UNIVERSITY OF KWAZULU-NATAL

# THE IMPACT OF THE REGULATORY FRAMEWORK ON SMALL, MEDIUM AND MICRO ENTERPRISES IN LESOTHO

**By**

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# DECLARATION

I, Refiloe Gladys Khoase declare that

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## DECLARATION BY THE SUPERVISOR

As the candidate's supervisor I have approved this dissertation for submission.

Mr X.P. Mhlongo December 2011

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# ACRONYMS

| | |
|---|---|
| ADF: | African Development Fund |
| APRM : | African Peer Review Mechanism |
| BDS: | Business Development Services |
| BEDCO: | Basotho Enterprises Development Corporation |
| BEE: | Black Economic Empowerment |
| BEST: | Business Environment Strengthening for Tanzania |
| BIUST: | Botswana International University of Science and Technology |
| CD: | Compact Disc |
| CEDA: | Citizen Entrepreneurial Development Agency |
| CET: | Continuing Education and Training |
| COAG: | Council of Australian Governments |
| ECA: | Economic Commission for Africa |
| ECGS: | Export Credit Guarantee Scheme |
| EDB: | Economic Development Board |
| FDI: | Foreign Direct Investment |
| FIFA: | *Fédération Internationale de Football Association* |
| FPE: | Free Primary Education |
| GCSE: | General Certificate of Secondary Education |
| GDP: | Gross Domestic Product |
| GEM: | Global Entrepreneurship Monitor |
| GNI: | Gross National Income |
| IDIP: | Infrastructure Delivery Improvement Programme |
| ILO: | International Labour Organization |
| IMTT: | Inter-Ministerial Task Team |
| LEA: | Local Enterprise Authority |
| LNDC: | Lesotho National Development Corporation |
| LoNGPESTEL: | Local, National and Global, Political, Economic, Social, Technological, Environmental and Legal |
| LRA: | Lesotho Revenue Authority |
| M: | Maloti (Lesotho Currency) |
| MCC: | Millennium Challenge Corporation |
| MGYSR: | Ministry of Gender and Youth, Sport and Recreation |
| MTICM: | Ministry of Trade and Industry, Cooperatives and Marketing |
| NSPR: | National Strategy for Poverty Reduction |

| | |
|---|---|
| OBPR: | Office of Best Practice Regulation |
| OECD: | Organisation for Economic Corporation and Development |
| PAS: | Policy Analysis Section |
| PESTEL: | Political, Economic, Social, Technological, Environmental and Legal |
| R: | Rand (South African Currency) |
| RBP: | Regulatory Best Practice |
| RIA: | Regulatory Impact Assessment |
| S$: | Singapore Dollar |
| SA: | South Africa/South African |
| SACU: | Southern African Customs Union |
| SADC: | Southern African Development Community |
| SAPRIN: | Structural Adjustment Participatory Review International Network |
| SARS: | South African Revenue Services |
| SARUA: | Southern African Regional Universities Association |
| SBP: | Small Business Promotion/Project |
| SEDA: | Small Enterprise Development Agency |
| SELF: | Small Entrepreneurs Loan Facility |
| SMEDA: | Small and Medium Enterprise Development Authority of Pakistan |
| SMEs: | Small and Medium Enterprises |
| SMMEs: | Small, Medium and Micro Enterprises |
| SPSS: | Statistical Package for the Social Sciences |
| SSA: | Sub-Saharan Africa |
| SSP: | Stock Savings Plan |
| SWOT: | Strengths and Weaknesses, Opportunities and Threats |
| TASAF: | Tanzania Social Action Fund |
| TEA: | Total Entrepreneurial Activity |
| UK: | United Kingdom |
| UNDP: | United Nations Development Programme |
| US: | United States |
| VAT: | Value Added Tax |
| WB: | World Bank |
| WSQ: | Workforce Skills Qualifications |
| ¥: | Japanese Yen Currency |

# ABSTRACT

In various economies, businesses operate in a macro-environment influenced by uncontrollable external forces, namely political, economic, social, technological, environmental and legal. For businesses to succeed in a macro-environment all external forces have to be identified and analysed carefully by the business and adaptability to the environment is also very important. Governments intervene by setting up regulatory frameworks that govern all businesses. For instance, for every business to start or grow, there are a numerous legal requirements involved. Businesses have no control over these requirements, but to adapt and comply. These requirements affect the performance of business activities either positively or negatively. However, failure to comply with these requirements could lead to the business' reputation being destroyed, and loss of customers.

The aim of this research is to analyse the perceptions of Small, Medium and Micro Enterprises (SMMEs) owners and managers about the impact of Lesotho government intervention on SMMEs start-up and growth. It also determines whether there is a need for government intervention in these phases. It further determines the extent to which the Lesotho government intervention supports or hinders SMMEs in their quest for start-up assistance and sustainable growth. The White Paper which proposes strategies for development of SMMEs in Lesotho was studied to find out if its intentions have been accomplished.

The primary data for this study were gathered through surveys sent out to SMMEs in Lesotho. The questionnaire was designed to be hand-delivered to a sample population of 370. The sample size was calculated using online survey system. At a confidence level of 95 percent and confidence interval of 5, a population value of 10,341 resulted in a sample size of 370 respondents. A list of registered SMMEs with the Ministry of Trade & Industry, Cooperatives & Marketing (MTICM) was accessed. To select respondents from this list, the researcher used a probability sampling method called stratified random sampling, to represent all the key subgroups of the population. The Statistical Package for the Social Sciences (SPSS) for Windows Version 18 was used to analyse the responses obtained from structured and unstructured questions.

To facilitate the smooth operation of businesses, governments also create a conducive environment. There are quite a number of initiatives taken by the Lesotho government in an attempt to improve the country's overall economic environment. The government has used functional and selective interventions just like other developing and developed countries. Functional interventions include the improvement of infrastructure, education and health. Selective interventions include regulations focused on the development of SMMEs and institutional infrastructure aimed at skills training. The

focus of this study is on selective interventions. Some SMMEs have benefitted from these initiatives, however, other SMMEs still encounter challenges within the regulatory framework which hinder their establishment and growth.

Due to the perceived pitfalls, such as high costs of doing business, some businesses decide to operate informally. This means among others, formal tax losses for the government and SMMEs not receiving incentives designed for them. If the Lesotho government could reform and simplify business regulations, this could reduce the increasing number of informal sector businesses and encourage them to grow and operate formally.

# TABLE OF CONTENTS

# LIST OF TABLES

# LIST OF APPENDICES

# 1. INTRODUCTION AND BACKGROUND

## 1.1 The Research Problem

The world is experiencing increases in unemployment, poverty, business contraction and shrinking government revenues. Government intervention is one of the processes adopted to reduce this risk and prevent future crises (Nanto, 2009:1). Through the promotion of Small, Medium and Micro Enterprises (SMMEs), governments have developed strategies or economic reform programmes that increase employment subsequent to sustainable economic growth (Futija, 1998:29; Porter, 1998:19; Elhiraika and Nkurunziza, 2006:1). Governments focus on SMMEs because they believe that SMMEs play an important role in economic growth (Nyamunda, 2009:6).

Khalmurzaev (2000:1) states that small businesses make important contributions to the economy, not only by creating jobs, but also by retaining workers longer in times of recession. They also contribute to the generation of income, and eventually the reduction of poverty. Therefore, governments have found it necessary to concentrate on the creation of favourable environments that attract business creation and growth. This approach creates a positive climate that attracts potential entrepreneurs and instills an entrepreneurial culture. Another approach is supporting the actual start-up and growth of individual businesses by providing direct assistance to the individuals or businesses concerned, for example, the availability of subsidised start-up funds for unemployed persons (Bridge, O'Neill and Cromie, 2003:417; Elhiraika and Nkurunziza, 2006:1).

Favourable or enabling business environments are created through putting in place supportive institutional infrastructures, addressing changes in regulations, and through enforcement. This developmental activity is known as intervention. For example, laws and regulations that require businesses to be registered, control monopolies, and stipulate permitted labour practices, are all interventions (Bridge *et al.*, 2003:366; Nanto, 2009:2). It is found that effective government interventions can influence economic growth through improving market entry, meaning lower barriers to entry, and cutting red tape for new and growing businesses (Organisation for Economic Corporation and Development (OECD), 2010:40).

The aim of this study is to analyse the perception of government interventions in Lesotho and their impact on SMMEs in the start-up and growth phases, and to assess whether or not these interventions facilitate or hinder SMMEs in these phases. The study focuses on supportive institutional infrastructures, business regulations and enforcement measures put in place by the Lesotho government in an attempt to develop the SMME sector.

A business in the start-up phase is on its first stage of operations, say less than three years. These businesses are often not sustainable in the long-term due to limited revenue or high costs. A business in the growth phase is the one that has been operational for more than three years, expanding in size and generating considerable income (Kotler, 2000:304).

## 1.2 Research Objectives

The overall objective is to investigate the positive outcomes of government interventions as well as potential pitfalls in these interventions that may hinder the establishment and growth of SMMEs. More specifically, the research objectives are:

- To determine the need for government intervention in the start-up and growth phases of SMMEs.
- To assess the benefits of the existing government interventions on the start-up and growth of SMMEs in Lesotho.
- To assess the challenges of the existing government interventions on the start-up and growth of SMMEs in Lesotho.

## 1.3 Purpose of the Study

Government intervention is a way of establishing a smooth and efficient competitive environment for firms, and subsequently enhancing economic growth. Governments provide supportive infrastructures which create conducive environments for firms to operate in. Governments also protect natural resources so that even in the long run, customer demands can be met. These initiatives help to create favourable environments in which firms are able to grow and make profits (Dessing, 2004:575).

Regulations and institutional support are used as a way of intervention on SMMEs development. Governments intervene because they believe that when left alone, organisations are unable to efficiently achieve the governments' economic objectives. However, government interventions can sometimes create problems and constraints for entrepreneurs starting new businesses and affect the ease with which business operations are carried out (Tolentino, 2008:18).

Government interventions can be categorised as either functional, which are broad interventions that affect all participants in the market, or selective, which provide specific assistance to particular segments of the economy, for instance SMMEs (Wint, 1998:281; Smorfitt, 2008:16). In this study, the focus is on selective interventions to signify the initiatives taken by the government that affect the start-up and growth of SMMEs.

This study serves as a reference for researchers interested in the field of business management where there are uncontrollable external forces influencing the macro-environment. It also suggests viable strategies that the government can adopt in formulating appropriate regulations meant to develop SMMEs and enhance economic growth. If regulations are constantly reviewed and reformed, this action will contribute towards creating an environment for the successful start-up and growth of SMMEs. The study further assists SMMEs to better understand how the existing government interventions impact on the successful start-up and growth.

## 1.4 Background

According to the Ministry of Trade & Industry, Cooperatives & Marketing (MTICM), a small business "is a firm that is independently owned and has a small (national) market share" (Lesotho Government 4, White Paper, 2002). In the context of Lesotho, the White Paper on Development and Promotion of Small Business defines small and medium business on three different levels. Micro enterprises employ fewer than three people. Small enterprises employ three to nine people. Medium enterprises employ 10 to 49 people (Lesotho Government 4, White Paper, 2002:11). It must be noted that Lesotho uses the acronym SMME to indicate small, medium and micro enterprises. However, other countries use SME for small and medium enterprises. In this study, these acronyms are used in the contexts where data have been sourced (Lesotho Government 4, White Paper, 2002:11).

The 2008 Lesotho Review (Lesotho Government 3, Online: 2 May 2010) estimates that there are some 100 000 SMMEs in the country. The total number of businesses that fall under the small scale industry group, registered with the MTICM, is estimated at 10,341 in Maseru the Capital City (Lesotho Government 9, Business Ownership, 2010:18). The number of SMMEs in Lesotho signifies the entrepreneurial culture in Basotho.

It is essential to give a brief role that MTICM is playing in the development of SMMEs. This Ministry among others, creates an enabling environment for commercial development, through assisting SMMEs to utilise export opportunities. The Ministry formulates and monitors the implementation of appropriate commercial development policies and enforces supporting legislation. Furthermore, it ensures that there are adequate institutional platforms (frameworks) that encourage individual or firm's participation in the country's economy. Moreover, it promotes monetary influx in the country through foreign direct investment (Lesotho Government 12, Online: 10 December 2011).

Lesotho's unemployment rate was 45 percent in 2002 (Lesotho Government 2, Online: 20 March 2010). The unemployment challenges facing Lesotho today have compelled the government to attach greater importance to the development of SMMEs and the informal sectors than before (Lesotho Government 1, Online: 5 March 2010). However, in Lesotho the state of unemployment continues to increase, as does the high failure rate of SMMEs, irrespective of impressive developments made in parts of the macro-economy. These impressive developments include an increase in the number of emerging enterprises and consultation workshops between MTICM, United Nations Development Programme (UNDP) and the stakeholders, meant to discuss problems faced by SMMEs. This has raised concerns about the development of sustainable growth, employment creation and poverty alleviation (Nthejane, 2006:1).

Lesotho Government 4, White Paper (2002:7-8) states that Lesotho government's intention is to create a conducive environment expected to assist the development of the private sector in the context of regulatory and institutional aspects. Small Business Project (SBP) 1, Online: (3 June 2010) mentions that the SMME White Paper is under review at the moment. Although it has not been passed by Parliament, it is still widely used as a regulatory framework of SMMEs in Lesotho.

There are initiatives that Lesotho has put in place to develop SMMEs. The Lesotho Government 4, White Paper (2002:28) records that a one-stop shop and a new Policy Analysis Section (PAS) have been created through MTICM. The Policy Analysis Section is responsible for the initial regulatory review. However, according to the SMME Support Network-Lesotho (2009:6), Lesotho appears to have the least investor-friendly laws, and these urgently need to be reformed.

The Lesotho government has also implemented a Regulatory Best Practice (RBP) that is intended to culminate in a successful small business policy (Lesotho Government 4, White Paper, 2002:16). Regulatory Best Practice emphasises that the regulatory environment should be as favourable as possible for trade and investment. The intent is to make it easy for businesses to comply with regulations.

The Lesotho government believes that small firms are more flexible, and can consequently respond and adapt more effectively to rapid changes in the external environment than larger firms. Lesotho also believes that small businesses can contribute effectively to the creation of employment and the alleviation of poverty. The Lesotho government suggests that these qualities enable SMMEs to sustainably create employment and generate incomes (Lesotho Government 4, White Paper, 2002:10). As growth occurs, small businesses' contribution to the Gross Domestic Product (GDP) increases as does the bulk of new employment.

Hallberg (2000:2) argues that the majority of firms contributing to employment in most developing countries are micro and small-scale enterprises. However, he argues that the evidence proves that even though micro and small firms contribute to the increase in job creation rates, a considerable number of these firms cease to function at an early stage. The small business birthrates are high but are unsustainable and have high death rates (Hallberg, 2000:3). Furthermore, small firms do not offer competitive wages and benefits' packages. In addition, small firms do not provide better working conditions, skills development programs and job security, compared to large firms (Hallberg, 2000:4).

According to Galal (2004) and SBP Alert (2009:4), it is important to support micro and small enterprises operating in the informal economy, as they have the potential to enter and compete in the formal economy. Although the informal sector can be helpful at times, through creating jobs, it is costly as governments cannot collect tax from such businesses (Palmade, 2005:2-4). However, it is very important to support mature and viable SMMEs so that they may integrate into "local, national, and international value chains" (SBP Alert, 2009:4).

## 1.5 Research Methodology

This research study was conducted through the use of surveys. The researcher used surveys as opposed to face-to-face and telephonic interviews because the study focused on a large sample. The questionnaires were hand-delivered and not posted to the respondents. They were completed by SMME owners and managers in Maseru Lesotho in order to assess the impact of the Lesotho government interventions on businesses. Questionnaires were administered in English. However, according to Hair, Money, Samouel and Page (2007:264), when formulating a questionnaire, the choice of words and concepts must be informed by the respondents' literacy levels. Therefore, the researcher had to use Sesotho as needed, in order to provide mother-tongue clarification. This was a challenge as it consumed a lot of the researcher's time.

The population refers to the body of small, medium and micro enterprises that exist in Maseru Lesotho. The target population comprised business owners and managers from the formal sector. The sample size of 370 was selected from a larger group of individuals called the target population. According to Sekaran and Bougie (2010:263); Cooper and Schindler (2003:179); Remenyi, Williams, Money and Swartz (2005:192) and Hair *et al* (2007:173), sample size can be calculated from a larger group of individuals target population. A pilot study was carried out before the main study took place. This helped the researcher to estimate the possible time taken by the respondents completing the survey, and to assess the clarity of all questions and instructions. According to Bell (2002:147), a pilot study is undertaken in order to analyse whether the wording and format of questions might pose some difficulties in the main study.

The researcher used probability sampling; more specifically, stratified random sampling. This was because simple random sampling might not have represented all the key subgroups of the population. Furthermore, because the groups were more homogeneous within groups than across the population as a whole, greater statistical precision was expected than when using simple random sampling. According to Cooper and Schindler (2003:188); Remenyi *et al* (2005:193); Hair *et al* (2007:173&181) and Sekaran and Bougie (2010:272), when sample from different sectors has been initially selected perfectly, then good survey results should be obtained. The collected data were analysed using SPSS for Windows, Version 18 and the information was interpreted.

According to Remenyi *et al* (2005:142) and Sekaran and Bougie (2010:385), gathering information from different sources helps measuring validity and reliability; this is known as triangulation. For this study, primary and secondary data were used to ensure that a biased view was not obtained from only one source (Hair *et al.*, 2007:193). The primary data obtained from SMMEs was used in order to address the research problem, research objectives and hypotheses.

## 1.6 Hypotheses

There are four hypotheses that form the core of this research study, together with the associated alternative hypotheses. These hypotheses relate directly to the start-up and the growth rates of SMMEs within the formal sector. Table 1.1 below provides a list of hypotheses used in this research study.

**Table 1.1: Hypotheses**

| | |
|---|---|
| Null hypothesis ($H_{1o}$) | There is no need for government interventions in SMMEs in Lesotho. |
| Alternative hypothesis ($H_{1a}$) | There is a need for government interventions in SMMEs in Lesotho. |
| Null hypothesis ($H_{2o}$) | The government interventions in Lesotho have had a positive impact on establishing and improving the start-up and growth rates of SMMEs. |
| Alternative hypothesis ($H_{2a}$) | The government interventions in Lesotho have not had a positive impact on establishing and improving the start-up and growth rates of SMMEs. |
| Null hypothesis ($H_{3o}$) | There are no government interventions hindering the successful start-up and growth rates of SMMEs in Lesotho. |
| Alternative hypothesis ($H_{3a}$) | There are government interventions hindering the successful start-up and growth rates of SMMEs in Lesotho. |
| Null hypothesis ($H_{40}$) | There is no difference between the impact of the selective interventions used at the start-up and growth phases. |
| Alternative hypothesis ($H_{4a}$) | There is a difference between the impact of the selective interventions used at the start-up and growth phases. |

## 1.7 Synopsis of Chapters

Chapter 1 considers the introduction and background to the study, and provides an overview of the research objectives and methodology.

Chapter 2 is a literature review concerned with interventions that are intended to improve the start-up and growth rates of SMMEs. The arguments for and against government interventions are also taken into consideration.

Chapter 3 provides an overview of the government interventions meant to stimulate SMMEs development in developed and developing countries.

Chapter 4 provides an overview of government interventions in Lesotho compared to other Southern African Development Community (SADC) countries. It also analyses the impact of various regulations on SMMEs in Lesotho.

Chapter 5 provides the research design and methodology intended for this study.

Chapter 6 reports the findings of this study.

Chapter 7 provides the conclusions that have been drawn from this study, as well as the recommendations.

## 1.8 Summary

In this chapter, the research problem, research objectives, purpose of the study, background, research methodology and hypotheses were discussed. In Chapter 2 the literature review on government interventions together with arguments for and against government interventions are discussed.

# 2. LITERATURE REVIEW – GOVERNMENT INTERVENTIONS

## 2.1 Introduction

The previous chapter introduced the research problem and the need for this study. This chapter discusses the literature about government interventions. The macro-environment and arguments for and against interventions by governments are also discussed.

The development of a country's economy depends on the economic activities within such a country. The government plays an essential role in overseeing the economic development of the country. Government support is necessary for sustainability of SMMEs, as SMMEs are considered to play a crucial role in employment creation and economic growth (African Development Bank, 2005:19). It is essential to review the role of the entrepreneur before discussing the need for government interventions in the economy.

According to Nyamunda (2009:6), an entrepreneur has an important role to play in the development of a country. Entrepreneurs contribute to economic gains, as they are the keys to GDP and employment growth. They look for opportunities and are willing to take risks in order to achieve their goals. However, according to Renjith (2009:1), the role of the entrepreneur depends on the availability of resources such as labour, capital and technology.

According to Venessar and Loomets (2006:2), the role of entrepreneurship differs across countries, depending on the political system of each economy. Schwab and Porter (2008:216-217) and Kelley, Bosma and Amorós (2010:56) argue that it might be more difficult to start a business in one economy than in another, as countries vary in the way they regulate and provide environments for enterprises. For example, a government may choose to reduce the costs of doing business in its economy, which might lead to higher rates of growth and entrepreneurship in such an economy.

Renjith (2009:1) argues that if the number of successful entrepreneurs in a country is large, the level of economic development in that particular country will consequently be higher. Depending on the availability of resources, there is fast growth of enterprises and high generation of employment in developed economies while developing countries are still in the process of growing and generating jobs. However, Boudreaux and Holcombe (2006:147) and

Stokes and Wilson (2006:3) argue that there is no role for entrepreneurs once the equilibrium is attained.

## 2.2 Firm's External or Macro-environment

Every firm operates in an environment where there are internal and external factors that affect the firm's management. Internal factors are controllable and can be used as a measure of the firm's strengths and weaknesses. External factors are uncontrollable to businesses, they can only be monitored and be responded to. External factors cannot be stopped or changed, and they have a major impact on business operations. These factors could be an opportunity for a firm to perform profitably while the same factors could be a threat to other firms. In such a case, the firm needs to be flexible and adapt. Examples of external factors could be newly-enacted laws, trade barriers and changes in government policy (Thompson, Strickland and Gamble, 2008:40).

It is important for firms to understand the macro-environment they operate in. To identify and examine external factors in the macro-environment, firms use the Political, Economic, Social, Technological, Environmental and Legal (PESTEL) model. The purpose of a macro-environment analysis is to depict potential opportunities and threats to the industry as a whole. Using the PESTEL model enables decision makers to strategically determine whether these factors will have a positive or negative impact on their businesses. For example, potential opportunities and threats help them determine possible growth, stability or decline in the area of their industry (Keegan and Green, 2008:35; Ghauri and Cateora, 2010: 138).

This study focuses on political, economic and legal factors. Political factors refer to the degree of government intervention in the economy through among others, set policies. For instance, the extent to which the government enhances the quality of its infrastructure falls under political factors. Political decisions influence different aspects that affect businesses such as the provision for basic education and health care system. Interest rates, changes in taxation and exchange rates are some of the economic factors that affect the firm's behaviour within a country's economic environment. For instance, if a country' economic set up allows high interest rate charges, there may be discontinuation of investment as it becomes costly for firms to get funds from banking institutions. Furthermore, exporting may not be easy due to the strong currency of a country involved. Legal factors relate to the regulatory framework in which firms operate, for instance, competition and employment laws (Marx, van Rooyen, Bosch and Reynders, 1998:56; Oxford University Press, 2007:1; Nieuwenhuizen, 2007:10).

For strategic decision making, owners and managers have to consider Local, National and Global, Political, Economic, Social, Technological, Environmental and Legal (LoNGPESTEL) influences, which is a version of PESTEL analysis. They firstly have to pay attention to local factors such as local economic growth rates. Secondly, they need to consider national factors such as a country's laws on interest rates. Thirdly, they need to pay attention to global factors such as the opening up of new markets which make trading easier (Oxford University Press, 2007:1).

During the process of assessing opportunities or threats that emanate from external changes, owners and managers have to take into account the internal functions of their businesses as well. This process is called a Strengths and Weaknesses, Opportunities and Threats (SWOT) analysis (Thompson, Strickland and Gamble, 2008:45).

It is the obligation of existing and potential owners and managers to acquaint themselves with business laws. This is because businesses who do not abide by set regulations, may not only incur penalties, but also loss of customer trust and public confidence. Moreover, failure to comply with the requirements could lead the business into unnecessary costs. Good business ethics should be a part of every business (Alberts, 2004:18; Hodgetts and Kuratko, 2007:176).

Governments play an important role in providing a prosperous environment for businesses which ultimately leads to a nation gaining a competitive advantage. However, when creating a conducive environment, governments can either encourage or discourage the activities of firms (Ghauri and Cateora, 2006:120). There are arguments for and against government interventions. Some authors support government interventions (Borooah, 2003:3; Hausman, 2008:1). Others say interventions by governments have limited effectiveness in promoting private sector development (Khoza, 2002:7; Jordana and Levi-Faur, 2004:31; Pillay, 2006:42; Meltzer, 2010:1).

Governments find it important to periodically assess the effectiveness of the frameworks that manage SMMEs. Policies and regulatory frameworks are re-evaluated to create appropriate incentives for enhanced SMMEs development. Careful measures are taken to ensure that unintended effects are not imposed on the regulated parties (Council of Australian Governments (COAG), 2007:7; Hunter, 2010:366).

It is believed that government intervention is essential to help businesses to succeed in the constantly changing business environments they operate in.

## 2.3 The Need for Government Intervention

It is important to find out whether or not there is a need for governments to intervene in any economy since there are many arguments for and against this. According to Meltzer (2010:1), regulation often fails either because the regulated avoid complying with the regulations, or because regulators are better at announcing these regulations than at enforcing them. According to SMME Support Network-Lesotho (2007:1), governments such as Lesotho have established several on-going schemes to strengthen SMMEs, however, entrepreneurs in such economies still lack business management skills. One of the reasons could be that business development services (BDS) providers are insufficiently equipped to meet the demands of the sector. Consequently, according to Winston (2006:2) and Smorfitt (2008:15), market failure or government failure occurs.

Market failure occurs when a market does not provide or allocate goods and services efficiently. This situation compels government to intervene. Government failure occurs when government fails after trying to correct problems brought about by market failure (Stiglitz, 1989:202). Government might over-regulate or under-regulate when intervening, both of these are harmful to the business process and have a negative impact on a nation’s economy. Over-regulation can sometimes restrict the emergence of SMMEs, increase the rate of not complying and push SMMEs to operate at an informal sector. Under-regulation, a characteristic of a liberal economy, can also worsen internal competition, posing a hindrance towards starting-up SMMEs and growing existing enterprises. Porter (2004:13) states that the establishment and operation of a business is usually restricted by state and local laws.

According to The World Bank (2004:87), if there is little or no intervention by a government at all, unpleasant results follow, therefore, there is a need for government intervention. Hodgetts and Kuratko (2006:251-259) state that government can intervene through such controls as licensing requirements. However, this sometimes results in limitations of entry into industry and in creation of limits on access to resources. According to Stiglitz (1989:202), government interventions cannot successfully address all market failures, as governments themselves are faced with information deficits.

Interventions are undertaken in most countries, but each country selects its own way of intervening. In reality governments intervene to assist businesses' sustainability, however, Curwen (1983:125-141) argues that it is more advantageous to leave a business to adapt its environment to suit its operations. This author believes that great success can be achieved through a business matching its internal environment to the external environment. However, the feeling is that SMMEs' external environments are burdened with a lot of requirements and this compels them to operate informally, as they fail to comply. Furthermore, the author states that SMMEs have more information and understand the operation of their businesses better than governments (Curwen, 1983:125-141; Stiglitz, 1989:202).

Governments are concerned about the sustainability of their industrial economy, therefore, are willing to intervene, so as to maintain jobs and boost declining industries. However, government interventions differ depending on the stages businesses are situated in their business life cycles. According to Kotler (2000:69), business may potentially move through four life cycles: start-up, growth, maturity and decline stages.

In the start-up stage businesses depend to a greater extent on government interventions in terms of start-up capital, subsidies and in acquiring training on business management skills. At this stage, the governments' role should be more geared towards creating a supportive environment such as advanced infrastructure and basic technological base. At this early stage of the business life cycle, businesses are on a very fragile stand. Thus, government interventions are needed to assist SMMEs to obtain a traders license and have premises for operation (Ranawat and Tiwari, 2009:16).

In the growth stage, businesses experience a higher demand for products and services. It is at this stage where the business can even pay tax from the profits it generates, buy more equipment and employ more staff. It can even rent more premises or build its own. The business needs to train its employees as more duties that cannot be managed by one individual are now emerging. It is at this stage where government intervenes through setting manageable tax, imports and exports regulations. In addition, tax exoneration under specific conditions is one of the incentives that the government can provide at this stage (Ranawat and Tiwari, 2009:17).

In the maturity stage, businesses are planning to expand, diversify depending on the level of competition in the industry. The role the government can play at this stage is to maintain an environment in which firms are operating in. Government can intervene through the introduction of policies such as competition policies to control competition and monopoly (Ranawat and Tiwari, 2009:18).

