

THE ROLE OF THE NON-FARM SECTOR IN RURAL DEVELOPMENT IN LESOTHO

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DECLARATION

I declare that this thesis submitted for the Philosophiae Doctor degree at the University of the Free State is my own, independent work and has not been submitted by me to any other university/faculty.

I furthermore cede copyright of the thesis in favour of the University of the Free State.

AT Rantšo
Bloemfontein
January 2014

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CHAPTER ONE

SETTING THE SCENE

1.1 Background and problem statement

Rural development as a development process in developing countries gained momentum after the Second World War, and intensified during the period of colonialism (Berry, 1993). The idea behind rural development was to improve the living standards of the rural poor by reducing poverty, unemployment and food insecurity (Lea and Chaudhri, 1983; Dixon, 1990). The above economic and social problems were solved through different rural development strategies, and the major rural development strategy was to increase productivity in agriculture (International Fund for Agricultural Development, 1991). In this respect, the initial period of rural development in Africa focused on soil erosion control and conservation measures (Makoa, 1999), as well as increasing agricultural productivity by introducing rural development projects, such as the Improved Farmers' Systems in countries such as Tanganyika (Berry, 1993). The use of improved methods of production in agriculture was adopted during the modernisation period in the 1950s (Ellis and Biggs, 2001). This is because poverty, food insecurity and a lack of development in many developing countries were related to the use of outdated methods of production, especially in agriculture (Norton, Alwang and Masters, 2006). In this regard, a lack of development / low agricultural productivity in developing countries is best illustrated by two major theories / models of development. First, Lewis (1954) associated a lack of development (poverty and food insecurity) in the rural communities of developing countries with low agricultural production and population pressure on marginal lands that forced people to migrate to urban industries in search of employment opportunities (Thirlwall, 1995). Second, Rostow's model of economic growth also linked poverty, food insecurity and a lack of development in the rural communities of developing countries to low agricultural productivity because of the use of poor methods of production (Rostow, 1960).

Against the above background, rural development strategies in the 1950s and 1960s focused on improving the lives of the rural poor by increasing national income and productivity in agriculture (Ruger, 2005). This was achieved through the introduction of the two major dominant approaches: the Community Development approach and the Green Revolution (Holdcroft, 1984; Machethe, 1995). The Green Revolution was concerned with improving agriculture through the adoption or the diffusion of modern agricultural technologies,

especially the High Yielding Varieties (Davies, 2003), while the Community Development approach focused on improving agriculture, health, education and other sectors of the economy (Ruttan, 1984).

Besides the Green Revolution and the Community Development approaches, other development methods and techniques were used to improve the lives of the rural poor. These included among others: the Integrated Rural Development projects, and the Basic Needs Approach. Evidence indicated that the redirection of rural development through these two approaches was a direct outcome of the limitations of the Green Revolution approach towards alleviating poverty. The Integrated Rural Development projects were commended for encompassing a range of development activities, such as the improvement of health services, education and agriculture. In addition, the Integrated Rural Development approach was also extended towards an attempt to include the development of the rural non-farm sector through the introduction of agro-processing or agribusiness firms in the rural areas (Sallinger-McBride and Picard, 1989).

The above state-led rural development strategies were challenged in the 1980s during the period of market liberalisation (Ellis and Biggs, 2001). This period called for minimising state intervention in rural development as distributor of scarce resources and a promoter and facilitator of production (Bromley, 1995). Therefore, the state's role in rural development was deregulated by the implementation of the Structural Adjustment Policies. As a result, rural development initiatives experienced some cuts in public expenditure, especially in social services, education, health and agricultural subsidies (Riddell, 1992). This was the outcome of the World Bank and International Monetary Fund's concern that too much government expenditure on rural development initiatives causes budget deficits. In this respect, the poor countries were urged to embark on macro-economic reforms, such as increasing tax, liberalising trade and reducing subsidies, especially in agriculture (Ponte, 1995). The severe impact of Structural Adjustment Programmes on rural development was retrenchment in the public sector which caused massive unemployment in developing countries (Williams, 1994). In this regard, the reduction of government subsidies in agriculture and downsizing in the public sector forced people to seek alternative ways of making a living in the rural non-farm sector. However, evidence shows that the rural non-farm sector was not a new rural development strategy in developing countries. The establishment of rural non-farm enterprises as alternative or complementary sources of living to agriculture started in the

1950s and 1960s. During this period, developing countries adopted capital intensive industrialisation to increase national income. However, capital intensive industrialisation caused escalating unemployment and poverty in developing countries (Lea and Chaudhri, 1983). Therefore, as a solution to increasing unemployment and poverty, small-scale, non-farm enterprises were established. Another argument for the emergence of the rural non-farm sector as a rural development strategy was presented by Saith (1992) and Reardon (1997); for a long time the farm sector was perceived (especially in terms of the Green Revolution), as the main rural development strategy that could alleviate poverty, unemployment and food insecurity in developing countries. However, this ignored the potential and importance of the rural non-farm sector in sustainable employment creation and poverty reduction.

Evidence in developing countries further revealed that the rural non-farm sector as an alternative and complementary rural development strategy to agriculture, gained momentum in the late 1980s and early 1990s, during the period of rural-urban linkages. During that time, a more specific emphasis on developing strong links between rural and urban areas were employed (Funnell, 1988). This new emphasis on rural development thinking was a solution to the old method of development that created disparities between rural and urban areas (Lipton, 1977). Therefore, the new emphasis advocated spatial and sectoral linkages that would connect the rural and urban sectors (Mushi, 2003). The developed linkages between rural and urban areas opened business opportunities and access to urban goods, such as clothing and other businesses to rural people (Manalili, 2004) through improved communication networks, especially roads (Sheng, nd). The linkages between rural and urban areas developed business opportunities for rural people, and many of them participated in the non-farm activities to make a living.

Although the rural non-farm sector was adopted by many developing countries as an alternative and complementary rural development strategy to agriculture, this sector continues to be confronted with many problems. First, many producers in this sector are not innovative but imitate products of other experienced producers (Kristiansen, 2004). Therefore, this causes small enterprises in the sector to be uncompetitive. Second, many enterprises in the sector use simple technologies for production (Bhattacharya, 1996). As a result, many of them cannot cope with exogenous competition from large Multi-National Companies that specialise in the use of sophisticated technologies (Saith, 2001). In addition to this, as stated by Weatherspoon and Reardon (2003), globalisation has brought both opportunities and

threats to rural non-farm enterprises in developing countries. Moreover, the threats that globalisation has posed to the rural non-farm sector in developing countries include stiff competition from large firms. Third, rural non-farm enterprises work in isolation from one another (Kristiansen and Mbwambo, 2003); therefore, they cannot cope with some of the challenges that arise from production.

It should be noted from the above background that the rural non-farm sector plays an important role in employment creation, poverty reduction and food security in developing countries. This is because rural non-farm enterprises employ people who have lost their jobs elsewhere and are (rural non-farm enterprises) the major source of income for the unemployed people. Therefore, the success of the non-farm sector requires institutional support and the establishment of enabling policies, such as technical training and the establishment of foreign markets for finished products.

Rural development in Lesotho has also centred on improving agricultural production through the use of modern agricultural inputs. However, research on the country reveals that the total land area of the country is 30 355 square kilometres, of which 75% is mountainous, while only 9% is suitable for cultivation (Sebotsa and Lues, 2010; Morojele, 2012). Even though about 85% of Basotho households are in the rural areas, and 70% of them make a living from agriculture (Central Bank of Lesotho, 2003), productivity in agriculture has been in decline for the past few decades because of different factors. First, soil erosion is cited as the major factor that results in low agricultural production. It is argued by Wellings (1986) and Mbata (2001) that the arable land is situated in the lowlands, but the soils are thin, infertile and prone to erosion. As a result, the contribution of agriculture to the Gross Domestic Product has been in decline for a number of years. For example, in the 1980s the contribution of agriculture to the Gross Domestic Product fluctuated between 20% and 26%, and in 1991 it declined to 13.9% (Selinyane, 1997; Johnston, 1996; McCann, 1999; Central Bank of Lesotho, 2003). Evidence further shows that from 1991 even the small manufacturing sector contributed more to the Gross Domestic Product than agriculture which is the sector employing the largest proportion of the labour force, according to official statistics (Central Bank of Lesotho, 1997). Furthermore, self-sufficiency in the major staples, such as maize and wheat fluctuated between the 1980s and 1990s. For example, maize production declined from 50% to 40%, while wheat declined from 50% to 15% (Ministry of Economic Planning, 1997).

The downturn in food production resulted in food insecurity in the country, affecting mostly the poor, women and other vulnerable groups. In this regard, vulnerability estimates a nationwide food deficit ranging from 10% to 47% of the total access to food (Sebotsa and Lues, 2010). Thus, food aid from countries, such as the United States of America and Japan and food imports from South Africa are used to ensure food availability in the country (Makenete, Ortman and Darroch, 1998; Mbata, 2001).

Second, the traditional land tenure system is cited as another factor resulting in the decline in agricultural productivity. As argued by Wellings (1986) and Makoia (1999), the communal land tenure system is often associated with the mismanagement of land, especially through soil erosion and the destruction of vegetation. It is further indicated that the communal land tenure system in Lesotho discourages long-term investment in the land, especially for soil conservation (Mbata, 2001). It is also observed that farmers in the traditional land tenure system are not granted loans by commercial banks because of the risks involved. As a result, there is poor access to credit, inputs, extension services and marketing structures to farmers (Wellings, 1986).

Third, high population growth increases the demand for settlements on agricultural land. It is stated by Omole (2003) that the population growth in Lesotho is estimated at 2.6% per annum. Therefore, population pressure has resulted in landlessness estimated at about 60% in the year 2000 compared to 22% in 1980 (Omole, 2003). In addition, the increasing fragmentation of landholdings and the rising level of landlessness are associated with high population pressure (Wellings, 1986).

The research on Lesotho further associates existing non-development in the rural areas to labour migration (Wallman, 1972). This is because the migration of the active labour force from the rural areas of Lesotho to South African mines causes a decline in agricultural production (Cadribo, 1987; Ulicki and Crush, 2007), as well as the failure of some rural development projects (Wallman, 1972). This situation occurs because agriculture is left in the hands of old and young people (Wallman, 1972; Cadribo, 1987). However, more recent studies show that South African Gold mines have been shedding more jobs (Central Bank of Lesotho and Bureau of Statistics, 1995; Marais, 2013) starting from the 1990s, and this has coincided with downsizing in the public sector due to the adoption of Structural Adjustment Programmes by the Lesotho government in 1991 (Matlosa, 1991). Therefore, the challenge

that faces Lesotho is to absorb a high number of retrenchees from the South African Gold mines, together with people who were retrenched from the public sector because of downsizing. At the same time, food security to food insecure households has to be ensured (Mbata, 2001; Sebotsa and Lues, 2010). In this respect, the rural non-farm sector remains a solution to the high unemployment rate (that is aggravated by retrenchment both in the public sector and in the South African Gold mines), poverty and food insecurity (caused by low productivity in agriculture) in the country.

Although research on Lesotho reveals that there were no rural industries before independence besides weaving enterprises (Uys, 1970; Mashinini and de Villiers, 2001), the rural non-farm sector was considered the main solution to the economic and social problems facing Lesotho after independence. This was illustrated by the fact that the Government of Lesotho included the development of the rural non-farm activities in the *First Five Year Development Plan*. However, evidence shows that the sector is faced with many problems and challenges. First, rural non-farm enterprises that received funding from donors collapsed due to the withdrawal of funds (Makoa, 1999). This was the case with the weaving and agro-processing enterprises that lacked sustainability due to a lack of funds (Mashinini and de Villiers, 2001). Second, privatisation affected the performance of rural industries, and many of them closed down; this was the case with Basotho Fruits and Vegetable Cannery (Mashinini and de Villiers, 2001). Third, a lack of access to markets and the availability of raw materials for processing are also cited as major problems facing rural non-farm enterprises in Lesotho (Rantšo, 2001). Fourth, a lack of access to finance is considered the main impediment affecting the success of rural non-farm enterprises. It is stated that small-scale entrepreneurs fail to secure finance from commercial banks because of a lack of collateral (Ministry of Trade and Industry, Cooperatives and Marketing, 2002). As a result, this affects the performance of rural non-farm enterprises. Fifth, gender inequality between men and women is perceived as the major stumbling block for the success of female-owned enterprises. Evidence shows that although “two-thirds of small-scale businesses in Lesotho are owned and run by women” (Ministry of Trade and Industry, Cooperatives and Marketing, 2002:12), the law and cultural norms consider women as minors who lack legal economic independence. Women cannot borrow money or act independently in economic affairs without the consent of their husbands (Mapetla, 1999; Ministry of Trade and Industry, Cooperatives and Marketing, 2002). Therefore, the legal and cultural norms impede the success of female-owned, non-farm enterprises. Sixth, research on Lesotho shows that human capital development is inclined

more towards academic and less towards vocational training. In this regard, the literacy rate is very high in Lesotho (United Nations Educational, Scientific and Cultural Organisation, 2011), but people lack technical and vocational skills that can be used to boost the performance of their enterprises (Ministry of Trade and Industry, Cooperatives and Marketing, 2002). Seventh, the high costs of doing business in Lesotho are also cited as the major challenge facing small-scale entrepreneurs. According to Ministry of Trade and Industry, Cooperatives and Marketing (2002), it is very costly to do business in Lesotho because of the lack of supply of raw materials, and businesses have to obtain the required materials for production from South Africa.

Despite these challenges facing rural non-farm enterprises in Lesotho, studies elsewhere reveal that rural non-farm activities play a decisive role in rural development, especially in employment creation, poverty reduction and in ensuring food security.

1.1.1 Research questions

Against the above background, the following research questions that govern this study are set:

- What is the nature and development value of the non-farm rural industry in a country which has experienced considerable agricultural decline, a semi-arid climate, mountainous topography and is too dependent (and landlocked) on South Africa. (Many of the case studies done on the rural non-farm industry are in countries with tropical climates and with agricultural potential).
- Are there specific limitations or differences related to the situation in Lesotho?
- What lessons can one learn in respect of the non-farm rural industry in Lesotho?
- To what degree has the rural non-farm industry in Lesotho been prioritised in policy?
- What are the different factors that affect the success and performance of rural non-farm enterprises in Lesotho?
- Can rural non-farm enterprises ensure viable economic development in terms of exporting to other countries (earning foreign exchange), limiting imports and a dependence on South Africa, poverty reduction, ensuring food security and sustainable employment creation.

1.1.2 Aim and objectives

Against the above background the aim of the study is to evaluate the role of the non-farm sector in rural development in Lesotho.

In order to achieve this aim, the following objectives are set:

- To evaluate the changing paradigms in respect of rural development in developing countries;
- To provide a historical overview of the strategies in respect of rural non-farm industries in developing countries;
- To assess the rural development policy in Lesotho and to position rural non-farm strategies within the overall rural development strategy;
- To study the characteristics of rural non-farm enterprises in Lesotho; and
- To study the different factors which affect the performance of rural non-farm enterprises in Lesotho.

1.1.3 Conceptualisation

Some concepts that are used in this research report and thus need to be defined are: rural; rural development; rural non-farm sector; poverty.

Rural

Wiggins and Proctor (2001) point out that there is no exact definition of the term rural. However, the word refers to activities in the countryside. The authors state that rural areas in developing countries have more inhabitants (over 75% of the people live in rural areas) than urban areas; even though settlements are often scattered, people live in villages or homesteads. In addition, because villages are scattered randomly, communities (houses) occupy a small space of land, with the remaining land often used for pasture. Most of the activities in the rural area are predominantly agriculturally related. People depend on the cultivation of traditional crops for subsistence purposes. Therefore, farming is predominantly peasant related, dominated by the use of simple technologies, a reliance on erratic rainfall and carried out on fragmented landholdings.

Wiggins and Proctor (2001) further argue that rural areas often have a relative abundance of land with many natural resources. However, rural communities make a living out of the

environment, thus causing environmental problems to some extent. It is stated that people use environmental resources, such as trees for energy, heating houses and cooking because electricity is not available. For instance, Jingzhong, Yihuan and Long (2009) aver that in rural China people rely on stalks of maize and firewood collected from the mountains for heating their houses but there are some who use coal from the nearby retailers. They also use natural resources for food purposes; in some areas wild vegetation is used as food.

Rural development

According to Lea and Chaudhri (1983:12), the World Bank 1975a defines rural development as a “strategy designed to improve the economic and social life of a specific group of people – the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in the rural areas. The group includes small-scale farmers, tenants and the landless”.

It should be noted from the above definition that rural development is meant to improve the living standards of the rural poor. However, it is further observed by Lea and Chaudhri (1983) that rural development as a concept and as a series of experiments to increase production and improve the welfare of poor people in the 1950s and 1960s was technocratic; the main idea being to increase national income through manufacturing. As a result, the problems related to poverty and unemployment were not solved. Some scholars, such as Ellis and Biggs (2001) define rural development as a process that evolves over time and within decades.

Rural non-farm sector

According to Lanjouw and Lanjouw (1997), the rural non-farm sector can be defined as all income generating activities which include income in-kind that are not agricultural but are located in the rural areas.

Poverty

According to the available literature, poverty is a multi-dimensional concept associated with lack of access to human basic needs, clothing, food, shelter and clean water (Harvey, 2008). In this regard, the World Bank (1990) defines poverty as an inability to attain minimal standard of living measured in terms of basic consumption needs or income required to satisfy them. In short, poverty is characterised by the inability of individuals, households or entire

community to command sufficient resources to satisfy their basic needs (World Bank, 1990). Ravallion and Lipton (1995) further refers to poverty as a situation when a person or group of persons fall short of economic welfare, while Mabughi and Selin (2006) define poverty as social deprivation from a decent quality of life. Therefore, people in poverty lack income to purchase goods and services to meet their basic needs (O'Boyle, 1999).

There are two different measurements of poverty. First, an absolute measurement showing a basic threshold that remains the same over time and is updated only for inflation (Iceland, 2003). Second, a relative measurement of poverty that is not fixed but evolves with living standards of people (Iceland, 2003). In this regard, poverty is measured in terms of “judgements by members of a particular society by what is considered a reasonable and acceptable standard of living” (Mabughi and Selim, 2006: 186).

According to Rahman and Westley (2001) about 1.2 billion people in developing countries live in extreme poverty with as many as 75% working and living in rural areas. Even though most poor people in Africa are found in rural areas, urban poverty is increasing in many countries (Hope, 2009). As a result, many people live in chronic poverty. Evidence shows that the proportion of people living in chronic poverty in South Africa at the turn of the century was 18% to 24%, in Ethiopia 25%, while in India the figures indicate between 22% and 33% (Chronic Poverty Research Centre, 2002). Although poverty is mostly linked with developing countries, evidence shows that there is a growing phenomenon of poverty and social exclusion in the developed countries (Maxwell, 1998).

The diverse and contrasting causes of poverty are well documented. Evidence shows that poverty differs with places, regions and societies. Yapa (1996:714), for example, points out that “poverty is not experienced by society at large, but by particular social groups; it is a socially specific condition”. This indicates that poverty is socially constructed, associated with homelessness, hunger, ill-health, and lack of employment, education and access to land (Yapa, 1996; Stamoulis, 2001; Lalthapersad-Pillay, 2002).

Poverty can also be understood in the context of global political economy where the integration of poor countries into capitalism has been facilitated through development aid. Moyo (2009) argues that foreign aid has also promoted corruption in many African countries. Furthermore, even when the aid has not been used, or been misused, countries “still have to

pay interest on it” (Moyo, 2009: 65), with the result that poverty is perpetuated. It is also argued that the austerities attached to the loans from international financial institutions (the World Bank and IMF) in the form of Structural Adjustment Programmes produced an outcome where government expenditure was cut on basic needs facilities such as health, education and agriculture (Ponte, 1995). Research has shown that such cuts on social basic needs services in developing countries caused poverty (Rono, 2002).

The causes of poverty are also conceptualised within different class structures in society, and the position of the poor countries within capitalism, particularly by commentators who draw their inspiration from Marxian theory (Lehning, 2007). Marx’s fundamental principle, that the proletariat (or wage labour) is exploited by the capitalists in society, leaving the former trapped in poverty, is seen as continuing to be relevant today. In the international context, countries are connected to each other through international trade (Gilpin, 1987). However, there is much evidence that trade relations between developed and developing countries is unequal such that the poor countries occupy a subservient position in the international division of labour, specialising in production of raw materials (Balaam and Veseth, 2001; Gilpin, 2001). In this respect, developing countries benefit less from international trade than do the Multi-National Corporations that often repatriate the profits to their mother countries.

1.2 Research methodology

The research methodology for this study comprises three components, namely: a literature survey; structured interviews; and population and sampling techniques.

1.2.1 Literature survey

The secondary data for this study were collected using the literature method. The literature on rural development in developing countries, especially within the changing paradigms of rural development was used. The literature review was also conducted to collect information on the rural non-farm sector in developing countries. The literature on Lesotho was used to provide information on rural development in the country. The literature sources dealing with both national and international experiences on rural development and the rural non-farm sector in particular were consulted. These include among other things, the internet, journals, documents, policy reports, theses and conference papers. Therefore, case studies on policies that promote the rural non-farm sector in developing countries were derived from the international literature. However, the literature on rural development in Lesotho was mainly

obtained from government documents, research reports, books and the *Five Year Development Plans*. The Lesotho Government's initiative to promote and support rural non-farm activities was sourced from the *First Five Year Development Plan*.

1.2.2 Structured Interviews

The primary data were collected mainly using the interview method. In this regard, face-to-face interviews were conducted with owners of rural non-farm enterprises. This method of data collection was very useful because many non-farm enterprises are owned by people with a low level of education, while others did not have any formal education. Therefore, face-to-face interviews enabled people without literacy skills to express their views. The method also afforded the researcher the opportunity to probe for additional information. In addition to the interviews, data were also collected using mailed questionnaires that were self-administered, specifically to people with formal education, owning enterprises, such as lodges, guest houses, food processing enterprises and dairy industries. Therefore, 125 interviews were conducted with owners of small-scale enterprises and managers of some agro-industries.

Data collection was also done by direct observation. This data collection method enabled the researcher to observe the conditions, infrastructure and services in the rural non-farm sector.

1.2.3 Population and Sampling

The population of rural non-farm enterprises was derived from the Ministry of Trade and Industry, Cooperatives and Marketing. However, this study did not use the list of enterprises received from the Ministry of Trade and Industry, Cooperatives and Marketing, as there are many small-scale non-farm enterprises that are not registered with the ministry.

Study areas

The study was conducted in the six districts of Lesotho, Butha-Buthe, Leribe, Berea, Maseru, Mafeteng and Mophale's Hoek.

Selection of Rural Enterprises

Data were collected from the three main sectors of non-farm activities, namely: **Trade and Commerce**: Guest houses and lodges; retail shops / general dealers; fruit & vegetable shops; bottle stores and restaurants (40). **Manufacturing**: brick-making, carpentry, welding, weaving, brick-making, tombstone construction, bakeries, milling, dressmaking, tailoring

(45). *Agro-processing*: Canning; milling; packaging; dairy (5). *Services*: Traditional healing; herb selling; hair salons; public phones; motor mechanics; shoe repairs; clinics; surgeries; car washes; panel beating and spray painting; radio, TV and DVD player repair (35). The total number of rural non-farm enterprises interviewed was 125.

Sampling Procedure and the Use of Research Instruments

The technique of Simple Random Sampling (SRS) was used to collect data. As a result, different rural non-farm enterprises were chosen at random.

Data Analysis

Data were captured with the spread sheet (Microsoft Excel) and analysed using tables and figures. This package enabled cross-tabulation of some variable.

1.2.4 Theoretical assumptions

Although this study focuses on rural development, the emphasis on rural non-farm enterprises implies that the study is embedded in the theoretical assumption in relation to local economic development. The existing literature suggests that Local Economic Development is a “complex blend of concepts, practices and rhetoric” (Rogerson and Rogerson, 2010:469). In essence, Local Economic Development originates from three main bodies of the literature (Rogerson and Rogerson, 2010). The first body of the literature is associated with the process of political decentralisation that has occurred globally and more specifically, in Africa over the past two to three decades. The second body of the literature on Local Economic Development has emanated from the changing world economy. This approach emphasises changing patterns of production, consumption and distribution over the past three decades (Blakely, 1989). In the main, the emphasis is on the behaviour of firms and businesses. Within this framework, the economy is increasingly dependent on knowledge of enterprises also becoming far more ‘footloose’. Within this context, localities have started competing with one another and the concept of urban entrepreneurialism has been constructed to explain such competition (Rogerson and Rogerson, 2010). The third body of the literature has its origins in local development efforts, especially those of non-governmental organisations seeking an alternative to current development approaches (Gomez and Helmsing, 2008). This study, with focus on rural non-farm enterprises is, to a large extent, embedded in this knowledge. In the main, firm and business behaviour and perceptions will be assessed. At the same time, the study also stands critical of conventional macro-economic policies and

thus, outlines some of the problems of rural non-farm enterprises in an increasingly globalised environment.

1.3 Limitations of the study

This research studied the role of the non-farm sector in rural development in Lesotho. Therefore, the study investigated the contribution of rural non-farm enterprises to employment creation, revenue creation / turnover, profitability, contribution to household incomes / source of livelihood and export performance. The focus was on different types of rural non-farm enterprises. The study was limited to the owners of the enterprises because they possessed information concerning their enterprises. Workers and the household members of the owner were not included in the interviews.

1.4 Layout of the study

The study is divided into different chapters which address issues pertaining to the research problem. Therefore, this section provides an overview of the study layout (see Figure 1.1) as follows:

Chapter Two (Changing Paradigms of Rural Development in Developing Countries) discusses the main paradigms that have surrounded rural development thinking from the 1950s to the present. Evidence shows that rural development in developing countries centres on improving productivity through various modernisation approaches, techniques of production and methods. The main focus is on improving productivity in agriculture. The main idea in this chapter is to establish whether increased agricultural production through the use of modern agricultural production techniques, methods and approaches has resulted in the emergence of the rural non-farm sector. The chapter assesses the literature in relation to the period when rural non-farm activities gained attention as one of the rural development strategies.

Chapter Three (Rural Non-Farm Sector in Developing Countries: A Literature Review) studies the role of rural non-farm enterprises in rural development. Evidence from the literature states that the rural non-farm sector in developing countries emerged as a response to the high retrenchment rate in the public sector, as well as being a solution to food insecurity caused by declining agricultural productivity. It is also stated that some people participate in the rural non-farm sector to diversify their livelihood options. This is because people

participate in non-farm activities during the off-season in agriculture to supplement their meagre incomes or because of agricultural decline. Therefore, the chapter scrutinises the definition, characteristics, categorisation (different types of rural non-farm sector) and significance of the rural non-farm sector in developing countries. The chapter also analyses the factors that determine participation in non-farm activities. Furthermore, government policies that support or which are biased against non-farm enterprises are examined. The problems that confront non-farm enterprises are also scrutinised in this chapter. The chapter concludes by providing a critique of the rural non-farm sector in developing countries.

Chapter Four (Rural Development in Lesotho) addresses rural development in Lesotho since colonialism and within *Five Year Development Plans*. The research on Lesotho shows that rural development during colonialism focused mainly on soil erosion control measures and the establishment of area development programmes. These programmes were in line with the Green Revolution approaches adopted by developing countries in order to increase productivity in agriculture. This chapter analyses whether or not colonial rural development strategies promoted or focused on the rural non-farm sector. The chapter also addresses how Lesotho's dependence on South Africa has influenced rural development in Lesotho, especially the improvement in agriculture and the establishment of rural non-farm activities through migrant labour remittances. The chapter further establishes that there were no rural non-farm industries in Lesotho before independence besides weaving enterprises. This fact leads to a discussion of how the post-colonial government promoted the establishment of rural non-farm enterprises. By reviewing the *Five Year Development Plans*, and assessing whether government policies on rural development promote / inhibit rural non-farm enterprises are interrogated.

Chapter Five (Characteristics of the Rural Non-Farm Sector in Lesotho) discusses the different characteristics of rural non-farm enterprises in Lesotho. The evidence from the literature shows that the rural non-farm sector in developing countries has different characteristics and entails a diversity of activities. Furthermore, the chapter assesses whether the rural non-farm sector in Lesotho follows or diverges from international trends. The chapter then studies the major influence for the establishment of rural non-farm enterprises in Lesotho. The reason for this is that the establishment of rural non-farm enterprises in a number of other developing countries is closely related to agricultural development and strong institutional support, especially from government and other stakeholders. The chapter

continues by studying the role played by non-farm incomes in rural development. In this endeavour, the chapter assesses whether the case of Lesotho differs from, or follows common international trends found in other developing countries.

Chapter Six (Factors Affecting the Performance of Non-Farm Enterprises in Lesotho) considers the different factors affecting the performance of rural non-farm enterprises in Lesotho. The research on Lesotho suggests that rural non-farm enterprises are faced with many challenges and problems. Therefore, these challenges and problems affect the performance of rural non-farm enterprises. The chapter further investigates some of the factors that affect the success of rural non-farm enterprises in Lesotho; these are: demographic factors; locational factors; factors related to business linkages; factors related to competition; and factors related to government support. An enterprise's success is measured in terms of business indicators, such as profitability, the average employment size and the average turnover experienced by the enterprise. The chapter assesses the success of rural non-farm enterprises in Lesotho using the above indicators. However, the success of non-farm enterprises is looked at in relation to their export performance and ability to create employment opportunities that reduce the existing unemployment in the country.

Chapter Seven (Conclusion and Future Research) articulates the main findings from the previous chapters so as to draw conclusions and make recommendations for future research.

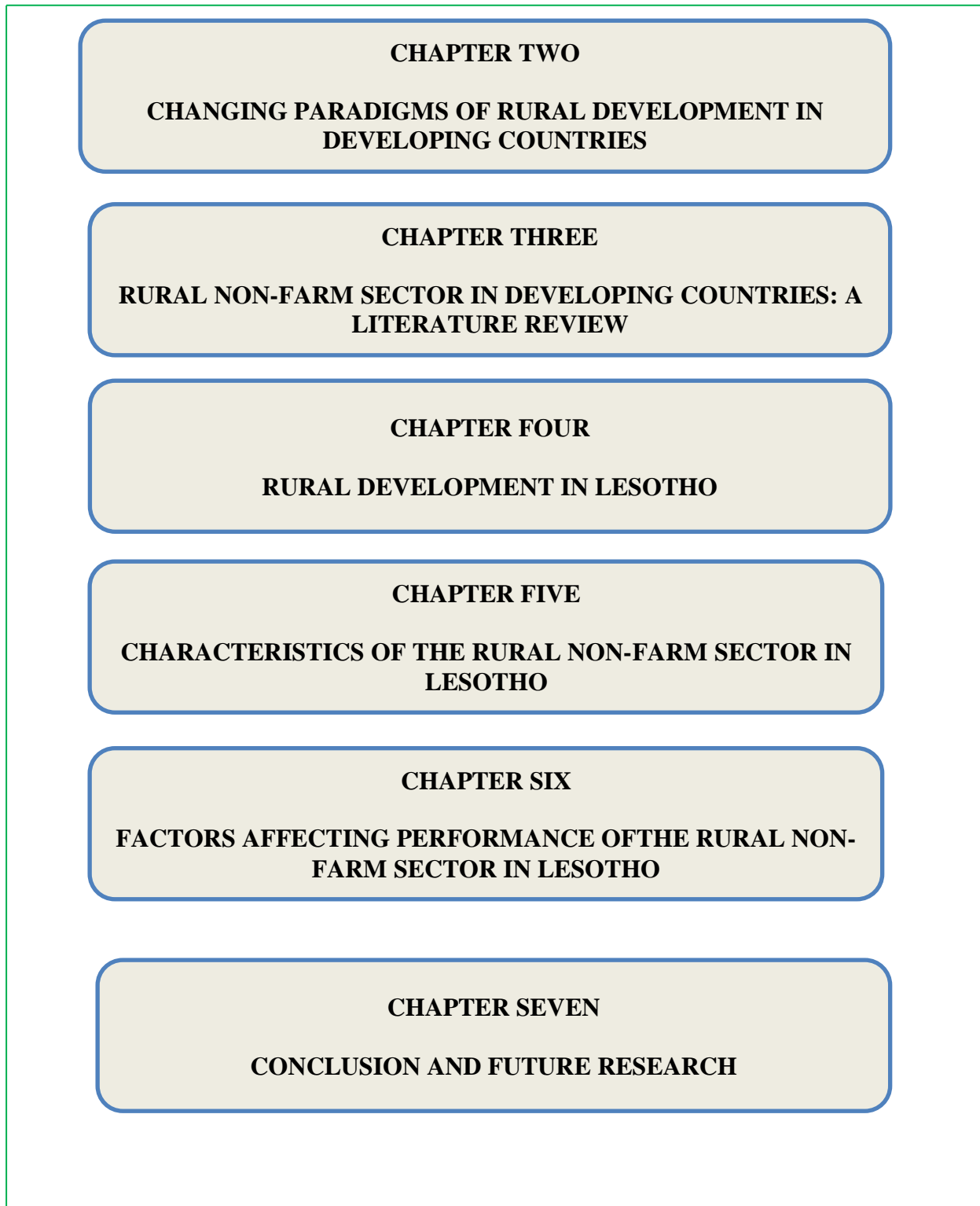


Figure 1.1: Outline of chapters

CHAPTER TWO

CHANGING PARADIGMS OF RURAL DEVELOPMENT IN DEVELOPING COUNTRIES

2.1 Introduction

The post colonial era still represents a great dichotomy between the urban and rural sectors of developing countries. The rural areas of the developing world are commonly described as the home of impoverished people engaged in agriculture (Dixon, 1990; Todaro, 2000). In general, agriculture has failed to improve the lives of the rural poor for a number of reasons, such as high population pressure on marginal lands, drought and environmental degradation. Within this context and with the status of rural development, the concept of non-farm rural enterprises has gained momentum during the past few decades as an alternative approach towards rural development. As this study aims to evaluate non-farm rural enterprises in Lesotho, it is important to first obtain an overview of the changing paradigms of rural development in developing countries and their relevance to the rural non-farm sector.

The aim of this chapter is to discuss the different phases¹ and changing paradigms of rural development since the 1950s. Although the emphasis will be on the changes over time, the role of the rural non-farm sector within phases will be assessed in more detail. According to the international literature, a number of evolving themes can be identified in respect of rural development since the Second World War. Although some scholars rightfully trace contemporary rural development back to the period of colonialism (Berry, 1993), Ellis and Biggs (2001) focus on the trends and changes in rural development since the 1950s. Ellis and Biggs (2001) distinguish between six phases which will be used to structure this chapter (see also Holdcroft, 1984; Machethe, 1995). They are the following:

- (a) from community development (1950s) to the emphasis on small-farm growth (1960s);
- (b) continuing small-farm growth within integrated rural development (1970s);
- (c) from state-led rural development (1970s) to market liberalisation (1980s);
- (d) process, participation, empowerment and actor approaches (1980s and 1990s);

¹ Most of the paradigms and phases of rural development are adapted from Ellis and Biggs 2001. The authors illustrate how rural development has changed over time. Some phases and paradigms are taken from Holdcroft (1984). The author focuses mainly on community development and the green revolution. Another systematic illustration of rural development trends is by the Overseas Development Institute (2002). Rural development ideas, trends, themes and paradigms discussed by the Overseas Development Institute (2002) are similar to those discussed by Ellis and Biggs (2001).

- (e) emergence of sustainable livelihoods as an integrating framework (1990s); and
- (f) mainstreaming rural development in poverty reduction strategy papers (2000s).

Considering the above framework and the contributions made by other scholars (Holdcroft, 1984; Macheche, 1995) it was decided to structure the chapter accordingly:

- Phase One, Modernisation;
- Phase Two, State-led rural development policies;
- Phase Three, Macro-economic reforms – market liberalisation;
- Phase Four, Participatory development;
- Phase Five, Rural-urban linkages; and
- Phase Six, Poverty reduction strategy papers.

2.2 Phase one: modernisation theory (1950s – 1960s)

Modernisation theory dominated the post-Second World War period and had a profound impact on rural development. First, this section assesses the Modernisation theory in the context of rural development and then looks at the approaches used to facilitate it: Community Development and the Green Revolution.

2.2.1 Modernisation paradigm

This section considers the contribution of modernisation on rural development. According to Graaff (2001:14), “the Modernisation theory arose in the United States in the period after World War II”. The literature points out that the prerequisite for poor countries to modernise was that they should follow the development path of developed countries (Graaff, 2001). In this respect, developing countries had to ensure that competitive industries were diffused into their economies, and had to encourage modern attitudes, values, norms and an entrepreneurial spirit (Pavlich, 1988).

Poor countries were commonly urged to modernise for a number of reasons (Graaff, 2001). First, the economies of many developing countries were too inward looking. In this respect, the import substitution industrialisation strategies that were common in the 1960s were perceived to be too state driven and did not allow these countries to compete in global markets (Williams, 2007). The logical consequence was that developing countries had to liberalise trade. Second, poor countries used traditional technologies (especially in

agriculture) and adhered mainly to traditional norms. These traditional technologies and norms were considered stumbling blocks for development (Pavlich, 1988). Therefore, developing countries were urged to accept foreign aid and foreign investment so that they could reach the 'take off' stage.

The theme around the transformation of traditional agriculture is well illustrated by Rostow in his model of "Stages of Economic Growth" (Rostow, 1960). The literature reveals that the first stage of his model is about "the traditional society". According to the literature, this stage states that societies adhere to traditional norms, where traditional agriculture is the main activity. Rostow (1960) argues that in traditional societies production is very limited and follows pre-capitalist methods. According to Rostow's argument, societies which wanted to develop (modernise) had to transform their agricultural system and practice to allow them to prepare for implementation.

The so-called 'backwardness' of countries is also illustrated by Sir Arthur Lewis (1954) in the model of dual economies. This model stipulates that many developing countries have two sectors of the economy: the traditional (rural) and modern (urban) sectors. The former is traditional and has a reserve of unskilled labour, while the latter is considered modern and depends on the former for labour and agricultural products (Lewis, 1954). The model states that surplus labour in the traditional sector causes declining agricultural productivity. Therefore, the solution to the problem of diminishing returns is to increase productivity by modernising agriculture. The diffusion of modern technologies in agriculture was expected to increase productivity and reduce the number of people working on small pieces of land. This model of dual economies shows that the diffusion of modern technologies in agriculture increases production that mean enough supply of raw materials in the non-farm sector. In addition, the model shows that people migrating to the modern industries earn incomes that they remit in agriculture and in the development of non-farm activities (see Figure 2.1).

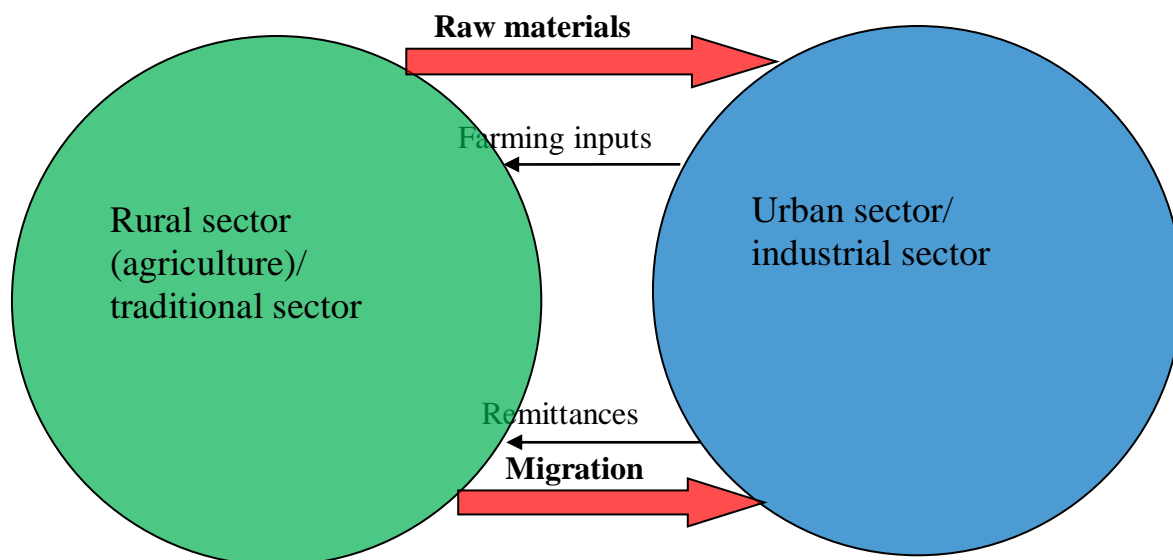


Figure 2.1: Dual economy model (Source: Framework of dual economy model, own study)

Modernisation was implemented through a set of different approaches in the 1950s and 1960s, such as Community Development and the Green Revolution. The next part of this study discusses these initial approaches used to reduce poverty in the newly independent countries.

2.2.1.1 The Community Development Approach

Holdcroft (1984) and Campfens (1997) point out that community development was promoted by the governments of developing countries and the United Nations through its affiliated institutions as part of decolonisation and independence in Africa and Asia. According to Holdcroft (1984), the term *community development* was first used officially at the British Colonial Officers' Cambridge Conference on the Development of African Initiative in 1948. It is stated that the term was commonly used in the United Kingdom to refer to the approach towards the reconstruction of Britain after the Second World War. It should be admitted that many of the ideas of community development were derived from the social welfare measures implemented by Britain after the 1930s world depression.

As an approach to modernisation, the idea of community development was to improve the economies of the former colonies through the construction of roads, schools and the provision of water supply and community centres (Ruttan, 1975). Community development during this phase was contextualised closely to government / donor-driven approaches and focused on typical government services to modernise society and the rural areas. Ruttan (1975:9) argues that "community development efforts in the developing world were based on the assumption

that the mobilisation and development of community resources - human and physical - motivated by the multipurpose village worker and supplemented by credit and limited grants of materials, would lead to the modernisation of rural society”.

2.2.1.2 Critique of community development

The Community Development approach was not without criticism. Two comments need to be made in this respect. First, it is stated that the community development movement was blamed for not meeting its objectives and targets. For instance, community development projects did not meet the intended objectives of poverty alleviation. In addition, community development did not reach its objective of economic growth, food security and improving the lives of the people (Ruttan, 1984). It is further stated that community development failed to increase food production, and thus ensure food security. For instance, Machethe (1995) avers that community development launched in India in 1952 failed to alleviate poverty and food scarcity, with the country still facing the problem of famine. The overall failure of the Community Development approach propelled many donors to withdraw their aid, even though many projects were still in an initial phase (Holdcroft, 1984). Second, the Community Development approach was also criticised for assuming that all human beings are rational and therefore would respond positively to innovations that are intended to bring change – something which often did not occur (Holdcroft, 1984).

Overall, the Community Development approach aimed at improving agriculture and other sectors of the economy in developing countries did not succeed. The modernisation of agriculture through the Community Development approach intended to increase agricultural productivity that would be used to supply the industrial sector. However, this approach was largely silent about establishing rural industries, especially agro-industries for the processing of raw materials.

The Community Development approach was closely related to the Green Revolution which emphasised the use of appropriate technologies in the modernisation process. Therefore, the next part of the chapter discusses the Green Revolution as an approach that was used to modernise agriculture in developing countries.

2.2.1.3 The Green Revolution

According Paddock (1970) and Sonnenfeld (1992) the Green Revolution was initiated in Mexican agriculture in the early 1940s by the Rockefeller Foundation. The Green Revolution was also a common practice in some Latin American and Asian countries in the 1950s and 1960s (Evenson and Gollin, 2003). Sonnenfeld (1992) opines that the Rockefeller Foundation developed fertilisers and hybrid seed in laboratories in the United States and Mexico that would be used on large-scale irrigated landholdings. In the initial years the term *Green Revolution* was associated with the improvements in the High Yielding Varieties of rice and wheat only, whereas the High Yielding Varieties have nowadays been developed for other food-stuffs, such as maize and sorghum (International Food Policy Institute, 2002). According to the literature, the Green Revolution technologies achieved three important outcomes in developing countries:

First, there was a considerable increase in agricultural productivity/production. The international literature points out that the Green Revolution technologies increased yields and incomes for many farmers in Asia and other developing countries (Bernstein, 1992). In the processes, the yielding time of selected agricultural varieties was increased. For instance, the new rice varieties were preferred to the traditional ones which took 150 to 180 days to mature, while the new varieties took only 100 days (Davies, 2003). Therefore, the Green Revolution was a shift from the traditional use of agricultural methods to modern technologies where farmers could increase their productivity (Sen, 1970).

The literature further postulates that the mechanisation of agriculture during the Green Revolution replaced labour-intensive methods of production (Randhawa, 1977). This is because the new technologies enabled the specialisation of operations and changing practices to ensure high productivity. It is further stated that in order to increase productivity/production, the economies of scale were greatly enhanced by increased farm size and with the use of hybrid seedlings, the best yields were generated (Schuh, Nair and Owen, 1970). The potential of plants to be more productive was increased by breeding a variety of seed which had the characteristics of high yield, resistance to stem and leaf rust, drought resistant and a high adaptability to different conditions (Goldman and Smith, 1995; Davies, 2003). The literature further shows that the Green Revolution also focused on the improvement of animal husbandry (Sonnenfeld, 1992; Leaf, 1980). As has been pointed out

by Goldman and Smith (1995), the number of animals that provided people with meat, milk and other products increased dramatically.

Second, the literature points out that the Green Revolution ensured food security (Leaf, 1980). Therefore, as a result of increased production from the Green Revolution technologies, some countries in Asia (for example, Pakistan), Latin America and a few from Africa reduced their food insecurity and dependence on wheat imports from the United States (Shepherd, 1998). For instance, in India, food production per capita increased by about 30%, and from being a net importer of grains from 1951 to 1975, there were 30 million tons of grain in government reserves in 1984-85 (Bernstein, 1992). The above-mentioned scholars argue that this increase in productivity was important so as to achieve national food sufficiency and a reduction of malnutrition, hunger and starvation in the country. Bernstein (1992) further points out that High Yielding Varieties packages enabled at least three harvests per year. There was a decline in real food prices effected by the cost-reducing technologies. The Green Revolution packages benefited mainly the poor because they had the means of producing their own food and this reduced their dependence and spending on food sourced elsewhere (Bernstein, 1992).

2.2.1.4 Critique of the Green Revolution

Even though many scholars discuss the potential benefits of the Green Revolution, they argue that the Green Revolution often failed to solve the problems related to high levels of poverty, inequality and inequity. A number of crucial points should be explored in this respect.

First, the Green Revolution technologies did not ensure sustainable food production. The growth rates that were highlighted were simply a feature of the 1970s (Shiva, 1991) and were not sustained in the decades that followed; thus what resulted was food insecurity.

Second, the Green Revolution technologies failed to solve the problems related to poverty among the peasant communities. Citing Saith (1990), Bernstein (1992) points out that there was high government spending to reduce rural poverty during the Green Revolution in India. Because there were so many people below the poverty line, any government intervention through the provision of funds, improved their lives in the short term, rather than increasing the High Yielding Varieties packages (Deva, 1984). Strauss (2000) argues that there is an increasing number of people suffering from diseases that are related to insufficient caloric intake, despite the advent of these new agricultural technologies.

Third, access to the Green Revolution technologies was a matter of affordability. According to Ghatak (1995), Shepherd (1998), Strauss (2000) and the International Food Policy Research Institute (2002), access to agricultural inputs is determined by the amount of money one has. This was seen in practice when the Green Revolution technologies were monopolised by the large commercial farmers (Sen, 1970; Havens and Flinn, 1975; Hayami, 1984) because they had economic power and they could afford these technologies for their own use. Thus, the Green Revolution was blamed for causing and perpetuating social differentiation among the peasantry (Goldman and Smith, 1995).

Fourth, the Green Revolution did not assist in rural employment creation as these technologies were expected to be labour intensive (Jacoby, 1972). At the same time, in order to increase productivity, farm machinery was used. This caused an increase in unemployment in labour surplus economies, and the negative impact of the Green Revolution technologies was experienced by the labour tenants who depended on wages from agriculture for survival. This was evident when most of them lost their means of livelihood due to the advent of new farm machineries (Barrow, 1995; Ghatak, 1995).

Fifth, the Green Revolution technologies caused environmental problems. Therefore, the impact of the Green Revolution is contrary to the concept of 'green' that is used by the environmental conservationists to mean ecological conservation (Barrow, 1995; Conway, 1997). The High Yielding Varieties packages were very detrimental to the environment. For instance, Sonnenfeld (1992) says that the application of agro-chemicals, such as inorganic fertilisers, pesticides, and herbicides caused the extinction of some plant and animal species, as well as being hazardous to human beings (Paddock, 1970; Dhanagare, 1987; Kirkby, O'Keefe, and Timberlake, 1996; Strauss, 2000; International Food Policy Research Institute, 2002).

The advent of the Green Revolution technologies in developing countries' agriculture meant that industry helped to increase production in agriculture. In this regard, the Green Revolution technologies developed in industries include, fertilisers, tractors, pesticides and many others. Besides ensuring food security among the rural households, the Green Revolution technologies increased agricultural production so that industries could have an adequate supply of raw materials. Therefore, many non-farm rural industries, especially agro-

industries were established to process agricultural raw materials into manufactured goods. Therefore, many people were employed both in agriculture and industries.

