

THE CONTRIBUTION OF THE SMMEs TO THE LESOTHO PUBLIC PROCUREMENT  
MARKETS ON ECONOMIC DEVELOPMENT

BY

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## **Declaration on Plagiarism**

I affirm that this research is my original work, and that it has not been submitted for publication or academic credit to any other institution, journal, college, or university. I also declare that the research study does not have any unlawful statements or infringements on the rights of others in any way. Plagiarism is an act of intellectual dishonesty, and I realize that committing such actions may result in the termination and withdrawal from the MA in Development Studies Programme on my part.

I hereby declare that this paper is the result of my own independent research, and that all the references to other people's work are acknowledged.

Signed \_\_\_\_\_ Date \_\_\_\_\_



## **Certification**

This is to certify that this dissertation has been read and approved as having met the requirements of the Department of Development Studies, Faculty of Humanities, the National University of Lesotho for the award of Master of Arts degree in Development Studies.

Supervisor: Associate Professor Keneuoe Motšoene

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Head of Department

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## **List of Abbreviations**

BEDCO	Basotho Enterprise Development Corporation
BM	Business Mauritius
CIPS	Chartered Institute of Purchasing and Supply
CU	Customs Union
COSC	Cambridge Overseas School Certificate
DA	District Administrator
DBM	Development Bank of Mauritius
EU	European Union
ECOWAS	Economic Commission of West African States
FTA	Free Trade Area
GDP	Gross Domestic Product
ICT	Information Communication Technology
IFC	International Finance Cooperation
LRA	Lesotho Revenue Authority
LDC	Least Developed Countries
NUL	National University of Lesotho
OECD	Organization for Economic Cooperation and Development
PPAD	Public Procurement Advisory Division
SADC	South African Development Community
SCM	Supply Chain Management
SMME	Small Medium and Micro Enterprises
USA	United States of America

## **Abstract**

Public procurement could be used as a bargaining chip to provide SMMEs preferential treatment and provide major assistance for indigenous manufacturing capacity. The issues that SMMEs face in the business world are not adequately addressed, despite the fact that they serve as incubators for new business organizations that may eventually grow into large corporations. These difficulties could include lack of funds and lack of access to them, as well as a lack of critical information that financial institutions demand in order to offer the loans or credit. Lack of Government support for access to the public procurement opportunities is also a barrier as most of the SMMEs do not have the proper channels of acquiring information from the government ministries and agencies. Some of the socio-economic factors such as unemployment, poverty and crime may efficiently be eradicated through the empowerment of the SMMEs.

The objective of the study is to assess the contribution of the SMMEs to Lesotho public procurement markets on economic development. This was a qualitative research project that was exploratory in nature. A quantitative data analysis method was used to measure the data by assigning numerical codes to it. To make a descriptive assessment, a descriptive data analysis was used.

According to the findings of this study, a considerable majority of the participants agree that the SMMEs can lower the rate of unemployment because they are numerous and employ between two and five people. The data show that the SMMEs increase the government's revenue base, allowing for the collection of the various taxes to fund government spending. The findings further suggest that public procurement provides market opportunities for the private sector businesses, which contributes to the GDP and government income growth. Lack of credit was identified as one of the hurdles to the SMME performance in the survey. The availability of the institutions that provide technical and financial assistance is also critical for the SMME production efficiency.

The study concludes that while there is no legal obligation for the institutions to assist the SMMEs, they do so out of moral commitment. It is further concluded that procurement regulations and policies are tailored in manners that inhibit the SMMEs from participating in public procurement. The government does not have the policies in place to ensure that the infant industries continue to thrive

# CHAPTER ONE

## INTRODUCTION AND STUDY BACKGROUND

### 1. Introduction

Even though small micro and medium-sized enterprises (SMMEs) play a vital role in the national and regional economies, they are generally underrepresented in the public procurement markets. As a result, the potential to produce and to deliver the goods, and services through public procurement is insufficiently exploited. In one study in Botswana, Guruwo (2018) finds that even though many opportunities are provided by the government to support and diversify the economy, the SMMEs do not make an effort to learn more and to exploit the provided programmes. Modisane (2012) confirms that the entrepreneurs lack the resources to fulfil the requirements of the service providers and the technical know-how to make their business succeed. It is further confirmed that in some of the regions of the world, including sub Saharan Africa, the magnitude of public procurement is highly significant in configuring the economic landscape (Hoekman& Sanfilippo, 2018).

Governments increasingly recognise the role of the SMMEs and entrepreneurship as the drivers of growth and job creation and as effective tools for poverty alleviation. The Government procurement markets capture a significant share of the economic activity worldwide and represent a significant amount of government expenditure (Nganga, 2017). Lesotho is not exceptional in this regard; this is why various government ministries issued tenders that provided economic opportunities to the SMMEs in the financial year 2019/2020. However, the SMMEs are underperforming in the public procurement because the public procurement contracts that they win are relatively lower than their proportionate participation in the economy of the country.

The public procurement markets are subject to detailed procedural rules and regulations, which make government procurement an obvious target for the governments that are trying to stimulate the overall economic growth and prosperity through the participation of the SMMEs in the economy. Overall, public procurement could be described as a powerful tool to promote the socio-economic objectives such as reducing the high unemployment rates and poverty alleviation through the participation of the SMMEs in economic growth (Lesotho Public Procurement Policy 2018).

Public procurement is also used to support innovation, an area of economic activity in which the SMMEs may have a comparative advantage over big business enterprises. The argument is also advanced that it is economically sensible for the governments to buy from the SMMEs and to encourage their participation in the procurement markets. The SMMEs can also add comparative advantage and value in innovation and responsiveness to the government needs (Nganga, 2017). The study sought to assess the business opportunities of the SMMEs in the public procurement market; it also examined the factors that hinder access to the public procurement market in Lesotho. It further investigated the extent of the participation of the SMMEs and evaluated the interventions that can be used to promote the access of the SMMEs to this market opportunity.

## **2. Background to the Study**

Public procurement could be one of the leverages to provide preferential treatment for the SMMEs and to wedge a significant support to the domestic manufacturing capacities. This is legally endorsed by Procurement regulation 2007 where section 12(1) and (2) state that the Procurement unit shall grant a 15 percent margin of preference in evaluating the tender proposals to the Basotho business persons who can demonstrate a majority shareholding of 51 percent and above.

According to Lyson and Farrington (2006), the purchasing process is a set of stages or a chain of events required to make a purchase or an acquisition on behalf of the organisation while, on the other hand, procurement reflects the more proactive, relational, strategic and integrated role of the function in modern organisations. Prior to the 2007 reforms, procurement systems were a centralised function based at the Ministry of Finance through the department of Central Stores that was led by the Central Tender Board (Lesotho Public Procurement Policy, 2018). The Ministry of Finance procured the goods for all the Government Ministries, the Districts and Agencies that were under the Financial Regulation of 1973 and the Stores Regulation of 1967. In 2007, some reforms were made. They brought the decentralisation of the public procurement function and introduced the current Public Procurement Regulations of 2007. This regulation repealed Chapter 21 of the old Financial Regulation of 1973.

It is through the Procurement Regulation 2007 that Public Procurement Institutions were introduced with the Public Procurement Advisory Division (PPAD), the Procurement Units at line Ministries and the Districts and Government Agencies with their respective Tender

Panels. This establishment paved the way to the decentralisation of the public procurement from what was known as the central tender board to the present ministerial tender panels. This decentralisation instituted the organisational structures of the procurement officers, a move from what was earlier known as the central stores. In various ministries and government agencies there is now a structure ascending from the storekeeper to the Procurement director. This move brought the ministries to run their own procurement of the goods and services, minor works consultancies and the running of big multi-million tenders to the ministries. This is where the SMMEs got into play as they became part of the vendors or suppliers' data base. The purpose of this data base is to strive for transparency, ethical procurement and value for money through competitive bidding, open tenders, selective tender or even the direct purchase where the procurement regulations allows. This study is intended to establish how much of public expenditure the SMMEs receive as their benefits through the opportunity brought about by the availability of the procurement agencies as the SMMEs form part of the integrated supply value chain. The viability of the SMMEs is adversely influenced by various factors which include (1) the difficulty to secure loans, (2) lack of training opportunities and (3) the shortage of entrepreneurial skills.

### **3. Statement of the Problem**

The challenges that the SMMEs encounter in the business world are not sufficiently addressed with full understanding that they are the incubators to bring up more business entities that may eventually become big business enterprises. There are many Economic factors that can assist the country to enhance development through the SMMEs. Some of these factors are unemployment, poverty and crime. When the SMMEs participate effectively they can help the economy to increase. The extent of knowledge about public procurement is another point of concern that this study endeavoured to find out. This is because most of the SMMEs are not aware and knowledgeable about public procurement as an available market to tap or exploit. Lack of finances and access to finance is another problem that obstructs the SMMEs to contribute sufficiently to the economic development. This is, to some extent, witnessed by the level at which the SMME fail to acquire any loans from the financial institution. They lack the information that the banks request in order to be granted the loans or credit. Lack of access to Government Procurement Opportunities is also a barrier as most of the SMMEs do not have the proper channels of acquiring information from the government ministries and agencies. It is for these reasons that there is a need to assess

the contribution of the SMMEs to the Lesotho public procurement markets on economic development

#### **4.Aim of the Study**

The aim of this study was to assess the contribution of the SMMEs in the public procurement market to the economic development of Lesotho

#### **4.1. Objectives**

The objectives of this study are:

- 1) To assess the extent of participation and contribution of the SMMEs to the economic growth
- 2) To investigate the Lesotho public procurement market as a business opportunity for the SMMEs.
- 3) To evaluate the factors that hinder the SMMEs from taking advantage of the opportunities in the public procurement market.



## 5. Significance of the Study

The main intention of this research was to address the issues of limited research in the field of public procurement linked with the SMMEs. This is the gap that needs to be addressed through a research study that may enable the identification of effective solutions and strategies. This study may contribute to the body of knowledge on procurement and how the SMMEs can drive the process of economic growth in Lesotho. In addition, this study may be an eye opener for the SMMEs to obtain information that may enable them to identify the business opportunities available. Furthermore, this study may enable the SMMEs to realise their strengths and weaknesses in relation to why they fail to secure or not to secure the public tenders. The study may further bring attention and answers to why the SMMEs fail to grow regardless of the efforts that are undertaken by the government to support them. Moreover, the study may provide a sense of direction as to how the policy governing the SMMEs should be shaped in order to catalyze the growth and development of the SMMEs.

## 6. Study Time Frame

**Table 1: The Study Time Frame**

<b>December 2020/ January 2021</b>	<b>January/ February 2021</b>	<b>March /April 2021</b>	<b>May/June 2021</b>	<b>July 2021</b>	<b>August/September 2021</b>
Research Proposal and Methodology	Literature Review	Development and Distribution of questionnaire and actual data collection	Analysis of the data and discussion of the findings	Consolidation of data, Fine tuning the document and submission to professional editor	Submission to external examiner and expectation of the results

## **7. Study Organization**

This study is organised in six chapters, including the introduction. The second chapter is the literature review. This is where the conceptual framework is situated. The definitions of the concepts that are related to the research study, the theoretical framework and the theory that is related to the study are discussed. Chapter Three of this study presents the research methodology. It defines and discusses the research design, data collection methods, ethical considerations and the limitations of this study. Chapter Four is the presentation of the data analysis guided by the research objectives; this chapter has three sections according to the three research objectives of the study. Chapter Five summarises the findings and the discussions in relation to the reviewed literature and the theoretical framework. Finally, Chapter Six draws the conclusions and makes some recommendations.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.0 Introduction**

This chapter reviews several perspectives related to the present study from various countries, especially the developing African countries. It is divided into three Sections, with the first explaining the conceptual framework. The second section discusses the theoretical framework, the relevant theory adopted and applied in this research. The Third section reviews the empirical literature related to the study.

### **2.1 Conceptual Framework**

A Conceptual framework provides the definition and meaning of the concepts adopted in this study. According to Berlin (1953) a conceptual framework is an analytical tool with several variations and contexts which can be applied in different dimensions of the work where an overall picture is needed. It is intended to make conceptual distinctions and to organise one's ideas. Strong conceptual frameworks capture something real and do this in a way that is easy to remember and apply. The SMMEs, the Public Procurement, the Enterprise Sustainability, Contracts and Corruption are the concepts adopted and used in this research study.

#### **2.1.1 Small, Micro and Medium Enterprises (SMMEs)**

According to Garg and Weele (2012), there is no universally accepted definition for small business because what is regarded in the US as a small business by definition may be regarded as a medium sized business elsewhere in the world. The definitions of Small business differ vastly in smaller countries such as New Zealand and South Africa to their bigger counterparts such as the United States (US) and the European Union (EU). It is therefore inherent that the definition would again vastly differ from those of New Zealand and South Africa when compared to that of the countries such as Lesotho. However, the SMMEs are often classified by using three cardinal points, the size of the enterprise, the number of employees and the annual turnover limit of the given currency.