In the decline stage, businesses have grown and established themselves in the community. They have built long-term customer relationship, hence more sales. However, challenges that need concrete decisions are still experienced as firms encounter loss of competitive edge. At this stage government support is needed to equip businesses with new ideas and skills through various training programmes or workshops (Ranawat and Tiwari, 2009:16-19).

Views of different economists when arguing for and against government interventions around the world follow. The next section will first discuss the arguments for, and then the arguments against government interventions.

### 2.3.1 Arguments for Interventions

Stiglitz (1989:197) and Mitchell (2006:57) argue that market failure is a reason why government should intervene. According to Borooah (2003:3), governments are encouraged to intervene in order to assist firms to grow. They intervene because they believe that firms on their own are unable to efficiently achieve the governments' economic objectives. Therefore, governments have no alternative but to actively assist firms overcome predicted difficulties.

Government interventions protect consumers from unfair business practices (Kotler and Armstrong, 2008:83). Consumers cannot resolve problems created by enterprises and are therefore dependent on government interventions. For example, problems such as the production of prohibited goods are beyond the control of the consumers and governments need to intervene (The Institute for Working Futures, 2002: 55). It is incumbent on governments to screen new entrants to ensure that they reputably provide high quality products (The World Bank, 2004:90).

Governments also intervene to protect businesses from each other such as in cases of unfair competition (Marx *et al.*, 1998:53; Kotler and Armstrong, 2008:83). These interventions take the form of regulations that ensure smooth and efficient competitive environments. Governments also create enabling environment through focusing on improving skills training meant to assist businesses grow. These strongly promote enterprise cultures and enhance economic growth (Schmidt, Bennison, Bainbridge and Hallsworth, 2007:257).

The World Bank (2004:87) argues that unregulated markets go through frequent failures. These include low quality products where consumers are exposed to unfair business practices, inability to resolve disputes, poor protection of worker rights and ultimately, social unrest. Hausman (2008:1) thus argues that markets cannot exist without government interventions, else more market failures might occur.

Mohr and Fourie (2004:46-48) and Smorfitt (2008:14) argue that market failures occur more often in free market regimes where there are no interventions by government, and factors of production that include land, labour, capital and entrepreneurship are owned and controlled by the private sector. Market failures are common in a free market because selling, buying, and competing are done freely. Therefore, to eliminate market failures, governments have to intervene. According to Lall (2000:2) and SBP (2008:17), technological advances have brought open access to productive knowledge that assists economies to reform outdated policies. This is because some policies which used to be effective decades ago are now said to be inefficient and hinder development.

### 2.3.2 Arguments against Interventions

According to Winston (2006:7&75), governments often intervene even when there is no major market failure. This creates economic inefficiencies and government failure. Governments ultimately incur expenses to correct these failures. Curwen (1983) agrees with Winston (2006) that market participants create economic efficiencies and have greater capabilities to rectify market failures than the government (Curwen, 1983:126; Winston, 2006:76).

Government failure leads to poor infrastructure which causes market failure, such as macroeconomic instability, imperfection in competition, and information asymmetry (Borooah, 2003:8-10). For example, even if there is a demand and supply for a product, if there is poor market infrastructure, suppliers will not know that there is demand for the product and thus will not supply it, which leads to market failure.

Among other reasons, governments fail due to lack of valid information. Governments often have less information about markets than the private sector does, and are therefore less likely to be able to solve problems. This is why government interventions are perceived as the main causes of market failure in free markets (Structural Adjustment Participatory Review International Network (SAPRIN), 2002:27; Mohr and Fourie, 2004:46).

As stated, governments' efforts to correct market failures sometimes prove to be ineffective. Even when governments realise that their efforts are failing, they often do not correct them in an appropriate manner (Winston, 2006:107). Sometimes governments do not successfully help out firms as intended but instead make things worse, thereby creating market failures (SAPRIN, 2002:27; Mohr and Fourie, 2004:46). For instance, government policies take years to be approved and the laws do not consider changes in circumstances and fast innovation. This impacts negatively on economies (The Institute for Working Futures, 2002:50).

Some regulations are inflexible, time-consuming and costly, not because they are poorly designed, but because they need to be flexible and constantly monitored so that errors can instantly be corrected (Mollentz, 2002:47). In addition, the introduction, implementation and enforcement of new regulations governing the behaviour of businesses can consequently add high costs to entrepreneurs if such regulations are too complex (The World Bank, 2004:87; Schmidt *et al*., 2007:257).

Inflexible regulations cause most SMMEs to find it hard to understand the laws that govern them. As a result, SMMEs end up not complying with such laws and decide to operate informally. The other consequence of unfriendly business environments is the movement of operations by businesses who choose to invest outside their home countries (Smit and Cronjé, 1997:28; Mollentz, 2002:68; Porter, Schwab, Sala-i-Martin and Lopez-Claros, 2004:40).

Government intervention might impose costs on SMMEs, namely compliance costs and efficiency costs (SBP, 2005:3; OECD, 2007:29). Compliance costs signify costs incurred when businesses fill in forms and fulfil reporting requirements. Efficiency costs arise when market outcomes decline because SMMEs are trying to keep sales below the value added tax (VAT) threshold. Hill (2007:208) argues that enterprises in the formal sector incur increased expenses from increasing competition by informal sectors. Furthermore, informal sectors produce poor quality goods that do not meet safety and health standards (Elhiraika and Nkurunziza, 2006:10).

According to Longenecker, Moore and Petty (1994:685); Khoza (2002:7) and The World Bank (2004:87), governments hinder small and medium enterprises with high tax rates and high electricity costs. This can lead SMMEs to operate informally if costs of doing business become too much. According to Galal (2004), staying informal is acceptable when entrepreneurs perceive that the potential benefits of being formal are less than the total cost incurred by formal sector.

Cusick (2005:106) argues that many organisations operate within complex regulatory environments which impose regulatory constraints on individual firms and on entire industries. Khoza (2002:143) raises the issue of city policies that restrict the numbers of licenses issued to vendors and result in street vendors operating illegally. However according to COAG (2007:16), the number of licenses should be kept to the minimum; this should be used as a compliance strategy by governments.

The World Bank (2004:87) links heavier regulations with greater inefficiency. It maintains that over-regulated countries experience high unemployment rate and low investment and productivity. Government inspectors in such economies are forced to investigate businesses and corrupt officials abuse their power to extract bribes (The World Bank, 2004:92). However, France is among the richest countries despite its heavier regulatory intervention in relation to its peers (The World Bank, 2004:86).

According to SAPRIN (2002:27), a free market regime allows high entrants that subsequently give consumers the opportunity to go for quality goods offered at reasonable prices, which enhances the welfare of consumers. If an inflexible government intervenes in situations like this that government itself may create market failure and hinder economic growth, according to Borooah (2003:3); Cusick (2005:106); Schmidt *et al*. (2007:257) and Smorfitt (2008:15).

Another argument is that government policies and regulations too often tend to favour large enterprises over small and medium enterprises (Bhalla, 1992:13). Longenecker *et al* (1994:667) state that the growth of government regulation has reached the point where it imposes real hardships on small firms. Small business owners complain openly that government regulation threatens their livelihoods.

According to Elhiraika and Nkurunziza (2006:23), economies should involve concerned stakeholders in designing policies meant to develop private sector at both national and sectoral levels. However, there is an assumption that where key stakeholders are involved in drafting regulations, some encourage governments to write the rules in their favour. If this happens, competitive positions are strengthened and potential competitors are disadvantaged

(Fry, Stoner and Hattwick, 2001:259). In such situations, unnecessary government failure occurs (Winston, 2006:7).

According to Riley (2006:3), firms are also faced with constrains by external social pressures that are not codified as law but are described as the social responsibilities of business. Montgomery and Bean (1999:403) and Khoza (2002:143) argue that government intervention can create major negative implications for the economic and social environment, especially if there are conflicting objectives between government and businesses. According to Lall (2000:26), governments set trade policies that do not reflect clear objectives and are contrary to business objectives. This is where, according to Hodgetts and Kuratko (2007:176), the entrepreneur’s commitment to ethics and values is tested.

The following section briefly discusses the two types of government interventions. Full details of how different countries apply these interventions are discussed in Chapter 3.

## 2.4 Types of Government Interventions

In this section two types of government interventions are briefly discussed. This discussion clarifies the attempts of governments to develop and sustain their economies.

There are two types of government interventions, namely, functional and selective interventions (Wint, 1998:281; Lall, 2000:2; Riley, 2006:1; The World Trade Report, 2006:75). Functional intervention requires government participation in general education, health and infrastructural development. Selective intervention focuses on the development of particular industries or firms, for example, SMMEs. These interventions are meant to improve the business environments because governments have observed market failure. However, the government intervention itself might impact positively or negatively on businesses.

According to Lall (2000:3), one policy, depending on its intention can be classified as functional or selective. For instance, supporting vocational training can reflect functional intervention in one case and selective intervention in another. If vocational training introduced focuses on improving all sectors of a country’s economy not on an individual sector that is functional. It is selective if training for SMMEs in particular, is the target.

According to the World Trade Report (2006:75), there are two groups of policies addressed depending on the type of intervention needed. The permissive policies included in the first group are intended to remove any created distortions. Functional and selective interventions subdivided from positive policies are found in the second group. The World Trade Report (2006:75) further states that permissive and functional interventions are more acceptable than selective interventions.

### 2.4.1 Functional Interventions

Functional interventions focus on all sectors of a country's economy and are independent of individual firms. The aim is to cater for better ways of improving market performances (Riley, 2006:1). Among others, functional interventions can be aimed at health, education, exchange control and general infrastructure development (Wint, 1998:281).

A promising entrepreneurial culture only develops and flourishes where there is good infrastructure. Governments with poor infrastructures have to focus on education and skills training that enhance human capital development as well as improving the countries' infrastructures which subsequently create a more enabling environment (Dessing, 2004:575; Herrington, Kew and Kew, 2008:49).

According to Porter (1998:627), it is essential that governments encourage and push enterprises to a more competitive level, through factor conditions; demand conditions; related and supporting industries; and firm strategy, structure and rivalry. Porter argues that entrepreneurs may as well use this model to determine which countries to invest in and which can probably sustain growth and development. In addition, Hill (2007:188&191) and Ranawat and Tiwari (2009:16) argue that government can indirectly influence each of the four components of the diamond either positively or negatively.

Porter (1998:627) and Hill (2009:190) mention highly skilled workforce, communication infrastructure and technological know-how as examples of factor conditions. They stipulate that governments have complete control over factor conditions, and that a nation with this factor may increase focus in delivery and producing high quality. If governments improve general skills and knowledge of the nation by establishing advanced education institutions, this introduces higher education and upgrade nation's innovative skills, which bring success in manufacturing industries.

Porter and Hill further mentioned the importance of home demand conditions. They state that if a local product is more demanded at home than in foreign markets, local firms are likely to put more emphasis on innovation and quality improvements than foreign firms. Country's per capita income determines the nation's spending pattern. If home country buyers earn high income, this allows the nation's preferences to change and demand products of high quality standard. This ultimately compels firms to be able to produce innovative products demanded by sophisticated local customers. This may potentially increase global competitiveness as local firm might have to export their products to other countries valuing their quality (Porter, 1998:627; Hill, 2009:190).

Porter (1998:627) and Hill (2009:191) further state that when local supporting industries and suppliers are competitive, home country firms may potentially be more cost efficient and innovative. Firms tend to be grouped into clusters of related industries, especially if the environment they are operating in is favourable. This allows them to acquire know-how as knowledge can flow within a geographic cluster and sometimes even form strategic alliances. This may subsequently lead to greater competitiveness for national firms. Formation of clusters makes it easier for customers as well, as they go to a specific place to get all the goods they need.

They finally argue that enhancement of the business environment contributes to new business formation, which results in new strong competitors and continued innovation that employ new technologies. The benefit of all these, is the reduction of costs by firms (Porter, 1998:627; Hill, 2009:191).

### 2.4.2 Selective Interventions

Selective interventions are used in particular industries, in order to develop such industries. Specific emphasis on the promotion of small and medium enterprises is a good example of selective intervention. This promotion could be achieved through a number of ways namely supporting existing and new institutions; simplifying taxation, export and import regulations, licensing and registration of SMMEs; reducing interest rates; and improving access to financial services. This is essential as it inspires growth and formal operation by informal businesses (Riley, 2006:1; Smorfitt 2008:84). Factors affecting the growth of SMMEs according to Roni (2003) cited Khan, Alam and Khan (2005:33), are environmental conditions and economic factors. Roni mentions manageable number of regulations, and strong educational and training facilities as kinds of environmental conditions. Roni further argues that availability of capital, and tax incentives fall under economic factors contributing to growth of SMMEs.

Institutional support (business development service provider) is meant to equip businesses with the necessary skills to contribute to their management and growth. In most cases, small businesses do not use business development service providers. They usually get advice from families or friends, which is normally short term. Many small businesses fail to realise that many types of government assistance are available to them, and furthermore, in most cases, that this help is free (Hodgetts and Kuratko, 1995:763).

Governments do their best to support SMMEs. However, despite the initiatives governments take, a significant number fail or cease trading. These quick close-downs affect a nation's economy, as it contributes to rising unemployment rates. The cause of this problem is generally lack of strategic management skills by SMMEs (Analoui and Karami, 2003:277).

Shortage of skills hinders economic growth and business efficiency. The solution here is the availability of well-trained business development service providers to help entrepreneurs acquire the necessary skills and realise the importance of contributing to the growth of the economy. Every individual in the field of business is advised to go for training. The reason is that entrepreneurs who already have skills are sometimes reluctant to share their skills and facilities with other entrepreneurs (Herrington *et al*., 2008:32&35).

The issue of SMMEs development is of critical importance. Most governments if not all, have taken steps to develop their economies through the enhancement of SMMEs. However, although many SMMEs are established, they decline within a very short time (Stokes and Wilson, 2006:222). This could be due to the state of the business environment they operate in. According to Porter (1998:20), governments have to focus on how to sustain the firms' competitive edge over foreign rivals. According to Herrington *et al* (2008:32), governments initiate selective policies to support high innovation and high growth entrepreneurial ventures.

Governments reform regulations in favour of SMMEs to promote and sustain the environment they operate in (South African Government 2, 1999:11; Warren and Murphy, 2000:2). However, in the previous section it was mentioned that some time ago, governments regulations used to favour large enterprises at the expense of SMMEs (Bhalla, 1992:13). This change might have been brought in by the fact that SMMEs are presently considered as high contributors of economic growth.

Regulations are carefully designed so as not to impose unintended effects on the regulated parties. In developed countries, the initiative has been taken by policy makers to eagerly learn all processes involved in regulatory development (Winston, 2006:107; COAG, 2007:3). According to Nanto (2004:23), there is a growing consensus among economies that the world should standardise trade regulations.

Regulation can be created, changed, or removed. Reasons could be that regulation is outdated or the government is unable to enforce the regulation it created (The World Bank, 2010:110). When reforming, governments involve the community, especially stakeholders likely to be affected by the regulation (Elhiraika and Nkurunziza, 2006:87). The regulatory proposal is introduced to the stakeholders and their feedback is gathered for the decision making. There are also regulatory performance indicators that measure how effectively policy makers have met their objectives (Office of Best Practice Regulation (OBPR), 2009:13).

In every economy, existing businesses are expected to grow. When growth occurs, small businesses contribute enormously to GDP increases. Growth also contributes to the bulk of new employment (Oribi, 2002:23). This might be one of the reasons why governments use selective interventions that focus specifically on SMMEs. However, reports by Hallberg (2000:3) and Elhiraika and Nkurunziza (2006:14) prove that even though small firms create high rates of jobs, they also bring high rates of unpleasant damage. Small firms' contributions to unemployment reduction are not as high as in large firms. Small firms employ fewer numbers of people, not huge numbers as large firms do.

## 2.5 Summary

External environments bring opportunities or threats. Firms have to understand the environment they are operating in and try to cope with its changes. If opportunities are available, firms that are alert grab them and prosper. It is the obligation of existing and potential owners and managers to acquaint themselves with business environment they are operating in. If firms fail to comply with set regulations for instance, negative results follow, that is, loss of customer trust.

There are compelling economic reasons for governments to get involved in promoting competition. For instance, if markets are inefficient, there is probably a good reason for governments to intervene to attempt to increase efficiency. Governments may assist SMMEs to accomplish desired goals and objectives through using available resources efficiently and effectively. Although the government can intervene, there is probably no need for governments to get involved if markets are efficient.

There are arguments for and against interventions by governments. Some argue that governments should intervene as this improves the efficiency of how markets operate. Others argue that governments should only intervene when they know they will be able to enforce laws. The perception is that the governments make things worse with the regulations they set instead of developing SMMEs.

Free market supporters only agree with the utilisation of functional intervention. They believe that if the overall infrastructure can be developed, firms can effectively achieve their goals. However, governments continuously make use of selective interventions in favour of SMMEs. This is due to the role SMMEs play, namely creating new employment opportunities.

The next chapter reviews government interventions in developed countries, as well as in developing countries.

# 3. OVERVIEW OF GOVERNMENT INTERVENTIONS IN DEVELOPED AND DEVELOPING COUNTRIES

## 3.1 Introduction

The previous chapter covered the literature which investigated the macro-environment firms operate in, the arguments for and against interventions by governments, and the two types of government interventions. This chapter covers the literature on functional and selective interventions by governments in developed and developing countries.

Porter (1998:627) and Lall (2000:3) emphasise the importance of functional government interventions by saying building higher levels of human resources is beneficial to governments in this corporate world. When industrial sectors advance to better stages, the demand for better and more appropriate human capital becomes essential. According to SBP (2008:16), there is no universal formula for growth. However, if a country wants sustained growth, enhanced infrastructure that makes it easier for businesses of all sizes to operate, needs to be a priority.

In order to develop particular sectors, for example SMMEs, governments use selective interventions. This development encourages businesses operating informally to grow and understand the importance of operating formally. If businesses are formalised, more revenues are collected by the government, through taxes paid by SMMEs, hence the enhancement of the economy (Riley, 2006:1). It is important to note that in this study, SMMEs and SMEs acronyms are used in the contexts of where data have been sourced.

The following section discusses functional and selective interventions in developed countries.

## 3.2 Government Interventions to Stimulate the Development of SMMEs in Developed Countries

Developed countries is a term used to describe highly industrialised nations such as Australia, Canada, Japan, Singapore and the United Kingdom (UK) among others, including most OECD member countries. Collectively developed countries are referred to as the North or Group B countries. The reason being the originality of most of them which are in the Northern Hemisphere (African Growth and Opportunity Act (AGOA).info, Online: 15 July 2010; University of Michigan, Deardorff's Glossary of International Economics, Online, 25 November 2010).

Many developed countries such as Australia, Canada, Japan, Singapore and United Kingdom have introduced various programmes to support SMMEs, as they have realised that their economies are developed by the presence of SMMEs. They have also become aware of negative results derived from poor regulations which consequently compelled them to dedicate more time supporting SMMEs programmes. Therefore, these countries have standardised their trade regulations (van Nieuwenhuyzen, 2008:78). For example, the United States started deregulating in early 1980s. Then the period of best regulatory practice which encouraged a shift to comprehensive regulatory management followed. Its main concern was to monitor regulatory systems (Roux and Klaaren, 2002).

### 3.2.1 Functional Interventions

This section reviews the functional interventions in developed countries. However, this study's main focus is on selective interventions.

If economies are aiming at higher levels of industrial development, there has to be amongst others, greater emphasis on high-levels of education which interact with production. This has compelled many developed economies to focus more on the quality and content of their educational structures. Sustainable economic growth and development require modern, efficient infrastructures, and this is a costly process (Lall, 2000:3; United Kingdom Government 1, Online: 7 August 2010).

A view on how different developed countries intervene using functional interventions follows. No specific criterion was used to select these countries. Five countries were chosen because their information was available. They are: Australia, Canada, Japan, Northern Ireland and Singapore.

#### 3.2.1.1 Australia

Just like Canada, the Australian government's goal is to positively and profitably manage the years ahead as in the year 2009 (Australian Government 1, Online: 7 August 2010).

Over the past few years the Australian economy has experienced slow growth due to skills shortages, this consequently contributed to high prices. This has forced the government to come up with new strategy for sustainable skills growth. This strategy ensures flexible education system responsive to economic needs. $661 million is invested in the skills of Australia's workforce. Over the next four years, up to 70,000 new training places will be established and 22,500 young trainees will be supported. The aim is to encourage more link between education system and economic needs (Australian Government 1, Online: 7 August 2010).

Transport is also taken into consideration in Australia. For goods to be delivered on time and for services to be provided at a convenient time, improved modes of transport and infrastructure have become essential. Rail freight works have been enhanced across Australia and this has supported productivity. This enhancement was achieved through the investment of $1 billion in the Australian Rail Track Corporation. This is expected to create a stronger economy (Australian Government 1, Online: 7 August 2010).

#### 3.2.1.2 Canada

Canada is among the governments that are looking beyond the economic recession and aggressively addressing the economic slowdown. The government of Canada invests in the future as no other government has done before. They rely on research and innovation to set themselves apart from other economies and thus ensure their prosperity. The Canadians are also envied for their clean and renewable energies. To maintain their competitive edge, the Canadian government banks on these strengths (Government of Canada 1, Online: 7 August 2010).

Canada has planned to continuously invest in health and education services. Therefore, education budgets were increased by 3.5 percent in 2010, representing investments of $490 million. It is believed that this investment will enable Canadians to fight against school dropouts. Workers in these tough economic times are thoroughly trained: the government of Canada intervenes directly in businesses to encourage them to opt for worker training instead of dismissal, and Canadians labour force skills are recognised worldwide. The government is even planning to make it easy for people who lose their jobs to immediately start vocational training (Government of Canada 1, Online: 7 August 2010).

### 3.2.1.3 Japan

In Japan many cities were left in ashes after World War II. Close to nine million people were homeless, the country was entirely devastated with about 40% of the infrastructure being wiped out. However, in less than 15 years after the war, Japan tremendously rebuilt its nation to a strong economic and democracy country. The United States supported Japan with funding from 1945 to 1952, which helped Japan to reconstruct its infrastructure. Japanese education was liberalised after the war. They had top education systems in the world before the war and they are still counted among the top even after the war. The level of education makes it easier for Japanese graduates to perform their jobs and create a stronger workforce. They boost the economy as they are able to create innovative solutions for work problems. Furthermore, Japanese women were guaranteed equality with men and were given the right to vote (Japanese Government 3, Online: 4 January 2012; Japanese Government 4, Online: 4 January 2012).

Japan took another extensive reconstruction and prevention measure in the aftermath of tsunami, in an intention to enhance the overall economic development. The Basic Disaster Prevention Plan (BDPP) was examined and revised from different perspectives, based on discussions in the Expert Panel on Earthquake and Tsunami Countermeasures. As a matter of urgency, the government gave priority to logistic infrastructure such as roads, ports and harbors, seaside railways in disaster-affected region (Japanese Government 1, Online: 8 December 2011).

Based on the concept of disaster reduction, the government considered locations of school facilities to ensure the safety and security of children. Attention was given to kindergartens and nursery buildings severely affected by the disaster. Special measures were implemented to allocate teachers and school counselors in order to provide support for psychological and physical care of children affected by the disaster (Japanese Government 1, Online: 8 December 2011).

Advanced education and efforts of industry-academia-government partnership were implemented in all educational institutions in order to develop training capacity for human resources who lead creation of industries. Vocational trainings were introduced in the emerging fields such as nursing, environment, energy and tourism. Local networks were also set up so that local residents can actively study and address local issues collectively (Japanese Government 1, Online: 8 December 2011).

To provide the community with security for years to come, a system of comprehensive community care services was developed. This integrates continuous provision of services in the area of health, welfare and housing (Japanese Government 1, Online: 8 December 2011).

New Graduate Employment Support Project was established for the purpose of employing new graduates and other people especially in affected regions. This makes it possible for job seekers to refine their job search to look specifically for employers that make special provision for students affected by the earthquake (Japanese Government 2, Online: 8 December 2011). Furthermore, subsidies equivalent to two thirds of the cost of allowances, are provided to employers who had to temporarily lay off workers due to financial reasons (Japanese Government 2, Online: 8 December 2011).

#### 3.2.1.4 Northern Ireland

E-commerce has increased in all UK regions. The Irish are able to buy and sell goods and services on the Internet. This is due to the availability of 100 percent broadband (United Kingdom Government 1, Online: 7 August 2010). In Northern Ireland, a region in the UK, every business and school can access broadband regardless of its location. Furthermore, Northern Ireland is amongst the best educated regions in terms of performance in the General Certificate of Secondary Education (GCSE) and A-levels. Educational attainment is generally high in Northern Ireland (United Kingdom Government 1, Online: 7 August 2010).

It is important to mention that, to maintain its economy, the United Kingdom has used the protection of young or emerging industries (The World Trade Report, 2006:82). However, the benefits have not materialised in the labour market. This could be because of Irish emigration and older sections of the workforce who have poor educational backgrounds (United Kingdom Government 1, Online: 7 August 2010).

#### 3.2.1.5 Singapore

Singapore has heavily invested in physical infrastructure and education. It is believed this will attract foreign investment and induce upgrading. Singapore has developed an efficient higher education structure which is industrially oriented (Lall, 2000:11). Enhancing training and productivity is the most possible way that Singaporeans can use to help citizens with low incomes to earn better salaries (Singaporean Government 1, Online: 7 August 2010).

Strong emphasis has continuously been put in linking the Workforce Skills Qualifications (WSQ) with skills acquired by individuals through the post-secondary and tertiary education system. This helps workers to build on skills obtained through either pathway (Singaporean Government 1, Online: 7 August 2010).

Over the next decade, Singapore is gradually intending to invest in building up a first-class system for Continuing Education and Training (CET). This major investment includes everyone in the higher and lower positions. Employers in Singapore are also encouraged to equip employees with innovative skills that add value. This opens up worker's capabilities (Singaporean Government 1, Online: 7 August 2010).

Dependence on foreign workers has been reduced in Singapore. This is expected to allow higher productivity over the long-term. However, Singapore has realised that there is still a need to exchange know-how with the foreigners in order to allow growth and income. This has forced the government to balance the reduction of dependence on foreign workers with the real trade-offs gained (Singaporean Government 1, Online: 7 August 2010).

### 3.2.2 Selective Interventions

In many developed countries economic growth is considered the main source of competitive advantage. This has brought an increase in government interventions in economic activities. To grow their economies, governments have enforced policies governing the development of new and existing small firms because it is assumed that small firms contribute to the growth of the economy. Regulations on barriers to entry into the establishment of small businesses are being eliminated and this has minimised a number of regulations. The elimination of some regulations has contributed to countries having effective manageable regulations that can be evaluated over time, to suit their current environments (Fujita, 1998:25; Acs, 1999).

Developed countries, such as, Australia, Canada, Japan, U.K. and so on, have introduced a system called Regulatory Impact Assessments (RIAs) to ensure that regulations goals are efficiently achieved. This is because it is necessary to monitor and assess the impact of regulations. Risk analysis is also used as a tool to address whether to regulate or not. When deciding whether to maintain an existing regulation or not, a cost-benefit analysis is used. This is done to ensure relevance and effectiveness of regulation over time (COAG, 2007:19&21; OECD, 2007:4).

According to Chang (1999:3) and The World Trade Report (2006:76), neoclassical economics have less support on selective intervention. Pro-neoclassical economics do not believe in the idea that preference should be given to some economic activities over the others. According to Sarel (1997), neoclassical believe free market is the driver of economic growth, therefore, the role of the government should be very limited at macro and micro levels. They believe governments should enhance infrastructure that provides economic environment conducive for open markets. They support functional intervention. However, revisionists believe free markets are inefficient, therefore, support government selective interventions. They contend that government funds should be allocated to useful projects that promise a good rate of return. Revisionists further argue that government intervention should be specific not uniform. During their early years of development, which is between 19$^{th}$ and 20$^{th}$ centuries, developed countries extensively practised the use of selective interventions. This makes one to realise the importance of selective interventions (Sarel, 1997; Chang, 1999:3).

#### 3.2.2.1 Australia

The Australian government believes that its role is to provide efficient government interventions. This assists in the confident sustainable investment by the private sector (Australian Government 1, Online: 7 August 2010).

Australia has already introduced a Resource Super Profits Tax law which is expected to be effective from July 2012. This is intended to make it easier for projects that are in start-up phase and have less profitable resources to be able to pay tax. For example, newly established small businesses are expected to receive an opportunity of not paying 28 percent company tax rate from 2012 to 2013 (Australian Government 1, Online: 7 August 2010).

#### 3.2.2.2 Canada

Canada felt the negative impact of the recession just like any other country. This is borne out by the difficulties businesses have encountered in securing investments to enable them to become more productive and competitive. Canada has consequently chosen to address the economic slowdown through various initiatives, as stated in the previous section (Government of Canada 1, Online: 7 August 2010).

In addition, Canada has announced several initiatives to help businesses including financing medium-sized businesses. A new Stock Savings Plan (SSP) aimed at generating entrepreneurial spirit has been created and medium-sized businesses are exonerated from paying taxes (Government of Canada 1, Online: 7 August 2010). Easing of small business tax burdens was announced by the parliament during their budget speech. This is intended to make it easy for small businesses to overcome the recession, to better protect jobs, and to better meet competitive challenges (Government of Canada 1, Online: 7 August 2010). Furthermore, a 10 year tax holiday has been announced for new corporations that commercialise intellectual property (Government of Canada 1, Online: 7 August 2010).

