



# FinScope

*Micro, Small and  
Medium Enterprises  
(MSME) survey  
highlights*

## Lesotho 2023



**CAFI**  
Competitiveness And  
Financial Inclusion Project

**FMT2**  
FINMARK TRUST

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

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## *Partnering for MSME development*

FinScope MSME Lesotho was designed to involve a range of stakeholders engaging in a comprehensive consultation process. This enriches the survey and ensures appropriateness and stakeholder buy-in.

The Ministry of Finance and Development Planning chaired the steering committee which comprised the Ministry of Trade, Industry and Business Development, the Central Bank of Lesotho (CBL), Bureau of Statistics (BOS), Basotho Enterprise Development Corporation (BEDCO), United Nations Development Program (UNDP) with expert technical assistance and project management from FinMark Trust. The data was collected by Advision with statistical oversight (sampling and weighting) and data collection quality control from FinMark Trust and Bureau of Statistics (BOS).

This survey was financed by the European Union, the SADC Secretariat and the World Bank Group, (CAFI Project).

### *Funded by*



**WORLD BANK GROUP**

Five Institutions, One Group



**CAFI**

Competitiveness And  
Financial Inclusion Project

### *Chaired by*



**MINISTRY OF FINANCE**

### *The cover*



The cover features the Lesotho National flower which symbolizes growth and development while the circle represents inclusive growth. The petals of the flower symbolize the various stakeholders engaged with a common vision – financial inclusion for a broader national growth and development.

### *Introduction*

The Government of Lesotho (GoL) has identified financial sector development and financial inclusion as one of the key policy objectives. Financial inclusion and access to finance are an explicit component of this objective as guided by the National Strategic Development Plan II. The Government, through the Ministry of Finance and Development Planning and the Central Bank of Lesotho, have over the years implemented several financial sector programmes and reforms. The country has made strides in attaining financial inclusion levels, and these have been possible through the technical and financial assistance from the development partners.

This repeat study aims to provide an in-depth examination of the financial landscape for MSMEs in Lesotho. Building on the previous 2016 survey, this study delves into critical areas such as the adoption of financial technologies, the effectiveness of financial inclusion initiatives, and the suitability of financial products and services in meeting the needs of MSMEs. The survey also investigates the penetration of financial services, preferences for various financial products, and the impact of COVID-19 on businesses.

The insights presented herein are intended to inform evidence-based policy decisions strategic interventions, identify gaps in financial access, and measure progress in financial inclusion of MSMEs in Lesotho.

### *Methodology*

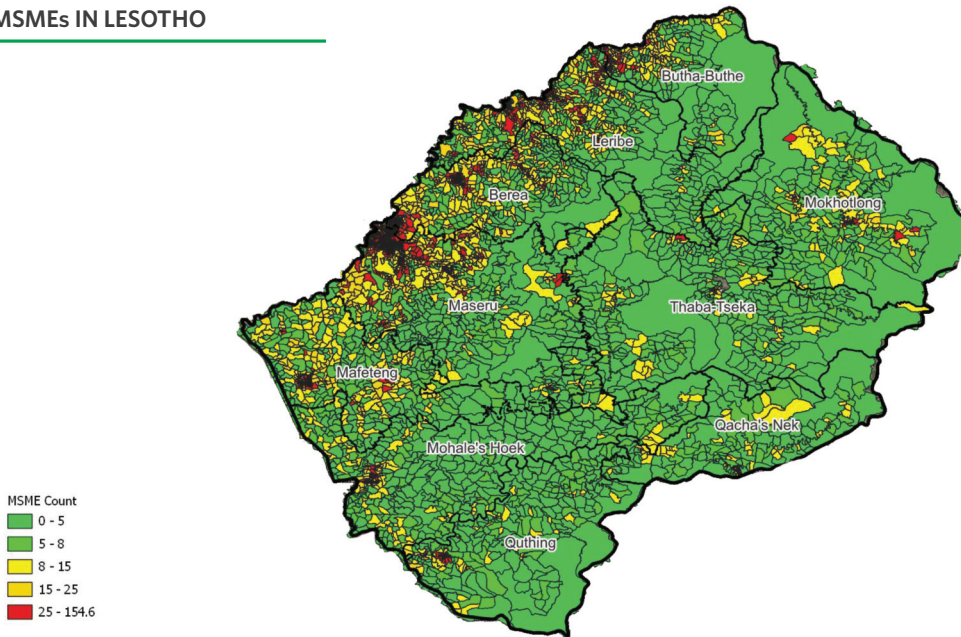
The FinScope MSME Survey Lesotho 2023 was conducted with a sample of 2430 adult business owners who were selected at the enumeration area level across the country. The sample for the survey was designed BOS and FMT and had the following characteristics:

- 18 years or older
- Consider themselves to be business owners/ generating an income through small business activities
- Employing no more than 50 employees
- National, regional and urban/rural representative sample

### *Survey objectives*

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

## GEOSPATIAL DISTRIBUTION OF MSMEs IN LESOTHO



Using geospatial modelling, the distribution of MSMEs is concentrated in the central business districts in towns, mainly Maseru, Berea and Leribe. Other areas indicate commercial activity close to border posts.

The sample was intentionally biased towards businesses in the small and medium-sized categories as these were under-represented in the data in the past survey.

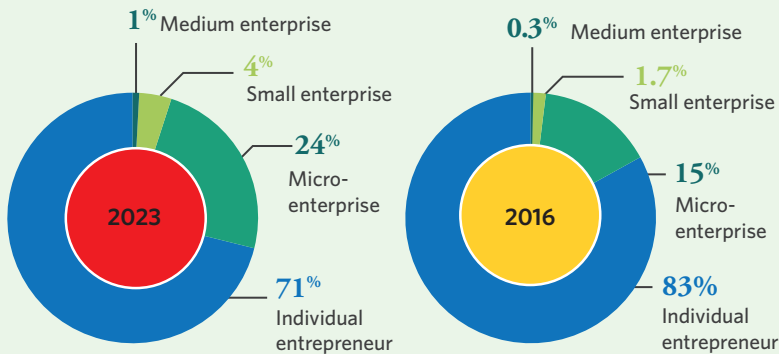
The sample aimed to cover various sectors, gender and formal enterprises. This was corrected in the weighting to simulate the listing distribution.

## BUSINESS DEFINITION BY THE NUMBER OF EMPLOYEES

*MSME size differs within sector or sub-sectors, to generalise the findings the following simplified classifications were applied to all sectors:*



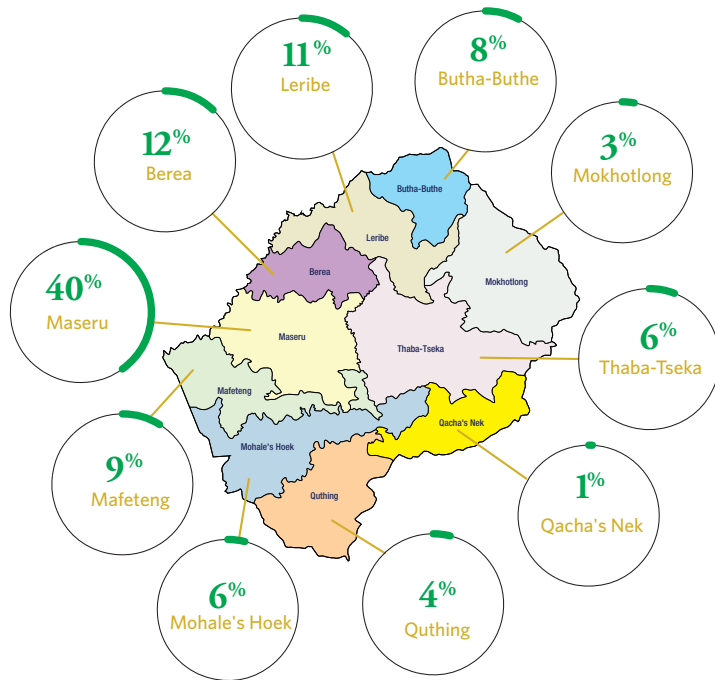
*NB: Micro, Small and Medium Enterprises Policy for Lesotho defines MSME on a combination of total employees, including annual turnover and legal structure.*



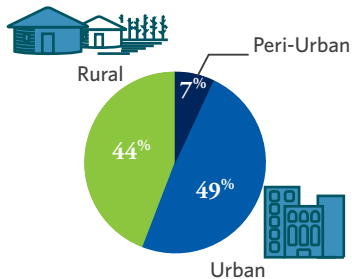
There is a shift from individual entrepreneurs towards more organised business structures, with a significant growth in micro enterprises and smaller increases in small and medium enterprises.

## MSME SECTOR BY LOCATION AND GENDER

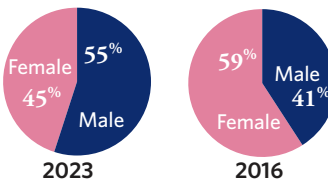
### *Distribution of businesses by district*



### *MSME by area*



### *MSME owner by gender*

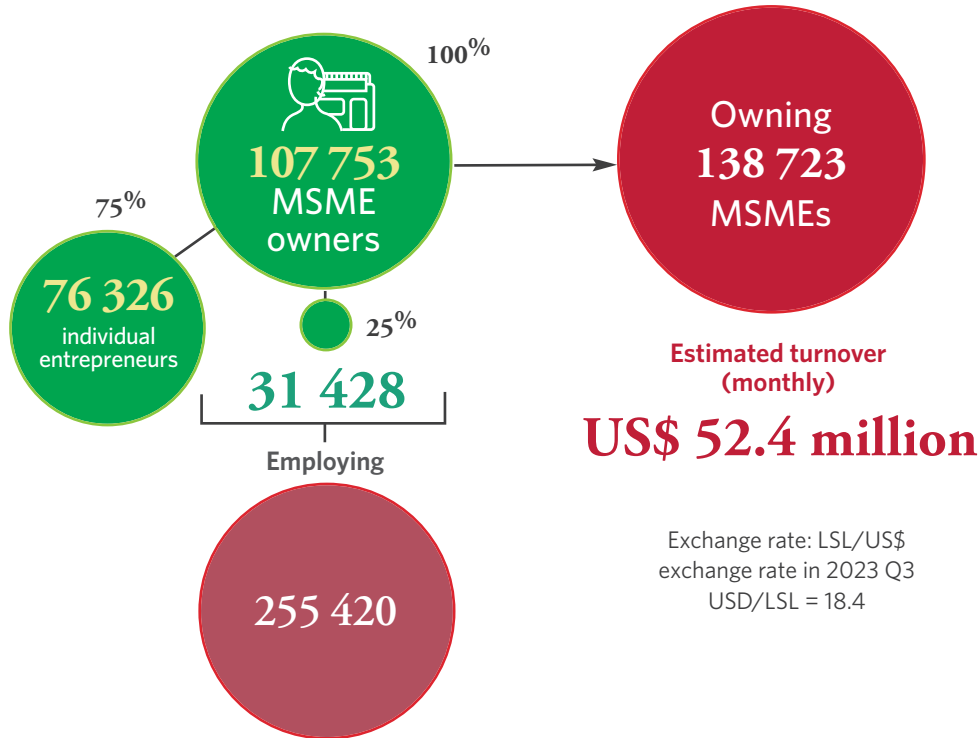


Looking at gender, a higher proportion of females reside in urban areas (55%) compared to males (45%). The Maseru district continues to lead, with 40% of total business owners residing in this area.

