

# Issues and Constraints of SME Financing and Support – Lesotho

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Basotho Enterprises Development Corporation  
— we grow business —

[www.bedco.org.ls](http://www.bedco.org.ls)

# Lesotho Data



Factor	Measure
Currency	Packed 1: 1 to Rand (LSL –ZAR)
GDP Annual growth rate	4.4 %
GDP per capita	978 USD
Unemployment rate	25.3 %
Population	2.07 million
Balance of Trade	-2595 LSL million
Competitiveness Rank	107
Corruption Rank	55
Taxation	25% Corporation; 35% Personal
Credit rating	15

# OVERVIEW OF MSME SECTOR

Lesotho's enterprises profile is as follows: micro (65 per cent), small (20 per cent), medium (12 per cent) and large (3 per cent) (APRM Report, 2010).

Of these enterprises, 75 per cent are in services, 24 per cent in manufacturing and 1 per cent in primary industry.

Enterprise ownership was reported as the Basotho owning 69.4 per cent, with Asians owning 16.5 per cent, South Africans 5.9 per cent and others 8.2 per cent. MSMEs provide between 70-80% of formal jobs

# Development agencies landscape

	Mandate	MSME Finance activities
National Development Corporation (LNDC)	Brought mandate which include IPA, Domestic Investment Promotion etc..	MSME through banks gives access to Partial Credit Guarantee Scheme products such as taking equity, chain financing being finalized. Discussions with BEDCO to provide support to MSMEs is being finalised
Enterprise Development Corporation (BEDCO)	Provide programmes for promotion and development of enterprises e.g. incubation, linkages, clustering, capacity building (training, coaching, mentorship), advisory etc.	No funding however assisting clients in developing plans, cost efficient advisory(capital structures); MoU with LNDC and banks being prepared for micro financing
Tourism Development Corporation (LTDC)	Promotion and Development of Tourism sector	No funding, however bigger projects dealt with LNDC for infrastructure exists
Housing & Land Development Corporation (LHLDC)	Acquisition and development of land	No funding and currently not in commercial area, rather, residential
Post Bank (LPB)	Bank to unbankable, promotion of financial inclusion <a href="http://www.bedco.org.ls">www.bedco.org.ls</a>	Funding to MSMEs. Discussions with BEDCO going on for MoU

# BEDCO BUSINESS MODEL

## Innovation Research

### BEDCO Interventions

#### Access to Finance

- Development Finance Institute
- Small Enterprises Finance Agency
- Bedco Partial Credit Guarantee Scheme
- Corporate Enterprise Development Investment

#### Access to workspace

- BEDCO Incubation Centres
- Commercial space for commercial tenancy
- BEDCO factory shells for MSMEs

#### Access to Markets

- Domestic flea markets
- Domestic agricultural shows & trade fairs
- Regional craft & agric trade fairs & exhibitions
- Negotiations with retail stores to buy local produce

#### Access to Equipment

- Acquisition of equipment for high quality
- Synergies with Appropriate Technology Services
- Equipment Leasing

#### Capacity-building

- Echorise Mohebi Modules
- Business Coaching & Mentorship
- Business Advice Services
- Consultants' learnerships and internships

Agricultural & Food Innovation Research

Textiles Innovation Research

Technological Innovation Research

Creative Industries Innovation Research

Woodwork & Carpentry Innovation Research

End-to-end Incubation Services

Carpentry Incubation Centre Maseru  
 Textile Incubation Centre Teyateyaneng  
 Carpentry Incubation Centre Mafeteng  
 Carpentry Incubation Centre Hlotse

Sustainable enterprises that contribute towards economic growth of Lesotho

BEDCO incubatees having space where they operate

Products for entrepreneurs sold to national, regional and international markets

Quality production through efficient machinery

Skilled entrepreneurs able to start, run and grow their businesses

### Iketsetse

#### AGRO-BUSINESS

- Dry fruits (manganga-jane)
- Dry vegetables
- Bee honey
- Tomatoes
- Potatoes
- Cabbage
- Meat
- Cheese
- Milk products
- Food catering

#### TEXTILES

- Dress-making & design
- Sewing
- Embroidery

#### TECHNOLOGY

- Creativity using simple technology
- Using used material to reproduce
- Leveraging with facebook, twitter & Whatsapp to produce
- Innovation Park

#### ARTS & CRAFTS

- Basotho hat
- Baskets
- Washing basket made of grass
- Pottery
- Animation
- Mosaic products
- Jewelry products

