GROWTH

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PRIVATE SECTOR
Competitiveness and Economic
Diversification Project

Preparing for the future

THE Covid-19 pandemic has triggered a global crisis of monumental proportions. The world faces an existential threat from a virus yet to be fully understood.

The world economy is in recession as production tumbles, markets crash and companies collapse at an unprecedented rate. Indications are that the recovery will be slow and painful.

The impact of the pandemic on lives has been colossal, with millions infected and thousands of lives lost. Millions are either out of jobs or have been cut off from their livelihoods.

In Lesotho, the social and economic impact of the pandemic has been nothing short of devastating. The economy is expected to shrink this year and so are the government's revenues.

Agriculture, mining and textiles - the mainstays of the economy - are struggling. The informal sector, which is the biggest employer, is in a tailspin. And so is the private sector which was only beginning to grow in recent years.

In this time of trouble, it is tempting to apportion blame. Yet we must resist the temptation to point fingers because that will neither help us solve this crisis nor prepare for future calamities of this nature. The solution is in embracing today's lessons to prepare for a better tomorrow.

An African proverb says "tomorrow belongs to the people who prepare for it today".

Benjamin Franklin, the revered United States President, once said: "By failing to prepare, you are preparing to fail".

The fundamental lesson here is that we must prepare for the future. And that can only be achieved by building strong economies and institutions.

That, by the way, has been the Private Sector Competitiveness and Economic Diversification Project (PSCEDP)'s philosophy since its inception in 2007. This explains the project's objectives to improve the business environment, strengthen select government institutions, and diversify the economy.

This newsletter sheds light on some of the PSCEDP's initiatives towards achieving these goals.

It showcases some of the project's efforts to remove the structural obstacles and the bureaucratic red tape inhibiting economic growth.

The enactment of the much-awaited Secured Interest in Movable Property Act is a testimony of how stakeholders can collaborate to make legislative changes that unlock the economy's potential.

The law allows individuals and companies to use movable assets like household property, livestock and other valuables as collateral to get loans from financial institutions. The ultimate objective is to improve access to finance to start, sustain and grow companies.

Studies have confirmed that the lack of finance is a major stumbling block to the setting up and growth of businesses. Indeed, many small companies have collapsed, suffered stillbirth or remained stagnant due to lack of funding. The challenge, as research shows, is that financial institutions demand collateral in the form of real estate and land, all of which small businesses lack.

The Secured Interest in Movable Property Act dramatically changes that by creating a collateral registry which regulates the management of surety between lenders and borrowers. It gives both parties confidence to use movable assets as collateral in loan transactions.

In line with the government's efforts to improve food security and commercialise agriculture, the PSCEDP assisted the Lesotho Post Bank (LPB) to establish an agriculture development finance department now providing loans to hundreds of farmers. The importance of this initiative cannot be overstated, especially in a country where 60 percent of the population relies on agriculture for livelihood.

Basotho are hardworking people who take pride in doing things for themselves. They are passionate about working the land and producing their food. Yet lack of finance has always stifled their potential. The LPB's loan facility will go some way towards helping the farmers produce more for themselves and the nation. It will also assist them to transform from subsistence to commercial farmers.

As part of the mission to make business processes easier, the PSCEDP helped create the eLicensing and eRegulations platforms. The eRegulations Lesotho portal is a step-by-step guide describing administrative procedures for investors and entrepreneurs while the eLicensing Lesotho allows investors to lodge their applications for both trading and manufacturing licences online.

They are additions to reforms already done to the Ministry of Trade and Industry's One-Stop Business Facilitation Centre (OBFC) which has since transformed the way companies are registered.

The quest to simplify business procedures also informed our technical support for the Land Administration Authority's digital platform which allows customers to remotely apply for land leases and register deeds. The platform fits into the LAA's mandate of modernising land administration services, reduce transactional cost as well as the time it takes to acquire or sell real estate.

We are excited that the new Maseru Tourist Information and Crafts Centre will open its doors before the end of the year.

All these initiatives would not be possible without the World Bank's invaluable financial and technical support.

We are also grateful for the support of the government and the Ministry of Trade and Industry. Equally crucial is the support of stakeholders, government institutions and the PSCEDP staff.

It is because of their commitment that the project has made tremendous progress and transformed so many lives.

Stay safe and play your part in fighting the pandemic.

Chaba Mokuku
Project Manager

"Success is the sum of small efforts, repeated day in and day out." -Robert Collier

Major boost for tourism sector

IN 2011 dozens of individuals and small businesses were stranded after a fire gutted the Tourism Information Centre in Maseru.

