Medium Enterprises Survey Lesotho 2023

Launch Presentation

29 January 2025



THE WORLD BANK



FinScope

Overview

- Introduction and background
- Methodology
- Understanding the business
- Access to factors of production and markets
- Challenges MSMEs face and the impact of business shocks
- Business support
- Access to financial services and products
- Financial Health
- Insights and Strategic Priorities

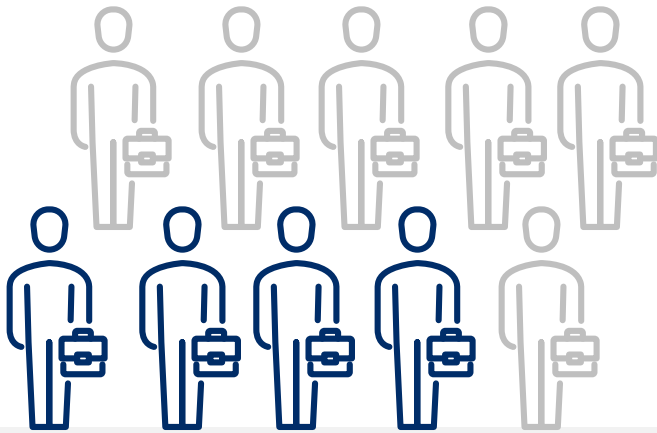
Objectives of the FinScope MSME Survey

- To assess the **size and scope** of MSMEs in Lesotho
- To describe the levels and landscape of **access to financial products and services** (both formal and informal) as well as **track** the level of financial access since 2016
- To identify the most binding **constraints** to MSMEs' development and growth with a focus on access to financial markets
- Identify the **drivers and barriers** to financial access for MSMEs
- To identify and describe different **market segments** with specific development needs to stimulate segment-related product innovation.

Methodology: Two critical stages to define desired universe

Target population

- Universe: **Adult business owners in Lesotho**
- Business owners who are **18 years and older**
- Employing less than 50 employees.



Sample and methodology

- Sample drawn by **Bureau of Statistics (BOS) and FinMark Trust (FMT)**, representative at national, district and settlement (urban, peri-urban and rural) levels using geospatial modelling
- Fieldwork was conducted by **Advision** from November 2023 to January 2024, during which **2,430** interviews were successfully completed
- 8-10 businesses were selected from each EA using Pseudo Systematic Random Sampling techniques
- Kish Grid method was used to select the final respondents

Quality control and data validation

- **Quality control/field checks** conducted by **BOS, Advision and FinMark Trust**
- Data validation against census data and any other data sources
- Weighting of the data conducted by **FinMark Trust.**

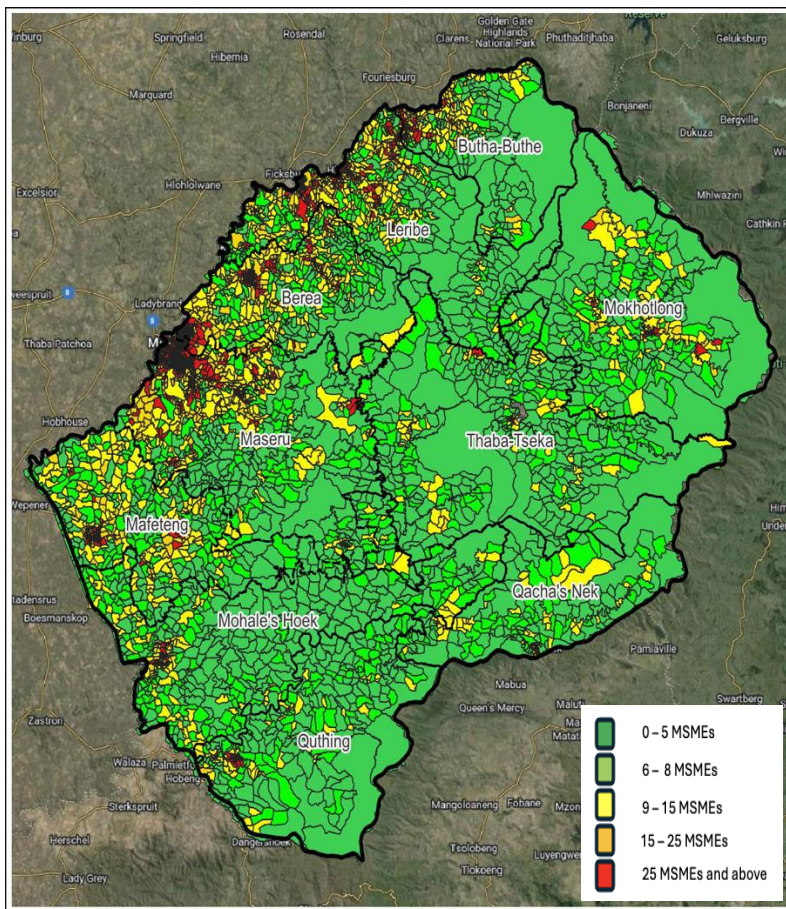


Sampling methodology: 2023 vs 2016

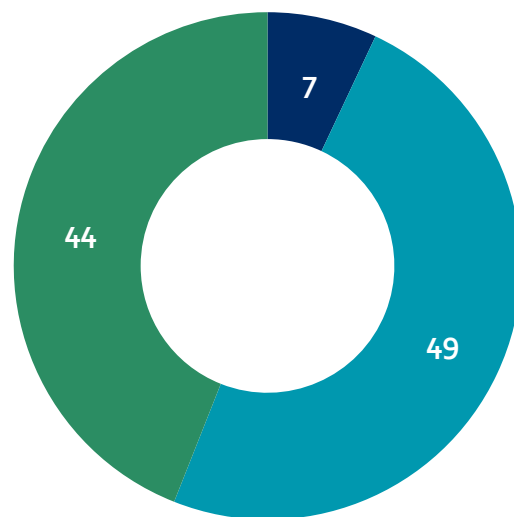
- 2023
 - Business premise and household-based sampling
 - 250 EAs with 2,430 sample size
 - Listed 29,581 structures with 6,389 businesses
- 2016
 - Household-based sampling
 - 336 EAs with 2,182 sample size
 - Listed 47,000 households as it was household-based identifying 4,000 business owners (creating the sample frame)
 - No listing of business premises

Areas of data collection

Geospatial distribution of MSMEs

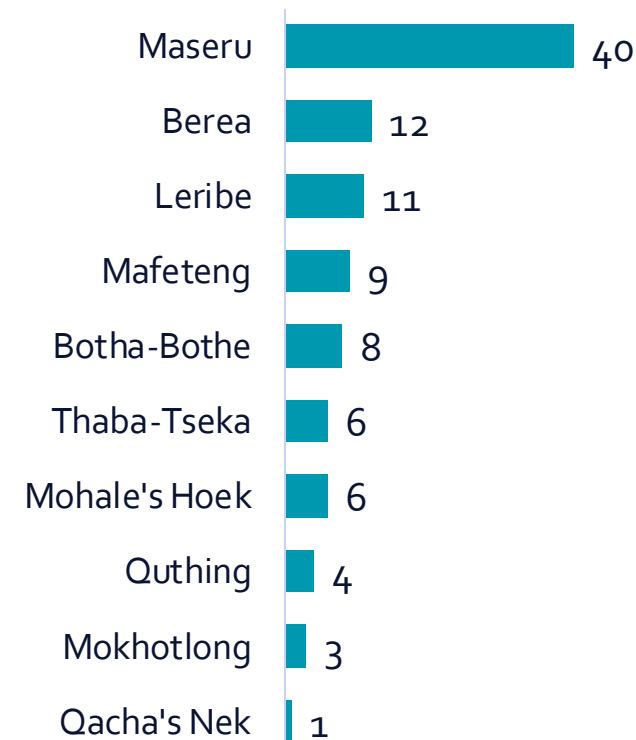


MSME by area (%)



■ Peri-Urban ■ Urban ■ Rural

MSME by district (%)



Limitations and gaps

- As a perception study, no actual proof of ownership of various assets, business financials, educational attainments, or products and services was requested.
- Survey errors and constraints may exist in survey data due to errors in respondent recollection and accuracy, despite strict processes being followed at each point of survey administration.
- Due to differences in sampling methodology, comparison to 2016 is possible but should be restricted to key variables.
- The differences in the approach used in 2023 and 2016 also result in some differences in estimating the number of small business owners. Due to improvements in technology and data availability, comparisons to the total business owner population in 2016 should be exercised with caution.



Understanding the business

Size, scope and sector distribution



MSME owners

107,753

There is an increase in the number of MSMEs in Lesotho from an estimated 76,068 business owners in 2016.



Owning

138,723

MSMEs

- 33% (31,000) own more than one MSME
- There has been an increase from 85,173 in 2016.



Employing

255,420

employees

- 149,649 employees (full-time / part-time / seasonal)
- 105,773 business owners who consider themselves employees.

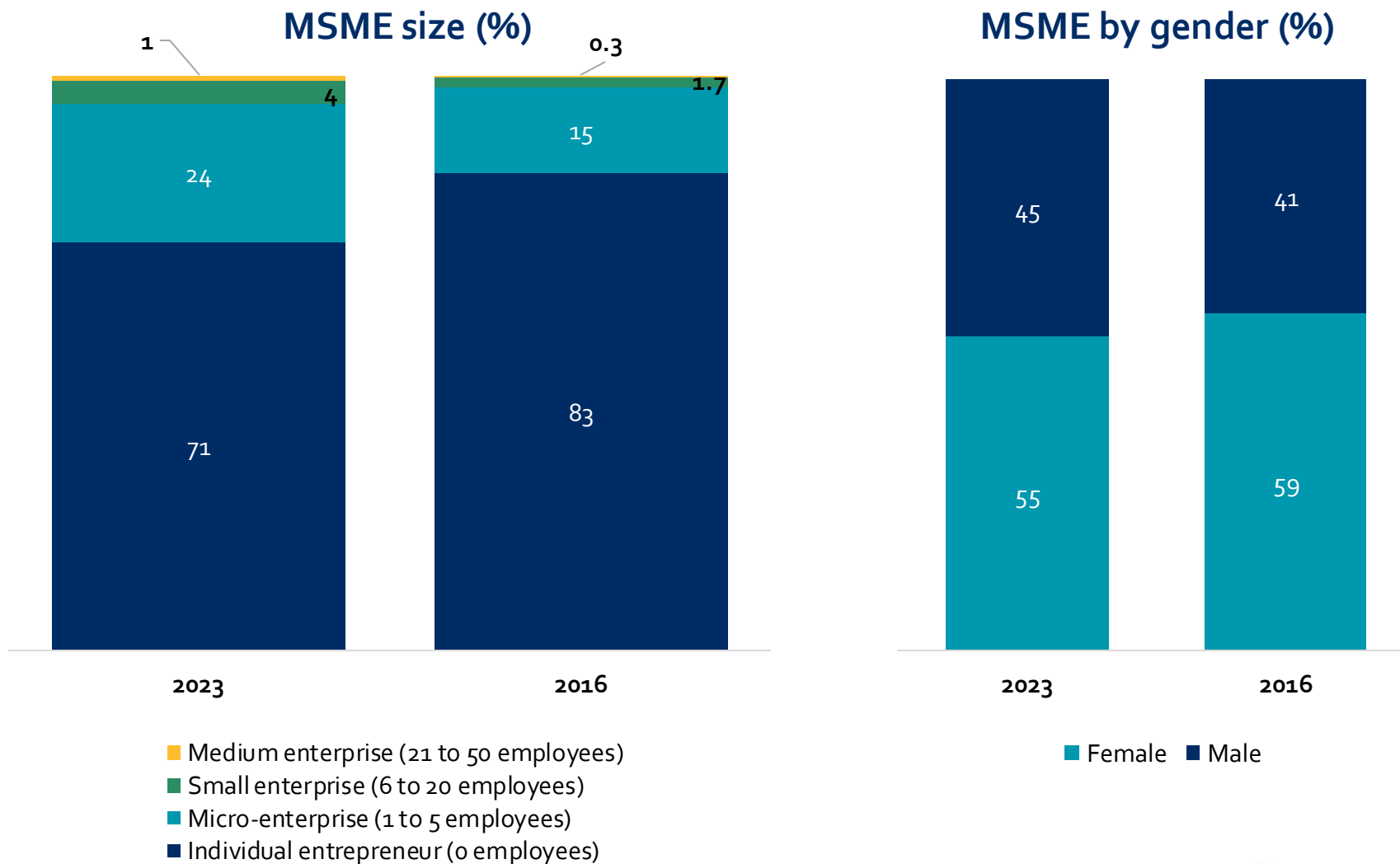


Estimated turnover (monthly)

964 million Maloti

(USD 52,4 million)

Size and scope of the MSME sector

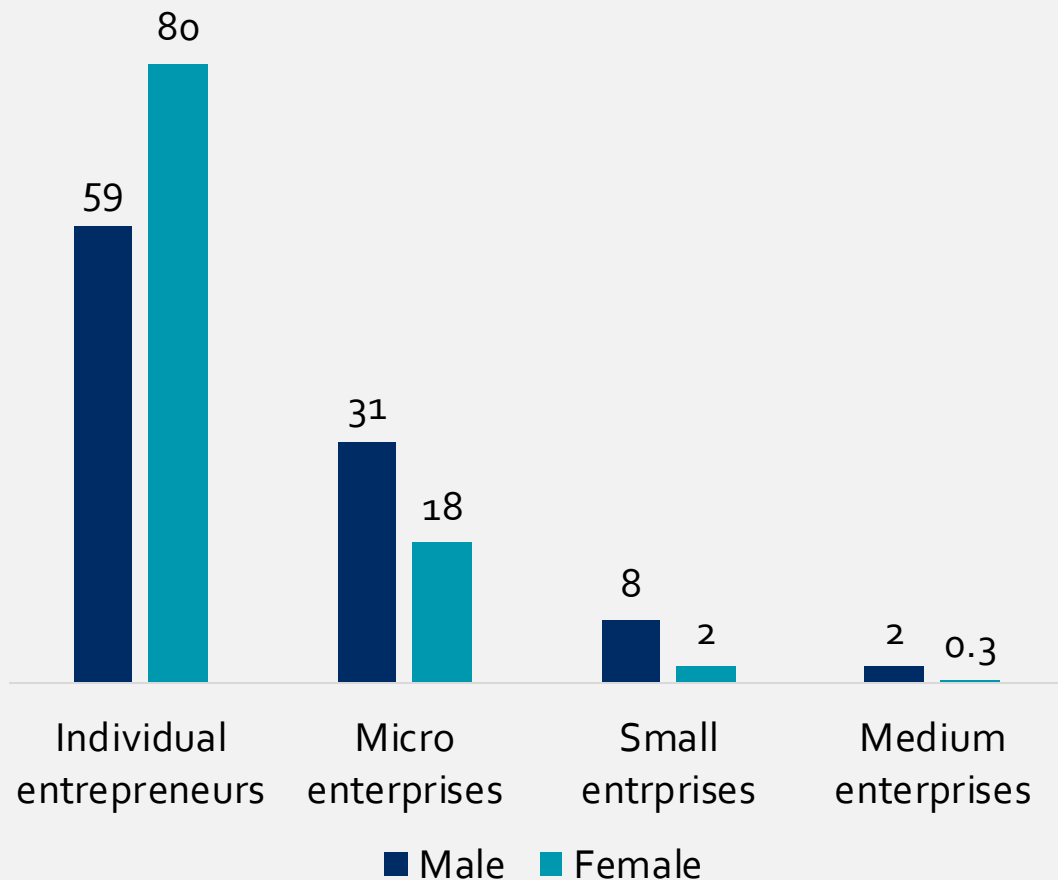


There is also a higher proportion of male business owners in 2023.

