

National Industrial Upgrading and Modernisation Programme for Lesotho

Final Report

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. LIST OF ABBREVIATIONS

| | |
|----------|------------------------------------------------------------|
| AfDB | African Development Bank |
| ATSC | Appropriate Technology Services Centre |
| AU | African Union |
| BEDCO | Basotho Enterprise Development Corporation |
| CBL | Central Bank of Lesotho |
| CDE | Centre for the Development of Enterprise |
| CMA | Common Monetary Area |
| CMT | Cut, Make and Trim |
| DFI | Development Finance Institution |
| DoI | Director of Industry |
| EBA | Everything-But-Arms |
| EDSC | Enterprise Development Sub-Committee |
| EFTA | European Free Trade Area |
| EPA | Economic Partnership Agreement |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GDP | Gross National Product |
| GoL | Government of Lesotho |
| GSP | Growth Strategy Paper |
| HACCP | Hazard Analysis and Critical Control Points |
| ICBT | Informal Cross-border Trader |
| ICT | Information and Communication Technology |
| IMTT | Inter-Ministerial Task Team |
| INDF | Interim National Development Framework |
| IP | Industrial Policy |
| ISO | International Standards Organisation |
| ITPO | Investment and Technical Promotion Offices |
| IUMP | Industrial Upgrading and Modernisation Programme |
| LCCI | Lesotho Council of Commerce and Industry |
| LGA | Local Government Authority |
| LHWP | Lesotho Highlands Water Project |
| LNDC | Lesotho National Development Corporation |
| LOIC | Lesotho Opportunities Industrialisation Centre |
| LTI | Lerotholi Technical Institute |
| MAFS | Ministry of Agriculture and Food Security |
| MCC | Maseru City Council |
| MERCUSOR | Mercado Comun del Sur |
| MFA | Multi-fibre Agreement |
| MFDP | Ministry of Finance and Development Planning |
| MoCST | Ministry of Communication, Science and Technology |
| MoET | Ministry of Education and Training |
| MSME | Micro, Small and Medium Enterprise |
| MTICM | Ministry of Trade and Industry, Cooperatives and Marketing |
| MVA | Manufacturing Value-Added |

| | |
|-------|-------------------------------------------------------------|
| NAFTA | North Atlantic Free Trade Area |
| n.e.c | Not elsewhere classified |
| NGO | Non-Governmental Organisation |
| NSC | National Steering Committee |
| NUL | National University of Lesotho |
| OBFC | Over-the-Counter Business Facilitation Centre |
| PRS | Poverty Reduction Strategy |
| PSCED | Private Sector Competitiveness and Economic Diversification |
| SACU | Southern African Customs Union |
| SADC | Southern African Development Community |
| SME | Small and Medium Enterprise |
| TUMU | Technical Upgrading and Modernisation Unit |
| TVET | Technical and Vocational Education and Training |
| UEMOA | West African Monetary Union |
| UNIDO | United Nations Industrial Development Organisation |

EXECUTIVE SUMMARY

Like in most other developing countries, the role of the small and medium enterprises (SMEs) in Lesotho is significant, particularly when it comes to employment creation. However, there has not been much progress in Lesotho in terms of turning these enterprises into a dynamic force capable of adopting new technologies, new skills, new markets, new financial resources and more importantly, an outward-oriented growth outlook. Conversely, the SME sector in Lesotho has been characterised by stagnation, poor production methods, lack of management skills, poor funding and proclivity to the low value adding retail sector.

Most crucially, Lesotho lacks a core of growth-oriented medium enterprises that often fill the space between the big and small business (the ‘missing middle’ syndrome). Locally-owned and growth-oriented SMEs are a crucial component for private sector growth and development as they act as sub-contractors to both local and foreign large firms. They also play an important role in developing locally based and internationally linked supply chains.

The current dynamics of globalisation and trade liberalisation have put small developing countries like Lesotho in a dilemma. While on the one hand, the small manufacturing industry in Lesotho is facing fierce competition from low-cost countries which threatens its very survival, on the other hand, the country has been given ample access to markets such as the EU through Economic Partnership Agreement (EPA) and the US through African Growth Opportunity Act (AGOA) and yet the country lacks the capacity to export to those markets.

It is on the basis of the foregoing that the national Industrial Upgrading and Modernisation Programme (IUMP), has been developed in order to address the supply-side constraints and the low productive capacity of manufacturing SMEs in Lesotho. More specifically the IUMP aims at the upgrading and modernisation of manufacturing SMEs and related services in order to improve their competitiveness, growth, access to national and international markets; mainly focusing on economic diversification, improving productivity, product quality, and job creation. It also aims at strengthening the capacities of technical and institutional support entities in the country.

The national IUMP has been structured as follows. Section 2 provides a broad background about the genesis of the industrial upgrading and modernisation concept and how it eventually was adopted by the AU as a programme to be implemented to develop the productive capacity of the African manufacturing industry and its competitiveness.

Section 3 is the situational analysis which generally puts into context the industrial development situation in Africa as a whole, the SADC region and Lesotho. More specifically, this section provides a broad analysis on Lesotho’s economic policy framework, economic performance and the extent to which the economy is integrated with the rest of the world. This section then explores the manufacturing sector in Lesotho in terms of its contribution to the economy, exports and employment. Within the manufacturing sector, a special emphasis is put on the state and role of small and medium manufacturing enterprises which is the main target area of the national IUMP. A broad analysis has been provided on the challenges facing the SME sector and technical institutions meant to support them. Also covered are policy strategies the Government has put in place to address those challenges.

Section 4 provides the justification for undertaking the national IUMP based generally on the need for Lesotho to expand her industrial base through more involvement and participation of a vibrant manufacturing SME sector. Other justifying factors are the need for Lesotho to effectively take advantage of preferential market access in the US, EU and the SADC region; and lastly to benefit from the technical experience of UNIDO in implementing similar programmes in other African countries.

Section 5 is the presentation of the national IUMP in terms of its objectives, approach, components and outputs. This section provides an elaborate analysis on the implementation approach of the national IUMP which is largely derived from the UNIDO approach. The implementation approach is then followed by programme components and outputs. Component I is a presentation of activities that will be undertaken for the upgrading and restructuring of enterprises while Component II covers activities for building the capacity of technical support institutions. Activities to be undertaken in both components have been derived from section 3 of this report. Section 6 explains the criteria of Programme eligibility and priority sectors.

Section 7 is about the institutional framework for management and coordination of the Programme. The proposed institutions are at the regional and national level. At the regional level is the SADC Secretariat, Regional Steering Committee and the Technical Unit for Upgrading and Modernisation. At the national level is the Cabinet, the National Steering Committee and the Technical Upgrading and Modernisation Unit. The monitoring and evaluation approach for the Programme is covered in section 8 and is mainly derived from the SADC IUMP.

The report concludes with an indicative budget on the activities of the two components of the Programme for the two proposed phases of the project. The estimated project cost is R130.8 million.

BACKGROUND

The Industrialisation Upgrading and Modernisation Programme (IUMP) in the SADC region is a programme meant to contribute to the strengthening of industrial capacities of SADC countries to enable them to face the double challenge of regional and world integration by improving competitiveness and thus supporting economic growth, employment creation, export promotion and poverty reduction.

The conference held, as a result of a series of consultative regional meetings, in Midrand in South Africa on 24-25 September 2007 formulated and adopted the AU Action Plan for the Accelerated Industrial Development of Africa.

The Action Plan covered the following critical areas:

- Upgrading productive and trade capacities
- Investment promotion, facilitation and governance enhancement
- Creative, productive, decent and sustainable work for the youth
- Promoting energy security and powering industrial growth
- Strengthening regional industrial innovation systems.

The Action Plan also identified critical priorities at national, regional, continental and international levels to promote a coherent industrial development of Africa as follows:

- Policy on Product and Export Diversification, Natural Resources Management and Development
- Infrastructure Development
- Human Capital Development and Sustainability, Innovation, Science and Technology
- Development of Standards and Compliance
- Development of Legal, Institutional and Regulatory Framework
- Resource Mobilisation for Industrial Development.

The Lesotho Industrial Upgrading and Modernisation Programme is a part or component of the regional SADC IUMP meant to specifically address issues pertaining to upgrading and modernisation of Lesotho's industrial sector. The programme is expected to be implemented in two phases, namely, the "Start-up or Pilot" phase and the "Roll-out" phase. The Start-up phase entails upgrading and modernisation activities for pilot manufacturing enterprises and institutions providing technical support. This phase is expected to search and develop "success stories" through a few possible experimentations.

Phase 2 or the Roll-out phase will draw on the lessons of Phase 1 and will be opened to all the remaining enterprises and support institutions. Phase 1 is expected to take 3 years whereas phase 2 may take 3 years with a possible extension.

SITUATION ANALYSIS

.. African Context

According to the African Development Bank (AfDB) 2010 Annual Report, the African continent's economy is on a rebound after the global financial crisis of 2008. From 3.1% at the peak of the financial crisis, the continent grew by 4.9% in 2010. Generally, the macroeconomic outlook is positive. Inflation has been reduced to single digit level of 8% while fiscal deficit was brought down to the internationally approved benchmark of 3%. Similarly, the current account balance improved from a deficit of 1.6% of GDP in 2009 to a surplus 0.4% of GDP in 2010. For most African countries growth is still yet to return to the pre-financial crisis level. The rebound in global economic performance is expected to favour mostly African countries that depend on commodity exports due to rising commodity prices.

Despite the general improvement in Africa's macroeconomic performance, the same cannot be said about its industrial development, especially the manufacturing sector. Most of Africa's growth is accounted for by commodity exports. According to the Economic Development in Africa Report 2011, Africa's manufacturing sector has been on the decline. The share of its manufacturing to GDP has fallen from 15.3% in 1990 to 10.5% in 2008. In terms of its share to global manufacturing value-added, Africa has regressed from 1.2% in 2000 to 1.1% in 2008. When innovation and new technological developments have significantly improved other regions' manufacturing value added, Africa's manufacturing performance (excluding South Africa) lags well behind other regions. However, it is important to note that the share of technology-driven manufacturing to total manufacturing value-added has increased between 2000 and 2008 albeit still very small by global standards.

As for its share of global manufacturing exports, there has not been any significant improvement either. From 1% in 2000, Africa's share of manufacturing exports only rose to 1.3% in 2008. This compares with 9.5% in 2000 for low and middle income countries in East Asia and the Pacific to 16% in 2008. As a share of total African exports, manufacturing exports stood at 43% in 2000 and have since fallen to 39% in 2008. However, an important observation to make is that between 2000 and 2008 there has been an increase in the relative contribution of technology-intensive manufacturing export to total manufacturing exports.

According to the SADC IUMP, the major reasons for Africa's failure to benefit from international trade are mainly linked to:

- lack of supply capacity needed to ensure necessary quantity and quality of products for export
- technology gap
- inability to demonstrate conformity of potential export products with international standards
- problems of integration into the multilateral trading system
- dependence on exports of primary products

It is on the basis of the foregoing that the SADC IUMP makes a strong case that the greatest potential for economic development and trade development of African countries lies in the manufacturing sector and in the transformation of African raw materials into semi-finished and finished products. To this end, African enterprises need to develop regional value chains and link with global supply chains to market their products internationally.

For this to happen the SADC IUMP emphasises the important role that small and medium enterprises (SMEs) that predominate African economies need to play. It is a well documented fact that SMEs can be strong engines of economic growth, employment and poverty alleviation. If these enterprises are to effectively play their role in Africa's economic development then there is a compelling need of a supporting infrastructure to:

- increase and upgrade their supply capacity
- improve product quality and competitiveness
- conform with importer-mandated standards
- increase investment at the enterprise level
- provide government support to improve productivity and technology extension services
- promote export consortia and cluster development.

.. SADC Context

SADC constitutes 15 countries¹ and has a population size of 237 million inhabitants with GDP of US\$471 billion.

According to the 2007 SADC Economic Business and Investment Climate Outlook, macroeconomic performance in the SADC region has been robust with GDP growth averaging 6.4%. The situation could be different now after the global financial and debt crisis. However, expectations are that there could be a positive turnaround with the recent improvement in commodity prices. The improvement in economic performance in the region is largely attributed to the stable political environment and sound macroeconomic policies.

Like in the rest of Sub-Saharan Africa, the SADC member countries have embarked on the implementation of a number of reform measures aimed at promoting macroeconomic stability and higher growth combined with the improvement in the delivery of social services. High on the priority list has been the policy of promoting industrial development in order to effectively take advantage of the opportunities that have been opened by the liberalisation of the world market and to proactively thwart the accompanying challenges of globalisation.

4.2.1 Industrial Development Challenges in the SADC Region

Industrial development in the SADC region is generally weak and its contribution to GDP still very low. The regional economies are still predominantly reliant on the primary sector, namely, agriculture and mining. The manufacturing sector which is generally considered as the critical component of industry that presents greater opportunities for growth, employment and poverty reduction is very small and shallow.

The regional and international trade pattern of SADC also reflects the low level of industrial development, especially the manufacturing sector. SADC trades more with the EU and NAFTA than with itself because most of its exports are commodity products like minerals and crude petroleum and to a lesser extent, agricultural products like tobacco and sugar.

It is important to note that the share of intra-SADC exports has been declining - from almost 11% in 2000 to 9.5% in 2006. The drop in the share of intra-SADC exports is mainly a reflection of the low level of export diversification and reluctance by some member countries to adjust tariffs in line with the SADC Trade Protocol. In recent years exports to MERCUSOR and East Asia have increased at the higher rate than those destined for the EU and NAFTA. This has marked a turning point in regional trade between the developed countries and emerging markets, especially Brazil and China. However, what is most important is that the shift in regional exports destination has not affected the structure of its industry which continues to be dominated by commodity products.

¹ Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

In 2003 UNIDO undertook a regional study that identified nine priority sectors to kick-start industrialisation processing in the SADC region. The nine priority sectors were adopted by the SADC Ministers of Trade and Industry as:

- agro-food processing,
- processing of minerals (metallic and non-metallic),
- leather and leather products,
- forestry,
- fisheries,
- chemicals,
- petroleum and pharmaceuticals,
- textiles and garments, machinery and equipment, and
- services.

The study performed a thorough analysis on industrial development in the region including a SWOT analysis of the above priority sectors.

The limitations of the SADC industrial sector were generally identified as:

- weak manufacturing output with very modest contribution to GDP
- prevalence of small units serving local or at best regional markets
- marginal transformation
- predominance of raw materials in exports
- limited access to medium and long term capital and funding for industrial development
- lack of infrastructure and inadequate transport
- inadequate institutional and technical capacity
- escalating costs of raw materials, labour, energy and utilities
- high dependence on imports as inputs
- overvalued exchange rate and legal and regulatory obstacles
- poor conformity with international standards and inadequate quality assurance infrastructure
- obsolete technologies and poor packaging practices
- lack of qualified personnel and poor corporate governance .

These are the critical areas that the SADC IUMP identifies as needing urgent regional and national attention for SADC to emerge as an effective player in international trade as well as to withstand the challenges of globalisation. It is also on the basis of these challenges that Lesotho like other SADC countries is developing its national IUMP.

.. Lesotho Context

4.3.1 Policy Framework

Since 2004 Lesotho's economic policies are based on its Vision 2020. Immediately after the completion of Vision 2020, the Poverty Reduction Strategy (PRS) for 2004/05 -2006/07 was formulated as a first step towards the implementation of the objectives of the Vision. The PRS was a three-year medium term development framework outlining national priorities and strategies for promoting economic growth and reducing poverty. One of its key objectives was employment creation and income generation by facilitating economic growth through the development of the private sector. The PRS aimed to achieve this objective through the following strategies:

- attracting domestic and foreign direct investment
- Supporting local business
- Increasing support to small, medium and micro enterprises, and
- Making optimal use of natural resources.

In 2008/09 the Government of Lesotho introduced another policy paper, the Growth Strategy Paper (GSP). While its objective was to achieve broad based and sustainable economic growth, its specific objective was to identify key constraints on economic growth, and prioritise strategies to address those constraints.

The GSP makes a strong argument that improvements in the business environment will increase economic returns and private sector investment across the board, but are most important for the SMEs. Another important aspect that the GPS touches on is lack of reliable statistics and market information for both policymakers and the private sector. Lastly, the GPS identified manufacturing, mining, tourism and agriculture as priority and potential growth drivers in Lesotho.

To cover the period between the expiry of the PRS and completion of the Five Year National Development Plan, the Government has produced the Interim National Development Framework (INDF). The very first objective of the INDF is to pursue high, shared, sustainable private sector led economic growth that generates employment by:

- promoting high private sector investment through removing unnecessary constraints
- Developing legal and regulatory institutions that will support high investment by the private sector
- Promoting industrial development and SMMEs
- Developing agriculture, tourism, human skills and infrastructure.

Like the GSP, the INDF's strategic approach is to transform Lesotho into a strong export-led economy, given its small domestic market. Its emphasis is on exploiting regional and international markets predominantly in labour-intensive export industries.

In 2010 the national Industrial Policy (IP) was produced. The main objective of the policy is to “incentivise greater investment in industrial development with the intention of raising employment while building on and maintaining the existing industrial base”.² While its main thrust is on improving industrial governance mechanisms, the IP puts promotion of SMEs and industrial linkages as a top priority in growing the economy of Lesotho.

Since 2007, Lesotho with the assistance of the World Bank, has been implementing a project on Private Sector Competitiveness and Economic Diversification (PSCED). The objective of this project is to facilitate increased private sector investment by improving the business environment and diversifying sources of growth. The main intervention areas have been company registration and licensing reforms, streamlining and simplifying immigration and passport services, improving access to credit, skills development, horticultural production, tourism support, and enterprises assistance. The progress already covered on the improvement of the business enabling environment through the PSCED is going to provide a suitable platform for the successful implementation of the national IUMP.

Lesotho's policy framework is very clear on the role which industrial development can play to transform the country's economy and the contribution it can make to reduce unemployment, poverty and inequitable distribution of income, strengthen resilience to shocks, and develop capacity for high and sustained growth. With similar objectives of improving national competitiveness, supporting growth, employment creation, export promotion and poverty reduction, the national IUMP is fully in line and relevant with the national policy framework.

4.3.2 Regional Integration and Market Access

Lesotho has multilateral and bilateral trade agreements that it has signed to gain market access both internationally and regionally. Regionally, Lesotho is a member of the Southern African Customs Union (SACU) comprising five countries, namely, Botswana, Namibia, South Africa and Swaziland including Lesotho. Lesotho sources over 80% of its imports from SACU and exports about 39% of its total exports to SACU. Lesotho is also a member of the Common Monetary Area (CMA) which facilitates trade and free flow of capital within SACU. The other members of the CMA are Namibia, South Africa and Swaziland. Also regionally, Lesotho is a member of SADC. Through SADC, Lesotho has an expanded market of some 350 million people compared with SACU's 50 million. As a small open economy, Lesotho stands to benefit immensely from this market if her capacity to produce for the export market can be improved. Currently, Lesotho trades mainly with South Africa through the age-old colonial links and shares little trade with the rest of SADC.

Internationally, Lesotho signed the AGOA with the US in 2001. Through AGOA Lesotho enjoys a quota free and duty free access to the US market. The AGOA has been the main factor behind the growth of the textiles and garments industry in Lesotho as earlier mentioned. It has contributed significantly to the growth of the country's manufacturing sector whose exports to the US account for 38% of the country's total exports. Unfortunately, AGOA as mentioned above is a time-bound agreement expected to expire in 2015. The dependence on one export

² Lesotho Industrial Policy 2011-2013 p.28

product (garments) to one export market (US) and the impending expiry of AGOA has presented Lesotho with a big challenge to diversify its export products and markets.