Traders working from the centre lost their products and had to scrounge for resources to revive their businesses. Some opened stalls on the streets while others abandoned their projects. The disaster left Maseru without a tourism centre. The land once occupied by the centre is now a car park. And for nine years Maseru was probably the only capital city without a tourism information centre.

That dubious but unfortunate distinction is however about to end.

The new Maseru Tourist Information and Crafts Centre (MTICC), strategically located in the heart of Maseru city, will open doors to the public before the end of the year.

The M23 million-centre is one of the key initiatives to unlock the tourism sector's potential. Apart from providing information on tourist attractions, tour packages and accommodation facilities, the centre will also have curio and art shops.

This is in addition to an amphitheatre, gallery, production workshops and restaurants.

The centre comes at a time when the tourism sector has hit choppy waters. Visits to the country and its tourist destinations have all but stopped because of the Covid-19 pandemic. Hotels have closed and the main tourist destinations are deserted.

With Covid-19 infections rising locally and across the world, the tourism sector's future looks bleak.

But there will be a time when the borders will reopen and planes will fly again.

The centre, whose construction started in April 2019, is a strategic investment that fits into the government's agenda to increase the tourism sector's contribution to economic growth.

'Mabolaoane Selinyane, the director in the Ministry of Tourism, Environment and Culture, says the centre should have opened earlier this year were it not for the Covid-19 crisis.

The construction is financed by the World Bank through the Private Sector Competitiveness and Economic Diversification Project (PSCEDP), a government project whose mandate is to facilitate private sector investment by improving the business environment and supporting economic diversification in critical sectors.

Selinyane says the centre's functions go beyond the providing information to domestic and international tourists.

"It is also a place for people to showcase their art and crafts," Selinyane says, adding that the "production workshop allows tourists to witness how artifacts are made".

The centre, Selinyane explains, is based on the existing model of building synergies in tourism.

"The crafts and arts industry is crucial in strengthening the tourism value chain. We want tourists to conveniently buy crafts as souvenirs that remind them about Lesotho."

Selinyane says the PSCEDP has assisted the Ministry of Tourism, Environment and Culture to train craft producers to meet international market standards.

The PSCEDP has also helped the ministry hire a consultant to help find ways for the government to assist the craft producers to diversify their products for the export market.

"The amphitheater is going to provide a platform to develop our fledgling film and theatre industry," Selinyane says.

Governor Dr Matlanyane Retšelisitsoe

Changing the credit system

IMAGINE you need are a few thousands Maloti to start a small business but banks won't look at your loan application because you lack the required collateral.

Friends and relatives either have no money to help you or are not enthusiastic about your project.

That is the predicament of many aspiring entrepreneurs and small businesses.

Without finance, many have abandoned their dreams before even trying.

The few that dare to start will soon find the going hard and throw in the towel within the first few months. Those who resort to unregistered informal lenders quickly sink in debt due to punishing interest rates.

In most cases it's not that they lack collateral. It's just that they don't have the right collateral banks require. They have something of value that banks don't consider appropriate surety.

That's because what constitutes collateral to banks has always been a straitjacket of sorts. They say only immovable property like land and buildings are the right collateral.

In the meantime, the rest of the world has moved away from that restrictive definition to consider watches, cars, laptops and livestock as viable security for credit.

But the Secured Interest in Movable Property Act, passed in July, could see Lesotho catching up with the rest of the world.

The law will allow the use of movable property as collateral for credit. This will help individuals and businesses to use valuable movable property as collateral to get business loans from banks.

The use of movable property as collateral is not new. It is common for some informal lenders to demand fridges, TVs, cars or bicycles as security for small loans.

The only difference is that such arrangements are restricted to informal transactions and often prone to disputes. The lender can sell the surety without consulting the creditor. At times it is the creditor selling the asset declared as surety.

> *"The main objective of the Law is to "make it easier for borrowers and lenders to use personal property as collateral and hence increase the level of credit whilst on the other hand decreasing the cost of credit."*

The law seeks to formalise such transactions. So if you want to use your car as collateral it is recorded in a central digital registry. That assures the bank that the property will not be sold before the loan is cleared.

Similarly, the bank cannot confiscate it willy-nilly. The value of the asset is known to the lender and the creditor, which ensures that the interests of both parties are protected.

