



Exploring stakeholders' perspectives on the conduciveness of the Lesotho SME business environment

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ABSTRACT

The primary objective of this study was to investigate the government policy constraints to a conducive business environment, as well as policies and regulations affecting small and medium enterprises (SMEs) in Lesotho. SMEs play a vital role in the country's economic development and require a conducive business environment to thrive. A conducive business environment is characterised by government policies that support existing businesses, foster the development of new firms, facilitate the creation of jobs and simplify the formalisation and registration of businesses.

This study was conducted in four Lesotho districts with the highest number of SMEs: Maseru, Berea, Leribe and Mafeteng. A phenomenological strategy was employed in this qualitative study to explore stakeholders' perspectives on the impact of government policies. A combination of semi-structured interviews and document analysis was used to collect data from 46 participants and Atlas.ti was used for thematic data analysis. The research population included formal and informal SMEs and key stakeholders such as the Department of Small Business, Tax authorities and business associations.

The findings revealed that broad-based government policies regarding business registration and licensing, financing and taxation have a negative influence on the business environment for SMEs in Lesotho. The study concluded that government policies have a significant and positive impact on the business environment for SMEs' development and growth. However, the Lesotho business environment for SMEs is not conducive and a more balanced policy approach and reforms in areas of taxation, monetary policy and business registration and licensing are recommended for sustainable SME sector development and growth. This study provides the first content-specific qualitative analysis by investigating the stakeholder perspective of the impact of government policies on the SME business environment in Lesotho. It underscores the gap between the intentions of the government policies and the perceived impact.

Key words: Business environment, SMEs, government policies and regulations, stakeholders, influence, Lesotho.

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ACCREDITED PUBLICATIONS FROM THIS RESEARCH

Three articles presented in chapters 4 to 6 were produced during the course of this study:

Article 1: Has been accepted and published by the accredited International Business School Conference (IBC).

Article 2: Has been accepted and published by the International Journal of Environmental Sciences.

Article 3: Has been submitted to the South African Journal of Entrepreneurship and Small Business Management (SAJESBM) and is under review.

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CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

This study examines government-related factors that contribute to a conducive business environment in the Small and Medium Enterprises (SMEs) sector in Lesotho. A conducive business environment is essential for SMEs' growth because an unfavorable business environment hinders their development. SMEs considerably contribute to a country's economic growth because they are usually large in numbers. So, creating and maintaining a quality business environment for this sector must be the focal point of any effort intended to stimulate SME growth (Vrbka, 2020:263-265). However, notwithstanding the recent reforms, Lesotho's business environment remains uncompetitive, thus hampering the private sector. Weak regulations are at the centre of the poor business environment in Lesotho; and as such, there is a need for urgent attention to strengthen the regulatory reforms for a conducive business environment (World Bank, 2023c:18-37).

This study aims to investigate the legal constraints to improving government policies and regulations affecting the SME business environment in Lesotho. The study will recommend improvement strategies for government policy-related factors that affect the business environment. These strategies will enable the promotion of business activity required for achieving Sustainable Development Goals (SDGs) (Bosma *et al.*, 2020:22). Moreover, the study will further indicate the significance of regular monitoring of the SMEs' status and performance. The data collection process will encompass, among others, gathering demographic information on the target population to gain a comprehensive understanding of Lesotho's SME sector. This information will also enable an analysis of the socioeconomic factors affecting Lesotho's SMEs.

1.2 BACKGROUND TO THE STUDY

SMEs are essential for the country's economic growth (Fajarika *et al.*, 2024:1). They represent a large percentage of the business world thus offering great potential for job opportunities with high levels of innovation (ICSB, 2024:7). SMEs have a simple organizational structure that allows for quick decision-making and personalized customer interactions, making them more flexible and adaptive than large corporations (Gherghina *et al.*, 2020:14). The Government of Lesotho has borrowed \$45 million from the World Bank Group to support SMEs and enhance the business environment for private investments (World Bank Group, 2022).

1.2.1 Lesotho's economy and the contribution of SMEs'

Lesotho is a small, mountainous country that is not only landlocked by South Africa, but also heavily dependent on it for its economic activities. It relies on a limited economic base consisting of agriculture, regional customs revenue, textile manufacturing and remittances. Lesotho imports 85% of its consumer goods from South Africa because it produces less than 20% of its food needs (Moody, 2023). Additionally, many Basotho family members work in South Africa on farms, in mines and as domestic workers. About 71% of Lesotho's population lives in rural areas and earns their livelihood from farming (GoL, 2023c:5). The country also depends on volatile receipts from the South Africa Customs Union (SACU). In 2022, Lesotho's revenue declined due to decreased SACU receipts. Lesotho is classified as a low-middle-income country with a population of two million and a nominal Gross Domestic Product (GDP) of M 33,121 in 2022. The unemployment rate remains high at 22.96% in that year. In 2022, Lesotho's economy grew by 1.8%, mainly driven by agricultural activity, with most growth coming from SMEs (World Bank, 2023e:1).

About 80% of businesses in Lesotho are SMEs and employ around 200,000 people. Over 60% of SME employment comes from agriculture, contributing about 6.3% of the GDP in 2020 (IOE, 2023:3). The SME sector is anticipated to become the largest employer in the country and significantly contribute to economic growth (Central Bank of Lesotho, 2022:ii; Maroulis & Mokuku, 2022:1). However, there is a lack of consistent studies to monitor the performance and contributions of SMEs to the country's GDP and employment as illustrated in Table 1.1. This lack of consistency could result in an

inaccurate assessment of their significance in Lesotho's economic growth and the required support.

Table 1. 1: Lesotho's economic growth and SMEs' contribution. (Sources: FinScope, 2016:2-3; Bureau of Statistics, 2022:7-12; African Development, 2023; Maroulis & Mokuku, 2022:1; World Bank, 2023d; Fred Economic Data, Trade Economic, ILO, 2023:3; FinMark Trust, 2021:72; GoL, 2019a:5; Moody Analytics,2022; UN, 2021:6; SACU, 2022).

		Lesotho's economic growth and SMEs' contribution						
	2023	2022	2021	2020	2019	2018	2017	2016
Gross domestic product (GDP) million Maloti – current price	37,750	37,449	35,569	33,796	34,542	33,829	30,735	31,102
Economic growth rate		1.8%	1.6%	-5.6%	-0.8%	-1.5%	3.1%	3.6%
SME Contribution to GDP			50%					
Population		2,090, 482	2,077,310	1,972, 790	1,951,688	1,951,688	2,170,617	2,007,201
Total employment		1,215,861	1,195,026	1,178,894	1,197,873	1,183,852	1,169,594	1,158,115
Employment to population ratio		52.73%	52.38%	52.30%	53.82%	53.86%	53.88%	53.05%
Unemployment rate		22.96%	24.60%	24.56%	22,5%	22.81%	27.5%	27.78%
SME Job Creation		200,000		130,000				118,130
SME Job Creation%								12%

SMEs need a conducive business environment to reach their full potential. The business environment influences long-term management strategies and policies. A conducive business environment is determined based on economic performance measured by indicators in the ease of doing business. These indicators include starting a business, obtaining permits, obtaining electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Lesotho is ranked 122 out of 190 countries in the ease of doing business (World Bank Group, 2020:4). Table 1.2 shows the issues in the ease of doing business that affect SMEs in Lesotho.

Table 1. 2: Issues of ease of doing business relevant to SMEs in Lesotho (Source: FinMark Trust, 2021:67).

Some of the issues relevant to smes in lesotho	
Starting a business	It takes about 15 days to register a business and the delay is due to the political turmoil.
Dealing with construction permits	It takes up to 183 days and can delay construction and consequently affect SMEs supplying bricks, tiles and other ancillary services to the developers.
Getting electricity	It takes 114 days and exceeds the Sub-Saharan African average of 109.6 days.
Protecting minority investors	It is poor and can detract from attracting angel and venture capital investors for the SME sector.
Getting credit	• The lack of a unified legal framework for secured transactions. • The lack of a collateral registry.

Countries with a more conducive business environment, such as New Zealand have well-developed SMEs. Despite facing several obstacles beyond their control, SMEs in New Zealand can succeed due to the conducive business environment that fosters growth and success (Usmany, 2024:1619). Figure 1.1 compares Lesotho's performance with New Zealand as the top scorer and its neighbouring country, South Africa.

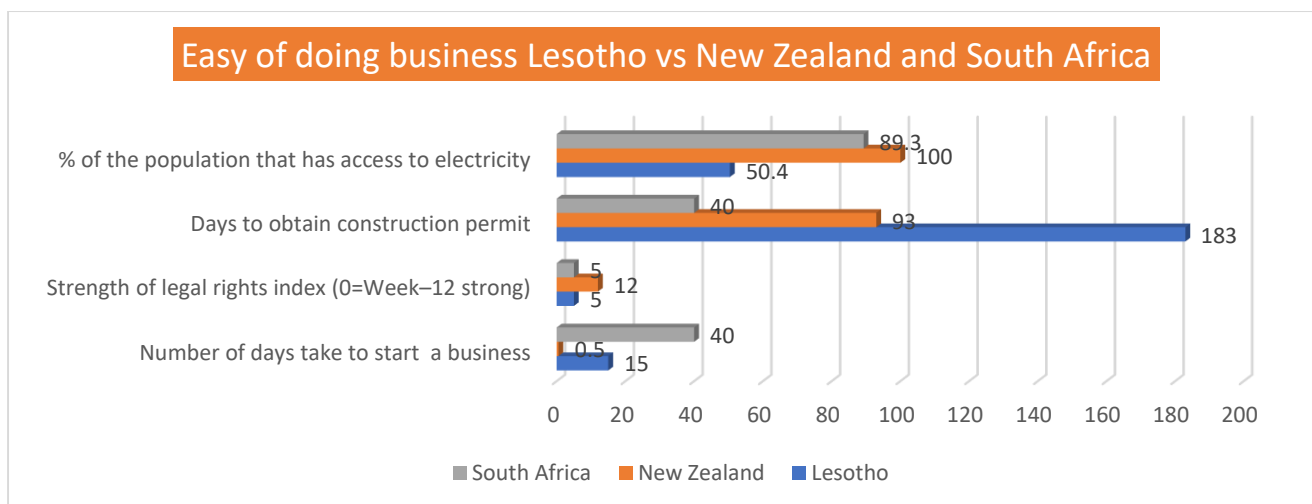


Figure 1. 1: Ease of doing business in Lesotho vs. New Zealand and South Africa (Source: World Bank, 2020a).

When compared to the other five developing countries, Lesotho has improved in only one area as shown in Figure 1.2., which is by eliminating health certificates and premises inspection for all business requirements (World Bank Group, 2020:8).

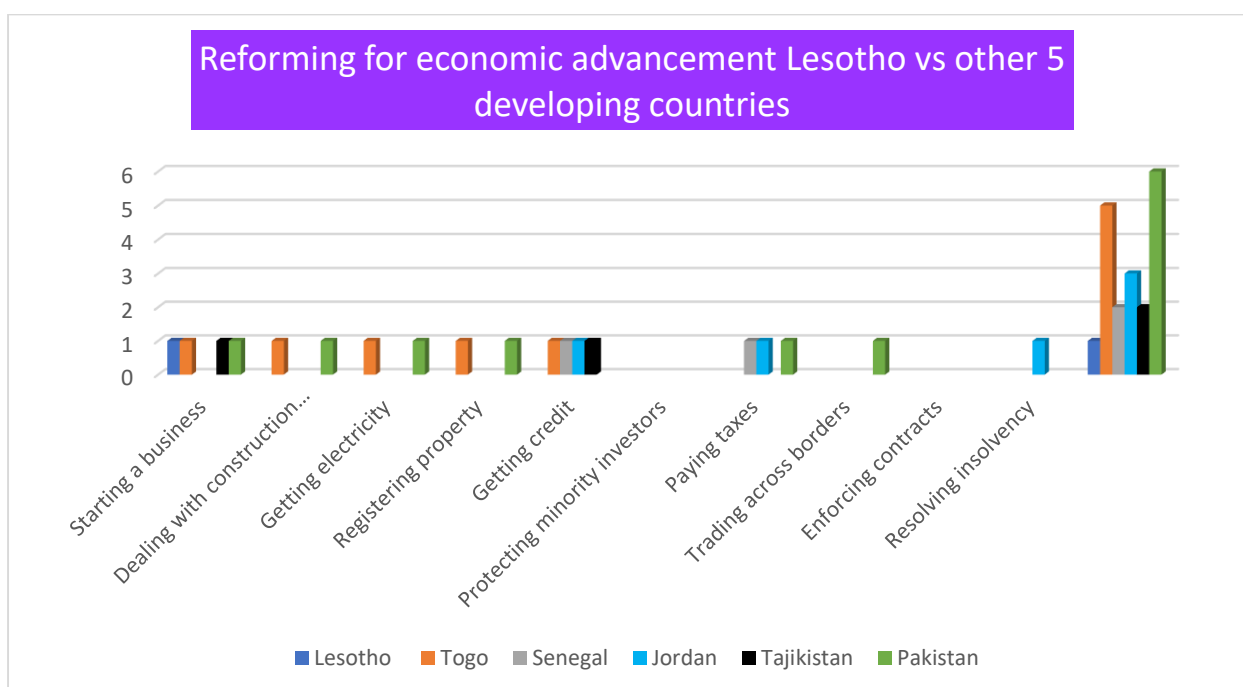


Figure 1. 2: Reforming for economic advancement, Lesotho vs. the other five developing countries (Source: World Bank, 2020).

The term "business environment" refers to the different elements and situations that affect business operations and other market participants. The business environment

consists of various factors that influence and facilitate business activities as depicted in Figure 1.3.

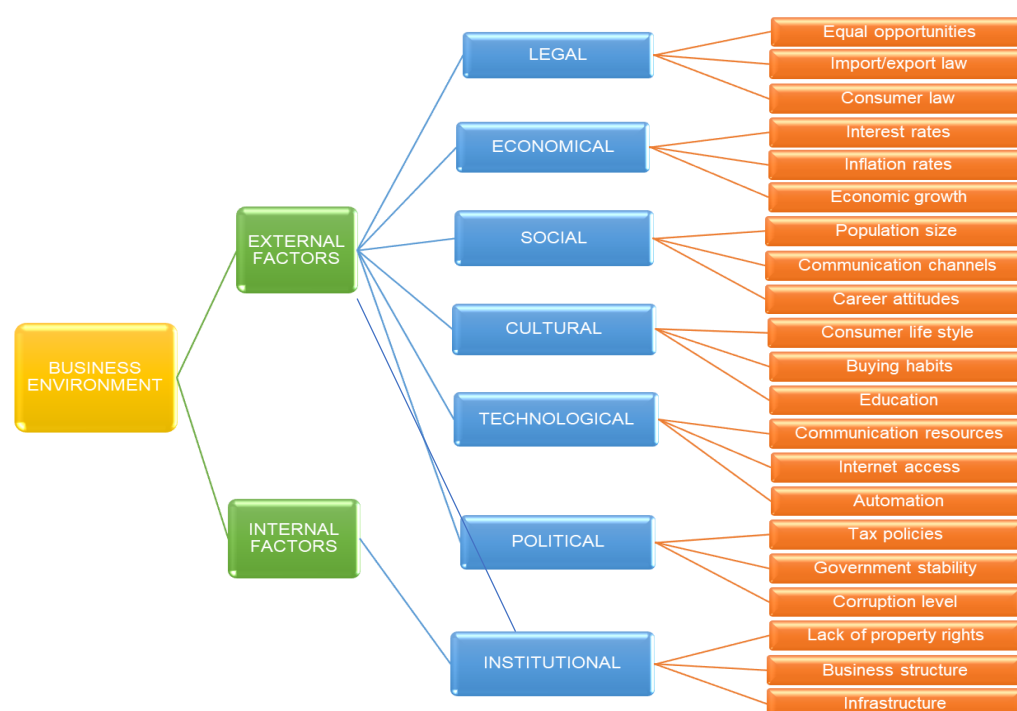


Figure 1. 3: Business Environment Factors (Sources: Hans, 2018:68; Dvorsky *et al.*, 2020:107; Maria & Maria, 2023:5)

According to the literature, public factors (government policies) negatively impact the business environment than other factors (Belas, Gavurova, *et al.*, 2020:150; Dvorsky *et al.*, 2020:170; Kamali Zonouzi *et al.*, 2021:54-55; Petráková *et al.*, 2021:32). Government policies and regulations, including legislative restrictions and bureaucracy are considered public factors in this study. The negative impact of government-related factors on the business environment can be evidenced by the increasing investment cost in Lesotho due to the high political risk resulting from everlasting political instability (Pherudi, 2022:82-83). The stability in political institutions makes businesses thrive because they are beneficiaries of such stability and an anticipated business environment (Uddin *et al.*, 2023:2). The reason is that political authorities make laws that affect businesses. So, there is an urgent need to improve the regulatory system for a conducive business environment in Lesotho (World Bank: 2023:37-38). Thus, this study's contribution lies in illuminating the impacts of government policies on SMEs operating in Lesotho's business

environment. By assessing this impact, the study will identify areas for improvement and provide insights into developing more effective government strategies.

1.3 PROBLEM STATEMENT

The economic sector of any country heavily relies on the quality of the business environment (He & Yao, 2022:1). Therefore, governments aim to enhance the business environment to attract new start-ups and help existing businesses succeed. The plan can decrease unemployment, increase the standard of living, promote economic growth and contribute to the tax base (Vasanicova *et al.*, 2021:277). To create employment opportunities, promote economic growth and combat poverty, governments should prioritize the development and growth of a viable SME sector, especially in developing countries (Manzoor *et al.*, 2021:2-4). Long-term sustainable growth and development of SMEs rely mainly on the quality of their business environment (Durrani *et al.*, 2024:1-2).

A conducive business environment is a combination of situations that affect a business's ability to initiate, develop and create good jobs (Adamseged & Grundmann, 2020:3-4). These situations include economic (interest rate, inflation rate, economic growth), political (legislation, tax policies, government stability, level of corruption), environmental and social factors (population size, education and its quality, communication channels) (Dvorsky *et al.*, 2020:170). The social factors, such as quality education enhance SME development, but Lesotho's quality of education is generally poor (United Nations Capital Development Fund, 2021:41; World Bank, 2023c:51).

Unlike large corporations, SMEs are most vulnerable to economic downturns. For example, high-interest rates and lack of collateral restrict SMEs from accessing adequate finance in Lesotho (Amadasun & Mutezo, 2022a:2-4; Juergensen *et al.*, 2020:505). Additionally, political factors such as government policies have a significant negative impact on the quality of SMEs' business environment due to inadequate government support and legislative limitations (Ogujiuba *et al.*, 2022:2; Ramasimu *et al.*, 2023:382; Virglerova *et al.*, 2020:520). Governments have made progress in reducing the bureaucratic burdens on new businesses by cutting

regulatory compliance costs and minimizing legal entry barriers. However, the complicated nature of regulatory procedures such as licensing, taxation and permit systems still pose a significant challenge for SMEs (Morelos & Ybañez, 2025:1466-1470; Tengerapena *et al.*, 2025:80-81).

Thetsane and Mokhethi (2019) researched the barriers to SME development in Lesotho, focusing only on the construction industry in Leribe (Thetsane & Mokhethi, 2019:37). Similarly, Amadasun and Mutezo (2022a & 2022b) studied market-driven strategies for the competitive growth of SMEs in Lesotho and the impact of access to finance on SMEs' growth (Amadasun & Mutezo, 2022a, 2022b). The literature does not provide much information on strategies to remove legal barriers that hinder the public's acceptance of SMEs in the economy. Therefore, this study aims to fill this research gap by evaluating strategies to create a better system of government initiatives to provide a conducive business environment for SMEs in Lesotho.

The general management problem is that governments have not established proper strategies to remove policy and regulation constraints that affect SMEs. As a result, the quality of SMEs' business environments is negatively impacted (Belás *et al.*, 2019:28; Munodawafa *et al.*, 2024:253-254). Specifically, the Government of Lesotho has been failing to apply proper strategies in addressing policies and regulatory constraints to improve a system of government-related factors that affect the quality of the SMEs' business environment (Amadasun & Mutezo, 2022a:6; Belas, Gavurova, *et al.*, 2020:150; Kamali Zonouzi *et al.*, 2021:54-55; Petráková *et al.*, 2021:32; United Nations, 2020:67-75). A conducive business environment consists of government policies and regulations that encourage the creation of new businesses, support existing firms, facilitate the transition from informal to formal businesses and generate decent jobs (World Bank, 2022:1).

The Government of Lesotho has established several mechanisms for SME development, including ministries and agencies like Lesotho National Development Corporation (LNDC) and Basotho Enterprises Development Corporation (BEDCO). Many businesses in Lesotho fail due to a lack of consistent monitoring support by the government, a lack of clear communication channels, complex procedures for business registration, licensing and tax clearance and a lack of efficient business skills

(International Monetary Fund, 2022; Masoabi, 2022; Sebusi, 2023:1). Over 90% of SMEs in Lesotho fail in the first five years of establishment (Amadasun & Mutezo, 2023:2). SME failure results from the lack of an overarching SME policy that synchronizes efforts between different programs and the implementation framework. Additionally, Lesotho developed the SME policy in 2016 but has never put it into practice (FinMark Trust, 2021:69). The current National Strategic Development Plan II Strategic Focus 2023/24 — 2027/28 is silent about the SME policy implementation. Therefore, this study will investigate government strategies to address policies and regulatory constraints regarding a conducive business environment in Lesotho's economy. It will research the state of the conduciveness of the contemporary business environment for SMEs in the Lesotho economy.

1.4 RESEARCH QUESTION

How do government policies and regulations contribute to or hinder the conduciveness of the business environment for SMEs in Lesotho?

1.4.1 Sub-questions

1. What barriers hinder SME development and growth in Lesotho?
2. What are the specific government policy constraints that hinder the creation of a conducive business environment and affect the SME sector in Lesotho?
3. Which government policies and regulations are mostly influential in shaping the business environment for SMEs in Lesotho?
4. How does the business environment affect formal businesses and their overall experience compared to informal businesses in Lesotho?
5. In what ways do government policies and regulations influence business formalization in Lesotho?
6. What are the financial implications of the current business environment in Lesotho for SMEs?
7. What recommendations can be made to develop an improved regulatory framework to enhance the SME business environment in Lesotho?

1.5 PURPOSE OF STUDY

This study aims to investigate and analyse the extent to which government policies and regulations contribute to or hinder the conduciveness of the business environment for the SME sector in Lesotho. The study plans to gather opinions from SMEs affected by the inefficiencies in the current government system of Lesotho. The target population is the owners or senior managers of SMEs located in the four districts of Lesotho as well as key stakeholders. The study intends to identify these strategies mentioned above by collecting primary data from SMEs in Lesotho. The study will use semi-structured interviews with owners or senior managers of the SMEs and representatives from key stakeholder groups. The research findings will form the basis for the recommendations to policymakers. It is for both SMEs and the government to act to address this gap to improve the sustainability of existing SMEs and encourage new investments.

1.6 OBJECTIVES OF THE STUDY

1.6.1 The primary objective

This study aims to investigate the government policy constraints to a conducive business environment, as well as policies and regulations affecting the SME sector in Lesotho.

1.6.2 Secondary objectives

The secondary objectives of this study include the following:

- Investigate government policies and regulations that impact the business environment for SMEs in Lesotho.
- Compare the effects of the business environment on the formal and informal sectors.
- Determine how the business environment influences the formalization of informal businesses in Lesotho.
- Assess the costs associated with the business environment in Lesotho.
- Based on the literature and research results, recommend an improved framework of legal and political factors as shown in Figure 1.3.

1.7 SCOPE OF THE STUDY

This study will focus on identifying the determinants of the conduciveness of the business environment for SMEs in Lesotho. The main objective is to investigate ways to eliminate legal constraints imposed by government regulations and create an improved system of government-related factors that impact SMEs' business environment in Lesotho. The study will concentrate on SMEs located in the four districts of Lesotho that have the highest number of SMEs: Maseru, Berea, Leribe and Mafeteng (FinMark Trust, 2025:6) as shown in Figure 1.4 (Lesotho Map).

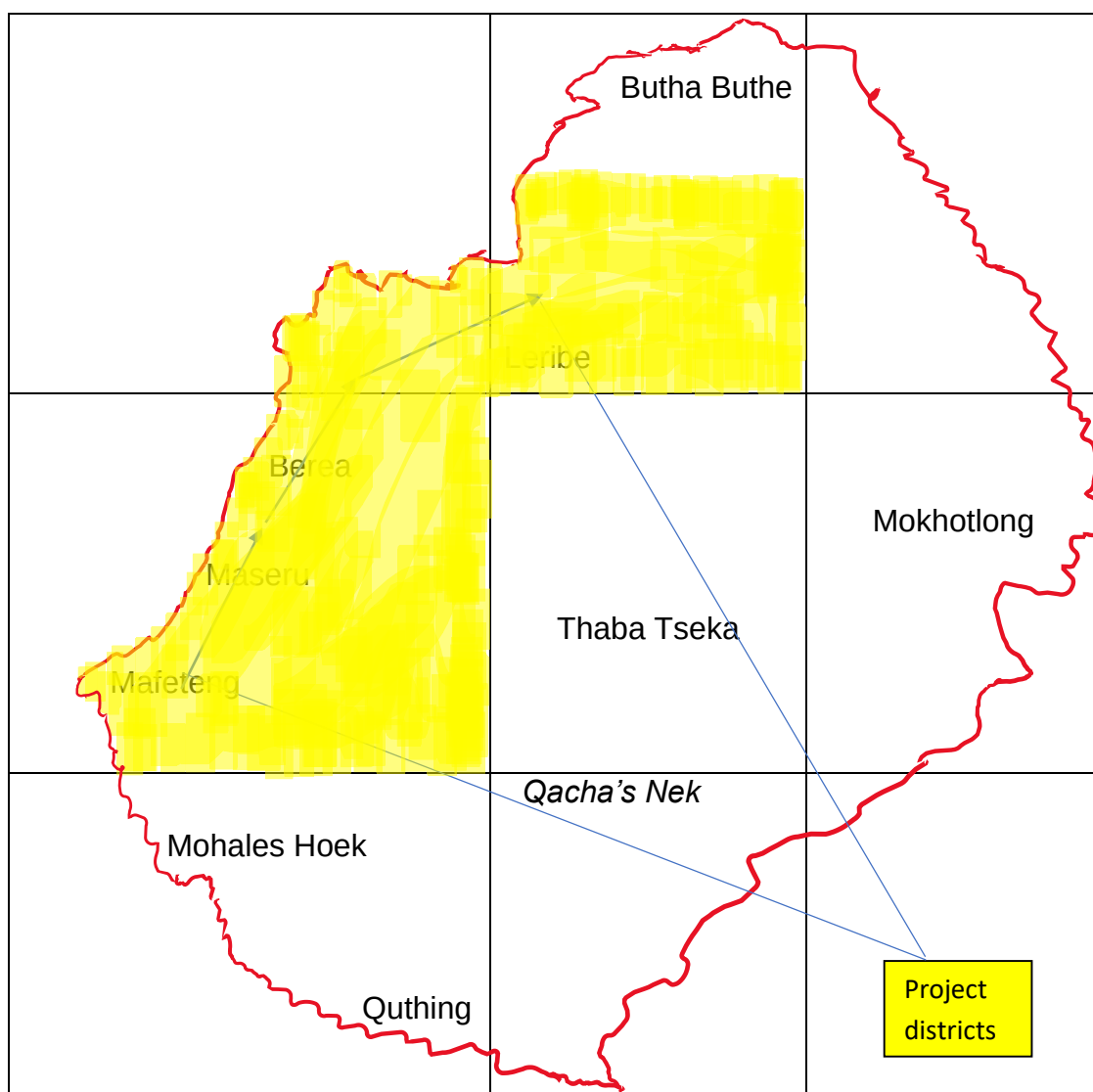


Figure 1. 4: Four Lesotho districts included in the study (Source: GoL, 2024)

In Lesotho, SMEs are defined according to annual turnover, total employees, including the owner and the legal structure, formal or informal as shown in Table 1.3.

Table 1. 3: Lesotho's definition of SMEs (Source: FinMark Trust, 2021:72)

Indicator	Micro Enterprise	Small Enterprise	Medium enterprise
Number of employees	1-5	6-20	21-50
Annual turnover	Less than M200,000	Less than M1,000,000	Less than M5,000,000
Legal structure	Informal	Formal	Formal
Number of businesses	62 168	13 899	

According to the latest FinScope study in 2023, there were 138,723 Small, Medium, and Micro Enterprises (SMMEs) in Lesotho. Only 24% of these enterprises were registered, while the remaining 76% were not registered (FinMark Trust, 2025:6, 2025:11-15). This indicates that most of the small businesses in Lesotho operate informally, as such will also form part of the study. The study will only consider SMEs that have between 6 and 50 employees and are registered with the Ministry of Trade, Industry and Small Business. Additionally, informal SMEs businesses that attended BEDCO's Capacity Building Training and were listed on the attendance register (BEDCO, 2022) will also form part of the study. This approach will ensure that only registered SMEs and informal businesses that have attended BEDCO's Capacity Building Training participate, making it easier to access the target population.

1.8 DELIMITATION OF STUDY

The study will focus on SMEs in four of the 10 districts in Lesotho; namely, Maseru, Leribe, Mafeteng and Berea. Other districts, including Mokhotlong, Quthing, Butha Buthe, Thaba-Tseka, Qachas-Nek and Mhales-Hoek will be excluded from the research due to the low number of SMEs. The study will target owners or senior managers of the selected SMEs and the government through the Department of Small

Business, government agencies, Chamber of Commerce and Industry, Revenue Services Lesotho, Business Associations and banks. The data will be collected using semi-structured open-ended interviews and the plan is to complete this research within three years from 2023.

1.9 SIGNIFICANCE OF THE STUDY

The study's findings will be helpful because SMEs play a crucial role in Lesotho's economic development. The issue of the conduciveness of the business environment is becoming increasingly popular and there is a growing concern about the current system of government policies and regulations. Therefore, it is necessary to develop improvement strategies for government-related factors that affect the business environment of SMEs. By implementing the suggested strategies from this study, the Government of Lesotho can establish an improved system of government policies and regulations that impact the SME business environment.

Data search has found that there is not much information available about SMEs in Lesotho and these findings will help to develop an improved framework for the factors shown in Figures 1.2 and 1.3. It will also emphasize the importance of closely monitoring SMEs in Lesotho. Improving negative government-related factors that affect the business environment of SMEs will promote business activity, which is essential for achieving the following Sustainable Development Goals (SDGs) (Bosma *et al.*, 2020:22):

- No Poverty - SDG 1
- Zero hunger - SDG 2
- Decent work and economic growth - SDG 8

This study's results will aid in creating strategies for implementing the findings of the Voluntary National Review (VNR) conducted in 2022. The Government of Lesotho employs VNR as one of the methods to track progress and report on the implementation and achievement of the SDGs. The government has pledged to conduct a thorough review of the following five goals (GoL, 2022b:8):

- SDG 1 – No Poverty

- SDG 4 – Quality Education
- SDG 5 – Gender Equality
- SDG 15 – Life on Land
- SDG 17 – Partnerships

The review highlighted the need for government officials to have the capacity to prioritize the allocation of the country's resources. Additionally, the findings of this study will emphasize the importance of regularly monitoring the status and performance of SMEs. A recent research conducted in 2023 included the significant factors that drive and constraint SMEs access to finance (FinMark Trust, 2025:6, 2025:3). This research will identify critical areas in the field of business management that many researchers have not explored. These are political, social, environmental and economic areas. Specifically, it will examine the legal and governmental constraints that hinder the improvement of government policies and regulations in the SME business environment in Lesotho.

1.10 LITERATURE REVIEW

The scope of this study and the theoretical framework are intended to discover the impact of government policies and regulations on creating a conducive business environment. In the modern business world, all stakeholders are interested in business operations. The vested interest highlights a need for consideration and acknowledgment of all stakeholder interests (Younas, 2022:81). The study will adopt a stakeholder approach and analyse the significance of stakeholders in developing a conducive business environment. This section will begin by discussing the relevance of stakeholder theory in this context and then outline contemporary literature on the quality of the business environment.

1.10.1 Theoretical framework

Stakeholders refer to individuals or groups that can be influenced by or can influence the company's actions and achievements. Managing this relationship is considered a crucial factor in creating value. Therefore, all businesses should strive to maintain a

good relationship with their stakeholders to achieve and maintain success (Eskero, 2020:31). According to stakeholder theory, all businesses operate in an ecosystem of numerous stakeholders who contribute individually to the company's sustainability and the ability to create value for these stakeholders (Guterman, 2023:1). The stakeholder theory initially connected to the concept of strategy, which facilitated the development of effective business policies and strategies. The management of stakeholders is a crucial aspect of business management as the business is responsible for creating or destroying value for various parties like owners, suppliers, employees, customers, government and communities. Therefore, managing the stakeholder relationship is considered a prudent approach for dealing with business activities that address social issues (Freeman *et al.*, 2020:214-225). Based on this concept and the identified indicators of the conducive business environment, a framework for this study was developed and presented in Figure 1.5.

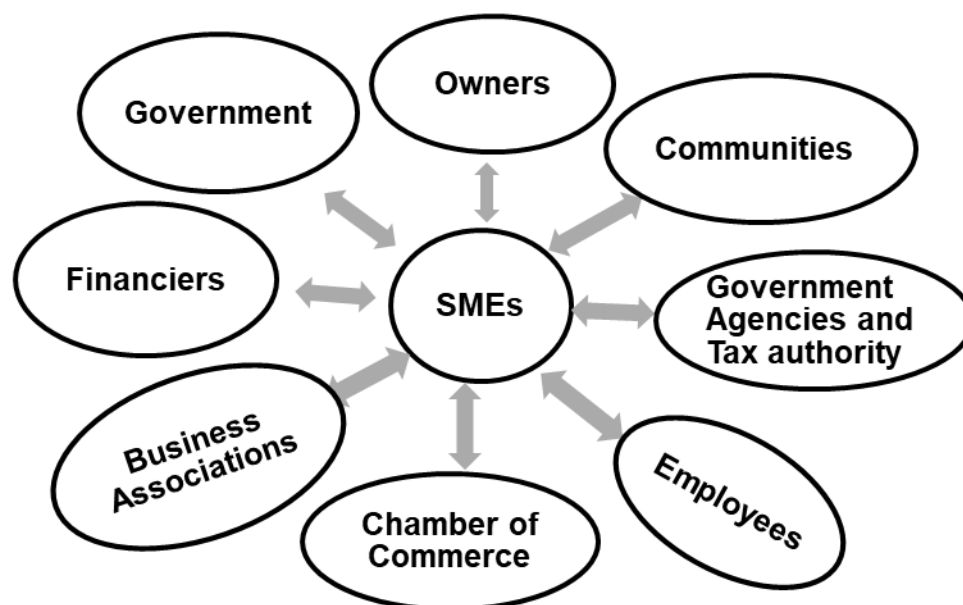


Figure 1. 5: Stakeholder Theory Framework for SMEs (Source: Theintactone, 2022; Younas, 2022: 81)

Based on Figure 1.5 SMEs should consider the interests of various stakeholders such as the government, investors, financiers, communities, employees and the Chambers of Commerce as an organized business when establishing the indicators of the quality business environment. The study will focus only on the government, investors and financiers because the government makes the regulations and policies that directly

affect investors and financiers who invest in the SME sector. The study will use an open-ended questionnaire to establish the government policies and regulations that constrain the creation of a conducive business environment.

1.10.2 Benchmarked Framework

Benchmarking is a useful approach to enhance productivity, improve the reliability of processes and the quality of services. It refers to the process of measuring the quality of organizational policies, services and strategies by comparing them with similar measurements of their peers or standard measurements (Rostamzadeh *et al.*, 2021:175). The ease of doing business index for Lesotho improved from 130 to 122 between 2010 and 2020 according to trend analysis (United Nations, 2020:12). However, it is equally important to evaluate the current business environment in Lesotho and identify gaps through benchmarking. Table 1.4 displays the benchmarked framework with peers in 2020.

Table 1. 4: Benchmarked framework, ease of doing business reforms (Source: Own Compilation)

		Peer Groups (African Countries)				
Process		Kenya	South Africa	Eswatini	Zimbabwe	Botswana
	Starting a business					
	Dealing with construction permits					
	Getting electricity					
	Registering property					

	Peer Groups (African Countries)					
Ease of doing business reforms	Getting credit	✗	—	—	✗	—
	Protecting minority investors	✗	—	—	—	—
	Paying taxes	✗	—	—	—	—
	Trading across borders	✗	—	—	—	—
	Enforcing contracts	—	✗	—	—	—
	Resolving solvency	✗	—	—	✗	—

-  Regulation reform is done in Lesotho and/or not in a peer country
-  Regulation reform is done in a peer country but not in Lesotho
-  Not suitable comparator as both countries did not do a reform

1.10.3 Literature review

The competitiveness of an enterprise and a country depends on the conduciveness of the business environment. The quality business environment comprises better infrastructure, more effective government decisions, access to better information, a highly educated population and developed research institutions. These factors make the business and the country more competitive (Hou *et al.*, 2025:1-4). The United Nations (UN) has emphasized the critical role of a favourable business environment in fostering economic growth and reducing poverty. In 2020, New Zealand secured the top spot out of 190 countries for its exceptional business climate and as of 2022, it ranked 51st among 209 nations in terms of GDP (World Bank, 2020a:4; 2023b:1). A conducive business environment is one of the seven pillars of economic growth in New

Zealand (Business NZ, 2022:7). This significance has made the conduciveness of the business environment a topic of intense debate among many scholars.

Dvorský *et al.* (2020) have identified several key factors that impact the business environment. These include business culture, access to resources, accessing the markets and the institutional and regulatory framework (Dvorský *et al.*, 2020:97). Enabling the timely availability of affordable resources in a conducive environment stimulates investment and economic boom (World Bank, 2022:18). Likewise, the institutional and regulatory framework has a significant impact on SMEs' development because a good framework assists them to survive and succeed (Patrick *et al.*, 2021:218).

Meanwhile, Kergroach (2021:17) noted that SME performance is influenced by the six pillars and half of them are related to the business environment. They include infrastructure, the institutional and regulatory framework and market conditions. In addition, Wang *et al.* (2022:69) stated that the business environment comprises four categories: a fair and competitive market environment, a legal and policy environment that is fair and transparent, a human environment that is open and inclusive and a government environment that is efficient and free of corruption.

According to Dvorský (2023:42), national legislation and economic factors that inevitably affect all sectors of the economy significantly shape the conduciveness of the business environment. It is concluded that SMEs are very sensitive to the quality of the business environment (Dvorský *et al.*, 2020:164). Therefore, assessing the conduciveness of their business environment is a key strategy for economic growth as SMEs are instrumental drivers of economic growth (Omowole *et al.*, 2024:1134).

Additionally, the standard of the business environment significantly influences people's choice to initiate their businesses (Kang *et al.*, 2022:1715). During the examination of social aspects affecting the formation of SMEs, Belas *et al.* (2020:269) concluded that government, politicians and how they inform the public about entrepreneurship play a significant role because they influence public opinion and attitude towards the importance of running businesses. This indicates a need to explore the influence of government policies on the SMEs' commercial orientation.

In their study on the role of trust in government and institutional environment in future business climate, Çera *et al.* (2021:2-11) identified several government determinants, including political factors, government regulation, legal environment, government bureaucracy, entrepreneurship support and quality of education. The study noted that a stable and well-enforced legal system encourages entrepreneurship and motivates people to start businesses, while the political environment shape the behaviour of entrepreneurs. The analysis revealed that political factors harm the business environment, leading to the conclusion that urgent action is required to create an improved system of government policies and regulations that affect the business environment.

Drawing from various studies, an all-inclusive framework has been developed based on factors impacting the business environment as depicted in Figure 1.6.

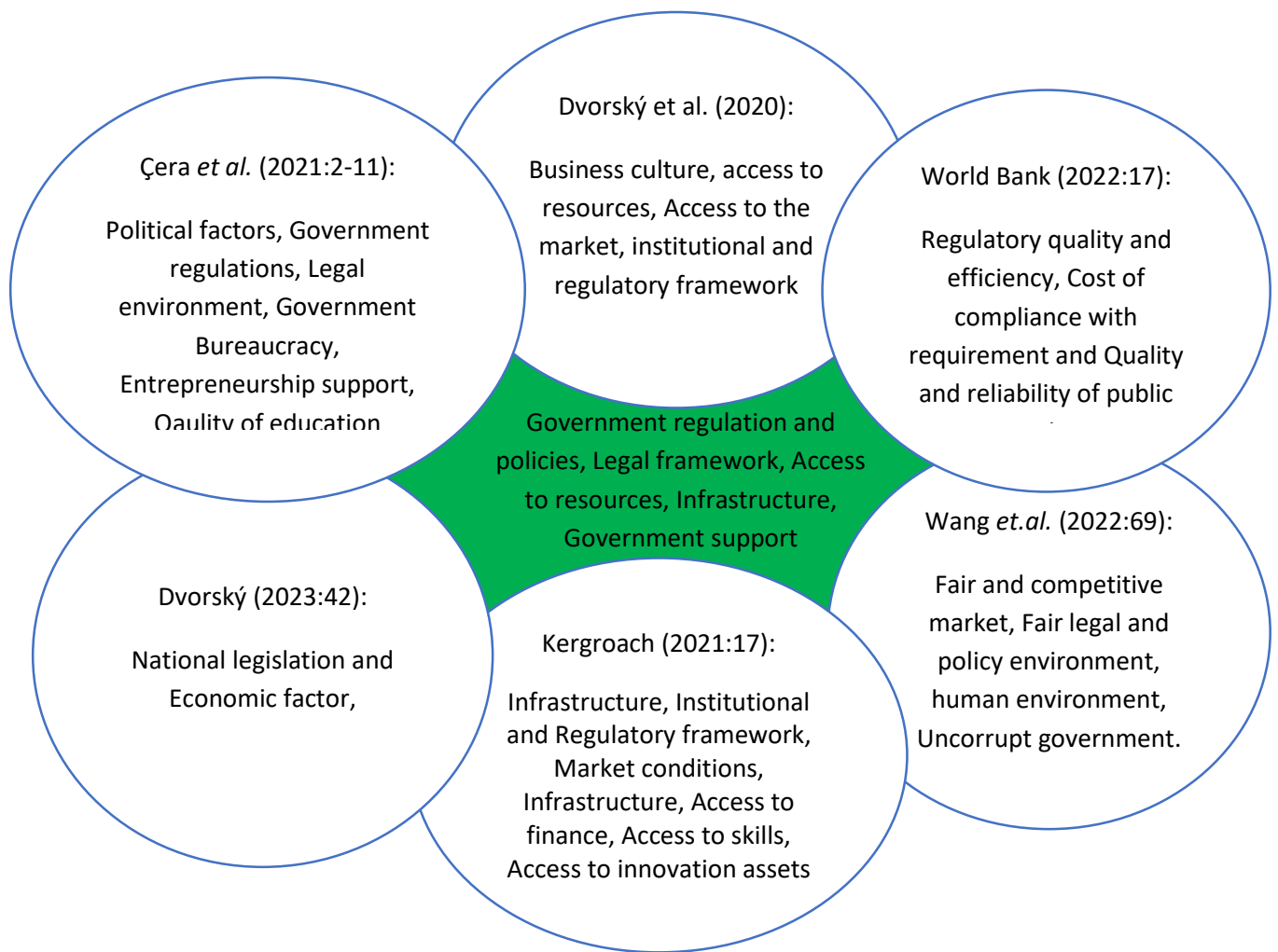


Figure 1. 6: Joint framework of elements of a conducive business environment (Source: Own compilation).

The above framework has been expanded in Table 1.5, the framework for a conducive business environment.

Table 1. 5: The framework for a conducive business environment (Source: Hou *et al*, 2025:2-7; NIZAEVA,2024:167-170; Van der Waldt & Fourie, 2022: 471-472).

8 Factors of a conducive business environment	
Labour force and skills	- Level of education - Level of labour supplier (Job skills) - Ease of employing labour - Quality of labour regulations
Taxation and incentives	- Quality of tax regulations and policies - The complexity of record keeping and filling - Investment incentives - Industry-specific tax incentives
Infrastructure and connectivity	- Electricity supply - Water supply - Trade logistics - Transport infrastructure - Telecommunications
Access to finance	- Finance regulation - Level of interest rates - Required collateral - Adequate cash flow
Technological infrastructure	- Internet connections - Availability of human capital - Resilient security - Disaster and recovery plan
Legal framework	- Time taken to incorporate and start a business

8 Factors of a conducive business environment	
	- Availability of online services for business incorporation - Dispute resolution mechanisms - Costs to start up a business - Strength of legal protection
Political stability and governance	- Frequency of policy changes or disruptions - Political unrest - Corruption - Internal conflicts
Government support and partnerships	- Equity investment and guarantees - Simplified regulatory frameworks - Access to government contracts - Access to land - Improved representation and voice

Targeted government assistance and customized strategies that emphasize innovation and ongoing learning are crucial for enabling SMEs to prosper in the midst of strong competition and guaranteeing their long-term success and expansion. SMEs can realize their full potential and thrive in the ever-changing business environment by combining these initiatives (Yahaya & Nadarajah, 2023:1). Endris and Kassegn (2022:11) also found that SMEs play a significant role in the sustainable improvement of Sub-Saharan Africa through poverty reduction, livelihood, economic growth and industrialization. They further stated that investing in SMEs has the potential to contribute up to 60% of the plans established in the SDGs, as well as providing two-thirds and 80% of formal jobs in developing and low-income nations respectively. However, their analysis marked poor infrastructure as the key barrier to SME development because it leads to reduced productivity, increased production costs and loss of work time. They concluded that there is a need for strong infrastructure

development interventions and prioritization of SMEs' inclusive policy measures to unlock entrepreneurship potential.

The inefficient government policy factors affecting SMEs are generally a problem in both developing and developed countries (Zonouzi *et al.*, 2021:54). For example, China has a national innovation system designed to promote sustainable economics and strengthen the central business reputation. It includes financial policies, organisational structure, business innovation support systems, laws and human resource policies. However, the system does not support SMEs' innovation and sustainability as expected due to inappropriate policy tools, a lack of independent and specialised management agencies and an incomplete SME law system (Jia *et al.*, 2020:15). The researchers also found that government research and development are biased towards large state-owned enterprises with little focus on SMEs. They concluded that SMEs need a practical innovation approach, although it has not been defined yet.

Despite being the key source of employment, SMEs face several intrinsic challenges in growing their capacities to meet the needs of the changing business environment. According to Journeault *et al.* (2021:1), governments can primarily enhance the SMEs' sustainability performance through the facilitation and shaping of the stakeholder development networks that are capable of performing the following five critical roles: specialist, financial provider, trainer, coordinator and analyst. Stakeholder theory also points out that SMEs' consideration of stakeholders' favourites for sustainability can be good for business performance (Kautonen *et al.*, 2020:5-6).

According to Wang (2022:78), a good business environment nurtures higher entrepreneurship by reducing institutional risks and credit costs and promoting equal financing opportunities for businesses. Therefore, it is important for those countries including Lesotho to have the promotion of entrepreneurship as an essential policy objective (Bosma *et al.*, 2020:22-24; GoL, 2019b:56-59) to improve the quality of the business environment. The creation of a conducive business environment by employing enterprise-friendly policies and strengthening institutions helps countries improve investment figures. In particular, it is an important that sub-Saharan African countries, which included Lesotho, improve their business environment as they rank

low in doing business compared to the Organisation for Economic Co-operation and Development (OECD) countries (Muhanika, 2021:5-19).

1.11 KEY TERMINOLOGY

The business environment refers to the environment in which businesses carry out their activities. It is made up of multiple conditions for conducting business in the fields of legislation, institutional infrastructure and functioning of markets (Fabuš et al., 2021:57). It can also be defined as a mixture of internal and external elements that affect a business's functional condition such as management structure, organizational culture, employees, political, economical, technological and social factors (Sapharidze, 2022:87).

Small and Medium Enterprises (SMEs) are defined by a combination of annual turnover and the number of employees, including the owner and the legal structure as indicated in Table 1.3 above. Out of the 138,723 SMMEs in Lesotho, only 24% of these enterprises were registered and 76% were not (FinMark Trust, 2025:6, 2025:9-15).

The government refers to the political system by which the country is regulated and administered (Brogan, 2023).

Government policies and regulations

Policies refer to statements of objectives, goals and courses of action written by the government to guide its intentions. On the other hand, regulations are a declaration of rules that go with authoritative mechanisms for monitoring and enforcing compliance (2023).

Government-related factors

In the current study, government-related factors refer to the legal and political environmental factors as shown in Figure 1.3 above, such as employment law, import/export law, consumer law, tax policies, government stability and the level of corruption.

1.12 RESEARCH METHODOLOGY

The research onion will be used to explain the research methodology of this study by adopting the research onion framework from Saunders *et al.* (2012). The approach to be taken will be to start from the outer level and then to the inner part of the research onion.

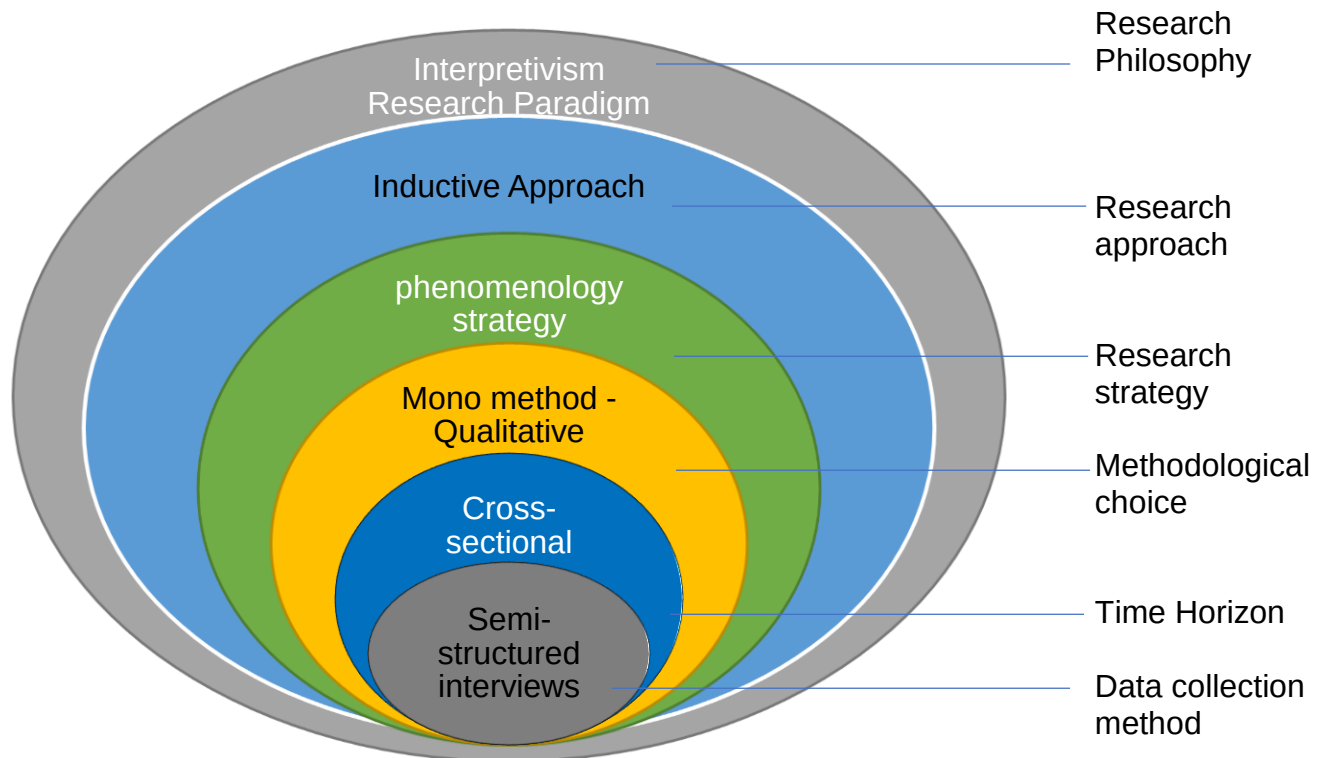


Figure 1. 7: Research Onion (Source: Saunders & Lewis, 2012)

1.12.1 Research paradigm

The term was introduced by Kuhn (1970) and was used to deliberate the shared beliefs, values and simplifications of a community of specialists about the nature of knowledge and reality. It can mean a research design or approach that refers to how information is organized so abstract relationships and fundamentals can be understood. The idea is to guide devotion to science by recognizing patterns of commitments, methods, procedures and questions that trigger and provide a route to scientific work (Gihar, 2022:444). This study is planned to get an in-depth of variables and elements to be investigated and include richness in the data gathered. The focus

is on understanding individuals together with their interpretation of the world around them. As such, it is centred on the interpretivism paradigm and embraces the constructivism ontological methodology because it holds the relativist ontological position. The study is premised on the belief that there is no one reality in the situation to be studied because reality depends on the mindset of the person who is experiencing it and that there is no reality except subjective realities. The realities will be explored and meaning about them through individual interactions between the themes of the research and the researcher and between participants (Alharahsheh & Pius, 2020:41-42).

The assumptions will be represented as per the subjectivist epistemology because the meaning of the data collected will be made by the researcher through her thinking, as well as the processing of such data as informed by her contact with participants. Moreover, the researcher will act as a participant observer and use the data collected through interviews to construct the meaning thereby assuming a naturalist methodology. The value of the researcher is evidenced by the presentation of the findings in a well-balanced report as per the balanced axiology after the study (Lim, 2023:8-16). The study also follows the hermeneutical approach, which focuses on the explanation and clarification of structures that ought to be deduced and understood from the contextual associations that reveal them (Chang, 2022:2).

1.12.2 Research Approach

The inductive research approach will be employed, that is, the process of developing a theory to create theoretical constructs from the empirical evidence. Contrary to the theory-testing approach or a deductive approach, an inductive approach appeared to be appropriate because of the limited literature on the SME business environment in Lesotho, as well as the fact that the study is qualitative. The process will start by gathering title-specific data, analysing the data to examine patterns and finally developing the theory, which is the general level of the focus (Gihar, 2022:445).

1.12.3 Research Strategy

This study will use the phenomenological research strategy to investigate and comprehend the participants' lived experiences in connection with the research topic. Phenomenology appears to be the appropriate research strategy because it also supports the idea that reality is generated by an individual. The strategy will also enable the attainment of the aim of this study because the spirit of the phenomenon will be described by examining it from the perspective of those SMEs who have been experiencing it (McLeod, 2024:1). This is because the target is to investigate all SMEs from start-ups to established SMEs to make a meaningful contribution to the strategies for improvement. This approach will also help to close the gap in the little knowledge of the phenomenon by the researcher.

1.12.4 Methodology choice

This study is exploratory and will use the qualitative research method approach. The study intends to get an in-depth meaning that people have attached to phenomena in their natural environment (Lim, 2025:200-201). The researcher will use semi-structured interviews to collect data from the participants about their experiences and perceptions of legal government constraints to improve the system of government policies and regulations in the SME business environment in Lesotho. Based on the last study conducted in 2023, there were 138,723 SMMEs of which only 24% were registered SMEs in Lesotho (FinMark Trust, 2025:6, 2025:9-15). The researcher was granted permission to access registered SMEs by the Ministry of Trade, Industry and Small Business as shown by the permission letters shown in Appendix A.

1.12.5 Time horizon

The researcher intends to collect data on all variables at a single point in time, which makes this study a cross-sectional study. So, the researcher will measure the results and exposures of the study subjects concurrently thereby providing a snapshot of the population at the specific point in time. As such, there will be neither retrospective nor prospective follow-ups to be made (Wang & Cheng, 2020:66). Figure 1.8 shows a graphic depiction of a cross-sectional study.

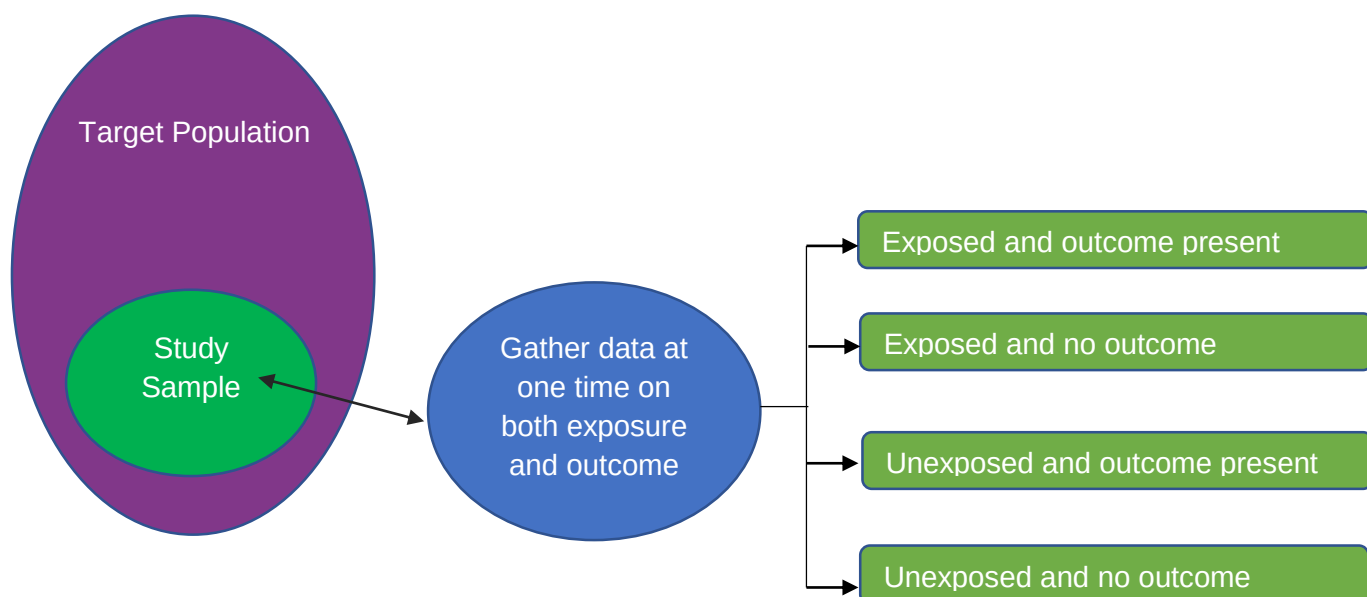


Figure 1. 8: A graphic depiction of a cross-sectional study (Source: Wang & Cheng, 2020:66)

1.12.6 Population

As part of empirical research, data will be collected from SMEs in both urban and rural areas of four districts in Lesotho with the highest SME populations: Maseru, Bera, Leribe and Mafeteng respectively (FinMark Trust, 2025:6, 2025:6). The participants will be owners or senior managers of SMEs registered with the Ministry of Trade, Industry and Small Business and have between 6 and 50 employees. Furthermore, the study will include owners of informal sector businesses, recognising their significance in the SME landscape in Lesotho. Likewise, only owners of informal businesses located in the urban and rural areas of the four mentioned districts will be considered.