After addressing the problems of Community Development and the Green Revolution approaches, it is important to critique the Modernisation theory as a whole.

2.2.1.5 Critique of the Modernisation theory

Modernisation as a development paradigm has been criticised severely in the existing literature. First, Nabudere (1997) points out that “development” as a strategy of modernisation has failed to meaningfully take place in the majority of the developing countries and is no longer in dispute. The whole intention of modernisation was to improve the lives of poor people by improving their living standards. However, the majority of the population in developing countries still live in poverty (Graaff, 2001) and modernisation did not solve all their problems.

Second, modernisation and development theories were predicated upon an evolutionist vision which was based on earlier European capitalist development successes (Nabudere, 1997). Modernisation theory assumed that nations are homogenous as far as culture and styles of living are concerned. The theory ignored the fact that countries are different and may also have different cultures (Duncan, 1996; Graaff, 2001). In addition, Nabudere (1997) argues that modernisation imposed the cultures of the European countries on poor countries without their consent, thus hindering the emergence of different development models that could have emerged from these different cultures.

Third, modernisation emphasises the diffusion of institutions, including values and organisations; technology, including knowledge and skills; and capital (Slater, 1973). In this respect, Baran (1996) avers that the technology that is being diffused into poor countries is considered inappropriate and thus causes satellite countries to be underdeveloped. There seems to be evidence that some technologies diffused by modernisation agents, such as Multi-National Companies cause unemployment, and thus perpetuate poverty in developing countries (Lall and Streeten, 1977; Hood, and Young, 1979).

2.2.1.6 Synthesis

The first phase of rural development places more emphasis on the modernisation of backward economies. Different approaches, such as Community Development and the Green Revolution were used to ensure modernisation. Agricultural surpluses generated by the Green Revolution technologies were transferred to improve the urban-based industries but did not develop the rural non-farm industries. The Lewis model indicates that there was little or nothing done to promote rural non-farm enterprises in the 1960s, even-though raw materials were extracted by rural producers. This was illustrated by the fact that many people migrated from the rural areas to urban industries in search of employment opportunities.

The failure of the modernisation paradigm through the Community Development approach and the Green Revolution to improve the lives of the rural poor called for a change from a trickle-down development to an endogenous development facilitated by developing countries. With reference to the pursuit of modernisation in the rural areas of developing countries Integrated Rural Development was adopted. The next section will discuss the significance of integrated rural development, basic needs approach and urban bias hypothesis.

2.3 Phase two: state-led rural development policies (1970s -1980s)

This phase is concerned with state-led policies in rural development. It should be acknowledged that the modernisation phase through Community Development and the Green Revolution had an inherent state/ donor-driven component. It was also largely supply driven and provided funds at the input side. In order to illustrate this shift, three major themes are discussed in this phase: integrated rural development, the basic needs approach and the urban bias hypothesis.

2.3.1 Integrated rural development

Ruger (2005) opines that the 1950s and 1960s were the decades of growth to increase national income, but little was done to improve the lives of the poor. Many governments were concerned mainly with increasing the Gross National Product (Goldstein, 1985; Thorbecke, 2005), with Machethe (1995) categorising this era as a top-down development framework. The trickle-down effect envisaged during the previous phase also did not materialise, but pressure for poverty-focused Integrated Rural Development projects was mounting by the 1970s (Machethe, 1995). It was especially international organisations which led the process in promoting the Integrated Rural Development approach (Basler and Brunswick-Völkenrode,

1979). Integrated Rural Development was considered to be a pro-poor, rural development strategy, participatory in nature, in which the rural poor were expected to run their own development agenda. In contrast to the top-down approach of the Green Revolution, communities were expected to implement these programmes. However, it should be mentioned that in most cases, programmes were implemented by donors, and governments played a pivotal role. The value of the Integrated Rural Development paradigm can be summarised as follows.

First, it is stated that Integrated Rural Development projects targeted certain geographical localities. Researchers point out that the approach enabled governments to provide packages of goods and services to targeted populations in designated regions (Sallinger-McBride and Picard, 1989). The belief was that benefits would trickle down to some other parts of society (Funnell and Binns, 1983).

Second, the literature points out that unlike the Green Revolution and Community Development approaches that focused on specific activities, Integrated Rural Development combined different development aspects, with agricultural and non-agricultural activities being included (Livingstone, 1979). Typical project activities which were included were farm credit, extension, agricultural inputs, reliable marketing facilities, assured agricultural product prices, schools and hospitals, rural public works and stronger village institutions (Livingstone, 1979; Machethe, 1995). The proponents of Integrated Rural Development further argue that besides transforming small-scale agriculture into commercial farming, the approach introduces or expands agro-processing, agribusiness, and related rural industries in order to diversify rural economies, increase employment opportunities, and stimulate internal demand for domestically produced goods (Sallinger-McBride and Picard, 1989). There was thus some emphasis on non-farm industries.

Third, popular participation was a cornerstone of the Integrated Rural Development approach. The proponents of the approach maintain that local participation in integrated rural development (Sallinger-McBride and Picard, 1989; Nemes, 2005) was emphasised where the affected people (the rural poor) were expected to take part in poverty eradication. The idea was to empower the local communities by involving them in national development through self-help development projects (Belshaw, 1977; Livingstone, 1979).

2.3.2 Critique of Integrated Rural Development strategies

Despite the importance of most Integrated Rural Development projects, they were not without criticism. First, the literature points out that despite the emphasis on participation, many of them lacked public participation in the planning process. And in many cases, projects were centrally planned (Nemes, 2005). The lack of participation is thus commonly forwarded as a reason why projects failed (de Janvry, 2004).

Second, it is argued that the integrated approach to rural development failed to improve the lives of the rural people. For instance, Paul (1998) points out that in India, integrated rural development projects did not perform well because the assets provided to the beneficiary families were of low quality. Many Integrated Rural Development projects targeted certain areas while others were excluded in the hope that the benefits would trickle down; this did not happen as intended or expected. The reason seems to be that the implementation of integrated rural development projects selected specific areas, thus implying that others were excluded (Funnell and Binns, 1983).

Third, many integrated rural development projects benefited the richer farmers (Machethe, 1995), while the poor ones remained trapped in poverty. This shows that the integrated approach to rural development did not reduce inequalities that occurred among communities and individuals. In addition, Machethe (1995) further argues that most integrated rural development projects could not be replicated because it was too costly to implement. As a result, some places in developing countries did not benefit from the integrated rural development approach.

The Integrated Rural Development approach focused on different strategies to reduce poverty in developing countries. It can be observed from the above discussion that the concern was also about introducing extension and marketing services in agriculture. Therefore, this shows that increased agricultural production was expected. The Integrated Rural Development approach also established agro-industries that were used to process the agricultural raw materials. This shows that Integrated Rural Development focused on promoting the non-farm sector by introducing agribusiness firms. Even though Integrated Rural Development promoted rural non-farm activities, it did not work as envisaged.

Targeting the basic needs of society emerged as a problem when the integrated approach to development failed to improve the living standards of the poor.

2.3.3 The Basic Needs approach

Stewart (1989:347) postulates that “development economists adopted the Basic Needs approach to development in the 1970s, as a result of the failure of modernist economic approaches which failed to address poverty”. By 1976 the International Labour Organisation also adopted the concept of the Basic Needs approach (Obadan, 2008). The International Labour Organisation defined basic needs to include meeting human basic needs, such as clothing, food, shelter, clean water, physical and emotional security and physical and mental rest (Stewart, 1989; Burkey, 1993; Harvey, 2008). The International Labour Organisation states that basic needs extend beyond the common needs to essential services provided to the community, such as sanitation, public transport, health and educational facilities (Burkey, 1993). In practice, aid agencies (McHale and McHale, 1979) and government programmes soon emphasised the provision of basic needs in their programmes (Wuyts, 1992).

The literature further points out that the fulfilment of basic needs implies that all members of the community have their basic needs met at least a minimum level (Stewart, 1989). Therefore, in order to meet the basic needs of communities, governments in developing countries diverted some of their funds to subsidise health facilities, education, housing, clean water and other facilities. These services provided by the state to the citizens are often referred to as public goods (Obadan, 2008).

The provision of human basic needs was not expected to follow a top-down approach. People should be involved in identifying them (Wuyts, 1992; Obadan, 2008). This is because the local people know problems that confront them, so they are the ones who should identify their needs. For instance, unemployment is very high in developing countries, and strategies that can be used to solve the problem lie with the communities affected (Streeten, 1984).

2.3.4 Critique of the Basic Needs approach

Meeting the basic needs of people in developing countries was perceived as a cornerstone of development. However, the literature also provides a critique of this approach. First, it is said that people did not have the choice or the freedom to determine their needs. Rudra (2009) citing Sen (1987) says that the Basic Needs approach lacked an emphasis on freedom

in determining needs. In many cases, the needs of the poor were determined by governments and international organisations.

Second, critics further point out that the approach is ambiguous on the issue of what needs are basic (Rudra, 2009). In this respect, on the one hand some authors argue that basic needs include: education, health, housing and other social services. On the other hand scholars, such as Okafor (1985), Burkey, (1993) and Harvey (2008) are of the opinion that basic needs include physical and emotional security and physical and mental rest.

Third, according to the literature, even the developed countries cannot provide basic needs to all their citizens. This is seen by the fact that some people in the developed countries do not have access to basic needs (Streeten, 1984). For instance, Maxwell (1998) states that there is lack of provision of basic needs in developed countries and this is proved by the growing incidences of poverty and social exclusion. Maxwell further points out that the causes of poverty in the developed world also result in high unemployment rates.

Finally, Weigel (1986) says critics of the Basic Needs approach allege that it is an inherently paternalistic development programme. The Basic Needs approach is said to be paternalistic at the international, national and household level. Weigel (1986) believes that on the international level, the approach deems that international organisations will put pressure on the local elite to direct some funds towards basic needs. On the national level, the approach assumes that basic needs' programmes will benefit certain groups of people (for example, the elderly and children) and not the entire population. Weigel (1986) further points out that the Basic Needs approach at household level favours subsidies in kind, instead of direct income transfers, as it means that the state can determine these needs on behalf of its citizens.

The Basic Needs approach is concerned mainly with improving health, education, and ensuring food supplies to the rural poor. The approach does not state how food supplies would be ensured (food donations or agricultural production); thus, the approach is silent about improving non-farm rural activities.

Even though there was a paradigm shift from Integrated Rural Development to the Basic Needs approach, there are still regional inequalities in society due to the unbalanced provision

of social services. The next section considers the unequal distribution of resources in society, especially between the rural and urban areas.

2.3.5 Urban bias hypothesis

In order to illustrate the unequal distribution of national resources in society at independence, Lipton (1977) coined the well-known phrase of “urban bias”, where peasants are seen as fuelling the development of the urban areas through unequal market exchange mediated by the state. The urban bias hypothesis argues that government imposes taxation and voluntary savings (mainly through state-owned banks) which are expropriated by the state but are not invested in the rural areas. In addition, according to Lipton (1977) the government policies always work against small-holder farmers. They are not given access to credit and other agricultural incentives, and yet governments want money from them in the form of tax.

Lipton (1977) outlines some reasons why urban bias exists in developing countries. The first reason is that rural people are much more dispersed and unorganised. Therefore, they are unable to challenge the decisions made by the state as far as the allocation of resources in society is concerned. The second reason is that most of the important social and economic services are allocated between the urban areas and rural sector in an inequitable and inefficient way; these include among other things clean water, productive resources, investment, and important human resources, such as doctors and teachers. Pugh (1996) adds that an urban bias can under-allocate infrastructure and education to rural areas, thus adding to the bias and increased rural poverty. For instance, agriculture plays a very important role in many developing countries with 70% of workers and 40-45% of the Gross National Product, but in most poor countries it receives barely 20% of investment (Lipton, 1977). The third reason is that agriculture is neglected in policy formulation, even though it is the backbone of many rural areas.

2.3.6 Critique of urban bias hypothesis

The urban bias hypothesis has a number of critics: First, Lipton (1977) ignores the fact that poverty is homogenous; it cannot be associated with the rural areas only. Poverty levels are also very high in urban areas. Kopardekar (1986) highlights the fact that many people living in urban slums do not have access to clean water, infrastructure, health and other services. Therefore, equating rural areas with poverty, is misplaced and misleading (Corbridge, 1982).

Second, there are poor and rich farmers in the rural areas (Wolf, 1969). In this respect, Ellis (1988) has shown that wealthy farmers commonly dominate the poorer ones, with the former in the rural areas benefiting from state subsidies and credit facilities from commercial banks (Corbridge, 1982). Therefore, there continues to be an unequal distribution of resources among rural people.

2.3.7 Synthesis

The second phase of rural development is concerned with articulating different sectors of the economy in order to improve the lives of rural people through integrated rural development projects. The focus of Integrated Rural Development was not only on agricultural development, but on other sectors, such as health, education, sanitation and water which are given more attention. In addition, the Integrated Rural Development objectives included the promotion of the non-farm sector, especially the development and promotion of agribusiness/agro-industries. Meeting the basic needs was not only included in the Integrated Rural Development objectives, but a separate move was made by many governments to ensure that these needs were met. However, inequitable distribution of basic need facilities and the expropriation of surplus from peasants to finance industrial development in urban areas resulted in urban bias. According to urban bias, the development of the rural non-farm sector was not considered.

The above section discusses different ways in which the state promoted rural development in developing countries. These rural development approaches were criticised for being autocratic as they followed a top-down approach. Therefore, this initiative did not improve the lives of the poor and the programme cost governments too much money. These problems led to state deregulation. The next section discusses the paradigm shift from state intervention in rural development to state deregulation.

2.4 Phase three: anti-state development programmes (1980s)

The third phase is built on the premise that in the 1970s developing countries' governments spent too much money on implementing the Integrated Rural Development projects and meeting the basic needs of people, thus causing budget deficits. Therefore, when these governments borrowed money from international financial institutions for development purposes, the loans came with conditions as a way of ensuring that developing countries save money for development purposes. The World Bank and the International Monetary Fund

proposed the introduction of macro-economic reforms (introducing Structural Adjustment Programmes) for countries that only resorted to their funding. The next section discusses the introduction and impact of macro-economic reforms in the form of Structural Adjustment Policies in developing countries.

2.4.1 Macro-economic reforms: adoption of Structural Adjustment Policies (1980s)

According to Melville (2002:2), structural adjustment can be defined as “the varied policy action (whether home-grown or externally driven) that attempts to alter the nature, structure and functioning of economies”. Structural Adjustment Programmes were initiated by the World Bank and the International Monetary Fund in 1979 and became operational in the 1980s. Structural Adjustment Programmes were meant to reduce money that was used for financing rural development initiatives in developing countries.

According to the World Bank and the International Monetary Fund, the Structural Adjustment Programmes are meant to reduce financial support that governments give to public enterprises; in particular, those helping small-scale farmers. These financial institutions state that provision of subsidies to producers cause inequality; therefore, the Structural Adjustment Programmes would thereby reduce inequality and eradicate absolute poverty in developing countries (Woodroffe and Logie, 1993). In addition to reducing inequalities among producers, the Structural Adjustment Programmes are also meant to stabilise the economies of poor countries by reducing the fiscal and balance of payment deficits (Schatz, 1994; Rono, 2002) by reducing inflation and curbing debt accumulation and debt servicing load (Oberdaberning, 2010).

According to the literature, many poor countries embarked on macro-economic reforms (Loxley, 1990; Ponte, 1995) during the period of the 1980s and early 1990s. The idea behind macro-economic reforms was to stabilise the economies of poor countries by reducing poverty, inflation, the debt servicing load and unemployment. This called for a shift from development assistance in the 1980s from financing investment (roads and dams) to promoting policy reform (Dollar and Svensson, 2000). Developing countries were urged to embark on macro-economic reforms for a number of reasons.

First, the emphasis was on reforming the public sector. The World Bank and the International Monetary Fund argued that the state/public monopolies were corrupt and inefficient and as a

result, hindered competition in the economy (Riddell, 1992) and had to be privatised. Privatisation is known for promoting efficiency, competition and the correction of budget deficits (Rono, 2002). According to Appiah-Kubi (2001) privatisation was promoted in most countries as part of economic reform strategies, and as a condition for assistance from the World Bank and the International Monetary Fund. Besides adopting the Structural Adjustment Programmes as a condition for foreign assistance, the International Monetary Fund and the World Bank argued against the role that developing countries played in development and in running businesses (Bromley, 1995). This was said to crowd out the private sector and thus cause market failure (Riddell, 1992). Therefore, the state should act as a facilitator in production by helping those who respond to market forces.

Second, the macro-economic reforms meant a reduction in the powers of state marketing boards. Many developing countries are blamed for being rent-seekers (Riddell, 1992); the point aptly illustrated by Bernstein (1981) when arguing that many developing countries expropriate tax and other revenues, using state marketing boards which engage in unfair exchange with the peasants. This is because marketing boards buy peasants' produce at lower than market prices with the balance going to the state (Shivji, 1975; Coulson, 1982; Cliffe, 1988). The authors further state that the use of marketing boards has, in the majority of cases, tended to be a way of state extraction of surplus and income from the peasantry to finance mainly industrial development (Bates, 1981; Pugh, 1996). Therefore, in the process of reforming the public sector, the World Bank and the International Monetary Fund urged developing countries to privatise these rent-seeking public monopolies.

Third, the implication was the removal of import quotas or tariff reductions. Developing countries were urged to liberalise trade in order to increase the export volumes, as well as decreasing the import volumes (Logan and Mengisteab, 1993; Williams, 1994). This is because free trade stipulates that barriers that encumber the entry of foreign firms and goods in developing countries should be eradicated (Riddell, 1992). Free trade policy was expected to enable competition, and as a result, local enterprises would become innovative and competitive in the market (Williams, 2007). This point is illustrated by Kristiansen (2004:376) when maintaining that "the era of a liberalised economy and a globalised society brings with it opportunities to business entrepreneurs in Africa by increasing prospects in their business environments". Therefore, free trade was expected to ensure an influx of goods in

the local market and reduce prices on basic commodities (Du Plessis and Mabuza, 2005; Obadan, 2008).

Fourth, it meant the reduction of public expenditure and the elimination of agricultural subsidies. According to the literature, during the macro-economic reforms, public spending on basic needs facilities was also prohibited (Rono, 2002). For instance, it is argued that public spending directs funds to unnecessary projects. Therefore, a reduction on government spending on basic needs, such as health, education, employment creation and the provision of housing and subsidies was advocated (Riddell, 1992). Macro-economic reforms further advocated a cut in the provision of agricultural subsidies to small-scale farmers because it causes budget deficits (Baliamoune-Lutz and Lutz, 2005).

2.4.2 Critique of macro-economic reforms: Structural Adjustment Programmes

Macro-economic reforms in developing countries were not without problems. First, prices on goods and services provided through the private sector tended to be high. For instance, prices on social services, such as water, housing, health and food tended to escalate when these services were under the private sector (Woodroffe and Logie, 1993).

Second, the literature avers that reducing state subsidies causes a decline in food production. This point is clearly illustrated by Melville (2002) when saying that cutting down on the provision of subsidies to farmers, causes food shortages, both in the rural and urban areas. Furthermore, the provision of agricultural inputs through the private sector is often associated with poverty because prices become too high and thus unaffordable to poor farmers (Rono, 2002). This often stifles agriculture that is considered to be the backbone of many developing countries. Therefore, without agricultural subsidies some poor farmers would not be in a position to purchase improved farming inputs (Woodroffe and Logie, 1993). As a result, production in agriculture declines because many poor farmers resort to primitive methods of cultivation.

Third, the privatisation and liberalisation of trade opens doors for foreign companies to outcompete the local ones (Rono, 2002). As a result, many local producers who use simple technologies are often outperformed in the market by foreign multi-national companies that use specialised production techniques (Acharya and Acharya, 1995).

Fourth, Structural Adjustment Policies are blamed for having a negative impact on women. For instance, according to Antrobus (1993), the cuts in social services affect women by reducing their access to resources. In addition, reducing access to services hinders women from performing basic domestic tasks (Antrobus, 1993). It is also argued that the promotion of export crops in agriculture also affects women because women tend to be more productive and active in the production of traditional crops than their male counterparts (Antrobus, 1993).

2.4.3 Synthesis

The introduction of macro-economic reforms in developing countries has had both positive and negative impacts at the national and local levels. At the national level the reforms helped countries to outsource money from local structures, thus helping them to generate their own funds for development. However, cuts in some important sectors of the economy had devastating effects. For instance, cuts in the provision of social services meant less access to clean water, health and other important services, but the major impact was felt in agriculture. The reduction of subsidies resulted in a decline in agricultural production. As a result, there was less supply of raw materials to the agro-industries; therefore, the rural non-farm sector suffered from a lack of raw materials supply. However, retrenchment in the public sector forced many people to resort to non-farm rural enterprises to make a livelihood. It was observed that many people in Africa participated in small-scale rural enterprises during the period of Structural Adjustment Programmes. Although there was an influx of people in non-farm rural activities during the Structural Adjustment Programmes, the sector had faced a number of challenges due to the privatisation and liberalisation of trade. These policies opened both threats and opportunities to non-farm rural enterprises in developing countries, but threats outweighed the opportunities.

Critics of Structural Adjustment Programmes marked a paradigm shift from the trickle-down theories to participatory rural development. It is argued that Structural Adjustment Programmes (market liberalisation) in developing countries were not consultative but imposed by governments and international financial institutions. Therefore, the advent of Non-Governmental Organisations in developing countries' rural development marked a transition from top-down approaches led by the state and international financial institutions to participatory rural development undertaken by Non-Governmental Organisations. Participatory rural development was advocated for by many bilateral institutions and some

international Non-Governmental Organisations. The following section will discuss the phase of participatory approaches to rural development.

2.5 Phase four: participatory development (1980s and 1990s)

This phase is concerned with the rise of Non-Governmental Organisations in developing countries to promote popular participation in development and the empowerment of the poor. The themes under discussion are the rise of popular participation and Non-Governmental Organisations and participatory rural development approaches, such as Participatory Rural Appraisal.

2.5.1 Popular participation

According to Chambers and Mayoux (2005) the 1990s marked the decade of community participation in the agenda of many aid and development agencies. The literature further states that participation implies various types and degrees of involvement in, control over, and decision making in an activity or a research process. Therefore, participation can be undertaken to empower and strengthen people's capacity to make decisions and create an environment for change (Vernooy, Qiu, and Jianchu, 2006).

According to Lea and Chaudhri (1983) the top-down approach or technocratic development has failed to improve the living standards of the affected or the beneficiaries in developing countries. Therefore, the bottom-up approach or popular participation is suggested by many policy makers (Ellis and Biggs, 2001; Long, 2001) that allow affected people to be incorporated into the decision-making process. According to this debate, the participation of affected people in the decision-making process is perceived as a tool that leads to efficiency in the implementation of development policies. This is illustrated by the fact that sustainable development is more likely to occur when local residents are active participants in identifying needs, designing, and implementing projects for their own community (White, 1996). Therefore, it is stated that Non-Governmental Organisations are often commended for ensuring community participation in development. The next discussion addresses the role of Non-Governmental Organisations in promoting popular participation in rural development.

2.5.2 Non-Governmental Organisations and participatory development

Bratton (1989) refers to the 1980s as the decade of Non-Governmental Organisations in Africa. The author states that Non-Governmental Organisations have directed their efforts to

social development by working with disadvantaged groups and communities. As a result, it is said that Non-Governmental Organisations are closest to the very poor who form the target group of many development projects, thereby by-passing governments (Sutton, 1987) and working directly with local communities. As a result, Non-Governmental Organisations gain more confidence in ensuring the participation of the people they serve (Vyasulu, 2002).

It is further stated that Non-Governmental Organisations are very active in promoting participation at grassroots level, among the poorest members of society (Sutton, 1987). According to Kamat (2004) Non-Governmental Organisations have been identified as the preeminent, if not sole, organisational form that can implement the global commitment to bottom-up development. Thus, they are perceived as cornerstones of the modern rural development process by many governments and financing agencies (Shepherd, 1998). As a result, in most developing countries the bigger international and national Non-Governmental Organisations have become the new rural development bureaucracies.

The literature states that unlike government institutions, Non-Governmental Organisations are noted for working with the community (Vyasulu, 2002). This is because they incorporate the affected people in the decision-making process through participatory rural appraisal.

2.5.3 Participatory rural appraisal

The literature opines that different approaches were used to gather data among the rural poor in the past few years. These approaches were Rapid Rural Appraisal and Participatory Rural Appraisal; the former approach giving birth to the latter. According to David and Craig (1997) a body of Rapid Rural Appraisal methods began to emerge in the 1970s as a response to dissatisfaction among development workers with traditional quantitative research. The authors state that Rapid Rural Appraisal lost popularity in the late 1980 because of problems inherent in the approach. It is alleged that the Rapid Rural Appraisal approach was used commonly by academics through questionnaires to gather data among the rural poor (Leurs, 1997; Bhandari, 2003). Therefore, the approach was blamed for not benefiting the rural people because it did not involve them in the decision-making process. According to the literature, these problems associated with the Rapid Rural Appraisal technique caused a development thinking shift to Participatory Rural Appraisal that is expected to be consultative. According to Chambers (1994) and Sinha (1997) Participatory Rural Appraisal was developed by Non-Governmental Organisations in the late 1980s and early 1990s to

assist rural people to become participants in their own development (Chambers, 1994; Sinha, 1997).

As suggested by the literature, the Participatory Rural Appraisal methods that are commonly used are mapping, matrix ranking, drama, games and role-plays (Howes, 1992). The local people are expected to bring their demands to public attention through these methods (Mikkelsen, 1995; Robinson-Pant, 1996). From these activities, the needs of locals are identified by decision makers or policy makers because the purpose of Participatory Rural Appraisal is often to learn from communities in order to make development more appropriate and responsive (Leurs, 1997; Sinha, 1997).

The previous discussion was on the role of participation in rural development. Participatory development was implemented in the 1970s through the adoption of Rapid Rural Appraisal. Some changes in participatory rural development occurred in the in late 1980s and early 1990s when Non-Governmental Organisations revised Rapid Rural Appraisal and adopted Participatory Rural Appraisal. Non-Governmental Organisations are considered the main institutions that are best suited to implement participatory rural development. It is evident that some Non-Governmental Organisations promote the rural non-farm sector, such as handicraft, weaving, carpentry and other activities. However, evidence shows that in most cases, poor people have not taken an active part in development projects as expected. Many development projects still follow top-down approaches where donors continue to dictate the areas of their interests; projects that do not meet their interests are not supported (Magazi-Rugasira, 1994).

2.5.4 Synthesis

The fourth phase of rural development scrutinises participatory development. In most cases, government-led development approaches failed through being too autocratic and centrally planned; however, Non-Governmental Organisations are considered very important in ensuring participatory rural development. Some Non-Governmental Organisations are concerned with developing approaches that can be used to alleviate poverty in developing countries. They often do this by promoting the participation of people in self-help development activities which include among other things, establishing non-farm rural activities for poverty alleviation. Many Non-Governmental Organisations target people who are more vulnerable to poverty, for example women. For instance, Cooperative for

Assistance and Relief Everywhere established weaving industries in Lesotho in the 1970s, with participants being mostly women.

Rural and urban areas are interdependent; no one of them can exist without the other. But it has been observed that these two sectors are not well coordinated. Thus, many developing countries attempt to promote conducive rural-urban interactions by tightening spatial and sectoral linkages. The next section discusses the major themes of rural-urban linkages.

2.6 Phase five: rural-urban linkages (1990s - 2000)

According to the international literature, in the past few years there has been unbalanced development between rural and urban areas. It is stated that these two sectors of the economy were taken to be diverse even though they are interdependent. However, according to recent debates, development policy nowadays focuses on strengthening the links between the rural and urban areas by bridging the gap between the two. Therefore, this phase is concerned with the significance of rural-urban linkages in rural development.

2.6.1 Rural-urban linkages

Rural areas in developing countries are characterised by poverty and many people have limited access to social services and employment opportunities compared to their urban counterparts. It is observed that the causes of disparities between rural and urban areas are administrative. Therefore, the main challenge in the 1990s was to reduce social and economic differences between rural and urban areas through local governance.

The task of bridging the gap between rural and urban areas can be traced as far back as the inception of the Modernisation theory. The idea came as a solution to what Sir Arthur Lewis called *dual economies* in the 1950s, where disparities existed between rural and urban areas (Tostensen, 2004). Improving agricultural productivity through Green Revolution technologies meant establishing linkages between agriculture and industry. Earlier attempts to establish links between rural and urban areas were undertaken in the 1970s during the establishment of small rural towns which acted as market places for rural producers (Rondinelli, 1983). The idea of linking rural and urban areas developed after the well-known concept of urban bias by Lipton (1977) was applied. Lipton argues that there are some disparities between rural and urban areas as far as the provision of social services is concerned. The author further argues that urban development took place at the expense of the

rural areas because urban areas siphon-off labour and resources from the rural sector (Lipton, 1977), while the rural areas benefit only through migrant labour remittances.

Issues around rural-urban linkages gained momentum in the 1990s and in 2000 during the introduction of local governance in many developing countries. However, the literature points that issue of an interdependent rural-urban linkage was advocated by the United Nations Human Settlement Programme - UN-HABITAT from 2002 to 2004 in its conferences held in Morocco and Kenya respectively (Okpala, 2003). This aforementioned author further states that the rural-urban linkage approach as advocated by the UN-HABITAT, supports enabling economic, social and environmental interdependence between urban and rural areas. The UN-HABITAT approach further states that there is a need for a balanced and mutually supportive approach to the development of the two areas (Okpala, 2003).

The literature suggests that there are many debates surrounding the issue of rural-urban linkages. Some researchers argue that the rural-urban linkage is about the interaction between these two sectors (Manalili, 2004). Therefore, the type of linkages can be administrative ties, flows of goods, services, messages, capital and people, between rural and urban areas (Trager, 1988). Some debates argue that the rural-urban linkage is facilitated by the development of small cities (Rondinelli, 1983). This is because small cities in developing countries tend to be the main centres for rural people. They act as source of non-farm employment for rural people and a market for agricultural products (Trager, 1988). It is also stated that rural-urban interaction has existed for a long time, but in the past few years the interaction has not been mutually beneficial to rural dwellers as postulated by Lipton (1977). Diversity exists as far as the distribution of resources and access to services is concerned but the controversy surrounding the assertion of urban bias has emphasised the importance of urban-rural linkages as a focus for research (Funnell, 1988).

According to Mushi (2003) rural-urban linkages can be divided into two categories: spatial and sectoral linkages. First, according to the author, spatial linkages entail the flow of agricultural goods from rural to urban markets, and the flow of manufactured and imported goods from urban areas to rural settlements. Mushi (2003) further points out that spatial linkages include the daily flow of people between rural and urban areas for services or jobs. The remittances from urban migrants is one consequence of the rural-urban linkage through migration. This is because rural

residents tend to migrate for employment opportunities in urban areas, and thus remit money to their families (Manalili, 2004).

The literature further states that spatial linkages also encompass administrative ties between rural and urban areas (Mushi, 2003). This was manifested by the emergence of local government institutions in developing countries in the 1990s. The idea of establishing local government institutions was to decentralise services from the urban areas to the rural areas. The decentralisation of services and power from the urban areas to the rural areas in developing countries is meant to solve the spatial inequality that has existed for a long time (Baliamoune-Lutz and Lutz, 2005).

Second, the literature also suggests sectoral linkage as one form of rural-urban linkages. It is stated that this includes forward and backward linkages between agriculture and manufacturing services. Moreover, sectoral linkage means the interaction between urban and rural areas as far as agriculture and industry are concerned (Mushi, 2003; Manalili, 2004). For instance, in the past, agriculture was associated mainly with the rural areas, but nowadays there is the growing phenomenon of urban agriculture (Rogerson, 1992; Mbiba, 1995). Most of the urban population depends on agriculture for survival. For instance, some urban dwellers still own agricultural lands in the rural areas used for farming (Lesetedi, 2003). There are also some urban middle-income households that engage in urban agriculture for commercial purposes (Tacoli, 1998) and sell agricultural products as an added source of income.

According to Manalili (2004) the rural-urban linkage has enabled the diffusion or transfer of economic opportunities from small towns to the rural areas. Activities that are performed in urban informal sectors are being implemented by rural inhabitants in order to diversify their livelihood options (Mushi, 2003). These livelihood options caused by rural-urban linkages supplement incomes derived from agriculture. Therefore, the focus has changed to some non-farm rural activities in order to make a living, rather than depending solely on agriculture. This point is illustrated by Sheng (nd) who postulates that the impact of the growing social and economic integration of urban and rural areas is the increasing importance of non-farm income in the rural areas.

The following Figure 2.2 illustrates rural and urban linkages (spatial and sectoral) in developing countries.

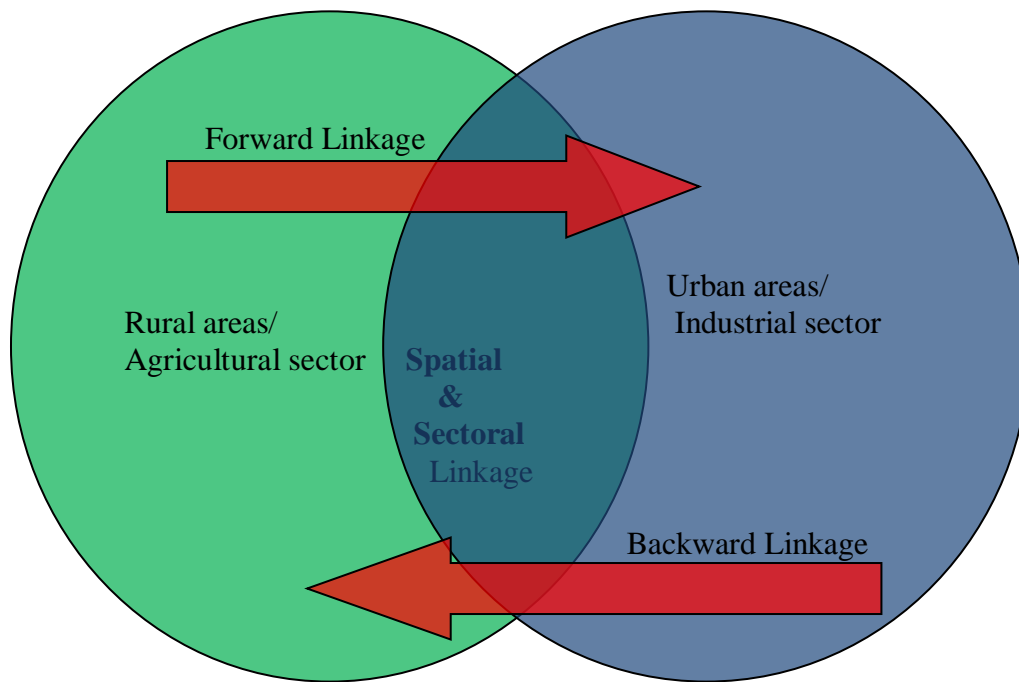


Figure 2.2: Rural and urban linkages (Source: Frame work of rural-urban linkage, own study)

2.6.2 Synthesis

Rural-urban linkages came about as a response to Lipton's urban bias hypothesis. Communication networks, the availability of roads, schools and other social services in the rural sector contributed to sectoral linkages. In addition, easy movement of goods between the urban and rural areas facilitated the advent of agribusiness firms in the rural areas. Furthermore, the availability of electricity, water and other social services in the rural areas attracted activities that are usual in the urban informal sector, thus contributing to the emergence of non-farm rural enterprises.

Rural-urban linkages have not solved the problem of poverty reduction in the long term. The campaign against poverty reduction shifted to Poverty Reduction Strategy Papers. The rural non-farm sector is almost always excluded in many rural development policies. Thus, the next section will assess whether the Poverty Reduction Strategy Papers include the rural non-farm sector among anti-poverty strategies and the contribution of the Poverty Reduction Strategy Papers in poverty reduction in developing countries.

2.7 Phase six: poverty reduction strategy papers (2000) to date

This phase scrutinises poverty reduction strategies with the focus on the Poverty Reduction Strategy Papers of the World Bank, the International Monetary Fund and the United Nations Development Programme.

2.7.1 Poverty Reduction Strategy Papers

The literature states that the Poverty Reduction Strategy Papers came about as a result of criticism of the Structural Adjustment Programmes. The major critics point out that “the Structural Adjustment Programmes undermined democracy and sovereignty by imposing one-size-fits-all solutions in aid dependent African countries” (Frazer, 2005:317). The above critics forced the World Bank and the International Monetary Fund to replace the Structural Adjustment Programmes with the Poverty Reduction Strategy Papers in 1999 (Zuckerman, 2002; Frazer, 2005). Thus, countries that required financial assistance from the World Bank and the International Monetary Fund were bound to articulate policies that aimed at poverty reduction in their requests (Marcus, Wilkinson and Marshall, 2002).

According to Swallow (2005), the Poverty Reduction Strategy Papers were introduced by the United Nations agencies, such as the World Bank, the International Monetary Fund and the United Nations Development Programme. The idea was to meet one of the Millennium Development Goals of eradicating extreme poverty by the year 2015 (Gottschalk, 2005). Therefore, starting from the 1990s, the idea of poverty alleviation changed to poverty reduction. According to the above authors, the Poverty Reduction Strategy Papers replaced the Structural Adjustment Policies that were also introduced to combat poverty and hunger in developing countries.

The literature states that the Poverty Reduction Strategy Papers are supposed to be participatory, consultative and results-oriented (Gottschalk, 2005; Mwabu, Manda, Nafula, Kimalu, and Kimeyi, 2005). Every stakeholder must contribute to the development of the paper (Frazer, 2005). For instance, civil society organisations, community-based organisations, churches and private sector organisations must participate actively in preparing the Poverty Reduction Strategy Papers. It is further stated that the objectives of the Poverty Reduction Strategy Papers must show clearly how poor people would be included (participate) in the poverty alleviation process (Zuckerman, 2002). The literature opines that this advocacy came from bilateral institutions and international Non-Governmental

Organisations, such as Oxford Committee for Famine Relief -OXFAM, after realising that international financial institutions were imposing policies on poor countries (Frazer, 2005), whereas individual countries were supposed to take the lead in preparing the Poverty Reduction Strategy Papers. The Poverty Reduction Strategy Papers became a requirement for foreign assistance to poor countries. However, Ellis and Freeman (2004:7) aver that the Poverty Reduction Strategy Papers contain similar themes, and that “their goals include sustainable growth, macroeconomic stability, good governance, human capital development, improving the quality of life of the poor, and increasing the ability of the poor to raise their own incomes”.

The Poverty Reduction Strategy Papers urge poor countries to engage in antipoverty programmes that cut across every sector of the economy. For instance, countries must show how they would reduce poverty in different sectors of the economy; for example, how they would increase agricultural production, improve health services, social welfare and education. Mwabu *et al* (2005) maintains that the Poverty Reduction Strategy Papers in most developing countries contain short-term and long-term targets for economic growth, poverty reduction, improvement in education and health outcomes. The literature also states that countries should also include in the Poverty Reduction Strategy Papers how they would monitor and evaluate their antipoverty reduction programmes.

The literature points out that the Poverty Reduction Strategy Papers follow the same macro-economic reforms implemented by the Structural Adjustment Programmes in order to ensure economic development. For instance, many Poverty Reduction Strategy Papers advocate the privatisation of state utilities in order to promote growth (Marcus *et al.*, 2002). However, unlike the Structural Adjustment Programmes that suggested severe cuts in the social sector, Poverty Reduction Strategy Papers in many countries increased expenditure on social services, such as health, education, water, sanitation and other necessities (Marcus *et al.*, 2002).

Agriculture plays an important role in the development of poor countries and an improvement in agriculture would reduce poverty in the rural sector. In order to ensure that the poor benefit from the growth process, many researchers propose a development strategy that prioritises agricultural development (Gottschalk, 2005).

2.7.2 Critique of the Poverty Reduction Strategy Papers

The Poverty Reduction Strategy Papers are criticised for a number of reasons. First, it is stated that the Poverty Reduction Strategy Papers are a replication of the Structural Adjustment Programmes which, in many cases, have had a negative impact (Marcus *et al.*, 2002; Gottschalk, 2005).

Second, the Poverty Reduction Strategy Papers encourage government spending on social services. Many governments target the social sector in their Poverty Reduction Strategy Papers. This practice increases government expenditure on anti-poverty programmes (Gottschalk, 2005) that the Structural Adjustment Programmes were against (Marcus *et al.*, 2002). Therefore, many developing countries continue to be confronted by the problems of budget deficits.

Third, the Poverty Reduction Strategy Papers do not show what kind of poverty they are trying to solve, and the methods of solving it are not precise (Swallow, 2005). Poverty is not homogenous as it may be defined as chronic, absolute and relative. For instance, will poverty reduction strategies use social safety net programmes? Will they solve the causes of poverty in rural areas, such as the low use of agricultural inputs? (Swallow, 2005).

Fourth, it is stated that the Poverty Reduction Strategy Papers are not participatory as intended. For example, most of them are prepared by “a fairly small number of technocrats and consultants clustered around central government departments which are responsible for poverty reduction, especially the Ministry of Finance” (Canagarajah and van Diesen, 2006:649).

2.7.3 Synthesis

Poverty reduction strategies call for the participation of different stakeholders. Individual governments, together with civil society organisations are expected to be active in drawing up poverty reduction measures. However, the Poverty Reduction Strategy Papers focus too much on the social sector, rather than on the development of the rural non-farm sector. Even though, the Poverty Reduction Strategy Papers of some countries increase public expenditure on agriculture, they are silent about the development of the rural non-farm sector. The Poverty Reduction Strategy Papers tend to focus more on improving the major sectors of the

economy, such as health, education, sanitation, agriculture and other things, and ignore the development of the non-farm rural sector as another poverty reduction strategy.

2.8 Conclusion

This chapter reveals that rural development started during the colonial period, with the focus mainly on improving agricultural productivity and conservation, especially the control of soil erosion. The major advance in rural development thinking started in the 1950s during the time of modernisation. The idea was also to increase agricultural production and establish industries. This was done after observing that peasant agriculture used primitive farming methods. In addition, rural development aimed at reducing the imbalances that occurred between rural and urban areas. According to Lewis, rural areas were characterised by traditional agriculture and urban areas by modern industries. Therefore, the modernisation of agriculture through the adoption of Green Revolution technologies increased agricultural surplus that was used as raw materials in urban industries. As a result, industry and agriculture began to have a mutual relationship. Industries supplied agriculture with inputs and agriculture supplied industries with raw materials. It should be noted that the modernisation of agriculture in the 1950s and 1960s gave birth to the rural non-farm sector, especially agro-industrialisation. Many non-farm industries relocated to the rural areas for the processing of agricultural goods. Therefore, the migration of people from rural areas to urban areas was curtailed.

Development and expansion of non-farm rural industries was also observed in the 1970s during the establishment of the Integrated Rural Development projects. These projects focused on modernising agriculture by introducing cash crops into the rural sector, and programmes that improve health services, water, and the basic needs of people were met. Agricultural production was reinforced by establishing agribusiness firms for the processing of cash crops. This shows that many people were employed in agriculture and the agribusiness firms. Therefore, unemployment was reduced; thus, people were in a position to meet their basic needs by the incomes earned from the non-farm sector.

However, rural development was negatively affected in the 1980s during the period of the Structural Adjustment Programmes when developing countries were urged to reduce their expenditures on helping poor farmers. Consequently, many people were affected and poverty escalated. There was a decline in agricultural production and this affected the rural non-farm

sector because there was a meagre supply of raw material. However, this period marked an expansion in non-farm activities, especially small-scale enterprises. Many people resorted to non-farm incomes after being retrenched from the formal sector. People were forced by poverty to resort to these non-farm activities.

The expansion and development of the rural non-farm sector was facilitated by the introduction of local governance in developing countries. Many local governments developed communication networks between rural and urban areas, making it easier for people to establish non-farm enterprises in the rural areas and access markets in the urban areas. Nevertheless, the easy movement of goods and services between rural and urban areas not only brought opportunities to the rural entrepreneurs, but also problems. Small-scale rural producers faced competition from large foreign firms, especially multi-national companies.

The following Table 2.1 summarises the main paradigms and approaches of rural development discussed in Chapter Two.

Table 2.1: Summary of the main paradigms and approaches discussed in Chapter Two

Period	Main Paradigm	Approaches	Conceptualisation of rural and urban sectors	Intended outcomes of paradigms and approaches
1950s – 1960s	Modernisation	Community Development)	There is persistence of poverty in both rural and urban areas	Improved agricultural production and social services
		Green Revolution	Rural areas experience low agricultural production and food insecurity. Food availability in urban areas depend on increased agricultural production	Improved agricultural technologies, increased yields, food security
		Lewis Model	Rural areas are associated with traditional agriculture, and urban areas with industrial development	Reduction in migration of people from rural areas by improving agriculture in the rural sector.
1970s – 1980s	State led rural development	Integrated Rural Development	Provision of social services in both rural and urban areas do not cut across different sectors.	Improved social services, commercialisation of agriculture, establishment of agribusiness firms.
		Basic Needs Approach	People have less access to basic need facilities in developing countries.	Improved access to health, education, housing and other social services
		Urban bias hypothesis	Rural areas are excluded in the provision of social services in developing countries and more focus is on urban areas.	Decentralisation of services to rural areas
1980s	Macro-economic reforms	Structural Adjustment Programmes	Government’s involvement in development distorts production in both rural and urban areas.	Reduction of inflation, government expenditure, trade tariffs. But increased poverty, unemployment, food insecurity and other problems
1980s – 1990s	Participatory development	Rapid Rural Appraisal	Intellectuals from urban areas have knowledge and rural people do not have.	People not included in the decision- making process
		Participatory Rural Appraisal	Rural people have knowledge of the situation while urban intellectuals have skills to facilitate.	Giving rural people an essential role in development
1990s – 2000	Rural-Urban Interaction (linkages)	Spatial	Rural and urban areas are dichotomous.	Reduction of regional disparities; increased migration and information; establishment of administrative ties (local governance)
		Sectoral	Agriculture supplies urban industries with raw materials, and industries provide agriculture with farming inputs.	Emergence of non-farm rural enterprises and/industries
2000 to date	Poverty Reduction Strategy Papers (PRSPs)	Poverty reduction	There is a persistence of poverty in both rural and urban areas of the developing countries.	Reduction of both rural and urban poverty

CHAPTER THREE

RURAL NON-FARM SECTOR IN DEVELOPING COUNTRIES: A LITERATURE REVIEW

3.1 Introduction

Chapter Two discussed the major trends in rural development thinking since the 1950s. Amongst other things these rural development trends focused on the rural non-farm sector as a strategy of poverty reduction and rural development in developing countries. Therefore, this chapter turns to an in-depth literature review of the rural non-farm sector in rural development. The focus on the rural non-farm sector as a rural development strategy is deemed necessary because the farm sector largely failed to reduce poverty, unemployment and other social problems in rural areas.

In the light of the above, this chapter aims to discuss the significance of the rural non-farm sector/activities in respect of rural development in developing countries. The role of the rural non-farm sector in increasing rural incomes and supporting rural development has been mentioned by a number of researchers, such as Balisacan, Reardon, Taylor, Stamoulis and Lanjouw (2000). It is argued in this chapter that rural non-farm activities contribute to livelihood making, employment generation and income earning. However, despite its existing and potential role, the sector has been confronted by many problems during this period of globalisation (Wiggins and Hazell, 2008).

The chapter commences by defining the term rural non-farm sector. Next, the chapter discusses the characteristics of the rural non-farm sector which includes the size, composition, capital requirements and seasonality. Thirdly, the importance of the sector in employment creation and income generation and distribution in rural areas is addressed. The chapter then turns to an analysis of the factors and conditions contributing to participation in the rural non-farm sector. The challenges the sector faces are then considered, followed by a review of government policies in relation to the rural non-farm sector. Finally, the chapter concludes by evaluating rural non-farm sector in developing countries.

3.2 Towards a definition of the rural non-farm sector

There are different terms used to refer to the non-farm sector in the literature. The major terms used are 'rural industries, rural enterprises, small-scale non-farm enterprises, non-farm

sector, rural non-farm sector, rural non-farm economy, non-agricultural activities or rural non-farm activities'. In many cases, these terms refer to the same rural enterprises and therefore will be used interchangeably in this chapter.

There are two prominent ways in which the rural non-farm sector is defined in the literature. The first definition is derived from Saith (1992) who emphasises the linkages and location of rural non-farm industries. According to this definition rural non-farm industries are expected to fall under a certain designated rural locality (Saith, 1992: Eapen, 1996). In this respect, rural non-farm industries tend to locate close to the source of supply of raw materials to avoid transport costs (Marsden and Garzia, 1998). However, not all industries located in the rural areas can show the linkage within the rural locality (Saith, 1992).

The second definition emphasises the type of activities. In this respect, Lanjouw and Lanjouw (1997) are of the opinion that the rural non-farm sector can be defined as all those income generating activities, including income in-kind that are not agricultural but are located in rural areas. Similar to this definition, Tacoli (1998) argues that non-agricultural rural activities include non-farm activities which are carried out on the farm but are not related to agricultural production. However, some authors define rural non-farm sectors in terms of income. In this respect, Reardon (1997) defines non-farm income as income from local non-farm wage employment, local non-farm self-employment, and migration income, but does not include food donations or other social transfers from the state or other sources (Bezu, Barrett and Holden, 2012).