#### 3.2.2.3 Japan

Japan introduced foreign trade with major changes such as reduction of tariff barriers. The aim was to help boost its economy to become as healthy as it was before. As a result, remarkable reconstruction and rapid economic growth were achieved in the postwar years. Japan made every effort to increase energy supplies to rebuild its industrial base. Around 1950s after securing its energy supplies, Japan was able to strengthen its export ability which boosted the economic growth. Other economic reforms included the establishment of the Fair Trade Commission and Deconcentration Law (Japanese Government 3, Online: 4 January 2012; Japanese Government 4, Online: 4 January 2012).

Industrial monopolies were dismantled and factories were broken into hundreds of smaller companies. They were filled with high quality workers absorbed from the armies with an intention to secure jobs for the Japanese nation this led the production to grow rapidly. Japan was able to recover from its economic debt and begin to shift huge amounts of wealth to the middle class after the war (Japanese Government 3, Online: 4 January 2012; Japanese Government 4, Online: 4 January 2012).

A series of economic measures were put in place in the aftermath of the tsunami and earthquake to support SMEs development. Whenever these natural disasters have struck, devastation in terms of damage of property and lives is caused. Japan has not been only affected by these natural disasters, but by Lehman crisis as well in 2008. Economic measures put in place included the provision of financial support for SMEs. In the latter half of fiscal 2008 and in fiscal 2009, the government compiled a total of four supplementary budgets and implemented a series of measures to ease SMEs financial positions. Safety net loans and encouragement of loan modifications were maintained in fiscal 2010. A total of ¥57 trillion was set aside for these programs. Small and Medium Enterprises that sustain regional economies and employment have been given a support to help them cope with the effects of the earthquake, this is stated on the fiscal 2011 supplementary budget passed on 2 May 2011 (Japanese Government 2, Online: 8 December 2011).

The period of SME Financing Facilitation Act of 2009 was extended for another year beyond the originally planned end of March 2011. This is because the government wanted to verify that financial institutions are modifying loans in an appropriate manner. In fiscal year 2010, 37,654 loans worth a total of ¥147.8 billion were provided. Ceiling on loans has been raised from ¥10 million to ¥15 million to enhance lending. Interest rates on loans taken for purposes of capital investment have been reduced for a period of two years. The term of loans has been extended from seven to 10 years for capital investment, and payback period has been extended from six months to two years. For working capital, term of loans has been extended from five to seven years, and payback period from six months to one year (Japanese Government 2, Online: 8 December 2011).

Tax has been temporarily reduced from 22 percent to 18 percent for SMEs that generate up to ¥8 million of annual income. For purchase of certain machinery or equipment by SMEs, seven percent tax credit for the base price has been extended by two years through to 31 March 2012. Furthermore, Current Asset-backed Guarantee Program has been promoted to encourage lending that does not depend excessively on personal guarantees and real estate collateral (Japanese Government 2, Online: 8 December 2011).

In order to strengthen the SMEs business support functions, SME support centers at 84 locations throughout Japan have been established. Subsidies were also provided under the Market Development Program via the National Federation of Small Business Associations to fund projects contributing to SMEs' development. A variety of measures were also implemented to make use of IT to boost SMEs' competitiveness. These included training to develop awareness of the importance of IT management (Japanese Government 2, Online: 8 December 2011).

#### 3.2.2.4 Northern Ireland

Northern Ireland has realised that creating an entrepreneurial environment is critical to delivering private sector growth. This entrepreneurial environment contributes in the formation of new firms (United Kingdom Government 1, Online: 7 August 2010).

However, The Global Entrepreneurship Monitor (GEM) indicated that in 2006, Total Entrepreneurial Activity (TEA) which is the rate of early stage entrepreneurial activity was 3.7 percent in the UK. This indicates a one percent decline compared to the two previous years. After discussing the impressive functional intervention in Northern Ireland, it is found that in terms of TEA, this region ranks in the bottom three of the 12 UK regions (United Kingdom Government 1, Online: 7 August 2010).

### 3.2.2.5 Singapore

An overview of the initiatives by the Singaporean government to assist SMEs start-up and growth follows. To support SMEs, economies choose to reform consistently. According to The World Bank (2010:4), top reformers are always proactive and continuously make things happen. With regards to ease of doing business, Singapore is counted among the top economies. The World Bank (2010:4) states Singapore is one of the most consistent reformers year after year and has been ranked first in ease of doing business, for the 4$^{th}$ year in a row. This continuous strategy may have been applied because of the realisation of intense competition.

The Singaporean government set up the Economic Development Board (EDB) to co-ordinate policy and to offer incentives to guide foreign investors into targeted activities. This has attracted Foreign Direct Investment (FDI), and hence, the possibility for Singaporeans to access expatriate skills. The example is the provision of on-the-job training and technical assistance especially in firms that subcontract (Lall, 2000:13).

The Singaporean government encourages SMEs to invest in skills and innovation, through mergers and acquisitions. However, the government realises that this can be costly. Therefore, a five years one-off tax allowance scheme has been introduced. This is intended to help bear the expenses of a portion of acquisition costs (Singaporean Government 1, Online: 7 August 2010).

The Economic Development Board assisted SMEs in allocating funds provided by United Nations Development Programme (UNDP) in 1962. Other several schemes for financial assistance were established in 1970. More importantly the Small Industries Finance Scheme was established to encourage technological upgrading. In 1985 the Venture Capital Fund was introduced in order to assist SMEs access start-up capital with low interest. This initiative was introduced due to the recession challenge that Singaporean government was faced with (Singaporean Government 1, Online: 7 August 2010).

In 1986, a one-stop shop was established. This consultancy agency helping SMEs with finance, grants and management skills was known as Small Enterprises Bureau (Lall, 2000:19). Other Boards that offer assistance were also established for example the National Productivity Board which provided similar management advice and consultancy to SMEs (Lall, 2000:24). S$45 million has been set aside by the government over five years to attract young talent in SMEs. Singaporeans are able to put enterprises in higher standard where quality jobs can be created for all Singaporeans. Singaporean businesses are also encouraged to empower employees as this culture enables worker's potential to be unlocked and be able to add value (Singaporean Government 1, Online: 7 August 2010).

Singapore has implemented new online and computer-based services, this eases the start-up of small businesses. There is also an incentive brought up, where assets that cost less than S$5000 are instantly written-off. This facilitation of economic restructuring in Singapore helps entrepreneurial players to grow faster. Less competitive businesses have also been encouraged to upgrade themselves (Singaporean Government 1, Online: 7 August 2010).

A discussion on functional and selective government interventions in developing countries follows in the next section.

## 3.3 Government Interventions to Stimulate the Development of SMMEs in Developing Countries

Developing countries are a collection of countries that usually lack a high degree of industrialisation, infrastructure and other capital investments. Their populations are not modernised. They have no advanced technology, prevalent literacy or sophisticated living standards. However, these capabilities are being developed. These countries are known as the Third World or the South. This is due to their location which is in the Southern Hemisphere (AGOA.info, Online: 15 July 2010; University of Michigan, Deardorff's Glossary of International Economics, Online, 25 November 2010).

The interventions in these developing countries are considered firstly, in the context of functional interventions and secondly, in the context of selective interventions.

### 3.3.1 Functional Interventions

According to the World Trade Report (2006:93), when improving the overall competitiveness of their economies, governments need to realise that there are regional differences in infrastructural demands. African industries are known to have poor performance and low technological efficiency. The other challenge is difficulties in gaining access to information. This could be due to lack of infrastructure and capital investment resulting in inadequacy of technological upgrading. There is high government failure in Africa (Lall, 2000:33).

According to Fujita (1998:29&41) and Porter *et al* (2004:33), in developing economies there is poor infrastructure and lack of cluster development. Lall (2000:12) emphasises that in developing countries where there is low level of industrial development, the remedy is to raise the quality standard and quantity of primary schooling and basic technical education. He further encourages training in all firms.

No specific criteria were used to select the developing countries, other than the availability of information. The countries that were investigated are: Botswana, Ghana, Rwanda, South Africa and Tanzania.

#### 3.3.1.1 Botswana

Due to the recent global recession, Botswana was also affected, as it experienced an extraordinary loss of national income. This compelled Botswana to come up with long-term strategies aimed at rapidly re-establishing the sustainable economic growth. These strategies were identified and it was decided that funds be sought to add to existing sources. Botswana concluded that investing in both infrastructure and human development would help the country to participate in economic activities. The government has consequently adopted a National Strategy for Poverty Reduction (NSPR) as a remedy to address poverty challenges. Batswana are already enjoying the benefits of their choice (Botswana Government 1, Online: 8 August 2010).

In 2009, the National Human Resource Development Strategy and, the Tertiary Education Policy were implemented. The aim of the strategy is to guide training and facilitate matching of skills with economic needs. This includes a revised Junior Secondary School curriculum which caters for entrepreneurial skills. The Internship Programme effectively facilitates transfer of development skills to new Batswana graduates who are unemployed (Botswana Government 1, Online: 8 August 2010).

Tertiary Education Policy’s implementation has brought about some changes. This policy allows potential students to get loans or grants to go to tertiary institutions. Furthermore, Botswana’s economy has been transformed from a resource to a knowledge based economy. This major effort was achieved through the establishment of the Botswana International University of Science and Technology (BIUST) (Botswana Government 1, Online: 8 August 2010).

#### 3.3.1.2 Ghana

Ghana is aware that inadequate modern physical infrastructures hinder development. Therefore, the strategy of the government is to enhance key infrastructures in the country, in the medium term (Ghanaian Government 1, Online: 8 August 2010).

One area of weakness was found to be education (SAPRIN, 2002:148). There is a lack of educational material and supplies and insufficient training for teachers. There is also a need for learner and teacher support materials together to give quality instruction (SAPRIN, 2002:148; Ghanaian Government 1, Online: 8 August 2010). These problems have negatively impacted on the quality of education provided (SAPRIN, 2002:160). The effective solution, it was concluded, was to direct more resources into this sector. It has been found that children need affordable access to decent classrooms and laboratories to learn effectively (SAPRIN, 2002:148; Ghanaian Government 1, Online: 8 August 2010).

Therefore, funds have been set aside for construction of 165 school buildings and 250 permanent structures. This is meant to accommodate primary and junior high schools as well as kindergartens. The bottom-line is to provide 14,700 jobs to the community. Therefore, the construction of these schools is localised and undertaken by communities themselves. Furthermore, better school facilities will be provided to some 45,000 pupils (Ghanaian Government 1, Online: 8 August 2010).

The government has realised that the poor cannot access education and health care services, due to the introduction of user fees (SAPRIN, 2002:157). Therefore, the government started providing free education to all disabled children of school-going age since the beginning of 2010 (Ghanaian Government 1, Online: 8 August 2010).

Ghana is also prepared to transform its economy from a subsistence agriculture based into information and knowledge economy. This information and knowledge economy is expected to help Ghana to develop a broad and reliable electronic database which will facilitate crime investigations and policing research, in a cost-effective way (Ghanaian Government 1, Online: 8 August 2010).

#### 3.3.1.3 Rwanda

The poverty in Rwanda has been caused by economic and historical factors. The country experienced a civil war which escalated into genocide. The war plunged the country into a severe economic depression with an annual GDP growth of -10 percent in 1993 and -49 percent in 1994. Since the war ended in 1995, the government introduced some recovery measures aimed at stimulating economic growth. Amongst other measures, the government has rebuilt the war-damaged economic infrastructure such as roads and business premises. In addition, the Rwandan government has managed to stabilise the currency depreciation and consumer price inflation. However, notwithstanding such recovery measures, there are still infrastructural challenges (Wangwe, 2002:2). To address these economic challenges, Rwanda suggested the implementation of Vision 2020. The goal of Rwanda's Vision 2020 is to transform the economy into a middle income economy. It has been realised that it is essential to drive economic growth and job creation. This assists in reducing dependence on external aid. Therefore, the government got into a firm commitment of building an enabling environment (SBP, 2008:111).

However, obstructions to growth in the Rwandan economy, arising from structural rather than regulatory issues, still exist (SBP, 2008:114). Key constraints on expansion were identified and these are infrastructural challenges, skills shortages, lack of capital, lack of demand and high levels of competition (SBP, 2008:114).

The Rwandan government has taken into consideration human development; and economic infrastructure in reducing poverty. Human development includes education and health. Economic infrastructure includes the development of transport, energy and communications. Developing these elements it is understood, might support economic development both in urban and rural areas (Wangwe, 2002:6-7).

The main objective of the government is that every Rwandan citizen has to have access to education, healthy life and housing. Therefore, the government aims at achieving an increase in educational success at all levels, and to implement better health care in order to reverse the decline in health indicators and to confront the major killer diseases, HIV/AIDS and malaria (Wangwe, 2002:6-8). All their plans have been implemented.

#### 3.3.1.4 South Africa

The South African government is concerned with alleviating skills shortages in education. Therefore, 5.6 percent of the GDP is spent on education overall. The Department of Education was allocated R700 million in 2007, in order to implement a financial support scheme for prospective educators. The former Minister of Finance, Trevor Manuel, announced that the South African government has improved policy frameworks for education, network industries and health, to strengthen economic growth. South Africa believes that new ideas translate into new opportunities (South African Government 1, Online: 3 August 2010).

The South African government has established an Infrastructure Delivery Improvement Programme (IDIP). This initially focused on the education sector but was later expanded to provincial health, public works and transport departments. South Africa's commitment to upgrading its infrastructure has been witnessed by well upgraded sports stadiums and the improvement of public transport networks implemented for the preparation of the 2010 *Fédération Internationale de Football Association* (FIFA) World Cup. Rail and road transport networks have been recreated and there is also development of new telecommunication structures hoped to link South Africans to the rest of the world in the next 10 years or so (South African Government 1, Online: 3 August 2010).

The government continuously put an emphasis on the skills acquisition and development of the labour force. This lowers the supply cost of workers, improves productivity, and increases employment prospects (South African Government 1, Online: 3 August 2010).

#### 3.3.1.5 Tanzania

The Tanzanian budget for 2009/10 was intended to improve and expand essential infrastructure services and a National Economic Empowerment Policy was implemented. This policy was meant to strengthen economic infrastructure (Tanzanian Government 2, Online: 8 August 2010).

The education sector was allocated 1,743.9 billion shillings in 2009/10, an increase of 22 percent over 1,430.4 shillings in 2008/09. This was because this sector broadly plays an important role in the economy. The government has put emphasis on recruiting qualified teachers at all levels and providing teaching materials. Priority was given to these areas after the government evaluated its performance. The government further decided to protect achievements already attained and strengthen areas of weakness (Tanzanian Government 2, Online: 8 August 2010).

### 3.3.2 Selective Interventions

According to Khalmurzaev (2000:9), what hinders businesses efficiencies in developing countries, are problems of government regulations. According to The World Bank (2004:87), these challenges of large regulatory burdens and small incentives offered to encourage the formal sector, results in choices to operate informally. Wint (1998:281) and Lall (2000:33) state that developing countries are faced with a wide range of market and government failures. These need more attention in order to gain both firm and active efficiencies.

Khalmurzaev (2000:9) agrees with Wint (1998:281) that correction is needed. For example, comprehensive reform may be necessary for countries that have heavy regulation in all aspects of business activity. If this is not corrected, it might bring corruption, and bureaucratic barriers and delays.

Regulations in developing countries are known to be outdated and to have unclear objectives. There is a lack of involvement by governments in setting these regulations and lack of flexibility in adapting set regulations to changing world markets. Regulation effects are not monitored and the implementation of regulations is not effective (Lall, 2000:32). This hinders the entry of new enterprises and increase informal sector with limited opportunities for growth (The World Bank 2006).

According to Elhiraika and Nkurunziza (2006:1-3), after decades of instability and falling growth, only a few developing countries have successfully implemented effective reforms to stimulate private sector development. The majority of developing countries have been ineffective in terms of implementing adequate reforms that contribute to conducive business environments. According to Chang (1999:8), many developing countries have not been successful in their long-term attempts of building institutions needed for well-functioning market economies.

The idea that preference should be given to some economic activities became so popular in the developing countries since aftermath of Second World War (Chang, 1999:3; The World Trade Report, 2006:76) and this approach affects certain activities more than others. It can also lead to market failures. However, the East Asian Tigers' success has shown that selective policy can work economically as well as politically (Lall, 2000:2). Developing countries are strongly encouraged to focus more on functional rather than on selective interventions (Wint, 1998:281).

According to the World Trade Report (2006:69), without government intervention, entrepreneurs might encounter information and coordination problems. For efficiency purposes, governments might have to intervene. This can be done through among others, the establishment of institutions to assist entrepreneurs in acquiring knowledge. This is especially applicable to SMMEs which are new and experience a higher degree of information barriers.

#### 3.3.2.1 Botswana

Botswana was faced with the challenge of global competitiveness which compelled it to develop its entrepreneurs. Therefore, the government of Botswana established the Citizen Entrepreneurial Development Agency (CEDA). This agency among others, offers funding, training and mentoring services to Batswana who wish to establish businesses or grow existing businesses. Extensive series of products that includes subsidised loan financing and credit guarantee schemes, have been developed by CEDA (Botswana Government 1, Online: 8 August 2010).

In 2004, the government also established a Local Enterprise Authority (LEA) in 2004. This is a one-stop shop responsible for providing development and support services to the needs of SMMEs. For example, Botswana has simplified business licensing and tax registrations (The World Bank, 2010:10). The Local Enterprise Authority provides the same services as CEDA. However, LEA also has other support services which include facilitation of technology adoption, advisory services, and identifying business opportunities for SMMEs (Botswana Government 1, Online: 8 August 2010).

The Botswana government has found it profitable to improve the efficiency of its policy process. Policies have been simplified; modernised techniques are used and unnecessary steps have been eliminated. This was done to enhance private sector participation which helps Botswana to succeed in this period of economic crisis (Botswana Government 1, Online: 8 August 2010). Botswana seems to follow Mozambique which publicises notices of company establishments electronically instead of using the outdated requirement of publishing them in legal journals (The World Bank, 2010:11).

#### 3.3.2.2 Ghana

Ghana aims at creating an enabling environment where business registration is expected to be completed in just one day and has simplified company registration (The World Bank, 2010:10; Ghanaian Government 1, Online: 8 August 2010). Ghana has also reduced the economic and non-economic cost of doing business which is a strategy expected to develop the private sector (Ghanaian Government 1, Online: 8 August 2010).

The government launched an Industrial Policy in January 2010. This policy focuses on the development of SMMEs to ensure that Ghanaian entrepreneurs are able to highly perform. Training programmes have also been developed and implemented to enhance the capacity of the public sector which equips the public sector with effective skills in decision making. These skills are needed when supporting private sector development (Ghanaian Government 1, Online: 8 August 2010).

#### 3.3.2.3 Rwanda

The Rwandan government has formed a regulatory reform committee which reports directly to the President. This is to make sure that new regulations are effective, as Rwanda finds regulatory and administrative environments to be a crucial component to foster the competitiveness of individual firms and to improve the economy as a whole. Rwanda supports the growth and diversification of the private sector (Wangwe, 2002:6-7; SBP, 2008:111; The World Bank, 2010:4).

Rwanda's Vision 2020 also signifies that it is prepared to promote entrepreneurship in the long term. After the implementation of this initiative, investment is expected to increase, which might lead to the creation of more jobs. There is an expectation to reduce red tape and streamline administrative processes (Wangwe, 2002:6-7; SBP, 2008:111; The World Bank, 2010:4).

#### 3.3.2.4 South Africa

From 1992, the South African government turned its focus on SMMEs development. More support was given to this sector with the aim of expanding it further. Institutional support agencies including Ntsika were established. Ntsika was subsequently replaced by the Small Enterprise Development Agency (SEDA). Khula Enterprise Finance and the Apex Fund were established to provide financial services. Khula provides micro-finance loans of less than R10 000. In connection with policy, the National Small Business Act was passed in 1996. In equality issues related to SMME sector were built into the BEE Codes of Good Practice (SBP Alert, 2009:2).

In 2002 the South African government decided to ensure the sustainable competitiveness of SMMEs and released a new policy aimed at increasing the number of SMMEs (SMMEs South Africa Business Guidebook, 2004/2005).

In 1990s, South Africa brought about a determined set of trade policy reforms and tariffs. Reforms influence private sector approach towards better investment, innovation and employment. About 80 percent of all tariffs are now duty free. This has been achieved through the help of the World Trade Organisation which shifted tariff to international standarised practices (SBP Alert, 2009:4; South African Government 1, Online: 3 August 2010).

From 1 March 2012, micro enterprises are expected to pay tax only if their turnover exceeds R150 000 a year. Furthermore, micro enterprises that register for Value-added Tax (VAT) will no longer be disqualified from registering for turnover tax. The South African Revenue Services has introduced an eFiling service that enables taxpayers to complete and submit tax forms electronically and to make electronic payments. This service is offered free of charge and is conducive to time conscious entrepreneurs (South African Government 3, Online: 9 September 2011).

The study carried out by Christianson (2003:1) on SMMEs in South Africa, shows that SMMEs consider the local investment climate to be over-regulated. The SBP study highlights that businesses in South Africa have to spend time acquainting themselves with regulations that affect them after which much time is also spent trying to comply with such regulations and keeping up with changes (SBP, 2005:7).

Moreover, the government was not applying regulatory best practice when formulating new regulations (Christianson, 2003:1). Christianson emphasises that regulations set were always in favour of large firms which more often would impose additional burdens on SMMEs in South Africa (Christianson, 2003:7).

Government initiatives on start-up phase have not been successful as intended. This is confirmed by the figures given out by GEM in 2008. These figures show that eight percent of South African adults own businesses that are not more than 3.5 years old. Only 2.3 percent of established businesses have a potential of operating to over 3.5 years (SBP Alert, 2009:2).

### 3.3.2.5 Tanzania

The Tanzanian government continues to implement the National Economic Empowerment Policy of 2004. This policy focuses on reviewing and improving regulations to ensure that requirements for a market oriented economy are met. The policy also focuses on creating a conducive environment favourable for investment and economic growth, to raise skills and knowledge levels, and to improve the capacity to produce goods of high quality (Tanzanian Government 2, Online: 8 August 2010).

The policy's implementation has brought notable achievements. Examples are an increase in real GDP growth and simplified licensing procedures. An Export Credit Guarantee Scheme (ECGS) and SMEs Guarantees Scheme have also been implemented. These measures enhance loan agreements, motivate and inspire production by SMEs which ultimately allow them to be involved in exporting (Tanzanian Government 2, Online: 8 August 2010).

There are diverse reforms being implemented for development of the private sector. These include implementation of a programme on Business Environment Strengthening for Tanzania (BEST) and the implementation of a Competition Policy. However, some SMEs still find regulations heavy to comply with. As a result these enterprises have failed to formalise and have been unable to grow (Tanzanian Government 1, Online: 15 February 2010).

Tanzania has implemented economic empowerment programmes which are showing huge progress. These programmes include the Small Entrepreneurs Loan Facility (SELF). Loans amounting to 68.58 billion shillings were given to 131,640 entrepreneurs between July 2008 and March 2009. More loans were provided to SMEs through the Women Development Fund, the Youth Development Fund and the Tanzania Social Action Fund (TASAF) (Tanzanian Government 2, Online: 8 August 2010).

Further intentions of improving the tax structure have been in place. The tax base has been broadened through improving domestic revenue collection processes and its administration. It is believed that a better life for every Tanzanian can be achieved through development emanating from these collected revenues (Tanzanian Government 2, Online: 8 August 2010).

**Table 3.1: Summary Table Highlighting Key Functional and Selective Interventions in Developed and Developing Countries**

| Developed Countries | Functional Interventions | Selective Interventions |
|---|---|---|
| **Australia** | -Improved infrastructure, e.g. human capital, educational system and transport. | -Reduced tax. |
| **Canada** | -Modernised infrastructure, e.g. reliability on research and innovation. | -Financing medium-sized businesses, e.g. reduced tax. |
| **Japan** | -Enhanced infrastructure given priority. | -Reduction of taxes and interest rate.<br>-Strengthened export ability.<br>-Subsidies to projects contributing to SMEs' development.<br>-Introduction of IT management training to SMEs. |
| **Northern Ireland** | -Introduction of e-Commerce.<br>-Enhanced education system. | |
| **Singapore** | -Improved physical infrastructure.<br>-Minimal encouragement of foreign direct investment. | -Consistent reform.<br>-Provision of management advice and consultancy.<br>-Technological upgrading on SMEs services encouraged. |

| Developing Countries | Functional Interventions | Selective Interventions |
|---|---|---|
| **Botswana** | -Investing in infrastructure e.g. human capital.<br>-Transformed the economy from resource to knowledge based economy. | -Offer funding, training and mentoring services to SMMEs through CEDA and LEA.<br>-Facilitation of technology adoption and advisory services. |
| **Ghana** | -Enhance key infrastructures in the medium term.<br>-Transformation of economy from agriculture based to information and knowledge-based. | -Simplified licensing procedures.<br>-Make use of Business Development Service providers. |
| **Rwanda** | -Economic infrastructure improved.<br>-Transform economy into middle income and reduce dependence on external aid. | -Regular reform to encourage formal sectors. |
| **South Africa** | -Improved infrastructure e.g. educational system, health, transport and communication network. | -Provide financial services through Ntsika, SEDA and Khula.<br>-Reduced tax and simplified procedures for paying tax. |
| **Tanzania** | -Improvement and expansion of essential infrastructure services. | -Constant reforms resulting in simplified licensing procedures and improved tax structure.<br>-Financial support to exporting SMEs. |

## 3.4 Summary

Developed and developing countries both use functional and selective interventions in order to enhance economic growth and enabling environments are being created by all the governments studied. However, in developed countries, there is more economic growth which has brought an increase in government intervention in economic activity while developing countries are in the process of growing and generating jobs. The reason could be the way interventions are implemented by the industries in different countries or the way interventions are carried out by governments. The researcher's perception is that all countries have realised the importance of interventions on both levels.

In all the countries that have been studied, selective interventions are more frequently implemented than functional ones. With functional interventions the concern is mostly on physical infrastructures, education, and health. When using selective interventions, governments use broad approaches and often reform. It is perceived that continuous reform helps countries recover from economic recession and reforms are normally adopted by countries that are involved in making sure that business start-up regulations are easy and are implemented efficiently.

Factors that impact on business activities are either external or internal. Government can put much effort to enhance SMMEs development, but if there are internal discrepancies, SMMEs will continue to have challenges. The creation of a formal sector can encourage development or acquisition of the business which is in the same line of products and services. It can eventually promote diversification through provision of various products and services. This is done through reviewing the need for existing policies and this is the most popular and effective way of facing future challenges.

Developed countries use Regulatory Impact Assessment to monitor the impact of regulations. Furthermore, the costs of compliance and administration and the efficiency and effectiveness of the way they are implemented, need to be monitored and assessed as well. To ensure that regulations are relevant and effective over time, cost-benefit analyses are used to measure the risk of maintaining or dealing with existing regulations (COAG, 2007:19&21).

This chapter investigated the interventions in developed and developing countries. Chapter 4 gives an overview of Lesotho's current business environment.

# 4. AN OVERVIEW OF GOVERNMENT INTERVENTIONS IN LESOTHO

## 4.1 Introduction

This chapter reviews Lesotho's interventions in the context of functional and selective interventions. The chapter also compares Lesotho's interventions to other developed and developing countries' interventions. The chapter gives an overview of Lesotho's current business environment, and then analyses legislation in Lesotho. The previous chapter focused on functional and selective interventions by developed and developing countries. Having studied what developed and developing countries do, this might assist in the choice of appropriate interventions by Lesotho when establishing and stimulating the growth of SMMEs. This benchmarking might also assist in transparency in the implementation of those interventions.

More often than not countries are faced with poor infrastructures and governments need to create environments in which firms can upgrade competitive advantages. Creating conducive environments might also attract investors from other countries. Characteristics of a conducive environment for SMMEs are: availability of valuable information; transparency and consistency in the implementation of regulations; and advanced infrastructure (Small and Medium Enterprise Development Authority of Pakistan (SMEDA), 2002:83). In this section, Lesotho‘s interventions are reviewed from both a functional and a selective perspective.

## 4.2 Government Interventions to Stimulate the Development of SMMEs in Lesotho

It is important to have a brief view of Lesotho's history before focusing on the government interventions meant to establish and stimulate the growth of SMMEs. There was political disturbance in Lesotho in 1998, which resulted in foreign investors being chased out of the country and their businesses burnt. This forced investors who were previously attracted to Lesotho, to invest directly across the border in South Africa. Lesotho's economy was affected as most businesses were owned by foreigners at that time. The political unrest also resulted in huge destruction of infrastructures (ADF, 2008:2; Southern African Regional Universities Association (SARUA), 2009:2; Lesotho Government 7, Online: 10 March 2010).

However, because of the advancements in the textile industry (SARUA, 2009:30) Lesotho has managed to achieve economic stability since 2000 (ADF, 2009:2). Furthermore, Lesotho's economic progress has been supported by developments in South Africa (SA), which surrounds it on all sides (ADF, 2008:2). Lesotho sells water and electricity to South Africa and also gets earnings from the Southern African Customs Unions (SACU) (SARUA, 2009:2). However, in 2008, Lesotho's economic growth weakened to 3.9 percent because of the global economic crisis (ADF, 2009:2).