To ensure a structured approach to the data collection and ease of access, the study will exclusively include owners of informal businesses appearing in the BEDCO database. Furthermore, the study will include all SMEs and informal businesses, from start-ups regardless of the industry to allow a comprehensive representation of the SME landscape. Other participants will include the following stakeholders: the government through the Department of Small Business, Revenue Services Lesotho and commercial banks. The study will be conducted with great thoroughness, carefully

considering various key aspects. The selection criteria for SME participants are diverse and focused, aimed at significantly enhancing the validity and reliability of the study. Additionally, the study will be completed over a three-year period beginning in 2023. This time frame will provide ample opportunity to engage with the participants, allowing for an in-depth exploration of their experiences, perspectives and insights regarding the impact of government policies on SMEs in Lesotho.

Furthermore, by including a variety of participant groups, such as registered and informal sector SMEs, government officials, chambers of commerce, SME associations, government agencies and representatives of financial institutions, the study aims to enrich the research findings and significantly improve the depth and reliability of the study. This comprehensive approach will allow a thorough assessment of the impact of government policies on SMEs and will empower evidence-based policy recommendations and support initiatives.

Including SME owners from urban and rural areas of the top four districts with high SME populations will allow for a comprehensive assessment of the impact of government policies on SMEs and facilitate evidence-based policy recommendations and support initiatives. They will broaden the scope of the research, improve sample representation and provide valuable information on the dynamics of the SME sector in Lesotho.

In Lesotho, the informal sector houses the majority of SMMEs so it is essential to include their perspectives to gain valuable insights into the opportunities and challenges facing unregistered businesses. To understand the impact of government policies on the entire spectrum of SMMEs in Lesotho, it is necessary to consider this sector. Exploring why informal business owners do not register their businesses can provide better insights into the business environment.

The officials from the Department of Small Business will provide insights into government policies and support mechanisms for SMEs, while the representatives from the Revenue Services Lesotho will offer insights into tax policies and regulatory compliances affecting SMEs. Additionally, commercial bank personnel will contribute their perspectives on the financial services available to SMEs and the impact of

government policies on lending practices. Figure 1.9 demonstrates the structure of the Lesotho Government (GoL, 2023a) and its relevance together with the stakeholders identified in the business environment of SMEs.

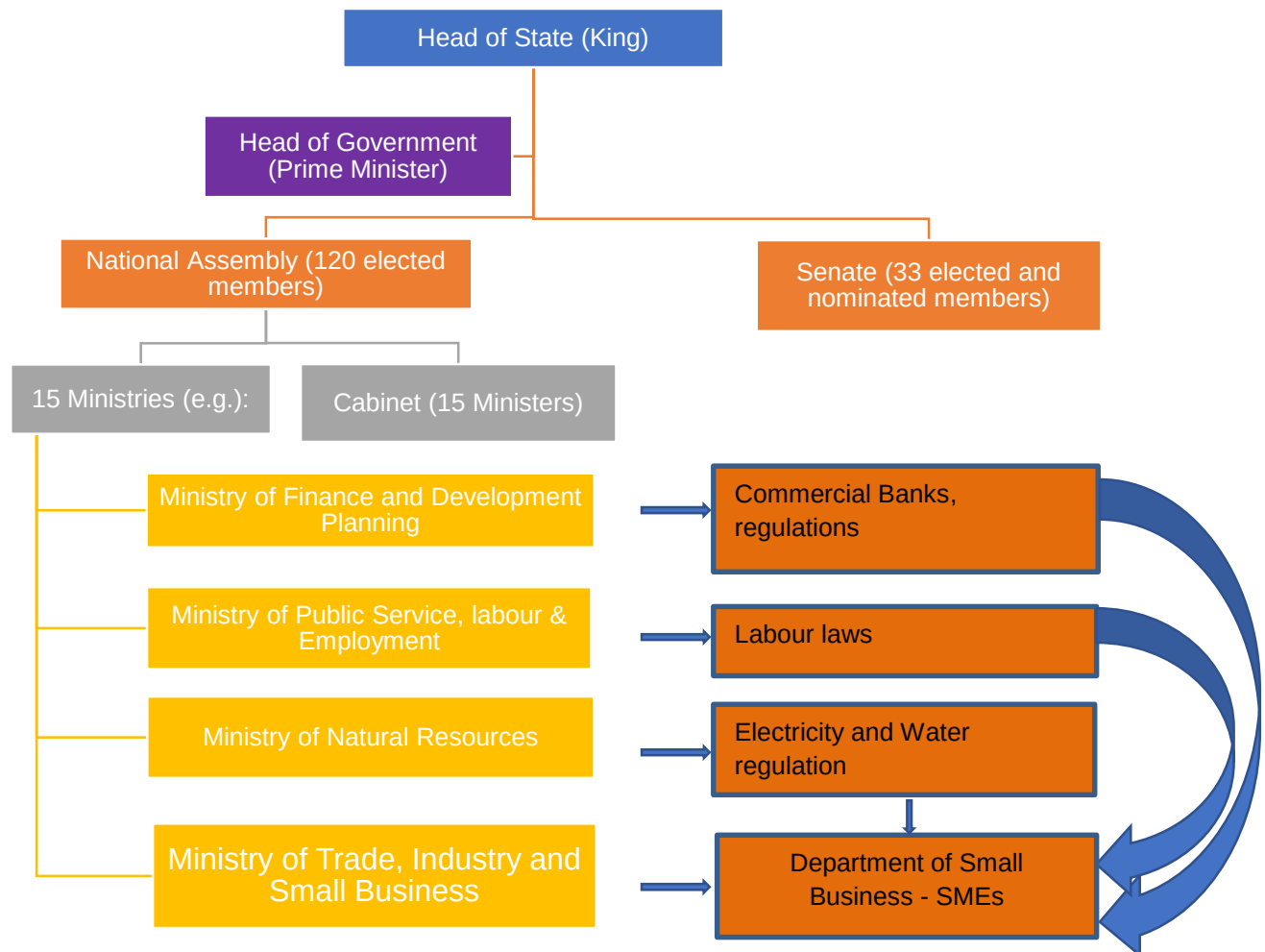


Figure 1. 9: Government of Lesotho Structure (Source: GoL, 2023a)

1.12.7 Sampling techniques

A combination of purposive and snowballing sampling methods will be used to draw a sample from the target population. These sampling methods are suitable because this is a qualitative study. Purposive sampling will be used as the primary method to select participants who are relevant to the aim of this study (Makwana *et al.*, 2023:766; Nyimbili & Nyimbili, 2024:90). In addition, snowballing will be used to supplement the purposive sampling results if need be. The participants for snowballing will be based on recommendations made under the purposive sampling stage.

1.12.8 Sample size

The literature indicates that there is no universal guiding rule to decide on the required sample size for qualitative research (Bekele & Ago, 2022:43). However, there is an agreement that the number depends on some of the following factors: the research focus, the type of research question, time, available resources, the judgments of the epistemic community in which a researcher is located, the experience of the researcher with qualitative research, the nature of the selected group and the domain of inquiry. Scholars made reference to the principle of saturation to defend the sample size.

Saturation refers to the point at which the same themes are revealed as more data were gathered. That is the long-standing mark for adequate size for qualitative research (Rahimi, 2024:6). The sample size for large interview studies frequently observed ranges between 20 and 60 and 9 to 17 for small homogenous population interview studies (Hennink & Kaiser, 2022:5-8). Consequently, the sample size for this study will be between 20 and 30 because the study will be using empirical data for a homogenous population and the final number will be determined by the saturation.

According to the latest study undertaken in 2016, there were over 13,899 registered SMEs in Lesotho of which 6% are companies, 5% are partnerships, 4% are others and 3% have unknown registration status (Finscope 2016:10). This unavailability of recent SMEs registration statistics is the limitation of this study. The possible sample will be drawn from the currently registered SMEs, as well as from the 801 informal enterprises that attended BEDCO's Capacity Building Training (BEDCO, 2022). The study will include SMEs and informal businesses from four districts with the highest number of SMEs and exclude those from the other six districts with fewer SMEs as per Figure 1.4.

1.12.9 Data Collection Method

The data will be collected through triangulation using semi-structured interviews and document analysis. Semi-structured interviews will help to gain an in-depth

understanding and feelings of the participants about this topic. The interviews will either be face-to-face or online based on the participant's preference. The participants will be contacted using a hybrid communication suitable for each participant. These will include phone calls, video calls, emails and on-site visits to offer efficiency, flexibility and inclusivity for participation. The data collection process will prioritize the well-being and dignity of participants by ensuring that it is considerate, respectful and non-intrusive. Before the commencement of the interviews, participants will be provided with clear and comprehensive information about the purpose, procedures, risks and benefits of participating in the study.

The participants will be assured of their autonomy to make informed decisions about their participation. Participation in the study will be entirely voluntary and the participants can withdraw at any time or refuse to answer certain questions without facing negative consequences. Throughout the interview process, the researcher will ensure that participants' privacy and confidentiality are maintained, with responses kept confidential and identities protected through the use of unique identity documents (IDs). The researcher will adhere fully to the guidelines and provisions of the Protection of Personal Information Act (POPIA) and Lesotho's Data Protection Act. The interviews will be conducted in a comfortable environment and participants' feedback will be valued to ensure their needs and preferences are considered.

The thorough review of the literature will identify the key questions to be used. This will help the researcher to create an interview protocol as shown in Appendix C. Although the interviewer will follow the protocol, there is still flexibility to add new questions or skip unnecessary ones during the interviews and questions will not be asked in a fixed order. The interviews will be conducted conversationally, encouraging open communication and detailed responses from the participants. Follow-up questions will be used throughout to gather more information (Elhami & Khoshnevisan, 2022). The interviews are expected to last between 40 and 60 minutes.

Semi-structured hybrid interviews will enable the acquisition of detailed primary data and evidence from participants by inviting dialogue exchange while seriously paying attention to the emphasis of the study (Husband, 2020:8). The researcher will develop a framework of topics to be investigated, as well as an interview guide which will group

topics and questions to be asked of the different respondents. The interview guide will consist of open-ended questions to allow participants to share their input and experiences with the topic.

Questions will be prepared well in advance, while others will be triggered by the responses given and the researcher will ensure the balance between the main questions, the probing and the follow-up questions. To assess the credibility of the study and the measuring instruments for interview purposes and obtain feedback on the format, time and responses of the participants, eight interviews will be conducted with SMEs on a pilot basis and two per district (Bhalla *et al.*, 2023:11-12). The results of these interviews will be complemented by the documentary analysis. This methodology involves examining and evaluating a range of written materials, such as books, newspapers, articles, academic journals, web pages and institutional reports (Morgan, 2022:64).

1.12.10 Data coding and analysis

Both a memo and a voice recorder will be used to capture the interview so that none of the important ideas are missed. The participants will be notified before the recording starts and they will be asked to give their consent as shown in Appendix D and will be assured of confidentiality measures. The thematic approach will be followed to analyse the gathered data to create themes inductively. The data analysis will be imported into ATLAS.ti version. This software is preferred because the researcher will be able to keep track of search terms, database sources, keywords, scholars and journals, among others. The researcher will be able to create an analysis framework concentrating on the key questions and code on the precise part of the journal article to enable a smooth and referenced method during the writing of the review. ATLAS.ti will also enable the importing of articles straight from the reference manager in support of the literature review (Smit & Scherman, 2021:2; Soratto *et al.*, 2020:4).

By facilitating the data coding process for the identification of patterns and themes, this computer-assisted qualitative analysis software will help identify the data saturation point. This is the point where no new data or themes are discovered from additional interviews. Both triangulation and identification of saturation points will be

used to attain saturation. In addition to interviews, document analysis will be conducted to enrich the validity and reliability of data. This will aid the achievement of data triangulation and the gathering of in-depth data (Donkoh & Mensah, 2023:8; Fofana *et al.*, 2020:1).

The word counts and word clouds are the valuable uses of ATLAS.ti that provide a sketch of word frequencies in an article before the decision to add materials to the scoping review can be made. The word count feature also provides an indication of the keyword or frequently used concept in a document or journal article. It assists in deciding on the articles to select by facilitating easy access to the proposed literature and understanding of the words used in a particular text. On the one hand, word cloud in ATLAS.ti, which refers to an electronic version of words used in a selected code, quotation or document help in developing themes. After creating the word cloud, the frequency of words in the context can be searched using the search and code function (Smit & Scherman, 2021:2).

Using the thematic approach, the analysis will start by coding the datasets (Dhakal, 2022:110). This study uses an inductive method so the grounded theory will be used to build theories about the data. The coding process will be as follows (Taherdoost, 2020:8):

Open coding: at this stage, the data will be turned into small and separate components, after which it is transformed into codes with a descriptive label.

Axial coding: this is where the relations and associations between codes will be determined. The code will be reduced into broader categories, taking into account their connections.

Selective coding: here, a central and core category that can be chosen either from previous ones or newly generated will be used. After that, the connections between data and codes with the core category will be identified. Both the codes and categories with insufficient supporting data will be eliminated.

Lastly, the analysis will be done using descriptive analysis through frequency distribution. This method enables the determination of all possible values for a certain variable and the frequency at which each value appears in the data set.

1.12.11 Data trustworthiness

1.12.11.1 Validity and Credibility of Data

Validity and credibility of data are part of the fundamental factors that are considered when assessing the rigour and trustworthiness of qualitative research. The quality of the research outcome depends on the quality of the methods and processes used to collect, analyze and interpret data rigorously. It is therefore important that researchers consider best practices when selecting study methods to ensure the rigour and trustworthiness of the results. Qualitative researchers should increase the rigour and trustworthiness of their studies by using the following best practices: clear rationale when deciding the sampling design and determination of data saturation, maintaining an ethical stand when selecting the research design, use of member checking, data triangulation and prolonged engagement with participants (Johnson *et al.*, 2020:138-141).

The researcher will ensure the rigour and quality of the findings of this study through the use of the purposive sampling method and data saturation to determine the final sample size. Data and interpretations will be shared with participants to verify the interview transcription. In addition, multiple data sources will be used to gather data to optimise accuracy and minimize bias and error. These include participants, journal articles, books, government publications and web pages. All processes will be conducted ethically to enable the protection of participants' confidentiality, respect and dignity.

Trustworthiness refers to the term that describes the credibility, validity and reliability of the collected and analysed data in the research. Qualitative validity means checking the accuracy of the research findings by the researcher using specific procedures while credibility means the extent to which the study appears accurate and how confidently the results are regarded as accurate and reliably reflect the opinions and

experiences of the participants (Muzari *et al.*, 2022:18-19). To establish the integrity and credibility of the findings of the study, the qualitative researcher must ensure the reliability and trustworthiness of the data (Haq *et al.*, 2023:152-154).

The following are the four soundness principles considered in assessing a qualitative study's validity and reliability (Ahmed, 2024:2-3) as per Lincoln and Guba's (1985) trustworthiness framework. Additionally, the researcher explained the strategies to be employed to enhance trust or confidence in the findings of this study.

- *Credibility* – this principle is concerned with the truthfulness of the findings, as well as the extent to which they represent the reality of the investigated phenomenon. The researcher will use data triangulation, which means that the researcher will use different sources of data to ensure its trustworthiness. Primary data will be obtained from participants and secondary data from journals, books, government publications and web pages. The researcher will also do participant validation or member checking by sharing data and interpretations with concerned participants for confirmation to ascertain the completeness and accuracy of her understanding of the content, participants and processes.
- *Transferability* – this is about to what extent the interpretation and conclusions of the researcher can be transferred to similar backgrounds. The researcher will ensure this by providing a thorough description of the research context, as well as underlying assumptions to make a transfer for the reader to enable a thorough and richness of description of the research assumptions and activities. This is the case because the research findings will not be generalized as the study is interpretative with a small sample size that is not representative of the population.
- *Dependability* – this principle highlights that the study should be presented so that other researchers can come to similar interpretations while reviewing the data used. The researcher will use an inquiry audit to examine the research processes and data analysis to ensure consistency and repeatability of the research findings. This research project will undergo peer review to ensure the accuracy of the documentation, as well as the extent to which conclusions are based on the data.

- *Confirmability* – this is about others' confirmation of the researcher's interpretations and conclusions. The researcher will record, justify and make available all steps taken and the decisions made concerning the data coding and analysis.

1.13 ETHICAL CONSIDERATIONS

Ethical clearance for this study will be obtained from the North-West University Business School. In particular, the following considerations would be of paramount importance during the research project: anonymity, confidentiality and voluntary consent. As such, the interview protocol would be developed in a manner that would not pick or require the disclosure of the respondents' details while ensuring that adequate and appropriate responses are obtained. Moreover, the following issues would be well thought out during the data collection and analysis part of the research project:

- Clarify the purpose of the study to the respondents before agreeing to work together.
- Including only participants who would be eager to provide information in the study.
- Each interviewee will be asked to give their informed consent.
- Restricting access to the given answer and the general results to the researcher, thereby keeping the results confidential.
- Carefully use research language to circumvent disrepute, damage or exploitation.
- Adherence to the Protection of Personal Information (POPI) Act as well as to the Lesotho's Data Protection Act.
- Adherence to the anticipated interview duration of 40 to 60 minutes.
- Keep hard copies of collected data in a lockable filing drawer that is accessible only to the researcher who has both master and spare keys. The electronic copies will be stored in a password-protected device accessible to the researcher only.
- The participants can withdraw from the research interviews at any time they wish to do so.
- No power play nor conflict of interest by the researcher.

As such, compliance with the stipulations of the POPI Act and Lesotho's Data Protection Act will be honoured.

1.14 CHAPTER OUTLINE

Chapter 1: Scope and nature of the study

This chapter will focus on the introductory themes of the study. These include background, problem statement, purpose of the study, research questions, theoretical framework and the nature of the study. It will also provide the research design, methodology, ethical considerations, definitions of key concepts, assumptions, scope and delimitations, limitations and the significance of the study.

Chapter 2: Literature review

This chapter will identify the relevant literature in the study of SMEs, the business environment and government policies and regulations. This chapter will aim to understand the impact of government policies and regulations on SMEs in Lesotho. The reviewed literature will serve as the basis for the methods and possible results of articles 1, 2 and 3.

Chapter 3: Research methodology

This will deal with research design and methods, participants, data gathering techniques and statistical data analysis procedures.

Chapter 4: Article 1

This will be the first article to explore the government policy barriers to creating a conducive business environment for the SME sector in Lesotho, as well as the associated costs.

Chapter 5: Article 2

This chapter will represent the second article, which will focus on exploring the influence of government policies and regulations on formalising SMEs in Lesotho. The analysis of perspectives on different policies and regulations and government initiatives on formalizing SMEs, will be presented in this chapter.

Chapter 6: Article 3

This chapter will contain article 3 of the study, which is about examining the direct impact of each government policy and regulation on the conduciveness of SMEs' business environment in Lesotho. It will combine the constraints and effects identified in Articles 1 and 2.

Chapter 7: Summary and proposed model

This chapter will provide a summary of the findings of this study. It will also provide a proposed model, conclusions and recommendations on future research areas based on the findings of the research project identified.

1.15 RESEARCH PLAN-TIMELINE

	April	May	June	July	Aug	Sept	Oct	Nov	December
Task 1	Putting together the proposal document								
Task 2		Proposal submission							
Task 3					Proposal colloquium presentation				
Task 4						Ethical clearance			
Task 5									Title registration

1.15.1 Time frame

This study is anticipated to be completed by the second half of 2025.

1.16 LIMITATIONS OF THE RESEARCH

The limitation of this study involves the fact that the sample will not be representative because it covers only SMEs in four out of the 10 districts of Lesotho. Moreover, it only concentrates on strategies for improving the system of government policies and regulations affecting SMEs' business environment, while other factors might require urgent improvement, such as the impact of technological advancements. In addition, the sample size, as well as the fact that strategies for improvement will be tested in one country may be considered a limitation. The reliability of the study can also be limited because of one methodology. These limitations can create avenues for further research.

In particular, future research will focus on investigating strategies for the improvement of other factors influencing the conduciveness of the SME business environment. These are economic, technological, social and institutional factors.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This literature review aims to provide a general overview of the quality of the business environment in the SME sector as this study explores the conduciveness of the business environment in Lesotho for the SME sector by assessing the impact of government policies on the business environment of the SME sector. The first part of the literature review discusses the theoretical framework of this study. This is followed by a review of the literature on the business environment to provide an overview of the factors that may influence the business environment in the SME sector.

Lesotho is a small country that is entirely landlocked in Southern Africa. It is a lower-middle-income country with a gross domestic product (GDP) per capita of \$37,750 in 2023 and high-income inequality among its 2.3 million inhabitants, with the majority, around 72%, residing in rural areas (BOS, 2023:14; Sanitation and Water for All, 2022:1; World Bank, 2023c:1). Geographically, Lesotho is surrounded by and closely linked to South Africa, the continent's second-largest economy. Its membership in the Southern African Customs Union (SACU) and the Common Monetary Area (CMA) links its economic policies to those of South Africa. Shifts in remittances, trade, financial flows and fiscal transfers have a direct impact on Lesotho's economy (World Bank, 2023c:1). Additionally, it relies on South Africa for 80% of its imports, highlighting the strong economic relationship between the two countries (Water and Energy for Food, 2022:1).

Lesotho is a mountainous country with 30,355 square kilometers of land area, with terrain and high altitudes, providing opportunities for economic development and operational challenges for businesses (Southall, 2022:127). These geographic and socio-economic characteristics make it a useful context for studying business environments. For example, the fluctuations in South Africa's economy have a direct impact on the economy of Lesotho (UN, 2020:9). Lesotho's ranking nevertheless indicates an uncompetitive business environment, which hurts SMEs, even with

significant advancements in regulatory reforms and digital technology adoption. Despite advancements in trade facilitation, trade costs continue to be high, partly due to Lesotho's heavy reliance on transit via South Africa (World Bank, 2023c:18-73).

2.2 THEORETICAL FRAMEWORK

This section outlines important theoretical assumptions for this study. It discusses the chosen theory relevant to the study, underpinning the inquiry into small and medium enterprises (SMEs) in a business environment. This study adopted a stakeholder theory and analysed the influence of stakeholders on the quality business environment.

2.2.1 Stakeholder Theory

Stakeholder theory (ST) is a significant theory in strategic management, which gained importance through Freeman's 1984 book "Strategic Management" (Kujala *et al.*, 2022:1153; Mahajan *et al.*, 2023:2). ST is described as a set of ideas, metaphors and expressions associated with the all-encompassing objective of maximising stakeholder value. It emphasises the consistent connection between a business and its stakeholders and maintains that businesses should create value for all stakeholders, regardless of their interests. ST is thus basically about how businesses work best or how they could work best (Haataja, 2020:4-6). The theory holds that a stakeholder is an individual or group with an interest or stake in the business and can affect or be affected by business activities or performance (Mahajan *et al.*, 2023:2). Stakeholders are divided into two categories; namely, primary and secondary stakeholders, depending on whether they have direct or indirect interest or stake in the business (Nicolescu & Nicolescu, 2022:84-86) as shown in Table 2.1.

Table 2. 1: Primary (direct interest) and secondary stakeholders (indirect interest)
(Source: Nicolescu & Nicolescu, 2022:86)

Primary	Secondary
• Investors • Stockholders • Management • Employees • Suppliers • Customers • Business partners • Communities • Natural environment • Future generation	• Government • Consumer groups • Inspection bodies • Media • Trade unions • Regulatory bodies • Consultants • Trainers • Employers' organizations • Competitors • Designers • Civic groups

ST provides a foundational framework for comprehending and managing the interests of different stakeholders, thus referring to stakeholders as a critical consideration in all aspects of the business decision-making process (Mahajan *et al.*, 2023:3). Many scholars in the field of stakeholder management have shown that business performance improves when businesses prioritise the needs of their stakeholders (Freeman *et al.*, 2021:1761-1765). The composition of stakeholders can vary based on the business model and industry, but typically includes investors, employees, financiers and customers (Dmytriiev *et al.*, 2021:1443). Based on these assumptions, a stakeholder framework was formulated for this study as depicted in Figure 2.1.

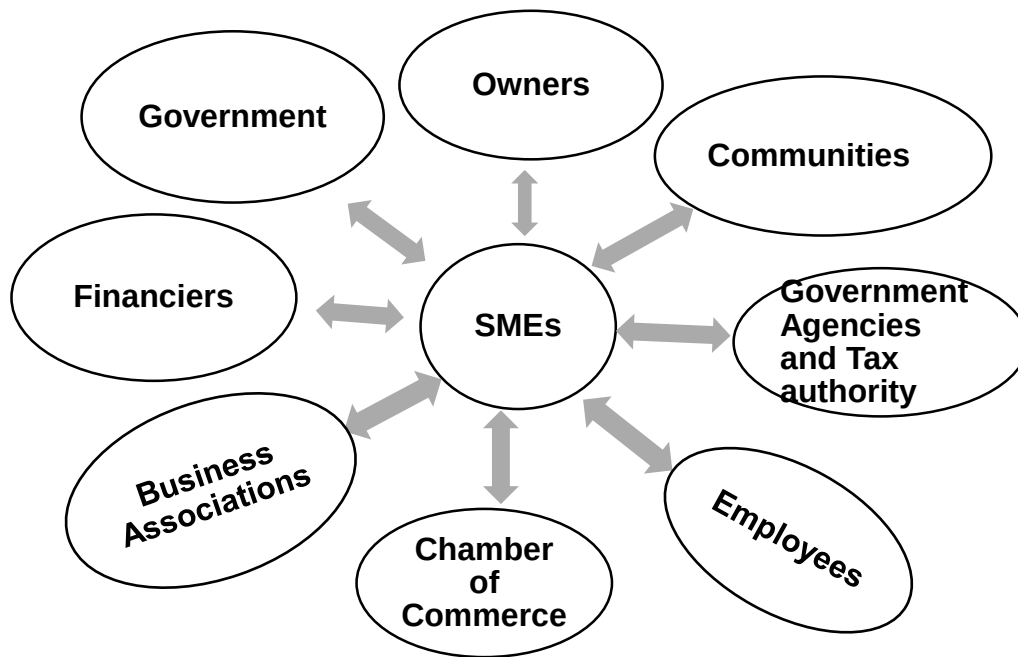


Figure 2. 1: Stakeholder Theory Framework (Younas, 2022:81)

Government: businesses in a country do not operate in isolation but within a complex framework of government policies and regulations. Therefore, businesses must adhere to government laws to ensure their ongoing existence as corporate entities (Obialor, 2020:45). Effective and well-crafted government policies can have a significant positive impact on business performance. However, the opposite may also be true if government policies are not conducive to business operations (Kuncoro *et al.*, 2021:15). According to the World Bank Group (2019:23), government regulations play a crucial role in shaping the daily operations of SMEs. They also emphasised that countries that have regulations that facilitate marketplace interactions without impeding private sector development tend to rank highest in the ease of doing business index.

Government Agencies: these agencies play a crucial role in providing both financial and non-financial assistance for the growth of SMEs (Ramasimu *et al.*, 2023:382-383). In particular, government agencies help SMEs to navigate crises more effectively. The government can promote innovation in marketing for SMEs through its agencies by encouraging the adoption of digital marketing strategies and improving product quality and packaging. Implementing tax reduction policies can also provide significant

support. Additionally, the government can urge financial institutions, including banks to offer more lenient credit terms for SMEs. Furthermore, government agencies can stimulate demand for SME products by providing incentives for consumers and larger corporations to purchase from these businesses (Najib *et al.*, 2021:2).

The government of Lesotho (GoL) recognises the crucial role of SMEs in fostering economic growth and development. It offers various forms of advisory and financial support to SMEs, such as Partial Credit Schemes (PCGs). The PCGs is a partnership between the government and Lesotho commercial banks to support the development needs of local businesses. Additionally, the GoL provides SMEs with support services like business development, incubation, access to markets and finance and provides technical assistance to SMEs through Basotho Enterprise Development Corporation (BEDCO) (Makhetha *et al.*, 2022:2-3).

However, there is a significant gap in communication and information dissemination regarding opportunities from the government and its agencies to SMEs and stakeholders, such as financial institutions. This gap hinders the Basotho community's awareness of existing opportunities. For example, Lesotho has an agreement with the European Union (EU) in which the EU commits to purchasing Lesotho-produced products or raw materials sourced from the country. However, this information is not well-known among SMEs (Makara *et al.*, 2023:48).

Owners: business owners are creative individuals dedicated to building and growing profitable businesses. According to Ajulo (2021:6-40), the growth and performance of SMEs are largely influenced by the personality traits of their business owners. These owners are responsible for making crucial decisions that impact both societal outcomes and business growth, as well as for capturing their potential market share (Seronato & Martins, 2024:2-3).

Business owners often take significant risks for the sake of their businesses, sometimes endangering the very existence of their enterprises. For instance, family-owned businesses may struggle to grow and succeed due to a lack of much-needed knowledge or skills, stemming from owners' reluctance to bring on board experienced

external managers out of fear of losing control of their businesses (Zaidi *et al.*, 2024:73-74).

Financiers: they include banks that provide debt funding to businesses and are exposed to credit risk due to potential business insolvency and debt write-offs. This risk exists despite the presence of effective regulations, collateral and contacts (Bergant, 2021:5). In developing countries, commercial banks play a vital role in promoting the growth of SMEs by providing loans that create a conducive business environment for their success.

However, SME lending faces obstacles such as a lack of financial information, absence of a business strategy, high interest rates and factors related to the size, age, owners' or managers' business experience, regulations and educational background (Gassiah & Kikula, 2022:74-75). In Lesotho, for instance, SMEs struggle to achieve competitive growth due to insufficient bank and business support services, stringent collateral requirements and limited access to financial information (Amadasun & Mutezo, 2022:19).

Communities: communities offer infrastructure, real estate and public safety and expect businesses to create jobs, pay taxes and respect the environment (Kuncoro *et al.*, 2021:1570). The local community includes people residing adjacent to the business operations and those living far from it, but are still affected by its operations. Business activities and infrastructure can have significant social, economic, environmental and cultural impacts on local communities. Businesses can assess their impact on the community by building relationships with local communities and inviting them to provide feedback on their activities. Business commitment to the local community is key to implementing Sustainable Development Goals (SDGs). Businesses need to prioritize the demands of the community they operate in, thus indicating the need for each global change to originate locally (Murawska, 2020:133-145).

Employees: the success and sustainability of any business rely heavily on its employees, making them a crucial element of the human dimension in the business system. Actively engaged in the business' sustainability practices, employees

contribute essential skills and knowledge necessary for business growth and development (TEMEL *et al.*, 2022:93-101). To maintain a motivated and loyal workforce, businesses need to provide a positive and supportive work environment. This, in turn, enhances employee engagement, performance and productivity (Celestin *et al.*, 2024:67-69). However, during times of financial difficulty, managers may resort to reallocating resources from employees to business owners, particularly through extensive downsizing. This can lead to negative impacts on business growth, job security and employment opportunities for employees (Alhamad & Amirah, 2024:813-815).

The Chamber of Commerce: is an organisation dedicated to showcasing the business skills of the private sector, providing members with essential incentives and support to gain a competitive advantage. Chambers primarily focuses on helping member businesses meet their needs, facilitating their professional growth and ensuring trust and honesty among members and the public (Özsungur & Karadal, 2020:1-7). SMEs that are members of Chambers of Commerce are more likely to increase their sales than non-members. Chambers assists SMEs in developing their managers' leadership skills, enhancing workforce skills, developing new products or services and implementing innovative work practices (Tiwasing & Sawang, 2022:1).

Stakeholders represent the interests of various groups, organizations, people, future generations, animals and plants. Business stakeholder engagement and management initiatives should thus include, as far as possible, all stakeholders, regardless of their interests or affiliations (Franklin, 2020:1). For example, although classified as secondary stakeholders, government and regulatory bodies have significant influence on the quality of the business environment. In Lesotho, for instance, government regulations do not encourage private sector participation thus negatively affecting the business environment. That is, Lesotho's regulatory framework does not support private sector involvement through performance-based incentives. Additionally, Lesotho's intellectual property and copyright policy is not well-defined, limiting the adoption of technology for business development, innovation and incubation (UN, 2020:15-52).

Stakeholder theory suggests that a business achieves success only when it provides value for all its stakeholders thereby fulfilling its social responsibility (Dmytriiev *et al.*, 2021:1443). Value creation involves a variety of activities conducted by various individuals or groups in a business's value network. These stakeholders influence the business environment, provide resources, influence both business efficiency and impacts and benefit from it. The stakeholder theory highlights that the relationship between businesses and stakeholders, as well as the stakeholders themselves is the cornerstone of a value-creation network. Therefore, establishing firm relationships with stakeholders is essential for operating business models. For instance, the withdrawal of support from any stakeholder can endanger a business' viability (Freudenreich *et al.*, 2020:5).

Stakeholder theory further suggests that businesses aid sustainable development by crafting sustainability propositions that add value to all stakeholders and by gaining the support of stakeholders for their contribution to sustainability. The business can create value for its stakeholders by selling consumer products, engaging positively and proactively with government institutions and policymakers, fostering fair and close relationships with suppliers and financiers, minimising its negative environmental footprint, offering employees secure job opportunities and contributing to the sustainable development of society (Freudenreich *et al.*, 2020:197-202).

Furthermore, ST poses that the operative management of the relationship between the business and its stakeholders is crucial for the business' success (Almagtome *et al.*, 2020:1082). Stakeholder interaction thus plays a pivotal role in sustainable value propositions, creation and capture and is therefore regarded as an important element of sustainable business models (SBMs). Through stakeholder relationships, stakeholders can influence the creation of a business case, among other things (Fobbe & Hilletoft, 2021:1-8). ST offers valuable insights into how various stakeholders can impact business and influence regulations and policies (Awa *et al.*, 2024:6-8; Kujala *et al.*, 2022:1140-1164).

However, it does not address the comparison of how different countries have enhanced their regulatory environments, a crucial aspect in strengthening the business environment (World Bank, 2020a:3). To bridge this gap, the study employs

a benchmarked framework utilising the 2020 World Bank data to assess the ease of doing business in Lesotho compared to similar countries. This approach provides a more profound understanding of government policies and regulations, shedding light on their practical implications (World Bank, 2020a:23-24). The comparative analysis aims to comprehend stakeholder dynamics and identify the strengths and weaknesses of Lesotho's business environment. Leveraging the benchmarking framework and stakeholder theory, the study seeks to gain valuable insights into Lesotho's progress in regulations and policies, drawing from both empirical data and theoretical perspectives.

2.2.2 Benchmarked framework

Benchmarking is an element of the quality management concept whereby the primary objective is to establish best practices (Horváthová *et al.*, 2021:1). It involves a comparison of the processes, performance and products with those of the market leader or best practice peers to strive for excellence by adapting them through turning their possible defects into strengths. A benchmark framework forms an essential part of organisational strategies and serves as a strategic tool in competitive environments because it allows for the improvement of management activities and processes (Akre & Ying, 2023:43-44). The motivation for business environment reforms through country benchmarking is one of the main aims of the Doing Business project conducted by the World Bank. This project started in 2003 and its main objective is to provide concrete benchmarks of business regulations and their implementation across 190 countries (O'Brien, 2021:1).

Doing Business is a tool that governments can use to create comprehensive and effective regulatory policies (World Bank, 2020a). It inspires policy debate by identifying best practices and potential challenges, providing policymakers with a method of benchmarking progress in designing robust regulatory policies. The tool is also used to recognise the progress or lack of progress by countries in improving the regulatory environment. The strength of business environment scores is based on economic performance in each of the following areas of business grading (World Bank, 2020a:vii-3), as shown in Figure 2.2.



Figure 2. 2: What is measured in doing business? (Source: World Bank, 2020d: vii-3)

The trend analysis of the Lesotho ease of doing business index reflected an improvement from 130 to 122 between 2010 and 2020 (UN, 2020:12). Lesotho removed the health certificate and inspection of the premises for all business requirements thus improving the chances of starting a business. This was one of three areas of focus when establishing countries' improvement in regulatory environments in 2020. The top 10 countries that scored on regulatory performance advanced in the areas of starting a business, trading across borders and dealing with construction permits (World Bank, 2020d:vii-109).

However, Lesotho ranked 122 out of 190 countries and does not even appear among the best sub-Saharan countries as indicated by the number of doing business reforms (World Bank, 2020d:3; 2020a:4). The benchmarking framework with peers in 2020 has been developed to evaluate the current business environment in Lesotho, as well as to identify the gaps. As indicated by Table 2.2, Lesotho improved in one area by eliminating the health certificate and premises inspection requirement for all businesses (World Bank, 2020a:109).

Table 2.2: Benchmark framework, ease of doing business reforms (Source: Own Compilation)

		Peer Groups (African Countries)				
Process		Kenya	South Africa	Eswatini	Zimbabwe	Botswana
Ease of doing business Reforms	Starting a business					
	Dealing with Construction Permits					
	Getting electricity					
	Registration property					
	Getting credit					
	Protecting minority investors					
	Paying taxes					
	Trading across borders					
	Enforcement of contracts					
	Resolving Solvency					

 The reform of regulation is carried out in Lesotho and/or in a peer country

 The regulation reform is done in a peer country, but not in Lesotho.

The reform has not been done by both Lesotho and its peer countries.

Drawing from the previously discussed frameworks, this study has formulated an integrative framework designed to offer a comprehensive understanding of stakeholder interactions with critical business areas, particularly regarding the ease of doing business. By combining insights from both frameworks, this research elucidates how stakeholder relationships and specific business environment metrics influence the business environment in Lesotho. Through this methodology, the study seeks to reveal synergies that can catalyse meaningful reforms and promote sustainable economic growth.

Table 2. 3: Conceptual framework of stakeholder interactions and ease of doing business in Lesotho (Source: Own Compilation)

Indicators of ease of doing business	Key stakeholders	Interests	Influence on reforms	Potential impact
Starting a business	Government Owners	The simple and quick registration process	Promoting improved registration processes	Boost business formation
Dealing with Construction Permits	Owners Financiers Government agencies	Process efficiency	Advocating for reduced bureaucracy	Accelerated project initiation
Getting electricity	Owners Financiers Government agencies	Dependable access	Advocacy for infrastructure development and enhanced service delivery	Improved operations

Indicators of ease of doing business	Key stakeholders	Interests	Influence on reforms	Potential impact
Registration property	Owners Government Financiers Government agencies	Efficiency, transparency and punctuality in the registration procedure	Advocacy for an improved registration process	Boosted investment, supporting fair property ownership access and encouraging economic development
Getting credit	Financiers Owners Government Agencies Business Associations Chamber of Commerce	Access to finance	Lobbying for policy changes	Increased start-ups and capital growth for existing SMEs
Protecting minority investors	Owners Government	Protecting financial assets	Pushing for stricter regulations	Increase investment
Paying taxes	Owners Tax authority	Fair taxation system	Support policy changes	Improved compliance
Trading across borders	Owners Tax authority	Efficient customs procedures	Promoting trade agreements	Increased international trade
Enforcement of contracts	Government Owners	Equitable resolutions	Enhancing the effectiveness of the judicial process	Strengthened trust in business deals

Indicators of ease of doing business	Key stakeholders	Interests	Influence on reforms	Potential impact
Resolving Solvency	Financiers Government	Fair treatment in bankruptcy proceedings	Lobbying for reforms	Enhanced confidence in commercial transactions

After establishing the theoretical frameworks, including the stakeholder theory, which focuses on the relationship between a business and its stakeholders and a benchmarked framework that assesses improvement gaps in the Lesotho business environment, the next step is to explore the relevant literature. This review will analyse existing studies on these frameworks and examine the overall business environment. The goal is to position this research in the broader academic discourse by identifying gaps and inconsistencies and highlighting areas for further exploration. This connection emphasizes the importance of theoretical foundations while demonstrating the empirical basis of the research.

2.3 LITERATURE REVIEW

2.3.1 An overview of the business environment

Business environments refer to those pertinent social and physical factors outside a business that are considered when making business decisions (Maria & Maria, 2023:4). Business environments can also be defined as the ground or platform from which businesses develop and grow. It encompasses both the regulations compliance time and cost regarding the establishment, contract execution, operations, taxation and disclosure of businesses (Tang *et al.*, 2024b:1559). It also comprises several business controls from establishment to liquidation that relate to the legal framework of the country, government initiatives to support businesses and tax regulations (Rasethuntsa, 2021:750; Zhao *et al.*, 2022:3). In other words, the business environment can be defined as a multifaceted array of legal, policy, regulatory and institutional factors and situations that govern firms' activities. A conducive business

environment is considered a prerequisite for economic growth and alleviation of poverty (OACPS, 2022:33-34).

A conducive business environment attracts more businesses, generates employment opportunities and reduces social conflicts such as civil wars (Varga, 2021:219). This means that the quality of the business environment shapes the landscape and the level of business activity in any country. Therefore, governments can create a conducive business environment by promoting good governance, thus strengthening institutions, implementing ease of doing business reforms and limiting corruption (Muhanika, 2021:2-5). Furthermore, the business environment replicates the country's economic soft power thereby creating a conducive business environment that allows business continuity, stable economic operations and sustainable policy implementation. Improving business environments strengthens the quality of business development because it improves the rationality of resource allocation and inspires the profitability of enterprises (Zhang *et al.*, 2023:3).

Several scholars have stressed that government regulation is essential in providing a conducive business environment free from bureaucratic burdens, excessive regulations and low taxes. This kind of environment has the potential to nurture the creation of start-ups and enable established businesses to pursue and maintain their activities and reinforce their survival (Charfeddine & Zaouali, 2022:3-13). To help the development of SMEs for the creation of employment, the Lesotho government is expected to improve the regulatory environment thus addressing the issue of a weak business environment (OACPS, 2022:3). When linked to the economic environment, the business environment can be defined to include all environmental changes that can affect business results. These effects can be attributable to buying, selling, competition, market development and staff management, among others. The factors in business environments that affect business performance can be 'standardised' depending on the influence of the business in the environment. Figure 2.3 shows the typical factors of the business environment differentiated according to the direct, indirect and macro-environment (Marijs & Hulleman, 2019:15-16).

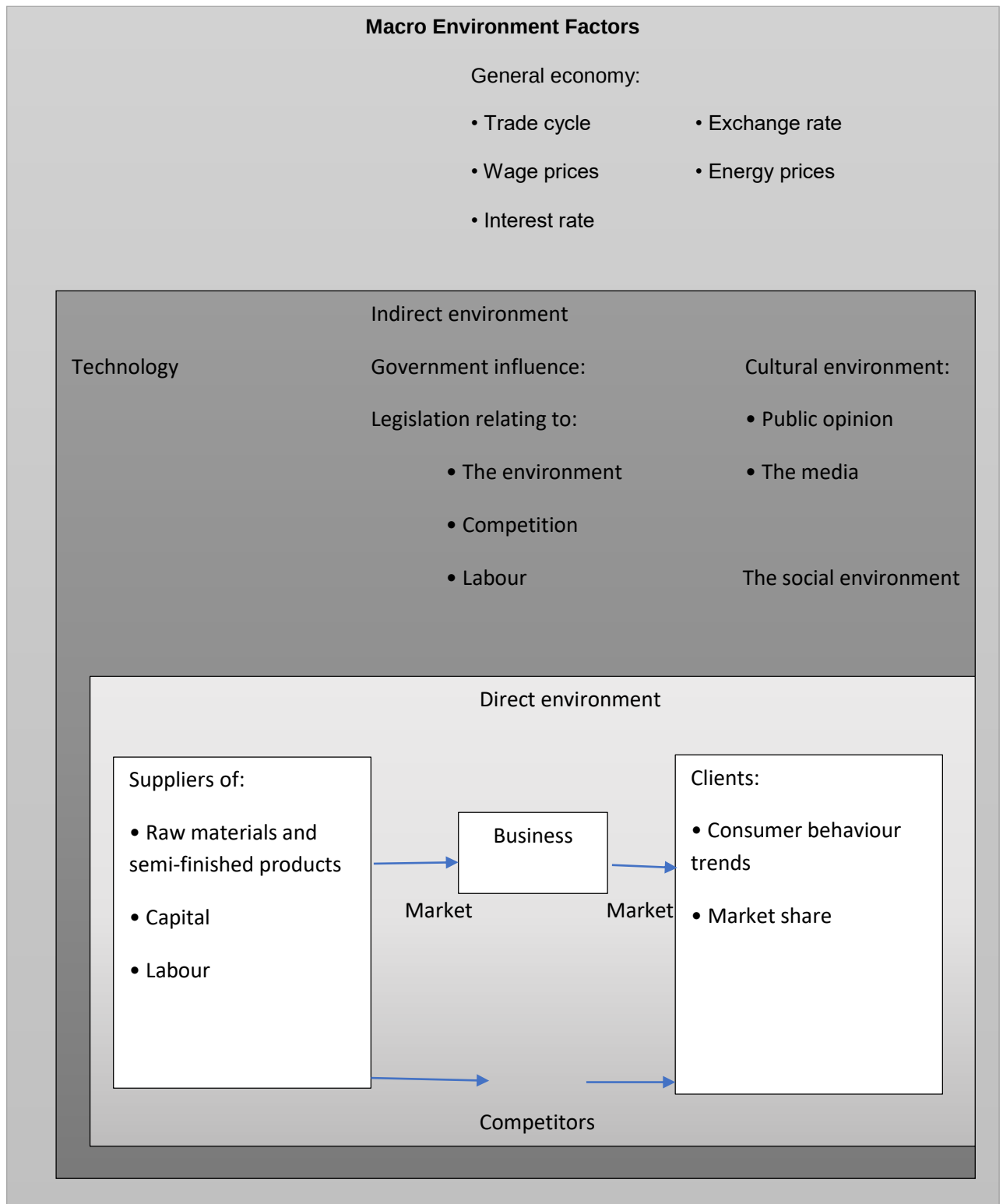


Figure 2. 3: The Business Environment (Source: Marijs & Hulleman, 2019:16)

2.3.2 The quality of the business environment in Lesotho

Based on the World Bank's definition of a conducive business environment, this study regards a conducive business environment as an environment that allows for the ease of doing business (Muhanika, 2021:2). The ease of doing business (EoDB) is an index used by the World Bank to assess the business environment of countries. EoDB indicators include the following: starting a business, dealing with construction permits, getting electricity, registering property, paying taxes, enforcing contracts, trading across borders, getting credit, protecting minority investors and resolving insolvency (World Bank, 2020a:3). The World Bank uses these indicators to measure countries' economic performance and rank them accordingly based on two collective measures of doing business: the doing business ranking and the doing business score (Muhanika, 2021:5).

The ranking compares the countries with each other, while the score shows the comparison of the countries in terms of best regulatory practices. Of the 190 countries compared, Lesotho ranked 122 and scored 59.4, while the highest score was 86.8 (World Bank, 2020c:5-77). Lesotho's performance on the EoDB ranking metrics was unsatisfactory across almost all factors (World Bank, 2020b:4) as shown in Figure 2.4. The One-Stop Business Facilitation Centre (OBFC) has therefore been opened to improve the ease of starting a business in Lesotho (FinMark Trust, 2021:6).

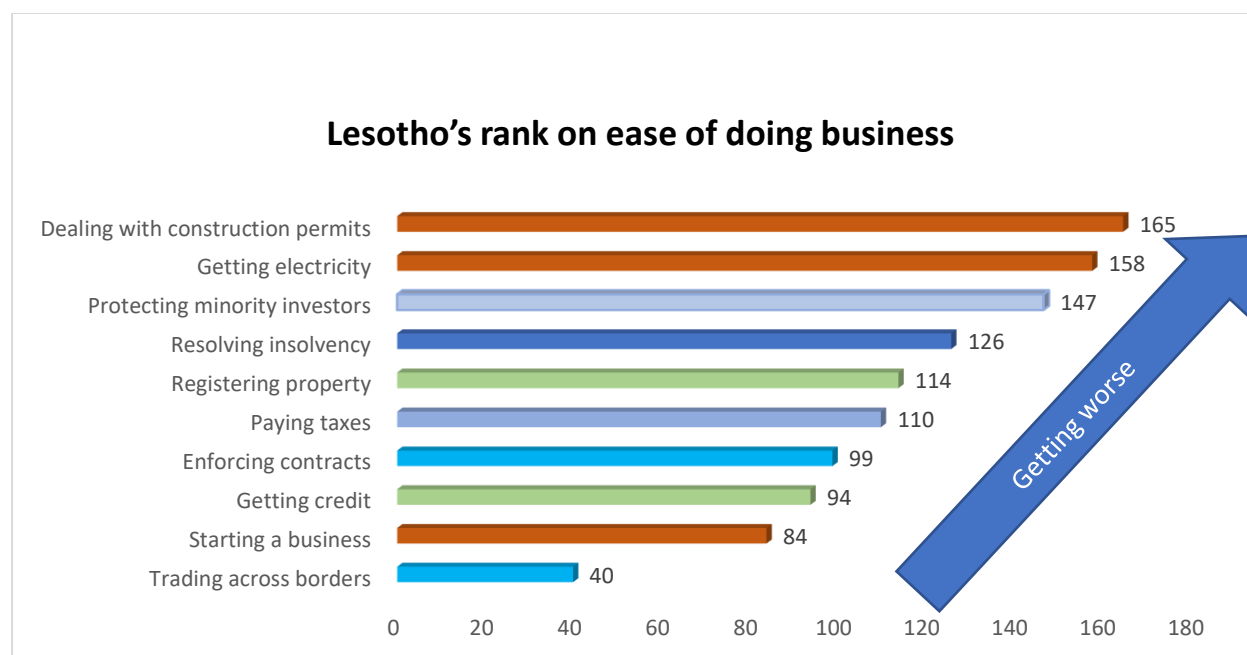


Figure 2. 4: Lesotho's rank on ease of doing business (Source: World Bank, 2020b:4)

Despite establishing reforms to improve the regulatory environment of business, Lesotho has consistently dropped in the ranking year after year with unsatisfactory performance in all metrics (FinMark Trust, 2021:67). The following description portrays some of the struggles of SMEs in Lesotho: (1) registering a business and acquiring licenses or permits can take up to 15 days, despite the presence of the One-Stop Business Facilitation Centre. This delay is due to political unrest that hindered the adoption of the Business Legislation and Licensing Bill, which is necessary for the efficient functioning of the Centre. (2) The application for construction permits can take up to 183 days, which negatively affects SMEs that supply building materials and other ancillary services due to construction delays. (3) It takes an average of 114 days to get an electricity connection with extremely low supply reliability and tariff transparency, which is even worse than the sub-Saharan average of 109.6 days. (4) Additionally, Lesotho's poor protection of minority investors can discourage venture capitalists and angel investors from investing in the SME sector. (5) Obtaining credit is also an issue of concern due to the lack of a unified legal framework for secured transactions and the absence of a collateral registry, among other things (FinMark Trust, 2021:67-68).

The ease of doing business scoring and classification can be used by investors to assess the country's investment conditions. Higher scores give the country a competitive advantage because investors are assured of the safety of their investment. These measures also help investors assess the relevant nature and the amount of investment to inject into a particular country. As such, countries must implement favourable business policies and strengthen institutions (Muhanika, 2021:5). Having a conducive business environment is crucial for a country's economic growth because it attracts Foreign Direct Investment (FDI), creating opportunities for SMEs in such countries to participate in and improve their position in Global Value Chains (GVCs), among other things (Han *et al.*, 2023:1; Macdonald, 2020:82).

The negative impact is evident in Lesotho, where an uncompetitive business environment is a major binding constraint on the private sector, especially impacting FDI and SMEs (World Bank, 2020c:17). For example, Lesotho's landlocked position and dependence on South African transit infrastructure significantly increase the cost

of trade. Such constraints call for improvements in the areas of cross-border transport and transit bond operations, as well as harmonisation of regulations to reduce trading costs (World Bank, 2023c:18). Despite the poor investment climate that hinders the development of the private sector, no progress has been made towards the reforms aimed at improving the business environment for private businesses. This is mainly because all key reforms that have the potential to unlock private sector investment are related to government policies and regulations. They comprise the Secured Lending Bill and Regulations, the Business Licensing and Registration Regulations, the E-Commerce Bill and the Insolvency Bill and Regulations (GoL, 2022a:8; World Bank, 2020c:22-28). Such regulatory requirements and constraints indicate that the government of Lesotho is failing to apply proper strategies to address policies and regulatory hurdles to improve the system of government-related factors that affect the quality of SMEs' business environment.

2.3.3 The factors that determine the quality of the business environment

As has been pointed out thus far, a conducive business environment serves as a sound breeding ground for sustainable business development. Reviewing related and relevant literature revealed substantial research into the factors that influence the quality of a business environment. But relatively few studies have considered political factors that influence the success of SMEs, consequently not adequately addressing the strategies to improve the system of government-related factors that affect the quality of SMEs' business environment (Mehran *et al.*, 2020:48). This study has therefore explored, from a literature perspective, the quality of the SME business environment based on political, technological, social and economic factors (Belas *et al.*, 2019a:69; Cepel *et al.*, 2019:237; Dvorsky *et al.*, 2020:165; Maria & Maria, 2023:2-4; Vrbka, 2020:268). This exploration covers both published studies of a generic nature and studies or documents related to the Lesotho context in particular.

Political factors refer to those factors through which the government influences the quality of the business environment. These include state regulations, legislation and the legal environment, state bureaucracy, entrepreneurship support, quality of education, taxes and security (Belas, 2019b). A stable political environment is crucial for a conducive business environment as evidenced in countries such as Botswana

compared to Lesotho (Rasethuntsa, 2021:755; World Bank, 2023a:10; 2023b:10). Political stability has a significant impact on the economy, affecting both investor and consumer confidence. Countries with long-term political stability have solid laws that offer investors adequate protection, well-established networks for public-private investment policy dialogues and well-functioning anti-corruption institutions, among others (Rasethuntsa, 2021:755).

Since 1996, when it gained independence, Lesotho has suffered chronic political instability and corruption (Monyake, 2022:194). Moreover, it has weak regulatory enforcement that distorts business and investment practices and hinders competition. A conducive business environment is largely dependent on good economic governance in areas like taxation, business licensing and regulations (World Bank, 2023b:8). Furthermore, as of 2023, Lesotho was ranked as the 99th least corrupt country out of 180 countries as indicated by the Corruption Perceptions Index reported by Transparency International (U.S., 2023).

Social factors are associated with people's attitudes towards work and wealth. They include education level, lack of digital skills, society cultures, beliefs, social conventions, career attitudes, ethical issues and readiness for change (Hamiza *et al.*, 2020:787; Maria & Maria, 2023:5-11). The level of education continues below the expected level of development in Lesotho and together with digital skills requires urgent attention to improve SME development and increase the number of employment opportunities (GoL & UNDP, 2021:51-55).

Economic factors that affect the quality of the business environment include economic growth, inflation, interest rates, employment rates, access to external financing and consumer consumption (Cepel *et al.*, 2019:230; Marijs & Hulleman, 2019:22). The lack of access to credit is one of the key challenges for SMEs in Lesotho and this has led to low domestic private investment in the country (GoL & UNDP, 2021:73).

Technological factors refer to the contribution of technology to the quality and quantity of e-services. They include the availability and access to the Internet, IT infrastructure, lack of consistency in ICT applications, technology development and the adequacy of measures to guarantee security and privacy (Abdoh *et al.*, 2020:21). The use of digital

technology has been identified as one of the areas in which significant progress has been made in improving the business environment in Lesotho (GoL (Government of Lesotho GoL) & UNDP (United Nations Development Programme), 2021:73). However, there are still challenges related to an undefined national policy on intellectual property and copyright thus discouraging innovations (UN, 2020:15).

2.3.4 Small and Medium Enterprises (SMEs)

Small and medium enterprises (SMEs) are regarded as the backbone of economic growth in any country (Abdissa *et al.*, 2022:1), especially in developing countries where they have a particularly positive impact on increased income distribution, job creation, poverty alleviation, rapid industrialisation, regional development and export growth (Batrancea, 2022:1-3; Mamo, 2020:1126). These enterprises contribute importantly to the creation of wealth by providing employment opportunities and thus alleviating poverty. Additionally, SMEs contribute significantly to the achievement of the Sustainable Development Goals (SDGs) related to the idea of 'small business, big impact'.

Through the creation of employment and economic development, SMEs reduce the level of poverty among people of different ages thus helping to achieve the first goal, 'No poverty' and the second one, 'Zero Hunger' (Manzoor *et al.*, 2021:1; Shelly *et al.*, 2020:84-88). SMEs have the potential to contribute to as much as 60% of the individual SDG targets. However, their contribution to sustainable development is overly controlled by unconducive business environments, high levels of informality and inadequate access to finance (ITC, 2019:1-7).

It can be concluded that SMEs are highly sensitive to the conduciveness of their business environments. Instability in the business environment forces SMEs to be innovative and revert to permanent changes. Only businesses that can adapt their business objectives to environmental conditions survive in such volatile environments (International Trade Centre, 2023:23-43). Generally, SMEs respond quickly to the changes that take place in the business environment but their potential is restricted by limited capital resources thus negatively affecting their development and growth (Dvorsky *et al.*, 2020:163-165). As such, governments help SMEs overcome these

challenges by establishing policies and regulatory conditions that contribute to a conducive business environment and provide incentives and subsidies (Alkahtani *et al.*, 2020:1).

2.3.5 Small and Medium Enterprises (SMEs) in Lesotho

Lesotho is one of the 10 SADC countries with a business environment that is dominated by SMEs. SMEs represent more than 97% of the total businesses in Lesotho but the majority operate informally and in survival mode (World Bank, 2023c:37). Lesotho, like many other developing economies, relies on SMEs to sustain economic growth (GoL & UNDP, 2021:74). Currently, around 138,723 SMEs operate in Lesotho and provide jobs to more than 255,420 people (FinMark Trust, 2025:6, 2025:9-15). In the Lesotho context, SMEs are classified according to specific criteria (FinMark Trust, 2021:72) as listed in Table 2.4 below.