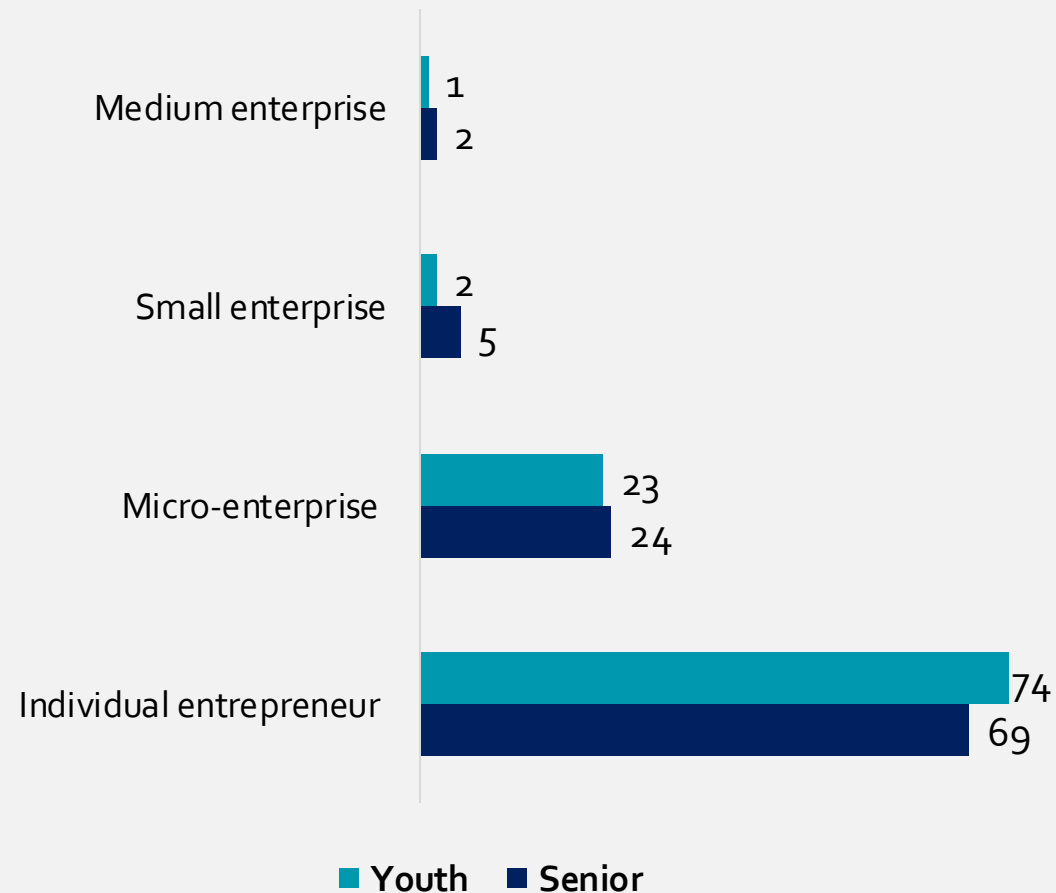
33% of business owners are aged 35 years and younger (youth), which represents a slightly higher number of youth in absolute terms compared to 2016.

Size and scope of the MSME sector

MSME owners by business size (%)

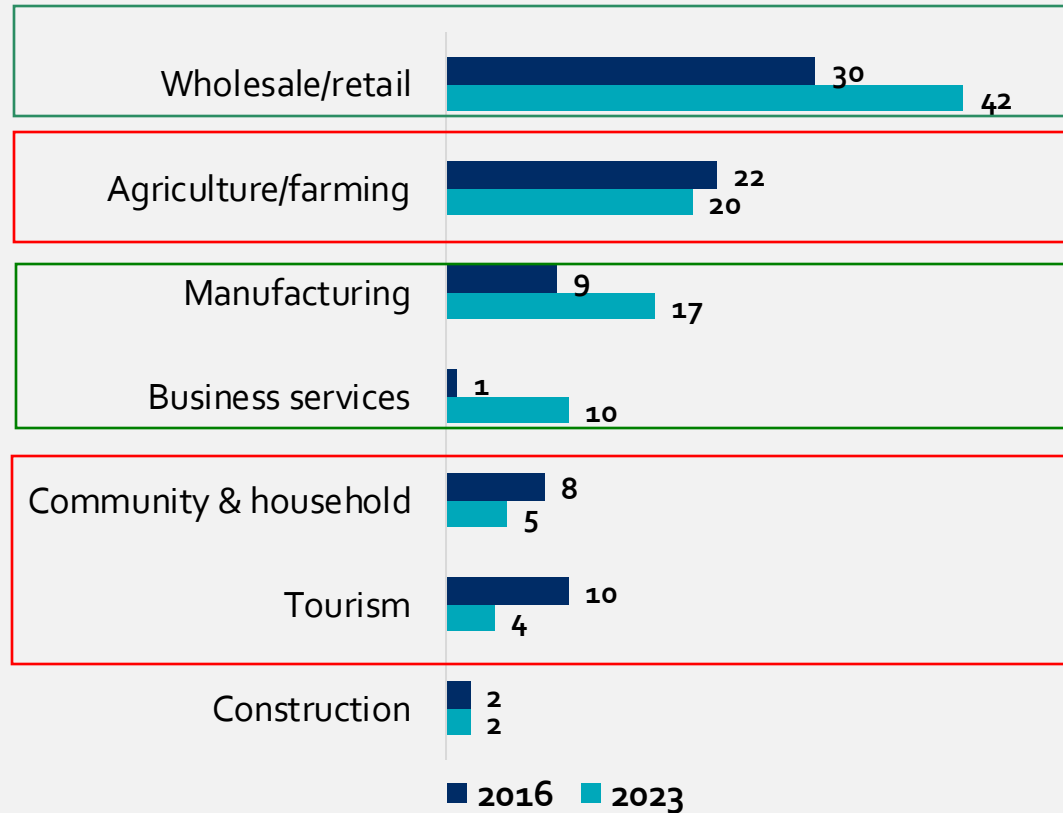


MSME owners by business size (%)



Sectorial distribution of the MSME sector

Business sector (%)



Sector	Turnover of top sectors (%)	Monthly turnover by sector (Maloti)
Wholesale/retail	29	275 million
Agriculture/farming	24	233 million
Community & household	19	187 million
Manufacturing	11	107 million
Business services	7	67 million
Tourism	6	57 million
Construction	4	33 million

MSMEs impact on the economy

- The MSME sector contributes around **76%** of the private sector economic activities



Formal
businesses
contribute
M753 million



Informal
businesses
contribute
M212 million



Male-owned
businesses
contribute
**M732
million**

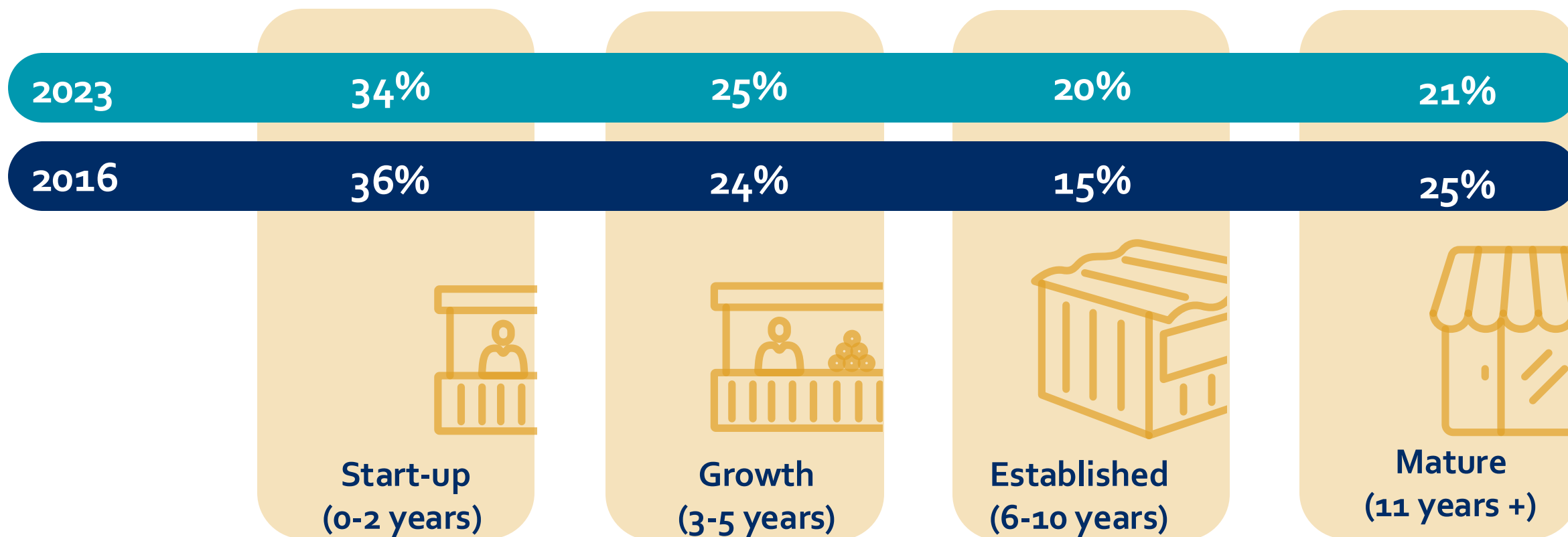


Female-owned
businesses
contribute
M232 million



Youth
contributes
M247 million

Business lifecycle (business age)

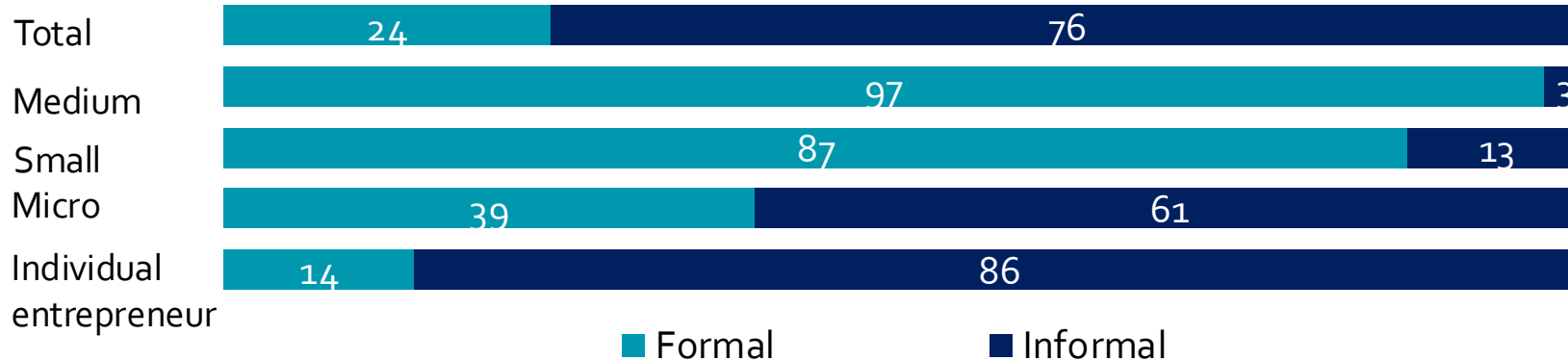


State of formalisation

	FinScope MSME 2016	FinScope MSME 2023
Formal MSMEs (Licensed or registered)	18% (13,899)	24% (25,438)
Informal MSMEs	82% (61,800)	76% (82,315)
Formal female-owned businesses	14% (6,319)	19% (11,338)
Formal male-owned businesses	24% (7,580)	29% (14,100)



Formal enterprises are those businesses that are either licensed by a municipality or council and/or registered with the Registrar of Companies