3.3 Key characteristics of rural non-farm enterprises

The previous definition of the rural non-farm sector shows that it is made up of a diversity of activities with different characteristics. The following section looks at the main characteristics of the non-farm sector; the most prominent ones being size, composition, capital requirement and seasonality.

3.3.1 Size

The size of employment within the non-farm sector is an important characteristic to be considered (see Liedholm and Mead, 1999). According to the literature, there is no homogeneous formula or stipulated number of workers needed to define the enterprise. Studies show that small-scale enterprises have few employees ranging from one to fifty

(Ahmad, 1984; Liedholm and Mead, 1999; Kristiansen, 2003). Liedholm and Mead (1999) further point out that many enterprises operate with only one worker depending on their activities. For instance, studies show that in many African countries small-scale enterprises have workers ranging between one and twenty (Jin and Deininger, 2008).

3.3.2 Composition

The available literature states that the rural non-farm sector houses a highly heterogeneous collection of trading, agro-processing, manufacturing, commercial and service activities (Nowak, 1989; Lanjouw and Lanjouw, 2001; Haggblade, Hazell, and Reardon, 2007; Wiggins and Hazell, 2008) that are often referred to as categories (Hossain, 2004). It will be referred to four distinct categories in respect of composition.

The first category comprises services. The literature shows that services in the non-farm sector include a range of human, capital-based occupations, such as salaried service in the public and private sector institutions, teachers, religious leaders, lawyers, village doctors, and various types of personal services, such as barbers, laundry services, and mid-wives (Liedholm, 1973; Hossain, 2004; Shariff, 2009). Some other services found in the rural non-farm sector are transport, hairdressing, healing, public works, and private health surgeries (see also Kirsten, 1995; Haggblade, Hazell and Reardon, 2007; Haggblade, Hazell and Reardon, 2010).

The second category is made-up of manufacturing activities that include cottage industries. The literature suggests that cottage industries date back to the 1600s-1800s and were commonly referred to as proto-industries in the developed world (Ogilvie and Cerman, 1996). Since then, a number of studies have shown the importance of cottage industries in respect of national development in developing countries, where people engage in activities, such as carpentry, tailoring, pottery and basket making (Kristiansen, 2003; Idowu, Banwo and Akerele, 2011). These activities are mostly carried out within the home compound (Arghiros and Moller, 2000). In this respect the home-based nature of cottage industries has significant advantages as no external floor space is required, family care is easier (Lanjouw and Lanjouw, 1995; Lanjouw and Lanjouw, 2001) and distance to the place of work is minimised (Ali, 2007; Willcox, Willcox, Sokolovsky and Sakihara, 2007).

The third category is composed of agro-processing enterprises. As stated by Huacuja (2001) and Tan (2003), agro-processing enterprises or agribusiness firms form part of the rural non-farm sector that is linked with the farm sector. Definitions describe agribusinesses as “integrated farming systems which link farm operations with both upstream and downstream manufacturing and distribution” (Sutton, 2001:90). In addition to these main activities, some agro-processing plants also engage in marketing, production and cultivation from inputs, such as seeds and fertilisers (Ahmad, 1984; Sutton, 2001; Kirsten and Sartorius, 2002). As a result, agro-processing firms contribute to national development in different ways. First, the available literature suggests that agro-industries ensure food security (Fatah, 2007) to improve the diets and nutritional level of the people (Jaffee, Kopicki, Labaste and Christie, 2003). In this respect, Reardon and Barrett (2000) aver that the agri-food sector in developing countries can affect consumer welfare by changing their diets through a variety of goods, including among other things, the processing of sheanuts, ground nuts, rice, cotton, ginnery and soap manufacturing for example (Owusu, Abdulai and Abdul-Rahman, 2010).

Second, available studies indicate that agro-industries create employment opportunities for the rural poor (Wiboonchutikula, 1990; Jaffee *et al.*, 2003). For instance, Machethe, Reardon and Mead (1997) purport that the development of small farm and non-farm agro-industries in South Africa have the potential to increase the employment and incomes of those living in poverty. The importance of agro-industries in employment creation is also noted by Milicevic, Berdegué and Reardon (1999) in Chile, where agro-industries provide approximately 20% of incomes to rural people by employing them in the distribution of agricultural inputs to smallholder farmers and the processing of farm products (Clapp, 1994). It is further noted that agro-industries employ farmers indirectly to supply the processing plant with raw materials (Fatah, 2007).

Third, agro-industries control rural-urban migration (Fatah, 2007), and thus reduce the problem of regional inequalities between rural and urban areas. It is noted in the literature that when government policies shift towards improving farming methods and make agriculture more profitable, farmers do not migrate to urban areas for other employment opportunities (Chaddad and Jank, 2006). Fourth, agro-industries introduce cash crops in the rural sector that enable farmers to produce marketable crops (Huacuja, 2001). The shift from traditional crops to cash crops also integrates farmers in the national and international markets (Jaffee *et al.*, 2003).

However, despite the importance of agro-industries in providing a healthy diet to poor people and create employment opportunities, their impact on the environment cannot be ignored. Many agro-industries are closely related to air pollution in rural areas (Barker, Shepherd, da Silva, Jenane, and Cruz, 2009), with negative impacts on the surrounding communities. In addition to causing air pollution, Barker *et al.* (2009) state that the use of agrochemicals by agro-industries also affects water sources by releasing chemicals into rivers and onto the land. Reardon and Barrett (2000) cite an example of pollution caused by agro-industries in Kenya.

The fourth category of the rural non-farm sector is made up of trade. The literature states that trade forms an important activity in some of the non-farm enterprises in developing countries. For instance, Woldehanna (2002) states that in Ethiopia, people participate in different forms of non-farm business ventures. In this respect, Woldehanna (2002) further opines that there has been an increase in the number of retail enterprises in Ethiopia since 1991.

3.3.3 Capital requirements

There are different sources of capital for establishing non-farm enterprises in developing countries. First, it is indicated that many rural non-farm activities require little capital to get started in business (Owusu, Abdulai and Abdul-Rahman, 2010); therefore, many people use their own savings as start-up capital. For example, in Zimbabwe people used low start-up capital ranging between Zim\$3 000 and Zim\$380 000 (Zuwarimwe and Kristen, 2011). It is further argued that in Rwanda, sources of capital to start a small-scale, non-farm business are from personal household savings (Dabalen, Paternostro and Pierre, 2004). Second, another source of capital used to begin non-farm enterprises is from friends and relatives (Zuwarimwe and Kristen, 2011). According to Zuwarimwe and Kristen (2011), some people resort to relatives and friends because their loans are interest free. Third, some non-farm enterprises receive start-up capital from donor agencies (World Bank, 1999). For instance, it is stated that handicraft development in many African and Asian countries received assistance from American aid (Durham and Littrell, 2000). Evidence from the literature also indicates that Non-Governmental Organisations in Zimbabwe gave start-up capital to 16% of the respondents studied by Zuwarimwe and Kristen (2011). Fourth, funding small-scale enterprises also comes from micro-credit institutions (Zuwarimwe and Kristen, 2011). It is stated that in the mid-1980s about 87 micro-enterprises used foreign aid in about 35 countries for development of non-farm enterprises (Meyer, 1992).

3.3.4 Use of technology

The literature postulates that small-scale rural non-farm enterprises use modest craft technology as against industrial technology (Mukhopadhyay, 1985; Meyer, 1992; Durham and Littrell, 2000). As a result, small-scale non-farm enterprises are mostly labour intensive (Chuta and Liedholm, 1979; Owusu *et al.*, 2010) and generate more employment per unit of capital than large-scale enterprises (Lanjouw, 1999). For example, a study undertaken in Taiwan shows that small-scale enterprises use labour intensive technologies that are home-produced. The use of indigenous technology in non-farm rural industries is also observed by Bhattacharya (1996) in Pakistan. Bhattacharya (1996) suggests that rural industries in Pakistan use rudimentary technology that ensures productive employment to the growing labour force. Evidence from many countries demonstrates that the use of simple technologies make small-scale, non-farm enterprises able to absorb both unskilled and semi-skilled labour (Mcdade and Malecki, 1997; Duncombe and Heeks, 2002).

It is observed that the use of technology among small-scale, non-farm enterprises is often determined by location (McPherson, Chuta and Liedholm, 1994). A clear example is derived from Kenya where the use of technology differs from industries that are found in homesteads and those in market places. Enterprises in homesteads use simple technologies and small capital inputs, specialising in coffee processing, wood and reed products, and basket making (Norcliffe and Miles, 1984). On the other hand, enterprises located in the market areas use better and more advanced technologies and perform activities, such as brewing, construction and transport (Norcliffe and Miles, 1984).

3.3.5 Seasonality

The literature argues that the activities of the farm sector are seasonal (Davis and Bezemer, 2004; Senadza, 2012). Therefore, many farm workers are employed in the non-farm sector during the off-season (Davis, 2001; Hazell, Reardon and Haggblade, 2002). Studies in Ethiopia show that farmers participate in different kind of non-farm activities, such as selling firewood, dung cakes and charcoal and weaving activities during the off-peak season in agriculture (Woldehanna, 2002; Beyene, 2008; Bezu, Barrett and Holden, 2012). However, the literature points out that even though many people participate in non-farm activities during the agricultural slack, this does not mean that the non-farm sector suffers from a lack of labour during the peak season in agriculture (Billa, 2004). This is because there are some people working in non-farm enterprises but are few in number. In addition, the seasonality of

the crops in the farm sector affects the sustainable supply of raw materials to non-farm enterprises during the off-peak in agriculture (Billa, 2004).

Analysing the characteristics of the rural non-farm sector paves the way for a discussion of the importance of the sector in poverty reduction in developing countries.

3.4 The role of non-agricultural activities in development

The importance of rural non-farm activities in developing countries is significant. The following section discusses the contribution of non-farm activities in the development of poor countries.

3.4.1 Poverty reduction and employment creation

According to Eapen (2001), the importance of the rural non-farm sector in developing countries became very popular in the 1970s, after realising that mainstream industrialisation failed to trickle down to the large numbers of rural poor. Therefore, in order to make a living, the world's poorest populations resorted to non-farm activities for employment (Anderson and Leiserson, 1980; Lay, Mahmoud and M'Mukaria, 2008; Bezu, Barrett and Holden, 2012). As a result, the contribution of the non-farm sector in poverty reduction and employment creation in developing countries cannot be ignored (Portocarrero, Young and Colman, 2006; Gibson and Olivia, 2009). The contribution of the non-farm sector to poverty reduction is illustrated by the example of a study in Kedah, Malaysia where non-farm activities reduced poverty by 42.94% in 2008 (Jalil and Harun, 2012).

Non-farm enterprises address poverty and provide employment opportunities to people who cannot secure employment in the formal sector (Chuta and Liedholm, 1979) to satisfy their needs for food, shelter, entertainment and ceremony (Hymer and Resnick, 1969). Non-farm activities therefore provide a means of sustenance for the excess labour who cannot be absorbed into the public sector or into large private enterprises (Green, Kirkpatrick and Murinde, 2006) in spite of poor pay and low productivity (Fathi, Latifi and Movahedi, 2012).

In order to illustrate the previous point, research shows that the rural non-farm sector employs about 63% of the labour force in rural sub-Saharan Africa (Brown, Hazell and Haggblade, 1988), as well as accounting for about 30% of full-time rural employment in Asia and Latin America, 20% in West Asia and North Africa and 10% in Africa (Haggblade, Hazell and

Reardon, 2010). According to Malek and Usami (2009), 66% of the rural labour force in Bangladesh participates in the non-farm sector, and about 93% of the labour time is allocated to non-farm activities. Therefore, by absorbing a large number of the unemployed, rural non-farm activities represent a potential route out of poverty (Lanjouw and Lanjouw, 2001).

Studies also show that the rural non-farm sector is an important employment source for women (Arghiros and Moller, 2000). Thus, female participation in rural non-farm activities is very high in many countries. For example, as stated by Brown *et al.* (1988), female participation in non-farm activities is between 75% and 85% of women working outside agriculture in developing countries. The literature further states that in Latin America, female participation in the non-farm sector is about 79% (Lanjouw, 1999). However, at country level, female participation in non-farm activities is lower; in Ghana women working in the non-farm sector make up 46.5% (Dary and Kuunibe, 2012), while in Bangladesh it is 17% (Malek and Usami, 2009).

3.4.2 Income

The importance of non-farm rural activities in income generation in developing countries cannot be ignored. The available literature shows that on average, people earn higher incomes in non-farm activities than in agriculture (Jonasson and Helfand, 2009). For example, studies in Nigeria illustrate that non-farm incomes constitute 67.1%, while farm incomes make only 32.9% (Awoyemi, Idowu, Omonona, Falusi, 2011). The contribution of non-farm activities in national development is also observed elsewhere. For instance, in Bangladesh the government included non-farm activities in its poverty reduction strategy papers (Malek and Usami, 2009) because the sector contributes up to 28% in income generation. The importance of the non-farm sector is also cited in Ecuador where the rural population derives more than 40% of their incomes from non-agricultural activities (Lanjouw, 1999). Besides being important at local and country level, the literature states that rural non-farm incomes account for 35-50% of rural household incomes in developing countries (Haggblade *et al.*, 2010). Therefore, rural non-farm activities form an important source of income for many people in rural areas (Haggblade *et al.*, 2010). It is further argued that the non-farm sector does not only contribute to increasing rural households' income, but also provides cheaper consumer goods to rural and urban consumers (Sandaram-Stukel, Deininger and Jin, 2006) and finances agriculture (Kelly, Crawford and Reardon, 1994). As a result,

many governments regard the sector as a potential alternative to agriculture for increasing rural income growth and its equitable distribution (Pearce and Davis, 2000).

3.4.3 Income distribution

According to Lanjouw (1999), income distribution in the non-farm sector is associated with the type of activities. For instance, some activities are of high labour productivity and lead to high incomes, while others are of low labour productivity and are taken only as a residual source of employment or as a last resort (Sundaram-Stukel, Deininger and Jin, 2006). People who fall into the latter category of least paying activities are mostly women (Lanjouw, 1999; Balisacan *et al.*, 2000) because many of them lack capital and education (Dary and Kuunibe, 2012) that would allow them to participate in higher paying activities.

The lack of capital to start up non-farm enterprises in developing countries causes poor people to participate in only small numbers in non-farm activities, while the better-off make a larger percentage. Evidence shows that in Ecuador the poor make up 38% of people participating in the non-farm sector, while the non-poor make up 52% (Lanjouw, 1999). The non-poor occupy the highest paying activities, such as commerce, transport and administration, while the poor occupy the lowest paying refuge activities (Brown *et al.*, 1988; Balisacan *et al.*, 2000), such as fishing, manufacturing, construction and straw and leather crafts (Lanjouw, 1999). Further illustrations show that in Malawi relatively rich households engage in activities which require high investments and thus offer high returns (Tellegen, 1997). Therefore, they are able to generate a larger share of their income through non-agricultural activities.

The above discussion centred on the importance of rural non-farm activities to increase poverty reduction in developing countries. Many people participate in the sector when they cannot secure employment in the formal sector; therefore, unemployment is reduced in the long term. In addition, by generating employment for poor people, the non-farm sector reduces the regional imbalance that is often blamed for uneven development between the city and rural areas because of labour migration. The non-farm sector is not only crucial for local economic development, but increases the gross domestic product of poor countries. Many developing countries do not have industries to generate wealth, and agriculture has failed to improve the economy because of many factors. This makes rural non-farm enterprises a major source of domestic wealth generation for many countries.

3.5 Determining factors for rural households to participate in rural non-farm activities

The available literature suggests that people participate in rural non-farm activities for different reasons. First, many people are forced into the non-farm sector involuntarily by poverty (Jin, Deininger and Sur, 2005). In order to cope with poverty, some people diversify their livelihood options (Ellis, 1998). Livelihood diversification is meant to ensure the security of livelihoods in households in order to reduce poverty.

Second, people are driven into the non-farm sector by unfavourable agro-climatic conditions. Traditionally, rural people rely mostly on agriculture for survival; however, when agriculture fails to give satisfactory returns because of risks, such as unfavourable agro-climatic conditions (Kelly *et al.* 1994; Kuiper, Meijerink and Eaton, 2008), people tend to resort to non-farm activities for survival (Reardon, 1997; Ellis, 2000; Berdegúe *et al.*, 2007). For example, in Mozambique, people participate in non-farm activities, such as bicycle and radio repair because of drought (Cunguara, Langyintuo and Darnhofer, 2011).

Third, people are impelled to take up non-farm activities because of the failure of credit markets within the agricultural sector (Ellis, 1998). When farmers cannot obtain credit from banks and subsidies from government institutions (Webb, Barrett and Reardon, 2001) to purchase agricultural inputs due to Structural Adjustment Programmes, agricultural productivity declines. Consequently, people look for other ways to generate income (Davis and Bezemer, 2004) that could be used to finance agricultural development (Reardon, 1997).

Fourth, people are forced away from agriculture through declining agricultural productivity caused by congestion on agricultural lands (Davis, 2003). Some studies show that increasing population pressure on agricultural lands has forced some people to participate in the non-farm sector (Beyene, 2008) because of the scarcity of arable land. Therefore, when the poorest rural households cannot make a living from agriculture, they tend to resort to non-farm agricultural activities (Escobar, Berdequè, Reardon and Echeverria, 2000). For instance, studies in Taiwan and other Asian countries show that small and inadequate landholdings push poorer households into non-farm activities (Adams Jr, 1994). It is further stated that in Ethiopia, land scarcity and the increasing fragmentation of land make non-farm activities an alternative source of livelihood (Holden, Shiferaw and Pender, 2004).

Fifth, some people become involved in the non-farm sector because of better payoffs and lower risks, as opposed to farming. The literature shows that some non-farm activities provide lower risks, as well as receiving better incomes than agriculture (Berdequé, Reardon, Barrett, and Stamoulis, 2007).

After discussing some of the factors that determine the participation of people in the non-farm sector, it is crucial to look at the farm and non-farm sector linkages. These two sectors cannot work in opposite directions. Where these linkages are not feasible, they should be developed and be made to be functional. When agriculture is improved, there should also be an improvement in the non-farm sector.

3.6 Linkages between the farm and non-farm sectors

There are different types of linkages between the farm and non-farm sectors. The most common linkages are where agriculture supplies industries with raw materials, and where industries feedback farming inputs into agriculture. However, there is also a linkage between rural enterprises and urban industries. This section scrutinises different linkages between agriculture and industry.

3.6.1 Farm and non-farm linkages

Linkages between agriculture and non-farm enterprises are developed so that both sectors run smoothly. There are different types of linkages discussed in the literature.

First, the most common type of linkage found between agriculture and industry is the production linkage. According to Lanjouw (1999) and Deichmann, Shilpi and Vakis (2008), production linkages could develop where there is demand for agricultural raw materials in industries, as well as when agriculture needs intermediate inputs or producer services from industries (Reinert, 1998). The literature suggests two major types of linkages within production linkages: forward and backward linkages (Chuta and Liedholm, 1979; Bakht, 1996). Forward linkage takes place when agriculture supplies raw materials to rural enterprises to foster the expansion of industry (Meyer, 1992). The backward linkage operates when rural enterprises supply a range of goods and services to agriculture (Anderson and Leiserson, 1980), including agricultural inputs to farmers (Brown, *et al.*, 1988). Backward linkage occurs when the agricultural sector receives processed goods from raw materials supplied to the industrial sector in order to increase consumption levels (Coppard, 2001).

Second, the consumption linkage takes place when agricultural incomes are used to purchase non-farm goods and services in villages and towns (Lanjouw, 1999). In this respect, people who work in agriculture spend their money on purchasing goods from industries, thus creating an expenditure linkage (Sanchez, 1991; Coppard, 2001).

Third, expenditure linkages refer to the fact that households deriving income from one type of activity are likely to spend that income on products of other activities (Rello and Morales, 2002). What this linkage illustrates is that farmers use income derived from the sale of agricultural products to purchase non-farm products (Shukla, 1992).

Fourth, consumption and expenditure linkages result in an employment linkage in agriculture or industry (Davis, Reardon, Stamoulis and Winters, 2002). Evidence shows that a high demand for agricultural raw materials by industry, in general, forces agriculture to employ many people so that it can satisfy the demand of supplying raw materials to non-farm rural industries (Davis *et al.*, 2002; Rello and Morales, 2002).

3.6.2 Linkage of rural enterprises with urban industries

Rural non-farm enterprises are not only linked with the farm sector (agriculture), but many of them have a linkage with urban industries (Mukhopadhyay, 1985). Improved infrastructure has played a significant role in connecting rural enterprises with their urban counterparts (Saith, 2001; Pingali, Stamoulis and Reardon, 2007). As a result, there is a technological spill-over from urban industries to rural non-farm enterprises. Technological transfer usually happens through sub-contracting, where large-scale urban enterprises subcontract small-scale rural enterprises in their operations (Islam, 1997). Subcontracting helps small-scale, rural non-farm enterprises to produce goods that are manufactured by urban industries for the rural markets.

3.7 Factors contributing to participation in rural non-farm activities

The literature identifies a number of factors that encourage people to participate in non-agricultural activities. These factors are considered necessary for the development and profiling of non-farm enterprises in developing countries.

First, the most important factor that causes people to participate in non-farm enterprises is cited as a lack of access to land (Varma and Kumar, 1996; Fathi *et al.*, 2012). The literature states that people without access to land are found in large numbers in non-farm activities (Balisacan *et al.*, 2000), whereas those with greater levels of access to land are usually found in smaller numbers in non-farm sector (Escobar *et al.*, 2000). Research shows that households with enough landholding are usually food secure (Crow, 2000) and as a result, participate less in non-farm activities. However, households with limited or no landholding are often food insecure; therefore, non-farm activities are crucial to their survival (Chuta and Liedholm, 1979). In this respect, Kusters (2010) and Fritsch (2012) point out that households with smaller landholdings depend too much on non-farm activities in Indonesia.

Second, the education level of people contributes to the participation of people in non-farm activities (World Bank, 1999; Malek and Usami, 2009; Stifel, 2010). Studies show that in China, to operate a non-farm business, the owner needs to have the necessary skills in book-keeping, management skills and literacy (Liu, 2012). Therefore, people with higher educational levels even though they may not be many, gain access to better paying jobs in the non-farm sector (Escobar *et al.*, 2000). This is true for people in professional occupations in the public and social services (Dabalén, Paternostro and Pierre, 2004). However, those with low levels of education are found at the lower end of the non-farm sector, participating in non-agricultural refuge jobs (Escobar *et al.*, 2000), such as craft-making, hat-weaving and other things. Even though people with higher levels of education gain more from participating in non-farm activities, the non-farm sector offers greater opportunities for the less educated labourer (Meyer and Larson, 1978).

Third, the availability of infrastructure contributes to the participation of people in non-farm enterprises (Hong, 2000; Davis and Bezemer, 2004). It is stated by the literature that a lack of access to infrastructural services, such as electricity and quality roads are the main problems for establishing non-farm enterprises (Shukla, 1992; Jin, Deininger and Sur, 2005; Sundaram-Stukel, Deininger and Jin, 2006). Therefore, the availability of transport, information and communication technologies, electricity and water attract many people to establish non-farm enterprises (Hicks 2001; Saith, 2001; Barker *et al.*, 2009). For instance, Gibson and Olivia (2009) state that in Indonesia, people who participate in the non-farm sector tend to live in communities where a high number of households have electricity, while

access to communication networks, such as radios and phones attract many people to the non-farm sector in Madagascar (Stifel, 2010).

The contributing factors discussed above lead to a discussion of the policies that some developing countries use as a bias against small-scale, non-farm enterprises in favour of large-scale urban industries.

3.8 Government policies that are biased against small-scale non-farm enterprises in developing countries

The literature postulates that many government policies in developing countries are biased against small-scale, non-farm enterprises, tending to focus on improving large-scale industrialisation (Lanjouw and Lanjouw, 1995; World Bank, 1999). A bias towards large-scale industries in developing countries was experienced in the 1960s during import substitution industrialisation that supported urban-based industries through the establishment of growth-pole centres / industrial districts, while small-scale, rural enterprises were excluded (Browne, 1982; Varma and Kumar, 1996; Kristiansen and Mbwambo, 2003; Williams, 2007). It was during the period of import substitution that large-scale urban industries benefited more than their small-scale, rural counterparts from government policies, resulting in factor price distortions (Chuta and Liedholm, 1979). Thus, the literature shows that governments in developing countries were biased against small-scale, non-farm enterprises in different ways.

First, it is asserted that commercial banks do not support small-scale, non-farm enterprises because they are not creditworthy (Chuta and Liedholm, 1979). The literature states that most formal lending institutions prefer large-scale industries to their small-scale, non-farm counterparts (Islam, 1997). As a result, many small-scale entrepreneurs resort to informal lending institutions that charge high interest rates (World Bank, 1999).

Second, it is also alleged that governments in developing countries impose tariff barriers that protect urban industries or infant industries from external competition, while disadvantaging small-scale enterprises in the process. Evidence shows that protection of urban industries makes import duties lowest for heavy capital goods that are used by large urban industries (Hossain, 2002), whereas, import duties are very heavy on intermediate goods that are more often used by small-scale, rural non-farm enterprises (Chuta and Liedholm, 1979). As a

result, small-scale non-farm enterprises face the challenge of accessing foreign technologies at high prices.

Third, governments in developing countries are accused of providing tax incentives to large-scale firms (Jin and Deininger, 2008) in order to promote capital intensive industrialisation (Hazell *et al.*, 2002), but neglect the small-scale non-farm enterprises. A lack of tax exemptions for small-scale producers makes it difficult for them to engage in business. For example, small-scale producers in Mozambique outlined severe tax charges as a constraint against the success of their enterprises (Sundaram-Stukel, Deininger and Jin, 2006). It is further mentioned that large-scale enterprises benefit more from governments' accelerated depreciation and investment allowances, and exemption from some duties (Chuta and Liedholm, 1979). However, small-scale producers are not considered for such benefits because investment benefits/ incentives are available only to enterprises above a certain minimum investment or employment threshold (Chuta and Liedholm, 1979).

Fourth, it is further pointed out by the literature that minimum wages apply only to large-scale enterprises in urban areas (World Bank, 1999), but in situations where they are applicable country-wide, they are not enforced in such a way that they benefit small-scale non-farm enterprises (Chuta and Liedholm, 1979). As a result, some people migrate from rural areas to take up work in urban industries that provide better pay.

The biases that are experienced between small-scale non-farm enterprises and large capital-intensive industries in urban areas have prompted policy interventions from some governments. Therefore, some developing countries have introduced policies and programmes that are meant to improve non-farm rural enterprises.

3.9 Policy recommendations and programmes for rural non-farm enterprises in some developing countries

Many developing countries have devised different strategies, policies and programmes to improve non-farm rural enterprises after independence. These policies and programmes are targeted at ensuring the sustainable development of non-farm enterprises as far as ensuring food security, employment creation, poverty reduction, the manufacture of goods and the provision of services are concerned. Some of the policies that target the improvement of small-scale non-farm enterprises include among other things the following strategies.

First, the provision of technology to assist small-scale non-farm producers with capital or machinery has been implemented (Lanjouw and Feder, 2001). The provision of technology to small-scale enterprises is common in India where government has established programmes, such as the Khadi and Village Industries Commission and the Council of Scientific and Industrial Research (Abrol, 2004) to improve technologies for small-scale producers. These programmes upgrade primitive methods of production to an intermediate level that uses power-driven machines for small-scale enterprises (Roy and Banerjee, 2007). Therefore, production has been increased in the non-farm sector.

Studies in Africa show that Botswana encouraged the establishment of non-farm enterprises after independence as a break-away from South African domination (Browne, 1982). Rural non-farm projects focused on expanding employment in industries and encouraging relevant training. Thus, the Botswana government first established the Rural Industries Innovation Centre in 1975 under the Ministry of Commerce and Industry. The Rural Industries Innovation Centre was concerned with appropriate technologies for rural industries (Browne, 1982).

Second, small-scale non-farm enterprises were protected from external competition through tariff walls. An example of a country that protected small-scale producers from imported goods and exogenous competition is India (Mukherjee and Zhang, 2007). Small-scale enterprises that enjoyed protection in India included, first: fibre and textile industries that were protected against cheap raw materials imported by readymade garments (Mukherjee and Zhang, 2007). Evidence shows that the nominal fibre and textile tariff rate in India was one of the highest of the developing countries (Mukherjee and Zhang, 2007). Second, protection was also ensured to small-scale power-loom weaving enterprises (Mukherjee and Zhang, 2007). It is stated that protection of small-scale power-loom enterprises in India locked them out of the international market; therefore, the exportation of power-looms was less than 1% in the 1990s (Mukherjee and Zhang, 2007). The low export capacity of power-looms outside India resulted in the generation of little foreign exchange into the country. It is argued that the protection of enterprises in India resulted in monopoly enterprises that often charged high prices and produced poor quality goods because of a lack of foreign competition.

In contrast to the Indian trade policies that employed protectionist measures against imported goods and raw materials, China's trade policies favoured export-led industrialisation that exposed Township and Village Enterprises to both local and foreign competition after major reforms were implemented in the country (from a planned economy to a market economy). In the beginning of the reforms, from 1989 to 1991, Township and Village Enterprises suffered a number of set-backs (Mukherjee and Zhang, 2007). However, by 1997, the Township and Village Enterprises sector employed about 30% of the rural labour force and produced approximately 80% of the gross rural out-put (Mukherjee and Zhang, 2007). The major reforms also made it easy for private capital to be invested in the non-farm sector, with China privatising all the Township and Village Enterprises by the end of 1990s (Mukherjee and Zhang, 2007).

Third, the provision of credit to small-scale non-farm producers was undertaken by governments through commercial banks and donor agencies, such as the United Nations Development Programme and some Non-Governmental Organisations (Meyer, 1992; World Bank, 1999). Studies show that government- and donor-funded credit institutions play an important role in financing non-farm activities in Indonesia. The major credit institutions that assisted non-farm enterprises in Indonesia include among other things, Kredit Umum Pedesaan which was established by government in 1984 and P4K funded by United Nations Development Programme and the Asian Development Bank (Kristiansen, 2003). The literature indicates that many poor people in Indonesia saved their money with these credit institutions (Kristiansen, 2003). However, evidence shows that credit institutions benefited the most politically powerful groups who received the subsidised credit while the poor ones were excluded (Kristiansen, 2003).

Fourth, some developing countries promoted rural non-farm enterprises by providing them with tax concessions and subsidies. The literature states that industrial policy in India considered and provided small-scale village and KHADI industries with some concessions (Mukherjee and Zhang, 2007). The main organisations that assisted small producers with such benefits are: the Small Scale Industries Board and the Central Small Industries Organisation that were established through the recommendation of the Ford Foundation in 1954 (Mukherjee and Zhang, 2007). It should be noted that these institutions provided assistance to the small-scale enterprises through "direct licensing, production controls in large manufacturers, differential taxation and direct subsidies" (Mukherjee and Zhang, 2007: 1624).

Furthermore, these organisations acquired about 800 items, such as handlooms, pottery, match making and sericulture for small-scale producers (Mukherjee and Zhang, 2007). Subsidies to small-scale producers were welcomed by those who could not afford to purchase machinery and other inputs for production purposes. Assistance to small-scale producers is also observed elsewhere in Asia. For instance, during the major reforms in the 1970s the Chinese government provided tax concessions to qualified enterprises (Mukherjee and Zhang, 2007) so that they could invest in the rural areas and create employment opportunities.

Fifth, some countries established programmes that were geared towards improving the skills and knowledge of entrepreneurs. Different studies show the role played by some governments in improving the skills of producers. For example, in Botswana, the government established brigades that provided primary school leavers with vocational training in various trades (Browne, 1982). The literature shows that the first brigade was founded in 1965 in Serowe and another fifteen followed wherein people received training in carpentry, building, welding, dress-making and other trades (Browne, 1982). The training movement was coordinated by the Brigades Development Centre in Gaborone and was responsible to the Ministry of Education. However, it is pointed out that the training brigades experienced some problems, such as a “lack of qualified instructors, unsuitable curricula and a low quality of training” (Browne, 1982: 256-257). Browne (1982) further observes that many brigades failed to recover their costs because of the inferior goods produced by the trainees that were outcompeted by goods imported from South Africa. It is further argued that many employers regarded training from the brigades as of a low standard compared to formal training qualifications (Browne, 1982).

The provision of skills training is also observed elsewhere in developing countries. In Bangladesh, the government provided training in production methods and introduced new methods through the Industrial Village Project run by the Cottage Industries Division (Arghiros and Moller, 2000). In Kenya, the government established programmes, such as the Small Business Development Corporation and the Rural Industrial Development Programme (Norcliffe and Miles, 1984) to improve the skills of small-scale entrepreneurs. The programmes achieved skills development by establishing workshops for training purposes and providing extension, research and development services required by small businesses (Norcliffe and Miles, 1984). As a result, the production of goods was increased in the non-farm sector.

Sixth, access to infrastructure is considered vital for the growth of the non-farm sector (de Janvry, 1994; Lanjouw and Feder, 2001); therefore, some developing countries provided and improved infrastructural services that support small-scale producers. The study in Indonesia shows that there is a relationship between the quality of infrastructure and the share of household incomes from non-farm activities (Gibson and Olivia, 2009). The authors state that households connected to electricity obtain better non-farm revenues than those without electricity. Households with access to electricity engage in a wider range of non-farm activities compared to those without electricity that are restricted to the production of some simple items (Gibson and Olivia, 2009). In addition, households that are closer to tarmac roads find it easy to transport goods compared to those that use dirt roads which make transportation difficult (Gibson and Olivia, 2009) and results in low incomes obtained from non-farm activities. The literature shows that people who have access to infrastructural services, such as electricity and those who are close to good roads, such as in Indonesia are able to earn better incomes than those who are far distant from these services. Therefore, access to infrastructure determines the success of non-farm enterprises in Indonesia.

Seventh, the literature indicates that rural non-farm enterprises are also established to reduce rural-urban migration in developing countries. Studies in China show that non-farm enterprises reduced the high number of migrants from the rural areas into cities (Wang, 2005; Zhixiong and Izumida, 2006). Therefore, Township and Village Enterprises stabilised the movement of people in China (Liang, Chen and Gu, 2002). Evidence of stabilising rural-urban migration is shown by the Thai government that established the Industrial Village Project to increase local income levels, work opportunities and reduce out migration (Arghiros and Moller, 2000). Arghiros and Moller (2000) further opine that the Industrial Village Project provided technical support for production and marketing and access to producers to the Department of Industrial Promotion revolving funds for the production of basketry, pottery, bronze-work, mulberry paper and bamboo hats, cotton-filled duvets and condiments, among other things. However, it is stated that the Industrial and Village Project did not reduce out-migration or provide sustainable employment to people because it supported people producing low-value handicraft products that were sold at minimal prices (Arghiros and Moller, 2000). Therefore, goods produced by the Industrial and Village Project did not fetch satisfactory revenues for producers; as a result, the migration of people into cities was not solved in the long term. Evidence from the literature also shows that the poor

did not benefit from the Industrial and Village Project because incomes were not paid on time and only after sales at the end of the month, leaving poor households stranded in the interim (Arghiros and Moller, 2000).

3.10 Synthesis

Many people in developing countries rely too heavily on farming to make a living. However, evidence shows that agriculture has failed to solve all the problems related to poverty, the high unemployment rate and a lack of income. Therefore, many people have resorted to non-farm activities as a way of making a living. The literature suggests different reasons that cause people to participate in non-farm enterprises; many of them are discussed in this chapter. Even though non-farm activities contribute to national development, especially at household level, many of the non-farm enterprises are not supported by governments in developing countries. The literature avers that government policies are generally biased against non-farm enterprises in many countries, and this resulted in many of them being unsuccessful. However, after realising that capital intensive industrialisation has not solved the problems related to poverty and unemployment in developing countries, some governments have shifted to developing non-farm activities. Many non-farm enterprises that have received support from governments are in Asia, with India the leading example. The programmes that were designed to assist non-farm enterprises were introduced mostly by governments and other donor agencies. However, some of the programmes failed to solve the above-mentioned problems and as a result, poverty and other social problems have not been eradicated.

The previous section of this chapter looked at policies and programmes implemented by different countries to improve the non-farm sector in developing countries. Even though non-farm enterprises receive support from governments, they are faced with problems related to competition from urban and foreign enterprises. Therefore, the next section studies some of the problems that are brought about by rural-urban linkages to non-farm rural enterprises.

3.11 Rural non-farm enterprises during the globalisation era

Globalisation is considered as the major threat to non-farm enterprises in developing countries as it exposes non-farm enterprises to foreign competition through the liberalisation of trade. Therefore, many non-farm enterprises that cannot withstand the consequences of globalisation

often close down. However, it can be argued that globalisation can open up new opportunities for rural enterprises.

3.11.1 Problems faced by rural non-farm enterprises during the globalisation era

The available literature points out that there are two differing views on the role of the non-farm sector in economic development. The first view posits that the non-farm sector is considered as a dynamic, flexible and innovative, contributing to national development (Oostendorp, Trung and Tung, 2008). Another view perceives the non-farm sector as a low productivity sector producing low quality goods, with the sector expecting to decline with economic development (Oostendorp *et al.*, 2008). The latter view is considered to be stronger during this period of globalisation because of trade connections that exist between rural and urban areas.

Trade connections that now exist between rural and urban areas are becoming detrimental to the rural non-farm enterprises. Start (2001) refers to these connections as “rural leakages” that expose rural non-farm enterprises to foreign enterprises through competition. Start (2001) observes different stages within the non-farm sector that show connections with foreign and urban enterprises. The first stage is called ‘traditional’, where agriculture and non-farm enterprises use primitive methods of production. In this stage, there is low connectivity between rural and urban areas; the level of remoteness is very high and urbanisation very low (Start, 2001). The second stage is referred to as “locally linked” by Start (2001), where a degree of technological innovation in agriculture and non-farm enterprises is observed. However, this stage shows that rural areas are still remote from urban areas. The third stage is labelled “leakages to urban areas”, where there is a high connectivity between rural and urban areas. As a result, rural enterprises are exposed to urban industries (Start, 2001). The connection is realised when agricultural products are marketed in urban areas, and when non-farm enterprises face competition with their urban counterparts (Islam, 1997). This stage also reveals that the level of remoteness between rural and urban areas is decreased and rural non-farm enterprises are outperformed by urban goods and services (Start, 2001; Kuiper *et al.*, 2008).

According to Saith (2001), when non-farm enterprises are outperformed by their urban counterparts, workers lose their jobs. Therefore, they become proletarians who have only cheap (raw) labour power to offer to the large capitalist firms. Saith (2001) further argues that

when the process of outcompeting the rural industries in the market is complete, most of them (rural industries) attempt to find new niche markets in the urban areas. They relocate and concentrate on industrial centres with their massive advantages of agglomeration, scale and proximity (Saith, 2001). Start (2001) label this stage four: “new urban linkages”.

The different stages in the rural non-farm sector mentioned by Start (2001) show the level of connectivity between urban and foreign enterprises in the following Table 3.1.

Table 3.1: Stages of development in the Rural Non-Farm Economy

Stages of RNFE	Stages of agricultural development	Level of rural remoteness	Level of urbanisation	Locus of non-farm production	Level of RNFE technology, capitalisation & returns
One – Traditional	Pre-modern & subsistence	High	Low	Rural (RNFE limited by low purchasing power)	Low: Traditional subsistence products
Two – Locally linked	Initial technology led to agricultural growth	High	Low	Rural (RNFE expands through agriculturally led growth)	Low to Medium: Some technology & capital improvements
Three – Leakages to urban areas	Improved urban marketing	Low (new roads open urban markets)	Low	Urban (RNFE outperformed by urban goods & services)	Medium to High: As urban location allows investment & economies of scale, RNFE must modernise to survive
Four – New urban linkages	Increasing urban demand	Low	High (congestion & costs rise)	Shift to Rural: Flexible specialisation able to exploit rural advantage	Low to High: From cottage industry out-workers to modern ‘clustered’ & sub-contracted units

Source: Start (2001)

The problems encountered by rural non-farm enterprises during the period of rural-urban linkages made the sector open to problems. Therefore, the next section looks at the problems faced by the non-farm sector in developing countries.

3.12 An evaluation of the rural non-farm sector

Some scholars argue that the rural non-farm sector cannot ensure sustainable rural development in developing countries because of the problems confronted by the sector. There remain a number of factors still hindering the development of rural non-farm enterprises.

First, there is competition from large multinational companies posing a threat to the development of small-scale, rural enterprises. Rural enterprises are confronted by many challenges within a trade liberalisation framework, of both social and economic dimensions. With the opening up of all markets to all types of producers, the small-scale producers will generally find it [increasingly] difficult to effectively compete with the large multinational companies, on the basis of such areas as [product] cost/pricing and quality and market reach and appeal (Acharya and Acharya, 1995). According to Weatherspoon and Reardon (2003), trade liberalisation is the number one obstacle to viable rural livelihoods and environmentally sustainable production. This is because the rural producers face competition and, in most cases, they are out-competed as they produce products of low quality. In addition, Kristiansen (2004:376) argues that “a lack of knowledge of and access to business information makes small-scale businesses in developing countries vulnerable to liberalisation and increased global competition”. Limited access to information on markets, new technology and development trends in product design, and consumer preferences at the national and international levels hamper their innovative capacity (Kristiansen, 2003).

Second, many rural enterprises are very small in size and operation. The goods and services they produce are intended to meet specific local demands and tastes. In addition, as many of them may depend on raw materials whose availability is seasonally determined, they accordingly operate seasonally, consistent with such periodic supply. Limitations of storage/preservation technological capacity, along with limited access to wider production supply catchment means that they tend to face competition (from the larger and multinational companies) even at the time when they have only a raw material supply facility. This hinders producers from gaining efficiency and skills in production that would make them competitive in the market. Mensah, Tribe, and Weiss (2007:259) confirm this situation, stating that “small-scale firms operate seasonally and, at certain times of the year, may produce little or nothing”. This is particularly true of rural industries dependent on an agricultural production supply base.

Third, some scholars, such as Sahley (1995) put the blame for the decline of rural industries on the deregulation of state activities in Third World countries, other than on the liberalisation of trade per se. Sahley (1995) argues that state deregulation in production has brought about a scarcity of commodities in Third World economies. When domestic enterprises are not assisted in the form of investment incentives as capital and infrastructure, they experience production declines. This allows foreign companies to take advantage by outperforming them in the market. Unfortunately, when the domestic market is overwhelmed by foreign companies what may result is high capital flight.

Fourth, small-scale rural producers are not innovative. According to Saith (2001), the main aim of capitalist industrialisation is to incorporate pre-capitalist modes of production through competition. In the capitalist world, competition counts; firms must be competitive, adapt new technologies and exploit labour to accumulate more profits. However, this is not the case with rural industries that entail cottage industries where household-based techniques and forms of production are used (Saith, 2001). These small-scale rural industries are often outperformed by their modern industrial counterparts in the market. Kristiansen and Mbwambo (2003) state that small entrepreneurs, and cottage industries in particular, are at a disadvantage of being outcompeted in the market by foreign enterprises. This is because large-scale industries use competitive or sophisticated technologies in production, whereas small-scale rural enterprises use simple technologies.

In addition to the use of simple technologies in production, small-scale rural enterprises target the local market, using unskilled and unpaid family labour (Duncombe and Heeks, 2002). The use of unskilled labour by rural industries constitutes a major problem with their ability to compete in international markets. There is no significant division of labour and relative specialisation in most rural industries; therefore, production is very low, and the quality is often poor (Meyer, 1992). Saith (2001) therefore says that these rural industries are represented as inefficient in relation to their modern large-scale counterparts where the division of labour and specialisation are very common. Thus, rural enterprises have little or no chance of survival in the face of modern capitalist industry (Saith, 2001).

Furthermore, it is often argued that small-scale African entrepreneurs copy the brands of other products (especially the imported goods), rather than being innovative. This causes them to

face stiff competition with their imitation products, a shortcoming observed particularly by Kristiansen (2004).

Fifth, many rural enterprises lack government support in the form of enabling policies. In addition, some of them experience institutional bottlenecks. Despite their contribution to rural development and in some cases national development, of most Third World states, small-scale rural enterprises are less favoured by government policies and are poorly resourced (Sahley, 1995; Mashinini and de Villiers, 2001). Government intervention is very limited, and where it exists, it is in the form of disincentives. Rural entrepreneurs do not get incentives, such as credit, loans, tax rebates or holidays. They suffer from a lack of finance and poor managerial skills; a lack of market information; appropriate technology; poor pricing methods; competition; and a lack of government support (Martey, *et al.*, 2013). Overall, they are considered not creditworthy.

Liedholm and Mead (1993) further argue that non-farm rural enterprises face a range of constraints which include among other things, management difficulties and weak credit markets. Some of the problems that confront rural enterprises are poor managerial skills, a lack of finance and of market information (Liedholm, 2007).

Sixth, Kristiansen and Mbwambo (2003) postulate that the main problem with cottage industries in developing countries is not their size, but their isolation from one another. Most enterprises work in isolation, thus hindering their pooling of useful resources. For instance, when they work in isolation, they cannot attract the assistance of financial institutions. It is also difficult for information to be disseminated to other enterprises producing the same goods (Hasenclever, Rovere and Erber, 2004).

3.13 Conclusion

In developing countries, the establishment of small-scale cottage industries and rural non-farm enterprises was introduced to solve the problems left by colonialism and mainstream industrialisation; the latter being adopted by many developing countries after independence. In the 1950s and 1960s, many developing countries adopted import substitution industrialisation to substitute imported goods with locally produced ones. The type of industrial policies adopted by many developing countries after independence resulted in an increase in poverty, unemployment, food insecurity and other social problems. This is

because, industrialisation in developing countries failed to absorb many people because they used capital intensive technologies. Therefore, rural non-farm enterprises were considered as a solution to escalating poverty, food insecurity and unemployment in these countries. Besides government policies that favoured capital intensive industrialisation which was accused of perpetuating poverty and unemployment, people participated in the non-farm sector when agricultural productivity declined.

The rural non-farm sector was promoted by rural-urban linkages. This is because the linkages brought markets closer to rural people and the sources of raw materials. As a result, the rural areas opened doors for a variety of activities that include trade, commerce, manufacturing, services, transport and many other things. These activities were meant to create employment and reduce the high levels of poverty. Therefore, the establishment of rural non-farm sector in developing countries was considered a rural development strategy that was supposed to solve problems that were left intact by mainstream industrialisation, and inappropriate government policies that favoured urban at the expense of rural areas. Thus, the rural non-farm sector in developing countries was meant to create employment for the rural population. It is stated that in developing countries, many people stay in rural areas and are confronted with massive poverty, food insecurity, unemployment and a lack of income. As a result, non-agricultural activities in the rural areas are geared toward generating income for people who have failed to secure jobs in the formal sector. However, rural-urban linkages created a number of problems for rural non-farm enterprises, especially competition from urban-based enterprises.

Many people participate in rural non-farm activities to make a living. There are those who do not have agricultural land and those who have land but want to diversify their livelihood options. The incomes that are received from the non-farm activities are used to improve and maintain the households and other needs.

However, even though non-farm agricultural activities are so important in national development, many government policies continue to discriminate against the non-farm sector. The rural non-farm sector in developing countries still face challenges related to a lack of infrastructural services, such as electricity, water and access to roads. In addition, there are problems related to access to markets, capital, and training of the entrepreneurs. Many non-farm enterprises do not have access to enabling facilities that can result in their success.

Therefore, many governments in developing countries are advised to focus more on promoting small-scale, non-farm enterprises by providing them with credit and training facilities and establishing marketing outlets. When small-scale enterprises are assisted they will be in a position to compete against Multi-National Companies from abroad or against their counterparts from urban areas who have marketing skills, access to finance and skilled labour. Government assistance to small-scale non-farm enterprises can help rural people to adapt to the challenges that have been brought about by globalisation, especially free trade policy. Important aspects of rural non-farm sector are summarised in the following Table 3.2.

Table 3.2: Summary of some important aspects of the rural non-farm sector

Rural Non-Farm Sector													
Category	Example of Activities	Size	Seasonality	Contribution to employment	Type of skills	Source of raw materials	Type of linkage with farm sector	Technology	Determining factors	Conditioning factors	Challenges and problems	Main policies	Market
Trade and commerce	Retail shops, hotels	1-10	Not seasonal	Moderate	Skilled	Rural (Agriculture)	Consumption and expenditure linkages	Intermediate	Pull	Labour, capital, land, education	Lack of capital, access to markets, marketing skills, competition	Employment creation, provision of services	Rural and urban
Manufacturing	Carpentry, blacksmith, welding, pottery			Very high	Unskilled	Rural (Agriculture) urban	Forward linkage	Simple and intermediate	Push and diversification				Rural
Services	Surgeries, salons, traditional healers			Low	Skilled and unskilled		Expenditure linkage	Sophisticated, indigenous, simple					Rural and urban
Processing	Agro-industries	1-99	Seasonal	Very high	Skilled and unskilled	Agriculture	Backward linkage	sophisticated				Employment creation, reducing regional disparities, adding value to agricultural raw materials	Urban and rural

CHAPTER FOUR

RURAL DEVELOPMENT IN LESOTHO

4.1 Introduction

Chapter Two discussed the changing trends in rural development in developing countries. Chapter Three addressed the contribution of the rural non-farm sector to rural development in developing countries. The focus of this chapter shifts towards a discussion of the rural development policy in Lesotho and an assessment of the degree to which the rural non-farm activities were included in the *Five Year Development Plans*. Therefore, the aim of this chapter is to discuss the main rural development policies, programmes and strategies used by the Lesotho government prior to, and after independence. Although initial rural development efforts were mainly focused on controlling soil erosion, a more accelerated rural development endeavour was experienced after independence during the *Five Year Development Plans*. Four main questions guide this chapter. First, to what extent is the farm sector developed in such a way that it supports the non-farm sector? Second, to what degree is the linkage between the farm and non-farm sectors explicitly outlined in the *Five Year Development Plans*? Third, are the contributing factors to the rural non-farm sector, such as education, infrastructure and water, geared towards improving the rural non-farm sector in Lesotho, or are they simply for general development? Fourth, to what extent has Lesotho's initial dependence on migrant workers to South Africa influenced the development of the rural non-farm sector? The chapter starts by discussing Lesotho's economic dependence on South Africa, with reference to labour migration. The migrant labour system plays an important part in Lesotho's rural development by remitting money that is used by the migrants on crop production, animal husbandry, health, education and the establishment of non-farm enterprises. The chapter then turns to consider how rural development was carried out during the *Five Year Development Plans*, especially in agriculture and the non-farm sectors.