The SMMEs are named by adjectives indicating size, hence the economists' division of the SMMEs into classes according to some quantitative measurable indicators. The most common criteria to distinguish between large and small businesses are the number of

employees and the amount of annual turnover (Hatten 2011). According to Maphiri (2015), in the developing countries the SMMEs are mostly characterized as one-person businesses in which the working staff can be family members who are often unpaid but are active in the enterprise. Modimogale and Kroeze (2009) define small to medium enterprises (SMMEs) as businesses that employ 150 people or fewer and are not a subsidiary of a public limited company.

### **2.1.2 Support of SMMEs in Mauritius**

According to Charlier (2016) several concerted efforts are focused on improving the investment climate and enhancing competitiveness for all the businesses, irrespective of size or sector. However, the SMMEs face special challenges. Most small businesses lack adequate knowledge and expertise to run businesses. They are also especially hard hit by lack of access to credit from the banking sector.

#### ***2.1.2.1 Access to Finance***

Charlier (2016) reports that the government of Mauritius put in place special schemes to support the SMMEs, either by creating special incentives to encourage banks to lend to them or by creating business development centres to assist the SMMEs in planning and carrying out their activities.

According to Charlier (2016) in the World Bank Report a special four-year tax holiday was put in place to encourage small enterprises to register formally. In addition, financing was increased under the Empowerment Fund which provides equity capital to start-ups. The Development Bank of Mauritius (DBM) opened a special window for the SMMEs to provide the working capital and other short-term finance in the form of micro-loans Charlier (2016). To improve access to financing for the SMMEs the International Finance Corporation (IFC) supported the selected banks in capacity building and training of the SMMEs loan officers so that they could expand their lending to the SMMEs and further supported the efforts to restructure DBM into a financially viable SMMEs bank with private sector participation.

According to Business Mauritius(BM) (2021) which is an independent association that represents over 1200 local businesses and has, a national, regional and international reach, equity financing is applicable to the companies with the turnover above Rs10 million but below Rs250 million. The investment of the SMME Equity Fund will start from Rs500,000 up to a maximum of Rs25 Million. The Terms and Conditions that are used for eligibility

among others are such that the Promoter(s) must have at least 51 percent equity stake in the company. The SMMEs Equity Fund can only contribute up to a maximum of 49 percent of the total equity in the company. The repayment for funding request to support program is considered on a case by case basis and is expected to be within 2 to 5 years. BM is the coordinating body and the voice of the local businesses. It delivers the services that sustain the progress of both the business and the community.

BM (2021) acknowledges the key role of the SMMEs in the economic development of Mauritius and is actively engaged in policy dialogue and initiatives to the benefit of SMMEs. During the COVID-19 pandemic, the situation of the SMMEs became critical and the SMMEs Sub-committee was formed propose the recommendations for the support and recovery of the SMMEs.

To promote and develop entrepreneurship the government of Mauritius established SMMEs Mauritius Ltd in July 2017. It is a private company wholly owned by the Government of Mauritius. It is committed to promote a favourable SMME eco-system and develop entrepreneurship at national level and to empower the emerging SMMEs and grow them by implementing support programmes that enhance their competitiveness.

#### ***2.1.2.2 Reducing Unemployment***

The SMME Mauritius Ltd (2020) reports that the SMME employment scheme was introduced in order to strengthen the fight to reduce unemployment. This scheme seeks to instil and develop entrepreneurial skills among the graduates and diplomas holders and to boost their employability while providing the SMMEs with an injection of fresh talents to support their development. The employment under this scheme is for a period of one year with a monthly stipend of Rs14000 or Rs10200 paid by the government of Mauritius. During this period the employer is expected to pay the monthly travel costs.

#### **2.1.3 Support of SMMEs in South Africa**

Small business is the backbone of South Africa's economy. It fuels growth, sustain the workers in meaningful employment and provide vital services (Malefane, 2013). This is why the government has made the empowering small business a critical part of its 2030 National Development Plan. In response, Malefane (2013) reported that South Africa developed an Enterprise and Supplier Development (ESD) strategy in order to support small, medium and micro-sized businesses (SMMEs) of all kinds. In practical terms and according to Malefane,

(2013), the government achieves this with a dedicated ESD department to identify the procurement opportunities for the SMMEs and deliver the capacity building programmes.

According to Tanburn (2006), internationally, business support services experience a major change regarding developing and supporting the SMMEs in the past three decades. Donor foundations and multinational companies focused their expectations on the SMMEs to build the global economies and to provide employment to the poor. However, the approach to business support services was not fully explored.

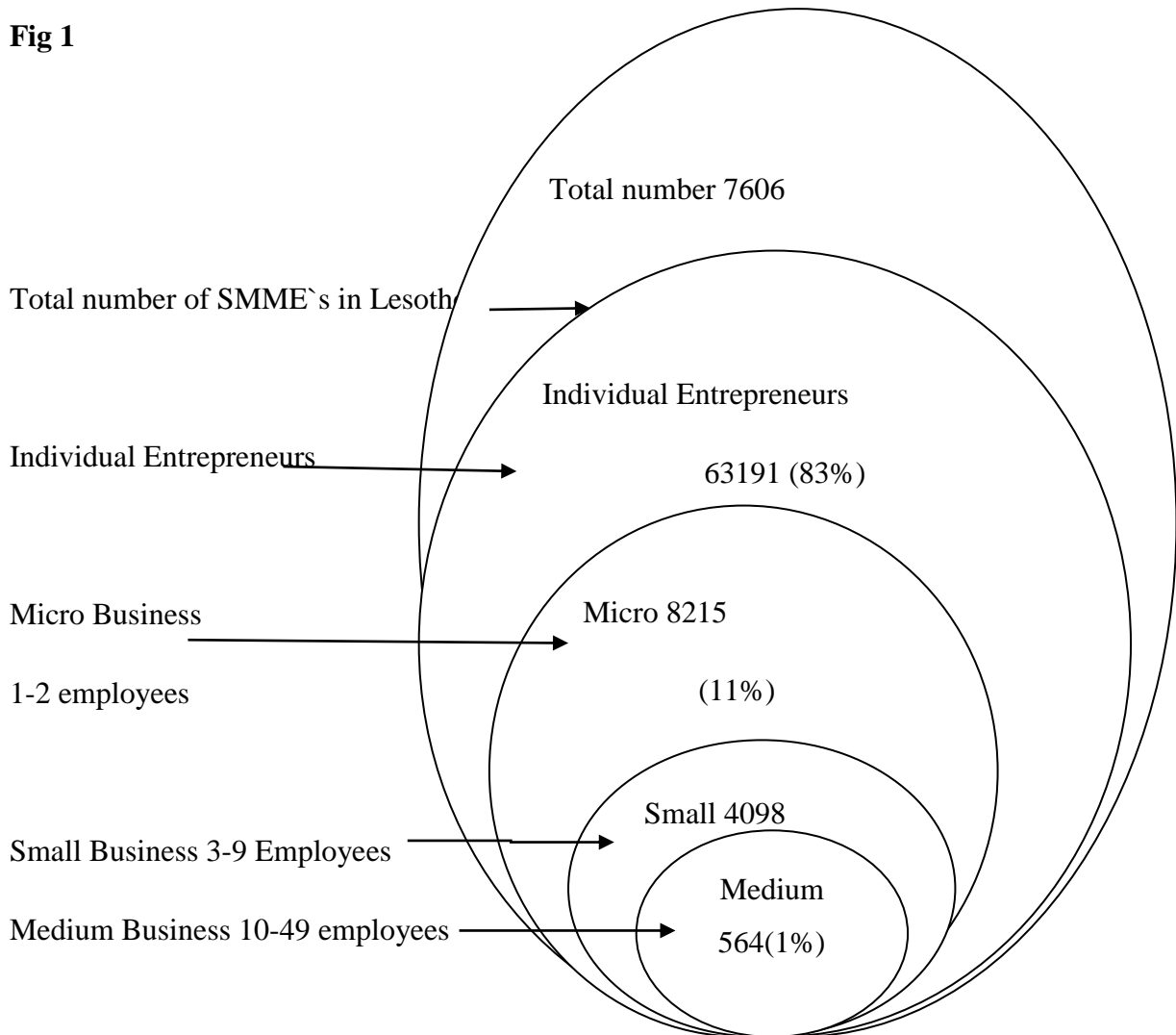
Although the importance of the SMMEs development has grown over the past three decades, there has always been criticism regarding the development and support of the SMMEs globally. Schmitz (1998) identified six main points of criticism with respect to the traditional approach to business support. Firstly, the high level of subsidies requires continuous public support and is highlighted as one of the main problems. The insufficient outreach of the government to the SMMEs is identified as the second problem. Deficit spending as well as the improper handling of substantial inflows of foreign aid is identified as the third major problem leading to very few entrepreneurs being reached. Fourthly, the general support of the interventions as well as the personnel of these interventions was not designed to encourage partnership with the business sector or even to pursue customer satisfaction. Next, the poor quality of the services is common in the industry and low-quality products are delivered at a low cost, or free of charge. Lastly, an increasing number of private competitors lead to highly subsidised rates of service delivery, and these result in market distortions and hamper the emergence of commercially viable service providers.

#### **2.1.4 The Size of the SMME Sector in Lesotho**

Despite the average of 4.83 percent economic growth in Lesotho, unemployment remains high and poverty is widespread, particularly in the rural areas (FinScope MSME Survey Lesotho 2015). In terms of employment, the Government of Lesotho, the mining sector in South Africa and the Lesotho textile industry are the major employers (FinScope MSME Survey Lesotho 2015). In order to reduce the dependence of the economy on the public sector, the government aims to encourage rapid and sustained private sector development. It is widely recognized that the Micro, Small and Medium Enterprise (MSMEs) sector is a significant contributor to job creation, development and economic growth (FinScope MSME Survey Lesotho 2015). However, the MSMEs in Lesotho are hindered by inadequate management and entrepreneurial capacity, a poor regulatory framework and low access to

finance and markets (FinScope MSME Survey Lesotho 2015). The size of the MSME sector in Lesotho is portrayed by a number of indicators, such as the number of the SMMEs owners, the number of businesses they have and the number of people they employ in their main businesses. The following figure provides a broad overview of the sector.

**Fig 1**



Source: FinScope MSME Survey Lesotho (2015)

According to FinScope MSME Survey Lesotho (2015), the SMMEs in Lesotho employ a total of 54 939 people, bringing the total number of people that work in the sector to approximately 118 000 (including the number of individual entrepreneurs). This figure represents nearly 10 percent of the total population of Lesotho over the age of 15. Understandably this denotes a significant proportion of employment emanating from the SMMEs.

### 2.1.5 Distribution of the SMME Sector by Size in Lesotho

	Total	Individual Entrepreneurs %	Micro %	Small %	Medium %
Wholesale & retail trade, repair of motor vehicles etc	30	30	24	25	15
Agriculture, forestry & fishing	22	22	20	22	5
Other service activities	18	18	18	14	35
Accommodation and food service activities	9	9	6	9	10
Manufacturing	9	9	6	8	5
Arts, entertainment and recreation	3	4	2	3	0
Transportation and storage	3	2	3	7	15
Construction	2	1	5	4	10

Source: FinScope MSME Survey Lesotho 2015

The SMMEs sector within Lesotho employs approximately 120 000 people. This figure represents 10 percent of the total population over 15 years, indicating that the SMME sector within this country is crucial to the economic survival (FinScope MSME Survey Lesotho 2015). The majority of the SMME owners indicated that income obtained from their business is their sole source of revenue, enforcing the importance of this sector for the economic advancement (FinScope MSME Survey Lesotho 2015).