24% Formal enterprises

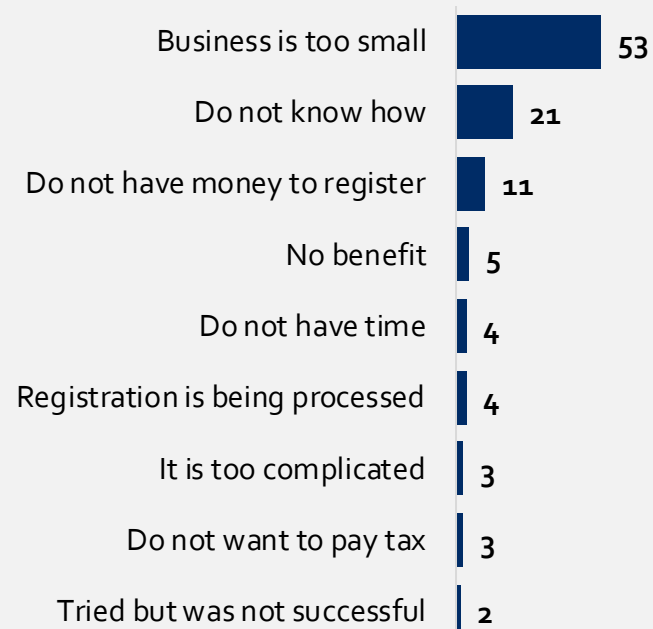


76% Informal enterprises

State of formalisation: Barriers to registration and formalisation

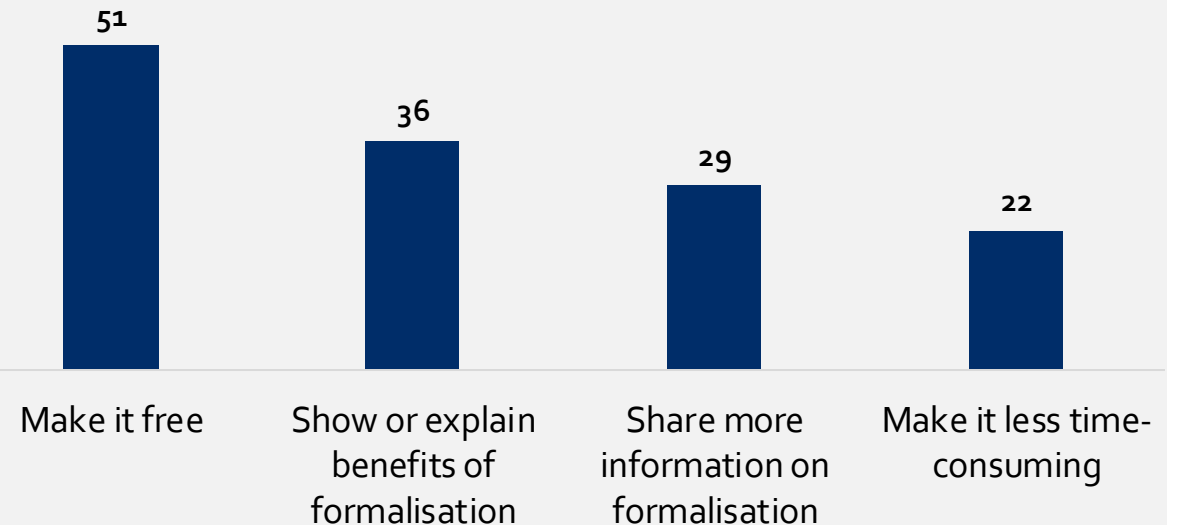
MSME are not registered

Barriers to registration (%)



76% of MSMEs are informal

with 82% willing to formalize their operations if:



Personal monthly income: Business owners

- Business owner **sole dependency** on business has **decreased in 2023**.

57% of MSME owners have the business as the only source of income, down from 70% in 2016. Of the 43%:



40% get money from other businesses

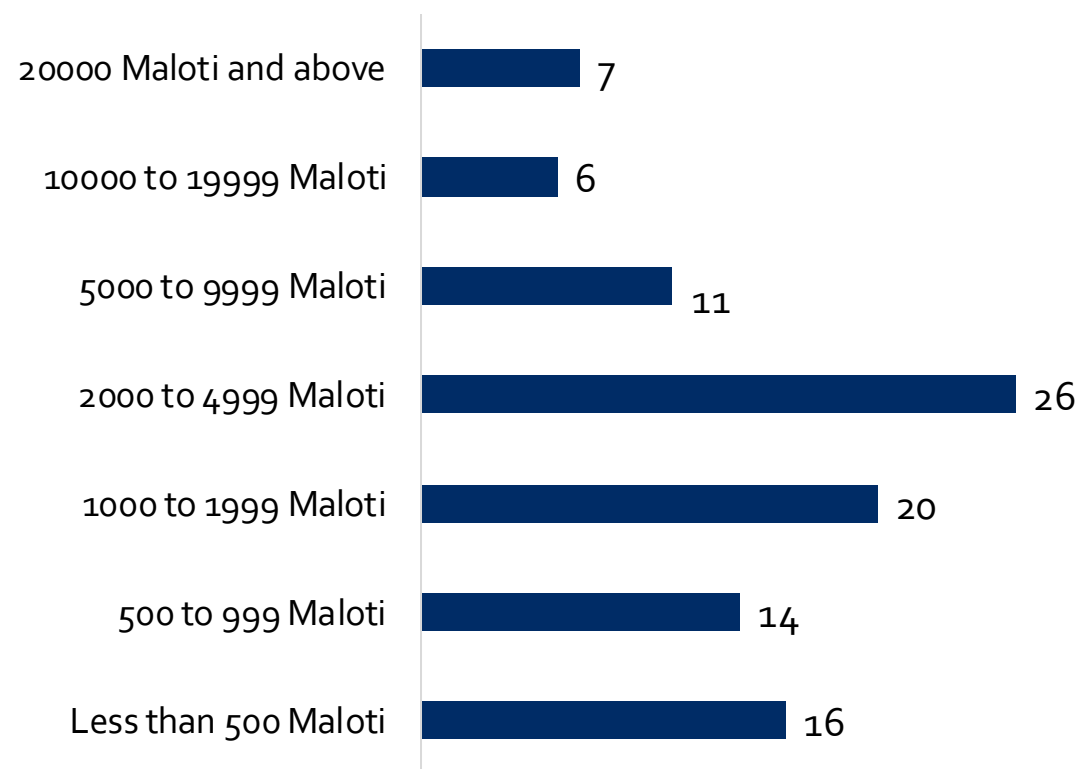


23% get income from spouse's earnings





10% have income from other job

Personal monthly income (%)



Overview



	 2023	 2016
More micro-entrepreneurs	95%	97%
Declining proportion of females own MSMEs (mainly micro-enterprises)	55%	59%
Fewer MSMEs now located in rural areas	44%	49%
Wholesale/retail sector is still the largest & growing	42%	30%
Formal enterprises have increased	24%	18%



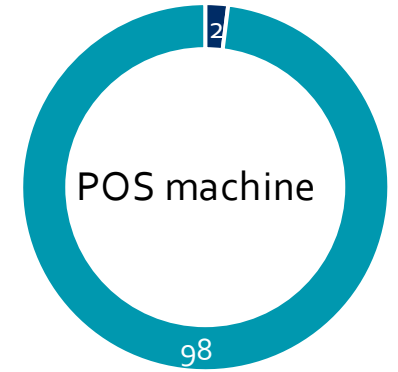
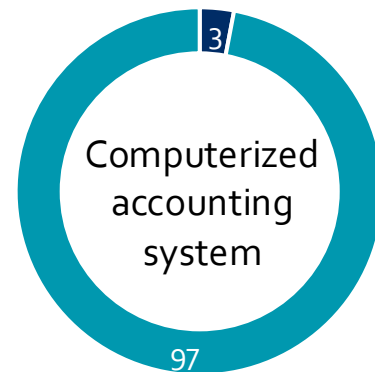
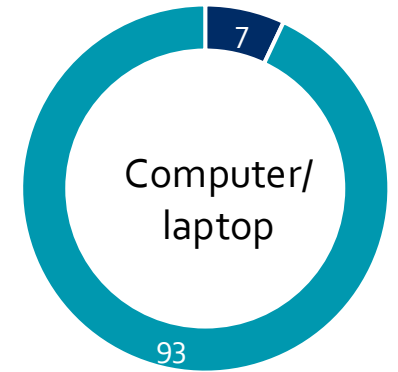
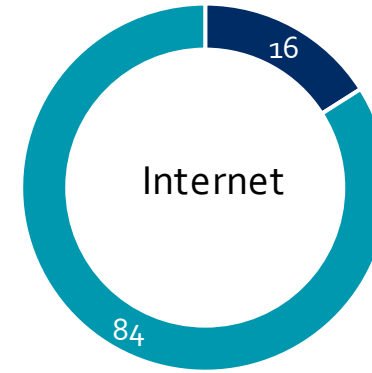
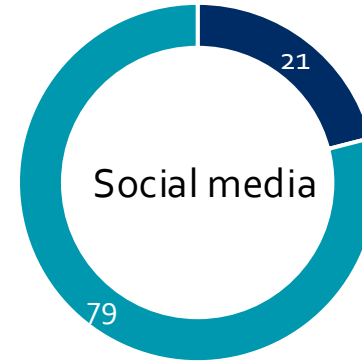
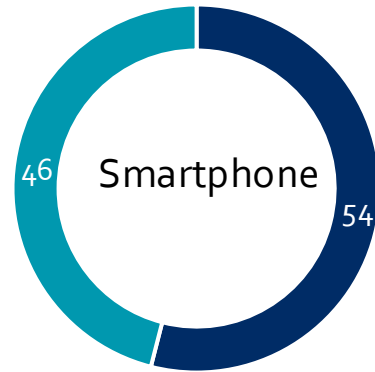
Access to factors of production & markets

Use of technology

89% of MSMEs use some form of technology in their business

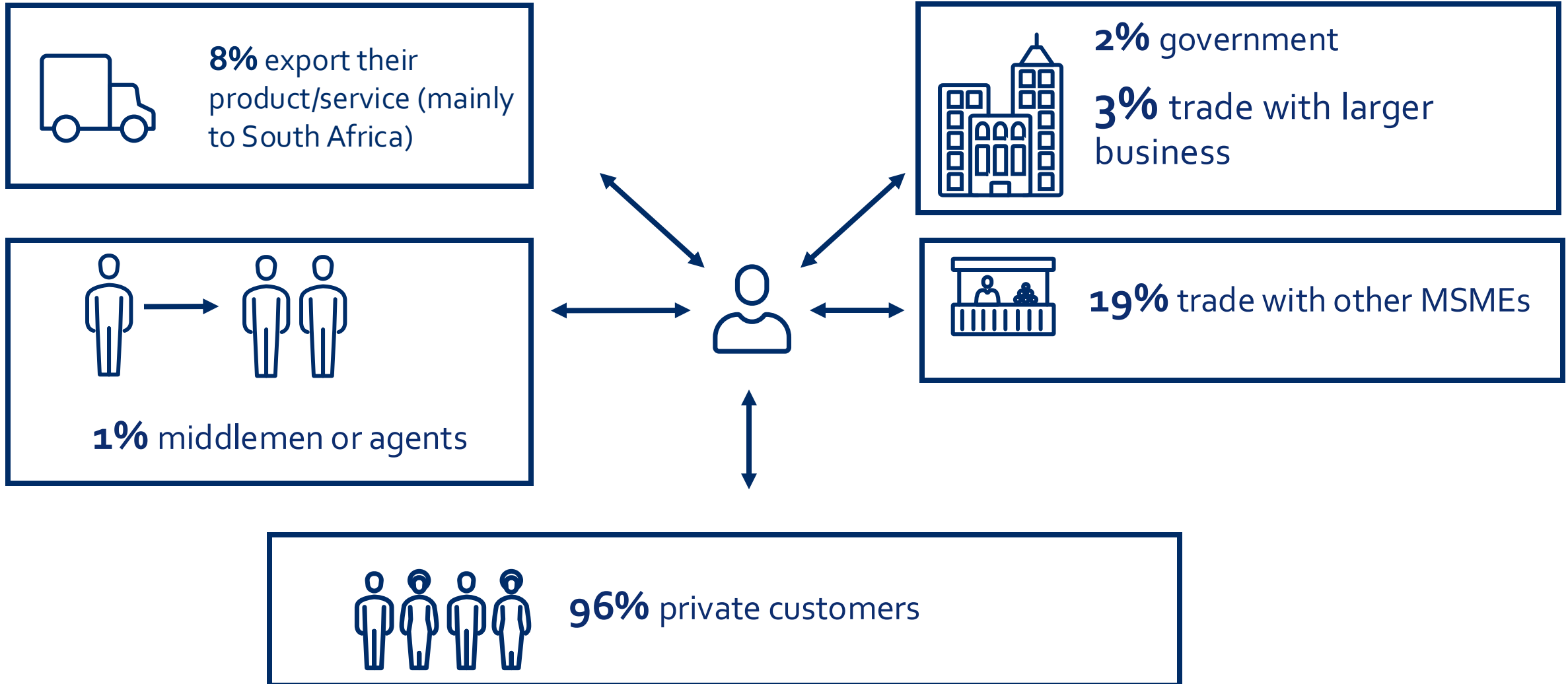
The use of basic technology in business is driven by the ownership of the cell phone, which gives businesses access to communication and social media platforms.

Productivity technologies such as machinery that improve efficiency e.g. computers have **low usage**.