## SIZE AND SCOPE OF THE MSME SECTOR

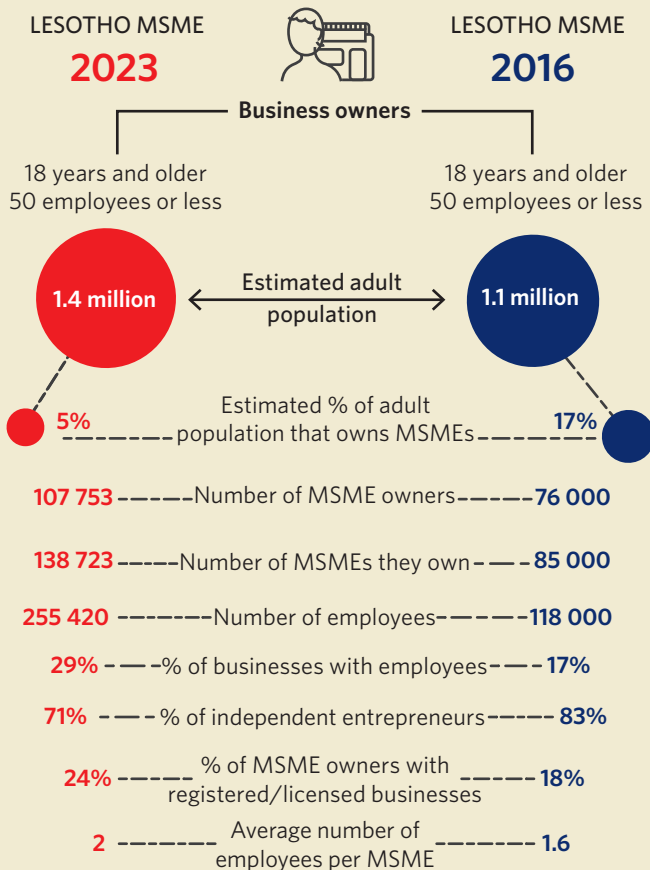
### 363 174 people work in the sector

(this number includes 76 326 individual entrepreneurs and 31 428 other business owners with 255 420 employees)



(including all full-time, part-time, seasonal and business owners who consider themselves as employed by the business)

## SIZE AND SCOPE OF THE MSME SECTOR

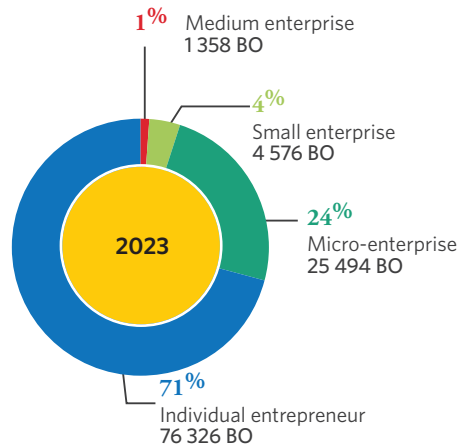
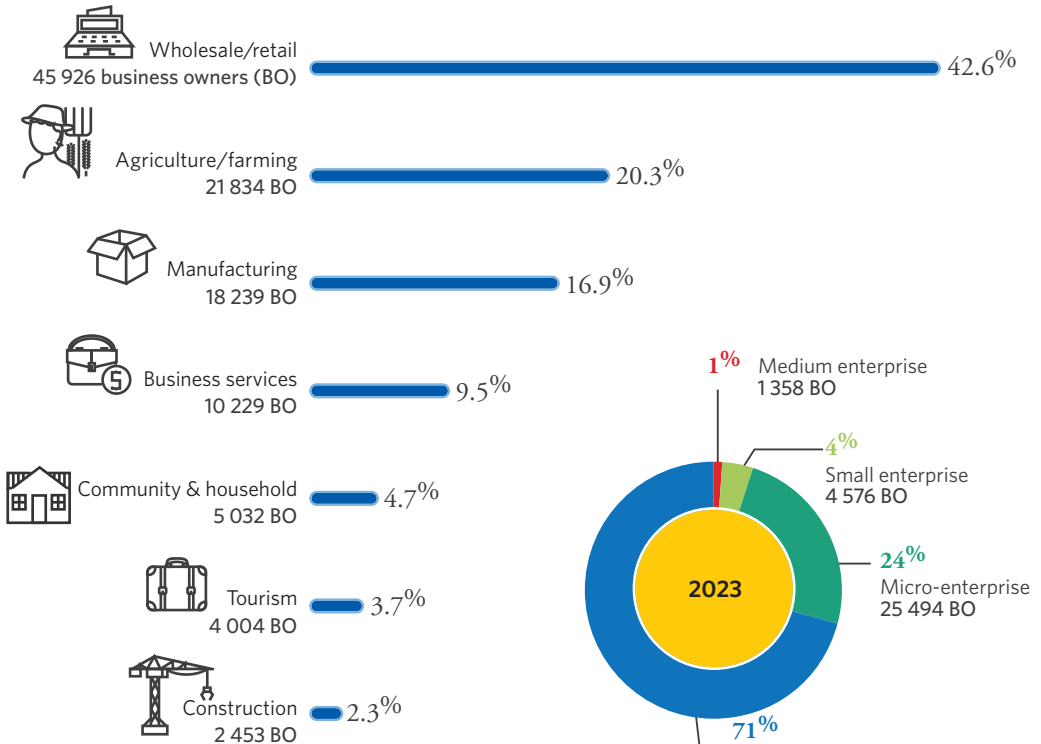




## SIZE AND SECTORIAL DISTRIBUTION OF THE MSME SECTOR



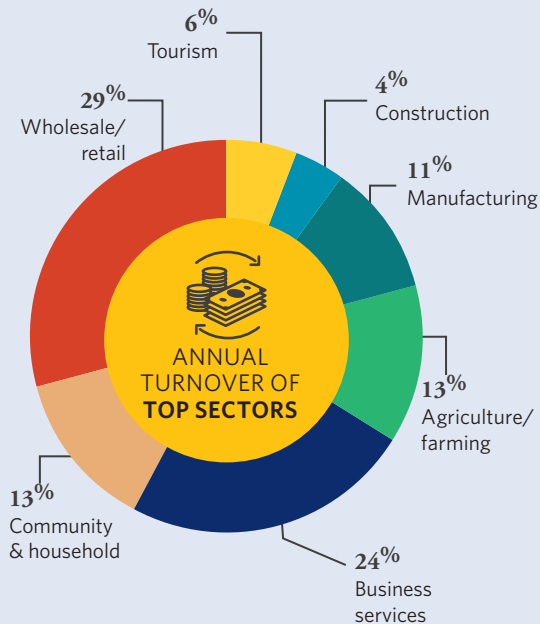
### Sector by Main Activity or Service



## MSME TURNOVER BY SECTOR

	TOTAL MONTHLY TURNOVER (US\$)	MEAN MONTHLY TURNOVER (US\$)
Wholesale/retail	14.9 million	326
Agriculture/farming	12.7 million	602
Community & household	7 million	1 481
Business services	6.9 million	682
Manufacturing	5.8 million	320
Tourism	3.1 million	785
Construction	1.8 million	751

*MSME Turnover by Sector*



Total MSME Profit  
(value addition):



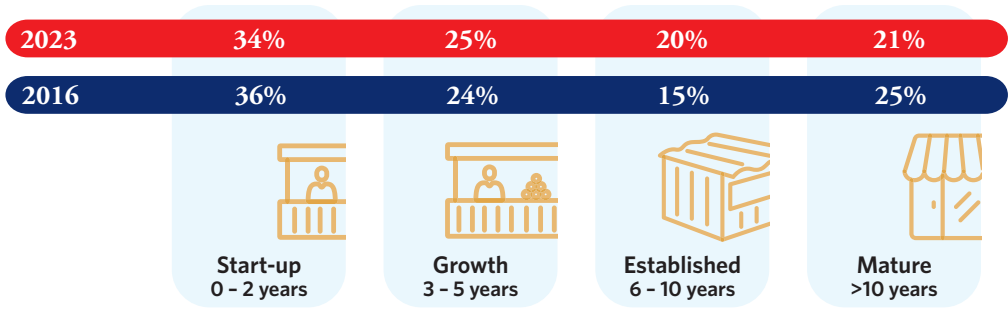
**US\$  
26 million**

*Value addition was calculated using the sum of turnover less the sum of expenses of the sector.*



## Business Age

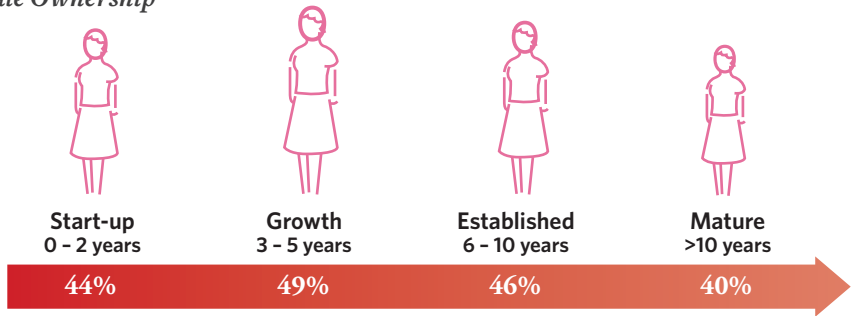
## BUSINESS LIFE CYCLE



The proportion of MSMEs in the start-up phase has decreased slightly, while the growth phase has remained stable. There has been a notable increase in the established phase and a decrease in more mature businesses.



## Female Ownership

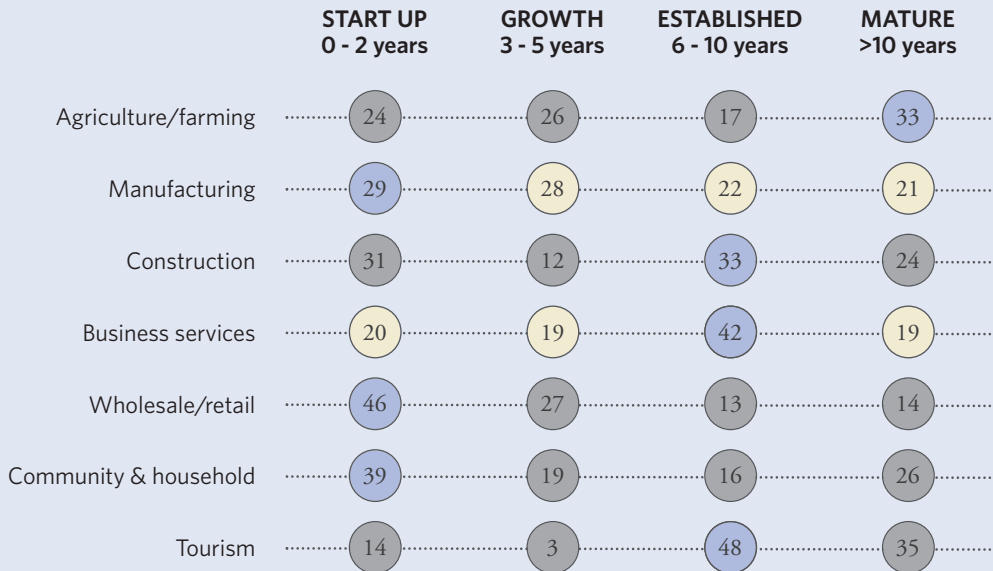


The proportion of female business owners increases as the firm progresses through the business lifecycle, but it declines in the mature phase.