The main beneficiaries of the law are likely to be micro, small and medium enterprises (MSMEs) that have always struggled to get credit. MSMEs, registered or not, are considered the mainstay of the Lesotho economy.

A 2016 survey by a Finscope Micro Small and Medium Enterprises, the financial research firm, found that 20 percent of MSMEs consider the lack of credit as the biggest barrier to their growth.

The World Bank's Ease of Doing Report has consistently pointed to the lack of credit as one of the stumbling blocks to Lesotho's economic growth.

The law, whose purpose is to stimulate the uptake of credit finance for the development of the small business sector and reduce the risk to lenders, is part of financial reforms led by the Central Bank of Lesotho (CBL) with the technical support of the Private Sector Competitiveness and Economic Diversification Project (PSCEDP).

According to the CBL, the credit market is currently dominated by large businesses and salaried individuals while the 118 000 MSMEs that employ more than 130 000 remain in the peripheries.

The apex bank believes access to credit will unlock the potential of MSMEs to upscale their

operations, employ more people and increase their contribution to the economy.
The law is part of the PSCEDP's efforts to improve the business environment and increase access to finance.
One of its main objectives is to establish an electronic collateral registry to publicise existing security interests and liens in movable property. Currently, the registration of security interests is not digitalised.
The collateral registry will ensure a well-designed secured system that promotes credit diversification. The Act also makes it easier for lenders to enforce their rights without resorting to the often lengthy and expensive court-based system.
Similar laws have significantly improved the flow of credit to small companies in countries like Liberia, Uganda and Colombia.

Why the law matters to you

- It will help financial institutions to refine their collateral activities and lend more to customers.
- Financial institutions will establish products to satisfy the traditionally unbanked.
- A collateral registry enables businesses to use their assets as security to generate capital.
- Financial institutions have recourse in case of a default.
- It reduces the cost of credit.
- Creditors also benefit from extended repayment periods.
- Countries that have collateral registry systems have significantly improved access to finance.

Lessons from Ghana

PRIOR to the secured transactions reform, banks in Ghana mainly accepted immovable assets as collateral for loans. Many MSMEs, therefore, found it difficult to access credit, because they lacked such assets. With the implementation of the secured transactions reform based on a law enacted in 2008, many MSMEs were able to access credit using their movable property, such as equipment, as collateral.
The reforms have been particularly impactful for women-owned businesses, as they are now able to use their household assets and equipment as collateral for loans. This has enabled more women to apply for loans to either start a business or grow an existing one.
For example, Constance Swaniker, an artist and founder of an Accra-based SME that designs furniture and home accessories, was able to obtain a loan equivalent to US$15,000 using her machinery as collateral. With that loan, she was able to expand her business and hire 30 men and women from her local community, which allowed her to meet the growing demand for her products.
Nongnut, the owner of Xaoban Group, a yoghurt company in Laos, thought it was not feasible to expand her business until she learned about the new secured transactions system and the electronic collateral registry established by the Laos Ministry of Finance. The new framework enabled financial institutions to accept the easily movable property as collateral, establishing a predictable priority point based on the time of registration. With the new opportunity, Nongnut was able to get a loan secured by her business assets to buy more machines, employ more people, and expand her production. — World Bank

The rise of Lesotho's agriculture

THE Serumula Farm is a family-owned piggery in the Berea District's Sehlabeng area.

Started by the Masheane family in 2016, the farm has 24 sows and breeds Camborough piglets.

The Masheanes, who describe the business as "flourishing", supply piglets to individuals and farms.

Yet they admit that business has not always been this good. There was a time when they were on the verge of giving up.

"Instead of bringing in income the farm was draining our pockets," says 'Malisema Masheane. Theirs was a subsistence farm by definition. Mrs Masheane and her husband were the only workers on the farm. Production was low and the market adhoc. Their production and financial records were patchy.

Mrs Masheane says several attempts to get loans to boost production had come to naught.

"Our family resources were not enough to transform the piggery into a viable commercial project," Mrs Masheane says.

Their fortunes however took a dramatic turn when they approached the Lesotho Post Bank (LPB) for a loan.

"Our loan was approved within a few days and we were ready to take the project to another level."

They have now increased their sows from 15 to 24, added another boar, constructed a larger pigsty and hired two people. Their production has doubled.

Serumula Farm was one of the first beneficiaries of the LPB's agricultural loan facility.

By taking the plunge into the agricultural financing market the LPB is going bucking the trend in the commercial banking sector.