### 2.1.2 Public Procurement

According to Martin-Ortega (2017), public procurement refers to the purchase (by the public sector) of the goods and services that it needs to carry out its functions. Arrowsmith and Kunzlik (2009) further assert that such goods and services range widely from infrastructure projects and the acquisition of complex weapon systems, to the commissioning of essential public services in the health and social care sector and the purchase of common manufactured or processed goods such as stationery, furniture, uniforms, personal electronic items and



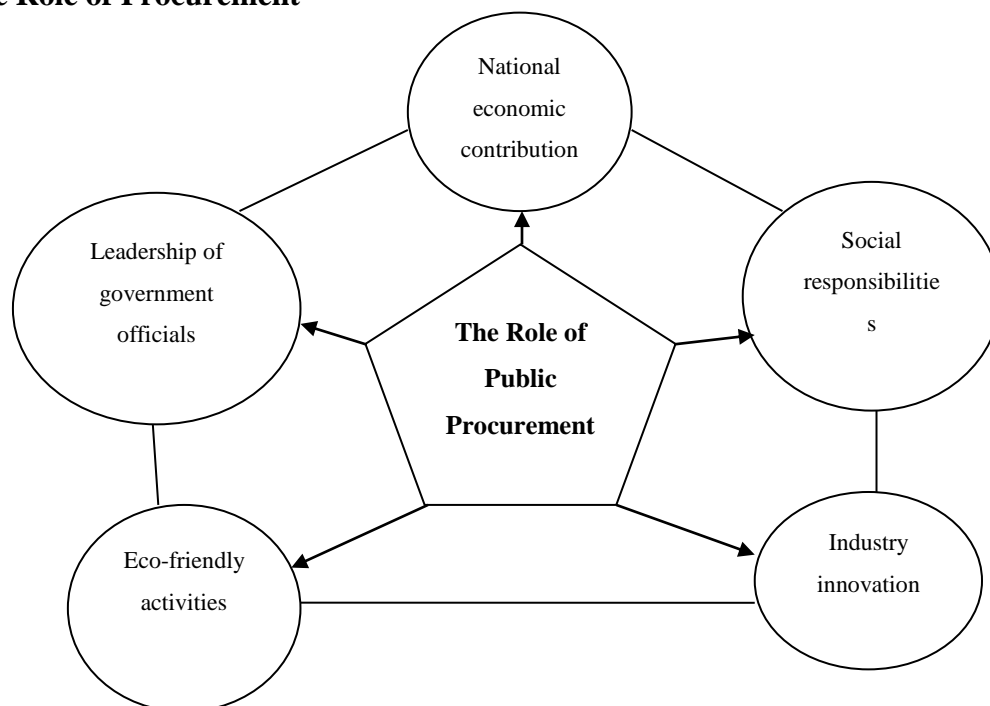
foodstuffs. Arrowsmith and Kunzlik (2009) also affirm that in legal terms, procurement comprises three main phases which are procurement planning, the procurement process and contract administration or management. McCrudden (2004) mention that Public Procurement has been consistently used to further the public policies in a wide range of fields such as the national industrial policy, reducing unemployment, improving employment conditions, supporting small businesses, local development, the employment of disabled workers and equal pay for men and women. This is the point of departure where the SMMEs and the government meet in order to achieve the mutual objective of social obligations such as unemployment, service delivery and all the functions that ought to be performed. It is through the sound and appropriate public policies that the SMMEs can contribute significantly to addressing economic challenges. This could be achieved only if the governments could consider public procurement as a development agenda that is achievable through the SMMEs (Arrowsmith & Kunzlik, 2009).

### **2.1.3. The Role of Public Procurement**

The procurement is defined as acquiring the resources from the outside suppliers (Beste, 2008). In this sense, procurement activities are crucial to the organizational units from the households to the firms, organizations and the government (Beste, 2008). From the functional viewpoint, procurement is an indispensable activity and its successful achievement is essential to any organization. Craig (2000) states that in the private sector, procurement is considered as a profit centre to maximize the firm's profit in saving material cost. However, there is a major distinction in the public procurement as it draws its funds from tax revenue. Hence, unlike procurement in the private sector, government procurement should reflect public concerns as well as efficiency (Craig, 2000). Nevertheless, both are quite similar in many ways such as the cost savings, quality assurance, supplier relationship, procurement ethics, supply market analysis, green procurement (Craig, 2000). According to Choi (2010) a new model has been constructed to characterize the entire role of public procurement, based on previous literature reviews, detailed case research and interviews with the public procurement personnel. The five different roles played by public procurement are -the national economic contribution, the leadership of the government officials, social responsibilities, eco-friendly activities, and industry innovation.

These classified categories are elaborated and illustrated in Figure 1

**Figure 2, The Role of Procurement**



Source: Jeong-Wook Choi (2010)

#### **2.1.4 The SMMEs in Public Procurement**

According to the Organization for Economic Cooperation and Development (OECD) (2021) the relevance and economic implications of public procurement make it a powerful tool for improving public service delivery. Governments increasingly use their purchasing power to pursue strategic objectives in different policy areas such as sustainability, innovation or providing support to small micro and medium-sized enterprises (SMMEs). Making it easier for SMMEs to access public procurement opportunities improves the general economic environment, promotes inclusive growth and supports the principles such as equal treatment, open access and effective competition (OECD, 2021).

#### **2.1.5 Enterprise Sustainability**

Starik and Rands (1995) define sustainability as “the ability of one or more entities, either individually or collectively, to exist and flourish for lengthy timeframes, in such a manner that the existence and flourishing of other collectivities of entities is permitted at related levels and in related systems”. On the other hand, from the procurement perspective, the

Chartered Institute of Purchasing and Supply (CIPS) (2012 P.58) define sustainable procurement as a process whereby organizations meet their needs for the goods, services, works and utilities in a way that achieves value for money on a whole-life basis in terms of generating the benefits not only to the organization but also to the society and the economy while minimising damage to the environment.

Enterprise is a corporate entity for profit-generation; it is often associated with entrepreneurial ventures. It is essential for the enterprises to have continuity in their operations. The continuity of the business has to be sustainable and this is very important in the life span of every SMME (De Vos et al., 2017).

### **2.1.6 Contracts**

Henkel and Tucker (1992) state that a contract is a promise or a set of promises for the breach of which the law gives a remedy, or the performance of which the law recognises as a duty in one way or another. A contract means the total legal obligation which results from the agreement of the parties as affected by the rule of law. It is an agreement that the law holds the parties accountable. A contract is a legally enforceable promise. This implies that not every promise or agreement creates a binding contract. Peel and Treitel (2007) define a contract as a legally binding agreement that recognises and governs the rights and duties of the parties to the agreement. A contract is legally enforceable because it meets the requirements and approval of the law. An agreement typically involves the exchange of goods, services, money or promises. It ensures that all the rights and benefits of stakeholders are well protected in the eyes of the law. It includes the remedies that are to be taken in case one party fails to deliver either intentionally or unintentionally. The SMMEs are not exceptions to the dictates of a contract as they usually enter into various contracts in their operations.

### **2.1.7 Corruption**

Corruption is commonly defined as the misuse of entrusted power for private gain (Onwujekwe et al., 2018) while Rodriguez-Sanchez (2018) defines it as a complex problem affecting all societies. It has different causes and consequences. Its consequences include the negative impact on economic growth and development and magnifying its effects on poverty and inequality. It also has a corrosive effect on the legal systems and governance institutions. Rodriguez-Sanchez (2018) affirms that corruption could be in the form of embezzlement or misappropriation of public funds such as diverting valuable economic resources that may be

used on education, health care, infrastructure, or food security while simultaneously eroding faith in the government. Calculating and measuring the impact of corruption and its tangible and intangible costs are essential to combating it. It is from this point of view that the present research study was intended to find out why the SMMEs fail to contribute significantly to the economic development of Lesotho.

## **2.2 Theoretical Framework**

This section defines and discusses the trade liberalization theory and its relevance in explaining the contribution of the SMMEs to economic development. The benefits and the throwbacks that are in a symbiotic relationship with SMME and economic growth are discussed.

### **2.2.1 Trade Liberalization**

Trade liberalization, according to Kunle Ajayi (op cit: 117), entails the removal of the controls on trade. Todaro (2011) asserts that trade liberalization is the removal of the obstacles such as quotas, nominal and effective rates protection and exchange controls to free trade. Trade liberalization involves the elimination of the non-tariff barriers to imports, the rationalization and reduction of tariffs, the institution of market- determined exchange rate and the removal of fiscal disincentives and regulatory deterrents to exports. On the similar note, Staff (2001) avers that trade liberalization is the removal or the reduction of the restrictions or barriers on the free exchange of goods between the nations. These barriers include the tariffs such as duties and surcharges as well as the nontariff barriers, such as the licensing rules and quotas.

Trade liberalization promotes free trade which allows the various countries to the trade goods without any regulatory barriers or their associated costs. The reduced regulation decreases the costs for the countries that trade with other nations and may, ultimately, result in lower consumer prices because the imports are subject to the lower fees and competition is likely to increase. The motive is to create a competitive atmosphere between the local and foreign industries (Bakare, 2011:1; Mesike, op cit.)and to create a competitive atmosphere between the local and foreign industries. Trade liberalization encompasses the openness of markets and usually implies tariff rationalization, discontinuation of import licensing and the elimination of marketing boards. Most importantly, it is the removal of the obstacles on trade (Ajayi: 117) The broad reduction in tariffs is imposed on agricultural as well as on the manufactured products (CBN, 2008in Ogunleye, 2003:43).

According to Dastagiri et al.(2020) trading blocs are groups of countries in specific regions that manage and endorse trade activities. They lead to the liberalisation of trade. Currently,the most significant trading blocs are the European Union (EU), the Southern Africa Development Community (SADC), the Economic Commission of the West African States (ECOWAS), South African customs Union. The four types of regional trading blocs in existence A Free Trade Areas, A Custom Union, A Common Market and an Economic Union (Tachimbele 2020).The SMMEs need to be in cognizance of these regional trading blocs which primarily seek to protect the local firms as the infant industries. This regional economic integration is characterized by the formation of the regional cooperation groups of countries with a liberalized intra-community trade and increased mobility of the factors of production. This further enhances an effective flow of supply chains that essentially support the SMMEs in the developing world (Goh, 2002).

### **2.2.2 Trade Liberalization and the SMMEs in Developing Countries**

According to Obokoh (2008), the SMMEs are backbone of nearly all the economies throughout the world because of their importance in job generation and personalised service offering. They have a significant impact on the sustainable development process of both the developed and developing countries because they promote economic growth and alleviate poverty. According to Berry (2002), the increasing predominance of the flexibility of the SMMEs and specialization have influenced many business analysts to believe in the crucial role that the SMMEs play in the industrial structure of any developing country. However, Mutenyoka, and Madzivhandila, (2014) point out that the SMMEs are particularly exposed to external shocks as a result of the global competition brought about by trade liberalization. Most governments, especially those in Less Developed Countries (LDCs), now recognize the need to formulate the policies that create a conducive atmosphere for the establishment and operation of the SMMEs. Governments in the developing nations, particularly in Nigeria, offer a number of programmes to help the SMMEs to expand and grow. Despite these programmes, their influence on the performance of the SMMEs has been shown to be less than desirable (Manbula, 2002).

The governments of the developing nations offer a number of programmes to help the SMMEs to expand and grow. Despite these programs, it has been claimed that their impact on the performance of SMMEs is less than acceptable (Manbula, 2002).

The liberalisation of a country's economy provides numerous benefits, including a broader market for the goods and services. Several academics have compiled a list of a set of

arguments in favour of economic growth and the significance of liberalisation in poverty reduction through a market-driven economy (Kumar and Liu, 2005, Subrahmanya, 2005)

### **2.2.3 Why The Government Programmes Responsible for The Development of the SMMEs Fail to Achieve Their Objectives**

There are some reasons that, according to Obokoh (2008), contribute to the failure of the government programmes to help the SMMEs to achieve their corporate objectives. They are listed and explained below:

#### ***(a) Lack of Information and awareness***

There is a lack of knowledge and awareness among the owners of the SMMEs about the initiatives that are designed to lower their administrative and production cost in the early stages of their operation. The majority of the SMMEs are unaware of the exceptions offered by the government under the pioneer designation.

#### ***(b) Lack of Infrastructure***

The lack of physical facilities such as reliable power, excellent access roads, ICT, particularly in the rural regions as well as the consistent water supply have hampered the development of the SMMEs. Most of them have high running costs because they spend a lot of money to generate their own power or electricity.

#### ***(c) Poor Management Skills***

Poor management practices and the failure of the SMMEs to preserve accurate financial records obstruct the efficient control of planning. The SMMEs are unable to obtain any loans from the financial institution for expansion due to poor planning and control.

#### ***(d) Lack of cheap access to finance***

Despite the financial market liberalisation, the SMMEs continue to face high interest rates and collateral requirements, making it difficult for them to obtain low-cost financing. The government no longer issues any lending directives to the banks requiring them to provide long-term loans to the SMMEs. The banks see many SMMEs as high-risk undertakings due to lack of a succession plan in the case of the proprietors' death.

#### **2.2.4 Privatization**

Privatization is also a major element of the trade liberalization that was manifested during the 1980s and early 1990s. It means the transfer of ownership of public enterprises to the private sector (Akpotaire, 2004:4; Umezurike, 2012:10). According to Shsfaeddin (2005) the change in the structure of the incentives would not only lead to the growth and diversification but also to the upgrading of the production structure, facilitated by imported technology and improved skills enhanced by the trade. While Baldwin, (2007) affirms that the policies that make an economy open to trade and investment with the rest of the world are necessary for the sustained economic growth. Baldwin (2007) further asserts that the increased growth that results from freer trade itself tends to increase the income of the poor in roughly the same proportion as those of the population as a whole.

### **2.3 Empirical Literature Review**

This section presents empirical evidence from the current research on the SMMEs and their contribution to the economic development and challenges that they face. The major focus is on the SMMEs in Africa. The section further discusses how the operational challenges can be addressed in improving their operations and profitability. This framework informed the study on the related findings elsewhere.