Table 2. 4: Lesotho's definition of SMEs (Source: FinMark Trust, 2021:72)

Category Number of Employees Annual Turnover Legal Structure			
Micro	≤ 5	< M200,000	Informal
Small	≤ 20	< M1,000,000	Formal
Medium-sized	≤ 50	< M5,000,000	Formal

Like any other country, Lesotho's SMEs play a key role in the development and survival of the economy by contributing to inclusive growth and employment (African Development Bank Group, 2020:15). Despite their importance in the economy, the SMEs and the informal sector remain underdeveloped. Through its National Strategic Development Plan II (NSDP II) 2018/19-2022/23 and National Financial Inclusion Strategy 2024-2028, the Lesotho government has placed great importance on developing SMEs and the informal sector as a strategy to combat the unemployment crisis (Ministry of Finance and Development Planning, 2024:3-19). However, the

complexity of the business environment remains a challenge for this sector to perform at its optimal level.

There is still a need for the government to address issues such as poor infrastructure, an inefficient and complex licensing process, land acquisition and transfer and a tax regime that favours manufacturing over the service sector (GoL, 2022a:18). In addition, SMEs are faced with other challenges such as the shortage of factory shells, a lack of local skills, restrictive land regulations, shortage of water, access to finance, inefficient and non-friendly business tax system and an unreliable supply of electricity (IOE, 2023:4-5).

2.3.6 Mechanisms for small business development in Lesotho

It was earlier pointed out that governments play an important role in supporting SME development by providing laws, regulations, incentives and opportunities conducive to such development (Jere & Ngidi, 2020:3). The Lesotho government has set up support institutions or agencies to assist in the development of SMEs. These agencies offer critical services and information, access to financing, knowledge and skills training and access to premises. The Business Development Services (BDS) providers include the SME support Network-Lesotho, Basotho Enterprises Development Corporation (BEDCO), Lesotho National Development Corporation (LNDC), Moliko Micro-Credit Trust, the Mohloli Chamber of Business, Revenue Services Lesotho (RSL), the Central Bank of Lesotho, Bodiba Savings and Credit, Post Bank, Sports & Recreation (MGYSR) and the Ministry of Trade, Industry and Small Business (MTISB) (Khoase *et al.*, 2020:141).

For example, BEDCO and LNDC provide discounted rates on serviced land and buildings, making it easier for SMEs to access premises and basic infrastructure (GoL & UNDP 2021:61). Additionally, MTISB's One-stop Business Facilitation Centre (OBFC) offers a variety of services, including business registration, the issue of traders and manufacturing licenses and work and import and export visas, among others. However, the business registration and trader's license procedures in Lesotho are still complicated (Khoase *et al.*, 2020:152). The other significant challenge that hinders SME growth and development is limited access to finance. This is mainly due to the

absence of appropriate collateral and high interest rates. Many banks view SMEs as relatively risky, lacking practical experience and consistent history, making assessment and decision-making difficult. To address this, LNDC provides the Partial Credit Guarantee Fund (PCGF) (Amadasun & Mutezo, 2022:1; Khoase *et al.*, 2020).

Additionally, the government of Lesotho established and launched an entrepreneurship and seed funding facility in 2023. This financial inclusion facility aims to enhance access to business support services and financial products tailored for SMEs in Lesotho. Additionally, the facility is designed to enhance digital services and advance access to financial services for SMEs thereby strengthening their resilience to climate shocks and disasters (GoL, 2023d). It is envisaged that the project will create over 2,000 jobs during the year 2024/2025 (GoL, 2024:14). Furthermore, via the Lesotho Enterprise Assistance Program (LEAP), the government has further enhanced its support for SMEs by helping those who have been severely impacted by the COVID-19 pandemic (World Bank, 2023c:73).

2.3.7 Lesotho's economic overview

Lesotho is a small, lower-middle-income country completely surrounded by South Africa. It has a market-based economy; however, government intervention in economic affairs hampers private sector growth (UN, 2023:34). A market-based economy is one where the production of goods and services is driven by the changing needs and capabilities of market participants. That is, production, distribution and investment decisions are influenced by price signals created by supply and demand (Nacer & Omar, 2024:2). The government's involvement in Lesotho is driven by weak institutional capacity and ineffective regulations, which make it difficult to implement urgently needed reforms for improved economic performance (World Bank, 2022:12).

Lesotho's economy is mostly dependent on small businesses, including textile, construction, footwear, clothing and food processing, as well as subsistence farming and animal husbandry (SADC *et al.*, 2021:1). The majority of households rely on migrant labour and subsistence farming for their income, with a significant number of adult male workers employed in South African mines. However, there has been a steady decline in the number of mine workers in recent years. Additionally, Lesotho's

economy is defined by increasing levels of unemployment, inequality and poverty that were all made worse by the COVID-19 pandemic's aftermath (GoL, 2023b:3).

The Lesotho economy has improved over the past five years with a nominal gross domestic product (GDP) per capita of M 37,750 in 2023 (BOS, 2023:14). Despite recent global interruptions resulting from the Russian invasion of Ukraine, Lesotho's economy remained strong. Lesotho realised a 2.5% growth in 2022 which was boosted by 2.6% and 8.1% growth in the service and construction sectors respectively (AfDB, 2023:11). The country's GDP is expected to continue to grow from 2023 to 2025 due to the second phase of the Lesotho Highlands Water Project (LHWP II) among other things (Central Bank of Lesotho, 2023:2).

The evaluation of SMEs is vital for economic development as they serve as the foundation for growth in many countries (Pulka & Gawuna, 2022:1). In Lesotho, the SMEs and the informal sector account for about 80% of the private sector but only contribute 9.1% of GDP (UNDP, 2020). Lesotho's private sector remains small and mostly informal, notwithstanding its integration into the global economy, particularly under the African Growth and Opportunity Act (AGOA) and as a part of the African Continental Free Trade Area (AFCTA) (UNDP, 2023a:18). Figure 2.5 illustrates the contribution of the private sector to GDP between 2019 and 2023, which can be translated as the contribution of SMEs.

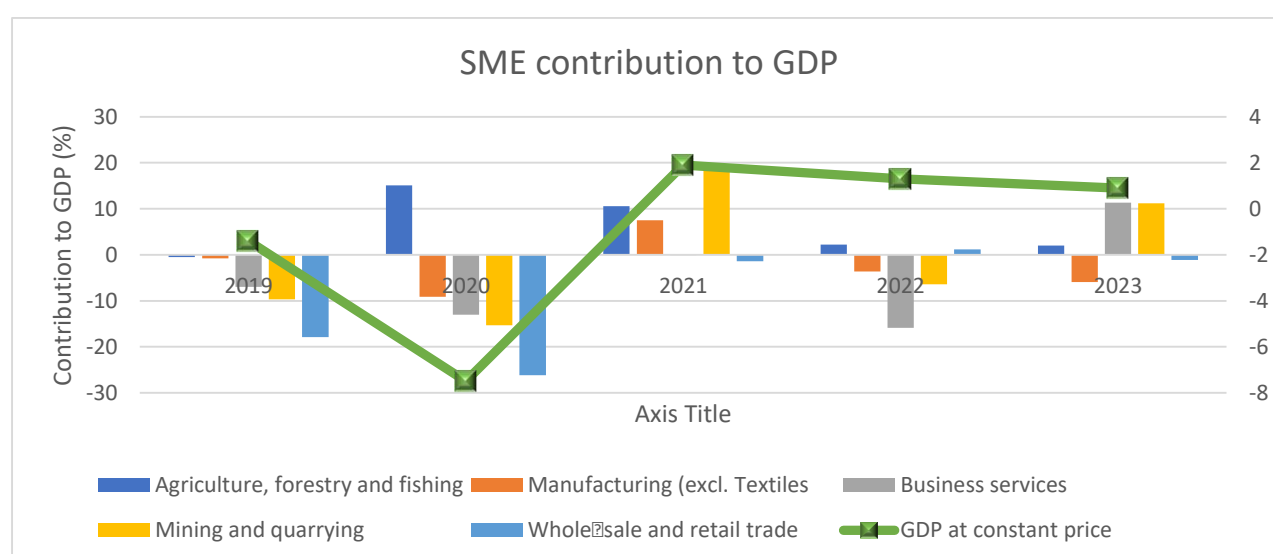


Figure 2. 5: SME contribution to GDP (BOS, 2023:20; UN, 2020:11)

In addition to low levels of economic development, Lesotho suffers from high levels of unemployment, with a current unemployment rate of 22.5% and 32.4% of the population living below the poverty line (BOS, 2019; UNDP, 2022). The unemployment crisis in Lesotho can also be evidenced by the fact that nearly half of the population is working in neighbouring South Africa (Khabele, 2024:343-344). The high levels of unemployment have been further exacerbated by the COVID-19 pandemic (UN, 2021: 6). Contrary to large corporations, the majority of lost jobs were in small businesses because about 80% of these businesses were shut down as a result (Chingono, 2021:16; van der Merwe & de Jong, 2024:6).

In lower-income countries such as Lesotho, SMEs are the largest source of employment. As income levels increase, formal SMEs tend to become a more significant share of the economy. At the same time, micro and informal businesses recede (World Bank, 2020d:2). Lesotho depends heavily on SMEs for sustaining economic growth and the generation of employment opportunities hence the need to enhance business opportunities in this sector (GoL, 2024:14; UNDP, 2021:74).

SMEs account for about 80% of the private sector and employ most of the private sector workforce in Lesotho (IOE, 2023:3; UN, 2020:18). It can be concluded that SMEs are the backbone of economic growth and job creation in Lesotho. More than 50% of small businesses operate in the agricultural sector and this sector contributes about 6.37% of the country's GDP and employed more than 60% of the population in 2020. Despite its importance, the small business sector is faced with the challenge of a weak and challenging business environment and inadequate government support for small businesses (UN, 2020:12-67).

2.3.8 Benchmarking Lesotho with countries that have freer market systems and flourishing SMEs

This benchmarking is intended to provide helpful insights about Lesotho's areas for improvement and best practices. It entails a comparison of the institutional structures, regulations and policies. The benchmark is done with the top two countries in the 2024 Index of Economic Freedom, Singapore and Switzerland (Statista, 2024). Singapore

has a highly developed free market economy that is free and transparent from corruption. It has a clear regulatory framework and competitive taxation (GlobalEdge, 2025; Yan, 2024:533).

Compared to Singapore, which has a transparent and fair policy system that provides for a stable and competitive corporate income tax rate of 17% and strong incentives that assist local businesses and encourage significant economic activities and controlled corruption (Tang *et al.*, 2024a:6). Lesotho's has standard corporate income tax of 25% (Ministry of Finance and Development Planning, 1993:100) and serious corruption levels compared to its peers in the Southern African region (Manesa & Tšehlo, 2024:2806). In addition, Singaporean SMEs are relatively successful, contributing almost half of the per capita GDP due to the government's policy and instrumental support facilities. For example, Singapore has well-functioning SMEs, well-equipped, functioning and support schemes (Ponniah Phelps Jeganathan, 2021:1512-1514).

Likewise, Switzerland's highly developed market economy results from a robust basis in law, well-functioning multilateral agreements and free trade agreements. In this manner, Switzerland SMEs are legally protected and have unrestricted access to well-functioning global markets (Federal Department of Economic Affairs, 2021:5-6). Open markets are vital for SMEs, especially in countries where they form a large portion of businesses, 97% and 99% in Lesotho and Switzerland, respectively (Federal Department of Economic Affairs, 2021:14; World Bank, 2023c:37). While Lesotho's SMEs competitiveness is hindered by limited access to finance due to strict regulatory requirements and support (Amadasun & Mutezo, 2022:1), the Switzerland government's SME financial support is adaptable and resistance to international market conditions and financial crises (Zabolotskaya, 2020:838).

Furthermore, a public-private partnership effort in Switzerland molded a flexible, multi-channelled and SME-customized financial support system. This system is focused on creating conducive business conditions at every stage of an SME's life cycle and is centred around the development of economic priority areas (Zabolotskaya, 2020:843). On the one hand, in Lesotho, the public-private partnership is vulnerable to corruption,

especially in the public procurement opportunities (African Development Bank Group, 2020:XXXIX).

2.3.9 Trends and challenges for the sustainability of SMEs

2.3.9.1 Trends for SME's sustainability

A conducive business environment is a fertile ground for nurturing the quality development of businesses and guaranteeing their sustainable development achievement (Dong & Zhang, 2022a:1). It thus follows that improving business environments is beneficial for the sustainable growth of businesses (Dong & Zhang, 2022b:1). Sustainability underpins the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs) (Hassan *et al.*, 2024:97). Sustainable development refers to development that meets current needs without endangering the ability of future generations to meet their needs (UNDP, 2023b:102).

SMEs play a dominant role in countries and societies around the world. They deliver products and services to consumers and provide the largest number of jobs. Therefore, it is important to recognise the essential role SMEs are expected to play as the world faces the challenges of climate change. They can positively improve and support the change towards a sustainable and cleaner future worldwide by reducing the impact of their operations and those from their supply chain (Sage & ICCK, 2022:4). SMEs constitute a significant part of the global economy and job market, playing a critical role in driving the shift towards a sustainable and prosperous future (ACCA, 2022:11).

SMEs are increasingly facing growing pressures and the improvement of sustainability in their operations and their sustainability performance disclosures. At the same time, they are presented with new opportunities, such as meeting consumer demands and green financing, which have the potential to bring new business prospects (Accountancy Europe, 2023:5; UN, 2024c:7). Some SMEs are aware of this and actively devise strategies to adjust their businesses. Meanwhile, the majority remain uncertain about the criteria or standards to follow and the expectations to fulfill. Similarly, certain sustainability issues may not be rendered as important to other

SMEs. However, reasons for SMEs to care about sustainability nowadays include the following: access to finance, requirements from value chain partners, expectations from consumers, employees and new generations, legislation and impacts of climate change (Accountancy Europe, 2023:1-5). These sustainability issues are briefly discussed next.

2.3.9.2 Access to finance

SMEs that incorporate sustainability practices into their operations, in other words, engage in ethical and socially responsible behaviours are attractive to lenders and investors. The enduring worth of a sustainable business is increasingly acknowledged by financiers, shareholders and investors (Accountancy Europe, 2023; Ben Youssef & Myhrer, 2021:1). Sustainable SMEs can access numerous sources of finance, such as grants, loans and impact investments from sustainable initiatives. In Lesotho, proposed initiatives to leverage private sector finance for green growth and climate action include establishing a climate change fund to support relevant actions and innovations, along with developing financing institutions to finance these programmes. This initiative is important for SMEs committed to sustainability practices (AfDB, 2023:21).

2.3.9.3 Requirements from value chain partners

SMEs that are part of the value chains of large companies are more competitive than those that are not. Large companies are committed to climate and social responsibility initiatives and align their value chain with the sustainability objective. As such, SMEs must strive to advance their sustainability performance and disclosure to remain competitive and avoid tarnishing their business relationship with larger supply chain partners, which may require validation of sustainability credentials (Accountancy Europe, 2023:3). Mandatory sustainability reporting requirements for large businesses place their supply chain under intensifying inspection and this becomes a major driver for SMEs that are part of such supply chain to become more sustainable. By placing sustainability at the centre of their operations, SMEs can create new growth opportunities, reduce costs and increase profitability (ACCA, 2022:3-16).

2.3.9.4 Expectations from consumers, employees and future generations

Eco-friendly concerns are gradually molding consumer behaviour alongside business strategies in the modern-day world economy. Consumers' appetite for sustainable and environmentally friendly products and services is increasing as challenges such as the depletion of resources and climate change are exacerbated (Baviskar *et al.*, 2024:1). It is recommended that businesses implement the following strategies to expand the impact of sustainable products and encourage sustainable consumption. Launch loyalty programs to reward consumers who consistently purchase economically friendly products; digital marketing to inform about their sustainable features through online platforms; and collaborate with other groups to accredit and support sustainable practices (Baviskar *et al.*, 2024:1-10).

Other important internal promoters of sustainability are the employees (Madrid-Guijarro & Duréndez, 2024:4). Employees are more sensitive when looking for meaningful work, so they take the employer's environmental footprint seriously. They regard sustainability as a motivational instrument, consequently necessitating employers to pay more attention to sustainability initiatives. The said initiatives must be properly communicated and employees are more motivated when involved in the planning, findings and implementation processes (Tschelisnig & Westerlaken, 2022:177-180). SMEs that embrace environmentally friendly cultures disclose their value recruitment process and can attract talented employees (Sage *et al.*, 2023:4-9).

Similarly, new generations with higher levels of education are more aware of social sustainability and a strong community mindset. New generation consumers will likely do business only with SMEs that align their practices, policies and strategies with community sustainability priorities. This means that SMEs with unsustainable business models will eventually fail as investors might lose interest in them (Accountancy Europe, 2023:4).

2.3.9.5 Legislation

Although sustainability practices remain voluntary in many economies, many developing countries integrate voluntary sustainability standards (VSSs) into their trade policies to exploit their potential. This endeavour can improve sustainable production, cross-border trade and consumption (Bermúdez & Sarmiento, 2023:1). Countries need to have sustainability policies to encourage sustainability actions and reporting by all forms of businesses. Clear sustainability policies guide and motivate SMEs to incorporate sustainability practices into their operations. This can potentially boost opportunities and competitive advantage, reduce environmental and social risks and secure their supply chain (Permatasari & Gunawan, 2023:11).

2.3.9.6 The impact of climate change

Unlike larger corporations, small businesses are more vulnerable to physical risks posed by climate change, which may present opportunities and challenges. Extreme weather events and rising temperatures normally damage infrastructure, increase operational costs and disrupt the supply chain. SMEs must formulate resilience strategies to ensure business continuity and protect their assets (Accountancy Europe, 2023:5). The lack of financial resources is a major constraint for SMEs to implement climate risk adoption measures (Susanne *et al.*, 2023:24-29). Lesotho is prone to numerous environmental threats, such as soil erosion, drought and deforestation to mention a few. This world economic shocks negatively affect agricultural sector development, especially small farmers (AfDB, 2023:13; World Bank Group, 2021:13).

2.3.10 Challenges for SME's sustainability

When compared to large companies, SMEs do not fully embrace sustainability because they are unwilling to volunteer to participate in sustainability practices beyond regulatory standards (Ernst *et al.*, 2022:1). The said reluctance can be linked to the following challenges: the lack of financial resources, the lack of awareness about the business case becoming sustainable, low skilled labour, little knowledge on sustainability in SMEs and on business strategy, the lack of information about the implementation of sustainability initiatives, weak regulatory environment, high investment costs and low returns of environmental technologies (ACCA, 2022:9; Alayón *et al.*, 2022).

SMEs could fail to implement their convictions regarding sustainability, as well as social and environmental practices due to difficulty in obtaining funding. Changing to environmental technology can be costly and limit SMEs from meeting the requirements. Similarly, a lack of knowledge and awareness can lead SME owners or senior managers to engage in education and training on sustainability technologies, environmental practices and resource management. Sometimes, SMEs may face regulatory challenges resulting from restrictions in dealing with environmental laws, obtaining the required licenses or implementing sustainability policies. These barriers can be addressed through supportive policies, collaboration among small businesses and with government agencies, as well as with other stakeholders and access to expertise and resources (Ibrahim Abdelhalim Ibrahim, 2022:3-4).

2.3.11 Digitalisation of SMEs towards sustainability

Digitalisation has emerged as a powerful force in the business realm, highlighting the need for SMEs to embrace sustainability and digitalisation without compromising performance (Trueba-Castañeda *et al.*, 2024:1). SMEs are increasingly being pushed to adopt inventive approaches and digital production techniques to sustain their competitive edge in the long run. Industrial 4.0 has pushed the digital transformation race, strengthening the use of digital technologies such as artificial intelligence (AI), big data analytics and the Internet of Things (IoT). In addition, the COVID-19 pandemic has accelerated the digital transformation process, fundamentally reshaping organisational culture globally and changing business procedures. The advent of the COVID-19 pandemic has affected SMEs more profoundly than large corporations in this regard. Digitalisation helps businesses in effectively addressing the important principle of the circular economy and sustainable development (Raihan, 2024:1-2).

In the wake of the pandemic, digitalisation has become a crucial factor for industries (UN, 2022:1-6). About 70% of SMEs are either surviving or rebuilding their businesses (Evans *et al.*, 2021:2). They have come to understand that to thrive in a competitive, digital landscape, they must adopt digital transformation (Gonzalez-Tamayo *et al.*, 2023:2). Digital transformation helps SMEs operate efficiently and attract new customers through tools like customer relationship management (CRM) systems, e-

commerce platforms and digital marketing strategies. Technologies such as the IoT and digital platforms have a significant impact on organisations' efficiency, costs and productivity.

These new technologies better meet customer demand, support a deeper understanding of customer behavior and facilitate the development of new and more affordable products and services while supporting sustainable digital innovation (Yousaf *et al.*, 2021:3). Moreover, transitioning to digital platforms is sustainable for SMEs as it aligns with overarching trends in resource efficiency and environmental responsibility. Digital platforms help SMEs transition to circular economy models, promote resource efficiency and reduce waste (Martínez-Peláez *et al.*, 2024:5).

Digital transformation has a positive impact on sustainable and economic development by facilitating compliance with environmental regulations and promoting innovation. It helps business growth by improving efficiency, improving the quality of products, saving money and increasing customer satisfaction. Additionally, digitalisation allows SMEs to adopt sustainability, which eventually improves their competitive advantage and contributes to long-term growth (Trueba-Castañeda *et al.*, 2024:1-13).

Moreover, digitisation can assist in cost savings associated with access to information and communication with suppliers, between staff members and networks. It can also help SMEs participate in global markets by reducing the costs of transport and border operations. Furthermore, digitalisation simplifies the access of SMEs to resources like training, government services, financial resources and recruitment channels that are progressively available online (Roman & Rusu, 2022:192). For example, business registration and most tax services are fully accessed through online platforms (GoL, 2024; World Bank Group, 2020:5-8).

Lesotho's digital economy is in the development stage as evidenced by the abundance of innovations, dashboards and the use of websites and portals to transmit or store data and information. Innovative platforms such as WhatsApp and Facebook have been used, mostly by urban business owners (World Bank Group *et al.*, 2022:16-30). The deficiency of government support discourages SMEs interested in integrating digital technologies. There is a need for a regulatory framework to facilitate digital

transactions, support businesses to adopt digital tools and business models, encourage fintech solutions and control regional digital platforms to support the generation of new jobs in the digital sector. The poor digital infrastructure in rural areas is an obstacle for SMEs eager to adopt digital technologies (World Bank Group, 2022:15).

2.4 CRITICAL SYNTHESIS OF THEORETICAL FRAMEWORK, LITERATURE AND CONTEXT

Based on Edward Freeman's stakeholder theory, this study explores the conduciveness of the business environment in Lesotho for the SME sector. The stakeholder theory enables a more explanatory investigation into how government policies and regulations influence the business environment through the engagement of different stakeholders. Lesotho has several policies that affect SMEs, including the SME policy, which is not easily accessible to SMEs. SMEs are also not adequately informed or engaged in the development or review of these policies, as well as the potential opportunities that the policies entail (Makara *et al.*, 2023:47). Despite Lesotho's dependence on SMEs for sustainable economic growth because they account for 97% of total businesses (GoL & UNDP, 2021:74; World Bank, 2023c:37), the business environment is not conducive enough to support their growth.

While the Lesotho government has several business support mechanisms, such as a one-stop facilitation centre, Enterprise Assistance Program (LEAP) and trade support institutions, this study argues these mechanisms fail to address SMEs' specific conditions. The SMEs' growth and development challenges persist in due to the failure to implement ease-of-doing-business reforms, all-encompassing regulations, political instability and high corruption levels.

In addition, the application of a benchmarked framework allows the critical mapping of the progress made by Lesotho in terms of the regulatory reforms for shaping a conducive business environment relative to its peer countries. Such benchmarking revealed that Lesotho is still behind in many aspects. The literature discloses trends and challenges for the sustainability of SMEs, such as a weak regulatory environment

and high investment costs, among others, as well as digitalisation towards the sustainability of SMEs.

Nonetheless, existing literature provides limited evidence about the stakeholder perspective of the influence of government policies and regulations in shaping a conducive business environment for the SME sector in Lesotho hence the focus of this study. By critically integrating the stakeholder theory and the benchmarked framework lens with Lesotho government policies that affect SMEs, the factors that influence the quality of the business environment and the status of SMEs in Lesotho, this study investigates how Lesotho government policies shape a conducive business environment for SMEs in Lesotho. As such, the study contributes a perspective by exploring stakeholders' views on how SMEs' sustainable growth is influenced by a conducive business environment created by enabling government policies and regulations.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter presents the methodology for the present study, which explored stakeholders' perspectives on the conduciveness of the business environment in Lesotho for the SME sector. The aim was to improve the understanding of how government policies affect the conduciveness of the SME sector's business environment by identifying key themes related to strategies for addressing policy and regulatory constraints that impact the business environment of SMEs in Lesotho. Based on the stakeholder theory of sustainability performance, stakeholders' failure to fulfill their obligations significantly influences business sustainability performance (Anggun & Nandang, 2025:119). Thus, the study investigated the government policies and regulatory constraints on the business environment of SMEs by identifying key themes through thematic analysis, aiming to provide a deeper understanding.

The study employed a phenomenological approach as its primary research strategy, guided by an interpretive paradigm to explore the participants' lived experiences. It also identified key themes that enhanced the understanding of the phenomena under investigation through thematic analysis. Information about the participants, including their backgrounds and selection process was provided. Additionally, this chapter outlines the data collection instruments used and the procedures followed in conducting the study. Finally, it discusses the methods of data analysis and the ethical considerations addressed throughout the research process.

3.2 RESEARCH QUESTION

The research question posed for this study was formulated as follows:

1. What are the barriers that hinder SME development and growth in Lesotho?
2. What are the specific government policy constraints hindering the creation of a conducive business environment and that affect the SME sector in Lesotho?

3. Which government policies and regulations are most influential in shaping the SMEs' business environment in Lesotho?
4. How does the business environment affect formal businesses and their overall experience compared to informal businesses in Lesotho?
5. In what ways do government policies and regulations influence business formalisation in Lesotho?
6. What are the financial implications of the current business environment in Lesotho for SMEs?
7. What recommendations can be made to develop an improved regulatory framework to enhance the SME business environment in Lesotho?

3.3 RESEARCH METHODOLOGY

The research onion framework by Saunders and Lewis (2012) was adopted to provide an overall view of this study's research methodology. The strategy used was to work from the outer to the inner part of the research onion as shown below.

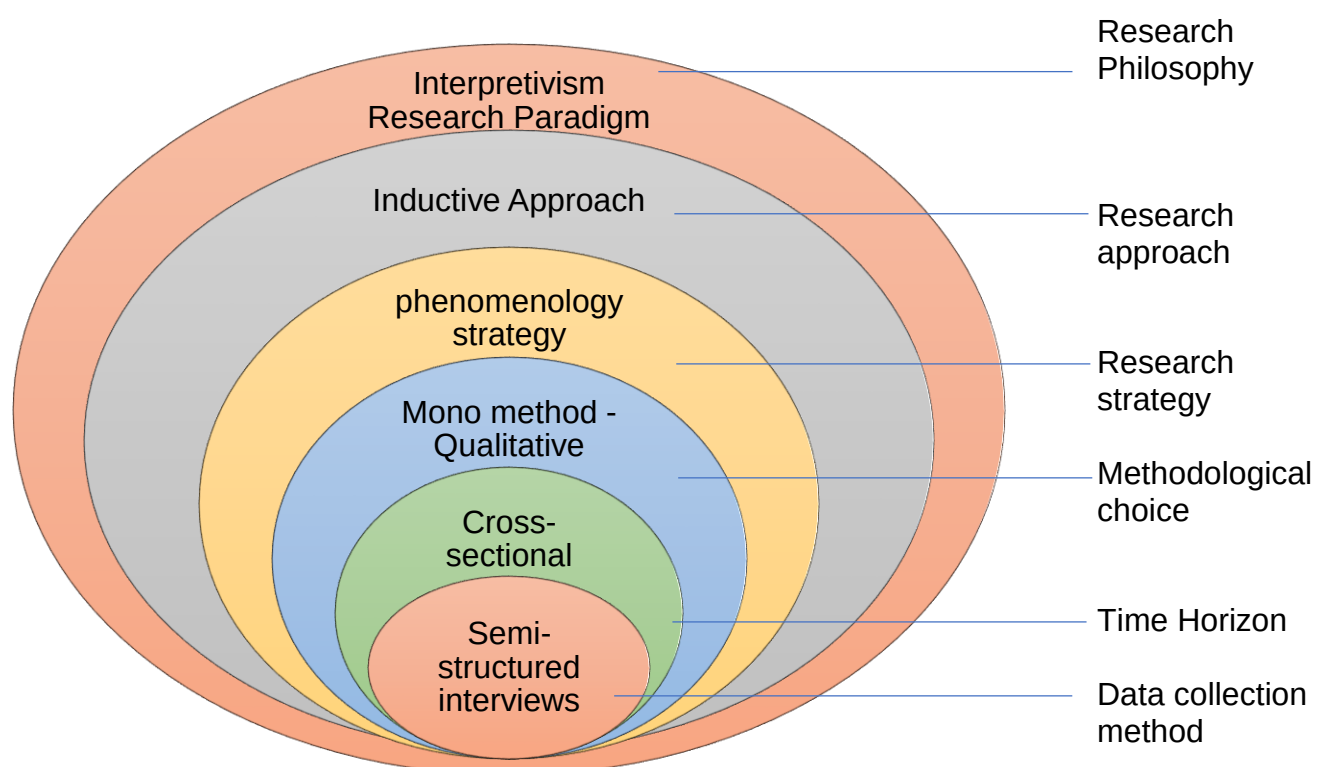


Figure 3. 1: Research Onion Framework (Source: Saunders & Lewis 2012)

3.4 RESEARCH PARADIGM

The study adopted an interpretive paradigm because it involved empirical research, assuming that reality is subjective due to life and cultural differences (Alharahsheh & Pius, 2020:42) thus the preference for comprehending individuals' perceptions of their environments. This implies that reality is understood through the interpretations that individuals attribute to their experiences and these interpretations can be uncovered through communication or conversation (Ugwu *et al.*, 2021:120). This research, therefore, focused on how participants interpreted and perceived the business environment for SMEs in Lesotho based on their lived experiences. In the process, a relativist ontological position and a subjective epistemological approach were embraced because it was believed that reality is socially and experientially constructed. Such a position facilitated a better and deeper understanding of how individuals construct, adjust and interpret social reality in their environment (Pervin & Mokhtar, 2022:425).

During data analysis, logical reasoning and comprehension were foregrounded, guided by planned and justified interactions with the participants. At the same time, the study followed a naturalistic methodology, using participant observation and relying on interviews and documentary analysis data to construct meaning. The process of making meaning of data was underscored by a hermeneutical approach to explain and clarify the structure of life experiences and the knowledge of pedagogical values (Widiyanto, 2023:75). The hermeneutic perspective posits that an individual's upbringing serves as the foundation for comprehension (Oerther, 2020:294).

3.5 RESEARCH APPROACH

Inductive research or a 'bottom-up' approach was adopted to identify key themes from the data collected instead of testing an existing theory deductively. This approach was pertinent because this study is qualitative and exploratory in nature (Vears & Gillam, 2022:112). Inductive content analysis helped in gaining a deeper understanding of the experiences and beliefs (Casula *et al.*, 2021:2021) of SMEs and stakeholders about government regulations and policies in Lesotho. The research commenced with data

collection, followed by its analysis and ultimately the development of the themes (Lochmiller, 2021:2029-2032).

This thematic analysis was applied in conjunction with the stakeholder theory adopted in the literature review to provide insights into how government regulations influence the business environment of currently operating SMEs, focusing on stakeholders' perceptions. While thematic analysis helped to inductively develop themes based on the collected data, stakeholder theory provided a framework for analysing stakeholders' perspectives. The research employed the phenomenological approach as a research strategy to conduct a thorough analysis that integrates theoretical development, contextual understanding of stakeholders' perceptions and deep experiential insights.

The participants were interviewed using the interview protocol shown in Appendix C. The interview manuscripts were analyzed to determine common themes and patterns among the responses. The identified themes were used to construct a framework of legal government constraints to improve the government policies and regulations system in the SME business environment in Lesotho. The study considered all the data collected when developing themes rather than focusing on existing theories. The study followed a four-step approach: creation of a transcript and data familiarization, identification of keywords, data coding and theme development (Naeem *et al.*, 2023:2-4).

3.6 RESEARCH STRATEGY

The research adopted an interpretive perspective, asserting the necessity of a specified methodological tool for comprehending the social world. The phenomenological research strategy was appropriate for this study because the aim was to obtain insights and the lived experiences of SMEs and their stakeholders on government policies and regulations in Lesotho. In other words, the focus was on studying the lived experiences through which meaning is rooted in the experience of the participants (Van Manen, 2023:19-26). This experience included opportunities, challenges and perceptions in the regulatory framework of Lesotho, that is, the impact of government policies and regulations on SMEs.

A phenomenological research strategy discovered deep and comprehensive perceptions that inform regulatory reforms, policy discussions and improvement strategies for the SME business environment. This research strategy was characterized by its emphasis on the lived experiences of individuals, the discovery of the process of meaning-making, a complete understanding of the phenomena and bracketing assumptions (Patton & Joshua, 2023:85-87). Therefore, this strategy fitted well with the objectives of this study.

The study examined SMEs of varying stages, from newly established ventures to well-established businesses to provide a comprehensive contribution to the improvement strategies. The date of registration or incorporation was used as a baseline to identify these businesses. Furthermore, the interviews with key stakeholders were conducted to strengthen the validity and credibility of the research findings. Such stakeholders included the government of Lesotho through the Department of Small Business, Government Agencies, Commercial Banks, Tax Authorities, Chamber of Commerce, and Business Associations.

The government makes regulations that shape the SME business environment through a policy-created environment. The tax authority and government agencies are responsible for enforcing the policies and regulatory requirements that impact SMEs while commercial banks' financial services offered to SMEs are influenced by these government policies. Business associations and chambers of commerce play a crucial role in advocating for regulatory changes, providing feedback on regulatory impacts and helping members navigate compliance. They also influence policy to align regulations with the needs and interests of the business community.

The research conducted in this study was founded on the premise that reality is shaped socially through exchanges between individuals as opposed to being objectively witnessed. The phenomenological research strategy supported the belief that the meaning of the phenomenon is culturally developed within the mindful experience of both the participants in this study and the researcher.

3.7 METHODOLOGICAL CHOICE

This phase of the research opinion involves selecting either qualitative, quantitative or mixed methods for data collection. It determines the types of data that need to be gathered and analysed throughout the research and influences the research strategy. The study utilised a qualitative research method approach to gain in-depth perspectives and experiences of the participants on how government policies affect the business environment of SMEs in Lesotho. The qualitative approach deals with non-numerical data, such as text, pictures and videos (Mardiana, 2020:4). This approach provided a comprehensive understanding of how individuals perceive their environment (Ugwu & Eze Val, 2023:20).

The study used semi-structured interviews and document content analysis to collect data. Semi-structured interviews allowed for an in-depth exploration of each participant's perspective and getting insights into reasons for certain answers and follow-up questions while maintaining the study focus (Ruslin *et al.*, 2022:22). In addition, document analysis provided contextual and historical information that deepened the understanding of the phenomenon (Wood *et al.*, 2020:459-460).

A combination of purposive and snowballing sampling methods was used to select the participants. The main method was purposive sampling, and as needed, snowball sampling was used to fill in any data gaps. Purposive sampling means the selection of the participants based on their knowledge and relevance to the study (Andrade, 2021:87). Snowballing involves the identification of a participant relevant to the study to use as the lead to the additional participants who share the same characteristics. This process is repeated until the desired sample size is reached (Nyimbili & Nyimbili, 2024:96).

The data collected from the various sources was imported into ATLAS.ti software for organising codes and identifying themes. Subsequently, the data underwent thematic analysis (Adane *et al.*, 2023:5) to identify and interpret the patterns. This facilitated a thorough understanding of the participants' phenomena and experiences and their perceptions about legal government restrictions to improve the system of government policies and regulations in the business environment of SMEs in Lesotho.

3.8 TIME HORIZON

This study used a cross-sectional approach, collecting data on exposure and results from the population simultaneously. A cross-sectional approach is an observational research design in which data variables are observed and measured at a specific time. Each research subject is observed once, with data collection occurring during this single observation without any subsequent follow-up (Zuleika, 2022:256). The data were gathered from various sources simultaneously due to the absence of continuous participant follow-up over a long period (Nair, 2024:2-3). Additionally, the exposures and outcomes of the study subjects were simultaneously measured, providing a snapshot of the population at a specific time. No participant follow-ups were conducted, eliminating the issue of losing participants during the study.

The limitations of cross-sectional studies, such as the lack of tracking changes over time or the inability to establish causality cannot be overlooked (Wang & Cheng, 2020:67). This suggested the need for future studies that integrate a longitudinal approach. Longitudinal methods will allow for tracking participants over time, enabling a thorough exploration of the impact of government policies on the business environment of SMEs in Lesotho. Improving the findings of this study, future longitudinal research efforts could further provide an exact understanding (Capili & Saludez, 2024:787). Figure 3.2 provides a graphic representation of a cross-sectional study.

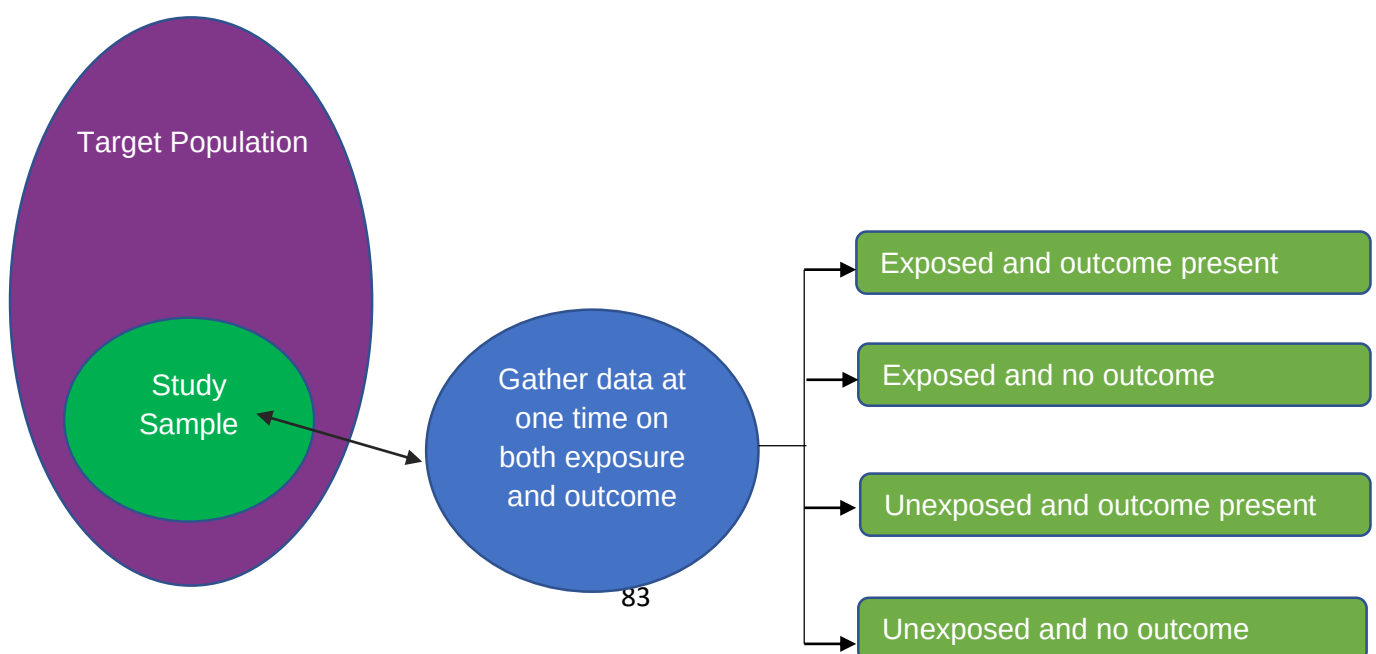


Figure 3. 2: A graphic depiction of a cross-sectional study (Source: Wang & Cheng, 2020:66)

3.9 TARGET POPULATION

The research was executed meticulously by considering different crucial elements. The criteria for selecting the participants were extensive and specific, notably to improve the validity and credibility of the research. Furthermore, the research was scheduled to conclude within three years, commencing in 2023. This timeline allowed for sufficient time to interact with the participants, enabling a detailed examination of their experiences, viewpoints and perceptions related to the influence of government policies on SMEs in Lesotho.

The target population refers to a particular group of individuals who have the potential to participate in a study and are accessible, representing the characteristics of the population of interest (Casteel & Bridier, 2021:344). This study focused on the stakeholders' perspectives on exploring the conduciveness of the business environment in Lesotho for the SME sector. The settings and situations where potential participants could be accessed were selected. This was followed by the identification or selection of the participants who could best contribute to the research questions. These were participants who enhanced their understanding of the phenomenon and were motivated to communicate thoroughly (Adeoye-Olatunde & Olenik, 2021:1358-1362).

3.10 INCLUSION CRITERIA

The inclusion criteria were carefully chosen to ensure a targeted and relevant selection process. The participants were included in the study if they were:

- The owners or senior managers of SMEs registered with the Ministry of Trade, Industry and Small Business and employed between 6 and 50 employees.
- The owners of informal businesses appearing in BEDCO's database.
- Government officials working in the Department of Small Business.
- Government agencies.
- SME business associations.
- Chambers of Commerce.
- Tax authority representatives.

- Commercial bank personnel directly working with SMEs.

SMEs and informal businesses were included only if they were situated in one of the following four largest districts of Lesotho with the highest SME population: Maseru, Leribe, Berea and Mafeteng (Amadasun & Mutezo, 2022:9; FinMark Trust, 2025a:4; GoL, 2019a:18). These districts were crucial to the study due to their location in the urban lowlands, which is where Lesotho's gross domestic product (GDP) is concentrated and the fact that they accounted for the majority of the country's GDP. For example, Maseru, accounts for almost 64% of the GDP (GoL & World Bank, 2024:2-20). Thus, focusing on these areas aided in comprehending how government policies affect important economic drivers both directly and indirectly.

Businesses in these districts helped gather a diverse and valuable set of data, allowing the capturing of a wide range of business experiences and practices. This approach increased the importance of the findings by concentrating on important economic centres with significant business activity. The geographical focus on the said specific districts aimed to provide diversity while remaining relevant to areas with significant economic activity.

The purpose of including owners or senior managers of SMEs registered with the Ministry of Trade, Industry and Small Business, as well as informal businesses listed in the BEDCO database was to involve participants who have established entities in either the formal or informal sector. This approach sought to gather insights from key stakeholders directly involved in small business operations and those who have an impact on policy and regulatory frameworks.

3.11 EXCLUSION CRITERIA

Participants were excluded from the study if they were:

- The owners or senior managers of larger companies.
- Informal businesses not included in the BEDCO database.

- SME owners or senior managers and owners of informal businesses from Mokhotlong, Quthing, Thaba-Tseka, Butha Buthe, Mohale'shoek and Qachas' Nek.
- Government officials not working in the Department of Small Business.
- Tax authority representatives not working directly with SMEs.
- Commercial bank personnel not working with SMEs.
- Large companies' business associations.

These were excluded to maintain the study's emphasis on the distinct challenges and regulatory environments specific to SMEs and recognized informal businesses in Lesotho.

3.12 TARGET POPULATION RECRUITMENT PROCESS

The participants were recruited through the Ministry of Trade, Industry and Small Business and from BEDCO's database using purposive sampling. The researcher wrote a letter to the Director of One Stop Shop Lesotho in the said Ministry and asked for permission to access the list of registered SMEs. This list was emailed to the researcher. The researcher also contacted BEDCO using both email and phone to request assistance with the leads to informal businesses. BEDCO provided the attendance register for informal businesses that attended its Capacity Building Training. These training registers served as evidence for the businesses that participated in government programs without altering their formal status as they continue to operate informally within the regulatory framework. In Lesotho, a business is considered informal if it is not formally registered with the Ministry of Trade, Industry and Small Business (World Bank, 2023b:8).

The prospective participants from these two records were contacted using email and telephone. The researcher also contacted the Department of Small Business, Revenue Services Lesotho, SME business association, Chamber of Commerce, Government Agencies and commercial banks using emails, telephones and in person. The potential participants were screened via telephone to verify whether they met the eligibility criteria and to assess their willingness, availability and motivation. The

screening was made from the compiled list of 60 SMEs using the proportion of the four target districts. A sampling pool of 20 to 30 participants was selected from this first interview group and the final sample was determined by the data saturation in each stakeholder category.

3.12.1 Small and Medium Enterprises (SMEs)

The primary aim of involving a variety of the participants was to enhance the research outcomes and the level of depth and credibility of the study. This method allowed for a thorough evaluation of the effects of government policies on SMEs and led to the development of policy recommendations and support initiatives based on solid evidence. Owners or senior managers of registered SMEs located in the top four districts offered detailed insights into the influence of government policies on SMEs and assisted in creating evidence-based recommendations.

3.12.2 Informal businesses

In Lesotho, a significant number of businesses operate in the informal sector. This sector was significant for this study because it formed the largest portion of the private sector and employed half of the labour force in Lesotho (FinMark Trust, 2021:72; World Bank, 2020c:30). The informal sector constituted 76% of the total SME sector (FinMark Trust, 2025b:15-16). Despite the rapid growth of the informal sector, Lesotho still lacks a policy for it (IOM, 2021:8-9). Enterprises in Lesotho remain informal due to limited information, lack of support for registration, low inspection capacity and high registration and compliance costs, among others (BEDC, 2024). It was imperative to incorporate their viewpoints for a comprehensive understanding of the opportunities and obstacles confronting unregistered businesses. They provided insights into the reasons for not registering businesses, gaps in the registration regulations and suggested strategies to improve the business environment. This allowed for a thorough evaluation of how government policies affect SMEs in Lesotho.

3.12.3 Department of Small Business, Government Agencies, Tax Authority, Chamber of Commerce and Business Associations

Officials from the Department of Small Business and Government Agencies shared information on government policies and support systems for SMEs, while representatives from Revenue Services Lesotho discussed tax policies and regulatory requirements that impact SMEs. The Chamber of Commerce and Industry and business associations offered information on how current regulations impact businesses as reflected by the feedback they gathered from their members. Furthermore, representatives from commercial banks provided their experiences on the financial services offered to SMEs and how government policies affect lending practices. Figure 3.3 shows the structure of the Government of Lesotho and its relevance, together with the identified stakeholders in the SMEs' business environment.

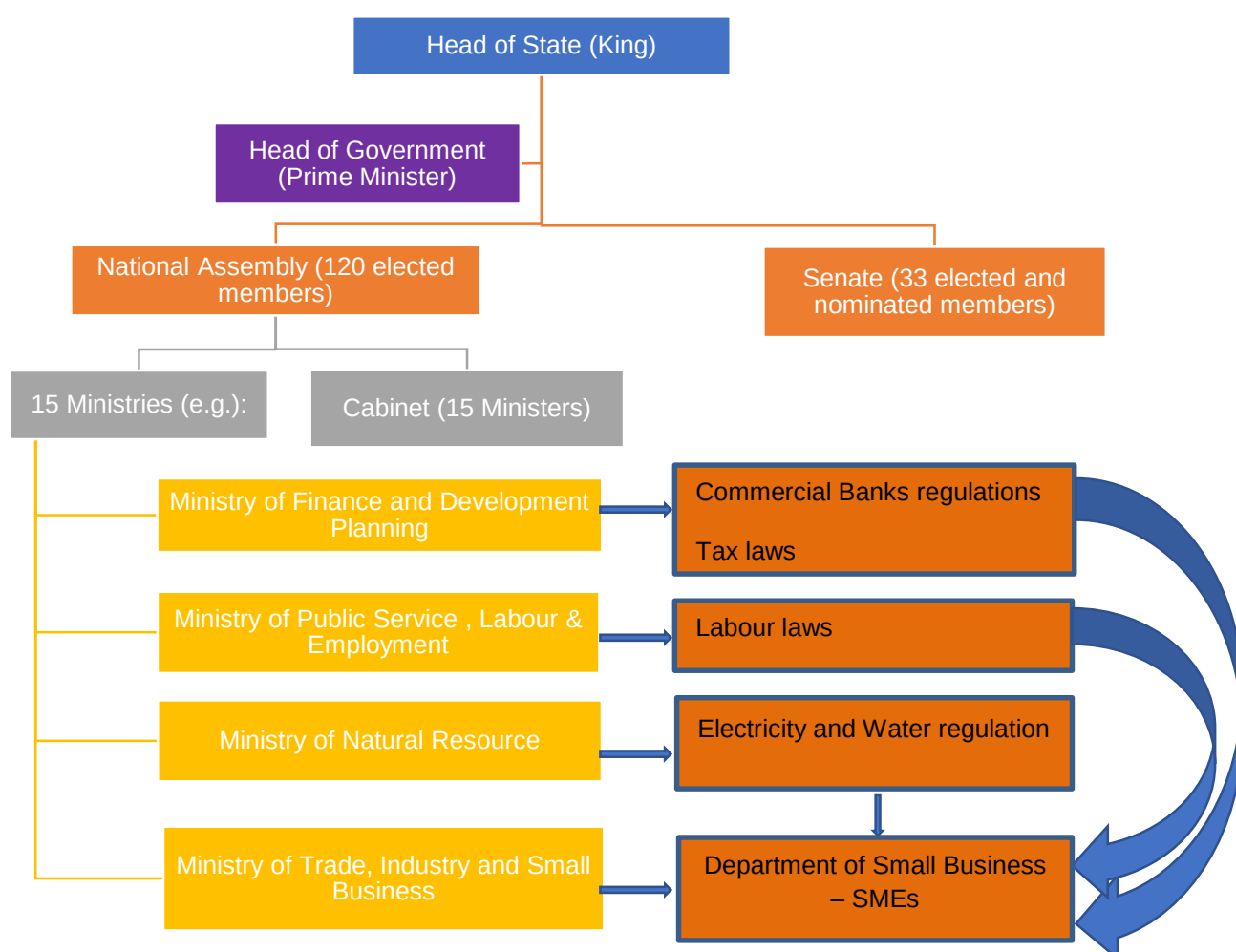


Figure 3. 3: Structure of the Government of Lesotho (Source: GoL, 2023a)

Lesotho has a market-based economy, however, the development of the private sector is limited by the direct government intervention in economic affairs (Global Edge, 2024; UN, 2023:34). Market economics, also known as free market economics or capitalism, emphasizes competition, voluntary exchange and the principles of supply and demand. In this system, resources are privately owned and individuals can produce, consume and exchange goods and services. Prices, quantity and resource allocation are determined by the interactions between buyers and sellers, resulting in an efficient allocation of resources that meets the needs and preferences of society (Nacer & Omar, 2024:2). Lesotho's lack of competitiveness in the business environment significantly hinders the growth of private enterprises, adversely impacting SMEs. This is due to ineffective regulations and insufficient institutional capacity, which impede the successful implementation of much-needed reforms (World Bank, 2022:16).

3.13 SAMPLING TECHNIQUES

Sampling involves selecting a subset, a sample from a population for research purposes. A sample comprises individuals or items taken from a larger group for measurement in a study. There are two types of sampling: probability and non-probability (Makwana *et al.*, 2023:763) as shown in Figure 3.4.

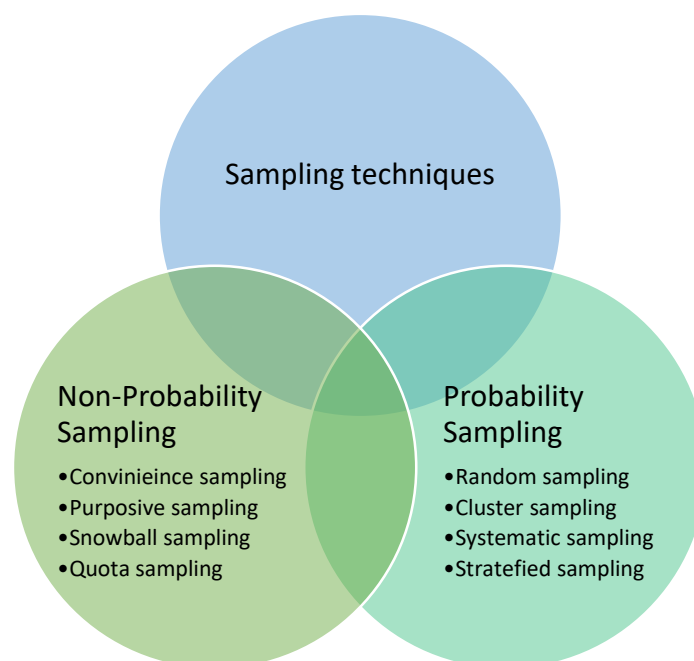


Figure 3. 4: Types of sampling (Makwana *et al.*, 2023)

Purposive sampling, supported by snowball sampling was utilised in this study.

3.13.1 Purposive sampling

This is a sampling technique where participants were selected based on their relevance to the research aim without bias (Makwana *et al.*, 2023:766; Nyimbili & Nyimbili, 2024:90), as well as the participants with knowledge of the impact of government regulations on the business environment in Lesotho. This targeted approach allowed the study to focus on participants who had expertise in the research area (Adeoye, 2023:92).

3.13.2 Snowball sampling

The snowball sampling method is used when a respondent recruits additional participants from their networks. The participants were selected for this phase based on recommendations from those selected through purposive sampling. This aimed to engage more relevant participants who were not well-known, but had a significant impact on the study (Adeoye, 2023:92; Pasikowski, 2023:109). The study aimed to balance targeted insights with the flexibility to uncover different viewpoints thereby improving the robustness and validity of the research results. This was achieved through the combination mentioned.

3.14 SAMPLE SIZE

In qualitative research, it is important to select the participants who can provide in-depth information relevant to the research topic. This often involves using purposeful or non-probability sampling methods, where participants are intentionally chosen based on their relevance to the research question (Adeoye-Olatunde & Olenik, 2021:1361; Sukmawati, 2023:140). In qualitative research, it is agreed that the sample size is not precisely defined, but rather dependent on saturation. The number of participants deemed to be sufficient for data collection was chosen until saturation was reached (Mwita, 2022:417). Often, the sample size in qualitative research falls within the range of 20 to 60. This observation is influenced by factors such as the focus of

the research, available resources and time, the type of research question, the nature of the selected group, the experience with qualitative research and the domain of inquiry (Bekele & Ago, 2022:42).

A pilot study was conducted to ensure the effectiveness and enhancement of the research methodologies. In other words, a small-scale study was carried out to evaluate the viability of conducting the main study (Aziz & Khan, 2020:750-751). A subset of 8 participants was selected and calculated as 16% on average of the anticipated 20 to 30 participants for the pilot study. The purposive sampling was used to draw the samples for both the pilot test and main study. The interviews with these participants were conducted as per the planned interview protocol. The pilot study participants were chosen from various small business sectors to ensure comprehensive feedback on the clarity, relevance and suitability of data collection methods. These participants were contacted through telephone calls and interviews were conducted either face-to-face or online, based on each participant's preferences.

The participants in the pilot study provided essential input that influenced the final research design and methodology for the main study. The pilot results were analysed and evaluated using thematic analysis to assess the achievement of the pilot objective. The methodology procedures were revised and improved where necessary and the credibility and validity of this study were bolstered after evaluating its feasibility and pinpointing potential obstacles in the pilot study. The participants used for the pilot test were excluded from the main study interviews. The ethical guidelines regarding voluntary participation, participant selection, informed consent and confidentiality as stipulated in the ethical considerations section were strictly followed. The pilot interviews were recorded using memos and a voice recorder to capture insights and identify areas for improvement.

3.15 DATA COLLECTION METHOD

This research used a triangulated methodology incorporating two distinct methods of data collection: semi-structured hybrid interviews and document analysis to thoroughly evaluate the conduciveness of the business environment in Lesotho for SMEs. This approach, known as triangulation, helped to identify and address inconsistent data,

leaving the findings that pointed in the same direction. As a result, the credibility and validity of this study was improved because using multiple data sources reduce bias in sampling, procedures and researcher's judgments (Bans-Akutey & Tiimub, 2021:3-4).

Semi-structured hybrid interviews were conducted to gather detailed, qualitative insights from key stakeholders in the business environment in Lesotho. These included owners or senior managers of SMEs, government officials from the Department of Small Business, government agencies, tax authorities, commercial banks, owners of informal businesses, the Chamber of Commerce and business associations. To ensure adequate representation in every category, the study included two to eight individuals from each category. This approach helped gather a wide range of perspectives and provide a fair assessment of the research issue. The participants were selected based on their relevance and expertise to ensure a comprehensive understanding of complex issues and to uncover nuanced insights about the business environment from those directly impacted by it.

The hybrid interview method refers to an interview process that involves a blend of virtual and face-to-face components (Christina *et al.*, 2021:6217). Some participants were physically present, while others connected remotely. The interviewer and interview questions were the main instruments used for the interviews. This method of interviews provided increased adaptability, expanded the range of participants and established a conducive atmosphere for the participants. Hybrid interviews demonstrated a capacity to withstand interruptions, such as limitations on travel thereby guaranteeing the uninterrupted progression of the research process. It guaranteed a smooth flow of the research procedure and aided the collection of a more comprehensive range of perspectives by tailoring the interview structure to meet the preferences and requirements of the participants (Termini *et al.*, 2021:6217-6220).

The interviews consisted of open-ended questions as per Appendix C, designed to gather detailed information on the participant's experiences of the impact of government policies and regulations on the business environment of SMEs (Neuert *et al.*, 2021:3). The interview protocol was developed based on an in-depth review of the

literature. The interview process followed the interview protocol without a set order for asking questions; questions were asked based on the flow of the discussion.

The interview protocol consisted of questions designed to cover key topics relevant to the study and the participants' responses prompted others. For example, the interview protocol included questions relating to registration challenges. However, the capacity to adapt and pose further inquiries to explore unforeseen difficulties raised by the participants during the interview was upheld (Elhami & Khoshnevisan, 2022:4-6). Redundant questions were skipped during the interview sessions. The interview protocol grouped questions according to different target groups and distinct questioning techniques were employed for each group. The study's objective was maintained by aligning all question categories with its purpose. The main questions guided the interview, while probe and follow-up questions were used to explore relevant areas further. This approach ensured that the gathered data consistently aligned with the research goals.