4.2 Lesotho's economic dependence on South Africa

Before embarking on a more detailed discussion of the various rural development strategies, the dependence of Lesotho on South Africa should be contextualised. The dependence of Lesotho on South Africa for employment is commonly noted in the literature. Cobbe (1983) states that the majority of rural places in Lesotho have interacted economically with South African market towns, urban centres and mines that employ Basotho (historically only men but lately, also females) migrant workers. In this respect, Makhanya (2004) estimates that

only 10 percent of the active labour force is absorbed in Lesotho, with the remaining percentage working in South African industries, mines and on farms or plantations. The nature of this dependence is such that Ward (1967) considers Lesotho to be an economic hostage to South Africa. The rural areas of Lesotho are seen as the reserve army or source of cheap labour for South African commercial farms (permanent workers and seasonal migrants) and mines. The Central Intelligence Agency (2003) states that the economically active labour force constitutes 700 000 and about 35% of the active male wage earners are migrant labourers. The migration of Basotho men to South African mines can be associated with the country's closeness to South Africa and the lack of other mining opportunities in Lesotho (Modo, 2001; Crush, 2002).

4.2.1 The migrant labour system

According to Modo (2001), labour migration from Lesotho to South Africa started with the discovery of diamonds in the Orange Free State in 1867 and the opening of gold mines in the Transvaal in 1886. The majority of migrants to South Africa originated from Lesotho and Mozambique (Modo, 2001). There were some factors that contributed to the migration of people from other southern African countries to South Africa. On the one hand, McDonald, Zinyama, de Vletter, and Mates (2000) state that cross-border migration in Southern Africa is a complex issue associated with the need for cheap labour for South African mines and agriculture. On the other hand, Modo (2001) indicates that Basotho migrate into South Africa because of the declining agricultural production in their own country; this contention leads to the argument by Ferguson and Lohmann (1994) that Lesotho is not a peasant economy because labour migration occurred at the time of agricultural decline.

The role of migrant labour is closely related to the ideas of Sir Arthur Lewis, who presented the model of dual economies in 1954. The model states that people from the subsistence sector (agriculture) migrate to urban areas in search of employment opportunities in industries, which in turn, enable the agricultural sector to grow. However, the major difference is that migrant labour is inherently not permanent migration as is assumed in Lewis's framework.

The factors that stimulate labour migration from Lesotho to South Africa are similar to those discussed in Chapter Three. For instance, the literature shows that labour migration in Lesotho is caused by some push factors, especially the decline in agricultural productivity in

Lesotho; while the pull factors are the South African mines, agriculture and industries (Wallman, 1976; Elkan, 1980; McDonald, *et al.*, 2000). It has been noted in the research that the push factor is the main cause of labour migration from Lesotho to South Africa because rural people mainly perceive migration as a comparative advantage (Low, 1986). For example, Food and Agriculture Organisation (1977) observed that many people in the Senqu River Valley Development Project had no interest in farming and many able-bodied men migrated to South African towns and mines in search of better paying jobs. Consequently, farming was left in the hands of children and old people. Therefore, an assertion that many Basotho migrate to South African gold mines to supplement agricultural incomes does not hold (Spiegel, 1980). Remittances as a result of migration to South African gold mines, farms and industries have been the main source of subsistence and rural development in Lesotho (Murray, 1977; Modo, 2001; Ulicki and Crush, 2007).

The literature in chapter three states that migrant labour remittances are used for different purposes, such as financing agriculture. This is also the case in Lesotho where migrant labour remittances are used for household maintenance and financing agriculture by purchasing agricultural inputs (Low, 1986), bride-wealth paying and building houses for the migrants (Spiegel, 1980). In some other cases, the remittances are used as start-up capital for the establishment of non-agricultural activities, such as transport, commerce and house construction (Cobbe, 1983). However, Wallman (1972) associates the existing non-development in the rural areas of Lesotho to labour migration. It is argued that the migration of the active labour force from the rural areas of Lesotho to South African mines causes a decline in agricultural production (Kingdom of Lesotho, 1970; Low, 1986). Migration is blamed for causing yields in agriculture to decline and is said to contribute to the failure of rural development projects because agriculture is left in the hands of women and old people, while able-bodied men are absent (Wallman, 1972; Cadribo, 1987).

4.2.2 Recent developments in labour migration from Lesotho

The pattern of migration appears to have changed in recent years. In the past, migration was largely restricted to men working in the mines. However, studies show that nowadays people from Lesotho migrate to South Africa for different reasons, such as for shopping, business, study, holidays, visiting relatives and seeking employment opportunities (Crush, 2002). The migration of Basotho into South Africa can be classified as both legal and illegal migration. The migration to work in South African mines, farms and agriculture is, in the main, legal

(Ulicki and Crush, 2000). Ulicki and Crush (2000) point out that in 1998 there were about 7 000 legal migrants from Lesotho working on South African plantations and on Free State farms. However, illegal migrants also work on plantations and for construction companies, together with a large number of illegal women migrants working as domestic workers in South Africa (Crush, Dodson, Gay, Green and Leduka, 2010).

The literature indicates different reasons why large numbers of women migrate to South Africa. For Wilkinson (1983), Modo (2001), Crush and McDonald (2000), the major reason is the demise of the apartheid regime in which many Basotho women were prohibited by the black labour laws from moving with their husbands to South African mines. However, from 1990 onwards, many women found it easy to migrate to South Africa for reasons such as employment opportunities and to escape poverty (Crush *et al.*, 2010). Evidence from the study by Crush *et al.* (2010) shows that women migrants from Lesotho contribute a higher percentage, at 16.4% of all incoming female migrants than do other Southern African countries such as Mozambique, Swaziland and Zimbabwe.

Thus labour migration from Lesotho to South Africa is caused by both pull and push factors as the literature in chapter three indicates. The main push factor is the decline in agricultural productivity which drives many people to migrate to South Africa to seek employment opportunities in the mines, plantations and industries. It should also be noted that the remittances accrued from migration are used to finance agriculture and start up non-farm businesses. The next section attempts to unpack some of the colonial rural development policies that were used to promote rural development in Lesotho.

4.3 Rural development under colonial rule in Lesotho (1930s- 1965)

Chapter Two noted that the Green Revolution technologies and the Community Development approach played an important part in increasing productivity in agriculture in the 1950s and 1960s. The Green Revolution was introduced to modernise the existing primitive methods of cultivation, as these methods led to low productivity and soil erosion. The review of the rural non-farm literature in Chapter Three indicated that agriculture plays an important part in the development of non-farm enterprises. However, even though the colonial government embarked on improving agriculture in Lesotho, there were no large industries in the country during the colonial period, except for weaving industries in some of the rural areas (Mashinini, 2000) where the improvement of livestock, especially sheep and goats, ensured a

supply of raw materials to small-scale weaving enterprises. Thus, a historical link existed between agricultural development and the development of non-farm enterprises.

A number of other measures were also taken in an attempt to improve agriculture in Lesotho. First, a range of measures was introduced to control soil erosion. The country had an exceptionally eroded landscape which had called for mitigation and prevention measures since 1936 (Showers, 1989; Showers, 1996). The control of soil erosion was tasked to the Department of Agriculture whose responsibilities included such activities as building anti-erosion control measures to prevent the run-off of surface water and to trap eroded soil. The most common control measures were building terraces, contour banks, meadow strips, and making furrows (McCann, 1999). In addition to establishing these measures, the ministry included other anti-erosion controls, such as planting trees and building dams and silt traps (Wallman, 1969). Among the anti-erosion projects implemented was, for instance, the Taung Reclamation Scheme established between 1956 and 1961 (Wallman, 1969). Wallman (1969) also notes that in some places, the colonial government prohibited farmers from cultivating their land for a certain period in the name of conservation.

Second, the government introduced open and closed seasons on rangelands for livestock in response to the overgrazing which was a major factor in the erosion of the rangeland (Ferguson, 1985b). Thus, the blame was placed on the practices of livestock farmers for contributing to environmental degradation (Quinlan, 1995). As a result, pastures in the mountain areas were closed for certain periods and farmers instructed to move their livestock to places opened for grazing (Driver, 1999).

Third, improved livestock management was introduced. This included cattle dipping and de-stocking (Makoa, 1999) which had been practised since 1949 through the colonial authorities putting pressure on local chiefs (Driver, 1999). Besides culling livestock, the colonial government introduced measures to control unwanted plant species that destroyed the quality of wool and mohair (Uys, 1970). Good quality wool and mohair was to be ensured by increasing the number of dipping tanks, veterinary clinics, wool/mohair sheds, an agricultural credit bank and the provision of extension services to farmers. This led to a dramatic increase in quantity and in the prices of wool and mohair in the 1950s (Uys, 1970; Makoa, 1999).

Fourth, measures to increase agricultural productivity were introduced by implementing area-based development projects which were mainly concerned with increasing productivity in agriculture and adopting the Green Revolution principles of using improved agricultural inputs. Wallman (1969) avers that the main objective of these projects was to increase production in agriculture by introducing improved methods of production, the use of improved agricultural inputs and the control of soil erosion, while implementing it in the name of Community Development. Some of these area-based development projects included, among others, the Tebetebeng pilot project, which ran from 1960 to 1970 and the Maphutseng Valley Rural Development Project, established in 1947 (Cadribo, 1987; Makoa, 1999). These projects were concerned with the control of soil erosion, range management and improving productivity in agriculture. Makoa (1999) further states that the Maphutseng project mobilised farmers to form a block that would allow farming to be done jointly. Another important area-based development project was the Mafeteng Farm Mechanisation project which was established in 1960 and was concerned with the production of wheat (Wallman, 1969). The government provided farmers with agricultural inputs, including seeds and tractors but the costs of production were deducted from farmers after harvest (Makoa, 1999).

In general, these attempts during colonial rule were mainly focused on addressing soil erosion and improving agricultural productivity in order to ensure food security for the nation. Although a considerable amount of the capital for inputs was either from grants or mining remittances very little attention was devoted to linking this production with other rural industries; the weaving industry being the exception.

In the 1970s, many countries were concerned with rural development through modernising agriculture and other sectors of the economy by means of methods, policies and programmes in the *Five Year Development Plans*. The Lesotho government was not an exception. Thus, the next section scrutinises two main rural development strategies in Lesotho: agriculture and the rural non-farm sector. The section will look at how these two main sectors were supported and promoted during the *Five Year Development Plans*. The non-farm sector cannot operate effectively without improving the farm sector, and vice versa; therefore, the following section seeks to find a balance between the two sectors as they appear in the development plans.

4.4 Rural development during the Five Year Development Plans (1970-1999)

According to Mashinini (2000), the rural development sector in Lesotho comprised two distinct elements from 1970 to 1999; namely, agriculture and community development activities. The agriculture sub-sector involved crop production, livestock production and range management (Mashinini, 2000), while the community development sub-sector involved social services, such as water supply, rural health, rural sanitation, rural energy, rural transport and local government (Walton, 1978). Most of these community development activities received aid from government and international donors.

4.4.1 The First Five Year Development Plan (1970/71-1974/75)

The Government of Lesotho introduced its First Five Year Development Plan in 1970, covering the five-year period of 1970/71-1974/75. The objective of this was to “lay the foundations for economic development and economic independence” (Kingdom of Lesotho, 1970:23). This was the result of the concern by the government about declining agricultural productivity.

4.4.1.1 Declining agricultural productivity

The target of the Government of Lesotho during the First Five Year Development Plan was to “to achieve a marked increase in productivity in the agricultural sector” in both crop and animal husbandry as “crop yields are generally poor and output of maize averaged 2-3 bags an acre, compared to 30-35 bags per acre on irrigated experimental cultivations” (Kingdom of Lesotho, 1970:9). The plan further states that there were differing reasons behind the decline in agricultural productivity, including: adverse climatic conditions; sandy soils with low fertility; a lack of irrigation; a shortage of labour because of the migrant labour system; the use of primitive farming practices due to insufficient agricultural equipment; and inadequate credit facilities (Kingdom of Lesotho, 1970).

The traditional land tenure system, soil erosion and use of primitive farming practices, such as monoculture were cited as the major obstacles to the modernisation of agriculture in the 1970s (Wallman, 1972). Traditional land tenure makes farmers reluctant to improve their land holdings, and also impedes their obtaining access to agricultural credit (Kingdom of Lesotho, 1970). The plan also argued that the country was importing food stuffs unnecessarily because of the low productivity in agriculture from which it followed that rural development with an

agricultural focus, linked to processing was the most immediate, necessary, and sensible means to increase nationally produced wealth (Kingdom of Lesotho, 1970).

With regard to livestock, the First Five Year Development Plan stated that overgrazing was the major problem in livestock rearing in Lesotho, and that the Ministry of Agriculture's policy would be to limit livestock numbers to the carrying capacity of the land (Kingdom of Lesotho, 1970).

4.4.1.2 Increasing agricultural productivity: Crop and livestock production

In the literature discussed earlier, it was pointed out that agriculture in developing countries was characterised by low productivity in the 1960s and 1970s because farmers used primitive methods of production. Therefore the modernisation of agriculture, by increasing productivity, was emphasised and encouraged in the 1970s through the adoption of Green Revolution technologies, both in crop and animal production. Thus, the Lesotho Government's objective was to increase productivity in agriculture by adopting some of the principles of the Green Revolution. According to the First Five Year Development Plan "the long term development objective for crop production is to transform crop farming from its present subsistence basis to the production of cash crops, such as wheat, peas and beans for import substitution and export" (Kingdom of Lesotho, 1970:56).

The transformation of subsistence farming was implemented through different programmes. First, the government introduced improved farming practices, including the use of fertilisers (Kingdom of Lesotho, 1970). The First Five Year Development Plan stated that the consumption level of fertilizers in the 1970s was too low at less than 100 000 packets and accordingly, increased consumption to 700 000 pockets over a period of five years (Kingdom of Lesotho, 1970). Second, the government introduced the mechanisation of agriculture via a tractor hire service. The Plan stated that draft animals were disappearing in the country and that in order to compensate for this, the government would introduce tractor hire to facilitate a more rapid process for the ploughing of fields. In addition, the objective of tractor hire was to ensure that there were no fallow lands in the country. Third, the government introduced irrigation projects on the basis that, according to the Plan, Lesotho would have enough water available for irrigation purposes (this will be discussed later). Fourth, the government introduced agricultural information services and farmer training centres, including among

other things, the Lesotho Agricultural College for the training of agricultural personnel, such as extension workers.

The First Five Year Development Plan (1970) noted that livestock production in Lesotho accounted for 40% of the Gross Domestic Product at that time. Improvement in livestock production considered issues such as, overstocking, uncontrolled breeding, and parasite infestation. Livestock management, especially destocking, focused mainly on sheep, goats, and cattle despite their contribution to the development of the country by providing wool, mohair, hides and skins (Kingdom of Lesotho, 1970). To ensure good management of livestock, the government also introduced Livestock Improvement Centres to ensure good quality breeds. Other programmes on livestock management included: better feeding, the improvement of breeds, pasture management and grazing control (Kingdom of Lesotho, 1970).

4.4.1.3 Non-agricultural activities

As far as non-farm activities are concerned, the First Five Year Development Plan stated that no meaningful development could be achieved through agricultural development alone. The government also wanted to achieve economic growth and economic independence by promoting non-agricultural productive activities, putting special emphasis on small-scale, indigenous industries, and securing the economic, legal and institutional preconditions for the self-sustaining development of these activities (Kingdom of Lesotho, 1970). The plan referred to the role of the Lesotho National Development Corporation which was established in 1967 with the purpose of promoting non-farm industries with particular reference to small-scale industries.

4.4.1.4 The role of Lesotho National Development Corporation in promoting non-farm enterprises

The Lesotho National Development Corporation was established in 1967 to promote industrialisation by attracting foreign capital and investors to the country. The primary objective behind the establishment of the Lesotho National Development Corporation was to initiate, promote and facilitate manufacturing and processing industries, plus mining and commerce in a way that the level of income and employment in Lesotho would be increased (Kingdom of Lesotho, 1970).

The government of Lesotho also introduced two laws to support the activities of the Lesotho National Development Corporation. The first was the Pioneer Industrial Act of 1969, and the second one the Industrial Licensing Act of 1969. Under the Pioneer Industrial Act, the state offered through the Lesotho National Development Corporation either a six year tax holiday which could be renewed at the end of a period of six years, or a greatly accelerated depreciation allowance on machinery, plus a 45% machinery allowance, a 75% building investment allowance and a 45% allowance on industrial housing (Kingdom of Lesotho, 1970). There were also indirect allowances on the cost of infrastructural services, training, and wages paid to employees. The Industrial Licensing Act was passed with the objective of establishing an orderly system of licensing manufacturers and granting exclusive protection in respect of a manufacturer producing one or more products (Kingdom of Lesotho, 1970). These incentives were used to attract mainly the foreign investors into the country in order to promote import substitutions industrialisation. It should be noted that non-farm enterprises that benefited from these government incentives were owned by foreigners (some of them are discussed below), while those owned by the local people did not benefit.

4.4.1.5 Non-farm weaving industries

There were different types of weaving enterprises in the country. The first category included those owned by the Lesotho National Development Corporation, which established the Royal Lesotho Tapestry Weavers, who specialised in the production of hand-woven carpets and other articles from mohair (Uys, 1970). This enterprise trained and equipped Basotho women with the skills and techniques of weaving tapestries (Levinsohn, 1976; Henry, 1979) and other goods, such as prototype rugs, carpets and wall-hangings or murals (Uys, 1970). The enterprise received bilateral assistance and skilled personnel from Switzerland.

Another rural industry that received donor funding was Thabana-Li-‘Mele Handicraft Centre in the Maseru district. The enterprise received funding from Swedish government amounting M107, 000.00 and expertise (Uys, 1970). The enterprise specialised in the production of quality hand-woven mohair goods and some pottery. The rural industry also specialised in weaving bedspreads, blankets, balaclavas, caps, garments and ladies’ jackets (Uys, 1970). However, Thabana-Li-‘Mele Handicraft Centre closed down due to a lack of funding when foreign expertise left the country for Sweden (Uys, 1970).

The second group was made up of weaving industries established under the auspices of Non-Governmental Organisations. The literature reveals that some weaving enterprises in Lesotho were owned by Non-Governmental Organisations such as Cooperative for Assistance and Relief Everywhere Lesotho (Uys, 1970). These weaving industries employed Basotho women to spin and weave products at the firm's grounds or in their homes (Setlogelo, nd). The enterprises produced tapestries of various sizes and designs, table runners, table cloths, curtains, scarves, shawls, blankets, mats and other items; all these products were meant for export. Goods produced by Cooperative for Assistance and Relief Everywhere weaving industries were marketed internationally; about 80% of the products were marketed in the Scandinavian countries, while the remaining 20% were sold locally to tourists (Setlogelo, nd:39).

The above discussion shows that the Lesotho National Development Corporation was responsible for the establishment of rural non-farm industries. However, the literature shows that most non-farm enterprises in Lesotho received support from donors, for capital (money) and expertise. Evidence from the above discussion shows that an over-dependence on donors caused some problems in sustaining rural industries. For instance, when donor funds were not available, some industries closed down. This was the case with rural industries, such as the Thabana-Li-'Mele Handicraft Centre. It is also evident from the discussion that most non-farm industries exported most of their goods abroad. The tourist market is seasonal, and during the off-peak season rural industries faced problems with marketing their products.

Another important issue relates to the source of raw materials to the non-farm, weaving industries. Evidence from the First Five Year Development Plan shows that government's policy was to cut down on the number of livestock, especially goats and sheep because of escalating land degradation. The cut on the number of livestock meant less supply of wool and mohair to rural, non-farm weaving enterprises. Some enterprises that were affected by the destocking were those under the umbrella of Cooperative for Assistance and Relief Everywhere because they had to import wool and mohair from South Africa (Setlogelo, nd).

4.4.1.6 Cooperatives

The First Five Year Development Plan states that there were many cooperative movements in Lesotho. They included savings and loan associations, thrift and credit societies, credit unions and marketing societies, among other things (Kingdom of Lesotho, 1970). The Plan

further states that cooperatives were formed for different purposes, such as accessing credit from different sources for the benefit of members, the marketing of the cooperative products to consumers (Kingdom of Lesotho, 1970) and some others. However, the plan points out that in most cases, cooperatives were confronted with problems related to poor management and limited access to finance. Subsequently, the First Five Year Development Plan saw it as the duty of the government to provide guidance, advice and supervision to the cooperatives (Kingdom of Lesotho, 1970). As a result, the Lesotho government established the Finance and Marketing Cooperative Union to assist cooperative movement in the areas of supply, credit and marketing (Kingdom of Lesotho, 1970).

4.4.1.7 Infrastructure

According to the First Five Year Development Plan, more government expenditure was allocated to improving infrastructure after independence because funds were inadequate for improving and constructing some access roads before independence. However, roads that were constructed in the country were not adequately maintained (Kingdom of Lesotho, 1970). As a result, transportation is still not easy in many places. Even though roads were not in good condition, the main inputs and outputs transported were wool and mohair from farmers, and tapestries from non-farm enterprises (Kingdom of Lesotho, 1970).

4.4.1.8 Education and training

Chapter three reveals that education is essential for the functioning of rural non-farm enterprises. According to the First Five Year Development Plan, the Lesotho government stated that education was very important in a country that is poorly endowed with natural resources. The government focused on improving the skills of people through education, with special reference to technical training which was intended to equip people with production skills (Kingdom of Lesotho, 1970).

4.4.1.9 Synthesis

The First Five Year Development Plan states that increasing productivity in agriculture, especially in crop and livestock production needs immediate attention through the use of some of the Green Revolution technologies, such as tractors and the application of fertilisers. In addition, livestock management was also encouraged during the plan in order to reduce rapid land degradation. Alongside increasing productivity in agriculture and livestock, the First Five Year Development Plan emphasises the importance of non-farm rural industries in

rural development because agriculture alone cannot reduce poverty and the social problems in Lesotho; therefore, the farm sector had to be augmented with non-farm activities.

The First Five Year Development Plan proposed strategies that could be used to improve agriculture and livestock production, while the Second Five Year Development Plan was about implementing the plans. However, there were other policies or plans that were developed during the Second Plan. The next discussion is about the programmes that were used to increase productivity in agriculture and some institutions that were established to support non-farm industries.

4.2.2 Second Five Year Development Plan (1975/76-1979/80)

The Second Five Year Development Plan states that “Lesotho is a rural, agricultural nation; and rural development with an agricultural focus is the most immediate, necessary and sensible means to increase nationally produced wealth” (Kingdom of Lesotho, 1976:71). As a result, the Ministry of Rural Development was formed in 1976 from the Department of Community Development (Walton, 1978) to implement rural development initiatives.

As a way of improving the living standards of the rural poor, the objectives of the Lesotho government during the second plan involving crop production included among other things; “to foster general yield and production increases but specifically to achieve net self-sufficiency in basic grain and vegetation production; to increase crop-derived income with greater cash crop area especially of wheat and beans; greater forage crop area in support of commercial livestock production; and significant introduction of high value cash crops including potatoes and asparagus” (Kingdom of Lesotho, 1976:78). Regarding the issue of livestock, the general objective of the government was to raise productivity through improvements in breeding, disease prevention and general management (Kingdom of Lesotho, 1976).

Area development projects were established to meet the above objectives. However, the major shortfalls in the quality of farming were observed in some area development projects (especially in Thaba Bosiu). As a result, the Lesotho government proposed an attempt to improve the provision of basic services to farmers by stabilizing the Basic Agricultural Services Programme in 1978 (van de Geer and Wallis, 1982).

The objectives of the Basic Agricultural Services Programme were to improve traditional agriculture by encouraging the use of new innovations (agricultural inputs), such as seeds, fertilisers, insecticides and marketing outlets to farmers, the improvement of animal husbandry and the establishment of physical infrastructure (Walton, 1978; van de Geer and Wallis, 1982). The projects that benefited from the Basic Agricultural Services Programme and had a combination of crop and livestock production included: Thaba-Tseka; Khomokhoana, Phuthiatsana; Matelile and Thaba-Bosiu Integrated Rural Development Projects (Kingdom of Lesotho, 1976). However, for the purposes of this study, the discussion will analyse the Thaba Bosiu and Thaba Tseka Integrated Rural Development Projects.

4.4.2.1 Thaba-Bosiu Integrated Rural Development

According to the Second Five Year Development Plan (1975/76-1979/80) the objectives of the Thaba-Bosiu Integrated Rural Development Project were:

- To control erosion and increase crop production within the existing social system.
- To transform land use that integrated farming, that is, combining appropriate crop rotation with livestock production can be achieved.
- To provide a more assured subsistence and to increase considerably the income derived from crops and livestock.
- To provide data for the preparation of similar rural development projects in other areas.

The Second Plan indicates that these broad objectives were implemented through dry-land crop production, soil conservation, livestock production and asparagus production and canning. Asparagus cultivation at the Thaba Bosiu Integrated Rural Development Project was linked with the establishment of a processing cannery in the project area in the year 1975 (Kingdom of Lesotho, 1976). However, a bigger cannery (agribusiness), Basotho Fruits and Vegetable Canners, was established in Masianokeng in 1976 through the assistance of Del Monile Cooperation from Germany, the United Nations Development Programme and Food and Agriculture Organisation (Khathi, 1984). The processed asparagus was exported to the European Union, especially to West Germany. Once again, there is some evidence that agricultural production was associated with rural development.

4.4.2.2 Thaba-Tseka Integrated Rural Development Project

According to the Second Five Year Development Plan (1975/76-1979/80), even though Thaba-Tseka Project was established as a decentralisation process in Lesotho, the project improved the lives of the rural people in the mountains. As a result, there was an improvement in animal husbandry and crop production. As stated by Wallman (1976), the mountain areas are mostly suitable for livestock production. Therefore, some development of low-cost techniques for producing and improving forage was very important for improved livestock. An improvement in animal husbandry was seen especially in dairy farming and in wool and mohair marketing (Kingdom of Lesotho, 1976). There was also the establishment of some non-farm rural industries, such as handicraft centres for processing raw materials from wool and mohair production (Kingdom of Lesotho, 1976). As a way of ensuring communication between the project area and the market area for the supply of raw materials and other businesses, a road was constructed linking the project area with the lowlands, especially with Maseru.

4.4.2.3 Agricultural credit institutions

During the Second Five Year Development Plan, the Lesotho government established credit schemes to encourage improvement in input use in mechanisation; contribute to the adoption of new higher-yielding crops; higher quality breeds of animals; and more efficient methods of farm management and marketing (Kingdom of Lesotho, 1976). The plan highlights the involvement of credit institutions including: forty-eight credit unions; twenty-seven thrift societies; three banks; three area-based projects; and four other institutions (Kingdom of Lesotho, 1976). However, the discussion will be limited to the credit schemes. First, the Agricultural Development Fund provided short-term loans (3-5 years) to farmers; furthermore, channelling credit to some farmers through the Government Extension Service. In addition to providing loans to farmers, the Agricultural Development Fund also supervised farmers using their credit. Second, Co-op Lesotho was established in 1974 to market crops produced in Lesotho (Moody, 1976). Co-op Lesotho provided agricultural credit to members (farmers and cooperatives saving with it), in the form of farm inputs and marketing (Kingdom of Lesotho, 1976). Other credit institutions included Credit Union Cooperatives and Project Credit Revolving Funds which were established to provide credit to farmers in the area-based, integrated rural development projects.

4.4.2.3 Establishment of institutions to promote non-farm enterprises

The Second Five Year Development Plan states that “the shortage of agricultural land, vis à vis a growing population and the meagre incomes derived from farming because of low agricultural productivity, lend special urgency to the achievement of a high rate of development in industry and commerce in order to augment incomes and provide alternatives to employment across the border” (Kingdom of Lesotho, 1976:127). Therefore, the objectives of government in the Second Plan included among other things “the creation of 4500 new jobs in manufacturing, and an additional income to 5 000 rural women in rural industries” (Kingdom of Lesotho, 1976; Walton, 1978). In order to achieve the above objectives, the Lesotho government established institutions that were concerned with promoting small-scale enterprises with the provision of facilities. These institutions included among others: First, the Basotho Enterprise Development Corporation which was established in 1975 as Lesotho National Development Corporation subsidiary to assist small-scale producers (Kingdom of Lesotho, 1976). The main task of Basotho Enterprise Development Corporation was to provide technical assistance to entrepreneurs in office procedures, accounts, procurement, production and marketing. Another role of Basotho Enterprise Development Corporation was to assist small entrepreneurs with loans, both medium- and short-term. In order to facilitate production, Basotho Enterprise Development Corporation established small industrial centres where entrepreneurs could obtain production space (Kingdom of Lesotho, 1976).

Second, the Village Industries Development Organisation was established for the production and marketing of handicraft products. Village Industries Development Organisation, the Department of Cooperatives, and local interest groups worked together and were responsible for the planning of a number of craft production and marketing units (Kingdom of Lesotho, 1976). However, the Lesotho Cooperative Handicrafts was formed to take over Village Industries Development Organisation (Hunter and Mokitimi, 1990). The Lesotho Cooperative Handicrafts spread its retail and wholesale marketing activities, providing training programmes and a stimulus to the handicraft sector. By 1975 the Lesotho Cooperative Handicrafts was marketing crafts from some 3 000 producers and had a turnover for an amount exceeding R200 000 (Hunter and Mokitimi, 1990).

4.4.2.4 Access to infrastructure and education

It was discussed in Chapter Three that infrastructure is a conditioning factor to the establishment of non-farm enterprises. The Second Five Year Development Plan states that infrastructure was allocated to the amount of R20.1 million (Kingdom of Lesotho, 1976). This money was planned to be used to expand transport and communication systems.

According to the Second Five Year Development Plan, the major infrastructural services in Lesotho included the construction of roads and was allocated R14.7 million (Kingdom of Lesotho, 1976), together with the expansion of airfields in the country. These communication networks meant that raw materials from farmers, especially wool and mohair would be transported easily to the manufacturing industries.

The Second Plan also places more attention on the improvement of vocational and technical training in providing the necessary skills to people. It is stated that the government achieved the skills development by establishing technical training centres, such as the Lerotholi Technical Institute (Kingdom of Lesotho, 1976). The plan states that Lerotholi Technical Institute offered courses in brick-work, carpentry, electrical installation and motor mechanics.

4.4.2.5 Criticism of agricultural development programmes in the Second Five Year plan

Most of the integrated rural development projects in the country received funding from external sources. The main funding agencies were the World Bank, the Food and Agriculture Organisation and other bilateral institutions. However, most of the donor funded rural development projects lacked sustainability and as a result collapsed, due to a number of reasons.

First, as stated by Walton (1978), a lack of community participation in development projects is considered the major hindrance to meaningful development. As pointed out by the author, rural development projects in Lesotho lacked consultation. This is because delegates from donor institutions met with government officials to decide on what could be done to improve the lives of the rural poor, but the affected people were not included. Therefore, many of these projects lacked popular support at local level. For example, according to the Food and Agriculture Organisation (1977) many farmers in the Mole's Hoek District where the Senqu River Valley project was established and implemented did not know about it. However, the Food and Agriculture Organisation (1977) argued that some farmers

acknowledged the benefits brought by the Senqu River Valley Project, such as the introduction of fertilisers and consolidated block farming. Another integrated rural development project that demonstrated the lack of farmers' participation in the decision-making process was the Thaba-Tseka agricultural project concerned with cash cropping. As stated by Ferguson (1994) the local farmers did not need cash crops, such as wheat and peas; instead, they needed the provision of social services, such as water, health and other services.

Second, according to the Food and Agriculture Organisation (1977) most of the rural development projects introduced by the foreign lending agencies advocated consolidated block farming. The report by the Food and Agriculture Organisation states that this practice worked effectively in some rural development projects, but it introduced problems to others. This is because some activities, such as harvesting and weeding needed communal labour, especially in block farming. Moreover, some people were reluctant to work because they did not like farm work (Food and Agriculture Organisation, 1977) and this created a burden or too much work for those who liked farming. This shows that some farmers were free riders, taking advantage of the situation.

4.4.3 Third Five Year Development Plan (1980/81-1984/85)

The contribution of agriculture by supplying the agro-industries with raw materials is emphasised by the Third Five Year Development Plan.

4.4.3.1 Crop production and grain processing

According to the Third Five Year Development Plan, crop production in Lesotho was to move towards self-sufficiency in basic foodstuffs for food security and processing by agro-industries (Kingdom of Lesotho, 1981). In order to achieve the objective of ensuring food self-sufficiency and the supply of raw materials to agro-industries, the government introduced an agricultural project called Food-grain Self-Sufficiency Programme. The project received funding from China and specialised in the production of wheat and maize (Morakeng, 1984).

In order to enable the processing of wheat and maize produced under the auspices of the Food-grain Self-Sufficiency Programme, the Lesotho government established the Lesotho Flour Mill in 1979, with a silo complex for storage purposes (Kingdom of Lesotho, 1981). The Third Plan addresses the purpose of the flour mill which was to make Lesotho "self-

reliant in wheat flour and bran processing, create local value added, and a link to the programmes of accelerating domestic wheat production” (Kingdom of Lesotho, 1981:170).

The Third Plan also emphasised the importance of non-farm enterprises in the rural development of Lesotho. Therefore, cooperatives were established in the Third Plan to ensure the collective work of people in non-farm weaving enterprises (Kingdom of Lesotho, 1981).

4.4.3.2 Weaving cooperatives

The production of goods in many non-farm enterprises in Lesotho was done within cooperatives. Consequently, the intention of the government in the Third Five Year Development Plan was to increase the participation of people in co-operatives. As a result, the Lesotho Co-operative Handicrafts was established for the purpose of ensuring collective production, marketing and credit (Kingdom of Lesotho, 1981).

According to the Third Plan, some objectives of the Lesotho Co-operative Handicrafts included: “continuing with the policy of diversification of Lesotho Co-operative Handicrafts programmes; to secure financial support for member societies to build showrooms, workshops and acquire necessary equipment which will ensure better production rate and quality control and to open a number of retail outlets in other parts of the country” (Kingdom of Lesotho, 1981:121).

The plan further states that the Lesotho Co-operative Handicrafts was concerned with the marketing of goods from producer cooperatives in the country to the outside world. It further states that the Lesotho Co-operative Handicrafts made a turnover of M240, 000 per annum (Kingdom of Lesotho, 1981).

4.4.3.3 Decentralisation

According to the Third Five Year Development Plan, decentralisation was meant to ensure greater co-ordination and consultation at district and local levels (Kingdom of Lesotho, 1981). Decentralisation in the 1980s intensified, with the Thaba-Tseka Integrated Rural Development Programme, funded by the Canadian International Development Agency. With much interest, the Lesotho government agreed that institutions at local level should be strengthened and reorganised to make them responsive to the needs of the people (Mapetla and Rembe, 1989).

Besides the above general idea of decentralisation, the Lesotho government decentralised some non-farm rural industries. For instance, according to the Third Five Year Development Plan, government established some artisan industry centres in the Qacha's Nek, Quthing, Thaba-Tseka and Mokhotlong districts (Kingdom of Lesotho, 1981). The plan states that goods produced in these non-farm industries included among other things, farm implements, leather goods, pottery, spun mohair and wool yarn and many others (Kingdom of Lesotho, 1981). These non-farm industries used raw materials produced in their localities.

4.4.3.4 Synthesis

The above discussion shows that some cooperatives that supported non-farm activities were established in Lesotho during the Third Five Year Development Plan. However, a large percentage of these industries were over-dependant on donor aid. .

The literature in Chapter Two shows that decentralisation ensured the advent of non-farm enterprises in the rural areas. This was also the case in Lesotho, with the introduction of Thaba-Tseka Integrated Rural Development. The project was aimed at decentralisation and establishing Thaba-Tseka as a tenth district of Lesotho and was dependent on foreign assistance through Canadian Aid. The project established a link between Maseru and Thaba-Tseka, as well as the development of some agricultural projects and rural non-farm enterprises. However, when the project was over these activities collapsed, especially those related to agriculture and the non-farm sector. This shows that foreign aid does not ensure sustainability for non-farm activities.

4.4.4 Fourth Five Year Development Plan (1986/87-1990/91)

The Fourth Five Year Development also emphasised the importance of agriculture and non-farm activities in rural development. The main non-farm activities that were supported during the plan were the promotion of handicrafts and the improvement of agro-industries.

4.4.4.1 Handicraft cooperatives

According to the Fourth Plan, handicraft industries in Lesotho were encouraged because they are labour intensive, utilise local raw materials (mainly grass and clay), provide exports, and generate income for many people in the rural areas (Kingdom of Lesotho, 1987). According to the Fourth Five Year Development Plan, the handicraft industry in Lesotho was made up of

30 cooperatives and 10 informal handicraft associations (Kingdom of Lesotho, 1987). The plan reveals that the most tradable goods from the handicraft industries included tapestries and grass baskets. However, the market deteriorated due to a decline in tourism in the country (Kingdom of Lesotho, 1987).

4.4.4.2 Improvement of some agro-industries

Besides promoting small-scale rural enterprises, the government of Lesotho considered developing and establishing more agro-industries in the country. It was only in the Fourth Five Year Development Plan (1986/87-90/91) that the government of Lesotho considered upgrading and extending activities of the existing agro-industries (Kingdom of Lesotho, 1987). This was in particular reference to the National Abattoir and Feedlot Complex. As stated by the Fourth Plan, the objectives of agro-industries resemble those of the industrial sector as a whole; the generation of growth and employment. The plan further states that the activities of the existing agro-industry (Basotho Fruits and Vegetable Cannery) were to be extended to some other places. In addition, the National Abattoir and Feedlot Complex was to encompass other activities, such as a meat deboning factory, a meat packing and processing plant and a pig slaughter facility (Kingdom of Lesotho, 1987). However, these developments did not take place because of a number of financial constraints.

4.4.4.3 Synthesis

The above discussion shows that the Lesotho government expanded the activities of the National Abattoir and Feedlot Complex. However, government did less than expected to improve animal production by assisting livestock farmers with some enabling policies. The reason for this was that pastures in Lesotho are largely overgrazed. Farmers often experience the loss of their livestock due to severe droughts. This means that the National Abattoir was faced with a lack of livestock which hindered processing. Furthermore, the National Abattoir was privatised, and no longer received subsidies from the government and as a result, it failed to purchase livestock from farmers. This means that privatisation also contributed to the collapse of this non-farm enterprise.

4.4.5 Fifth Five Year Development Plan (1991/92-1995/96)

Among the macroeconomic frameworks that the Lesotho government worked on during the Fifth Plan, were to introduce stricter fiscal policy. The Fifth plan states that “fiscal policy has the aim of increasing the flow of resources to the government sector for financing

development expenditures and providing infrastructure that in turn should generate more growth” (Kingdom of Lesotho, 1992:43). Fiscal policy in Lesotho considered some of the macro-economic problems, such as the budget deficit that hampered development. In order to solve the macro-economic problems, the Lesotho government adopted the Structural Adjustment Programmes in 1988, while enhanced Structural Adjustment Programmes were adopted in 1989/90 and 1990/91 (Matlosa, 1991).

The plan states that during the reforms, the government was able to reduce the fiscal deficits from 17.4% of the Gross Domestic Product in the fiscal year 1988/89 to a projected 2.2% of the Gross Domestic Product in 1990/91 (Kingdom of Lesotho, 1992). The major reforms were undertaken especially in agriculture, health, education and other sectors of the economy. According to Matlosa (1991), the privatisation of state institutions was implemented in the early 1990s. This resulted in the privatisation of some state institutions, such as Co-op Lesotho (Kingdom of Lesotho, 1992). The plan states that Co-op Lesotho was performing under its capacity; therefore, it had to be sold out. It is also stated that these credit and financial institutions were inefficient (Kingdom of Lesotho, 1992).

4.4.5.1 The impact of macro-economic reforms in recent years

The impact of the macro-economic reforms in Lesotho was still felt in the decades that followed the 1980s. The main sectors affected were agriculture and rural non-farm enterprises, especially agro-industries. First, the Lesotho government stopped providing agricultural programmes and institutions with subsidies. The agricultural development programme that was affected most was the Food Self-Sufficiency Programme that government stopped supporting, as well as its Technical Operations Unit (Makenete, Ortmann and Darroch, 1997). As a result, the programme collapsed. Another example is that of Co-op Lesotho that experienced the state’s withdrawal of agricultural subsidies (Makenete *et al.*, 1997), leading to its closure in the early 1990s.

Second, the reforms that focused on the liberalisation of trade affected mainly the non-farm enterprises. The impact of free trade reforms is mentioned by Mashinini and de Villiers (2001) when many rural industries (especially agro-industries) in Lesotho faced stiff competition from the typically larger South African companies because of market liberalisation. A few examples aptly illustrate this situation. As stated by the authors, the first was the Lesotho National Abattoir. Mashinini and de Villiers (2001) point out that the

abattoir was established for the purpose of ensuring the availability of good quality meat for national consumption, as well as reducing Lesotho's dependence on meat imported from South Africa. The authors opine that, largely due to subsequent deregulation, the abattoir faced serious sustainability challenges in two main areas. First, it lacked funding, and secondly, the Southern African Development Community and Southern African Customs Union free trade protocol allowed unimpeded meat imports from South Africa which seriously reduced the abattoir's local market share (Mashinini and de Villiers, 2001). Similarly, Maluti Dairy lost its milk supply market share to imports from South African company brands, such as Clover and Long Life (Mashinini and de Villiers, 2001).

Evidence also shows that imported goods often out-performed locally produced ones in the market, thus resulting in many local farmers dropping out of business. This is observed by Mashinini and de Villiers (2001) in their study of the cottage industry at Braakfontein in the Mohale's Hoek district, which specialised in the making of juice and candles. They argue that the sustainability of the industry was threatened by consumers' preference of foreign goods coming in from South Africa; the local people preferred candles and juice imported from outside the country to the locally produced ones (Mashinini and de Villiers, 2001). As a result, the project collapsed because it lacked sufficient demand from the local market upon which it depended.

Evidence further shows that market liberalisation poses problems to rural non-farm enterprises in Lesotho. For instance, it is stated that even small-scale enterprises face serious market-share competition from large South African companies (Mejale, 2003). An example of this is *Lentsoe-La-Lihoai*, a local cooperative (farmers' association) that specialised in the rearing and production of chicken meat for local consumption. It faced serious competition from chicken meat imported from South African companies, such as Rainbow Chicken (Mejale, 2003).

4.4.6 Sixth Five Year Development Plan (1996/97-1998/99)

Chapter three argues that small-scale non-farm enterprises were confronted with many challenges during the globalisation era. Therefore, non-farm enterprises had to improve their entrepreneurship skills, and be innovative so that they could overcome the challenges. As a response to the challenges brought about by globalisation, the Lesotho government improved

small-scale non-farm enterprises in different ways to ensure their competitiveness in local and international trade.

First, Basotho Enterprise Development Corporation was tasked with the responsibility of providing small-scale entrepreneurs with management training and counselling services (Kingdom of Lesotho, 1997). Training was done by introducing technical (vocational training) courses at the secondary level of education to introduce entrepreneurship to students (Kingdom of Lesotho, 1997). Second, Basotho Enterprise Development Corporation provided physical infrastructure to small-scale non-farm enterprises. Third, the Central and Lesotho Bank provided credit to local entrepreneurs, and the plan was to include other financial institutions in this development (Kingdom of Lesotho, 1997).

Even though the government's plan was to provide credit to small-scale non-farm enterprises, this never materialised. The Lesotho government was too dependent on foreign sources for its expenditure (budget). Most government revenues came from the Southern African Customs Union and foreign assistance. With the decline of Southern African Customs Union revenues to Lesotho and Swaziland, the country is still faced with financial problems. Many small-scale non-farm enterprises continue to be faced with problems related to a lack of credit, skills development and infrastructure. Basotho Enterprise Development Corporation provides assistance to enterprises located in urban areas, and neglects those in rural areas. This is because communication is still very difficult in Lesotho and many small-scale entrepreneurs are not considered creditworthy by most lending institutions. This shows that before Lesotho can achieve economic independence, non-farm enterprises must be made sustainable and be able to flourish.

4.5 Conclusion

Chapter Three set out different reasons that force people to participate in non-farm activities, including food insecurity, poverty and unemployment. In addition, Chapter Three also indicated that capital intensive industrialisation that was encouraged before and at independence contributes to massive unemployment in developing countries. Therefore, the non-farm sector was established to solve these social and economic problems by many developing countries, and the Lesotho government was no exception in this regard.

The Lesotho government developed policies that were aimed at improving agriculture and non-farm activities; many of them being explicitly outlined in the *Five Year Development Plans*. The plans emphasise the importance of improving agricultural productivity through modern farming methods, such as the use of fertilisers and tractors for ploughing. In addition, some agricultural development programmes that ensured increased production in agriculture were established. Many of the agricultural programmes received funding from donor agencies, in the form of foreign aid. From the Community Development approach that was more common in the 1950s, other agricultural development programmes followed, culminating in the Integrated Rural Development approach in the 1970s.

It is discussed in Chapter Three that agriculture and rural industries should be linked to each other. Consequently, in Lesotho, many of the integrated rural development projects promoted livestock and crop production that were used in the non-farm industries as raw materials. An example is that of the Thaba-Tseka Integrated Rural Development Project which also established rural industries in addition to livestock and crop production.

However, it is observed that agriculture in Lesotho cannot provide an adequate source of sustenance to people because of many factors. Therefore, some people resort to non-farm activities for employment creation, while others migrate to the South African mines, farms and industries when agriculture fails to provide a means of livelihood. The migrant remittances are used to finance agriculture and establish some non-farm activities.

The importance of the non-farm sector in rural development is explicitly stated in the *Five Year Development Plans* that contend that agriculture alone cannot improve the living standards of the poor; therefore, non-farm enterprises should be promoted. There are some institutions that have been established to promote non-farm industries in the country, such as the Lesotho National Development Corporation which was founded to promote industrialisation in Lesotho. Even though the Lesotho National Development Corporation focused more on larger industries, especially agro-industries, there were many small-scale enterprises that were under the umbrella of the corporation. In the Second Five Year Development Plan, the Lesotho government established institutions that dealt with non-farm enterprises specifically, such as Basotho Enterprise Development Corporation. Basotho Enterprise Development Corporation was supposed to provide small-scale enterprises with training skills, capital and other production facilities. In order to ensure skill acquisition

among small-scale producers, the government established vocational and technical schools. For example, Lerotholi Training Institute and the Lesotho Opportunities Industrialisation Centre were established for equipping people with technical and vocational training.

Even though the Lesotho National Development Corporation and Basotho Enterprise Development Corporation were established to promote industries in the country, many small-scale enterprises did not get the support needed from the government. Many non-farm enterprises in Lesotho received funding from donor agencies, mostly bilateral assistance from Non-Governmental Organisations and individual countries. However, donor funding assisted weaving industries mostly, while other enterprises were not considered. This is true for Thabana Li 'Mele Handicraft Centre, and other weaving industries in the country that were owned by foreign private business people. Therefore, weaving dominated non-farm activities in the country. Weaving enterprises received raw materials from the local wool and mohair farmers, and the finished products were marketed outside the country, especially overseas.

Evidence shows that non-farm rural industries in Lesotho have received inadequate attention because the country lacks funding; therefore, many of them (mainly weaving enterprises) received donor support. Furthermore, agriculture in Lesotho has failed to ensure a sustainable supply of raw materials to the non-farm enterprises because of low productivity caused mostly by drought and the poor quality of the soil. Therefore, improvement in agriculture is considered a prerequisite for the viability of non-farm industries in Lesotho. The major findings of rural development in Lesotho are summarised in Table 4.3 below.