#### **2.3.1 Contribution of SMMEs to Economic Growth**

There is a general consensus that the performance of the SMMEs is important for both economic and social development of the developing countries. According to Kayanula and Quartey (2000), the SMMEs seem to have advantages over their large-scale competitors because they are able to adapt more easily to the market conditions. They are able to withstand adverse economic conditions because of their flexible nature. It is further affirmed that the SMMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). The SMMEs perform useful roles in ensuring income stability, growth and employment. Since the SMMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in the region and can slow the flow of migration to the cities. Due to their regional dispersion and their labour intensity, it is argued that small-scale production units can promote a more equitable distribution of income than large firms. They also

improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000).

### ***2.3.1.1 Unemployment and Poverty***

Unemployment is a condition which shows that someone does not have a job but is actively trying to find it (Kaufman and Hotcks, 1999). It can occur due to imbalances in the labour market. On the other hand, as stated by Nansadiqa et al. (2019), poverty is a condition where an individual is unable to meet the basic needs such as food, clothing, education, health and shelter. Poverty is usually caused by the scarcity of economic resources to meet the basic needs.

South Africa faces the challenge of a high rate of unemployment which leads to poverty amongst many households, particularly in the rural areas. As a response to unemployment and poverty reduction, people in the rural areas establish the SMMEs in order to earn a living in South Africa. The SMMEs are regarded as a major source of income generation and strategy for poverty alleviation in most rural areas (Jili, Masuku and Selepe, 2017). According to Nxaba (2014), the SMMEs play a vital role in the recognition of social and economic development and also in encouraging the improvement of the standard of living in South Africa. Nxaba (2014) further asserts that the SMMEs have the potential to generate wealth and to supply the rural population with food, clothing and housing as well as additional goods and services

### **2.3.2 The Public Procurement Market as a Business Opportunity to SMMEs**

Procurement means buying, purchasing, renting, leasing or acquisition of goods, work or services by a procuring entity. It includes all the functions that include a description of the requirements, selection and invitation of the tenderers, preparation and award of contracts (URT, 2011; Lysons and Farrington, 2012). Akenroye and Aju (2013) explain public procurement as a large marketplace for private sector enterprises in developed economies, accounting for the percentage of the GDP and that of the government expenditure on average.

Silva and Scott (2014) indicate that a well-managed public procurement can account for a significant portion of the GDP for a given country. In the Netherlands, for instance, government public procurement contributes over 20 percent to the GDP while in Hungary it contributes 68 percent and 78 percent in Slovenia, thus demonstrating the significant potential



for public procurement as an effective tool for driving domestic economic growth. Furthermore, channelling public spending into domestic sectors may help the government to fulfil its duty to increase the well-being of the citizens of the country. The investment in SMMEs may also foster innovation through the risk-sharing practices (Silva and Scott, 2014).

In Nigeria, the SMMEs account for 95 percent of the total number of the firms and 65percent of the total employment. They contribute to almost 55percent of the government GDP (Chen, 2013; Peprah, Mensah and Akosah, 2016; WB, 2016; EC, 2015). In Kenya almost 98percent of all the businesses are SMMEs. They create 30 percent of all the jobs annually and contribute about 3percent to Kenya's GDP. Similarly, in Tanzania 95percent of all the businesses are the SMMEs employing about 4 million people and contributing almost 35percent to the country's GDP (World Bank, 2016; Chen, 2013; Hansen, Kimeria, Ndirangu, Oshry and Wendle, 2012). The Tanzania, SMMEs Development policy of 2003 provides a clear classification of the SMMEs based on the number of staff members and assets of a particular business entity (Israel and Kazungu, 2019). The common elements of strong procurement systems are, however, shared by developing and developed countries alike. These include: a clear legal framework, consistent policies, transparency and a review of awards (Ahmed, 2019).

### **2.3.3 Bottlenecks to The Growth and Participation of The SMMEs in The Economic Development**

Despite the potential role of the SMMEs to the accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. The development of the SMMEs is hampered by a number of factors (Abor and Quartey, 2010). On the other end, the impact of the SMMEs on the growth and economic development of nations cannot be overlooked or disputed. This observation is witnessed by the statistical inferences on the contribution of the SMMEs to the gross domestic product of the various countries. This section is intended to identify the challenges that are faced by the SMMEs. These challenges vary from country to country. For the purposes of this research study, four barriers are discussed. They are:

- Information accessibility and obscurity
- Lack of skills and capability
- Arduous and stringent procurement processes
- Financial Challenges

### **2.3.3.1 Information Accessibility and Obscurity**

Ahmed (2019) argues that lack of sufficient market information causes a great challenge to the growth of the participation of the SMMEs in public procurement. According to Matovu and Obura (2011), the SMMEs need to have access to adequate information to enhance productivity and to facilitate access to the market. Kamunge et al. (2014) and Oshikoya and Hussain (2007) also report that access to reliable information is another challenge that the SMMEs in Africa face. Lack of adequate business information from both the governments and other SMMEs service consumers perpetuate the poor information environment resulting, basically, from underdeveloped technological and communication infrastructure and the inadequate business support systems

### **2.3.3.2 Lack of Skills and Capability**

Lack of skills relevant to entrepreneurship is one of the barriers for the SMMEs to effectively participate in the economy. Nonetheless, entrepreneurship education and the training facilities for the entrepreneurial activities, with the stimulation of entrepreneurial activities and performance, are of great importance. Education facilitates long-term employment and economic growth (Sweeney, 1998). Some of these skills include bidding and managing such enterprises.

Some SMMEs lack knowledge about the correct procedures for bidding. Tender forms and guidance are often worded in specialised, unclear and overly complex jargon (Mitran, 2013). Mitran further argues that the SMMEs are often not well-acquainted with the public procurement language and procedures and, as a result, may face more difficulties than the larger organizations when looking for the relevant opportunities and drawing up the tender bids.

The high cost associated with participation in public procurement is another barrier for the SMMEs. According to Mitran (2013), competitive bidding is generally expensive and time-consuming for business. For small businesses the costs for effective competing can be prohibitive. Generally, the SMMEs need more time to prepare competitive offers due to staff constraints. This implies that the SMMEs capability is always working against them because many tendering costs are fixed and relatively high. The SMMEs face disproportionately high costs in comparison to the larger enterprises (Mitran, 2013). In South Africa the shortage of skills has been a concurrent theme in public discussion; the skills and capacity shortages have

been identified as the single greatest impediment to the success of public procurement in South Africa (Sheoraj, 2007).

***(a) Lack of Management Skills***

Terry (2013) defines management as the art and skill of getting things done through others. According to him, management is the distinct process consisting of planning, organising and controlling the activities performed to determine and accomplish the objectives through the help of others and resources. Ramokolo and Smallwood (2008) state that lack of managerial know-how places significant constraints on the development of the SMMEs. Even though the SMMEs tend to attract motivated managers, they can hardly compete with the larger firms because of lack of support and their relatively higher unit cost which hampers the efforts of the SMMEs to improve their management. The SMME firms are often not equipped with appropriate cost-effective management solutions. The inability to estimate the cost, to compile the tenders and to assess the effects of inflation clearly reflects the lack of training and experience in business and financial management (Chilipunde, (2007). Moreover, managerial competencies are very important to the survival and growth of new SMMEs. Martin and Staines (2008) found that lack of managerial experience and skills are the main reasons for the failure of new firms. Herrington and Wood (2003) point out that lack of training has reduced the management capacity in new firms in South Africa. This is one of the reasons for the low level of entrepreneurial creation and the high failure rate of new ventures.

***(b) Poor Time Management***

Krause and Coates (2008) report the capacity of the SMMEs to successfully manage time as the foundation for the development of good work habits and strategies for success. Time management offers individuals the means to structure and control their activities. Effective time management has to contain the various components which include the planning skills, the setting of priorities, having clear goals, being motivated, being good at estimating time and being meticulous to complete the tasks. The SMMEs owners or entrepreneurs fail to uphold these time management strategies most of the time.

**2.3.3.4 Arduous and Stringent Procurement Processes**

According to Macpherson and Holt (2007), lack of skills for preparing good bids, the cost of tendering and excessive documentation requirements are also the factors which discourage

the participation of the SMMEs in public procurement. Some public ministries and Government agencies ask the bidders to provide bank performance warranties and other types of bid warranties which are difficult for the SMMEs to meet (Wittig, 2001). According to the findings from the study conducted in Kenya and Tanzania, incessant corrupt practices in the tender process, lack of the skills to submit compliant bids and awareness about contract opportunities discourage most SMMEs from participating in public procurement (Odhiambo and Kamau, 2003). In a research study conducted in Uganda, the Commonwealth Secretariat identified many challenges facing the SMMEs in public procurement. They include inadequate knowledge of the formal tendering process, lack of access to public authorities, lack of capacity to challenge tender results and untimely disbursement terms (Commonwealth, 2010). In South Africa, lack of capacity and knowledge about the supply chain management (SCM) actors (this includes the SMMEs) to handle the procurement processes led to bad governance (McCarthy, 2006).

## **2.4 Financial Challenges**

The SMMEs are mostly faced with financial challenges to effectively contribute to the economic development in many developing countries where there is poor financial capital and lack of credit worthiness.

### **2.4.1 Poor Financial Capital**

According to Kayanula and Quartey (2000), capital is a major problem facing the SMMEs in Malawi and Ghana. It is argued that the difficulties that the SMME contractors have in attracting finance, strongly affect the performance of their work (Carson, 2006). They lead to a variety of sub-optimal situations where construction operators delay the construction, work with the wrong type of equipment and sometimes pull out because of sudden financial problems. In South Africa, Herrington et al. (2009) state that access to finance is a major problem for the South African entrepreneurs. Lack of financial support is the second most reported contributor to low new firm creation and failure, after education and training in South Africa (Herrington et al. 2009). FinMark Trust (2006) finds that only 2 percent of the new SMMEs in South Africa are able to access bank loans. Foxcroft et al. (2002) find that 75 percent of applications for bank credit by new the SMMEs in South Africa are rejected. This practically suggests that new SMMEs without finance may not be able to survive and grow.

### **2.4.2 Lack of Credit Capacity**

Access to credit refers to the possibility for the individuals and companies to obtain external financing to help them solve the problems related to cash flow (Osoro and Muturi, 2013). The greatest barrier facing the entrepreneurs in Kenya is access to finance because of the requirements of collateral. In Kenya it is very difficult for the SMMEs to provide collateral to the banks. Most entrepreneurs who venture into the businesses in the rural areas and need financing, lack the needed collateral to enable them to secure bank loans (Mwobobia, 2012). It is even more difficult for women entrepreneurs who often lack information about how to get a loan. They lack the necessary collateral to obtain one and /or face discriminatory laws or practices related to finance and credit (Commonwealth Secretariat, 2002).

It is apparent that if the SMME faces some difficulties in acquiring finances to run a business, it is also difficult to get a bank performance guarantee or a bid security as a prequalification conditions to win a government tender (Mutoko and Mutoko, 2015). Ososro and Muturi (2013) further reports that a loan can be either short or long term, depending on the lender's assessment of the borrowers' ability to pay and that the ability of the companies to access credit is the key factor in the growth of the private sector, especially the SMMEs which often do not have adequate capital which they need for development. In Ghana one study revealed that lack of collateral, high borrowing costs and lack of audited financial statements make access to the bank loans difficult (Ackah and Vuvor, 2011). Aryeetey et al. (1993) further asserted that 75 percent of the SMMEs in Ghana needed loans urgently for expansion. However, lack of collateral was the main cause of rejection for most of them to access loans.

### **2.5 Summary**

In this chapter the conceptual framework as an analytical tool has been detailed where concepts such as Public Procurement, the Enterprise Sustainability, and Contracts were discussed. The SMMEs as an acronym defining enterprises classified by using three cardinal points, the size of the enterprise, the number of employees and the annual turnover. In various countries some efforts and strategies are put in place to assist the SMMEs. In this study Mauritius and South Africa strategies the help the SMMEs were discussed and Lesotho situation was pictured. Special schemes to support SMMEs, such as creating special incentives to encourage banks to lend them money are put in place. It is widely recognized that the Micro, Small and Medium Enterprise (SMMEs) sector is a significant contributor to job creation, development and economic

The role of procurement is also defined as acquiring resources from outside suppliers' growth. According to Choi (2010) a new model has been constructed to characterize the entire role of public procurement, based on previous literature. The theoretical framework defined the theory of trade liberalization applied in the study. The origins and benefits of the theory were discussed evaluated the benefits of a liberal theory for developing countries. In the empirical literature, the operational issues facing SMMEs in developing countries were discussed and assessed to therealise that SMMEs can contribute to the economic growth. Despite the potential role of the SMMEs to the accelerated growth and job creation in developing countries, there are significant numbers of bottlenecks that affect their abilities to realize their full potential. This included among others access to finances, obscurity of information, lack of skills and capacity, tough and stringent procurement processes and financial challenges.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

Schwardt (2007:195) defines research methodology as a theory of how an inquiry should proceed. It involves the analysis of the assumptions, principles and procedures in a particular approach to inquiry. According to Schwardt (2007), Creswell and Tashakkori (2007) as well as Teddlie and Tashakkori (2007), methodologies explicate and define the kinds of problems that are worth investigating, what constitutes a researchable problem, testable hypotheses, how to frame a problem in such a way that it can be investigated using particular designs and procedures and how to select and develop appropriate means of collecting data. This chapter outlines and present the research methodology for the present study. In particular, it explains the research design, data collection methods, population of the study, sample procedure and the data analysis methods adopted in this study. Furthermore, the chapter discusses ethical considerations followed in undertaking the study as well as the limitations of this study.