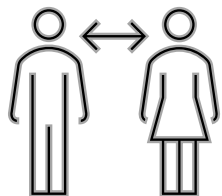
■ Have access ■ Do not have access

Access to markets: Who MSMEs trade with



Access to markets: How customers find business

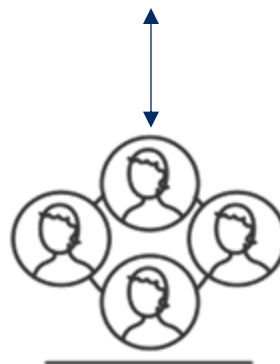
60% repeat business, returning customers



60% through references/
recommendations



4% contractual
arrangements



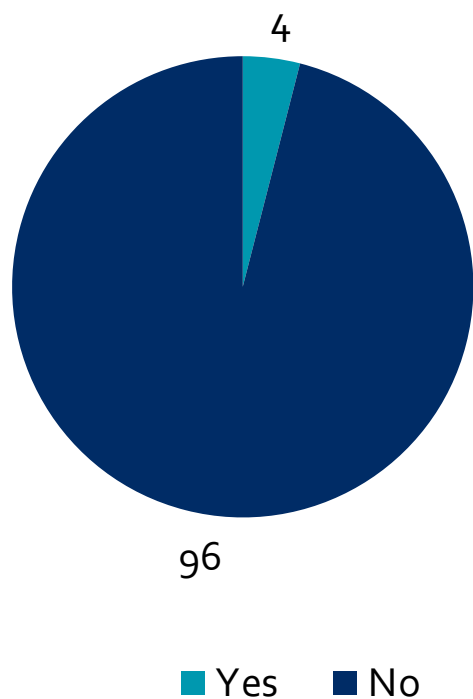
92% walk-in, walk-by, private
customers



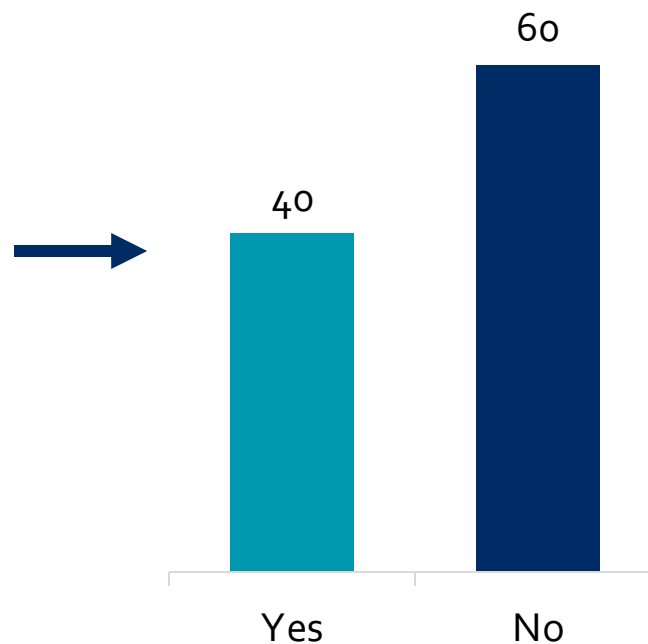
Payments are largely
cash (**96%**) and or mobile
money (**34%**)

Access to markets: Government tendering

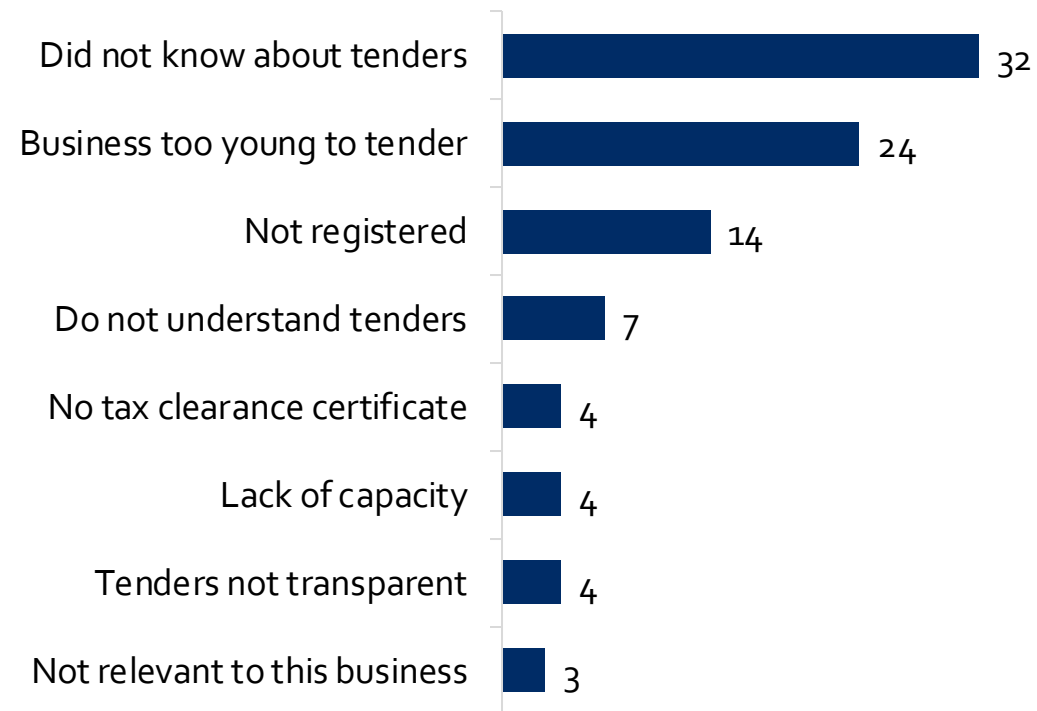
Submitted tender proposals (%)



Tenders were successful (%)



Reasons for not tendering (%)



Employees: Overview

- There are about **31,430** employers with **149,640** employees
- Almost all business owners (**98%**) regard themselves as employees of the business.



56% are youth aged between 18-35 years

53% of employees are male

37% have a high school education



83% largely paid in cash

12% through DFS



Employee benefits include:

Subsidised meals – 40%

Airtime – 34%

Salary advances – 32%

Accommodation – 22%

Overtime – 22%

Agriculture and farming

21,834 farmers (20% of the MSME sector) engaged in primary agriculture

The median land size is 2 hectares

Farming sector

Crops



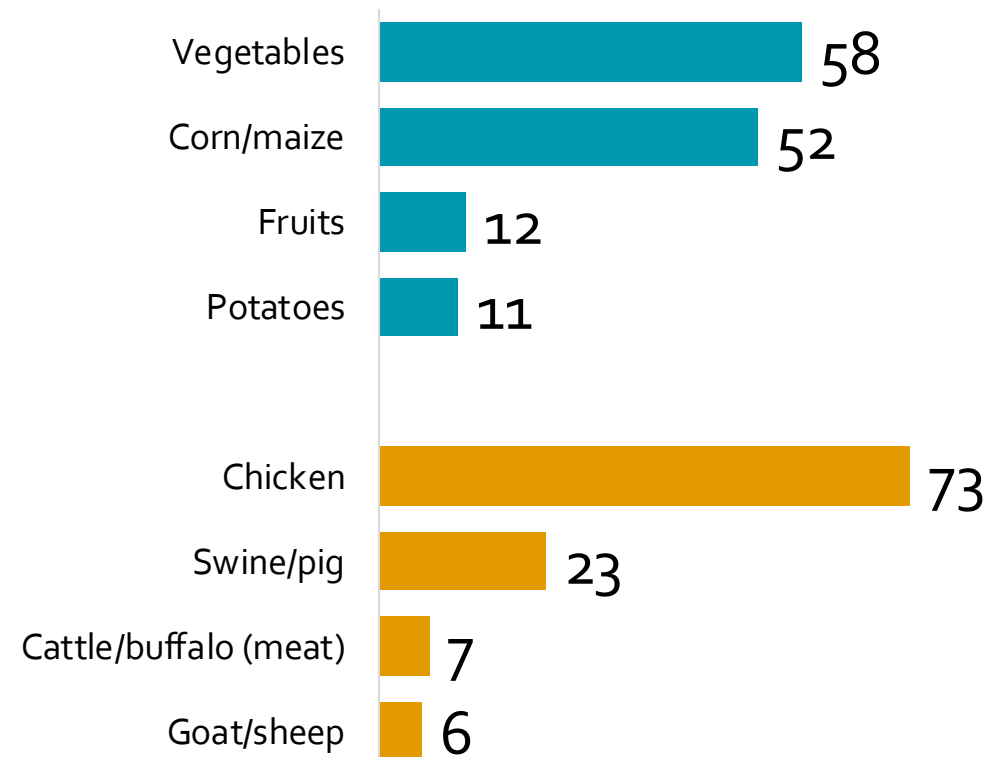
45%

Livestock



67%

Top crops and livestock (%)



Agriculture and farming: Markets for produce

Most farmers sell their produce directly to consumers

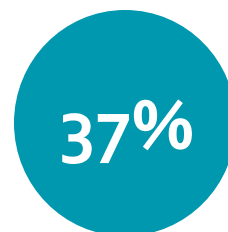
Markets for produce

- 82% directly to consumers
- 23% retailers
- 19% have an offtake agreement
- 4% middlemen
- 3% collection centres
- 2% wholesalers

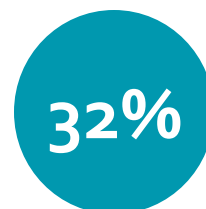


Crops

Beans



Potatoes

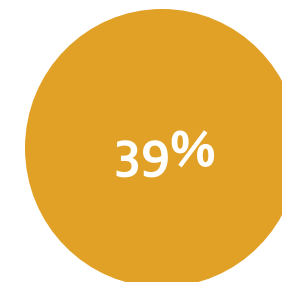


Corn/Maize



Livestock

Goat/Sheep



Chicken



Cattle (meat)

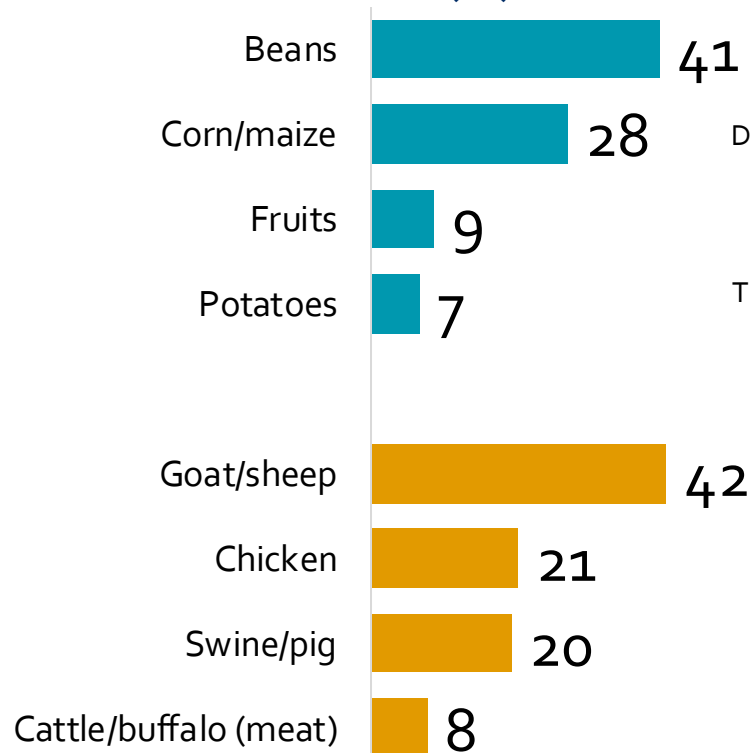


Agriculture and farming

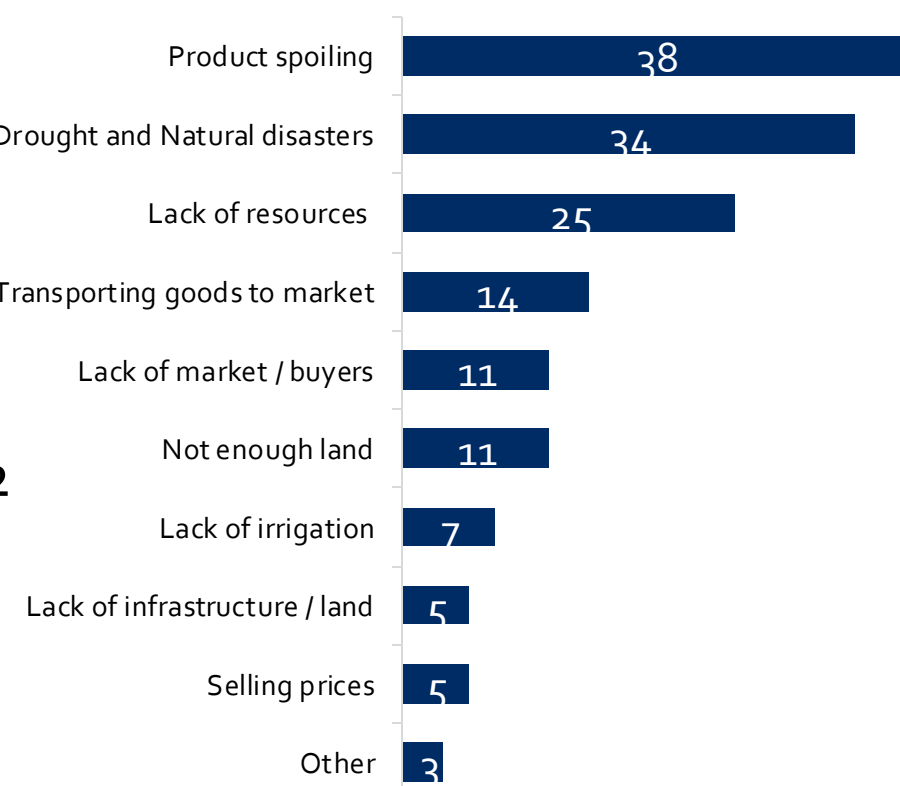
Source of farming inputs

- **49%** selling crop or livestock
- **16%** use savings
- **15%** use other income source
- **11%** get funds from friends/family

Main income crops and livestock (%)



Farming Challenges (%)

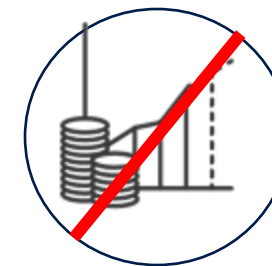




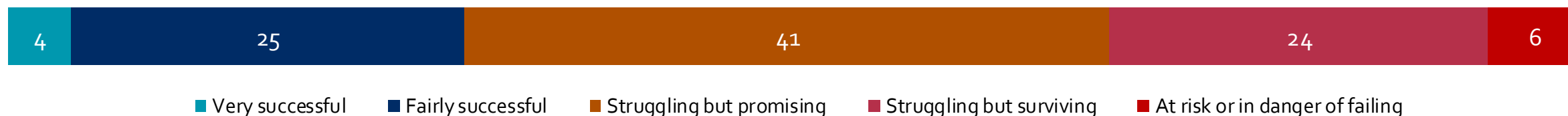
Business support and impact of business shocks

Business challenges and needs

29% claim that their business is successful



Perception of business performance (%)



Operational challenges:

- Markets & competition – **45%**
- Cashflow – **21%**
- Sourcing finance – **18%**
- Logistics – **10%**

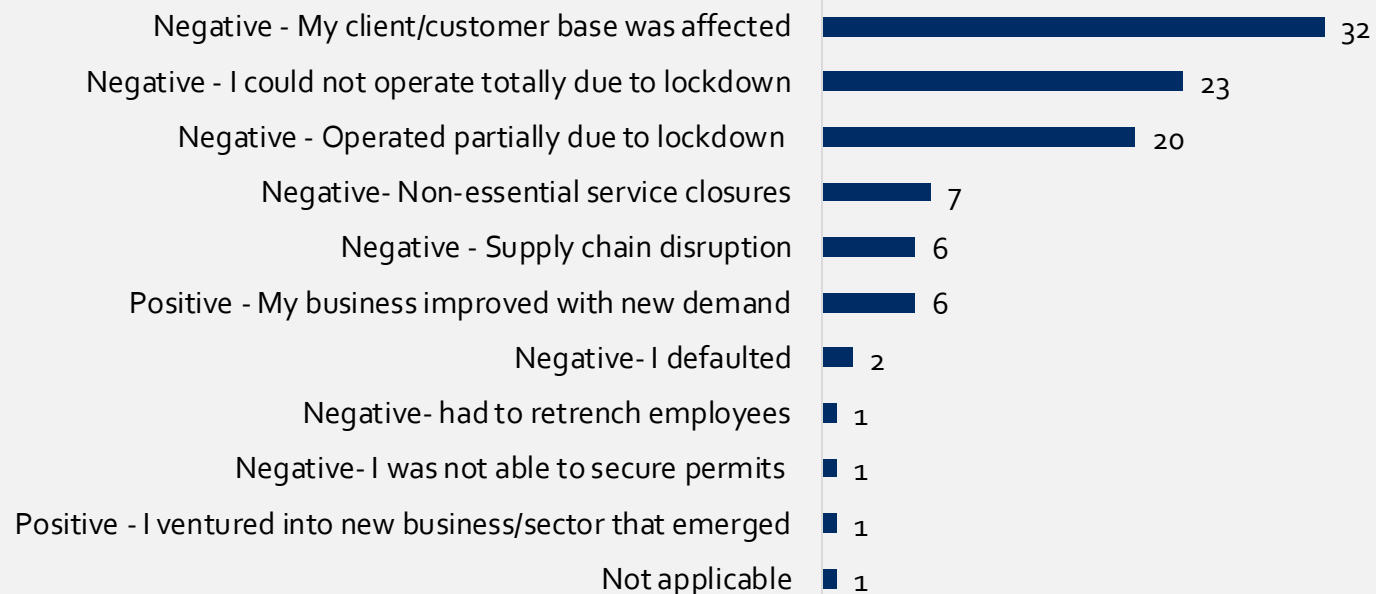
Growth obstacles:

- Access to finance – **30%**
- Space to operate – **20%**
- Markets & competition – **18%**
- Natural disasters – **12%**
- Electricity access – **12%**

Impact of external shocks on business: Covid-19 pandemic

- **14%** of MSMEs were/are classified as essential service providers during the Covid-19 lockdown period
- **54%** MSMEs considered the pandemic to have had a negative net impact on their business, while others considered it positive (6%), no major impact (10%) with the remaining 30% not applicable.

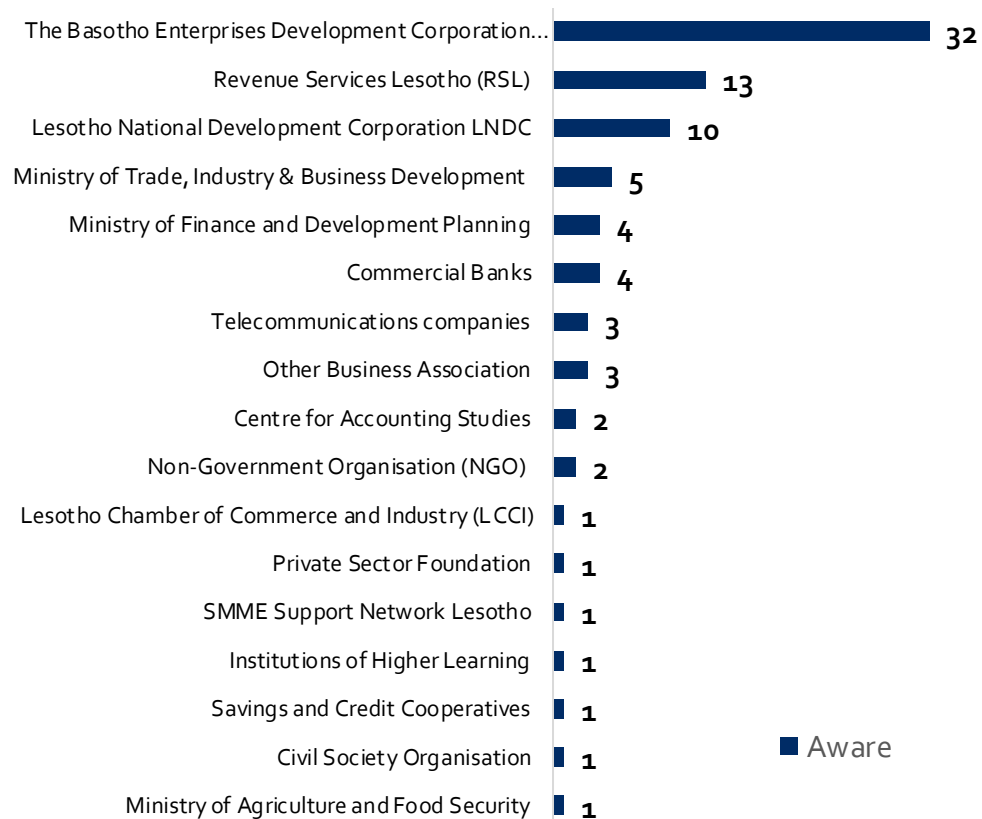
Impact of pandemic on business (%)



A positive impact was mainly experienced due to increased demand for business products, opportunities arising from new sectors that emerged.

Business support

Business support awareness (%)



Awareness of support organisations

- **42%** are aware of an organisation that assists or offers advice to MSMEs

Usage of support organisations is low

- **22%** of those aware of an organisation providing business support used their services

Support received

- **29%** - Product improvement
- **24%** - Productivity improvement
- **21%** - Accounting and bookkeeping
- **15%** - Technical training



Access to financial products and services

Financial inclusion framework

Total business owner (BO) population = Minimum age (18 years) defined by the age at which individuals can enter a legal financial transaction in their own capacity

Financially included = BOs who have/use financial products and/or services for business purposes – formal and/or informal

Financially excluded = BOs who do not have/use any financial products and/or services – if borrowing, they rely only on friend/family; and if saving, they save at home

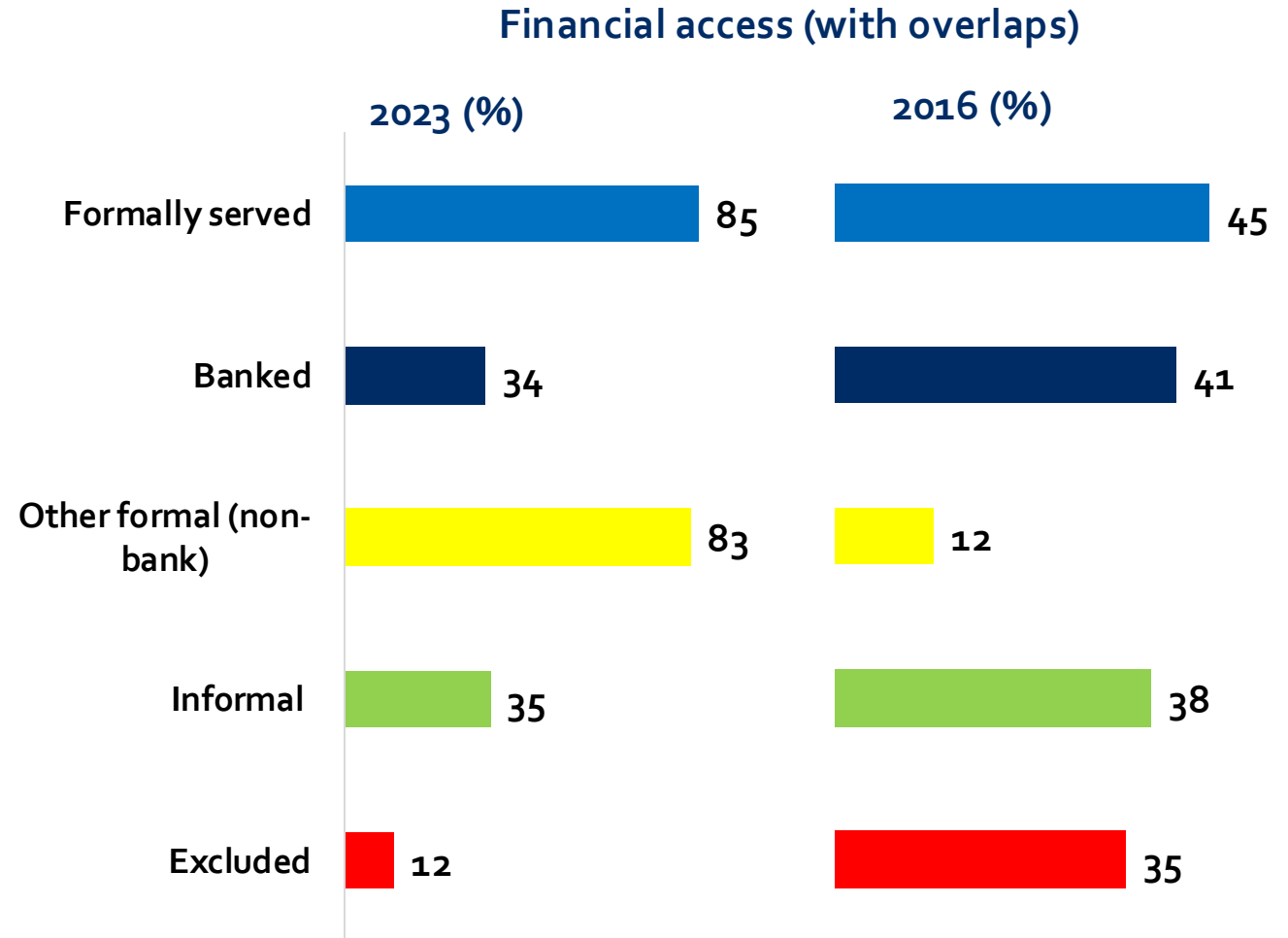
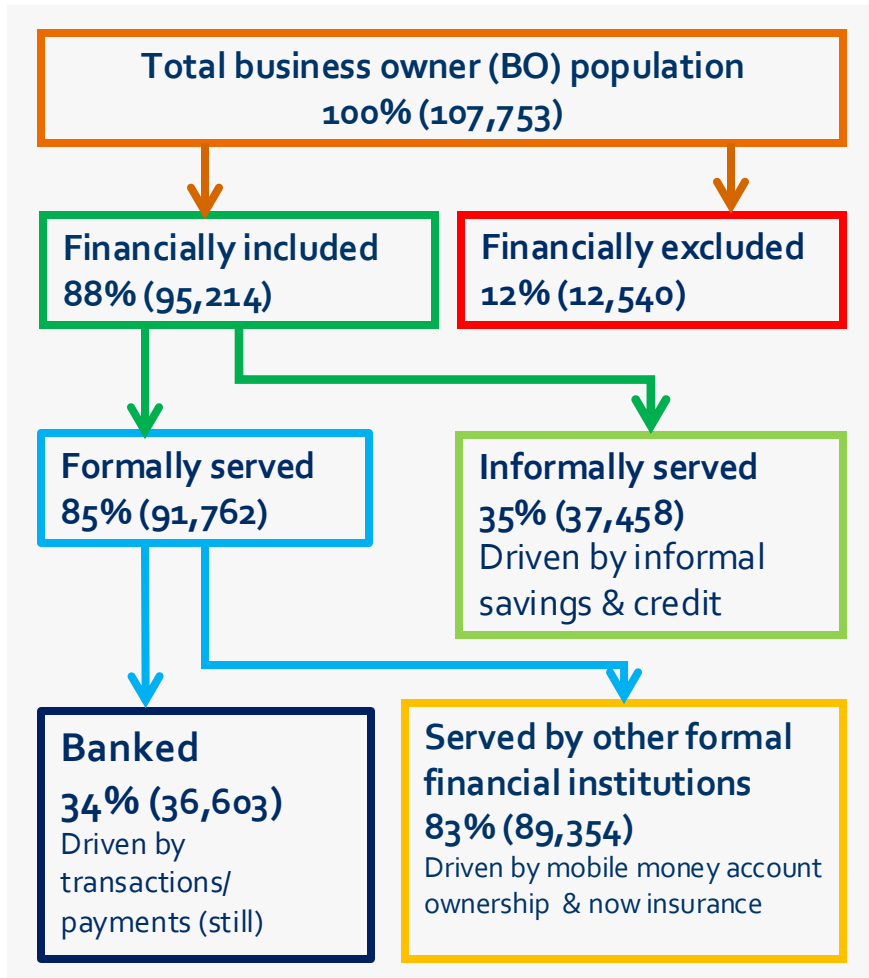
Formally served
= BOs who have/use formal financial products and/or services provided by a formal financial institution (bank and/or non-bank)

Informally served
= BOs who have/use financial products and/or services which are not regulated, e.g. farmer associations, saving clubs/groups, private moneylenders

Banked
= BOs who have/use financial products and/or services provided by a banking institution regulated by the Central Bank of Lesotho