## BUSINESS LIFECYCLE (BUSINESS AGE)

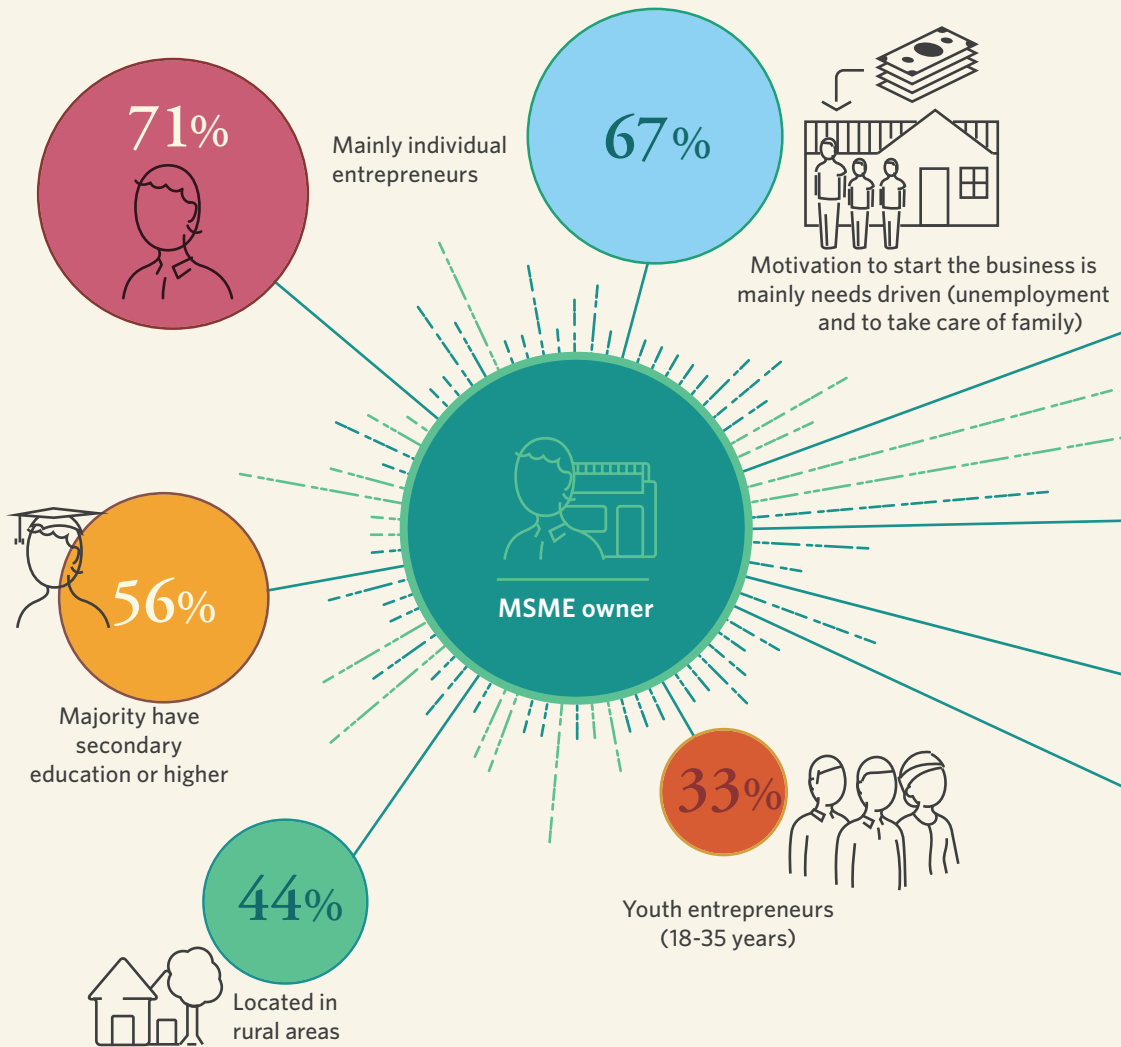
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*By sector*



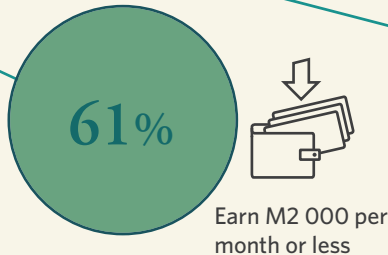
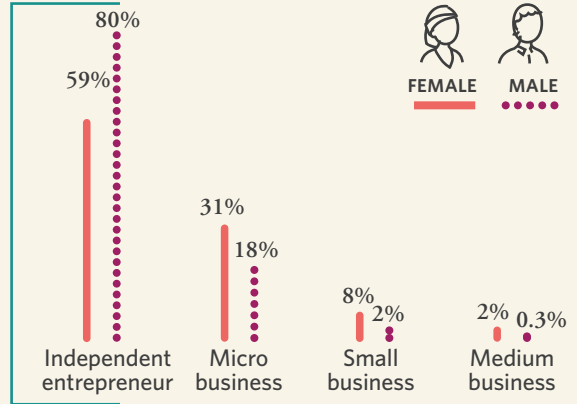
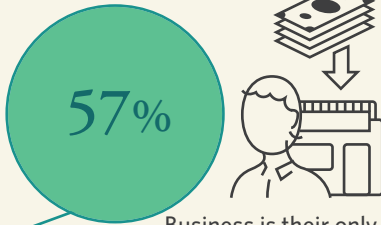
With the pandemic experienced in the past 2 years, those businesses in the start-up phase show a higher proportion in the Wholesale/retail and Community & household sectors.

		2023	2016
	More micro-entrepreneurs	95%	97%
	Declining proportion of females own MSMEs (mainly micro-enterprises)	45%	59%
	Fewer MSMEs now located in rural areas	44%	49%
	Wholesale/retail sector is still the largest & growing	42%	30%
	Formal enterprises have increased	24%	18%

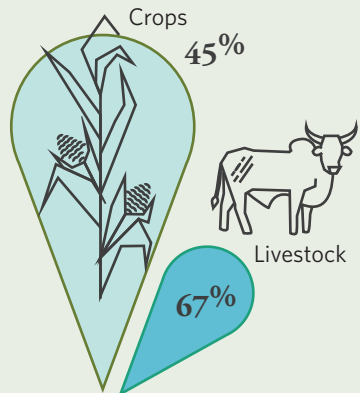


## SIZE AND SCOPE OF THE MSME SECTOR

MSME owners



## AGRICULTURE AND FARMING

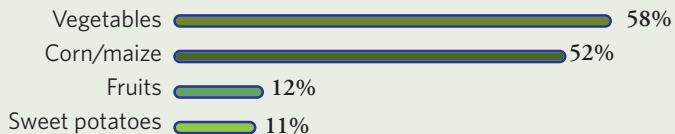


*Farming Sector*

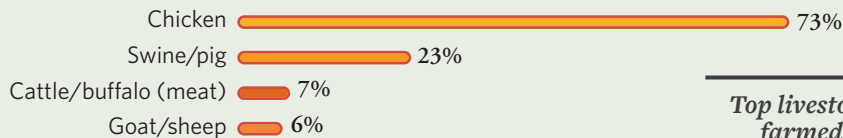


**21 834 farmers**

(20% of MSME sector) in primary agriculture

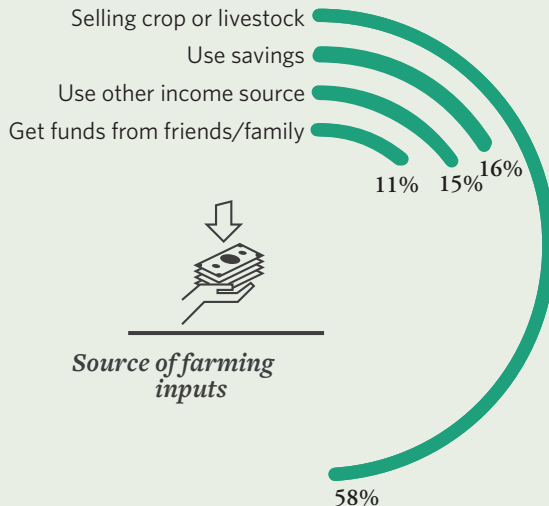
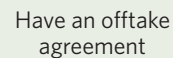
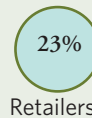
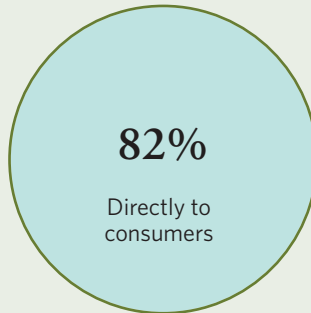


*Top crops farmed*



*Top livestock farmed*





The markets for farm produce are spread across different players from direct consumers to retailers.

Inputs to farming show retained earnings from selling farm produce being the most common capital source. Formal credit is not common with under 1% of farmers accessing these facilities as a source of working capital.

## LEGAL STRUCTURE AND COMPLIANCE

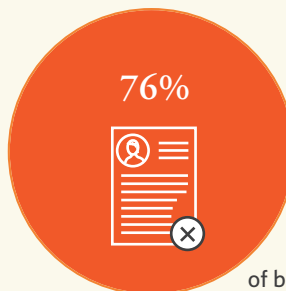


24%

### Formal MSME sector (25 438)

18% MSMEs registered and  
23% licenced

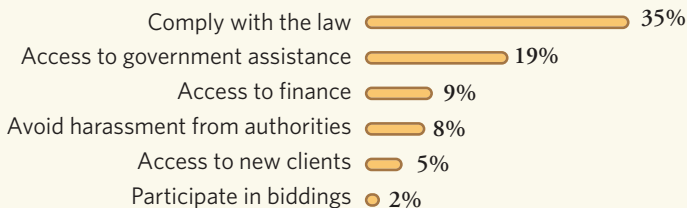
### State of formalisation



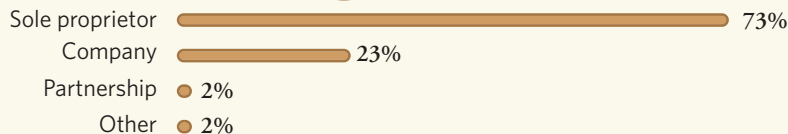
of businesses are not  
registered/licenced



### Of those registered (18%), the perceived benefits of registering



### Type of registration

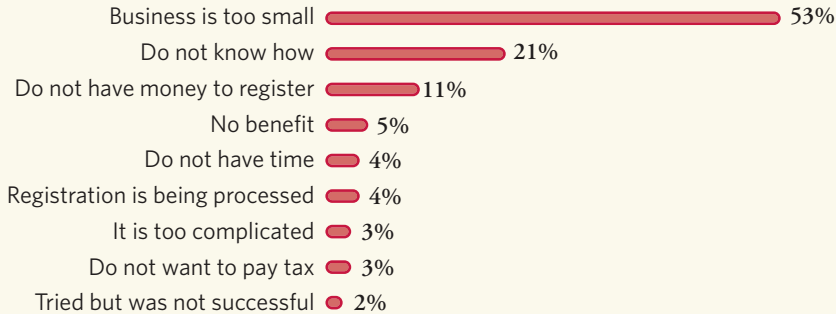




## Barriers to registration

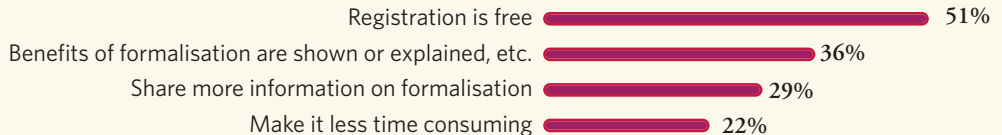


**82% of MSMEs are unregistered**



## Government assistance to formalise

**76% of MSMEs are informal with 82% willing to formalise their operations if:**



## CAPACITY TO GROW & CHALLENGES

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### *Business operational needs*



35%

Keep financial records

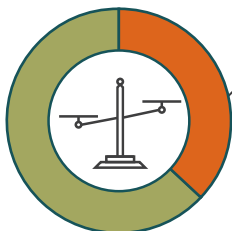


Of which 22% always keep records and 14% do so sometimes.