Table 4.1: Summary of the major findings of rural development in Lesotho

Strategy	Period	Activities	Main Sector	Programmes	Link to Non-Farm	Non-Farm Enterprises	Type of labour	Enabling Policies	Source of Funding	Market
Colonialism	1930 - 1965	Control of soil erosion	Agriculture	Destocking and improving wool and mohair	Supply of wool and mohair	Weaving enterprises, Thabana-Li-'Mele cooperative	Unskilled	Roads, water, education	Foreign, (Sweden)	Foreign (Sweden), local
		Labour migration	Agriculture Rural areas	Recruitment	Supply of migrant labour remittances	Different types of non-farm enterprises			South African mines	
First Five Year Development Plan	1970/71 – 1974/75	Improving agriculture	Agriculture	Crop production and animal husbandry	Supply of raw materials	Agro-industries	Unskilled			
		Establishing industries	Industry	Lesotho National Development Corporation	Processing of raw material	Maluti Dairy	Skilled and unskilled	United Nations Children's Fund, Food and Agriculture Organisation, Canadian International Development Agency	Local	
Second Five Year Development Plan	1975/76 – 1979/80	Increasing agricultural productivity	Agriculture	Basic Agricultural Services Project - Area based agricultural development programmes; asparagus production, beans, peas	Supply of raw materials	Ago-industries	Unskilled	Food and Agriculture Organisation, Agricultural Development Fund, Co-op Lesotho	Local, Foreign, (Germany)	
		Processing	Non-farm industry	Canning asparagus, beans, peas	Direct link	Basotho Cannery	Skilled and unskilled	United Nations Development Programme; Del	European Union; West Germany	

									Monile Cooperation; Food and Agriculture Organisation,	
		Meat processing	Non-farm industry	Improve availability of meat	Supply of livestock	National Abattoir		Skilled and unskilled	Lesotho government	Local
		Improving non-farm enterprises	Non-farm industry	Basotho Enterprise Development Corporation, Village Industries Development Organisation	Facilitation	Handicrafts, weaving		Unskilled	Lesotho Government and Non-Governmental Organisations	Local, foreign
		Increasing productivity	Agriculture							
		Improving cooperatives	Industry	Lesotho Co-operative Handicrafts	Producing goods	Moteng Weavers		Unskilled	Foreign	Foreign and local
Third Five Year Development Plan	1980/81 – 1984/85	Decentralisation	Non-farm activities	Thaba-Tseka Integrated Development Project	Establishing non-farm enterprises; production of agricultural raw materials			Unskilled	Canadian International Development Agency, Lesotho Government	Local
		Improving production	Agriculture	Animal husbandry and crop production	Supply of raw materials	Agro-industries		Unskilled	Lesotho Government	Local
		Improvement of production	Industry	Meat deboning, packing, pig slaughter	Processing	National Abattoir & Feedlot Complex		Unskilled and Skilled	Lesotho government	Local
Fourth Five Year Development Plan	1986/87 – 1990/91									

		Tailoring, knitting	Industry	Textile products	Employment creation	Thetsane, Industrial and Maputsoe industrial centres	Unskilled		Lesotho Government	Foreign, African Growth and Opportunity Act
Fifth Five Year Development Plan	1991/92 – 1995/96	Macro-economic reforms	Agriculture	Reduction of agricultural subsidies, privatisation	Agricultural decline; participating in non-farm enterprises	Co-op Lesotho, Lesotho Agricultural Bank	Both Skilled and unskilled			
			Non-farm industry	Privatisation	Unemployment	Lesotho Flour Mills; National Abattoir	Skilled and unskilled			
Sixth Five Year Development Plan	1996/97 – 1998/99	Improving infrastructure; credit; training	Non-farm industry	Basotho Enterprise Development Corporation	Improving skills; technology	Small-scale non-farm businesses	Unskilled		Lesotho Government – Basotho Enterprise Development Corporation	

CHAPTER FIVE

CHARACTERISTICS OF THE RURAL NON-FARM SECTOR IN LESOTHO

5.1 Introduction

Chapter Two assessed the changing paradigms of rural development since 1950s. Chapter Three discussed the significance of the rural non-farm sector in respect of rural development in developing countries. It was argued in Chapter Three that rural non-farm activities contribute to livelihood, employment generation and income earning in significant ways. Chapter Four discussed the major rural development policies in Lesotho within the *Five Year Development Plans* and assessed how they contributed to the establishment and promotion of rural non-farm enterprises. It was argued in Chapter Four that for many years migrant labour remittances played an important role in the establishment of non-farm enterprises in Lesotho.

Against the above background, the aim of this chapter is to investigate the contribution of non-farm activities to rural development in Lesotho. This investigation is important for two reasons. First, the rural non-farm sector in Lesotho should be seen against the reality of a declining mining sector in South Africa and the subsequent job losses. Although the number of remittances to Lesotho increased in recent years, the overall number of families receiving these remittances has decreased in line with job losses in the mining sector in South Africa. Secondly, the non-farm rural sector should be seen against macro-economic reforms (Structural Adjustment Programmes) that were adopted in 1991 in Lesotho. In order to achieve the aim of this chapter, the main characteristics of the rural non-farm sector as discussed in Chapter Three will be compared with the attributes of the rural non-farm sector in Lesotho.

The chapter starts by looking at the reasons for the establishment of non-farm enterprises in Lesotho. Many people participate in non-farm enterprises mainly because of economic and social problems, such as poverty and unemployment. The chapter then discusses the profile of non-farm enterprises in Lesotho. Next, consideration is given to the sources of labour for non-farm enterprises. The chapter further discusses the financial aspects of non-farm enterprises and access to infrastructural services, such as electricity, water, telephones and roads. Lastly, the chapter looks at the contribution of non-farm enterprises to rural development.

5.2 Reasons for the establishment of non-farm enterprises

It was stated in Chapter Three that a significant percentage of rural people establish rural non-farm enterprises to diversify their livelihood options (Ellis 1998). In addition, the pull and push factors are also considered as the main determinants for establishment of non-farm enterprises. The pull factors are associated with some better paying activities in the non-farm sector, while the push factors are related mainly to the decline in agricultural productivity (Reardon, 1997). An assessment of the reasons for the establishment of non-farm enterprises in Lesotho shows that non-farm activities are not just for diversifying the livelihood options or ensuring better remuneration activities, but they are an issue of survival. Against this background, the three main reasons for the establishment of rural non-farm enterprises are discussed below.

5.2.1 Poverty and lack of employment opportunities

Poverty conditions seem to be one of the motivations for the involvement of individuals in rural non-farm activities. Responses such as: *“I could not get enough food for my family, and I decided to weave hats using grass for sale”* and *“it was very difficult to buy my children some clothes before I sell some traditional herbs”* were common among the answers. The above quotations indicate that a lack of basic needs, such as food and clothes are key contributors to an involvement in the non-farm sector. Closely related to poverty is the high unemployment rate in Lesotho that is estimated at 25% (Bureau of Statistics, 2009). The following response from one of the interviewees affirms this position when stating: *“...it is not very easy to get employment in Lesotho, especially when one is uneducated”*.

Poverty is often defined as an inability to attain a minimal standard of living measured in terms of basic consumption needs; or an income required to satisfy them; or an inability of individuals, households or an entire community to possess sufficient resources to satisfy their basic needs (World Bank, 1990). The qualitative assessment of poverty mentioned above is further confirmed by the contextualisation of poverty by the International Labour Organisation (2012). The International Labour Organisation indicates that the incidence of poverty is extremely high in Lesotho, where about 56.3% of people live below the poverty line; a factor which forces people to look for opportunities outside agriculture (Lay *et al.*, 2008).

5.2.2 Decline in agricultural productivity

A second reason (not disassociated from the poverty-related reasons provided above) is related to a decline in agricultural productivity. There are different reasons that have caused a decline in agricultural productivity in Lesotho, subsequently pushing people into non-farm activities. Three distinct factors should be mentioned. First, severe drought that often results in food insecurity is often mentioned. For example, one respondent said: ***“I could not get enough from my land because of severe drought that often affect subsistence production. I then quit farming and participate in brick making”***. Secondly, a historic exodus of many Basotho to South African gold mines, plantations and industries has left farming in the hands of women and children (Modo, 2001). At the same time there is also evidence of migrant labour supporting agriculture in Lesotho (Wallman, 1972). Overall, there is little doubt that declining agricultural production in Lesotho has forced people into non-farm activities, such as beer brewing, brick making, the construction of houses, thatching and weaving hats (Senaoana, Turner and van Apeldoorn, 1984).

Third, soil erosion has contributed to a shortage of land by decreasing arable land from 13% at independence, to 9% today (Love, 2007). Other studies indicate that declining arable land in Lesotho has resulted in about 40% of the population not having access to land for cultivation (Makenete *et al.*, 1998; Central Bank, 2003). One respondent whose land was affected by soil erosion said: ***“My agricultural land has shrunk from 6 to 4 acres because of soil erosion. I no longer get enough maize that can maintain my household to the next harvest season. I then decided to establish a fruit and vegetable business to supplement the meagre agricultural produce”***.

5.2.3 Supplementing incomes from the formal sector

There is also evidence that rural non-farm enterprises are being established to supplement incomes from the formal sector. A number of permutations of this scenario exist. First, some people establish enterprises operating full-time, while they are also working in the formal sector. For example, one respondent said: ***“I am working as a secretary in government, and established a hair salon to supplement my income”***. Second, some respondents use their spare time to engage in income generating activities. The following response affirms this: ***“I work as a motor mechanic for one private company, but on weekends and holidays I provide my services to people who need help and earn some extra money”***. These quotations suggest that multiple incomes are commonly found in Lesotho and that the rural

non-farm sector is a main source in this respect. The results also suggest that people are not only pushed into non-farm enterprises by unfavourable climatic conditions or unemployment (see Chapter Three), but because of low remuneration in the formal sector.

5.3 Profile of the non-farm enterprises

In order to assess whether non-farm enterprises in Lesotho contribute to rural development, it is worthwhile understanding the profile of the enterprises in relation to the major activities of the non-farm sector. In this respect, the following issues are assessed in more detail: educational level of entrepreneurs; vocational training of entrepreneurs; gender participation in rural non-farm enterprises; the age structure of rural non-farm workers; the type of ownership of rural non-farm enterprises; the place from which entrepreneurs operate; the date of the establishment of rural non-farm enterprises; the source of labour for rural non-farm enterprises; the scale of start-up capital for rural non-farm enterprises; access to infrastructure, such as roads, water, sanitation, electricity and telecommunication networks; the main source of livelihood for people participating in the rural non-farm sector; and lastly, the household expenditure of rural non-farm incomes.

5.3.1 Activities of rural non-farm enterprises

As indicated in the literature, the non-farm sector comprises heterogeneity of activities (see Chapter Three). The following Figure 5.1 presents different rural non-farm activities found in Lesotho as categorised within the manufacturing, trade, commerce and services sectors (see Figure 5.1). Although the sampling process has played a role in the outcomes represented in Figure 5.1, a number of important points should be made in this respect.

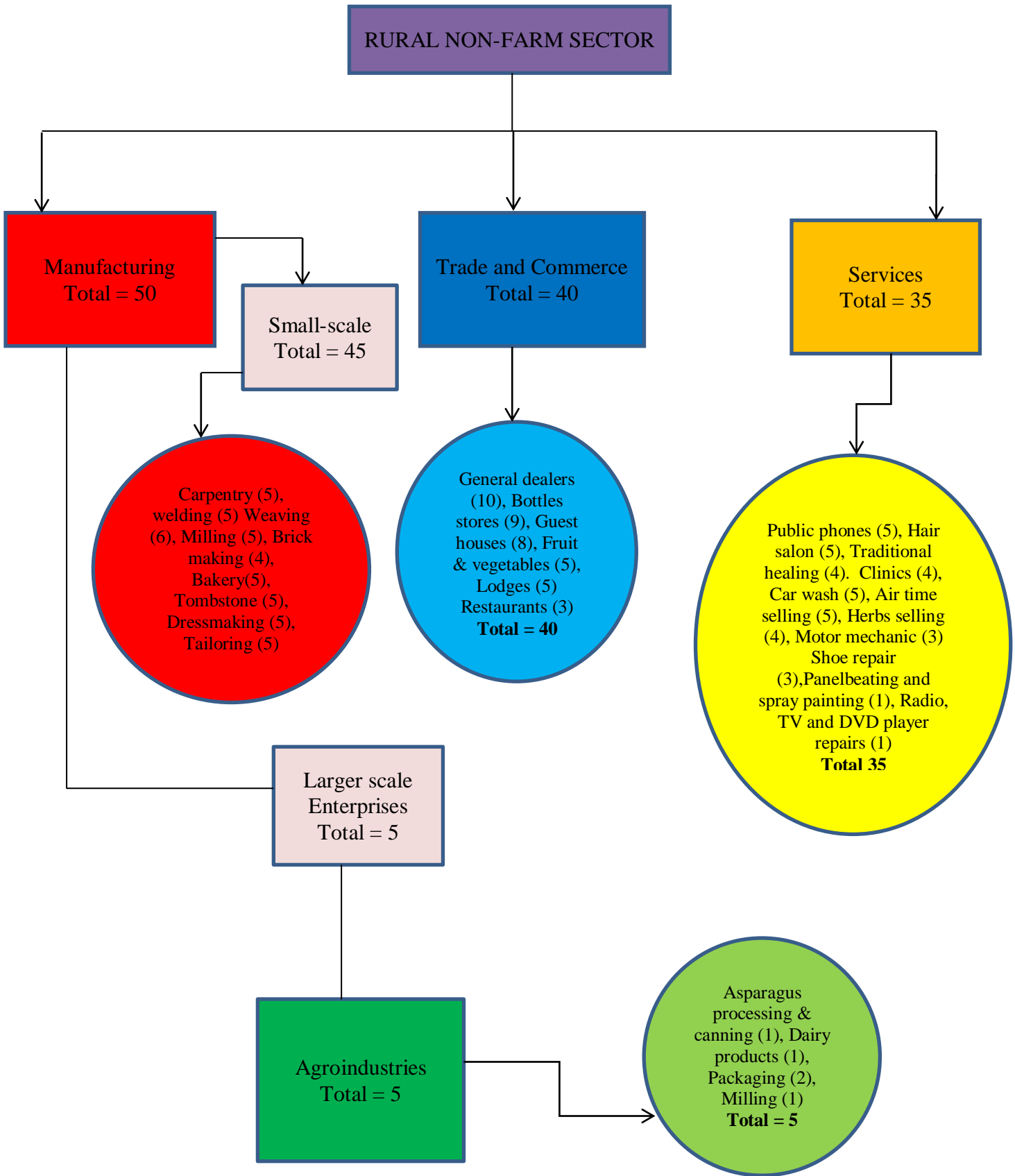


Figure 5.1: Schematic structure and distribution of types of the Rural Non-Farm Sector by sector category in Lesotho, 2010

It can be observed from Figure 5.1 that the rural non-farm sector is a collection of different activities, under different sectors. Manufacturing is composed of two main categories: the small enterprises (45); and the larger ones (5) which are all agro-processing enterprises. The smaller manufacturing enterprises are, in the main, home-based enterprises or enterprises which can be operated from home (carpentry, welding, weaving, etc). The larger agro-processing enterprises include enterprises that produce for the wider market (local and international) and turnover larger amounts of money per month. Trade and commerce industries include a number of retail outlets but the lodges and restaurants should be noted. In respect of services, the mainly low-scale service activities should be noted although clinics and vehicle repairs should receive more recognition.

5.3.2 Educational level of non-farm workers

Evidence from the literature discussed in Chapter Three states that many people employed in the non-farm sector in developing countries have a low level of education (Tellegen, 1997; Beyene, 2008). Against this background, respondents in the non-farm enterprises were asked to state their educational background and the results are presented in Table 5.1 below (a distinction is made between manufacturing, trade and commerce and services).

Table 5.1: Level of education of the respondents in the Rural Non-Farm Sector in Lesotho, 2010

Education		Manufacturing		Trade and commerce		Service		Total	
		N	%	N	%	N	%	N	%
Secondary or lower	None	6	12.0	7	17.5	9	25.7	22	17.6
	Primary	14	28.0	10	25.0	11	31.4	35	28.0
	Secondary	22	44.0	16	40.0	10	28.6	48	38.4
Sub-total		42	84.0	33	82.5	30	85.7	105	84.0
Tertiary	Certificate	3	4.0	3	7.5	3	8.6	9	7.2
	Diploma	4	8.0	2	5.0	2	5.7	8	6.4
	Degree	1	2.0	2	5.0	0	0	3	2.4
Sub-total		8	16.0	7	17.5	5	14.3	20	16.0
TOTAL		50	100.0	40	100.0	35	100.0	125	100.0

Source: Field data

Table 5.1 above confirms the international trends that many people participating in the non-farm sector have a low level of education. For example, 84.4% of people employed in the non-farm sector have secondary education or lower. No substantive differences are visible amongst the sectors, with 85.7% of service enterprises employing people with secondary education or lower levels, compared to 84.0% in manufacturing and 82.5% in trade and

commerce. The low level of education (for especially males) is, to some degree, associated with the historical dependence on mining in South Africa when young males left school to work on the mines. This employment transition from the South African mining industry to the non-farm rural sector for low-educated males is reflected in the following response from one of the entrepreneurs: ***“After completing primary education I was employed in the South African gold mines in 1988 and was retrenched in 1993. After retrenchment, I resorted to selling of traditional herbs to make a living”***. The practice of establishing an enterprise as a result of not finding a job due to low levels of education is further adequately summarised by the remarks of the following respondent: ***“I only attended school up to the primary level, and could not get a job. As a result, I established a business so that I can make a living”***. The above quotation suggests two important points. First, it confirms that finding employment with a limited educational level is extremely difficult. Second, it should be noted that the historical linkage with the South African gold mining industry in the absorption of unskilled labour has probably played a role in the low education levels of especially males in Lesotho. Once the gold mining industry started to shed jobs (Marais, 2013) the ability of these retrenched mine workers to find jobs was limited.

At the same time, it should be acknowledged that the government policies of providing free Primary Education resulted in significant percentages of people being literate: 83% for males and 95% for females (United Nations Educational, Scientific and Cultural Organisation, 2011). This notion is also currently being supported by the Millennium Development Goals. Although some scholars have noted that the value of basic education in enterprise formation should not be underestimated (Mukherjee and Zhang, 2007; Zuwarimwe, 2010), it is an open question whether basic secondary education provides skills for the establishment of enterprises in rural areas.

Despite the problems associated with low educational attainment, the above discussion also reveals that non-farm enterprises play an important role in employing people with a low level of education. It can therefore be argued that non-farm enterprises provide a means of survival for people on the periphery of society. However, it is probably this attribute which, at the same time, inhibits the long-term and sustainable growth of this sector.

5.3.3 Vocational and technical training for rural non-farm workers

It was stated in Chapter Three that people participating in the non-farm sector acquire production skills by looking at others. Against this background, the following Table 5.2 presents information on whether people employed in the non-farm sector in Lesotho have acquired production skills from formal training, vocational or technical training.

Table 5.2: Vocational and technical training of non-farm workers in Lesotho, 2010

		Manufacturing		Trade and commerce		Service		Total	
		N	%	N	%	N	%	N	%
Skill acquisition	Vocational training	13	26.0	17	42.5	8	22.9	38	30.4
	Outside formal training	37	74.0	23	57.5	27	77.1	87	69.6
TOTAL		50	100.0	40	100.0	35	100.0	125	100.0

Source: Field data

Table 5.2 above confirms evidence from the available literature that most people employed in the non-farm sector acquire production skills outside of formal training. For instance, 69.9% of the respondents acquired skills outside of vocational training. Although there are no significant sectoral differences, evidence shows that 77.1% of people employed in service enterprises have acquired production skills from elsewhere, compared to 74.0% in manufacturing and 57.5% in trade and commerce. Evidence shows that many people employed in the non-farm sector have acquired production skills from different sources. First, some people have acquired the skills from previous employment, especially from South African mines. The following response affirms this: *“I acquired the skills of carpentry when I was employed in the mines”*. Second, production skills are also acquired from social networks, such as family members. One respondent who acquired production skills from social networks (family members) responded: *“I acquired the skills of welding from my father who used to do the same job for the local construction company”*. One respondent who acquired production skills from social networks (from a friend) also indicated: *“I used to help my friend for catering in weddings, and I learned the skills of catering from her”*.

It can be concluded from the above discussion that many people participating in the non-farm sector did not acquire production skills from formal training. Some respondents have acquired production skills from social networks, while others from former employment (South African gold mines being a source). However, the implication of many people not

having formal vocational training in the non-farm sector can present difficulties when adopting new innovations through formal training programmes, such as workshops and short-term courses. As a result, many of the enterprises may fail to respond to the opportunities brought about by the liberalisation of trade, with opportunities of exporting to foreign markets becoming slim.

5.3.4 Gender participation in the non-farm sector

It was stated in Chapter Two that women play an important role in agricultural activities. Chapter Four also addressed the problem that historically, women in Lesotho have been responsible for agricultural activities, while men migrated to the South African mines. The available literature in Chapter Three emphasised the fact that rural non-farm enterprises, especially cottage industries, are owned mostly by women (Women in International Development, 1998; Liedholm and Mead, 1999). Furthermore, the historical context of Lesotho's providing male employees to the South African mining industry probably also implies that female owned enterprises in Lesotho (at least historically), should be more than male owned enterprises. Against this background, the research considers ownership of non-farm enterprises by gender in Lesotho (see Table 5.3).

Table 5.3: Ownership of non-farm enterprises by gender in Lesotho, 2010

	Manufacturing		Trade and commerce		Services		Total	
	N	%	N	%	N	%	N	%
Male	38	76.0	17	42.5	22	62.9	77	61.6
Female	12	24.0	23	57.5	13	37.1	48	38.4
Total	50	100.0	40	100.0	35	100	125	100.0

Source: Field data

The following observations can be made in respect of the data contained in Table 5.3 above. The results differ from the international trends in that rural non-farm enterprises owned by women are many in numbers. The current reality suggests that there are more males owned non-farm enterprises in Lesotho. In this respect, the largest percentage of the male owned enterprises (76.0%) is found in manufacturing, compared to 62.9% in the service sector and a smaller percentage in trade and commerce, 42.5%.

A number of reasons may contribute to these variances. First, the conservative notion of men as breadwinners is probably a contributing reason. In this regard one male respondent said: **“I**

am unemployed with my wife, but I have to take care of my family and parents who cannot work. I then decided to produce some tombstones so that we can survive". The second reason for more male owned enterprises than females ones (as opposed to the historical context where formerly, female employment in Lesotho was dominant) can be related to the implications of mine retrenchment in South Africa. The opportunity created by severance packages is well captured in the following words: *"I worked in the South African mines, but got retrenched in the past three years. I had to use some of my retrenchment package to establish a retail shop to support my family"*.

The substantial number of male owned enterprises in the non-farm sector is a direct result of Basotho men being retrenched in large numbers from the South African gold mines. However, the new forms of Lesotho-South African migration involving a larger number of female workers (Crush *et al.*, 2010) has probably also played a role in the higher degree of local male employment. This phenomenon (illegal women migration) illustrates a new form of labour migration from Lesotho to South Africa. It can be concluded that retrenchment in South Africa, as well as increased female migratory patterns have probably changed the dominant nature of female owned enterprises and employment in Lesotho.

5.3.5 Age structures of the respondents in the non-farm sector

Evidence shows that youth unemployment is estimated at 24.5% in Lesotho (Bureau of Statistics, 2009). In addition, the Central Intelligence Agency (2003) stated that the economically active labour force in Lesotho constituted 700 000 and about 35% of the active male wage earners were migrant labourers. Against this background, the following Table 5.4 presents data on whether the youth population is found in large numbers in the non-farm sector.

Table 5.4: Age structure of the respondents in the non-farm Sector in Lesotho, 2010

		Manufacturing		Trade and commerce		Service		Total	
		N	%	N	%	N	%	N	%
Youth	15 – 25	11	22.0	8	20.0	10	28.6	29	23.2
	26 – 35	12	24.0	10	25.0	14	40.0	36	28.8
Subtotal		23	46.0	18	45.0	24	65.7	65	52.0
Adults	36 – 45	12	24.0	10	25.0	6	17.1	28	22.4
	46 – 55	9	18.0	7	17.5	3	8.6	19	15.2
	56 – 65	6	12.0	5	12.5	2	5.7	13	10.4
Subtotal		27	54.0	23	55.0	12	34.3	60.0	48.0
TOTAL		50	100.0	40	100.0	35	100.0	125	100.0

Source: Field data

It is interesting to note from Table 5.4 that if the total sample is considered, 52.0% of the respondents are from the section of the population classified as youth (35 years and younger). The figures also suggest significant sectoral differences. In this respect, it should be noted that about 65.7% of the respondents in the service sector are aged 35 years and younger, compared to 46.0% from manufacturing and 45.0% in trade and commerce enterprises. These results suggest a different view from the available literature that the youth population is found in small numbers in the non-farm sector. The plight of young people seeking employment is well captured in the remarks of a youth who owns an air-time business: *“There are less employment opportunities in Lesotho, and I am looking forward to finding employment in the mines, and in the meantime, I am running an air-time business”*. The above remark probably indicates that non-farm employment is not considered a lifetime job because the aspirations of many young men are to find employment in the South African gold mines. This quest for employment in the South African mines can be explained by the fact that many Basotho who provide casual labour on daily basis, such as herding and working on the family farms consider themselves as unemployed; contrary to the perception that employment, especially in the South African mines, is considered work by many rural men (Mensah and Naidoo, 2013). Another youth who considers herself underemployed in the hairdressing business commented: *“Government promised to provide youth with some start-up capital in the year 2011 to establish own businesses, but this did not happen. As a result, some youth establish some refuge enterprises”*. Two concluding comments can be made in respect of the two quotations above. First, note should be taken of the expectation by the youth to find jobs in the mining sector or to find support from government. Both these possibilities seem extremely slim in the future; both were possibilities in the past. Secondly, consideration should be given to the word “refuge” which to some extent, reflects the feeling of being neglected.

5.3.6 Type of ownership of non-farm enterprises

The available literature suggests different types of ownership of non-farm enterprises in developing countries. However, the research indicates that most small-scale enterprises are owned by a single person. The literature further indicates that in some cases, a group of people work for a private entrepreneur (Starley and Morse, 1965), whereas in others, enterprises are cooperatively owned (see Chapter Four). Against this background, the respondents were asked to state the ownership components of their enterprises, and the results are presented in Table 5.5 below.

Table 5.5: Type of ownership of non-farm enterprises in Lesotho, 2010

	Manufacturing		Trade and commerce		Services		Total	
	N	%	N	%	N	%	N	%
Sole-owned – proprietorship	34	68.0	32	80.0	33	94.3	99	79.2
Co-ownership-partnership	8	18.0	8	20.0	2	5.7	18	14.4
Cooperative	4	8.0	0	0	0	0	4	3.2
Government	4	8.0	0	0	0	0	4	3.2
Total	50	100.0	40	100.0	35	100.0	125	100.0

Source: Field data

The results from Table 5.5 above support the international trends that many small-scale, non-farm enterprises are sole-owned. In this regard, the vast majority (79.2%) of non-farm enterprises are proprietorship or sole owned. The sole-owned enterprises are more likely to be found in the service sector (94.3%), compared to 80.0% in trade and commerce and 68.0% in manufacturing.

The research findings suggest a number of reasons why sole proprietorship is preferred by some entrepreneurs. First, is the need for self-employment, being one’s own boss and being flexible; these have been mentioned by some respondents. One respondent reflected on this need in the following words: *“In a proprietorship business I am self-employed, and can decide when to come to work or close the business. In addition, working alone allows me to stretch my working hours especially when customers are many”*. Secondly, there are also people who prefer working alone so that they can make independent and informed decisions about their businesses. In this regard, one respondent said: *“I prefer working alone because I can make decisions alone without consulting another person which can result in some delays”*. Working alone allows entrepreneurs to act on matters concerning business, thus avoiding bureaucracy (red-tape) and disagreements that may arise between business partners. Third, sole proprietorship is also seen by some as a logical choice considering the small profit margins; an aspect also noted in the literature (Wokorach, 1997). In this scenario, one entrepreneur working alone remarked: *“My business is very small in size and turn-over too little money; therefore, I do not want to share the profits with another person”*.

Another important form of ownership of non-farm enterprises is co-ownership or partnerships (14.4%). In this respect, Table 5.5 suggests that trade and commerce enterprises have the largest percentage of co-owned enterprises (20.0%), followed by manufacturing with 18.0% and the service sector with 5.7%. Three different reasons were articulated by the respondents for co-ownership of businesses. In the first place, co-ownership is related to increased levels of production. One respondent said: ***“Working together is very useful because it speeds up production. In addition, when I am sick my partner always takes over and we do not close the business”***. Secondly, co-ownership is motivated by the division of labour. In this respect one respondent indicated that ***“co-ownership is useful because we are in a position to divide tasks among ourselves, and we are in a position to produce and sell some different items in a day”***. Thirdly, co-ownership was seen as a mechanism to access enough capital. The ability to acquire the required capital is best summarised in the following response: ***“Capital resources are very scarce and business partnership allows scarce resources to be pooled together to establish a business venture”***.

The above table further reveals that cooperative ownership of non-farm enterprises is important in Lesotho, reflecting a small but significant percentage, 3.2%. Chapter Four discussed the importance of cooperatively owned enterprises dating back to the colonial period. The results of the survey show that cooperatively owned enterprises are found mostly in manufacturing, where 8.0% of the enterprises fall into this category. In this respect, one respondent said: ***“Cooperative is very important because it assures the available market and pooling of resources together. However, we often quarrel over profits in the cooperative because some people are free-riders”***. The above remark suggests that when people work together as a cooperative, they can overcome problems relating to the market and capital. However, cooperatives are faced with the problem of a lack of commitment on the part of some workers. Evidence shows that cooperatives were common among weaving enterprises in Lesotho, with many of them targeting the overseas market for their finished goods (Uys, 1970).

5.3.7 Place from which entrepreneurs operate

It was stated in Chapter Three that many small-scale enterprises work in close proximity to home so that entrepreneurs can also attend to family chores. However, a distinction is made between the places of operation for non-farm entrepreneurs (see Table 5.6).

Table 5.6: Place of operation for non-farm rural enterprises in Lesotho, 2010

Place of operation		Manufacturing		Trade and commerce		Service		Total	
		N	%	N	%	N	%	N	%
Own place (self-constructed shelters)	Home backyard	10	20.0	8	20.0	13	37.1	31	24.8
	Next to the main road/rendezvous	12	24.0	17	42.5	16	45.7	39	31.2
Subtotal		22	44.0	25	62.5	29	82.9	70	56.0
Government's established market places	Rural towns' markets	19	38.0	11	27.5	4	11.4	40	32.0
	Basotho Enterprise Development Corporation's stalls	9	18.0	4	10.0	2	5.7	15	12.0
Subtotal		28	56.0	15	37.5	6	17.1	55	44.0
TOTAL		50	100.0	40	100.0	35	100.0	125	100.0

Source: Field data

Table 5.6 reveals that entrepreneurs operate from two main distinct places: from their own residences (or self-constructed business shelters); and from government rented market places. The results show that about 56.0% of enterprises operate from own places and self-constructed business shelters. In this respect, the highest percentage of enterprises operating from own places and self-constructed business shelters is from service enterprises, 82.9%, compared to 62.5% of trade and commerce enterprises and 44.0% of manufacturing enterprises. The respondents who work from own places and self-constructed business shelters provided different reasons for choosing the place of operation. One respondent said: *“I operate my business from home because rent is very expensive in town where the market fee is M200 per month”*. Another respondent who operates a business from home also responded: *“My father owned this site, and I decided to establish my workshop here to avoid some expenses on rent”*. These results may suggest that charges for rent can reduce the profit margins for non-farm enterprises. Therefore, in order to cut rent costs, some non-farm enterprises work from home. The results may further suggest that, many non-farm enterprises operate close to home and from self-constructed business shelters in order to reduce transaction costs on transport, especially bus fares.

One respondent who operates from a government established market place in a rural town indicated the choice of place of operation in these words: *“I wanted to work in town where there are many people and better market”*. These results indicate that the choice of place is influenced by the availability of the market and the rental costs. Therefore, enterprises tend to

operate from places that are not too expensive so that they can make a profit. In addition, other enterprises locate in rural towns where the market is large and economic opportunities such as making a profit are more feasible.

Table 5.6 further reveals that about 44.0% of enterprises operate from government established market places. The large number of enterprises operating from government established market places involves manufacturing, 56.0%, compared to 37.5% of trade and commerce enterprises, and a relatively smaller number of service enterprises, 17.1%. There are two reasons for locating an enterprise in the market area. First, enterprises tend to cluster together where there are many potential customers. For instance, one respondent who is operating from a government market said: *“My carpentry business is located in the Mafeteng government market where customers are many because of goods provided by different businesses”*. The above research findings may suggest that non-farm enterprises in the market place work in close proximity to one another. In this respect, the results contradict the literature that non-farm enterprises are scattered and work in isolation from one another. The second reason is for information dissemination among enterprises. For instance, another carpentry entrepreneur working in a government market said: *“Enterprises producing the same goods are many in the government market. Therefore, it is easy to learn new methods of production from other producers. In addition, it is also easy to lend or borrow tools from each other”*. To some degree, the response of the above entrepreneur suggests a form of cluster being present, where formal and informal learning and support are commonly utilised. These research findings further indicate that information dissemination is an important consideration for enterprises working close to one another. As a result, innovation can be promoted. The above comments suggest that enterprises working close to one another tend to benefit from the positive externalities spilling over from other enterprises. Furthermore, enterprises working close to one another are often commended for enabling the state to reach them more easily with infrastructural services, such as electricity (Moyi, 2003). However, it should be noted that the kind of clustering formed by the non-farm enterprises in the market area is not the formal type of clustering that is mostly established by governments and often referred to as industrial districts or agglomerations in countries such as India (Saith, 2001) and Ghana (Appiah-Kubi, 2001). The centre that is most common among textile industries in Lesotho, is referred to as a growth pole centre by Mashinini (2001).

It should be noted from the above discussion that many non-farm enterprises tend to operate from own-self-constructed business shelters. These findings seem to provide a different view from the available literature that many governments, after independence, provided a number of economic and social incentives, such as workshops to attract entrepreneurs (see Chapters Three and Four).

5.3.8 Date of establishment of the enterprise

Evidence from the literature suggests that internationally, many non-farm enterprises were established during the period of Structural Adjustment Programmes in the 1980s (see Chapters Two and Three). In Lesotho this phase of structural adjustment appeared only in the 1990s and coincided with the retrenchment of Basotho men from the South African gold mines. An attempt was made to determine whether the same trend was also applicable to Lesotho (see Table 5.7).

Table 5.7: Date of establishment of non-farm enterprises in Lesotho, 1911-2010

Established during:		Manufacturing		Trade and commerce		Services		Total	
		N	%	N	%	N	%	N	%
Colonialism	1911-1959	2	4.0	0	0	0	0	2	1.6
	1960-1969	0	0	0	0	0	0	0	0
Subtotal		2	4.0	0	0	0	0	2	1.6
Integrated Rural Development Programmes	1970-1979	4	8.0	2	5	1	2.9	7	5.6
	1980-1989	6	12.0	4	10.0	1	2.9	11	8.8
Subtotal		10	20.0	6	15.0	2	5.7	18	14.4
Structural Adjustment Programmes and Retrenchment of Basotho mine workers	1990-1999	14	28.0	12	30.0	7	20.0	33	26.4
	2000-2010	24	48.0	22	55.0	26	74.3	72	57.6
Subtotal		38	76.0	34	85.0	33	94.3	105	84.0
TOTAL		50	100.0	40	100.0	35	100.0	125	100.0

Source: Field data

Table 5.7 above confirms the international trends of many non-farm enterprises being established during the downsizing process. In this case many non-farm enterprises in Lesotho were established during the downsizing in the South African Goldfields and the public sector in Lesotho. However, the table further indicates that a significantly small number of non-farm enterprises were established during the colonial period. In this regard, for the sampled

non-farm enterprises, about 1.6% of them were established between 1911 and 1959. Enterprises that were established during colonialism in the sample were mainly of the manufacturing type, and were found in the weaving subsector. For example, the Leribe Craft and Home Economics School, the now Leribe Craft Centre, was established in 1911, and Tully Crafts (PTY) Ltd, the now Setsoto Design and Weaving Gallery (PTY) was established in 1959. Many non-farm enterprises established during the colonial period were mainly a result of the Community Development Approach. For example, many weaving enterprises established in the 1960s and 1970s received bilateral assistance and aid from international Non-Governmental Organisations (Uys, 1970).

Table 5.7 further indicates that about 84.0% of non-farm enterprises were established since 1990. For example, 94.3% of service enterprises were established since 1990, compared to 85.0% in trade and commerce and 76.0% in manufacturing. The large number of enterprises established since 1990 and after, can be linked to two major factors. Many non-farm enterprises were established during the period of Structural Adjustment Programmes in Lesotho. This is best captured in the following remark by one of the respondents ***“I worked at the National Abattoir as a driver. I lost the job when the company was privatised. However, I managed to establish a brick work company with the package”***. Linked to the direct privatisation processes, the cuts in agricultural subsidies by government probably also played a role. For example, one former subsistence farmer remarked: ***“Prices on agricultural inputs increased between 1992 and 1999 because government stopped subsidising farmers. It was then very expensive to invest in agriculture; as a result, I quit and established a small welding business”***.

Second, the retrenchment of Basotho men from the South African mines, especially from the Free State Goldfields increased (Mensah and Naidoo, 2011; Marais, 2013). For example, one former mine worker who was retrenched during the downscaling remarked: ***“I was employed in the South African mines in 1983 and I was retrenched in 1998. I used retrenchment package and training provided to the retrenched people to start a small businesses”***. The research findings suggest that the number of people who might have lost their jobs in the South African gold mines increased in the 1990s through to the new millennium. Evidence reveals that the number of Basotho men working in South Africa has been in decline since the early 1990s because of declining gold prices on the international market, mechanisation and a preference for South African labour. For instance, studies show that the number of Basotho

men working in the South African Gold Mines declined from 118 220 in 1992 to 116 727 in 1993 (Central Bank of Lesotho and Bureau of Statistics, 1995). The numbers further declined from 101 262 in 1996 to 95 913 in 1997 and from 56 357 in 2004 to 52 450 in 2005 (Bureau of Statistics, 2007). Recent statistics show that the number of migrant labourers declined from 41,555 in the year 2010 to 41,427 in the year 2011 (Central Bank of Lesotho, 2012). The heavy reliance on migrant incomes suggests that the rural sector is now confronted by a high level of poverty (Uwechue, 1991). In addition, many people who were retrenched from the South African mines add to the number of unemployed people, thus increasing the unemployment rate. As a result, many retrenchees have found non-farm activities as alternative source of income, and in fact, many retrenchment programmes from the mines included enterprise skills creation elements. The research findings further suggest that the South African gold mines played an important role in rural development in Lesotho, mainly concerning financing agriculture and non-farm activities (Wallman, 1972; Murray, 1981; Cobbe, 1983).

It can be concluded from the above discussion that although many non-farm enterprises were established before the 1990s, the largest proportion was established post 1990. There is thus a direct relationship between the implementation of Structural Adjustment Programmes and the retrenchment of mine workers in the South African mines. Therefore, it is correct to argue that many non-farm enterprises in Lesotho were established during the Structural Adjustment Programmes and with the retrenchment of Basotho men from the South African Gold mines.

5.4 Source of labour for rural non-farm enterprises

Labour is very important for the operation and production of non-farm enterprises. The available literature indicates that non-farm enterprises in developing countries use mostly family labour (see Chapter Three). Against this background, the following Table 5.8 sets out the source of labour for rural, non-farm enterprises in Lesotho.

Table 5.8: Average percentage of labour force recruited by non-farm enterprises in Lesotho, 2010

Source of labour	%
Your household	24.8
Other family members	19.1
From the nearby community	26.0
From elsewhere	30.1
Total	100.0

Source: Field data

Table 5.8 contradicts the international trends that non-farm enterprises use large percentages of labour from household members. For example, the results show that the highest average percentage of the labour force, 30.1%, in the non-farm sector is recruited from other places. From the qualitative data, three perceptions seem to drive the employment of people from elsewhere. First, the perception seems to exist that people recruited from elsewhere always report for work. One respondent whose business uses labour recruited from elsewhere said: *“People from other places do not always abscond from work like the local ones who are often busy with their family businesses”*. A second perception that exists is that people from distant places are less involved in theft compared to the local ones. The following comment confirms this: *“People from the local place are often involved in stealing goods in the business for use in their families”*. Third, it is easy to work with people from elsewhere who do not know the personality of the business owner. One respondent affirmed this: *“I do not prefer working with the local people because some of them take chances of your personality when you are a nice and friendly person”*.

Although non-farm enterprises in the study recruit a large percentage of their labour force from elsewhere, evidence from the literature indicates that family labour is preferred because is mostly not remunerated (see Chapter Three).

5.5 Financial aspects of the rural non-farm sector

It is discussed in Chapter Three that many non-farm enterprises received funding mainly from government after independence. However, the macro-economic reforms that were adopted in the 1980s in many developing countries urged governments to cut expenditure on assisting small-scale producers (see Chapter Two). Against this background, the following sections analyse the source and scale of capital for establishing non-farm enterprises.

5.5.1 Scale of start-up capital for rural non-farm enterprises

The amount of start-up capital used by non-farm enterprises differs among enterprises. It is discussed in Chapter Three that non-farm enterprises use a small amount of start-up capital elsewhere (Zuwarimwe and Kristen, 2011). Respondents were asked to state the scale of start-up capital for non-farm enterprises and the results are presented in Table 5.9.

Table 5.9: Scale of start-up capital for non-farm enterprises in Lesotho, 2010

Start-up capital	Manufacturing		Trade and commerce		Service		Total	
	N	%	N	%	N	%	N	%
<M5000	27	54.0	26	65.0	25	71.4	78	62.4
M5000-M50 000	16	32.0	10	25.0	9	25.7	35	28
Subtotal	43	86.0	36	90.0	34	97.1	113	90.4
M50001-M100 000	4	8.0	3	7.5	1	2.9	8	6.4
M100 000-M1mil	2	4.0	1	2.5	0	0	3	2.4
Subtotal	6	12.0	4	10	1	2.9	11	8.8
M1 mil-M10 mil	1	2.0	0	0	0	0	1	0.8
Above M10 mil	0	0	0	0	0	0	0	0
Subtotal	1	2.0	0	0	0	0	1	0.8
TOTAL	50	100.0	40	100.0	35	100.0	125	100.0
Average start-up capital	M234550.00		M150375.00		M9714.27		M144660.00	

Source: Field data

According to Table 5.9 rural non-farm enterprises use an average of M144660.00 as start-up capital. The results show that manufacturing used the largest average start-up capital, M234550.00 compared to trade and commerce that used M150375.00 and service enterprises M9714.27². The largest amount of average start-up capital in manufacturing could be explained by the high costs of manufacturing equipment and raw materials used for processing. In this regard, the above results provide a different view from the available literature that one needs a small amount of capital to start a small-scale enterprise.

It can be noted from the above discussion that the average amount of start-up differs considerably among sectors. However, taking into account the high unemployment rate and high retrenchment of Basotho men from the South African mines, many people cannot afford the average amount of money that is needed to start a small-scale enterprise (except for people who used the mine retrenchment packages), and the implication of this is a high prevalence of poverty.

5.5.2 Source of start-up capital for establishment of the rural non-farm enterprises

It was stated in Chapter Three that a significant percentage of small-scale enterprises are not supported by some commercial lending institutions because the applicants are not credit-worthy. Against this background, the respondents were asked to state the source of their start-up capital, and the results are presented in Table 5.10 below.

² These amounts were not adjusted for inflation as the date of start-up differs considerably among non-farm enterprises.

Table 5.10: Source of start-up capital for establishment of non-farm enterprises in Lesotho, 2010

Source of start-up capital		Manufacturing		Trade and commerce		Service		Total	
		N	%	N	%	N	%	N	%
Personal and Social networks (groups)	Own savings	25	50.0	29	72.5	22	62.9	76	60.8
	Relatives and friends	5	10.0	4	10.0	6	17.1	15	12.0
	Members' contributions	7	14.0	2	5.0	0	0	9	7.2
Subtotal		37	74.0	35	87.5	28	80.0	100	80.0
Lending institutions	Micro-credit institutions	0	0	2	5.0	0	0	2	1.6
	Government (BEDCO)	3	6.0	0	0	0	0	3	2.4
	Commercial banks	4	8.0	3	7.5	3	8.6	10	8.0
Subtotal		7	14.0	5	12.5	3	8.6	15	12.0
Assistance	Donors' funds	6	12.0	0	0	0	0	6	4.8
	Local business people	0	0	0	0	4	11.4	4	3.2
Subtotal		6	12.0	0	0	4	11.4	10	8.0
TOTAL		50	100.0	40	100.0	35	100.0	125	100.0

Source: Field data

The results from Table 5.10 provide a different view from the international trends that micro-credit institutions are the dominant source of funding for many non-farm activities. In this regard, 80.0% of non-farm enterprises used personal savings and savings from social networks to set up non-farm enterprises. The research findings show that at the sectoral level, 87.7% of trade and commerce enterprises use savings and capital from social networks compared to 80.0% of service enterprises and 74.0% of manufacturing enterprises. The quantitative data results are confirmed by the qualitative information and in many cases, linked to previous employment in South Africa or formal employment in Lesotho. For instance, one respondent who used his own savings said: *“I used to save some money while working in South African mines; I then used it to establish a retail shop”* and *“I was employed in government, and upon retirement, I used my pension package to establish a Guest House”*.

The results from the above table may suggest that it is not easy for non-farm entrepreneurs to secure loans from micro-credit institutions or commercial banks. As a result, they use their own savings. In this respect, one respondent who could not secure a loan from a bank remarked: *“I used my own savings to start a business because it is difficult to get a loan from the commercial banks if one does not have enough money that can be used as a security in his/her bank account”*. Another respondent said: *“I used money from my own*

savings because I failed to secure a loan from one micro-credit institution because I am unemployed and do not have a guarantor". The above quotations suggest that a lack of collateral restricts small-scale entrepreneurs from getting loans from commercial lending institutions.

It can be observed from the above table that capital sourced from social networks, mainly from relatives and friends, forms an important source of start-up capital in the rural non-farm sector. One respondent who used capital sourced from relatives and friends to start a business remarked: *"I borrowed money from my uncle who is working in the South African mines to start a mini shop because I did not have sufficient money to start a business"*. The above comment indicates that it is not only the migrant labourers' families that benefit from the remittances for establishing non-farm enterprises, but also the relatives, who use the migrant labourers' remittances (borrowed in this sense) to establish businesses. Another respondent stated the advantages of borrowing from friends in the following words: *"I used money borrowed from my friend to start a welding business because the loan was interest free, and there was no security required for the loan"*. The above quotation indicates that social relations enable the provision of loans to needy relatives free of interest. Capital from friends and relatives is also preferred because of the easy terms of payment. In this respect, one respondent said: *"I borrowed money from my friend to start a mini-tuck shop because the terms of payment are negotiable. In addition, my friend trusts me, and does not think that I will disappear without paying him back"*. It can be noted that social relations play an important part in the establishment of non-farm enterprises. In this regard, close friends assist one another in alleviating social problems, such as poverty and unemployment. It is often easy for close friends to help one another because of the trust developed among them. In addition, the success of one friend in business means the success of another, because helping one another is very common among close friends.

The results from the above discussion indicate that migrant labourer remittances play a pivotal role in the rural development of Lesotho. Furthermore, the privatisation of some government lending institutions has left entrepreneurs with no option but to seek loans from private commercial lending institutions that charge interest rates as high as 25% to 30% of the loan per annum (see Ministry of Trade and Industry, Cooperatives and Marketing, 2008).

Although some lending institutions, especially micro-credit institutions, are commended for ensuring the availability of credit to the marginalised segments of society, such as women and small-scale producers (Mashinini, 2002), a relatively small percentage (12.0%) of non-farm enterprises use capital from them. For example, about 14.0% of manufacturing enterprises use capital sourced from lending institutions, compared to 12.5% of trade and commerce, and 8.6% of service enterprises. The results suggest that many entrepreneurs are not willing to borrow money from lending institutions for various reasons. In this respect, one respondent who does not have a savings account with a micro-lending institution affirmed: ***“I wanted to borrow some money from Boliba Savings to start a catering business for Free Primary Education Programme. However, the condition was to open an account with the institution so that when the Ministry of Education deposits payments into my account, Boliba Savings could deduct part of the money to repay the loan”.***

It can be inferred from the above findings that very few enterprises use money from micro-credit institutions. The implication of this is that capital from own savings, friends and relatives might not be available at all times.

5.6 Access to infrastructure by the non-farm enterprises

It was stated in Chapter Three that the availability of infrastructure plays an important role in the functioning of non-farm enterprises (Davis and Bezemer, 2004). Against this background, the study sought to establish the level of satisfaction with the availability and provision of the different infrastructural services entrepreneurs required for the smooth operation of their businesses. The results are reflected in Table 5.11 below.