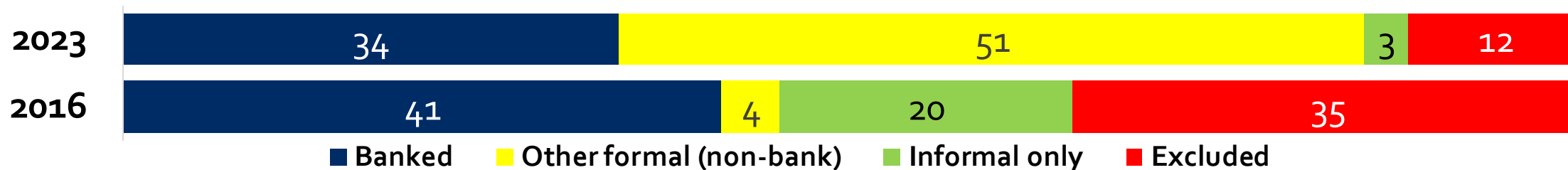
Served by other formal financial institutions
= BOs who have/use financial products and/or services provided by regulated non-bank formal financial institutions, e.g. insurance companies, micro-finance institutions and mobile money

Financial inclusion of Lesotho MSMEs (with overlaps)

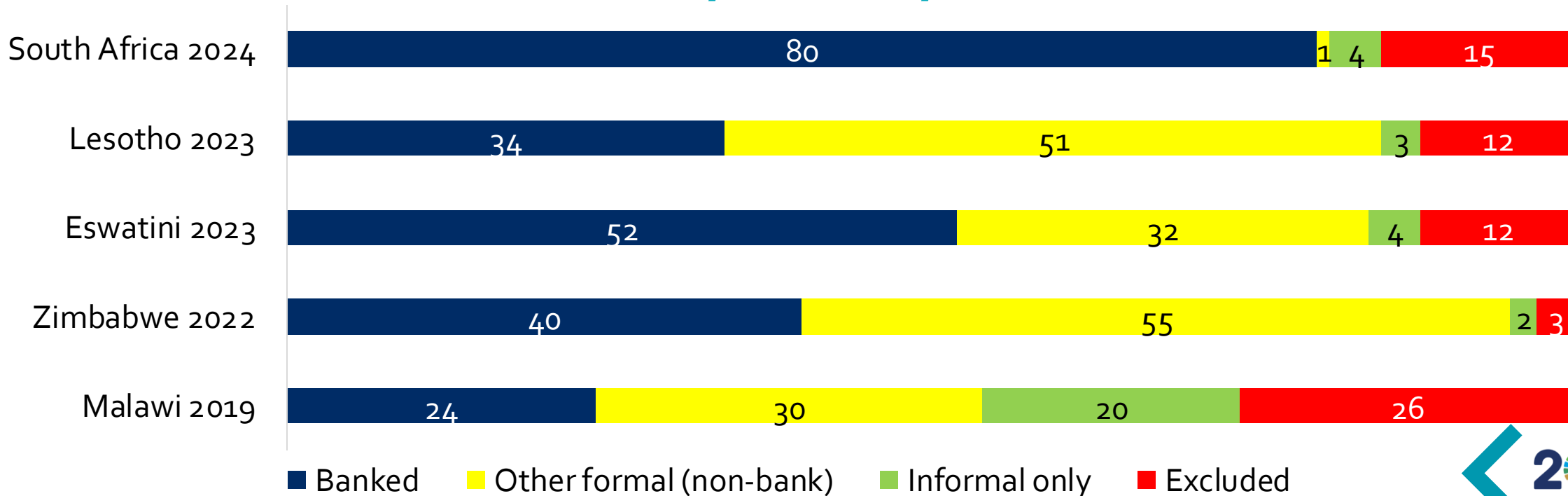


Financial Access Strand

➤ Financial exclusion has decreased by 23%, in the past seven years

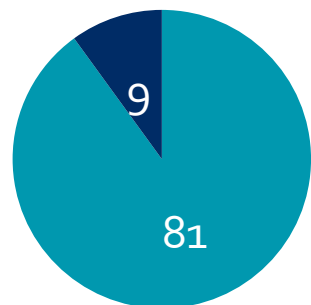
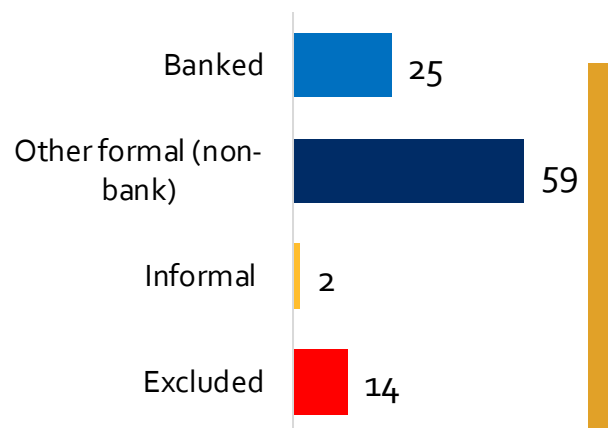


Financial Access Strand by country



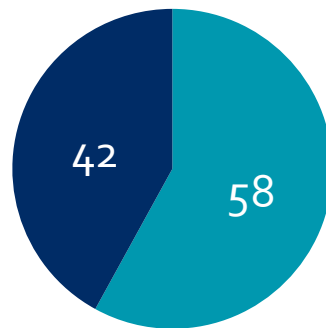
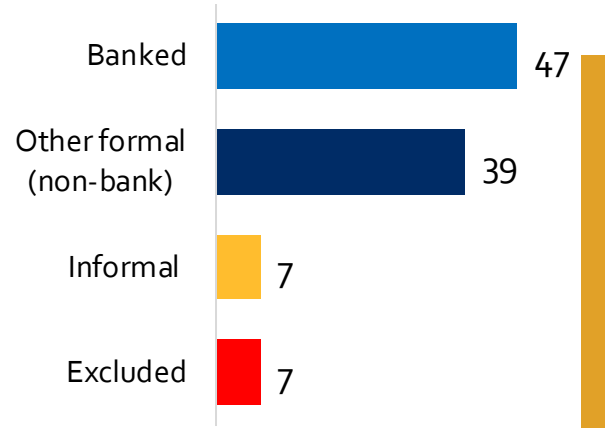
Banking: The use of personal accounts persists

Individual entrepreneurs (%)



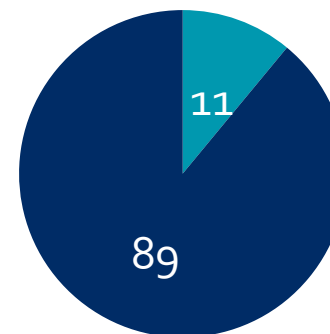
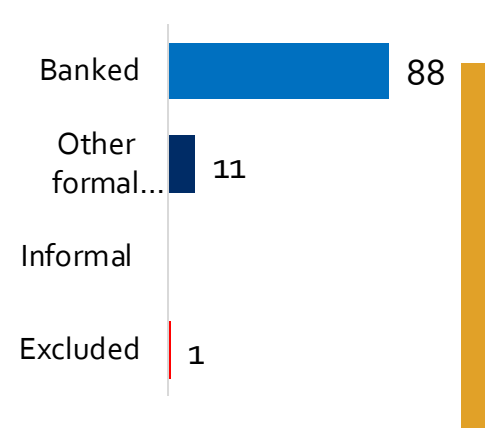
■ Personal Acc ■ Business Acc

Micro enterprises (%)



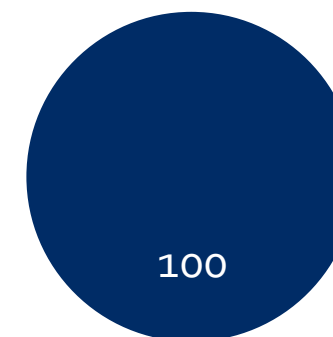
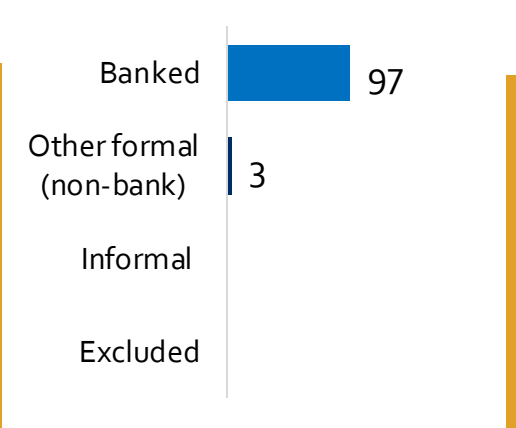
■ Personal Acc ■ Business Acc

Small enterprises (%)



■ Personal Acc ■ Business Acc ■ Personal Acc ■ Business Acc

Medium enterprises (%)

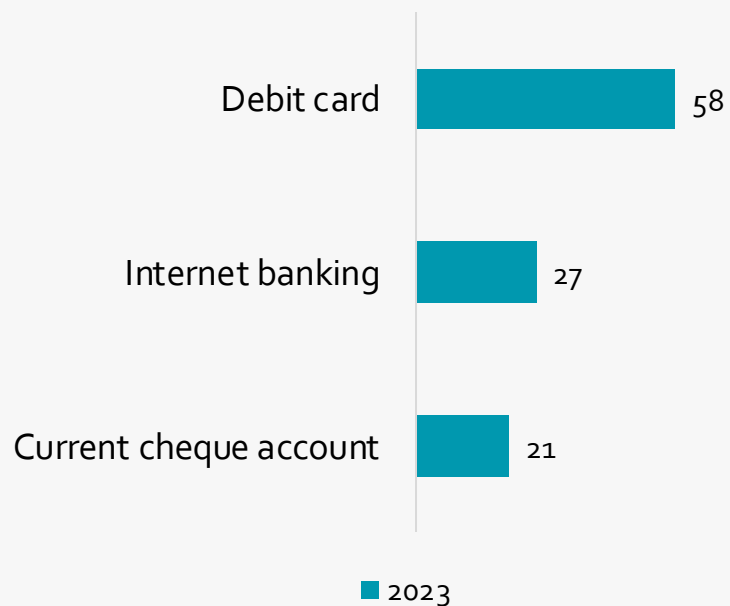


Banking: Drivers and needs

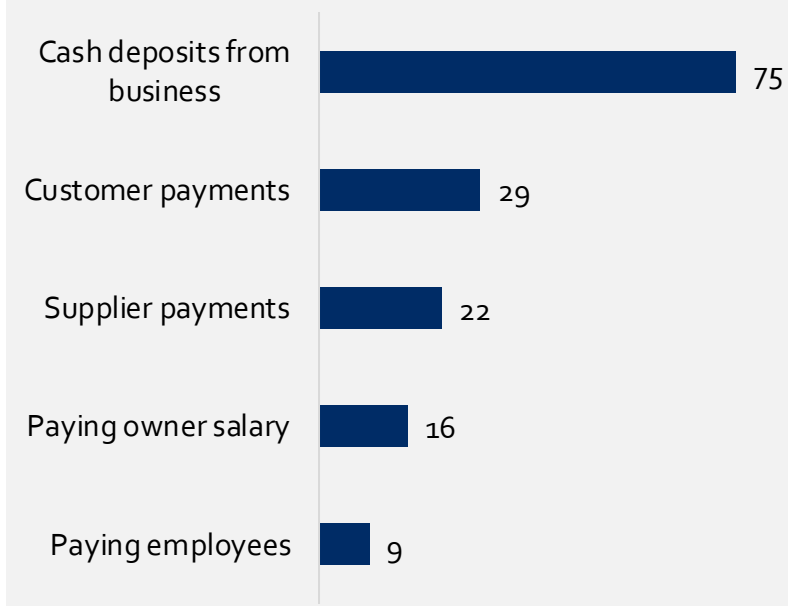


Half of banked businesses use bank digital financial services, i.e. electronic transfers, online banking, etc.

Main bank products driving transactions (%)



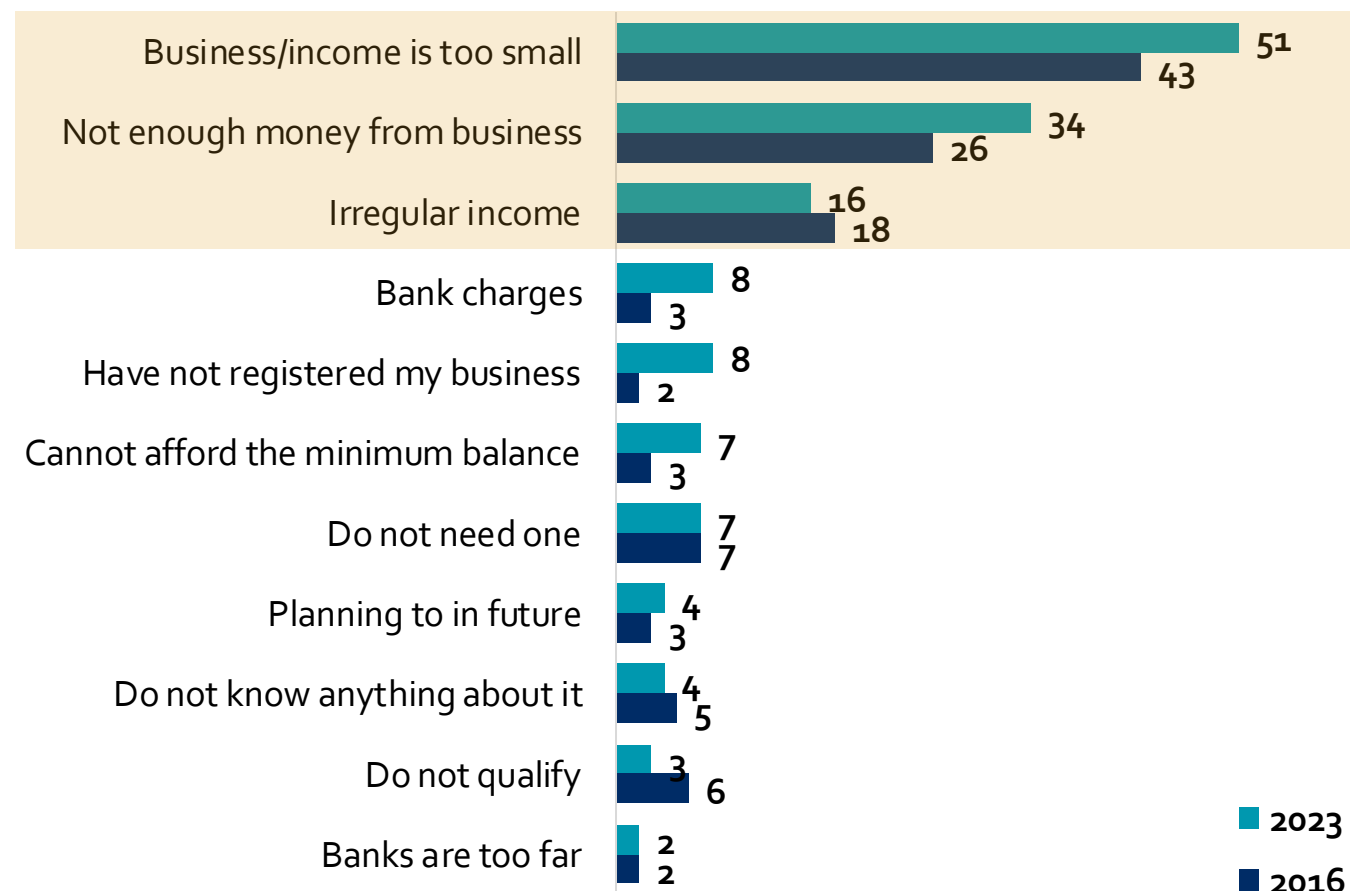
Main transactions performed (%)