Most of the local banks are reluctant to fund farming projects because of the perceived risk. They don't see agricultural financing as part of their business strategy.

Some are put off by the fact that farmers did not meet their lending requirements and are highly likely to default on their loans. Even those that see potential to lend to the sector lack internal skills to establish and manage agricultural finance departments.

The LPB too had the same reservations and challenges.

It was, however, only after a market research that the bank realised the challenges are surmountable and the worries a little overdone.

The research funded by the Private Sector Competitiveness and Economic Diversification Project (PSCEDP), a government project financed by the World Bank, revealed that agriculture was "either structurally underfunded or not getting its fair share of credit".

It showed that despite contributing 4.7 percent to the Gross Domestic Product (GDP) agriculture accounted for only 1.4 percent of the loan portfolio of the whole banking sector.

It was a staggering discovery given that agriculture employs six in every ten and is the main source of livelihood for the majority.

A representative demand survey that was part of the study also revealed that 89 percent of the respondents wanted agricultural loans but only seven percent had received any.

Even those who had received funding had to apply for salary loans that attracted higher interest rates. The majority of the respondents said access to credit was the main reason for their failure to improve production.

The findings explained two fundamental issues. The first was that without funding agriculture would not achieve the government's policy of alleviating poverty. Second, it was nearly impossible to transform the smallholder farms from subsistence to commercial projects without providing loans to farmers.

The LPB, a government-own bank whose mandate is to enhance financial inclusion and economic activity, was ideally placed to deal with these anomalies.

The PSCEDP hired experts to help the bank build the agricultural development finance department by analysing the market, designing the products and training loan officers. As a result the bank is now lending nearly M10 million to farmers every year.

Launched in April 2019, the department focuses on crop production, horticulture, poultry and animal husbandry.

Khauhelo Khethoa, the LPB's agricultural finance specialist, says they are providing loans for working capital and farm equipment.

Khethoa says the bank has helped farmers acquire farming machinery, irrigation equipment, cold storage facilities, poultry cases, incubators and greenhouses.

Farmers in piggery, poultry, animal fattening, fishery as well as wool and mohair have also received loans. So have those producing vegetables, wheat, maize, beans, potatoes, butternut and animal fodder.

The minimum loan is M10 000, with the repayment period ranging from six months to five years. Khethoa says repayments can be "monthly, quarterly or once off depending on the type of the project". He says although the bank still requires some security the main consideration is the project's viability.

Farmers like the Masheanes are already reaping the benefits of the credit facility.

"Many people who previously perceived piggery as an inferior business venture change their view after visiting our farm and seeing the modern set up we have here."

Think different!

Khauhelo Khethoa, agricultural finance specialist at the Lesotho Post Bank (LPB), says working in the bank's agricultural development finance department has changed his views about farming. Until the beginning of 2019, agricultural finance was not one of the bank's top priorities.

Khethoa says a study funded by the Private Sector Competitiveness and Economic Diversification project (PSCEDP) in 2017 helped change that. The bank is now the country's biggest financier of farming projects.

"Agriculture is a risk business because there is no insurance for it. This therefore makes financial institutions reluctant to finance agricultural projects due to lack of loan security," Khethoa explains.

"It was therefore a big decision for the bank to venture into this sector while fully aware of the inherent risks. The bank had to come up with measures to lower the risk of defaulting." These measures, Khethoa says, include helping farmers to access the partial credit guarantee scheme (PCG) managed by the Ministry of Small Business Development, Cooperatives and Marketing and the Lesotho National Development Corporation (LNDC).

Khethoa says the challenge now is to train farmers in basic financial management.

The idea is for farmers to run their projects like businesses, he says.

"My belief is that farmers should spend at least 70 percent of their time in their farming enterprises. It is important for them to appreciate that they are in business."