- *Of the 22% that always keep financial records – 89% use a computerised system*

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FINANCIAL RECORD KEEPING



37%

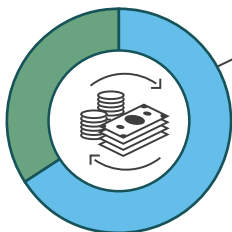
Have finance related issues



Lack of access for finance and high cost of finance

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FINANCE ISSUES



66%

Highlight insufficient operational cash flow

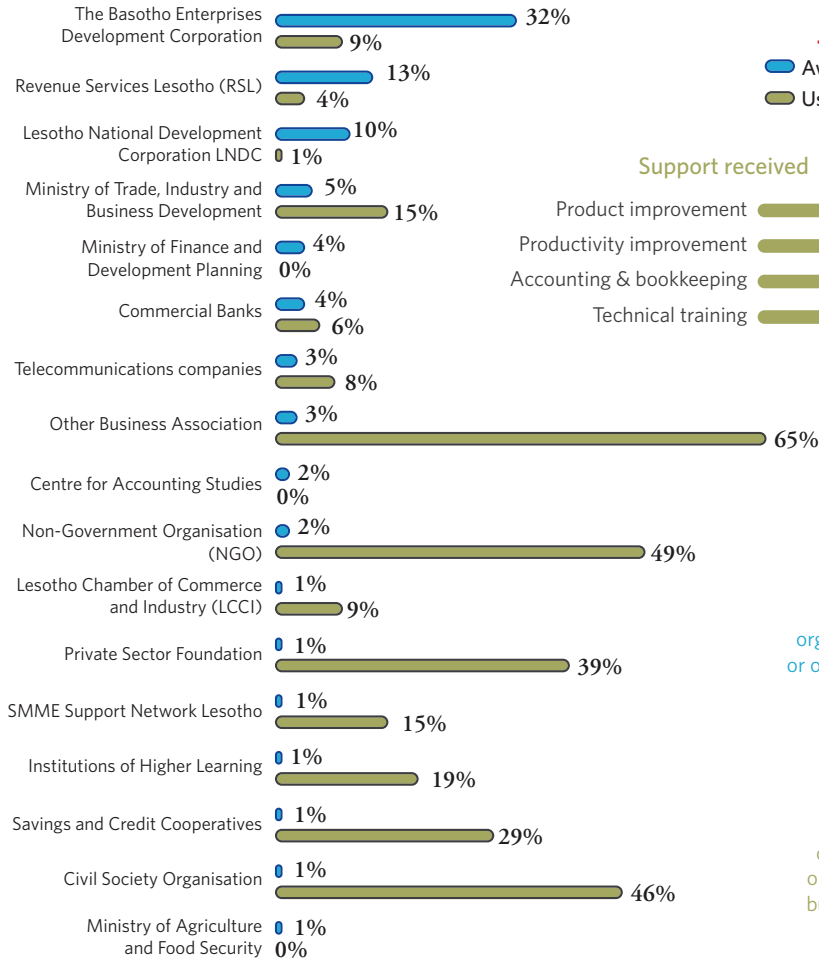


Highlight insufficient operational cash flow

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CASH FLOW ISSUES

## BUSINESS SUPPORT AND AWARENESS



**Aware**  
**Used (% of those aware)**

### Support received



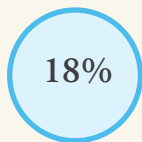
42%

*Awareness of support organisations are aware of an organisation that assists or offers advice to MSMEs*

22%

*Usage of support organisations is low of those aware of an organisation providing business support used their services*

## ACCESS TO AMENITIES AND RESOURCES



TOILET FACILITIES WITH WATER

- Access to amenities is limited and highly skewed towards urban businesses. Lack of basic services might affect productivity.



93%  
Electricity grid  
Publicly provided (LEC)

Energy is key to business growth and only 40% of the MSMEs have access to electricity.



ELECTRICITY

3%

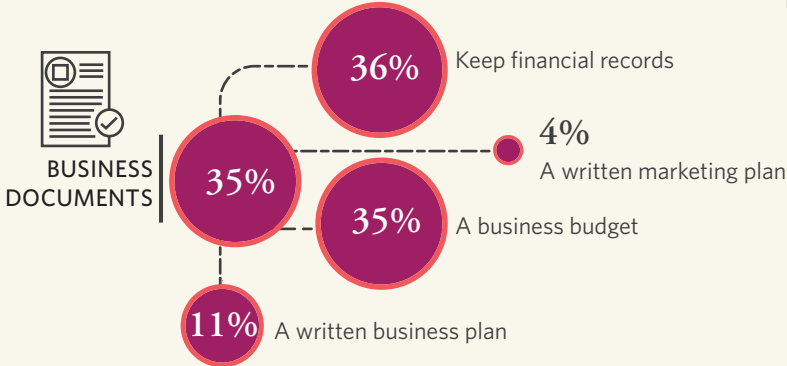
 Business generator

5%

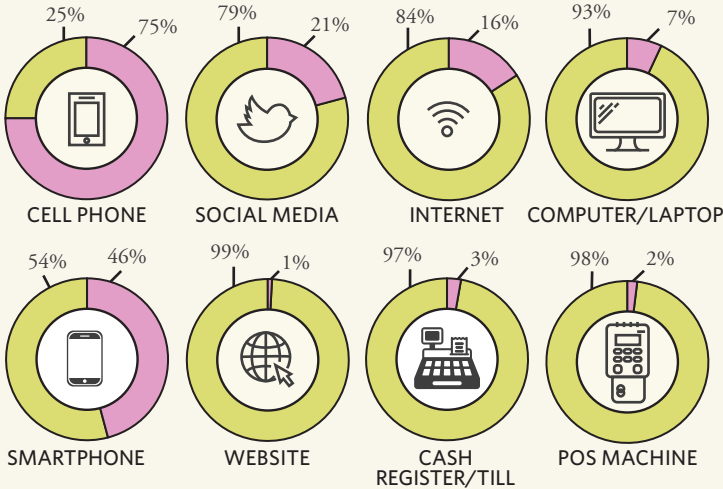
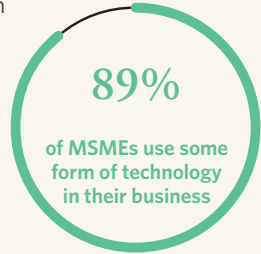
 Solar

Sector	Have electricity access (%)	Proportion of those with electricity access that claim it is sufficient for business (%)	Main supply of electricity
Construction	71%	100%	LEC 100%
Tourism	68%	78%	LEC 79%; solar 21%
Business services	66%	96%	LEC 100%
Community & household	41%	72%	LEC 100%
Wholesale /retail	38%	88%	LEC 91%; generator 5%; solar 4%
Manufacturing	32%	78%	LEC 92%; solar 8%
Agriculture/farming	30%	91%	LEC 96%; generator 2% solar 2%

## BUSINESS DOCUMENTS AND TECHNOLOGY



- About 65% of small businesses do not keep business documents such as accounting records, business plans among others.



## USE OF TECHNOLOGY

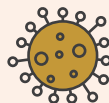
- Have access
- Do not have access

- The use of basic technology in business is driven by the ownership of the cell phone, which gives businesses access to communication and social media platforms.
- Productivity technologies such as machinery that improve efficiency e.g. computers have low usage.

## IMPACT OF EXTERNAL SHOCKS ON BUSINESS: COVID-19 PANDEMIC



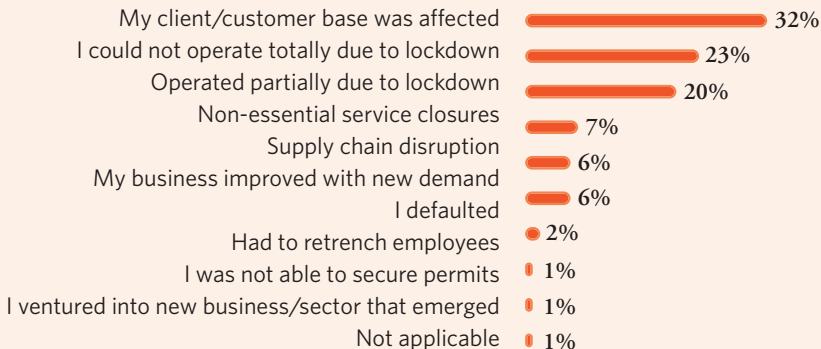
of MSMEs were/are classified as Essential Service Providers



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

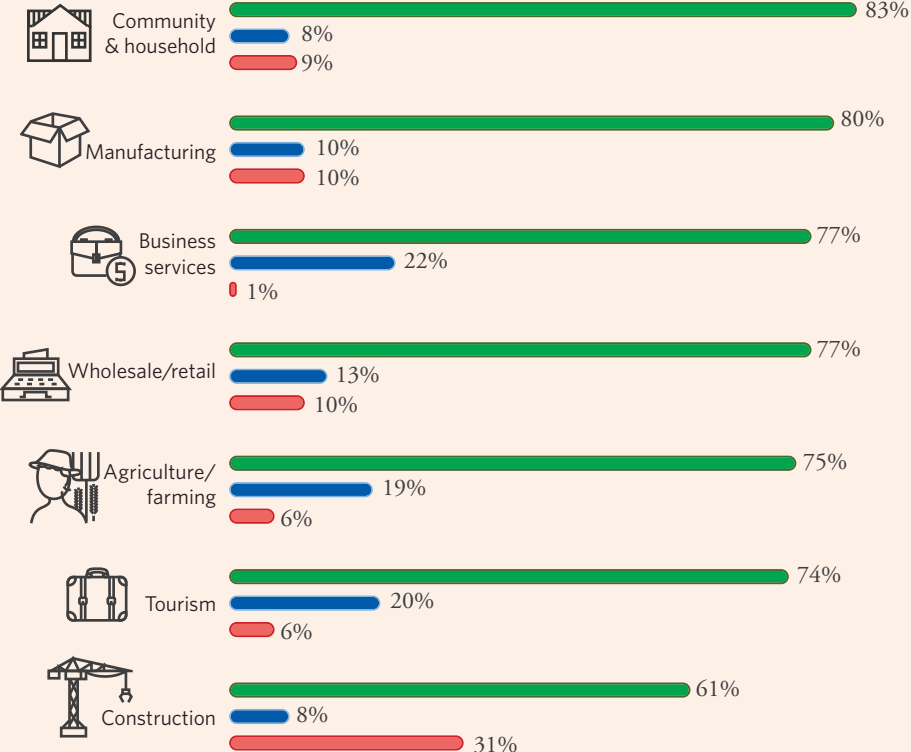
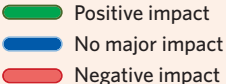
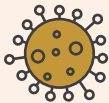
- 54% MSMEs considered the pandemic to have had a negative net impact on their business, while others considered it positive (6%), no major impact (10%) with the remaining 30% not applicable.