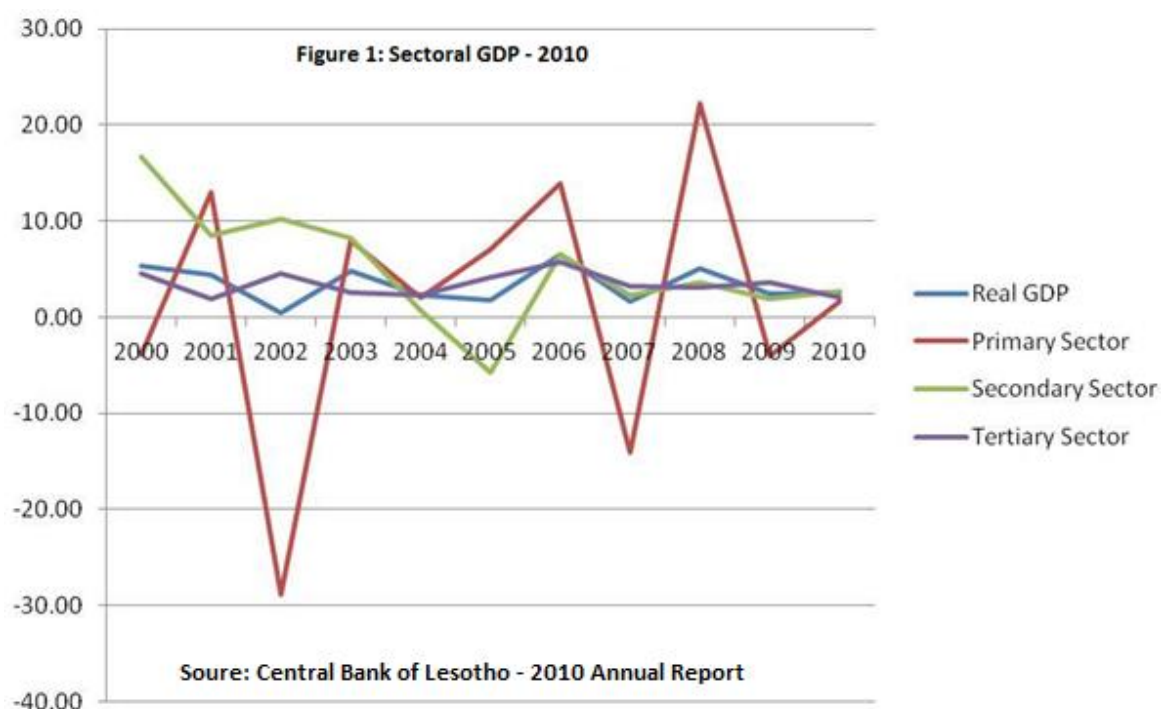
After the discontinuation of the Cotonou Agreement between the EU and ACP countries, Lesotho has initialled the EU's Economic Partnership Agreement (EPA) which allows it to have quota free and duty free access to the EU market. It also retains the Everything-But-Arms (EBA) agreement with the EU which also provides the same special preferences as the EPA. However, the aim of the EPA goes beyond EBA as it is not about Lesotho only having a larger market and fostering trade but it is also about stimulating investment. The main advantage of the EPA is that it presents Lesotho with an alternative large market for its garment exports and as an FTA, it does not have an expiry date. The EPA also provides more certainty to markets and investors unlike AGOA. Currently Lesotho's exports to the EU account for 20% of its total exports and are mainly confined to diamonds. The challenge facing Lesotho in order to take full advantage of the EPA is to expand its production capacity and improve competitiveness of its export products.

Through SACU, further negotiations are on-going for free trade agreements with the US, European Free Trade Area (EFTA), India, and the Mercado Comun del Sur (Mercosur).

4.3.3 Economic Performance

As an enclave of South Africa, Lesotho's economy is closely integrated with that country through labour migration, a customs union, and a common monetary area that influence its fiscal and monetary policy. As a result Lesotho is highly dependent on South Africa, more specifically on imports, remittance income and customs revenue.

For the past ten years the economy has been growing at an average rate of 3.4% per annum. Figure 1 below depicts growth in the three main sectors of the economy, namely, primary sector, secondary sector and the tertiary sector. The primary sector constituted 11% of GDP in 2010. Its growth has been characterised by strong volatility mainly emanating from the poor performance of the agricultural sub-sector except the spike in 2008 when it grew by 22%. The underperformance in agricultural production is associated with many factors including low soil fertility and limited arable land, extreme weather variability with frequent drought, floods and frosts, and poor extension services.



Fortunately the mining and quarrying sub-sector has since 2005 re-emerged as one of the vibrant industries in the economy due to the revival and expansion of diamond mining in the country. Its contribution to GDP rose from 0.2% in 2001, to 2.5% in 2005 and then to 3.4% in 2010. Equally impressive has been the expansion of the sandstone quarrying and processing activity which is positively related to the expansion of the construction industry locally and regionally.

In 2010 the secondary sector contributed 29% of GDP. This sector, which comprises manufacturing, electricity and water and building and construction, has since picked up albeit at a slow pace since falling by 5.7% in 2005. The secondary sector is dominated by the manufacturing sub-sector which accounts for 18% of GDP. Within the manufacturing sub-sector, textiles³, footwear and leather account for 61.8% followed by food and beverages at 20.6% and other manufacturing sub-sectors with 17.8% contribution to the subsector's output. The decline in the growth of the secondary sector in 2005 was mainly a result of a fall in demand for garments in the US, which is Lesotho's major export market, and the expiry of the Multi-fibre Agreement. Since 2006, the secondary sector has grown by 2.8% on average due to the subdued performance of the manufacturing sub-sector. However, the poor performance of the manufacturing sub-sector was compensated for by the construction sub-sector which has been growing by almost 20% annually since 2008.

The tertiary sector accounted for 60% of GDP in 2010 and thus, is the largest sector in the economy. In the past five years its growth rate has hovered around 4%. The sector is mainly dominated by public services like health, education and public administration. While its other sub-sectors like real estate and business services; wholesale and retail; public services; hotels and restaurants; have been either stagnant or falling, there has been a strong growth in transport and communication; and financial intermediation. The growth in the transport and communication subsector was fuelled by the increasing use of information and communication technology in the country while the increase in financial intermediation activity was due to the increase in the number of banks and insurance companies.

³ Textile enterprises in Lesotho are predominantly CMT foreign owned companies.

4.3.4 The Industrial Sector

The industrial sector is commonly defined as composed of manufacturing, mining and construction sub-sectors. As shown in Table 1 below, industrial activity in Lesotho is small (below 30% of GDP) and dominated by manufacturing and construction sub-sectors. However, it is encouraging to observe that Lesotho's industrial sector has been steadily growing over time.

Table 1: Industrial Structure of Lesotho

(Sectoral Value-added as % of GDP)

| | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2008 |
|---------------|------|------|------|------|------|------|------|
| Mining | 1% | 0 | 0 | 0 | 0 | 2% | 3% |
| Construction | 5% | 4% | 7% | 11% | 10% | 5% | 5% |
| Manufacturing | 5% | 6% | 9% | 10% | 13% | 22% | 20% |
| Total | 11% | 10% | 16% | 21% | 23% | 29% | 28% |

Source: Bureau of Statistics

4.3.4.1 Mining Sub-Sector

The mining sub-sector has always been small in terms of its contribution to national output. However as mentioned above, the sub-sector has recorded substantial growth from 1% in 1980 to 3% of GDP in 2010 on the back of expanding diamond mining. The other activity that has shown significant growth within the mining sub-sector is sandstone quarrying and processing. This is one activity where the SMEs have taken a strong interest in terms of their participation mainly because of low start-up costs and skills requirements.

4.3.4.2 The Construction Sub-sector

In the recent past, construction activities in Lesotho have been mainly influenced by the Lesotho Highlands Water Project (LHWP) with the construction of the Katse and Mohale dams and access roads to those sites. Although low on employment due to the high capital intensity of the sub-sector, there has been a substantial increase in the number of locally owned and registered small and medium sized construction companies. The small and medium sized companies are usually sub-contracted by the large international companies for big projects. Sub-contraction has borne some good results through skills and technological transfer as Lesotho now has few local construction and transport companies that can be qualified as large. From 2008 to 2010 the sub-sector has, on average, been growing by 20% as mentioned above.

4.3.4.3 The Manufacturing Sub-Sector

After remaining stagnant for almost two decades, Lesotho's manufacturing sub-sector started gaining momentum in 2000 after the promulgation of the African Growth and Opportunity Act (AGOA) by the US government. In 2000 the sub-sector grew by 17.8% and reached a climax of almost 30% in 2002 after which it tapered off because of the expiry of the Multifiber agreement (MFA) in 2005. According to Table 1 above, the contribution of manufacturing value added (MVA) to GDP has grown substantially, from 5% in 2000 to 20% by 2008.

Table 2 **Components of MVA as % of total MVA**

| | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2008 |
|-------------------------------------------------------------------|------|------|------|------|------|------|------|
| Manufacture of food products & beverages | 76% | 57% | 44% | 37% | 30% | 16% | 17% |
| Manuf. of clothing & textiles | 4% | 8% | 31% | 36% | 45% | 70% | 64% |
| Manuf. of footwear & leather | 4% | 9% | 7% | 12% | 12% | 3% | 4% |
| Manuf. of paper, printing & publishing | 4% | 8% | 6% | 5% | 4% | 3% | 2% |
| Manuf. of chemicals, rubber, & plastics | 3% | 5% | 3% | 1% | 1% | 0% | 0% |
| Manuf. of other non-metallic mineral products | 3% | 4% | 3% | 2% | 2% | 1% | 1% |
| Manuf. of fabricated metal products, except machinery & equipment | 3% | 4% | 2% | 2% | 2% | 3% | 4% |
| Manuf. of electric & electronic equipment | 0% | 0% | 1% | 1% | 3% | 2% | 7% |
| Manuf. of wood products & furniture & manufacturing n.e.c | 5% | 5% | 4% | 3% | 2% | 1% | 1% |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Bureau of Statistics

Table 2 above represents the structure of the manufacturing sub-sector in Lesotho. With the exception of clothing and textiles; and electric and electronic equipment categories of manufacturing, all other categories have either declined or stagnated during the review period. The manufacture of food products and beverages was the dominant manufacturing activity accounting for 76% of total MVA in 1980. By 2008 it had dropped to 17%. Conversely, the clothing and textiles activity picked up from only 4% of total MVA in 1980 to 64% in 2008. As mentioned earlier, the growth of clothing and textiles industry in Lesotho has been directly influenced by the enactment of the AGOA. It is encouraging to note that the share of electric and electronic equipment is growing, albeit from a low base.

(a) Manufacturing Exports

Table 3 presents a breakdown of total exports in Lesotho including manufacturing exports. According to the table, the contribution of manufacturing exports accounts for over 60% of total exports. Most of the exports are in the category of miscellaneous and manufactured goods which mainly comprise of textiles and clothing exports. Performance of manufacturing exports can be summarised thus:

- There has been an increasing share of manufacturing exports to total exports
- Exports are disproportionately dominated by textiles and clothing exports
- Lesotho's exports are low technology-driven and labour-intensive
- Commodity exports are increasing (diamonds)

TABLE 3: VALUE OF EXPORTS BY S.I.T.C. SECTION

(Million Maloti)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007+ | 2008 | 2009+ | 2010* |
|-----------------------------------------------|----------------|----------------|----------------|----------------|---------------|----------------|----------------|---------------|---------------|----------------|----------------|
| Food and Livestock | 54.4 | 81.6 | 123.16 | 117.91 | 98.9 | 101 | 126.7 | 205.68 | 315.66 | 236.17 | 157.87 |
| Beverages and Tobacco** | 63.9 | 72.6 | 94.86 | 96.45 | 100 | 134.6 | 145.8 | 152.67 | 162.52 | 171.81 | 104.79 |
| Crude Materials, Inedibles | 39.19 | 61.6 | 68.38 | 93.97 | 568.16 | 666.06 | 600.19 | 1169.75 | 1766.89 | 1146.45 | 1135.7 |
| Minerals and Related Products | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3.37 | 1.99 | 3.2 |
| Chemicals and Related Products | 6.5 | 18.6 | 45.53 | 49.28 | 24.6 | 12.1 | 23.7 | 3.14 | 6.41 | 8.48 | 3.28 |
| Manufactured Goods (classified by material)** | 23.31 | 37 | 60.66 | 55.61 | 218.14 | 51.74 | 134.21 | 288.82 | 171.04 | 187.51 | 312.65 |
| Machinery and Transport Equipment | 173.3 | 254.5 | 371.37 | 373.84 | 272.2 | 329.1 | 394.1 | 584.24 | 1014.2 | 961.21 | 833.37 |
| Miscellaneous and Manufactured Goods** | 1104.69 | 1894.49 | 2962.24 | 2759.45 | 3235.9 | 2824.4 | 3295.35 | 3251.06 | 3697.76 | 3223.87 | 3140.55 |
| Commodities | 3.12 | 5.49 | 13.69 | 10.86 | 15.2 | 19.04 | 16.6 | 8.94 | 17.95 | 34.14 | 12.83 |
| TOTAL | 1468.41 | 2425.88 | 3739.89 | 3557.37 | 4533.1 | 4138.04 | 4736.65 | 5664.3 | 7155.8 | 5971.63 | 5704.24 |

Source : Central Bank of Lesotho Annual Report - 2010

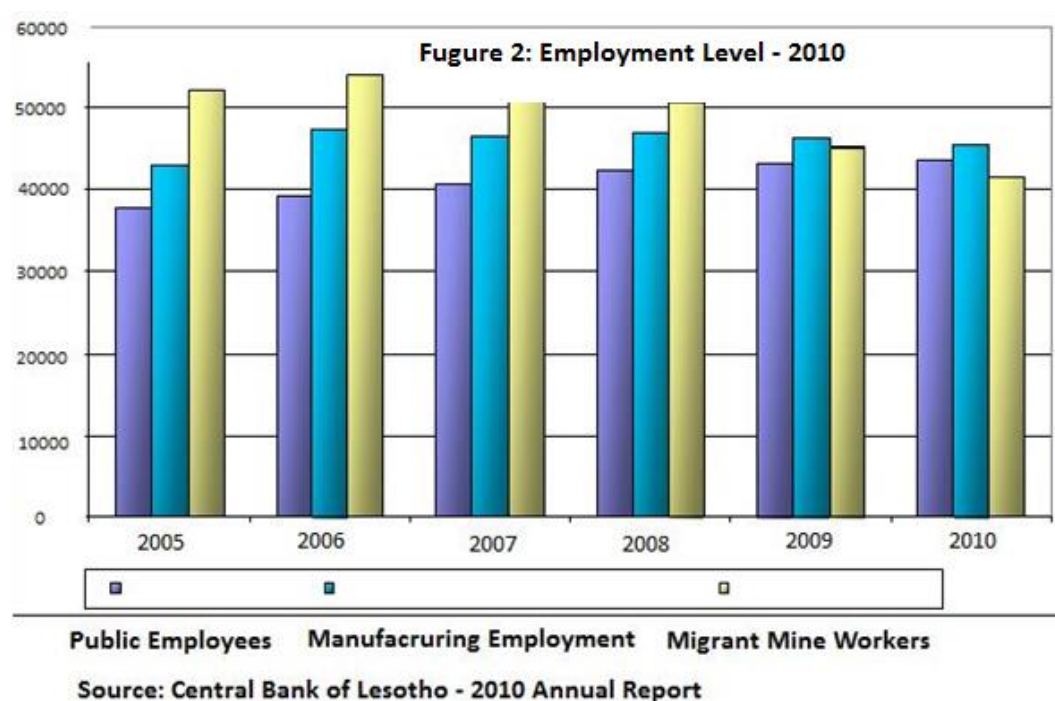
+ Revised Estimates

* CBL Projections

** Manufactured exports

(b) Employment in the Manufacturing Sector

According to Figure 2, employment in Lesotho is classified into three main categories, namely, employment by the public sector, migrant workers mainly in South Africa and workers employed by Lesotho National Development Corporation (LNDC) assisted companies. Employment statistics from LNDC-assisted companies is used as a proxy for private sector employment and by definition understates total private sector employment as it does not include other enterprises not assisted by LNDC. This statistics is also usually used to represent manufacturing employment.



Given its small private sector, Lesotho has for a long time depended on South African mines for employment. The next largest employer has traditionally been the civil service. Growth of employment in the manufacturing sector is due, largely, to the expansion of the textiles and clothing industry which started in the 1990s. Growth in textiles and garments industry and its concomitant employment creation has been a boon in Lesotho as it came at the time when large numbers of Lesotho's migrant workers in South Africa have been continually retrenched due to jobs localisation and mechanization of mines. Unfortunately, the garments industry in Lesotho is also facing a number of threats and its future could be uncertain. First, the AGOA upon which the industry is very reliant is expiring in 2015. Second, even before its expiry, the time-bound provisions of AGOA that had been expiring intermittently brought lots of uncertainty which curtailed the growth of the industry. Third, the expiry of the MFA in 2005 exposed Lesotho's garments exports to the US to more competitive global garments exporters such as China and India and consequently the volume of its exports has since been falling. Fourth, the recent global financial crisis has also hit the industry hard through falling orders due to low demand in the US.

It is against this brief background that Lesotho faces a serious challenge of diversifying its industrial base and exports as well as improving its competitiveness in both textiles and garments and other products. It is also against this background that Government has put SMEs support and development as one of its main priorities for growth in Lesotho.

5. The SME Sector in Lesotho, Challenges and Critical Needs

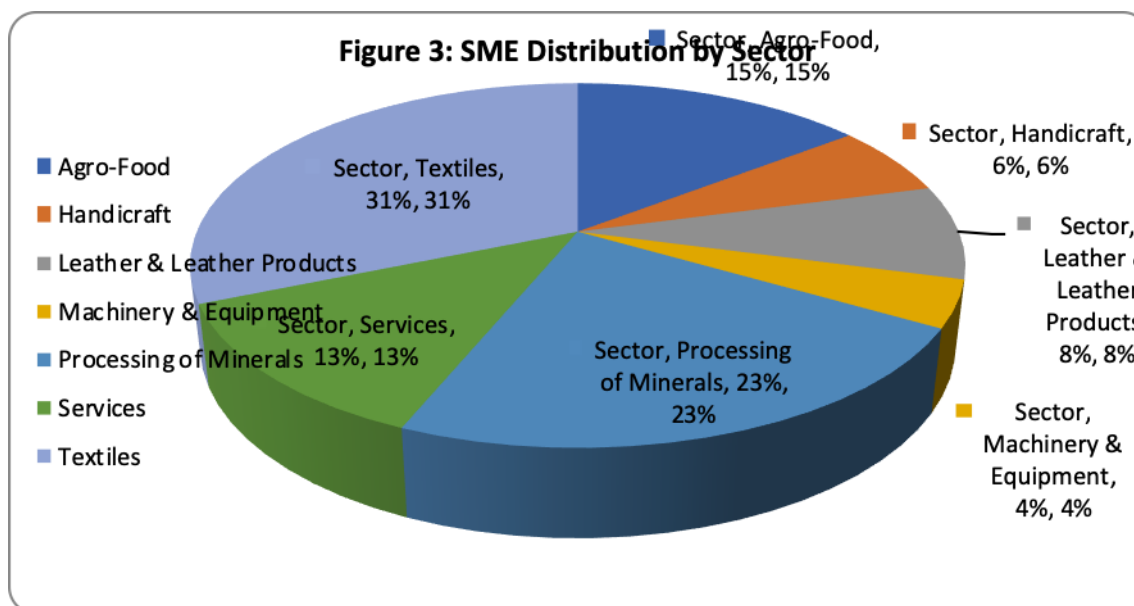
5.1. Overview

The 'State of Small Enterprise in Lesotho' study commissioned by MTICM in 2008 provides comprehensive baseline information about the role of MSMEs in Lesotho. Another survey, albeit small, was conducted for the preparation of this report with the objective of identifying SME priority sectors for upgrading and modernisation, identifying production factors that affect the priority sectors, determining the degree of development of the SME sector, their upgrading and modernisation needs, their contribution to GDP, and their levels of employment and exports. The survey further examined financial mechanisms that support SMEs in Lesotho, technical support institutions and investment and export promotion agencies.

According to recent studies and surveys on Medium, Small and Micro Enterprises (MSMEs) in Lesotho, about 90% of MSMEs, of which 80% are located in Maseru, are owned by indigenous Basotho. These enterprises range between micro to medium undertakings which have been operating for 1 to 27 years. Concentration of the manufacturing companies in the urban areas has had an effect of slowing rural economic development thereby worsening the increasing poverty which often results in urban migration. MSME growth is mainly driven by diminishing employment opportunities due to weak growth of the economy, retrenchment of migrant workers in South Africa, the small private sector and the public sector that is no more the employer of last resort. It is estimated that there could be 100 000 MSMEs across the various sectors in the country, including the informal ones, employing about 200 000 people. This number compares with about 130 000 people employed by the formal sector (including migrant workers). The majority of MSMEs in Lesotho are said to be informal or survivalist employing between 1 to 3 people including the owner. The national IUMP survey which focused mainly on SMEs, revealed that retail and services were the main activities of choice by SMEs in Lesotho due to their ease of entry and low skill requirements. Industrial activities in the form of manufacturing and agro-processing only played a small part.

5.1.1. SME Distribution by Sector

The SADC IUMP on which this study is based has identified 9 sectors to kick-start industrialisation in the region. These are: agro-food processing, processing of minerals (metallic and non-metallic), leather and leather products, forestry, fisheries, chemicals, petroleum and pharmaceuticals, textiles and garments, machinery and equipment, and lastly services that support SMEs. Of these, six were found to be relevant to SMEs in Lesotho, namely, agro-food, leather and leather products, machinery and equipment, processing of minerals, and textiles and garments, and services. However, according to the national IUMP survey, one activity that was found to be popular among SMEs in Lesotho was handicrafts as shown in Fig 3 below. The services sector was also included to accommodate service enterprises that support SMEs like ICT, business consultants and accountants firms. According to Fig 3 the majority of SMEs (31%) are in the Textile sector followed by Processing of Minerals, Agro-Foods and Services sectors with 23%, 15% and 13% respectively. Leather & Leather Products, Handicrafts and Machinery & Equipment sectors have the lowest percentages of manufacturing companies at 8%, 6% and 4% respectively.