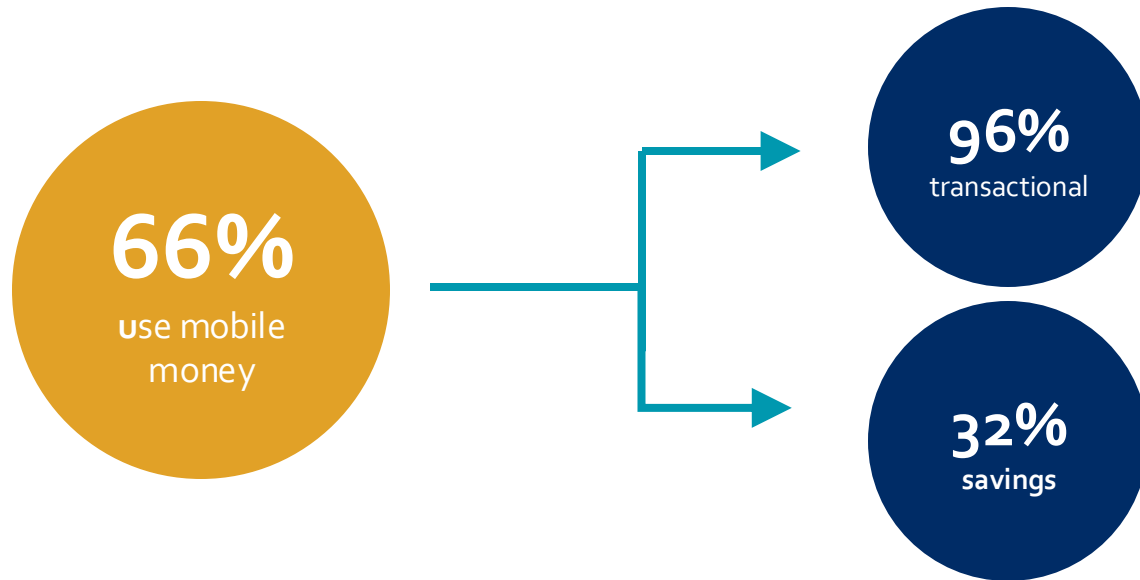
Banking: barriers

- There have been no changes in the main barriers to banking since 2016.
- The main barrier to banking is business size. Not surprisingly, **the most unbanked** business owners are **individual entrepreneurs**.
- Irregular income, both personal and business-related, is cited as a barrier, highlighting the frequency of income and the misalignment between bank cycles and income cycles.

Barriers to banking (%)

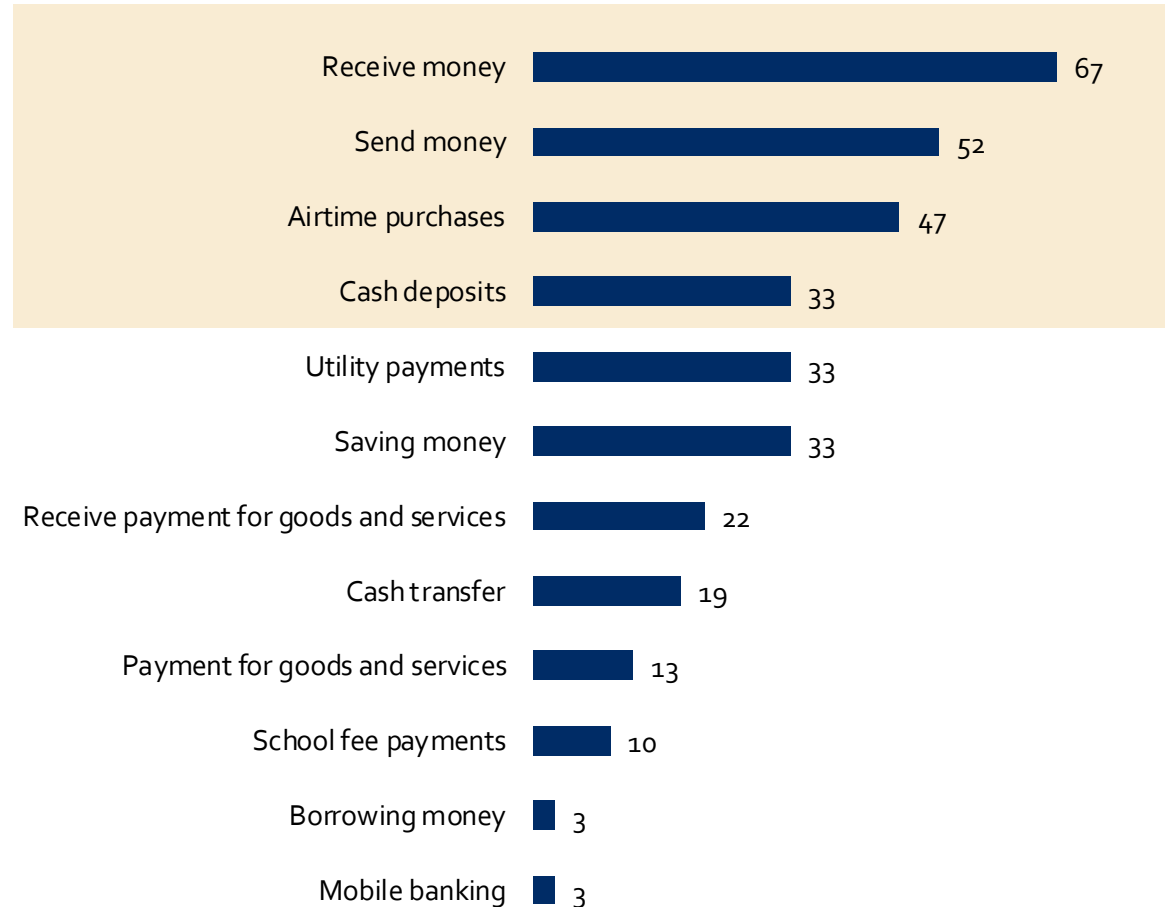


Mobile money



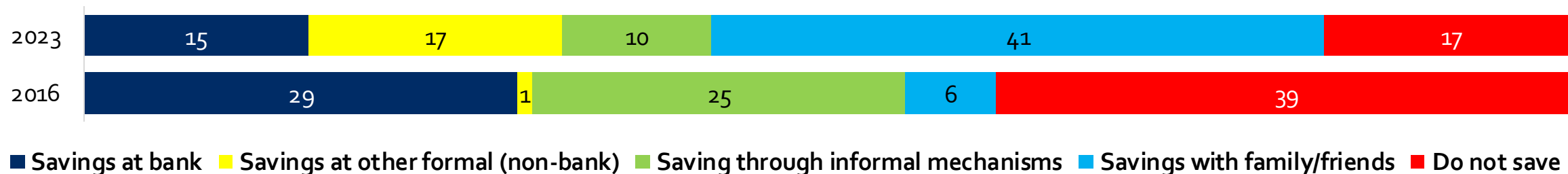
While mobile money has three in five MSMEs using it, a good proportion of the usage is linked to **remittances**, which is a source of capital injection or cashflow.

Usage of mobile money (%)



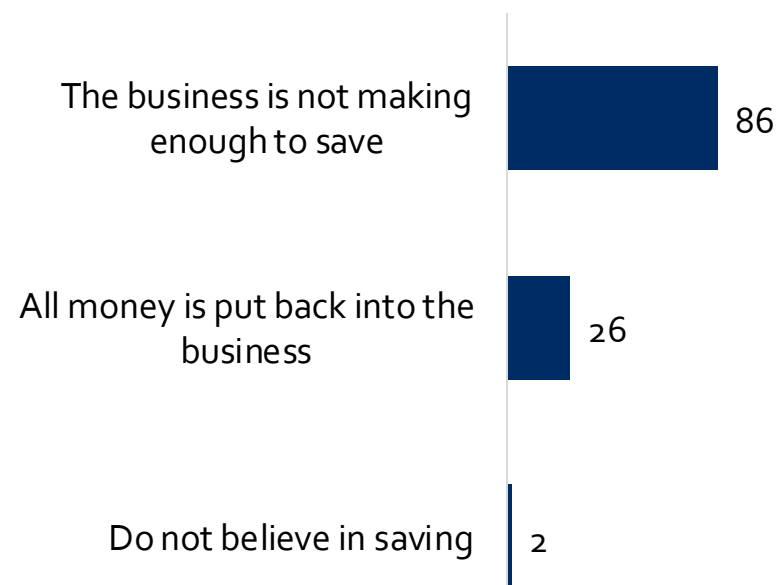
Financial inclusion: Savings Strand and barriers to saving

Savings Strand



- Businesses are an investment instrument; hence the uptake of other investment products is low.
- The main barrier to businesses not saving is the lack of excess funds, with most enterprises reporting to be struggling (75%) or worse (6%).
- Reinvesting in the business is a common practice as a source of capital, mainly to sustain or grow the enterprise.

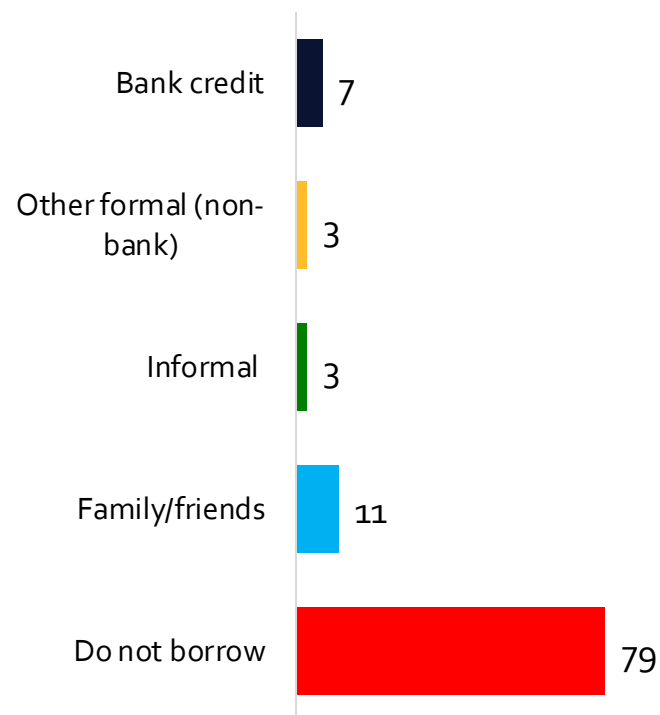
Barriers to saving (%)



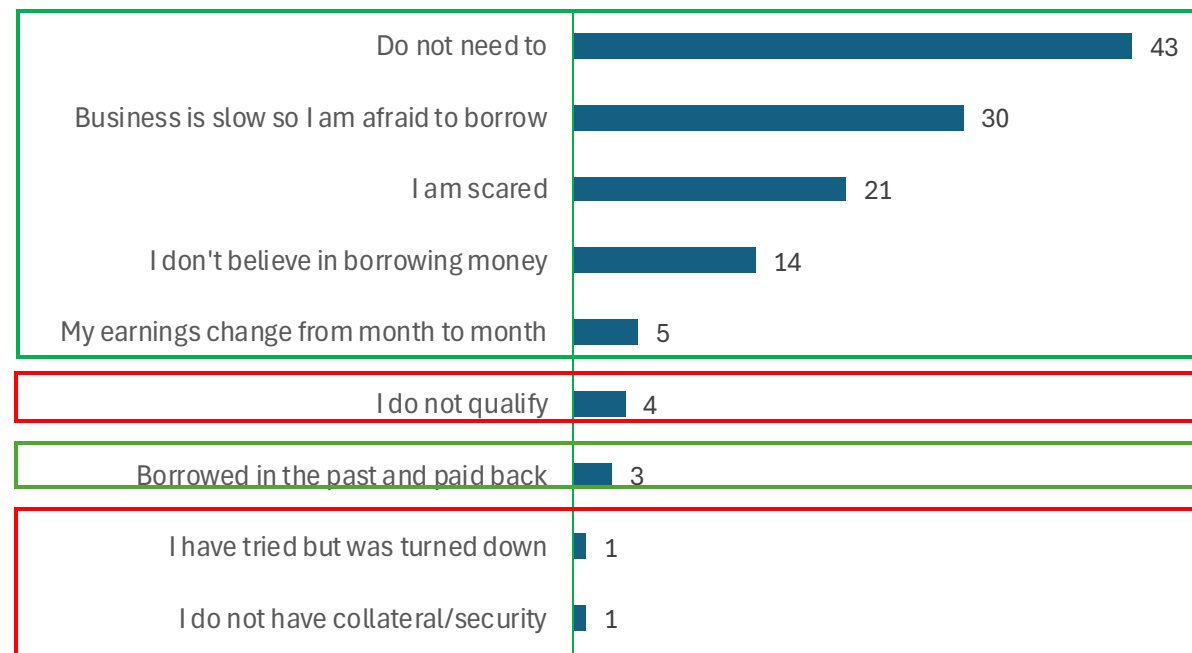
Financial inclusion: Access to credit

- Credit access remains limited, mainly due to having no need to borrow and fear of debt.