Table 5.11: Satisfaction with infrastructure by non-farm enterprises in Lesotho, 2010

Types of infrastructure	Satisfaction level	Manufacturing		Trade and commerce		Services		Total	
		N	%	N	%	N	%	N	%
Roads	Satisfied	15	57.7	24	64.9	30	85.7	69	70.4
	Dissatisfied	5	19.2	3	8.1	1	2.9	9	9.2
	Do not have access/ use	6	23.1	10	27	4	11.4	20	20.4
		26	100	37	100	35	100	98	100
Water supply	Satisfied	18	52.9	20	50	13	48.1	51	50.5
	Dissatisfied	6	17.6	8	20	5	18.5	19	18.8
	Do not have access/ use	10	29.4	12	30	9	33.3	31	30.7
		34	99.9	40	100	27	99.9	101	100
Sanitation Facilities	Satisfied	10	37	28	82.3	20	60.6	58	61.7
	Dissatisfied	12	44.4	2	5.9	5	15.2	19	20.2
	Do not have access/ use	5	18.5	4	11.8	8	24.2	17	18.1
		27	99.9	34	100	33	100	94	100
Electricity	Satisfied	12	34.3	17	45.9	22	64.7	51	48.1
	Dissatisfied	9	25.7	8	21.6	2	5.9	19	17.9
	Do not have access/ use	14	40	12	32.4	10	29.4	36	34
		35	100	37	99.9	34	100	106	100
Land lines	Satisfied	8	28.6	14	63.6	12	63.2	34	49.3
	Dissatisfied	0	0	0	0	0	0	0	0
	Do not have access/ use	20	71.4	8	36.4	7	36.8	35	50.7
		28	100	22	100	19	100	69	100
Mobile phones	Satisfied	36	81.8	29	82.9	20	83.3	85	82.5
	Dissatisfied	0	0	0	0	0	0	0	0
	Do not have access/ use	8	18.2	6	17.1	4	16.7	18	17.5
		44	100	35	100	24	100	103	100
Internet	Satisfied	5	29.4	7	30.4	2	7.7	14	21.2
	Dissatisfied	0	0	0	0	0	0	0	0
	Do not have access/ use	12	70.6	16	69.6	24	92.3	52	78.8
Subtotal		17	100.0	23	100.0	26	100.0	66	100.0

Source: Field data

Table 5.11 contradicts the literature that infrastructure remains a problem in the non-farm sector. This is because 48.1% of non-farm enterprises are satisfied with provision of electricity. The results at the sectoral level show that 64.7% of service enterprises are satisfied compared to 45.9% of trade and commerce enterprises, and 34.3% of manufacturing enterprises. The large number of enterprises that are satisfied with the provision of electricity can be explained by many non-farm enterprises that were sampled on the periphery of towns where provision of infrastructural services is high. In addition, the large number of service

enterprises that are satisfied with the provision of electricity can be associated with the fact that many service enterprises do not use the electricity that manufacturing and trade and commerce enterprises use. This is proved by the results that show that 25.7% of manufacturing and 21.6% of trade and commerce are dissatisfied, relative to 5.9% of service enterprises, with provision of electricity. There are different reasons that cause entrepreneurs in these sectors to be dissatisfied with the provision of electricity. First, the provision of electricity is unreliable. One respondent affirmed: ***“My business depends on electricity supply for keeping the meat products fresh. However, sometimes unexpected electrical power cuts from the main station often last for some hours and this affects some meat products in the refrigerator”***. The results suggest that electricity supply is unreliable and this affects mainly businesses that trade in perishable goods.

Second, 34.0% of non-farm enterprises do not have access or are not connected to electricity. For example, 40.0% of manufacturing enterprises are not connected to electricity compared to 32.4% of trade and commerce and 29.4% of service enterprises. In this respect, one respondent whose business is not connected to electricity remarked: ***“It is very expensive to connect electricity to my workshop. Therefore, I use some simple tools that do not need electrical power”***. The results indicate that it is not easy for non-farm enterprises to connect to electricity. As a result, entrepreneurs resort to the use of simple technologies that need only manual power. Another respondent further expressed his dissatisfaction with access to electricity in these words: ***“My business specialises in welding, but there is no electricity supply in the village. I have to use a small generator that often fails to power some larger welding machines”***. It can be noted from the above comment that a lack of electricity promotes the use of low power machines as alternative sources of energy; as a result, production is affected.

Third, some enterprises are located far from electricity supply points. In this respect, one respondent confirmed: ***“My business is operating from the open space where there is no electricity, and I cannot use some machines that can speed up production. As a result, I cannot produce a variety of goods”***. These results suggest that a lack of electricity among non-farm enterprises restricts entrepreneurs from producing different kinds of goods to satisfy different consumer needs. Evidence shows that enterprises that have access to electricity engage in a wider range of non-farm activities compared to those without electricity who are restricted to the production of fewer items (Gibson and Olivia, 2009).

It can be inferred from the above discussion that a lack of electricity results in some non-farm enterprises using simple and labour-intensive technologies that are associated with low productivity. The implication is that enterprises that use simple technologies will be outperformed in the market by enterprises that use sophisticated technologies that are mainly powered by the use of electricity. In addition, a lack of electricity may discourage enterprises from urban areas relocating to rural areas, thus decreasing investment opportunities.

The above Table 5.11 also reveals that 70.4% of non-farm enterprises are satisfied with the condition of the roads. The results of the survey show that 85.7% of service enterprises are satisfied compared to 64.9% of trade and commerce and 57.7% of manufacturing enterprises. The discrepancy in the number of enterprises that are satisfied with the condition of roads can be linked to the large number of enterprises sampled on the periphery of rural towns where places are accessible. Furthermore, the large number of service enterprises that are satisfied with the condition of the roads may be explained by their lack of reliance on roads for the transportation of goods compared to enterprises in other sectors, especially manufacturing. In this respect, 27.0% of trade and commerce show dissatisfaction with the condition of the roads relative to 23.1% of manufacturing and 11.4% of service enterprises. One respondent from manufacturing who is not satisfied with the condition of the roads expressed his dissatisfaction in these words: ***“My business used dirt roads for transporting goods to urban markets, and the roads are of poor quality because they are not regularly maintained, and this makes transportation not easy”***. These research findings suggest that travel by roads is very difficult especially for enterprises that rely on road transportation for finished goods, services and raw materials. When roads are not in good condition entrepreneurs find it difficult to transport raw materials and finished goods to urban markets (see Gibson and Olivia, 2009). Evidence shows that Lesotho’s terrain makes travel very difficult (Morojele, 2012), and this affects the transportation of goods and the delivery of services.

It can be argued from the above discussion that a lack of a good road network between rural and urban areas creates the rural-urban divide that resulted in urban bias in the 1980s. In this respect, poor roads restrict non-farm enterprises from benefiting from the diffusion of technologies from urban enterprises and market opportunities in urban areas.

It can further be observed from Table 5.11 that 82.5% of enterprises are satisfied with the infrastructure that enables the use of mobile phones for communication purposes. For example, 83.3% of service enterprises are satisfied with the use of mobile phones, relative to 82.9% of trade and commerce enterprises and 81.8% of services. A respondent who is satisfied with the use of mobile phones for communication purposes responded: ***“I often use the cell phone to make orders in the urban area for my business. I no longer have to travel and incur the high transport costs”***. The results indicate that telecommunication networks have reduced the transaction costs incurred in travelling between rural and urban areas. In this respect, the use of cell phones is more convenient for communication purposes.

Another important form of communication is the internet. It is evident from Table 5.11 that 78.8% of non-farm enterprises do not have access to, or use the internet. This is evident from the data which show that 92.3% of service enterprises do not have access to, or use the internet, relative to 70.6% of manufacturing and 69.6% of trade and commerce enterprises. The large number of service enterprises that do not have access to or use the internet can be explained by the fact that many service enterprises are survivalist; selling goods, such as medicinal herbs and air-time, as most of them cannot afford internet charges. Although a large percentage of non-farm enterprises are not connected to the internet, such facilities are used for advertising purposes. For example, some weaving enterprises use the internet to advertise goods on the international market. One respondent from Elelloang Basali Weavers (PTY) Ltd indicated: ***“My business advertises tapestries, shawls, jackets, pillowcases and some other items on the enterprise’s website. As a result, we get orders from as far as Germany”***. The results reveal that the use of the internet promotes international trade that can result in foreign exchange earnings by non-farm enterprises. These findings confirm the international trend that globalisation has brought some opportunities to non-farm enterprises.

It can be noted from the above discussion that non-farm enterprises make use of some advanced communication networks to market or promote businesses. However, the literature is silent about the methods and techniques used to market goods produced by non-farm entrepreneurs. Therefore, one can argue that the use of internet facilities by some small-scale non-farm enterprises in Lesotho provides an interesting research finding.

5.7 Rural non-farm sector and development

The available literature states that agriculture was formerly used as the main source of livelihood for many people in poor countries (see Chapter Three). However, due to the decline in agricultural productivity caused by unfavourable agro-climatic conditions, many people are turning to non-farm activities as a means of making a living (Reardon, 1997). Therefore, non-farm incomes are used to provide the means of sustenance for many people.

5.7.1 Main source of livelihood for people participating in the rural non-farm sector

The available literature in Chapter Three suggests that a mix of income derived from agriculture and from non-farm income is common (Reardon, 1997). It is important to establish the percentage that non-farm or farm incomes contribute to the livelihoods of the respondents. Against this background, the percentages that farm and non-farm sources of incomes contribute to the livelihood of the respondents are presented in the following Table 5.12.

Table 5.12: Average percentage of livelihood derived from different livelihood sources in Lesotho, 2010

Type of livelihood	Average %
Non-farm business income from this business	35.3
Non-farm business income from other businesses	21.7
Farming income: crops	8.1
Farming income: stock	10.4
Assistance / remittances from family / friends	24.7
Social transfer from government (e.g. pensions)	0
Total	100.0

Source: Field data

It seems evident from Table 5.12 that respondents derived a significant percentage of their livelihood from non-farm incomes. In this respect, the results indicate that respondents derive an average of 57.0% of their livelihood from non-farm incomes, while agriculture accounts for 18.5% of their livelihood. The high average percentage of incomes derived from the non-farm sector can be explained by low agricultural productivity that often results in food insecurity in Lesotho. In this regard, one respondent affirmed: *“Agricultural production could not sustain my family for over six months after harvest, and I use non-farm business incomes to meet the needs of the family”*. A full discussion of the reasons for the decline in agricultural productivity is not within the scope of this thesis but overall, it is commonly related to the migration of many Basotho men to the South African mines (Wallman, 1972; Ferguson, 1985b), drought and soil erosion (Wellings, 1986) and the Structural Adjustment

Programmes in the early 1990s, which meant that farmers could not access agricultural subsidies (Makenete *et al.*, 1998). At the same time, it should be acknowledged that a symbiotic relationship existed between migrant labourer remittances and agriculture in Lesotho (Wallman, 1972).

Although the statistics show that agriculture employs more than 70% of rural people in Lesotho (Central Bank of Lesotho, 2003) the value of non-farm employment should not be underestimated. It is evident from the above table that many people derive a large percentage of their means of livelihood from non-farm business incomes relative to agricultural incomes. These findings are in line with the international trends that, on average, people earn higher incomes from non-farm activities than from agriculture (Jonasson and Helfand, 2009). However, evidence shows that agriculture is considered the main source of livelihood elsewhere, but in Lesotho, non-farm incomes are the main source of livelihood. Therefore, it is correct to argue that for many people, non-farm business incomes in Lesotho can be considered the main sources of livelihood, while agricultural incomes are supplementary. In this respect, the results of the survey contradict the literature which suggests that non-farm incomes are used to supplement agricultural incomes (see Thebe, 2012).

5.7.2 Household expenditure of rural non-farm incomes

It was indicated in Chapter Three that rural non-farm incomes are used to cater for different households needs, especially financing agriculture. The respondents were asked to state how they spent their non-farm incomes, and the results are presented in the following Table 5.13.

Table 5.13: Household expenditure of non-farm incomes in Lesotho, 2010

Item	Average expenditure in Maloti	Item	Average expenditure in Maloti
Housing	0	Pay back loan	M1075.00
Rental	M368.67	Health care	M84.12
Bond	0	Paraffin / fuel	M145.95
Clothing	M597.94	Alcohol	M138.42
Education – after-care	0	Smoking	M61.90
Pre-school	M127.80	Food	M415.38
Primary school	M133.00	Transport	M283.36
Secondary school	M339.22	Telephone	M80.74
Tertiary	M1500.00	Support for family elsewhere	M322.00
Rates	0	Entertainment	0
Water and electricity	M166.81		
Sub-total	M3233.44		M2606.87
TOTAL EXPENDITURE			M5840.31

Source: Field data

Information in Table 5.13 supports the international trends that non-farm incomes are used to improve the living standards of people. It is evident from the above Table that a significant amount of the average non-farm incomes are mostly used to meet the basic needs of people, such as clothing, food, education and others. The results reveal that on average, the respondents use M1500.00 for tertiary education. Although, the Lesotho government sponsors tertiary education, there are some people who are self-sponsored. The large amount of money used for tertiary education can be explained by the high fees charged at tertiary institutions. It can also be observed that many respondents use M597.94 on average for clothing. Most of the clothing items are imported into the country which increases the costs of clothing. In addition, many people spent a lot of money on clothing during the cold season, in winter. The above Table further reveals that many people use M415.38 on average for food. It is stated in Chapter One and Four that low agricultural production causes food insecurity in the country. Therefore, many people spend their incomes on foodstuffs (Sebotsa and Lues, 2010). Thus, these results show that non-farm incomes play an important part in meeting the basic needs of people. Evidence from the literature reveals that non-farm incomes are used to improve the living standards of people by ensuring the availability of food, shelter and the payment of school fees (Hymer and Resnick, 1969). Therefore, these results are in line with international trends that rural non-farm incomes are in a position to reduce poverty.

5.8 Conclusion

This chapter has assessed the potential of rural non-farm enterprises in ensuring economic development in Lesotho, based on its (non-farm sector) diverse characteristics. This is because the country is confronted with social and economic problems including poverty, food insecurity, high unemployment and a high crime rate. The economy of Lesotho has depended mainly on migrant labour remittances, but due to the high retrenchment rate of Basotho men from the South African mines, such remittances have been in decline in the past few years, with the numbers of unemployed people increasing exponentially. Therefore, rural non-farm enterprises are considered a solution to the above problems.

Although rural non-farm activities provide the means of survival for many people, the research findings show that a number of entrepreneurs lack the necessary skills, capacity and support programmes. For instance, the large percentage of people participating in the non-farm sector has low educational level (primary education). Although this practice is commended for reducing the high unemployment rate among the less educated, many non-farm enterprises are managed by people with no professional skills. Therefore, the sector is not likely to ensure economic development because education is necessary for improving the skills of people (human resources). In addition, many people who participate in the non-farm sector do not have technical and vocational training that is considered the main driving force behind entrepreneurship. The implication of this is that the quality of products produced and the services provided by many non-farm enterprises are compromised.

Another important issue for the success of non-farm enterprises is the use of technology appropriate for increasing production. It is found that many non-farm enterprises use some simple technologies that do not ensure the mass production of goods, but are used only to increase employment opportunities. The use of simple technologies restricts enterprises which produce mainly for the domestic market. For instance, in order to be competitive in the international market, enterprises must use technologies that produce good quality products and in quantities that can satisfy the demand in the market. However, use of labour intensive technologies cannot ensure economic development in the country because many enterprises are outperformed by industries that use capital intensive technologies.

The chapter has further linked the possibility of dissatisfaction among rural non-farm enterprises with infrastructural services, such as roads, water and sanitation, with many people focusing only on survivalist enterprises. When people are not provided with the necessary facilities that promote production, they will use alternative means that do not yield satisfactory results. In this regard, the provision of good infrastructural services is considered crucial for the smooth operation of non-farm enterprises; when they are not satisfactorily provided, production is hampered.

Finally, Table 5.14 provides an overview of the main differences between the literature and the findings in this chapter. The differences and similarities make the case of Lesotho unique and not generally in line with other countries in the world.

Table 5.14: Summary of the main characteristics of the non-farm sector

Characteristics from the literature	Characteristics in Lesotho
People employed in the non-farm sector have low level of education	People employed in the non-farm sector have secondary education or lower
People in the non-farm sector acquire skills outside formal education	Skills are acquired from the South African mines and former employees
Start-up capital used to finance non-farm activities is from micro-credit institutions and own savings	Start-up capital used to finance non-farm activities is from own savings, but generated from migrant labourer remittances and retrenchment packages
Governments provide non-farm entrepreneurs with infrastructural services, such as workshops	Non-farm enterprises work from their own self-constructed shelters
Rural non-farm enterprises are small in size	Rural non-farm enterprises are small in size
Many rural non-farm enterprises were established in the 1980s during the Structural Adjustment Programmes	Many rural non-farm enterprises were established in the 1990s during the retrenchment of many Basotho men from the South African mines and from downsizing in the public sector
Rural non-farm enterprises are mostly owned by women	The majority of owners are men
Rural non-farm enterprises use some simple technologies	Rural non-farm enterprises use some simple technologies
Rural non-farm enterprises depend mainly on household labour	Large percentage of labour force is recruited from household members and relatives
Small amount of money is needed to start a business	On average, a significant amount of money is needed as start-up capital
Micro-credit institutions are main sources of start-up capital	Social networks provide interest-free loans to entrepreneurs
Access to infrastructural services remains a problem in the rural non-farm sector	Entrepreneurs are satisfied with provision of infrastructural services
Globalisation has brought opportunities and threats to rural non-farm enterprises	Use of internet facilities enables enterprises to market goods as far distant as Germany, thus promoting international trade
People earn higher incomes from rural non-farm activities than from agriculture	Many people derive large percentage of their means of livelihood from rural non-farm incomes
Non-farm incomes supplement agricultural incomes	Agricultural incomes supplement non-farm incomes
Rural non-farm incomes are used to reduce poverty and improve the living standards of people	Rural non-farm incomes are used to cater for food, clothing, paying school fees and other needs

CHAPTER SIX

FACTORS AFFECTING THE PERFORMANCE OF RURAL NON-FARM ENTERPRISES IN LESOTHO

6.1 Introduction

As discussed in Chapter Two, the motivation for rural development varies between improving the living standards of the rural poor by creating employment opportunities, increasing productivity in agriculture; and a range of strategies to reduce poverty. Chapter Three discussed the importance of non-farm enterprises in rural development. It was argued in Chapter Three that rural non-farm enterprises play an important role in employment creation and in ensuring a means of sustenance to the rural poor. Chapter Four discussed the major rural development policies in Lesotho as stated in the *Five Year Development Plans* and made reference to how these policies promoted / inhibited the rural non-farm sector. It is also mentioned in Chapter Four that South Africa contributes to rural development in Lesotho through migrant labourer remittances that are invested in agriculture and in establishing rural non-farm enterprises. Chapter Five focused on the major characteristics of the rural non-farm sector in Lesotho. It was argued in Chapter Five that many rural non-farm enterprises were established in the 1990s during downsizing in the public sector in Lesotho (during the introduction of the Structural Adjustment Programmes) and the retrenchment of many Basotho men from the South African Goldfields. It is also stated in Chapter Five that many people employed in the rural non-farm sector have a low level of education.

Against this background this chapter considers the different factors that affect the performance of the rural non-farm enterprises. The following main indicators will be used as benchmarks of performance, namely:

- profitability (entrepreneur's perception/self-rating);
- average employment size; and
- average scale of turnover.

Three main arguments are presented in this chapter: First, the average employment size of rural non-farm enterprises does not have a significant impact on rural development in reducing poverty and existing unemployment, both of which are aggravated by the high retrenchment of Basotho men from the South African goldmines. Second, export

performance-profitability of rural non-farm enterprises is hindered by the lack of modern marketing techniques / facilities. As a result, rural non-farm enterprises in Lesotho cannot form a possible export sector as revealed by some studies undertaken in other areas of the world.

The chapter starts by studying the demographic factors that affect the performance of rural non-farm enterprises. These factors are related to the level of education, gender and age of the entrepreneurs. Next, the chapter studies the locational factors that affect business performance in the different districts and geographic locations. These are: market proximity and infrastructural services, such as electricity, water, telecommunications and roads. Third, the chapter looks at the business linkage factors affecting business performance; these are: the main demand / market for goods produced by rural non-farm enterprises; and sources of raw materials for rural non-farm enterprises. Fourth, the chapter studies factors that are related to competition; the use of simple technology; price competition and free trade. Finally, the chapter analyses the factors affecting business performance that are related to government support, mainly government assistance in the form of capital and markets.

6.2 Demographic characteristics of entrepreneurs that affect the performance of non-farm enterprises

The literature suggests that a number of demographic attributes of entrepreneurs play a role in the success and/or failure of enterprises. For instance, it is stated in the literature that education is an important consideration in respect of the innovativeness and success of non-farm enterprises. In addition, enterprises owned by men tend to be more successful than those owned by women. Therefore, this section studies factors related to the gender, the level of education, and the age of the entrepreneurs in the performance of rural non-farm enterprises.

6.2.1 Gender and the performance of non-farm enterprises

Gender affects the performance of rural non-farm enterprises in different ways, with a gender difference between female- and male-owned enterprises. In this regard, Figure 6.1 shows the gender of owners of rural non-farm enterprises when cross-tabulated with the profitability of enterprises. Existing research in Lesotho suggests that men participate in the more profitable enterprises / activities while women are found in the refuge enterprises that are less profitable (Ministry of Trade and Industry, Cooperatives and Marketing, 2008). The following Figure 6.1 presents results showing the profitability of non-farm enterprises by gender in Lesotho.

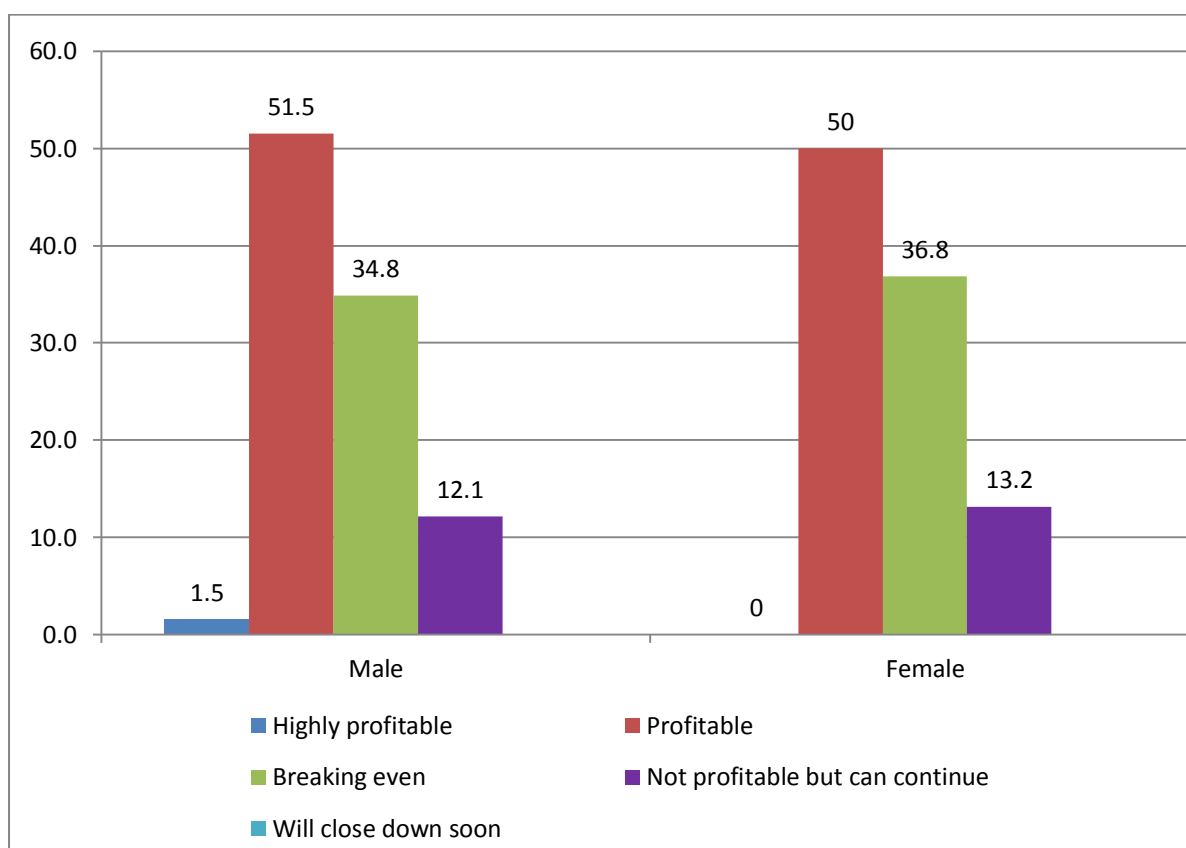


Figure 6.1: Performance of non-farm enterprises by gender of owners in Lesotho, 2010

It can be observed from Figure 6.1 that the profitability levels of male-owned enterprises seem slightly better than that of female-owned enterprises. Whether this small difference is significant enough to conclude that the male-owned enterprises are *per se* more profitable than female owned enterprises, is probably not that clear. The figures in relation to the cross-tabulation of the gender of the owners of enterprises and the profitability of the enterprises depicts that 51.5% of non-farm enterprises owned by men consider themselves profitable, compared to 50.0% of enterprises owned by women. The profitability of the enterprises owned by men can be linked to the fact that men tend to occupy the highest paying activities, especially in manufacturing in the non-farm sector (Ministry of Trade and Industry, Cooperatives and Marketing, 2008); this is also confirmed by the research findings. The success of enterprises owned by men can also be linked to wider social networks that males often establish. For example, it is easy for men to establish market outlets through social networks compared to women (Zuwarimwe and Kirsten, 2010; Martey, Annin, Attoh, Wired, Etwire and Al-Hassan, 2013). Furthermore, in many societies men are in a position to borrow

money from lending institutions to boost their businesses while women are not favoured by such institutions without the consent of their husbands (Mapetla, 1999).

Although many enterprises owned by men rate themselves as profitable or highly profitable, the research findings reveal that female-owned enterprises have a higher average turnover, M4303.00 compared to their male counterparts who have an average turnover of M3935.48 per month. It can therefore be noted that in terms of turnover the female-owned enterprises perform better than those owned by men. These results seem to diverge from the available literature that male-owned enterprises are more successful than those owned by females.

The research findings show a difference in the employment level between male and female employees in the non-farm sector. For example, in 2010 rural non-farm enterprises owned by male entrepreneurs employed an average of 1.6 full-time and part-time employees compared to 1.0 people employed by enterprises owned by female entrepreneurs. In addition, research findings show that, rural non-farm enterprises employed an average of 2.04 male full-time and part-time employees compared to an average of 1.74 female full-time and part-time employees. The large employment size in the male-owned enterprises can be attributed to the large number of male-owned enterprises in the non-farm sector. In this respect, it is stated in Chapter Five that many males entered the non-farm sector due to the massive retrenchment of Basotho men from the South African Gold mines, while the low participation of women in rural non-farm activities can be explained by the cultural norms that Basotho society practises which prohibit women from engaging in paid employment, especially in business ventures (Ministry of Trade and Industry, Cooperatives and Marketing, 2008; see Chapter Five). The situation where women are restricted from participating in wage employment is also observed elsewhere in Botswana by Sentsho, Maitso, Sengwaketse, Ndzinge-Anderson, and Kayawe (2007).

6.2.2 Age of the entrepreneur and the performance of the enterprise

It is stated in the literature that the age of the entrepreneur is relative to the performance of the enterprise. For instance, enterprises that are owned by young people are more successful than those owned by adults (Martey *et al.*, 2013). In this regard, Figure 6.2 presents the results showing the age of the owner of non-farm enterprises when cross-tabulated with the profitability of the enterprise.

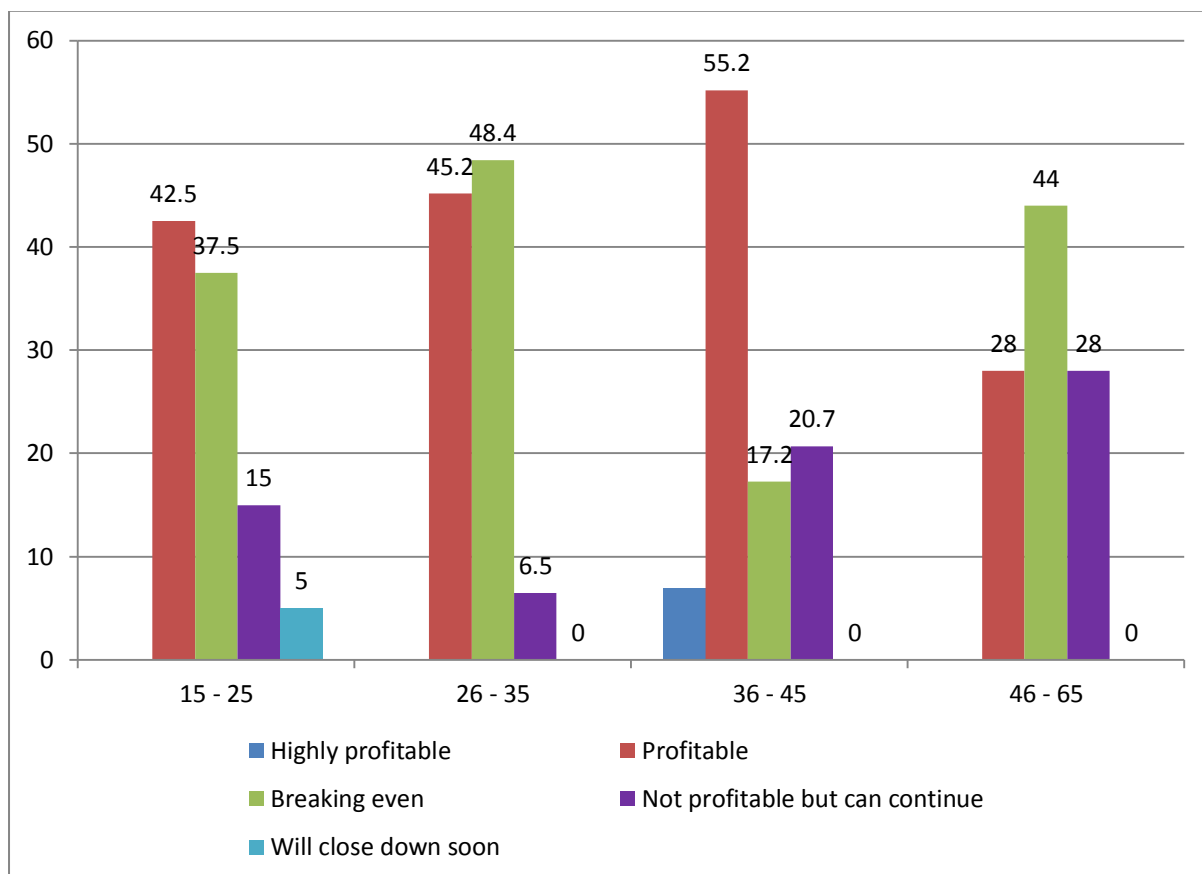


Figure 6.2: Age of the owner and performance of non-farm enterprises in Lesotho, 2010

The results from the above Figure 6.2 contradict the available literature which postulates that enterprises owned by youth are more successful than those owned by adults. The cross-tabulation of the age of the owner of a rural non-farm enterprise and the profitability of the enterprise reveals that 55.2% of non-farm enterprises that rate themselves profitable or highly profitable are owned by people in the age bracket of 36-45. This percentage is significantly higher than that for the age groups 26-35 (45.2%), 15-25 (42.5%) and 46-65 (28.0%). It is difficult to conclude from these results that age is related to the high profitability of non-farm enterprises. Martey *et al.* (2013) observes that elsewhere enterprises owned by young people are more successful than the ones owned by older people. It can be assumed that the high profitability levels of non-farm enterprises owned by people whose ages are between 36-45 are as a result of hard work and dedication. The response of one entrepreneur in the age group of 36-45 affirmed: *“I usually open my retail shop at 6:00 am and close at 9:00 pm so that it can accumulate more money per day”*.

The evidence in respect of turnover shows a somewhat different picture. In this regard, enterprises owned by the youth have, on average, the highest turnover. For example, enterprises owned by respondents in the age bracket of 15-25 have the highest average turnover of M3588.23 per month. The results further indicate that enterprises owned by respondents in the age bracket of 26-35 have the second highest average turnover per month of M3307.69. The research findings further show that rural non-farm enterprises owned by adults have a slightly lower average turnover. For instance, enterprises owned by respondents in the age bracket of 46-65 have an average monthly turnover of M3000.00, while those owned by people in the age group of 36-45 have an average turnover of M2568.18 per month. It is not easy to tell from these small differences in average turnover whether enterprises owned by the youth are more successful than those owned by adults. However, it is stated in the literature that the performance of enterprises owned by young people is often caused by their (youth) eagerness to adopt new innovations compared to older people (Martey *et al.*, 2013). Therefore, this might be one reason explaining the high average turnover of enterprises owned by young people.

In terms of employment, the research findings indicate that the size of non-farm enterprises differs with the age of the owners. For example, in 2010 enterprises owned by respondents in the age bracket of 15-25 employed an average of 1.8 full-time and part-time employees, while owners aged 26-35 employed an average of 0.7 people. The results further show that, non-farm enterprises owned by people in the age bracket of 36-45 employed an average of 0.3 full-time and part-time employees, while those owned by owners in the age bracket of 46-65 employed an average of 0.7 people. The highest average employment size among youth-owned enterprises can be linked to the large number of youth-owned enterprises in the non-farm sector. Research in Lesotho suggests that youth unemployment is estimated at 24% in Lesotho (Bureau of Statistics, 2009). Consequently, many young people establish non-farm enterprises to make a living. In this respect, these results are in contradiction with the available literature and what Sentsho *et al.* (2007) has observed elsewhere, such as in Botswana where young people make up only a small percentage in the rural non-farm sector.

6.2.3 Level of education of the owner and the success of rural non-farm enterprises

Figure 6.3 shows the level of education of the owners of rural non-farm enterprises when cross-tabulated with the scale of the enterprise turnover per month. It was stated in Chapter Three that education is one of the determining factors for participation in the rural non-farm

sector. It is further stated in the literature that the more educated people occupy the higher paying jobs in the rural non-farm sector, while the less educated are found in the refuge jobs (see Chapter Three). Against this background, the following Figure 6.3 presents results showing the profitability of the rural non-farm enterprises when cross-tabulated with the level of education of the entrepreneurs.

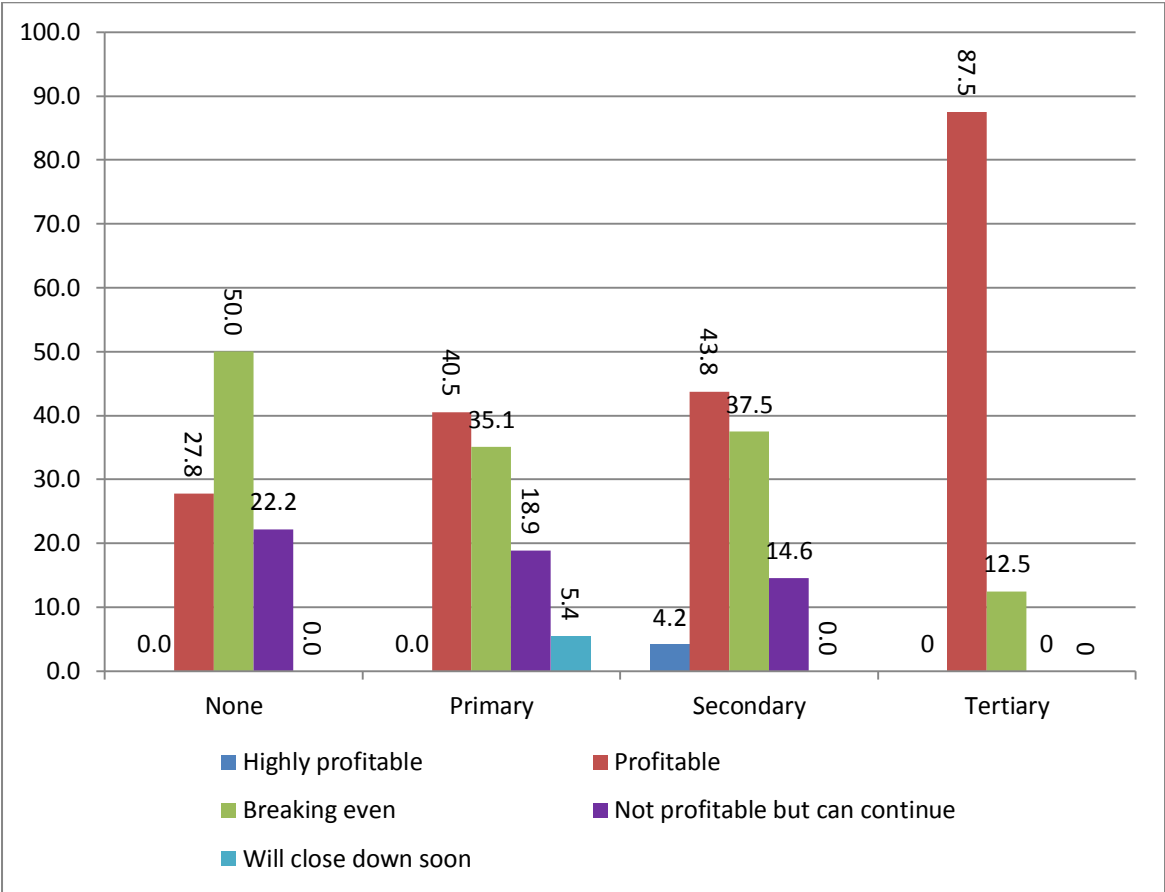


Figure 6.3: Level of education and the performance of non-farm enterprises in Lesotho, 2010

It can be observed from Figure 6.3 that 87.5% of rural non-farm enterprises owned by people with tertiary education rate themselves profitable or highly profitable. Comparatively, this relatively high rating of profitability is considerably higher than the 27.8% for those without any education; 40.0% for those with primary education; and 43.8% for those with secondary education. The profitability of enterprises owned by people with a high educational level can be linked to different factors. First, people with a high educational level are in a position to adopt new innovations and techniques of production through reading and from other sources. Therefore, they can make informed decisions about their businesses (Bwisa, Kihoro and Gathenya, 2011; Martey *et al.*, 2013). Second, it is assumed that it is easier for educated

people to establish markets and financial sources for their businesses compared to the less educated ones. It is therefore suggested by the literature that education as one of the entrepreneurial characteristics determines the profitability of rural non-farm enterprises (Kolawole and Torimiro, 2005; Sarwoko, Surachman, Armanu and Hadiwidjojo, 2013). It can thus be inferred that the contribution of people with a higher level of education to rural development in Lesotho is significant, as they are able to ensure the good performance of rural non-farm enterprises.

In addition to increasing the profitability of enterprises, evidence shows that educational level has an impact on the scale of the average turnover of rural non-farm enterprises. The results showing the scale of the average turnover of rural non-farm enterprises when cross-tabulated with the educational level of entrepreneurs is presented in the following Table 6.1.

Table 6.1: The average turnover of non-farm enterprises by level of education of entrepreneurs in Lesotho, 2010

Turnover	Level of education								Total	
	None		Primary		Secondary		Tertiary			
	N	%	N	%	N	%	N	%	N	%
<M1000	7	63.6	17	65.4	14	40.0	1	5.9	39	43.8
M1000 – M5 000	3	27.3	8	30.8	10	28.6	5	29.4	26	29.2
M5001 – M10 000	1	9.1	0	0	11	31.4	7	41.2	19	21.3
M10 001 – M20 000	0	0	1	3.8	0	0	3	17.6	4	4.5
M20 001 – M50 000	0	0	0	0	0	0	1	5.9	1	1.1
M50 000>	0	0	0	0	0	0	0	0	0	0
TOTAL	11	100	26	100	35	100	17	100	89 ³	99.9
Average turnover	M1818.18		M1826.94		M3414.42		M8705.88		M3764.00	

Source: Field data

The results in Table 6.1 are in line with international trends that education plays an important role in the sound performance of enterprises. In this respect, enterprises owned by people with tertiary education have the highest turnover per month, M8705.88 compared to the ones owned by people with secondary education that have an average turnover of M3414.42; those owned by people with primary education have a turnover of M1826.94; while those owned by people without education have M1818.18. It can therefore be deduced that people with a higher educational level contribute positively to rural development in Lesotho. This is

³ Some entrepreneurs did not answer the question on turnover.

because the educated have literacy and basic numeracy skills that enable them manage and run their own businesses (see Chapter Three).

The employment results show that the size of rural non-farm enterprises differs with the level of the owner's education. For instance, in 2010 rural non-farm enterprises employed an average of 1.6 full-time and part-time employees with low levels of education (those with, no education, primary and secondary) compared to 0.5 people with tertiary education. These results are in line with the research findings by Bowen, Morara and Mureithi (2009) that small-scale enterprises employ many people with low levels of education.

6.3 Locational factors affecting business performance

There are different locational factors that affect the performance of rural non-farm enterprises. Some of the locational factors are related to the availability of markets and access to infrastructure. However, it is stated in Chapter Two that many governments in developing countries have provided infrastructural services between regions in an uneven way. It is also discussed in Chapter Three that government policies are biased against small-scale enterprises in the provision of infrastructural services. Against this background, the following section scrutinises infrastructure, markets and other locational factors that affect the performance of rural non-farm enterprises.

6.3.1 Performance of non-farm enterprises by districts

Figure 6.4 shows the profitability of non-farm enterprises when cross-tabulated with the sampled districts in Lesotho. It is believed that the performance of non-farm enterprises in different districts is affected by various factors such as proximity to markets and access to infrastructural services. In this regard, the following Figure 6.4 presents results showing the profitability of rural non-farm enterprises when cross-tabulated with the districts in Lesotho.

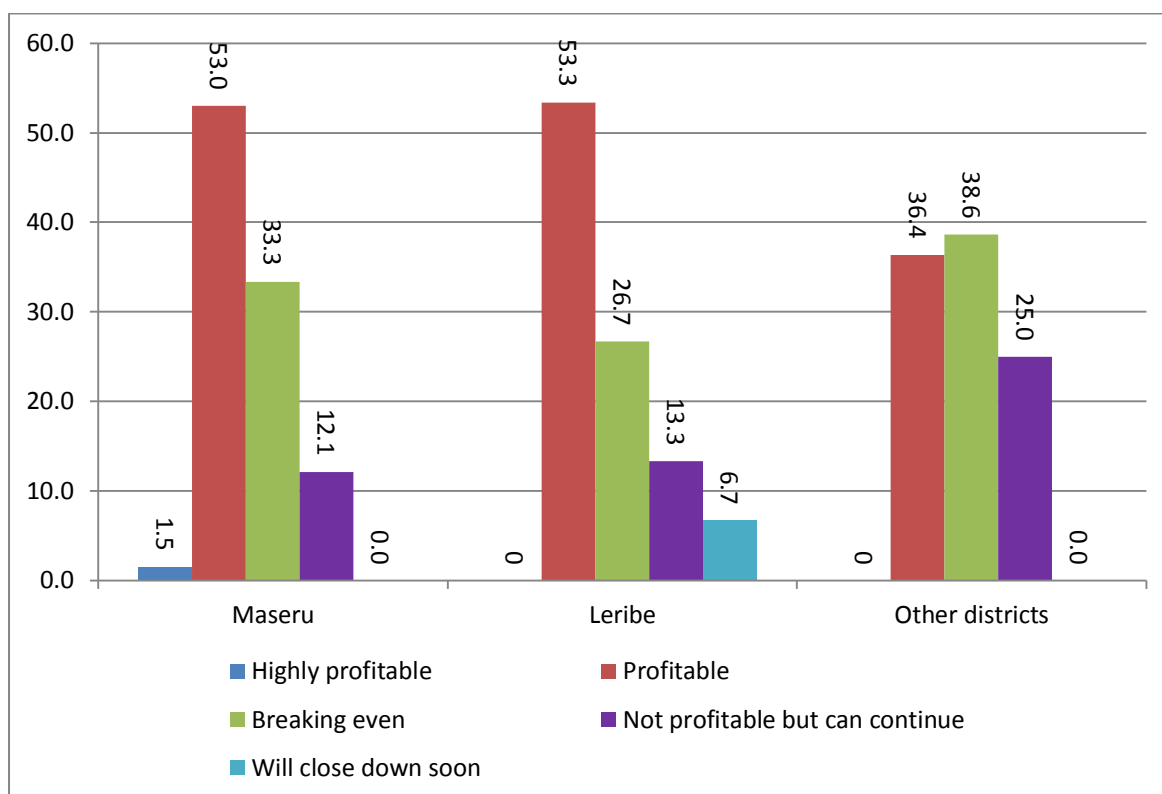


Figure 6.4: Profitability of non-farm enterprises by district in Lesotho, 2010

The results from the above Figure 6.4 reveal that Leribe and Maseru have the largest percentage of rural non-farm enterprises which have rated themselves profitable or highly profitable. The evidence from Figure 6.4 shows that 54.5% of the enterprises in Maseru and 53.3% of those in Leribe rate themselves as being profitable or highly profitable. The main contributing factor for these relatively high levels of success is probably related to the scale of population (market) and the density of the populations in these districts. For example, the population in the Maseru district is estimated at 429,823 while in Leribe it is 298,352 (Bureau of Statistics, 2007). It is evident that large populations provides a market for goods produced in the rural non-farm sector. In addition to the large markets, the sizeable population also provides human resources for production in the non-farm industries. Finally, access to roads and railway services linking Lesotho and South Africa also seems to give these two districts a competitive advantage.

It is also evident from the above discussion that locational factors affect the average turnover of rural non-farm enterprises in the different districts. The results showing the average turnover of enterprises in different districts are presented in the following Table 6.2.

Table 6.2: An average turnover of non-farm enterprises by districts in Lesotho, 2010

Scale of turnover	Districts												Total	
	Butha Buthe		Berea		Leribe		Mafeteng		Maseru		Mohale's Hoek		N	%
	N	%	N	%	N	%	N	%	N	%	N	%		
<M1000	4	50.0	2	25.0	7	63.6	8	50.0	18	32.1	3	50.0	42	40.0
M1000 – M5 000	2	25.0	3	37.5	3	27.3	8	50.0	11	19.6	2	33.3	29	27.6
M5001 – M10 000	2	25.0	1	12.5	1	9.1	0	0	19	33.9	1	16.7	24	22.9
M10 001 – M20 000	0	0	1	12.5	0	0	0	0	5	8.9	0	0	6	5.7
M20 001 – M50 000	0	0	1	12.5	0	0	0	0	2	3.6	0	0	3	2.9
M50 000>	0	0	0	0	0	0	0	0	1	1.8	0	0	1	1.0
TOTAL	8	100.0	8	100.0	11	100.0	16	100.0	56	100.0	6	100.0	105 ⁴	100.0
Average turnover	M2875.00		M8437.50		M1818.18		M1750.00		M6330.35		M2500.00		M4838.09	

Source: Field data

Although many entrepreneurs in the Maseru and Leribe districts rate their enterprises as profitable or high profitable due to locational factors, such as proximity to the main market because of the large population found in these districts, evidence from above Table 6.2 provides a different view in terms of turnover. For instance, the results reveal that rural non-farm enterprises located in the Berea district have the highest average turnover per month, M8437.50, compared to enterprises from other districts; Maseru M6330.35, Butha-Buthe M2875.00, Mohale's Hoek, M2500.00. Enterprises in the Leribe district have the lowest average turnover per month, M1818.18. The highest average turnover of non-farm enterprises found in the Berea district can be explained by the high export performance of weaving enterprises located in this district. The research findings reveal that the Berea district has about five weaving enterprises (Hatooa Mose Mosali Weavers PTY Ltd, Setsoto Design Weavers and Gallery PTY Ltd, Helang Basali Weavers, and Elelloang Basali Weavers) that export goods such as tapestries, rugs, murals, pillow cases, scarfs and jackets mainly to overseas countries such as China, United States of America, United Kingdom, and other European countries. As a result, they (weaving enterprises) earn foreign exchange from international trade that increases the enterprise's turnover. In addition to exporting to foreign markets, goods produced by the weaving enterprises are sold to tourists in the local market, and this increases the revenues of the enterprises.

⁴ Some entrepreneurs did not respond to the turnover question.

6.3.2 Nature of location / Geographic location and performance of non-farm enterprises

Figure 6.5 shows the profitability of rural non-farm enterprises when cross-tabulated with the sampled different geographic locations in Lesotho. Evidence from the literature shows that, location determines the success of small-scale enterprises (Lucky, Olusegun and Bakar, 2012). For instance, enterprises that are found far from infrastructural services and in inaccessible places tend to be less successful in business. In this case, Figure 6.5 presents the results showing the profitability of rural non-farm enterprises across the different geographic locations.