5.1.2. SME Employment by Sector

SME's in Lesotho are generally classified as companies that employ between 6 and 20 people on a permanent basis. Table 4 below illustrates the distribution of employment by sector. Clearly medium enterprises are in the minority and are found only in agro-food and textile and garments sectors.

| Table 4: Employment by Sector and Enterprise Level | | | |
|----------------------------------------------------|-------------------|------------------|------------------|
| Sector | Medium-Enterprise | Small-Enterprise | Micro-Enterprise |
| Agro-Food | 33.3% | 50.0% | 16.7% |
| Leather & Leather Products | 0.0% | 25.0% | 75.0% |
| Processing of Mineral Products | 0.0% | 54.5% | 45.5% |
| Textile and Garments | 6.7% | 13.3% | 80.0% |
| Services | 0.0% | 40.0% | 60.0% |

Source: National IUMP Survey

According to the IUMP survey, the majority of SMEs and microenterprises were sole proprietor companies. The study further revealed that a large proportion of formal (licensed) SMEs, including formal microenterprises, were not profitable. The management staff in most of the enterprises have long-term experience but low academic qualifications. 56% were high school graduates. It is noteworthy to observe from Table 4 above that microenterprises in Lesotho account for the largest share of employment in all sectors except agro-food.

5.1.3. SME Contribution to GDP

Less than 10% of SMEs in Lesotho are engaged in manufacturing and their contribution to GDP is very small. The majority of SMEs are in retail and service sectors and that is where they account for a significant contribution to employment and GDP. Return on investment was used in the survey as a proxy for profitability and hence contribution to GDP but in general it was not responded to as most companies do not keep reliable financial records.

5.1.4. Management Capacity

In general management capacity in most SMEs is very weak due lack of formal management skills. Regarding the staffing situation, it was observed that 57% of the surveyed companies were adequately staffed while 40% were overstaffed. In most of the companies, workers were paid far less than the legislated minimum wage. 77% of the companies indicated that, although not formally trained, their employees have the right skills for their jobs. Most of the skills had been acquired through experience. They also stated that there were no formal institutions in the country offering training in their different areas of operation.

One of the major drawbacks identified by most SMEs was lack of business and financial management skills. 87% of the companies did not use any accounting software nor did they have any computer facilities for more efficient management of their companies. About 84% indicated to have adequate production management capacity and only 28% claimed to have some marketing expertise. Apart from production management, human resources management was the other area where the majority of companies (90%) claimed to have adequate capacity.

The level of technological sophistication of Basotho SMEs is very low. There is neither a clear policy nor strategy to promote skills and technological transfer through foreign direct investment (FDI) in Lesotho. Despite the existence of large foreign-owned firms, especially in the textile and garment sector, which have benefited from doing business in Lesotho over many years, past support to this and other sectors has not been linked or trickled to the SME sector to any significant extent. It is important to also note that most of the enterprises operate at a very low level and the capacities they claim to have are only appropriate at those levels.

The critical factors for improvement of management capacity were cited as: business management, financial management, marketing, and technical/technological skills.

5.1.5. Production Capacity

62% of the SMEs were not satisfied with the performance of their production plants and equipment. They did not use appropriate and modern technology for production. Their machines were obsolete with frequent breakages which tend to slow down production. As a result, production costs tend to be high. This often affects profitability negatively. There was, therefore, a strong feeling among the SMEs that their plants and equipment should be upgraded and modernised. Due to high demand for various products in the country, many SMEs feel they have a strong potential to grow. The observation was confirmed by about 98% of the respondents.

While the majority of SMEs considered labour costs reasonable and affordable many also cited transport and utility costs (electricity, telephone services and water) as high and hence constraining their production capacity.

The critical factors for expansion of production capacity were identified as: technical skills, plant/equipment upgrading and modernisation as well as provision of enabling infrastructure in the form of water, electricity and telecommunications.

5.1.6. Product Competitiveness

A high percentage of SMEs (80%) are worried about the level of competition they are experiencing on the market. This is not surprising as there is very limited product diversification with a large number of companies producing similar product. This often tends to limit their market share which in turn negatively affects their sales and profit margins. Cost of inputs and location of their source also significantly affect the competitive capacity of many enterprises. 35% of the SMEs source their production inputs locally while 35% and 28% source them internationally and regionally respectively. Because of their size, many SMEs cannot afford to buy in large quantities to enjoy reasonable discount that can allow them to sell their products competitively. Product quality is also one of the major challenges for Lesotho SMEs to compete locally and internationally. Currently the quality of almost all products produced by SMEs in Lesotho is not certified as there is no bureau of standards for either accreditation or certification.

The critical factors for improvement of SME competitiveness were specified as: upgrading of plant and machinery, low utility costs, lower cost of inputs, accreditation and standards mechanism, and export incentives.

5.1.7. Marketing Capacity and Market Access

About 63% of the manufacturing SMEs in Lesotho produce for the local market while the remaining part is sold regionally, particularly in South Africa. Because of their limited marketing capabilities and transport constraints, most SMEs sell their products in their localities. Despite many government procurement opportunities (in areas such as catering, supply of agricultural products, supply of office furniture, supply of educational materials, research consulting services and others) many SMEs do not participate in government procurement tenders as they are not familiar with government procurement policies and procedures. 84% of them claimed to know nothing about this market outlet and its opportunities.

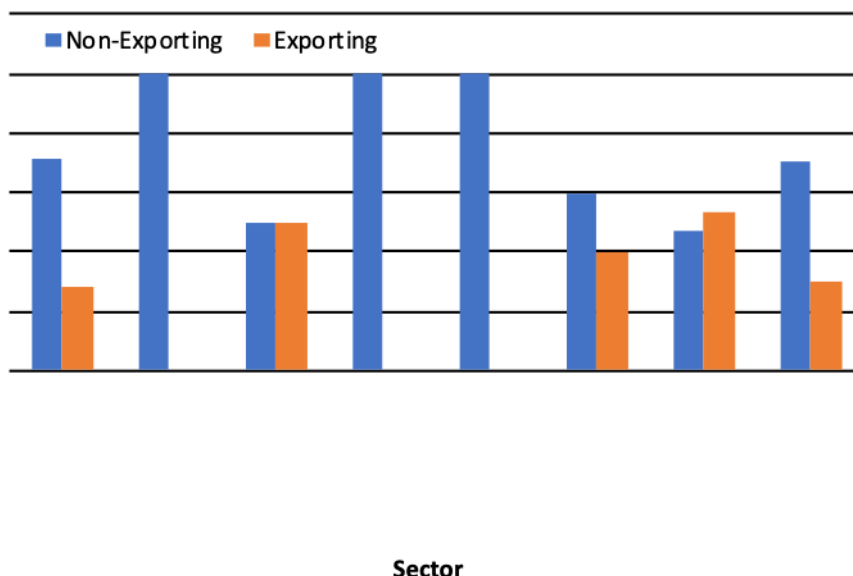
As for advertising their products, about 57% of the companies claimed to do it, albeit, to a very limited extent. Regarding regional and international market access, 83% of the SMEs were not aware of the existence of the preferential market access that Lesotho has with the EU and the US. Most SMEs also had very little knowledge about the SADC and SACU markets.

The critical factors to improve market access were cited as: simplification of border controls; simplification of customs procedures; training on government procurement procedures and tendering process; training and dissemination of information relating to global trade statistics (imports and exports); training and dissemination of information on countries that Lesotho has preferential market access and opportunities for SMEs.

5.1.8. SME Export Capacity

As mentioned above, the majority of SMEs in Lesotho produce only for local consumption due to limited production capacity. Only a few export regionally. There is only one medium sized state-owned company in the agro-food sector that produces for export to the EU market. As shown in Figure 5 below, in the seven sectors surveyed non-exporting companies dominate the exporting ones with the exception of leather and leather products, and textiles and garments. Critical factors to promote exports were the same as those mentioned under market access.

Figure 4: SME Exports
(% of Exporting/Non-Exporting SMEs)



5.1.9. Infrastructure Support

Infrastructure is one of the main hindrances for SME growth and development in Lesotho. There are few industrial parks dedicated for manufacturing SMEs and as a result SMEs tend to be scattered all over. In the national IUMP survey, 64% of the enterprises indicated that they were not satisfied with the buildings and premises they were operating from while 67% preferred to be located elsewhere. 70% of the buildings they are operating from were leased and the rentals paid were considered to be quite high. The provision of basic utilities in the form of water, electricity and communication facilities is also a major challenge in most areas the SMEs operate from. None of the SMEs were taking any measures to save electricity or water in their businesses because they either could not afford to procure such devices or were not even aware of their existence.

Extension of industrial parks for SMEs in major commercial centres in Lesotho and provision of utilities were cited as the critical factors to improve infrastructure.

5.1.10. Logistical Support for SMEs

One of the main factors that has led SMEs to concentrate in urban areas is that of poor road transport in the remote rural areas. Lesotho does not have air nor does it have rail transport facilities to transport goods and services in the country. The only means of transport is road and the costs associated with this mode of transport are prohibitively high for small enterprises. Furthermore, most of the SMEs (58%) are of the opinion that the efficiency of their business operations is also negatively affected by border-post immigration procedures and stringent customs requirements which include custom clearance procedures, import and export permits and delays associated with compliance with rules and regulations at the border-post. High operating costs deriving from limited access to tools, equipment and transport are issues of main common concern. Most raw materials are imported from South Africa and their cost plus transport often put them beyond reach of many SMEs.

Although significant progress has been achieved through the establishment of the One Stop Business Facilitation Centre (OBFC), the process of registering a business, getting the necessary license and the cost of compliance are still mentioned as major challenges for small scale businesses. Centralisation of regulatory and licensing services in the capital Maseru is still considered a costly inconvenience by many manufacturing SMEs.

To this end, critical factors for improvement are: border-post immigration procedures; issuance of licences and permits; customs clearance procedures; and cross-border road transport systems.

5.1.11. SME Linkages

According to the national IUMP survey results, the manufacturing SMEs in Lesotho have very poor linkages among themselves and with big firms. The main reason is that of poor product quality and standards, unreliable supply due to production constraints and competition from South Africa. Strong linkages among companies and development of value chains have a positive effect on value addition and productivity. 87% of the surveyed companies indicated that their products were not used as inputs to either locally or regionally based companies. Another important observation was that large retailers, mostly South African-owned, have their sourcing offices in their home country and as a result buy everything from South Africa, even those items that could be sourced from Lesotho.

The majority of companies also indicated that they do not have the capacity to be outsourced or to outsource from other companies. Only one company indicated that it provides a screen-printing service to the relatively big foreign-owned garment firms.

Critical factors to improve value-chains and linkages were mentioned as: incentives for big business to source and sub-contract SMEs; promotion of joint-ventures between SMEs and big firms; technical training for SMEs in specialised heavy industry; and the bureau of standards.

5.1.12. SME Access to Credit

Almost all SMEs covered by the survey complained about access to credit. The most frequent causes of this problem were cited as the absence of a development finance institution(DFI) with a special bias towards SMEs ; stringent lending conditions imposed by the commercial banks; lack of collateral and equity from the SMEs, absence of a credit bureau and personal identification system to enable banks to screen and identify borrowers efficiently. The collateral mostly required by the commercial banks is asset-based. This is often a problem as most SMEs are asset-constrained.

Critical factors to improve access to credit were identified as: establishment of a DFI dedicated to SMEs, a credit bureau, partial credit guarantee facility, business development services (BDS) facility and improvement of business skills for the SMEs.

5.1.13. SME Access to Extension and Advisory Services

Based on the national IUMP survey and MSME Policy Paper it was observed that there is acute absence of effective agro-based extension services for all value chains, from primary production to post harvest activities. The same challenge is experienced in non-agricultural sectors where SME-oriented business advisory services are very poor or non-existent. The Ministry of Agriculture and Food Security (MAFS) has been unable to provide effective agricultural extension services to farmers because of limited organisational capacity. This has resulted in Lesotho's failure to produce high quality farm produce in large quantities. This is the case with respect to crop production, horticulture and livestock value chains. In addition to this, due to inadequate agricultural extension services, the quality of raw materials such as wool and mohair has experienced rapid decline in recent years. The decline in quality is understood to be a function of both poor nutrition resultant upon poor feeding and very limited animal health care services⁴.

According to the State of Small Enterprise survey, Lesotho is characterised by weak demand for Business Development Services (BDSs). The survey noted that "BDSs on offer are not very differentiated and tend to be generic and not customised".⁵ According to the survey conducted for this Programme many manufacturing SMEs are not aware of existing BDSs. Those who are aware have no particular interest in them, the reason

⁴ SMME Policy Paper 2011

⁵ Lesotho State of Small Enterprise Survey 2008 p.43

being that they contribute very little value to their businesses. As a result, most SMEs rely on friends and families for support and advice.

Critical factors for improvement were proposed as: strong field extension services of the Ministry of Agriculture and for BEDCO to provide business development services or coordinate private sector BDSs.

5.1.14. SME Statistics and Monitoring Mechanism

Lack of reliable data on SMEs, particularly those with potential to export and create employment, presents one of the most serious challenges in Lesotho as was observed during the national IUMP survey. Except for the State of Small Enterprises Survey that was conducted in 2008 no regular surveys had been conducted before. This situation makes it difficult for policymakers to take appropriate decisions of supporting economic development of the country through involvement of SMEs. Without accurate data on the numbers, types and activities of SMEs in Lesotho it would be impossible to expect any meaningful interventions to improve their competitiveness.

The setting up of a mechanism within the Bureau of Statistics or BEDCO for collection of data and monitoring of SMEs was proposed as a critical factor.

5.2. Policy Strategies

Numerous legislative and regulatory reforms as listed below are either at the planning or implementation stage to address key development challenges facing SMEs in Lesotho:

Skills Training:- Formulation of market oriented programmes that will operate within the framework of the Technical and Vocational Education and Training (TVET) policy. Curricula will be reviewed and strategies formulated to accommodate entrepreneurship training and skills development. Working closely with the private sector, in particular, employers and their representative organisations, workers and their representative organisations, other key development partners, the Government intends to implement, through a jointly managed programme, the following arrangements.

- Pre-employment training programmes, especially covering the youth within targeted areas. This arrangement will be implemented jointly and in consultation with the private sector members and SMEs themselves operating within specific sub-sectors;
- The private sector (employers) will focus on post-employment programmes, training of employees, including training and capacity building of selected SMEs in prioritized areas; and
- Beneficiaries will make contributions in the form of small commitment fees which will be determined on a case by case basis and depending on sub-sector.

Business Management Capacity:- Provide SMEs with business management capacity that will cover: improving capabilities of SMEs on market intelligence; business planning; financial management, business management; business ethics and use of information communication technologies (ICTs). Business extension advisory services will also be developed, promoted and strengthened to mentor SMEs to grow.

Agro-based value chains:- To promote and strengthen agricultural production at commercial level, the Government plans to provide more financial resources to strengthen agri-business value chains, ensuring improved access to credit, agricultural research and extension for prioritized crops, horticulture and livestock enterprises. Plans are underway to upgrade primary production capacities through a combination of strategies, including construction of small to medium sized dams and development of smallholder irrigation schemes⁶. Emphasis will also be put on improving post-harvest management practices, including loss management; supporting access to improved technology designed to add value

⁶ Lesotho has many perennial springs in the mountains and foothills which have high potential for micro-irrigation. However, whilst the potential remains largely untapped, construction of small to medium sized dams and development of smallholder irrigation schemes is prioritized in the MAFS National Action Plan for Food Security (MAFS, 2006).

to agricultural products through better product handling, from harvesting, storage, preservation and processing. Special attention will be paid to improving the marketing capabilities for farmers to ensure access to roads, transport networks and efficient marketing and distribution channels for both agricultural inputs and produce.

Business Climate:- For effective dissemination of business information the Government is planning to establish decentralised One-stop-SME Solution Centres or Small Business Resource Centres with the purpose of providing access to market information, technology, finance and essential information designed to improve the competitiveness of SMEs. These programmes will assist SMEs in identifying appropriate technologies and providing information needed for technological advancement that enhances quality and competitiveness of their products and services. Study tours to expose growth oriented SMEs to new technologies will also be undertaken.

Quality and Standards:- Strengthening of product quality and standards is one of the Government's priorities. This is crucial for enhancement of competitiveness in SMEs. In this regard, the process leading to the establishment of the Lesotho Bureau of Standards is being aggressively pursued by the Ministry of Trade and Industry, Marketing and Cooperatives (MTICM).

Infrastructure Development:- The issue of lack of suitable premises, particularly for SMEs which are unable to afford rented premises in formal commercial and industrial areas is also under consideration by the Government through the Maseru City Council (MCC), Lesotho National Development Corporation (LNDC), and Basotho Enterprise Development Corporation (BEDCO). Currently there is a serious shortage of serviced sites with water, toilet facilities, electricity, roads and transport and telecommunication networks for the SMEs.

The table⁷ below provides a summary of SME critical needs showing their relative importance as well as policy interventions to address them.

| Table 5 Relative weights of SME needs and corresponding policy strategic actions | | | |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SME Needs | | Relative importance of the need | Policy Strategic Action |
| Entrepreneurship training and skills development | Accounting, Advertising, Fashion design, Business management, Financial management, Marketing, Procurement, Technical | 32.44% | <ul style="list-style-type: none"> - Development of market oriented programmes through TVET, LOIC and other institutions' policy, curricula and strategies and public and private sector partnership in the area of entrepreneurship training and skills development; - Government facilitation of innovative market-oriented entrepreneurship development and training programmes; - Concentration of Government on pre-employment programmes within targeted areas; - Concentration of the private sector on post-employment training programmes, training of employees, including training and capacity building of selected SMEs in prioritised areas. |
| Marketing and Market access | Border Controls, Export promotion, Fair competition, Free trade, Market diversification, Market exposure | 13.00% | <ul style="list-style-type: none"> - Institution of market development associations to strengthen market access opportunities; - Upgrading SME marketing capabilities through training and exposure visit and trade fairs; - Establishment of import and export promotion agency. |
| Infrastructure | Business sites, Road infrastructure, Utility infrastructure, Transport facilities, Security, Communication | 17.00% | <ul style="list-style-type: none"> - The commitment by Government and infrastructure service providers to improve provision of physical, communication and security infrastructure. - Coordinated planning of infrastructure projects |

⁷ See detailed needs in Annex IV

| | | | |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | across departments and agencies and interaction between MTICM and other departments. |
| Improving Capacity of Technical Institutions | Creating business opportunities, Facilitating access to finance, Facilitating loan security, SME associations, Effective support. | 14.80% | <ul style="list-style-type: none"> - Improving implementation coordination capability of the MTICM; - Mobilising financial resources, budgetary support and institutional support required in the policy development, implementation and review processes; - Streamlining overlapping functions of the various support institutions such as the MTICM, LNDC and BEDCO. |
| Ease of Doing Business and Incentives | Company registration, Government intervention, licensing, Tax incentives and Trade permits. | 6.10% | <ul style="list-style-type: none"> - Establishment of a One-Stop Business Facilitation Centre for immigration and company registration; - Strengthening of the SME Support Network to serve as a Resource Centre; - Development of a database system for collection and analysis of data and information dissemination. |
| Acquisition, Upgrading and Modernisation of asserts | Machinery and equipment upgrading. | 10.20% | Technological upgrading programmes including provision and upgrading of equipment and production machinery . |
| Other Needs | Quality and Standards, SME linkages, Information resource centre and Workshops. | 5.90% | <ul style="list-style-type: none"> - Facilitation of strong linkages and innovative market-oriented entrepreneurship and training programmes; - Promotion of a culture of high product quality and standards for successful local and international competition; - Establishment of a Bureau of Standards for enhancement of quality and standards. |

5.3. Technical Support Institutions

Technical support institutions for SMEs in Lesotho are few and are mainly state-owned enterprises . They can be classified into two categories, namely, those providing enterprise development and those providing specialised technical support as shown in the table below.