Before the main data collection phase began, the study's credibility, relevance, interview question format, duration and participants' responsiveness were evaluated through the pilot study (Aziz & Khan, 2020:751). The pilot study verified the effectiveness and rigour of the methodology and functionality of the interview protocol. Specifically, the pilot study evaluated and improved the data collection procedures and data analysis components of the research framework. Eight small businesses across all sectors were interviewed using semi-structured interviews, two from each district following the planned interview protocol.

Pilot study interviews were recorded using memos and a voice recording device to test the comprehensiveness and relevance of interview questions and identify methodological challenges. Data collected in the pilot study were analysed using an initial thematic inductive method. The thematic inductive analysis comprised a coding procedure wherein sections of text were labeled in individual interview transcripts or documents. These labels were utilised to recognise and cluster comparable text segments in a single document or transcript, as well as across various documents or transcripts. Unlike predetermined codes and categories, this method entails identifying and naming codes as the data were reviewed (Bingham, 2023:2; Vears & Gillam,

2022:113). The adjustments to the interview protocol and data collection procedures were made as reflected by the findings from the pilot study to improve the credibility, effectiveness and validity of the main study. Addressing any inadequacies ensured the robustness of the final interview guide in collecting the appropriate data from the participants (Shakir & Rahman, 2022:1622).

Both pilot and main study interviews were either in person or online, depending on the participant's preferred method of communication. The online interviews took place either through telephone calls or using virtual communication through various internet platforms. The participants were contacted using the hybrid communication suitable to each participant. These included telephone calls, on-site visits, video calls and emails to offer efficiency, flexibility and inclusivity for participation. These hybrid interviews facilitated the gathering of detailed primary data from the participants as there was dialogue exchange while concentrating on the focus of the study (Husband, 2020:8). Face-to-face interviews were conducted in a private room with a closed door and this arrangement was confirmed before the interview started. The research thoughts collected during the interview were captured using the memos. A multi-layered tactic was embraced for recording purposes. The interviews were recorded using the Olympus WS-852 Voice Recorder, smartphone and Google Meets or Teams recording services.

The document analysis methodology involves examining and evaluating a range of written materials, such as books, newspapers, articles, academic journals and institutional reports (Morgan, 2022:64). This method also informed the interview protocol for this study. This methodology was rationalised as it supplements qualitative data by delivering an unbiased and contextual foundation, thereby aiding in validating and triangulating the findings from the interviews through an elaborative understanding of the regulatory framework and its development (Mwita, 2022:416). The process entailed the identification and retrieval of pertinent documents from official government sources, policy documents and industry analysis, followed by an examination to pinpoint significant themes, regulatory modifications and policy ramifications. Specifically, it involved a structured examination of the pre-existing documents relating to the government regulations, policies and reports about the business environment in Lesotho. By integrating the findings from the two methods, the study achieved a

comprehensive view of the business environment, thereby enhancing the overall validity and depth of the findings and lessening bias from a single method (Nanthagopan, 2021:203).

3.16 ACCESS TO THE TARGET POPULATION

After receiving conditional acceptance from the North-West University, the first contact was made with the Ministry of Trade, Industry and Small Business. A formal letter, detailed in Appendix A was sent to the ministry to articulate the purpose of the study and seek permission to access the ministry's database of registered SMEs for the research endeavour. Subsequently, official approval was provided as documented in Appendix A.

The next contact was made with the Basotho Enterprises Development Corporation (BEDCO) via email to request leads to informal businesses as evidenced by Appendix B. BEDCO provided the attendance registers of informal businesses that attended its Capacity Building Training together with contact details through email. Such training programs cover interventions designed to help businesses grow such as the development of business plans (BEDCO, 2022:1). Subsequently, ethical clearance was sought from the North-West University Faculty of Economic and Management Sciences and proper ethical considerations were dealt with throughout the data collection process. After the ethical clearance approval was granted, NWU - 0 0 6 8 3 - 2 4 - A 4 as documented in Appendix E, the owners or senior managers of the SMEs and informal businesses were contacted through on-site visits or by telephone using the registration list and BEDCO attendance registers.

3.17 DATA CODING AND ANALYSIS

Data analysis involves gathering, transforming, cleaning and modeling data to uncover the necessary information. This process helps to structure the findings from various data collection sources and serves as a mechanism for distilling meaningful insights from extensive datasets. Additionally, data analysis supports researchers in reaching conclusions, making it an essential component of any research process (Alem, 2020:1). The research study employed thematic analysis with ATLAS.ti to organise

and analyse the gathered data. The thematic analysis facilitated an understanding of how individuals interpret and derive meaning from their experiences, enabling the exploration of the participants' perceptions and experiences regarding the conduciveness of the business environment for the SME sector.

ATLAS.ti, a computer-assisted qualitative analysis software was chosen due to its ability to facilitate coding, organising and identification of emerging patterns in in-depth interviews (Ñañez-Silva *et al.*, 2024:1). The software optimised the arrangement of search terms, database sources, keywords, authors and journals thereby improving the effectiveness of data organisation. It facilitated the development of a methodical analysis framework focused on essential research inquiries, enabling precise labeling of interview transcripts and ensuring a methodical and well-documented strategy throughout the assessment process. Furthermore, ATLAS.ti assisted in the literature examination by smoothly transferring articles from the reference manager. Its integrated features, such as word count and word cloud creation offered valuable insights into word frequencies, assisting in the identification and evaluation of relevant literature (Smit & Scherman, 2021:2; Soratto *et al.*, 2020:4).

Thematic analysis, as a qualitative research method, involves the identification of the meaning, patterns or concepts in data and the allocation of codes to the concepts via a systematic coding process. These codes were then categorised into larger themes that represent the meaning of the data (Brailas *et al.*, 2023:22; Finlay, 2021:103). A code is a brief and descriptive phrase or description that assigns significance to the data relevant to the researcher's analytical interest (Lester *et al.*, 2020:100). Coding involves the process of assigning labels to sections of text in interview documents or transcripts. This process allows for classification and categorisation by taking into account similarities present in transcripts, both in individual and across multiple transcripts (Vears & Gillam, 2022:113). Therefore, a code is defined as a symbol attached to a data segment, regardless of its size, whether it is a word, a sentence, a paragraph or a larger quotation. Code labels need to accurately describe the data they represent while also being brief (Brailas *et al.*, 2023:22).

Moreover, thematic analysis aligns with the inductive methodology used in this study, allowing for the development of themes directly from the data instead of being

influenced by pre-established theories. This approach involves generating in vivo by identifying significant patterns in the data (Lester *et al.*, 2020:101). In vivo codes are direct representations of the participants' language, maintaining the authenticity and richness of their expressions. This means the exact words from a quotation are selected as a code (Ronzani *et al.*, 2020:299). The inductive process entails the creation of a code from the patterns identified in the data under the guidance of the dataset's content (Vears & Gillam, 2022:113). The analysis followed Glaser and Strauss's coding process to identify themes, comprising Open, Axial and Selective Coding (Akkaya, 2023:92; Estaji & Azizbeigi, 2025:40). In preparation for analysis, all memo notes were scanned and, together with interview recordings, were collected and arranged in ATLAS.ti. Each file was assigned a protocol name and a master data catalogue was produced detailing each data source, its creator, storage location and collection date (Lester *et al.*, 2020:99).

After properly preparing and organising the data, it was transcribed using verbatim transcripts to accurately record the participants' responses and enhance familiarity with the dataset. The transcripts were repeatedly read to improve familiarity with the data and help identify emerging themes and potential biases. The self-reflection was an integral part of the analysis process. It was acknowledged that background and experience could influence the data analysis process, so measures were implemented to reduce any possible bias. This involved maintaining reflectivity by writing down insights and reflections to stimulate further in-depth analysis (Lester *et al.*, 2020:100).

The coding process took three phases and adhered to the Glaser and Strauss approach as depicted in Figure 3.5.

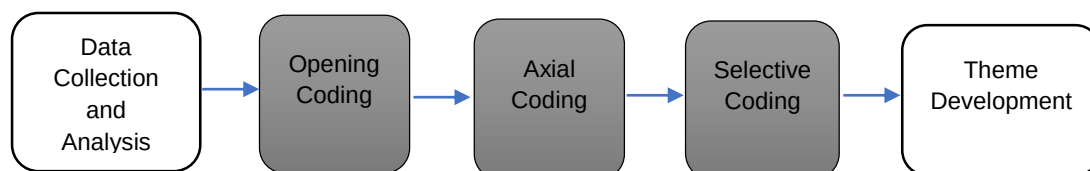


Figure 3. 5: Linear Process for Qualitative Research (Estaji & Azizbeigi, 2025:40)

From the figure above, the coding phases were discussed:

Open coding: the initial codes were created by breaking the data into small, distinct parts to extract categories from it (Estaji & Azizbeigi, 2025:40). Key concepts and categories were identified after reading through the data several times. The responses were carefully examined and similar words and phrases were categorised as concept indicators into overarching initial themes. This in-depth analysis enabled an understanding of the important idea of each part and the development of a code to label it.

Axial coding: the interrelationship between the categories derived from open coding and the developed initial themes was established based on the recurring patterns in the data. The effort was devoted to refining, aligning and classifying the themes. The codes were reduced into broader categories according to their relationships (Estaji & Azizbeigi, 2025:40).

Selective coding: further consolidation and identification of the relationships between subcategories and concepts identified in axial coding were done to derive core categories. The codes and categories with insufficient supporting data were eliminated (Lakens, 2022:8).

3.18 DATA TRUSTWORTHINESS

3.18.1 Validity and Credibility of Data

This study emphasised the importance of rich and detailed data to ensure validity and credibility. It used in-depth interviews and phenomenological analysis to gather nuanced data reflecting the participants' experiences in the SME business environment in Lesotho. Techniques such as member checking and triangulation were employed to validate the research, while consistent methodology application and thorough documentation ensured credibility. The approach aimed to comprehensively and accurately represent participants' experiences, leading to credible conclusions. Through extensive data compilation, recurring themes or coding and patterns were identified, facilitating a reliable analysis process and ensuring that the study's findings were credible and coherent.

Enhancing quality and rigour in qualitative research is a consistent push for researchers. Qualitative researchers must acknowledge the importance of quality and rigour in validating their qualitative research by applying the best practices and methods appropriate to the research question to attain quality and rigour (Johnson *et al.*, 2020:138-145). Data collection instruments must be valid and reliable to produce high-quality research (Liu & Keating, 2022:188-189; Yang *et al.*, 2023:107). Similarly, measurement tools need to be valid and reliable to allow the collection of relevant data and its correct analysis to answer the research question (Bakhtari Aghdam *et al.*, 2022:2).

The following benchmarked strategies were employed to increase the rigour and trustworthiness of data in the data collection and sampling processes of this study: ethics in deciding on the research design, clear rationale when deciding on the sampling design, member checking, determination of data saturation, data triangulation, researcher subjectivity and reflexivity and prolonged participant engagement (Adewole, 2022:4; Johnson *et al.*, 2020:141). The participants' protection concerning dignity, respect and confidentiality was the top priority in the study.

Data triangulation – the data were collected from multiple primary and secondary sources to optimise accuracy in data collection and analysis and minimise bias and errors. These included participants, books, journal articles, web pages and government publications. Data cross-checking from different perspectives improved the credibility and accuracy of the research findings.

Member checking – the data and interpretations were shared with the participants to validate the accuracy and completeness of the captured interview proceedings. This process improved the validity of the interpretations by incorporating the participants' viewpoints.

Prolonged engagement with participants - interviews were scheduled to last between 40 and 60 minutes. However, an extended time was spent, either before or after the interview sessions observing the participants' situations, such as cultural norms for further familiarisation. This helped to gain more about participants' beliefs,

experiences and behaviours, thus increasing the depth and richness of the collected data.

Researcher subjectivity and reflexivity – a reflective diary was kept to record personal emotions, thoughts, biases and introspections before, during and following interactions with participants and to develop insights into the research area. Additionally, after the interview sessions, detailed discussions about the study were held with the participants. This encouraged the analysis of personal viewpoints and biases, ultimately enhancing the interpretation and analysis of the gathered data.

Furthermore, the quality of this research approach was contingent upon the ability to establish trustworthiness, a vital factor for establishing the validity and credibility of the findings (Ahmed, 2024:1). Methodological application of measures to guarantee trustworthiness improves the accuracy and credibility of qualitative research and improves limitations such as resource constraints and subjectivity (Ahmed, 2024:1). The trustworthiness of the research is part of the communal realities, in which both writers and readers are likely to find commonality in their procedures. The research study adopted Lincoln and Guba's (1985) criteria for achieving trustworthiness. They indicated four key principles: credibility, dependability, transferability and conformability (Haq *et al.*, 2023:150; Nassaji, 2020:428-429; Stahl & King:26-28).

Credibility – the concept of credibility involves demonstrating the accuracy and validity of data, the respondents' perspectives and their subsequent analysis (Kakar *et al.*, 2023:160). The credibility was promoted through data triangulation. That is, numerous sources of data from the field were used to establish recognisable patterns recurrently. Primary data were obtained from the participants, while journals, books, government publications and web pages were used as secondary data sources. Furthermore, the study used member checks by sharing data and interpretations with the participants concerned at the end of an interview to confirm the interpretation of the given responses. Spending adequate time with the participants also helped to build trust and rapport and gain deep insights into their behaviour, experiences and beliefs.

Dependability – in qualitative research, this refers to the credibility of the study as determined by the researcher (Kakar *et al.*, 2023:157). In this study, all steps

undertaken were documented and a record was kept to provide a rationale behind the conclusions made and to assess the dependability of this study by other researchers. The whole interview process was transcribed and coded using thematic analysis methodology, thereby eliminating personal bias and enabling the objective interpretation of the data.

Confirmability – neutrality pertains to the level of impartiality in the outcomes, ensuring the authenticity of responses provided by research participants without any underlying biases (Kakar *et al.*, 2023:160). Peer debriefing and peer scrutiny were used to create trust in this study. That is, the project has undergone peer review where experts were asked to check the collected data and the interpretations to uncover possible biases and broaden the perspectives. The comprehensive notes of the comments and contributions of the debriefs were considered and modifications were made accordingly. The research study also used audit trail techniques to enable other researchers to follow and verify the processes followed. All procedures for collecting data, decisions regarding coding and modifications undertaken during the research were thoroughly documented. A record of raw data, transcripts, field notes and reflexive journals was kept for data cross-referencing and ease of reporting the research process.

Transferability - it refers to the extent to which the research findings can be applied to similar contexts, individuals, groups and environments (Kakar *et al.*, 2023:150). The study employed thick descriptions to allow the readers to comprehend the context in which it was conducted and assess the transferability of the findings. Thick description involves giving a thorough account of the participants' views, intents, circumstances, motives, meanings and understandings to ensure transferability and enable judgments about the fitness of the findings with other contexts (Younas *et al.*, 2023:2).

A detailed description of the research setting, methodologies employed and the participants involved was presented to allow readers to assess the relevance of the study's results to their situations by comparing the similarities between this study and their context. In addition, the study clearly explained how the sample was chosen and the criteria used as justification that the results of this study can be applied to other situations. For example, it is indicated that the sample size was determined by its

saturation level (Ahmed, 2024:2). The potential limitation to the credibility and trustworthiness of this study in the future was acknowledged. The data for this study, the steps followed and the decisions made regarding the data coding and analysis will be accessible for five years following final approval. Thereafter, all the recordings and transcripts will be securely destroyed.

3.19 ETHICAL CONSIDERATIONS

This research study adhered to the ethical guidelines and principles set forth by the North-West University and other international ethical standards applicable to it. Throughout the study, the autonomy and privacy of the participants were upheld. Participation in the study was entirely voluntary and the participants were free to withdraw at any point without facing any negative consequences, notwithstanding their choice to participate in the first place. Additionally, the study was conducted without coercing the participants. They were free to refuse to answer questions that they were not comfortable with and their decisions did not impact any opportunities or relationships as indicated in Appendix D. Permission was obtained from relevant gatekeepers and consent was granted as documented in Appendices A and B. Furthermore, ethical clearance for the research was sought from North-West University and formal approval was received with the reference number NWU-00683-24-A4 as shown in Appendix E.

Before taking part in the study, informed consent was obtained from each participant as per Appendix D. This was done to ensure that the participants fully understand the nature of the research, their involvement and their rights. They were allowed to ask questions and seek clarification before giving their consent to participate. All data were handled per the guidelines of the Protection of Personal Information Act (POPIA) and Lesotho's Data Protection Act. The personal data collected from the participants during the interviews was only used for specific lawful purposes related to the objectives of this study. This information was handled with the utmost discretion and could not be disclosed to any third party not directly involved in the study without explicit consent from the participants.

The research study was dedicated to respecting the rights of the participants according to POPIA and Lesotho's Data Protection Act, including the rights to access, delete and/or rectify their personal information. The confidentiality of the participants throughout the study was ensured. Unique IDs were assigned to the participants to prevent their identification from the data presented in the publication and the interviews were recorded and saved with reference to these IDs. Hard copies of the data were stored in a lockable drawer, while soft copies were kept in password-protected devices. Access was restricted and both master and spare keys were kept by one person who was directly involved in the study. All recordings were encrypted and stored in password-protected computer files to prevent unauthorised access. Likewise, hard copies of the memos were locked in a drawer with restricted access. The written and verbal consent of the informed participants was confirmed before conducting the interviews. Individual interviews took place in a single session and lasted about 40 to 60 minutes. The data were kept until the study was examined and approved by the North-West University. After approval, the data were securely disposed of by shredding or deleting. All the participants in the study did not have any personal relationships that could create conflicts of interest. They qualified as participants in this study because they met the specified criteria.

3.20 CHAPTER SUMMARY

This chapter outlined the research methodology adopted to achieve the study's research objectives. The study employed an interpretive paradigm and applied an inductive research approach to identify the themes. A phenomenological design was chosen to gain a comprehensive understanding of the lived experiences and perspectives of participants in the business environment of SMEs in Lesotho. Non-probability sampling, specifically purposive sampling was used to select the participants with in-depth knowledge of the subject under study. Semi-structured interviews were used to collect data and an interview protocol developed through a thorough literature review and pilot testing guided the interviews. Document analysis backed up the interview-collected primary data.

Thematic analysis was conducted on the qualitative data with coding techniques to reveal recurring themes in the information and perspectives to be shared by the

participants. The limitations of the study, including potential bias associated with subjective interpretations and errors were recognised. Therefore, the study adhered to strict methodological rigour to strengthen the credibility and trustworthiness of the findings. Additionally, ethical considerations were given high priority, with all participants consenting to their participation and strict measures implemented to maintain confidentiality. In the next chapter, the study analysed the collected data using the methodology outlined in this chapter.

CHAPTER 4

RESEARCH ARTICLE 1

Exploring selected stakeholder perceptions on government policies affecting SMEs in Lesotho

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This article aimed to investigate the following objectives of the study: to establish the government policy constraints on a conducive business environment, policies and regulations affecting the SME sector in Lesotho, as well as to assess the costs associated with the business environment in Lesotho. The article was accepted and published by the International Business School Conference (IBC). The letter of acceptance is shown as ANNEXURE A, while the IBC guidelines are marked as ANNEXURE B.

ABSTRACT

The study investigates how government policies and regulations impact the development and growth of small and medium enterprises (SMEs) in Lesotho. It is grounded in growth theory and employs a phenomenological strategy. The population included registered SMEs, informal SMEs, commercial banks, the tax authority, the Department of Small Businesses, government agencies, the Lesotho Chamber of Commerce and Industry and business associations. The sample size, determined by saturation in each stakeholder group, consisted of 37 participants. Thematic analysis was used to inductively analyze the data, identifying trends and themes. The findings showed that tax and monetary policies have a significant negative influence on SMEs' growth and development in Lesotho. The study concluded that government policies and regulations have a significant and positive influence on the development and growth of SMEs. The study explicitly recommends that the Lesotho government adopt a more balanced policy approach and reform tax, monetary policies and business licensing and registration regulations to address the specific situations of SMEs to contribute to sustainable growth. The simplified business taxation system, referred to as the Simplified Business Taxation (SBT) needs to be reviewed to include incentives in order to ensure its effective implementation.

Keywords: SME development and growth, government policies and regulations, Lesotho, influence

JEL Classification: M10, M12, M13, M14

4.1 INTRODUCTION

This study investigates and analyzes the primary constraints hindering the development and growth of SMEs in Lesotho, focusing on how government policies and regulations contribute to these barriers from a stakeholders' perspectives. It presents the theme, "policies and regulations-driven constraints to SMEs' development and growth," comprising the following sub-themes: regulatory and policy issues, market access and economic barriers and infrastructure and utilities issues.

This paper assesses government policy constraints on the business environment, including policies and regulations affecting the SME sector in Lesotho, as well as the associated costs. The Lesotho loti (LSL) is the currency used throughout this study. Loti is pegged to the South African rand (ZAR) at the fixed exchange rate of 1:1 (International Monetary Fund, 2022:58-60). Based on the collected data from SME owners and stakeholders in this study, the startup compliance cost is approximately M700, while the ongoing compliance costs are estimated between M20,000 and M35,000, including tax compliance, labour law adherence, professional fees, license renewals and annual returns with the Ministry of Trade, Industry and Small Business and sector specific compliance requirements.

The purpose of this paper is to examine the barriers to SMEs' development and growth resulting from the government policies and regulations in Lesotho. SMEs are recognized as key drivers for sustainable, economic and industrial growth globally (Abdilakimov, 2023:5; Gloria, 2022:458). They contribute significantly to innovation, job opportunities and eventually to the overall economic growth (Yadewani *et al.*, 2024:252). However, their success depends greatly on the environment in which they operate as influenced by the complexity of government regulations. Governments support businesses' sustainability and growth through policies. However, the effectiveness of these policies can vary due to different socio-economic conditions between countries (Umoh, 2025:1).

Governments implement regulations addressing issues such as consumer protection, economic stability and environmental sustainability, affecting business operations and strategic decisions. Developed economies rely on regulations in establishing a framework to support economic stability, enable fair competition, guarantee market stability and safeguard the public interest (Srivastava, 2022:8784; Salami *et al.*, 2023:78). In developing countries like Lesotho, the effectiveness of government policies is hindered by a weak regulatory framework and poor policy implementation and inadequate law enforcement to support private sector growth (MUPA *et al.*, 2024:18-30; Stiftung, 2024:18-30).

In Africa, SMEs struggle due to inconsistent policy implementation and political instability, hindering government policy initiatives intended to promote SME development, such as tax incentives, capacity-building programs and credit facilities (Umoh, 2025:1). Specifically, the government of Lesotho has credit guarantee schemes and capacity-building programs to foster SME development. However, SMEs remain constrained due to a lack of engagement in policy designs (Obiahu & Qutieshat, 2024:28).

4.2 BACKGROUND

Lesotho, a small landlocked developing nation in Africa, relies heavily on its neighbour, South Africa, for various aspects, including employment and trade (Nkabane & Wantchami, 2024:17-20). In 2023, Lesotho's real Gross Domestic Product (GDP) was M20,735 million and it realized a GDP growth rate of 3.6% by the end of 2024. However, consistent weakening of its economic growth results in instability and an inability to address its vulnerabilities and development challenges. For instance, the economy contracted by 0.4% between 2022 and 2023 (African Development Bank Group, 2024:2).

One significant challenge facing Lesotho is trade imbalances, characterized by higher import volumes compared to exports, resulting in a trade deficit. Approximately 85% of imports come from South Africa (International Monetary Fund, 2022:85; Nkabane & Wantchami, 2024:20). In March 2025, Lesotho recorded a trade deficit of M1.55 billion, with imports totaling M2.05 billion compared to exports of M500 million to South Africa (Observatory of Economic Complexity, 2025).

In light of these challenges, Lesotho and South Africa have engaged in multiple bilateral trade and investment discussions, with the recent meeting occurring on June 3, 2023. The discussions focused on leveraging trade agreements to create platforms for accessing international markets, improving the efficiency of cross-border trade and prioritizing the implementation of the African Continental Free Trade Area (AfCFTA) (Department of Trade Industry and Competition (dtic) Republic of South Africa, 2025).

In Lesotho, SMEs have the potential to alleviate poverty, boost trade, reduce unemployment and promote economic diversification (Ojo & Adelakun, 2025:10-11). The unemployment rate has stabilized over the past five years, rising from 16.88% in 2019 to 18.8% in 2020, then declining to 18.3% in 2021 and 16.15% in 2024 (Statista, 2025). However, SMEs' potential contribution is hampered by inadequate regulatory support, poor government policies' implementation, inadequate private sector participation and infrastructure. The government fails to amend policies to embrace new or effective policies (UN, 2024a:3-8), leading to high compliance costs, high operating costs due to poor infrastructure and limited access to capital for SMEs (Umoh, 2025:1).

The lack of access to finance is one of the key constraints to the development and growth of SMEs in developing countries (Obiahu & Qutieshat, 2024:34). Specifically, SMEs' access to finance is constrained by a lack of harmonized financial policy actions for creating policies that allow easy access to adequate finance in Lesotho. The informational issues and high transaction costs are key factors in this regard (Amadasun & Mutezo, 2022:1).

4.3 PROBLEM STATEMENT

The number of SMEs in Lesotho increased between 2016 and 2023, however, their growth rate remained low at 3%, despite accounting for about 76% of private sector economic activities (FinMark, 2025:10-13). This slow growth may be due to regulatory barriers affecting access to finance crucial for investment in innovative projects for sustainable growth (United Nations Capital Development Fund, 2021:8-12). Additionally, Lesotho experiences a high SME failure rate, with less than 10% of indigenous Basotho-owned SMEs surviving (Amadasun & Mutezo, 2022:2; Amadasun & Mutezo, 2023:1). Notwithstanding its economic significance and potential in Lesotho, this sector faces several challenges, including regulatory burdens, access to finance, inadequate infrastructure, water and electricity supply and limited market access (Amadasun & Mutezo, 2023:2; Makara *et al.*, 2023:47-50). This study

investigates the influence of government regulations and policies on SMEs' business environment in Lesotho.

4.4 RESEARCH OBJECTIVES

4.4.1 Primary objective

The primary objective of this study is to investigate barriers to SMEs' development and growth in Lesotho.

4.4.2 Secondary objective

Explore the relationship between government policies and regulations and SMEs' development and growth.

4.5 LITERATURE REVIEW

4.5.1 Background

The literature and the theoretical framework used to examine the influence of government policies and regulations on SMEs' growth and development are discussed below. The section begins with a discussion of theoretical perspectives, followed by the contemporary literature on the impact of these policies.

4.5.2 Theoretical view of government policies and regulations on SMEs development and growth

Numerous theoretical frameworks were used to analyze the link between SME growth and government policies. Penrose's theory of growth (Pattit *et al.*, 2024:1) claims that both internal and external resources contribute to a business's competitive advantage and development, with business size being independent of the growth process. Instead, growth hinges on the inventiveness and success of managerial resources (Gloria, 2022:460). Growth results from effective management, experience, resource

understanding and using them innovatively. To enhance local market profitability, businesses should also explore international market diversification (Lau & Michie, 2025:157).

According to Institutional Theory (Barbar, 2025:1), government regulations impact the environment in which businesses operate, affecting their activities (Alojonovich, 2023:14-19). The regulatory frameworks generate both opportunities and constraints for SMEs. The frameworks that offer guidance and simplified compliance processes consider SMEs' conditions thereby reducing compliance burden and encouraging sustainability practices. Contrarily, frequent changes in government policies hinder SMEs' long-term planning (Gomes, 2024:3047- 3048). As such, government policies and regulations play a pivotal role in stimulating SMEs' growth by shaping a predictable and steady environment that lowers operational costs and promotes confidence (Usmany, 2024:1615).

Public Choice Theory (Nambassa & Mutiarin, 2024:2) suggests that government policies often prioritize specific interest groups over the public good, driven by the self-interest of decision-makers, which hampers competitiveness and burdens SMEs. Conversely, Public Value Theory argues that inclusive and transparent regulations serve the broader public through effective stakeholder engagement initiatives (Chohan, 2024:3). This contradiction highlights the complexity of government policies and the need for empirical research to assess their effects in various contexts (Dussauge-Laguna *et al.*, 2024:332-333). Government policies greatly impact the business environment. Favourable policies encourage sound economic management, provide supportive infrastructure and ensure political stability thereby fostering business development. Conversely, unstable policies impose excessive restrictions or create trade barriers that deter business growth and discourage new investments (Kumari & Saxsena, 2023:37).

Previous studies identified issues such as informality, regulatory burdens and restricted access to finance as challenges facing SMEs in developing countries, largely influenced by their regulatory frameworks (Tonya & Samwel, 2024:157). The effects of tax laws and monetary policies have drawn attention. The next section examines the impact of tax laws and monetary policies on SMEs' development,

considering compliance costs, incentives and the overall environment (Jaman *et al.*, 2023:173-175) and the emerging trends.

4.5.2.1 Tax Policy

Taxation is how governments generate revenue to fund expenditures (Gloria, 2022:460). A friendly tax environment can significantly enhance the growth of SMEs by simplifying compliance, improving access to affordable advisory services and providing incentives (Nelson *et al.*, 2025). Policymakers should prioritize a tax system that supports SMEs' growth needs. High tax rates can deter business activity by dampening investment morale, while low rates encourage retained profits and expansion (Olayeye & Funmilola, 2025:683). Additionally, a consumption tax can increase the costs of goods and services for consumers. Notably, Lesotho's tax rates are higher than in 36 African countries, denoted by the tax to GDP ratio (OECD, 2024b:1).

A complex tax environment can encourage SMEs to adopt formal practices that promote sustainability and growth by improving operations and record-keeping, which can enhance access to financial support (Nelson *et al.*, 2025:300). Policymakers should implement tax policies that create a supportive environment for SMEs as their growth benefits the economy. These policies should include growth development instruments or incentives like tax exemptions, reliefs or holidays (Roman *et al.*, 2023:4-13).

4.5.2.2 Monetary policy

Access to funding is a challenge for SMEs in many developing countries (Amadasun & Mutezo, 2022:1-4). Monetary policy significantly affects lending capabilities, interest rates and liquidity, which can either ease or hinder SME financing. Initiatives like development finance facilities and concessional lending can help address the funding gap for startups and underserved SMEs (Modugu & Dempere, 2022:217-226). In developing countries like Lesotho, with less developed and more volatile financial markets, effective monetary policy is crucial for SMEs, which are vital for employment and economic growth (Umeaduma, 2024:27). It guides financial institutions in credit

decisions and supports better credit allocation and collection. SMEs typically rely on bank funding due to their small size and lack of collateral, but face low credit levels because of flawed financial structures and challenges in managing credit risk (Wang, 2022:30). Policymakers and financiers should consider repayment duration as long terms help SMEs build strong business relationships (Lefebvre, 2023:1313). To protect SMEs from negative policy shocks and foster inclusive economic growth, financing solutions like credit guarantees and refinancing schemes should be explored (Umeaduma, 2024:27).

4.5.2.3 Emerging trends

Many businesses are embracing digital transformation, which leads to benefits like increased productivity, improved customer satisfaction, cost reduction, competitive advantage and enhanced efficiency. However, SMEs often struggle with digital transformation due to a lack of essential digital skills and infrastructure. A significant number of SMEs lack essential digital skills and basic digital infrastructure. To improve Digital Technology Integration (DTI) in SMEs, governments can develop a comprehensive digital strategy, ensure affordable digital infrastructure and create regulations tailored for SMEs (Moreira *et al.*, 2025:1-15). SMEs are increasingly adopting environmentally friendly practices in response to climate change, pollution and resource depletion, while also meeting customer demands for sustainability. Government policies, subsidies and incentives can further motivate SMEs to implement these practices cost-effectively (Achmad *et al.*, 2023:3; Toromade & Chiekezie, 2024:2638).

4.6 RESEARCH METHODOLOGY

4.6.1 Research strategy and method

This paper followed a qualitative approach with a cross-sectional design and a phenomenology strategy. The cross-sectional design was suitable for observing the influence of policies on SME growth in Lesotho at a specific time without follow-ups. The phenomenology strategy aimed to gain an in-depth understanding of the participants' feelings and experiences regarding the impact of government policies on

SME development and growth in Lesotho. The semi-structured interviews and document analysis were used for data collection. Consent was obtained from all participants before interviews, which were conducted face-to-face or virtually, based on participants' preferences and lasting for 40 to 60 minutes. The participants were assured of the voluntary nature, confidentiality and anonymity, with no personal information required.

4.6.2 Participants, data collection and sample characteristics

A combination of purposive and snowballing sampling methods were used to collect data from registered SMEs situated in Maseru, Leribe, Mafeteng and Berea districts. Additionally, data were gathered from informal SMEs listed in the Basotho Enterprise Development Corporation (BEDCO) database and key stakeholders, including the Department of Small Business, tax authority, chamber of commerce, commercial banks, business associations and government agencies. A total of 37 stakeholders participated in research interviews (as shown in Figure 4. 1): 17 registered SMEs, 7 informal SMEs, 3 commercial bank officials, 2 tax authority representatives, 2 Department of Small Businesses officials, 2 government agency representatives and 2 from the Lesotho Chamber of Commerce and Industry. For qualitative research, the sample size is deemed sufficient until saturation is reached (Mwita, 2022:417). The final sample size was determined by data saturation in each participant group.

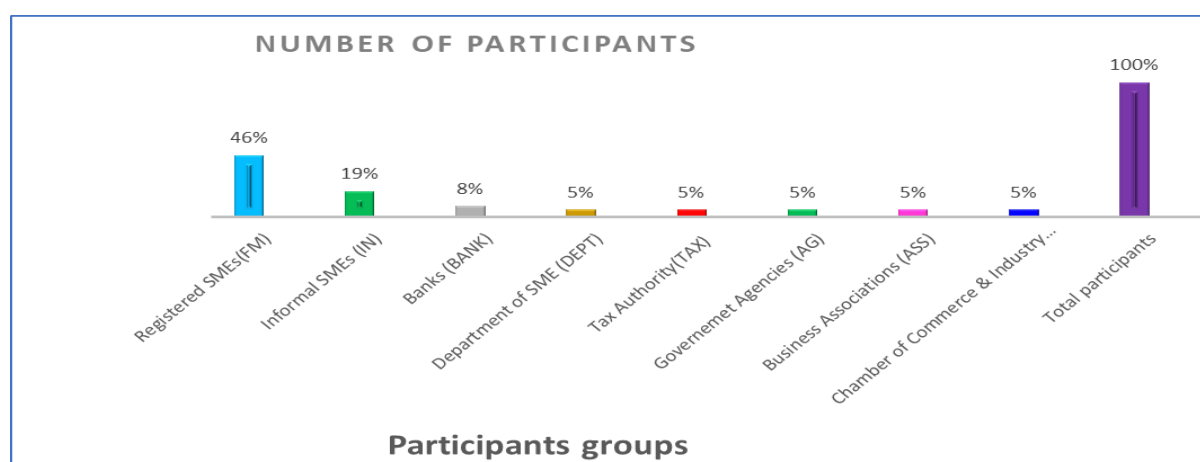


Figure 4. 1: Number of participants (Source: Own compilation)

4.6.3 Data analysis

The thematic analysis framework was used to analyze data, involving transcription and familiarization with data, initial coding, grouping codes by similarities, developing themes, reviewing and refinement of themes and producing a report. This paper followed Glaser and Strauss's coding process (Charmaz & Thornberg, 2021:306), comprising Open, Axial and Selective Coding (Akkaya, 2023:92; Estaji & Azizbeigi, 2025:40). Interviews and handwritten memos were transcribed electronically. Interviews and secondary documents like government gazettes were uploaded into the Atlas.ti software for managing, organizing codes and identifying themes.

These documents were organized into document groups within the software before coding. Initial codes were inductively generated to capture significant information related to the research questions. Interview scripts were repeatedly read for familiarization. The word cloud in Figure 4.2 reflects important words used for the identification of themes (van Rensburg, 2023:1). Open codes emerged from significant information linked to the research questions (Sharma, 2024:124). The memo of patterns was recorded as similarities developed throughout the coding process, leading to the development of final themes based on broader patterns from the subthemes.



Figure 4. 2: Word cloud of codes (Source: Own compilation)

The code book was exported to Excel to identify similarities and organize codes into sub-themes and themes. Microsoft Excel and Word were used, alongside Atlas.ti to create visuals like tables and charts. Group codes were established in Atlas.ti ensuring that themes were distinct and made sense. Powerful quotes from the data supported each theme and networks of quotes, codes and themes were then extracted (Sharma, 2024:126). Atlas.ti enhances data management by allowing uploading and grouping of documents and designing codes and themes for data exploration (Ñañez-Silva *et al.*, 2024:129). This software simplifies the organization and analysis of collected data, enabling efficient codification and the identification of trends and new themes.

4.6.4 Data trustworthiness

4.6.4.1 Validity and Credibility of Data

Several approaches were employed to ensure data validity and credibility. In-depth, semi-structured interviews were conducted with intentionally selected participants familiar with the paper's focus, employing purposive sampling to align data with. A pilot test with a few participants was conducted to assess the clarity of the interview protocol and its relevance, with necessary corrections and amendments made. Memos and voice recorders were used to capture interviews for data accuracy, which was then transcribed. Throughout the process, a reflective diary was maintained to document personal thoughts, emotions and biases to mitigate the researcher's bias.

Additionally, prolonged engagement with participants was used to gain a deeper understanding of their perspectives and experiences through further familiarization thereby enhancing the depth and richness of the collected data. The findings were verified through member checking, where results were shared with the participants for review. All decisions made during data gathering and analysis were documented to maintain an audit trail. Data triangulation was employed with primary data from interviews and secondary data sources, such as government publications. These steps improved the accuracy, trustworthiness and consistency of the paper's findings.

4.7 ETHICS

Ethical clearance (N W U - 0 0 6 8 3 - 2 4 - A 4) was obtained from the North-West University School of Business and Governance to conduct the study. Informed consent was received from each participant before conducting the interviews. Each participant was assigned a unique ID to ensure confidentiality and protect their identity. All data were securely stored on password-protected devices or in locked drawers, with access limited to the researcher.

4.8 RESULTS

The findings were organized by stakeholder group to provide each group's perspective, although interviews were conducted individually. Table 4.1 shows that there were 296 quotations, 12 Codes, four sub-subthemes and 1 theme generated from the interview scripts and secondary data.

Table 4. 1: Process of developing themes (Source: Own compilation)

Codes (Frequency of codes)	Sub-themes	Theme	Frequency		
Strict and blanket approach to regulations (38)	Regulatory framework issues	Policies and regulations-driven constraints to SMEs' development and growth	291		
Inefficient SMEs engagement (17)					
The lack of incentives and government support (42)					
The Lack of or poor policy implementation or enforcement (13)					
Market access issues (18)	Market access				
The lack of innovation (11)					
Access to finance (39)	Financing and costs				
Absence of a development bank (2)					

Codes (Frequency of codes)	Sub-themes	Theme	Frequency
The lack of or poor policy implementation or enforcement (13)	Infrastructure and utilities issues		
Operational costs (55)			
Insufficient or poor infrastructure (38)	Infrastructure and utilities issues		
The lack of access to electricity and water (18)			

Figure 4.3 illustrates a thematic network view demonstrating the connection between the code, subthemes and theme. It shows how codes were categorized into subthemes and how these subthemes influenced the development of the main theme. This network portrays that each subtheme is supported by several codes and the following subthemes: market access, financing and costs and the regulatory framework issues were linked to more codes than the subtheme infrastructure and utilities. This indicates that market access, financing and costs and the regulatory framework issues presented a wider variety of participants' viewpoints.

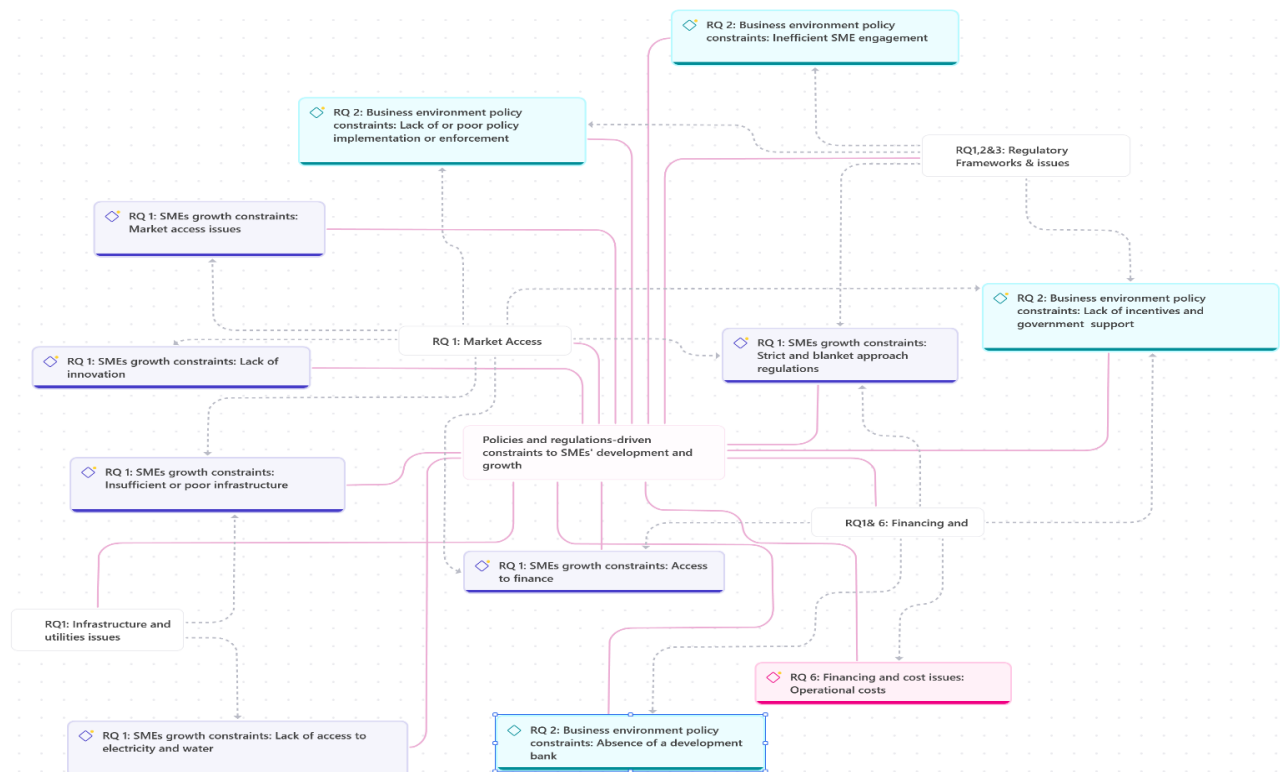


Figure 4. 3: Network of policy and regulatory-driven constraints to SMEs' development and growth (Source: Own compilation)

Table 4.2 is the code-occurrence table that shows the relationship between the codes. The first column lists the general SMEs' growth constraints, the second column indicates barriers associated with the business environment and the last column lists issues related to financing and costs. Between the three sub-themes, financing and costs, infrastructure and utilities and the regulatory framework issues were the leading value connected to the policy-driven constraints, while market access was less.

Additionally, this table illustrates the connections among the codes through the use of coefficients, where the highest correlation coefficients indicate a strong association among the codes (Choe *et al.*, 2022:9). That is, the scenarios where two codes occurred in the same data segment indicate the relationship among the themes. The correlation coefficient between financing and costs and operations costs of 0.71 and the correlation coefficient of 0.27 between business environment policy constraints and lack of incentives and government support as depicted in Table 2 indicate the strongest connections. These results mean that strict national financing policies lead to high operating costs, such as high interest and professional fees.

On the other hand, the correlation coefficient of 0.04 between SME growth constraints and the lack of innovation and the correlation coefficient of 0.06 between SME growth constraints and market access show that a weak relationship may exist between the two. This could mean that access to the market is not largely influenced by government policies and regulations, but rather more by individual business strategies and commitments.

Table 4. 2: Code co-occurrence table (Source: Own compilation)

	○ RQ 1: SMEs growth constraints Gr=296		○ RQ 2: Business environme nt policy constraints Gr=157		○ RQ 6: Financing and cost issues Gr=78	
	count	coefficient	count	coefficient	count	coefficient
● RQ 1: SMEs growth constraints: Access to finance Gr=39	40	0.14	0	0.00	0	0.00
● RQ 1: SMEs growth constraints: Insufficient or poor infrastructure Gr=38	38	0.13	0	0.00	0	0.00
● RQ 1: SMEs growth constraints: Lack of access to electricity and water Gr=18	18	0.06	0	0.00	0	0.00
● RQ 1: SMEs growth constraints: Lack of innovation Gr=11	11	0.04	0	0.00	0	0.00
● RQ 1: SMEs growth constraints: Market access issues Gr=18	18	0.06	0	0.00	0	0.00
● RQ 1: SMEs growth constraints: Strict and blanket approach regulations Gr=48	48	0.16	0	0.00	0	0.00
● RQ 2: Business environment policy constraints: Absence of a development bank Gr=2	0	0.00	2	0.01	0	0.00
● RQ 2: Business environment policy constraints: Inefficient SME engagement Gr=11	0	0.00	11	0.07	0	0.00
● RQ 2: Business environment policy constraints: Lack of incentives and government support Gr=42	0	0.00	42	0.27	0	0.00
● RQ 2: Business environment policy constraints: Lack of or poor policy implementation or enforcement Gr=14	0	0.00	14	0.09	0	0.00
● RQ 6: Financing and cost issues: Operational costs Gr=55	0	0.00	0	0.00	55	0.71

4.8.1 Theme: Policies and regulations-driven constraints to SMEs' development and growth

The findings revealed several essential barriers to SME sector growth and development stemming from government policies and regulations in Lesotho. These barriers were categorized into four key subthemes: regulatory framework issues, market access, financing and costs and infrastructure and utilities issues. Quotations from the participants were used to illustrate important facets of this theme.

4.8.1.1 Subtheme 1: Regulatory framework issues

- **Registered SMEs**

The analysis showed that the regulatory environment negatively affects SME development in Lesotho. When asked about the main constraints on SME growth, most (59%) of registered SMEs said that blanket policy approaches place a heavier burden on SMEs than on large businesses. They argued that SMEs face unfair competition due to compliance pressures as they have limited financial resources. One respondent pointed out that: *"All resident companies, regardless of business size, must pay tax at 25% on their taxable income. They must also maintain proper accounting records, irrespective of financial situation"* (D002 PL, 2025). This suggests that the regulatory frameworks do not fully account for SMEs' unique circumstances. The analysis also showed that policies related to business licensing and registration, tax and monetary matters directly influence the development and growth of SMEs in Lesotho.

- **Informal SMEs**

Two issues about blanket approach policies were raised: rigidity and lack of support. 71% of the informal SMEs attested that SMEs' development in Lesotho is hindered by strict policies without support to enhance compliance. Two of these respondents noted that all employers are required to pay severance pay as terminal benefits to employees. It is determined using the same formula, disregarding business size and growth potential. It is calculated as two weeks' salary for every completed year of employment with the same employer (Lesholu, 2023:20-21; Ministry of Labour (Lesotho), 2024:94).

The participants appreciated the requirement; however, they noted that the regulation lacks provisions to assist employers in accumulating funds, such as mandatory contributions to a national fund like South Africa's Unemployment Insurance Fund (UIF), from which the employees' benefits can be paid. One of these respondents highlighted that SMEs try to evade compliance, although at the expense of their growth, stating that: *"I engage employees temporarily and none work continuously for a complete year. As such, the business is unable to retain talented employees. I also hire traders' licenses from registered businesses to tender for jobs, which is cheaper than the frustrations and burdens that registered businesses are exposed to"* (A002 IN, 2025).

- Tax authority

All the Revenue Services Lesotho (RSL) representatives shared that SMEs are subject to all types of taxes without any sector-specific incentives, like a reduced tax rate. They noted that SMEs contribute between 14% and 16.7% of tax revenue and believe that tax incentives would positively impact their growth and overall economic contribution. Tax incentives liberate funds that can be allocated to innovation and access to global market strategies, thereby steering business growth (Kandie, 2020:77).

When further asked about a simplified tax system and its effectiveness, it was noted that the system is available to all sectors; however, its implementation is no exception from the general inefficiency in other policies. They shared that most SMEs are still exposed to high compliance costs or default due to administrative burdens because they are not aware of this system. One respondent specified that: *"Many SMEs incur fines and penalties for non-compliance stemming from a lack of awareness about their obligations or due to frustrations of navigating through the complex tax system"* (TAX001, 2025).

- Business Associations

Another barrier that stood out during the interview with business associations, such as Khathang Tema, was ineffective SME engagement. 50% of the business association representatives mentioned that SMEs are placed in a compromised position as they

are rarely and inadequately engaged during policy developments. This strategy results in policies that do not consider SMEs' specific conditions: *“Lesotho's policies neglect the growth strategies of SMEs, as the sector is often excluded from the development or review processes. At times few SME representatives are consulted, but their selection is unclear, and they might not have the necessary expertise”* (ASS001, 2025).

Another respondent agreed that the general approach leads to policies that lack attention to supporting innovative SMEs for increasing productivity through technological innovation hence limited market access. The participants strongly believed that improving engagement strategies would remedy SMEs' growth policy support issues

- **Department of Small Business**

Favourable tax regulations adhering to international best practices enhance the competitiveness of SMEs and their contribution to the national GDP (OISE-AMU & Charity, 2025:46). During interviews, both representatives acknowledged that a blanket tax regulatory framework is costly for SMEs, pointing out that: *“tax compliance requirements are the same for all types of businesses, large and small. To get tax clearance, the business needs to have filed annual tax returns, which requires an expert to prepare financial statements, which is very expensive”* (DEPT001, 2025).

One representative specified that Lesotho tax policies favour large foreign-owned businesses than SMEs, saying that: *“Income Tax regulations provide for a reduced tax rate of 10% for resident manufacturing companies, and most businesses in this sector are large foreign-owned companies. These are the same companies that have access to the National Development Corporation (LNDC) partial credit guarantees and adequate business infrastructure because of financial muscle”* (DEPT001, 2025).

4.8.1.2 Subtheme 2: Market access

- **Registered SMEs**

29% of the participants emphasized that their growth is hurt by limited market access. They agreed that due to a lack of innovation resulting from skills and knowledge gaps,

limited financial resources and inadequate government support, SMEs rely on a small local market. The pattern across interviews implied that the regulatory environment influences SMEs' market access, eventually impacting their growth. One respondent reported that despite the opportunities provided by Lesotho's international connections, such as the Southern African Customs Union (SACU), SMEs do not meet the demand in terms of quality and quantity. Another one reported that inadequate policies implementation exposes SMEs to undue foreign competition: *"Even during the period of announced restrictions on the importation of agricultural produce like eggs, there are still cases of imports being done and at lower costs"* (E006 FM, 2025), specified.

Inadequate regulation of foreign investors also stood out. Less is being done to ensure the transfer of skills and technology as required by the Business Licensing and Registration Act of 2020. This would otherwise improve business continuity and SME market access: *"The inefficiency in regulating foreign investors is evident in the textile industry, where several foreign employers have left the country at will without paying their employees"* (A005 FM, 2025) reported. This situation has negatively impacted SMEs operating in the food and transport sectors.

Additionally, 18% of registered SMEs agreed that none of the government policies promote innovation to enhance relationships to access the export market. One respondent indicated: *"The African Growth and Opportunity Act (AGOA) in Lesotho is set to expire in 2025. Since its inception in 2000, no SMEs have directly benefited from this initiative due to a lack of innovation; only large foreign-owned manufacturing businesses are beneficiaries"* (D003 FM, 2025).

- Informal SMEs

57% of the informal SMEs expressed that limited market access constrain SMEs' growth. They revealed that SMEs depend on Lesotho's small population, about two million because of low capacity. However, these targeted consumers lack confidence in the quality of SMEs' offerings. When asked to explain further on the quality issue, one respondent stated: *"Several customers run away from SMEs once their means of income improve, claiming that SMEs offer low-quality products"* (C002 IN, 2025).

- Tax authority

The representatives agreed that limited market access is one of the main constraints to SMEs' growth in Lesotho. They argued that these hurdles restrict SMEs' capability to compete beyond borders through connections such as the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the African Continental Free Trade Area (AFCFTA).

- Government agencies

It was shared that the government helps SMEs with market access by facilitating business linkages, organizing promotional activities, developing sustainable value chains and engaging in trade agreements. All the participants concurred that they were established through policies to support the establishment and development of private businesses. Importantly, the Basotho Enterprise Development Corporations (BEDCO) focuses on SMEs. The representative specified that BEDCO supports SMEs with market access and funding through initiatives like the Basotho Flea Market through free or subsidized stalls.

Similarly, the Lesotho National Development Corporation (LNDC) was reported to facilitates private sector access to export market opportunities through trade facilitation policies and agreements membership: *“Recently, 20 cosmetics SMEs were taken to join an expo in Dubai under Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH relationship”* (AG001, 2025) highlighted.

Nonetheless, one representative noted that: *“unlike our peers in countries like Botswana, we are significantly under-resourced, thus impacting our performance, and strategies to promote SMEs’ growth are not consolidated”* (AG002, 2025). The respondent also raised a concern that the SME policy, which would otherwise address the sector growth strategies has never been implemented for over a decade.

- Department of Small Business

All respondents consent that as part of procurement practices, government departments started sourcing 30% of their supplies from SMEs to improve market access. However, SMEs struggle to meet the requirements owing to low capacity and

limited funding, influenced by high interest rates and strict collateral demands. In response to a question about which departments practice this, it was stated that it started in the Ministry of Health in Butha-Buthe.

4.8.1.3 Subtheme 3: Financing and Costs

- **Registered SMEs**

During the interviews, 24% of the respondents revealed that they lack access to finance. When probed further about external finance options and challenges encountered, they noted bank loans and overdraft facilities and that access is restricted by the costly regulatory requirements: *“My business uses mobile money facilities because it is in rural areas far from the banks. Therefore, the banks cannot provide financing because of the poor bank deposit history”* (C001 PL, 2025), indicated.

It was revealed that the source of capital for 100% of the interviewed registered SMEs was either personal savings or a personal loan, ranging between M3,000.00 to M900,00.00 for indigenous Basotho and M100,000.00 to M2,000,000.00 for foreign-owned businesses. This equates to R3,000.00 to R900,000.00 and R100,000.00 to R2,000,000.00 respectively, as the Loti is pegged 1:1 to the Rand (Malefane, 2023:65).

All the respondents showed that their main operational costs relate to infrastructure and utilities. While interrogated further about specific costs, transport costs, water and electricity expenses, import duties and rent expenses stood out as exceptional.

The majority of the participated SMEs reported that they only use social media: Facebook, WhatsApp, Instagram, Twitter and email for advertising and trade relationships due to financial constraints. One participant also reported having a fully functional website. Another respondent shared that their business uses Google Workspace for marketing.

- **Chamber of Commerce and Industry**

During the interviews, the representatives highlighted that the absence of a development bank is a barrier, especially for start-ups. They shared that Lesotho once had a Development Bank called Agric Bank and farmers' financial access was better.

Development Banks are government policy institutions that support development by providing credit, capacity-building and advisory services to SMEs (Nițescu & Murgu, 2022:6). *“If ever Agric Bank was still there, coupled with the use of technology, Lesotho SMEs in the agriculture sector would be among the best because Lesotho has fertile land, plenty of water, and a favorable climate”* (CHAM002, 2025) indicated.

- Department of Small Business

One respondent emphasized the need for improving policy implementation strategies, especially the financial inclusion policy. The participant stated that the majority of SMEs use mobile money facilities due to their accessibility, citing that consideration of related transactions would improve SMEs’ financial accessibility. Financial inclusion enables access to a wide range of financial services and products (Ozili, 2021:5).

- Commercial Banks

All banks’ representatives concurred that the blanket approach of regulations restricts access to finance. They noted that banks’ policies are fully aligned with the national financial regulations and cannot be tighten or loosen to accommodate SMEs’ special needs. All representatives mentioned issues like a long rehabilitation period, the requirement for collateral and Know Your Customer (KYC) requirements: *“Rehabilitation periods are too long, and although banks may admit that some reasons were beyond the SME’s control, regulatory framework restricts their discretion”* (Bank001, 2025), stated.

67% of the representatives indicated that owing to a lack of adequate collateral, most SMEs suffer high interest rates, thus limiting their growth. The interview revealed that the available government financial assistance cannot be used as collateral for SMEs to get enough funding. 33% of the respondents specified that only registered companies have access to LNDC’s partial credit. As such, very few SMEs benefit because the majority are sole traders and its approval takes time.

One respondent reported that: *“although regulated by the same regulator, Central Bank of Lesotho, microfinance institutions are not listed in the credit bureau; only banks are.”* Consequently, this hampers information sharing, resulting in an inaccurate

evaluation of SMEs' creditworthiness, offering them excessive loans, eventually defaulting and face liquidation. Compared to banks, microfinance institutions charge higher interest rates because of higher operating costs (Uddin *et al.*, 2024:1).

4.8.3.4 Subtheme 4: Infrastructure and utilities issues

- Registered SMEs

Many respondents indicated that most SMEs are located in rural areas due to high rent in towns despite poor infrastructural development. 12% acknowledged the ongoing road improvement in Maseru, but stated that it came after decades and might take long to extend to other districts. The majority specified that the remote areas are not target for large businesses and therefore better niche markets for SMEs. However, the operational costs surpass the benefits because they are underserved.

Access to water in some districts like Mafeteng reportedly forces businesses to invest in boreholes or buy water from very far places, incurring high transport costs. Another participant added that water and electricity costs are high despite Lesotho having plenty of water. Two respondents shared that some tourism businesses offer free transport to visitors to and from entry ports, not as a marketing strategy, but to secure business due to poor road conditions. The geographical location of Lesotho was reported to significantly increases the shipping costs: *"We sell imported cars, mostly from Japan and going through South Africa increases the shipping costs and we make low profit margins also because of high competition"* (C003, 2025).

4.9 DISCUSSION OF RESULTS

Based on results, regulatory framework issues, market access, financing and costs emerged as the main constraints to the SMEs' growth and development. These subthemes relate to the primary theme: policies and regulations driven constraints to SMEs' development and growth and the network in Figure 4.3 shows their connection. The regulatory framework issues, market access, financing and costs were the most prominent subthemes. They were frequently expressed concerns supported by many codes. Addressing regulatory issues is crucial for creating a conducive business environment because they also affect access to finance. The significance of these subthemes justifies their prioritization in future policy interventions. Comparatively, the

infrastructure and utilities garnered support from fewer codes; however, its importance is underscored by the serious problems it represents. Their long-term impact on the sustainability of SMEs was emphasized, warranting careful consideration.