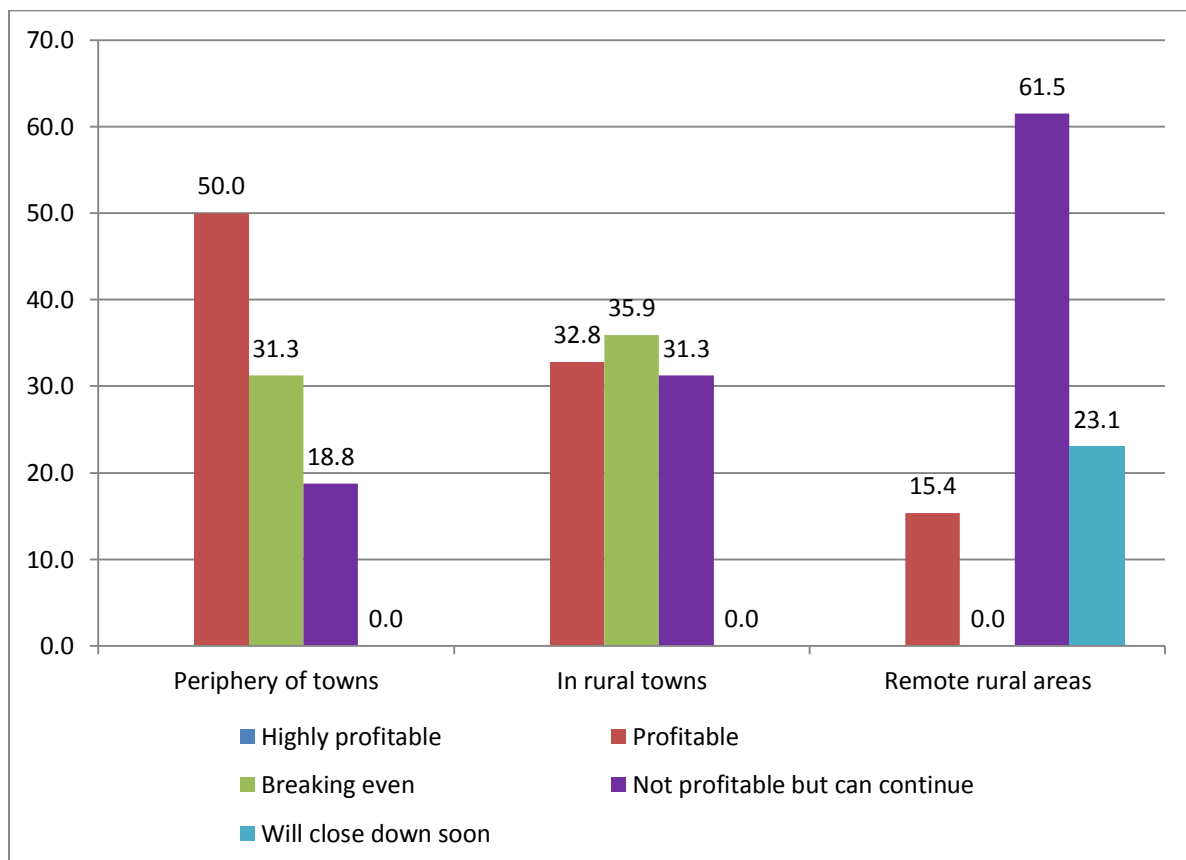


Figure 6.5: Performance of non-farm enterprises by location in Lesotho, 2010

It is evident from the above Figure 6.5 that 50.0% of rural non-farm enterprises located on the periphery of towns rate themselves profitable or highly profitable. The success of many non-farm enterprises found on the periphery of towns can be linked to their proximity to the market provided by urban and rural towns. In addition, enterprises located on the periphery of towns are closer to essential services, such as transport and good roads for transporting

finished goods. Furthermore, many workers employed in urban industries, government and private businesses reside on the periphery of towns where they ensured an available market for goods produced by rural non-farm enterprises. It can be argued from the above discussion that the provision of infrastructural services helps small-scale enterprises expand through the quick movement of goods. In addition, the provision of infrastructure also helps the expansion of the market for goods produced by small-scale enterprises (Ogechukwu, 2011); thus increasing the profitability of small-scale enterprises.

Figure 6.5 further illustrates that 61.5% of rural non-farm enterprises that are located in the remote rural areas rate themselves as not profitable. The poor performance of these rural non-farm enterprises can be explained by different factors: First, many remote places are inaccessible because of the nature of Lesotho's terrain; the rugged mountains make travel difficult (Morojele, 2012). In this instance, a lack of good road networks affects the profitability of rural non-farm enterprises negatively. This is because the transportation of raw materials from the source and finished products to the market is hindered. Therefore, this affects the performance of rural non-farm enterprises (see Chapter Five). Second, although about 77% of people in Lesotho reside in the rural areas (Central Bank of Lesotho, 2003; International Labour Organisation, 2012), the high retrenchment rate of Basotho men from the South African mines has affected their purchasing power. Furthermore, it is assumed that this has negatively affected the profitability of rural non-farm enterprises. Third, the provision of infrastructural services, such as electricity is considered essential for production in rural enterprises. However, a lack of electricity in the remote rural areas affects the performance of rural enterprises. This is because research in Lesotho shows that many places in the rural areas lack electricity, sanitation and other social services (United Nations Population fund - UNFPA, 2002). In this respect, the profitability and competitiveness of rural non-farm enterprises is affected because many of them have to resort to the use of simple technologies that are less productive (Narayana, 2004; Lucky, Olusegun, and Bakar, 2012).

In addition to self-rating, the performance of rural non-farm enterprises across the different geographic locations can be measured in terms of the average turnover per month. The research findings show that rural non-farm enterprises found on the periphery of towns have the highest average turnover per month, M9675.00 compared to the ones located in rural towns with M3652.77 per month. The results further reveal that enterprises located in the remote areas have the lowest average turnover, M3000.00 per month, compared to those

found in other geographic locations. The highest average rate of turnover made by rural non-farm enterprises found on the periphery of towns can be linked to good business environment, especially the large market found on the periphery of Maseru.

The research findings indicate that rural non-farm enterprises that are located within rural towns are large in size compared to the ones located in other geographic locations. For example, in 2010 enterprises located within rural towns employed an average of 1.2 full-time and part-time employees compared to an average of 0.8 people employed by enterprises located on the periphery of towns. For non-farm enterprises that are located in the remote rural areas, the average employment size is relatively small, 0.08 full-time and part-time employees. The large number of people employed by enterprises located in rural towns can be linked to the fact that many people in Lesotho are found in the rural areas (Central Bank of Lesotho, 2003; International Labour Organisation, 2012), and many of them are former South African miners (Mensah and Naidoo, 2013). Therefore, it is evident that the size of employment in the non-farm enterprises located in rural towns has increased because of the large number of retrenched from the South African mines (see Chapter Five). In this respect, an additional labour force in the non-farm sector increases the performance of the enterprise (Martey *et al.*, 2013) because numbers are commonly used as a proxy indicator to determine business size and success (Zuwarimwe and Kirsten, 2010; Lingesiya, 2012).

It can be concluded from the above statistics that rural non-farm enterprises employ a relatively small number of people on average. Therefore, it can be argued that rural non-farm enterprises have a slight impact on the reduction of existing unemployment and poverty in the country. This is because the average number of people absorbed by rural non-farm enterprises is not significantly high compared to the current population size of 1.8 million people (Bureau of Statistics, 2007).

6.4 Factors related to business linkages

There are three main linkages that affect the performance of rural non-farm enterprises; these are: First, production linkage that consists of backward and forward linkages. Production linkage ensures supply of raw material for non-farm enterprises (see Chapter Three). Second, expenditure linkage is observed when people from farm and urban sectors spend their incomes on purchasing goods produced in the non-farm sector. Third, consumer linkage is

when people purchase goods produced by rural non-farm enterprises for consumption (Davis *et al.*, 2002).

6.4.1 Source of raw materials for rural non-farm enterprises

It is stated in the literature that the supply of raw materials is very important for the success of rural non-farm enterprises (see Chapter Two). In this respect, many developing countries have adopted the Green Revolution technologies so that agriculture can provide sustainable raw materials to non-farm enterprises. However, research in Lesotho reveals that subsistence farming fails to supply enough raw materials to non-farm enterprises. As a result, non-farm enterprises depend on raw materials sourced from South Africa for manufacturing, trade and servicing people. In this respect, Figure 6.6 presents results showing the profitability of non-farm enterprises when cross tabulated with the source of raw materials.

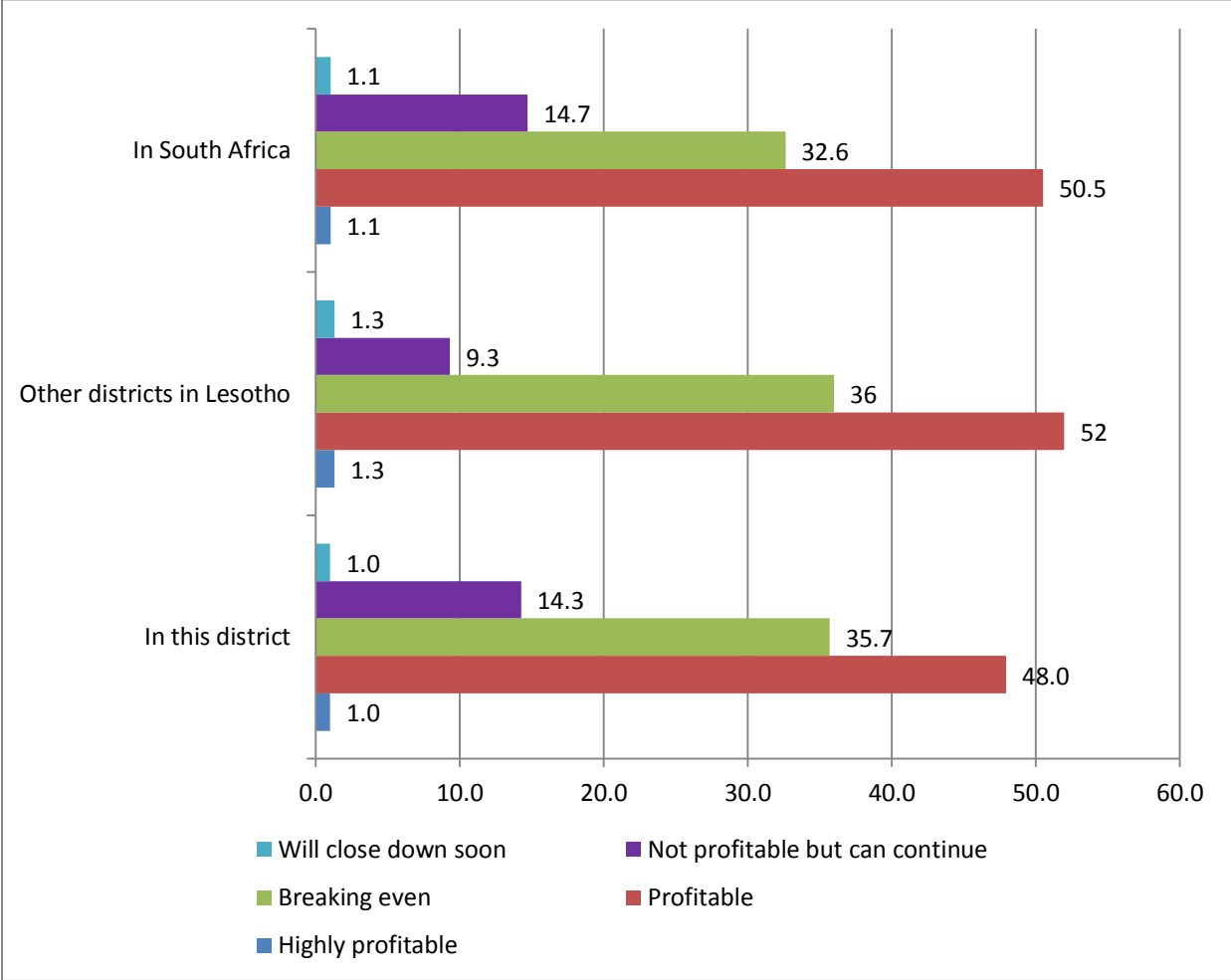


Figure 6.6: Profitability of non-farm enterprises by source of raw materials in Lesotho, 2010

The following observations can be made with respect to the data contained in Figure 6.6 above. Rural non-farm enterprises that are supplied with raw materials from other districts in Lesotho have the highest profitable / highly profitable ratings. In this regard, 53.3% of enterprises that receive raw materials from other districts in Lesotho rate themselves profitable or highly profitable. The profitability of enterprises that get raw materials from other districts in Lesotho can be explained by additional raw materials for production sourced from other districts. One respondent whose business supplements raw materials by purchasing from other districts stated: ***“There are few wool and mohair farmers in my place; as a result, my business purchases additional wool and mohair from other districts to add to the one we get from the local farmers”***. It can be noted from the above quotation that additional raw materials purchased from other districts in Lesotho can contribute to increased production that can result in the profitability of enterprises. It can also be assumed that entrepreneurs choose to purchase good quality wool and mohair from other districts that can ensure the production of quality goods/products.

The above Figure 6.6 further illustrates that 50.5% of rural non-farm enterprises that source raw materials from South Africa rate themselves as profitable or highly profitable. This is only slightly less than those who get their goods from other districts. Other evidence shows that Lesotho depends on South Africa for tradable goods (Bahta, 2007; Daemane, 2011). Therefore, these goods are used as raw materials by rural non-farm enterprises. It is further stated from research in Lesotho that that goods coming mainly from South Africa are readily available to rural non-farm enterprises in Lesotho. This is because the Southern African Customs Union provides for a common external tariff and complete free trade in commodities between member states (McDonald and Walmsley, 2008). In addition, the liberalisation of trade has brought previously scarce commodities into economies of poor countries at low prices (Sahley, 1995). In this regard, it is assumed that the purchasing of goods from outside the country at low prices because of free trade will increase the profitability of rural non-farm enterprises. Thus, it can be argued that when raw materials are readily available, the profitability of an enterprise is ensured.

It can be concluded from the above discussion that although enterprises sourcing raw materials from South Africa rate themselves as profitable or highly profitable, one can argue that importing raw materials by rural non-farm enterprises from South Africa affects the

profitability of enterprises because of the high transaction costs (that lower profits) incurred for transporting raw materials from the source to their destination.

In terms of the average turnover, the research findings suggest that rural non-farm enterprises importing raw materials from South Africa have the highest average turnover per month, M4121.95 compared to the ones using raw materials sourced from other districts that have an average turnover of M3795.45 per month. Those using raw materials sourced from their districts have an average turnover of M3744.32 per month. These small differences in the average turnover of enterprises sourcing raw materials from different places cannot per se lead to the conclusion that enterprises using raw materials from South Africa are more successful than those receiving raw materials from within the country. However, it cannot be ignored that Lesotho imports about 95% of its goods from outside the country (Van Schalkwyk and Jooste, 2002; International Labour Organisation, 2012). Therefore, the purchasing of goods from outside the country may affect the average turnover of rural non-farm enterprises because of the transaction costs incurred during trading.

It is also evident that the average employment size differs between enterprises using raw materials from the district where the enterprises are located and those that get raw materials from other districts and the ones sourcing raw materials from South Africa. In this regard, the results depict that in 2010 rural non-farm enterprises that get raw materials from South Africa employed an average of 2.3 full-time and part-time employees compared to 1.9 people employed by enterprises that get raw materials from the district where they are located. The results further reveal that an average employment size of enterprises that get raw materials from other districts is 1.1 employees. It can therefore be noted that rural non-farm enterprises that source raw materials from South Africa are larger in size compared to enterprises that use raw materials sourced from the domestic market. In this respect, evidence shows that the size of an enterprise determines its employment generation potential (Bowale and Akinlo, 2012). Therefore, the potential size of enterprises using raw materials sourced from South Africa is somewhat larger.

6.4.2 Market for goods produced by non-farm enterprises

It was discussed in Chapter Three that the demand for goods produced in the rural non-farm sector come from the local market (Duncombe and Heeks, 2002). The following section studies the main performance of non-farm enterprises in relation to the market for goods

produced by non-farm enterprises in Lesotho. Figure 6.7 presents results showing the profitability of non-farm enterprises when cross tabulated with the main demand for goods.

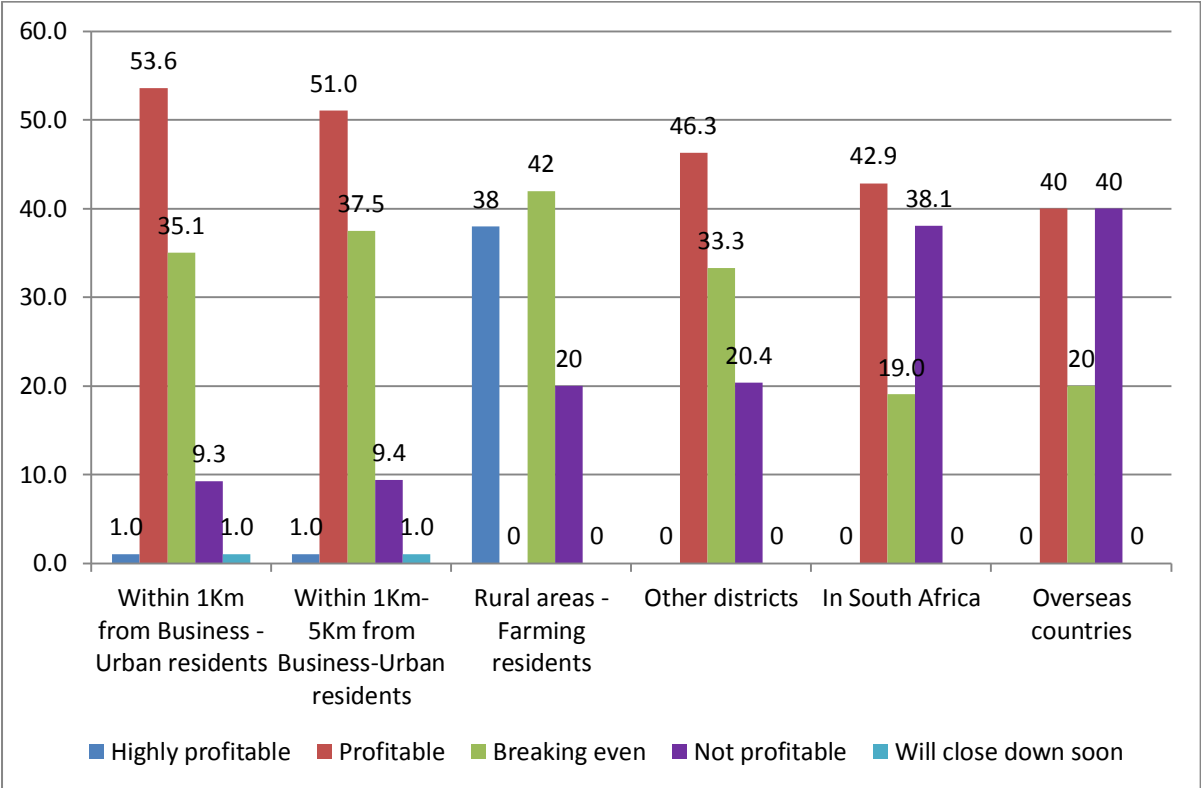


Figure 6.7: Main demand for goods produced by non-farm enterprises in Lesotho, 2010

It can be observed from Figure 6.7 that many rural non-farm enterprises which market goods to urban residents rate themselves profitable or highly profitable. For example, 54.6% of rural non-farm enterprises that market goods within 1Km from business, mainly to urban residents rate themselves as profitable or highly profitable. Furthermore, 52.0% of rural non-farm enterprises that market goods within 1Km to 5Km from business, mainly to urban residents also consider themselves as profitable or highly profitable. The success of rural non-farm enterprises that market goods mainly to urban residents can be linked to the large market provided by urban residents. In this respect, evidence from research in Lesotho shows that about 23.0% of the population live in urban areas (International Labour Organisation, 2012).

It is also evident from Figure 6.7 that only 40.0% of rural non-farm enterprises that market goods in the international market rate themselves as profitable or highly profitable. One respondent whose enterprise markets goods to foreign countries affirmed: **“My business markets goods, such as rugs, murals, shawls, wall hangings and table cloths in the**

*international market; in countries such as the United States of America, the United Kingdom and Germany, and this brings better returns than selling in the domestic market*⁵. Although selling goods in the international market is considered profitable by some rural non-farm enterprises, a small number of them (rural non-farm enterprises) participate in international trade because of a lack of modern marketing facilities. For instance, many rural non-farm enterprises market goods using brochures, local radio stations and displays on the streets, while a limited number of enterprises use the internet. The use of brochures, displays of goods on the streets and the use of local radio stations restrict enterprises to marketing goods in the domestic market only. The implication of this is the limited market / customers for goods produced by rural non-farm enterprises. It is therefore noted that a lack of marketing plans is very common among small and medium enterprises (Lotz and Marais, 2007), and this affects their performance, mainly profitability.

Although a small percentage of rural non-farm enterprises that market goods in the international market rate themselves as profitable or highly profitable, the research findings reveal that rural non-farm enterprises that market goods in the international market, mainly to overseas countries have the highest average turnover per month, M10857.14. Those marketing goods to South Africa make M5472.22, followed by those marketing goods in other districts in Lesotho, M5130.00; those marketing goods within 1km from business (mainly to urban residents) with M3296.51; and the ones marketing goods within 1km-5km from business (to urban residents) with M3250.00. The results further show that non-farm enterprises that market goods to farming residents make the lowest average turnover, M3058.14. The highest average turnover made by enterprises that market goods on the international market can be explained by the foreign exchange that these rural non-farm enterprises earn from international trade. However, the lowest average turnover made by enterprises that market goods to farming residents can be explained by the low purchasing power of rural residents because of poverty. Evidence from research in Lesotho shows that about 56.3% of rural people live below the poverty line (International Labour Organisation, 2012; Olivier, 2013) and the incidence of poverty increased from 60% in 1986 to 72% in 1994 (May and Roberts, 2005). Therefore, a lack of purchasing power among rural residents because of the high incidence of poverty affects the average turnover of rural non-farm enterprises.

⁵ See Annexure A for goods produced and services provided by some entrepreneurs in the rural non-farm sector.

In terms of employment, the research findings show that rural non-farm enterprises that market goods mainly to urban residents have a large employment size. For example, in 2010 rural non-farm enterprises that market goods within 1km-5km (mainly to urban residents) employed an average of 2.9 full-time and part-time employees, while those marketing goods within 1km from business (to urban residents) employed an average of 2.6 full-time and part-time employees. The research findings further show that non-farm enterprises that market goods to farming areas/residents employed an average of 1.1 full-time and part-time employees, while those marketing goods in other districts in Lesotho employed an average of 1.9 people. The results further show a relatively small number of people employed by enterprises that market goods on the international market. In this regard, non-farm enterprises that market goods in South Africa employ an average of 1.1 full-time and part-time employees, while the ones marketing goods to international countries employ an average of 0.7 people. The large employment size of non-farm enterprises that market goods mainly to urban residents can be attributed to a large urban population that is mainly caused by natural increase and by rural-urban migration, as suggested by Lewis (1954).

6.5 Source of competition

The source of competition, both local and foreign affects the performance of rural non-farm enterprises. It is stated in Chapter Three that trade liberalisation exposes small-scale enterprises to foreign competition. As a result, this affects the performance of rural non-farm enterprises. It is also discussed in Chapter Four that small-scale enterprises in Lesotho are outperformed in the market by South African companies (Mashinini, 2001). Against this background, this section studies the source of competition for rural non-farm enterprises in Lesotho.

6.5.1 Source of competition for non-farm enterprises

It was argued in Chapter Three that rural non-farm enterprises in developing countries are exposed to foreign competition during the present globalisation era (Wiggins and Hazell, 2008). As a result, there is no room for rural enterprises that specialise in simple technologies under capitalism (Saith, 2001). Therefore, Figure 6.8 presents results showing the profitability of rural non-farm enterprises when cross tabulated with the source of the competition.

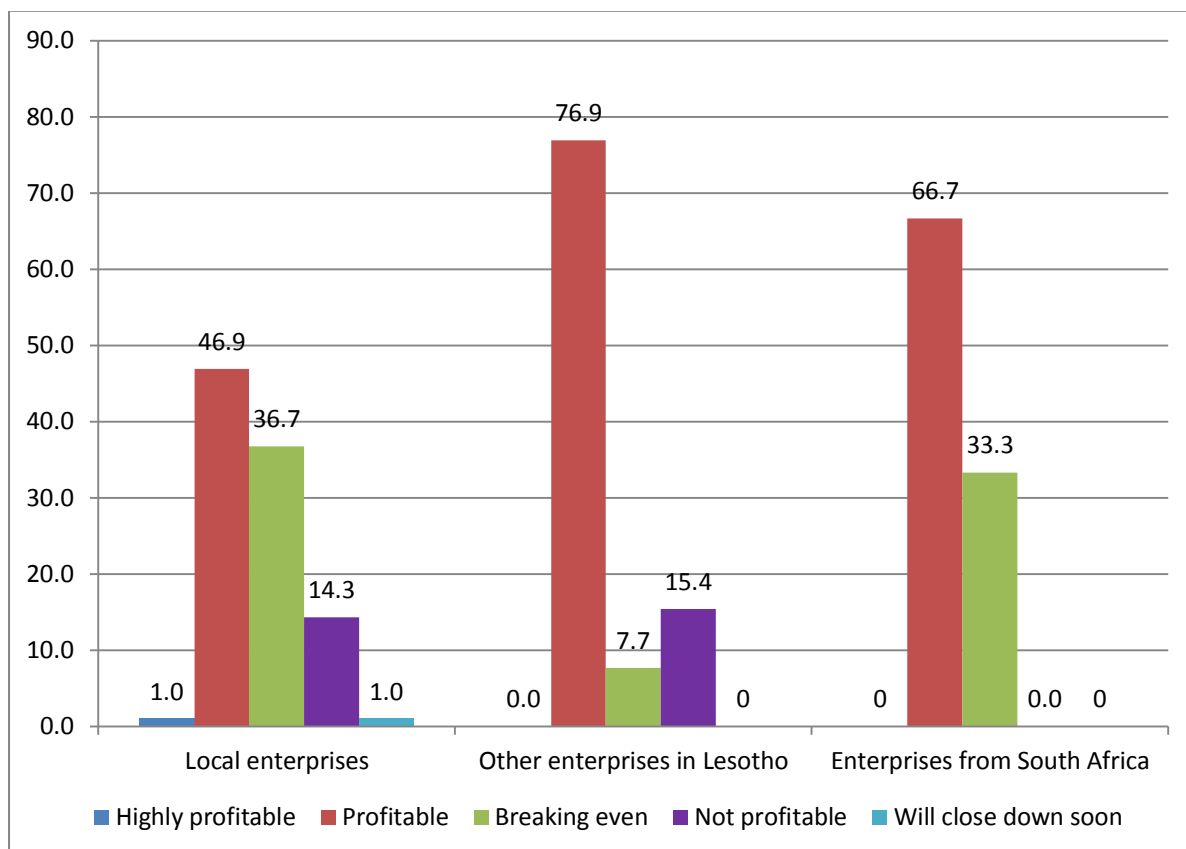


Figure 6.8: Main source of competition for goods produced by non-farm enterprises in Lesotho, 2010

It can be observed from the above Figure 6.8 that only 47.9% of rural non-farm enterprises that regard local competition to be their main competition rate themselves as profitable or highly profitable. A small number of rural non-farm enterprises that rate themselves as profitable or highly profitable can be explained by different factors. First, local competition is very high between enterprises owned by foreigners (mainly of Chinese and Indian origins) and local Basotho people. One response clearly explains this: *“Some foreign owned businesses sell goods at the cheaper prices, and we have to lower prices to attract customers, and this affects profitability of our businesses”*. It can be noted from the above quotation that price competition affects the profitability of rural non-farm enterprises because some enterprises have to lower their prices so that they can compete in the market. In this respect, price competition affects the performance of non-farm enterprises because it lowers the profits of the less competitive enterprises. It is therefore correct to argue that competition has a negative impact on the performance of small-scale, rural non-farm enterprises in Lesotho. Evidence from the literature states that small-scale enterprises in developing countries are vulnerable to foreign competition because most of them use pre-capitalist forms

of technologies that are less productive (Hussain, 2004; Martey *et al.*, 2013). As a result, they have little chance of survival in a capitalist world (Saith, 2001). It is also observed elsewhere, for example in Tanzania, that competition is a limiting factor to small-scale enterprises' growth (Nkonoki, 2010). However, contrary views point out that competition is very useful because it increases the competitiveness of enterprises. In this regard, in order for rural non-farm enterprises to survive external competition, they should produce quality goods and set competitive prices (Hussain, 2004). It can be noted from the above discussion that competition is a limiting factor to the success of rural non-farm enterprises. However, an enterprise that wants to succeed should offer its products at prices consumers can afford (Ogechukwu, 2011).

The results further show that 76.9% of rural non-farm enterprises that compete in the market with enterprises from other parts of Lesotho rate themselves as profitable or highly profitable. It is assumed that this type of competition is not as rigorous as local and foreign competition.

It is also evident from the above Figure 6.8 that 66.7% of rural non-farm enterprises that face competition from South African companies consider themselves as profitable or highly profitable. In this regard, evidence shows that foreign competition exposes local enterprises to new innovations and new brands of goods. As a result, this increases the profitability of enterprises. Although foreign competition is commended for exposing local enterprises to the specialisation and diffusion of new techniques of production, the research findings show that rural non-farm enterprises in Lesotho face stiff competition from foreign companies, especially South African companies (Mashinini, 2001), and this affects the performance-profitability of the local enterprises. The response of one carpenter explains: ***“Customers prefer caskets produced by South African companies to our coffins. Customers say caskets produced by South African companies are of good quality”***. It can be noted that the use of simple and labour intensive technologies affect the performance of non-farm enterprises, resulting in their being outperformed in the market. Therefore, these results are in line with the literature that traditional enterprises that use simple technologies are outperformed in the market by larger ones that use improved technologies⁶.

⁶ See Annexure B for technology used by some entrepreneurs in the rural non-farm sector.

In terms of turnover, the research findings show that, rural non-farm enterprises that face competition from other enterprises in Lesotho have the highest average turnover per month, M5333.33, compared to the ones that face local competition that have M4540.22 per month, while those facing competition from South African companies have an average turnover of M3000.00 per month. It can be assumed that the highest average turnover made by rural non-farm enterprises that face competition from other districts in Lesotho is due to the fact that very few small-scale enterprises sell goods beyond the local market in their vicinity (see Chapter Five) because many of them do not want to incur transaction costs, especially on transport that often lower the profit margins. In this regard, the competition of enterprises from other districts in Lesotho is not very tight. As a result, non-farm enterprises are in a position to accumulate more revenues from sales.

The research findings reveal that in 2010, rural non-farm enterprises that faced local competition employed a large number of people. For instance, these enterprises employed an average of 3.0 full-time and part-time employees compared to an average of 1.4 people employed by enterprises that face competition from other enterprises in Lesotho. The results further show a relatively small average employment size of non-farm enterprises that face competition from South African companies; 0.2 full-time and part-time employees. It can be assumed from these results that enterprises that face local competition increased the number of employees in order to be competitive by increasing production.

6.6 Government support and business success

The available literature in Chapter Three suggests that governments in developing countries have established some institutions that support small-scale enterprises with credit, training and marketing outlets, so as to increase their performance (Lanjouw and Lanjouw, 1995; World Bank, 1999). Against this background, this section scrutinises the factors affecting the performance of enterprises receiving government support and those without support. The following Figure 6.9 presents results showing the profitability of rural non-farm enterprises when cross tabulated with government support.

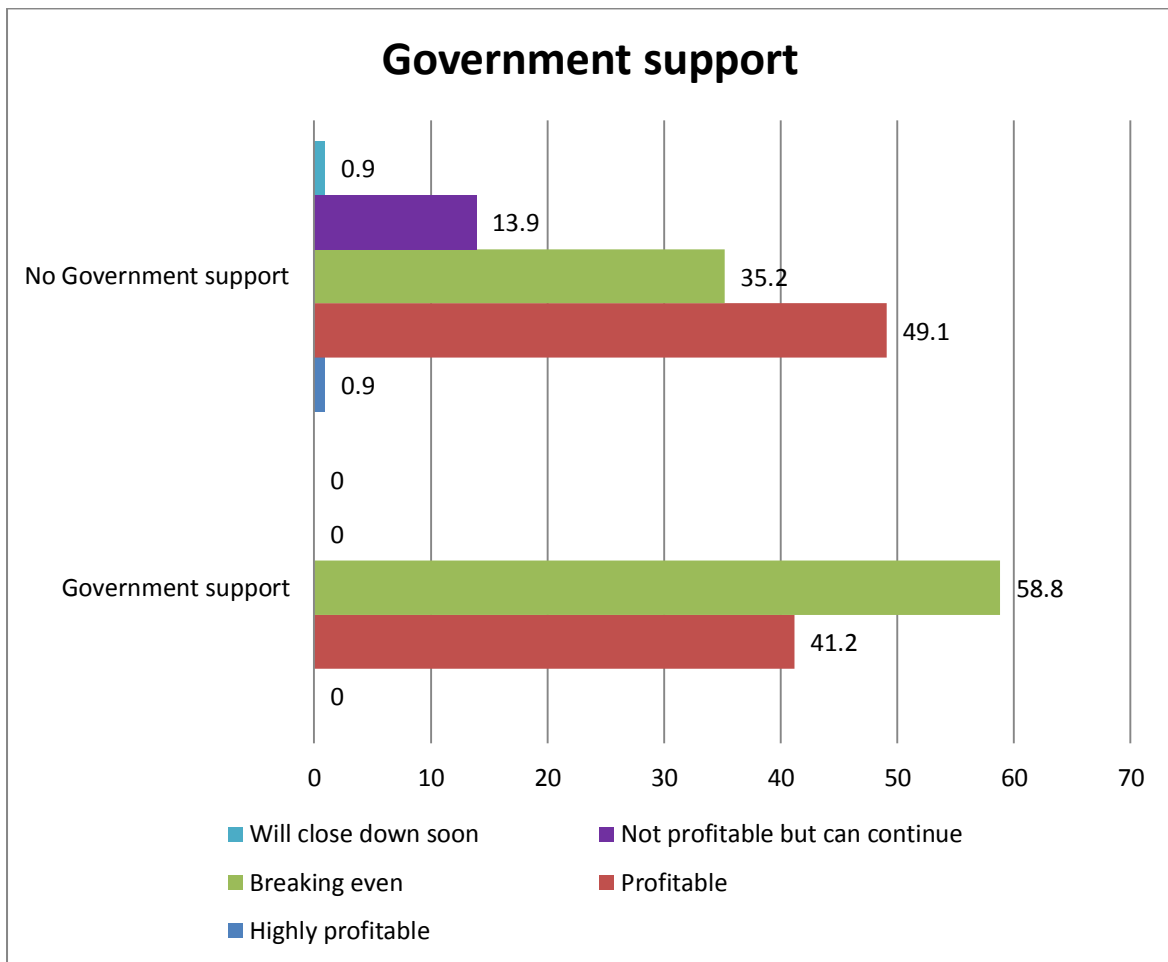


Figure 6.9: Government support and performance of non-farm enterprises in Lesotho, 2010

Figure 6.9 contradicts the literature that government support increases the performance / success of rural non-farm enterprises (Jasra, Khan, Hunjra, Rehman and Azm, 2011). The research findings reveal that there is no relationship between government’s support and the profitability of rural non-farm enterprises. For example, 50.0% of rural non-farm enterprises without government support rate themselves as profitable or highly profitable, compared to 41.2% of government supported enterprises. The success of rural non-farm enterprises without government support can be explained by different factors. First, many owners of rural non-farm enterprises without government support use their own savings while others borrow start-up capital from friends and micro-lending institutions. As a result, entrepreneurs work hard to accumulate profits that can be used to pay back loans. Second, evidence shows that profit maximisation is the main motive behind privately owned enterprises (see Chapter Two).

However, in terms of the average turnover, the research findings provide a different view. For instance, government supported enterprises have the highest average turnover per month, M11500.00, compared to those without government support that have a low average turnover of M3852.63 per month. The highest average turnover of government supported enterprises can be explained by the fact that government support is free; no pay back is needed. As a result, money received from the sale of goods is taken as profit. It could also be assumed that government assists these enterprises with the establishment of foreign markets; thus enabling the accumulation of foreign exchange. In this regard, the empirical evidence from the research in Lesotho reveals that the Lesotho government established a foreign market in Germany for asparagus canned by the Basotho Fruits and Vegetable Cannery (Rantšo, 2001), one of the public rural enterprises in Lesotho.

The results of the study depict that employment size varies between government supported enterprises and the ones without government support. For example, in 2010 rural non-farm enterprises without government support employed an average of 2.7 full-time and part-time employees, compared to an average of 0.14 people employed by government supported non-farm enterprises. These results suggest that private investment is now playing an important role in rural development in Lesotho by creating employment opportunities. It can therefore be inferred that recently, private enterprises have taken over government enterprises in employment creation in Lesotho.

It should be noted from the above discussion that low employment capacity of government supported enterprises is caused by the high retrenchment of people in the public sector through the introduction of the macro-economic reforms and the Structural Adjustment Policies in Lesotho (Matlosa, 1991). Macro-economic reforms and Structural Adjustment Programmes advocated downsizing in public enterprises and this reduced the size of public enterprises. In addition, the provision of government subsidies to small-scale producers was also reduced (see Chapter Two), resulting in the decrease in the number of enterprises supported by government affecting their employment size/capacity.

6.6.1 The role that government should play in rural non-farm sector

The fact that small-scale, non-farm producers claim not to receive support from government, many of them wish government could assist them in many ways. First, they want government

to provide them with loans to purchase equipment or buy anything that could expand their businesses. Producers also need loans to purchase raw materials and to meet other business necessities. Second, producers want government to assist them both in accessing local and international markets for their goods. In this regard, evidence from the literature shows that governments should assist producers to respond to market forces with enabling policies, such as training and finding market opportunities for small-scale producers (Aqeel, Awan and Riaz, 2011). Even though many entrepreneurs want government to assist them, there are some producers who do not need assistance from government. These are people who have the means of getting start-up capital and are in a position to market their goods in the local market.

6.7 Conclusion

This chapter assessed the different factors that affect the performance of rural non-farm enterprises in Lesotho. These are demographic, locational, linkage, competition and other factors related to government support. The research findings indicate that locational factors, such as access to infrastructure and markets play an important role in the performance of enterprises. Therefore, a lack of infrastructural services, such as good roads, electricity and water facilities affect the performance of enterprises. The research findings also reveal that factors related to competition affect rural non-farm enterprises negatively. Evidence shows that small-scale enterprises in poor countries are not competitive in markets generally because of the use of simple technologies. In this regard, local enterprises are not in a position to compete with foreign enterprises and this affects their profitability.

In terms of employment, evidence from the literature suggests that rural non-farm enterprises solve the unemployment problem in poor countries. However, the research findings from the study reveal that the employment capacity of non-farm enterprises is too low compared to the current state of population growth in the country. As a result, the problem of unemployment will not be solved in the long run. This is because the unemployment rate in Lesotho is very high; estimated at 25% by the Bureau of Statistics (2009). The capacity of rural non-farm enterprises in Lesotho to create sustainable employment for many Basotho is still challenged by the fact that many Basotho are employed in South African mines (although recently, many have been retrenched), plantations and commercial farms, while a number are employed as domestic workers. Thus, it can be said that the performance of rural non-farm enterprises in employment creation is very minimal.

It is also observed from the study that the performance of rural non-farm enterprises in Lesotho is affected by the poor linkage between farm and non-farm enterprises. Research in Lesotho reveals that subsistence farming has failed to supply raw materials to non-farm enterprises. As a result, the performance of rural non-farm enterprises is affected. Consequently, linkages between different sectors of the economy should be forged in such a way that they are interdependent and sustainable. The assumption is that this will reduce the dependence of Lesotho on South Africa for various goods that are used in the farm and non-farm sectors. In addition, people will consume the locally produced goods, and this will contribute to the profitability and high turnover of non-farm enterprises. The framework of different linkages that is suggested to be developed and promoted between the rural non-farm sector and other sectors of the economy is outlined in Figure 6.10 below.

THE MAIN SECTORS OF THE ECONOMY IN LESOTHO

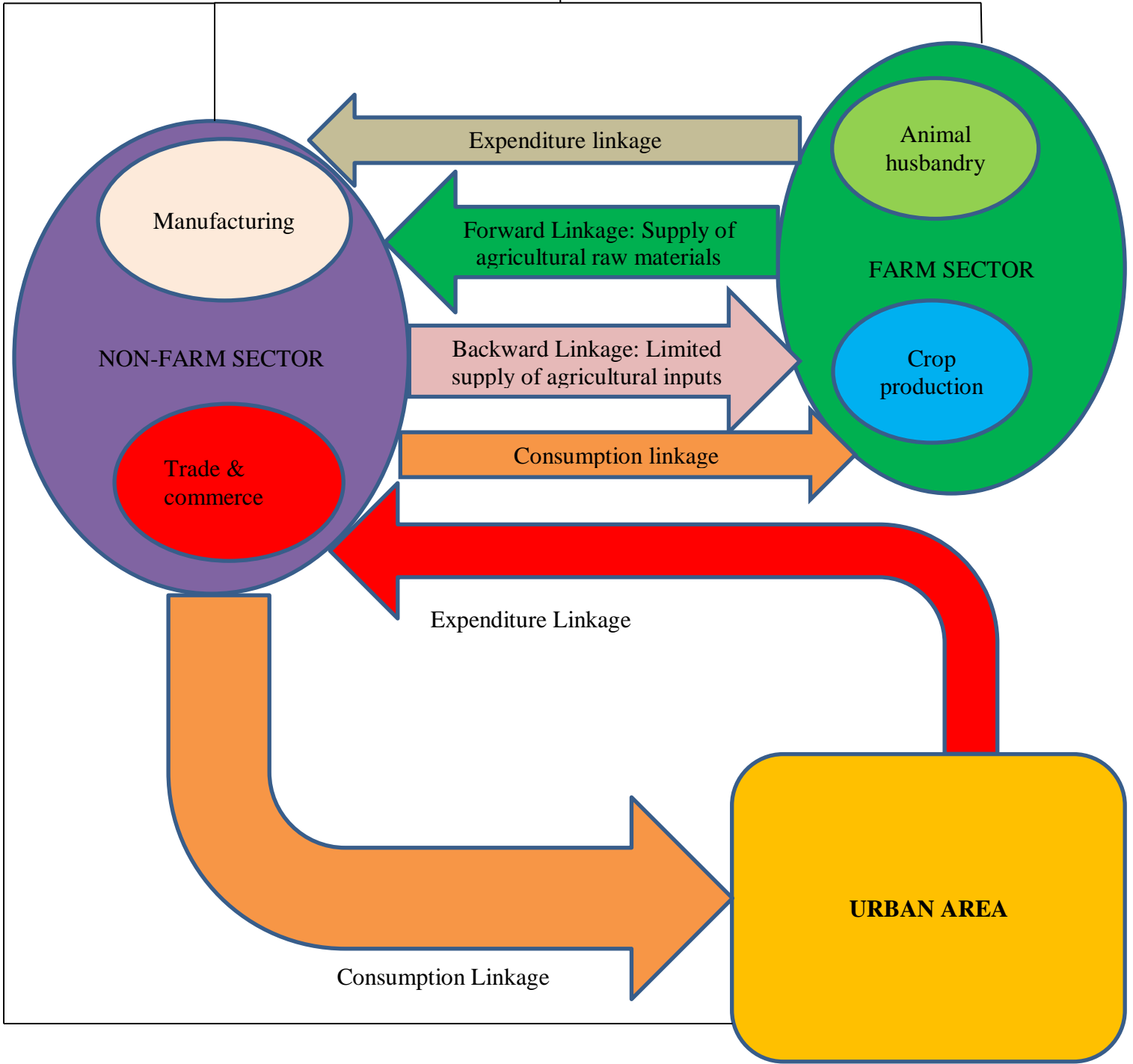


Figure 6.10: Framework of farm, non-farm and urban linkages in Lesotho, 2010

Figure 6.10 above provides a framework of how the success of rural non-farm enterprises in Lesotho could be ensured. The Figure suggests that the performance of rural non-farm enterprises is determined by the interdependence of different sectors of the economy (non-farm, farm and urban sectors). The Figure also indicates that the linkage between the rural non-farm and farm sectors is mainly between manufacturing, trade and commercial enterprises. Therefore, in order to ensure the sustainable supply of raw materials from the farm sector to the rural non-farm sector, both forward and backward linkages should be improved. For instance, the backward linkage takes place when the rural non-farm sector supplies agricultural inputs such as fertilisers, farm machinery and pesticides to the farm sector to increase productivity (see Chapter Two). When there is increased agricultural production, there will be a sufficient supply of raw materials for processing (forward linkage) in the rural non-farm enterprises. However, the research findings reveal that there are very few enterprises supplying agricultural inputs to the farm sector in Lesotho. In order to ensure a sustainable supply of raw materials to the rural non-farm industries, subsistence farming should be transformed into small-scale commercial farming for market purposes.

When agricultural productivity is increased, entrepreneurs will spend money (expenditure linkage) to purchase agricultural raw materials for processing. In addition, many people in agriculture will also spend money to purchase the finished goods from the rural non-farm sector (creating the consumption linkage). Furthermore, people in urban areas will also spend their incomes on purchasing goods from the non-farm sector and this will increase the profitability of rural non-farm enterprises. As a result, too much dependence on foreign countries and particularly South Africa for goods will be reduced, and this will promote rural non-farm enterprises in Lesotho, resulting in their increased performance. When rural non-farm enterprises have a sustainable supply of raw materials from the farm sector, many of them will be successful and generate income, create employment opportunities, and thus reduce the current state of poverty in the country. A summary of the main indicators of the performance of rural non-farm enterprises in Lesotho is reflected in Table 6.3 below.

Table 6.3: Summary of the indicators of performance of non-farm enterprises in Lesotho, 2010.

Factors		Indicators		
		Profitability rating	Average Turnover	Average Employment
Gender	Male	Highly profitable and profitable	M3935.48	2.0
	Female	Profitable	M4303.00	1.7
Age	15-25	Profitable	M3588.23	1.8
	26-35	Breaking even	M3307.69	0.7
	36-45	Highly profitable and profitable	M2568.18	0.3
	46-65	Breaking even	M3000.00	0.7
Level of education	None	Breaking even	M1818.18	1.6
	Primary	Profitable	M1826.94	
	Secondary	Profitable	M3414.00	
	Tertiary	Profitable	M8705.88	0.5
District	Maseru	Highly profitable and profitable	M6330.35	
	Leribe	Profitable	M1818.18	
	Berea	Breaking even	M8437.50	
	Butha-Buthe	Breaking even	M2875.00	
	Mafeteng	Breaking even	M1750.00	
	Mohale's Hoek	Breaking even	M2500.00	
Geographic location	Periphery of towns	Profitable	M9675.00	0.8
	Rural towns	Breaking even	M3652.77	1.2
	Remote rural areas	Not profitable	M3000.00	0.08
Source of raw materials	South Africa	Highly profitable and profitable	M4121.95	2.3
	Other districts in Lesotho	Highly profitable and profitable	M3795.45	1.1
	In the district where the enterprise is located	Highly profitable and profitable	M3744.32	1.9
Market for goods	Within 1Km from business	Highly profitable and profitable	M3296.51	2.6
	Within 1Km-5Km from business	Highly profitable and profitable	M3250.00	2.9
	Farming residents	Breaking even	M3058.14	1.1
	Other districts in Lesotho	Profitable	M5130.00	1.9
	South Africa	Profitable	M5472.22	1.1
	Overseas countries	Profitable and not profitable	M10857.14	0.7
Source of Competition	Local enterprises	Highly profitable and profitable	M4540.22	3.0
	Other enterprises in Lesotho	Profitable	M5333.33	1.4
	Enterprises from South Africa	Profitable	M3000.00	0.19
Government support	Support	Breaking even	M11500.00	0.14
	No support	Highly profitable and profitable	M3852.63	2.7

CHAPTER SEVEN

CONCLUSION AND FUTURE RESEARCH

7.1 Introduction

This study commenced with providing an overview of the changing paradigms of rural development in developing countries (see Chapter Two). It is argued in this chapter that agriculture, as the main rural development strategy, failed to improve the living standards of the rural poor because of high population pressure on marginal lands, drought and environmental degradation. Therefore, the non-farm sector was considered as an alternative rural development strategy in developing countries. These arguments led to the discussion in Chapter Three of the rural non-farm sector in developing countries. It is argued in the chapter that rural non-farm activities contribute to livelihood making, employment generation and income earning. Therefore, the rural non-farm sector could be considered an alternative and complementary rural development strategy to agriculture. The discussion on the rural non-farm sector in developing countries led to the discussion in Chapter Four that focuses on rural development in Lesotho. The four main questions asked in Chapter Four are: First, to what extent was the farm sector developed in such a way that it supported the non-farm sector? Second, to what degree was the linkage between the farm and non-farm sectors explicitly outlined in the *Five Year Development Plans*? Third, were the contributing factors to the rural non-farm sector, such as education, infrastructure and water, geared towards improving the rural non-farm sector in Lesotho, or were they simply for general development? Fourth, to what extent has Lesotho's initial dependence on migrant workers to South Africa influenced the development of the rural non-farm sector?

Chapter Five studies the characteristics of the rural non-farm sector in Lesotho. It is argued in this chapter that many rural non-farm enterprises were established in the 1990s during downsizing in the public sector in Lesotho (during the introduction of the Structural Adjustment Programmes) and the retrenchment of many Basotho men from the South African Goldfields. Chapter Six interrogates the different factors affecting the performance of rural non-farm enterprises in Lesotho. It is discussed in this chapter that a lack of access to infrastructural services has hindered the performance of rural non-farm enterprises. Furthermore, the performance of rural non-farm enterprises in employment creation, income

generation (turnover) and the capacity to export to foreign countries is not significant. As a result, the contribution of non-farm enterprises to rural development is very low.

7.2 An overview of the main findings

The research findings indicate that unlike in some developing countries where small-scale enterprises were established as a response to increasing unemployment caused by the introduction of capital intensive industrialisation in the 1950s and 1960s, the promotion and establishment of rural industries took place after the establishment of the Lesotho National Development Corporation in 1967 and the Basotho Enterprise Development Corporation in 1975. Evidence further indicates that many rural non-farm enterprises were established in the 1990s during the high retrenchment of Basotho men from South African mines and in the period of the introduction of the Structural Adjustment Programmes. Against this background, the main findings of the research are outlined below.