Table 6: Institutions and their Functions

| | | |
|--------------------------------------------|----------------------------------------------------|-----------------------------------------------------------|
| Enterprise Development Institutions | Lesotho National Development Corporation (LNDC) | Promotes and facilitates the development of industry |
| | Basotho Enterprise Development Corporation (BEDCO) | Promotes and supports small enterprises |
| | Private Sector Department of MFDP | Promotes and supports local enterprises |
| | SME Network | Coordinates enterprise and technical support stakeholders |
| Technical Support Institutions | Centre for Accounting Studies (CAS) | Provides financial management studies |

| | | |
|--|-----------------------------------------------|----------------------------------------------------------------------|
| | Lerotholi Technical Institute (LTI) | Provides technical skills such as engineering, vocational and crafts |
| | Institute for Extra Mural Studies (IEMS) | Provides business management studies |
| | Appropriate Technology Services (ATS) | Innovation and adaptation of technology |
| | Food and Nutrition Coordination Office (FNCO) | Advises on quality and standard of agri-foods |

5.4. Challenges Facing SME Support Institutions

From both desk-top and the SME research conducted for this Programme, the main challenges related to support institutions, particularly enterprise development institutions, were identified as follows.

Poor Coordination:- There is a considerable number of uncoordinated SME development programmes undertaken through various government ministries and statutory bodies. This is due, notably, to the weaknesses in communication and a culture of operating in silos. As a result the evaluated and potential impact of the various interventions undertaken is never really known.

Duplication of effort:- The existing institutional support structure is characterised by overlapping mandates and responsibilities among the main technical support institutions, namely, MTICM, Ministry of Finance and Development Planning (MFDP), LNDC, BEDCO. This state of affairs leads to conflict of interest, waste of financial resources, confusion among SMEs and ineffectiveness of programmes expected to support SMEs.

Inadequate Funding:- Most technical support institutions cited lack of financing as their most serious constraint. Because of lack of funding, the essential services expected to be provided to SMEs have been curtailed or discontinued.

Lack of Equipment:- Some technical support institutions interviewed complained about lack of equipment required to facilitate delivery. In some cases the equipment was obsolete.

5.5. Policy Strategies for Technical Support Institutions

Strategic policy interventions have been proposed by various government policy documents including the Industrial Policy, The State of Small Enterprises Survey and the SME Policy Paper mainly for enterprise development institutions. The proposed interventions are aimed at rationalising the respective roles of the institutions and enhancing coordination of their programmes and communication. There are also proposals aimed at improving the overall institutional framework for SME support and development.

MTICM:- The role of the MTICM should be to coordinate the implementation of the SME policy together with the coordination of all programmes designed to support the development of SMEs in the country across all sectors.

Ministry of Finance and Development Planning (MFDP):- The role of the MFDP should be to provide the necessary funds to facilitate and support capacity building for SME interventions led by relevant ministries and SME support institutions.

Basotho Enterprise Development Corporation (BEDCO): BEDCO should provide the following services:

- Assist in the establishment of private sector (Industry) oriented Entrepreneurship Training and Development Programme. It is anticipated that within four to five years of guidance and capacity building by the MTICM, BEDCO will have gained sufficient experience to work independently. This development capability is critical for attainment of long-term sustainability of entrepreneurship and also to ensure the production of high quality services to various clients in the SME sector;
- In partnership with GoL and other stakeholders BEDCO should provide appropriate physical infrastructure in the form of serviced business sites within strategic locations as shall be approved by relevant authorities.
- In collaboration with the Ministry of Science, Technology and Communications (MSTC), BEDCO should facilitate demonstration and dissemination of new equipment, machinery, technical inventions and improved technological processes with a view to empowering SMEs to become innovative and competitive within the various priority sectors;
- BEDCO and relevant key stakeholders should pay particular attention to ensure that the needs of members of the cooperative movement are met and prioritized during the course of implementing the SME development strategies.

LNDC: LNDC should mobilize resources through the Partial Credit Guarantee Facility or any other facilities designed to support SMEs. The LNDC should also work closely with BEDCO, MTICM and other stakeholders with a view to providing holistic support to SMEs.

SME Support Network: The role of the SMME Support Network as a Resource Centre for the SMEs will be strengthened to enable the SMEs to run their businesses more efficiently. That role will be expanded to include access assistance to information on service providers and their areas of expertise. The Network will develop a comprehensive database of BDSs and other key information to be disseminated to clients. The BDSs will be registered and accredited on the basis of their service track record to SME clients. The record will assist in quality management and monitoring of service delivery for SMEs.

Local Government Authorities: Local government authorities (LGAs) will establish SME development focal points within existing structures through which critical issues on small business development and communication will be coordinated. LGAs in collaboration with government and the private sector will endeavour to support interventions designed to promote the establishment of appropriate infrastructure for SMEs in strategic locations. The infrastructure will include low-cost industrial and commercial facilities which are appropriate for SMEs, including for women and youth entrepreneurs. The provision of water, electricity, roads and transport and communications networks will also be prioritized, ensuring that these are also accessible to marginalised entrepreneurs.

Private Sector:- The private sector should forge strategic partnerships with the public sector in a comprehensive effort to promote the development of SMEs through practical interventions. Financial and material resources will be mobilized to support enterprise development, including establishing a package of market-oriented business development services; supporting business linkages between large and medium firms with SMEs, including strengthening of 'win-win' and sustained sub-contracting arrangements.

Business Associations:- Association of Lesotho Employers, LCCI, Lesotho Business Foundation and others should ensure that capacity building, custom tailored programmes are developed and targeted groups participate fully.

Non-Governmental Organisations: NGOs will focus on promoting and facilitating the dissemination of innovative SME development service delivery mechanisms based on international best practice; sharing lessons on best practice through demonstration projects; resources mobilisation for enterprise development, especially focusing on the development of the informal sector. Other non-state actors and

local development partners will also assist in identifying and mobilizing different categories of SMEs operating in a variety of sectors. Youth development oriented NGOs will also be critical in mobilizing young women and men with a view to enabling them to benefit from holistic packages of SME support.

National and Regional Associations of SMEs: The associations will mobilize their members in the informal and formal sectors to establish enterprise clusters; facilitating establishment of strong sector based associations capable of mobilising the provision of a package comprehensive and innovative business development services to all categories of SMEs; lobbying for periodic review of the policy environment and SME strategic frameworks. Efforts will be made to forge business linkages with regional and international business fora, for example within SACU and SADC. This will be done to promote SME-oriented intra-regional trade and strengthen small business linkages with international markets, including informal cross-border traders (ICBTs). This is in view of the increasing number of women entrepreneurs engaged in ICBT.

5.6. Financial Mechanisms for SMEs

Lesotho has a relatively small financial sector comprising the Central Bank, four commercial banks, a cooperative bank, insurance companies, and moneylenders.

Commercial banks in Lesotho have traditionally not shown much interest to fund SMEs. In recognition of this gap, the CBL proactively innovated some financial instruments targeted at promoting and supporting SME projects. These are the Export Promotion and Insurance Fund; Development Fund; and the Rural Finance Scheme. The Export Promotion and Insurance Fund is aimed at promoting SME exporters while the Development Fund's objective is to enhance the development and growth of the private sector. The Rural Finance Scheme was established to promote rural financial intermediation in the entire country. These initiatives, although quite pertinent for SME support, have not been effective because of their rather stringent requirements.

Recently there has been a resurgence in interest by commercial banks to finance SME projects and dedicated windows have been opened for SME support. That notwithstanding many SMEs still find their requirements prohibitive. The GoL and LNDC are also independently planning to establish credit guarantee facilities aimed to support SME projects.

According to the national IUMP survey results and the MSME Policy Paper critical policy actions proposed are:

- to establish a new finance mechanism to address in a more dedicated form the financial needs of industry including SMEs.
- Financial institutions should design innovative and affordable financial and credit packages capable of reaching out to all categories of the SME sector; providing appropriate financial services based on the market needs of clients, including growth oriented SMEs and those engaged or seeking to enter the export market; mobilising new financial resources to meet the increasing challenges of all SMEs, including women, youth entrepreneurs, those affected by HIV and AIDS, people living with disability and rural-based enterprises. Special schemes should be designed to target rural based businesses, the informal sector and the development of agro-based enterprises.

6. PROGRAMME JUSTIFICATION

The aim of the national IUMP is to strengthen the industrial capacity of Lesotho by enabling it to meaningfully take advantage of the globalising world economy and to manage the risks emanating thereof. Specifically the programme is focused on upgrading and modernising manufacturing SMEs which have a strong potential to grow and create employment opportunities and consequently improve livelihoods of the poor.

The programme could not have come at the right time when the government of Lesotho is adopting new legislation and reviewing existing one in order to create an enabling and conducive environment for industrial development of the country. New policies and programmes have been put in place which gives special emphasis and priority to transforming Lesotho into a regional and international manufacturing hub through the support and development of its manufacturing SME sector. As mentioned above, this call originates from the country's Vision 2020 and it has filtered through to the PRSP, the Growth Strategy, the Industrial Policy, the SME Policy and now the National Strategic Development Plan for implementation.

The challenges facing Lesotho currently, particularly those relating to its falling customs revenue and diminishing migrant workers' remittances, have generated new impetus to grow its industrial base, especially its manufacturing sector through small and medium enterprises. It is a generally acknowledged fact that Lesotho needs to grow its own private sector in order to create jobs instead of depending on migrant labour. It is also further acknowledged that it is through the expansion of the private that more domestic taxes can be collected thus reducing dependence on trade taxes such as customs revenue. By taking a more direct route of technically and technologically capacitating the SMEs, the national IUMP is considered to be a very relevant and practical instrument for implementing Lesotho's industrial policy and its Vision.

Lesotho has not been able to take full advantage of regional and international trade preferences at its disposal. Within SACU and SADC, Lesotho faces a structural trade deficit due to its lack of capacity to produce and because of its old colonial practice of depending on South Africa for most of its imports. Given the status quo, Lesotho does not stand to benefit much from the planned SADC customs union and eventually common market, because of limited capacity to export to the region. The case in point is the AGOA whereby the Far East investors had to relocate to Lesotho to set up garment CMTs while avoiding quotas imposed on their countries. Lesotho is now the number one African exporter of garments to the US for somewhat opportunistic reasons which have also exposed her to some serious vulnerability. With the advent of the EU's EPA, Lesotho will still face the production capacity constraint as with SADC and AGOA and hence fail to get the full benefit of the market access at its disposal. By upgrading and modernising its manufacturing sector the Programme is expected to help Lesotho become an effective and active player in the regional and global trade arena.

UNIDO's Initiative of implementing industrial upgrading programmes and the experience it has acquired in that field is the main reason that prompted SADC to assign it to develop the SADC IUMP. In recognition of the challenges it faces – namely - liberalised, globalised and highly competitive markets which pose both opportunities and threats, Lesotho can ill-afford not benefit from the UNIDO Initiative which is said to be a very effective and practical tool for implementing industrial upgrading and modernisation programmes. Similar programmes in Africa have been implemented and lessons learnt in countries such as Tunisia, Morocco, Algeria and Senegal.

Development and diversification of the industrial base through effective SME participation; ability and capacity for Lesotho to export to markets it enjoys preferential access; and the institutional and technical support to be provided through UNIDO's experience in implementing industrial upgrading and restructuring are three main justifying reasons for Lesotho to embark on the national IUMP.

7. PROGRAMME PRIORITY SECTORS, ELIGIBILITY CRITERIA AND BENEFICIARIES

7.1. Programme Priority Sectors

The SADC IUMP recognizes nine priority sectors on the basis of their comparative advantage in the region as follows:

1. Agro-food
2. Processing of Minerals (metallic and non-metallic) products
3. Leather and Leather products
4. Forestry
5. Fisheries
6. Chemicals, Petroleum and Pharmaceuticals
7. Textiles and Garments
8. Machinery and Equipment, and
9. Services

The SADC priority sectors are globally designed to guide member states in their selection of priority sectors specific to their own situation. Guided by the national IUMP survey results explained above and other research and surveys on the SME sector in Lesotho, five priority sectors, including services supporting SMEs, have been identified as:

1. Agro-food
2. Processing of Minerals (metallic and non-metallic) products
3. Leather and Leather products
4. Textiles and Garments
5. Services

Approach to the identification and selection of these priority sectors was based on the following criteria.

- **Employment capacity:-** sectors that contribute significantly, or have potential to contribute significantly to job creation;
- **Export diversification:-** sectors that produce for export and have potential for significant increases in productivity and export diversification;
- **High value added products:-** sectors that have high potential to contribute to GDP
- **Foreign Direct Investment:-** sectors that have potential to attract foreign direct investment;
- **Value chain and linkages:-** sectors that have a high potential to inter-link with other sectors and form sectoral value chains.

It is within these priority sectors that enterprises eligible to the Programme will be selected during the pilot phase.

7.2. Criteria of Eligibility to the Programme

In principle, any enterprise is eligible to participate in the Programme as long as it meets the prescribed criteria for eligibility outlined below. The Terms of Reference define eligibility to the programme in terms of the legal status of an enterprise, its size in terms of the number of people it employs and that it must be in a manufacturing activity. Specifically, an enterprise in Lesotho qualifies to take part in the programme if:

- It is legally registered.

- It has had 2 years of uninterrupted productive activity.
- It is in a manufacturing activity, and
- It is an SME defined according to the following criteria:
 - A Small-sized enterprise with an employment level of between 6 and 20 employees
 - A Medium-sized enterprise that employs between 21 and 50 people.
- It meets the following financial performance criteria:
 - A positive net worth for the year under review or the previous year;
 - A positive turnover for the last financial year.

The Programme allows conducting simultaneously both the global and specific upgrading plans. Depending on its performance level and priorities, the company will choose the best possible solutions to proceed through short and free-of-charge pre-diagnostics.

Implementation of the global upgrading plan will improve the company's entire performance dealing with its management and production systems, whereas the specific upgrading plan will only touch on the particular functions through specific activities.

Skipping the long diagnosis or the business-plan elaboration, the specific approach will allow rapid introduction of the state-of-the-art management systems (CAM, CAMM, ERP, ITC), marketing techniques, cost calculation tools, quality management methodologies etc.

7.3. Programme Beneficiaries

The main beneficiaries of the Programme will include:

- Manufacturing SMEs including formal and informal microenterprises and companies providing related services like printing, ITC, etc. The SMEs and microenterprises will benefit through improvement in their production capacity, management capacity, quality management, export capacity, upgrade of equipment, market access and marketing capacity, infrastructure, access to finance, logistical support as well as improvement in the enabling environment. All these have been ably articulated in section 5 above as the main constraining factors for MSME sector competitiveness in Lesotho.
- Institutions providing industrial support and technical education to the MSME sector in Lesotho. These institutions will receive technical assistance, specifically institutional support and equipment, to be able to formulate policies and procedures, implement activities related to industrial upgrading, provide technical training and innovation, eliminate duplication of effort and overlapping mandates, improve programme coordination and overall enterprise competitiveness.
- Also to benefit from the Programme are the MTICM and staff from other ministries, business associations, business development services and consultants. The MTICM and other ministries will benefit from the technical assistance provided within the Programme implementation while business associations, business development services and consultants will have their institutional capacities improved.

8. PROGRAMME OBJECTIVES, APPROACH, COMPONENTS AND OUTPUTS

8.1. Overall Objective

The overall objective of the Lesotho IUMP is to promote the country's economic, industrial and trade growth to face the double challenge of regional and global integration.

8.2. Specific Objectives

The Programme aims to support the dynamics of upgrading and modernisation of manufacturing SMEs and related services and to improve their competitiveness, growth, and access to national and international markets. The Programme is specifically focusing on economic diversification, improving productivity and quality, job creation and strengthening of technical and institutional capacity.

8.3. Programme Approach

The implementation approach of the national IUMP is based on the UNIDO approach implemented in some countries in Africa, notably Tunisia, Algeria, Senegal, and currently underway in West African Economic and Monetary Union (UEMOA) countries.

The approach of the Programme aims at upgrading and improving the competitiveness of enterprises with potential to grow by strengthening their productive capacities on the one hand while improving the quality of related services and business environment in general on the other. The intention is to allow enterprises to build capacities necessary to produce manufacturing goods in compliance with different international technical regulation and quality standards. The approach also calls for undertaking actions that intend to improve the financial situations of enterprises as well as integrating the enterprises with the regional and world markets.

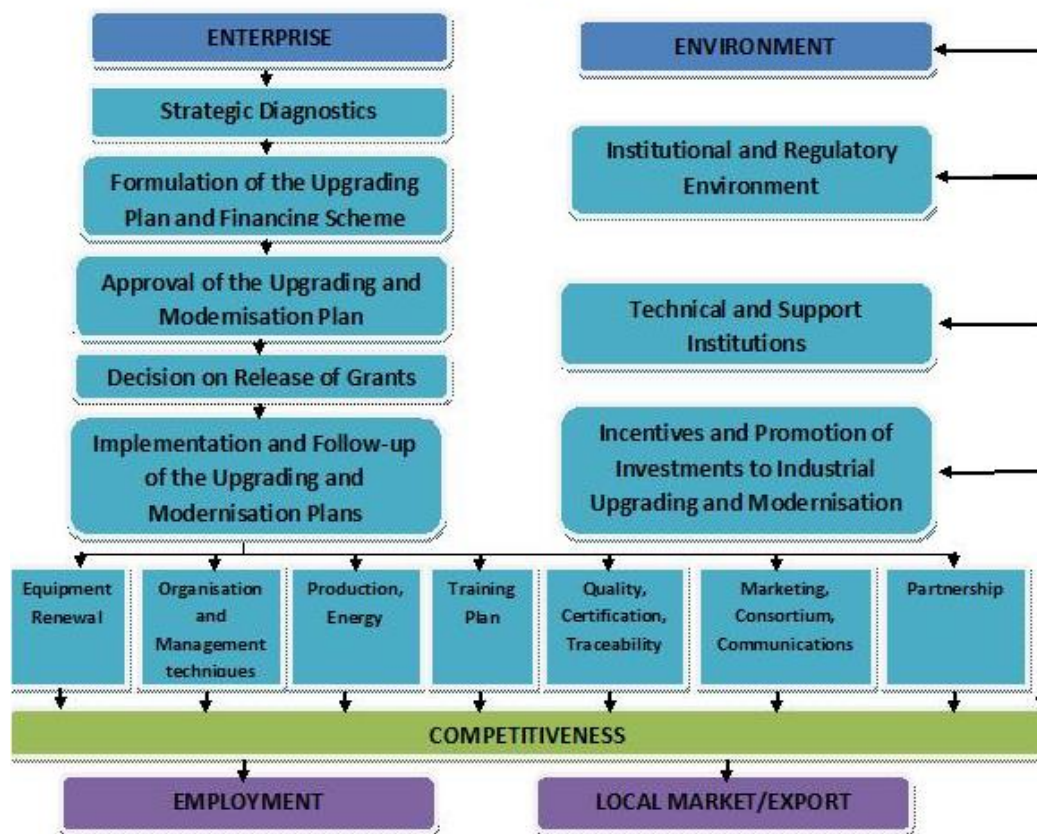
Apart from enterprises, the approach of the Programme is also to provide technical assistance and institutional capacity building to all institutions that support manufacturing SMEs in Lesotho. The UNIDO approach consists of seven major areas of intervention, as listed below:

- | | |
|-------------------------------------------|--------------------------------|
| • enterprises | Upgrading and restructuring of |
| • institutions | Upgrading of technical support |
| • information infrastructure | Strengthening of economic |
| • export promotion infrastructure | Development of a consortia and |
| • industrial coaching | Promotion of partnership and |
| • system, and | Establishment of traceability |
| • informal manufacturing microenterprises | Supporting the formal and |

The critical factors/needs highlighted in section 5 will be covered under these intervention areas. The UNIDO approach will also take full recognition of progress or plans on government policy strategies outlined in section 5.

The implementation of the Programme will take the form depicted in Figure 5 below.

Figure 5: Process of Industrial Upgrading and Modernisation



Source: Programme on Industrial Upgrading and Modernisation in SADC Countries

According to Figure 5, the enterprise column highlights the main interventions that will be undertaken to upgrade and modernise enterprises. These entail the undertaking of diagnostic studies, formulation of upgrading and restructuring plans, approval procedures and financing of eligible companies, implementation and follow-up of the upgrading projects. The key outputs from these interventions are expected to be equipment renewal, improved organisation and management techniques, efficient production methods, training plans, quality certification and traceability, marketing skills, creation of export consortia, and promotion of local and regional partnership.

The environment column depicts the main areas of intervention as the institutional and regulatory environment, technical support to institutions, and incentives and promotion of the industrial upgrading and modernisation programme. The main outputs from the improved enabling environment and enterprise upgrading are expected to be improved competitiveness which in turn should result in economic growth, increased employment and exports.

The national IUMP will follow the UNIDO approach which covers the following areas.

8.3.1 Upgrading⁸ and Restructuring

According to the UNIDO approach, the upgrading and restructuring of enterprises comprises four steps, namely, the pre-diagnostics, the strategic diagnostics, the formulation and implementation of restructuring plan, and the upgrading plan.