In the next section, a brief overview of different functional interventions executed by the Lesotho government will be given. Only selective interventions will be considered in detail, as this is the main focus of the study.

### 4.2.1 Functional Interventions in Lesotho

The Poverty Reduction Strategy which originally covered the period 2004–2007 was extended up to April 2011 (African Development Fund (ADF), 2009:1). Subsequent to this is the Poverty Reduction Support Programme which aims at providing financial support for the Lesotho Poverty Reduction Strategy. This general budget support programme was expected to cover 22 months from June 2009 to March 2011 (ADF, 2009:1). These initiatives give a picture of how Lesotho is committed in reducing poverty and enhancing economic growth.

Lesotho is aware that development of physical and communications infrastructures is a prerequisite for industrial sectors to successfully operate. The Lesotho government recognised the need to provide a physical infrastructure needed by a modern economy which is based on improved quality and efficient delivery of infrastructure services. Lesotho consequently undertook a series of reforms in its telecommunications, power, water and transportation sectors (The World Bank, 2004:3; Lesotho Government and European Union, 2002:20; 2008:23; ADF, 2009:5).

The Lesotho government has implemented functional interventions meant to improve the overall economic environment in Lesotho. However, the African Development Fund (2008:10) found that there are low enrolment rates and poor quality education at secondary and tertiary levels. These have made human capital in Lesotho weak. Therefore, in 2009, a total of 1,565 million Maloti (M) was allocated in recurrent costs, and M215.7 million in capital, to the education sector. M85 million was put aside for the construction of secondary schools, including one for learners with special needs. For construction and maintenance of urban and rural roads, M873 million, or 25 percent of the capital budget, was set aside.

Furthermore, M59.4 million to finance industrial infrastructure development in Maseru was put aside (Lesotho Government 6, Online: 29 April 2009).

Lesotho is focusing on securing high quality education and performance standards during the period 2005-2015. The government has invested in improving the quality of existing education. This includes greater emphasis on teacher training and better teaching. Emphasis is also placed on the expansion of information and communications technology education (SARUA, 2009:3; Lesotho Government 2, Online: 20 March 2010; Lesotho Government 5, Online: 26 July 2010).

The government is not only committed to increasing access to basic education, but also towards ensuring that it is relevant to the socio-economic needs of Lesotho and is of high quality (Lesotho Government 6, Online: 29 April 2009). Steps are being taken to put in line advanced education and the practical needs of a modern economy. It is felt that curricula should be aligned with labour-market needs so that it can be more responsive and relevant to the job market. In addition, there is an urgent need for expansion of training and development opportunities for all Basotho. There should also be a shift towards science and technology (ADF, 2008:16). According to Lall (2000:35), governments should invest heavily in education and training. Furthermore, the upgrading of IT infrastructures should be regarded as a high priority. Eventually enterprises will form clusters as they increase which might result in high competition, and help enterprises to understand their weaknesses as they benchmark each other.

In the year 2000, the Lesotho government declared Free Primary Education (FPE) for all. The introduction of FPE has significantly brought up the number of school children in all seven grades of primary education (Lesotho Government and European Union, 2002:6; 2008:9). According to the UNDP Human Development Report 2005, Lesotho is ranked 149 out of 177 countries on the Human Development Index (Lesotho Government and European Union, 2008:13).

However, regardless of all the effort that Lesotho has put, there are still discrepancies in the development of the infrastructure. At the National University of Lesotho the education pyramid has narrowed. Approximately 2000 Basotho are studying in South African tertiary institutions (SARUA, 2009:9). There is irony in the fact that many Lesotho graduates leave the country for employment in SA. Lesotho then employs skilled personnel from South Africa at high salaries, adding to a net loss to the economy (SARUA, 2009:6).

Lesotho is also faced with HIV/AIDS which has high impact on skilled personnel. There is inadequate public spending on health and a shortage of appropriately trained health personnel (ADF, 2008:10). But it is not clear what Lesotho intends to do about their health infrastructure.

### 4.2.2 Selective Interventions in Lesotho

The Lesotho government is aware that there is a strong correlation between unemployment and poverty, and consequently formulated a poverty reduction strategy known as the Three-year Medium Term Development Framework in 2004. The development of SMMEs is included in this strategy (Lesotho Government 2, Online: 20 March 2010; ADF, 2009:1).

The Small, Medium and Micro Enterprises White Paper was drafted in 2002 with promising suggestions, now the question is the implementation of those suggestions. The Small Business Act mentioned in the SMMEs White Paper has not yet been enacted. If these suggestions are effectively implemented, the costs of doing business might be reduced (ADF, 2009:4).

The Lesotho government has introduced state organs to assist in the development of SMMEs. These are MTICM (role mentioned on page 4); the Lesotho Revenue Authority (LRA) role given on page 51; the Ministry of Gender and Youth, Sports and Recreation (MGYSR); the Lesotho National Development Corporation (LNDC) and the Basotho Enterprises Development Corporation (BEDCO) role explained on page 50 (Lesotho Government 4, White Paper, 2002:28). Besides state organs being introduced, several institutions have been established. Among them are: the Central Bank of Lesotho, Bodiba, the Post Bank, SMME Support Network-Lesotho and so on. The Central Bank of Lesotho is established to participate in giving assistance to entrepreneurship (Lesotho Government 6, Online: 29 April 2009).

The Ministry of Gender and Youth, Sports and Recreation works as a business incubator. This Ministry provides business support resources and services to young people. These include capital, coaching, and networking connections. The role MGYSR plays helps in creating a business culture and environment that promote the start-up and growth of entrepreneurship. Youth without employment are encouraged to start their own businesses and are equipped with entrepreneurship training and micro-credits. Among the training offered is how to prepare a business plan. According to Bridge *et al* (2003:417) and Elhiraika and Nkurunziza (2006:1), governments provide unemployed persons with subsidies to establish and grow their businesses.

Moliko Trust (Micro-Credit Scheme) provides youth with soft loans that are paid back in instalments and at the low interest rate of three percent. This helps the youth to start businesses under less restricted terms compared to commercial banks (Lesotho Government 6, Online: 29 April 2009). This project is under the MGYSR in partnership with UNDP and the Commonwealth Development Fund. M5.9 million was allocated to this project in 2009, and a further M5 million had been allocated to the construction of youth resource centres.

According to the SMME Support Network-Lesotho (2007:1), SMMEs in Lesotho are able to access loans easily due to the availability of easy loans offered by the government through BEDCO. The Basotho Enterprises Development Corporation also offers mentoring and coaching services to small businesses. There is however not much progress in the growth of the economy.

A budget of M5 million has been set aside for the training of entrepreneurs (Lesotho Government 6, Online: 29 April 2009; Lesotho Government 7, Online: 10 March 2009). In addition, M17.2 million has been allocated to programmes designed to empower women and girls. Through the development of entrepreneurial skills (Lesotho Government 6, Online: 29 April 2009).

However, according to the SMME Support Network-Lesotho (2007:1), business development services (BDS) providers in Lesotho are often insufficiently equipped to meet the demands of the sector. This is witnessed by the Lesotho entrepreneurs' lack of innovative business skills which results in over saturation of certain products and services, hence, no business expansion and profit making. In the past, for example, the sector coped without business management skills. An effective well-managed approach is needed by the sector to eliminate negative outcomes. According to SBP (2008:6), the large majority of SMMEs in Lesotho are survivalists.

The Ministry of Trade & Industry, Cooperatives & Marketing has created a one-stop shop. According to Späth (1992:8-14), a one-stop shop is meant to reduce costly company transactions which is done through simplifying and centralising the formal administrative procedures required to register a business. A one-stop shop assists investors to rapidly obtain company registration, tax compliance, import and export permits as well as work and residence permits (ADF, 2009:4).

Developing economies still have challenges concerning the implementation of RIA systems. The Lesotho government however, has introduced the use of a RIA which systematically estimates the impact of new regulations and identifies alternative policy options. Use of this tool in many developed countries has resulted in less costly regulations and easier compliance without changing the benefits of the regulation (Lesotho Government 4, White Paper, 2002:18; South Africa Foundation, 2003:13; The World Bank, 2010:5).

A new PAS which is responsible for the initial regulatory review has also been created in MTICM. The PAS is also expected to suggest recommendations for reform based on identified regulatory obstacles on business activities. The PAS is expected to be involved in the drafting of the Small Business Act (Lesotho Government 4, White Paper, 2002:28). Lesotho intends to implement RBP, in its quest to eliminate impediments that hinder the effective implementation of the small business policy (Lesotho Government 4, White Paper, 2002:7-8&16; Lesotho Government 7, Online: 10 March 2009).

The Lesotho Government 4, White Paper (2002:16-18) and the Lesotho Government and European Union (2002:12; 2008:15) suggest that the licensing regime be further simplified in terms of the registration system. The time limit for licence applications processing is intended to be reduced to 15 days. It currently takes 40 days to register a business (The World Bank, 2010:8). A Tax Special Task Force has been established in the belief that this will possibly minimise the compliance costs impact of VAT on small business (Lesotho Government 4, White Paper, 2002:17&28).

The Lesotho Revenue Authority is an agency of the government responsible for the assessment and collection of specified revenue and it operates under the general supervision of the Minister of Finance. It also enforces the tax laws and promotes voluntary compliance with tax laws. To make it easy for businesses to cope with customs administrations, the LRA collaborated with South African Revenue Services (SARS). This was expected to assist in eliminating fraud at all border points and introducing more user-friendly procedures for claiming back South African VAT, and avoiding time-consuming duplication checks on both sides (Lesotho Government 4, White Paper, 2002:17).

Lesotho encourages industrial activities that are export-oriented. Maximisation of access to foreign markets is already enjoyed by exporters of Lesotho goods and services. The industrialisation process is expected to continue to be market-driven or based on open market principles. The government also ensures that there is effective continuation of a tax-regime (Lesotho Government 7, Online: 10 March 2009).

All the above-mentioned interventions have been implemented subsequent to long-term strategies agreed upon. The government has continued to design the Poverty Reduction Strategy and Lesotho Vision 2020 as supportive programmes to the SMME sector (Lesotho Government 1, Online: 5 August 2010). This was after the failure of the Agro-Industrial Project in 1991 which was meant to encourage the promotion of an indigenous private sector (Lesotho Government 7, Online: 10 March 2009).

However, the African Development Fund report states that obstacles to private sector development that still exist in Lesotho relate to outdated laws and regulations. This imposes unnecessarily long and complex procedures for obtaining work permits and in some cases for the registration and licensing of firms (The World Bank, 2004:4; ADF, 2009:4). The existing perception is that the government is putting much effort into creating enabling environments for businesses, but that Basotho do not understand the importance of formalising businesses. Another reason could be that there are not enough mechanisms adopted to enforce compliance.

Many countries in Africa have put in place micro-credit and training to help small firms grow. However, it is not clear whether these initiatives have been successful or not (Economic Commission for Africa (ECA), 2005). According to Elhiraika and Nkurunziza (2006:7) and SBP (2008:11), SMMEs have difficulties in accessing bank loans and overdraft facilities, due to high interest rates and lack of collateral. Most businesses rely entirely on their own savings and on advices from families and friends, which hinder SMMEs to grow.

Interventions used by both developed and developing countries are still used in Lesotho. But Lesotho seems to find it difficult to improve its economy. According to Lall (2000:28), it is good for countries to learn from successful industrialised countries when designing economic strategies or policies. However, a particular model chosen has to suit the conditions of the country. Some businesses form peer-groups where members share difficulties, and brainstorm solutions. Learning from each other’s experiences reduces costs.

Learning from peer-groups provides small businesses with transferred soft skills and more valuable knowledge that assist in developing business confidence (SBP Alert, 2009:5).

According to Porter (1998:623), most beneficial government policies are slow to implement. Therefore, he encourages governments to choose policies with easily perceived short-term effects. These include subsidies, protection, and arranged mergers. Making choices regarding policies contributes to innovation and economic development. The Lesotho White Paper sets out key areas for government reform of government interventions affecting SMMEs, however, progress in implementing these recommendations has been very slow.

The next section will provide a description of the Lesotho business environment to assess how easy it is to do business in Lesotho.

## 4.3 The Business Environment in Lesotho

Strong economic performance takes place where stable and transparent regulatory and institutional frameworks that promote entrepreneurship, savings, and investment are efficiently delivered. It is observed that unstable and opaque regulations bring about high informal sector, more corruption, lower productivity, high unemployment rate and ultimately more poverty (Lesotho Government 8, Online: 18 December 2009). More governments are implementing regulatory reforms aimed at making it easier to do business. According to Schwab and Porter (2008:216-217) and Kelley *et al* (2010:56), reducing costs of doing business might lead to higher rates of establishment and growth of SMMEs in such an economy.

According to the Lesotho Government 4, White Paper (2002:16); ADF (2009:4) and The World Bank (2010:16), the government of Lesotho has noticed that a favourable environment requires minimal regulatory obstacles for the private sector to focus its energies on development. Excess regulations hinder and raise the costs of doing business. For example, the Lesotho government has realised that business hours restrictions need to be eased. Also, the reservation of certain business licenses for Basotho was found ineffective and inhibit private sector development (Lesotho Government 4, White Paper, 2002:16). It is believed this has been opened up now.

Recognising these weaknesses, the Lesotho government is currently undertaking major policy reforms with the support of the World Bank and Millennium Challenge Corporation (MCC). This includes measures to improve the business environment and reduce the costs of doing business through reviewing obsolete laws and business procedures. Perceived results are increases in economic diversification through skills development, and improvement of access to credit. This might also increase the participation of women in the formal sector (ADF, 2009:4).

According to The World Bank Doing Business Report 2006, Lesotho ranked 114 out of 175 countries in terms of doing business, meaning weak performance. Lesotho had moved up only two places from 116 in 2005 (Lesotho Government 7, Online: 10 March 2009). The 2010 Ease of Doing Business report says Lesotho was globally ranked at position130 out of 183 countries in terms of ease of doing business and Lesotho was the last country amongst SACU countries in 2010 (The World Bank, 2010:11). In 2011 Lesotho is ranked 138 in ease of doing business (The World Bank, 2011:2). This means Lesotho has gone down compared to five years ago (The World Bank, 2010:11).

The 2004 report by The World Bank highlighted institutional ineffectiveness as a major contributing factor towards delays in enacting revised and redrafted laws. For instance, the 2002 White Paper Draft on small business act has been under review for over nine years. Thus, Lesotho lacks a specific regulation that officially governs small business operations (Nthejane, 2006:2; APRM National Governing Council, 2008:48).

The next section reveals rankings on 10 indicators by The World Bank Doing Business, which gives a picture of how Lesotho is performing.

### 4.3.1 Starting a Business

The information on starting a business is derived from the procedures that SMMEs need to follow in order to be considered formal. This includes obtaining all the necessary documents and fulfilling all the requirements with the relevant authorities to enable the enterprise to operate formally. The indicator for starting a business is based on four sub-indicators, namely the number of procedures to be followed, time taken measured in days, costs incurred, and the minimum start-up capital requirement (The World Bank, 2010:8).

In Lesotho entry of new businesses is often regulated by a set of regulations as mentioned in the previous paragraph. According to the Central Bank of Lesotho (2010:2), the procedures are so burdensome that entrepreneurs sometimes bribe officials to speed up the process or decide to run their businesses informally.

The problem in Lesotho, according to Elhiraika and Nkurunziza (2006:5) and Lesotho Government 7, Online: (10 March 2009), is perhaps efficiency and not bureaucracy. For instance, in 2009 there were eight procedures (bureaucracy indicator) in starting a business in Lesotho compared to an average of 11 in Sub-Saharan Africa (SSA). However, to go through these procedures took 73 days in Lesotho compared to 62 days in SSA (efficiency indicator). The World Bank (2011:2) indicates that in 2010 Lesotho was ranked 131 globally for starting a business and in 2011 ranked 140 in starting a business. This represents a loss of three positions compared to 2009 and a loss of seven positions compared to 2010.

The procedures involved in starting a business have been reduced to seven and it takes about 40 days to complete the whole process of starting a business. The number of days has also been reduced from 73 to 40. The costs incurred and minimum payment requirement by each individual are equivalent to 27.0 percent and 11.9 percent respectively (Central Bank of Lesotho, 2010:2; The World Bank, 2010:8).

On average neighbouring SA and the SSA region as a whole are more heavily regulated than Lesotho. However, the way bureaucratic procedures are handled in these economies, make them better places to do business than in Lesotho. These countries efficiently minimise time spent and are cost effective (Lesotho Government 7, Online: 10 March 2009).

According to the study carried out by SBP (2008:9), families, friends and other business owners are the most frequently consulted sources of advice on starting or running a business in Lesotho. This is because businesses do not seek business development support.

### 4.3.2 Dealing with Construction Permits

Construction companies have to comply with inspections, licensing, and safety regulations. Governments globally are pressurising construction companies to comply with set regulations to ensure implementation of safety measures to protect the public. For instance, building authorities have to hire environmental specialists to prepare environmental impact studies before duties can be resumed (The World Bank, 2010:15).

Construction permits indicator is measured by the processes followed in issuing construction permits. This indicator entails the number of procedures to be followed, time taken measured in days, and the average costs incurred. Entrepreneurs in Lesotho are faced with high costs and burdensome regulations once they have registered their businesses. They encounter all these challenges even before they can start operating. In dealing with the construction permits indicator, Lesotho was ranked number 155 out of 183 countries and this is the worst performance compared to other indicators (The World Bank, 2010:15).

In 2011, Lesotho is ranked 163 out of 183 countries in dealing with construction permits, indicating poor performance. Lesotho has gone down eight positions compared to 2010 (The World Bank, 2011:2). To build a warehouse, takes 15 procedures over 601 days and costs 670.4 percent of the Gross National Income (GNI) per capita. The procedures costs are raised by the time taken when connecting water and electrical power services, obtaining a land lease, obtaining a building permit and acquiring a telecommunications connection (Central Bank of Lesotho, 2010:3; The World Bank, 2010:15).

### 4.3.3 Employing Workers

Employment regulations assist in controlling employer and employee relations. They are also needed to eliminate discrimination and unfair behaviour by employers (The World Bank, 2010:18). However, even though employment regulation exists, workers are still discriminated against. Conflicts that exist in individual organisations, and the perceptions by different individuals in organisations, still allow confusion about what is unfair, and what is fair.

Each country has its own system of protecting workers. Lesotho is ranked 14 on the rigidity of the employment index and 44 on the redundancy cost measure, with an overall ranking of 67. In comparison to all the 10 indicators, Lesotho’s performance is here ranked second best. In SACU region, Lesotho’s position is among the top, as it is ranked number three ahead of Botswana and South Africa which are ranked 71 and 102, respectively (Central Bank of Lesotho, 2010:3; The World Bank, 2010:18).

### 4.3.4 Registering Property

When a buyer purchases a business property from a seller, there is normally a delay in transferring the property title to the name of the buyer. This happens if the necessary procedures are cumbersome. Procedures to register property allow efficiency in operating a business, hence reduction of transaction costs that might be incurred if the property is not registered (The World Bank, 2010:22).

Registered properties are easily transferred and allow access to finance as they are used as collateral at some point. The challenge Lesotho is facing, is among others, unregistered property which hinders access to financing opportunities for enterprises (The World Bank, 2010:22).

Currently, Lesotho is carrying out Land Act reforms in order to formalise registration of every land. On this indicator, Lesotho was ranked 142 in 2010 which represents a loss of three positions compared to 2009 (The World Bank, 2010:24). In 2011, Lesotho is ranked 146 in registering property (The World Bank, 2011:2). There are six procedures involved, it takes 101 days, and costs eight percent of the total property value. The procedures may appear reasonable, but the time taken is too long (Central Bank of Lesotho, 2010:3; The World Bank, 2010:24).

Land transfer applications go through the Ministry of Local Government for approval. It takes 75 and 14 days for inspection and surveying of the property respectively. It costs M2500.00 to submit application to a lawyer and a minimum of M7000.00 for lodging the deed with the Registrar of Deeds. Lesotho was ahead of Swaziland as it ranked 4$^{th}$ in SACU region in 2010. It takes only one procedure in Norway and two days in New Zealand, these are best practice economies (Central Bank of Lesotho, 2010:3).

### 4.3.5 Getting Credit

Despite all the effort the Lesotho government is taking to develop SMMEs, access to credit is still a challenge seeking further attention (Elhiraika and Nkurunziza, 2006:5). The study conducted by SBP in October 2008:6&90 revealed that among other challenges, most SMMEs in Lesotho are survivalists with limited potential for development and expansion. This is partly due to the fact that they are faced with the challenge of having limited access to finance.

The Lesotho government has put in place a lot of financial institutions to assist SMMEs to access finance. However, Basotho believe in subsidies. The SBP further argues that most business owners rely entirely on their own savings, due to inaccessible bank loans and lack of overdraft facilities. What makes it difficult for SMMEs to access finance from commercial institutions, is the perception of high interest rates and lack of collateral (Elhiraika and Nkurunziza, 2006:7; SBP, 2008:8). According to Riley (2006:1), SMMEs fail at an early stage of establishment due to, amongst others, financial problems.

There are fewer barriers to credit in SA and this gives commercial banks there an opportunity over Lesotho banks. Access to credit is a major obstacle in Lesotho. Indicators in getting credit are used to measure how well credit markets function. Firstly measurement is on credit registers and secondly is on legal rights of borrowers and lenders (Central Bank of Lesotho, 2010:4; The World Bank, 2010:29).

In 2011, Lesotho is ranked 128 out of 183 countries, in terms of getting credit. Lesotho has gone down 15 positions compared to 2010 (The World Bank, 2011:2). Lesotho was ranked number 113 in 2010 and had gone down four positions compared to 2009. In the SACU region, Lesotho was the last country and was 70 positions lower than Swaziland which was the 2$^{nd}$ last ranked country (Central Bank of Lesotho, 2010:4; The World Bank, 2010:29).

### 4.3.6 Protecting Investors

Lesotho's commitment to reduce costs and barriers to doing business, has been clearly stated in a number of strategy documents. These documents include Lesotho Vision 2020, Poverty Reduction Strategy Paper, the Budget Speeches of 2007 and 2008, the draft Growth Strategy, the Integrated Framework, the SMME White Paper and the Industrialisation Master Plan. The aim is to deliver a good investment climate (Lesotho Government 8, Online: 18 December 2009).

The Lesotho government is concerned about the protection of local and foreign investors. The Honourable Minister Timothy Thahane, said Lesotho needs an environment conducive to the investment that can attract local and foreign investors alike. This means streamlining procedures and processes of doing business. Now is the time the Basotho traditional mindset of doing business has to change, as Lesotho cannot afford losing the race for jobs to other countries (Lesotho Government 8, Online: 18 December 2009).

Protected investment environment is the prerequisite for investors who are willing to invest in any country. The World Bank Report indicates that SA was ranked highest in the region on eight out of 10 on the strength of investor protection index. While Lesotho was 3.7 out of 10 in the region, and was globally ranked 147 in this indicator. Lesotho was the second lowest in SACU ahead of Swaziland which registered only two out of 10. The best practice economy is New Zealand at 9.7 out of 10 (Central Bank of Lesotho, 2010:4; The World Bank, 2010:33; 2011:2).

### 4.3.7 Paying Taxes

Globally, economies use collected taxes to improve their infrastructure which ultimately enhances economic functions. Having realised the importance of taxes, economies have eased the processes that SMMEs have to follow when paying taxes (The World Bank, 2009:31; 2010:35). If tax regulations are too complicated, SMMEs decide to operate informally. Taking Lesotho as our example, it has been found that LRA makes efforts to educate the business community about tax law. This could be because LRA has realised that Lesotho's tax framework which operates through three pieces of legislation, is not easy for SMMEs to comply with. The tax framework operates through Customs and Excise Act of 1982; the Income Tax Act 1993; and the Value Added Tax of 2001 (APRM Report, 2009:15).

This indicator measures the time taken to prepare and pay taxes, tax payments made per year, and the total tax rate (The World Bank, 2010:35). Lesotho is ranked 64 out of 183 countries in paying taxes, in 2011. In this indicator Lesotho has gone down one position compared to 2010 (The World Bank, 2011:2) when Lesotho ranked 63, going down five positions as compared to 2009. There are 21 annual payments involved in paying taxes in Lesotho and it takes approximately 14 days to complete the process. This is the best indicator in which Lesotho is ranked but it is very low judging by world standard and also in SACU (Central Bank of Lesotho, 2010:4; The World Bank, 2010:35).

### 4.3.8 Trading Across Borders

Trade agreements have minimised trade barriers therefore, have made it easier for economies to trade across the borders. This movement of goods and services around the world is associated with faster growth of businesses, less costs incurred and more jobs being created. Countries that have reduced the compliance requirements are more competitive globally. They have efficient customs, good transport networks, and fewer documentary requirements (The World Bank, 2010:39).

The efficiency of trading across the borders is measured by the time taken and the procedures to be followed, such as the completing of forms. For example, when importing goods, the procedures range from the arrival of the goods at the port of entry to the shipment delivery at the importer's warehouse. In Lesotho, there are eight documents to be filled when importing and it takes 35 days to import. There are six documents to be filled for exporting and it takes 31 days to export. It must be noted that it used to take 49 days to import and 44 days to export in 2010. This reflects considerable improvement in trading across borders. In 2011, Lesotho is ranked 140 out of 183 countries in trading across borders which means Lesotho has gone up four positions from 144 in 2010 (Central Bank of Lesotho, 2010:4; The World Bank, 2010:39; 2011:2&54).

To make it easy for businesses to cope with customs administration, LRA and SARS collaborated in 2002. This collaboration has improved service delivery as well as increasing revenue collection. For example, fraud has been eliminated and more user-friendly procedures involving claiming back South African VAT have been introduced. Furthermore, time-consuming duplication checks on both sides of the border have been avoided (Lesotho Government 4, White Paper, 2002:17; Lesotho Government 11, Online: 21 October 2011).

According to The World Bank (2010:39), a need to file many documents brings about corruption in customs, long delays lead to frequent demands for bribes. These barriers to trade increase the cost of goods or prevent trading altogether.

### 4.3.9 Enforcing Contracts

The Lesotho government like any other economy, enforces contracts. Where governments are able to efficiently enforce contracts, effective partnerships are formed among businesses. This increases the level of know-how as more skills are acquired, and shared. Trust is then built amongst the businesses and growth is achieved, hence more employment (The World Bank, 2010:45).

Lesotho is ranked 116, which is an 11 position drop from 2010. It involves 41 procedures and 785 days to enforce contracts (The World Bank, 2011:2). In 2010, it involved 41 steps and 695 days and cost almost 20 percent to enforce a contract in Lesotho. Lesotho was ranked at position 105 in enforcing contracts in 2010 which was a two position drop from 2009. In the region, Lesotho was ranked 4$^{th}$ ahead of Swaziland in 2010 (Central Bank of Lesotho, 2010:5; The World Bank, 2010:45).

### 4.3.10 Closing Business

Businesses often close down as a result of insolvency or bankruptcy. The closing business indicator is made up of three measures: the time involved in following the necessary procedures to close a business is 2.6 years (30 months) in the case of Lesotho. The costs of the insolvency process which is estimated to eight percent of the total estates, and the recovery rate which is 34 cents on the dollar invested in the business. In this indicator, Lesotho is globally ranked at number 69 which shows an improvement compared to 2010 (The World Bank, 2011:2). In 2010, Lesotho was ranked at number 72. Regionally, Lesotho was 4th ahead of Swaziland (Central Bank of Lesotho, 2010:5).

Closing business data for Lesotho reflect that 34 cents can be recovered within 2.6 years and it costs eight percent of estate under dispute. Comparing Lesotho with best practice economies shows that in Japan, creditors are able to recover approximately 93 cents from a dollar invested. While it takes only four months in Ireland for the process to be concluded, and it costs only one percent of the estate under dispute in Singapore (The World Bank, 2010:47).

Regardless of several on-going schemes established to strengthening SMMEs, entrepreneurs in Lesotho still lack business management skills (SMME Support Network-Lesotho, 2007:1). The businesses start small and eventually die small. There is no business that starts small, then goes to maturity stage, and produces offspring. Most businesses adopt the inflexibility learnt from other businesses. Even when they realise they have adopted inflexibility, they do not move away from such behaviour. They do not benchmark themselves with firms which have achieved great success. Neither do they come up with unique original sets of norms that will help them grow. Thus, businesses surrender to competitive pressure and eventually die (SMME Support Network-Lesotho, 2007:1).

### 4.3.11 2010 Rankings for Doing Business in SADC Countries

Table 4.1 below presents rankings for doing business in SADC countries, taking into consideration ease of doing business and other 10 indicators. The World Bank Report for 2011 Doing Business, ranks Lesotho 138 out of 183 economies in the ease of doing business. Angola is ranked 163, Botswana 52, the Democratic Republic of Congo 175, Malawi 133, Mauritius 20, Mozambique 126, Namibia 69, the Seychelles 95, South Africa 34, Swaziland 118, Tanzania 128, Zambia 76, and Zimbabwe 157 (The World Bank, 2011:1).