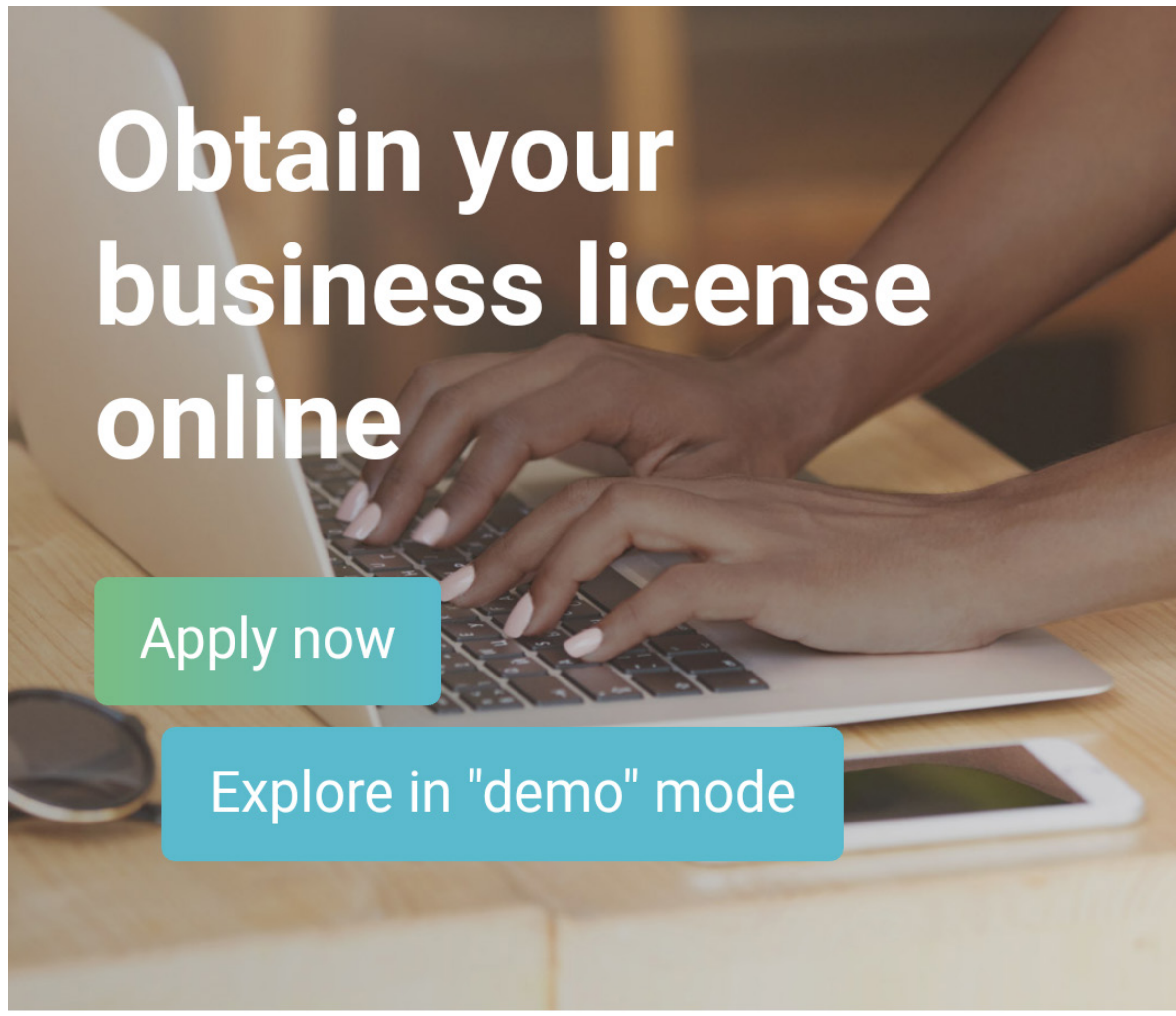
"They should be involved in farming by design and not by default. They should see farming as their profession of choice and not a hobby."

Khethoa says the LPB believes that agriculture has a huge potential to transform the economy and create jobs, especially for the youth.

"Treating agriculture as a business can create many jobs. The current agricultural activity in the country is barely a fraction of what is possible," Khethoa adds.

"There is just immense potential that can help to drive the country's economic development and create jobs across the value chain."

Faster, Simpler and Cheaper



THE Ministry of Trade and Industry's One-Stop Business Facilitation Centre (OBFC) was a groundbreaking initiative.

Launched in 2016, the digital platform dramatically changed the way people register companies. No longer do they have to pay lawyers to register corporations.

The process that once took months can now be completed within few hours.

The cost of registration dropped from as much as M5000 to just over M500.

In short, the OBFC has made company registration easier, simpler and cheaper.

The result has been an upsurge in the number of registered businesses.

This has helped formalise the economy and improve revenue collection.

The Ministry of Trade and Industry has now added two more business facilitation platforms to improve the OBFC.

The eRegulations Lesotho portal is a step-by-step guide describing administrative procedures for investors.

Each step is a mandatory interaction between an investor and a public officer. The portal describes contacts, requirements, time, cost and the legal justification for each step.