### *Negative impact of pandemic on business*





# IMPACT OF COVID-19 BY SECTOR

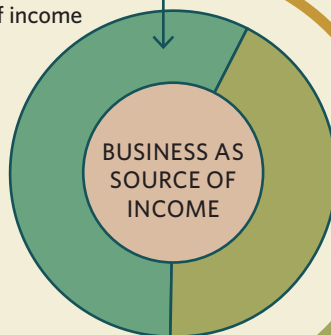


## BUSINESS OWNER PERSONAL MONTHLY INCOME

**of MSME owners**  
have the business as the only  
source of income

57%

Of the 43%

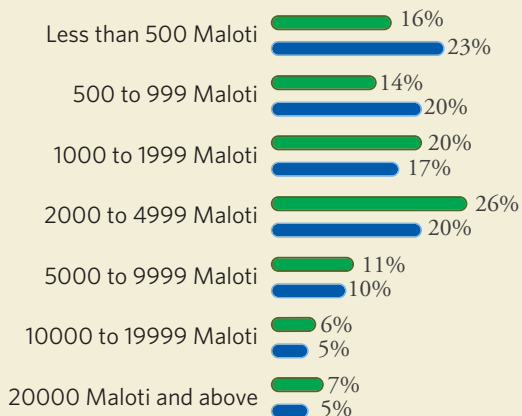


40% get money  
from other  
businesses

23% get income  
from spouse

10% have income  
from other job

- Business owner dependency on business has increased in 2023



*Personal Monthly  
income*

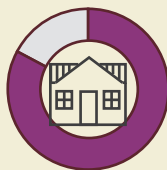


There are about **31 thousand** employers with **150 thousand** (full-time/part-time/seasonal).  
 Almost all business owners (**98%**) regard themselves as employees of the business).



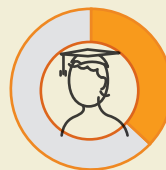
**53%**

of employees are **male**



**83%**

are paid **in cash** and 12% are paid through digital financial services.

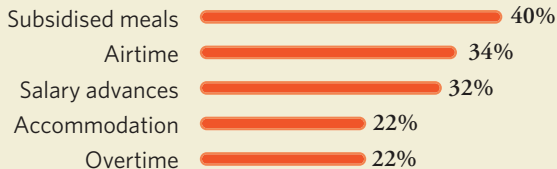


**37%**

have **high school education** and 39% have vocational or university qualification

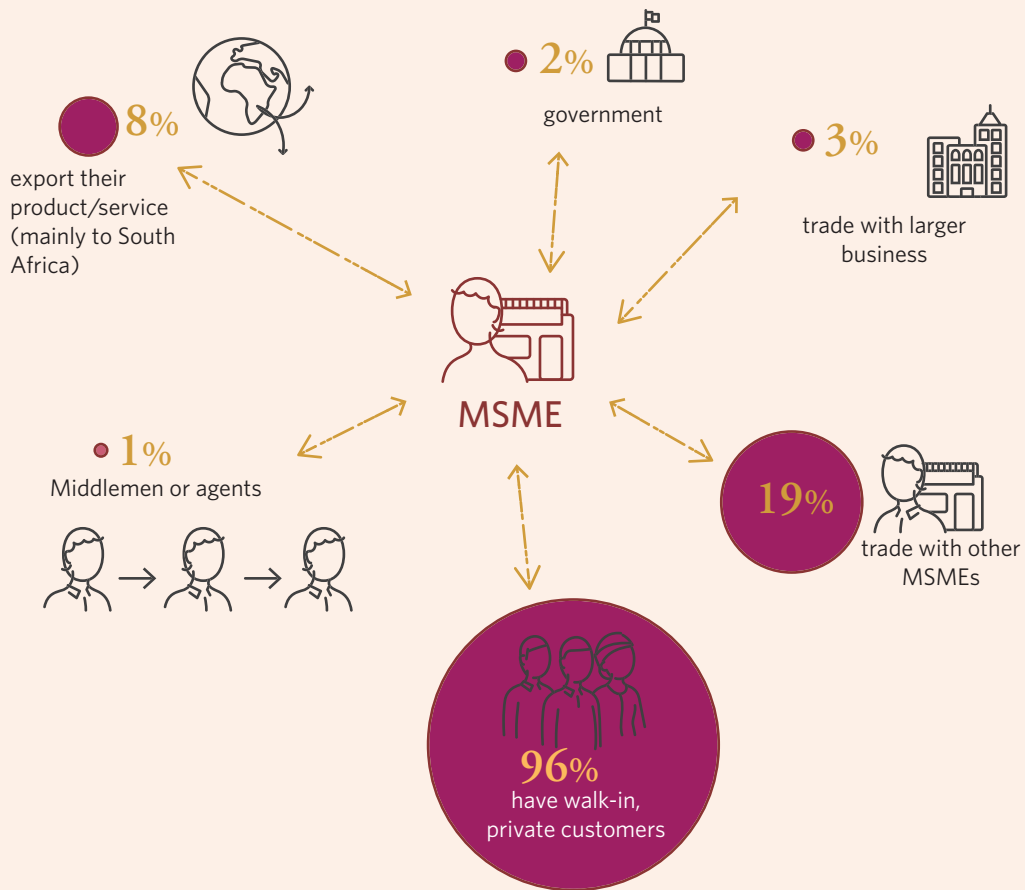


**Employee benefits include:**

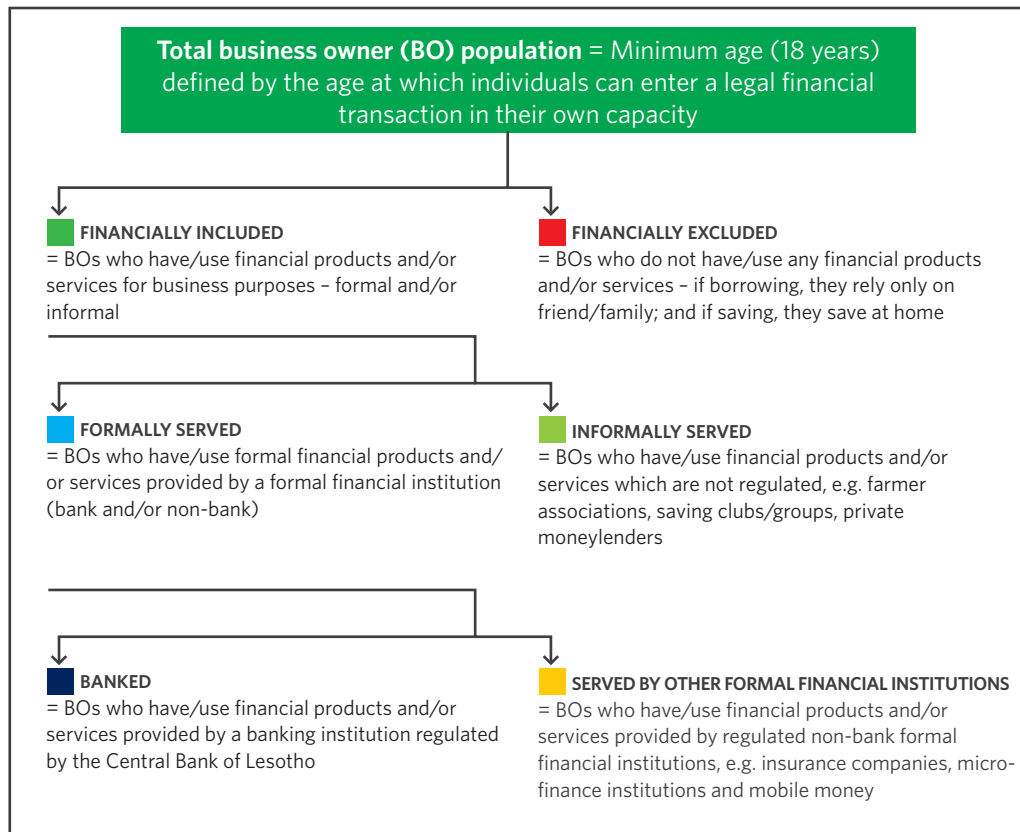


## ACCESS TO MARKETS

*Who do MSMEs conduct trade with?*

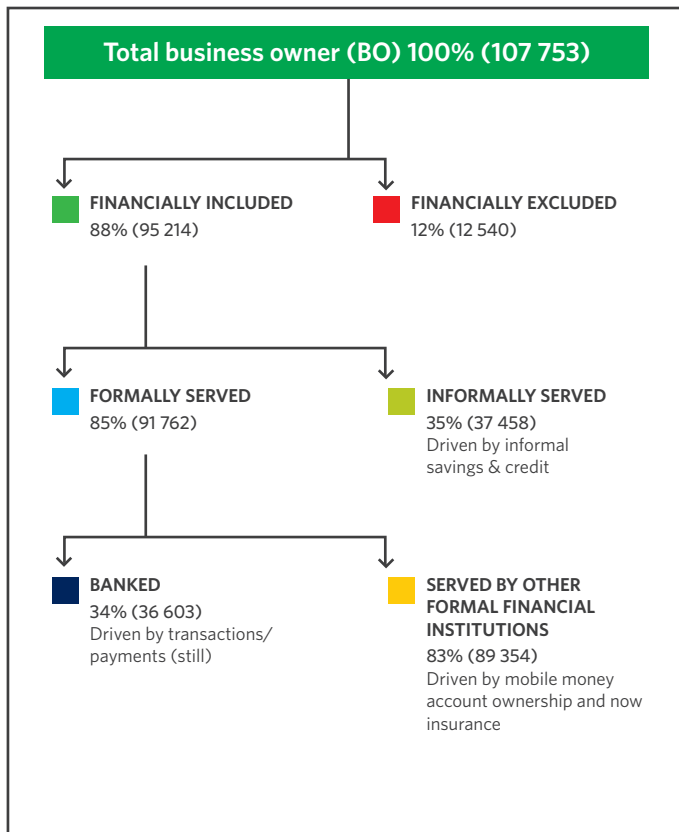


*Financial inclusion - Framework*





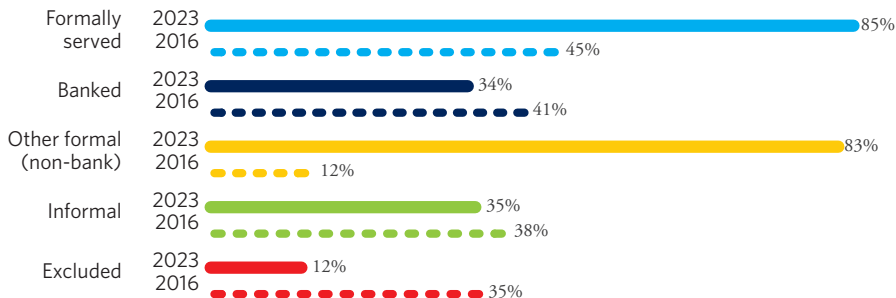
### *Financial Inclusion of Basotho MSMEs (with overlaps)*



'Formal' is a category classifying products or services as regulated or supervised by a formal institution or any other formal regulator/agency. This is also synonymous with 'other formal' or 'other formal (non-bank)' to differentiate it from the banked which are mostly commercial and development banks.