The regulatory framework issues, first subtheme, reflect the complexities and challenges faced by SMEs in the regulatory system. Obstacles such as a lack of incentives and insufficient government support can severely restrict SMEs' innovation, access to funding and investment in essential skills. This aligns with the findings that link government incentives to an increase in sales (Nwodo *et al.*, 2024:27-28). The second subtheme, market access sheds light on the difficulties SMEs encounter when accessing local and export markets. Poor implementation of policies can exacerbate corruption levels and limit opportunities, potentially increasing SMEs operational costs. Furthermore, inadequate infrastructure, which affects both market access and the fourth subtheme of infrastructure and utilities imply that SMEs face high transportation costs. A lack of access to essential utilities like electricity can diminish their effectiveness, leading to reduced productivity and potential failure.

Financing and costs subtheme illustrates how government policies affect SMEs' operating expenses and their ability to secure funding. The absence of development banks suggests that SMEs have limited access to affordable long-term finance in Lesotho, highlighting the lack of government support. Consequently, SMEs face high borrowing costs, increased financial instability risks and challenges in obtaining vital resources. This aligns with the finding that development banks provide subsidized long-term funding for industrial growth (Musa *et al.*, 2024:26). Limited access to finance is reinforced by the finding that interviewed SMEs sourced capital from personal savings or loans.

The concern regarding the lack of development is significant. Lesotho once had the Lesotho Agricultural Development Bank (LADB), established to promote growth in the agricultural sector by providing financing to agribusinesses and farmers. However, the government closed the bank after exploring several options to address its substantial financial distress (Former employee of Lesotho Agricultural Development Bank v the Government of the Kingdom of Lesotho, 2020:9). The importance of terms like “regulations, tax, high, lack and costs” in the word cloud in Figure 2 strengthen the

main themes identified during data collection. The frequent mentioning of these difficulties highlights ongoing regulatory constraints. The SMEs' growth challenges in Lesotho are substantiated by the number of employees observed during the interviews, which ranged from six to 24 despite some having been established for over 20 years. Code-document analysis presented in Figure 4.5 indicates that the majority of participants agree that the identified factors are barriers to SME growth in Lesotho as influenced by the regulatory system.

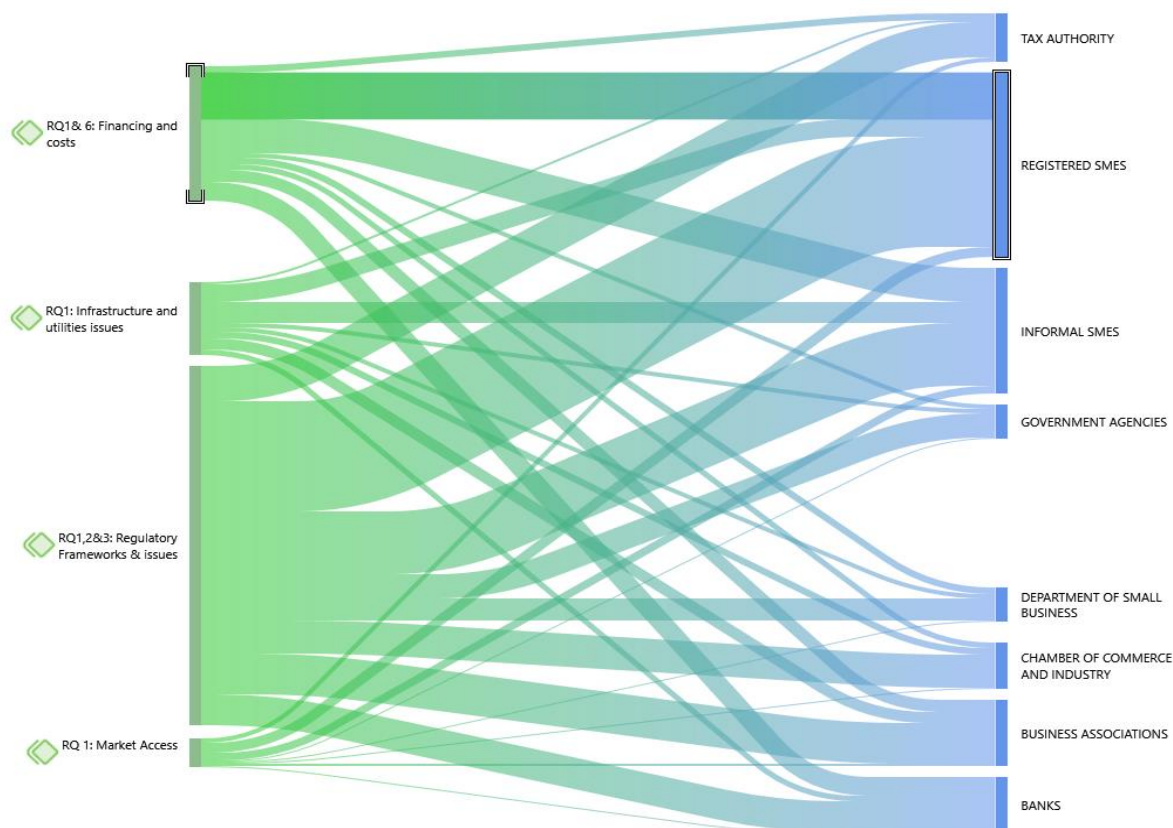


Figure 4. 4: Code-document Sankey Diagram Illustrating Participant Distribution
(Source: Own compilation)

A Sankey diagram is a visualization that shows flows between several categories. That is, the width of arrows corresponds to the amount of flow they represent. It helps to identify important contributors to a flow and visualize the main flows inside a system (Otto *et al.*, 2022:1-2). The above diagram indicates that the regulatory framework issue's sub-theme is strongly connected to all stakeholder group participants, particularly registered SMEs as indicated by the thickness of the bands. This highlights the prominence during the interviews. Contrarily, market access seemed thinner,

although connected to all stakeholder groups, which implies that few participants raised it as a concern.

The exact number of participants per stakeholder group who influenced each subtheme is demonstrated in Table 4.3 below.

Table 4. 3: Number of participants who influenced subthemes (Source: Authors' Own compilation)

Sub-theme	Regulatory Frameworks and Issues	Market Access	Infrastructure & utilities	Financing & costs
Registered SMEs	10	5	12	4
Informal SMEs	7	4		
Tax Authority	2	2	2	2
Government Agencies	2	2		
Business Association	2			
Chamber of commerce				2
Department of Small Business	2	2		
Banks	3			2
	28	15	14	10

The data indicates that most participants believe that the regulatory framework issues negatively impact the business environment thereby hindering the SMEs' growth and development in Lesotho. This highlights the regulatory framework as a significant constraint. Nonetheless, although fewer respondents cited financing and costs, it is in line with existing literature indicating that SMEs face challenges in accessing finance in Lesotho (Amadasun & Mutezo, 2022:1-18; FinMark Trust, 2025:50).

Except the government agencies and the chamber of commerce and industry, there was a consensus among the participants in various stakeholder groups that blanket regulations restrict the SME sector's growth. They were viewed as too rigid and lack tailored incentives and SME support as indicated in Table 4.3. Notably, registered SMEs pointed that they are costly and impose compliance pressures, ultimately threatening their collective bargaining power. This perspective aligns with the provisions of the Business Licensing and Registration Act of 2019, mandating that

businesses maintain an audit report as part of their records. While audit reports are essential for financial transparency and integrity (Voinea *et al.*, 2022:87), not every business can afford the associated costs.

Interestingly, the Department of Small Business and government agencies' representatives agreed that blanket regulations favour large businesses and require specialized expertise, which is financially burdensome for SMEs. This agreement suggests a lack of balanced policies that promote compliance while reducing costs for SMEs (Nelson *et al.*, 2025:295). The findings suggest that addressing obstacles related to tax policy, monetary policy and business licensing and registration regulations could enhance infrastructure and utilities and improve access to markets and finance for SMEs in Lesotho.

While Makara *et al.* (2023) examined the impact of government regulations on SMEs' growth, their paper was confined to the manufacturing sector and focused on insights from government, universities, media and financial institutions, excluding voices from SMEs, perhaps the directly affected group. This limitation resulted in an incomplete understanding of how government regulations affect SMEs' growth by failing to capture their real-life experiences. This paper aims to expand the scope by incorporating perspectives from all significant stakeholder groups, including SMEs to provide a more comprehensive understanding.

Additionally, 41% of the participants across various stakeholder groups agreed that regulations and policies significantly impact SME market access. It appeared that SMEs' reliance on a small and often disloyal local market is due to lack of innovation, quality and capacity, indicating that a sustainable solution lies in reforming the regulatory system. Furthermore, 38% of the participants linked SMEs' growth to inefficient infrastructure, while 27% attributed it to a lack of access to finance as influenced by policies and regulations. Long rehabilitation periods and inaccurate information used to assess SMEs' creditworthiness contribute to high financing costs and defaults, often resulting in liquidation. During these rehabilitation periods, SMEs may resort to borrowing from illegal lenders at exorbitantly high interest rates. The central government's role in developing the country's infrastructure is considered a key indicator of economic growth and prosperity (Nawir *et al.*, 2023:1-2). The findings

indicated that infrastructure development in Lesotho is critical for reducing the operational costs of SMEs, such as high transportation and utility expenses. The traffic light matrix below presents Lesotho's benchmarked framework for creating a conducive business environment.

Table 4. 4: Lesotho business environment conduciveness benchmarking (Source: World Bank Group, 2020:3; 2024: 155-559)

Environmental Factors	Description	Lesotho position	Lesotho Assessment
Infrastructure	Adequate road infrastructure, water and electricity accessible and ICT infrastructure and efficiency of utility services operations	Poor roads, the lack of access to water and electricity, expensive rent and high transport costs	● Not conducive
Regulations	Effective regulatory frameworks, regulatory frameworks establish a transparent trade environment, with simple compliance processes, effective policy implementation	Complex business registration and tax processes, poor implementation of policies (e.g., SME policy). High corruption	● Not conducive
Access to finance	Affordable credit is available to SMEs, subsidized with a low interest rate	High interest rates, the absence of a development bank and the financial inclusion policy have not been implemented	● Not conducive
Market Access	SMEs can supply both local and export markets	Availability of trade agreements, 30% the	● Require improvement

Environmental Factors	Description	Lesotho position	Lesotho Assessment
		government market for SMEs and a lack of innovation, limited financial resources	
Tax policy	The tax administration system is efficient, availability of tax credits, simple tax frameworks and low tax rates	Complex tax process, the lack of SME tax incentives and high tax rate.	● Not conducive

Legend: ● Conducive ● Require improvement ● Not conducive

The analysis revealed that, overall, the Lesotho business environment is not conducive for SMEs' development and growth. While the literature indicates that less than 10% of SMEs in Lesotho survive, the findings of this paper suggest that the government lacks a systematic or programmatic approach to monitor SMEs' performance, resulting in a lack of data to determine the growth or failure rate over time. The factors such as tax policy, infrastructure, regulations and access to finance indicate significant challenges for SMEs. This unfavourable environment is demonstrated by the fact that 76% of all SMEs operate informally. The prevalence of informal SMEs can be attributed to several issues, including limited access to finance, a complicated business registration process, a lack of incentives for formalization and insufficient information (FinMark Trust, 2025:15).

Nonetheless, there is some progress in enhancing market access as evidenced by the existence of a government market and trade agreements designed to facilitate access to export markets. However, a strong emphasis on improving financial access is essential as it can positively impact innovation and product quality, thereby assisting in meeting the market demand. This observation aligns with the findings demonstrating how access to finance can effectively drive market access strategies (Amadasun & Mutezo, 2023:1-2). Contrary to previous studies undertaken in countries other than Lesotho, such as Abdulrahman Shehu Ahmadu *et al.* (2025) and Gloria (2022), this

study adopted a qualitative approach to provide context-specific evidence on how stakeholders perceive government policies and regulations related to SME development and growth in Lesotho. The insights from this context-specific research adds to the global body of research and reinforce more focused policy suggestions.

4.10 MANAGERIAL IMPLICATIONS

Growth is a crucial objective for all types of businesses, especially for SMEs. From a managerial perspective, growing SMEs face numerous challenges. This paper proposes a broad framework that highlights these challenges and emphasizes the significance of addressing them with a comprehensive and balanced approach. In a qualitative paper involving 37 participants from various stakeholder groups, including SMEs, one main theme emerged: policies and regulations-driven constraints to SMEs' development and growth. This theme is supported by four subthemes: regulatory framework issues, market access, financing and costs and infrastructure and utilities issues. These findings suggest that SMEs aspiring for growth should be aware of and effectively manage these four subthemes in a balanced way. In addition to providing insights into the main theme and each subtheme, along with their potential implications for SMEs, this paper also opens new avenues for research by offering a comprehensive and integrative perspective on the challenges that SMEs face in their growth and development.

4.11 RECOMMENDATIONS

Based on the findings of this paper and the evaluation of the literature, Lesotho must aim to enhance the business environment by urgently addressing issues related to streamlining regulatory procedures, improving access to finance and developing an SME-friendly ecosystem in this priority order. Lesotho can reduce the compliance burden for SMEs by simplifying processes like business registration and lowering document requirements. This will shorten the time needed to formalize businesses and reduce compliance frustrations (International Labour Organisation, 2021:2). The World Bank emphasized that strategies like simplifying Know Your Customer (KYC) procedures, reducing remittance costs and creating collateral registration systems could help Lesotho overcome barriers to access finance (World Bank, 2022:89).

Additionally, Lesotho needs to strengthen SMEs' capacity through government support for digital transformation to foster growth and adaptability, enabling them to deliver digital products and explore new business opportunities (World Bank Group, 2022:15).

Besides the above recommended priority areas, the study offers the following recommendations:

There is a need for sustainable finance to help SMEs transition and overcome the high costs associated with the business environment in Lesotho. The paper results show that streamlined regulations might enable access to funding and reduce compliance costs and enhance operational efficiency thereby remaining sustainable.

The public sector is responsible for encouraging the private sector players to assist SMEs with sustainable finance through sustainability policies considering SMEs' interests (OECD, 2024b:71). Similarly, SMEs need to embrace sustainability practices to save the environment to become attractive investments. Fostering the culture of recycling or reusing waste can reduce operational costs and increase profitability.

The Lesotho government should adopt a more balanced policy approach and reform monetary and tax policies, as well as business licensing and registration regulations to include clauses specific to SME's specific conditions for sustainable growth. The existing policies and regulations affecting SMEs can be amended to improve access to resources like finance, increase productivity and fostering innovation.

The policy approach should focus on SME growth motivational drivers, such as incentives like hiring tax credits (Surya *et al.*, 2021:1-19). Reducing the barriers like record keeping and business registration processes could enable SMEs to participate in development projects as suppliers (United Nations Capital Development Fund, 2021:49). It takes 15 days to complete the business registration process and costs over M500.00 in Lesotho compared to less than one day in Mauritius, top ranking sub-Saharan countries in terms of ease of doing business (World Bank Group, 2020:8; 2020b:8; 2020c:1).

The government should reduce the business licensing and registration requirements and streamline the process.

The government should review the Simplified Business Taxation (SBT) to include SME-specific tax incentives and strengthen the effectiveness of its implementation.

The majority of market access strategies should focus on export market opportunities due to the small size of Lesotho population.

The government should encourage foreign investors, who are the primary beneficiaries of opportunities such as AGOA in Lesotho to collaborate with or grant part-ownership to Basotho SMEs, essentially for learning, business continuity and growth. This can be achieved by modifying and strengthening the enforcement of provisions of the Business Licensing and Registration Regulations, 2020 requiring foreign businesses to produce a plan or progress on the transfer of technology and skills (Calabrese & Balchin, 2022:34-40; Ministry of Trade and Industry, 2020:786).

4.12 CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

4.12.1 Limitations of the study and future research

The researcher appreciates that this paper was not perfect. The qualitative approach to data collection is susceptible to the researcher's bias. A cross-sectional approach limits the scope of behaviour in the long run and does not enable testing of the cause-and-effect relationship. These limitations can be addressed through a longitudinal paper, exploring the influence of government policies on SME sector growth and development. Future studies should contemplate a mixed-methods approach to eliminate researchers' bias and enable deeper understanding. The purposive and snowballing sampling methods do not allow generalization of the research findings and involve a biased sample. Alternative sampling methods, like random sampling should be considered in future research studies.

Future studies should investigate the recommended improvement strategies in this paper. This paper identified that strict and all-encompassing environmental regulations without customized incentives make SMEs less competitive and less innovative. Likewise, the lack of tax incentives hinders SMEs' competitiveness with large businesses (Ellawule *et al.*, 2024:342). Future studies should focus on exploring the impact of strict environmental regulations on different SME industries. This may involve a comparison of the manufacturing industry with service industries.

The paper focused only on four districts with larger SME populations: Maseru, Mafeteng, Leribe and Berea. All of these districts are in the lowlands of Lesotho, while the two geographical regions of Lesotho, the lowlands and the highlands require different economic opportunities (GoL & World Bank, 2024:3). Future researchers should investigate the influence of policies and regulations on SMEs development and growth country-wide.

4.12.2 Conclusion

The paper presented insights derived from collected data and relevant literature regarding the influence of government policies on the SME business environment. The literature review briefly discussed theories related to SMEs' growth and two significant government policies. Two qualitative methods were employed for data collection: purposive and snowball sampling. This combination allowed the selection of participants who could provide pertinent and rich data. The key findings indicate that regulatory frameworks hurt the business environment, which consequently hinders the growth and development of SMEs.

Limited market access, insufficient funding, high operating costs and inadequate infrastructure are the primary policy-driven constraints to the growth of SMEs. The literature indicates that fewer than 10% of indigenous Basotho SMEs succeed. The paper also revealed that the majority of SME in Lesotho, 76% operate informally. For SME to thrive in countries like Lesotho, the government needs to establish SMEs favourable regulatory frameworks (Makara *et al.*, 2023:52). All policies affecting SMEs

need to have customized clauses addressing their situations and provide customized incentives to enhance their competitiveness and promote voluntary compliance.

Supportive regulations should enable government agencies to undertake their mandates without hindrance, while banks should be able to design financial products that are accessible, flexible and with reduced requirements. Likewise, the Revenue Services of Lesotho should ensure the effectiveness of the simplified tax system, including all possible SME tax incentives. Regulations should support the contributions of associations advocating for better SME regulations thereby fostering the culture of collaboration amongst SMEs.

The paper confirms the findings by previous researchers, such as Obananya (2022) that government policies and regulations, specifically monetary policy, tax policy and business licensing and registration policy have a positive influence on SMEs' growth and development. However, the contribution of this paper is noteworthy. It provides the first qualitative analysis of the stakeholder perspective towards the influence of government policies and regulations on SMEs' development and growth in Lesotho. It contributes context-specific information to the existing literature.

CHAPTER 5

RESEARCH ARTICLE 2

The informal SME's perspective of government policies on SMEs' business environment in Lesotho

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This article presents the following study objectives: to compare the effects of the business environment on the formal and informal sectors and to determine how the business environment influences the formalisation of informal businesses in Lesotho. This article was accepted and published by the *International Journal of Environmental Sciences*. The acceptance letter is presented as ANNEXTURE C and the guidelines of the journal are shown as ANNEXTURE D.

ABSTRACT

This study was conducted to investigate the perceptions of informal small and medium enterprises (SMEs) of the government policies and regulations on creating a conducive business environment for SMEs in Lesotho. The study employed qualitative research methods, adopting semi-structured interviews and document analysis to collect data from informal SMEs operating in Maseru, Berea, Mafeteng and Leribe districts. The sample size of 16 informal SMEs participating in the study was affected by data saturation. That is, data were collected until a point where no new themes emerged from the interviews. As such, the sample size of 16 participants was sufficient for understanding the insights and experiences from the participants without redundancy. The findings highlighted that the majority of SMEs (76%) operate informally due to a lack of a supportive regulatory framework, high formalization costs, a complex registration process and limited access to finance. The study concluded that inefficiencies and complexity in the regulatory environment adversely affect SMEs' business environment in Lesotho and made it even more difficult for the majority of SMEs to formalize their operations. Several strategies to address these challenges have been suggested and an improved framework for legal and political factors has been recommended. To create a conducive business environment for SMEs, it is recommended that the government prioritize a supportive and inclusive regulatory environment.

Keywords: SMEs, informal, support, incentives, costs, government, support, challenges, compliance

JEL Classification: M10, M12, M13, M14

5.1 INTRODUCTION

While their importance differs from country to country, the research literature agrees that the SME sector plays a crucial role in any country's economic development. Specifically, this sector is recognized for its significant contribution to generating employment opportunities, economic growth and development (United Nations Capital Development Fund, 2021:33). It accounts for the largest portion, 76%, of the private sector's economic activities in Lesotho. There are around 138,723 SMEs in Lesotho,

of which only 24% operate formally (Finmark Trust, 2025c:10-15). In Lesotho, informal businesses not only form the majority of the overall SME sector, but also employ the largest portion, 60% of the labour force. The highest number of informal SMEs signifies the existence of several obstacles to meaningful development in the SME sector in Lesotho (United Nations Capital Development Fund, 2021:6-33) and this creates a lot of challenges for the Lesotho economy. The high number of informal SMEs indicates significant structural challenges, such as burdensome regulations and limited access to financing. These issues hinder both the productivity and growth of individual businesses. As a result, not only are the opportunities for these businesses restricted, but government tax revenue also suffers. This situation contributes to a cycle of poverty and obstructs overall economic growth (Amadasun & Mutezo, 2023:1-3; Nkonde & Utete, 2024:14-19).

In countries with slow economic growth rates as evidenced by high unemployment rates, the unwieldy and time-consuming procedures for formalizing businesses (United Nations Capital Development Fund, 2021:27-33) could lead to a growing number of informal businesses. Although many previous studies, such as Hansen-Addy *et al.* (2025) explored the SMEs' business environment, not much is known about how informal SMEs perceive the impact of government policies on SMEs' business environment. According to World (2023:10), limited access to finance, high tax rates and the business practices of the informal sector are the top three business environment obstacles for small businesses in Lesotho, thus indicating a need to explore the motivational factors. Existing literature on the influence of government policies on the business environment often concentrates on institutional impediments (Dai, 2024; Makara *et al.*, 2023:47-50), ignoring how informal businesses interpret and react to the systems in place.

This study investigates the perspectives of informal SMEs on government policies and regulations on the SMEs' business environment in Lesotho. Understanding the viewpoints of informal SMEs is crucial for gaining deep insights into the problems for the economy of the businesses that are not formally registered, which can help foster a more conducive business environment. The study discovered that it costs a minimum of about M700 in compliance expenses to start an SME as shown in Table 5.1 below and roughly between M20,000 and M35,000 in continuing compliance costs.

These expenses include yearly filing returns, professional fees, tax compliance and license renewals, among others.

Table 5. 1: Analysis of the cost of business registration expenses (Source: Own Creation)

Cost item	Cost range
Business registration fee and company name search	M530 (M500 + M30)
Trading licence (depending on activity and scale)	M150-M50,000
	~M700 (based on the lowest range SMEs)

5.2 BACKGROUND

There are approximately 82,315 informal SMEs, which constitute 76% of the SME sector's economy and account for 30.9% of economic activity, employing 80% of the population in Lesotho (FinMark trust, 2025:15; Stiftung, 2024:18). The economy of Lesotho is characterized by modest Gross Domestic Product (GDP) growth, a persistent trade deficit and significant dependence on South Africa. Following a severe economic downturn of -8.16% in 2020 due to the COVID-19 pandemic, Lesotho's economic growth rate improved to 2.27% in 2021 and further increased to 2.39% in 2022. However, it decreased to 1.8% in 2023. It is projected to rise again to 2.3% in 2024 and 3% in 2025, before declining to 2.0% in 2026 (Central Bank of Lesotho, 2024; Macrotrends, 2025a:2-8). Except in 2020, this trend supports the steady population growth rate, which rose from 2,261,524 in 2021 to 2,286,110 in 2022. The population further increased to 2,311,472 in 2023, 2,356,083 in 2024 and 2,381,381 in 2025 (Macrotrends, 2025b) as shown in Figure 5.1 below.

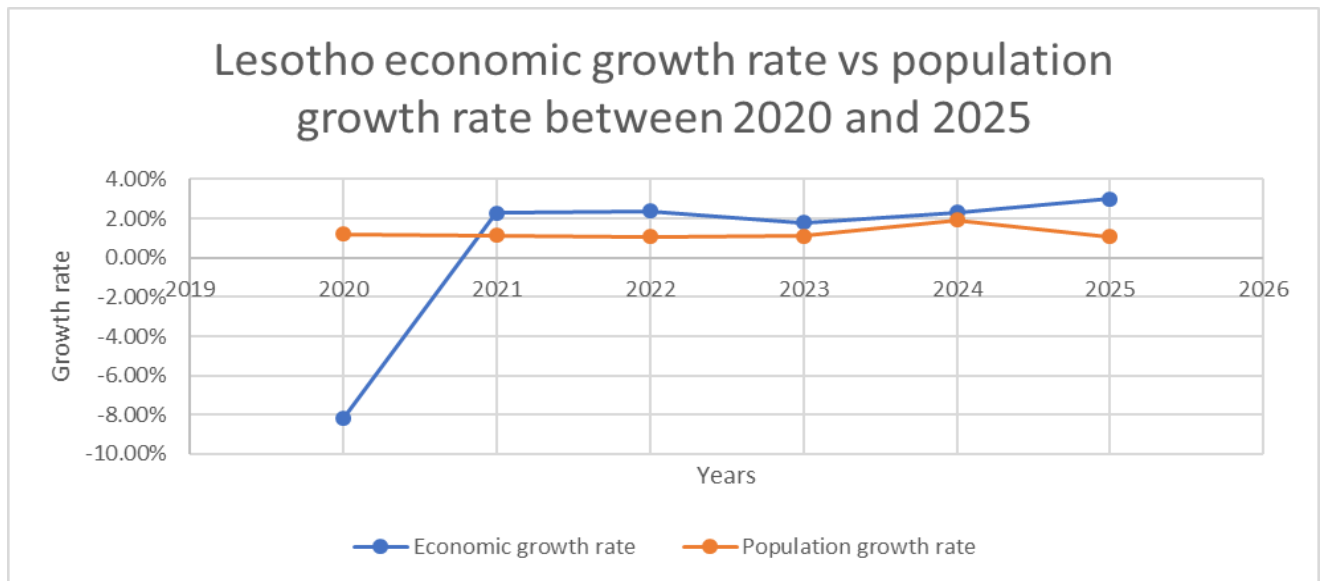


Figure 5. 1: Lesotho’s economic growth rate vs population growth rate (Source: Central Bank of Lesotho & Macrotrends, 2025a:2-8)

The above graph indicates that, except for a major economic downturn in 2020 due to the COVID-19 pandemic, Lesotho’s economic growth rate has consistently surpassed the population growth rate, pointing out favourable indications of an environment for improved standard of living and for economic development. Despite the expected economic growth, Lesotho faces several challenges, including poverty, trade imbalance and a high unemployment rate (Stiftung, 2024:23-27). In Lesotho, the unemployment rate decreased to 16.5% in 2024 from 16.46% in 2023, following a decline from 18.23% in 2021 and 16.69% in 2022 as indicated in Figure 5.2 below (Macrotrends, 2024) hence it needs a flourishing formal SMME sector.

The country is vulnerable to external shocks due to its reliance on South Africa for over 80% of its imports. Additionally, Lesotho’s currency is pegged to the South African rand at 1:1 (International Monetary Fund, 2022:58-85; Ojo & Adelakun, 2025:2). By March 2025, Lesotho recorded a trade deficit of M1.155 billion, driven by M2.05 billion in imports from South Africa compared to M500 million in exports (Observatory of Economic Complexity, 2025). Both exports and private investment are expected to remain low, leading to insufficient employment growth that will not be enough to reduce the poverty rate, which is projected to stay as high at 36% (World Bank, 2025a:1).

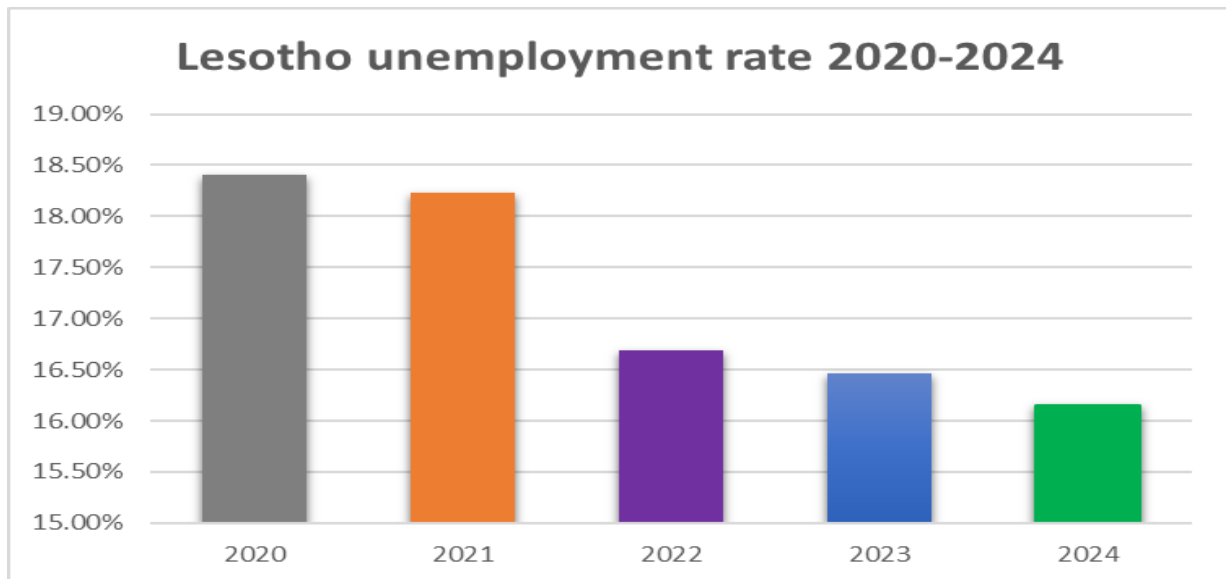


Figure 5. 2: Lesotho unemployment rate 2020-2024 (Source: Macrotrends 2024)

The chart shows a steady decline in Lesotho's unemployment rate from 2020 to 2024, although it remains high (International Monetary Fund, 2025a:21). During the bilateral discussions between Lesotho and South Africa on June 3, 2025, the governments highlighted the need to improve the cross-border efficiency and cooperation standards and focus on the implementation of the African Continental Free Trade Area (AfCFTA). This collaboration is anticipated to reduce import costs and stabilize pricing in the future (Department of Trade Industry and Competition (dtic) Republic of South Africa, 2025).

Informal SMEs play a significant role in promoting economic development, particularly in developing countries (Sultana *et al.*, 2022:13). Households or individuals usually own these businesses. They are not separate from the owners because they are not separately constituted businesses. As such, they do not have financial statements that meet the separate business entity concept, that is, financial statements that reflect the business as a separate entity from the owner. The informal SMEs employ around two billion employees worldwide, especially in developing countries (Damane & Mochebelele, 2024:29) thus signifying their importance and the need for consideration.

Previous literature has highlighted the significance of informal SMEs in developing countries. In Lesotho, the sector contributes approximately M212 million and employs over 50% of the labour force (FinMark Trust, 2025c:13; United Nations Capital

Development Fund, 2021:6-33). Nonetheless, these businesses normally fail during their earlier development stages, with roughly 10% surviving due to several challenges arising from the business environment (Amadasun & Mutezo, 2023:1; Richard Denanyoh & Owusu, 2025:138). The increasing number of informal businesses in Lesotho results from limited access to finance, lack of formalisation incentives and weak institutional support. Although the government has introduced free registration for youth-led businesses, limited access to finance, public procurement opportunities and social protection make formalisation less attractive to small businesses (International Monetary Fund, 2025a:28-29).

Businesses remain informal as a strategy to avoid the regulatory consequences of formal businesses, such as paying taxes. However, the growing informal sector exposes threats such as high competition to formal businesses as they incur lower operational and compliance costs. A conducive business environment is characterized by sound economic government in the areas of taxation, regulations and business licensing (World Bank, 2023b:8). The aim of this research is therefore to investigate how informal SMEs perceive the influence of government policies and regulations on the SME business environment in Lesotho. By listening to the voice of the informal SMEs, the study intends to provide deep insights into how government policies and regulations shape the business environment in Lesotho.

5.3 PROBLEM STATEMENT

Some countries are making significant efforts to improve the business environment through strategies such as adopting customised private sector policies, SMEs and start-ups tailored incentives, improved communication, policy reforms in the areas of taxation, fiscal and financial systems and improved foreign investment attraction policies (Qiang, 2024:6). However, out of the 190 countries that were evaluated in terms of progress made towards the business environment as measured by the ease of doing business, Lesotho ranked 122 (World Bank, 2020c:3-6) as shown in Figure 5.3. The business environment in Lesotho is uncompetitive because of high political instability, lengthy and complex business formalization processes, corruption, inadequate access to essential resources and a lack of a simplified tax system (United Nations Capital Development Fund, 2021:33-35; World Bank, 2023b:9-10; World Bank

Group, 2022:9). These factors impose significant challenges and barriers to entry and business growth, especially informal SMEs as they jeopardise their growth and sustainability (International Monetary Fund, 2025a:27).

Lesotho, categorised as a lower-middle-income economy, operates under a market-based system where price signals influence production, distribution and investment decisions (Nacer & Omar, 2024:2). Nevertheless, Lesotho's economic landscape is largely constrained as indicated by its economic freedom score of 54.1 according to the 2025 index. While this score is higher than the regional average, the country's legal frameworks and regulations remain inadequate to foster meaningful economic development. Consequently, many Basotho are compelled to turn to the informal economy due to the restrictive labour market conditions (The Heritage Foundation, 2025).

The lack of access to finance and opportunities for partial inclusion, limited support are amongst their main obstacles thereby contributing to the reduced level of economic contributions and sense of isolation (Damane & Mochebelele, 2024:38-39; United Nations Capital Development Fund, 2021:35; World Bank Group, 2022:16-23). Additionally, SMEs struggle to formalize their businesses due to high business registration costs and a lack of information, inter alia, in Lesotho (FinMark Trust, 2025c:46). This could negatively affect their perceptions of government policies and regulations that shape a conducive business environment and promote formal participation. Therefore, it is essential to understand their perceptions and how these views might impact their productivity, sustainability and economic contributions. The government should enhance communication channels and strategies to increase awareness of the benefits of business registration among informal SMEs and also lower the related costs (Moges, 2024:480-499).

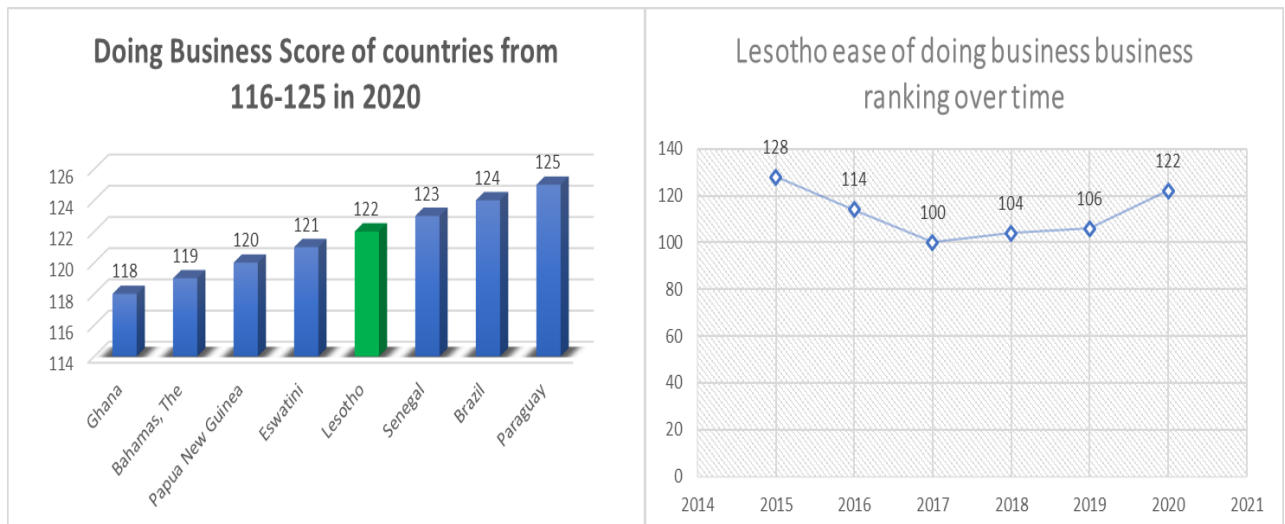


Figure 5. 3: Lesotho ease of doing business ranking over time and its position compared to other Countries ranked 116-125 (Source: World Bank, 2020d:3-6)

The above chart and graph present Lesotho' ranking score against seven other countries, as well as its ranking over six years. While Lesotho appeared to have performed better than three countries, Senegal, Brazil and Paraguay, its performance over time showed a fluctuating pattern. This reflects a need for strategic interventions following the downturn between 2019 and 2020.

5.4 PURPOSE OF THE STUDY

The study sought to provide an understanding of how informal SMEs perceive the government policies and regulations' impact on the SME sector business environment in Lesotho. An analysis of the perspectives of informal SMEs enabled the formulation of policy recommendations for the formalization of businesses in Lesotho.

5.5 RESEARCH QUESTIONS AND OBJECTIVES

5.5.1 Research Aim

This study aims to explore and analyse the perceptions of the informal SMEs concerning the impact of government policies on the business environment in Lesotho in order to identify obstacles, expectations and challenges faced by these businesses in their journey towards formalisation and enhance participation in the economy.

5.5.2 Research questions

1. What challenges do informal SMEs face in the business environment that affect their formalization or participation in Lesotho?
2. How do informal SMEs perceive the impact of current government policies and regulations on SMEs in Lesotho?
3. How do informal SMEs perceive the business environment compared to their needs or expectations in Lesotho?
4. What obstacles do informal SMEs encounter in the business environment of Lesotho?

5.5.3 Research objective

The main objective of this study is to analyse the informal SMEs' perceptions concerning the challenges they face in the business environment and the influence of government policies on their operations in order to better comprehend the influence of these factors on their participation in the economy and formalisation process.

5.6 SCOPE OF THE STUDY

The study covers informal SMEs located in four districts of Lesotho that have the highest SME population; namely, Maseru, Berea, Mafeteng and Leribe. It focuses on how informal SMEs observe the impact of government policies and regulations in shaping the SME sector business environment. These perceptions are gathered through qualitative approaches. Figure 5.4 shows the Lesotho map with districts of interest circled in red, which are Maseru, Berea, Leribe and Mafeteng.

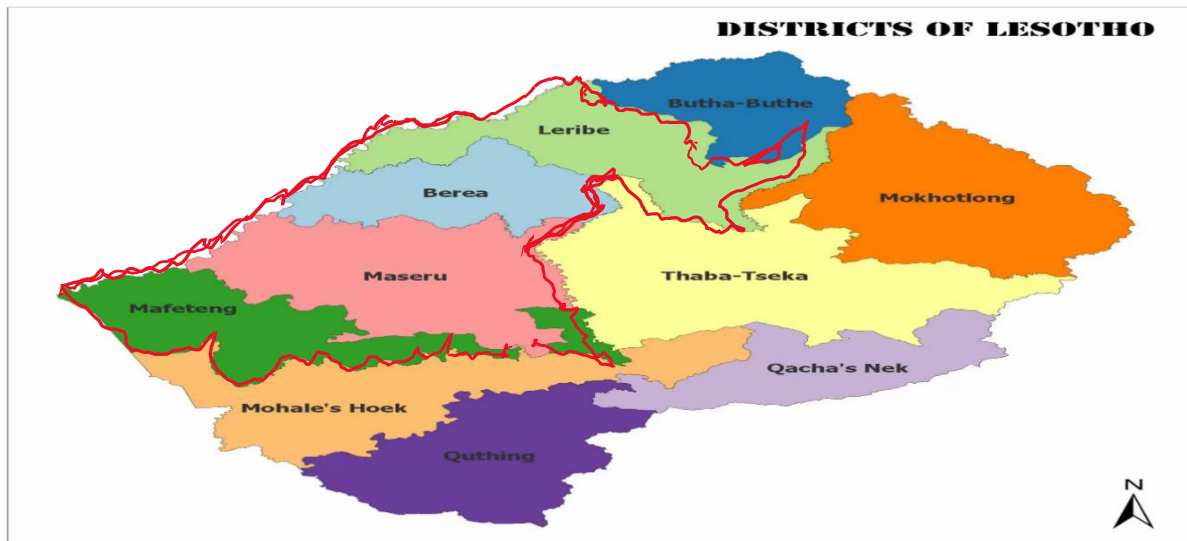


Figure 5. 4: Scope of study (Source: Mappr, 2025)

5.7 LITERATURE REVIEW

The informal sector is defined to mean economic activities that are not governed by government regulations or subject to government protection and taxation. This sector is largely populated by SMEs enterprises, especially in the developing countries (FinMark Trust, 2025a:7-25). In Lesotho, informal businesses are defined as businesses that are not registered with relevant organisations. Specifically, the majority of SMEs operate informally due to high registration costs, the lack of incentives for formalisation, the lack of information and the necessary skills (FinMark Trust, 2025b:17-46). This unique environment requires understanding the experiences of informal SMEs and their perspective on government regulations. As such, the literature review in this study aims to fill the gap by investigating the perceptions of informal SMEs and how they respond to regulations, emphasising their experiences in the current Lesotho regulatory system. The study is primarily based on the theories of informality, highlighting the dynamics in Lesotho's SME business environment.

5.7.1 Informality theories

- The Exclusion View Theory (Dell'Anno, 2022:1623), a perspective within the structuralist framework argues that businesses do not choose to be informal, but are forced into informality owing to structural limitations like high compliance

costs, training, inadequate infrastructure, limited access to finance and support (Moyo, 2022:487-491; Nuni & Feika, 2023:102).

- Structural Theory (Martínez & Short, 2022:3) advocates for the robust link between the formal and informal sectors, but marginalizes the informal sector in the global economy. It emphasizes that the informal sector plays a marginal role because of the unequal distribution of international trade and economic globalization (Martínez & Short, 2022:3).

The constraints such as structural restrictions, inadequate infrastructure, lack of essential skills compel businesses into informality as a means to survive, not as an intended business model (ILO, 2025:17). This is consistent with the International Classification of Status in Employment (ICSE-18), which captures new types of precarious, semi-formal labour arrangements by distinguishing between formal and informal employment to include categories like employees and dependent contractors (International Monetary Fund, 2025b:12). In the context of specific regulation, formality and informality should be viewed in direct relation to economic activity. Kanbur (2009) presented four-fold conceptual categories to assist businesses' reactions to regulations or shape the analysis: regulation applicable and compliant, regulation applicable and non-compliant, regulation non-applicable after adjustment of activity and regulation non-applicable to the activity (Kanbur, 2009:12).

On the contrary, Exit View Theory (Dell'Anno, 2022:1617) provides theoretical implications by suggesting that businesses voluntarily choose to operate informally based on their formalisation cost-benefit analysis assessment based on burdensome regulatory framework (Dell'Anno, 2022:1617-1626; Nuni & Feika, 2023:102). The Exit View Theory (Dell'Anno, 2022:1617) offers significant theoretical implications by highlighting that businesses may consciously opt for informal operations. This choice is rooted in their analysis of the costs and benefits associated with formalization (Dell'Anno, 2022:1617-1626; Nuni & Feika, 2023:102). This perspective challenges traditional views that portray informal operations solely as a result of economic necessity or external pressures, suggesting instead that strategic decision-making plays a critical role in how businesses navigate regulatory environments.

The third view to consider is the Dualist View (Dell'Anno, 2022:1618-1619), which regards the informal sector as marginal and distinct from the formal sector and that the high unemployment rate in the formal sector necessitates the informal sector (Nuni & Feika, 2023:102). The complexity of the process of formalizing a business, high registration costs, high unemployment rate and poverty in Lesotho (Malephane, 2024:2-9; World Bank Group, 2020:8) are closely aligned with the dualist view theory of informality. This suggests that informal businesses, particularly SMEs are excluded from the informal sector due to the high entry barriers rather than voluntarily opting to remain informal.

5.7.2 The Informality Context in SMEs

Business literature has extensively recognised the expansion of SMEs in many developing countries. However, it is demonstrated that the growth of the majority of these businesses is hampered by the high degree of informality among others, which seriously impairs SMEs' long-term sustainability and performance (Rutendo Taruvunga & Sakarombe, 2024:165). The informal sector refers to the part of the economy that does not operate in compliance with the regulatory frameworks. Informal businesses are not regulated by societal institutions, although their operations are legit (Nuni & Feika, 2023:103).

The informal sector is the largest element of many developing countries, employing around 60% of the workforce globally (Misra *et al.*, 2024:1). While it provides flexible employment opportunities, it is characterised by restricted access to benefits attached to formal employment such as social protection (Torm & Oehme, 2024:1-4). In Lesotho, approximately 76% of SMEs operate without formal registration, yet they account for 84% of the national workforce (BOS, 2024:xxii; FinMark Trust, 2025c:15). This widespread dependence on informal business structures poses significant challenges to achieving sustainable economic growth and improving overall livelihoods.

The informal nature of these SMEs restricts their access to essential resources, including legal protections and financial services thereby hindering their ability to contribute effectively to the economy. Addressing the registration and formalisation of

these enterprises is crucial for encouraging a more resilient economic environment because increasing informality impedes economic performance by narrowing the national tax base through tax evasion (Akande *et al.*, 2025:212). This eventually motivates formal businesses to manipulate the regulatory system, thereby restraining economic and sustainable development (Ladime, 2025:2-12).

As such, effective strategies need to be implemented to simplify the formalization of these businesses to help them improve their performance, reduce crime and vulnerable employment, inequality and poverty. Providing informal SMEs with a conducive business environment as shown in Table 1 in Chapter 1, can potentially reduce political and social turmoil. Specific assistance may include protection from criminal activities, provision of land space and access to formal finance to boost their performance (Moyo, 2022:480-491). The government must have in place policies that differentiate informal activities from criminal activities to fully appreciate their significance (Lah, 2024:ii).

5.7.3 Business environment and formalization

The business environment is important to the formalisation and growth of SMEs. Consequently, excessive regulation resulting from a burdensome process and high registration fees is bad for all businesses, particularly SMEs. A conducive business environment as evidenced by low compliance costs for SMEs and a level playing field is created by a well-functioning regulatory system. This is because SMEs can find it challenging to navigate the legal system and adhere to regulations (Trnka *et al.*, 2022:8). As indicated in Table 1.5 in Chapter 1, the study identified eight factors that constitute a conducive business environment. This framework directs the review of appropriate literature in part of the study.

Table 1.5 (Reproduced from Chapter 1): The framework for a conducive business environment (Source: Hou *et al*, 2025:2-7; NIZAEVA,2024:167-170; Van der Waladt & Fourie, 2022: 471-472)

8 Factors of a conducive business environment	
Labour force and skills	- Level of education

8 Factors of a conducive business environment	
	- Level of labour supplier (Job skills) - Ease of employing labour - Quality of labour regulations
Taxation and incentives	- Quality of tax regulations and policies - The complexity of record keeping and filling - Investment incentives - Industry-specific tax incentives
Infrastructure and connectivity	- Electricity supply - Water supply - Trade logistics - Transport infrastructure - Telecommunications
Access to finance	- Finance regulation - Level of interest rates - Required collateral - Adequate cash flow
Technological infrastructure	- Internet connections - Availability of human capital - Resilient security - Disaster and recovery plan
Legal framework	- Time taken to incorporate and start the business - Availability of online services for business incorporation - Dispute resolution mechanisms - Costs to start up a business - Strength of legal protection
Political stability and governance	- Frequency of policy changes or disruptions

8 Factors of a conducive business environment	
	- Political unrest - Corruption - Internal conflicts
Government support and partnerships	- Equity investment and guarantees - Simplified regulatory frameworks - Access to government contracts - Access to land - Improved representation and voice

More often than not, SMEs' regulatory frameworks pose challenges to SMEs because they usually struggle to cope with regulations. At times, some SMEs incur compliance costs but fail to enjoy the related long-term benefits. This suggests the need to allow SMEs, particularly start-ups, some free trial period like a tax holiday while still trying to develop (Trnka *et al.*, 2022:5-12). Amongst the identified business environment factors that influence an SME's decision to register are the complexity of the registration process, geographical location and information irregularities. Additionally, the size of the business, market access, state of infrastructure and having a business plan can motivate SMEs to formalise their operations (Nohoua, 2021:11).

These factors can be benchmarked to Kanbur's (2017) model of responses to regulation to improve understanding of how they affect the formalisation decisions. For example, the complexity of registration procedures and information irregularities can push SMEs to categories 3 and 4, adjusting their operations to move out of the ambit and operate entirely outside the ambit. Quality infrastructure and market access can encourage businesses towards category 1, which is to stay within the ambit of regulation and comply.

5.7.4 The effects of the regulatory frameworks on SMEs' growth

The regulations provide businesses with direction to carry out their operations thereby playing a crucial part in determining the future of their growth and survival. However, businesses need to consider the cost of compliance with these regulations, which include the required resources and financial expenses. Businesses invest a significant amount of time and money to comply with government regulations, some of which are ineffective and unnecessary for economic efficiency, profit-making and job creation (Nuni & Feika, 2023:104). Previous research revealed that SMEs' growth is positively influenced by simplified registration processes, favourable tax policies, easy access to finance and flexible labour market regulations. Moreover, it appeared that compliance with strict environmental regulations can stimulate SMEs' innovation (Usmany, 2024:1614-1619). They can be encouraged to create new business models, processes and technology to comply with such regulations and gain a competitive advantage.

The regulatory frameworks connect SMEs to growth prospects by combining the benefits associated with business registration. However, informal SMEs face several challenges that hinder their growth, ranging from corruption in the public sector, complex business registration processes, a lack of support and advice on formalisation procedures and a lack of incentives that motivate formalisation (Nuni & Feika, 2023:109-110). Government policies and regulations that provide customised SME support through monetary initiatives, fiscal measures and modernised regulatory frameworks provide SMEs with opportunities and resources that improve their growth (Ahmadu *et al.*, 2025:36).

5.8 EMPIRICAL INVESTIGATION

5.8.1 Research strategy and methods

The paper adopted a qualitative approach with a mix of hermeneutic and phenomenology strategies to understand in-depth the reality of the examined context (Ñañez-Silva *et al.*, 2024:3). Hermeneutic refers to the study of interpretation, especially in the fields of literature, social science and philosophy. It comprises comprehension and analysis of text, social phenomena and behaviours by considering

contextual, historical and cultural factors that influence meaning (Gillo, 2021:42). In this qualitative research, hermeneutics highlights the significance of contextualising data such as narratives, interviews and documents in the business environment to gain deeper insights and distinctions in the experiences of businesses and individuals. Similarly, phenomenology is the qualitative research strategy used to explore and interpret the lived experiences to discover the integral meaning that people assign to the phenomena (Oluka, 2025:1).

Additionally, an interpretive approach was adopted to gather accurate and comprehensive data about individuals' experiences with government policies and regulations on the SME business environment in Lesotho. The interpretive approach refers to the process of comprehending and making sense of the phenomena based on the meaning attached by the involved people (Pervin & Mokhtar, 2022:424). A cross-sectional design was employed and deemed appropriate because the informal SME perspectives of government policies and regulations in supporting SMEs' business environment in Lesotho was only measured and quantified over a predetermined period. The phenomenology strategy enabled the in-depth comprehension of the interviewed informal SMEs' opinions, experiences and feelings regarding the informal SME perspective of government policies and regulations in supporting the SMEs' business environment.

The data collection involved semi-structured interviews and document analysis. The interviews provided insights into the social realities, customs, values, worldviews and ideologies from a subjective perspective (Ñañez-Silva *et al.*, 2024:3). Document analysis served to complement the interviews, facilitating data triangulation and mitigating the inherent challenges of qualitative research thus enhancing the richness of the data (Morgan, 2022:66-69). Depending on the participants' preferences, the interviews were conducted either virtually or in person, lasting between 40 to 60 minutes. Throughout the study, confidentiality, anonymity and voluntary participation were strictly maintained.

5.8.2 Participants, data collection and sample characteristics

Data were collected using purposive and snowball sampling methods from owners or informal SMEs listed in the Basotho Enterprise Development Corporation (BEDCO) database. Purposive sampling is a method where the participants are chosen based on their relevance to the study as the researcher believes they possess the specific expertise and characteristics necessary to provide valuable data. Likewise, snowball sampling is a method where the participants are identified through referrals by other participants as they deem fit for the study inclusion criteria, but were not easily identifiable by the researcher (Ahmed, 2024:3). The study focused on informal SMEs located in the four districts of Lesotho: Maseru, Mafeteng, Berea and Leribe. A total of 16 informal SMEs participated in this study and the saturation determined the final sample size. In a qualitative study, the sample size is deemed adequate until saturation is reached (Mwita, 2022:417).

5.8.3 Data analysis

An ATLAS.ti was used to analyze the data, which made it easier to efficiently organize and analyze the collected data. In addition, the software facilitated data coding, identification of patterns and themes relating to the research question and constructing code networks to visualize the relationship. The Glaser and Strauss's coding process (Akkaya, 2023:89), including Open, Axial and Selective Coding (Akkaya, 2023:92; Estaji & Azizbeigi, 2025:40) was adopted to identify the themes. While data were originally collected from several participant groups, this study considered only data from informal SMEs and any other data were irrelevant and excluded to ensure the research focus. Voice recordings and handwritten memos were transcribed and uploaded with secondary documents into Atlas.ti for coding and analysis using thematic analysis.

The responses of the informal SMEs interviewed were grouped based on similarities in content. Throughout the coding process, the codes were repeatedly refined to establish a more suitable label. Finally, the responses were categorized under wider themes that replicated informal SMEs perspectives and experiences. The study followed a six-step thematic analysis procedure: data familiarization, initial coding, categorizing codes into subthemes, reviewing themes, defining themes and naming

the themes and producing a research report (Dawadi, 2021:64-70) as depicted in Figure 5.5.

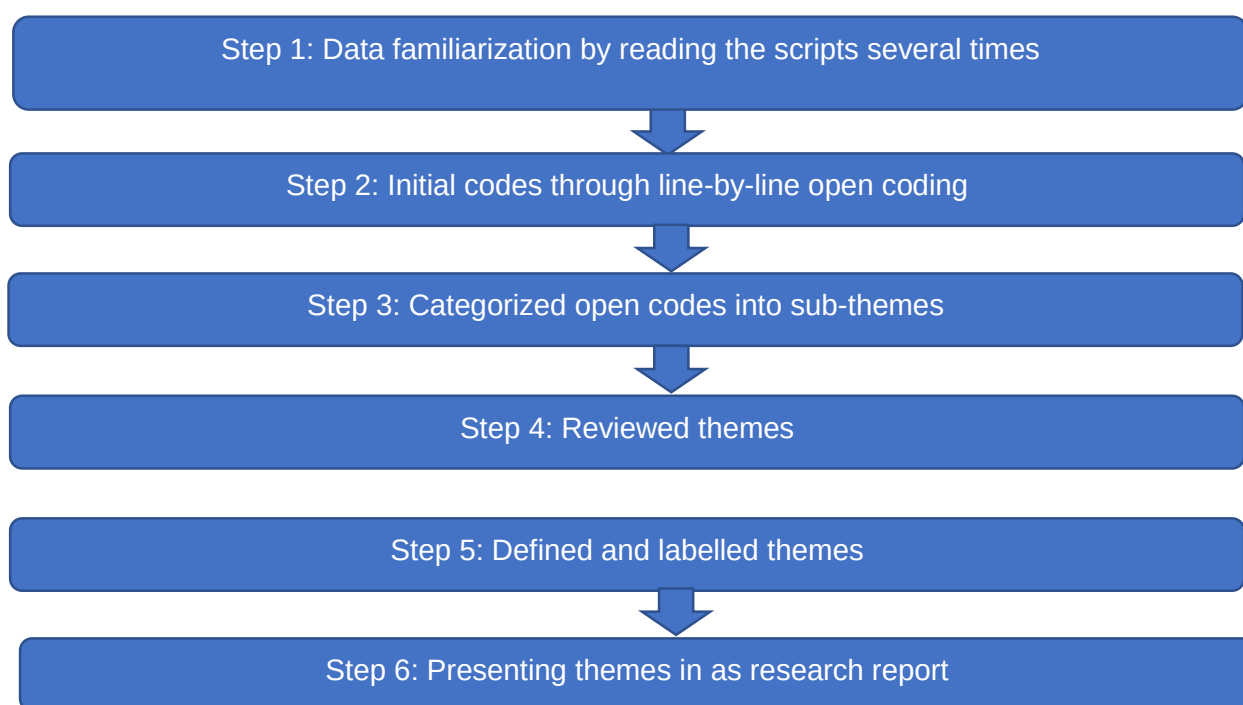


Figure 5. 5: Thematic analysis process (Source: Own Compilation)

Following the repeated reading of the data, initial codes were generated as key details from the scripts, which addressed the research questions (Sharma, 2024:124). Similarities and patterns were recoded into memos as they emerged, which resulted in the grouping of related codes to form subthemes. Finally, themes evolved following the recording of broader patterns that resulted from reviewing and refining subthemes. The code book was exported from ATLAS.ti into an Excel document thus making it simple to identify commonalities in the codes and categorize them into groups, subthemes. The three identified themes were presented in the results section and compelling quotes from the gathered data were used to bolster the themes. ATLAS.ti made data management easier through its special features that enabled uploading of documents, creating codes and grouping them to develop themes with an emphasis on the exploration of data (Ñáñez-Silva *et al.*, 2024:129).

5.9 PRESENTATION AND DISCUSSION OF THE RESULTS

5.9.1 Results

This study investigates the informal SMEs' perception of the influence of government policies and regulations on the SME sector business environment in Lesotho. The research attempts to answer the following questions: what are the experiences of informal SMEs about government policies and regulations in shaping the SME business environment in Lesotho? What kind of government assistance do informal SMEs have access to or not? How does the business environment impact formalization in Lesotho? What obstacles do informal SMEs encounter in the Lesotho business environment?