#### **3.2 Research Approach and Design**

A research design is the set of methods and procedures used in collecting and analyzing the measures of the variables specified in the research problem (Bob and Liz, 2010). A research design must be aligned to the theory and its different aspects, in order to answer the research question. It enables the researcher to employ the appropriate research tools for collecting data. Such data is subsequently analyzed then informed conclusions are drawn (Matt, Mark & Nick, 2006). The present researcher used a descriptive research design that draws from qualitative, non- experimental and contextual methods. Qualitative research is concerned with aspects of reality that cannot be quantified. It focuses on the understanding and explanation of the dynamics of social relations (Queirós, 2017). Radhakrishnan (2013) points out that non- experimental research designs allow the researcher to observe the phenomena as they occur naturally.

### **3.3 Data Collection Methods**

Two sets of data were necessary for this research study. These were the primary and secondary data.

#### **3.3.1 Primary Data Collection Methods**

In order to collect the primary data, structured questionnaires and face to face interviews were used as the data collection methods. They provided first-hand-experience from the respondent. Primary data is reliable, authentic and objective as it has not been altered. Its validity is greater than the secondary data.

#### **3.3.2 A Structured Questionnaire**

This is a list of questions either open-ended or close-ended for which the respondents give answers. These Questionnaires were administered by handing out hard copies to the respondents and collect them later.

#### **3.3.3 An Interview**

This is a face-to-face conversation with the respondent. However, the problem may arise where the respondent deliberately hides the information. It is an in-depth source of information. The interviewer may not only record the interview but may also observe the body language, expressions and other reactions to the questions. This enables the interviewer to draw conclusions (Qu and Dumay, 2011).

#### **3.3.4 Secondary Data Collection Methods**

The data gathered by an investigator or agency or institution from a source which already exists, are referred to as secondary data. That is, these data were originally collected by a certain investigator or agency or institution and have been used by them at least once before. Secondary data were used in this study at least for the second time (Trivedi, 2017). Further information for this study was also collected from journal articles, books, reports, government and reports from agencies.

### **3.4 Population of The Study**

Kothari (2004) defines population as all the items in any field of inquiry. The researcher must find the right and objective way to balance how to deal with the population in question. On the other hand, the sample size has to be selected in proportion to its population, failing which it may not achieve the objectives of the research study and permit conclusive findings (Creswell, 2003). For the purpose of this study, the population was composed of the SMMEs



of General Dealers, Catering and food commodities, Government Ministries and agencies related to SMMEs operations in the Maseru and Mafeteng districts. In the Maseru district, the population from the government Ministries and Agencies included the Ministry of Small business, Cooperatives and Marketing, Basotho Enterprises Development Corporation (BEDCO) and the Lesotho Revenue Authority (LRA); In the Mafeteng district, the data was collected from the District Administration office (DA), the urban council and the SMMEs themselves. The research data were further collected from the construction industry, ICT, the office equipment and consumables and catering businesses in the Maseru and Mafeteng districts.

### **3.5 Sampling Procedure**

For the purposes of this research study, a sample of 50 respondents was selected in order to obtain the evidence to draw the conclusions from. Purposive sampling was used to select a sample from the officers in the various Ministries, the agencies and the owners of the SMMEs that the researcher found worthy to be interviewed and given the copies of the questionnaires because of the information that they are privy to. The sample included 25 SMMEs, 10 government Ministries and agencies and 15 institutions that support the SMMEs. Amongst the 25 SMMEs 15 respondents were in the Maseru district and 10 in the Mafeteng District.

### **3.6 Ethical Considerations**

Erhard et al. (2009: 35-36) view morality as a societal issue and define it as ‘the generally accepted standards of what is desirable and undesirable, of right or wrong conduct, and what is considered by society as good behaviour and what is considered bad behaviour of a person, group, or entity’. It is on these grounds of good morals and ethical standards that the researcher conducted this research study. Ethical considerations included assuring the anonymity of the participants. This allowed them to express their views with honesty and without any fear during the research study. The researcher ensured that the participants were not exposed to any risk during the interaction. They were also warned that the study was purely academic and would not have any expectations as payback to their participation in the study. The respondents were also informed that their participation was voluntary and that they could freely withdraw from the study at any time. In order to access the respondents, the researcher obtained a letter from the National University of Lesotho (NUL). The letter

explained the purpose and details of the research study and was carried to the respondents to secure their consent to proceed with the research study.

### **3.7 Limitations of The Study**

The fact that this study was undertaken in two districts implies that it placed a limitation on the study to make generalisations regarding the contribution of the SMMEs in the Lesotho public procurement markets and on economic development. However, the study findings may serve as a proxy to the reality on the ground as they are diverse in nature.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

The purpose of this chapter is to present the data from the field on the contribution of the SMMEs in the public procurement market and the economic development of Lesotho. The target population for this study was the Small, Micro and Medium Enterprises (SMMEs) from Maseru and Mafeteng. The data presented is collected from the SMMEs in the categories of the trade sector, general dealers, catering, construction and ICT. In addition, data from the policy making institutions, (that is Government Ministries and Agencies and from institutions that help the SMMEs) is also presented. The sample size for the study was fifty participants and the response rate was 100 percent. Data was coded and classified into themes derived from the objectives and the research questions.

The chapter is divided into three sections. The first section focuses on demographic characteristics of the participants. The second section presents data on the contribution of SMMEs to the economic growth. The third section focuses on the level of awareness among the SMMEs about the Lesotho public procurement market and business opportunities. The Fourth section presents the factors that present the SMMEs from taking advantage of the opportunities in the public procurement market. The fifth section focuses on the initiatives made by the various institutions to enhance effective functioning of the SMMEs. The last section summarises the entire chapter.

#### **4.2 The Study Participants**

In this study fifty participants, twenty-five of whom were individual entrepreneurs with different trade licenses such as ICT, Office equipment, Transport, Construction, General Dealer Catering and food commodities were identified. Amongst them, seventeen were males and eight were females. They all ranged between the age of twenty-five and few sixty years. Some of them had tertiary educational qualifications with four of them holding master's degrees. Four had the first degrees and seven had diplomas. Six of the participants were high school graduates. Fifteen of those who participated operate their businesses in the Maseru

district while ten operated in the Mafeteng district. All the participants' enterprises are registered as legal entities.

Another group of fourteen participants was mainly from the institutions whose primary mandate was to help and assist the SMME's with technical support skills trainings. Twelve of the organisations had been established more than ten years before the study was undertaken while two had been operational for more than seven years. All the organisations operate and assist the SMMEs from Maseru, the capital City.

The third group had ten participants. All of them were selected from the government ministries and agencies that are mandated to assist the SMMEs by levelling the grounds through the policies, legal framework and regulations.

Table 4.1 presents the interviewees of this study and each of them was represented by a code. Coding was used to keep the data anonymous and confidential.

**Table 4.1: The study Participants**

<b>Policy Making Institution</b>	<b>District</b>	<b>Codes</b>
Ministry of Finance	<b>Maseru</b>	PMI-1
Ministry of Development Planning	<b>Maseru</b>	PMI-2
Public procurement Advisory Division	<b>Maseru</b>	PMI-3
Ministry of Trade and Industry	<b>Maseru</b>	PMI-4
<b>Institutions that Help the SMMEs</b>		
Basotho Enterprise Development Corporation (BEDCO)	<b>Maseru</b>	IHS-1
Ministry of Small Business and Cooperatives	<b>Maseru</b>	IHS-2
Lesotho Chamber of Commerce	<b>Maseru</b>	IHS-3
Private Sector Foundation	<b>Maseru</b>	IHS-4
<b>The Maseru SMMEs</b>		

Lerato Makhetha	Maseru	A
TsepoLetsie	Maseru	B
Edgar Schriver	Maseru	C
Trend Group	Maseru	D
Go Green Holdings	Maseru	F
Caledon Foods	Maseru	G
Go Green Holdings	Maseru	H
Malyn Catering	Maseru	I
NMN Catering	Maseru	J
Montana Enterprises	Maseru	K
Tsotis Catering	Maseru	L
K & B General Dealer	Maseru	M
Jaby Catering	Maseru	N
Above Design	Maseru	O
Molia Transport and Hire	Maseru	P
<b>The SMMEs in Mafeteng</b>		
Unique Food	Mafeteng	Q
Thamae General Dealer	Mafeteng	R
LepholePharmacy	Mafeteng	S
Nthuseng General café	Mafeteng	T
Mabatloug Catering	Mafeteng	U
Bulara bottle Store	Mafeteng	V
Phuthi Construction	Mafeteng	W
Chere Printing & Stationary	Mafeteng	X
Hanson General Dealer	Mafeteng	Y

**Source: Field Survey, April 2021**

### **4.3 Demographic Characteristics of the Participants**

Table 4.2 reflects different characteristics of the participants. These include age, gender, and educational level.

### 4.3.1 Age of The Participants

The analysis shows that twelve participants whose age ranged between 35-44 years trade in Maseru in the general dealer, ICT and catering business. One participant was in the age range between 25 and 34 and they were selected from Maseru. Four of them and whose age ranged 55 to 60 were from Mafeteng district and traded in catering and food commodities, general dealer, stationery and beverages. Table 4.2 presents the participants by age the trade sector and the district in which they operate.

**Table 4.2: Age range of respondents**

Age	Entrepreneur and Business owner	Nature of Business	Number of respondents per licence	District
25-34	1	Catering and Food Commodities	1	Maseru
35-44	12	ICT	2	Maseru
		Office equipment	1	
		Transport	2	
		Construction	1	
		General Dealer	3	
		Catering and food commodities	3	
45-54	3	ICT	2	Maseru
		Construction	1	
55-60	6	Catering and Food Commodities	1	Maseru
		General Dealer	2	and
		Stationary & printing	1	Mafeteng
		and Beverages	1	
over 60	2	Pharmacy	1	Mafeteng
		Catering and food Commodities	1	

**Source: Field Survey April 2021**

### 4.3.2 Gender of The Participants

The data reflects that male were dominant in the business. Out of the total twenty-five participants eleven were male respondents from Maseru while five female respondents were

from Maseru. In the Mafeteng district eight respondents were male while one was a female. The predominance of the male respondents is attributed to the Basotho patriarchal society with men being in control of most of the family decisions.

**Table 4.3: Gender of the respondents**

Gender	Maseru	Mafeteng
Male	11	8
Female	5	1

Source: Field Survey, April 2021

### 4.3.3 Participants' Education Level

The study finds shows that respondents had different educational qualifications. Two of them had high school qualification whereby one traded in catering and food commodities and another traded in beverages. Four of the respondents held certificates in business studies and two of them had a general dealer licence and the other two traded in catering and food commodities. Seven of the respondents held diplomas whereas three run ICT businesses and three catering while one runs office and equipment business. Amongst the respondents seven of them had degrees and four of them had a general dealer licences while one ran ICT firm. One ran a construction business and the last one operated a pharmacy. Lastly, three of the respondents held Masters' degrees and two were in transport business while one ran catering and food commodities. The last one run a stationery and printing shop.

**Table 4.4: The qualifications of the respondents**

Education level	ICT	Construction	General Dealer	Catering & food Commodity	Office Equipment	Transport	Pharmacy	Beverages	Stationary and Printing
COSC and less	-	-	-	1	-	-	-	1	-
Certificate	-	-	2	2	-	-	-	-	-
Diploma	3	-	-	3	1	-	-	-	-
Degree	1	1	4	-	-	-	1	-	-
Master's degree	-	-	-	1	-	2	-	-	1

Source: Field Survey April 2021

#### 4.4 Contribution of SMMEs to Economic growth

This section discusses the contribution of the SMMEs to the national economy through public procurement and the enhancement of the national economy.

##### 4.4.1 Contribution of SMMEs to National Economy

The SMMEs generate employment, reduce poverty and increase living standard. They further contribute to national economy through the public procurement. Five respondents estimated that they contribute about one to 10 percent of Lesotho's economy while another one stated that they contribute about 11 to 20 percent. Four respondents estimated that they contribute from 21 to 30 percent of the national economy through public procurement.