**Table 4.1: 2011 Global Rankings for Doing Business in Countries**
(SOURCE: Compiled from Ranking of Economies - Doing Business 2011 – World Bank Group)

| Economies | Ease of doing business rank | Starting a business | Dealing with construction permits | Employing workers | Registering property | Getting credit | Protecting investors | Paying taxes | Trading across borders | Enforcing contracts | Closing business |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Angola | 163 | 164 | 128 | 178 | 174 | 116 | 59 | 142 | 166 | 181 | 147 |
| Botswana | 52 | 90 | 127 | 71 | 44 | 46 | 44 | 21 | 151 | 70 | 27 |
| DRC | 175 | 146 | 81 | 175 | 118 | 168 | 154 | 163 | 172 | 172 | 155 |
| Lesotho | 138 | 140 | 163 | 67 | 146 | 128 | 147 | 64 | 140 | 116 | 69 |
| Malawi | 133 | 132 | 174 | 96 | 81 | 116 | 74 | 25 | 173 | 121 | 126 |
| Mauritius | 20 | 12 | 39 | 64 | 69 | 89 | 12 | 12 | 22 | 61 | 71 |
| Mozambique | 126 | 65 | 155 | 161 | 144 | 128 | 44 | 101 | 133 | 132 | 129 |
| Namibia | 69 | 124 | 36 | 43 | 136 | 15 | 74 | 99 | 153 | 41 | 53 |
| Seychelles | 95 | 109 | 61 | 73 | 62 | 152 | 59 | 38 | 36 | 69 | 183 |
| South Africa | 34 | 75 | 52 | 102 | 91 | 2 | 10 | 24 | 149 | 85 | 74 |
| Swaziland | 118 | 153 | 40 | 55 | 156 | 46 | 120 | 52 | 147 | 170 | 63 |
| Tanzania | 128 | 122 | 179 | 140 | 151 | 89 | 93 | 120 | 109 | 32 | 113 |
| Zambia | 76 | 57 | 158 | 135 | 83 | 6 | 74 | 37 | 150 | 86 | 97 |
| Zimbabwe | 157 | 143 | 172 | 127 | 82 | 128 | 120 | 131 | 168 | 110 | 156 |

## 4.4 Regulation

Governments intervene using laws and regulations that outline the legal requirements to be met by businesses. These laws and regulations may also be complemented by policies, standards, directives and guidelines. All these are designed to alter the ways in which markets function, and influence the number of firms in an industry (Jordana and Levi-Faur, 2004:31; Pillay, 2006:42). Regulations may be general or specific. General regulations are drafted for development of the economy as a whole. Specific regulations are drafted for the development of a particular industry.

Governments find it important to periodically assess the effectiveness of the frameworks that manage SMMEs. Therefore, they are prepared to re-evaluate regulatory frameworks to create the right incentives for enhanced SMMEs development. When re-evaluating, regulation is created, changed or removed. Created regulation can be changed to suit the current situation and it can be removed if governments are unable to enforce it (Hunter, 2010:366).

An effective regulatory framework is one that unites the different interests of the participants, creating a balanced relationship where each of the parties is able to fulfil their objectives (Hunter, 2010:365). However, some regulations can act as barriers to effective provision of services. Therefore, they must be carefully designed and reformed over-time so as not to have unintended effects on the regulated parties (COAG, 2007:3&7).

### 4.4.1 Analysis of Regulation

The Lesotho government just like any other country, has recognised the importance of SMMEs, as creators of new employment opportunities, and therefore, has reformed its regulations in favour of SMMEs (State of Small Business in South Africa, 1999:11; Warren and Murphy, 2000:2). The table on page 149 (Appendix 1) analyses the impact of various regulative documents on SMMEs in Lesotho.

## 4.5 Summary

This chapter gave an overview of government interventions in Lesotho. Lesotho uses both functional and selective interventions just like developed and developing countries. However, The World Bank, (2004:3) and ADF, (2009:5) consider the economy of Lesotho to be weak. For instance, regardless of the M873 million set aside for road construction three years ago, there are still low levels of infrastructural facilities, including inadequate road transport networks. This weakness constrains development and economic growth.

The business environment was also investigated. It is important to ease ways of doing business, therefore, more reform is required on ineffective regulations. However, in Lesotho reform is delivered in a very slow pace which causes Lesotho to lose grounds against its competitors. This is because these economies continuously reform and make it easier for businesses to operate. Lesotho is one of the developing countries with the least investor-friendly laws and practices (SMME Support Network-Lesotho, 2009:6).

The Lesotho government has taken some initiatives, for example entrepreneurs in Lesotho are provided with training so that they acquire the necessary business management skills. Among other skills, they learn how to prepare a business plan. The ability to prepare a business plan enables entrepreneurs to obtain start-up funding since commercial banks require business plans before granting loans. Business management skills equip them to manage the financial burden, however, most of them are still unable to access credit (Lesotho Government 6, Online: 29 April 2009; Lesotho Government 7, Online: 10 March 2009).

Chapter 5 deals with the research methodology used in this study.

# 5. RESEARCH METHODOLOGY

## 5.1 Introduction

The previous chapter investigated the literature concerning Lesotho's functional and selective interventions, together with its current business environment. This chapter reviews the research methodology of this study. It explains how the research questionnaire was designed, as well as the methods implemented to ensure validity of the questionnaire and the data collected and analysed.

A research design is the plan for obtaining research participants and collecting data from them (Welman, Kruger and Mitchell, 2006:52). This study was conducted through the use of a survey that was hand-delivered to SMMEs in Maseru, Lesotho in order to investigate the impact or implications of Lesotho government's interventions on businesses. The researcher used the survey as opposed to face-to-face and telephonic interviews because the study focused on a large population sample. Due to the fact that the sample size was 370, it would not be easy to interview them face-to-face or telephonically. Time was also limited and the costs would have been higher. Completed questionnaires were collected by the researcher two weeks after distribution. The questionnaire consisted of a combination of closed and open-ended questions. In order to take into consideration the respondents' literacy levels, words and concepts which the respondents were expected to be familiar with were utilised during the process of formulating questions.

## 5.2 Nature of the Research

This study was exploratory and, a descriptive research study which reviewed existing secondary data as well as creating primary data through the use of questionnaires. This exploratory study was conducted by examining the available literature on the arguments for and against government interventions. Exploratory research was also conducted to provide qualitative information on the subject of the research. Descriptive research was used as the research design because it is concerned with determining the frequency with which something occurs or the relationship between two variables. This study was conducted on SMMEs in the formal sector, trading in Maseru, Lesotho. It also highlighted the research problems and hypothetical statements, which required clear and accurate data source specification and statistical analysis.

## 5.3 The Research Problem

The research problem was to analyse the Lesotho government‘s interventions and their impact on SMMEs in the start-up and growth phases, and to assess whether or not they facilitate or hinder SMMEs in these phases.

## 5.4 Research Objectives

The research problem and objectives of the study were created prior to designing the questionnaire. Research objectives were set to answer the research problem and they were:

- To determine the need for government intervention in the start-up and growth phases of SMMEs.
- To assess the benefits of the existing government interventions on the start-up and growth of SMMEs in Lesotho.
- To assess the challenges of the existing government interventions on the start-up and growth of SMMEs in Lesotho.

### To Determine the Need for Government Intervention in the Start-up and Growth Phases of SMMEs

Lesotho’s attempt to improve the overall economic environment to stimulate economic activities has been reviewed in the literature. The Lesotho government is currently undertaking major policy reforms. This includes procedures to improve the business environment and minimise the costs of doing business by reviewing obsolete laws and business procedures. However, despite the effort the government has taken, some SMMEs might still find the business environment not to be favourable, while others will find it suitable. Therefore, it is necessary to assess if interventions by the government benefit or hinder SMMEs, which in turn will determine whether there is really a need for intervention.

### To Assess the Benefits of the Existing Government Interventions on the Start-up and Growth of SMMEs in Lesotho

This objective has been reviewed and assessed in the literature review section of this dissertation. Among others, the Lesotho government has set aside a budget of M5 million for the training of entrepreneurs. At the end of this training, entrepreneurs are expected to be able to prepare business plans that would enable them to obtain start-up funding, and are also expected to have acquired business management skills. There are institutions (BDS) that specifically equip businesses with management skills.

### To Assess the Challenges of the Existing Government Interventions on the Start-up and Growth of SMMEs in Lesotho

The Lesotho government has implemented both functional and selective interventions in an attempt to improve the overall economic environment in Lesotho, in an effort to stimulate economic activity. Lesotho considers the development of SMMEs essential to economic recovery during the current economic crisis. However, some obstacles still exist in Lesotho, and these include access to finance. Entrepreneurs start businesses but growth is not sustainable and businesses close down quickly.

## 5.5 Hypotheses

In this study, four testable hypotheses have been used. This assisted in validating the quality of this research study.

The hypotheses for this research study were the following:

**Table 5.1: Hypotheses**

| | |
|---|---|
| Null hypothesis ($H_{1o}$) | There is no need for government interventions in SMMEs in Lesotho. |
| Alternative hypothesis ($H_{1a}$) | There is a need for government interventions in SMMEs in Lesotho. |
| Null hypothesis ($H_{2o}$) | The government interventions in Lesotho have had a positive impact on establishing and improving the start-up and growth rates of SMMEs. |
| Alternative hypothesis ($H_{2a}$) | The government interventions in Lesotho have not had a positive impact on establishing and improving the start-up and growth rates of SMMEs. |
| Null hypothesis ($H_{3o}$) | There are no government interventions hindering the successful start-up and growth rates of SMMEs in Lesotho. |
| Alternative hypothesis ($H_{3a}$) | There are government interventions hindering the successful start-up and growth rates of SMMEs in Lesotho. |
| Null hypothesis ($H_{40}$) | There is no difference between the impact of selective interventions used at the start-up and growth phases. |
| Alternative hypothesis ($H_{4a}$) | There is a difference between the impact of the selective interventions used at the start-up and growth phases. |

Any test or belief is evaluated with hypothesis testing. There were four main null hypotheses, together with the related alternative hypotheses. These hypotheses are used to test the relationship between the government interventions and, the start-up and growth rates. The null hypotheses test the lack of relationship between government interventions and, the start-up and growth rates whilst the alternative hypotheses test the existence of such relationship. If there is sufficient evidence (data) to support the null hypotheses, therefore it could be concluded that there is no relationship between the variables. The opposite applies, if the alternative hypotheses are confirmed to be true. These hypotheses formed the core of this research study, and related directly to the start-up and growth rates of SMMEs within the formal sector.

This study was undertaken to determine whether the start-up of businesses was established as a direct result of existing government interventions or not, and whether an experienced growth if any, is a consequence of existing government interventions.

## 5.6 Sample Selection

In this study the population included owners and managers of SMMEs located in Maseru, Lesotho. This population group consisted of a mixture of females and males. It was found that direct interviewing owners and managers of SMMEs was not viable. This is because of limited time the researcher had. Therefore, it was decided to send out surveys to 370 respondents (owners and managers) in different sectors of the SMMEs. Surveys were found to be an appropriate method to be used, and the sample size was determined based on the number of registered SMMEs in Maseru.

### 5.6.1 Defining the Population

The population was defined from the population of SMMEs in Maseru, Lesotho. Ministry of Trade & Industry, Cooperatives & Marketing and LRA deal with registered SMMEs in Lesotho. Therefore, they were approached to assist with a list of the registered SMMEs from all 10 districts of Lesotho. However, only a list of registered SMMEs in Maseru was received from MTICM. It is believed, that due to the sensitivity of the topic, and the ethical practices by ministries (keeping information confidential), the departments in the districts could not give out their lists. The Lesotho Revenue Authority specified that they give out tax clearances based on the list from the MTICM. This means they use the same list, there is no different list.

### 5.6.2 Selecting the Sample

The list obtained from the MTICM in Maseru showed that there were 10,341 registered businesses in the Maseru District. However, this number included small and large enterprises (Lesotho Government 9, Business Ownership, 2010:1-211). This gives the impression that most businesses are informal, as the 2008 Lesotho Review estimates that there are some 100 000 SMMEs in the country. Fujita (1998:26) states that more informal SMMEs than formal businesses in an economy is an indication of poor economic performance.

The researcher used probability sampling, more specifically stratified random sampling. This was because the researcher realised that using simple random sampling might not involve other industrial sector groups. Stratified random sample assures not only the representation of the overall population, but also the representation of key subgroups of the population. The population was divided into homogenous subgroups known as strata and then a simple random sample in each subgroup was taken (Cooper and Schindler, 2003:188; Remenyi *et al.*, 2005:193; Hair *et al.*, 2007:173).

If the groups are more homogeneous within groups than across the population as a whole, greater statistical precision could be expected than when using simple random sampling. Moreover, because stratified random sampling was used, there would be enough cases from each group to make meaningful subgroup inferences. However, stratified random sampling was disproportionate because the number of the population in different industrial sectors was not the same, therefore, different sampling fractions in the strata were used (Cooper and Schindler, 2003:188; Remenyi *et al.*, 2005:193; Hair *et al.*, 2007:173).

The survey covered a sample size of 370 SMMEs across all sectors in Maseru Lesotho. This sample size was generated using an online sample size calculator. It is estimated that in Maseru alone, there are 10,341 registered SMMEs. When calculating, it was found that, at a confidence level of 95 percent and confidence interval of 5, a population value of 10,341 results in a sample size of 370 respondents (Survey Systems, 2011:Online).

### 5.6.3 Pilot Study

According to Cooper and Schlindler (2001:207); Baker (2002:105) and Zikmund (2003:302), measurement tools can be evaluated using major criteria, namely validity and reliability. In terms of testing the validity of the questionnaire, the researcher conducted a pilot study. This was meant to find out if there were items that needed to be modified based on the feedback received from the selected participants.

A pilot test was conducted with 10 SMMEs from Maseru which were selected using simple random sampling. However, the responses from this pilot study were not included in the main study. Pilot testing helped the researcher to test the validity of the questionnaire as well as its relevance and appropriateness. The face validity was applied to the different variables in the questionnaire. Since the questions in the questionnaire were taken from an existing questionnaire (Macamo, 2009), the questions were found to measure exactly what they were intending to measure. A common problem experienced in the pre-testing of the survey was that respondents required additional explanations regarding the last two questions (questions D10 and D11). This was due to the issues of not understanding English and not being familiar with regulations governing SMMEs. In terms of improving the reliability of the questionnaire, the same questionnaire given to participants in the pilot study was given to the participants in the main study.

According to Bell (2002:147), a pilot study eases the identification of questions that signify discomfort or embarrassment, and also reveals if the instructions were clear and easy to follow. It is easy to test how long it takes the respondents to complete the survey and enables the researcher to find out why some questions were left unanswered.

## 5.7 The Data Collection Procedures

For this study, information was obtained from 370 respondents (including males and females). Respondents completed the questionnaires in their own time, and any doubts that they had regarding any question could be clarified during the time the questionnaires were collected. A careful record of the date questionnaires were distributed and were to be returned was kept. However, not all distributed questionnaires were returned by the specified date and the researcher consequently had to follow-up on non-respondents by constantly visiting and reminding them. According to Bell (2002:149), not all questionnaires are returned on the specified date therefore, a follow-up is needed on the non-respondents, and a clear record of distributed questionnaires eases the process. Although initial costs may be low, the costs of follow-up and non-responses can be high, as they sometimes involve the issue of printing more questionnaires for respondents who misplaced the first issued questionnaires (Fink, 1995:39).

## 5.8 Questionnaire Design

The questionnaire was used as a research instrument for the purpose of gathering information from the respondents. According to Remenyi *et al* (2005:150), questionnaire is an accurate method of collecting data from a large sample in a cheap way. Questionnaires were used because they allow a researcher to obtain a large sample of people in different geographical regions. This method is convenient as it is cheap and allows data to be collected from huge number of individuals within a short period of time (Sekaran and Bougie, 2010:197).

The questionnaire structure was taken into consideration. Since early questions can influence responses to later questions, sequencing is important; it is advisable to ask general questions early and specific ones later. The first questions on a questionnaire are referred to as opening questions, designed for gaining a respondent's attention and stimulating interest in the topic. The second group, referred to as research topic questions, includes questions designed to provide information on the topic being researched (Hair *et al.*, 2007:270).

This study made use of open and closed-ended questions. Closed-ended questions are used in quantitative studies. They simplify the collection and analysis of data and make the task of the respondent easier. Closed-ended questions however involve large samples, and are difficult to design (Remenyi *et al.*, 2005:152; Hair *et al.*, 2007:265). Open-ended questions give narrative responses which may be analysed qualitatively, or may be converted into a form suitable for quantitative analysis using a technique known as content analysis (Hair *et al.*, 2007:195&265). Most questionnaires have open-ended questions at the end, the reason is to allow the respondents to give detailed opinions on topics that might not have been fully covered by closed-ended questions (Sekaran and Bougie, 2010:200). Questions on the turnover of businesses were not included. The reasons being that, although useful, they create suspicion and high negative response, thereby increasing survey costs.

The questionnaire, as shown in Appendix 2, was divided into four sections. They were:

Section A – Demographic Information

Section B – Organisational Profile

Section C – Business Processes

Section D – Business Development Services

**Section A – Demographic Information**

This section focuses on the standard demographic data questions which determine the gender, age, and race of the respondents. This information assists in the assessment of the success of government interventions, which are targeted at specific groupings of people.

**Section B – Organisational Profile**

Section B assesses the role of the respondent in the business. This assists in determining whether the respondent is the owner or a manager. It also attempts to identify if the respondent has experiences and expertise or not, in the business he/she is in. The phase (start-up or growth) the business is in, is also determined. Many factors can be used to measure growth, e.g. earned profit, increased number of employees and so on.

Furthermore, this section determines whether the business is a micro, small, or medium enterprise, based on the number of employees. Industry sector that the respondent trades within is determined. This helps to assess or determine the number of different sectors operating in Lesotho. This section also establishes business's target market.

**Section C – Business Processes**

These days businesses are exposed to different challenges in their respective industries, for instance, it could be that the government has crowded the private sector. Therefore, section C is intended to test managerial adequacy in the environment SMMEs are operating, source of the financial is also identified. This revealed whether businesses depend on grants or if the businesses have sufficient start-up capital.

It was important to find out if entrepreneurs intend to grow their businesses, which might lead to more establishments of SMMEs, more profits, and more jobs created. This is in line with the mandate of the government to develop the economy.

**Section D – Business Development Services**

This section focuses more on government interventions that are put in place. Mainly, it is concerned about finding out if the entrepreneurs have received any form of assistance from the institutions meant to assist SMMEs, the institution which assists SMMEs, and the kind of assistance provided, are determined. It is important to know the perceptions of the respondents about the government intervention, therefore, it is essential to find out if the entrepreneurs feel there is still some form of assistance that the government can provide, which will be of benefit to the business. The reasons why there was a need for SMMEs to apply for assistance, or accept assistance, and if the assistance was paid for or not were also determined. It was also necessary to find out if the respondents are willing to pay for assistance services in future.

The impact of the selective interventions implemented by the government was analysed. Each sub-question reviewed the impact of different selective interventions on the business. It is important to notice that governments can encourage new business formulation through tax incentives and subsidies. It was necessary to identify the laws and regulations business owners perceive to be hindering the success of their business. This led to determining whether the entrepreneurs were aware of the existence of all the government interventions meant to assist SMMEs. Furthermore, entrepreneurs' ideas on which laws can ease the current situation of SMMEs in Lesotho were identified.

## 5.9 Data Analysis

### 5.9.1 Quantitative Data Analysis

This research project contained data that were quantified to help address the research objectives. Saunders, Lewis and Thornhill (2003:327) state that quantitative analysis techniques assist this process. The collected data had to be analysed and interpreted. The responses were quantified by assigning numbers to the responses. This assisted in obtaining an understanding of the collected data and allowed for easy interpretation (Sekaran, 2000:302; Remenyi *et al.*, 2005:152; Hair *et al.*, 2007:308). This process ranges from simple tables or diagrams that show the frequency of occurrence through to statistical analysis, appropriate to the data collected (Remenyi *et al.*, 2005:209).

The analysis of the coded responses obtained from the structured and unstructured questions was achieved through the use of SPSS for Windows, Version 18.

### 5.9.2 Qualitative Data Analysis

There were a few qualitative questions in this research. The objective of this type of research is to promote self-understanding and increase insight into the phenomenon under study (Garbers, 1996:283). Content analysis was used to analyse these data. According to Welman *et al* (2006:221), content analysis can be described as, "a quantitative analysis of qualitative data that counts the frequencies and sequences of particular words, phrases or concepts in order to identify keywords or themes". In this study, content analysis was carried out by systematically scrutinising the responses to the questions.

Therefore, the data analysis procedure detailed below was followed:

- All the responses were read to get a sense of the data.
- The responses to each question were noted.
- The patterns from each questionnaire were then compared and combined to create keywords.
- The data were then tabulated to determine the frequency of each keyword.

Statistical analysis was carried as follows: the Kolmogorov Smirnov test was used to determine whether the researcher can make use of parametric or non-parametric tests. It was concluded that the tested variables do not come from a normal distribution, therefore, the researcher was required to use non-parametric statistics. The Chi-square test and Mann Whitney U test were used to test four hypotheses formulated in this study. Descriptive statistics such as the mean, median, mode and standard deviation, were calculated for all the questions using SPSS for Windows Version 18. These statistics served to confirm the results of the frequency tables and graphic statistics. Descriptive statistics include the mean, mode, median and standard deviation.

The questionnaire must be reliable, which means it must supply consistent results (Meadows, 2003:563). This reliability would normally be tested by repeating the same instrument at different times in order to assess whether or not the same results are achieved on both occasions. Cronbach's alpha was used as a reliability test, since according to Churchill and Iacobucci (2002:416) and Steed (2003:140), the reliability of the questionnaire can be tested with Cronbach's alpha.

## 5.10 Ethical Considerations

Participants were informed about the purpose of the study, assured of their confidentiality, and asked for their consent before answering the questionnaire. They were further informed that they had a right to choose not to participate (Appendix 3).

The research data were saved on a hard disk and on a flash disk, both being password controlled. After the final dissertation was produced, information on both the hard disk and flash disk was deleted. The questionnaire and a copy of the analysis results were supplied on a compact disc (CD) to the researcher's supervisor.

The approved dissertation will only be submitted to the Library to ensure the confidentiality of the information gathered. Respondents' names were not used in this study, as this had no relevance. Ethical clearance was sought from the University of KwaZulu-Natal. No questionnaires were distributed prior to receiving permission from the University of the KwaZulu-Natal Research Office.

## 5.11 Summary

This concludes the research methodology chapter. This chapter dealt with the objectives of the study, the research hypotheses and research instruments used. It also highlighted reliability and validity of the findings, the ethical considerations involved in the study, and how the raw data were analysed. The next chapter presents the findings of this study.

# 6. RESEARCH FINDINGS

## 6.1 Introduction

The purpose of this chapter is to present and analyse the major research findings. It reports the findings of each section of the questionnaire in detail, and links these findings to the research objective, hypotheses and the literature relevant to the impact of the government interventions on SMMEs.

Firstly, a section on frequency tables is displayed. Frequency tables were processed using SPSS for Windows (Version 18) to gain an overview of the perceptions of respondents with respect to the impact of the government interventions on SMMEs in Lesotho. The descriptive statistics that included the mean, mode, median and standard deviation are also reported.

Data need to be tested to establish whether they follow a normal distribution or not. This was done using the Kolmogorov Smirnov test. This test then determines the type of statistical tests, parametric or non-parametric that is permitted to analyse the data. For example, the parametric tests such as the one sample t-tests can be used to check whether the average score of the perceptions of respondents with respect to the impact of the government interventions on SMMEs in Lesotho is tending towards a particular category. A non-parametric test such as the chi-square test is used to check whether the distribution of responses is tending towards a particular category per question.

The hypotheses were tested using the chi-square goodness of fit test and the Mann Whitney U test. The reason that the chi-square goodness of fit test was used is that if the responses tend towards a certain category, say towards the “positive impact” category rather than the “negative impact” category, then it is possible to ascertain if the perceptions and knowledge of the respondents are key drivers of the impact of the government interventions on SMMEs in Lesotho. The Mann Whitney U test was also used to check for differences between the start-up and growth phases of the enterprises with respect to the impact of licensing procedures, availability of land/premises for business use, availability of skilled staff, income tax, export regulations, import regulations, and the hindrances of laws and regulations.

There is a need to ensure validity and reliability of the data as this gives the research methodology an integrity. The Cronbach’s Alpha was calculated for the questions that have the same scales. A value of 0.7 or higher is deemed to indicate good internal consistency and reliability amongst the questions (Coakes and Steed, 2003:140).

## 6.2 Data Analysis by Question

The results indicate that most of the respondents were males (55 percent), while 45 percent were females. The reason could be that in the past, amongst other reasons, women were not allowed to open bank accounts without permission from their husbands, so that affected their participation in the entrepreneurship. However, in 2006, the Parliament enacted "The Married Persons Act" which gives men and women equal status and women were granted the legal capacity to act as independent economic agents (Lesotho Government 10, Online: 1 June 2011).

According Hadary (2010:1), women often start businesses with fewer resources than men and they are reluctant to borrow from banks. If they borrow, they often ask for little which gives a perception that they are not intending to grow their businesses. Therefore, they join industries with low entry costs such as retailing, not aware that even the potential for growth is also low.

In Table 6.1, it is shown that 36 percent of the respondents are middle-aged. Respondents over the age of 51 are the next biggest group at 26 percent. Then respondents who fall in the category of 41-50 years of age, are followed by respondents who fall under 21-30 years. The smallest group is respondents below the age of 20.

**Table 6.1: Respondents' Age**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Below 20 | 3 | 1.4 | 1.4 | 1.4 |
| | 21-30 | 29 | 13.2 | 13.2 | 14.6 |
| | 31-40 | 78 | 35.6 | 35.6 | 50.2 |
| | 41-50 | 52 | 23.7 | 23.7 | 74.0 |
| | 51+ | 57 | 26.0 | 26.0 | 100.0 |
| | Total | 219 | 100.0 | 100.0 | |

As indicated in Table 6.2, 87 percent of the respondents were Black people. The next group is Indian with (seven percent), Chinese with (five percent) and Whites were less than one percent. This means that most of the views were from one group, as other race groups were reluctant to participate in the research.

**Table 6.2: Respondents' Race**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Black | 191 | 87.2 | 87.2 | 87.2 |
| | Chinese | 11 | 5.0 | 5.0 | 92.2 |
| | Indian | 16 | 7.3 | 7.3 | 99.5 |
| | White | 1 | .5 | .5 | 100.0 |
| | Total | 219 | 100.0 | 100.0 | |

The results reveal that not only Basotho businesses are operating in Lesotho, but also foreign investors, which signifies that interventions by the government are somehow effective. The researcher concluded that the business environment in Lesotho might have been attractive to these foreign investors. A business environment with highly developed infrastructures attracts foreign and local investors which contribute to economic growth and subsequently, poverty reduction. If effective functional interventions are put in place, the government can effectively apply selective interventions, where necessary.

Furthermore, the presence of foreign investors increases competition that opens doors for indigenous businesses to acquire skills and become innovative. All these factors lead to sustainable competitive advantage and invite participation from different industrial sectors which subsequently satisfy the varied demands of customers (Eifert, Gelb and Ramachandran, 2005). According to Elhiraika and Nkurunziza (2006:17), ethnicity of the firm owner is also a key determinant of growth. In Lesotho, it has been observed that Chinese firms usually have better access to markets than Basotho firms. However, according to Ofodile (2001:5), economic growth is experienced where there is less ethnic diversity. The absence of ethnicity diversity brings less conflict and corruption, hence devotion to economic growth for the country. Therefore, ethnic diversity is an essential determinant of whether a business in Africa is growing or not.

**Table 6.3: Role in Business**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Manager | 87 | 39.7 | 39.9 | 39.9 |
| | Owner | 131 | 59.8 | 60.1 | 100.0 |
| | Total | 218 | 99.5 | 100.0 | |
| Missing | No Response | 1 | .5 | | |
| Total | | 219 | 100.0 | | |

Table 6.3 above, provides information about the role each respondent plays in the business. The respondents consist of 60 percent owners, and 40 percent managers.

In most cases, the researcher was referred to the owners of the businesses in order to get adequate responses pertaining to the impact of the government interventions on their businesses. This simply confirmed the role that SMME owners play as the sole decision makers in their companies.

The highest percentage (59) of businesses were in the growth phase and businesses in the start-up phase comprised 41 percent. According to Eifert *et al* (2005), the establishment and growth of SMMEs in developing countries are affected by the absence of conducive business environments.

The respondents were provided with a definition of the "start-up" and "growth" phases (see Appendix 2). Based on the definitions that were given, most of the respondents ticked growth phase. As most of the businesses are in the growth phase, it is expected that respondents are aware of government interventions in Lesotho. Therefore, they are in a position to state how these interventions impact on their businesses in the start-up and growth phases.