The preliminary view of the keywords that were dominant in the data and used in the process of theme development (Ronella Jansen van Rensburg, 2023:1-3) are demonstrated by a word cloud in Figure 5.6. This visual shows that words like “business, SMEs, government, registration, compliance, policies, support, challenges, incentives, regulations, costs” appeared frequently across responses. Their relative frequency is replicated by their magnitude in the cloud, emphasizing the importance of a conducive business environment for SMEs' progression. By highlighting these recurring words, the word cloud guided the initial coding process.



Figure 5. 6: Word cloud showing words frequently used in the data (Source: Own Compilation)

Table 5.2 below depicts that 282 quotations were connected to 15 codes that were grouped into 7 categories to form 4 themes; namely: government regulations and business environment, insufficient government assistance, informal SMEs challenges and benefits of formalization. It shows that the theme of insufficient government assistance is supported by the largest percentage of code applications (47%), highlighting that it is a leading concern among the participants. On the one hand, themes like government regulations and business environment and the benefits of formalizations accounted for 13% and 15% of the entire coding, respectively. Nonetheless, their inclusion in the analysis provided a more comprehensive picture of the difficulties faced by SMEs in the Lesotho business environment.

Table 5. 2: Development of the themes process (Source: Own Compilation)

Codes (Frequency of codes)	Sub-themes	Theme	Frequency in percentage (%)
1. Registration costs (9) 2. Centralized registration services (12)	Registration obstacles	Government regulations and business environment	37 (13%)
3. Knowledge of policies affecting SMEs (8) 4. The lack of knowledge of policies affecting SMEs (8)	Regulatory awareness		
5. The lack of incentives for formalization (42) 6. Insufficient government support (19) 7. Complex and demanding registration process (23)	Discouragement for formalization	Insufficient government assistance	132 (47%)
8. Inefficient engagement (26)	The lack of stakeholder engagement		

Codes (Frequency of codes)	Sub-themes	Theme	Frequency in percentage (%)
9. Poor communication (22)			
10. Trading freedom restricted by registration (3) 11. Discrimination (5)	Operating difficulties	Informal SMEs challenges	70 (25%)
12. Informal businesses do not have access to formal business (30) 13. Limited capital (32)	Financial constraints		
14. Better market share for formal businesses (22) 15. Formal businesses have access to finance opportunities (20)	Motivational factors	Benefits of formalization	42 (15%)

Table 5.3 below shows code document analysis, which presents the frequency and distribution of codes applied across all documents. That is the frequency at which each code appeared in an individual script thereby assisting in recognizing how particular respondents emphasized the codes. The distribution of codes, like limited capital, informal SMEs do not have access to formal finance, a lack of incentives for formalization and inefficient SME engagement across several documents, demonstrates their universal significance. For instance, in Table 5.3, limited capital appeared in all 16 scripts, signifying its supremacy in Lesotho's SMEs. Contrarily, codes such as trading freedom are restricted by registration, appearing in fewer scripts, implying a theme that is more context-specific. This table assisted in identifying issues that were generally shared and those that were more individualized.

Table 5. 3: Code document analysis (Source: Own Compilation)

	A001 IN Gr=54	A002 IN Gr=40	C001 IN Gr=40	C002 IN Gr=39	C003 IN Gr=44	D002 IN Gr=37	E001 IN Gr=17	A003 IN Gr=40	A004 IN Gr=34	C005 IN Gr=41	E002 IN Gr=29	E003 IN Gr=33	E004 IN Gr=32	E005 IN Gr=33	E006 IN Gr=18	C004 IN Gr=42	Totals
• RQ 1: SMEs growth constraints: Insufficient government support Gr=19	0	1	0	1	1	0	0	1	0	0	0	0	0	0	0	0	4
• RQ 2: Business environment policy constraints: Inefficient SME engagement Gr=26	0	0	1	0	2	0	0	1	1	1	1	0	1	1	1	2	12
• RQ 4: Regulatory impact on formal SMEs vs informal SMEs: Better market share for formal businesses Gr=22	1	0	0	0	1	0	0	0	0	1	1	0	0	0	0	0	4
• RQ 4: Regulatory impact on formal SMEs vs informal SMEs: Discrimination Gr=5	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	1	3
• RQ 4: Regulatory impact on formal SMEs vs informal SMEs: Formal businesses have access to finance opportunities Gr=20	1	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	3
• RQ 4: Regulatory impact on formal SMEs vs informal SMEs: Informal businesses do not have access to formal finance Gr=30	1	1	1	0	1	0	0	1	1	1	2	2	1	1	0	2	15
• RQ 4: Regulatory impact on formal SMEs vs informal SMEs: Trading freedom restricted by registration Gr=3	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1
• RQ 5: Regulatory influences on formalization: Centralized business registration services Gr=12	1	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	3
• RQ 5: Regulatory influences on formalization: Complex and demanding registration process Gr=23	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	0	2
• RQ 5: Regulatory influences on formalization: Knowledge of policies affecting SME Gr=8	1	1	1	0	0	0	0	1	1	1	0	0	1	0	0	1	8
• RQ 5: Regulatory influences on formalization: Lack of incentives for formalisation Gr=37	0	0	0	1	1	0	1	1	1	1	1	1	1	1	1	0	11
• RQ 5: Regulatory influences on formalization: Lack of knowledge of policies affecting SMEs Gr=8	0	0	0	1	1	1	1	0	0	0	1	1	0	1	1	0	8
• RQ 5: Regulatory influences on formalization: Poor communication Gr=22	0	0	1	1	1	1	2	0	0	0	0	0	0	0	0	0	6
• RQ 5: Regulatory influences on formalization: Registration costs Gr=9	1	0	1	0	0	0	0	0	0	0	0	0	1	1	0	1	5
• RQ 6: Financing and cost issues: Limited capital Gr=32	1	1	1	2	1	1	1	1	1	1	1	1	1	1	1	1	17
Totals	7	6	8	6	10	4	5	6	5	7	7	5	8	6	4	8	102

The network image that depicts the connection between codes and themes is illustrated in Figure 5.7. This network visualizes the hierarchical structure of the data analysis in this project. Although codes did not directly co-occur, similar codes were grouped under related themes. Among the four themes, insufficient government assistance, government regulations and the business environment and informal SMEs challenges emerged as dominant aspects of informal SMEs' experiences as they are supported by a greater number of codes and subthemes. Their richness highlights their significance in what informal SMEs perceive as the impact of government policies and regulations on the SME business environment in Lesotho. While the benefits of formalization were not widely discussed, its presence across a few codes provides significant insights that cannot be overlooked.

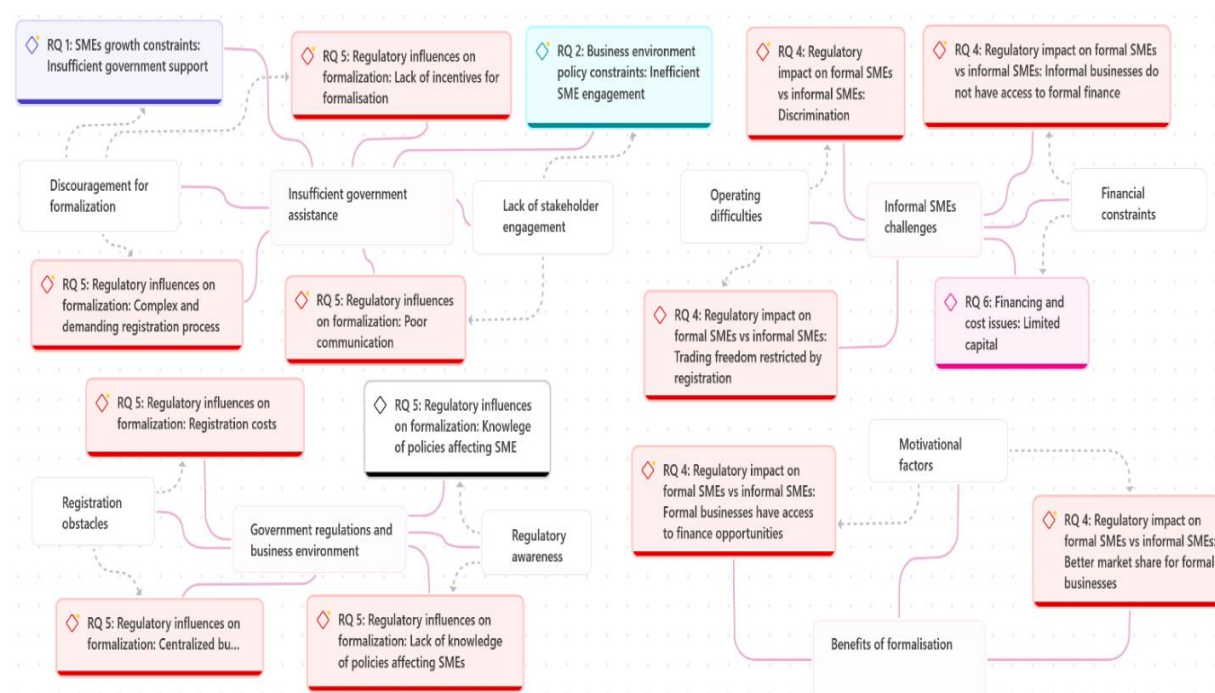


Figure 5. 7: Network view of the informal SME perception of government regulations and policies on the SME business environment (Source: Own Compilation)

5.9.2 Theme 1: Government regulations and business environment

The analysis of the responses reflected that government policies significantly contribute to a large pool of informal SMEs in Lesotho. The informal SMEs in this study appreciated the positive impact of regulations on the business environment in Lesotho by promoting more sustainable business practices, fair competition and establishing

consumer confidence, among others. However, regulations appeared to be creating more constraints on formalization. The majority of informal SMEs stated that registration services are centralised and not easily accessible. One interviewee mentioned: *“Business registration services are only found in towns, and a stop business facilitation center is only in Maseru, and the process is not even completed in one day”* (E004 IN, 2025). *“Another respondent stated that the online business registration facility is not inclusive because we do not have access to the internet”* (D002 IN, 2025).

Moreover, the majority of interviewees reported that not only are registration services centralized, but also connected to tax services. It was revealed that this one-size-fits-all method does not accommodate the specific needs of different businesses in various parts of the country. 56% of the respondents alluded that informal SMEs generally make small profit margins; therefore, even small registration costs can hinder their entry into the formal sector. Some of the participants stated that there is still a lack of internet access in some parts of Lesotho so online business registration is not inclusive thus suggesting the use of a hybrid registration procedures.

When asked about specific government policies and regulations that affect SMEs in Lesotho, 50% of the participating informal SMEs were informed about these regulations. They mentioned regulations such as the Business Licensing and Registration Regulations, Tax Regulations, Labour Act and Environmental Regulations. The other 50% of the participants were not aware of these policies and regulations. When probed about what could be effective ways to communicate government policies and regulations, most interviewees suggested the use of targeted multi-channels: *“Public gatherings are still effective communication channels in rural areas in Lesotho, so we would appreciate regulators considering them to raise awareness,”* (C001 IN, 2025) *stated. “The government should always engage with SMEs through our associations so that the policy changes and updates can be effectively communicated, as our representatives are well informed about policies and regulations, as well as what is best for the SME sector* (D001 IN, 2025)”.*”*

5.9.3 Theme 2: Insufficient government assistance

The lack of government assistance can potentially reduce SMEs' profitability thereby negatively affecting their sustainability (Frederick O. Eze *et al.*, 2022:1-2). The code document table above shows that just 25% of the participants highlighted that the government provides insufficient support to informal SMEs. It was clear that informal SMEs only benefit from the training provided by the BEDCO, which sometimes becomes a waste because some SMEs fail to implement the acquired knowledge due to financial difficulties. In the same manner, 69% of the interviewees reported that there are no regulatory incentives that could motivate them to formalize their operations. They specified that most people start businesses to make a living and close the income gap due to the high unemployment rate in Lesotho. So, the formalisation of their businesses with no incentives would burden their limited profit margins.

Additionally, 13% of the interviewees admitted that they are aware that all businesses must register before operating in Lesotho, but the registration process is complex and demanding thus negating the perceived benefits. Likewise, over 50% of the interviewees mentioned that there are no tax breaks, no SME subsidies and no government grants that are intended to assist SMEs' growth. One interviewee highlighted that: *"I started this business a long time ago and closed down during the COVID-19 era. In 2023, I used my savings to restart it again, but decided to register it because no benefit was obtained from the earlier registration status; instead, I suffered from frustrations and compliance costs with the laws. For example, even if a business makes a loss, it still has to file tax returns, thus attracting professional fees"* (A003 IN, 2025).

Two more issues – poor communication and inefficient stakeholder engagement were raised during interviews with some informal SMEs. 63% of the interviewees highlighted that communication hampers the effectiveness of any available government assistance. Some of these respondents stated that only a few and the same SMEs benefit from government assistance programmes because of a communication breakdown: *"My neighbour received a greenhouse and a mill from the government development assistance programmes; however, I still don't know how to access such assistance because he cannot even share the information"* (D002 IN, 2025), noted. *"Only those whose owners are associated with certain people within the government*

departments benefit from available opportunities” (C002 IN, 2025). The other 38% of interviewees stated that inefficient SME engagement negatively affects government support because the government offers what it believes SMEs need, which might lead to resistance due to a mismatch with their specific needs.

5.9.4 Theme 3: Informal SMEs challenges

An emphasis was made that many informal SMEs face several challenges in Lesotho emerging from the regulatory environment. It was evident from the interviews that informal SMEs specifically experience operating difficulties and are financially excluded. One interviewee noted that informal SMEs do not operate freely. When probed further to share the insights about how their informal status affects their legal protection as members of the community: *“We are afraid to report as we will be exposed, thereby making us victims of a high crime rate,”* (E004 IN, 2025) responded. Additionally, 12% of the interviewees highlighted that the government regulations promote discrimination amongst businesses through high business registration fees, the same compliance requirements for all types of businesses, such as tax rates.

It became clear during the interviews that these substantial registration fees, coupled with complicated administration processes, requires specific expertise and substantial resources. This can be a burden to SMEs, which already find it difficult to comply and progress thereby making the already-existing inequalities worse. One interviewee noted that: *“the main beneficiaries of the majority of government assistance, such as partial credit schemes, are formal large businesses because attached conditions make it disproportionately difficult for SMEs, especially informal. For example, only businesses with bank accounts can qualify for such schemes”* (A002 IN, 2025). Additionally, the majority of interviewees stated that informal SMEs in Lesotho's financial difficulties are a key obstacle to their development and sustainability. All of the respondents cited that their informal status hinders their economic progression and sustainability because they are unbanked and have minimal capital sourced from personal savings and loans.

5.9.5 Theme 4: Benefits of formalization

It was highlighted that SMEs can benefit from formalization, referring to having better market share and access to formal finance. The availability of export market through relationships such as the African Continental Free Trade Area (AfCFTA) was used as an example. However, it was discovered that complex regulations, high and all-encompassing registration costs, tax rates and the absence of incentives for formalization can significantly deter the transition from informal to formal sector by the majority of SMEs. On the issue of access to formal finance, 25% of the interviewees expressed that while formal SMEs still face challenges like high interest rates and inability to provide the required collateral due to strict regulatory requirements, they are better off than informal SMEs. Most of these respondents articulated that the majority of their profits are used mainly towards their livelihood as influenced by limited access to formal employment in Lesotho thereby sustaining an informality loop. An interviewee, C001IN (2025) stated that: *“I believe that the majority of our businesses fail to meet registration requirements and forfeit the perceived advantages, because our profit retention ratios are less than 50%, which are used to finance daily business expenses”*.

5.10 DISCUSSION OF THE RESULTS

As shown in Table 1 above, most participants agree that insufficient government support harms the business environment for SMEs in Lesotho. This conclusion is further supported by the fact that all participants noted that SMEs in Lesotho have limited capital as shown in Table 2. Therefore, this creates a significant barrier for some SMEs, which claim to make low profits that only cover the income gap, preventing them from registering their businesses due to fears of high compliance costs. Additionally, significant terms such as *“government, businesses, funding, challenges, compliance, regulations, incentives, SMEs, and support”* as shown in the word cloud demonstrated in Figure 3 above support the identification of the key themes. The repetitive mention of these issues signifies the ongoing experience of informal SMEs regarding the government policies' influence on the business environment in Lesotho.

The finding that business registration is centralised, with certain services only available in Maseru implies that it is very expensive and inconvenient to register a business in

Lesotho, particularly for those located in rural parts of other districts. This proximity presents access challenges for SMEs in such remote areas, such as high transport costs, unreliable transport due to poor road conditions. Additionally, the lack of access to the internet for many SMEs in these remote areas indicates that online business registration is not inclusive. Travelling costs between two districts for more than one day to complete the process are likely to exceed the actual business registration fee, which might not be economically effective for SMEs as illustrated by the high ratio of cost to value. These findings align with the theory that SMEs incur relatively high registration costs (Bobic *et al.*, 2023:9). Additionally, the noted limited internet access suggests that continued inequality exists in the formalization and business prospects for informal SMEs.

Although informal SMEs seem less advantaged than formal SMEs, some institutions advocate for their interests. Business associations and organizations like the Lesotho Chamber of Commerce and Industry serve as the voice for this stakeholder group. However, the effectiveness of advocacy is limited by insufficient resources, low informal SME membership and limited engagement with the government, among other factors. This highlights the need for policy frameworks that support and address the needs of this group. The indication that 50% of the participants are aware of the policies and regulations that affect SMEs in Lesotho may suggest that they deliberately took advantage of loopholes in the regulatory system, such as inefficiency in law enforcement or possibly because of a mismatch between SME situations and regulatory designs. This could be supported by the identified concern of the inefficiency of stakeholder engagement in the policies and regulations development process. In the same manner, the lack of knowledge of these policies and regulations by the other half of the participants signifies a communication gap.

These issues indicate the importance of clear and inclusive communication and effective engagement of SMEs in policies and regulations relevant to their operations to enable buy-in, relevance and ownership. Prior studies suggested that effective stakeholder engagement enhances ownership, promotes trust and relationships (Haile & Mekonnen, 2024:2-4). Likewise, previous literature demonstrates that inadequate communication hinders project success (Malik *et al.*, 2023:2). Additionally, the finding that there is a lack of incentives for formalization indicates that

informal SMEs are not motivated and believe that the costs of formalization outweigh the associated benefits. Most SMEs in Lesotho fail within five years of their existence (Amadasun & Mutezo, 2025:2). The three-year tax holiday, free registration, subsidies and simplified regime can promote long-term capital investment (Digil *et al.*, 2024:172-174; Obafemi *et al.*, 2021:12-14). Tax holidays can influence business growth as all the profits can be reinvested and more jobs created. Previous studies noted that the government may need to provide tax breaks only to businesses that could expand the future tax base, such as those investing in research and development since the government recognizes the benefits over a longer period (Chijikwa & Mulenga, 2022:228).

Figure 5.8 below indicates that most participants (34%) consider insufficient government support as a significant obstacle to a conducive business environment. Likewise, only a small number (17%) believe that there are specific benefits attributable to the formalization of SMEs in Lesotho.

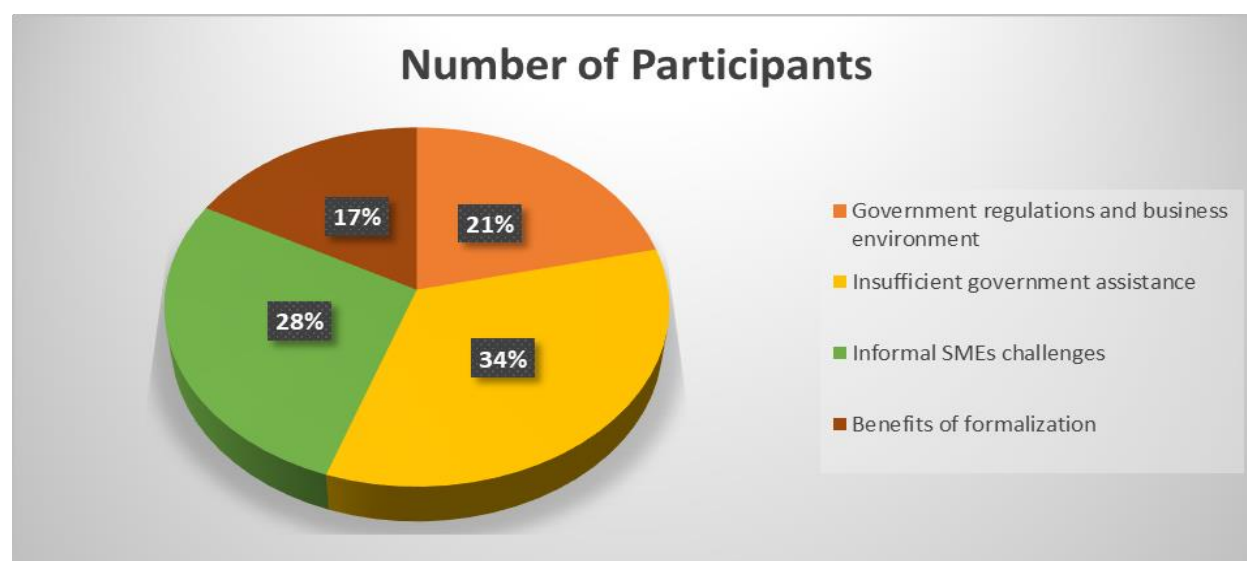


Figure 5. 8: Contribution from participants by theme (Source: Own Compilation)

The perceived lack of protection suggests that not only are informal SMEs vulnerable, but also the individuals or communities that depend on them. Crime incidents that are not reported are likely to escalate to a point where they become difficult to control, eroding profits and leaving many people jobless. Eventually, they will extend to formal businesses and increase poverty levels. The findings of this study contribute to the

existing literature on the effectiveness of government policies and regulations in shaping the business environment by gathering insights into the opinions and experiences of the informal SMEs. The study established that informal SMEs make the largest portion of the SME sector in Lesotho, 76% (FinMark Trust, 2025c:15) thus signifying the importance of their perceptions and experiences of the government regulations on informal SMEs and their support towards formalization.

The greater number of informal SMEs in Lesotho results from a combination of several factors, including the absence of comprehensive government assistance, a challenging business environment, limited access to funding, a complex regulatory environment and high operational costs (Amadasun & Mutezo, 2022:3; Damane & Mochebelele, 2024:29).

In comparison with other African countries, Lesotho has a smaller informal economy (Alize le Roux, 2024:14). This justifies challenges in formalization among businesses, possibly due to limited access to finance and the market and reduced productivity and growth potential. This hurts formal SMEs in that as the number of informal SMEs increases, formal SMEs face high competition on prices. The tax base remains small with a high tax burden on formal SMEs hence the reason to initiate a drive to register all SMEs formally. They are also likely to lose skilled labour to informal practices, which may offer relatively good remuneration packages as influenced by better profit margins.

Figure 5.9 below shows the comparison of business formalization ease between Lesotho, its neighbouring country, South Africa and the world's top performer, New Zealand. Lesotho's business formalization process is relatively quick regarding time and procedures needed for business registration compared to South Africa. However, the business environment is generally burdened by high costs, cumbersome processes and time delays. It takes 15 days to complete a business registration in Lesotho, compared to less than a day in New Zealand. The cost of business registration is around 6.1% of income per capita, which is much higher than in South Africa and New Zealand, at 0.2%. Additionally, the cost of property registration as a percentage of the property's value is higher than in both New Zealand and South Africa. In addition, the time burden does not end with business registration.

Businesses in Lesotho take an average of 43 calendar days to register a property, which is longer than the 23 days in South Africa and 3.5 days in New Zealand. Furthermore, it takes an average of 327 hours annually to pay taxes in Lesotho, compared to 210 hours in South Africa and 140 hours in New Zealand. Figure 8 shows that cost, administrative burden and time-consuming processes are major challenges in Lesotho's business environment. This is despite Lesotho having fewer procedures and taking less time for business registration than South Africa because it still lags significantly behind the world's leading country, New Zealand.

The conduciveness of the Lesotho business environment for SMEs can also be assessed by comparing the number of informal businesses in Lesotho and South Africa. Nearly 76% of SMEs operate informally in Lesotho, compared to 56% in South Africa (FinMark, 2024:17; FinMark Trust, 2025c:15). This analysis highlights that the Lesotho business environment is not conducive to the formalization of SMEs.

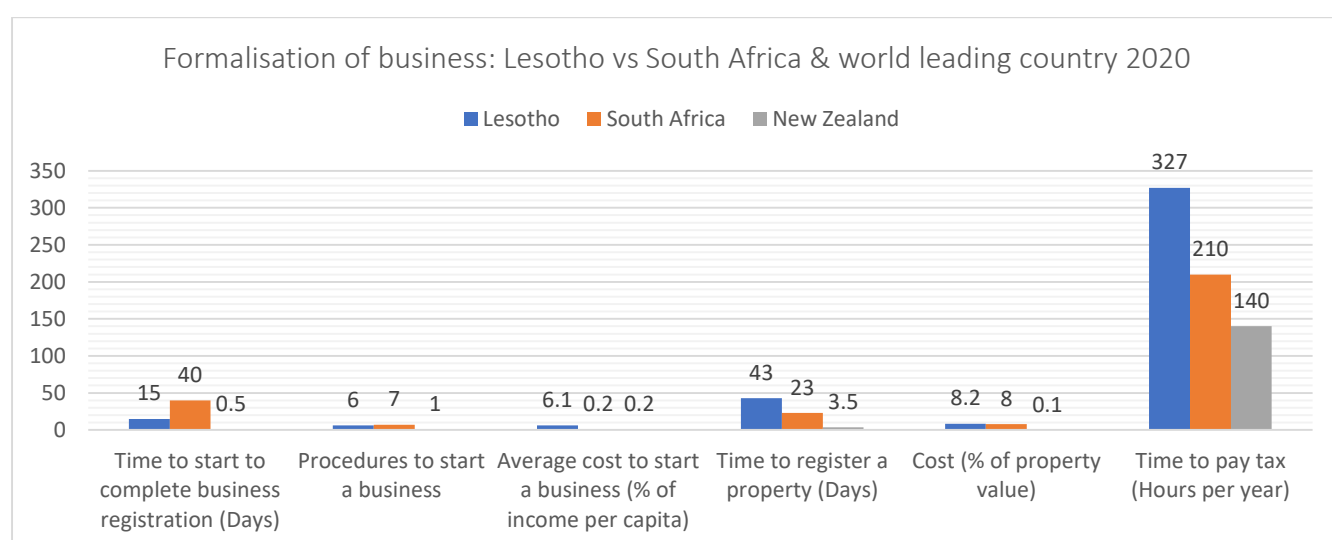


Figure 5. 9: Comparison of formalization of business: Lesotho vs South Africa & world leading country 2020 (Source: World Bank, 2020c)

A conducive business environment is a requirement for economic development and poverty reduction. Such an environment is characterised by low operating costs, increasing investment, social inclusion of marginalised groups and stimulating competition. In its 2024 Business Ready report, the World Bank has grouped factors of a conducive business environment under the three pillars:

- *Regulatory Framework* – measures good practices described in the regulations and rules that must be followed by the enterprises when opening, operating and closing their businesses.
- *Public Services* – reflects the facilities provided by the government to support businesses in complying with regulations, as well as the infrastructure and institutions that help business activities.
- *Operational Efficiency*- highlight the simplicity of compliance with regulations and the efficiency of utilising public services relevant to the businesses.

The framework below is used to assess how the Lesotho business environment in terms of the 10 topic areas that indicate specific factors that show the conduciveness of the business environment. The countries' performance is divided into five quintiles (groups), ranging from the highest to the lowest, within each pillar and topic to enable policymakers to identify areas of improvement (World Bank Group, 2024a:xxxi-25).

Table 5. 4: Lesotho's performance according to pillar and topic area of business readiness (Source: Own Compilation)

	Performance by Pillar			Performance by Topic Area									
	Regulatory	Public Services	Operational Efficiency	Business Entry	Business Location	Utility Services	Labor	Financial Service	International Trade	Taxation	Dispute Resolution	Market Competition	Business Insolvency
Lesotho	54.94	37.89	66.06	76.44	45.93	56.05	62.69	54.30	61.39	60.19	50.10	25.53	37.02

- ➡ Top quintile: High-performing countries that scored from the 80th percentile and above.
- ➡ Second quintile: Countries that show good performance with potential for improvement. They ranked between the 60th and 80th percentiles.

- ➡ Third quintile: Countries exhibiting a mixture of strengths and weaknesses in the business environment and they scored between the 40th and 60th percentile.
- ➡ Fourth quintile: These are countries that demonstrate challenges in their business environment as evidenced by weak regulations and public services. They scored between the 20th and 40th percentile.
- ➡ Bottom quintile: Lowest performing countries in each and ranked below the 20th percentile (World Bank Group, 2024a:25).

The above analysis indicates that while there are no severe weaknesses, Lesotho's business environment is not yet conducive as the performance is average in most areas. The difficulties faced by informal SMEs in Lesotho are not exclusive. Several small open economies face substantial hurdles, including burdensome regulations, high levels of informality and limited support (Omowole *et al.*, 2024:1128-1130). However, many countries implemented policy reforms that provide useful benchmarks for Lesotho. Some of the reforms and strategies implemented in two small economies, Rwanda and Mauritius are discussed and presented in Table 5.3 below. Rwanda is emerging as a leader in the ease of doing business in Africa and among low-income economies, especially for simplifying the formalization of SMEs (World Bank Group, 2024b:18-108). Additionally, Rwanda's regulatory reforms continue to boost its international competitiveness. These reforms include free online business registration, a one-stop shop for business services and licenses and automated tax filing (Rwanda Development Board, 2024a). The free online registration has resulted in a 40% reduction in registration fees (Rwanda Development Board, 2024b:19).

Mauritius has implemented a comprehensive set of government policies to support SME development. These include the SME equity fund and tax incentives for exports. The country has also streamlined the construction permit process, improved the quality of its land administration system and enhanced the ability of debtors to continue their businesses during insolvency proceedings (World Bank, 2020c:110-111). Additionally, Mauritius provides strong support to help SMEs formalize their operations, such as free registration for government tenders, 10% of contracts reserved for SMEs and a 10% price preference over competitors in government contract bidding (Tabti, 2025:8).

Table 5. 5: Benchmarking SME support initiatives in other open economy countries.
(Source: Rwanda Development Board, 2024:9; Tabti,2025:8)

Country	Important reforms	Lesotho's lessons
Rwanda	- Free online business registration (40% cost reduction. - Fully digitalized and online integrated one-stop centre for business services and licensing.	- Simplify online business registration and eliminate registration costs. - Digitize one-stop facility service and fully integrate with all relevant agencies such as immigration and tax departments.
Mauritius	- SMEs have free registration for government tenders. -Tax incentives for exports - 10% of government tenders guaranteed for SMEs.	- Remove the government tenders registration fee for SMEs. - Implement tax incentives for exporting SMEs. - Reserve 10% - 15% of government tenders for SMEs.

By investigating their lived experiences, the study provides new insights into the practical limitations of regulatory frameworks. It expands the discussion on the formalization of businesses, highlighting the challenges faced by SMEs that operate outside the formal regulatory system due to systemic constraints. This study, therefore, concludes that the largest population of SMEs in Lesotho faces exclusion that surpasses simple administrative supervision, resulting in a lack of inclusion, which impacts their security and involvement in economic activities. These findings underscore the importance of policymakers considering inclusive strategies that support and recognize all SMEs, regardless of their legal status.

5.11 LIMITATIONS OF THE STUDY AND FUTURE RESEARCH

While this study offers insights into the informal SMEs' perspective of the government policies and regulations on the SME sector business environment in Lesotho, it is acknowledged that it has limitations. Firstly, the study used a purposive, small sample

of informal SMEs from certain districts of Lesotho thus limiting the generalization of the research findings to the wider context of the informal sector. Moreover, semi-structured interviews were used to gather data, which involves the use of personal descriptions by the researchers, which could have incorporated bias through interpretations and phrasing of questions. Notwithstanding these study limitations, the study provides insightful perceptions that can influence future research and practices.

Future research activities should focus on the perspectives of informal SMEs in the remaining six districts of Lesotho to provide a more holistic viewpoint. Additionally, future research should also investigate strategies that can simplify the formalization of businesses, considering the realities of informal SMEs in Lesotho. Moreover, future longitudinal research could investigate the perspective of informal SMEs on government policies and regulations on the SME sector business environment in Lesotho over time because this study adopted cross cross-sectional design. Future studies may also adopt a mixed-methods approach to improve the generalization and triangulate of the findings. Lastly, future studies should evaluate the effectiveness and long-term viability of the remedies suggested by the participants in this study within the Lesotho context. These include free SME business registration, offering incentives for the formalization of SMEs and tax holidays.

5.12 CONCLUSION

This research highlights often overlooked perspectives of informal SMEs by examining how they perceive the influence of government policies on the SME business environment, drawing from new qualitative findings and existing literature. Theories of informality were briefly discussed alongside the concept of informality in the SME sector and the impact of the regulatory framework on SME growth in the literature review. The BEDCO database was used to access the informal SME participants who were purposively selected. The key findings indicate that insufficient government support, combined with complex and demanding compliance processes and a lack of incentives for formalization, discourages informal SMEs from registering their businesses. Fifty percent of the participants were aware of the policies and regulations, but they were still unregistered.

Additionally, time-consuming processes, administration burdens and formalization costs stand out as the major obstacles for SMEs to formalize their operations. Despite the existence of well-documented recent Business Licensing and Registration Regulations of 2020, the number of informal SMEs increased from 61,800 to 82,315 between 2016 and 2023. This supports the findings that some SMEs are unaware of these regulations and that government policies are not effectively communicated to those affected. These regulations negatively impact the business environment, especially for SMEs, which are considered to face relatively high registration costs and often fail to comply with many requirements.

Simplifying the compliance process, providing adequate government support and offering incentives to formal SMEs can enhance the importance of formalizing businesses thereby reducing the number of informal SMEs. While informal SMEs create economic opportunities, such as jobs that could lower crime rates in certain contexts, they can also contribute to increased crime due to economic instability and loopholes in the regulatory system (Lah, 2024:5). A high crime rate discourages new investments, which limit economic growth.

5.13 PRACTICAL IMPLICATIONS

A conducive business environment is vital for SMEs for various reasons, including transformation, economic growth, formalization, job quality and entrepreneurship. The advantages of a supportive business environment are significant, especially for informal SMEs as it affects their sustainability and growth. From a management standpoint, informal SMEs encounter numerous challenges and this study provides a valuable framework that highlights different types of managerial struggles and the benefits of addressing them with inclusive and comprehensive policy measures.

The researcher identifies, maps and combines several obstacles in the business environment facing SMEs as seen by the informal SMEs through a qualitative study of 16 informal SMEs in Lesotho, suggesting four main themes. These are government regulations and the business environment, insufficient government assistance and the challenges and benefits of formalization for informal SMEs. Each of these themes comprises various subcategories and unique challenges, indicating that informal

SMEs aiming for formalization, growth and sustainability should recognize and consider these themes as equally important. Besides offering insights into each of these themes and their potential impacts on SMEs, this research also provides a comprehensive view of the difficulties faced by informal SMEs.

5.14 RECOMMENDATIONS

This section presents the recommendations based on the insights, findings and conclusions of this study. These suggestions aim to address the challenges identified and leverage opportunities to achieve the desired outcomes. The recommendations are intended to help policymakers develop inclusive policies that support SMEs in thriving in Lesotho's business environment.

- *Reduce formalization barriers and utilize open communication:* the government of Lesotho must lessen the barriers to formalizing businesses and create open communication platforms between the government departments and SMEs. Particularly, the government needs to consider the interests of people who rely on informal SMEs for a living thus aligning with the findings that advocate for the need to enhance protection of the informal sector employees (Miti *et al.*, 2021:390-391).
- *Reform:* Lesotho should concentrate on streamlining the processes and hybrid business registration services to reduce delays and improve the ease of doing business.
- *Reinforces policy implementation strategies:* to improve the efficiency of SME support programs and agencies like BEDCO, the government ought to simplify the implementation of policies by ensuring the need for an effortless process in accessing opportunities and benefits. This could be achieved through clear guidelines, set timelines and established feedback mechanisms to enhance accountability and transparency (Abdulrahman Shehu Ahmadu *et al.*, 2025).
- *Provide formalization incentives:* the practices of the informal sector is among the top 10 constraints to the business environment in Lesotho (World Bank, 2023b:10). Offering incentives like tax holidays for startups and streamlining and hybrid business registration services could lower formalization costs and encourage SMEs to register their businesses, helping them achieve better profit margins.

- *Increase Access to Affordable Financing:* the government should develop tailored and easily accessible financing schemes for SMEs, such as SME grants and low-interest loans in cooperation with financial institutions.
- *Provide affordable, continuous advisory services:* these services can address the gap in business management knowledge and regulatory compliance that exists in most SMEs. They can assist SMEs in overcoming challenges related to operational efficiency, strategic planning and ultimately enhance their overall performance. Ongoing financial advice and literacy services can also help manage funds more effectively, ensuring the sustainability of available funding schemes and SME businesses.

CHAPTER 6

RESEARCH ARTICLE 3

Stakeholder perspectives of factors contributing to the conduciveness of the business environment of SMEs

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This article explored the following objective of the study: “Investigate the government policies and regulations that impact the business environment for small and medium-sized enterprises (SMEs) in Lesotho.” It has been submitted to the *South African Journal of Entrepreneurship and Small Business Management* (SAJESBM). The SAJESBM guidelines are marked as ANNEXTURE E.

ABSTRACT

The business environment for small and medium-sized enterprises (SMEs) in Lesotho faces several challenges, including weak regulatory frameworks and inconsistent policy implementation. With approximately 85% of imports coming from South Africa, a significant trade imbalance exists, resulting in a trade deficit that hinders local business growth and creates a challenging environment for SMEs to thrive. The study intended to investigate stakeholders' perceptions of how government policies affect the business environment for SMEs in Lesotho. The study was conducted in Lesotho and focuses on SMEs in Maseru, Leribe, Berea and Mafeteng districts. This qualitative study used a phenomenological approach to explore how government policies affect the business environment for SMEs in Lesotho. Data were collected through semi-structured interviews and document analysis from 46 participants across various stakeholder groups and thematically analysed using Atlas.ti. The findings indicated that broad-based policies, including those related to licensing, taxation and financing continue to hinder the development and formalisation of SMEs in Lesotho. The study concluded that government policies and regulations play a pivotal role in shaping a conducive business environment for SMEs. This study highlights policy implementation issues and the unforeseen implications evident in formal policy documents. It underscores the gap between the government policies' intentions and their actual impact on the business environment of SMEs.

Keywords: business environment; SMEs; regulatory frameworks; policy implementation; imports; compliance; sustainability; government policies.

6.1 INTRODUCTION

The business environment for SMEs in Lesotho faces several challenges, including weak regulatory frameworks and inconsistent policy implementation. With approximately 85% of imports coming from South Africa, a significant trade imbalance exists, resulting in a trade deficit that hinders local business growth and creates a challenging environment for SMEs to thrive. Lesotho's economic growth is weak, unstable and insufficient to address its vulnerability and development challenges (African Development Bank, 2024:1-2; Alize le Roux, 2024:3-8; Nkabane & Wantchami, 2024:20). However, due to the current major development projects, MCC II and LHWP II, the economic growth is expanding moderately and is expected to increase by 3% between 2024 and 2025 and reduce by 2% in 2026 (Central Bank of Lesotho, 2024:1-2).

Creating a business environment that encourages inclusion and sustainable industrial development must be the focus of any initiative to promote the development of vibrant and competitive industrial sectors (United Nations, 2024:2-9). The government must fortify institutions, reduce corruption, enact reforms to create a conducive business environment and achieve greater growth (Muhanika, 2021:6). A Conducive business environment is characterised by effective economic governance in areas of business licensing, regulations and taxation (World Bank, 2023b:8).

The purpose of this study is to investigate stakeholders' perceptions of how government policies affect the business environment for SMEs in Lesotho. Following the background, problem statement, research questions and the scope of the study, the rest of the paper is organized as follows: Section 2 contains the literature review. Section 3 outlines the research methodology, detailing the processes and steps taken to collect and analyze the data. Section 4 is dedicated to presenting the results and discussing the findings. Section 5 discusses the study limitations, section 6 provides direction for future research and finally, section 7 presents the conclusion and recommendations.

6.2 BACKGROUND

The national business environment impacts the performance of SMEs. Key factors, including economic conditions, technological advancements and political stability play a crucial role in determining a business's ability to survive, generate profits and achieve growth (Abdullahi *et al.*, 2025:36). In developed countries, SMEs operate in a stable environment, supported by strong regulatory frameworks, advanced technologies and reliable financial systems. Conversely, SMEs in developing countries often face challenges like poor infrastructure, unstable political conditions and fluctuating economic situations (Nwakpa *et al.*, 2021:349-356).

In Africa, SMEs face external environmental influences (Abdullahi *et al.*, 2025:36). Several African nations, including Lesotho face political obstacles manifesting as inconsistent regulatory frameworks, corruption and unpredictable policies. These issues erode business confidence and impede operational effectiveness (Duri, 2020:1-18). Complicated administrative policies, regulatory frameworks, financial requirements, fees, public sector corruption, high crime rates and a lack of essential business support services are significant barriers to the SMEs' business environment in Lesotho (International Monetary Fund, 2023:4-52).

Lesotho is a small lower-middle-income country surrounded by South Africa, with an economy reliant on textile manufacturing, remittances, agriculture and customs revenue. Its currency, the loti, is fixed at par with the South African rand. Approximately 75% of Lesotho's population resides in the rural areas and depends on subsistence farming and remittances from family members working in South Africa. Lesotho also receives revenue from the royalties paid by the South African government for water sold to South Africa (African Development Bank Group, 2024:16; International Monetary Fund, 2022:85). Additionally, it generates income through its membership in the South African Customs Union (SACU), which is 27.8% in 2024 (GoL, 2025:2-10).

Lesotho's current account balance has improved from a deficit of 6.4% to a surplus of 4.3% between 2023 and 2024. However, the trade balance continues to be in deficit and a further decline in low exports, mainly of textiles is anticipated to lead the current account balance back into deficit in the medium term (World Bank, 2025a:2). The majority of its imports is from South Africa, 85% compared to 29% exports (International Monetary Fund, 2022:85; Nkabane & Wantchami, 2024:20). A

conducive business environment includes incentives that motivate innovation and increase productivity, which are essential for sustainable development thus encouraging businesses to operate effectively.

The Lesotho business environment is challenging due to fragile regulatory frameworks, business licensing issues, a lack of innovation, insufficient infrastructure, informality and limited access to finance. Along with Lesotho's reliance on the South African economy and the effects of the global economic downturn, these factors create a challenging environment for businesses to succeed (Nkabane & Wantchami, 2024:17-20; World Bank, 2023b:3-9). Businesses in Lesotho face several challenges, including a lengthy business registration process that takes 15 days, difficulties in obtaining electricity and cumbersome procedures for obtaining permits and license renewals (World Bank Group, 2020:8-15). SMEs, which represent the largest segment of the private sector are particularly affected by this unconducive business environment (International Monetary Fund, 2023:4).

This study contributes to existing research by addressing a key gap in the discussion about how government policies influence the SME business environment. By exploring the complexities of policy implementation, the study aims to reveal both the intended goals of official policy documents and the unintended consequences that can affect SMEs' operations. This article explores the stakeholder perspectives on how government policies impact the business environment for SMEs in Lesotho.

These stakeholder groups include registered and informal SMEs, the Department of Small Business, banks, the tax authority, government agencies, Chamber of Commerce and Industry and business associations. The analysis of their perspectives provide insights into their experiences thereby enabling an understanding of the influence of several government policies on the business environment for SMEs. Their insights highlight the effects on operational efficiency, social responsibility and financial performance. Stakeholders support SMEs' sustainability efforts by offering expertise, monitoring and specialised information that help SMEs navigate the challenges associated with adopting sustainable practices (Ahmadow *et al.*, 2024:277).

This study aims to investigate the perspectives of various stakeholders concerning the opportunities and challenges faced by SMEs in Lesotho's current business environment. By analysing these perspectives, the study seeks to provide insights into how government policies can shape the business environment, either facilitating or hindering its conduciveness. Consequently, this analysis will inform discussions about the implications of such policies on the sustainability and growth of SMEs in Lesotho.

6.3 PROBLEM STATEMENT

SMEs are the pillar of economies worldwide, creating 90% of all businesses and 67% of jobs globally. However, their success is threatened by numerous challenges in the business environment in which they operate (Abdullahi *et al.*, 2025:37; United Nations, 2024:2). In Lesotho, they encounter significant challenges hampering their development and sustainability including complex regulations, corruption in the public sector, insufficient infrastructure, a lack of mentoring, training and access to finance (African Development Bank Group, 2024:23; International Monetary Fund, 2023:4-52).

Governments play a vital role in creating a supportive business environment for SMEs. Although many African countries have built ecosystems to assist SMEs, most of these systems have proven to be inadequate and overly complicated, which hinders SME growth (African Development Bank Group, 2024:64). Additionally, a conducive business environment supported by favourable laws and regulations is crucial for attracting private investment. Despite their potential, SMEs in Lesotho operate within a restrictive business environment, scoring 0.4 on the business environment index compared to the South African Development Community (SADC) average of 0.2 (GoL, 2025:11). This indicates that Lesotho faces significant investment policy barriers, resulting in operational inefficiencies and an increased business risk level. This situation hampers its capacity to attract private investment, which is crucial for sustainability and growth.

Lesotho has a market-based economy where production and pricing are determined by supply and demand rather than central planning. Its economic freedom index stands at 54.1, indicating that it is primarily an unfree economy (The Heritage Foundation, 2025:1). This suggests that businesses, particularly SMEs, operate in an

environment that is often hindered by bureaucratic barriers, heavy regulations and limited opportunities for investment and trade. The government in Lesotho plays a significant role in economic activities, which restricts the growth of the private sector (Global Edge, 2024).

SMEs are key drivers of employment and economic growth in Lesotho, especially in large sectors like textiles and they are increasingly involved in cross-border trade, reflecting global trends (Ojo & Adelakun, 2025:1-2). However, government policies have not effectively created a supportive environment for their development. This has led to low SME survival rates, less than 10% and limited contributions to the economy (Amadasun & Mutezo, 2022:2; Amadasun & Mutezo, 2023:1). The government's efforts to improve the business climate have been hindered by poor implementation and a lack of coordination among government agencies and development partners. The legal and regulatory framework for investment is inadequate and needs to be streamlined to increase transparency (GoL, 2025:11).

6.4 RESEARCH QUESTIONS AND OBJECTIVES

6.4.1 Research aim

The study intended to investigate stakeholders' perceptions of how government policies affect the business environment for SMEs in Lesotho.

6.4.2 Research Question

What government policy obstacles hinder the creation of a conducive business environment for the SME sector in Lesotho?

6.4.3 Research objective

6.4.3.1 Primary objective

The primary objective of this study is to explore the perspectives of different stakeholders concerning the government policies that influence the business environment for SMEs in Lesotho.

6.4.3.2 Secondary objectives

- Understand the approach used by the Lesotho government to develop and implement policies and regulations affecting the SME sector.
- Evaluate the impact of government policies on SMEs' performance in Lesotho.
- Investigate the level of stakeholder engagement in the policy development process.
- Explore the existing SME sector support initiatives in the Lesotho business environment.
- Propose improvement strategies based on the analysis of the findings of the study.

6.5 SCOPE OF THE STUDY

The conduciveness of the business environment is vital for SMEs, especially in developing countries because they play a key role in economic growth, job creation and innovation. However, they often struggle due to complex regulations, the lack of access to finance and poor infrastructure, among others. Therefore, this study focuses on investigating government policy barriers that hinder the conduciveness of the business environment of SMEs in Lesotho.

6.6 LITERATURE REVIEW

This section investigates the literature on the significance of government policies and stakeholder engagement in the development of SMEs. The development of SMEs is crucial for alleviating poverty, promoting economic growth and creating job opportunities. However, their development is affected by various external factors, such as government interventions and stakeholder relationship issues. The study reviews existing literature to understand how government policies contribute to creating a conducive business environment for SMEs as perceived by different stakeholder groups. Following this review, the study presents institutional theory as the theoretical foundation, highlighting how government regulations shape the business environment for SMEs.

6.6.1 Government policies and SMEs' development

SMEs are essential to the economies of many developing countries, providing goods and services while alleviating poverty through job creation. However, government interventions, including regulatory policies, technical and fiscal measures present both opportunities and challenges for SMEs (Chen, 2024:123). To boost economic growth and help SMEs realize their full potential, the government should give them more attention through customised policies (Amoah *et al.*, 2022:63-64). Government policies are designed to create a favourable business environment for SMEs to enhance their contributions to job creation, innovation and economic growth. Existing literature concludes that government policies benefit SMEs by boosting market competitiveness, providing financial assistance and promoting technical innovation (Chen, 2024:123). However, the effectiveness of these policies is often hampered by inefficiencies in implementation, issues with ownership, misallocation of resources, uneven regional development and discrimination based on scale (Qiong & Premaratna, 2025:1-6).

Government intervention policies serve a dual purpose in supporting the development of SMEs. Firstly, technical and financial support provides SMEs with the necessary impetus for growth and innovation. Secondly, regulatory requirements can limit their flexibility and increase operating costs. Therefore, SMEs should take advantage of government support while also working to improve their internal management processes. This approach will help them achieve sustainable long-term development and reduce any negative impacts (Chen, 2024:127). For the past few decades, many African governments have struggled with the challenge of creating employment. However, due to the efforts of SMEs, this obstacle is gradually being overcome. SMEs play a significant role in reducing poverty and unemployment. Their positive impact depends on innovations that have enhanced their potential for sustainable economic development (Amoah *et al.*, 2022:65).

6.6.2 The Role of Stakeholders

The pressure from business stakeholders significantly influences environmental performance and sustainable production practices (Baah *et al.*, 2021:100-101).

Specifically, it is important to consider the influence of direct stakeholders such as investors, stakeholders, employees, natural environment, business community and consumers (Nicolescu & Nicolescu, 2022:86). SMEs are encouraged to adopt sustainable practices due to regulatory requirements, consumer expectations and a desire to make a positive environmental impact. However, they face challenges such as limited financial resources and a lack of knowledge. To overcome these obstacles, both the government and SMEs must take proactive measures (Oliveira *et al.*, 2024:2-3).

Active engagement with stakeholders is important in promoting the sustainable development of SMEs. Developing successful strategies for encouraging sustainability in the SME sector requires an understanding of the different stakeholders' contributions and roles (Ahmadov *et al.*, 2024:277). Various stakeholder groups, including banks can significantly support SMEs in their sustainability initiatives by providing funding even if the government does not actively promote sustainability. Therefore, SMEs should be aware of the stakeholders they need to consider when developing their sustainability plans and how these stakeholders can contribute to achieving their sustainable development objectives (Ahmadov *et al.*, 2024:277).

Governments create regulations that promote an eco-friendly environment for businesses, though the impact may vary depending on the organisation's structure and size. SMEs are generally less responsive to regulations than larger businesses, indicating a need for policymakers to consider the different developmental stages of various businesses (Cantele & Zardini, 2020:128-131). That is, have more specific policies that consider the unique conditions of SMEs to enhance their compliance and environmental adaptability (Ahmadov *et al.*, 2024:279).

6.6.3 Theoretical framework regarding a conducive business environment

This study is anchored on institutional theory (Risi *et al.*, 2023), which suggests that businesses are greatly influenced by the institutional context in which they operate; they do not exist in isolation (Balzano *et al.*, 2024:1-2). Institutional theory explains how various dimensions play a crucial role in determining the development of SMEs. A key element of this framework is the concept of legitimacy, which includes essential

factors like financial support, government assistance, loans, licensing and operational aspects that are required by SMEs to build credibility and gain acceptance in their market (Thakur, 2023:215). Furthermore, this theory emphasises how social structures, such as legal frameworks and cultural norms shape the behaviour of SMEs and impact their reputation and social capital (Balzano *et al.*, 2024:6).

Institutional theory posits that organisations try to align themselves with the standards, expectations or values that are imposed by their environment. This perception helps to understand the relationship that businesses have with the institutions and actors in their operational context. As broadly defined, institutions refer to a collection of standards for social or organisational conduct that can be manifested as a formal structure like legislation, procedure or regulatory entities (Huybrechts *et al.*, 2024:2-3). In response to institutional pressures and market expectations, SMEs are encouraged to engage in sustainable innovation by incorporating social responsibility and environmentally friendly practices into their business models (Balzano *et al.*, 2024:2). This study applies institutional theory to examine how government interventions shape entrepreneurial behaviour and perceptions, impacting the business environment. It highlights how institutional inefficiencies, policy inconsistencies and regulatory burdens create uncertainty that can discourage investment and entrepreneurial activities, particularly for SMEs in developing countries like Lesotho.

The research methodology used in this chapter is discussed in the next section.

6.7 RESEARCH METHODOLOGY

The methodology employed to address the research objective is presented in this section. The section describes the research approach, design, populations, sampling techniques, data collection and analysis methods employed.

6.7.1 Research approach

This qualitative study used a phenomenological approach to explore how government policies affect the business environment for SMEs in Lesotho. The phenomenology

approach was suitable for facilitating in-depth comprehension of participants' experiences, thoughts and feelings regarding the phenomena in this study.

6.7.2 Research design

The study followed the cross-sectional design, which enabled observation and measurement of the impact of government policies on the SME business environment in Lesotho at a point in time with no follow-ups.

6.7.3 Population and sampling

The study population consisted of registered SMEs and informal SMEs operating in Maseru, Berea, Leribe and Mafeteng districts (FinMark Trust, 2025:4). These districts were considered because they have the highest number of SMEs compared to the other six districts in Lesotho. It also included representatives from the tax authority, commercial banks, the Chamber of Commerce, government agencies and the Department of Small Business. The study participants were selected using purposive and snowball sampling.

Figure 6.1 shows the distribution of the participants classified by stakeholder groups. There were 17 registered SMEs, 16 informal SMEs, 2 Department of Small Businesses' officials, 3 commercial banks representatives, 2 tax authority representatives, 2 government agencies representatives, 2 business associations representatives and 2 Lesotho Chamber of Commerce and Industry representatives. The sample size in each group was influenced by the saturation point (Mwita, 2022:417).

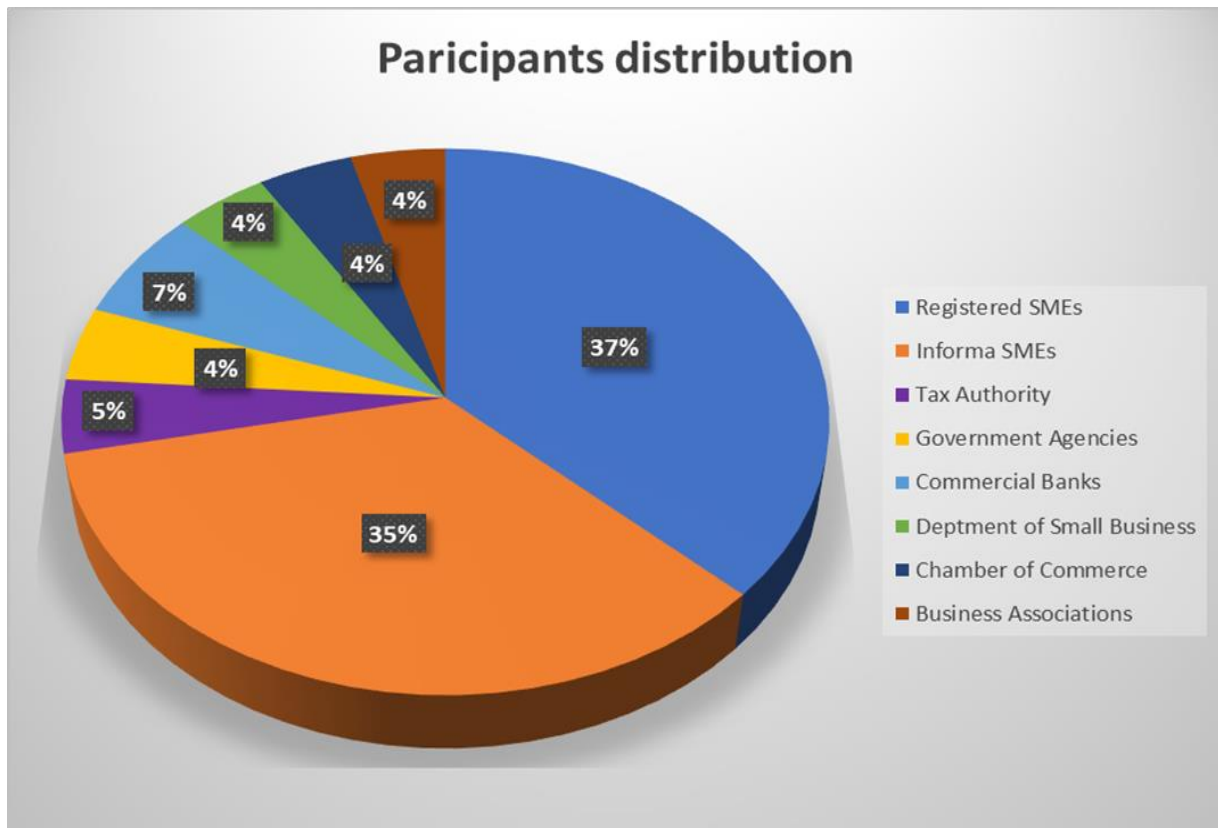


Figure 6. 1: Participants' distribution (Source: Own Compilation)

6.7.4 Data collection method

Data were collected through semi-structured interviews from 46 participants across various stakeholder groups and thematically analysed using Atlas.ti. Based on individual participants' preferences, interviews were conducted face-to-face or virtually and each interview lasted between 40 to 60 minutes. Additionally, document analysis was used to complement the interview responses and to guarantee methodological triangulation. The confidentiality, anonymity and voluntary participation were maintained throughout the study.

6.7.5 Data analysis

Data were analysed using a thematic analysis framework that involved six steps: data transcription and familiarisation; initial code generation; categorisation of initial codes based on similarities; development of themes; review and refinement of themes and report writing. The study employed the Glaser and Strauss coding process (McLeod,

2024:1), which includes Open, Axial and Selective Coding (Akkaya, 2023:92; Estaji & Azizbeigi, 2025:40). Interview memos were converted into electronic transcriptions and were uploaded into ATLAS.ti for coding and theme identification, together with secondary documents such as government publications.

Documents were sorted into document groups within ATLAS.ti to allow an efficient and effective analysis. Open codes were created inductively, extracting significant data from the documents relevant to the research questions (Sharma, 2024:124). Data familiarisation was attained through repetitive reading of the documents. Throughout the coding process, as commonalities emerged, the list of patterns was documented. The final themes emerged as general patterns after the subthemes were reviewed and improved.