Out of the total of fourteen responses gathered from the institutions, Forty-three percent of the institutions estimated the contribution of the SMMEs to the national economy to be one to 10 percent while three respondents which are 21 percent estimated it at 21 to 30 percent. Table 4.5 shows the percentage contribution of the SMMEs to the economic growth of Lesotho

**Table 4.5: Contribution of SMMEs to economic growth**

<b>Contribution</b>	<b>Individual Responses</b>	<b>percentages</b>	<b>Responses by institutions</b>	<b>percentages</b>
0 percent	-	0	-	-
1-10 percent	5	20	6	43
11-20 percent	1	4	4	29
21-30 percent	4	16	3	21
No responses	15	60	1	7
<b>Total</b>	<b>25</b>	<b>100</b>	<b>14</b>	<b>100</b>

**Source: Field Survey April 2021**

##### 4.4.2 The SMMEs' Enhancement of Development

The answers from the closed ended questionnaire were as represented in table 4.6. Out of the total sample of twenty-five respondents; five of them acknowledged that SMMEs reduce unemployment. About two participants showed that they have an influence on government revenue. While six participants indicated that SMMEs increases household net income. Seven



of the participants emphasised that SMMEs reduce poverty while four respondents were of the view that SMMEs enhances development by reducing poverty.

**Table 4.6 SMMEs enhancement of development**

<b>Factors enhancing Development</b>	<b>No of respondents</b>	<b>Percentages of respondents</b>
Reduce unemployment	5	20
Government Revenue	2	8
Household net income	6	24
Poverty Reduction	7	28
Reduction of Crime	4	16
All	4	16
<b>Total</b>	<b>25</b>	<b>100</b>

**Source: Field Survey April 2021**

In an open interview on a similar question one of the respondents mentioned the

*“SMMEs reduce poverty, create employment and generate tax revenue. They enhance development in that they uplift the welfare of the families especially those entrepreneurs. They also contribute to the reduction of poverty. The SMMEs increase the household income which is spread over the area of such SMME or entrepreneur thereby changes life of the local people” (ParticipantPMI-1).*

*“The SMMEs have an important contribution through employment creation, revenue generation and provision of essential service. They further provide employment, household income which has a direct effect on the reduction of poverty. On the other hand, they provide tax revenue” (ParticipantPMI-2).*

*“The development contribution of SMMEs is important because they generate income through employment creation and poverty reduction. Success of SMMEs translates to*

increased revenue collection which is reflected in national infrastructure and government expenditure” (Participant PMI-3).

“The most important thing when SMMEs are doing well they bring positive effects on the government revenue. This has a good impact on the economy of the country” (Participants PMI-4).

“SMMEs create employment, improve revenue, enhances poverty reduction and provides essential services to the community.” (Participants HIS-1).

“The SMMEs are the push factor or drivers of the national economy. When business thrives, the entire national economy grows as they are spread all over the country” (Participants HIS-2).

“They contribute to development by reducing the crime rate, employment creation and poverty reduction.” (Participants HIS-3)

#### **4.5 The Level of Awareness Among SMMEs About Lesotho Public Procurement Market and Business Opportunities.**

In assessing the level of awareness among the SMMEs about the Lesotho public procurement market and business opportunities, the study used the following indicators: knowledge about public procurement, information about public procurement opportunities, and the extent to which the SMMEs use public procurement as a business and the market opportunity for the SMMEs.

##### **4. 5.1 Knowledge About Public Procurement**

The field data revealed that only one participant did not know about public procurement. About eighteen (69 percent) of the participants had a moderate knowledge about public procurement while seven (27 percent) were knowledgeable about public procurement.

Table 4.7 represents the different responses of the participants on how much knowledge they had on public procurement.

**Table 4.7: Knowledge about public procurement**

<b>Level of knowledge about public procurement</b>	<b>No. of respondents</b>	<b>Percentage</b>
Do not know	<b>1</b>	<b>4</b>

Moderate knowledge	<b>18</b>	<b>69</b>
Very well knowledgeable	<b>7</b>	<b>27</b>
<b>Total</b>	<b>26</b>	<b>100</b>

**Source: Field Survey, April 2021**

#### **4.5.2 Ways of Getting Information About Public Procurement Opportunities**

Given the volumes of the budget involved in public procurement, and recognising the benefits that it can offer to the SMMEs, have developed the systems that can significantly simplify the way procurement is conducted and the way the SMMEs can acquire information. From the study results 20 percent of the participants asserted that they obtained information through office to office walk- ins when 52 percent indicated that they acquired public procurement opportunities through the adverts by the media. About six percent articulated that they obtained information when calls were made by different government ministries and agencies looking for a service. About 24 percent of the respondents obtained information on public procurement opportunities through personal business networks. Four percent of them did not know about public procurement and its opportunities.

**Table 4.8: The ways in which SMMEs get information about public procurement opportunities**

<b>Modes of acquiring dissemination</b>	<b>No. of respondents</b>	<b>Percentage</b>
Office to office walk-in	5	20
Via mass media adverts	13	52
Callings from different ministries and agencies	4	6
Personal business networks	6	24
Does not know the existence of public procurement opportunities	1	4
<b>Total</b>	<b>29</b>	<b>100</b>

**Source: Field Survey April, 2021**

#### **4.5.3 The extent of SMMEs Use of Public Procurement**

The study sought for responses from the participants about the extent to which the SMMEs use public procurement. The data revealed that fourteen of the respondents which are fifty-six percent did not use much of public procurement. Only five respondents which are twenty percent used public procurement frequently. Eight percent of the respondents used it very

often while twelve percent used it when they had public tenders to apply for. Only one respondent never used public procurement at all.

**Table 4.9: Use of Public Procurement by the SMMEs**

<b>Frequency on use of public procurement</b>	<b>No of respondents</b>	<b>Percentage</b>
Not much	14	56
Frequently	5	20
Very often	2	8
Always dealing with public tenders	3	12
Not at all	1	4
<b>Total</b>	<b>25</b>	<b>100</b>

Source: Field Survey April 2021

#### **4.6 Factors That Hinder SMMEs from Taking Advantage of Opportunities in The Public Procurement Market**

Increased participation in public procurement is critical for creating market opportunities for the SMMEs. They are significant engines of economic growth and development. They are a true vehicle for achieving the national economic goals such as job creation, economic innovation, and poverty reduction. On the other hand, the SMMEs are a unique risk group, characterized by fragility, lack of access to funds or credit history and lack of collateral. As a result, they require special assistance from government in order to survive in any competitive market. This is especially true in public procurement, where SMMEs encounter numerous obstacles ranging from lack of credit, lack of management skills, lack of government support stiff & uncontrolled competition, government taxes and access to adequate funding (Table 4.10).

**Table 4.10 Factors that Hinder SMMEs**

<b>Factors that Hinder SMMEs</b>	<b>Frequency</b>	<b>Percentage</b>
Lack of credit	5	10
Lack of management skills	1	2
Lack of Government support	10	20
Stiff & uncontrolled competition	12	24
Government Taxes	3	6

Access to adequate funding	5	10
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**Source: Field Survey April 2021**

#### **4.6.1 Lack of Access to Credit**

The study findings reflect that twenty-four respondents once applied for a loan from the financial institutions which they did not obtain. They indicated that some of the conditions banks required prevented them from applying for loans. Banks require business applicants for a loan to provide collateral, audited financial statements, management accounts and cash flow statements. Twenty percent was requested to provide collateral to be granted loans while Thirty-two percent was requested to provide audited financial statements. Thirty- six percent were required to provide management accounts which are cash flow statement, income and expenditure statement.

According to Table 4.12 below twenty-two out of twenty-five respondents confirmed being denied a loan while only three respondents stated that they had never applied for a loan at any financial institution because they already knew that they did not have the requirements of the banks. The reasons for refusal of loans as indicated by the respondents were that they did not have collateral, they were not credit worthy and the interest rates would be very high for them to maintain.

**Table 4.11: Requirements to access loans**

<b>Requirements to access loans</b>	<b>No of respondents</b>	<b>Percentage</b>
Collateral	5	20
Audited financial statement	8	32
Management Accounts (cash flow statement, income statement etc.)	9	36
<b>Total</b>	<b>25</b>	<b>100</b>

**Source: Field Survey, April 2021**

There were some respondents never applied for a loan. Their main reason for not applying for a loan was high interest.

*“I find the bank interests too high for my business to maintain (Participant N).*

*“My reason for not applying for loan is that costs of the bank are too high” (Participant V).*

*“I find that their interests are too much” (Participant Y)*

## **4.7 Initiatives of Institutions to Ensure Success of SMMEs**

Institutions' initiatives in ensuring the success of SMMEs differed from one institution to another. These initiatives included providing training to SMMEs in the form of, seminars, sector conferences, mainstream communication and coaching and mentoring.

### **4.7.1 Seminars**

In the seminars the respondents highlighted that

*“We provide training on business start-ups as well as assistance in establishing, marketing, and growth of SMME” (Participant IHS-1).*

*“We evaluate performance by looking at annual revenue and business growth” (Participant PMI-4).*

### **4.7.2 Sector Conference**

Sector conferences also play an important role according to one of the respondents.

*“We include the SMMEs in our day to day operations. We ensure that they have access to finance, trainings, and access to technology, and improved production. We also examine SMMEs net profit value, market ratios, and sales growth” (Participant IHS-3).*

### **4.7.3 Mainstream Communication**

*“There is policy guidance on SMMEs financial inclusion which include lobbying for the creation of SMMEs-targeted products” (Participant. IHS-2)*

*“There are short-term policy interactions that improve SMMEs access to financing solutions. We ensure capacity of technical service providers and financial service providers, and all other relevant stakeholders engaged in SMME development” (Participant IHS-4).*

### **4.7.4 Coaching and Mentoring**

*“We offer SMMEs incubation services as part of our aim to help SMMEs to succeed. In the last three years we held trainings for SMMEs and incubated fifty-two SMMEs at IHS-1 as an institution.” (Participant IHS-1)*

## **4.8 Summary**

The study revealed that SMMEs contribute to economic growth through reducing unemployment, generating government revenue, increasing household net income, alleviating poverty and reducing crime. The study further discloses that there is moderate knowledge among the SMMEs about public procurement as a market opportunity. Some of the ways through which SMMEs get information about public procurement are office to office walk-in, mass media adverts, callings from different ministries and agencies and personal business networks. Regarding the factors hindering the SMMEs from taking advantage of opportunities in the Public Procurement market, the study discovered lack of access to credit, lack of management skills, lack of government support, stiff and uncontrolled competition, government taxes and inadequate funding.

## **CHAPTER FIVE**

### **The FINDINGS AND DISCUSSIONS**

#### **5.1 Introduction**

This chapter presents the findings and discussions based on the findings presented in chapter four. The findings are discussed in relation to the objectives of the study and the literature as it is presented in chapter two. Secondly, public procurement as a business opportunity for the SMMEs is discussed. Lastly, the barriers to the exploitation of the benefits that are brought by public procurement as a market for the benefit of the SMMEs are discussed.

#### **5.2 Contribution of SMMEs to Economic Growth.**

The findings of this research study are that the SMMEs contribute to the economic growth by the SMMEs, thus reducing poverty, and the high unemployment rate. They also increase the government revenue and household net income as well as reduce crime.

##### **5.2.1 Reduction of Unemployment**

The study finds that a significant number of the participants agree that the SMMEs are capable of reducing unemployment. They employ about two to five people per enterprise. They further provide sustainable self-employment and the entrepreneurs in turn employ others. Previous studies by Anheier and Seibel (1987); Liedholm and Mead (1987); Schmitz (1995) indicate that the SMMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation. Jili, Masuku and Selepe (2017) also

assert that the SMMEs have been used as a strategy to fight the high unemployment rate in South Africa.

### **5.2.2 Government Revenue**

The findings of the study are that the SMMEs increase the government revenue base; the various taxes are collected to support the government expenditure. This revenue is, in turn, used to provide the social services such as old age pensions, disability grants, provision of quality health services and access to education. A similar observation was made by Lateh et al, (2017) that wealth is created through taxation and it allows the governments to fund the pro-poor services such as health care, clean water and education.

### **5.2.3 Household Net Income**

The study discovered that the growth and number of the SMMEs have a direct influence on the household net income whereby the purchasing power of the household increases. This is in line with Kanono (2000) who states that the households' income rises, thus increasing the purchasing power of the economic agents. The demand for the SMMEs products increases, if the consumable goods of the SMMEs are of good quality, thus, they will certainly be bought.

### **5.2.4 Poverty Reduction**

The study finds that the SMMEs reduce poverty by employing people who, in turn, become the catalysts for better economic change in their households through their salaries. The entrepreneurs increase the welfare of their households.

According to Barnes et al, (2016) the South African government has found that the SMMEs are potential agents. They assist the governments to achieve certain core socio-economic objectives, particularly through the creation of jobs and reduction of poverty levels. Nxaba (2014) also states that the SMMEs have the capacity to generate money and provide food, clothing, housing as well as other commodities and services to the rural people.