**Table 6.4: Full-Time Employees**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Below 20 | 179 | 81.7 | 81.7 | 81.7 |
| | 21-30 | 15 | 6.8 | 6.8 | 88.6 |
| | 31-40 | 16 | 7.3 | 7.3 | 95.9 |
| | 41-50 | 4 | 1.8 | 1.8 | 97.7 |
| | 51+ | 1 | .5 | .5 | 98.2 |
| | None | 4 | 1.8 | 1.8 | 100.0 |
| | Total | 219 | 100.0 | 100.0 | |

Table 6.4 above indicates that most (82 percent) of the respondents businesses fall under the micro and small enterprises category. The three categories of micro, small and medium enterprises are greatly different in terms of numbers of employees, turnover and assets. Micro enterprise employs between one and three employees. Small enterprise employs between three and nine. Medium enterprise employs 10 to 49 employees. According to Khalmurzaev (2000:1), SMMEs contribute to the economy of the country through the creation of jobs. However, according to Lind (2008:64), SMMEs do not generate jobs as is widely believed.

**Table 6.5: Part-Time Employees**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Below 20 | 60 | 27.4 | 27.4 | 27.4 |
| | 21-30 | 1 | .5 | .5 | 27.9 |
| | None | 158 | 72.1 | 72.1 | 100.0 |
| | Total | 219 | 100.0 | 100.0 | |

From Table 6.5 above, it is evident that 72 percent of the respondents do not employ part-time employees. This may be due to the fact that most of the time, customers are rare, and employees are only hired depending on customer demands.

**Table 6.6: Gender * Respondents' Age Cross-tabulation**

| | | | No. male and female employees | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | | Below 20 | 21-30 | 31-40 | 41-50 | 51+ | |
| Gender | Female | Count | 2 | 15 | 38 | 24 | 20 | 99 |
| | | % of Total | .9% | 6.8% | 17.4% | 11.0% | 9.1% | 45.2% |
| | Male | Count | 1 | 14 | 40 | 28 | 37 | 120 |
| | | % of Total | .5% | 6.4% | 18.3% | 12.8% | 16.9% | 54.8% |
| Total | | Count | 3 | 29 | 78 | 52 | 57 | 219 |
| | | % of Total | 1.4% | 13.2% | 35.6% | 23.7% | 26.0% | 100.0% |

The findings reported in Table 6.6 above, show that the majority are male employees (55 percent) and female employees are 45 percent. Even though the table does not reflect whether they are full-time or part-time, this reflects an improvement in number of females employed as they previously depended on their spouse for means of living.

**Table 6.7: Business Sector**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Agriculture | 34 | 15.5 | 15.6 | 15.6 |
| | Manufacturing | 58 | 26.5 | 26.6 | 42.2 |
| | Retailing | 52 | 23.7 | 23.9 | 66.1 |
| | Services | 61 | 27.9 | 28.0 | 94.0 |
| | Construction | 13 | 5.9 | 6.0 | 100.0 |
| | Total | 218 | 99.5 | 100.0 | |
| Missing | No Response | 1 | .5 | | |
| Total | | 219 | 100.0 | | |

Table 6.7 indicates that the ratio of SMMEs according to business sectors is as follows: 28 percent of the SMMEs fall under the services sector, the manufacturing sector is 27 percent, the retailing sector is 24 percent, the agricultural sector is 15 percent and the construction sector 6 percent respectively. Views from different sectors were therefore obtained, giving a broader perspective in respect of the research objectives.

**Table 6.8: Major Target Market**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Individual | 169 | 77.2 | 77.2 | 77.2 |
| | Small business | 22 | 10.0 | 10.0 | 87.2 |
| | Large business | 13 | 5.9 | 5.9 | 93.2 |
| | Government | 15 | 6.8 | 6.8 | 100.0 |
| | Total | 219 | 100.0 | 100.0 | |

Table 6.8 shows that 77 percent of the businesses offer their products to individuals and only 10 percent target small businesses. Seven percent are selling to the government and six percent target large firms. This reflects that even though most businesses are in the growth stage, they still cannot provide or offer their products to large firms and to the government. This could be due to legal restrictions or other factors limiting business operations.

However, government procurement has been eased. Businesses that target government as their major market, said public procurement was in the reform process. They had problems with government payment terms at first SBP (2008:52), but the spreading of information on public tenders had improved and measures had been adopted to make it easier for SMMEs to bid for tenders. The intervention by the government is believed to be effective, as there is potential trust and the possibility of long-term relationships between government and SMMEs. Furthermore, the BEDCO Act 1980 encourages government procurement agencies to buy local produce before going outside the country which has a positive effect on local firms.

Table 6.9 shows that it is difficult for 37 percent of the respondents to access finance and they also find interest rates to be high. Most of the respondents showed this factor to be the one hindering business establishment and growth.

**Table 6.9: Access to Finance * Interest Rates Cross-tabulation**

| | | | Interest rates | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Very difficult | Difficult | Not sure | Easy | Very easy | Total |
| Access to finance | Very difficult | Count | 40 | 23 | 10 | 1 | 0 | 74 |
| | | % of Total | 18.3% | 10.6% | 4.6% | .5% | .0% | 33.9% |
| | Difficult | Count | 34 | 33 | 13 | 0 | 1 | 81 |
| | | % of Total | 15.6% | 15.1% | 6.0% | .0% | .5% | 37.2% |
| | Not sure | Count | 2 | 4 | 28 | 1 | 0 | 35 |
| | | % of Total | .9% | 1.8% | 12.8% | .5% | .0% | 16.1% |
| | Easy | Count | 3 | 8 | 4 | 12 | 0 | 27 |
| | | % of Total | 1.4% | 3.7% | 1.8% | 5.5% | .0% | 12.4% |
| | Very easy | Count | 0 | 0 | 0 | 1 | 0 | 1 |
| | | % of Total | .0% | .0% | .0% | .5% | .0% | .5% |
| Total | | Count | 79 | 68 | 55 | 15 | 1 | 218 |
| | | % of Total | 36.2% | 31.2% | 25.2% | 6.9% | .5% | 100.0% |

Furthermore, 34 percent of the respondents said interest rates are high and it is very difficult to access finance. Only 12 percent said interest rates are affordable and less than one percent found interest rates to be low. The remaining 16 percent said they are not sure. These could be the respondents who do not borrow money from the bank at all.

Perception of high interest rates and lack of collateral are two of the impediments that restrict SMMEs' access to finance from commercial institutions (SBP, 2008:11). Although the Lesotho government has established a special task force to investigate the possibility for improving access to finance for small businesses, most businesses still find accessing finance too difficult. According to Oxford University Press (2007:1), more potential investors are discouraged by high interest rates, as this add more costs.

**Table 6.10: Finding Customers**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Very difficult | 24 | 11.0 | 11.0 | 11.0 |
| | Difficult | 83 | 37.9 | 38.1 | 49.1 |
| | Not sure | 14 | 6.4 | 6.4 | 55.5 |
| | Easy | 81 | 37.0 | 37.2 | 92.7 |
| | Very easy | 16 | 7.3 | 7.3 | 100.0 |
| | Total | 218 | 99.5 | 100.0 | |
| Missing | No Response | 1 | .5 | | |
| Total | | 219 | 100.0 | | |

As indicated in Table 6.10 above, 49 percent of the respondents said it is difficult to find enough customers. This is the case especially in the retailing sector, which targets individual customers. These customers sometimes cross to SA to buy the goods they want. Only 44 percent find it is easy to attract customers. These are mostly manufacturers who design their products to meet the needs and wants of their customers. As the products are specifically tailored to customers' specifications, long-term relationships are built between the manufacturers and customers. This often leads to customer loyalty which translates into repeat business. Seven percent said they are not sure.

Conducive environment enables businesses to reach their customers easily and vice versa. This maximises profits, as among others, costs of travelling are reduced. Moreover, a conducive environment enables businesses to meet customers' needs and wants through offering products or services effectively and efficiently, hence business growth and sustainability.

**Table 6.11: Licensing Business**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Very difficult | 18 | 8.2 | 8.3 | 8.3 |
| | Difficult | 21 | 9.6 | 9.6 | 17.9 |
| | Not sure | 11 | 5.0 | 5.0 | 22.9 |
| | Easy | 95 | 43.4 | 43.6 | 66.5 |
| | Very easy | 73 | 33.3 | 33.5 | 100.0 |
| | Total | 218 | 99.5 | 100.0 | |
| Missing | No Response | 1 | .5 | | |
| Total | | 219 | 100.0 | | |

As indicated in Table 6.11 above, 78 percent of the respondents said it is easy to license businesses, 17 percent said it is difficult and five percent of the respondents were not sure.

In the start-up phase there are quite a number of requirements, but if they are fulfilled, a trader's license can be easily accessed. The renewal of a license for a business in the growth phase is very easy, as the requirements are less than during the initial application.

The Ministry of Trade & Industry, Cooperatives & Marketing has created a one-stop shop by simplifying and centralising formal administrative procedures to register businesses. The one-stop shop assists investors to rapidly obtain company registration, and also reduces the cost of transactions. However, this one-stop shop seems to be favourable for SMMEs in the growth phase only. It currently takes 40 days to register a business and the time limit for the processing of licence applications is intended to be reduced to 15 days (The World Bank, 2010:11).

**Table 6.12: Financing Business**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Friends | 19 | 8.7 | 8.7 | 8.7 |
| | Family | 97 | 44.3 | 44.5 | 53.2 |
| | Bank | 28 | 12.8 | 12.8 | 66.1 |
| | Own money | 74 | 33.8 | 33.9 | 100.0 |
| | Total | 218 | 99.5 | 100.0 | |
| Missing | No Response | 1 | .5 | | |
| Total | | 219 | 100.0 | | |

The results in Table 6.12 indicate that, 44 percent of the surveyed businesses are financed through family contributions. This is followed by 34 percent which rely entirely on own savings. The remaining 13 percent borrow money from the bank, and nine percent borrow from friends.

The heavy reliance on self-financing for investment partly explains the relatively slow graduation of enterprises from micro to small and from small to medium sizes. Relying on own savings and families could be due to the inaccessibility of bank loans and overdraft facilities. As explained on findings from Table 6:9, interest rates by banks are also perceived to be very high, this could also contribute to SMMEs relying on families and friends for funding. However, SMMEs in Lesotho are expected to be able to access loans easily due to the availability of easy loans offered by the government through BEDCO (SMME Support Network-Lesotho, 2007:1). The process followed and the requirements to get access to loans from BEDCO need to be evaluated in order to ascertain if its contribution eases access to finance for start-up firms.

**Table 6.13: Funding by Government or Banks**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Banks with enough resources | 131 | 59.8 | 62.1 | 62.1 |
| | Government with low interest | 40 | 18.3 | 19.0 | 81.0 |
| | Not necessarily | 40 | 18.3 | 19.0 | 100.0 |
| | Total | 211 | 96.3 | 100.0 | |
| Missing | No Response | 8 | 3.7 | | |
| Total | | 219 | 100.0 | | |

Table 6.13 shows that 60 percent of the respondents think that banks should lend money to businesses as banks have enough resources. However, they felt that banks should reduce interest rates. This shows that although SMMEs might qualify for loans from lending institutions, the fear of interest rates hikes could impede the likelihood of SMMEs requesting loans from banking institutions. 18 percent of the respondents suggested that government should lend money to businesses, as it is not likely to charge the excessive interest rates which banks do. This shows a heavy reliance on government subsidies as one of the proposed solutions to reduce the negative effect of high interest rates on SMMEs in their start-up and growth phases. Only 18 percent stipulated that it is not necessary for either government or banking institutions to lend out money.

**Table 6.14: Plans to Grow**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 205 | 93.6 | 93.6 | 93.6 |
| | No | 13 | 5.9 | 5.9 | 99.5 |
| | No Response | 1 | .5 | .5 | 100.0 |
| | Total | 219 | 100.0 | 100.0 | |

The results in Table 6.14 indicate that 94 percent of the respondents said they plan to grow their businesses and aim at either short-term or long-term growth. Only six percent said they do not plan to grow their businesses.

Most SMMEs have plans to grow their businesses, which poses a challenge to the government, as it has to apply more effective functional and selective interventions. Effective interventions may enhance the business environment leading to business growth. Businesses are unable to grow in an environment that is not conducive. Only if the business environment is attractive, will businesses be established and ultimately grow. Moreover, firm growth patterns differ from country to country which implies that growth is associated with specific countries' economic system. Key determinants of a firm's growth include size, age of business, access to credit, quality of human capital, location, and ethnicity of the owner (Elhiraika and Nkurunziza, 2006:16-21). For instance, increase in interest rates which can hinder firms from accessing credit can bring financial difficulties as the firm might be forced to downsize or even close its business as a result.

To improve macro-economic environments, it is advisable to first focus adequate attention on micro-economic reforms. Business expansions have implications at both micro and macro levels. At micro levels, this could lead to product expansion through diversification or simply a company's expansion to reach unexplored markets. The next effect is employment creation as a firm expands in volume and size. At macro levels, employment creation through business expansion is an important contributing factor towards poverty reduction. Lesotho needs to promote the establishment and growth of SMMEs as they contribute to the creation of jobs and alleviation of poverty. There is a possibility that new and existing jobs can be sustained in the high economic growth (ECA, 2001).

Interestingly, six percent indicated that they do not plan to grow their businesses. According to Elhiraika and Nkurunziza (2006:14-15) not every firm has a plan to grow. The reason could be, firstly, that the country is in economic crisis and access to credit is not easy. In this case, firms choose to downsize to keep costs as low as possible until the economic situation improves. Secondly, a firm's growth involves higher taxation and more social responsibilities for the owner. Therefore, some entrepreneurs find it costly. Thirdly, for security purposes, some entrepreneurs do not want to be seen owning large businesses.

It was ascertained that 57 percent of the respondents have not received any support/assistance from government institutions. Only 43 percent attended short courses offered by business development service providers. A possible explanation could be that entrepreneurs have busy schedules that do not allow them to attend the activities outside their day-to-day operations. Therefore, families, friends and other business owners are the most frequently consulted sources of advice on starting-up or running a business. In addition, lack of awareness of the types of assistance provided by the government could be one of the reasons that explain the situation.

Businesses need to be monitored and given support to graduate to the next stage. According to The World Bank (2005) cited Elhiraika and Nkurunziza (2006:22), governments have to regularly monitor firms and improve the business environment to boost the start-up and growth of SMMEs. Thus, SMMEs cannot successfully prosper in an economy where the government does not intervene. There is a need for intervention by the government, so that SMMEs receive adequate support. When intervening, the government has to be prepared to effectively equip entrepreneurs with management skills that will help them to sustain their businesses and become competitive. Moreover, businesses have to be willing to attend such trainings to achieve the national plan of growing and sustaining the economy.

**Table 6.15: Institutions Assisted**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | BEDCO | 32 | 14.6 | 14.6 | 14.6 |
| | LNDC | 4 | 1.8 | 1.8 | 16.4 |
| | Private | 28 | 12.8 | 12.8 | 29.2 |
| | SMMEs Networks | 20 | 9.1 | 9.1 | 38.4 |
| | Ministry of Trade | 7 | 3.2 | 3.2 | 41.6 |
| | Ministry of Gender | 3 | 1.4 | 1.4 | 42.9 |
| | None | 125 | 57.1 | 57.1 | 100.0 |
| | Total | 219 | 100.0 | 100.0 | |

In Table 6.15, the results show that 57 percent of the respondents have not received any assistance, therefore the question was not applicable to them. 15 percent of the respondents attended short trainings at BEDCO; only 13 percent attended trainings offered by private institutions; nine percent attended trainings provided by SMMEs Networks; three percent were trained by the Ministry of Trade; two percent received assistance from LNDC, and only one percent claimed to have been trained by the MGYSR.

According to OECD/ADB (2005), there is a need for government intervention in terms of promoting business development support that provides management and technical skills to SMMEs. Amongst others, the Lesotho government has established BEDCO as the state organ to oversee the development of small business. It is meant to equip SMMEs with the necessary skills to facilitate their management and growth. The Basotho Enterprises Development Corporation offers mentoring and coaching services to small businesses. However, Business Development Services in Lesotho lack effective methods of impact assessment and evaluation of their services to SMMEs. Hence, it is difficult to determine their impact on SMME growth (SMME Support Network-Lesotho, 2007:1). Business service providers must be well trained, and be knowledgeable about SMMEs' unique characteristics. Skills shortage in the business environment greatly hinders business efficiency and ultimately the economic growth. It also happens that those who have skills are reluctant to share these skills and facilities with other entrepreneurs (Herrington *et al*., 2008:32).

**Table 6.16: Skills Acquired**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Marketing | 38 | 17.4 | 17.4 | 17.4 |
| | Budgeting | 8 | 3.7 | 3.7 | 21.0 |
| | Sales | 14 | 6.4 | 6.4 | 27.4 |
| | Strategy formulation | 3 | 1.4 | 1.4 | 28.8 |
| | Business planning | 21 | 9.6 | 9.6 | 38.4 |
| | Financial management | 9 | 4.1 | 4.1 | 42.5 |
| | None | 126 | 57.5 | 57.5 | 100.0 |
| | Total | 219 | 100.0 | 100.0 | |

From Table 6.16 above, it is evident that 58 percent of the respondents did not respond to this question as it was not applicable to them. 17 percent of the respondent indicated that they had acquired marketing skills and only 10 percent acquired business planning skills; six percent acquired skills in dealing with sales; four percent financial management skills; four percent skills in budgeting; and one percent acquired skills in strategy formulation.

A large number of respondents did not receive any training, this indicates the need for government intervention as lack of business management skills for instance, can lead to negative outcomes, such as barriers to business expansion. Acquired skills lead to growth if applied effectively. Technical training programmes are offered by BDS providers to SMMEs to help entrepreneurs acquire useful skills for running their businesses and since entrepreneurial skills are essential to make enterprises profitable. If governments focus on training entrepreneurs, this might help to create an environment in which firms can grow and make a profit.

It became evident that 57 percent of the respondents had never received any kind of assistance from government institutions, thus the question was not applicable to them. This could imply that they operate their businesses without basic business management skills. Of the respondents who received assistance, only 32 percent were satisfied with the level of assistance they received, while 11 percent were dissatisfied. Satisfied respondents mentioned that they realised the importance of attending trainings as they among others, got an opportunity to network with other entrepreneurs. However, both groups of respondents confirmed that they still need to acquire more skills and knowledge for them to be effective. According to Fafchamps (2001) and Elhiraika and Nkurunziza (2006:25), networking promotes SMMEs and reduces risk as partners share know-how and create a rich pool of collective knowledge.

**Table 6.17: Assistance Still Needed**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Bookkeeping | 12 | 5.5 | 5.6 | 5.6 |
| | Marketing | 29 | 13.2 | 13.5 | 19.1 |
| | Financial Management | 41 | 18.7 | 19.1 | 38.1 |
| | Employee relations | 1 | .5 | .5 | 38.6 |
| | None | 132 | 60.3 | 61.4 | 100.0 |
| | Total | 215 | 98.2 | 100.0 | |
| Missing | No Response | 4 | 1.8 | | |
| Total | | 219 | 100.0 | | |

Table 6.17 shows that 60 percent of the respondents said that they do not need any assistance, as they had never experienced any assistance. This could mean that SMMEs are not aware of the benefits that could be derived from the services provided by the BDS. However, 19 percent confirmed that they still needed financial management skills; 13 percent still needed marketing skills; and six percent still needed bookkeeping skills. These include both respondents who were satisfied and those who were not satisfied with the level of the assistance they received.

**Table 6.18: Reason for Application**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Needed necessary skills | 86 | 39.3 | 39.8 | 39.8 |
| | Network with other entrepreneurs | 5 | 2.3 | 2.3 | 42.1 |
| | None | 125 | 57.1 | 57.9 | 100.0 |
| | Total | 216 | 98.6 | 100.0 | |
| Missing | No Response | 3 | 1.4 | | |
| Total | | 219 | 100.0 | | |

Table 6.18 indicates that 57 percent of the respondents had not received any assistance, thus the question was not applicable to them. Only 39 percent of the respondents said that they accepted assistance because they needed the necessary skills to run their businesses. However, some of them did not apply for such assistance but were offered assistance by the BDS without even requesting it. Two percent said they went for training because they wanted to network with other entrepreneurs and acquire more skills and knowledge. According to Fafchamps (2001) and Elhiraika and Nkurunziza (2006:25), promoting SMMEs requires high levels of networking. Networking reduces risk as partners share know-how and continuously create a rich pool of collective knowledge.

It is necessary for entrepreneurs to acquire basic operational skills as this equips them with knowledge that contributes to their business expansion. Basic training in accounting and marketing for example, should not be taken for granted, as they are necessary for sustained growth.

57 percent of the respondents who have not received assistance did not answer the question concerning payment for assistance as it was not applicable to them. Only 22 percent said they had paid for the training they received. The remaining 21 percent did not pay for training.

In the case of SMMEs, most of them usually get short term tips or advice on how to run their businesses from families or friends. Most of the respondents failed to realise that many types of government assistance are available to them, and furthermore, in most cases, that this help is free of charge.

With respect to the question on "willingness to pay for training and assistance in future", 57 percent did not respond since they had not received any assistance. 37 percent of the respondents said that they are willing to pay in the future. This could signify that they are acquainted with the benefits of the various training programmes provided to them, thus they are willing to pay. Only six percent indicated that they are not willing to pay for training. The reason could be that they do not realise the importance of such trainings. According to Analoui and Karami (2003:277) and Herrington *et al* (2008:32), entrepreneurs who lack managerial skills contribute to the hindrance of economic growth and business efficiency.

**Table 6.19: Level of Impact and Effects of Licensing Procedures Cross-tabulation**

| | | | Procedures effect on business | | | |
|---|---|---|---|---|---|---|
| | | | Trade freely | Time consuming | Not Applicable | Total |
| Impact of licensing procedures | Does not affect | Count | 0 | 0 | 100 | 100 |
| | | % of Total | .0% | .0% | 50.0% | 50.0% |
| | Positive effect | Count | 71 | 0 | 0 | 71 |
| | | % of Total | 35.5% | .0% | .0% | 35.5% |
| | Negative effect | Count | 0 | 29 | 0 | 29 |
| | | % of Total | .0% | 14.5% | .0% | 14.5% |
| Total | | Count | 71 | 29 | 100 | 200 |
| | | % of Total | 35.5% | 14.5% | 50.0% | 100.0% |

Table 6.19 indicates that 50 percent of the respondents said that licensing procedures do not affect them, as they take them to be part of business operation. Only 36 percent said licensing procedures affect them positively as they are able to trade freely because they comply with government requirements. One of the requirements for a business to operate is to have a valid license renewed each year. Only 14 percent find licensing procedures to impact negatively on their businesses as they are time consuming.

**Table 6.20: Impact of Availability of Premises * Premises Effect on Business Cross-tabulation**

| | | | Premises effect on business | | | | |
|---|---|---|---|---|---|---|---|
| | | | Proximity to customers | Too high rent | Scarce | Not applicable | Total |
| Impact of availability of premises | Does not affect | Count | 0 | 0 | 0 | 62 | 62 |
| | | % of Total | .0% | .0% | .0% | 32.6% | 32.6% |
| | Positive effect | Count | 35 | 0 | 0 | 0 | 35 |
| | | % of Total | 18.4% | .0% | .0% | .0% | 18.4% |
| | Negative effect | Count | 0 | 65 | 28 | 0 | 93 |
| | | % of Total | .0% | 34.2% | 14.7% | .0% | 48.9% |
| Total | | Count | 35 | 65 | 28 | 62 | 190 |
| | | % of Total | 18.4% | 34.2% | 14.7% | 32.6% | 100.0% |

The results from Table 6.20 indicate that 49 percent of the respondents said availability of premises impacted negatively on their businesses. One of the impediments is that the rent charged is too high. In addition, the respondents argue that adequate business premises are scarce in Lesotho, therefore, SMMEs end up operating in remote places far away from their potential customers. According to ECA (2005), African SMMEs are often unable to grow due to a lack of supporting environments, for instance, efficient infrastructures.

One of the requirements to obtain a business license is for an SMME to have a physical address, that is, premises from which the business operates. The premises are then inspected by the Maseru City Council (Municipality) to determine their suitability to the business. If SMMEs do not have adequate facilities to run their businesses this requirement can compel them to end up trading informally.

Only 33 percent of the respondents attested that the availability of premises does not impact on their businesses whereas 18 percent said availability of premises did impact positively on their businesses. This may be due to the fact that, in the case of SMMEs, proximity to customers is crucial in order to generate sales. According to Elhiraika and Nkurunziza (2006:16), location can be an important determinant of growth in certain countries.

Location is an essential part of any business. If customers are in inaccessible areas, businesses consider relocation to get closer to their customers, or reduce operating costs. Also, as a business expands, it sometimes becomes necessary to find additional locations. Therefore, the availability of adequate business infrastructures such as developed business premises is crucial not only for compliance with business requirements, but also for business growth and sustainability.

**Table 6.21: Impact of Skilled Staff * Skilled Staff Effect on Business Cross-tabulation**

| | | | Skilled staff effect on business | | | |
|---|---|---|---|---|---|---|
| | | | No need for immediate supervision | Demand high salaries | Not applicable | Total |
| Impact of skilled staff | Does not affect | Count | 1 | 0 | 66 | 67 |
| | | % of Total | .5% | .0% | 34.4% | 34.9% |
| | Positive effect | Count | 74 | 0 | 0 | 74 |
| | | % of Total | 38.5% | .0% | .0% | 38.5% |
| | Negative effect | Count | 2 | 49 | 0 | 51 |
| | | % of Total | 1.0% | 25.5% | .0% | 26.6% |
| Total | | Count | 77 | 49 | 66 | 192 |
| | | % of Total | 40.1% | 25.5% | 34.4% | 100.0% |

Table 6.21 reveals that 39 percent of the respondents indicated that skilled staff impact positively on their businesses as they have necessary skills and do not need extra supervision or close supervision. Skilled staff generally have good relationships with customers, thus portraying a good image of the firm (Goodman, 2005:1). Skilled employees are also an important determinant of firm growth, as they can stimulate the growth process better than employees without qualifications and experience (Elhiraika and Nkurunziza, 2006:14).

Only 27 percent said skilled staff impact negatively on their businesses as skilled staff demand high salaries compared to general labour. In addition, they posit that skilled staff often quit their jobs for greener pastures if the opportunity arises. Moreover, sometimes skilled staff seek employment just to gather start-up capital in order to open their own businesses, thus not committing permanently to their jobs. Kaynak, Tatoglu and Kula (2005:632-640) confirm that, it is difficult to find and retained qualified with the necessary skills and know-how.

Only 34 percent said skilled staff do not affect their businesses. A possible explanation could be that they use cheap labour which is normally trained on the job due to lack of skills. This, assumedly, would have a positive outcome in terms of cost minimisation.

According to van Akkeren and Cavaye (1999), the biggest driving force of SMME owners is to maximize profits. Thus, anything that can be done to minimise costs, including hiring unskilled staff, is a common strategy used by SMMEs owners. This also implies that some business opportunities are neglected without proper costs/benefits analyses.

**Table 6.22: Impact and Effect of Income Tax on Businesses Cross-tabulation**

| | | | Income tax effect on business | | | | |
|---|---|---|---|---|---|---|---|
| | | | Contribute to good infrastructure | Affordable rates | Too high | Not applicable | Total |
| Impact of tax | Does not affect | Count | 0 | 0 | 1 | 142 | 143 |
| | | % of Total | .0% | .0% | .5% | 72.4% | 73.0% |
| | Positive effect | Count | 5 | 2 | 0 | 0 | 7 |
| | | % of Total | 2.6% | 1.0% | .0% | .0% | 3.6% |
| | Negative effect | Count | 0 | 0 | 46 | 0 | 46 |
| | | % of Total | .0% | .0% | 23.5% | .0% | 23.5% |
| Total | | Count | 5 | 2 | 47 | 142 | 196 |
| | | % of Total | 2.6% | 1.0% | 24.0% | 72.4% | 100.0% |

From Table 6.22, the results show that 73 percent of respondents are not affected by tax (meaning they do not pay tax). Only 23 percent said tax charges are too high and have a negative impact on their businesses. Four percent said that with the tax collected, the government is able to improve the infrastructure that benefits the businesses which pay those taxes. Therefore, paying tax is affordable and has a positive effect on their businesses. According to Fry *et al* (2001:55), small businesses are often run with fewer restrictions and more flexibility than larger firms, and this creates an opportunity for small businesses to be innovative.

The Lesotho tax framework operates through three pieces of legislation which are the Customs and Excise Act of 1982, the Income Tax Act of 1993, and the Value Added Tax of 2001. SMMEs are unable to comply with these (APRM Report, 2009:15). However, according to The World Bank (2010:35), paying tax is the best indicator in which Lesotho is ranked but it is very low judging by world standard. In Lesotho if a business generates

M5000 or more per month, such a business has to pay income tax. Formal SMMEs have to pay 35 percent income tax, chargeable on their total annual turnover as opposed to 15 percent charged from large firms (Lesotho Government 4, White Paper, 2002:13).

Although 73 percent of the respondents said they are not affected by tax, a study by SBP showed that SMMEs in Lesotho choose to operate informally due to lengthy, time-consuming, and sometimes complicated tax procedures (SBP, 2008:90). Some SMMEs show false financial figures to avoid being charged tax. Lesotho would thus do well to ease access to finances for entrepreneurs. Effort by LRA to educate the business community about tax law is a promising breakthrough. However, the role of MTICM in raising awareness about requirements that govern SMMEs is not yet clear.