The process of identifying commonalities, refining the code and organising them into subthemes and themes was conducted using a codebook from ATLAS.ti which was exported into an Excel spreadsheet. Group codes were established within ATLAS.ti and individual codes were assigned to these groups based on the identified themes. Each theme was reviewed and refined multiple times to ensure clarity and distinction from others. Compelling quotations from the data supported the individual themes. Ultimately, a network of themes, codes and quotations was created (Choe *et al.*, 2022:8) as shown in Figure 3. The ATLAS.ti software played a crucial role in enhancing data management by allowing the uploading and organization of documents and the creation of codes and themes with an emphasis on data exploration (Ñañez-Silva *et al.*, 2024:129). It facilitated effective organisation and analysis of the data, contributing to the construction of the network of codes and themes.

6.7.6 Data trustworthiness

6.7.6.1 Validity and Credibility of Data

Rigorous methodological guidelines and data verification techniques were employed throughout the research process to ensure the validity and credibility of the data. Data were collected using in-depth, semi-structured interviews and only participants familiar with the research topic were purposively selected. This helped ensure that only data relevant to the study objectives was gathered. The relevance and clarity of the

questions were tested through pilot interviews and the necessary amendments and corrections were made to the interview protocol for the study. Interviews were recorded with a voice recorder and notes to ensure the accuracy of the collected data. Additionally, a reflective diary was used to document personal emotions, biases and thoughts to reduce the researcher's bias during the study.

Furthermore, prolonged engagement with the participants enhanced the breadth and depth of the collected data, allowing for a comprehension of their viewpoints and experiences. Member checking was employed to verify the accuracy of the interpretations, granting participants access to the findings for review. An audit trail was maintained by recording all collected and analysed data. Interview responses were supplemented by secondary documents for data triangulation. These measures improved the consistency, accuracy and trustworthiness of the study results.

6.8 PRESENTATION AND DISCUSSION OF RESULTS

6.8.1 Results

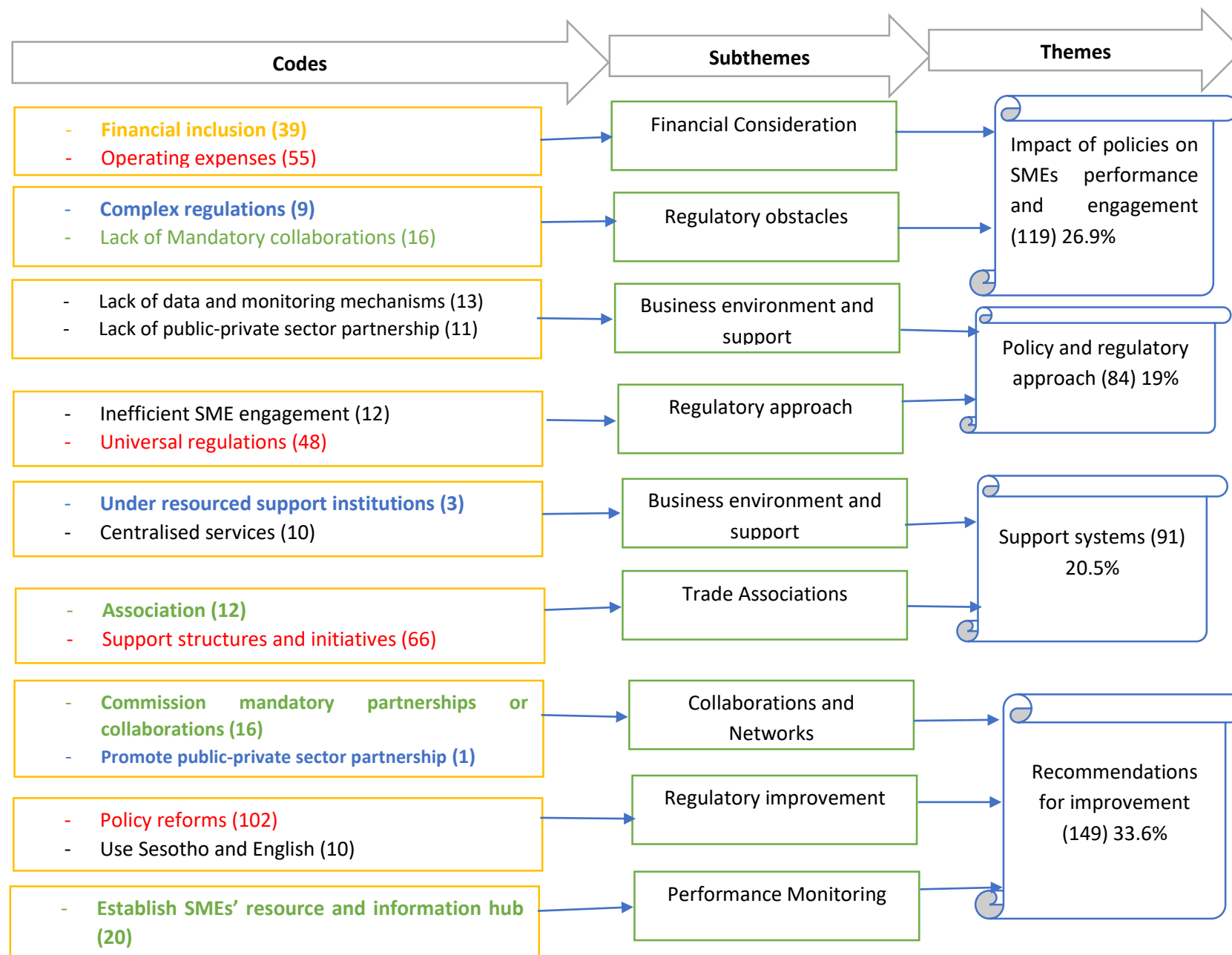
This section presents the findings categorised into themes, which are discussed according to different stakeholder groups' perspectives. The findings indicated that broad-based policies, including those related to licensing, taxation and financing continue to hinder the development and formalisation of SMEs in Lesotho. This article examines stakeholder perspectives on government policies that shape the business environment for SMEs in Lesotho. Figure 6.2 shows a word cloud that visualises key words that frequently appeared in the data, which were then used to discover possible themes (Thelwall, 2023:5). This cloud provided a basis for initial codes. This graphic shows words such as "SMEs, government, Lesotho, regulations, support, costs, business, challenges, compliance, incentives, registration, tax." The frequency signifies their importance in assessing government policies on the business environment for SMEs.



Figure 6. 2: Frequently used words in study interviews (Source: Own Compilation)

Table 6.1 below outlines the process used to develop themes. The four main themes, policies and regulatory approach, impact of policies on SMEs' performance and engagement, support systems and recommendations for improvement were supported by subthemes and key quotations from the study data. Seventeen codes were grouped into nine subthemes based on similarities, which contributed to forming the four broader themes.

Table 6. 1: Themes development process (Source: Own Compilation)



Colour Key:

Severe Impact	High Impact	Moderate Impact	Low Impact	Minimal Impact
 Red	 Orange	 Green	 Black	 Blue

Table 6.1 shows that insufficient support structures, high operating expenses and universal regulations significantly hinder SMEs' development. This reflects a need for policy reforms. On the other hand, complex regulation and under-resourced support institutions are deemed to have minimal impact on the SME business environment. However, these cannot be ignored because they are closely linked to the codes that have a severe impact. The relationship shown in Table 6.1 above is complemented by the network view in Figure 6.3 below. It illustrates that the first three themes are connected to the same number of subthemes and codes, indicating a similar impact on the conduciveness of the SMEs' business environment. These themes highlight challenges posed by government policies.

Additionally, two of these themes, policy and regulatory approach and impact of policies on SMEs' performance and engagement are connected to the same subtheme, regulatory obstacles, demonstrating an overlap between them. Comparatively, the recommendations for theme improvement, which presents solutions suggested by the participants is linked to more subthemes and codes. Its prominence proposes that participants foresee a need for intense and urgent improvements.

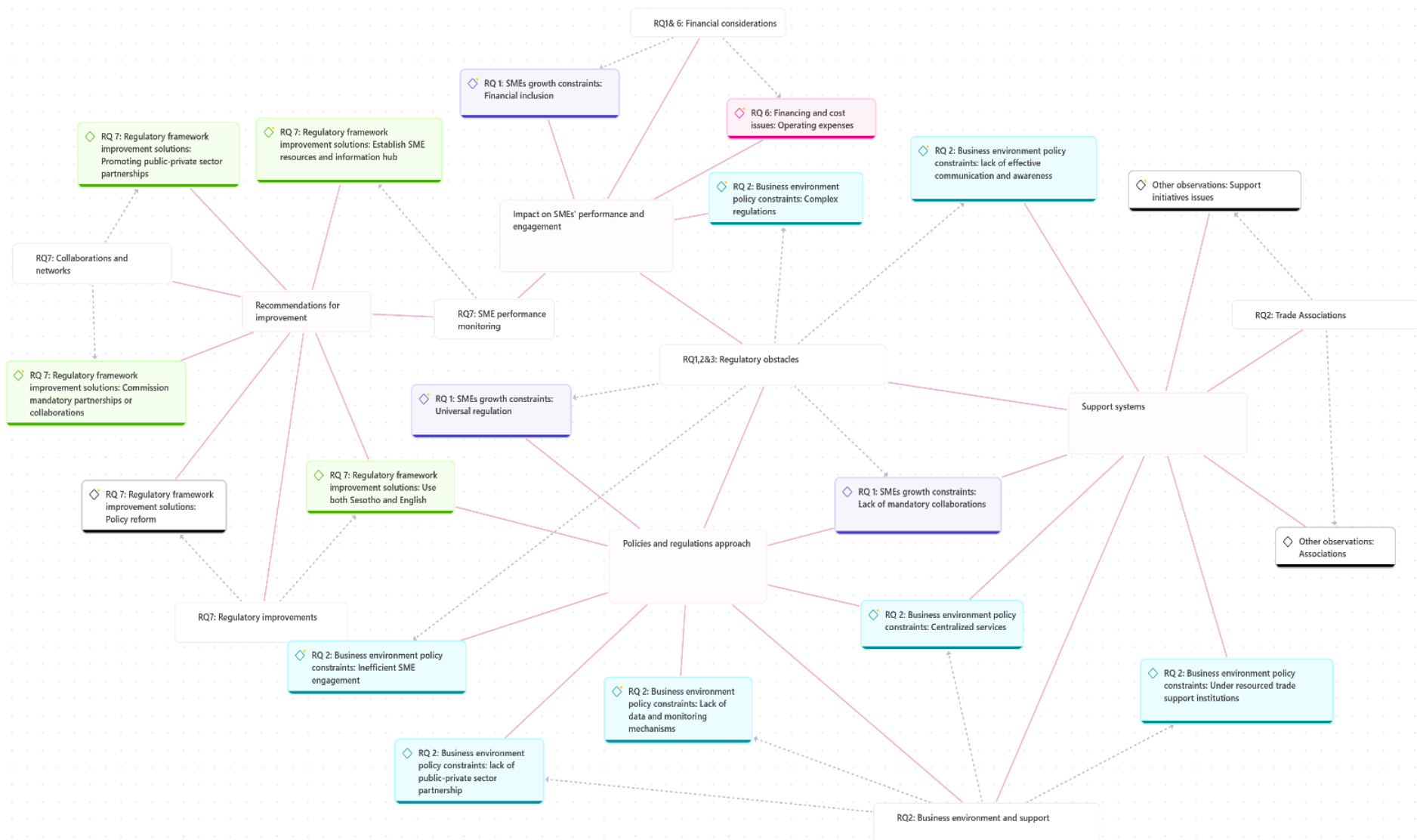


Figure 6. 3: Network of government policies on the SMEs business environment (Source: Own Compilation)

The document analysis presents the distribution and frequency of codes used in all documents within ATLAS.ti as shown in Table 6.2 below. It illustrates the popularity of each code. The following codes: policy reforms, operating expenses and financial inclusion emerged as the most significant issues across the interviews. Conversely, support initiatives and broad-based regulations were also frequently discussed except by the Chamber of Commerce and informal SMEs. Furthermore, operating expenses and policy reforms were prevalent concerns for registered SMEs and informal SMEs, indicating a local challenge regarding compliance costs and non-inclusive policies. Interestingly, the promotion of public-private sector partnerships ranked the lowest in terms of concern, suggesting it may not be a priority for stakeholders.

Table 6. 2: Code document analysis (Source: Own Compilation)

	BANKS Gr=90; GS=2	BUSINESS ASSOCIATIONS Gr=136; GS=2	CHAMBER OF COMMERCE AND INDUSTRY Gr=85; GS=2	DEPARTMENT OF SMALL BUSINESS Gr=57; GS=1	GOVERNMENT AGENCIES Gr=86; GS=2	INFORMAL SMES Gr=266; GS=7	REGISTERED SMES Gr=413; GS=9	TAX AUTHORITY Gr=108; GS=2	Totals
• RQ 2: Business environment policy constraints: Inefficient SME engagement Gr=12	0	1	0	0	1	3	7	0	12
◦ Other observations: Support initiatives issues Gr=66	4	14	6	4	14	0	11	6	59
• RQ 1: SMEs growth constraints: Financial inclusion Gr=39	11	7	1	3	2	5	2	2	33
• RQ 1: SMEs growth constraints: Universal regulation Gr=48	11	2	0	1	1	5	6	10	36
• RQ 2: Business environment policy constraints: Centralized services Gr=10	0	1	2	1	0	1	2	2	9
• RQ 2: Business environment policy constraints: Complex regulations Gr=9	0	2	0	0	1	1	0	3	7
• RQ 2: Business environment policy constraints: Lack of data and monitoring mechanisms Gr=13	0	6	5	1	1	0	0	0	13
• RQ 2: Business environment policy constraints: lack of Public-private sector partnership Gr=11	0	0	0	0	0	10	0	1	11
• RQ 2: Business environment policy constraints: Under resourced trade support institutions Gr=3	0	2	0	0	1	0	0	0	3
• RQ 6: Financing and cost issues: Operating expenses Gr=55	2	2	1	2	1	12	23	3	46
• RQ 7: Regulatory framework improvement solutions: Commission mandatory partnerships or collaborations Gr=16	0	0	0	0	0	1	8	0	9
• RQ 7: Regulatory framework improvement solutions: Establish SME resources and information hub Gr=20	1	4	1	0	0	1	5	0	12
◦ RQ 7: Regulatory framework improvement solutions: Policy reform Gr=102	4	10	2	4	6	22	19	10	77
• RQ 7: Regulatory framework improvement solutions: Promoting public-private sector partnerships Gr=1	0	0	0	0	0	0	0	1	1
• RQ 7: Regulatory framework improvement solutions: Use both Sesotho and English Gr=10	0	1	0	0	0	3	4	0	8
Totals	33	52	18	16	28	64	87	38	336

6.8.2 Theme 1: Policy and regulatory approach

This section outlines the findings concerning the first theme per stakeholder group.

- Registered SMEs

The approach to government policy development emerged as a major concern during the interview. 35% of registered SMEs expressed that broad-based regulations impose compliance pressures. Many participants felt excluded from policy discussions affecting their businesses and believe that large companies are considered representatives of the private sector: *“Lesotho SMEs miss several opportunities, hence not progressing. They struggle with regulatory compliance because decisions are made without their input leading to most losing interest in regulatory matters”* (C002 FM 2025) noted. Regarding how they stay informed about regulatory developments, a few respondents indicated that they hire or engage professionals like accountants. Some rely on their peers or the media for the update. The majority appeared not to be proactive and learn about developments when they needed to comply.

- Informal SMEs

63% of the respondents raised the language barrier, saying that policies are written in English while Sesotho is the first and national official language: *“Policies are expressed in English which is discouraging because we always have to engage professionals for interpretation even with requirements that would be simple if it was expressed in Sesotho, the first official language”* (C005 IN, 2025) highlighted. It was also found that the communication channels used for stakeholder engagement during policy development are not inclusive. Additionally, most participants seemed reluctant to familiarise themselves with new regulatory developments. Some mentioned that they fear being exposed to law enforcement as they cannot afford the associated costs due to their small profits: *“We depend on these businesses for living and the profits are small to an extent that they can be eroded by compliance costs. However, our businesses are victims of criminal activities are not reported due to fear of being exposed to law enforcement”* (E003 IN, 2025) noted.

- Department of Small Business

All participants emphasised that SMEs are engaged through their associations throughout the policy development process. However, they stated that policies are broad and often harm SMEs. It was noted that while the department lacks adequate data on this sector's performance, it is believed that SMEs' stagnation is largely due to the absence of tailored policies. As a result, SMEs face high compliance costs, which adversely impact their competitiveness.

- Business Associations

All participants noted that the majority of SMEs are owned by indigenous Basotho, who tend to understand and prefer using Sesotho. It was shared that most SMEs feel excluded by the policies expressed in English: *"According to our resolutions, the proceedings of our association meetings are dominated by the use of Sesotho, allowing all members to participate fruitfully"* (ASS001 2025) highlighted. 50% of the participants noted that development projects are imposed on SMEs.

- Tax authority

Regarding broad-based systems, all the participants shared that due to a lack of resources to acquire professional advice, many SMEs incur penalties as they struggle to navigate complex tax requirements and procedures. It appeared that the majority of SMEs are the victims of high taxes because they fail to take advantage of available tax reliefs or credits due to a knowledge gap.

- Government agencies

All participants reported that broad-based policies are the result of high political instability as evidenced by frequent changes in government. The participants shared that political unrest limit efforts and resources to assess the effectiveness of the existing policies on different sectors of the economy and make the necessary corrections and adjustments. It was clear that this has resulted in weak institutions, which impede policy enhancement and implementation thereby hindering the business environment.

6.8.3 Theme 2: Impact of policies on SMEs' performance and engagement

This theme captures the respondents' perspectives about the influence of government policies on SMEs' performance and the degree of engagement in the policy development process. These perspectives are presented below.

- Registered SMEs

Collaboration among SMEs is a vital source of innovation and knowledge. As a result, government policies that encourage collaboration between SMEs, in areas like customer relations and supply chain management are proving to be effective. Furthermore, policies that promote partnerships between SMEs and institutions like universities have a positive impact on employment opportunities and market challenges (Audretsch *et al.*, 2023:11). For instance, one respondent noted that: *“Government procurement policy should force large companies to partner with SMEs in government tenders to help them grow”* (E003 FM, 2025) stated that.

About 48% of the participants identified the lack of collaboration among SMEs and with other economic players as a significant weakness in Lesotho. Many respondents noted that SMEs face difficulties in accessing markets and resources. Regarding the impact on SMEs' financial performance, all the respondents reported that SMEs incur high compliance costs due to complex regulations. This situation is compounded by the limited access to financing options, such as loans or attracting investors, primarily due to SMEs' restricted financial resources and capacity. C004 FM (2025) indicated that: *“SMEs, especially Basotho-owned, work in isolation and do not join associations, this limits their opportunity to be heard and recognised”*.

- Informal SMEs

One other issue was the lack of government grants and subsidies. 75% of the respondents indicated that due to a lack of grants and subsidies, Lesotho SMEs earn very low profits because of high operating expenses. It was found that Lesotho imports the majority of inputs, particularly from South Africa and the cost of raw materials increases due to high transport costs and consumption taxes. Specifically, SMEs that are not Value Added Tax (VAT) registered lose their competitive edge to compete with

those who can recover taxes and offer lower selling prices: *“It takes too long for Lesotho SMEs to realize their growth potential because they make very low profits due to high operating costs”* (E004 IN 2025) indicated.

- Banks

Concerning financial inclusion, all bank representatives concurred that broad-based requirements limit SMEs' access to finance. About 33% noted that Lesotho SMEs struggle to explore untapped business opportunities like wool and mohair processing to lower input costs. Likewise, government policies appeared partially effective in promoting these markets, which could benefit SMEs: *“At the inception of the African Growth and Opportunity Act (AGOA), the government should have encouraged foreign investment in wool and mohair processing through tax exemptions to reduce the level of dependence on imports”* (BANK001 2025) stated.

Regarding financial sector regulation, all the participants indicated that the Financial Consumer Protection Act of 2022 is one of the most effectively implemented regulations, protecting consumer rights. However, its impact is limited by related policies. Around 67% reported that banks' frameworks require lending to include insurance. Unfortunately, insurance providers in Lesotho do not cover sectors like agriculture, which is primarily composed of SMEs.

- Business Associations

All participants highlighted that the skills gap and low-skilled labour force increase SMEs' import costs. 50% of the respondents stated that SMEs face high costs and administrative burdens in import clearance, citing that SMEs lack economies of scale and incur high clearing agent fees: *“Several fruits and vegetables SMEs buying from South Africa suffered double taxation as they did not know the proper declaration process and related documentation”* (ASS00 2025) stated.

- Department of Small Business

In an interview with the departmental representatives, it appeared that the government provides SMEs with financial support through programmes like Lesotho Enterprise Assistance Program (LEAP), Business Environment Technical Assistance (BETA) and

Partial Credit Guarantee. However, 50% of the respondents felt that the lack of monitoring and strict conditions diminishes the effectiveness of these initiatives, with only a few SMEs reportedly benefiting. For example, LEAP reimburses 75% of the costs incurred for expansion aimed at accessing export markets: *“The majority of SMEs fail to secure loans despite these government assistance programs, as none can be used as collateral”* (DEPT001 2025) noted.

- Chamber of Commerce and Industry

Lesotho aims to become a hydropower hub by 2030 by increasing its renewable energy resources for local consumption and the international market (GET.transform, 2024:16). With abundant water and new projects like the Polihali Dam it seeks to enhance its hydropower capacity, currently met by the Muela Dam, which provides 50% of its electricity (GET.transform, 2024:16). However, high water and electricity costs, which are not subsidised for SMEs, pose challenges.

Additionally, 50% of the respondents indicated that Lesotho lacks a direct sea route due to being landlocked: *“Lesotho’s geographical position inherently makes shipping costs high thus making imports expensive for SMEs because they comparatively buy in smaller quantities”* (CHAM001, 2025) indicated. This geographic situation prevents Lesotho from having equal chances to promote long-term economic growth (Batsuuri, 2022). All the participants agreed that Lesotho's poor infrastructure and landlocked status create high transportation costs.

6.8.4 Theme 3: Support systems

This section outlines individual stakeholder group perceptions on the available support initiatives and programmes for SMEs as influenced by the government policies.

- Tax authority

Regarding policy support initiatives, all the respondents noted that Lesotho’s SMEs benefit from multiple trade agreements for preferential regional market access, modernise cross-border transactions and lower trade barriers. They include the

Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the African Continental Free Trade Area (AfCFTA). These regional agreements offer resource-friendly support for SMEs, surpassing the advantages of international agreements, like Lesotho's Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH relationship: *“Lesotho has strong international connections through its membership in regional organisations such as the African Continental Free Trade Area (AfCFTA). These platforms provide SMEs with access to cross-border trade opportunities, partnerships, and expanded regional markets”* (TAX001, 2025) emphasised.

- Department of Small Business

It appeared that structures like the Basotho Enterprise Development Corporation (BEDCO) and the Department of Small Business were established to support the SMEs in Lesotho. All the participants also noted that Lesotho previously had a dedicated ministry for SME. They mentioned that membership in the Southern African Customs Union (SACU) facilitates access to cross-border markets. However, 50% of the respondents highlighted that the skill gaps, complex regulations and insufficient support systems hinder this opportunity: *“SMEs development is hindered by the skills gap in areas such as innovation and development of bankable business plans. This limit them from taking advantage of best funding options and access cross-border market facilitated through Lesotho's membership in organisations such as SACU”* (DEPT001,2025) stated.

- Registered SMEs

During the interviews, two additional issues were raised: centralised government services and poor communication. Over 75% of the participants felt that support systems do not adequately serve SMEs in remote areas. They shared that the One-Stop Business Facilitation Centre located only in the Maseru district, increases registration and licensing costs for businesses in other districts, forcing them to travel to Maseru to expedite the processes. While registration can be done online, many SMEs find the system complicated and prefer in-person assistance at the department's offices: *“Lesotho is not ready for online business registration because many people don't have internet access and the registration system is complex”* (E004

2025) noted. About 55% of the respondents believe that government support initiatives do not benefit all SMEs because of inefficiency and corruption in communication and resource allocation. While they appreciate modern technology, some emphasised the continued importance of traditional channels, like radio broadcasts and community gatherings, especially in underdeveloped rural areas.

- Business Associations and Chamber of Commerce

All the respondents stated that their institutions advocate for SME support policies and serve as the collective voice for private sector businesses. Additionally, most participants reported that they help SMEs with registration, training and capacity building: *'We offer free business registration assistance to our members struggling with the complex process. The opportunities we source also require registration'* (ASS002 2025) stated. Moreover, 50% of the participants indicated that the government competes with the private sector where it is capable, limiting the support it provides: *"The government has no business being in business and must transfer all enterprises to the private sector"* (CHAM001 2025) emphasised.

6.8.5 Theme 4: Recommendations for improvement

The participants agreed that Lesotho SMEs would benefit from collaborations, both voluntary and mandatory. Around 47% of registered SMEs and 6% of informal SMEs suggested the government mandate partnerships between large companies and interested SMEs for government tenders. Most respondents also suggested policy reforms to include tailored incentives and subsidies, along with having government policies available in both Sesotho and English: *"Policies should be written in Sesotho and English to reduce professional fees such as engaging legal offers every time,"* (A002 IN, 2025) stated. Additionally, they proposed establishing an SME resource hub to improve communication and resource allocation and 2% recommended promoting public-private partnerships. A simplified hybrid business registration process was also suggested.

6.9 DISCUSSION OF THE RESULTS

The results identified key themes regarding how government policies impact SMEs in Lesotho: the development and review approach, the policies' effects on performance and engagement and the effectiveness of support systems. The other theme was improvement recommendations. The first theme, policies and regulatory approach indicates the method and direction followed when developing, implementing and enforcing principles, guidelines and methods within the regulatory environment. A significant finding is that *complex regulations* hinder SME development and competitiveness, leading to administrative burdens and high compliance costs. These issues stifle innovation, limit access to financial resources and constrain economic growth. This is consistent with the findings that SME targeted support policies that facilitate the creation of a conducive business environment and business ecosystem (Prasannath *et al.*, 2024:1557).

The second theme, the impact of policies on SMEs' performance and engagement, examines how government policies affect SMEs' performance and involvement in decisions that affect their operation. This aligns with the policy disclosure that SMEs' engagement means empowerment, which is essential for inclusive and sustainable growth as they drive competition and innovation (OCED, 2025). The results show that inadequate SME engagement hinders SMEs' profitability by restricting access to finance, increasing operating expenses and limiting accessibility to essential services like business registration. SMEs in Lesotho make up a larger portion of the private sector; ineffective SME engagement justifies a lack of private sector engagement.

Support systems, the third theme, demonstrate the effectiveness of government and other support initiatives and systems for SMEs in the Lesotho business environment. SMEs can benefit from programs like the partial credit scheme and support structure to overcome financial and market challenges. These initiatives can be more effective with a joint strategy that includes policy development, stakeholder involvement, ongoing evaluation and monitoring (Abdulrahman Shehu Ahmadu *et al.*, 2025:47). The last theme, recommendations for improvements illustrates the strategies proposed by the participants based on their experience in Lesotho's business environment. Suggestions include using Sesotho, the primary official language in policies to foster inclusivity and enhance participation. Similarly, simplifying the compliance process can address market and finance access barriers.

The frequent discussions of key terms like “government, regulations, costs, challenges, tax, compliance” in Figure 2, the word cloud, support the identified themes. Their prominence implies the importance of government policies in creating a conducive business environment. This supports the findings that the government plays a pivotal role in stimulating the SME environment for sustainability, growth and economic development (Abdulrahman Shehu Ahmadu *et al.*, 2025:34).

Figure 6.4 below shows stakeholder interest and influence on each theme. The first theme is highly influenced by banks, tax authorities and trade associations. Most stakeholders, except the Chamber of Commerce, agree that a broad-based policy approach negatively affects the SME business environment. Likewise, all stakeholders as shown in Table 6.2 agree that the current Lesotho Government policies do not sufficiently support a conducive business environment for SMEs and recommend policy reforms.

THEMES				
	Policy and regulation approach	Impact of SMEs' performance and engagement	Support systems	Recommendations for improvement
Banks	●	◆	☾	●
Department of Small Business	◆	●	●	●
Registered SMEs	◆	●	◆	●
Government agencies	◆	◆	●	●
Business Associations	●	●	●	●
Chamber of Commerce	☾	☾	●	●
Informal SMEs	◆	●	☾	●
Tax authority	●	●	●	●

Figure 6. 4: The Stakeholders' level of themes influences the matrix grid (Source: Own Compilation)

- High
- ◆ Medium
- ◐ Low

While centralised services may be intended for efficiency, they may hinder compliance by increasing associated costs. The results suggest that business registration services are not accessible to the majority of SMEs with limited resources and little awareness, contributing to the high number of informal SMEs. The findings that processing wool and mohair in Lesotho can be profitable for SMEs by adding value to the raw materials, creating jobs and tapping into niche markets are significant. Lesotho exports wool and mohair in their raw form. SMEs can make high profit margins, produce unique products and reduce the level of imports if these are locally processed.

Additionally, concerns that SMEs are not effectively engaged provide evidence of ineffective public-private partnerships (PPP). PPPs are a vital feature of a conducive business environment in developing countries like Lesotho. They promote community engagement and socio-economic empowerment by involving stakeholders in sustainable development projects (Yeboah, 2024:10). This can improve voluntary compliance as SMEs may take ownership of the development projects.

A view that the government has not assessed its policies' impact on SMEs' performance and the business environment indicates an ongoing information gap regarding the barriers to SMEs' performance in Lesotho. This could result in inefficient policies that could hinder the overall economy which significantly depend on SMEs (Amadasun & Mutezo, 2022:2-6; Ramosoue, 2023:1). Likewise, concerns that the Financial Consumer Protection Act implementation efficiency can be hampered by the reluctance of insurance houses to cover some sectors indicate a lack of coherence in related policies and this could lead to frustrations.

The poor financial aid conditions make programmes valuable only on paper. For instance, LEAP's requirement for SMEs to cover 100% of costs to receive a 75% reimbursement is challenging, despite their widely documented financial struggles, resulting in few benefiting from the support. The issue of skills gap and low-skilled

labour force may suggest a mismatch between education and the labour market. This could indicate inefficiency in the execution of the Licensing Officers' duties. They are required by business licensing and registration regulations to conduct training and awareness campaigns regarding developments and international requirements for business enterprise operations and international trade (Ministry of Trade and Industry, 2019:468).

In June 2025, the government launched the Bacha Entrepreneurship Project in collaboration with Standard Lesotho Bank and Revenue Service Lesotho through BEDCO, providing start-up capital of M1,000,000.00, mentorship and training to young Basotho SMEs (RSL, 2025:1). However, its focus on specific sectors and a top-down approach may marginalise other SMEs, potentially reinforcing the idea that development projects often fail to address their needs. Additionally, the lack of SME performance monitoring raises concerns about the effectiveness of government policies on SME development and sustainability.

The impact of government policies on SMEs has been widely explored, but there is insufficient evidence on how different stakeholders perceive the impact on SMEs' business environment. Previous studies like Xiang *et al.* (2022) and Umoh (2025) have examined the general effects on SMEs' performance and specific issues like market access, regulatory burdens and access to finance. This study fills the knowledge gap thus contributing to improved policies, their implementation and intended effects.

The study contributes by highlighting issues in policy implementation and the gap between government policy intentions and the actual impact on SMEs thereby elucidating the significant challenges. It also supports previous research that link inadequate policy implementation to poor SMEs' performance (Abbas *et al.*, 2024:44; Ahmadu *et al.*, 2025:33). The findings and literature review summarised in Figure 6.5 below, indicate a weak business environment in Lesotho, characterised by a weak regulatory environment, high political instability, limited access to finance, high tax rates and numerous informal businesses (World Bank Group, 2022:9-12), all negatively impacting SMEs.

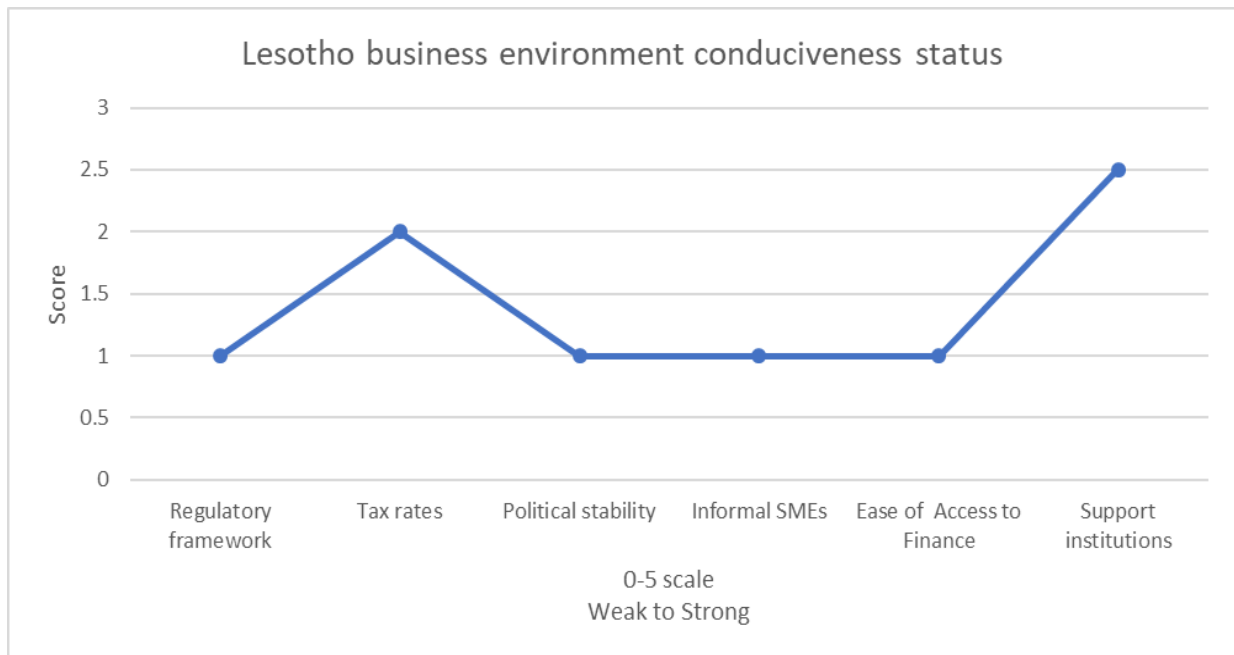


Figure 6. 5: Lesotho business environment conduciveness status (Source: Own Compilation)

The actual or average score is 1.42 indicating weakness in the business environment. This score has been calculated as the mean of the six factors used to assess the conduciveness status of the Lesotho business environment. That is the total score of six factors: weak framework, tax rates, political stability, informal SMEs, ease of access to finance and support institutions divided by six. Comparatively, access to finance, high tax rates and informal payments are the top three business environment constraints for SMEs (World Bank, 2023b:10). Figure 6.6 below shows the government framework indicators for shaping a conducive business environment for SMEs. Lesotho remains behind in almost every respect in helping SMEs to thrive.

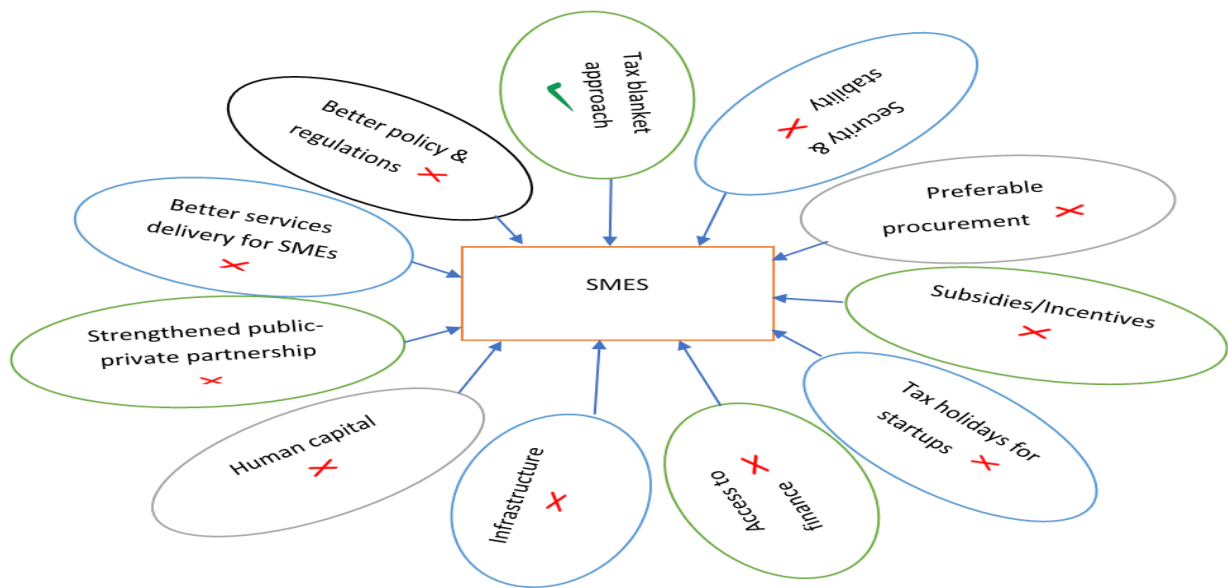


Figure 6. 6: Best practice government framework for shaping a conducive business environment (Source: Own Compilation)

✓ Yes
 ✗ No

The above figure suggests that Lesotho is failing in terms of the strategies that help SMEs to thrive. The “yes” sign reflects what is being done and the “no” indicates the absence or lack of an element. For example, Figure 6.5 shows that there are no tax holidays for start-ups and the country uses a blanket tax approach, neither of which supports the sector’s meaningful development.

6.9.1 Synthesis of findings in addressing the research objective

This research investigates the government policy obstacles hindering the development of a conducive business environment for the SME sector in Lesotho. The findings, organised into three main themes, provide a comprehensive response. Theme 1 emphasised that a broad-based approach led to complex procedures, increased regulatory burdens, a lack of tailored incentives and high levels of informality. Theme 2 highlighted the impact of policies on the SMEs’ performance, including high compliance costs, insufficient subsidies, a lack of collaboration and a disconnect between practice and policy. Theme 3 underscored the inefficiencies in support systems, like centralised services, poor communication and governmental

competition with the industry. The findings suggest that the business environment's conduciveness is shaped by the existence of government policies and how these policies are perceived and experienced by SMEs and key stakeholders. These observations form the basis for the recommendations proposed.

6.10 LIMITATIONS OF THE STUDY

Investing perspectives of multiple stakeholders provided rich data for this qualitative study. However, the results cannot be generalised because participation was limited to SMEs in the four districts and significant experiences may remain undiscovered. Additionally, the cross-sectional approach limits the ability to observe cause-and-effect relationships over the long term.

6.11 DIRECTIONS FOR FUTURE RESEARCH

To gain deeper insights, it is recommended that future research focus on the impact of SMEs in the other six districts. Also, future research could compare the conduciveness of the business environment for SMEs in Lesotho with other regional developing countries or its neighbouring country, South Africa, to identify best practices and regional insights.

6.12 CONCLUSION AND RECOMMENDATIONS

The study concluded that government policies play a pivotal role in shaping a conducive business environment for SMEs, supported by literature and primary data. It examines stakeholders' experiences with the regulatory environment, policy frameworks and support systems. A conducive business environment is essential for good performance, sustainability and overall economic development. Key findings are that broad-based policies hinder the competitiveness of SMEs. Despite several government financial aid programmes, access to finance remains a key constraint due to unfavourable conditions. The findings revealed a need for strategic coherence between government policies and SMEs' demands to enhance development projects and support initiatives.

Moreover, the licensing, taxation and financing obstacles continue to impede SMEs' development and formalization, reinforcing the necessity for policy reforms. This study contributes to the literature on the effects of government policies on SMEs' survival, like Umoh (2025), by investigating the experiences of multiple stakeholders. This study highlights the significant role of government policies in shaping the conducive business environment for SMEs, particularly in developing countries, where they drive economic growth, innovation and job creation. Addressing issues like regulatory hurdles, access to finance and establishing effective support systems and initiatives are essential for SMEs to thrive and make significant contributions to the economy.

A conducive business environment not only benefits individual SMEs but also helps build a more equitable, resilient and dynamic economy. Promoting collaboration, education and innovation through policies that improve financial inclusion, lower compliance costs and strengthen support structures can empower SMEs. Based on the analysis of the study results, the literature review and the conclusion, the following recommendations have emerged. These include strategies emphasised by influential institutions, like the World Bank on how Lesotho can leverage the SME sector to foster economic growth.

- (i) There is a need to scale local start-ups, enhance SMEs' competitiveness, expand and capture more value in the high-potential global value chain. This could be achieved by reducing political instability, promoting the formalisation of businesses and reducing tax rates (World Bank Group, 2022:9-12).
- (ii) The Lesotho government should lower the cost of doing business, align policies with the AfCFTA standards and transfer the majority or all of economic functions to the private sector, allowing it to drive the economy while the government focuses on regulation (World Bank, 2025b).
- (iii) Policymakers should reduce bureaucratic red tape and strengthen political stability to improve SMEs' operational efficiency through an integrated strategy that invests in infrastructure and human capital, diversifies the economy and strengthens governance to increase self-sufficiency and resilience.
- (iv) The government should offer SMEs financial incentives like tax exemptions and grants to stimulate growth and stability, promote innovation and help

create jobs. A stable and conducive business environment helps SMEs to improve their financial performance and sustainability (Abdullahi *et al.*, 2025:59).

- (v) Government policies should be expressed in Sesotho to improve the SMEs' understanding, engagement and communication efficiency. This can improve policy implementation, compliance and participation in economic development.
- (vi) The Lesotho government should focus on addressing the inherited challenges of being landlocked.

CHAPTER 7

CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

This chapter presents the overall results of the study, consolidating the findings from three articles into a comprehensive model aimed at enhancing the understanding of the dynamics influencing the development of SMEs in Lesotho. The purpose of this chapter is to synthesise the key findings obtained from various stakeholder groups that participated in the study, including registered SMEs, informal SMEs, the Department of Small Business, business associations, tax authorities, the Chamber of Commerce and Industry, government agencies and banks. At the beginning of the study, the researcher did not know that informal SMEs dominate the SME sector in Lesotho and this was realised during the research hence the decision to investigate them separately in article 2. Furthermore, it demonstrates how the perspectives of these groups collectively inform the proposed model. Finally, the conclusions and recommendations drawn from the three research articles that formed the foundation of the study are discussed.

Each of the three articles addressed complementary yet interconnected issues related to the impact of government policies on the SME business environment in Lesotho. The first article investigated the impact of government policies and regulations on the development and growth of SMEs in Lesotho. The second article examined the perspectives of informal SMEs on the influence of government policies and regulations in creating a conducive business environment for SMEs in Lesotho. The last article investigated all stakeholders' perceptions of how government policies affect the business environment in Lesotho.

This chapter identifies the similarities and differences from the viewpoint of the participants across different groups in terms of opportunities and challenges, as well as proposes actions by integrating the findings from these three articles. It also discusses how key stakeholders' perceptions enhance or differs from the SMEs' experience. This chapter comprises the following sections: the summary of key the

findings by articles, consolidation of these findings by stakeholder group to indicate similarities and discrepancies of the perspectives and the proposed model.

The study adopted a qualitative research methodology to address the research questions. Semi-structured interviews were used to collect data. The research population comprised registered and informal SMEs located in Berea, Mafeteng, Leribe and Maseru, as well as key stakeholders, including the Department of Small Business, banks, the tax authority, government agencies, business associations and the Chamber of Commerce and Industry. Only SMEs in the first four districts with the highest number of SME population (FinMark Trust, 2025:4), shaded in red were considered hence the exclusion of SMEs in the other six districts of Lesotho as demonstrated in Figure 5.4 below from Chapter 1. A combination of purposive and snowball sampling methods were used to select the participants.



Figure 5.4: (Reproduced from Chapter 1): Scope of study (Source: Mappr, 2025)

7.2 THE MAIN FINDINGS FROM THE STUDY

7.2.1 Main findings from the literature review

The literature on government policy and how it affects the business environment acknowledges the critical role that the regulatory framework play in determining the operational landscape for SMEs. Many studies, like Akang (2024); Matsieli and

Sooryamoorthy (2022) have shown how policies can either support or hinder business growth and innovation, particularly in developing countries like Lesotho (Matsieli & Sooryamoorthy, 2022:306-3011).

Effective government policies should reduce barriers to entry, offer tax breaks and guarantee that SMEs have access to funding (Umoh, 2025:1). The literature also emphasises how crucial it is to establish a stable and open regulatory framework that promotes confidence between businesses and governmental organisations (Yi & Latiffb, 2024:10). A conducive business environment is comprised of policies that encourage economic activity and also enhance the overall investment climate (Hou *et al.*, 2025:3-11). However, Lesotho's business environment is not conducive, as evidenced by a weak regulatory system, high political instability, limited access to finance, high tax rates, and numerous informal businesses (World Bank Group, 2022:9-12).

The literature also underscores the significance of the informal sector, revealing that many SMEs operate outside the regulated frameworks, which might hinder their expansion (Mvula & Hapompwe, 2025:2166-2167). Consequently, the literature recommends a dual-focused approach that considers both formal and informal sectors for effective policymaking and regulation (Rubbers, 2024:337-338). Specifically, the literature indicated that government policies are not disclosed to the relevant groups and SMEs due to a lack of proper and functional platforms to make these policies accessible (Makara *et al.*, 2023:47). However, their study excluded the perspective of SMEs. This study, therefore, closes this gap by investigating the voices of the directly affected group, which is the SMEs.

Additionally, the review highlighted that the majority of SMEs, 76% operate informally (FinMark Trust, 2025:16), but lack a perception of these informal SMEs about influencing government policies on shaping a conducive business environment and formalizing SMEs. As such, this study also contributes by exploring the perspective of informal SMEs in this regard. A high number of informal businesses hinders economic performance by reducing the national tax base through tax evasion (Akande *et al.*, 2025:212). They also gradually replace formal SMEs when institutions are weak, thereby hindering economic and sustainable development (Ladime, 2025:2-12).

7.2.2 The main findings from the empirical investigations

The empirical investigations were conducted through a combination of two qualitative methods, semi-structured interviews and document analysis in the SME sector in Lesotho. The data gathered were intended to identify specific government policies and regulations that affect SMEs and the barriers they impose on their business operations.

The results specified that SMEs face significant challenges stemming from complex regulations that are not properly enforced and bureaucratic red tape. The results also revealed a considerable discrepancy between the experiences of formal and informal SMEs. According to the interviews with business owners, informal SMEs often operate in a less restrictive environment but are limited in their ability to grow because they lack access to essential services like finance or official recognition. The empirical data emphasised the importance of comparing the impact of government policies on these two sectors to determine how they facilitate or impede the transition of informal SMEs into the formal economy. The study also evaluated the perceived benefits of operating within the established legal frameworks and the compliance costs.

Below is the presentation of the main findings from the empirical investigations as per the stakeholders.

7.2.3 Policies and regulatory framework issues

- **Registered SMEs**

Reported that broad-based government policies are costly and complex and therefore hinder SMEs' competitive advantage as they also lack tailored incentives. Additionally, this blanket approach to policies result from a lack of engagement in the policy development process.

- **Informal SMEs**

Demonstrated a concern that business registration services are centralized and not easily accessible and policies are not effectively communicated and expressed in English and lack incentives for formalisation.

- **Department of Small Business**

Emphasised that blanket-based regulations are more favourable to large companies in terms of compliance affordability and support.

- **Banks**

Noted concern that generic monetary policy requirements, such as collateral and KYC limit SMEs' access to finance as they are not easily achievable.

- Tax Authority

It was noted that poorly implemented and poorly implemented tax regulations and systems, such as Simplified Business Taxation (SBT) expose SMEs to high compliance costs and penalties.

- Government agencies

Expressed a concern that SMEs' struggle as a result from the SME policy, which has never been implemented.

- Business associations

Noted that the SME sector struggle as a result from inefficiencies in stakeholder engagement during policy development. The policies lack SMEs' special needs and fail to address their unique circumstances.

7.2.4 Finance and operating costs

- Registered SMEs

It was established that SMEs rely on small personal savings or loans for capital due to high interest rates, complex requirements and the lack of government financial assistance.

- Informal SMEs

Noted that the lack of support systems for informal SMEs, as well as strict regulatory requirements make it difficult to access financial options. It was found that they are not only financially excluded but they are also victims of criminal activities, such as being targets for loan sharks.

- Chamber of Commerce and Industry

Indicated that SMEs' lack of access to adequate sustainable funding result from the absence of a development bank to provide affordable finance, such as loans and grants, particularly to start-ups.

7.2.5 Market Access

- Registered SMEs

Expressed concern that SMEs rely on a small and unreliable local market due to poorly implemented policies. For example, some importers continue to import agricultural products even during periods of restrictions and no action taken. The lack of innovation resulting from inadequate government policies' support also appeared to restrict SMEs from accessing the export market despite the existence of opportunities such as AGOA.

- Department of Small Business, Tax Authority and government agencies

There has been an agreement amongst the participants that Lesotho has international connections, such as the Southern African Development Community (SADC), the Southern African Custom Union (SACU), the Common Market for Eastern and Southern Africa (COMESA) and the African Continental Free Trade Area (AFCFTA), through which SMEs can access export markets. However, it appeared that the lack of innovation due to the lack of financial resources, the lack of skills and under-resourced support institutions limits the opportunity.

7.2.6 Infrastructure development and access to essential services

- Registered SMEs

Reported that the majority are located in underserved rural areas due to high operating costs, such as rent in urban areas. As such, their development is hindered by poor road conditions leading to high transport costs, a lack of digitalization due to a lack of access to the internet, and a lack of access to/or expensive water and electricity.

- Department of Small Business and business associations

Raised a concern that there are no dedicated services and affordable places for SMEs.

7.2.7 Influence of government policies on formalization (benefits of formalization)

- Registered SMEs

Reported that although their registration status gives them better market and financial access, they do not fully utilize the opportunity because of smaller profits due to high compliance costs, the lack of support and skills. It also appeared that poor policy

implementation and law enforcement give informal businesses a competitive advantage as they enjoy all their profits.

- Informal SMEs

Noted that no policy provisions encourage formalisation, but rather, compliance is more burdensome to SMEs compared to large businesses.

- Tax authority

Noted the lack of tax incentives like exemptions, reliefs and breaks or holidays to discourage SMEs' formalisation.

- Chamber of Commerce and Industry and business associations

Indicated that the Lesotho government appears to compete with the private sector through government enterprises and this not only limits SME support but also discourages formalisation to avoid compliance costs.

7.2.8 Government support initiatives

- Department of Small Business, Tax Authority, Government agencies and Banks

SMEs have access to the following support initiatives through BEDCO: capacity building, market access, mentoring and business incubation. Additionally, the government provides SMEs with financial support such as government partial credit.

7.2.9 Summary of the findings

This section presents a summary of the main findings of this study which addressed the following primary research objectives. These objectives were addressed individually in each of the three articles.

- to investigate the barriers to SMEs' development and growth in the Lesotho business environment and the extent to which the government policies influence these barriers.

- to examine the informal SMEs' perception of government policies and regulations' impact on the business environment in Lesotho.
- to explore the perspectives of different stakeholders concerning the government policies that influence the business environment for SMEs in Lesotho.

7.2.10 Article 1: Exploring selected stakeholder perceptions on government policies affecting SMEs in Lesotho

The primary goal of this study was to examine the barriers to SMEs' development and growth. The following is the summary of the study's main findings:

- Lesotho uses blanket approach policies, which expose SMEs to unfair competition due to compliance pressures resulting from limited financial resources and skills. These policies appeared to be more favourable to large companies.
- The compliance processes are too complex and costly for SMEs, with no SME specific incentives to boost their competitive advantage.
- Inadequate and poor implementation of policies leads to uncertainty in the business environment.
- SMEs incur high compliance costs and penalties due to poor implementation of the simplified tax system and the lack of awareness of such systems and other regulations affecting them due to poor communication.
- Inadequate SME consultations and engagement in the policy development and review processes hinder the development of appropriate and relevant SME policies.
- SMEs are also exposed to undue foreign competition because of inadequate implementation of policies. However, this could be justified by the low quality of local SMES products although they are cheaper than imports.
- The SME support institutions are under-resourced and this restricts them from undertaking their mandates to assist SMEs' development effectively.

- SMEs have limited financing options, including the absence of a development bank that would enable access to affordable interest loans and grants.
- The lack of access to water and electricity disrupts SMEs' operations and increases their operating costs. This is despite Lesotho having water in abundance.
- The geographical position of Lesotho, landlocked in South Africa, increases the shipping costs and generally the import costs because Lesotho does not have direct access to the sea.
- Inadequate infrastructure, especially poor road conditions limit market access and increases SMEs' operating costs, such as transport and rent. This indicates the inefficiency in the Department of Small Business in supporting the SME sector.

The secondary objective of this study was to investigate the relationship between government policies and regulations and SMEs' development and growth. In light of this, the following were the findings:

- The following policies and regulations directly affect SMEs: business registration and licensing regulations, tax regulations, labour law and monetary policy. Specifically, it was discovered that tax regulations and monetary policy have a significant impact on SMEs in Lesotho.
- The existing government regulations affecting SMEs do not adequately support SMEs, with many policies not aligned with SMEs' unique needs and being cumbersome.
- A direct relationship between SME performance and economic instability was established, highlighting that fluctuations in the economy have a significant negative impact on business growth and sustainability.
- Although the government offers support initiatives like capacity-building and financial assistance, the majority of these programs are not impactful or sufficiently accessible to SMEs, resulting in a gap in the resources required for growth.
- Lesotho's economic conditions directly affect the consumer's purchasing behaviour, which negatively affects SMEs' sales levels and sustainability.

Consumers were reported to lack confidence in the quality of SMEs' offerings due to the financial struggles of these businesses.

7.2.11 Article 2: The informal SME's perspectives of government policies on SMEs' business environment in Lesotho

This study was primarily aimed at investigating the informal SMEs' perceptions of the government policies and regulations' impact on the business environment in Lesotho. The summary of the results is provided below:

- The majority of the participants raised concerns that significantly contribute to the high number of SMEs, indicating that business registration and tax services are not easily accessible as they are centralised.
- 56% of the respondents emphasised that the one-size-fits-all registration costs hinder informal SMEs' entry into the formal sector.
- Half of the informal SMEs were aware of the government policies and regulations affecting SMEs, like tax regulations, business registrations and licensing regulations, while the other half was not informed about them, implying inefficiency in the communication of these policies and SMEs' ignorance of regulatory systems.
- Some informal SMEs feel that government regulations favour formal and large businesses over informal SMEs thus promoting discrimination.
- 69% of the participants noted that there are no incentives that motivate them to formalise their operations.
- 25% of the participants appreciated government capacity-building support provided through agencies like BEDCO but feel that it may be less effective because of SMEs' financial difficulties in implementing the acquired knowledge.
- Some participants stressed that informal SMEs face operating difficulties as they are not legally protected, which makes them victims of the high crime rate in Lesotho.
- All the respondents emphasized that their informal status hinders their sustainability and economic progression as they are financially excluded and depend on small capital.

- Better market share and access to finance stood out as some of the benefits of formal SMEs over informal SMEs. However, several participants noted that complex regulations, procedures, high compliance costs and the lack of incentives restrict transition from informal to formal businesses.

7.2.12 Article 3: Stakeholder perspectives of factors contributing to the conduciveness of the business environment of SME

The primary objective of this study is to investigate the perspectives of multiple stakeholders regarding the government policies that influence the business environment of SMEs in Lesotho.

The following is the summary of the main findings:

Table 7.1: Summary of key findings per stakeholder group (Source: Own compilation)

Stakeholder group	Key findings
Registered SMEs	• Many feel excluded from policy discussions affecting SMEs and this result in broad-based regulations that create compliance pressure.
Informal SMEs	• The language barrier; the majority of government policies are expressed in English, while Sesotho is the first official language and is mostly preferred.
Department of Small Business	• The lack of SMEs tailored policies is the main contributing factor to the stagnation in this sector.
Business Associations	• Development projects are often imposed on SMEs.
Tax authority	• SMEs are victims of a high tax burden and penalties as they miss out on tax credits or reliefs because of a knowledge gap resulting from a lack of resources to seek professional advice.

Stakeholder group	Key findings
Government agencies	Political unrest hinders efficient resource allocation for the assessment or policy adjustment, resulting in weak institutions that negatively affect the business environment.

7.3 OVERALL RESEARCH FINDINGS

This section presents the integration of research findings by stakeholder group, highlighting similarities and differences in their perspectives on the identified themes. These findings informed the recommendations summarised in 7.2. Below.