1. The pre-diagnostics involve conducting research campaign based on questionnaires for determining (a) the eligibility of enterprises for restructuring and upgrading, and (b) to identify the field of survey to formulate and adopt the diagnostics and plan for restructuring and upgrading. The declaration of interest will be a part of the questionnaire to serve as an attribute of enterprises' fully voluntary participation in the current Programme. This step determines whether the company needs to go through a prior stage of restructuring to benefit ultimately from the upgrading stage.
2. Cognisant of globalization and rapid technological progress, the strategic diagnostics aim to analyze competitiveness of the local manufacturing SMEs and supporting services. Special emphasis will be put on preparing SMEs in Lesotho to be effective exporters in the SADC and international markets.
3. The diagnostics will thus reveal the strengths and weaknesses of the companies and will allow identifying the strategies to be followed as well as the short and medium-term actions for upgrading and modernization to be implemented within this Programme. The diagnostics will also propose a financial plan to carry out the selected actions.
4. The restructuring plan covers mainly the structural and financial adjustments which could lead to conversion or liquidation of nonviable activities or to financial reorganization of the enterprise. The objective of the restructuring plan is to enable companies to become financially sustainable and to meet the eligibility criteria to benefit from the upgrading plan.

Once the enterprise implements its restructuring plan, it is eligible to subscribe to the upgrading plan. In this case, it will first update the initial diagnostics followed by elaboration of upgrading plan

The upgrading plan will mainly cover or review:

1. The short and medium-term strategy and objectives
2. Already implemented activities to raise the companies' interest
3. The action plan of immaterial investments activities with special accent on companies' competitiveness;
4. The plan of financial sustainability of the company.

There are two types of upgrading activities:

Material upgrading activities in the form of acquisition and installation of the upgrading, production equipment;

Immaterial upgrading activities: which may include training of companies' staff, direct assistance of experts in the establishment or development of the production, sales and quality management systems,

⁸ In UNIDO terminology upgrading is a continuous process aimed at "preparing and adapting the enterprise and its business climate to the demands of free trade and introducing an approach for progress-driven actions and strengthening the enterprise strong points while eliminating its weak points". Thus, it entails improving enterprise competitiveness in all dimensions such as production; organisation and management systems; quality and certification; training of human resources; energy saving; marketing and market research; infrastructure, access to finance, strategic alliances and partnership, and the enabling environment.

support in ISO 9001, 14000, 17025, 22000 certification, introduction of HACCP system, purchase of software, establishing accounting systems, audit on energy management, energy saving activities, etc.

The UNIDO approach also considers assistance in the implementation of upgrading action plans according to:

- *The global approach of companies upgrading*, which focuses on the global strategic diagnostics, formulation of upgrading plans and technical assistance in implementing priority activities; and
- *The specific approach*, which involves the assessment of company's specific problems and assistance in implementation of related activities.

8.3.2 Upgrading technical support institutions

Upgrading technical support institutions is a key prerequisite to improve marketing and productive capacities and competitiveness of manufacturing SMEs.

The majority of enterprises in Lesotho suffer from considerable technology gaps mainly characterized by lack of know-how on technical procedures and quality/safety management systems along with the absence of innovation initiatives in introducing new products and technologies. Moreover, ineffective exploitation of productive capacities and inadequacies in equipment maintenance lead to fabrication of defective goods or to the total suspension of production process.

Often overwhelmed by these technical and organizational shortages, the companies are limited in their capacities to optimize their technological process that determine their competitiveness and their place in the market. As a result, these companies are unable to produce goods that can respond to the current market needs and meet international quality standards, sanitary and safety requirements.

One of the main reasons for this appears in the weak technical skills and qualification of the technical support institutions. Their technical capacities are insufficient to satisfy the real needs of the industrial sector.

The situational analysis above has clearly demonstrated that Lesotho's research and training institutions, specialized technical centres, auditing and certification bodies do not possess the necessary capacities to support local companies, which in consequence have to seek foreign expertise that brings to the companies additional costs and thus affects their competitiveness.

It is, therefore, crucial to address capacities of technical support institutions within the implementation of the Upgrading and Modernization Programme. The proposed approach, in particular, recommends:

Step 1: To assess the needed technical support to industrial sector and priority related services. This step should identify (i) the type of technical support provided (ii) the number and list of technical support structures to be strengthened within technological upgrading activities and (iii) the nature and extent of needs in technological upgrading.

Step 2: To prepare the plans for technological upgrading for each of the beneficiary structures. These plans, prepared in close cooperation with the Technical Upgrading and Modernisation Unit (TUMU) and Programme beneficiaries, will particularly include the first -priority immaterial and material investments activities as well as the action plans.

Step 3: To implement technological upgrading plans through:

- Upgrading infrastructure and equipment to attain compliancy with international standards and technical requirements;
- Upgrading methodologies for operations and technological process;

- Organization of trainings in horizontal and sectoral competencies (technology, quality, safety, standards/certification, etc.);
- Direct assistance and training throughout the exploitation process.

The following results are expected:

- Technical centres and training institutions strengthened or established in various industrial branches;
- Critical mass of local expertise trained and operational
- Regional network of institutions for technological support established and operational.

The Programme will also cover and support Business Development Services (BDSs) providing institutional and technical support for strengthening the business-support infrastructure as well as directly for the establishment and operations of small and medium enterprises in the manufacturing sectors.

Technical support or training institutions will be established and/or improved for sectors which provide a critical mass of enterprises sufficient for financial sustainability of such institutions. The Programme will establish the BDS Centres to respond to the needs of the SMEs operating in various manufacturing sectors in Lesotho.

8.3.3 Strengthening economic information infrastructure

Access to economic data and information is one of the major constraints for growth and development of manufacturing SMEs in Lesotho as explained under situational analysis above. Although economic information is abundant in Lesotho, it is often not systematized, coherent or even reliable particularly when it refers to the sectors defined as of priority or contributing the most to the national economy or playing the key role in the country's socio-economic development.

In order to address this information gap, the Programme intends to conduct a survey on identification and strategic positioning of the 5 priority sectors and contributing sub-sectors/products taking into consideration the country's major product lines.

The results of this survey should reflect the basic features of the priority industrial sectors in Lesotho. They should track an evolution of the key economic indicators over the last several years and reveal the investment opportunities in emerging sectors. Besides, the survey should enable analysis of intra- and interregional competitiveness of the local companies and propose the actions to improve their position.

8.3.4 Development of a consortia and export promotion infrastructure

The national IUMP intends to strengthen the export capacities of SMEs in Lesotho by establishing an export consortium. The export consortium will also be open to cooperatives that meet the criteria set up for the SMEs.

The benefit of an export consortium is that by cooperating with other firms within an export consortium, manufacturing SMEs in Lesotho can effectively manage to penetrate the regional and international markets at reduced cost and risk. At the same time members within an export consortium can improve their profitability, achieve productivity gains and achieve knowledge through various types of joint action that are not directly related to export marketing, such as joint management training programmes, joint certification, improvement of shop floor procedures and others.

More specifically the benefits of establishing and joining the exports consortium or exports promotion network comprise:

- diversification in goods supply;
 - better negotiating capabilities
- while bargaining with potential buyers;

- prospects to expand the exports destinations to remote regions;
- better understanding of markets and reduction of business risks;
- reducing the costs of promotional activities, (common website/production catalogue, exhibition booth, etc.), and less risks related to exploring and exporting the new business opportunities abroad.

The Programme will follow the following steps in establishing the export consortium and/or export promotion networks:

- Identification of partners in the public and/or private sectors (export promotion agencies, sectoral associations, chambers of commerce and industry etc;
- Training of export consortium leaders to support consortium creation and ensure its sustainability;
- Awareness raising activities and identification of target groups to organize in cooperation with partners the seminars and meetings which will present the concept, services and benefits of export consortium;
- Distribution of questionnaires to companies participating in the seminars inquiring about the interest expressed;
- Selection of the companies interested in creating an export consortium. The selection process will gather together a group of companies coherent in terms of activities/production, size, organizational structure and human resources, knowledge of export techniques, their current and targeted markets, required services, etc;
- Assistance to selected companies in establishing and launching the export consortium and export promotion networks for their:
 - common objectives;
 - services offered;
 - organization (human resources, logistics, etc.);
 - the most appropriate juridical status;
 - mechanisms of self-financing (membership fees, possibility of external funding, etc.);
 - business plan, promotion programme and budget;
 - assistance needed to carry out the business plan and promotional activities.
- Assistance to the partners in establishing the legal and financial assistance measures.

The awareness raising activities as well as the launch of an export consortium are envisaged within the Phase 1 of the Programme implementation.

8.3.5 Promotion of partnership and industrial coaching

Investment and technology promotion is one of the most efficient ways to ensure companies' development, acquisition of advanced knowledge and capacities and to gain access to new markets. This is especially pertinent to the SMEs in Lesotho where imperfections in business environment largely affect the companies' growth as shown in situational analysis above. The bottlenecks for the business development, in particular, include:

- an absence of technical and markets monitoring;
- difficulties to access the technical or normative information;
- lack of well-qualified staff;
- lack of skills, notably, in the field of quality or safety procedures;
- difficulties in accessing financial resources.

The partnership with similar companies or being a part of the global supply chain can be used as a “strategic arm” promising the quick solutions to the above problems. The more the companies are homogeneous, the more relations are facilitated among them and the stronger is the partnership.

Despite the existence of historical linkages in business ties between the companies in Lesotho and South Africa, there is still a big gap between them in the terms of performance and overall development.

After the initial assessment of existing companies, the original methodology of technological and managerial upgrading will promote the volunteer partnership among the participating companies. This methodology involves development of interregional cooperation through experience exchange between Lesotho SMEs, their counterparts in SADC and other countries. It is also intended to establish a network of support institutions for private sector development in order to ensure sustainable contribution to the partnership promotion.

These activities could be carried out by UNIDO’s Investment and Technology Promotion Offices (ITPO), the Centre for the Development of Enterprise (CDE) and the support institutions and investment promotion agencies in Lesotho like MTICM, LNDC and BEDCO.

Notably, these activities will comprise:

- Identification of market opportunities and technological scenarios;
- analysis of companies’ capacities for partnership;
- Development of partnership and investment strategies and formulation of related projects and putting them on the platform;
- Training of business executives on negotiation skills and formulation of partnership contracts and development of promotional materials necessary for communication of partnership policies;
- Organisation of promotional and mobilization seminars abroad and identification of potential partners;
- Support in searching for financial partners;
- Supporting enterprises in effective accomplishment of their partnership agreements/contracts.

8.3.6 Establishment of traceability system

Traceability is a preventive system that deals with quality and safety management of, among other things, foodstuff production. Once the food quality/security alarm system alerts, a good traceability system facilitates the call-back of risky production and helps to localize the point-of-origin of the problem. The capacities to undertake the trace-back and trace-forward activities at every stage of food products and distribution chain are crucial to boost the customer confidence in alimentary products in both development and developed countries

Agro-alimentary traceability consists of tracking and demonstrating good agro-alimentary practices including collection, documentation, maintenance and use of information related to the entire process of food supply chain - from provision and production of foodstuff to their sales. This system will not only provide the safety and quality guarantees to the customers or business partners, it will also inform the users on the history, origin and life duration of manufactured goods. It also facilitates the management procedures during crisis situations related to the breach of the safety or quality rules.

This activity thus includes:

- Identification of the sensitive and priority agro-food production/sectors and analysis of production/distribution chains for selected products;
- Organization of information seminars on traceability and access to SADC and European markets;
- Development of a traceability manual (according to ISO 22005 Standard) and training of trainers;
- Implementation of a (manual/automatic) traceability system in the selected pilot companies;
- Empirical verification of effectiveness and performance of traceability systems (farm-to-fork);

- Adaptation of the procedures for the implementation of traceability systems.

If the SMEs in Lesotho agro-food supply chain wish to export their production to the SADC, EU and other international markets, the introduction and establishment of such systems are indispensable and critical.

To accomplish this task, the pilot companies of the agro-sector will serve as the models for establishment and development of an integrated traceability programme in Lesotho.

8.3.7 Supporting the formal and informal manufacturing microenterprises

It has been shown in the situational analysis section that the industrial sector in Lesotho is dominated by microenterprises, either formal or informal. Information on these companies is thus rare and nearly absent although the sector represents a great interest as a base for the socio-economic development of the country.

In order to overcome the constraints of this sector and to take advantage of its opportunities, the Upgrading and Modernization Programme intends to assist the formal and informal micro enterprises by undertaking various activities (awareness raising, technical assistance and development programmes) to involve and integrate them in the mainstream economy.

The support will entail the following actions:

- Undertaking a study of the formal and informal manufacturing microenterprises sector in Lesotho where such a study has not been carried out in the last five years;
- Awareness raising among the informal sector companies on the benefits of joining the formal sector (access to financing, security, visibility, etc.);
- Industrial coaching for groups of craftsmen (joinery, weaving, garment, dye- works, small production of furniture, jewellery, etc.);
- Modernizing the methodologies of product design to ensure conformity with the modern hygiene and safety standards;
- Improving conditioning and packaging of production to facilitate preservation and sales;
- Providing premises for companies and purchase of small equipment;
- Technical assistance in searching and acquisition of modern equipment more adapted to the local conditions and of better performance;
- Assistance in the field of manufacturing methods and in development of the new products;
- Providing basic accounting and technical training;
- Assistance on formulation of requests for funding;
- Assistance in establishing associations of suppliers and retailers to facilitate access to funding and to improve availability of raw materials.

The above activities will be implemented during Phase II of the Programme.

8.4. Programme Components and Outputs⁹

Component 1 - Support for restructuring and/or upgrading and improving competitiveness at enterprise level.

⁹ See Annex 1 for a full Logical Framework

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| This component covers the key activities on upgrading and modernisation of manufacturing SMEs. The major beneficiaries are the enterprises of the priority industrial sectors. They will benefit from activities on restructuring, upgrading and improvement of their competitiveness. Several activities can be launched simultaneously as the component covers activities relating to both the pilot and roll-out phases of the Programme implementation. | |
| Immediate objective | Support the dynamics of industrial upgrading and improving competitiveness, overall growth and access to local, regional and international markets. |
| Problems to be solved | <ul style="list-style-type: none"> - To restructure and upgrade manufacturing SMEs to enhance their competitiveness at regional and international levels - Improve the enabling environment to reduce costs and the hassle factor |
| Output I.1 | Strategic positioning study of 5 priority sectors (agro-food, mining & mineral products, leather & leather products, textile & garments) |
| Output I.2 | Identification of eligible and beneficiary SMEs to the Programme within the priority sectors |
| Output I.3 | A thorough diagnostic study and implementation of Restructuring Plans ¹⁰ of beneficiary SMEs |
| Output I.4 | A thorough diagnostic study and implementation of Upgrading Plans for SMEs eligible to the Programme (global approach and specific approach ¹¹) |
| Output I.5 | Technical support and coaching of beneficiary SMEs for the implementation of upgrading activities (priority to immaterial investments activities ¹²) |
| Output I.6 | Formulation and implementation of Quality and Standards Management Plans |
| Output I.7 | Design and implementation of communication strategies and promotion of the Industrial Upgrading and Modernisation Programme in the whole country (National IUMP Promotion Campaign) |
| Output I.8 | Establishment of export consortia and development of clusters (where specific resource endowments allow) |
| Output I.9 | Design and establish a legislative framework and procedures for the national IUMP |
| Output I.10 | Design and implement an incentive scheme to attract big business to partner with SMEs and promote industrial linkages |
| Output I.11 | Undertake a study of formal and informal manufacturing microenterprises and implement the Upgrading and Modernisation Programme for the sector as specified in section 7.2.7. |

Component 2 - Support for strengthening institutional capacities and technical support institutions (public and private) involved in enhancing productive and export capacities of Lesotho manufacturing and supporting services enterprises and ensuring compliance of their production with international standards. (Component II is

¹⁰

The global approach of companies upgrading includes global strategic diagnosis, formulation of upgrading programme, and technical assistance in implementing priority activities.

The specific approach consists of diagnosis of the company's specific problem and assistance in implementing activities which lead to solve the problem

¹² Activities which may include training of companies' staff, direct assistance of experts in the establishment or development of production, sales, and quality management systems etc.

not duplicating IP and others. It is actually calling for implementation of their recommendations. It is complementing them)

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|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | |
| Immediate Objective | Upgrading and modernising industrial support institutions and improving quality of business climate and export capacity |
| Output II.1 | Identification of technical support institutions and trade and investment promotion agencies |
| Output II.2 | A thorough diagnosis, formulation and implementation of Upgrading Plans for selected technical and vocational institutions, universities, export promotion agencies, test and analysis laboratories, business associations, and other business support services |
| | |
| Output II.3 | Provide technical assistance on SME statistical data collection and analysis to either BEDCO or SMME Network |
| Output II.4 | Device a mechanism for enabling emergence of innovative private providers of business development services (BDSs) |
| Output II.5 | Promote mentorship and apprenticeship arrangements with special reference to the Lesotho Opportunities Industrialisation Centre (LOIC) |
| Output II.6 | Study and establish Entrepreneurship Training and Development Programme within BEDCO |
| Output II.7 | Establish a Bureau of Standards, Metrology and Quality |
| Output II.8 | Study and establish Decentralised Small Business Resource Centres which will also serve as Centres of Technological Excellence |
| Output II.9 | Review and upgrade the Appropriate Technologies Services Centre(ATSC) and other similar institutions |
| Output II.10 | Study and establish the Innovation Facilitation Mechanism in collaboration with LTI, NUL, |

| | |
|--------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | and Limkokwing University |
| Output II.11 | Study and establish Export and Import Promotion Agency to provide economic and trade information |
| Output II.12 | Provide technical assistance to strengthen coordination mechanisms and institutional capacity of investment and trade promotion agencies like LNDC, BEDCO and MTICM |
| Output II.13 | Provide technical assistance to either BEDCO or SMME Network to undertake the monitoring and evaluation role for the IUMP implementation and the SME sector on an on-going basis |
| Output II.14 | Undertake a viability study for a relevant development finance institution for industry and SMEs in Lesotho |

9. MANAGEMENT AND COORDINATION OF THE PROGRAMME

The management and coordination of the Programme is expected to be executed in accordance with the already existing project management mechanisms and structures of the government and/or development partners in Lesotho working closely with the regional structures proposed in the SADC IUMP. The management and coordination framework explained below depicts structures at regional and national levels.

9.1 Regional Level

9.1.1 The SADC Secretariat

The SADC Secretariat is the main control centre for the implementation of the IUMP in the region as shown in Figure 6.

Figure 6: Regional Management Structure



The main responsibilities of the SADC Secretariat are:

- Mobilisation of financial resources
- Developing Programme funding policy at regional level
- Defining Programme implementation framework
- Establishment of institutions responsible for Programme implementation at regional level
- Maintaining relations with development partners.

The SADC Secretariat will also carry out the following specific activities:

- Develop information systems
- Develop consultants database
- Develop and manage follow-up and evaluation mechanisms
- Develop of human resources for administrative bodies, private companies and consultants, and
- Support development of national capacities.

9.1.2 The Regional Steering Committee

Within the SADC Secretariat the Programme will be managed by the Regional Steering Committee comprising members from the SADC Secretariat, member states, national and regional banks, and companies from the private sector. The main functions of the Regional Steering Committee will be to:

- provide assistance to the SADC Secretariat in the overall coordination and management of the Programme
- defining financial strategy for the programme
- Carrying out fund-raising activities
- Implementation of the Programme, and
- Acting as final decision-making institution/authority.

9.1.3 The Technical Unit for Upgrading and Modernisation

There will be a Technical Unit for Upgrading and Modernisation responsible for the overall implementation and coordination of the Programme across the region. This unit will either be located at the SADC Secretariat or any other place as determined by the Secretariat. The Unit will maintain constant communication with regional structures and authorities and monitor Programme activities implemented at regional level.

9.2. National Level

9.2.1 The Government of Lesotho

The Government of Lesotho is expected to play a role similar to that of the SADC Secretariat of taking full ownership of the Programme at national level as well coordinating, managing and fund-raising. Political ownership of the Programme by Government is considered critical for its successful implementation as this will serve as a key tool to mobilise all important stakeholders and the financing of the Programme.

9.2.2 National Steering Committee (NSC)

Reporting to the Government of Lesotho will be the National Steering Committee that will serve as a communication centre for interpretation of policies relating to the implementation of the Programme. The NSC will also be the main decision-making body nationally.