## Financial access (with overlaps)



### Access Strand

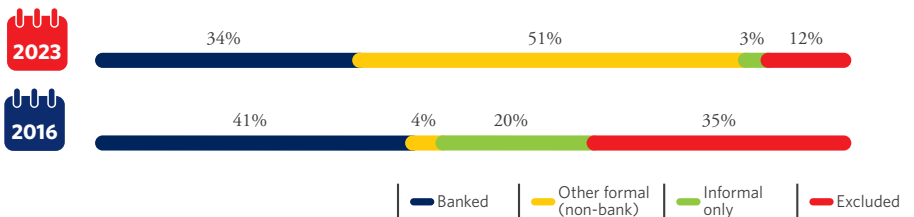
In constructing this Strand, the overlaps in financial product/services usage are removed, resulting in the following segments:

Financial exclusion among business owners has decreased by 23 percentage points.

- Uptake of informal financial products among business owners who do not use formal products has decreased by 17 percentage points.
- Uptake of other formal (nonbank) products/services among business owners has

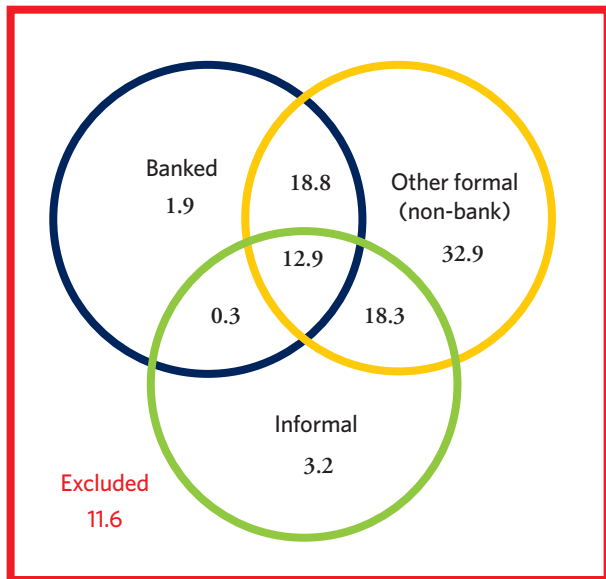
ballooned to 51%. Business owners might also be using informal products or services.

- A notable increase of business owners who have/use commercial bank products/ services to one in every three business owners.





### Overlaps



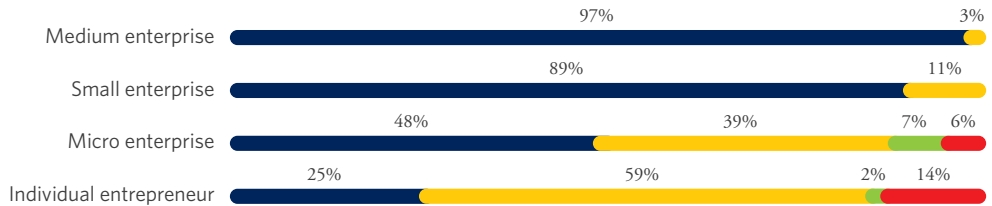
*'Business owners generally use a combination of financial products and services to meet their financial needs'.*

- Only 1.9% of business owners rely exclusively on banking services.
- Around 32% use a combination of formal and informal mechanisms to manage their business financial needs, thus indicating that their needs are not fully met by the formal sector alone.
- About 3% of the business owners rely ONLY on informal mechanisms such as savings groups and loan sharks.

Due to rounding off, exclusion is reported as 12%.

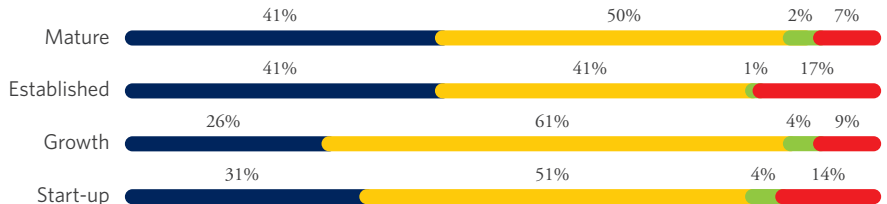


*Access Strand by MSME size*



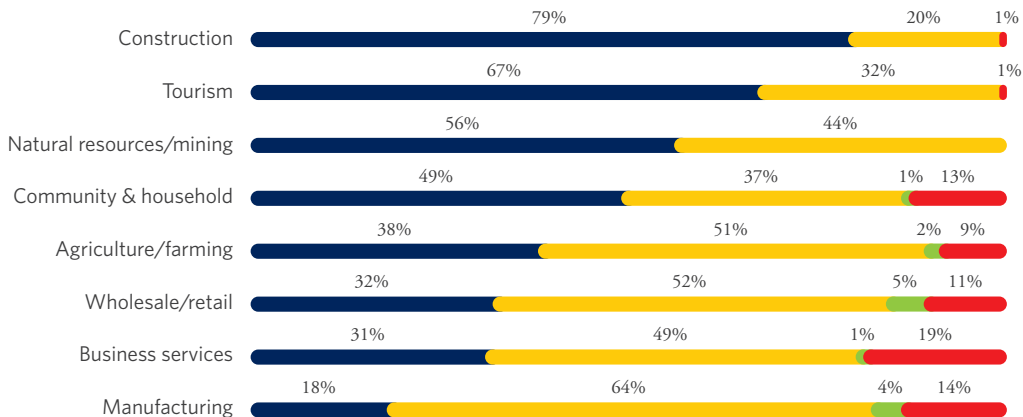
- The smaller the business the less likely it is that the business owner uses/has banking products to manage the business’s finances.

*Access Strand by business life cycle*

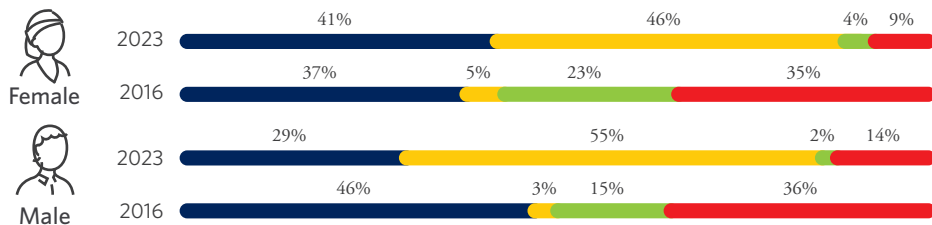


## ACCESS STRANDS

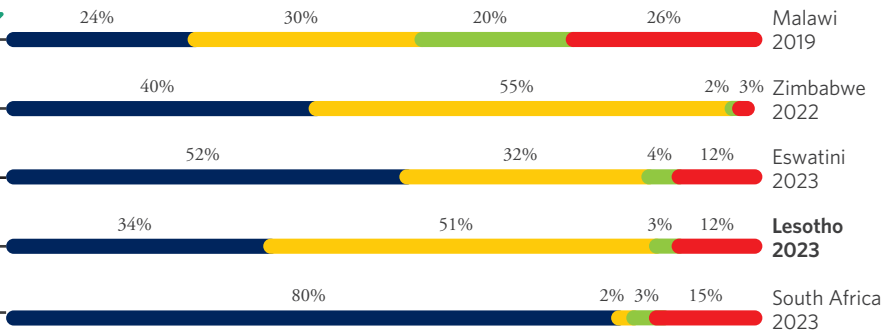
### Financial Access Strand by sector



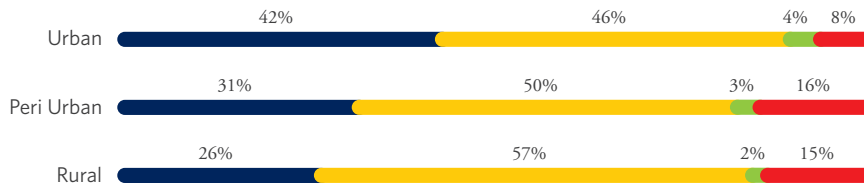
### Financial Access Strand by Gender



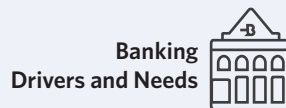
Access Strand by country



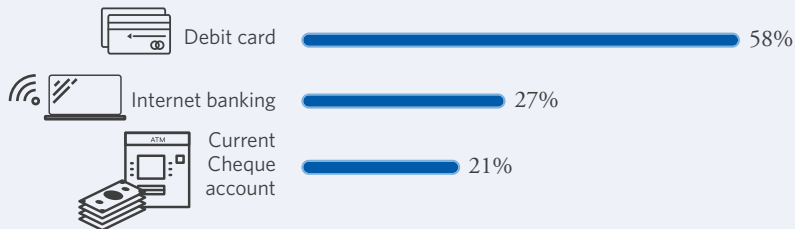
Financial Access Strand by Area



## LANDSCAPE PRODUCTS

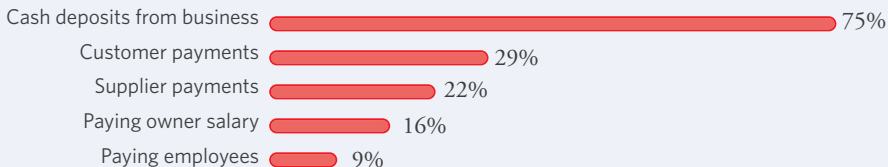


### *Main bank products driving transactions*



- **2023: Banked business owner population sits at 34% largely driven by transactions (89%).**
- Bank account access has decreased in proportion to the business owner population, however there are more banked business owners (18% increase).
- Usage of business account is growing with 23% of banked business owners have an account in the business' name (vs 15% in 2016).