**Table 6.23: Impact and Effect of Export Regulations on Businesses Cross-tabulation**

| | | | Export regulations effect on business | | | |
|---|---|---|---|---|---|---|
| | | | Broaden customer base | Time consuming | Not applicable | Total |
| Impact of export regulations | Does not affect | Count | 0 | 1 | 157 | 158 |
| | | % of Total | .0% | .5% | 83.5% | 84.0% |
| | Positive effect | Count | 15 | 0 | 0 | 15 |
| | | % of Total | 8.0% | .0% | .0% | 8.0% |
| | Negative effect | Count | 0 | 15 | 0 | 15 |
| | | % of Total | .0% | 8.0% | .0% | 8.0% |
| Total | | Count | 15 | 16 | 157 | 188 |
| | | % of Total | 8.0% | 8.5% | 83.5% | 100.0% |

From Table 6.23, it is evident that 84 percent of the respondents are not affected by export regulations because they do not export, due to the nature of their businesses. Only eight percent said export regulations affect them negatively as these regulations are time-consuming. They mentioned that the time taken to declare their goods at the customs office at the border gate is too long. In addition, they mentioned the issue of restrictions on the volume of goods to be exported. This hinders business expansion beyond the borders of Lesotho. However, eight percent said export regulations affect them positively as these regulations broaden their customer base.

According to Bigsten, Collier, Dercon, Fafchamps, Gauthier, Gunning, Oduro, Oosterndorp, Patillo, Soderbom, Teal and Zeufack, (2002), exporting increases growth and competitiveness, as the firm becomes able to participate in the export learning process which increases innovative skills. According to the report by ECA (2001), African SMMEs that graduate from small to medium or large sizes, are the ones involved in exporting activities.

Although Lesotho encourages an environment favourable to the growth of export-oriented industrial activity, responses from the research participants indicate that there are a number of impediments that restrict SMMEs from trading beyond the country's borders. The Lesotho Revenue Authority collaborated with SARS to make it easy for businesses to cope with customs administration procedures. Lesotho Government 11, Online: 21 October 2011 stated that LRA has successfully cooperated with SARS and the improvement of service delivery as well as increasing revenue collection, are already being enjoyed. However, based on the findings it is perceived that this effort has not yet yielded its intended results, as Lesotho SMMEs are still struggling to bring goods across to SA.

Table 6.24 indicates that 71 percent of the respondents are not affected by import regulations as they buy their products locally. Only 20 percent said that import regulations affect them negatively. In this regard, the time-consuming nature of the laws governing SMMEs prevent firms from reacting in time to market forces, and inhibit making new investments or capacity expansion decisions. This is contradictory to what the literature mentioned concerning successful collaboration between LRA and SARS. Only nine percent said import regulations have a positive impact on their businesses as they help to broaden their supplier base. In this regard, SMMEs are able to buy good quality products from SA at reasonable prices.

**Table 6.24: Impact and Effect of Import Regulations on Businesses Cross-tabulation**

| | | | Import regulations effect on business | | | |
|---|---|---|---|---|---|---|
| | | | Broaden supplier base | Time consuming | Not applicable | Total |
| Impact of import regulations | Does not affect | Count | 0 | 0 | 139 | 139 |
| | | % of Total | .0% | .0% | 71.3% | 71.3% |
| | Positive effect | Count | 17 | 0 | 0 | 17 |
| | | % of Total | 8.7% | .0% | .0% | 8.7% |
| | Negative effect | Count | 0 | 39 | 0 | 39 |
| | | % of Total | .0% | 20.0% | .0% | 20.0% |
| Total | | Count | 17 | 39 | 139 | 195 |
| | | % of Total | 8.7% | 20.0% | 71.3% | 100.0% |

As indicated in Table 6.25, 35 percent of the respondents said they are not aware of any regulations hindering the start-up and growth of SMMEs in Lesotho. However, many factors hindering start-up and growth were mentioned by other respondents. 21 percent said access to finance hinders them from establishing businesses or even growing existing businesses. 20 percent said licensing procedures are too cumbersome: it is impossible to get a trader's license if there is no lease or sublease from a potential landlord. 10 percent said tax rates are too high; which compels some SMMEs to show false financial figures to avoid being charged tax. Five percent find labour laws hinder start-up and growth; five percent stipulated that the import and export regulations hinder the start-up and growth of SMMEs; and four percent said the Companies Act of 1967 is so outdated that it does not cater for all business sectors.

**Table 6.25: Hindrance to Start-up and Growth**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Labour laws | 11 | 5.0 | 5.2 | 5.2 |
| | Companies Act 1967 | 8 | 3.7 | 3.8 | 9.0 |
| | Licensing procedures | 42 | 19.2 | 19.8 | 28.8 |
| | Access to Finance | 45 | 20.5 | 21.2 | 50.0 |
| | High tax | 22 | 10.0 | 10.4 | 60.4 |
| | Import and export regulations | 10 | 4.6 | 4.7 | 65.1 |
| | Not aware | 74 | 33.8 | 34.9 | 100.0 |
| | Total | 212 | 96.8 | 100.0 | |
| Missing | No Response | 7 | 3.2 | | |
| Total | | 219 | 100.0 | | |

The findings reported in Table 6.26 show that 48 percent of the respondents said they are not aware of any regulations that promote start-up and growth of SMMEs in Lesotho. Only 37 percent said the creation of one-stop shop at MTICM has simplified the process of obtaining trading licenses that enables them to trade freely. However, with SMMEs in start-up phase, one-stop shop has no much positive impact to them as they are required to present more documentation than in the growth phase. Six percent said environmental laws open up doors for the establishment and growth of SMMEs; one percent said tax is affordable, therefore, encourages the start-up and growth of SMMEs; another one percent said customer and supplier bases are broadened by export and import regulations which encourage the establishment and growth of SMMEs; and only two percent stipulated that the companies act promotes the start-up and growth of SMMEs. Five percent of the respondents did not answer this question.

**Table 6.26: Promotion to Start-up and Growth**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Environmental laws | 12 | 5.5 | 5.9 | 5.9 |
| | Simplified requirements for traders license | 80 | 36.5 | 39.0 | 44.9 |
| | Company Law | 4 | 1.8 | 2.0 | 46.8 |
| | Affordable tax | 2 | .9 | 1.0 | 47.8 |
| | Export and Import regulations | 1 | .5 | .5 | 48.3 |
| | Not aware | 106 | 48.4 | 51.7 | 100.0 |
| | Total | 205 | 93.6 | 100.0 | |
| Missing | No Response | 14 | 6.4 | | |
| Total | | 219 | 100.0 | | |

## 6.3 Descriptive Statistics

The table below presents the descriptive statistics for each question. The descriptive statistics include the mean, mode, median and standard deviation.

**Table 6.27: Summary Table of Descriptive Statistics for all Questions**

| | Mean | Median | Mode | Std. Deviation |
|---|---|---|---|---|
| Gender | 1.55 | 2 | 2 | 0.499 |
| Respondents' age | 3.6 | 3 | 3 | 1.055 |
| Respondents' race | 1.21 | 1 | 1 | 0.584 |
| Role in business | 1.60 | 2 | 2 | 0.491 |
| Business phase | 1.59 | 2 | 2 | 0.493 |
| Full time employees | 1.38 | 1 | 1 | 0.957 |
| Part time employees | 4.61 | 6 | 6 | 2.24 |
| Male employees | 1.58 | 1 | 1 | 1.541 |
| Female employees | 1.58 | 1 | 1 | 1.541 |
| Business sector | 2.82 | 3 | 4 | 1.176 |
| Major target market | 1.42 | 1 | 1 | 0.882 |
| Access to finance | 2.08 | 2 | 2 | 1.017 |
| Interest rates | 2.04 | 2 | 1 | 0.966 |
| Finding customers | 2.92 | 3 | 2 | 1.219 |
| Licensing business | 3.84 | 4 | 4 | 1.223 |
| Financing business | 3.06 | 2 | 2 | 1.469 |
| Funding by banks or government | 1.57 | 1 | 1 | 0.792 |

| | Mean | Median | Mode | Std. Deviation |
|---|---|---|---|---|
| Plans to grow | 5.62 | 1 | 1 | 67.435 |
| Assistance received | 1.57 | 2 | 2 | 0.496 |
| Institutions assisted | 5.17 | 7 | 7 | 2.323 |
| Skills acquired | 5.25 | 7 | 7 | 2.384 |
| Assistance satisfaction | 2.25 | 3 | 3 | 0.912 |
| Assistance still needed | 3.99 | 5 | 5 | 1.362 |
| Reason for application | 2.18 | 3 | 3 | 0.974 |
| Payment for assistance | 2.36 | 3 | 3 | 0.816 |
| Willingness to pay in the future | 2.21 | 3 | 3 | 0.948 |
| Impact of licensing procedures | 1.69 | 2 | 1 | 0.727 |
| Procedures effect on business | 2.15 | 2.5 | 3 | 0.916 |
| Impact of availability of premises | 2.21 | 2.5 | 3 | 0.865 |
| Premises effect on business | 2.62 | 2 | 2 | 1.124 |
| Impact of skilled staff | 1.93 | 2 | 2 | 0.753 |
| Skilled staff effect on business | 1.94 | 2 | 1 | 0.863 |
| Impact of tax | 1.59 | 1 | 1 | 0.876 |
| Income tax effect on business | 3.66 | 4 | 4 | 0.632 |
| Impact of export regulations | 1.36 | 1 | 1 | 0.696 |
| Export regulations effect on business | 2.76 | 3 | 3 | 0.588 |
| Impact of import regulations | 1.57 | 1 | 1 | 0.84 |
| Import regulations effect on business | 2.63 | 3 | 3 | 0.641 |
| Hindrance to start-up and growth | 4.82 | 4.5 | 7 | 1.898 |
| Promotion to start-up and growth | 4.06 | 6 | 6 | 2.049 |

The mean, the mode, the median, the sample variance, and the sample standard deviation are considered. The sum of all the values divided by the sample size, is known as the mean or the arithmetic. The most frequent response given by the respondents is the mode. The middle value arrived at, when the data are arranged from the highest to the lowest is known as a median. The sample variance is the measure by which each observation varies from one another. The square root of the sample variance is called the sample standard deviation. Most of the questions (sections b and c) as indicated on the above table, have a mode of "1" and some of the questions have modes of "2" which explains "yes" and "no". The standard deviations are consistently about "1" which indicates good consistency between the observations due to the low changeability. There is consistency between modal values and mean and median values. The descriptive statistics serve to confirm the findings reported graphically and otherwise.

### 6.3.1 Reliability Analysis

Churchill and Iacobucci (2002:416) and Coakes and Steed (2003:140) argue that there are a different methods of testing reliability. Cronbach's alpha is one of the most commonly used methods to test reliability to test if similar results could still be obtained if the sample size was increased; Cronbach's alpha was used as the reliability test. This is based on the average correlation of items within a test, if the items are standardised. However, if the items are not standardised, it is based on the average covariance among the items. Reliability test (Cronbach's alpha) can range from 0 to 1. Therefore, a value of 0.7 or higher is considered to be a good value that can ensure that the researcher would obtain the same results if this survey is carried out with a larger sample of respondents (Coakes and Steed, 2003:140). Cronbach's alpha was calculated for all the questions which have the same scales in each section. The results are as follows:

**Table 6.28: Reliability Statistics**

| SECTION QUESTIONS | CRONBACH'S ALPHA |
|---|---|
| C1 | 0.747 |
| C4, D1, D4, D7, D8 | 0.708 |
| D9 | 0.738 |

The alpha values seem fine indicating good internal consistency.

### 6.3.2 Validity

Validity refers to the extent to which an instrument measures what needs to be measured. Face validity is concerned with how a measure or procedure appears. Face validity is a simple form of validity in which researchers determine if the test seems to measure what is intended to measure. Essentially, researchers are simply taking the validity of the test at face value by looking at whether a test appears to measure the target variable (Cronbach and Meehl, 1955). On a measure of stress, for example, the test would be said to have face validity if it appeared to actually measure levels of stress. The face validity was applied to the different variables in the questionnaire. Since the questions in the questionnaire were taken from an existing questionnaire (Macamo, 2009), the questions were found to measure exactly what they were intending to measure.

## 6.4 Answering the Research Hypotheses and Research Objectives

This section correlates the responses from the participants to the research hypotheses. This is expected to specify the benefits and challenges of current government selective interventions which will then clarify if there is still a need for government intervention to facilitate the start-up and growth of SMMEs in Lesotho.

### 6.4.1 Kolmogorov Smirnov Test

It is essential to first look at the use of parametric and non-parametric tests. This is determined using the Kolmogorov Smirnov test.

$H_0$: The tested variables come from a normal distribution.

$H_1$: The tested variables do not come from a normal distribution.

**Table 6.29: Kolmogorov Smirnov Test Results**

| | Kolmogorov-Smirnov Z | Asymp. Sig. (2-tailed) |
|---|---|---|
| Respondents' age | 3.210 | .000 |
| Respondents' race | 7.586 | .000 |
| Full time employees | 6.975 | .000 |
| Part time employees | 6.714 | .000 |
| Male employees | 7.340 | .000 |
| Female employees | 7.391 | .000 |
| Business sector | 2.679 | .000 |
| Major target market | 6.758 | .000 |
| Access to finance | 3.593 | .000 |
| Interest rates | 3.274 | .000 |
| Finding customers | 3.912 | .000 |
| Licensing business | 4.745 | .000 |
| Financing business | 4.382 | .000 |
| Funding by banks or government | 5.585 | .000 |
| Plans to grow | 7.648 | .000 |
| Assistance received | 5.584 | .000 |
| Institutions assisted | 5.260 | .000 |
| Skills acquired | 5.096 | .000 |
| Assistance satisfaction | 5.403 | .000 |
| Assistance still needed | 5.655 | .000 |
| Reason for application | 5.565 | .000 |
| Payment for assistance | 5.299 | .000 |
| Willingness to pay in the future | 5.474 | .000 |
| Impact of licensing procedures | 4.331 | .000 |
| Procedures effect on business | 4.594 | .000 |
| Impact of availability of premises | 4.670 | .000 |
| Premises effect on business | 3.230 | .000 |
| Impact of skilled staff | 3.160 | .000 |

| | Kolmogorov-Smirnov Z | Asymp. Sig. (2-tailed) |
|---|---|---|
| Skilled staff effect on business | 3.653 | .000 |
| Impact of tax | 6.130 | .000 |
| Income tax effect on business | 5.986 | .000 |
| Impact of export regulations | 6.660 | .000 |
| Export regulations effect on business | 6.805 | .000 |
| Impact of import regulations | 5.969 | .000 |
| Import regulations effect on business | 6.050 | .000 |
| Hindrance to start-up and growth | 3.264 | .000 |
| Promotion to start-up and growth | 4.937 | .000 |

At the 5% significance level, $H_0$ is rejected for the questions whose p-values are less than 0.05 and conclude that the tested variables do not come from a normal distribution. The implication for this is that as far as the scores are concerned, the researcher is required to use non-parametric statistics. Tests such as the Mann-Whitney U test, Chi-square and the Kruskal Wallis test can be used if necessary. Therefore $H_0$ is rejected for all of the above questions and it is concluded that the questions do not follow a normal distribution and hence the use of non-parametric tests on these questions is essential.

### 6.4.2 Hypotheses Testing

### Hypothesis One

$H_{10}$: There is no need for government interventions on SMMEs in Lesotho.

$H_{1a}$: There is a need for government interventions on SMMEs in Lesotho.

The hypotheses were tested using the chi-square goodness of fit test. This test makes use of the distribution of responses. If the distribution of responses is skewed towards a certain category, then this is tested against a certain belief or theory. The observed data per variable/question are tested against the hypothesised data. If the observed data are different from the hypothesised data, this ultimately leads to the rejection of the hypothesis. In order to test this hypothesis, questions C3 and D1 were used. Clearly if $H_{10}$ is true then most of the responses will be skewed towards the "not necessarily" and "no" category. The results are summarised below:

**Table 6.30: Chi Square Test Statistics**

| | Funding by banks or government | Assistance received |
|---|---|---|
| Chi-Square | 78.493[a] | 4.388[b] |
| Df | 2 | 1 |
| Asymp. Sig. | .000 | .036 |

At the 5% level, $H_{10}$ is rejected since the p-values are less than 0.05 and it is concluded that there is a need for government interventions on SMMEs in Lesotho.

There are quite a number of initiatives that the Lesotho government has put in place, however, it was found that most of the respondents believe these initiatives impact negatively in their operation. Furthermore, the literature revealed some weaknesses with regard to interventions by the Lesotho government. Hypothesis one confirms the literature as mentioned earlier in Chapter 2. The Lesotho government needs to provide access to finance and training for SMMEs in their start-up stage. Advanced infrastructure attracting business establishment should be a priority. In the growth stage, government has to play an essential role of reducing barriers in tax, imports and exports regulations. In the maturity stage, the Lesotho government has to maintain an environment in which firms are operating in, by controlling competition and monopoly. In the decline stage government support is needed to equip SMMEs with new ideas and skills through various training programmes or workshops (Ranawat and Tiwari, 2009:16-19).

According to The World Bank Doing Business Report (2011), Lesotho is ranked 138 out of 183 countries in terms of doing business meaning performance is still weak (The World Bank, 2011:2). There are seven procedures involved and it takes about 40 days to complete the whole process of starting a business in Lesotho (Central Bank of Lesotho, 2010:2; The World Bank, 2010:8).

It was found that most of the respondents believe access to finance was difficult and interest rates were very high. SMMEs were financed through family contributions or relied on their own savings due to inaccessible bank loans, lack of collateral and perceived high interest rates (Riley, 2006:1; Elhiraika and Nkurunziza, 2006:7; SBP, 2008:11&90). In 2011, Lesotho is ranked 128 out of 183 countries, in terms of getting credit. Lesotho has gone down 15 positions compared to 2010 (The World Bank, 2011:2).

Businesses believed that banks should lend them money with reduced interest rates. They also suggested that government should lend them money, as it is not likely to charge the excessive interest rates. However, the government already offers easy loans to SMMEs through BEDCO and MGYSR (SMME Support Network-Lesotho, 2007:1). The requirements to get access to loans from BEDCO need to be evaluated in order to ascertain its contribution to easy access to finance by SMMEs.

The Lesotho government intervened by establishing institutional support to assist SMMEs with necessary skills. For instance, the BEDCO Act of 1980 offers technical training to SMMEs which helps entrepreneurs to acquire useful business skills. However, most SMMEs did not use these institutions as they believed their time was wasted when attending training. They still relied on advice from friends to start-up and run their businesses. It must be noted that if SMMEs lack useful skills such as business management, this can result in negative outcomes. For instance, a lack of innovative skills can hinder expansion. The importance of these skills was demonstrated by the fact that most SMMEs felt they still needed more skills to run their businesses effectively.

With respect to the first research objective, which is to determine the need for interventions by the government, the researcher concluded that there is still a need for further government interventions in some cases. Concrete selective interventions had been implemented by the

Lesotho government, however, the SMMEs perceive that the government's abilities to enforce these were not effective and sufficient enough.

C3. Do you think government or banks should provide funding for your business, and if so, why?

From Table 6.31, it was found that most of the respondents (60 percent) perceived that funding was to be provided by banks which have resources. This was followed by 18 percent of respondents who believed government had to provide funding at low interest rates. Another 18 percent felt that it was not necessary for either the bank or the government to intervene. This result emphasised the need for government intervention.

**Table 6.31: Government or Banks Funding Frequency Table**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Banks with enough resources | 131 | 59.8 | 62.1 | 62.1 |
| | Government with low interest | 40 | 18.3 | 19.0 | 81.0 |
| | Not necessarily | 40 | 18.3 | 19.0 | 100.0 |
| | Total | 211 | 96.3 | 100.0 | |
| Missing | No Response | 8 | 3.7 | | |
| Total | | 219 | 100.0 | | |

Table 6.32 shows that in the past, less than half the sample (43 percent) only received assistance from the government. This was an indication that much more needed to be done by the government.

D1. Have you received any support/assistance from government institutions in the past?

**Table 6.32: Assistance Received Frequency Table**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 94 | 42.9 | 42.9 | 42.9 |
| | No | 125 | 57.1 | 57.1 | 100.0 |
| | Total | 219 | 100.0 | 100.0 | |

## Hypothesis Two

$H_{20}$: The government interventions in Lesotho have had a positive impact on establishing and improving the start-up and growth rates of SMMEs.

$H_{2a}$: The government interventions in Lesotho have not had a positive impact on establishing and improving the start-up and growth rates of SMMEs.

In order to test this hypothesis, the chi-square goodness of fit test was applied to question D9 since these attributes are all related to government interventions. If the null hypothesis was true, it would be expected that all of the results be skewed towards the "negative impact". The results are presented in Table 6.33.

**Table 6.33: Chi Square Test Statistics**

| | Impact of licensing procedures | Impact of availability of premises | Impact of tax | Impact of export regulations | Impact of import regulations |
|---|---|---|---|---|---|
| Chi-Square | 2098.758 | 2925.978 | 4614.312 | 5248.074 | 4302.997 |
| Df | 2 | 2 | 2 | 2 | 2 |
| Asymp. Sig. | .000 | .000 | .000 | .000 | .000 |

At the 5% level, since the p-values are all less than 0.05, $H_{20}$ is rejected and it is concluded that the government interventions in Lesotho have not had a positive impact on establishing and improving the start-up and the growth rates of SMMEs.

The Ministry of Trade & Industry, Cooperatives & Marketing created a one-stop shop by simplifying and centralising the formal administrative procedures to register businesses (Lesotho Government 4, White Paper, 2002:28; ADF, 2009:4). However, licensing procedures were indicated by businesses in the start-up phase as a hindrance to growth. They argued that the requirements to register a business are cumbersome as they found the process time-consuming. They even felt trading informally was the solution. Lesotho Government 7, Online: 10 March 2009 demonstrated that it was not unusual to have tight requirements for the start-up phase. For example, SA and the SSA region as a whole have more requirements than Lesotho. However, the relative efficiency with which bureaucratic procedures are dealt with in terms of costs and time spent on them, makes SA and the SSA region better places to do business than Lesotho.

The World Bank Ease of Doing Business Report 2011 reveals that in terms of starting a business, Lesotho is ranked 138 out of 183 countries. In 2009 there were eight procedures to go through when starting a business in Lesotho and it would take 73 days. In 2011 the procedures were reduced to seven and it now takes approximately 40 days to complete the whole process of starting a business. The time limit for license applications processing is intended to be reduced to 15 days (The World Bank, 2011:2).

Some respondents found the availability of premises to impact negatively on their businesses. This was due to high rental charges and scarcity of suitable business premises. This sometimes forced SMMEs to operate in remote areas far away from their potential customers. To some extent these entrepreneurs were even compelled to trade informally. Therefore, the availability of adequate business infrastructures such as developed business premises was essential for business to grow and become sustainable. According to Elhiraika and Nkurunziza (2006:16), location can be an important determinant of growth in certain countries. If customers are in inaccessible places, businesses consider relocation to get closer to their customers. In this study, only 18 percent said availability of premises impact positively on their businesses as they were at the proximity to their customers.

Municipal inspections to determine the suitability of premises for business operations were also a challenge for most SMMEs. What they did not consider was the fact that consumers also have to be protected by the government, for instance, from harmful products. The government has to do its job, and SMMEs have to adapt and comply. It was found that availability of developed premises was also essential for businesses' start-up and growth but can be expensive. If premises are scarce, SMMEs end up operating in remote places far away from potential customers. This can compel SMMEs to trade informally.

According to The World Bank (2010:22), a large share of property in Lesotho was not formally registered and this limited financing opportunities for businesses. Formal property titles give entrepreneurs access to formal credit markets because properties can be used as collateral against loans. Lesotho is ranked 146 in 2011 for registering a property. There are six procedures involved and it takes 101 days. The procedures may appear reasonable, but the time taken is too long (The World Bank, 2011:2).

Formal SMMEs have to pay 35 percent income tax, chargeable on their total annual turnover as opposed to 15 percent charged from large firms (Lesotho Government 4, White Paper, 2002:13). Even though taxes are only paid by businesses that generate M5000 and above, some of the respondents found tax charges to be too high and impose a negative impact on their businesses. This could be that businesses have to comply with three pieces of legislation which are the Customs and Excise Act of 1982, the Income Tax Act of 1993, and the Value Added Tax of 2001 (APRM Report, 2009:15).

According to The World Bank, Lesotho is ranked number 140 out of 183 in the global rankings in terms of trading across borders and is ranked number one in SACU. There are six documents to be filled out and it takes 31 days to export. In addition, there are eight documents to be filled out when importing, and it takes approximately 35 days (The World Bank, 2011:2-3). However, SMMEs still found export and import regulations ineffective. It was perceived that government interventions in terms of export and import regulations were feasible, but the problem lay with SMMEs who were reluctant to change and comply. It must be noted that economies with few customs document requirements are competitive globally, as they ease compliance processes, and hence become cost effective.

### Hypothesis Three

$H_{30}$: There are no government interventions hindering the successful start-up and growth rates of SMMEs.

$H_{3a}$: There are government interventions hindering the successful start-up and growth rates of SMMEs.

The chi-square goodness of fit test was used to test this hypothesis by applying the test to the data of question D10. If the null hypothesis was true then the respondents would have indicated in the "not aware" category. The results are summarised below.

**Table 6.34: Chi Square Test Statistics**

| | Hindrance to start-up and growth |
|---|---|
| Chi-Square | 119.311[a] |
| Df | 6 |
| Asymp. Sig. | .000 |

At the 5% significance level, $H_{30}$ is rejected, and it is concluded that there are government interventions which hinder the success of the start-up and growth rates of SMMEs in Lesotho. Table 6.35 further confirms this fact since there were many selective interventions indicated as hindrances to the success of the start-up and growth rates of SMMEs.

The African Development Fund Report states that obstacles to private sector development that still exist in Lesotho relate to outdated laws and regulations. This imposes unnecessarily long and complex procedures for obtaining work permits and for the registration and licensing of firms (The World Bank, 2004:4; ADF, 2009:4).

Although 35 percent of the respondents were not aware of any regulations hindering the start-up and growth of SMMEs in Lesotho, other respondents mentioned many factors perceived to be hindering the establishment and growth of SMMEs in Lesotho. About 21 percent of the respondents said requirements for access to finance hinder them from either establishing or growing existing businesses. About 20 percent said requirements for licensing procedures are too cumbersome. For instance, it was impossible to get a trader's license if there was no lease or sublease from a potential landlord. Some SMMEs were propelled to show false figures to avoid being taxed, the reason being that tax rates were perceived to be too high. The outdated Companies Act of 1967 which did not even cater for all business sectors, labour laws, and export and import regulations were considered as hindering start-up and growth of SMMEs. Lall (2000:32) states that most developing countries are faced with a challenge of outdated regulations.

**Table 6.35: Hindrances Frequency Table**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Labour laws | 11 | 5.0 | 5.2 | 5.2 |
| | Companies Act 1967 | 8 | 3.7 | 3.8 | 9.0 |
| | Licensing procedures | 42 | 19.2 | 19.8 | 28.8 |
| | Access to finance | 45 | 20.5 | 21.2 | 50.0 |
| | High tax | 22 | 10.0 | 10.4 | 60.4 |
| | Import and export regulations | 10 | 4.6 | 4.7 | 65.1 |
| | Not aware | 74 | 33.8 | 34.9 | 100.0 |
| | Total | 212 | 96.8 | 100.0 | |
| Missing | No response | 7 | 3.2 | | |
| Total | | 219 | 100.0 | | |

A Policy Analysis Section has been created at the MTICM in order to suggest recommendations for reform and identify regulatory obstacles to business activities. Furthermore, the government is intervening through undertaking major policy reforms. This is done with the support of The World Bank and MCC (ADF, 2009:4). Initiatives are taken by the government when the need arises, however, the outcome is vague.

According to The World Bank (2010:18), employment laws are significantly meant to guide employer and employee relations. They are also needed to stimulate best practices by employers. They eliminate among others, unfair dismissal by employers. Lesotho is ranked 67 out of 183 economies in terms of employing workers. This is the second best performance by Lesotho as compared to all 10 indicators (The World Bank, 2011:2). However, some respondents stated labour laws as hindrance to SMMEs start-up and growth.

65 percent of the respondents stipulated that they are aware of laws that hinder the start-up and growth of SMMEs, whilst 35 percent were unaware of any such laws.

**Hypothesis Four**

$H_{40}$: There is no difference between the impact of the selective interventions used at the start-up and growth phases.

$H_{4a}$: There is a difference between the impact of the selective interventions used at the start-up and growth phases.

In order to test this hypothesis, the Mann Whitney U test was conducted on the data obtained through questions D9 and D10. The results are summarised in Table 6.36 below.