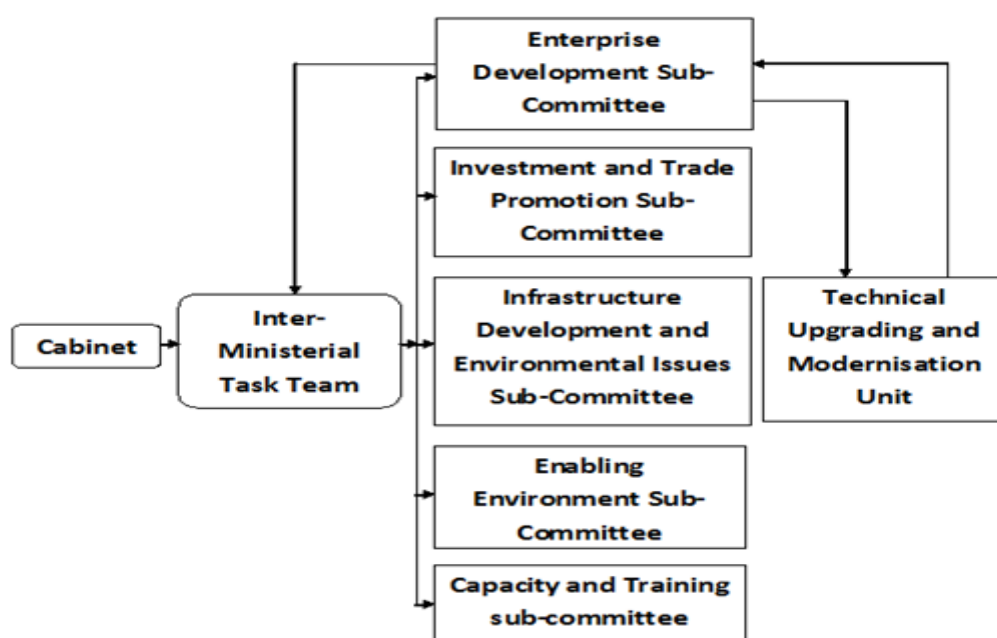
As alluded above, the Programme will be managed and implemented in accordance with the already existing and relevant national structures if any. Two alternative approaches are recommended for the national steering committee depending on their practicality.

9.2.2.1 The first approach proposes that the Programme be managed through structures set out in the Lesotho Industrial Policy (IP) as depicted in Fig. 7. According to the IP, the Inter-Ministerial Task Team would assume the role of the National Steering Committee. The IMTT is the main body responsible for policy and implementation of the Industrial Policy and it is composed of government ministries, parastatals, the private sector, banks, business associations, institutions of higher learning and other relevant stakeholders.

According to the IP, the IMTT works through sub-committees shown below.

1. Enterprise Development Sub-Committee – Advises the IMTT on issues related to development and support of the indigenous private sector, including quality and standards
2. Investment and Trade Promotion Sub-Committee – Advises the IMTT on trade and investment promotion issues
3. Infrastructure Development and Environmental Issues – Advises the IMTT on industrial infrastructure development including their impact on the environment
4. Enabling Environment Sub-Committee – Advises the IMTT on legislative, regulatory and labour issues
5. Capacity Building and Training Sub-Committee - Advises the IMTT on enterprise capacity building, training needs, technology and entrepreneurship

Figure 7: IUMP Implementation Structure



It is proposed that the Enterprise Development Sub-Committee (EDSC) should act as the focal point on all aspects of the national IUMP implementation as this Programme falls within its ambit in the IP framework. As the custodian of the Programme the main task of the EDSC will be to manage and coordinate the implementation of Programme-related activities by all other sub-committees. It will also undertake monitoring and evaluation of performance of the sub-committees in Programme-related activities.

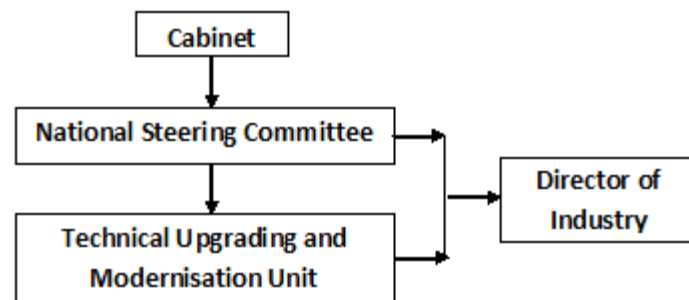
The alternative approach is to establish a new National Steering Committee. It is proposed that the NSC be chaired by the Minister of Trade and Industry, Cooperatives and Marketing. Membership of the committee should be constituted as follows:

- Minister of Finance
- Minister Agriculture and Food Security
- Minister of Natural Resources
- Minister of Works and Transport
- Minister of Local Government and Chieftainship Affairs

- Minister of Education and Training
- Lesotho Business Council
- Lesotho Chamber of Commerce and Industry (LCCI)
- Lesotho Textiles and Exporters Association
- Lesotho Bankers Association

The NSC may invite other ministries and/or organisations from time to time if necessary. Schematically the alternative structure should be as shown below:

Figure 8: National IUMP Management Structure



According to this structure the main decision making body will be the NSC which will have the TUMU reporting to it through the Director of Industry (DoI) within MTICM.

9.2.3 The Office for Upgrading and Modernisation

It is proposed that the Technical Upgrading and Modernisation Unit (TUMU) be formed within MTICM. TUMU will be the operational organ for the facilitation and implementation of the national IUMP. More specifically, TUMU is expected to intervene in the following activities during Phase 1 of the Programme implementation:

- conducting promotional and communication activities at national level;
- identification of potential enterprises according to predefined criteria of eligibility at the regional level;
- review of the diagnostic and Upgrading Programmes;
- ensure the follow-up of Upgrading Programme implementation;
- act as the focal and central implementing organ of the national IUMP ;
- assess the Programme's impact on beneficiary companies. (Monitoring and Evaluation)

In terms of reporting, the TUMU will report to the Technical Unit for Upgrading and Modernisation at the regional level and the EDSC or NSC through the Director of Industry (DoI) at the national level.

During Phase 2 of the Programme, the TUMU will continue to perform as a management and coordination centre for the implementation of the National Programme on Upgrading and Modernization. The personnel of the Unit should be highly qualified and possess significant experience in industrial development economics. All staff should be recruited on a competitive basis.

For efficient running of the financial activities during the implementation of the Programme, an experienced accounting firm should be appointed on competitive basis for the duration of the implementation phases of the Programme.

10. MANAGEMENT, MONITORING AND EVALUATION FOR THE PROGRAMME

10.1. Management of the Programme

The implementation of the Programme will be the responsibility of TUMU. TUMU will carry out all the activities of the Programme and will therefore have to possess all means necessary to ensure dialogue with relevant government ministries, the private sector and other key stakeholders.

10.2. Monitoring and Evaluation of the Programme

The monitoring and evaluation of the Programme will be the responsibility of the IMTT or NSC. At the operational level it is proposed that this activity be carried out by TUMU. Technical assistance will have to be provided to capacitate TUMU to have the necessary expertise.

Monitoring and evaluation will be carried out in accordance with the rules and practices utilised by UNIDO. The Programme's schedule will include external monitoring and evaluation missions, a review and evaluation at the end of each phase to be carried by the Secretariat's Steering Committee and the Technical Unit for Upgrading and Modernisation. UNIDO's Evaluation Group, together with appropriate services of SADC and donor organisations, will participate in the annual reviews and evaluations at the end of each phase of the programme. The findings of the missions will be communicated to the SADC Secretariat, UNIDO and donor organisations.

The Regional Steering Committee will elaborate criteria to evaluate results and to measure progress in achieving the programme's objectives. These criteria may be quantitative (evaluation of statistical data) and qualitative (appraisal and perception resulting from a subjective analysis). The detailed criteria will be specified in operational plans.

11. REPORTING

The reporting guidelines and procedures will be drafted and agreed between SADC, UNIDO and other parties involved in the monitoring and evaluation of the Programme. These include the preparation of draft annual work-plan for approval by the Programme implementation monitoring committee. The work-plan will incorporate the elements of the preliminary operations, reporting procedure on the on-going activities scheduled for the current year and specify their implementation modalities. Progress and final reports will be prepared at the end of each phase. These reports will consist of descriptive and financial sections that cover the entire Programme.

Each report will be structured in such a way that it provides a complete picture of all the aspects of the Programme implementation over the reporting period. The structure of these reports will allow a comparison between the objectives and the scheduled or already implemented activities, the anticipated results and those obtained and the budget of the Programme including its detailed description and breakdown.

The descriptive section of the report will contain the following elements:

- Summary and context of the Programme;
- Programme related Activities carried out over the reporting;
- Problems encountered and measures applied to overcome them;
- Adjustments made in the Programme implementation;
- Assessment of the results obtained using the predetermined success indicators;

The overall operational plan will include a critical analysis of the Programme in all its dimensions. The final report will include the above elements covering the entire Programme implementation period, as well as information on financing by various potential sources.

12. SUMMARY OF INDICATIVE BUDGET

Summary¹³ Of Indicative Budget

| Component | Phase 1 | | | Phase 2 | | | Total |
|--------------|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
| | Fixed Costs | Variable Costs | Sub-Total | Fixed Costs | Variable Costs | Sub-Total | |
| Component I | R 16 338 000 | R 30 060 000 | R 46 398 000 | R 658 000 | R 6 805 000 | R 7 463 000 | R 53 861 000 |
| Component II | R 25 734 000 | R 30 830 000 | R 56 564 000 | R 10 796 000 | R 9 572 000 | R 20 368 000 | R 76 932 000 |
| Total | R 42 072 000 | R 60 890 000 | R 102 962 000 | R 11 454 000 | R 16 377 000 | R 27 831 000 | R 130 793 000 |

¹³ See details of Indicative Budget in Annex III. The Budget relates to Phase I only. Phase II budget will be prepared upon completion of Phase I.

13. ANNEXURE

13.1. Annex I: Logical Framework

Component 1

Immediate Objective - Support the dynamics of industrial upgrading and improving competitiveness, overall economic growth and access to the national, regional and international markets.

| Strategic Objectives | Activity | Output | Performance Indicator | Source of Verification | Assumptions |
|----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|---------------------------------------------------------|
| 1. Data collection, analysis and implementation | 1.Strategic positioning study of 5 priority sectors (agro-food, mining & mineral products, leather & leather products, textile & garments and services | Study reports providing full account of potentials of the priority sectors and other opportunities | Collection and analysis of data | TUMU, MTICM | Approval of the national IUMP and availability of funds |
| | 2. Identification of eligible and beneficiary companies to the Programme within the priority sectors | List of beneficiary companies | Identification of beneficiary companies | TUMU, MTICM | ibid |
| | 3. A thorough analysis and assistance in the implementation of restructuring plans of beneficiary companies | Analysis and implementation of Restructuring Plans | Resolving financial problems of beneficiary companies | TUMU, MTICM | Availability of technical assistance |
| | 4.A thorough analysis and development of Upgrading Plans for the companies eligible to the Programme (global approach and specific approach ¹⁴) | Analysis and development of Upgrading Plans | Prepare and adapt the enterprise and its business climate to the demands of free trade by strengthening its strong points and eliminating weak ones | TUMU, MTICM | ibid |
| 2. Entrepreneurial training and skills development | Technical support and coaching of SME beneficiary companies for the implementation of | Training in different aspects of business management like production, | Improve technical capacity and enterprise competitiveness | TUMU, BEDCO, MTICM | Availability of funding and technical assistance |

¹⁴ The global approach of companies upgrading includes global strategic diagnosis, formulation of upgrading programme, and technical assistance in implementing priority activities.

The specific approach consists of diagnosis of the company's specific problem and assistance in implementing activities which lead to solve the problem

| | | | | | |
|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------|--------------------------------------------------|
| | upgrading activities (priority to immaterial investments activities ¹⁵) | finance, marketing, human resources etc. | | | |
| 3. Improvement of Quality and Standards | Formulation and implementation of Quality Management Plans | Launch of managerial, technical, technological standards (ISO 9001, ISO 22000, HACCP) and certification of ISO | Acquisition of technical capacity for compliance and access to markets by beneficiary companies | TUMU, BEDCO, MTICM | ibid |
| 4. Promoting national ownership of the Programme by all stakeholders | Design and implementation of communication strategies and promotion of the Industrial Upgrading and Modernisation Programme in the whole country (National IUMP Promotion Campaign) | Full political and national ownership and support of the Programme by all stakeholders | Involvement by enterprises and all major stakeholders in the Programme | TUMU, MTICM | Technical assistance and funding |
| 5. Export Promotion | 1. Establishment of export consortia among Lesotho exporting SMEs | Export growth and increased access to markets | Export growth | MTICM, BoS | Improved production capacity and diversification |
| 6. Industrial linkages and promotion of value chains | 1. Establish clusters (where specific resource endowments dictate) 2. Introduction of incentive schemes to attract big business to partners with SMEs | Reduced costs, improved production efficiencies, joint-ventures, partnerships, high productivity | Increased local value added and skills transfer | MTICM | Approved SME Policy |
| 7. Support to formal and informal microenterprises | Undertake a study of formal and informal manufacturing microenterprises and implement the Upgrading and Modernisation Programme for the sector as | Study Report | Implementation of the IUMP for microenterprises | TUMU, MTICM | Technical assistance and funding |

¹⁵ Activities which may include training of companies' staff, direct assistance of experts in the establishment or development of production, sales, and quality management systems etc.

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| | specified in section 7.2.7. | | | | |
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Component II

This component is comprised of activities complementary to upgrading actions, dealing basically with environment of the Programme, notably, through providing activities related to strengthening capacities of technical support institutions and those of quality promotion.

| Strategic Objective | Activity | Output | Performance Indicator | Source of Verification | Assumptions |
|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| 1.Data collection, Analysis and Implementation | 1.Identification of technical support institutions and trade and investment promotion agencies 2. Thorough diagnosis, formulation and implementation of upgrading plans for selected technical and vocational institutions, universities, export promotion agencies, test and analysis laboratories, business associations, and business support services 3. Assign data collection and analysis to either BEDCO or SMME Network | 1.List of beneficiary institutions 2.Upgrading Plans for beneficiary technical and business support institutions 3. Technical assistance in capacity building to all beneficiary technical institutions in Lesotho for implementation and follow-up of the Programme Statistical Reports | Identification of beneficiary institutions Collection and analysis of data Capacity building Development of SME database system | TUMU, MTICM TUMU, MTICM MTICM, BEDCO, SMME Network | Approval of national IUMP and availability of funds Technical assistance and funding |
| 2. Entrepreneurship Training and Skills Development | 1.Foster the emergence of innovative private providers of business development services 2. Promote mentorship and apprenticeship arrangements with special reference to the Lesotho Opportunities Industrialisation Centre (LOIC) 3. Establish Entrepreneurship Training and Development Programme within BEDCO | A pool of private business services providers Training and skills development Innovation and product diversification | Private business services consultants Mentorship and apprenticeship programmes Increased number of manufacturing SMEs | MUTU, BEDCO MTICM, BEDCO BEDCO, MTICM | Technical assistance Technical assistance Availability of funds |

| | | | | | |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------------------------------|
| 3. Technological Upgrading, Knowledge and Information | 1.Upgrading Standards and Quality | <p>1.Strengthen capacities of relevant beneficiary technical support institutions on accreditation, metrology, and conformity assessment systems (certification, inspection and testing)</p> <p>2.Implementation of Quality Management Systems and certification of ISO 9001 QMS for BEDCO, ATSC, LNDC, MTICM, Ministry of Agriculture</p> <p>3. Assist with implementation of programmes of traceability for specific and priority products with high export potential like vegetables, fruits, meats, wool and mohair, water etc.</p> | Provision of advice to manufacturing SMEs on technological upgrading, knowledge and information on a sustainable basis | TUMU, MTICM | Technical assistance |
| | 2. Establish Centres of Technological Excellence linked to Decentralised Small Business Resource Centres | Technological Excellence Centres | Focused technological upgrading agenda | TUMU, MoCST, MTICM | Approval for setting up the Centres and availability of funds |
| | 3.A review of the Appropriate Technologies Services centre(ATSC) and other similar institutions | Improved capacity to drive technological upgrading and innovation nationally | Improved delivery | MTICM, MoCST | Ibid |
| 4 Promoting Innovation and Diversification | Government to establish Innovation Facilitation Mechanism in collaboration with LTI, NUL, and Limkokwing | Designing and implementing innovation facilitation programmes | Institutionalised innovation facilitation mechanism | MoET, MoCST, MTICM | Ibid |
| 5. Expanding Market Access | 1.Establish an Export and Import | Export growth and competitively | Economic growth and increased | MTICM | Technical assistance |

| | | | | | |
|----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------|----------------------------------|
| | Promotion Agency to provide economic and trade information 2. Strengthen the capacity of investment promotion agencies like LNDC, BEDCO, MTICM | priced imports for intermediate inputs Improved analysis of trade agreements, negotiating skills and investment promotions | productivity Increased access to regional and international markets | MTICM, LNDC, BEDCO | Ibid |
| 6. Improving Institutional Support and Coordination Mechanisms | Capacity building for MTICM, MFDP, LNDC, BEDCO, SMME Network | 1.Reveiwed and streamlined roles and responsibilities of MTICM, MFDP, LNDC, BEDCO, SMME Network | 1.Efficient coordination mechanisms 2. Improved high impact support services | MTICM, MFDP, LNDC, BEDCO, SMME Network | Ibid |
| 7.Monitoring and Evaluation | Assign the monitoring and evaluation role to either BEDCO or SMME Network for the implementation of the national IUMP and the SME sector on an on-going basis | Monitoring and Evaluation reports | Development of a monitoring and evaluation system | MTICM, BEDCO, SMME Network | Technical assistance and funding |
| 8. Access to Finance | Undertake a viability to establish a development finance institution | A Plan to establish the institution | Approval to undertake study | MTICM | Technical assistance and funding |

13.2. Annex II: Programme Implementation Plan

| Programme Implementation Planning by Output | | Year 1 | | | | Year 2 | | | | Year 3 | | | |
|---------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|---|---|---|-----------|---|---|---|-----------|---|---|---|
| | | Quarter 1 | | | | Quarter 2 | | | | Quarter 3 | | | |
| | | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| COMPONENT I: Support for upgrading and improving competitiveness of industries | | | | | | | | | | | | | |
| I.1 | Strategic positioning study of 5 priority sectors (agro-food, mining & mineral products, leather & leather products, textile & garments and services | | | | | | | | | | | | |
| I.2 | Identification of eligible and beneficiary SMEs to the Programme within the priority sectors | | | | | | | | | | | | |
| I.3 | A thorough diagnostic study and implementation of Restructuring Plans of beneficiary SMEs | | | | | | | | | | | | |
| I.4 | A thorough diagnostic study and implementation of Upgrading Plans for SMEs eligible to the Programme (global approach and specific approach ¹⁶) | | | | | | | | | | | | |

¹⁶ The global approach of companies upgrading includes global strategic diagnosis, formulation of upgrading programme, and technical assistance in implementing priority activities.

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| I.5 | Technical support and coaching of beneficiary SMEs for the implementation of upgrading activities (priority to immaterial investments activities ¹⁷) | | | | | | | | | | | | |
| I.6 | Formulation and implementation of Quality and Standards Management Plans | | | | | | | | | | | | |
| I.7 | Design and implementation of communication strategies and promotion of the Industrial Upgrading and Modernisation Programme in the whole country (National IUMP Promotion Campaign) | | | | | | | | | | | | |
| I.8 | Establishment of export consortia and development of clusters (where specific resource endowments allow) | | | | | | | | | | | | |
| I.9 | Design and establish a legislative framework and procedures for the national IUMP | | | | | | | | | | | | |
| I.10 | Design and implement an incentive scheme to attract big business to partner with SMEs and promote industrial linkages | | | | | | | | | | | | |

| Programme Implementation Planning by Output | | Year 1 | | | | Year 2 | | | | Year 3 | | | |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|---|---|---|-----------|---|---|---|-----------|---|---|---|
| | | Quarter 1 | | | | Quarter 2 | | | | Quarter 3 | | | |
| | | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| COMPONENT II: Establishment/upgrading of the technical support institution | | | | | | | | | | | | | |
| II.1 | Establish the Technical Upgrading and Modernisation Unit (TUMU) | | | | | | | | | | | | |
| II.2 | Identification of technical support institutions and trade and investment promotion agencies | | | | | | | | | | | | |
| II.3 | A thorough diagnosis, formulation and implementation of upgrading plans for selected technical and vocational institutions, universities, export promotion agencies, test and analysis laboratories, business associations, and other business support services | | | | | | | | | | | | |
| II.4 | Provide technical assistance on SME statistical data collection and analysis to either BEDCO or SMME Network | | | | | | | | | | | | |
| II.5 | Device a mechanism for enabling emergence of innovative private providers of business development services (BDSs) | | | | | | | | | | | | |
| II.6 | Promote mentorship and apprenticeship arrangements with special reference to the Lesotho Opportunities Industrialisation | | | | | | | | | | | | |

The specific approach consists of diagnosis of the company's specific problem and assistance in implementing activities which lead to solve the problem

¹⁷ Activities which may include training of companies' staff, direct assistance of experts in the establishment or development of production, sales, and quality management systems etc.