### **5.2.5 Reduction of Crime**

The study observes that the SMMEs can enhance development through the reduction of crime. Most of the owners of the SMMEs are young and highly active people who might have been unemployed and fallen into crime.



### **5.3 Public Procurement Market as A Business Opportunity**

Another objective was to investigate the Lesotho public procurement market as a business opportunity for the SMMEs. The study shows that public procurement provides market opportunities for private sector firms, which in turn contribute to the growth of the GDP and government revenue. The findings indicate that most SMMEs have moderate knowledge about public procurement which is acquired through office to office walk-in, mass media advertisements, calls from different ministries and agencies and personal business networks.

#### **5.3.1 Office to Office Walk-In**

The study finds that the SMMEs acquire information about public procurement through office to office walk-ins. They enter the procurement offices to inquire the need for the supply of any service or whether there is any invitation to tender. Those who use this method are mostly young and new to the procurement industry. They also give out their business profiles, brochures, leaflets and business cards to market their businesses.

#### **5.3.2 Mass Media Advertisements**

The study indicates that the SMMEs access information about available public procurement opportunities through the mass media advertisements such as the local radios and television, local newspapers, social media and the websites of the organisations. Silva et al. (2014) state that while investing in public expenditure towards domestic industries, the SMMEs may assist the government to fulfilling its responsibility to improve the well-being of the country's population. Investment in the SMMEs may also stimulate innovation through the risk-sharing practices. The study finds that the minimum level of the participants' education had a post high school qualification which facilitates the comprehension of the technicalities of public procurement as the field of the supply chain.

#### **5.3.3 Callings from Different Ministries and Agencies**

As the findings indicate the SMMEs get supply offers from the different ministries and government agencies through the calling from the respective procurement offices or the officers that are in need of the services. This method of obtaining the offer to provide services is normally done through the supplier's database of the respective ministries and government agencies. However, it is realised that those who get the calls to supply the goods and services are well established and provide quality. However, this method may lead to procurement

malpractices which mount to corruption that Onwujekwe et al., (2018) have commonly defined as the misuse of entrusted power for private gain.

#### **5.3.4 Personal Business Networks**

Some of the SMMEs, especially those in the catering fraternity which is established service providers, get the job offers through their personal business networks. They have the equipment and capacity to cater for big state occasions, professional efficiency and the reputation of high client satisfaction in terms of food deliciousness.

### **5.4 Barriers to The SMMEs from Taking Advantage of the Public Procurement Market**

In evaluating the factors that prevent the SMMEs from taking advantage of the opportunities in the public procurement market, the findings of the study are that some of the challenges that the SMMEs come across include lack of credit, lack of management skills, lack of government support, stiff and uncontrolled competition, government taxes and access to adequate funding.

#### **5.4.1 Lack of Credit**

The study finds that one of the most critical barriers to the success of the SMMEs is lack of credit. This is a situation where the SMMEs may need a capital re-injection for various reasons. These may include the expansion of the business on the basis of the location. For example, the business may expand to shop Number 1 and Shop Number 2 or expansion of the range of stock to cater for the increased number of buyers. This credit may come as a loan from the commercial banks which require many conditions that may make it difficult for the SMMEs to qualify for a loan.

Further findings are that the entrepreneurs find the bank interests too high for them to maintain. Herrington et al, (2009) also reiterated that access to the capital is a major barrier to starting a business in South Africa. Due to lack of credit history, the SMMEs have a difficult time obtaining bank loans or additional capital. They do not match the requirements set by financial institutions. FinMark Trust (2006) report that only 2 percent of new SMMEs in South Africa are able to obtain bank loans, whereas Foxcroft et al, (2002) discovered that 75percent of the new SMMEs bank credit applications in South Africa are rejected.

#### **5.4.2 Lack of Management Skills**

The study also found that lack of managerial skills is another barrier in the daily operation of the SMMEs. Even when the participants have some qualifications and entrepreneurial skills, if they lack management skills their decision is likely to affect their business adversely. Obokoh (2008) observes that poor management practices and the failure of the SMMEs to preserve accurate financial records obstruct the efficient control of planning. The SMMEs are unable to obtain any loan from financial institutions for expansion due to poor planning and control. This is inherent to vague business objectives and priorities. Furthermore, lack of accountability in the financial operations of the business makes it difficult for the SMMEs to gain trust from the financial institution as they are recognised as the high risk.

#### **5.4.3 Lack of Government support**

Lack of government support through the national policies and strategies is one of the barriers that contribute significantly to the lack of financial assistance to the SMMEs. Another problem related to lack of government support is lack of access to information. The study shows that there are no standing programmes or special platforms for the government to communicate directly with the SMMEs. The possibility is that the SMMEs do not get information for them to act or realise the business opportunity. This is unlike when there is a well-coordinated industrial bulletin which each and every individual visits to check the available opportunities. Obokoh (2008) claimed that there is a dearth of understanding and awareness among the SMME owners regarding the programmes geared to reduce administrative and production costs in the early phases of their operations. The majority of the SMMEs in Nigeria are unaware of the exceptions provided by the government under the pioneer designation. The government however shows a limited support for the SMMEs against foreign competition by giving them the margin of preference of 15 percent, as stipulated in the procurement regulations 2007 for open tenders.

#### **5.4.4 Stiff and Uncontrolled Competition**

The study shows that there is stiff competition. It is worsened by the authorities who do not control such a competition. As the participants indicated, foreigners are allowed to engage as general dealers although; by law these are reserved for the locals. These expatriates trade without any knowledge of the rules and regulations to be observed and the standards of the hygiene, good quality of the products and the satisfaction of the consumers. The study found

that the penetration of the foreigners into the market is very easy as they have a high purchasing power and they exploit the market.

#### **5.4.5 Government Taxes**

The findings also indicate that the SMMEs are all over the country but most of them have a tendency of tax evasion. This is perpetuated by their inability to prepare the proper books of accounts. This tendency is usually discovered during the times when the business entities are supposed to file their returns to the Lesotho Revenue Authority. This leads to a situation where the operating documents of the SMMEs such as traders' licence and tax clearance certificate are not renewed. This is observed as the reason why some of them collapse and vanish from the market.

#### **5.4.6 Access to Adequate Funding**

The findings of the study are also that some SMMEs do not have access to adequate funding and can neither start up the businesses nor increase their capital in order to refuel the corporate operations of their business entities. This observation is similar to Kanono's (2000) that in many instances, an entrepreneur may want to produce large quantity of products but is hindered by lack of funds. It is further stated that after education and training, lack of financial backing is the second most recognized reason for the low new firm creation and failure in South Africa (Herrington et al, 2009).

### **5.5 Measures to Improve SMMEs Performance.**

Availability of institutions that give technical support and financial support is crucial for the efficient production of the SMME's. Technical support includes the provision of training and information transfer to the SMMEs enterprise owners as well as workers. The shortage of managerial skills seems to be an important constraint to effective growth and development of the SMMEs. In many instances, the owners of the enterprises, particularly the more traditional small-scale activities such as catering and ICT, are technically proficient in the manufacturing process but lack extensive training in marketing, financial management or business organisation. Increased managerial abilities are therefore, expected to lead to increased productivity. Support institutions are also supposed to convey some information about the market opportunities of the SMME products so that their sales can increase. The findings indicate additional problems for the SMMEs include the decline in performance. The support for the institutions to attend trainings sessions, sector conferences, main stream communication and coaching and mentoring is highly limited.

### **5.5.1 Seminars, Sector Conferences, Main Stream Communication and Coaching and Mentoring**

The findings of the study revealed that seminars, Sector conferences, Main stream communication and Coaching and mentoring are the platforms that are used by the supporting institutions to disseminate information to the entrepreneurs. Trainings sessions are used to capacitate and equip the SMMEs to run and manage planning and control of their enterprises. According to the findings the platforms are available for the SMMEs to be taught how to keep proper books of accounts that may enable them to secure loans and financial assistance. Some of these institutions are government run entities that are entrusted to identify, develop and ensure the success of the SMMEs. The trainings programmes (i.e., incubation programmes) also target the youth to prepare them to start the business enterprises and encourage them to form the cooperatives and youth leagues to enhance the innovation and competition. The incubation also links them to the markets and levels the playing field for a fair competition in terms of transparent rules and procedures of procurement and offer the SMMEs credit facilities in their departments and influence the appropriate policy.

Coaching and mentoring are other strategies that are used by many institutions to ensure success of the SMMEs. Makhado (2015) find that mentoring is crucial for the success of the SMMEs. For instance, more than 90 percent of the respondents appeared to profit from mentorship support in the areas of business management, financial management and marketing management while 58 percent of them appeared to benefit from mentorship assistance in the area of people's skills. The benefits of the mentorship programme were generally well received by the respondents. The performance of the SMMEs is measured by annual profits and quality of products. The increase in size with regard to the increasing number of employees and the area of operation are also used to measure the performance of the SMMEs.

### **5.6 Summary**

The study findings and discussions are that the SMMEs, through public procurement, has a minimal contribution on the economic development of Lesotho. The biggest barriers to their efficient contribution include lack of credit, lack of management skills, lack of government backing, strong and uncontrolled competition, government taxation, and lack of access to funding.



## CHAPTER SIX

### CONCLUSIONS AND RECOMMENDATIONS

#### 6.1 Conclusions

The aim of this study was to assess the contribution of the SMMEs in the public procurement market to the economic development of Lesotho. The study was prompted by the lack of utilisation of public procurement for the SMMEs. This has proved to be the most significant market for the growth of the SMMEs. The study draws several conclusions on the barriers to effective participation of the SMMEs in the public procurement market.

It is concluded that the procurement laws and policies are tailored in such a way that they do not provide the SMMEs' with access to public procurement. The government does not have the protection policies to ensure the growth of the infant industries. It is observed and concluded from the findings that there are no specific strategies that are meant for the assistance of the SMMEs. It is also concluded that there is no operational framework that is used as a guide or point of reference on how to help the SMMEs. This is because the Ministries that are supposed to drive the agenda on ensuring success of the SMMEs are not focused and their energy is not directed to the SMMEs.

The study concludes that lack of information is another barrier to the effective participation of the SMMEs in the public procurement. The findings indicate that mass media, office to office walk-ins and personal business networks are the most effective ways from which the entrepreneurs get information about the public procurement opportunities. However, it is concluded that there is lack of appropriate platform that is perfectly designed to help the SMMEs with accessibility of the information such as the SMMEs public procurement newsletter or bulletin.

The study further concludes that there is no core mandate for the institutions to help the SMMEs. This suggests the conclusion that institutions can withdraw their assistance at any time.

The study concludes that it is not easy for the SMMEs to get funds or loans from financial institution because of the requirements that they fail to meet. This includes, among others, the collateral that the commercial banks need. These are the financial books of accounts and others factors.

The study finds and concludes that lack of government support to the SMMEs lead to stiff and uncontrolled competition which leads to unethical trade practices, that amount to corruption.

It is also observed that lack of finance and access to adequate funding are critical barriers to the SMMEs achieving their objective. Lack of management skill is another barrier to the success of the SMME.

The study concludes that there are no specific strategies meant for the assistance of the SMMEs. It is also realised that there is no operational framework that guides or point of reference on how to help the SMMEs. The Ministries that are supposed to drive the agenda of ensuring the success of the SMMEs are not focused and their energy is not directed to the SMMEs.

Another conclusion is that there is no legal obligation for the government and institutions to help the SMMEs; they help through their moral obligation. The study therefore concludes that the general performance of the SMMEs is not in anyone`s custody; hence why the institutions help through their moral obligation.

## **6.2 Recommendations**

This study makes the following recommendations;

The institutions such as BEDCO should be allocated sufficient financial support in order for them to run the incubation programmes for the SMMEs all over the country.

The institutions that are mandated to capacitate the SMMEs must be allocated sufficient budget and facilities to provide adequate training to the SMMEs on how to run business.

The government should fast track its procurement laws and policies in order to ensure that public procurement is accessible to the SMMEs. The trade packages that are reserved for the SMMEs must be categorically articulated in the legal framework and policies but, most importantly, they must be made known by the SMMEs in order to encourage them.

The trade packages that are reserved for the SMMEs must be clearly categorised in the legal framework and policies.

The study recommends that the incubation programmes be expanded and be conducted in all the districts.



The government should develop an operational framework that will be used as a guide or point of reference on how to help the SMMEs.

Public Procurement Advisory Division PPAD should introduce a public procurement bulletin or newsletter that publish all the tenders, expression of interests needs of consultancies and all the requirements need to be procured by government. All available procurements be clearly classified for the SMMEs and big enterprises according to the budget of each activity to procure

Government support must be provided through the national policies and strategies in order to provide assistance to the SMME to have access to finances.

Public Procurement Advisory Division (PPAD) and Ministries procurement units must conduct out rich programme to educate the SMMEs and the public about the public procurement.