Credit overalls with overlaps (%)



Barriers to credit (%)

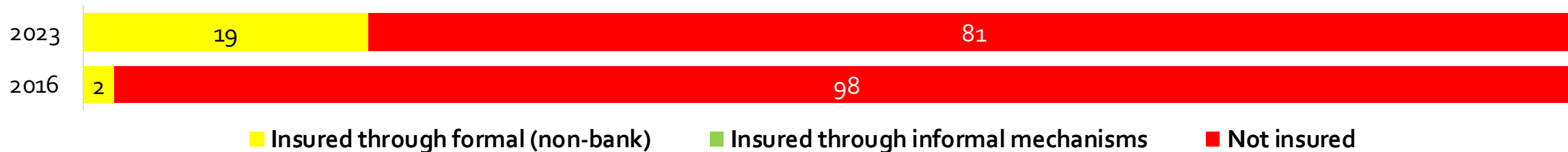


█ Demand-side barriers
█ Supply-side barriers

Financial inclusion: Access to insurance

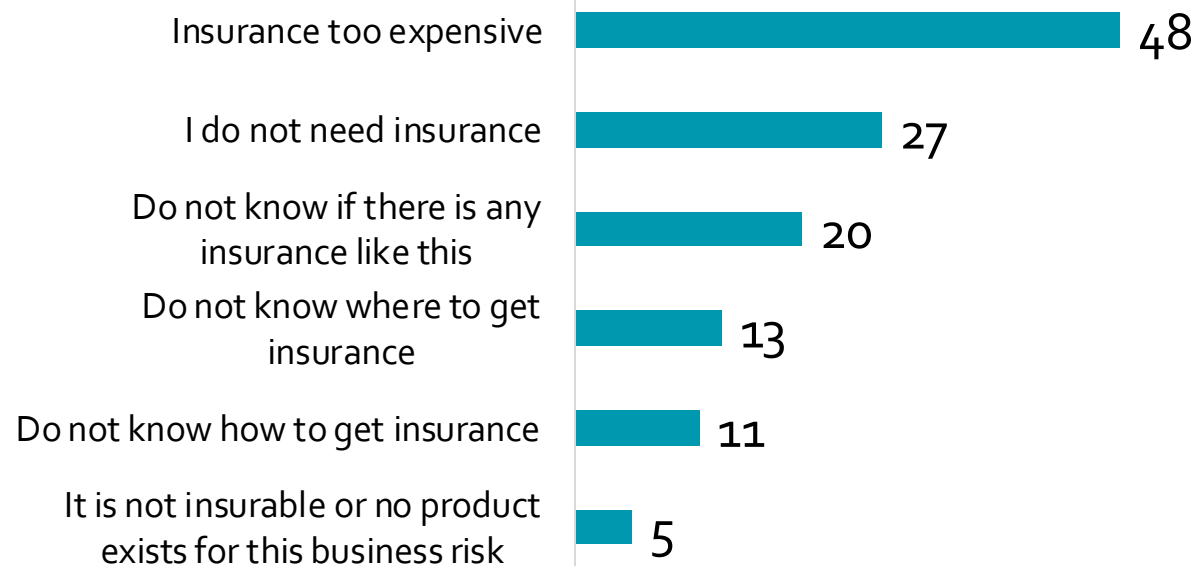
- Significant increase in insurance from 2% to 19%, primarily driven by personal insurance (79%) and business insurance (19%):

Insurance Strand

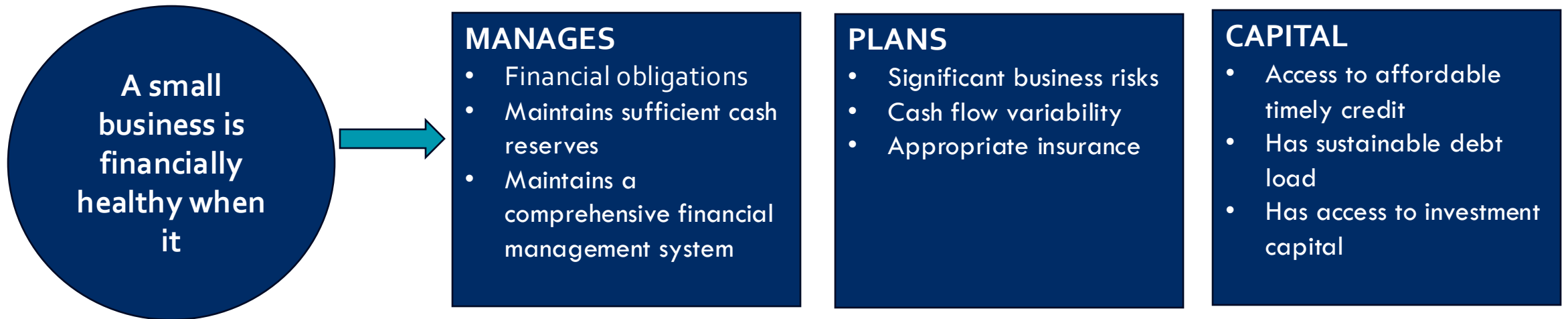


- Currently, **89%** of MSMEs are not covered for any personal or business risk.
- The main barrier is the perceived cost of insurance and its relevance (perception) compounded by the lack of information on how to obtain insurance and the types of insurance that are relevant to MSMEs.

Barriers to insurance (%)



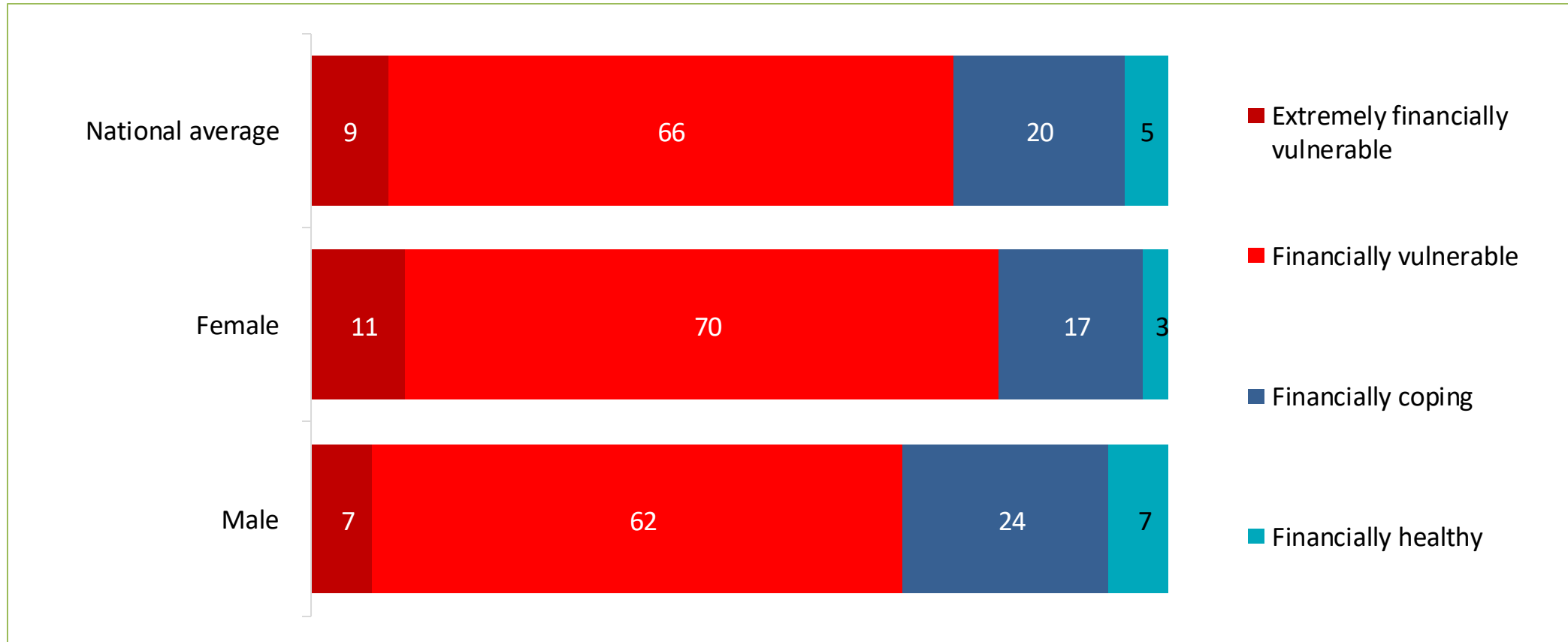
MSME Financial Health Framework - Dimensions



MSME Financial Health Framework - Construction and segments

Extremely financially vulnerable				Financially vulnerable				Financially coping				Financially healthy			
0	10	20	24	25	30	40	49	50	60	70	74	75	80	90	100
<p>Health scores between 0-24. A firm is financially unhealthy and should embark on a programme to improve its financial and market situation as its survival may be at risk in the short or medium term.</p>				<p>Health scores between 25-49. A firm is in poor financial condition that may be a result of weak financial indicators, poor financial management, or market conditions.</p>				<p>Health scores between 50-74. A firm enjoys good financial health that offers substantial cushion against unpredicted events, but there are elements which could be improved.</p>				<p>Health scores between 75-100. A firm shows high levels of financial stability and market resilience, it appears to be financially well-managed and has a solid market position. These MSMEs scored nearly all or all of the 11 sub indicators.</p>			

Financial Health Levels



Key takeouts: Financial Access

- Financial inclusion has improved among the Basotho MSME owner population in the past seven years in the first tier of **access** with 85 per cent having formal financial products.
- Overlaps have shown that business owners use both banking and mobile money together with under 2% of the business owners being solely reliant on bank products. This points to the interoperability between banking and non-banking products such as mobile money which have improved the access to formal products.
- The main drivers of the formally included business is mobile money and banking and products and services is largely for payments via banking and mobile money and insurance having two in five businesses being formally insured.
- Informal finance through savings and credit groups has been the main driver in credit and savings outpacing formal credit and savings products.

Key takeouts: Product uptake

- The reach of formal financial products and services is expanding overall, notwithstanding changes in mobile money and traditional banking. Formal financial instruments are primarily used for transactional (payment) purposes and risk mitigation. High user transaction volumes are observed in both bank and mobile money services. However, bank products have a lower adoption of digital financial services than mobile money, and overall may decline as was the case in Malawi and Eswatini. Insurance caters for the business owner rather than the company's assets, and its adoption is primarily driven by burial plans and medical aid.
- Formal credit or savings offerings are improving sluggishly. While bank credit has improved, access is still below 1 in 10 business owners. MFI credit drives other formal (non-bank) credit. Savings through bank have decreased with more business owners having adopted other formal (non-bank) savings products such as mobile money.
- Even though it has been consistently difficult to secure financing since 2016, the most common barrier provided by excluded business owners for their inability to obtain credit is that their size and moderate business growth prevent them from qualifying for financing. This may be explained by the fact that a higher proportion of businesses are micro and individual businesses, which could not be eligible for official financing and hence rely more on informal or personal channels.
- The informal financial sector continues to be a crucial source of funding for MSMEs, particularly through savings and credit groups. Integrating informal financial services, like stokvel groups, with the official financial sector is one way to boost and manage access to MSMEs. Certain formal products' designs can be better understood by taking a closer look at the social capital and value systems that these credit and savings organisations function in.

Key takeouts: Overall

<p>Dynamic growth with scaling challenges</p>	<ul style="list-style-type: none"> • Significant growth in MSMEs, with a 41% increase in numbers since 2016, driven by start-ups. • Stagnation at the growth phase highlights challenges in scaling businesses and sustaining long-term growth.
<p>Cash remains King</p>	<ul style="list-style-type: none"> • While digital financial services (DFS) are increasing, cash remains the primary transaction method (99%). This underscores the need to promote broader adoption of DFS to enhance efficiency and accessibility.
<p>Sectorial distribution</p>	<ul style="list-style-type: none"> • The wholesale and retail sector dominates, with agriculture and services playing significant roles. Growth in the manufacturing sector, doubling its share since 2016, signals progress toward industrialisation.
<p>Access to finance remains a barrier</p>	<ul style="list-style-type: none"> • Financial access challenges, including high costs, collateral requirements, and limited financial literacy, hinder MSMEs' growth and resilience.
<p>Impact of external shocks</p>	<ul style="list-style-type: none"> • MSMEs are highly vulnerable to shocks, with external factors like COVID-19 and global economic disruptions impacting income generation and business sustainability.

Policy recommendations

1. **Support MSME Growth and Scaling:** Implement targeted programs to help start-ups transition to growth and established phases while also encouraging succession planning for older businesses to sustain their longevity.
2. **Promote Digital Financial Inclusion:** Expand awareness and infrastructure for DFS to reduce reliance on cash.
3. **Strengthen Sectorial Opportunities:** A focus on sector with high growth and employment potential, such as manufacturing, agriculture and tourism is needed.
4. **Expand financial products and services:** Financial institutions should be encouraged to create customised financial instruments that address the MSME needs, such as cash flow management, equipment financing and risk mitigation. The use of MSME segmentation data can help develop tailored financial products and services.
5. **Build resilience to shocks:** Establish contingency plans, relief funds and tax breaks for MSMEs to mitigate the impact of future disruptions. There is a need to strengthen mechanisms to ensure targeted effective distribution of government grants and support.
6. **Promote Green and Sustainable practises:** MSMEs face knowledge and resource gaps in adopting green technologies, this presents an opportunity for capacity building and financial incentives to adopt eco-friendly technologies.
7. **Empower Women and Youth entrepreneurs:** Develop tailored training programs for women to enhance their business growth capacity and strengthen the MSME support framework to provide mentorship, training, and financial solutions for youth entrepreneurs.



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