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| | Centre (LOIC) and other similar institutions | | | | | | | | | | | | |
| II.7 | Study to establish Entrepreneurship Training and Development Programme within BEDCO | | | | | | | | | | | | |
| II.8 | Establish a Bureau of Quality and Standards | | | | | | | | | | | | |
| II.9 | Study and establish Decentralised Small Business Resource Centres which will also serve as Centres of Technological Excellence | | | | | | | | | | | | |
| II.10 | Review and upgrade the Appropriate Technologies Services Centre(ATSC) and other similar institutions | | | | | | | | | | | | |
| II.11 | Study and establish the Innovation Facilitation Mechanism in collaboration with LTI, NUL, and Limkokwing University | | | | | | | | | | | | |
| II.12 | Study to establish an Export and Import Promotion Agency to provide economic and trade information | | | | | | | | | | | | |
| II.13 | Provide technical assistance to strengthen coordination mechanisms and institutional capacity of investment and trade promotion agencies like LNDC, BEDCO and MTICM | | | | | | | | | | | | |
| II.14 | Provide technical assistance to TUMU Network to undertake the monitoring and evaluation role for the IUMP implementation. | | | | | | | | | | | | |
| II.15 | Undertake a viability study for establishment of a development finance institution | | | | | | | | | | | | |

13.3. Annex III: Indicative Budget Proposal

Breakdown of Indicative Budget

| COMPONENT I: Support for upgrading and improving competitiveness of industries | | | | | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------------|---------------------|---------------------|-------------------|------------------|--------------------|--------------------|---------------------|
| Activity | Phase 1 | | | | Phase 2 | | | | Total |
| | Duration (Months) | Fixed Costs | Variable Costs | Sub-Total | Duration (Months) | Fixed Costs | Variable Costs | Sub-Total | |
| Strategic positioning study of 5 priority sectors (agro-food, mining & mineral products, leather & leather products, textile & garments and services | 6 | R 4 800 000 | R 3 600 000 | R 8 400 000 | 0 | R 0 | R 0 | R 0 | R 8 400 000 |
| Identification of eligible and beneficiary SMEs to the Programme within the priority sectors | 3 | R 720 000 | R 594 000 | R 1 314 000 | 1 | R 0 | R 240 000 | R 240 000 | R 1 554 000 |
| A thorough diagnostic study and implementation of Restructuring Plans of beneficiary SMEs | 24 | R 3 600 000 | R 5 184 000 | R 8 784 000 | 2 | R 90 000 | R 280 000 | R 370 000 | R 9 154 000 |
| .A thorough diagnostic study and implementation of Upgrading Plans for SMEs eligible to the Programme (global approach and specific approach | 24 | R 0 | R 5 040 000 | R 5 040 000 | 3 | R 0 | R 315 000 | R 315 000 | R 5 355 000 |
| Technical support and coaching of beneficiary SMEs for the implementation of upgrading activities (priority to immaterial investments activities | 18 | R 0 | R 11 250 000 | R 11 250 000 | 4 | R 0 | R 2 800 000 | R 2 800 000 | R 14 050 000 |
| Formulation and implementation of Quality and Standards Management Plans | 12 | R 2 304 000 | R 1 200 000 | R 3 504 000 | 2 | R 148 000 | R 300 000 | R 448 000 | R 3 952 000 |
| Design and implementation of communication strategies and promotion of the Industrial Upgrading and Modernisation Programme in the whole country (National IUMP Promotion Campaign) | 9 | R 3 150 000 | R 1 188 000 | R 4 338 000 | 3 | R 420 000 | R 1 050 000 | R 1 470 000 | R 5 808 000 |
| Establishment of export consortia and development of clusters (where specific resource endowments allow) | 6 | R 792 000 | R 900 000 | R 1 692 000 | 3 | R 0 | R 720 000 | R 720 000 | R 2 412 000 |
| Design and establish a legislative framework and procedures for the national IUMP | 6 | R 0 | R 600 000 | R 600 000 | 2 | R 0 | R 0 | R 0 | R 600 000 |
| Design and implement an incentive scheme to attract big business to partner with SMEs and promote industrial linkages | 6 | R 972 000 | R 504 000 | R 1 476 000 | 5 | R 0 | R 1 100 000 | R 1 100 000 | R 2 576 000 |
| Grand Total | 114 | R 16 338 000 | R 30 060 000 | R 46 398 000 | 25 | R 658 000 | R 6 805 000 | R 7 463 000 | R 53 861 000 |

Breakdown of Indicative Budget

| COMPONENT II: Establishment/upgrading of the technical support institution | | | | | | | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------|----------------|--------------|-------------------|-------------|----------------|-----------|---------------------|
| Activity | Phase 1 | | | | Phase 2 | | | | Total |
| | Duration (Months) | Fixed Costs | Variable Costs | Sub-Total | Duration (Months) | Fixed Costs | Variable Costs | Sub-Total | |
| Establish the Technical Upgrading and Modernisation Unit (TUMU) | 6 | R 5 376 000 | R 900 000 | R 6 276 000 | 4 | R 1 152 000 | R 2 520 000 | 3672000 | R 9 948 000 |
| Identification of technical support institutions and trade and investment promotion agencies | 3 | R 858 000 | R 660 000 | R 1 518 000 | 2 | R 384 000 | R 300 000 | 684000 | R 2 202 000 |
| A thorough diagnosis, formulation and implementation of upgrading plans for selected technical and vocational institutions, universities, export promotion agencies, test and analysis laboratories, business associations, and other business support services | 27 | R 7 290 000 | R 7 020 000 | R 14 310 000 | 20 | R - | R 300 000 | 300000 | R 14 610 000 |
| Provide technical assistance on SME statistical data collection and analysis to either BEDCO or SMME Network | 6 | R 1 536 000 | R 1 008 000 | R 2 544 000 | 8 | R 936 000 | R 720 000 | 1656000 | R 4 200 000 |
| Device a mechanism for enabling emergence of innovative private providers of business development services (BDSs) | 9 | R 0 | R 2 160 000 | R 2 160 000 | 8 | R - | R - | 0 | R 2 160 000 |
| Promote mentorship and apprenticeship arrangements with special reference to the Lesotho Opportunities Industrialisation Centre (LOIC) and other similar institutions | 9 | R 1 674 000 | R 2 376 000 | R 4 050 000 | 8 | R 832 000 | R 1 680 000 | 2512000 | R 6 562 000 |
| Study to establish Entrepreneurship Training and Development Programme within BEDCO | 6 | R 0 | R 1 000 000 | R 1 000 000 | 5 | R 2 500 000 | R 1 120 000 | 3620000 | R 4 620 000 |
| Establish a Bureau of Quality and Standards | 12 | R 5 400 000 | R 3 360 000 | R 8 760 000 | 10 | R - | R - | 0 | R 8 760 000 |
| Study and establish Decentralised Small Business Resource Centres which will also serve as Centres of Technological Excellence | 9 | R 0 | R 1 000 000 | R 1 000 000 | 9 | R 1 368 000 | R 972 000 | 2340000 | R 3 340 000 |
| Review and upgrade the Appropriate Technologies Services Centre(ATSC) and other similar institutions | 12 | R 3 600 000 | R 2 928 000 | R 6 528 000 | 10 | R - | R - | 0 | R 6 528 000 |

| | | | | | | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------------------|---------------------|---------------------|------------|---------------------|--------------------|---------------------|---------------------|
| Study and establish the Innovation Facilitation Mechanism in collaboration with LTI, NUL, and Limkokwing University | 6 | R 0 | R 1 050 000 | R 1 050 000 | 7 | R 1 512 000 | R 1 000 000 | 2512000 | R 3 562 000 |
| Study and establish an Export and Import Promotion Agency to provide economic and trade information | 6 | R 0 | R 1 080 000 | R 1 080 000 | 8 | R 2 112 000 | R 960 000 | 3072000 | R 4 152 000 |
| Provide technical assistance to strengthen coordination mechanisms and institutional capacity of investment and trade promotion agencies like LNDC, BEDCO and MTICM | 18 | R 0 | R 3 456 000 | R 3 456 000 | 25 | R - | R - | 0 | R 3 456 000 |
| Provide technical assistance to TUMU Network to undertake the monitoring and evaluation role for the IUMP implementation. | 6 | R 0 | R 1 680 000 | R 1 680 000 | 9 | R - | R - | 0 | R 1 680 000 |
| Grand Total | 135 | R 25 734 000 | R 29 678 000 | R 55 412 000 | 133 | R 10 796 000 | R 9 572 000 | R 20 368 000 | R 75 780 000 |

13.4. Annex IV: Distribution of SME Needs by Sector

| Table 7: SME Needs | | | | | | | |
|-----------------------------|-----------|------------|----------------------------|-----------------------|------------------------|---------|---------|
| SME Need | Sector | | | | | | |
| | Agro-Food | Handicraft | Leather & Leather Products | Machinery & Equipment | Processing of Minerals | Service | Textile |
| ACCOUNTING SKILLS | 0.3% | 0.3% | | | 0.7% | | 0.3% |
| ADVERTISING SKILLS | | 0.3% | | 0.3% | 0.7% | 0.3% | 1.0% |
| BORDER CONTROLS | | | 0.3% | | | | 1.0% |
| BUSINESS PREMISES | 1.6% | 0.3% | 3.3% | 0.3% | 1.0% | 1.3% | 2.3% |
| BUSINESS MANAGEMENT SKILLS | 1.0% | 0.3% | | | 0.7% | 0.3% | 1.6% |
| BUSINESS OPPORTUNITIES | 0.3% | | | | 0.3% | | |
| COMMUNICATION SERVICES | | | | | | | 0.3% |
| COMPANY REGISTRATION | | | | | 0.3% | 0.3% | |
| DESIGN SKILLS | | 0.3% | 0.3% | | | | 0.7% |
| DIVERSIFIED SUPPLIES | | | 0.7% | 0.3% | 1.3% | 0.7% | 1.6% |
| EQUIPMENT UPGRADING | 1.6% | 2.6% | 1.0% | 0.7% | 2.3% | 1.0% | 1.0% |
| EXPORT PROMOTION | | | | | | | 0.7% |
| FAIR COMPETITION | | | | | | | 1.3% |
| ACCESS TO FINANCE | 0.3% | 0.7% | | | 2.3% | 0.3% | 2.3% |
| FINANCIAL MANAGEMENT SKILLS | | | 1.0% | | 1.3% | 0.3% | 0.7% |
| FREE TRADE | | | | | | | 0.7% |
| GOVERNMENT INTERVENTION | 0.7% | | | | 1.0% | 0.7% | 1.0% |
| LICENSING REGULATIONS | | | | | | 0.3% | 0.3% |
| LOAN SECURITY | | | | 0.3% | 0.3% | 0.7% | 1.0% |
| MARKET DIVERSIFICATION | | | | | 0.7% | | 0.3% |
| MARKET EXPOSURE | 0.3% | | | | | | 0.7% |
| MARKETING SKILLS | 1.3% | | 0.7% | 0.7% | 2.0% | 1.0% | 1.3% |
| PROCUREMENT SKILLS | | | | | | 0.3% | 0.3% |
| PRODUCT CERTIFICATION | | | | | 0.3% | 0.7% | 0.3% |
| PRODUCT PROMOTION | 0.7% | | | 0.7% | 0.7% | 0.3% | 1.0% |
| ROAD INFRASTRUCTURE | 0.3% | | | 0.3% | 0.7% | | |
| SECURITY UPGRADING | | | | | 0.3% | | |
| SME ASSOCIATION | | 0.3% | 0.3% | | | 0.3% | |
| SME LINKAGES | 0.3% | | | | | | 1.0% |
| SME RESOURCE CENTRE | | 0.3% | | | | | 1.0% |
| SUPPORT INSTITUTIONS | 0.3% | | 0.3% | | 1.6% | 0.7% | 2.0% |
| TAX INCENTIVE | | | 0.3% | | | | 0.3% |
| TECHNICAL SKILLS | 1.6% | 0.3% | 0.3% | 0.3% | 4.3% | 1.0% | 4.3% |
| TRADE PERMITS | | 0.3% | | | | | 0.3% |
| TRANSPORT FACILITIES | 0.3% | 0.3% | 0.3% | 0.7% | | 1.0% | 1.0% |
| UTILITY INFRASTRUCTURE | | | | | 1.0% | | 0.3% |
| WORKSHOPS | | | | 0.3% | 0.7% | | 1.0% |

13.5. Annex V: Field Research

A questionnaire based survey was undertaken on sample of both SMEs and the Support Institutions. The main reason for the study was to get the first hand information on the state of the SMEs in Lesotho and to ascertain the impact of their development support.

Small and Medium Enterprises (SME) Research Findings

Only formally registered enterprises were included in the survey. The focus of the study was on Small and Medium enterprises (SMEs), defined in terms of the White Paper as follows.

| Table 8: Definition¹⁸ of Small and Medium Enterprise (SME) in Lesotho | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------|-----------------|
| A Small and Medium Enterprises in Lesotho is defined according to the following criteria: | | | |
| <ul style="list-style-type: none"> • The number of employees, including the owner; • The annual turnover, and • Legal structure. This includes registration under the Companies Act or with the Commissioner of Cooperatives, in the case of cooperatives. | | | |
| Enterprise | Employees (including owner) | Annual turnover | Legal Structure |
| Micro-Enterprise | Less than 5 | Less than M200,000 | Informal |
| Small Enterprise | 6 – 20 | Less than M1, 000,000 | Formal |
| Medium Enterprise | 21 to 50 | Less than M5,000,000 | Formal |

A sample of 50 manufacturing companies was selected across all the 10 districts, where available, and interviewed on a face-to-face survey basis. The following is the distribution by district of the manufacturing companies in Lesotho, according to the MTICM database, and the selected samples.

| Table 9: Sample Allocation | | |
|-----------------------------------|------------|-----------|
| District | Population | Sample |
| BEREA | 7 | 3 |
| BUTHA-BUTHE | 4 | 2 |
| LERIBE | 16 | 8 |
| MAFETENG | 4 | 2 |
| MASERU | 706 | 30 |
| MOHALESHOEK | 3 | 2 |
| MORIJA | 8 | 4 |
| QUTHING | 2 | 2 |
| Total | 744 | 50 |

A stratified simple random sampling method, with districts and sectors identified as strata, was applied to select the prescribed sample of 50 companies.

¹⁸ White Paper on Development and Promotion of Small Business (2002) and the recent MTICM review of the White Paper, in collaboration with the SMME Support Network.

Table 10: SME Sample

| Company Owner | Activity | Sector | Location | Contact Number |
|-----------------------------------|---------------------------------------|----------------------------|------------------|----------------|
| SR SELETE CALEXINA HOPOLANG | SEWING | TEXTILE | MASERU | 22312322 |
| FOSA PULANE EMMA | SEWING | TEXTILE | MASERU | 63006791 |
| MOROENG GEORGE RAMMINA | PRINTING | SERVICE | FOSA PULANE EMMA | 26 663 023 712 |
| IBRAHIM MOHAMMAD | PREPACKING SALT, VINEGAR, & ARTCHAR | SERVICE | MAPUTSOE | 22430132 |
| TJABANE MAMOJAKI VIVIAN | FASHION DESIGN & DRESSMAKING (SEWING) | TEXTILE | MASERU | 58494997 |
| SEHOBAI JOSEPH MATHESELE | MANUFACTURING OF TOMB STONES | PROCESSING OF MINERALS | MAZENOD | 63160076 |
| KOBELI AGASTHERS LETS'A | FASHION DESIGN & DRESSMAKING (SEWING) | TEXTILE | BEREA | 58914976 |
| KOJANA MAHLAMENE | SEWING & KNITTING | TEXTILE | MASERU | 59103973 |
| JONATHAN LEABUA JOSEPH | FASHION DESIGN & DRESSMAKING (SEWING) | TEXTILE | MASERU | 58991233 |
| MAKAKOLE MAILI | SEWING | TEXTILE | MASERU | 58188882 |
| SHALE MAKHOBOSO | PREPACKING | SERVICE | MASERU | 63273627 |
| MALAKA PHALI DAVID | FOOTWEAR AND TEXTILES | TEXTILE | MASERU | 58071126 |
| MALETSATSI PAULINA MOEA | SEWING | TEXTILE | MASERU | 58876887 |
| MAMOHAEKA SHEILAH LEBONA | SEWING & KNITTING | TEXTILE | MASERU | 58786976 |
| QHOMANE ADELINA MAMONAHENG | FASHION DESIGN & DRESSMAKING (SEWING) | TEXTILE | MASERU | 59152673 |
| MARELEBOHILE LIKHAMA VIOLET | SEWING | TEXTILE | MASERU | 58502027 |
| MATEBOHO MATHIBELI | LEATHER WORKS | LEATHER & LEATHER PRODUCTS | MASERU | 58901727 |
| MAKOANYANE 'MATHABO | MANUFACTURING OF BRICKS AND BLOCKS | PROCESSING OF MINERALS | MASERU | 58768717 |
| MOHAPI BELINA MATSOLOANE MALILEMO | SEWING | TEXTILE | MASERU | 58772664 |
| MAKARA MALEKHESA AGUSTINA | SEWING & KNITTING | TEXTILE | MASERU | 58795282 |
| MOHLEKOA MAMELLO FRANCIS | BUILDER AND CONTRACTOR | SERVICE | MASERU | 58434647 |
| MABUSE MOKONE | SOLAR EQUIPMENT | PROCESSING OF MINERALS | MASERU | 58014345 |
| MOLETSANE JOSHUA MAKHARILELE | MANUFACTURING OF BRICKS AND BLOCKS | | LERIBE | 63055502 |
| MOTLATSI NKOTSI | LEATHER WORKS | LEATHER & LEATHER PRODUCTS | MASERU | 58963637 |
| MPHO ALINA NCHAI | JEWELLERY | HANDICRAFT | MASERU | 58965594 |
| SEFABATHO MPOPO | LEATHER WORKS | LEATHER & LEATHER PRODUCTS | MASERU | 59433707 |
| SEKHOTHU NTHABISENG ANASTACIA | HANDICRAFTS | HANDICRAFT | MASERU | 58866803 |
| RASEPHEI MOJALEFA AND RATHEBE RAT | TANNING HIDES AND SKINS | LEATHER & LEATHER PRODUCTS | MASERU | 58866694 |

| | | | | |
|------------------------------|--------------------------------------|----------------------------|-------------|-------------|
| MOKOROSI RETHABILE | PREPACKING | AGRO-FOOD | BUTHA-BUTHE | 58740001 |
| RETSELISITSOE MABOKO | MANUFACTURING OF STEEL PRODUCTS | PROCESSING OF MINERALS | MOKHOTLONG | 63373766 |
| SEHOHOANA KAO | MANUFACTURE BREAD AND CONFECTIONERY | AGRO-FOOD | MASERU | 22321829 |
| SELIKANE ENOSE NOOSI | MANURE | SERVICE | MASERU | 26 627 003 |
| SANKOELA SEPIRITI | MANUFACTURING OF STEEL PRODUCTS | PROCESSING OF MINERALS | MASERU | 58914698 |
| THABO PHILLIP TSIMILE | CARPENTRY | SERVICE | MASERU | 58777475 |
| MOBE THATO CONSTANCIA | SEWING | TEXTILE | MASERU | 63121281 |
| PELEI TSEPO PETLANE SIMON | METAL AND CARPENTRY | PROCESSING OF MINERALS | MASERU | 58489325 |
| TSOEU JOEL MOEKETSI | SEWING & KNITTING | TEXTILE | MASERU | 58069433 |
| ZHANG HENG | BAKERY | AGRO-FOOD | LERIBE | 59076085 |
| ABEL R. MOKHACHANE | SEWING & KNITTING | TEXTILE | MASERU | 26622313066 |
| IBRAHIM MOHAMMAD | BAKERY | AGRO-DOOD | MAPUTSOE | 519243801 |
| TRONKO MAKAKANE | JEWELLERY | HANDICRAFT | MASERU | 26658489268 |
| TLATLI-TLATLI | MANUFACTURING OF BRICKS AND BLOCKS | PROCESSING OF MINERALS | MASERU | 26658857216 |
| MONOKO MOTLATSI | MNF. UNIFORM/SUITS,SHIRTS & TROUSERS | HANDICRAFT | MASERU | 2662232728 |
| MANYELI MASENAHANE MARY | SEWING & KNITTING | TEXTILE | MAFETENG | 26658756343 |
| MAMOHAEKA SHEILAH LEBONA | SEWING & KNITTING | TEXTILE | MASERU | 26658786976 |
| NCHEKE MOKHESENG SAKARIA | SEWING | TEXTILE | MASERU | 26628323315 |
| MABOLLOANE KHOTSO | MANUFACTURING OF SOAP | PROCESSING OF MINERALS | MASERU | 28322700 |
| TS'OLOANE M. ISAAC KUENANE | MANUFACTURING OF BRICKS AND BLOCKS | PROCESSING OF MINERALS | MASERU | 59458922 |
| KOLOTSANE VICTOR MALEFETSANE | LEATHER WORKS | LEATHER & LEATHER PRODUCTS | MASERU | 58493201 |

Technical Support Institutions

Table 11: Sample of Support Institution Representatives

| Institution | Respondent | Phone Number |
|--------------------------------------------------------|------------------|--------------|
| | Teisi Kabelo | 266 63426959 |
| Lesotho Chamber of Commerce and Industry | Fako Hakane | 266 22311066 |
| LRA (Customs Division) | Seithati Lepheto | 266 52215150 |
| Ministry of Home Affairs (Border Controls) | M. Ramathe | 266 58572369 |
| Ministry of Trade & Industry Cooperatives & Marketing | Lekhoee Makhathe | 266 22324094 |
| Lerotholi Polytechnic | Nkhethoa | 266 22323889 |
| SMME Support Network | Makama Masitha | 266 22326383 |
| Central bank of Lesotho | Ntee Bereng | 266 22324456 |
| Ministry of Trade & Industry Cooperatives & Marketing | M Rabotanyane | 266 22322113 |
| Department of Cooperatives | M.Lekoetje | 266 22320738 |
| Mohloli Chamber of Business | Teboho Kobeli | 266 22326498 |
| Appropriate Technology Services | Kopano Tsenoli | 266 22334539 |
| Lesotho National Development Corporation | M. Shelile | 266 22312012 |
| Private Sector Foundation of Lesotho | Thabo Qhesi | 266 22312101 |
| Lesotho Smart Partnership | Matela | 266 22311151 |
| Lesotho Tourism Development Corporation | Mamello Morojele | 266 22312238 |
| Women's Entrepreneurship Development & Gender Equality | Mahlapane Fana | 266 22321255 |
| Basotho Enterprise Development Corporation | Tseliso Molelosi | 266 22312094 |
| Department of Technology and Vocational Training | N. Ramaphiri | 266 22323317 |
| Department of Environment | L.M. Sekhamane | 266 22311767 |
| Food and Nutrition Coordinating Office | Thuso Tlhaole | 266 22323716 |
| Institute of Extra-Mural Studies | M. Lephoto | 266 22322038 |
| Lesotho Agricultural College | Motlatsi Mosaase | 266 22314265 |
| Centre for Accounting Studies | Mr Mphaka | 266 22317334 |
| NedBank Lesotho | Mr Hlalele | 26622312696 |

13.5. Annex VI: Enterprises Questionnaire

SURVEY QUESTIONNAIRE
for
Development of the National Industrial Upgrading and Modernization Programme (IUMP) in Lesotho
Ministry of Trade, and Industry Cooperatives and Marketing (MTICM)
and
United Nations Industrial Development Organisation (UNIDO)
SME AND STAKEHOLDER SURVEY 2011

Company Name: _____

Registration no.: _____

Date of interview: _____

READ TO THE RESPONDENT BEFORE CARRYING OUT THE INTERVIEW

Good _____! My name is _____. I am an Enumerator employed by the United Nations Industrial Development Organization (UNIDO) in collaboration with the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM) to gather information from randomly selected SMEs and other stakeholders with the purpose of developing a National Industrial Upgrading and Modernisation Programme (IUMP) in the country. Your company has been selected in the sample for this purpose.