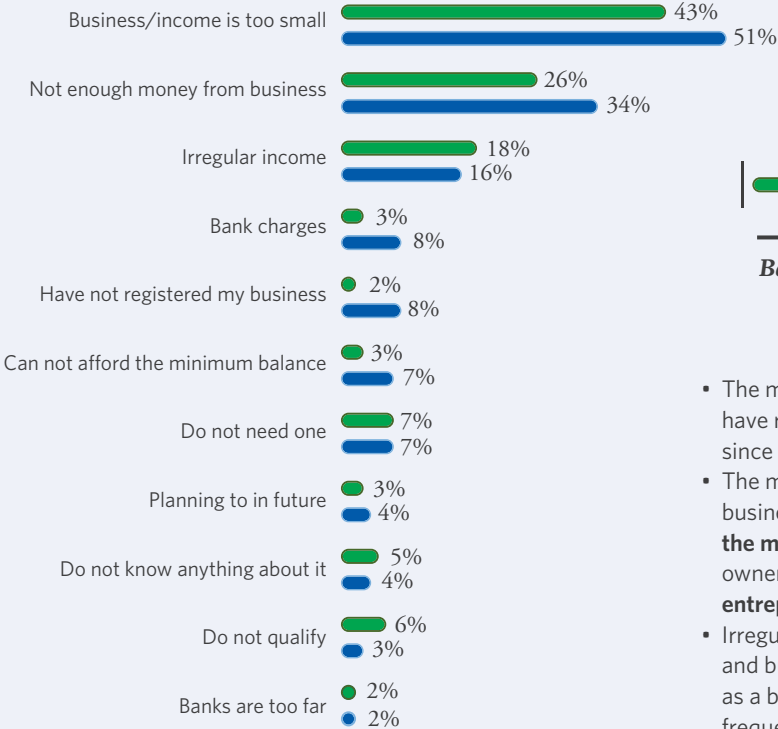
### *Main transactions performed*



Looking at the absolute numbers the banked business population has increased from 30 973 in 2016 vs 36 603 in 2023. This is because the number of business owners has increased by 31 685 since 2016.

# LANDSCAPE PRODUCTS

## Banking Barriers

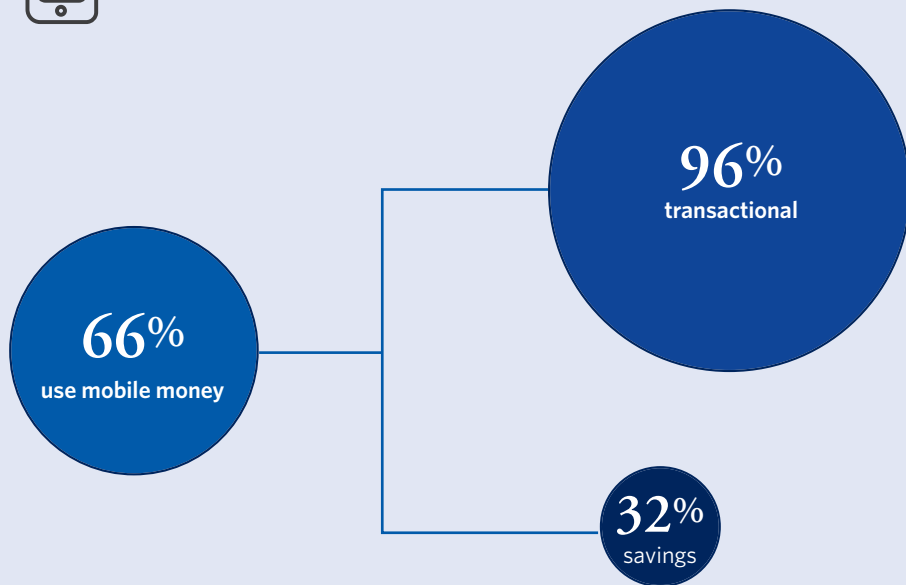


### *Barriers to banking*

- The main barriers to banking have remained unchanged since 2016.
- The main barrier to banking is business size. Not surprisingly, **the most unbanked** business owners are **individual entrepreneurs**.
- Irregular income, both personal and business-related, is cited as a barrier, highlighting the frequency of income and the misalignment between bank cycles and income cycles.

## MOBILE MONEY

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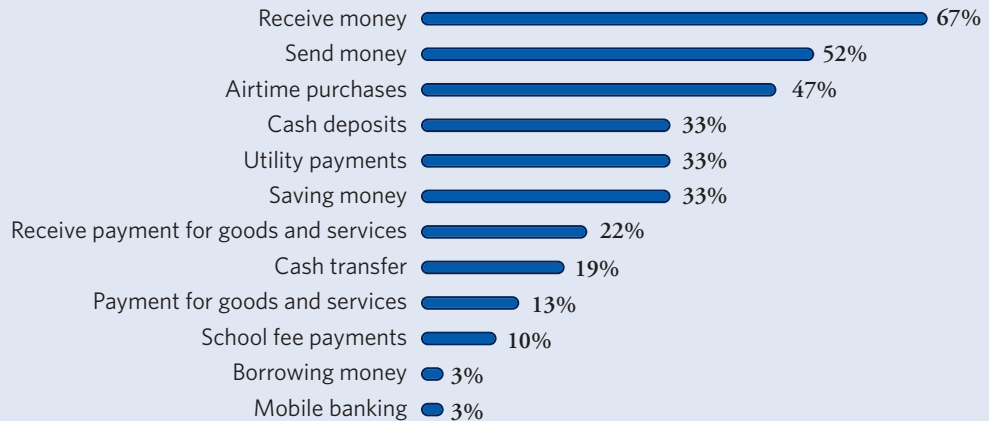


While mobile money has three in five MSMEs using it, a good proportion of the usage is linked to **remittances, which is a source of capital injection or cashflow.**

- 38% of mobile money users conduct DFS through their accounts.
- 22% of business owners use mobile money business accounts.



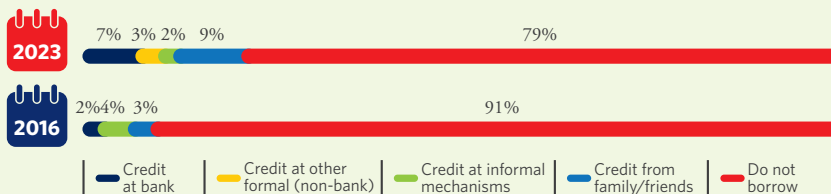
*Usage of mobile money*



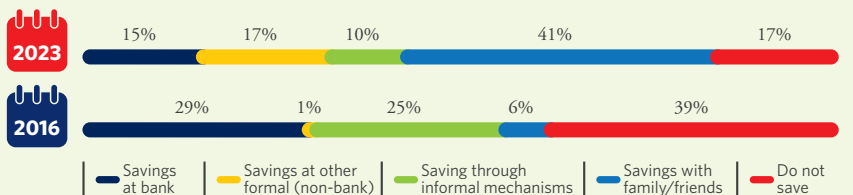
## FINANCIAL INCLUSION: OVERVIEW



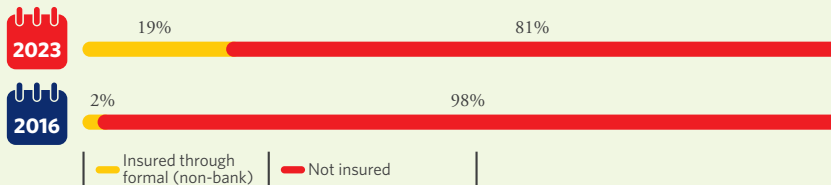
### Credit Strand



### Savings Strand



### Insurance Strand

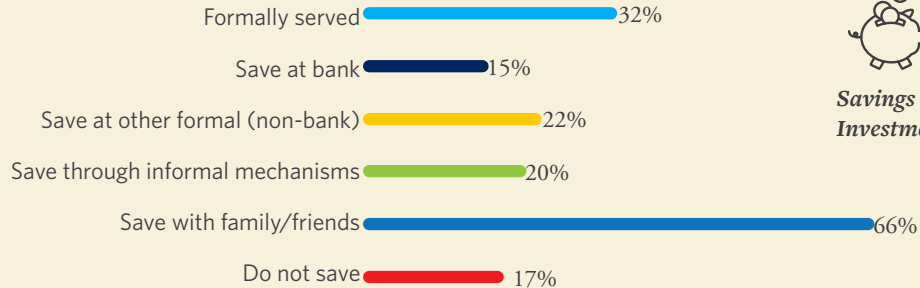






**Savings and Investments**

**Overalls with overlaps**



**Savings Strand**

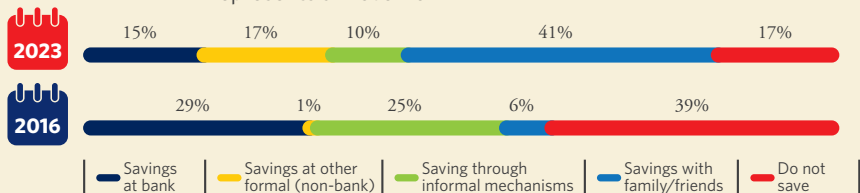
In constructing this strand, the overlaps in financial product/services usage are removed.

- 17% of business owners did not save in 2023. There is a 22% increase in business owners who saved from 2016.
- Interestingly, there is a substantial increase in the proportion of business owners who save with

friends/family, 41% in 2023 from 6% in 2016.

- There has been a 15% decrease in the use of informal savings products. Business owners who traditionally saved money through rotating savings and credit groups may likely be using mobile money within the same groups. This shift represents a move from

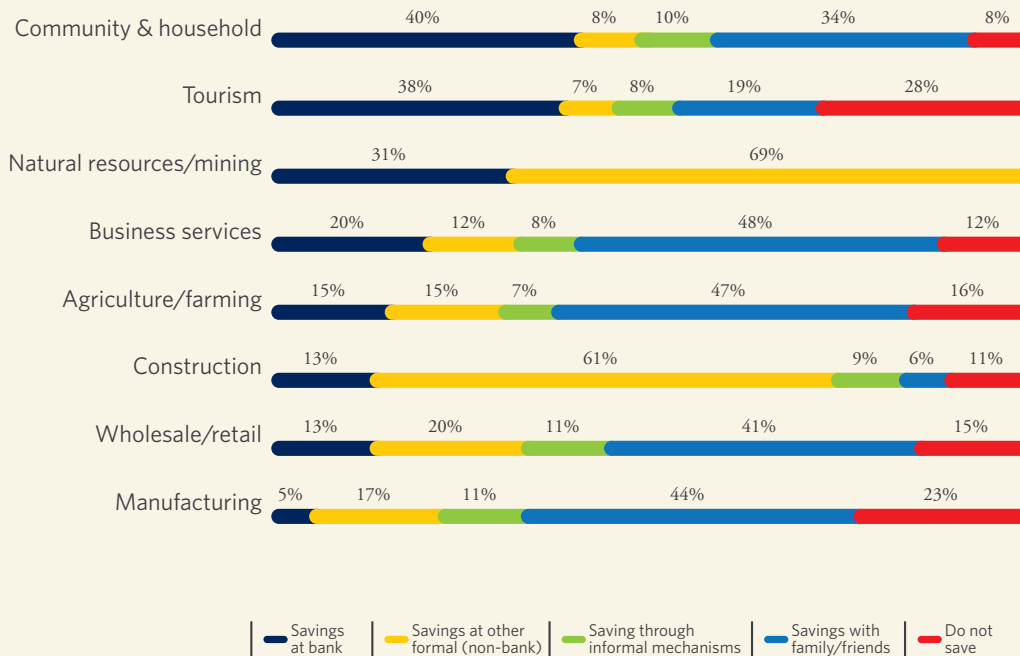
- informal saving mechanisms to formal (non-bank) usage.
- In 2023, the percentage of business owners saving at banks decreased by 14%. However, there was a significant increase in savings at other formal institutions, which rose by 16 percentage points, resulting in an overall increase in formal savings.