7.2.1 Level of skill acquisition in the non-farm sector is inadequate to ensure viable growth

It is discussed in Chapter Three and Four that some governments in developing countries established programmes that improved the entrepreneurial skills of people working in the rural non-farm sector. The empirical evidence from Chapter Three shows that the Botswana government established the Rural Industries Innovation Centre in 1975 to improve production skills of entrepreneurs (Browne, 1982). Evidence elsewhere, such as in Bangladesh, indicates that government provided training in production methods and introduced new methods through the Industrial Village Project run by the Cottage Industries Division (Arghiros and Moller, 2000). In Kenya, the government established programmes, such as the Small Business Development Corporation and the Rural Industrial Development Programme to improve the skills of small-scale entrepreneurs (Norcliffe and Miles, 1984). The research findings in Chapter Four further reveal that the Lesotho Government established Basotho Enterprise Development Corporation to provide small-scale enterprises with training in office procedures, accounts, procurement, production and marketing (Kingdom of Lesotho, 1976). However, the empirical evidence from Chapters Five and Six indicates that many people employed in the non-farm sector do not have the required entrepreneurial skills, such as business management, marketing and the drawing up of business plans which can be implemented to improve the performance of non-farm enterprises. Many respondents explained that they acquired entrepreneurial skills from former employers, such as the South

African gold mines. In this respect, evidence in Chapter Five shows that 69.6% of entrepreneurs in the non-farm sector acquired entrepreneurial skills outside of formal education, while 30.4% obtained them from vocational and technical training. However, one can argue that skill acquisition from a former employer is insufficient to equip entrepreneurs with the relevant skills needed for the success of non-farm enterprises. The implication of the lack of relevant entrepreneurial skills in the non-farm sector may be the main contributing factor to the poor performance of enterprises that result from a low level of innovativeness.

7.2.2 Performance of rural non-farm enterprises in employment creation is not significant

The available literature in Chapter Three suggests that rural non-farm activities play an important role in creating employment opportunities for people who have failed to secure employment in the formal sector of the economy. Although evidence from Lesotho suggests that agriculture employs about 70% of the labour force, research shows that subsistence farming has been in consistent decline over the past three decades (see Chapter One). As a result, many Basotho work as migrant labourers in South African gold mines, on plantations, in industries, with some women working as domestic workers in South Africa (see Chapter Four). The migration of people seeking employment in South Africa depicts that non-farm enterprises are not capable of ensuring sustainable employment for many people. The low employment capacity of rural non-farm enterprises is illustrated by the response of one entrepreneur from Chapter Five which states: *“There are less employment opportunities in Lesotho, and I am looking forward to finding employment in the mines, and in the meantime, I am running an air-time business”*. The research findings in Chapter Five further reveal that many Basotho who provide casual labour on daily basis, such as herding and working on family farms consider themselves as unemployed, but employment in the South African mines as work (Mensah and Naidoo, 2013). The empirical evidence from Chapter Six further illustrates a low average employment size of 2.04 male and 1.74 female full-time and part-time employees in the non-farm sector. These results indicate that the ability of rural non-farm enterprises to create sustainable employment is very low and has little chance of reducing the current unemployment rate estimated at 25% (Bureau of Statistics, 2009).

7.2.3 The majority of non-farm enterprises are owned by males

The available literature in Chapter Three indicates that many rural non-farm enterprises are owned by women. This is due to the fact that in many African societies men migrate to towns in search of employment opportunities, thus leaving women behind to take care of household activities. The situation was also similar in Lesotho until the early 1990s when men migrated to South African mines in search of employment, and women stayed behind practising subsistence farming and other family activities. In this regard, evidence in Chapter One indicates that about two-thirds of small-scale enterprises were owned and run by women (Ministry of Trade and Industry, Cooperatives and Marketing, 2002). However, the research findings in Chapter Five provide a contrary view in this regard. For instance, the research findings show that the male-owned enterprises make up 61.6% in the rural non-farm sector compared to 38.4% of the female-owned enterprises. The number of the male-owned enterprises increased in the early 1990s because of the high retrenchment of Basotho men from South African Gold mines (see Chapter Four and Five). The small number of female-owned enterprises is attributed to the out-migration of many Basotho women into South Africa to work as domestic workers (see Chapter Four). This new phase of labour migration left men behind participating in rural development activities, including the establishment of small-scale rural enterprises. The large number of males in the non-farm sector is also demonstrated by the employment level between male- and female- owned enterprises. In this respect, the research findings in Chapter Six further depict that male-owned enterprises employed an average of 1.6 full-time and part-time employees, compared to an average of 1.0 full-time and part-time people employed by enterprises owned by females.

7.2.4 Non-farm activities are financed mainly through migrant labourer remittances and retrenchment packages

It is stated in Chapter Three that government policies in developing countries are biased against small-scale, non-farm enterprises, focusing more on improving large-scale industrialisation (Lanjouw, 1995). It is further discussed in Chapter Three that commercial banks do not support small-scale enterprises because they are not creditworthy (Chuta and Liedholm, 1979). However, in order to promote small-scale, non-farm enterprises, government policies changed to supporting them with financial assistance, training and market outlets. In addition, stakeholders such as Non-Governmental Organisations began working together with governments in this endeavour. For instance, the research findings in Chapter Three show that government and donor-funded credit institutions have played an

important role in financing non-farm activities in Indonesia (Kristiansen, 2003). The research findings in Chapter Four also reveal that the Lesotho government established Basotho Enterprise Development Corporation in 1975 to provide short- and medium-term loans to small-scale producers (Kingdom of Lesotho, 1976). Small-scale, non-farm enterprises have also received support from bilateral institutions and international Non-Governmental Organisations such as Cooperative for Assistance and Relief Everywhere (Uys, 1970; Setlogelo, nd).

The research findings in Chapter Four further reveal that financial support from government (mainly from Basotho Enterprise Development Corporation), bilateral institutions and international Non-Governmental Organisations is no longer available. Cuts in government funding can be linked to the adoption of Structural Adjustment Programmes in 1991 that advocated a reduction in government expenditure and the provision of subsidies to small-scale producers. At the same time, a lack of funding from bilateral institutions and international Non-Governmental Organisations is associated with global financial problems or donor preferences. Therefore, a lack of financial support from government and Non-Governmental Organisations has forced people to use alternative sources of funds for establishing non-farm enterprises. In this respect, evidence from Chapter Five indicates that many entrepreneurs use start-up capital from personal savings and social networks. For example, 60.8% of entrepreneurs used their own savings for the establishment of non-farm activities, while 12% used money borrowed from relatives and friends as start-up capital. Start-up capital from own savings was mainly derived from migrant labourer remittances and retrenchment packages. This evidence from Chapter Five supports the following statement by a respondent: *“I used to save some money while working in the South African mines; I then used it to establish a retail shop”*. Although about 7.2% of entrepreneurs used start-up capital from member contributions (mainly from cooperatively owned enterprises), 1.6% used start-up capital from micro-credit institutions; thus, the contribution of these institutions to rural development cannot be ignored.

7.2.5 Non-farm incomes are the main source of livelihood ensuring food security

Evidence from Chapter Two indicates that many people in developing countries derive their means of living from agriculture. However, food insecurity has persisted in developing countries because of low agricultural production. Therefore, in order to increase productivity in agriculture and ensure food security at the household level, the Green Revolution packages

were adopted. The use of the Green Revolution packages were also meant to ensure agricultural surplus that could be used to supply raw materials to the rural non-farm enterprises. The research findings in Chapters One and Four show that food insecurity is very high in Lesotho, and could be associated with different factors, such as severe drought, farming on marginal lands, and severe land degradation caused by overstocking and soil erosion. As a result, Lesotho depends on food donations from other countries distributed by the Food and Agricultural Organisation. The research findings further reveal that Lesotho imports foodstuffs from countries, such as Japan (Makenete *et al.*, 1997) to ensure the availability of food at household level. Nevertheless, evidence indicates that food hand-outs / donations cannot solve the problems related to a food deficit in the long term. Therefore, many people in Lesotho participate in rural non-farm activities to make a living. For instance, research findings in Chapter Five reveal that entrepreneurs derive an average of 57% of their livelihood from non-farm incomes, while agriculture accounts for 18.5% of their livelihood. In this regard, entrepreneurs spend their non-farm incomes to purchase food and other basic needs. For example, entrepreneurs spend an average of M415.38 per month on food (see Chapter Five). The potential of rural non-farm enterprises in ensuring food security can also be observed from the research results in Chapter Six. The research findings show that female-owned enterprises have a turnover of M4303.00, while male-owned ones have a turnover of M3935.48. per month. Although the above average turnovers cannot ensure a sustainable source of livelihood, they can be used to ensure food security among poor, rural households.

7.2.6 Performance of non-farm enterprises is affected mostly by foreign competition, especially South African companies

Evidence from Chapter Three illustrates that globalisation has brought both threats and opportunities to non-farm enterprises. The main threats can be attributed to the free movement of capital and labour across national boundaries. In this regard, foreign investors are free to open businesses across the globe. In addition, information from the available literature reveals that export-led industrialisation adopted in the 1970s and trade liberalisation policies adopted in the 1980s by many countries reduced some tariff barriers that were used to protect domestic industries from external competition. Therefore, local enterprises are exposed to foreign competition. The research findings in Chapter Four further associate external competition for rural non-farm enterprises with the free trade protocol signed between Lesotho, South Africa, Botswana, Namibia and Swaziland through the Southern African Customs Union agreement on free trade policy. Thus, goods produced by South

African companies penetrate Lesotho's market and outperform small-scale, local enterprises in the process (see Chapters Four and Six). In this respect, brands from South African companies, such as Clover outperform ones from the local market (Mashinini, 2001). In this regard, the research findings from Chapter Six reveal that rural non-farm enterprises that face competition from South African companies have the lowest average turnover of M3000.00 per month, compared to enterprises that face competition from other domestic enterprises. For example, enterprises that face competition from other enterprises in Lesotho have an average turnover of M5333.33 per month, while those facing competition from local enterprises in close proximity have an average turnover of M4540.22 per month. These results indicate that foreign competition has serious implications for the performance of non-farm enterprises, especially revenue making. Although non-farm enterprises that face foreign competition have the lowest average turnover, the research results in Chapter Six reveal that 66.7% of entrepreneurs who face competition from South African companies rate themselves as profitable or highly profitable. The profitability of these enterprises could be associated with the views from the literature that competition causes small-scale producers to be more innovative in order for them to be competitive.

7.2.7 Enterprises that market goods on the international market are more successful than ones that market goods on the local market

It is discussed in Chapter Three that small-scale enterprises in developing countries use simple technologies that make them less competitive in international trade. However, evidence from the literature shows that participation in international trade encourages countries to produce quality goods, in order for them to be competitive in international markets. In addition, it is also stated that competition allows enterprises to meet the law of supply and demand (produce goods mainly in demand in the market). As a result, enterprises that participate in international trade are in a position to generate foreign exchange that can be used to improve the incomes of entrepreneurs and contribute to the national income of the country. Although the research findings in Chapter Three indicate that small-scale enterprises that use simple technologies have little chance of survival in the global capitalist world (see Saith, 2001), evidence from Chapter Six opines that non-farm enterprises that market goods on the international market, especially in overseas countries, have the highest average turnover of M10857.14, compared to enterprises that market goods in South Africa (M5472.22); other districts in Lesotho (M5130.00); within 1km from business (mainly to urban residents) (M3296.51); within 1km-5km from business (to urban residents)

(M3250.00); and ones that market goods to farming residents with M3058.14 per month. The research findings in Chapter Six show that rural non-farm enterprises that participate in international trade are mostly from the manufacturing and particularly the weaving subsectors.

7.2.8 Marketing of goods using the internet facility is very low in Rural Non-Farm Sector

It is discussed in Chapter Three that access to infrastructural services such as, electricity, roads, water and other things increase production in the non-farm sector. Also mentioned in Chapter Two is the fact that governments in developing countries provide essential infrastructural services to rural areas, thus facilitating linkages between rural and urban areas. The important infrastructural services include telecommunication and road networks that allow the easy movement of goods between rural and urban areas to urban markets and the transportation of raw materials from the source. The available research is significantly silent about the use of the internet in the non-farm sector as one of the marketing techniques during the present globalisation era. In this regard, research on Lesotho reveals that rural non-farm enterprises lack marketing techniques and facilities (Ministry of Trade and Industry, Cooperatives and Marketing, 2008) that could make them competitive in both the domestic and international markets. Although non-farm enterprises that market goods on international markets show success, the research findings in Chapter Five demonstrate that only 21.2% of non-farm enterprises use the internet facility for marketing purposes. As much as 78.8% of non-farm enterprises in Lesotho do not have access to, or use internet facilities for marketing goods. However, research findings in Chapter Six show that rural non-farm enterprises in Lesotho use local radio stations, brochures and display goods on the streets. In this regard, research findings in Chapter Three indicate that rural non-farm enterprises that use out-dated technologies have no room in capitalism. Therefore, in order to be competitive, enterprises should adopt modern production and marketing techniques.

The main findings of the research are outlined in Table 7.1 below, and the recommendations for each research finding are provided.

Table 7.1: An outline of the main findings of the study and recommendations

Main findings	Reference to chapter	Key recommendations
<ul style="list-style-type: none"> Level of skills acquisition in the non-farm sector is too low 	Chapters 3; 5	<ul style="list-style-type: none"> Large firms (especially MNCs) should mentor small-scale enterprises through subcontracting The role of BEDCO should be revisited and its activities decentralised
<ul style="list-style-type: none"> Rural non-farm enterprises do not solve the problem of unemployment in the long term 	Chapter 3; 6	<ul style="list-style-type: none"> BEDCO should work with local NGOs and establish outreach farm enterprises and rent them to people
<ul style="list-style-type: none"> The majority of people participating in the non-farm sector are male. 	Chapters 3; 5;6	
<ul style="list-style-type: none"> Non-farm enterprises obtain finance from migrant labourer remittances and retrenchment packages 	Chapters 3; 4; 5	<ul style="list-style-type: none"> Revolving credit should be established by government to support non-farm enterprises
<ul style="list-style-type: none"> Non-farm incomes are used to ensure food security 	Chapter 3	<ul style="list-style-type: none"> The non-farm sector should be given first priority for rural development
<ul style="list-style-type: none"> Many non-farm enterprises face competition from South African companies 	Chapter 3; 4; 6	<ul style="list-style-type: none"> Lesotho's competition policy should be translated into action Small-scale enterprises should form clusters
<ul style="list-style-type: none"> Very few non-farm enterprises participate in international trade 	Chapters 2; 3; 4; 6	<ul style="list-style-type: none"> Government should establish marketing opportunities for non-farm enterprises
<ul style="list-style-type: none"> Marketing of goods using internet facilities is very rare among RNFS 	Chapter 6	<ul style="list-style-type: none"> Internet facilities should be made accessible to all small-scale producers with affordable prices by telecommunication companies

7.3 Key recommendations

The aim of this section is to discuss the recommendations as suggested in the above Table 7.1. The recommendations are aimed at improving the performance of rural non-farm enterprises

in Lesotho to ensure a viable rural development strategy that can implement a system of sustainable employment creation and poverty reduction. Possible recommendations are made to avail different stakeholders (mainly government, Non-Governmental Organisations and private institutions) that are concerned with improving the living standards of the rural poor, with possible solutions. The recommendations are discussed below.

7.3.1 Large companies should mentor small-scale enterprises through subcontracting

Lesotho's small businesses are, by no means, unique to Africa, at least in the kind of challenges they face, generally. Such challenges include the use of simple technologies and unskilled labour; scattered businesses; producing for the local market; and the limitations of capital, information and other networks that could make them competitive in local or international markets. Therefore, given that they offer the same kinds of product lines, most of the rural enterprises (agro-processing and small-scale, rural enterprises) in the country are unlikely to compete effectively with the better endowed foreign multi-nationals. The global nature of markets requires that companies in less developed countries equip themselves sufficiently, in order to compete with multinationals. This means that local companies have to rely strongly on competitive advantages, such as economies of scale, technology, marketing strengths, efficient production processes, distribution systems and affordable labour. However, most of these attributes are lacking among small scale, non-farm local enterprises in Lesotho, and can be disseminated to small-scale enterprises only through subcontracting with large companies, especially the Multi-National Companies.

7.3.2 The role of Basotho Enterprise Development Corporation should be revisited and its activities should be decentralised

It is argued in Chapter Three that many governments in developing countries established different programmes and policies that promoted non-farm enterprises after independence. In this respect, the Lesotho government established the Lesotho National Development Corporation in 1967 to promote non-farm industries in Lesotho (Kingdom of Lesotho, 1970). In addition, Basotho Enterprise Development Corporation was launched in 1975 as a subsidiary of Lesotho National Development Corporation to promote small-scale enterprises with the necessary production and marketing skills (Kingdom of Lesotho, 1976). However, evidence from Chapter Six indicates that the majority of small-scale enterprises do not get assistance from Basotho Enterprise Development Corporation. This might be caused by the fact that there are too many non-farm enterprises in the country which are scattered across

different geographical areas; thus, Basotho Enterprise Development Corporation could not reach all of them with the necessary training and other business facilities. Although Basotho Enterprise Development Corporation has offices and business stalls in some districts, such as Leribe, Butha-Buthe, Mafeteng, Maseru and Mophale's Hoek, the corporation focuses mainly on enterprises that are found within rural towns. Therefore, one would suggest that Basotho Enterprise Development Corporation establish subsidiary branches outside rural towns to bring services closer to entrepreneurs who cannot travel to rural towns or to Maseru where the main office is situated. In addition, small offices or outreach centres should be established at different constituency levels in the offices of local government to provide services to enterprises that are located in villages.

7.3.3 Government should establish revolving credit to support non-farm enterprises

Evidence shows that Lesotho government established some micro-credit institutions to support small-scale producers (Mashinini, 2002). However, the changes took place after 1991 when government adopted Structural Adjustment Programmes. It is also discussed in Chapter Three that non-farm enterprises are not favoured by some financial lending institutions because small-scale entrepreneurs are considered not creditworthy and many of them lack collateral (Ministry of Trade and Industry, Cooperatives and Marketing, 2008). Evidence from Chapter Five reveals that non-farm enterprises are not supported by commercial lending institutions. Although the state's involvement in production is questioned because it is believed to distort production (Wuyts, 1992; Williams, 2007), it is recommended that government should create a revolving fund for the establishment of rural non-farm enterprises, instead of providing them with subsidies.

7.3.4 Rural non-farm activities should be given first priority to agriculture for rural development

The available literature in Chapter Two suggests different strategies that are used for rural development in developing countries. Evidence shows that agriculture is considered the major source of livelihood for many people in developing countries (Dixon, 1990; Todaro, 2000). Therefore, government's efforts were geared towards improving productivity in agriculture through the adoption of a number of Green Revolution technologies (see Chapter Two). Furthermore, small-scale commercial farming was supported by some countries to produce for both market and household consumption, in order to ensure food security (Moyo, 2000). Evidence from Lesotho indicates that government implemented different programmes

to enhance agricultural productivity (both crop and animal production) (see Chapter Four). However, research on Lesotho reveals that agriculture has failed to improve the living standard of the rural poor. As a result, many people migrate to South Africa in search of employment opportunities in the mines, industries and plantations (see Chapter Four). In order to supplement the meagre incomes derived from low agricultural productivity, many people engage in non-farm work to alleviate problems, such as drought that could affect agriculture (Thebe, 2012). In this respect, it is recommended that the non-farm sector be given first priority for rural development, given that agriculture has failed to ensure food security. This measure would help to solve the economic and social problems facing Lesotho.

7.3.5 Lesotho's competition policy should also cover small-scale survivalist enterprises

The research findings in Chapter Two and Four suggest that trade liberalisation has advocated the free movement of goods between countries. It is also postulated in Chapter Three that globalisation and widespread economic liberalisation has opened up the rural non-farm economy (especially small businesses) to both new opportunities and threats. The competing firms (small local producers and multi-national companies) are not equal in terms of power, resource availability, the use of technology, marketing skills, economies of scale and many other things. In this context, the smaller local producers are at a great disadvantage, and many small-scale enterprises tend to collapse or close down due to foreign competition. Evidence from Chapter Six reveals that the performance of non-farm enterprises that face foreign competition, especially from South African companies, is not sound in terms of turnover.

The research on Lesotho states that, Lesotho government established a *competition policy* in 2007 that was meant to ensure that fair competition prevails among producers. It is stated that the primary objective of Lesotho's competition policy is to protect infant industries and maintain the process of competition in the economy in order to achieve an efficient use of resources and safeguard consumer welfare by restraining anti-competitive and unfair trade policies. One secondary objective of the competition policy is to promote the growth of small-scale enterprises and employment. The intention of the competition policy is also to address the disadvantages faced by smaller firms concerning access to information and the weaker bargaining power position in their competition and dealings with larger firms. The research findings from Chapter Four and Six reveal that many small-scale enterprises do not enjoy the benefits suggested in the competition policy. This is because the competition policy favours only infant industries and not survivalist enterprises, as well as the fact that many of

them are not registered with the Ministry of Trade and Industry, Cooperatives and Marketing. According to Ministry of Trade and Industry, Cooperatives and Marketing (2007), an infant industry is between one and five years old. The research findings indicate that the only enterprises that enjoy the benefits of the competition policy fall mostly under Lesotho National Development Corporation (Ministry of Trade and Industry, Cooperatives and Marketing, 2007). Therefore, the study recommends that the competition policy should cover every small-scale enterprise in the country.

7.3.6 Small-scale enterprises should form clusters

Evidence from Chapter Three indicates that globalisation and the liberalisation of trade in particular, affect many small enterprises in Africa and other parts of developing countries. Trade liberalisation has exposed many non-farm enterprises to foreign competition (see Chapter Two and Three). It is debated in Chapter Four that small-scale enterprises in Lesotho face stiff competition from their large South African counterparts (Mashinini, 2001). The research findings in Chapter Three note that it is not foreign competition that impacts negatively on small-scale enterprises, but small-scale, non-farm enterprises tend to work in isolation from one another, making them prone and vulnerable to foreign competition (see Kristiansen and Mbwambo, 2003). Therefore, as a solution to surmount problems related to competition, non-farm enterprises should form clusters. In this respect, the clustering of small scale enterprises is strongly supported and recommended, because isolated enterprises lack the necessary techniques to compete in the new global economy (Hasenclever, Rovere and Erber, 2004). This is because enterprises in a cluster have more efficient access to material, information and training than those which are isolated. Therefore, increased access to specialised material enables enterprises to become more innovative (Mcdade and Malecki, 1997) and competitive compared to the more isolated ones (Gerhardt and Stokke, 2001; Williams, 2007). Although rural non-farm enterprises in Lesotho work in close proximity to one another (see Chapter Five), these are not the formal clusters that are recommended in order to implement the competitiveness of enterprises. The formal clusters in Lesotho or the industrial districts as the available literature often refers to them, are found only among the textile industries. In this regard, the study recommends that non-farm enterprises should form clusters in line with the products in which they specialise.

7.3.7 Government should establish markets for small-scale enterprises

It is stated in Chapter Three that governments in developing countries established institutions that support small-scale, non-farm enterprises with financial credit and technologies. The research findings in Chapter Four further show that Lesotho government established Basotho Enterprise and Development Corporation to help small-scale producers with capital and training. However, evidence in Chapter Two suggests that state involvement in rural development in the country was challenged during the period of Structural Adjustment Programmes. In this respect, evidence from Chapter Five suggests that rural non-farm enterprises have problems marketing their goods mainly outside the country. It is therefore recommended that governments should act as facilitators in rural development by assisting entrepreneurs responding to the market forces by negotiating foreign markets for non-farm goods. In this regard, products produced by small-scale enterprises, especially in manufacturing could be exhibited on the international market. This would increase the number of manufacturing enterprises participating in international trade.

7.3.8 Export performance of non-farm enterprises should be developed through the use of internet facilities at affordable prices

It is discussed in Chapter Three that the provision of essential infrastructural services increase production in the non-farm sector. It is further established in Chapter Five that the number of small-scale enterprises that use the internet is very small, and this hinders the international competitiveness of small-scale, non-farm enterprises. Most non-farm enterprises use obsolete marketing techniques (see Chapter Six) and as a result, non-farm enterprises fail to reap the full benefits brought about by globalisation in developing countries (see Chapter Three). Thus, in order to take advantage of the benefits that globalisation brings, rural non-farm enterprises should be integrated into the capitalist world through the use of modern production and marketing techniques. In this respect, the use of the internet can integrate small-scale producers in Lesotho into the capitalist system for international trade. This research therefore recommends that internet facilities be made accessible at affordable prices to small-scale enterprises.

7.4 Value of the research results

The following points can be used to justify the importance of this research in Lesotho:

- Many PhDs on rural development in Lesotho have dealt chiefly with agricultural development. However, the researcher has not encountered any PhD work that has focused mainly on rural non-farm enterprises; some studies have addressed rural non-

farm enterprises as a small component of the whole. For example, Mashinini (2000) studied sustainable rural development policies in Lesotho after independence. In his study, rural non-farm enterprises formed a small section of the study. In addition, the research by Mashinini mainly analysed factors affecting the sustainability of manufacturing enterprises, mainly weaving and agro-processing industries. Another example is that of Ferguson (1985a) who interrogated the role of development aid in rural development in Lesotho. In this study, small-scale, cottage industries are studied as a small component that the Thaba-Tseka Integrated Rural Development Project promoted. In this regard, rural non-farm enterprises are under-researched in Lesotho; thus, this is the first PhD work that has exclusively studied the role of rural non-farm enterprises in rural development in Lesotho. Its focus was on three sectors of non-farm activities: manufacturing, trade and commerce, and service. This research report does not ignore the fact that there are many academic reports in Lesotho that have studied the textile industry. However, this present research report did not include the textile industry under non-farm enterprises because of the definition of the non-farm sector derived from different sources (see Chapter Three).

- There was a baseline survey undertaken by the Institute of Southern African Studies on rural non-farm employment in Lesotho in 1984. The study focused mainly on manufacturing enterprises. The researcher also discovered that another national survey on the state of small enterprises in Lesotho was undertaken by a consultancy company for the Ministry of Trade and Industry, Cooperatives and Marketing in 2008. These baseline surveys were not undertaken for academic purposes, but to inform policy makers. At the outset, the survey carried out in 1984 by Institute of Southern African Studies studied survivalist enterprises in the rural areas. This research was also conducted before the introduction of macro-economic reforms in Lesotho, as well as during the period of accelerated globalisation starting in the 1990s. This research was also undertaken before the high retrenchment of Basotho men from the South African mines. Therefore, there are some major changes that have occurred and need to be explored since the time the study was undertaken. On the other hand, the study by the Ministry of Trade and Industry, Cooperatives and Marketing is the most recent and focuses mainly on informing the government about the problems (especially competition, finance and markets) encountered by small-scale enterprises. The study does not address the Lesotho / South Africa relationship (which this study explores),

as far as the establishment of rural non-farm enterprises is concerned. The national survey by the Ministry of Trade and Commerce also does not investigate small-scale enterprises in the context of globalisation and trade liberalisation in particular, which this study does.

- This research further contributes information to the available literature in the rural non-farm sector in developing countries by discussing the case of Lesotho which is not common in many studies. For instance, the rural non-farm sector in Lesotho is a dependent form of development, especially on South Africa for both capital used for the establishment of enterprises and the supply of raw materials. Although evidence from the literature indicates that one determinant of rural non-farm incomes is migration; what this implies is that people leave the rural areas and migrate to urban areas. They then acquire remittances that can be used to finance agriculture; these people are referred to as worker-peasants by Thebe (2012). In the case of Lesotho, people migrate mainly to the South African mines, plantations and industries, and their incomes are used to finance the establishment of rural non-farm enterprises. In addition, most of the inputs and raw materials used by many non-farm enterprises are imported from South Africa. In this respect, this study forms a unique contribution to rural non-farm sector discourse.
- Rural development in Lesotho is more biased towards improving agriculture (that is characterised by low productivity and thus not contributing to food security), while ignoring non-farm enterprises despite their contribution to improving the living standards of the rural poor. In addition, the economy of Lesotho is too dependent on that of South Africa mainly for trade and employment in the mines, plantations and industries. However, with the significant decrease in the numbers of migrant labourer remittances in the past few decades, poverty and unemployment have escalated exponentially in the country. In this respect, this research report adds value by assessing the potential and growth prospects of rural non-farm activities during the decline in migrant labourer remittances and the retrenchment of many people from the public sector because of macro-economic reforms. This research shows that rural non-farm enterprises can replace jobs lost elsewhere and further reduce Lesotho's dependence on South Africa if more attention is given to improving the sector.

7.5 Future research possibilities

This study has attempted to assess the contribution of rural non-farm enterprises to rural development in Lesotho. The study assessed the viability and potential growth prospects of non-farm enterprises. Emanating from the study, a number of important aspects have emerged that need further in-depth research. Some of them are discussed below.

7.5.1 The role of social networks in the rural non-farm sector

It is discussed in the literature that non-farm enterprises are less supported by commercial lending institutions (see Chapter Three). In this respect, it is discussed in Chapter Five, that many entrepreneurs in the non-farm sector receive start-up capital from friends and relatives. It is therefore acknowledged that social ties / social networks play an important role in the establishment of non-farm enterprises. It is also established in the literature that social networks also play a leading role in informing entrepreneurs about market accessibility and the diffusion of new technologies through the clustering of enterprises (see Chapter Three). Therefore, the issue of social networks in the rural non-farm sector in Lesotho needs to be researched further.

7.5.2 The impact of free trade policies (trade liberalisation) on non-farm enterprises

It is stated in Chapter Four that free trade policies allowed the penetration of goods produced outside the country to penetrate the local market. For instance, Mashinini (2001) states that goods produced by some South African industries, such as Clover, pose stiff competition for products produced by Lesotho Dairy Products. The main findings of the research also reveal that goods produced by South African companies outperform those produced by small-scale enterprises in the local market. In this regard, it is important to conduct independent research that investigates the impact of free trade policies on the rural non-farm sector across the three different sectors: manufacturing, trade and commerce, and service enterprises.

7.5.3 Diffusion and adoption of new technologies in the non-farm sector

It is stated in the literature that rural non-farm enterprises use simple and indigenous technologies that make them less competitive in international trade. The literature further states that entrepreneurs use mainly manual labour for production. Therefore, the use of simple technologies that require manual labour causes small-scale enterprises to be outperformed in the market by their larger scale counterparts that use sophisticated technologies powered by electricity. In this regard, it is worthwhile investigating whether

rural non-farm enterprises, in the main, still use simple and indigenous technologies to produce goods for the local market. Research findings have revealed that some small-scale enterprises produce for both local and international markets using machines powered by electricity.

7.5.4 Role of rural non-farm enterprises in food security

Evidence suggests that agriculture in Lesotho has failed to ensure food sourced locally because the country is too dependent on food donations from elsewhere. In addition, the migrant labourer remittances that offered the means of sustenance to the majority of rural households have declined in recent years. However, currently, rural non-farm enterprises are perceived as potential contributors to food security in the country. Therefore, the potential of rural non-farm enterprise in ensuring food security needs to be investigated.

7.5.5 Contribution of development aid in the establishment of rural non-farm enterprises

It is stated that development aid has played an imperative role in rural development before and after independence in Lesotho. As a result, some rural non-farm enterprises have received funding from bilateral institutions and International Non-Governmental Organisations. In this regard, research needs to be undertaken that looks at the contribution of development aid in the development of non-farm enterprises in Lesotho.

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SUMMARY

It is stated in this research report that even though rural development policies and programmes in many developing countries focus on improving agricultural productivity to ensure food security, little attention has hitherto been paid to improving the rural non-farm sector as an alternative or complementary rural development strategy. Lesotho has been no exception in this regard. For instance, the research findings indicate that although rural development in Lesotho has improved agriculture, productivity in agriculture has in recent decades been in decline because of physical and economic factors. The rural non-farm sector has not been prioritised in rural development in Lesotho. This is the first study in Lesotho to look into the role played by the non-farm sector in rural development as regards the different sectors, namely manufacturing, trade/commerce and service.

The thesis firstly scrutinises the changing paradigms of rural development in developing countries. After the Second World War, rural development in developing countries started to improve agricultural production through the adoption of Green Revolution technologies. Evidence from the research reveals that developing countries are characterised by poverty, unemployment, food insecurity and low standards of living and that modernisation in agriculture has aimed to increase food production. The research findings further indicate that though rural non-farm enterprises depend on agriculture for the supply of raw materials, the Green Revolution packages did not explicitly state that agricultural surplus would be used as raw materials in rural non-farm enterprises. What they did emphasise was the idea of ensuring food security. This was accomplished through using different policies and programmes. Most prominent was the Integrated Rural Development, which applied the integrated approach to rural development. At that point the idea of establishing/improving a rural non-farm sector came into being, but the focus was on agro-industries and not on small-scale enterprises. It can thus be said that scant attention was devoted to the rural non-farm sector in developing countries in past decades.

The research findings have revealed the rural non-farm sector to have been an alternative or complementary strategy with a view to ensuring momentum in and recognition for agriculture in developing countries in the late 1980s and early 1990s during the adoption of Structural Adjustment Programmes and macroeconomic reforms. The research findings further indicate that Structural Adjustment Programmes advocated retrenchment in the public sector and that

this caused unemployment and poverty. The research findings moreover show that the reduction of government subsidies, especially in agriculture – as a specific condition of Structural Adjustment Programmes – caused agriculture to decline, which in turn resulted in food insecurity in many countries. Therefore, as a response to escalating poverty, increasing unemployment and food insecurity, many people participated in non-farm activities so as to make a living. During the period of rural-urban linkages, the establishment of non-farm enterprises gained momentum in developing countries in the 1990s. Evidence shows that rural-urban linkages established good communication networks between urban and rural areas, which served to facilitate trade between rural and urban areas.

Research on Lesotho indicates that many people lost jobs in the public sector when Structural Adjustment Programmes were adopted in 1991, and which resulted in unemployment, poverty and food insecurity. Unemployment in Lesotho was further aggravated by retrenchment of Basotho males on the South African goldmines from the early 1990s onwards. In this regard, those families dependent on migrant labourer remittances as a source of livelihood faced food insecurity. However, in order to make a living, many former mineworkers used the retrenchment packages as start-up capital towards the establishment of non-farm enterprises. As a result, the non-farm sector created employment opportunities for the former Basotho mine workers. The research findings moreover indicate that, subsequent to the decline in agricultural production and the loss of jobs in the South African goldmines, rural non-farm incomes have, for many people, become the main livelihood sources for many people.

Although rural non-farm enterprises contribute to rural development by creating incomes, employment and ensuring food security, there are various factors that affect the performance of non-farm enterprises: demographic factors and factors related to location, business linkages, competition and government support. For instance, the research findings reveal that education levels have a bearing on the performance of the non-farm enterprises, so much so that the performance of non-farm enterprises owned by entrepreneurs with tertiary education is better than that of enterprises owned by people with low levels of education. Even though enterprises owned by people with tertiary education tend to perform better, the contribution of non-farm enterprises in terms of employment creation, income earnings and ensuring food security is however not significant. Thus, rural development policy should, to a larger extent, focus on the rural non-farm sector, and the different stakeholders should do their part towards improving the sector.

Key words: rural, non-farm sector, non-farm incomes, profitability, turnover, employment, food security

OPSOMMING

In hierdie navorsingsverslag word gekonstateer dat ongeag die feit dat die fokus van landelike ontwikkelingsbeleide en -programme in talle ontwikkelende lande op die verbetering van landboukundige produktiwiteit geplaas word om voedselsekerheid te verseker, is weinig aandag tot dusver geskenk aan die verbetering van die landelike nie-boerdery sektor as 'n alternatiewe of komplementêre landelike ontwikkelingstrategie. Lesotho is geen uitsondering in hierdie verband nie. Die navorsingsbevindings dui byvoorbeeld daarop dat alhoewel landbou in Lesotho inderdaad verbeter het as gevolg van landelike ontwikkeling, landbouproduktiwiteit in die onlangse dekades afgeneem het vanweë fisiese en ekonomiese faktore. In die landelike ontwikkeling in Lesotho is nie voorkeur verleen aan die landelike nie-boerdery sektor nie. Hierdie is die eerste studie in Lesotho wat ondersoek ingestel het na die rol van die nie-boerdery sektor in landelike ontwikkeling ten opsigte van die verskillende sektore, naamlik vervaardiging, handel en dienste.

Ten aanvang ondersoek die proefskrif die veranderende paradigmas van landelike ontwikkeling in ontwikkelende lande. Na die tweede Wêreldoorlog het landelike ontwikkeling in ontwikkelende lande begin om landbouproduksie te verbeter by wyse van die instelling van groenrewolusietegnologieë. Die navorsing toon duidelik dat ontwikkelende lande gekenmerk word deur armoede, werkloosheid, voedselonsekerheid en 'n lae lewenspeil en dat modernisering in die landbou gepoog het om voedselproduksie te verhoog. Die navorsingsbevindinge toon verder dat alhoewel landelike nie-boerdery ondernemings van die landbou afhanklik is vir die voorsiening van grondstowwe, die groenrewolusiepakette nie uitdruklik vermeld het dat landboukundige oorskotte gebruik sou word as grondstowwe in landelike nie-boerdery ondernemings nie. Wat hulle wel beklemtoon het, was die idee dat voedselsekerheid gewaarborg moet word. Dit is bereik deur die gebruik van verskillende beleide en programme. Die mees prominente hiervan was die geïntegreerde landelike ontwikkeling, wat 'n geïntegreerde benadering op landelike ontwikkeling toegepas het. Die idee om 'n landelike nie-boerdery sektor te vestig/verbeter het op daardie stadium ontstaan, maar die fokus was op agro-industrieë en nie op kleinskaalse ondernemings nie. Daar kan dus tereg gesê word dat daar gedurende die afgelope dekades slegs geringe aandag aan die landelike nie-boerdery sektor in ontwikkelende lande gegee is.

Uit die navorsingsbevindinge het die landelike nie-boerdery sektor geblyk 'n alternatiewe of 'n komplementêre strategie te wees met die oog op die versekering van momentum in en die

erkenning van landbou in ontwikkelende lande gedurende die laat 1980's en vroeë 1990's met die aanvaarding van Strukturele Aanpassings Programme en makro-ekonomiese hervormings. Die navorsingsbevindinge het voorts aangedui dat Strukturele Aanpassings Programme afdankings in the openbare sektor voorgestaan het en dat hierdie stap werkloosheid en armoede tot gevolg gehad het. Die navorsingsbevindinge het ook getoon dat die vermindering in staatsubsidies, veral ten opsigte van die landbou – as 'n spesifieke voorwaarde van Strukturele Aanpassings Programme – 'n afname in landbou tot gevolg gehad het, wat op sy beurt tot voedselonsekerhede in talle lande gelei het. By wyse van reaksie op die eskalerende armoede, die toenemende werkloosheid en voedselonsekerheid, het talle mense by nie-boerdery aktiwiteite betrokke geraak ten einde 'n bestaan te kan maak. Gedurende die tydperk van landelik-stedelike skakeling in die 1990's, het die vestiging van nie-boerdery ondernemings in ontwikkelende lande momentum gekry. Daar is aanduidings dat landelik-stedelike skakeling instrumenteel was in die vestiging van goeie kommunikasienetwerke tussen stedelike en landelike gebiede en wat handel tussen stedelike en landelike gebiede bevorder het.

Navorsing oor Lesotho dui aan dat talle werknemers in die openbare sektor uit diens gestel is toe Strukturele Aanpassings Programme in 1991 aanvaar is en wat tot werkloosheid, armoede en voedselonsekerheid gelei het. In Lesotho is werkloosheid vererger deurdat Basotho-mans wat by Suid-Afrikaanse goudmyne werksaam was sedert die vroeë 1990's uit diens gestel is. In hierdie opsig het daardie gesinne wat afhanklik was van trekarbeiderbetalings vir lewensonderhoud voor voedselonsekerheid te staan gekom. Talle voormalige mynwerkers moes derhalwe om den brode die uitdiensstellingspakette as vestigingskapitaal gebruik vir die vestiging van nie-boerdery ondernemings. Die nie-boerdery sektor het dus werkgeleenthede vir die voormalige Basotho-mynwerkers geskep. Voorts dui die navorsingsbevindinge daarop dat landelike nie-boerdery inkomste vir talle mense die hoofbron van lewensonderhoud geword het in die daaropvolgende afname in landbouproduksie en die verlies aan werkgeleenthede in die Suid-Afrikaanse goudmyne.

Alhoewel landelike nie-boerdery ondernemings tot landelike ontwikkeling bydra deur inkomste, werk en voedselsekerheid te skep, is daar verskeie faktore wat die prestasie van nie-boerdery ondernemings beïnvloed: demografiese faktore en faktore wat verband hou met ligging, bedryfshakeling, kompetisie en staatsondersteuning. Die navorsingsbevindinge toon byvoorbeeld dat onderwysvlakke verband hou met die prestasie van nie-boerdery

ondernemings, dermate dat die prestasie van nie-boerdery ondernemings in besit van entrepreneurs met tersiêre opleiding beter is as dié van persone met lae onderwysvlakke. Alhoewel die neiging is dat ondernemings in besit van persone met tersiêre opleiding beter vaar, is die bydrae van nie-boerdery ondernemings ten opsigte van werkskepping, inkomsteverdienste en die versekering van voedselsekerheid egter nie beduidend nie. Landelike ontwikkelingsbeleid moet derhalwe in 'n groter mate op die landelike nie-boerdery sektor fokus, terwyl die verskillende belanghebbendes hul deel moet doen om die sektor te verbeter.

Sleuteltermes: landelik, nie-plaas sektor, nie-plaas inkomstes, winsgewindheid, omset, werkverskaffing, voedselsekuriteit

ANNEXURES

Annexure A

Plates showing some of the goods produced and services provided in the non-farm sector in Lesotho

Plate 1: Carpenter manufacturing coffins in the Mafeteng district, 2010



Plate 2: Some of the goods produced by a carpenter in the open space in the Mofalo's Hoek district, 2010



Plate 3: Some of the goods produced by a carpenter in the Mafeteng district, 2010



Plate 4: Weaving products displayed at one of the weaving enterprises in the Leribe district, 2010



Plate 5: Manufacturing of agricultural goods in the Leribe district, 2010



Plate 6: Tombstone manufacturing in the Mafeteng district, 2010



Plate 7: Services provided by a health clinic in Roma to the surrounding communities, 2010



Plate 8: An advertisement of the services provided by the nearby car wash in Roma, 2010



Annexture B

Plate showing tecnology used by some non-farm enterprises in Lesotho

Plate 9: A carpenter using simple tools in the Mohale's Hoek district, 2010



Annexture C

QUESTIONNAIRE

RURAL NON-FARM ENTERPRISES IN LESOTHO

SECTION A: Profile of the owners' household

1. Fill the below table

1. Name of the member	2. Relation-ship with Head of Household	3. Sex	4. Age	5. Marital status	6. Level of education	G. Vocational training	H. Farm or non- farm employment	I. Where is this person employed?
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								

B: 1= head of household; 2= spouse; 3 = child of head/spouse; 4 = father / mother of head / spouse; 5 = Other; C: 1 = female; 2 = male; E: 1 = Married; 2 = single; 3 = divorced ; 4 = widowed; 5 = cohabiting; 6 = Other; F 1 = None; 2 = some primary; 3 = Some secondary, 4 = Completed secondary education; 5 = Tertiary education; 6 = Other; G 1 = yes; 2 = No; H 1 = Farm only; 2 = Non-farm only; 3 = Both farm and non farm; I 1 = In this business; 2 = in the mines; 3 = public sector; 4 = Other formal enterprise; 5 = Informal enterprise; 6 = Other

2. Is working in the enterprise your main source of livelihood?

[1] Yes

[2] No

2.1. If no, what are your alternative ways of making a living and what percentage do you derive from each?

Type	Percentage
Non-farm business income from this business	
Non-farm business income from other businesses	
Farming income: Crops	
Farming income: stock	
Assistance / remittances from family / friends	
Social transfer from government (e.g. pensions)	
Total	100%

3. Indicate your monthly household expenditure on the items below:

Item	Expenditure	Item	Expenditure
Housing		Pay back loan	
Rental		Health care	
Bond		Paraffin / fuel	
Clothing		Alcohol	
Education – after-care		Smoking	
Pre-school		Food	
Primary school		Transport	
Secondary school		Telephone	
Tertiary		Support for family elsewhere	
Rates		Entertainment	
Water and electricity			

SECTION B: Profile of the enterprise

4. Name, location and address of the enterprise

Name of business			
Dirtrict			
Town			
Address:			
Indicate nature of location	Rural small town (in town)	On the periphery of a rural town	Remote rural

5. When was the enterprise established:

.....

6. What is the main aim/purpose of your enterprise (are you making furnitiure, etc)

.....

6.1 Why did you specifically decide on the type of product you have chosen?

.....

7. Indicate type of ownership of enterprise:

[1] Proprietorship

[2] Partnership

[3] Cooperative

Other.....

8. Indicate the level of employment in your business for 2010 and 2005 and make a projection for 2015:

	2010		2005		2015	
	Male	Female	Male	Female	Male	Female
Full-time employees						
Part-time employees						
Total						
Skilled						
Unskilled						
Total						

9. What percentage of your labour force were recruited from:

Source of labour	Percentage	
Your household		1
Other family members		2
From the nearby community		3
From elsewhere (if elsewhere please indicate)		4
Total		

10. What are the reasons for selecting the products you produce / service you provide?

.....

11. Why was the enterprise established at its present location?

.....

11.1 What is the main advantage of your current location?

.....

11.2 What is the main disadvantage of your current location?

.....

12. What was your major problem during the start-up?

.....

13. Did you get any help from BEDCO when establishing the enterprise?

[1] Yes

[2] No

13.1. If no why, if yes what kind of assistance

.....

SECTION D: Financial aspects of the enterprise

14. Provide an indication of the scale of start-up capital:

<M5000		M100 000 – M1mil	
M5000 – M50 000		M1 mil – M10 mil	
M50 001 – M100 000		Above M10 mil	

15. What were the source of capital?

- [1] Own savings/family savings
- [2] Members' contributions
- [3] Donors' funds
- [4] Micro-credit schemes
- [5] Government
- [6] Local business people
- [7] Borrowed from relatives
- [8] Basotho Enterprise Development Corporation
- [9] Banks
- Other.....

16. If is a loan, do you have difficulties in repaying it?

- [1] Yes
- [2] No

SECTION E: Consumption linkage

17. Where does main demand for your goods / service come from:

The area within 1km from my business (mainly urban residents)		Other districts	
The area in the town (1km – 5km radius) (mainly urban residents)		In South Africa	
The rural hinterland (farming areas) (mainly farming residents)		Other international countries	

18. Which of the following possible customers (market) applicable to you:

Posible customer	Yes/ No	Percentage	Possible customer	Yes/ No	Percentage
Residents in / around my town			Farmers / rural residents		
Government			Other private sector enterprises (give names)		
Tourists			Exports		
Other: Explain:			If exports – give three main countries and companies		

18.1. If you have focused on the international markets (products/tourist) did government help you in this process

[1] Yes

[2] No

18.2. Explain how?

.....

19. Rate the profitability of your enterprise:

Highly profitable	Profitable	Breaking even	Not profitable but can continue	Will close down soon
1	2	3	4	5

20. Indicate the level of competition you are currently experiencing:

Very High	High	Medium	Low	Very Low
1	2	3	4	5

20.1 Where does this competition originated from:

Local enterprises	1
Other enterprise in Lesotho	2
Enterprises in SA	3
Other international enterprises	4
Other	5

SECTION G: Source of raw materials

21. Describe the three main inputs and their origin to your business

1. Inputs	2. What is the origin	3. If in the district, is it locally produced and if in another district is it produced in Lesotho?	4. Rate the availability of this input at the origin you have indicated out of 5; 5 = highly available and 1 = low availability)

B 1 = In this district; 2 = from another district in Lesotho; 3 = South Africa; 4 = Other international countries (please indicate)

SECTION H: Infrastructural services 22. Please rate the importance of the following infrastructural service to your business?

	Do not use	Self provided	Very High	High	Low	Very Low
Electricity	0	5	4	3	2	1
Water	0	5	4	3	2	1
Sanitation	0	5	4	3	2	1
Roads	0	5	4	3	2	1
Landline (telephone)	0	5	4	3	2	1
Mobile phone	0	5	4	3	2	1
Internet	0	5	4	3	2	1

22.1. Rate your satisfaction with the following service:

Service	Do not use	Very satisfied	Satisfied	Dissatisfied	Very dissatisfied	If dissatisfied / very dissatisfied provide a reason
Electricity	0	4	3	2	1	
Water	0	4	3	2	1	
Sanitation	0	4	3	2	1	
Roads	0	4	3	2	1	
Landline (telephone)	0	4	3	2	1	
Mobile phone	0	4	3	2	1	
Internet	0	4	3	2	1	

SECTION J: Government's support - BEDCO

23. Do you get any support from government - BEDCO?

- [1] Yes
- [2] No

23.1. If yes, what kind of support?

.....

23.2. If no, what type of support would you like to receive?

.....

SECTION K: Business profits

24. What is your business turnover per month:

Less than M1000		M10 001 – M20 000	
M1000 – M 5000		M20 001 – M50 000	
M5001 – M 10 000		Above M50 000	