The protection of the infant industry must be introduced and be enhanced by strong embargoes to protect the newly developed and growing local industries.

The government must give tax holiday for the SMMEs based on their size and annual performance.

There must be a revolving fund that is intended to lure entrepreneurs to start their business and to expand the already existing SMMEs until they make a take-off and become self-efficient. On the other the youth can be encouraged to form cooperatives and youth leagues to have adequate funding.

The specialised policy and strategies that are meant to drive the SMMEs agenda must be developed. These strategies must integrate all the relevant government Ministries and relevant institutions to draw operational framework that should be used as a guideline and point of reference.

The government must create a legal framework that governs the institutions that are intended to help the SMMEs so that they may contribute towards a common goal which is to ensure the success of the SMMEs

### **6.3 Areas for Further Research**

This study assessed the contribution of the SMMEs to the Lesotho public procurement markets on economic development. Other areas which are related to the SMMEs as the economic players are identified and found research worthy and need to be investigated in the future are;

- The need to institutionalize the SMMEs and see them as efficient economic growth drivers in Lesotho.
- The assessment of the SMMEs performance in enhancing industrial innovation in Lesotho.
- Analysing public procurement processes and how they affect growth of the SMMEs in Lesotho

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# Appendix 1

National University of Lesotho

Department of Development Studies

Student Number 199910050

## CONSENT FORM

By signing this form, I, \_\_\_\_\_ agree to participate in the study. I declare that the following has been explained to me by the researcher and that I fully understand and accept the conditions of participation in this study:

Participating in this study is voluntary and I can choose to withdraw from the research anytime.

I understand that the focus of the study is on the assessing the contribution of SMMEs in Lesotho procurement market on economic development.

A semi- structured interview will be conducted, should clarity of information given be required, a follow-up session can be scheduled.

I have the right to ask questions during and after the research; pertaining to the research and to abstain in response to a question should I experience any distress in disclosing information.

No identifying details will be requested in relation to the information given, to ensure anonymity.

The research results will be made available to me should I request them in writing from the researcher.

Signature Participant: \_\_\_\_\_ Date: \_\_\_\_\_

Signature Researcher: \_\_\_\_\_ Date: \_\_\_\_\_

## **Appendix 2**

National University of Lesotho

Department of Development Studies

Student Number 199910050

### **PERMISSION FOR RECORDING**

I..... (Recorded person's full name), do hereby consent to the use by..... (Researcher's full name) of my voice recording to extract the interview data for analysis and coding. I understand that this audio recording will be destroyed once the data has been transcribed.

I understand that this material will be used in a legitimate manner, both internally and externally. NUL does not intend to cause any harm or undue embarrassment to the parties involved.

Signature: .....

Date: ...../...../.....

## Appendix 3

National University of Lesotho

Department of Development Studies

Student Number 199910050

### QUESTIONNAIRE 1

To assess the extent of participation of SMMEs to economic growth

Dear Sir/Madam

I, Tšepang Ramphoma, (19910050) a Masters student in the Department of Development Studies in the National University of Lesotho, I am pursuing a master's dissertation with the title "*Assessing the contribution of SMMEs in Lesotho public procurement market on economic development*". I humbly request you to take some time to fill and complete this questionnaire and return it to me, in accordance with the partial fulfilment of the aforesaid degree.

I thank you in advance as your support in investing your time to respond and answering the questionnaire is a great contribution to completing this part of the research.

Your effort is highly appreciated thus please feel free to ask questions for clarity on this numbers 58121980.

This questionnaire is composed of 20 questions that it would be very helpful if they are ALL answered.

1. When was the institution established?

Less than 2 years	1
2-4 years	2

5-7 years	3
8-10 years	4
More than 10 years	5

.....

2. How long have you been in this institution?

Less than 2 years	1
2-4 years	2
5-7 years	3
8-10 years	4
More than 10 years	5

3. What is the core mandate of the institution in relation to SMMEs?

.....  
.....  
.....

4. What are the trade sectors that the institutions mainly focus on?

Retail Trade	1
Manufacturing	2
ICT	3
Construction	4
	5

5. What are strategies the institutions have to assess and ensure success of the SMMEs?

.....  
.....

.....  
.....  
6. Is the institution aware of what is Public Procurement?

Yes	No
-----	----

7. Do you consider Public Procurement as a market to assist SMMEs?

Yes	No
-----	----

If YES how do you as the institution mobilise SMMEs to effectively utilise public procurement?

Hold seminars	1
Hold sectors conferences	2
Main stream communication	3
Couching and Mentoring	4

If NO, what does the institution do to educate SMMEs to realise that public procurement is a viable market?

.....  
.....  
.....

8. What is it that the institution does to measure performance of SMMEs?

.....  
.....  
.....

9. In the past three years, what are tangible evidence that your institution is indeed assist SMMEs

.....  
.....  
.....  
.....

10. In terms of economic Development what are factors that SMMEs do to enhance development?

Unemployment	1
Government Tax	2
Household net income	3
Poverty Reduction	4
Reduction of Crime	5

11. In terms of percentages how much do you think SMMEs contribute in the national economy through public procurement?

0 percent	1
1-10 percent	2
11-20 percent	3
21-30 percent	4

12. What is it that your institution need it to be done to enable it to assist its member to be successful in as far as public procurement is consent?

Review procurement laws	1
Establish clear procurement policy	2
Introduce reserved trade packages for SMMEs	3
Introduce embargo to protect infant SMMEs	4

13. What are you doing as an institution to link SMMEs with financial institutions in order to encourage access to finance?

.....  
.....  
.....  
.....

14. What are other bottlenecks that your institution could consider as stumbling blocks for the success of SMMEs?

.....  
.....  
.....  
.....

15. What is it that your institution does to encourage youth to establish their own SMMEs and take advantage of public procurement?

.....  
.....  
.....  
.....

16. How does the Ministry as a governing body define Lesotho SMMEs

.....  
.....  
.....  
.....

17. What are policies in place to ensure success of SMMEs in relation to public procurement?

.....  
.....



.....  
.....

18. What is it that the Ministry does to educate and capacitate SMMEs in relation to public procurement as a market?

Hold seminars	1
Hold sectors conferences	2
Main stream communication	3
Couching and Mentoring	4

19. In order to ensure protection of SMMEs against foreign competition, what are protection instruments in place?

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.....  
.....

20. Is there any economic instruments to measure participation of SMMEs in the national economy?

Yes	No
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If YES , what are they:

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.....  
.....  
.....

If NO, how does the Ministry measure contribution of the SMMEs in the national economy?

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**Thank you very much**

## Appendix 4

National University of Lesotho

Department of Development Studies

Student Number 199910050

### QUESTIONNAIRE 2

To investigate Lesotho Public Procurement Market as a business opportunity for SMMEs

Dear Sir/Madam

I, Tšepang Ramphoma, (19910050) a Masters student in the Department of Development Studies in the National University of Lesotho, I am pursuing a master's dissertation with the title "*Assessing the contribution of SMMEs in Lesotho public procurement market on economic development*". I humbly request you to take some time to fill and complete this questionnaire and return it to me, in accordance with the partial fulfilment of the aforesaid degree.

I thank you in advance as your support in investing your time to respond and answering the questionnaire is a great contribution to completing this part of the research.

Your effort is highly appreciated thus please feel free to ask questions for clarity on this numbers 58121980.

This questionnaire is composed of 15 questions that it would be very helpful if they are ALL answered.

1. When was the institution established?

Less than 2 years	1
2-4 years	2
5-7 years	3
8-10 years	4
More than 10 years	5

.....

2. How long have you been in this institution?

Less than 2 years	1
2-4 years	2
5-7 years	3
8-10 years	4
More than 10 years	5

3. What is the core mandate of the institution in relation to SMMEs?

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.....

.....

4. What are the trade sectors that the institutions mainly focus on?

Retail Trade	1
Manufacturing	2
ICT	3
Construction	4
	5

5. What are strategies the institutions have to assess and ensure success of the SMMEs?

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6. Is the institution aware of what is Public Procurement?

Yes	No
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7. Do you consider Public Procurement as a market to assist SMMEs?

Yes	No
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If YES how do you as the institution mobilise SMMEs to effectively utilise public procurement?

Hold seminars	1
Hold sectors conferences	2
Main stream communication	3
Couching and Mentoring	4

If NO, what does the institution do to educate SMMEs to realise that public procurement is a viable market?

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.....  
.....

8. What is it that the institution does to measure performance of SMMEs?

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.....  
.....

9. In the past three years, what are tangible evidence that your institution is indeed assist SMMEs

.....  
.....  
.....  
.....

10. In terms of economic Development what are factors that SMMEs do to enhance development?

Unemployment	1
Government Tax	2
Household net income	3
Poverty Reduction	4
Reduction of Crime	5

11. In terms of percentages how much do you think SMMEs contribute in the national economy through public procurement?

0 percent	1
1-10 percent	2
11-20 percent	3
21-30 percent	4

12. What is it that your institution need it to be done to enable it to assist its member to be successful in as far as public procurement is consent?

Review procurement laws	1
Establish clear procurement policy	2
Introduce reserved trade packages for SMMEs	3
Introduce embargo to protect infant SMMEs	4

13. What are you doing as an institution to link SMMEs with financial institutions in order to encourage access to finance?

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 .....

.....  
.....

14. What are other bottlenecks that your institution could consider as stumbling blocks for the success of SMMEs?

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.....  
.....  
.....

15. What is it that your institution does to encourage youth to establish their own SMMEs and take advantage of public procurement?

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.....  
.....  
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**Thank you very much**

## Appendix 5

National University of Lesotho

Department of Development Studies

Student Number 199910050

### QUESTIONNAIRE 3

To evaluate factors that hinder SMMES from taking advantage of the opportunities in the public procurement market

Dear Sir/Madam

I, Tšepang Ramphoma, (19910050) a Masters student in the Department of Development Studies in the National University of Lesotho, I am pursuing a master's dissertation with the title "*Assessing the contribution of SMMES in Lesotho public procurement market on economic development*". I humbly request you to take some time to fill and complete this questionnaire and return it to me, in accordance with the partial fulfilment of the aforesaid degree.

I thank you in advance as your support in investing your time to respond and answering the questionnaire is a great contribution to completing this part of the research.

Your effort is highly appreciated thus please feel free to ask questions for clarity on this numbers 58121980.

This questionnaire is composed of 18 questions that it would be very helpful if they are ALL answered.

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Section A Demographic Questions



1. What is your GENDER?

male	1
female	2

2. What is your age group?

24 years or younger	0
25-34 years	1
35-44 years	2
45-54 years	3
55-60 years	4
Above 60 years	5

3. Is your enterprise registered?

Yes	No
-----	----

4. Did you seek financial assistance to start your business?

Yes	No
-----	----

5. How many years has your enterprise been in existence now?

Less than 2 years	1
2-4 years	2
5-7 years	3
8-10 years	4
More than 10 years	5

6. What is your highest qualification?

PhD	1
Masters degree	2
Degree	3

Diploma	4
Certificate	5
C.O.S.C and less	6

7. Which town are you operating from?

Maseru	Mafeteng
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8. What is the number of full time workers in your enterprise?

Less than 5	1
Less than 10	2
Above 10	3

9. What is the nature of your business?

Construction	1
ICT	2
Office equipment & consumables	3
Catering & food commodities	4
General Dealer	5

Section B Close Ended Questions

10. Have you ever applied for a loan or credit funding for the bank or any financial institution?

Yes	No
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If NOT, why?

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 .....

.....  
.....

11. Do you keep financial records?

Yes	No
-----	----

12. Has your company ever been refused/declined loan/credit funding?

Yes	No
-----	----

If YES, what were the reasons for the bank to decline your application?

No collateral	1
No financial records	2
Bad credit history	3
Not credit worthy	4
High interest rates	5

Other reason (Please Specify) .....  
.....  
.....

13. What information did the bank request you to provide when you applied for a loan/credit?

Collateral	1
Audited financial statement	2
Business Plan	3
Management Accounts(cash flow statement, income statement etc.)	4

14. What is the most critical constrain to the growth/success of your business?

Lack of finance	1
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Lack of management skills	2
Lack of Government support	3
Stiff & uncontrolled competition	4
Government Taxes	5
Access to adequate funding	6

15. How much do you know about Public procurement?

Do not know	Not much knowledge	Moderate knowledge	Very well knowledgeable
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16. How much does your enterprise use public procurement?

Not much	1
Frequently	2
Very often	3
Always deal with public tenders	4
Deal with public procurement only	5

17. How do you get information about public procurement opportunities?

Office to office walk-in	1
Via mass media adverts	2
Callings from different ministries and agencies	3
Personal business networks	4

18. How do you keep informed regarding SMMEs support?

Via membership of trade	1
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association	
Personal business contacts	2
Mass media communication	3
Via Government support programs	4

**Thank you very much**