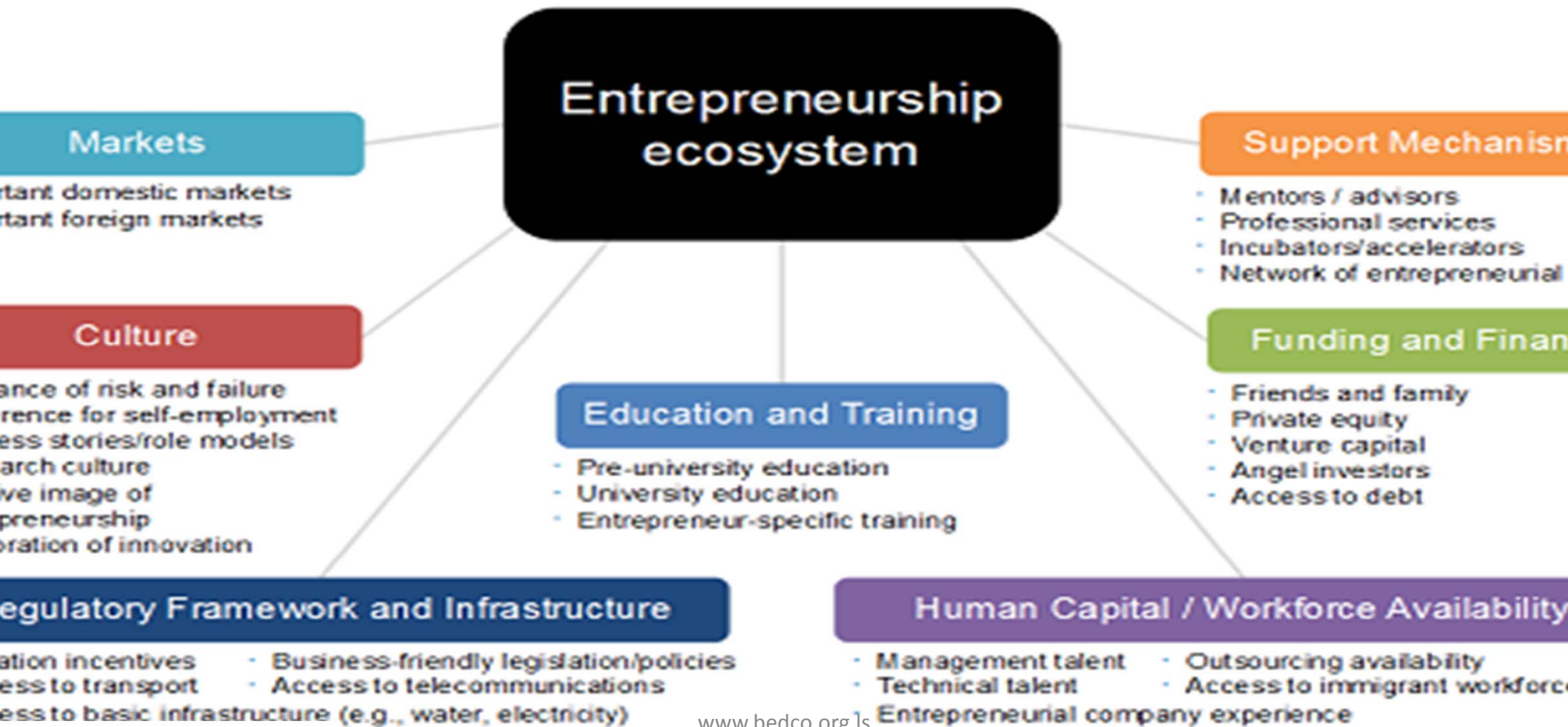
#### WOODWORK

- Tables
- Wardrobes
- Book shelves
- Office furniture
- Floor Tyles

## Development Research

# Ecosystem for Entrepreneurship

The existence or non-existence of these seven components may impact the ability of your country to grow in a sustained way in the next 3 to 5 years:



# FUNDING ISSUES & CONSTRAINTS

## Availability:

- There is insufficient financing/funding, as institutions available for funding MSMEs are commercial banks. Other financing instruments or sources such as private equity in any form e.g. venture are not yet developed. LNDC is developing equity funding product. Capital Market will start with OTC services. The project is lead by CBL, this vehicle will however not be of use MSMEs
- Banks currently offer working capital financing or medium term loans which are insufficient for long- term projects
- The leasing law is available however there are still issues that regard regulation, and the leasing business and financing through leasing has to be promoted. BEDCO has started equipment/tools leasing; discussions going on with Indian NSIC for more support

## Risk:

- The banks do due diligence, and because insufficient information, they tend to reject most loan requirements or overprice them, leading to higher default rate based on cost of capital. The poor collateral does not always help in reducing pricing. Currently collateral is on immovable assets e.g. land, work is being done to amend the laws to consider movable assets for mortgaging.
- Partial Credit Guarantee schemes by LNDC and Ministry of Finance are available. While they may promote lending, but they come at the end, when failure occurs, and not available to MSME to start business at low cost e.g. grants, low interest loans etc..
- National University of Lesotho is developing Innovation Fund which could go into minimizing risk
- Default rates are high due to unlinked entrepreneurial support which includes mentorship etc.

# ISSUES & Constraints

MSME is faced with the following constraints

Inability to provide sufficient information for financiers to do fair due diligence, and this could be because he/she is start-up, or cost of service providers to assist in collating information is too high

Pricing which includes the fees drive the cost of business very high

It is very difficult to obtain collateral, even Partial Credit Guarantees may be insufficient for merely being 'Partial'. Ministry of Finance has increased Guarantee to 70% for start-ups of young people. The Scheme (funds) are limited hence competition

A business plan still has to be bankable on its own, this may not reduce the price or the amount of guarantee (especially on green fields)

Regulators of the bank in terms of reserves may force banks to put a bigger rationing on lending on much less risky loans (Non-MSME)



# Lesotho approach to improving MSMEs ending

Increased Enterprise development – a role played by BEDCO, this will assist MSMEs in keeping right information for due diligence, capacity building, undergoing incubation, mentorship to minimize failure, developing linkages, providing finance and market advisory services to grow businesses and minimize default. With linked schemes e.g. MoU between BEDCO and Lenders the above will be achieved (MoU of BEDCO with funders such as LNDC, Ministry of Finance, Lesotho Post Bank etc.)

Increased development finance products - LNDC addressing working capital and equity financing, as well as Lesotho Post Bank developing short to medium term products

Continued Partial Credit Guarantee schemes, increasing guarantee percentage.

Current developments for credit management e.g. Credit Reporting, Credit Bureau

Innovation fund to fund costly R&D costs

Commercial banks are developing products for MSMEs

Micro financing introduced and promoted

# Obrigado