**Table 6.36: The Mann Whitney U Test**

| | Mann-Whitney U | Wilcoxon W | Z | Asymp. Sig. (2-tailed) |
|---|---|---|---|---|
| Impact of licensing procedures | 5206.000 | 13207.000 | -.679 | .497 |
| Impact of availability of premises | 5033.500 | 13161.500 | -1.203 | .229 |
| Impact of skilled staff | 4876.000 | 8531.000 | -1.179 | .238 |
| Impact of tax | 5355.500 | 13483.500 | -.459 | .646 |
| Impact of export regulations | 4798.500 | 8119.500 | -.855 | .392 |
| Impact of import regulations | 5063.000 | 13064.000 | -.636 | .525 |
| Hindrance to start-up and growth | 4469.000 | 8124.000 | -2.189 | .029 |

At the 5% significance level, $H_{40}$ is accepted where the p-values are greater than 0.05. Here it was concluded that as far as the impact of licensing procedures, availability of land/premises for business use, availability of skilled staff, income tax, export and import regulations are concerned, there was no difference between SMMEs start-up and growth phases. According to SBP (2005:3) and OECD (2007:29), these compelled SMMEs to incur compliance costs, for example, the costs incurred when completing forms and fulfilling reporting requirements.

Renawat and Tiwari (2009) advocate that government interventions are informed by the stages businesses are situated in their business life cycle. However, the findings reveal that the above selective interventions (i.e. licensing procedures, availability of land/premises for business use, availability of skilled staff, income tax, export and import regulations) impact on SMMEs both in the start-up and growth phases.

However, with respect to the hindrances of the start-up and growth laws and regulations since the p-value is less than 0.05, $H_{40}$ is rejected and it was concluded that there was a difference between the start-up and growth phases of SMMEs with respect to the hindrances of selective government interventions on start-up and growth. The cross-tabulation of the start-up and growth phases of SMMEs on hindrances of selective government interventions is reflected in Table 6.37 below.

**Table 6.37: Business Phase Hindrance Frequency Table**

| | | Business phase | | |
|---|---|---|---|---|
| | | Start-up | Growth | Total |
| Hindrance to start-up and growth | Labour laws | 5 | 6 | 11 |
| | Companies Act 1967 | 5 | 3 | 8 |
| | Licensing procedures | 20 | 22 | 42 |
| | Access to finance | 20 | 25 | 45 |
| | High tax | 7 | 15 | 22 |
| | Import and export regulations | 5 | 5 | 10 |
| | Not aware | 23 | 51 | 74 |
| Total | | 85 | 127 | 212 |

According to The World Bank (2004:83), heavier business regulations become obstacles to economic progress and usually bring poor outcomes. Referring to the cross-tabulation below, it is found that access to finance is a further serious challenge which hinders businesses at both start-up and growth phases. Lesotho is ranked 128 out of 183 countries by The World Bank in 2011 on accessing credit (The World Bank, 2011:2).

The SMMEs' growth phase experiences hindrances mostly with access to finance, licensing procedures and high tax, whilst the start-up phase experiences difficulties mainly related to licensing procedures and access to finance.

## 6.5 Summary

The research findings obtained from 219 respondents, out of 370 questionnaires that were distributed to SMMEs in Maseru were reported. The format of the questionnaire was followed to report these results. Data analysis was carried out based on the sequence of the questions. The descriptive statistics are also reported and detailed discussion from the primary data is given. This revealed benefits and challenges of current interventions by government in Lesotho. The government has intervened, but there seems to be a further need for effective and efficient government intervention.

The conclusions drawn based on the findings, and the suggested recommendations are dealt with in the next chapter.

# 7. CONCLUSIONS AND RECOMMENDATIONS

## 7.1 Introduction

The previous chapter reported the findings of this study. This chapter provides the conclusions and recommendations regarding the impact of the government interventions on SMMEs in Lesotho. The recommendations are directed to both the government and the SMME owners and managers. The research limitations and, recommendations for further research are also presented.

## 7.2 Conclusions

This study investigated the need for government intervention in the start-up and growth phases in Lesotho. It further assessed the benefits and the challenges of the existing government interventions on the start-up and growth of SMMEs in Lesotho. Four testable hypotheses were also used.

In Lesotho, there are institutions meant to assist entrepreneurs with necessary skills to contribute to the management and growth of their businesses. It was concluded therefore, that the Lesotho government has been taking measures to support the private sector. However, despite this support, a significant number of SMMEs still fail and cease trading (SMME Support Network-Lesotho, 2007:1). SMMEs are confronted with heavy costs of compliance, insufficient working premises, and limited access to finance, all due to outdated regulations which impose problems on SMMEs and increase the number of informal sectors. The Lesotho business environment is over-regulated (SBP, 2008:90).

In Lesotho, the other major problem is the possession of inadequate strategic management skills by entrepreneurs who have not been adequately developed by the government (SMME Support Network-Lesotho, 2007:1). Although the government has initiated some business management skills programmes through various institutions such as BEDCO, entrepreneurs still lack skills (financial, marketing, and bookkeeping) to propel their businesses from the start-up to the growth phase. Regardless of the effort by the government, if there are internal deficits, businesses will continue to experience challenges.

Lack of money, time, experience and lack of access to information are examples of barriers to compliance by entrepreneurs. For instance, lack of interest in terms of compliance with government regulations arises when SMMEs perceive that support from the government favours larger businesses. Furthermore, lack of interest arises when SMMEs focus upon business survival rather than compliance with regulations. Ultimately, lack of knowledge of proper procedures to comply with government regulations arises when SMMEs have limited awareness of the relevance of legislation. It is therefore concluded that it is not only the obligation of the government to create a conducive environment that will meet SMMEs needs. It is also the obligation of SMMEs to comply with set regulations to develop and sustain the economy of the country.

According to Cusick (2005:106), many organisations operate within complex regulatory environments, and this imposes constraints on individual firms and on the entire industries. Furthermore, Mollentz (2002:47&68) says some regulations are inflexible, time consuming and costly, therefore, they need to be continuously improved. The consequences are, most SMMEs find it hard to understand the laws that govern them, and therefore, they do not comply with such laws and operate informally. Lesotho should keep up with the dynamics within the country's business environment so that appropriate regulations can be formulated. The World Bank (2004:87); Schneider and Klinglmair (2004) and Elhiraika and Nkurunziza (2006:22) link heavier regulations with greater inefficiency, for example high rate of unemployment and low level of productivity.

According to Schmidt *et al* (2007:257), to strongly promote an entrepreneurial culture, governments among others, create conducive business environment through designing simple regulations that are continuously reformed to suit current situation and enhance economic growth. To make it easy for businesses to cope with customs administration, LRA collaborated with SARS in 2002. According to The Lesotho Government 11, (Online: 21 October 2011) LRA has successfully cooperated with SARS, as a result, there has been an improvement of LRA's service delivery as well as increased tax revenue collection.

Moreover, newly reformed laws carry opportunities and threats. The continuous challenge of reforming and an inability to achieve goals has brought about a debate concerning government interventions. Some people support government interventions, while others are against them. People who are against interventions, argue that they slow down the processes of start-up and growth of SMMEs, hence slowing down the development of the economy. People who support interventions argue that governments assist firms to grow because when left alone, firms are unable to achieve their countries' economic objectives.

Government interventions in Lesotho are still the same as interventions in other developing and developed countries. However, the ability to enforce them is not strong. Even the SMMEs who have to abide by selective regulations, believe in bypassing the set regulations, as they do not understand the importance of these. It is the responsibility of the government to ensure the relevance and effectiveness of the regulation over time.

Introduction, implementation and enforcement are better strategies to follow. However, Lesotho government has to be aware that when enforcing inspectors entrusted to investigate businesses might be corrupt and abuse their power to extract bribes (The World Bank, 2004:92). Lesotho is advised to enforce a more flexible compliance strategy which will ensure the greatest degree of compliance at the lowest cost to all parties. For instance, time spent dealing with requirements of regulations can be reduced, and if SMMEs fail to comply, business closures can be implemented (Elhiraika and Nkurunziza, 2006:8).

## 7.3 Recommendations

### 7.3.1 Recommendations for the Government

There is a need for the Lesotho government to simplify the SMMEs start-up and growth requirements, as this might ease enforcement by the government and compliance by SMMEs.

Specific emphasis on the promotion of small and medium enterprises is essential. For instance, selective government policies aimed at developing SMMEs should be initiated and implemented efficiently to support high innovation and high growth of entrepreneurial ventures. A more concerted effort has to be made by the government in order to intervene in the promotion of start-up and growth of SMMEs. Possible ways of positively intervening could be to ease access to finance for start-up and growth, conduct workshops and training for owners of SMMEs, and offer lower interest rates on loan repayments to banks. It should be noted that improvement in terms of accessing finances might increase the participation of potential entrepreneurs in the formal sector. These are just some of the many critical ways in which the government can positively intervene in the establishment and promotion of SMMEs in Lesotho.

The Lesotho government has to implement functional interventions in order to bring their infrastructure to a better standard, as a stronger entrepreneurial culture may be instilled in potential entrepreneurs. Selective interventions should also be reformed to make it easy for

SMMEs to comply. Thus, effective use of functional intervention is encouraged which will also allow for perfect selective intervention.

The government of Lesotho must be willing to constantly create a conducive business environment to enable firms to contribute to the economic growth. Huge infrastructure projects should be identified by the government as remedies to enhance the country's economic growth rate and creating employment. This should entail developing human capital through the establishment of highly advanced education system and the use of technology. Expansion of the use of technology will also be helpful to SMMEs (Elhiraika and Nkurunziza, 2006:9). The Lesotho Revenue Authority is advised to introduce an eFiling service that will enable taxpayers to complete and submit tax forms electronically and make electronic payments because owners and managers are time conscious. Furthermore, Lesotho is advised to offer tax amnesty to qualifying small businesses that have not been obedient to the tax system, as SARS does.

For a regulation to benefit SMMEs, thorough regulatory impact assessment is required to identify problems and address feasible policy options. In Lesotho all proposed legislations undergo a regulatory impact assessment to anticipate any unpleasant consequences. Compliance costs likely to occur and the number of enterprises likely to be negatively affected are determined. This gives an impression that Lesotho has good strategies, but their implementation is not effective. Therefore, the government is encouraged to effectively implement its strategies for better results.

Reforming the business environment has to be regularly reviewed and strengthened where necessary. Reform measures should be adapted to country-specific conditions (Elhiraika and Nkurunziza, 2006:28). Lesotho is currently undertaking major policy reforms with the support of the World Bank and MCC. This involves procedures to improve the business environment and lessen the costs of doing business in Lesotho. This activity is strongly supported, as Lesotho is also having heavy regulations (ADF, 2009:4). Constant reform can ease ways of doing business and help Lesotho to improve its level of doing business, as it is currently ranked at 131 out of 183 countries. More local and foreign investors might be attracted to do business in Lesotho, hence promote the growth of the economy and alleviate poverty. The country has huge potential to become an investment destination.

The laws affecting licensing procedures, availability of land/premises for business use, availability of skilled staff, income tax, export regulations and import regulations, have hampered SMMEs and not had a positive impact on them. These laws must be tailored according to the profiles of the SMMEs in such ways that they do not strangle the profitability of these businesses. The reason is that in the broader picture this profitability contributes to the overall economy of Lesotho. Certain laws must be re-examined as must the policies that underpin these laws.

A recommendation that is strongly put forth is the re-consideration of licensing procedures and access to finance for SMMEs. Licensing procedures and access to finance must never be designed to hamper or stunt business organisations, but to facilitate their growth and development.

Access to finance is still a hindrance to most SMMEs and as mentioned in the findings, promotional institutions are not effective enough. According to Elhiraika and Nkurunziza (2006:3), financial sector reform can lead to securing positive interest rates and eliminating the increasing number of informal sector businesses by encouraging them to grow and operate formally. According to Ayyagari, Thorsten and Demirgüç-Kunt (2003), improvement of the business environment contributes to more formal activities and productivity, hence a decline in informal activities. Improving SMMEs' access to finance through establishing an efficient framework requires a business environment with efficient bankruptcy laws and financing institutions (ECA, 2005). Areas such as access to financing, use of institutional support, labour laws and obtaining licenses at start-up phase which involve cumbersome requirements, need to be efficiently dealt with.

Reform has to be made on a continuous basis so that the laws are kept up-to-date. The Lesotho government has to review its approach. The Company Act 1967 needs to be updated and simplified. Furthermore, the Small Business Act has to be enacted. The government has to realise that increasing the number of SMMEs while still ensuring that they remain competitive, is the remedy.

Most of the SMMEs in Lesotho do not know the laws that govern them. Communication should be the key factor, just like in other countries that fall under the Commonwealth. New regulatory measures should be advertised to bring them to the attention of the whole community. In order to ensure clarity of the intention of the policy and compliance requirements expectations, effective guidance has to be provided to concerned regulators and regulated parties. Where possible, regulatory instruments should be drafted in plain language, so that clarity and simplicity may be improved. This might enable entrepreneurs to better understand the implications of regulatory measures (COAG, 2007:5-17).

### 7.3.2 Recommendations for the SMME Owners and Managers

On the other hand, businesses are advised to comply with set regulations. Complying reduces costs, builds trust and promotes sustainable growth. There are opportunities for firms that operate formally. They gain trust from customers and their reputation is even maintained.

It has been found that SMMEs are not familiar with the regulations in place. Therefore, they are advised to familiarise themselves with different assistances offered by the government. For example, if they operate formally, they can benefit from the assistances in place, such as, reduced taxes on imported goods. This will reduce their costs of paying unnecessary bribes at the border gates.

Thorough analysis of the firms' internal and external environments is very crucial. The version of PESTEL analysis called LoNGPESTEL and SWOT analyses can assist entrepreneurs to be aware of the external and internal environmental factors affecting them. Firms should gather information about the environment and familiarise themselves with opportunities regarding resources and markets. Additionally, they must be aware of threats and risks, and try to reduce them. This might help businesses to cope with rapidly changing business environments and to effectively allocate the resources. However, it must be noted that what one enterprise regards as a threat may be a unique opportunity for another. Environmental scanning is therefore important to monitor changes, identify threats in time, evaluate their effects on the enterprise and transform possible threats into opportunities.

There are three methods of scanning the business environment according to Kubr (cited Kazmi, 2008:93): the first method is systematic scanning, this is when businesses continuously collect relevant information about the factors that affect them. Examples are changes in legislation, regulations having a direct impact on the organisation's activities, government policies, and information related to markets and customers. Businesses are advised to use this kind of scanning as it the most appropriate. The second method is ad-hoc scanning, this is when businesses conduct special surveys and studies to deal with environmental issues from time to time. The third method is processed-form scanning, this is when businesses use information available from different sources, that is, inside and outside the organisation in a processed form (Kazmi, 2008:93).

Firms must be aware that a macro-environmental analysis can be completed by individual firms or in a brainstorming session, however some research might need to be done before starting. Some businesses form peer-groups where members share their difficulties and brainstorm solutions. Learning from one another's experiences reduces costs and builds everlasting confidence.

## 7.4 Research Limitations

Initially, it was the intention of the researcher to conduct a study in the whole country of Lesotho, but because of the time and budget available the enquiry had to be limited to Maseru. 370 questionnaires were distributed to SMMEs owners and managers in Maseru. However, only 219 responses were received. Moreover, the list for registered SMMEs that was requested from MTICM for all 10 districts of Lesotho, was obtained only from Maseru the Capital City. Due to the sensitivity of the topic, and ethical constraints by ministries (keeping information confidential), departments in the districts could not give out their lists.

During the research process, the respondents were reluctant to participate, due to their busy schedules. They said the government has been collecting information from them, but their needs have never been met. The researcher was always asked to return the following day, this consumed a lot of the researcher's time. Even though the questionnaire was written in simple English, some of the respondents needed the researcher to interpret in Sesotho because they did not understand English. However, the quality of the information has not been affected by the limitations and the research still has its validity.

## 7.5 Recommendations for Further Research

Further research to obtain a better perspective of the impact of regulatory frameworks on SMMEs in Lesotho could be undertaken. The government created a number of institutions to assist in the development of SMMEs. Opinions from these BDS providers could provide an insight as to whether the institutions are contributing to the development of SMMEs or not. If MTICM is also interviewed, a clear picture of how regulations are implemented could be revealed.

The study was conducted only in Maseru, the capital city of Lesotho, and not in all the districts of Lesotho. This also poses a need for further research in the whole country since the other districts may have different challenges. Furthermore, it is suggested that the same study be carried out in future, focusing on BDS and MTICM in Lesotho, so as to have views from different sources not just SMMEs.

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# 9. APPENDICES

## *Appendix 1: The impact of various regulative documents on SMMEs in Lesotho*

(SOURCE: Legislation Lesotho (Lexadin) http://www.lexadin.n//wlg/legis/nofr/oeur/lxweles.htm; Lesotho: Laws and Regulations – Afribiz.info http://www.afribiz.info/content/lesotho-laws-and-regulations)

| | **Name** | **Does it exist?** | **Copy received** | **Does it impact on SMMEs?** | **Which SMMEs?** | **Does it or can it impact on unemployment** | **Details of SMMEs impact** | **Details of unemployment impact** | **Comments and recommendations overview** | **Implementing institutions** |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Accommodation, Catering & Tourism Act No. 13 of 1997 | Yes | Yes | Yes | Formal and Informal | Yes | Potential expansion of customer base, as products bought in Lesotho might be liked in tourists' countries. | This can have impact on Bed & Breakfast as a number of part-time employees might need to be increased. | | |
| 2 | BEDCO Act 1980 | Yes | No | Yes | Formal and Informal | Yes | Technical Trainings offered to SMMEs help entrepreneurs to acquire useful skills for running their businesses. | Encourages government procurement agencies to buy local produce before going outside, thus stimulating the economy. | | |
| 3 | Central Bank of Lesotho Act 2000 | Yes | Yes | Yes | Formal and Informal | Yes | SMMEs cannot open accounts or access credit, only government. | If SMMEs are not able to access credit from Central Bank, it means limited financial resources that might even force SMMEs not to employ more people. | | |
| 4 | Competition Policy | Yes | Yes | Yes | Formal | Yes | It enhances economic efficiency, as it prevents anti-competitive practices, and unfair trade practices. | Increasing number of businesses leads to an increasing number of jobs. | | |
| 5 | Customs & Excise Act 1967 | Yes | Yes | Yes | Formal and Informal | Yes | Restriction on type and quantity of goods | | | |
| 6 | Education Act 1995 | Yes | Yes | Yes | Formal and Informal | Yes | Industrial development is heavily influenced by the skills taught in vocational schools. | If people are taught from entrepreneursh ip at school, it means they acquire skills they can use when employed, and they can even employ others. | | |
| 7 | Export & Import Control Act 1996 | Yes | Yes | Yes | Formal | Yes | Restriction on number of goods to be imported or exported. | If enterprise wants to import more and employ more people to sell around. | | |
| 8 | Foreign Exchange Regulations 1975 | Yes | Yes | No | N/A | No | The Lesotho currency (Maloti) is exchanged at par with the South African currency | N/A | | |

| | Name | Does it exist? | Copy received | Does it impact on SMMEs? | Which SMMEs? | Does it or can it impact on unemployment | Details of SMMEs impact | Details of unemployment impact | Comments and recommendations overview | Implementing institutions |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | (Rand). 30 per cent of Lesotho transactions are made in rand, therefore, there is no impact. | | | |
| 9 | Income Tax Act No. 14 of 2000 | Yes | Yes | Yes | Formal | Yes | Formal SMMEs have to pay income tax chargeable on their income for the year. Some entrepreneurs show false figures to avoid been charged. | Informal sectors avoid operating formally due to comprehensive procedures. Therefore do not grow, to employ others. | | |
| 10 | Industrial Licensing Act 1969 | Yes | Yes | Yes | Formal | Yes | Availability of resources or products without incurring the costs of importing goods and services. | Expansion of manufacturing activity results in further employment creation and addresses the issue of national poverty. | | |
| 11 | Industrial Policy | Yes | Yes | Yes | Formal | Yes | It provides basic training skills to licensed businesses. It also protects the business activities reserved for locals. | Acquired skills lead to growth if applied effectively, hence, more potential employees. | | |
| 12 | Investment Policy | Yes | Yes | Yes | Formal | Yes | Solves problem of resource gaps. It is an important contributor to growth, and serves as a catalyst for domestic investment. | When investment increases, more firms are established, therefore, there is an increase in employment. | | |
| 13 | Labour Code Order No. 24 of 1992 | Yes | Yes | Yes | Formal | Yes | Employers are guided as to how to pay the wages.No employer shall employ any person in Lesotho who is not a citizen of Lesotho and no such person shall accept employment in Lesotho unless that person is in possession of a valid certificate of employment (work permit) issued by the Labour Commissioner. | This affects the employment as the people with necessary skills cannot be employed if they do not hold work permit. | | |
| 14 | Land Act 1979 | Yes | Yes | Yes | Formal | Yes | The exclusion of foreigners from land ownership is seen as hampering investment, since few nationals have enough capital to buy the land. | Employment is affected as foreigners who would buy land, invest, and employ Basotho, are restricted | | |

| | Name | Does it exist? | Copy received | Does it impact on SMMEs? | Which SMMEs? | Does it or can it impact on unemployment | Details of SMMEs impact | Details of unemployment impact | Comments and recommendations overview | Implementing institutions |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | ownership. | | |
| 15 | LNDC Act 1967 | Yes | Yes | Yes | Formal | Yes | This Act promotes the local private sector through facilitation of joint ventures, and technical assistance. | Strengthens growth and domestic competitivenes s through improving skills levels. Meaning more employment. | | |
| 16 | Trading Enterprises Regulations 1999 | Yes | Yes | Yes | Formal | Yes | This regulation shows the list of reserved licences for indigenous enterprises. | When other enterprises are reserved, foreign enterprises cannot be opened and unemployment rises. | This is an excellent document, however, it is advisable that a certain number of foreign enterprises be allowed. | |

## *Appendix 2: Questionnaire*

**This study is meant to analyse the impact of existing regulations on SMMEs, with a view to recommending appropriate regulatory changes to increase the SMMEs start-up and growth rates in Lesotho in the long run.**

**Section A: Demographic Information**

A1.I am a: [Please put a tick in the appropriate box].

☐ Male ☐ Female

A2. I am:

☐ Below 20 ☐ 21-30 ☐ 31-40 ☐ 41-50 ☐ 51+

A3. My race is:

☐ Black ☐ Chinese ☐ Indian ☐ White

☐ Other (SPECIFY):______________________

**Section B: Organisational Profile**

B1. What is your role in this business? [Please put a tick in the appropriate block].

a[ ] Owner b[ ] Manager

A start-up business is a business that has been in operation for less than three years. A business in the growth phase is the one that has been operational for more than three years and expanding in size and/or total annual turnover.

B2. In which phase is your business?

a[ ] Start-up Phase b[ ] Growth Phase

B3. How many people do you employ?

| | Male | Female | Total |
|---|---|---|---|
| 1] Total number of full-time employees | | | |
| 2] Total number of part-time employees | | | |

B4. In which sector does your business operate? [Please tick only one sector].

a[ ] Agriculture

b[ ] Manufacturing

c[ ] Retailing

d[ ] Services

e[ ] Other (SPECIFY):______________________

B5. Who is your major target market?

a[ ] Individuals (private consumers e.g. supermarket customers))

b[ ] Small private sector businesses

c[ ] Large private sector businesses

d[ ] Government departments

e[ ] Non-governmental organisations

f[ ] Other (SPECIFY):______________________

**SECTION C: Business Processes**

C1. Rate each of the following issues by marking with a single X for each item.

| | Very difficult | Difficult | Not sure | Easy | Very easy |
|---|---|---|---|---|---|
| Access to finance | | | | | |
| Interest rates on bank loans | | | | | |
| Finding enough customers | | | | | |
| Licensing your business | | | | | |

C2. How is your business financed at present?

a[ ] Loans from friends

b[ ] Loans from family

c[ ] Loans from a bank

d[ ] Loans from a government agency

e[ ] The business has its own money

C3. Do you think government or banks should provide funding for your business, and if so, why?

C4. Do you have any plans to grow your business?

a[ ] Yes b[ ] No

**Section D: Business Development Services**

D1. Have you received any support/assistance from government institutions in the past?

a[ ] Yes b[ ] No

D2. From which of the following institutions have you received support/assistance? [Please tick wherever applicable].

a[ ] Basotho Enterprise Development Corporation (BEDCO)

b[ ] Lesotho National Development Corporation (LNDC)

c[ ] Private

d[ ] Other (SPECIFY):_______________

D3. What type of assistance did you receive? [Please tick wherever applicable].

a[ ] Marketing

b[ ] Budgeting

c[ ] Sales

d[ ] Strategy Formulation

e[ ] Business Planning

f[ ] Financial Management

D4. Are you satisfied with the level of support/assistance you received from the above-mentioned institutions?

a[ ] Yes b[ ] No

D5. What assistance do you think you still need?

D6. Why did you apply for or accept this assistance?

____________________________________________________________

____________________________________________________________

D7. Did you pay for this assistance?

a[ ] Yes b[ ] No

D8. Would you be willing to pay in the future?

a[ ] Yes b[ ] No

D9. Rate how much you think the following factors impact on your business.

| | Does not affect your business | Positive effect on your business | Negative effect on your business | How does it affect your business? |
|---|---|---|---|---|
| Licensing procedures | | | | |
| Availability of land/premises for business use | | | | |
| Availability of skilled staff | | | | |
| Income tax | | | | |
| Export regulations | | | | |
| Import regulations | | | | |

D10. Which laws or regulations do you think hinder the successful start-up and growth of SMMEs in Lesotho?

D11. Which laws do you think are promoting start-up and growth of SMMEs in Lesotho?

Please feel free to contact me at these numbers or email address for clarifications or additional information 00266 59415872 or 083 998 3539, phamolomo@webmail.co.za.

***Thank you***

*Appendix 3: Informed Consent Document*

**University of KwaZulu-Natal**
**School of Management, Pietermaritzburg**
**Informed Consent Document**

I, Refiloe Gladys Khoase, am currently registered for studies leading to the M. Com Degree. One of the requirements to be met for the awarding of the degree is that I should undertake an approved research project leading to the submission of a dissertation. The approved topic which I have chosen is:

*"The Impact of the Regulatory Framework on SMMEs in Lesotho".*

Please note that that this investigation is being conducted in my personal capacity. Should you need to contact me regarding any aspect of this research, you can do so either by e-mail on phamolomo@webmail.co.za or telephonically 00266 59415872 or 0839983539.

My academic supervisor is Mr Xolani Mhlongo, based in the School of Management on the Pietermaritzburg campus of the University of KwaZulu-Natal. He can be contacted by e-mail at mhlongox@ukzn.ac.za or telephonically at 033 260 5220.

Information gathered in this study will include data retrieved from the questionnaire that I request you to answer. Please note that only summary data will be included in the report and that your name will not be included. Your anonymity and confidentiality is of utmost importance and will be maintained throughout the study.

Your participation in completing the questionnaire is completely voluntary and you are under no obligation to complete the questionnaire. You also have the right to withdraw at any time during the study.

I appreciate the time and effort it will take you to participate in this study. I would highly appreciate your participation, as it would help me to complete this research project.

**This page can be retained by the respondent**
Please turn over

**This page must accompany the returned questionnaire.**

**Please complete the section below:**

I ………………………………………………………………….. (Full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

The company name may / may not (please indicate which is applicable) be used in the research report.

Signature of Participant…………………………………….………

Date……………………………………………………….……..

## *Appendix 4: Permission Letter*

23 May 2011

**School of Management**
**Pietermaritzburg Campus**

Postgraduate Centre
1 Golf Rd
Private Bag X01 Scottsville
Pietermaritzburg 3209 South Africa
Telephone (033) 260 5899 Fax (033) 260 6150

Dear Sir/Madam

**Permission to conduct research**

As part of the Master of Commerce in Management, the students are required to conduct research for a dissertation. Refiloe Gladys Khoase, student number 204507921 has chosen the following topic “The Impact of the Regulatory Framework on Small, Medium and Micro Enterprises in Lesotho”. The objectives of the research are to:

It is envisaged that this study will provide insight into whether the Lesotho government interventions contribute positively or negatively to the establishment and growth of SMMEs. It is also hoped to contribute to the body of knowledge that exists in this field.

I am available at any stage to answer any queries or discuss any comments you may have. On behalf of the School of Management, Refiloe and I would like to express our sincere appreciation for your involvement in this initiative.

Please sign this letter to indicate that you give permission for the student to do this research using participants from your organisation.

Please also indicate whether the organisation’s name may / may not (delete which is no applicable) be used in the report.

Yours sincerely

Mr. Xolani Mhlongo

0748886357
School of Management

Signature of Manager / Owner | Date

Name (please print)

Position in organisation

### *Appendix 5: Ethical Clearance*

UNIVERSITY OF
KWAZULU-NATAL
INYUVESI
YAKWAZULU-NATALI

Research Office, Govan Mbeki Centre
Westville Campus
Private Bag x54001
DURBAN, 4000
Tel No: +27 31 260 3587
Fax No: +27 31 260 4609
mohunp@ukzn.ac.za

17 June 2011

**Ms RG Khoase (204507921)**
**School of Management**
**Faculty of Management Studies**
**Pietermaritzburg Campus**

Dear Ms Khoase

**PROTOCOL REFERENCE NUMBER: HSS/0318/011M**
**PROJECT TITLE: The impact of the regulatory framework on small, medium and micro enterprises in Lesotho**

In response to your application dated 13 June 2011, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL.**

**Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.**
**PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years.**

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

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**Professor Steven Collings (Chair)**
**HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE**

cc. Supervisor: Mr X Mhlongo
cc. Prof D Vigar-Ellis, Post Graduate Centre, School of Management