The IUMP is a programme which is meant to contribute to the strengthening of industrial capacities in SADC countries to enable them to face the double-challenge of regional and world integration and improve competitiveness, thus supporting efforts of growth, employment creation, export promotion and poverty reduction.

Specifically, the Programme aims at formulating strategies for industrial competitiveness and growth by improving productivity and quality to enhance access to national, regional and international markets in the context of globalization and trade liberalization and economic diversification.

The information you will provide on the company's) activities will enable the MTICM and UNIDO consultants to identify key constraints to improve private sector competitiveness and access to regional and international markets with special focus on upgrading and modernisation of production capacity, provision of technical skills, promoting linkages, improvement of the enabling environment, compliance with international standards and product quality. As allude to above, this information will enable the Consultants to prepare a national IUMP and its Implementation Plan.

I should like to stress that all information you provide me with will always remain **strictly confidential** with UNIDO and no **individual** company information will be published.

A. DEMOGRAPHIC INFORMATION OF THE REPENDENT

1 Name of the respondent to this questionnaire: (please use capital letters)

Full Name _____ ☐ Mr. ☐ Mrs. ☐ Ms. ☐ Dr.

Nationality _____

2 Contact details:

Postal address: _____

Physical address: _____

Telephone No 1: _____ / _____ Cell phone No: _____ / _____

Fax number: _____ / _____

E-mail address: _____

Company website: _____

3 Years of experience in this company? _____

4 Years of experience in this sector? _____

5 Please indicate the highest level of education that you have completed?

- ☐ (1) No formal education (self educated)
- ☐ (2) Primary school
- ☐ (3) High school
- ☐ (3) Diploma (specify) _____
- ☐ (3) Vocational training (specify) _____
- ☐ (4) University – 1st level
- ☐ (5) University – higher level

6 Position (Please check the relevant box indicating your position within the company)

- ☐ (1) Chairman, Managing Director or Owner
- ☐ (2) Director, Company Secretary
- ☐ (3) Senior Manager (except financial)
- ☐ (4) Chief accountant, Financial Manager _____
- ☐ (5) Other, please specify _____

B. COMPANY PROFILE

7 Registered name of Company: _____

8 Sector in which the Company falls: _____

9 Specify the type of your business undertaking.

- ☐ (1) Sole proprietor
- ☐ (2) Private company
- ☐ (3) Public company
- ☐ (4) Other (specify): _____

10 Location of the Company. District: _____ Town/Village: _____

- ☐ (1) Urban area
- ☐ (2) Peri-urban area
- ☐ (3) Rural area

11 Years the Company has been operating in this sector: _____

C. MANAGEMENT CAPACITY

12 How many people does your company employ (including yourself)?

Permanent _____ Temporary: _____

Family members _____ Other _____

13 What is the staffing situation of your company?

| | Understaffed | Adequately staffed | Overstaffed |
|----------------------------------------|--------------------------|--------------------------|--------------------------|
| Staffing situation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| If understaffed, state the reason why? | _____ | | |

14 Do your staff members have the right technical skills for the job? ☐ (1) YES ☐ (2) NO

15 What is the preferred skill-mix for your company (type of skill and number of qualified staff required e.g. 2 carpenters etc)

16 Are the skills you need offered by local training institutions? ☐ (1) YES ☐ (2) NO

17 Do you use enterprise management and/or accounting software?

| YES (1) | NO (2) | If so, which ones? If not why? |
|--------------------------|--------------------------|--------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

18 What do you consider as management strengths and weaknesses of your company?

| | Strength | Weakness |
|-----------------------------------|--------------------------|--------------------------|
| (1) Financial management | <input type="checkbox"/> | <input type="checkbox"/> |
| (2) Human resource management | <input type="checkbox"/> | <input type="checkbox"/> |
| (3) Production management | <input type="checkbox"/> | <input type="checkbox"/> |
| (4) Marketing | <input type="checkbox"/> | <input type="checkbox"/> |
| (5) Procurement | <input type="checkbox"/> | <input type="checkbox"/> |
| (6) Customer relations management | <input type="checkbox"/> | <input type="checkbox"/> |
| (7) Other (specify) | | |

19 What critical assistance would you need to improve your management capacity and skills?

D. PRODUCTION CAPACITY

20 Are you satisfied with the performance of your plant/equipment? (e.g. no frequent break-downs)

| YES (1) | NO (2) | If No, why? How old is it? (no. Of years) |
|--------------------------|--------------------------|-------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

21 What are the technical/technological strengths/weaknesses of your plant?

Strengths: _____

Weaknesses: _____

22 Does your plant need any upgrading?

| YES (1) | NO (2) | If Yes, what kind of upgrading? | |
|--------------------------|--------------------------|----------------------------------------------|-------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | (1) <input type="checkbox"/> Partial upgrade | (2) <input type="checkbox"/> Full upgrade |

If Yes, explain in full details the nature of upgrading you need: _____

23 Is your plant fully utilised or underutilised? (1) ☐ Fully utilised ☐ (2) underutilised

If fully utilised, what are the reasons for not expanding? _____

If underutilised what are the reasons? _____

24 Are your production costs high? (1) ☐ YES ☐ (2) NO

If so, what are the reasons?

- (1) ☐ High input costs
- (2) ☐ High transport costs
- (3) ☐ High labour costs

- (4) ☐ High utility costs
 (5) ☐ Other(Specify) _____

25 Do you think the company you are in has the potential to grow? (1) ☐ YES ☐ (2) NO

26 What factors do you think would drive its growth?

- (1) ☐ Upgrading of plant/equipment
 (2) ☐ Low cost inputs
 (3) ☐ Low utility costs
 (4) ☐ Labour productivity
 (5) Lower wages
 (6) ☐ Other(Specify) _____

27 What is the critical form of assistance would you need to improve the production capacity of your company? -

E. PRODUCT COMPETITIVENESS

28 How many products does your company sell?

- (1) ☐ One product
 (2) ☐ two products
 (3) ☐ more than two

29 Is/are your product(s) selling well?

| YES (1) | NO (2) | Specify reasons for selling well | Specify reasons for not selling well |
|--------------------------|--------------------------|----------------------------------|--------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | _____ | _____ |

30 Do you have competition? ☐ (1) YES ☐ (2) NO

31 What inputs do you use? _____

32 Where do you source your inputs?

- (1) ☐ Locally
 (2) ☐ Within SADC region (specify country (s)) _____
 (3) ☐ Rest of the world

33 Are your input costs low or high?

| Low (1) | High (2) | If high, what are the constraints for not finding low cost inputs |
|--------------------------|--------------------------|-------------------------------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | _____ |

34 Is the quality of your product(s) certified by any international standards organisation (eg SABS)?

| YES (1) | No (2) | If so, specify. If no, why? |
|--------------------------|--------------------------|-----------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | _____ |

35 Are there local business service support institutions helping your company to achieve the standards and product quality you require (e.g. BEDCO)?

| | | |
|--------------------------|--------------------------|---------------------------------------------|
| | | If so |
| YES (1) | No (2) | Which are they? _____ |
| <input type="checkbox"/> | <input type="checkbox"/> | What assistance do you get from them? _____ |

36 What are the competitive advantages of your product(s)?

Strengths: _____

Weaknesses: _____

37 What critical assistance would you need to improve the competitiveness of your product(s)?

F. MARKETING CAPACITY AND MARKET ACCESS

38 Where do you sell your product(s)?

- (1) ☐ locally
 (2) ☐ regionally (within SACU/SADC)
 (3) ☐ internationally
 (4) ☐ in all of the above

39 Do you sell your products to Government?

| | | |
|--------------------------|--------------------------|-----------------------------------------------------|
| YES (1) | No (2) | If not, why is Government not buying your products? |
| <input type="checkbox"/> | <input type="checkbox"/> | _____ |

40 Do you know Government procurement procedures? ☐ (1) YES ☐ (2) NO

41 Are you satisfied with Government procurement procedures for SME supplied products?

| | | |
|--------------------------|--------------------------|------------------------------------------------------------------------------------|
| YES (1) | No (2) | If not, how do you think the procedures can be improved for SME supplied products? |
| <input type="checkbox"/> | <input type="checkbox"/> | _____ |

42 If you sell only locally, would you like to sell regionally and internationally?

| | | |
|--------------------------|--------------------------|-------------|
| YES (1) | No (2) | If no, why? |
| <input type="checkbox"/> | <input type="checkbox"/> | _____ |

43 Do you advertise your product(s)?

| | | | |
|--------------------------|--------------------------|----------------------------------------|---------------------------------------------------------|
| YES (1) | NO (2) | If Yes, which media do you use? | If No, what are the reasons for not advertising? |
| <input type="checkbox"/> | <input type="checkbox"/> | _____ | _____ |

44 Do you know about the preferential trade access that Lesotho has to the EU and US markets?

| YES (1) | No (2) | If Yes, are you taking (or would you like to take) advantage of these preferences? |
|--------------------------|--------------------------|------------------------------------------------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

45 What incentives do you think government can provide to your company to access regional and international markets?

- (1) ☐ removal of trade barriers
- (2) ☐ simplifying border controls
- (3) Simplify customs procedures
- (4) Tax incentives
- (5) Export subsidy
- (6) ☐ other (specify) _____

46 What policies do you think government should introduce to enhance access of your product(s) to other markets (s)?

47 What other critical assistance would you want to improve market access of your product(s) regionally/ internationally?

G. INFRASTRUCTURE

48 Are you satisfied with the area and building(s) you are operating from?

| YES (1) | No (2) | If No, why? |
|--------------------------|--------------------------|-------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

49 Are you renting or owner of the premises? ☐ (1) YES ☐ (2) NO

50 Would you prefer a different area and building?

| YES (1) | No (2) | If so, specify |
|--------------------------|--------------------------|----------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

51 Do you have adequate water?

| YES (1) | No (2) | If No, specify the reasons |
|--------------------------|--------------------------|----------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

52 Do you have adequate electricity?

| YES (1) | No (2) | If No, specify the reasons |
|--------------------------|--------------------------|----------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

53 Do you have adequate telephone?

| | | |
|--------------------------|--------------------------|----------------------------|
| YES (1) | No (2) | If No, specify the reasons |
| <input type="checkbox"/> | <input type="checkbox"/> | |

54 Do you find the cost of utilities high? ☐ (1) YES ☐ (2) NO

55 Do you know any cost-saving devices for electricity? ☐ (1) YES ☐ (2) NO

If yes, do you have them?

| | | |
|--------------------------|--------------------------|-----------------------------------------------------------|
| YES (1) | No (2) | If Yes, which ones do you use? If no why don't have them? |
| <input type="checkbox"/> | <input type="checkbox"/> | |

56 Do you know any cost-saving devices for water? (1) YES ☐ (2) NO

If yes, do you have them?

| | | |
|--------------------------|--------------------------|-----------------------------------------------------------|
| YES (1) | No (2) | If Yes, which ones do you use? If no why don't have them? |
| <input type="checkbox"/> | <input type="checkbox"/> | |

57 Do you know or have any cost-saving devices for telephone? (1) YES ☐ (2) NO

If yes, do you have them?

| | | |
|--------------------------|--------------------------|-----------------------------------------------------------|
| YES (1) | No (2) | If Yes, which ones do you use? If no why don't have them? |
| <input type="checkbox"/> | <input type="checkbox"/> | |

58 Do you use the internet?

| | | |
|--------------------------|--------------------------|--------------------------------------------------------------------------|
| YES (1) | No (2) | If Yes, is the internet bandwidth adequate and is the cost high or low ? |
| <input type="checkbox"/> | <input type="checkbox"/> | |

59 What is the condition of the road to your plant? ☐ (1) Good ☐ (2) Bad

60 Do you prefer road/ rail/air transport?

| | |
|---------------------------------------------|------------------------------|
| | Give reasons in relevant box |
| I1) <input type="checkbox"/> Road transport | |
| I2) <input type="checkbox"/> Rail transport | |
| I3) <input type="checkbox"/> Air transport | |

61 What critical assistance would you want to improve the infrastructure that supports your company?

H. LOGISTICS

62 Do you have your own transport or do you hire? ☐ (1) Own ☐ (2) High

63 How do you rate your transport costs?

| | | |
|--------------------------|--------------------------|----------------------------------------|
| High (1) | Low (2) | If High, what do you do to lower them? |
| <input type="checkbox"/> | <input type="checkbox"/> | |

| | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | |
|--------------------------|--------------------------|--|

64 Which of the following services do you think need serious improvement/simplification?

- (1) ☐ company registration (explain) _____
- (2) ☐ Company licensing (explain) _____
- (3) ☐ VISAS (explain) _____
- (4) ☐ import/export permits (explain) _____
- (5) ☐ Other (specify) _____

65 Do you think customs clearance procedures are too burdensome for your business?

| Yes (1) | No (2) | If so, what do you think should be done to simplify them? |
|--------------------------|--------------------------|-----------------------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

66 Do border-post immigration procedures affect your business negatively?

| Yes (1) | No (2) | If so, and what do you suggest can be done to improve them ? |
|--------------------------|--------------------------|--------------------------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

67 What critical logistical services do you need to improve the competitiveness of your company?

I. VALUE CHAIN AND LINKAGES

68 Is your company's product(s) used by other companies as input(s)?

| Yes (1) | No (2) | If so, which companies use your products as inputs? |
|--------------------------|--------------------------|-----------------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

If so, are those companies local, regional or international?

- (1) ☐ local
- (2) ☐ regional (specify country(s)) _____
- (3) ☐ international (specify country(s)) _____

69 Which companies do you source from?

- (1) ☐ local: Company(s) _____
- (2) ☐ regional: Company(s) _____ Country(s) _____
- (3) ☐ international: Company(s) _____ Country(s) _____

70 If your product has the potential to be used by other companies but they do not use it what could be the reasons?

71 Do you outsource from other companies locally, regional/internationally? ☐ (1) Yes ☐ (2) No

If yes, specify

- (1) ☐ locally
(2) ☐ regionally
(3) ☐ internationally

72 Do other local, regional/international companies outsource your company? ☐ (1) Yes ☐ (2) No

If yes, specify

- (1) ☐ local companies
(2) ☐ regional companies
(3) ☐ international companies

73 Do you have the potential to outsource to other companies?

| Yes (1) | No (2) | explain |
|--------------------------|--------------------------|---------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

74 Do you have the potential to be outsourced?

| Yes (1) | No (2) | explain |
|--------------------------|--------------------------|---------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

75 What assistance can be provided to enhance linkages between SMEs and big companies in Lesotho?

J. PRIORITY INDUSTRY RANKING

76 What has been the average profitability growth of your company in the past two years? _____% growth)

77 How many people does your company employ? _____

78 Does it have capacity/potential to employ more?

| Yes (1) | No (2) | Give reasons |
|--------------------------|--------------------------|--------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

79 Does your company export?

| Yes (1) | No (2) | If so, what % of production is exported? |
|--------------------------|--------------------------|------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

80 Does your company have potential to export more in the next 2 years?

Explain: _____

81 Does your company need any foreign direct investment in the following forms?

- (1) ☐ Joint venture Estimate how much _____
- (2) ☐ Equity participation Estimate how much _____

K. ACCESS TO FINANCE

82 Does your company have bank loans?

| Yes (1) | No (2) | If Yes, how much % is Short term or Long term? |
|--------------------------|--------------------------|------------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

83 Is part of your company capital in the of a bank loan?

| Yes (1) | No (2) | If Yes, how much %? If No, what are your sources of capital? |
|--------------------------|--------------------------|--------------------------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

84 Do you think local banks are difficult to provide loans to SMEs? (If Yes, why?)

85 What do think you could be the weaknesses of SMEs to access bank financing in Lesotho?

86 What do you think could be done by SMEs and banks to improve access to bank financing?

87 What critical assistance could be provided by government and donors to improve SMEs access to bank credit in Lesotho?

L. BUSINESS ASSOCIATIONS

88 Is your company affiliated to any local, regional/international business association?

| YES (1) | NO (2) | If Yes, specify the reason for affiliation. | If No, why not? |
|--------------------------|--------------------------|---------------------------------------------|-----------------|
| <input type="checkbox"/> | <input type="checkbox"/> | | |

89 What business support and development services does your business association provide?

90 Does it have the capacity to provide those services?

| Yes (1) | No (2) | If not why? |
|--------------------------|--------------------------|-------------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

91 Is the business association you are affiliated to delivering as expected?

| Yes (1) | No (2) | explain |
|--------------------------|--------------------------|---------|
| <input type="checkbox"/> | <input type="checkbox"/> | |

92 What other critical services would you like your business association to provide your company with? Specify

13.6. Annex VII: Support Institutions Questionnaire

1. What is your core business?
2. Does your organisation contribute in any manner to the support and development of SMEs in Lesotho – Please specify
3. In your area(s) of support to SMEs what do you consider as the most important challenge(s) facing SMEs in Lesotho?
4. In your area(s) of support to SMEs what action(s) have you taken to address these challenge(s)?
5. Do you have adequate management capacity in your area(s) of support to SMEs?
6. Do you have adequate financial capacity in area(s) of support to SMEs?
7. Do you have adequate technical skills in your area(s) of support to SMEs?
8. What do you consider as your strength(s) in your area(s) of support to SMEs?
9. What do you consider as your weakness(s) in your area(s) of support to SMEs?
10. Do you work in collaboration with other organisation(s) in your area(s) of support to SMEs?
11. If so, which are they? And how do you work together?
12. Is your collaboration weak or strong?
13. If weak, how can it be strengthened?
14. How many SMEs do you currently support?
15. Are they satisfied with your service? If not, why?
16. What area(s) of your support to SMEs would you need any assistance to improve/strengthen your capacity to deliver?
17. In your opinion, what do you think is/are the critical challenges facing SMEs support and development in Lesotho?