## LANDSCAPE PRODUCTS

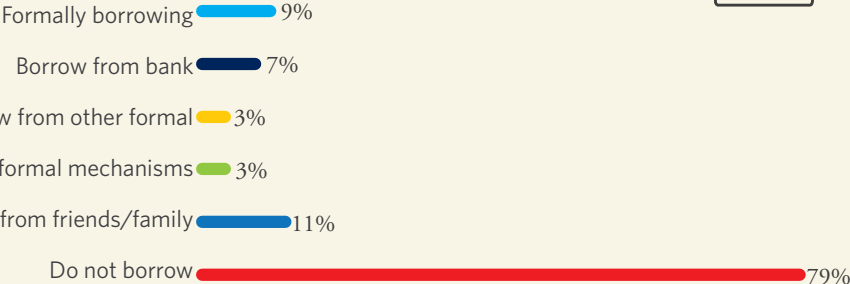


### Access to savings and investment by sector





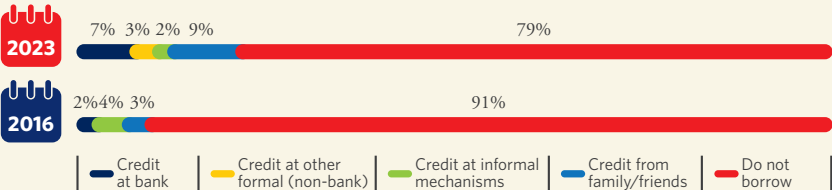
*Overalls with overlaps*



*Credit Strand*

In constructing this strand, the overlaps in financial product/services usage are removed.

- 79% of business owners did not borrow money in 2023. There is a 12 percentage point increase in business owners who borrowed from 2016.
- There is an increase in the proportion of business owners who borrow from family and friends to 9% in 2023 from 3% in 2016.
- A slight drop in the usage of only informal credit mechanisms from 4% in 2016 to 2% in 2023.
- In 2023, borrowing from other formal (non-bank) sources increased to 3%.
- Bank credit increased to 7% in 2023, showing a rise in formal credit compared to 2% in 2016.

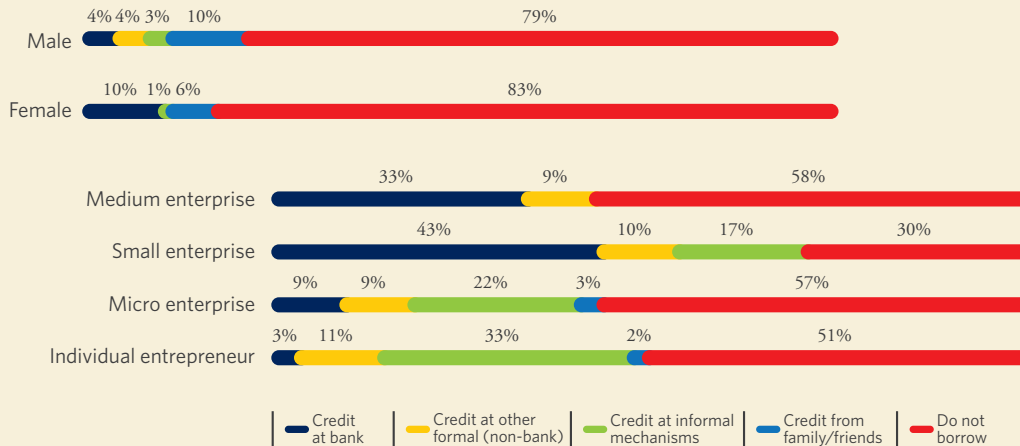


## LANDSCAPE PRODUCTS

Access to credit

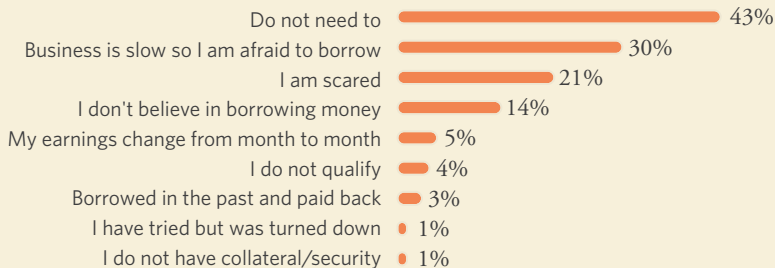


### Credit Strand (%)



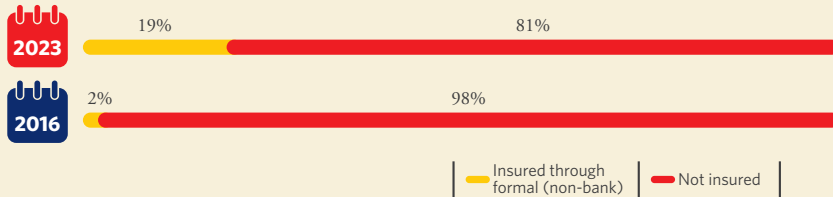
Currently, **79%** of MSMEs are not borrowing mainly due to having no need to borrow and fear of debt.

### Barriers to credit





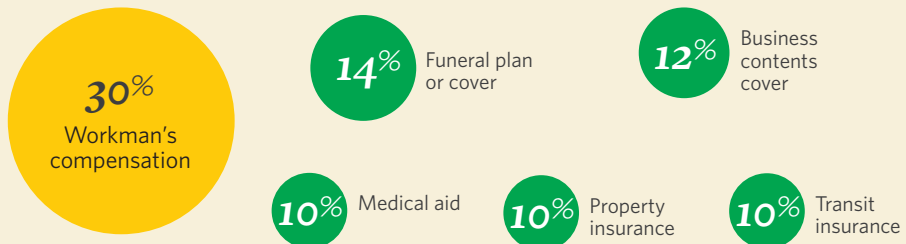
#### *Access to insurance*



Formal insurance is up from 2% to **19%**, primarily driven by personal insurance (79%) and business insurance (19%).



*Of those insured uptake of insurance products is driven by:*



### *Insurance and risk management*

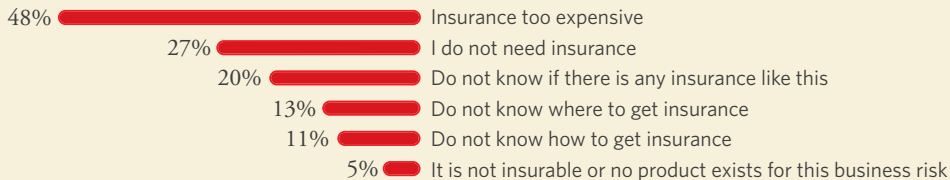


**11%**  
Of businesses  
have insurance

**89%** Of businesses  
are not insured



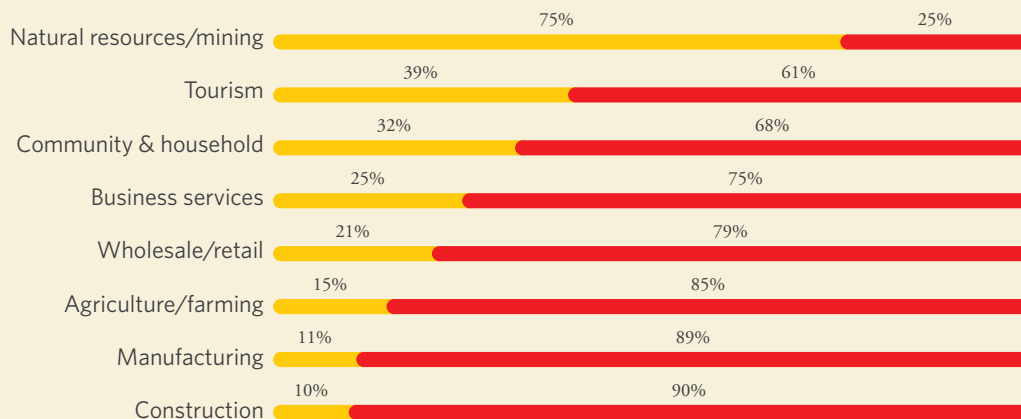
### *Insurance barriers for business owners:*



*Insurance and risk management*



*Access to insurance by sector*



■ Insured through formal (non-bank)
 ■ Not insured

## CONCLUSION

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General



- Lesotho's MSME policy defines the size of MSMEs based on the number of employees, annual turnover, and legal structure. However, due to the high level of informality and unverified turnover and asset value, it is challenging to accurately apply this classification. For the purposes of this survey, MSMEs are defined based on the number of employees and include "informal businesses," which are not registered with the relevant institution in Lesotho but are still considered part of the MSME category.
- There has been a slight improvement in the ratio of formal to informal MSMEs. Formalisation faces numerous challenges, especially related to compliance. The lack of information, high costs, and the perception that businesses are too small to be registered hinder efforts to formalise. Government assistance in making the registration process free and providing more information about formalisation would be welcomed.
- The MSME sector offers significant employment and contributes to the country's GDP. Challenges faced by the sector include sourcing finance, cash flow and bad debts.
- Despite the impact of the COVID-19 pandemic, business resilience mechanisms pursued were internal i.e., looking for new business or new product offering with only 3% of the MSMEs pursuing government relief fund solutions. Identify and facilitate the implementation of the financial interventions that will improve the resilience and sustainable livelihoods for the target groups.

### Product Update

- The reach of formal financial products and services is expanding overall, notwithstanding changes in mobile money and traditional banking. Formal financial instruments are primarily used for transactional (payment) purposes and risk mitigation. High user



transaction volumes are observed in both bank and mobile money services. However, bank products have a lower adoption of digital financial services than mobile money, and overall may decline as was the case in Malawi and Eswatini. Insurance caters for the business owner rather than the company's assets, and its adoption is primarily driven by burial plans and medical aid.

- Formal credit or savings offerings are improving sluggishly. While bank credit has improved, access is still below 1 in 10 business owners. MFI credit drives other formal (non-bank) credit. Savings through bank have decreased with more business owners having adopted other formal (non-bank) savings products such as mobile money.
- Even though it has been consistently difficult to secure financing since 2016, the most common barrier provided by excluded business owners for their inability to obtain credit is that their size and moderate business growth that prevents them from qualifying for financing. This may be explained by the fact that a higher proportion of businesses are micro and individual businesses, which could not be eligible for official financing and hence rely more on informal or personal channels.
- The informal financial sector continues to be a crucial source of funding for MSMEs, particularly through savings and credit groups. Integrating informal financial services, like stokvel groups, with the official financial sector is one way to boost and manage access to MSMEs. Certain formal products' designs can be better understood by taking a closer look at the social capital and value systems that these credit and savings organisations function in.

## CONCLUSION

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### Finance Access

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





Haiti

## FinScope MSME Survey

Comprehensive study focusing on individual entrepreneurs, and owners of micro-, small- and medium enterprises (MSMEs) and their financial services needs.

● Completed ● Underway

For further information about FinScope  
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