This reduces underhand processes which are usually the privy, discretion and territory of the public officers.

The eLicencing Lesotho allows investors to lodge applications for trading and manufacturing licenses online.

The previous system, which was manual, was susceptible to fraud and manipulation.

The filing system resulted in inconsistencies that caused revenue loss and duplication of licences.

Both the eRegulations and the eLicencing portals are aimed at improving Lesotho's investment climate. They were financed by the World Bank through the Private Sector Competitiveness and Economic Diversification Project (PSCEDP).

Monaheng Monaheng, the OBFC director, says the portals have transformed the way clients interact with the ministry. Monaheng says since their launch the OBFC is reporting fewer inquiries and mistakes in the company registration process.

He says visits to the eRegulation portal have been growing steadily since February.

"We are getting crucial feedback from the eRegulation portal and so far it has been visited 4 931 times," Monaheng says.

The portal is receiving 250 visits every month.

"The number of client queries and mistakes on submitted documents are going down due to easier access to information. This gives our officials time to improve on other areas so we serve clients better," Monaheng says.

Monaheng however says there is a need to market the portal outside Lesotho.

"We may need to engage stakeholders and ministries like the Ministry of Foreign Affairs to promote the system to ambassadors and foreign investors."

Monaheng says the eLicencing portal "has demonstrated its usefulness especially during the national Covid-19 lockdown period".

He says so far 99 traders' licences and 54 manufacturing licences have been issued through the portal which also has an electronic payment system.

"When we were using the old licencing system we would have many entrepreneurs visiting our offices to certify copies of licences for tender purposes."

"Going forward, it will be important to integrate our digital systems with those of other government departments to reduce duplication of information."

"We are getting encouraging feedback from the operation of the e-regulation portal and to date it has been visited 4 931 times

Going forward, it will be important to integrate our digital systems with those of other government departments to reduce duplication of information supply by the client."

LAA to launch digital platform

IN the next few months you will be able to apply for land leases and register deeds from the comfort of your home.
That is thanks to the digital platform the Land Administration Authority (LAA) will launch before the end of the year.
Thabang Maketela, the LAA's Geographic Information Systems (GIS) manager, says the platform will reduce the time it takes to get leases or deeds.
"It will help the authority's customers to apply for leases and deeds faster and efficiently," Maketela says. Land surveyors' reports will also be submitted through the portal that is fully interactive.
He says the Private Sector Competitiveness and Economic Diversification Project (PSCEDP) helped the LAA to build the platform.
"Once the platform is operational we will be able to quickly and efficiently assist our customers," Maketela says.
"Our target is to issue a lease within three weeks or less and this project will help us achieve that."
He says as more people build homes they have to seek mortgages from banks "that require applicants to provide leases as proof that they hold title to the land on which they want to build".
"That means the LAA has to process leases quickly."
The digital platform is in sync with the LAA's mandate of modernizing the land administration services, and reducing transaction costs and the time to acquire a lease and deed.
A delayed lease, deed or surveyor report could disrupt a construction project.
Even those who might want to use their own resources to build cannot do so without a lease.
Maketela says there was a time when it would take years to get a lease but the LAA has significantly trimmed that to a few weeks.
But he says there is immense pressure to reduce it further.
"That is why this digital platform is urgently needed. Unless we improve our systems people, especially those in urban areas, will not be able to derive economic value from their land. The real estate and construction industries will remain small."
"In fact, the whole sector suffers."
He explains that the platform has a GIS system for land surveying and a Land Information System (LIS) for issuance of Leases and Deeds.
"The world is upon the Fourth Industrial Revolution and we have to keep up with the rest of the world and upgrade our services to improve the convenience of our clients." "We expect the digital systems to significantly reduce our customers' costs of having to travel to our offices to obtain services."
The platform will have an electronic payment function for clients to remotely pay for LAA services. That means clients will not have to visit a bank to pay service fees.
Maketela says the system will reduce the paperwork involved in the registering and transfer of property.
The platform will also help thousands of Basotho in the Highlands because they don't have to physically travel to the office (LAA) for services. The same applies to investors.
In addition to applications and payments, the platform allows customers to interact with LAA staff for enquiries through a built in chat facility. That means queries are instantly lodged and addressed.
The project is expected to improve the time it takes and ease to register property, which will have an impact on Lesotho's ranking on the World Bank's Ease of Doing Business survey which assesses the business processes and regulations of countries. Lesotho is currently ranked position 109 out of 190 countries on registering property.