Table 7. 2: Overall research findings (Source: Own Compilation)

Themes	Registered SMEs	Informal SMEs	Other key stakeholders	Overall perceptions
Regulatory framework issues	Blanket approaches to policies expose SMEs to unfair competition due to compliance pressures	Strict policies without support The lack of awareness due to poor communication of policy developments and opportunities Registration services are centralised and not easily accessible	Blanket-approach regulations favour large companies SME incur high compliance costs due to the poor implementation of the simplified tax system	There is a consensus that blanket approach regulations are costly for SMEs. They are also complex but not well communicated There is also an observation about the absence of SME tailored incentives

Themes	Registered SMEs	Informal SMEs	Other key stakeholders	Overall perceptions
		50% of the participants were not informed about policies affecting SMEs		
Policy and regulatory approach	Broad-based regulations have high compliance costs, such as engaging professionals like tax experts	Language barrier: Policies are expressed in English	SMEs' stagnation results from the absence of tailored policies SMEs feel excluded from policies expressed in English	Registered SMEs and other stakeholders share sentiments that are costly to comply with broad-based policies for a small business Additionally, other stakeholders agree with informal SMEs that the language barrier in the government policies discourages formalisation
Market access	The limited market access due to a lack of	Depend on a small local market due to low capacity and innovation	Government facilitative market access through	While the government try to enhance SMEs market access, the lack of

Themes	Registered SMEs	Informal SMEs	Other key stakeholders	Overall perceptions
	innovation and access to finance. The lack of access to the internet hinders SMEs from digitalising their activities	Consumers lack confidence in the quality of SMEs' offerings	trade agreements and business linkages The government's commitment to buy 30% of its supplies from SMEs Support institutions are under-resourced	innovation and financial support makes the effort less valuable An issue that supports institutions' lack resources aligns with SMEs groups' experience
Financing and Costs	Costly regulatory requirements restrict access to finance.	High compliance costs and centralised services increase overall SMEs' operating costs.	The absence of a development bank is a barrier. Long rehabilitation period, collateral and general KYC requirements restrict financial access	There is agreement across participant groups that high restrictions on SMEs' access to finance lead to high operating costs and discourage formalisation

Themes	Registered SMEs	Informal SMEs	Other key stakeholders	Overall perceptions
Infrastructure and utilities issues	The lack of access to water and electricity despite Lesotho having water in abundance Lesotho's geographical location increases shipping costs.		There are no designated serviced places for SMEs at subsidized rates, such as water, electricity and rent	There is consensus that inadequate infrastructure and utilities negatively affect SMEs in the Lesotho business environment. This affects SMEs' competitive advantage as they incur high operating costs to sustain their business.
Informal SMEs challenges	They are excluded from all government opportunities and are victims of illegal funding schemes	Financially excluded Depend on limited personal finances Victims of high crime	They do not operate freely and do not have access to government funding assistance	Despite their importance in economic growth, informal SMEs face several challenges in Lesotho, including a lack of legal protection, although it is clear that they exist

Themes	Registered SMEs	Informal SMEs	Other key stakeholders	Overall perceptions
Benefits of formalisation	Better access to finance and the market compared to informal SMEs Accessible financial options include government partial credit and bank loans	Better market access Legal protection Better finance access	30% government market and the cross-border market Formal SMEs are given priority in the allocation of scarce resources	The general observation is that there is an agreement that while registered SMEs are exposed to high compliance costs, they enjoy more valuable benefits compared to informal SMEs
The impact of policies on SMEs' performance and engagement	The lack of engagement due to a lack of collaboration among SMEs SMEs incur high compliance costs due to the complex regulations	Less stakeholder engagement SMEs make low profits due to high operating expenses such as import costs	Business Associations: the lack of engagement leads to development projects being imposed on SMEs Department of Small Business: SMEs are	While the Department of Small Business shared that SMEs are engaged through their associations, both registered and informal SMEs, as well as business associations were concerned that SMEs are not properly

Themes	Registered SMEs	Informal SMEs	Other key stakeholders	Overall perceptions
	Broad-based regulations result from insufficient SME engagement		engaged through their associations	and sufficiently engaged and believed that this is the result of broad-based regulations
Support systems	Centralised support structures with the poor communication of opportunities There are no specific assistance and incentives for formalisation	Limited support for informal SMEs compared to formal ones Absence of incentives for formalisation	The existence of multiple trade agreements for the export market There are support institutions like BEDCO	Although informal SMEs regard formal SMEs as having better government support, formal SMEs shared that the support structures are not easily accessible and opportunities are not properly communicated. This contradicts other stakeholders, like the tax authority that SMEs benefit from the existing trade agreement, as well as support institutions,

Themes	Registered SMEs	Informal SMEs	Other key stakeholders	Overall perceptions
				which appeared to be under-resourced

7.4 RECOMMENDATIONS

This section outlines the recommendations of the study presented according to the main findings as per the objectives in each article, as well as the overall research findings.

7.4.1 Article 1: Exploring selected stakeholder perceptions on government policies affecting SMEs in Lesotho

Objectives: to examine the barriers to SMEs' development and growth and to investigate the relationship between government policies and regulations and SMEs' development and growth.

Based on these findings, it was recommended that the Lesotho government should:

- Adopt a more balanced policy approach to cater to the SME sector's special needs and conditions.
- Developing SME Targeted Support Programs: Development of specific programs to give SMEs access to resources, such as lower-cost access to innovation grants and mentorship could encourage a more conducive business environment. Additionally, providing tailored incentives, such as wage subsidies to allow SMEs access to special expertise (International Monetary Fund & Middle East and Central Asia Dept, 2025:35) and reduced taxes would also encourage SMEs' self-compliance (Abdinur & Karcioğlu:104).
- Streamline SME Compliance: Establish a dedicated task force responsible for simplifying regulatory compliance for SMEs and ensuring that all policies and regulations affecting SMEs consider their unique challenges. This could help to avoid more SMEs moving to the informal economy and narrowing the tax base.

7.4.2 Article 2: The informal SME perspectives of government policies on SMEs' business environment in Lesotho

Objective: to investigate the informal SMEs' perception of the government policies and regulations' impact on the business environment in Lesotho.

The following main recommendations were made:

- The government of Lesotho and authorities such as the Revenue Service Lesotho (RSL) should focus on getting informal SMEs to formalize their operations by combining actions to lower registration and compliance costs and administrative burdens through strong support and incentives (Hastings Chijikwa & Anastasia Mulenga, 2023:230). The findings revealed an urgent need to reduce the complexity and costs of business registration.
- The government of Lesotho should create open communication platforms between the government departments and SMEs. The government should consider the interests of people who rely on informal SMEs for a living (Miti *et al.*, 2021:390-391).
- The Lesotho government should reform policies affecting SMEs to streamline the processes and use hybrid business registration services to reduce delays and improve the ease of doing business.
- The government should simplify the process of accessing SME support initiatives to improve their efficiency. There has to be clear guidelines, set timelines and established feedback mechanisms to enhance accountability and transparency (Abdulahman Shehu Ahmadu *et al.*, 2025).
- There is a need to provide incentives such as tax credit, tax holidays for start-ups, innovation grants, subsidies and simplified compliance processes to encourage the formalisation of SMEs.
- There is a need for tailored and easily accessible financing schemes for SMEs, like grants and low-interest loans.

7.4.3 Article 3: Stakeholder perspectives of factors contributing to the conduciveness of the business environment for SMEs

Objective: to investigate the perspectives of multiple stakeholders regarding the government policies that influence the business environment for SMEs in Lesotho.

The following main recommendations were made:

- The Lesotho government should reduce political instability, promote the formalisation of businesses and reduce tax rates (World Bank Group, 2022:9-12) to help scale local start-ups and improve SME sector competitiveness.
- There is a need to align government policies with the AfCFTA standards and transfer the majority of economic functions to the private sector to drive the economy as the government focuses on regulation (World Bank, 2025b). This can lower the cost of doing business, especially for SMEs.
- The government should reduce SMEs compliance burden and improve their sustainability by offering financial incentives like grants and tax exemptions. A stable and conducive business environment helps SMEs to improve their financial performance and sustainability (Abdullahi *et al.*, 2025:59).
- Government policies should be expressed in Sesotho to improve the SMEs' understanding, engagement, communication efficiency, compliance and participation in economic development, especially by the indigenous Basotho SMEs.
- Hold participatory workshops where stakeholders work together to identify issues and jointly develop potential solutions to enhance their buy-in and enrich the intelligence-gathering process through the exchange of ideas and experiences. Other ways to engage SMEs could be through well-planned and executed surveys, review consultations and interviews, considering the special characteristics of SMEs.

Figure 7.1 below presents a summary of overall recommendations made in this study and how they can improve the business environment for SMEs in Lesotho.

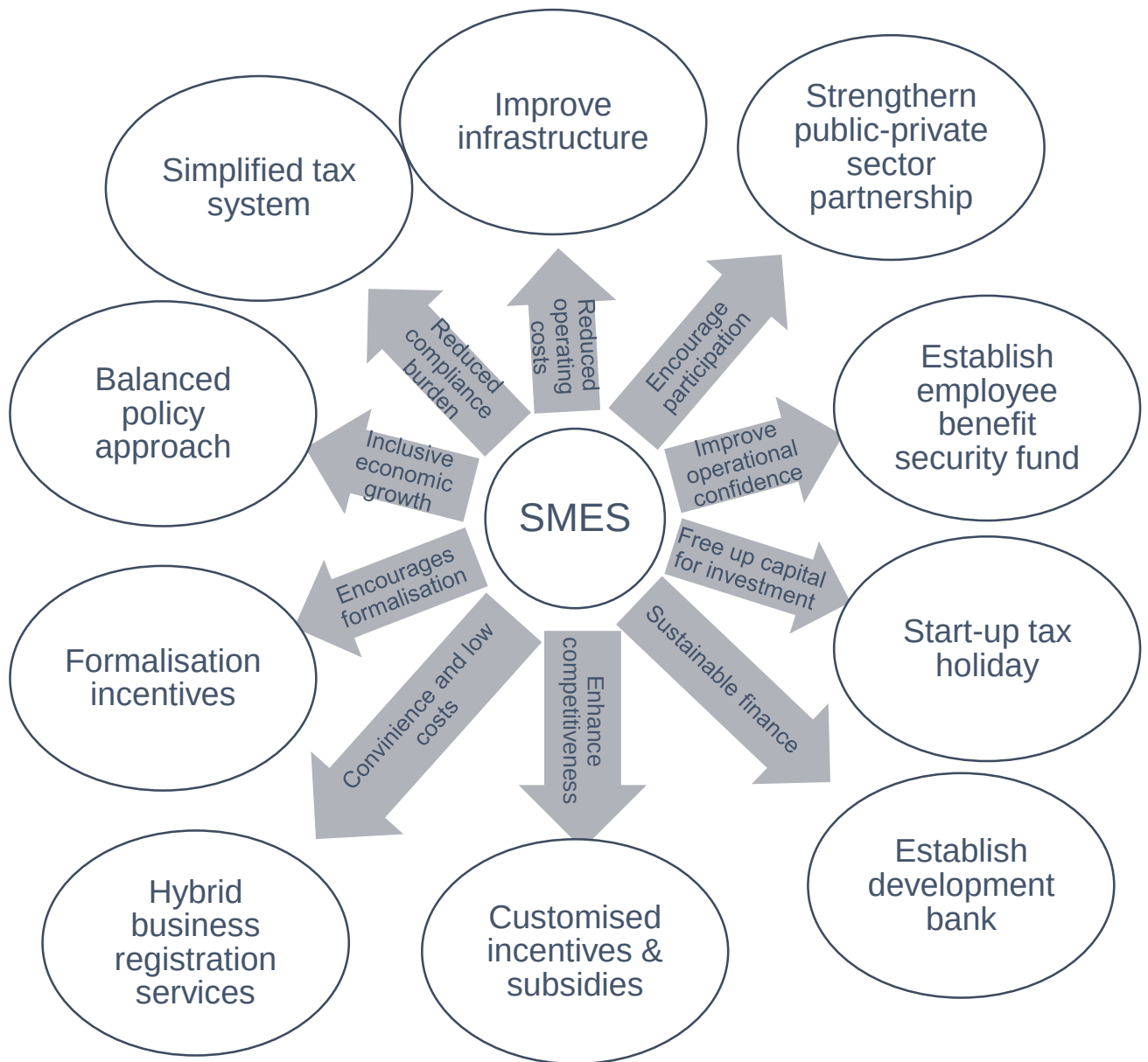


Figure 7. 1: Proposed good government policies’ framework for improving the SME sector (Source: Own Compilation)

7.5 PROPOSED MODEL FOR STRATEGIC INTELLIGENCE

This section presents a proposed model for strategic intelligence.

This study has investigated and analysed the extent to which government policies and regulations contribute to or hinder the conduciveness of the business environment for the SME sector in Lesotho. It was established that SMEs are faced with complex and

inconsistent regulations, as well as a lack of compliance support. Government policies and regulations, such as business registration and licensing, monetary policy and taxation, as well as their enforcement created substantial barriers that restrain SMEs' development and growth, diminish entrepreneurial resilience and discourage formalization. In response to the challenges faced by SMEs in Lesotho as revealed by the research findings in this study, the researcher proposes a strategic intelligence model designed to create a conducive business environment.

This model emphasises the integration of critical elements such as a robust regulatory framework, infrastructure development, a supportive entrepreneurship culture, technology advancement, sound economic policies and optimal factor endowment (ESCAP, 2022:73-75). It focuses on systematic gathering and evaluating stakeholder inputs in these areas to facilitate well-informed decision-making and effective policy advocacy, ultimately creating an environment where SMEs can thrive. These interconnected components will not only address current barriers but also lay the foundation for sustainable growth and resilience among SMEs in Lesotho.

Figure 7.2 Strategic Intelligence Framework for Enhancing SME Resilience and Growth

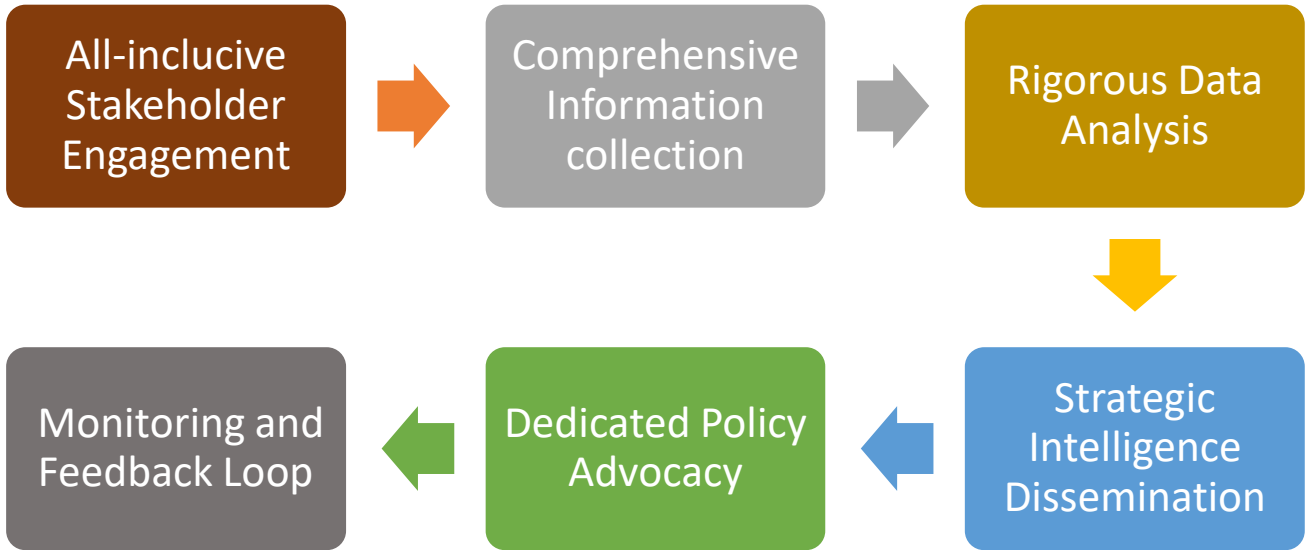


Figure 7. 2: Strategic Intelligence Framework for Enhancing SME Resilience and Growth (Source: Own Compilation)

The all-inclusive stakeholder engagement refers to the involvement of diverse stakeholders beyond SME owners and government representatives like community leaders, banks, non-government organizations (NGOs), tax authority, business associations and educational institutions. This inclusive engagement can be more effective by capturing a variety of viewpoints (Aaltonen *et al.*, 2024:2) to address the unique challenges faced by SMEs that cannot be resolved by the current fragmented policy setup.

Comprehensive information gathering can be achieved through the use of multi-method data collection, including participatory action research and case studies (Aaltonen *et al.*, 2024:2-5). This will enable a deeper understanding of the lived experiences of SMEs by producing knowledge that is attached to varied perspectives (Ngulube & Ngulube, 2022:2). To ensure the examination of all dimensions of the business environment, cultural and socio-political factors affecting the SMEs' business environment can also be explored.

Rigorous data analysis can be achieved through context-specific strengths, weaknesses, opportunities and threats (SWOT) analysis, considering both regional dynamics and international trends affecting SMEs. Data analysis should incorporate stakeholder input to help root the results in practical experiences. Additionally, a cost-benefit analysis tool should be developed to enable SMEs to assess the impact of compliance costs against potential benefits. This can facilitate informed decision-making.

Strategic Intelligence Dissemination refers to the ability to adjust to the constantly changing social conditions to ensure that relevant information gets to the right audience rather than following a smooth and static direction and involves the creation of tailored reporting templates for individual stakeholder groups to ensure accessibility of relevant information to different groups (Rami *et al.*, 2022:114). To provide discussion forums and interactive updates among stakeholders on easily accessible digital platforms, such as social media can be used. This will improve engagement and enable continuous dialogues on the findings and implications.

A dedicated policy advocacy can be achieved through collaborative engagements between policymakers and affected stakeholders in the form of roundtable discussions (Cairney & Toomey, 2024:4-7). This can result in more context-rich and actionable policy recommendations. Such recommendations must be grounded in both quantitative and qualitative data to provide practical improvements to the regulatory frameworks for SMEs.

Lastly, a real-time monitoring system should be implemented to offer continuing assessments of the policy impact on SMEs and allow for timely interventions and adjustments (Inisha & Elly, 2022:5). Moreover, there must be formal mechanisms established to collect ongoing feedback from stakeholders and to help the model's fruition and responsiveness to new challenges.

The practical implication of this proposed model can be demonstrated by reference to the following example. In November 2025, the Organisation for Economic Co-operation and Development (OECD) organised a global discussion aimed at harmonising sustainability reporting for SMEs. The dialogue focused on creating a supportive ecosystem that empowers SMEs, emphasising key factors such as streamlining reporting frameworks and developing practical tools specifically designed for these businesses. By prioritising concrete, actionable support and capacity building, the initiative marked a shift in policy aimed at addressing the unique challenges facing SMEs in implementing sustainable practices. The emphasis on demonstrating the benefits of sustainability reporting for market reputation and operational efficiency further illustrates how these discussions can influence policies to better suit the needs of SMEs. Overall, this collaborative strategy ensures that sustainability becomes a feasible pathway for innovation and growth in the SME sector (OECD, 2025).

The main objectives of the Strategic Intelligence Framework for Enhancing SME Resilience and Growth will be:

- Engage a diverse range of stakeholders in the policy decision-making process to gain wide-ranging perspectives on SME challenges.

- Collect comprehensive data through multiple research methods for a deeper insight of SMEs' experiences and their operating environment.
- Utilize SWOT analysis and stakeholder input as data analysis tools, while offering tools for SMEs to assess compliance costs against perceived benefits.
- Deliver strategic intelligence effectively through tailored reporting and digital platforms to improve stakeholder interaction and communication.
- Create opportunities for dialogue between policymakers and stakeholders to inform policy recommendations for proactive policy advocacy.
- Establish a simultaneous monitoring system for continuous evaluation of policy impacts on SMEs and allow for responsive adjustments based on stakeholder feedback.

This proposed framework outlines how policymakers and SMEs engage with each other. Additionally, an analytical framework for SME-policy interaction is suggested to evaluate the outcomes of this engagement. It examines how different engagement strategies impact the effectiveness of policies and the overall environment for SMEs. Together, these frameworks provide a clear evaluative and procedural perspective on the relationship between SMEs and government policy.

Analytical Framework: Model of SME-Policy Interaction

a) Regulatory Framework

- Evaluate: The effectiveness of the current government policies and regulations affecting SMEs, as well as SME support programs.
- Indicators: Tax incentives, access to finance, sustainability requirements and SME tailored policies or clauses.

b) Stakeholders Engagement Techniques

- Evaluate: How policymakers and SMEs collaborate and communicate.
- Indicators: Public-Private Partnerships, consultation platforms, surveys and business association gatherings.

c) SME Involvement Level

- a. Evaluate: The degree and quality of SME participation in the design and implementation of policies.
- b. Indicators: The number of SMEs participating in the consultation, the variety of representation and the feedback systems.

d) The Effect on SMEs

- Evaluate: The impact of government policies and regulations on SMEs' performance and sustainability.
- Indicators: SMEs growth rates, compliance costs, compliance rates, innovation adoption and environmental performance.

e) Feedback and Amendments

- Evaluate: Whether policies evolve in response to SME input and feedback outcome.
- Indicators: Frequency of policy amendments, reaction to SMEs' contributions and evaluation of the impact of policy and regulations.

7.6 EVALUATION OF THE THESIS

The primary objective and fourth secondary objective were addressed in the first article: to establish the government policy constraints that affect the business environment for SMEs in Lesotho and to assess the costs associated with the business environment. The thorough investigation into government policies has revealed significant barriers that inhibit SME growth, supporting the literature that current policies requires review and reform (GoL, 2025:10-13; World Bank, 2020c:25-28). Research has discovered that many current regulations disproportionately impact SMEs, especially in terms of compliance costs and bureaucratic obstacles. Cost assessment identified significant pressure on SMEs, indicating the urgent need for policy adjustments to improve SMEs' competitiveness.

The second and third secondary objectives, which was to compare the effects of the business environment on the formal and informal sectors and to determine how the business environment influences the formalisation of informal businesses in Lesotho were achieved through the second article. The comparison between the formal and

informal sectors revealed distinct challenges faced by SMEs, highlighting the need for a more balanced approach to regulation that considers the special characteristics of different industries and business contexts. Additionally, the study explored the impact of the business environment on the formalisation of informal SMEs and provided crucial insights into how an improved policy framework could ease this transition.

The first secondary objective of the study, which was to investigate the government policies and regulations that impact the business environment for SMEs in Lesotho was addressed in the third article. Amongst others, the following policies and regulations appeared to have significant influence: business registration and licensing regulations, tax policy and regulations and monetary policy. These policies were found to be less favourable to SMEs because they appeared to be complex, costly and lacked SME incentives. None had appeared to have clauses that encourage the formalisation of SMES.

Based on the thorough literature review and empirical findings, the study recommends a revised framework of legal and political business environmental factors as shown in Figure 1.3 of Chapter 1. This framework seeks to enhance processes, lower compliance costs and cultivate an ecosystem that supports start-ups and established SMEs thereby achieving the overall objectives of this research.

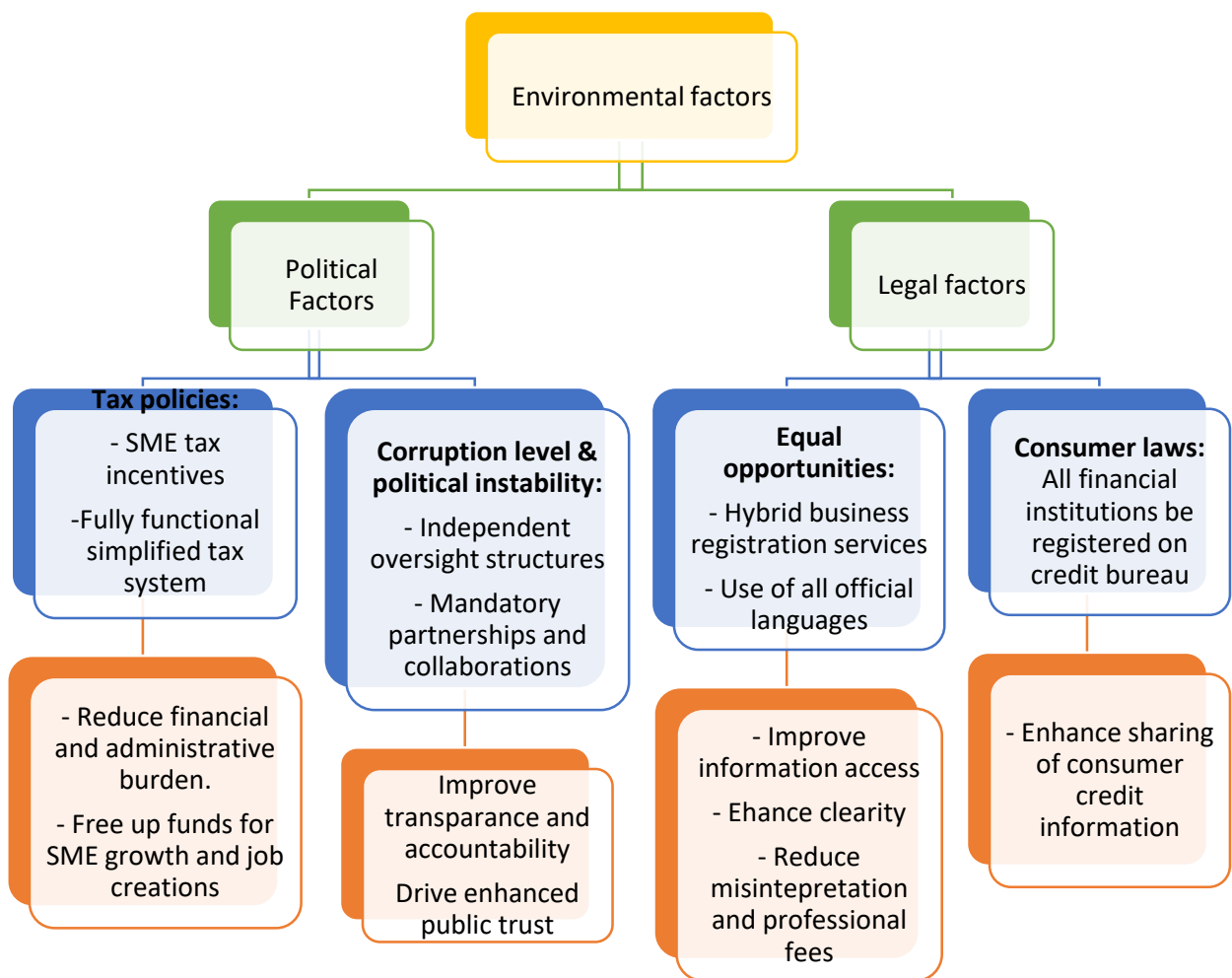


Figure 7. 3: Improved framework of legal and political factors (Source: Own Compilation)

7.7 SIGNIFICANCE OF THE STUDY

The significance of this study has been reflected by some of the responses by the participants after the orientation and the actual interviews, some of which are indicated below:

“This study looks interesting, and I will be very happy to have a copy of the results.”

“Thank you for the opportunity to participate in this study. I wish policymakers could do the same on important matters affecting our businesses and hope they consider the recommendations we make in your study.”

The significance of this study lies in understanding the vital role that government policies play in shaping the business environment for SMEs in Lesotho. By exploring stakeholder perception, the study highlighted policy constraints hindering SMEs' progression and sustainability. The main contribution of this study is derived from filling the research gap, providing Lesotho's specific context on the influence of government policies on the business environment for SMEs.

The findings of this study are supposed to be useful for policymakers, business owners and academics. For policymakers, the findings identified themes related to regulatory and policy issues, economic barriers, market access and infrastructure challenges thereby guiding efforts to create a more conducive business environment. The results of this study will help SME owners to proactively develop risk management strategies to respond to regulatory changes, competitive pressures, as well as identify opportunities stemming from the regulatory environment. For academics, the study fills a gap in the literature by investigating the perceptions of various stakeholders regarding the influence of government policies on SMEs.

7.8 LIMITATIONS OF THE STUDY

Investigating the perspectives of multiple stakeholders on the impact of government policies on the business environment of SMEs in Lesotho enabled the gathering of rich data for this qualitative study. However, it is acknowledged that the study is not beyond reproach. The findings cannot be generalised because the study focused only on four out of 10 Lesotho districts. These districts are found in the lowlands, while the highlands region may require different economic opportunities (GoL & World Bank, 2024:3). Additionally, the use of purposive and snowball sampling led to a biased sample and further limits the generalisation of the findings to a wider SME sector context. The use of cross cross-sectional approach does not allow testing of the cause-and-effect relationship thereby restricting the scope of the behaviour in the long run.

7.9 FUTURE RESEARCH

Despite the stated limitations, the study provides insightful perspectives that can influence future research. Future studies should investigate the multiple stakeholder

perspectives on government policies on SMEs country-wide and compare the results based on the two geographical regions, the lowlands and highlands. Longitudinal future studies could also eventually address the issue of behaviour. Additionally, future studies should compare the impacts of government policies on different SME industries such as agriculture and manufacturing.

7.10 CONCLUSION

This study presented insights from the data collected from the literature review and primary data collected regarding the impact of government policies on the business environment for SMEs. The literature highlighted theories associated with SMEs' growth, stakeholders, informality and institutional context in which SMEs operate. It also discussed policies that affect SMEs, as well as contemporary trends in the business environment for SMEs. The study employed purposive and snowball sampling methods to collect data, which enabled the selection of participants who could provide rich and pertinent data.

The main findings indicated that government policies and regulations hurt the business environment for SMEs in Lesotho thereby hindering their growth and development. Additionally, the study found that the lack of SME policy incentives, complex regulatory requirements and blanket approach regulations contribute to a high number of informal SMEs, 76% and a high failure rate. The literature indicated that less than 10% of indigenous Basotho SMEs survive (Amadasun & Mutezo, 2022:2; Amadasun & Mutezo, 2023:1). This highlights a need to establish an SME sector-friendly regulatory framework (Makara *et al.*, 2023:52). This could be achieved through the implementation of an SME policy, as well as incorporating customized clauses and incentives in other relevant policies to address SMEs' specific conditions, foster voluntary compliance and improve their competitive advantage.

The findings suggest that these significant inefficiencies in the regulatory frameworks stem from inefficient stakeholder engagement in the policy development and review process. Supporting regulations should enable key stakeholders to support SMEs' sustainable development. For example, the tax authority should be able to offer tax reliefs and incentives and ensure proper and effective implementation of the simplified

tax system. Similarly, banks should be flexible in designing financial products with reduced requirements to cater to the SME sector.

This study contributes context-specific information by providing the first qualitative analysis of stakeholders' perspectives on the influence of government policies on the business environment for SMEs in Lesotho. It also confirms the previous researcher's findings, such as Obananya (2022), which indicated that favourable government policies like business registration, tax policy and monetary policy have a positive impact on SMEs' sustainable development and growth.

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Appendices

APPENDIX A: LETTER TO THE MINISTRY AND THE MINISTRY'S CONSENT



LESOTHO

COMPANIES REGISTRY

One-Stop Business Facilitation Centre

Ministry of Trade, Industry and Business Development

P.O. Box 747

Kingsway

Maseru

Telephone: 22326647

MTICM/OBFC/15/2

June 07, 2024

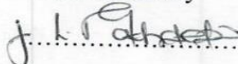
Scientific Committee
Northwest University

Dear Sir/Madam,

Re: AUTHORITY TO ACCESS OUR DATA BASE

We are writing this letter to inform your good office that Mrs Matsepiso Chalatshe has been granted authority to access our data base for conducting her research on 'Exploring the conduciveness of the business environment in Lesotho for the SME Sector'.

Yours faithfully

.....

Monaheng Monaheng – Registrar of Companies

P.O. Box 2243
Maseru 102

6 June 2024

The Ministry of Trade, Industry and Small Business
Director One Stop Shop Lesotho
Maseru
Dear Sir/ Madam

REQUEST FOR PERMISSION TO CONDUCT RESEARCH

My name is Matsepišo Chalatshe, and I am writing to request your permission to access and approach Small, Medium, and Micro Enterprises (SMMEs) listed in your database. This request forms part of my application for ethical clearance at North-West University, where I am a doctoral student undertaking a research project titled 'Exploring the conduciveness of the business environment in Lesotho for the SME sector,' under the supervision of Professor Ronnie Lotriet.

The objective of this study is to assess the quality of the current business environment in Lesotho. The focus is on recommending strategies to eliminate constraints caused by government policies and regulations in order to create an improved system that will have a positive impact on small and medium-sized enterprises (SMEs). The conclusions drawn from my study will be used solely for academic purposes and will contribute to the existing body of knowledge.

The study does not involve any physical activities, so there is no risk to the participants. To protect their dignity and confidentiality, I will uphold ethical principles. Each participant will be given a unique ID, and their interviews will be recorded and saved with reference to this ID. All data collected will be kept confidential and will not be shared with any third party not involved in the research process.

I will ensure that all records are managed in compliance with the guidelines of the Protection of Personal Information Act (POPIA). I am committed to following the

principles of POPIA and will only collect and process participants' personal data for specific lawful purposes related to the objectives of my study. Participants' personal details and their direct input to the research study will not be disclosed to the public. The findings of my study will be made public, but they will not contain any raw data that might lead to the identification of individuals.

All collected data will be accurate, complete, and managed confidentially. Hard copies of the data will be securely stored in a lockable drawer, while soft copies will be stored on password-protected devices. Access to these records will be restricted to me, as the researcher, who will be solely responsible for the master and spare keys. Additionally, I will respect and uphold the rights of the data subjects as per the POPIA, including the rights to access, delete, and/or rectify their personal information. All research records will be kept for a retention period and then destroyed by an appropriate means. This means that collected data will be retained until I receive the final approval for my research project from North-West University, after which I will securely dispose of shredding or deleting them.

Participants in my research have the right to ask me questions if they do not understand any part of the study. It is important that they fully understand what this research is about and how they might be involved. Participation in my research is entirely voluntary, and participants are free to decline with no negative effects. Furthermore, participants are free to withdraw from the study at any time, even if they initially agreed to participate. They can also refuse to answer any question without facing pressure or negative consequences. My study is conducted without coercion, and participants' decisions regarding participation will not impact any opportunities or relationships. Their autonomy and privacy will be fully respected throughout the study.

Participants in the study will be provided with a two-page summary of the results on request. The final version of the research will be available electronically upon request. Participation in the study will not yield monetary compensation to the participants or make them incur any, except for the time spent participating. The study will be fully funded by myself as the researcher.

I have attached my admission letter from North-West University. If you require further information, please feel free to contact me at jsmaboep@gmail.com or call me at +266 58542379 or +266 63147858. You are also welcome to contact my supervisor at ronnie.lotriet@nwu.ac.za or call at +27 79 492 4775.

Thank you for your time and consideration.

Yours sincerely



Matsepiso Chalatse (Mrs)

APPENDIX B: BEDCO CONSENT

P.O. Box 2243

Maseru 102

6 June 2024

The Chief Executive Officer

Basotho Enterprise Development Corporation (BEDCO)

Maseru

Dear Sir/ Madam

REQUEST FOR PERMISSION TO CONDUCT RESEARCH

My name is Matsepiso Chalatse, and I am writing to request your permission to access and approach Small, Medium, and Micro Enterprises (SMMEs) listed in your database. This request forms part of my application for ethical clearance at North-West University, where I am a doctoral student undertaking a research project titled 'Exploring the conduciveness of the business environment in Lesotho for the SME sector,' under the supervision of Professor Ronnie Lotriet.

The objective of this study is to assess the quality of the current business environment in Lesotho. The focus is on recommending strategies to eliminate constraints caused by government policies and regulations in order to create an improved system that will have a positive impact on small and medium-sized enterprises (SMEs). The conclusions drawn from my study will be used solely for academic purposes and will contribute to the existing body of knowledge.

The study does not involve any physical activities, so there is no risk to the participants. To protect their dignity and confidentiality, I will uphold ethical principles. Each participant will be given a unique ID, and their interviews will be recorded and saved with reference to this ID. All data collected will be kept confidential and will not be shared with any third party not involved in the research process.

I will ensure that all records are managed in compliance with the guidelines of the Protection of Personal Information Act (POPIA). I am committed to following the

principles of POPIA and will only collect and process participants' personal data for specific lawful purposes related to the objectives of my study. Participants' personal details and their direct input to the research study will not be disclosed to the public. The findings of my study will be made public, but they will not contain any raw data that might lead to the identification of individuals.

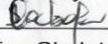
All collected data will be accurate, complete, and managed confidentially. Hard copies of the data will be securely stored in a lockable drawer, while soft copies will be stored on password-protected devices. Access to these records will be restricted to me, as the researcher, who will be solely responsible for the master and spare keys. Additionally, I will respect and uphold the rights of the data subjects as per the POPIA, including the rights to access, delete, and/or rectify their personal information. All research records will be kept for a retention period and then destroyed by an appropriate means. This means that collected data will be retained until I receive the final approval for my research project from North-West University, after which I will securely dispose of shredding or deleting them.

Participants in my research have the right to ask me questions if they do not understand any part of the study. It is important that they fully understand what this research is about and how they might be involved. Participation in my research is entirely voluntary, and participants are free to decline with no negative effects. Furthermore, participants are free to withdraw from the study at any time, even if they initially agreed to participate. They can also refuse to answer any question without facing pressure or negative consequences. My study is conducted without coercion, and participants' decisions regarding participation will not impact any opportunities or relationships. Their autonomy and privacy will be fully respected throughout the study.

Participants in the study will be provided with a two-page summary of the results on request. The final version of the research will be available electronically upon request. Participation in the study will not yield monetary compensation to the participants or make them incur any, except for the time spent participating. The study will be fully funded by myself as the researcher.

+266 58542379 or +266 63147858. You are also welcome to contact my supervisor at ronnie.lotriet@nwu.ac.za or call at +27 79 492 4775.
Thank you for your time and consideration.

Yours sincerely


Matsepiso Chalatse (Mrs)

Approved by:

1. SEPO SIA LA (BAS)
Printed name and title


Signature

07/06/2024
Date

APPENDIX C: INTERVIEW PROTOCOL

Registered SMEs

1. Are you the owner or the manager of your business?
2. How long has your business been operating?
 - ☐ Less than 5 Years
 - ☐ 5-10 Years
 - ☐ 11-15 Years
 - ☐ 16-20 Years
 - ☐ More than 20 Years
3. Is your business registered? Please indicate the registration type if **so**.
 - ☐ Company
 - ☐ Partnership
 - ☐ Sole trader
 - ☐ Other
 - ☐ Don't know
4. What type of business do you have? What type of products and/or services are you selling?
5. How did you start your business and what motivated you? Where did you get the funding, and what amount of money did you start with?
6. How many people are employed in your business? Do you intend to employ more people in the future, why or why not?
7. How do you describe the current business environment for SMEs in Lesotho including its strengths and weaknesses?
8. What are the specific government policies and regulations affecting the SMEs in Lesotho and how do they affect your business activities?
9. What challenges have your business encountered during the registration process?
10. What registration process improvement strategies would you recommend for SMEs?
11. In your view, what are the reasons that the majority of SMEs operate informally in Lesotho, and what are the specific government policies and regulatory issues in this regard?
12. How do SMEs contribute to the economy of Lesotho and how do governments' policies and regulations affect their contributions?
13. How do the government, its agencies, and institutions consult with SMEs on

proposed regulations and policy amendments? What platforms are used to provide guidelines, and feedback and inform SMEs about the changes in the regulation?

14. How does your business stay informed about the changes in government regulations?
15. Do you know of any government assistance to SMEs in Lesotho? Please describe the assistance available and the conditions attached.
16. What type of incentives (e.g. tax incentives) and any other government support are available to SMEs? How are they affecting the formalization and overall compliance of your business?
17. How would you describe the simplified tax system for SMEs in Lesotho? What challenges does your business face in tax compliance?
18. What are the main operational costs of SMEs in Lesotho (e.g. costs of compliance with relevant laws and logistics challenges such as transportation costs)?
19. Describe how the condition of Lesotho's physical infrastructure affects the SME sector. What are the associated costs?
20. How does the current state of Lesotho's economy affect the SME's operational costs as a result of government policies and regulations?
21. Describe the degree of competition between formal and informal businesses in Lesotho.
22. What measures and initiatives would you recommend to improve the SME's compliance aspects? What would strengthen their collective bargaining power in the Lesotho business landscape?
23. What specific funding initiatives would you recommend to support SMEs? For start-ups? For sustainability of existing SMEs?
24. Does your business have access to the Internet of Things (digitization)? If YES please indicate what you have online regarding your business.
ii) If NOT, please indicate your challenges and plans to address them.
25. Does your business have access to external financial options? Any related challenges in this regard?
26. What kind of international connections does Lesotho have that can help SMEs expand across the borders?
27. What are the advantages of having your own SME business in Lesotho?
28. Do you know about any of Lesotho's associations or networks that advocate for better SME policies?
29. What do you perceive as the general constraints on the growth and development of SMEs in Lesotho?
30. How does the state of political stability in Lesotho influence the development and enforcement of policies that affect SMEs? How does this affect SME development?
31. What other initiatives would you recommend to improve the regulatory framework and/or tax system to assist SME development in Lesotho?

Informal Businesses

1. Are you the owner or the manager of your business?
2. How long has your business been operating?
 - ☐ Less than 5 Years
 - ☐ 5-10 Years
 - ☐ 11-15 Years
 - ☐ 16-20 Years
 - ☐ More than 20 Years
3. Is your business registered? Please indicate the registration type if **so**.
 - ☐ Company
 - ☐ Partnership
 - ☐ Sole trader
 - ☐ Other
 - ☐ Don't know
4. What type of business do you have? What type of products and/or services are you selling?
5. How did you start your business and what motivated you? Where did you get the funding, and what amount of money did you start with?
6. How many people are employed in your business? Do you intend to employ more people in the future, why or why not?
7. How do you describe the current business environment for SMEs in Lesotho including its strengths and weaknesses?
8. What are the specific government policies and regulations affecting the SMEs in Lesotho and how do they affect your business activities?
9. Are you informed of the registration process and what registration process improvement strategies would you recommend for SMEs?
10. Why is your business not registered, and what are the specific government policies and regulatory issues in this regard?
11. How do SMEs contribute to the economy of Lesotho and how do governments' policies and regulations affect their contributions?
12. How do the government, its agencies, and institutions consult with the unregistered SMEs on proposed regulations and policy amendments? What platforms are used to provide guidelines, and feedback and inform SMEs about the changes in the regulation?
13. How does your business stay informed about the changes in government regulations?
14. Do you know of any government assistance to unregistered SMEs in Lesotho? Please describe such assistance available and the conditions attached.

15. What type of incentives (e.g. tax incentives) and any other government support are available to SMEs? How are they affecting the formalization and overall compliance of your business?
16. How would you describe the simplified tax system for SMEs in Lesotho? What challenges does your business face in tax compliance?
17. What are the main operational costs of SMEs in Lesotho (e.g. costs of compliance with relevant laws and logistics challenges such as transportation costs)?
18. Describe how the condition of Lesotho's physical infrastructure affects the SME sector. What are the associated costs?
19. How does Lesotho's economic stability affect the operational costs of SMEs?
20. Describe the degree of competition between formal and informal businesses in Lesotho.
21. What measures and initiatives would you recommend to improve the SME's compliance aspects? What would strengthen their collective bargaining power in the Lesotho business landscape?
22. What specific funding initiatives would you recommend to support SMEs? For start-ups? For sustainability of existing SMEs?
23. i) Does your business have access to the Internet of Things (digitization)? If YES please indicate what you have online regarding your business.
ii) If NOT, please indicate your challenges and plans to overcome them.
24. Does your business have access to external financial options? Any related challenges in this regard?
25. What kind of international connections does Lesotho have that can help SMEs expand across the borders?
26. What are the advantages of having your own SME business in Lesotho?
27. Do you know about any of Lesotho's associations or networks that advocate for better SME policies?
28. What do you perceive as the general constraints on the growth and development of SMEs in Lesotho?
29. How does the state of political stability in Lesotho affect SMEs?
30. What other initiatives would you recommend to improve the regulatory framework and/or tax system to assist SME development in Lesotho?

Department of Small Business

1. What is your position in your department?
2. How many registered small businesses were there in Lesotho in each of the following years?

2024	2023	2022	2021	2020
3. How many people were employed in small businesses in Lesotho in each of the following years?

2024	2023	2022	2021	2020
4. How do you describe the current business environment for SMEs in Lesotho

- including its strengths and weaknesses?
5. What are the specific government policies and regulations affecting the SMEs in Lesotho and how do they affect your business activities?
 6. What are the common challenges SMEs encounter during the registration process?
 7. What registration process improvement strategies would you recommend for SMEs?
 8. In your view, what are the reasons that the majority of SMEs operate informally in Lesotho, and what are the specific government policies and regulatory issues in this regard?
 9. How do SMEs contribute to the economy of Lesotho? How do governments' policies and regulations affect their contributions?
How do the government, its agencies, and institutions consult with SMEs on proposed regulations and policy amendments? What platforms are used to provide guidelines, and feedback and inform SMEs about the changes in the regulation?
 10. Describe the government assistance available to SMEs in Lesotho and the conditions attached.
 11. What type of incentives (e.g. tax incentives) and any other government support are available to SMEs? How are they affecting the formalization and overall compliance of their business?
 12. What is the annual success rate of converting unregistered to registered businesses?
 13. How would you describe the simplified tax system for SMEs in Lesotho? What challenges do SME businesses face in tax compliance?
 14. How does the government monitor small businesses' performance and determine the level of support required to improve and sustain them?
 15. What is the average failure rate for SMEs in Lesotho?
 16. What are the main operational costs of SMEs in Lesotho (e.g. costs of compliance with relevant laws and logistics challenges such as transportation costs)?
 17. Describe how the condition of Lesotho's physical infrastructure affects the SME sector. What are the associated costs?
 18. How does Lesotho's economic stability affect the operational costs of SMEs?
 19. Describe the degree of competition between formal and informal businesses in Lesotho.
 20. What measures and initiatives would you recommend to improve the SME's compliance aspects?
 21. What would strengthen their collective bargaining power in the Lesotho business landscape?
 22. What specific funding initiatives would you recommend to support SMEs? For start-ups? For sustainability of existing SMEs?
 23. What external financial options do SMEs have access to? Any related challenges in this regard?
 24. What kind of international connections does Lesotho have that can help SMEs

- expand across borders?
25. Describe any of Lesotho's associations or networks that advocate for better SME policies.
 26. What do you perceive as the general constraints on the growth and development of SMEs in Lesotho?
 27. How does the state of political stability in Lesotho affect SMEs?
 28. What other initiatives would you recommend to improve the regulatory framework and/or tax system to assist SME development in Lesotho?

Tax Authority /Revenue Service Lesotho(RSL)

1. What is your position in your organization?
2. How do you describe the current business environment for SMEs in Lesotho, including its strengths and weaknesses?
3. What are the specific tax policies and regulations affecting the SMEs in Lesotho, and how do they affect their business activities?
4. Describe the tax registration process. What challenges do SMEs normally encounter during this process?
5. What registration process improvement strategies would you recommend for SMEs?
6. In your view, what are the reasons that the majority of SMEs operate informally in Lesotho, and what are the specific government policies and regulatory issues in this regard?
7. How do SMEs contribute to the economy of Lesotho and how do governments' policies and regulations affect their contributions?
8. How does your organisation consult with SMEs on proposed tax regulations and policy amendments? What platforms are used to provide guidelines, and feedback and inform SMEs about the changes in the regulation?
9. What type of tax incentives are available to SMEs? How are they affecting the formalization and tax compliance of SMEs?
10. How would you describe the simplified tax system for SMEs in Lesotho? What challenges do SMEs face in tax compliance?
11. What are the costs of compliance with tax laws for SMEs in Lesotho?
12. Describe the degree of competition between formal and informal businesses in Lesotho.
13. What kind of support does your organization provide to informal SMEs to help them to register their businesses?
14. How does your organisation recover tax from informal businesses?
15. What was SMEs' tax contribution in Lesotho in each of the following years?

2024	2023	2022	2021	
2020				
16. Describe the SME's tax compliance activities and the estimated failure rate in meeting their tax obligations.
17. What are the general tax compliance issues for SMEs in Lesotho?
18. What measures and initiatives would you recommend to improve the SME's tax

compliance aspects? What would strengthen their collective bargaining power in the Lesotho business landscape?

19. What kind of international connections does Lesotho have that can help SMEs expand across the borders?
20. What do you perceive as the general constraints on the growth and development of SMEs in Lesotho?
21. What other initiatives would you recommend to improve the regulatory framework and/or tax system to assist SME development in Lesotho?

Commercial Banks

1. What is your position in your bank?
2. How do you describe the current business environment for SMEs in Lesotho including its strengths and weaknesses?
3. What are the specific products or services your bank offers to SMEs? What are the constraints for SMEs to access them?
4. What are the specific government financial policies and regulations affecting the SMEs in Lesotho and how do they affect their business activities?
5. How does Lesotho's monetary policy impact the SME sector? What are the opportunities and challenges related to changes in interest rates and access to financing?
6. Are your bank's policies aligned with the financial regulations in Lesotho? How does this alignment affect your offerings to SMEs?
7. In your view, what are the reasons that the majority of SMEs operate informally in Lesotho, and what are the specific government policies and regulatory issues in this regard?
8. What kind of support does your bank provide to unregistered businesses to help them become bankable?
9. How do SMEs contribute to the economy of Lesotho and how do governments' policies and regulations affect their contributions?
10. What is an estimated SME's default rate in your bank, and what are the common reasons for their failure?
11. How does Lesotho's economic stability affect the operational costs of SMEs?
12. Describe the degree of competition between formal and informal businesses in Lesotho.
13. What measures and initiatives would you recommend to improve the SME's compliance aspects? What would strengthen their collective bargaining power in the Lesotho business landscape?
14. What specific funding initiatives would you recommend to support SMEs? For start-ups? For the sustainability of existing SMEs?
15. What government financial assistance is available to SMEs and the conditions attached to it in Lesotho?
16. How does the regulatory environment affect your ability to provide financial options to SMEs?
17. What do you perceive as the general constraints on the growth and development of SMEs in Lesotho?
18. What other initiatives would you recommend to improve the regulatory framework

to assist SME development in Lesotho?

Government Agencies, Lesotho Chamber of Commerce and Industry, SMEs Business Association

1. What is your position in your bank?
2. How do you describe the current business environment for SMEs in Lesotho including its strengths and weaknesses?
3. What are the specific products or services your bank offers to SMEs? What are the constraints for SMEs to access them?
4. What are the specific government financial policies and regulations affecting the SMEs in Lesotho and how do they affect their business activities?
5. How does Lesotho's monetary policy impact the SME sector? What are the opportunities and challenges related to changes in interest rates and access to financing?
6. Are your bank's policies aligned with the financial regulations in Lesotho? How does this alignment affect your offerings to SMEs?
7. In your view, what are the reasons that the majority of SMEs operate informally in Lesotho, and what are the specific government policies and regulatory issues in this regard?
8. What kind of support does your bank provide to unregistered businesses to help them become bankable?
9. How do SMEs contribute to the economy of Lesotho and how do governments' policies and regulations affect their contributions?
10. What is an estimated SME's default rate in your bank, and what are the common reasons for their failure?
11. How does Lesotho's economic stability affect the operational costs of SMEs?
12. Describe the degree of competition between formal and informal businesses in Lesotho.
13. What measures and initiatives would you recommend to improve the SME's compliance aspects? What would strengthen their collective bargaining power in the Lesotho business landscape?
14. What specific funding initiatives would you recommend to support SMEs? For start-ups? For the sustainability of existing SMEs?
15. What government financial assistance is available to SMEs and the conditions attached to it in Lesotho?
16. How does the regulatory environment affect your ability to provide financial options to SMEs?
17. What do you perceive as the general constraints on the growth and development of SMEs in Lesotho?
18. What other initiatives would you recommend to improve the regulatory framework to assist SME development in Lesotho?

APPENDIX D: PARTICIPANT'S CONSENT FORM

DEAR PARTICIPANT

You are invited to take part in a research study that forms part of a Ph.D. degree. Please take some time to read the information presented here, which will explain the details of this study. Please ask me any questions about any part of this study that you do not fully understand. It is very important that you are fully satisfied and clearly understand what this research is about and how you might be involved. Also, your participation is entirely voluntary, and you are free to say no to participating. If you say no, this will not affect you negatively in any way whatsoever. You are also free to withdraw from the study at any point, even if you agree to take part now. You are free to refuse to answer any question without facing pressure or negative consequences. My study is conducted without coercion, and your decisions regarding participation will not impact any opportunities or relationships. I will fully respect your autonomy and privacy throughout the study.

This study has been approved by the NWU Economic and Management Sciences Research Ethics Committee (EMS-REC) and will be conducted according to the ethical guidelines and principles of the North-West University and other international ethical guidelines applicable to this study.

Title of the project: Exploring stakeholders' perspectives on the conduciveness of the Lesotho SME business environment

Institution: NWU Business School

Ethics Reference Number: N W U - 0 0 6 8 3 - 2 4 - A 4

Names and contact details of project staff

	Supervisor	Researcher
Title	Professor	Mrs
Full Names	Ronnie Lotriet	Sesema Matsepo Chalitse
Function in Project	Principle Investigator	Researcher
Telephone	+27 79 492 4775	+266 5854 2379

What is this research study all about?

The purpose of this study is to assess the quality of the current business environment in Lesotho. The focus is on recommending strategies to eliminate constraints caused by government policies and regulations in order to create an improved system that will have a positive impact on small and medium-sized enterprises (SMEs). To achieve this, I plan to gather the opinions of owners or senior managers of both formal and informal small, medium, and micro enterprises (SMMEs) that are affected by the current government system of Lesotho, the government through the Department of Small Business, tax authorities, and commercial banks.

The primary objective of this study is to identify the government constraints, policies, and regulations that impact small and medium-sized enterprises (SMEs) in Lesotho. In addition, the study aims to analyze the various government policies and regulations affecting SMEs to gain a comprehensive understanding of the regulatory environment. It will also assess how each identified policy and regulation directly influences the quality of the business environment for SMEs to evaluate their effectiveness. The study will compare how the business environment affects both formal and informal sectors and highlight the differences and challenges faced by these enterprises.

Furthermore, it will investigate the impact of the business environment on the formalization of informal businesses in Lesotho. Finally, the study will evaluate the costs associated with the business environment in Lesotho to provide insights into the financial implications and burdens faced by SMEs. Overall, this research aims to offer a comprehensive understanding of the factors shaping the SME landscape in Lesotho, which can inform policy interventions and promote sustainable economic development.

Important Terms:

Business environment: For this interview, the term "business environment" refers to the different factors and circumstances that impact the operations of businesses and other market participants. It can be divided into four categories: a market environment that is fair and competitive, a legal and policy environment that is transparent and fair, a human environment that is inclusive and open, and a government environment that is free of corruption and efficient.

Why have you been invited to participate?

You have been invited to participate in this research study because you fall into at least one of the following categories:

- Owner or senior manager of SMEs located in one of the following districts of Lesotho that have the highest population of SMEs Maseru, Mafeteng, Leribe, and Berea.
- Informal business owner
- Department of Small Business,
- Tax authority in Lesotho (Revenue Services Lesotho)
- Commercial bank

What will be expected of you?

You will be expected to:

- Participate in a 40 – 60 minutes semi-structured interview with the researcher at a suitable time and private area without interruptions that is convenient for both parties via an online platform or face-to-face whichever you prefer. This will be scheduled by the researcher once approved by the NWU ethics committee.
- Respond to the questions in an open and honest manner.
- Inform the supervisor should you feel or experience any form of discomfort or distress during the research process and inform the supervisor if at times you feel the need to terminate your involvement in the research process.

Will you gain anything from taking part in this research?

This research study intends to give you a voice to reveal, explain, and reflect on the quality of the current business environment in Lesotho. No monetary reward shall be made available for participation in the study. You will however be furnished with a two-page communique on the outcomes of the study that you can utilize to understand how government policies affect the business environment for SMEs in Lesotho. The study's findings will allow you to identify the legal barriers affecting SMEs and propose strategies to improve, making the business environment more conducive. This in turn will contribute to the sustainable economic development of Lesotho.

Are there risks involved in your taking part in this research and what will be done to prevent them?

Participation in this study does not create any physical risk to you as the study does not involve any physical activities or experiments. However, I have identified certain ethical principles that I shall always maintain to prevent any damage to you. These

principles will focus on protecting your dignity and keeping all records provided privately and confidentially.

How will I protect your confidentiality and who will see your contributions?

You will be assigned a unique participant ID. Our interview will be recorded and saved with reference to the ID, data collected shall be regarded as confidential and will not be shared with any third party that is not directly involved in the research process. Any demographic data is simply for profiling the sample and not for identifying participants. Your details and your direct input to the research study shall not be made public. All records of the research shall be kept for a retention period and destroyed by an appropriate means. That is, I will retain the records until I receive the final approval for my research project from North-West University, after which I will securely dispose of them by shredding or deleting them. The findings of the study will be made public however will not contain any raw data that might incriminate certain individuals.

All records will be managed in accordance with the Protection of Personal Information Act (POPIA) and Lesotho's Data Protection Act guidelines. Your personal data collected during the interview will only be for specific lawful purposes related to the objectives of my study. I will respect and uphold your rights as the data subjects according to the POPIA and Lesotho's Data Protection Act, including the rights to access, delete, and/or rectify your personal information. Hard copies of the data will be securely stored in a lockable drawer, while soft copies will be stored on password-protected devices. Access to these records will be restricted to me, as the researcher, and I will be solely responsible for the master and spare keys.

What will happen with the findings or samples?

The findings concluded in the study will be for academic purposes and will only be utilized to add to the current body of available knowledge.

How will you know about the results of this research?

Participants in the study, should they require, will be made aware of the results of the research, through a two-page communique, by means of electronic mail. The electronic final version of the dissertation will also be made available if requested.

Will you be paid to take part in this study and are there any costs for you?

Participation in this study will not yield monetary value to you. There is no cost envisaged to you except the time that you spend participating in this study. This study will be funded by myself as the researcher.

Is there anything else that you should know or do?

You may contact the supervisor, Professor Ronnie Lotriet, at ronnie.lotriet@nwu.ac.za or +27 79 492 4775 if you have any further questions or problems. You will receive a copy of this information and consent form for your purposes.

DECLARATION

Declaration by participant

By signing below, I..... (PARTICIPANT ID) agree to take part in the research study titled: Exploring the conduciveness of the business environment in Lesotho for the SME-sector

I declare that:

I have read this information/it was explained to me by a trusted person, the researcher in a language with which I am fluent and comfortable. The research was clearly explained to me. I have had a chance to ask questions to the researcher and all my questions have been answered. I understand that taking part in this study is voluntary and I have not been pressured to take part. I may choose to leave the study at any time and will not be handled in a negative way if I do so. I may be asked to leave the study before it has finished if the researcher feels it is in the best interest, or if I do not follow the study plan, as agreed to.

If you would like to receive the results of the study, please add your email address.

Email:

Signed at: _____ On: _____

Signature of participant: _____

Declaration by researcher

I Sesema Matsepo Chalatsa declare that:

- I explained the information in this document to..... (PARTICIPANT ID)
- I did/did not use an interpreter
- I encouraged them to ask questions and took adequate time to answer them or I was available should they want to ask any further questions.
- I am satisfied that they adequately understand all aspects of the research, as described above.
- I am satisfied that they had time to discuss it with others if they wished to do so.

Signed at: _____ On: _____

Signature of researcher: _____

APPENDIX E: ETHICS APPROVAL LETTER OF STUDY



Private Bag X1290, Potchefstroom
South Africa 2520

Tel: 018 299-1111/2222
Fax: 018 299-4910
Web: <http://www.nwu.ac.za>

Senate Committee for Research Ethics
Tel: 018 299-484
Feziwe.Mseleni@nwu.ac.za

03 September 2024

ETHICS APPROVAL LETTER OF STUDY

Based on approval by the **Economic and Management Sciences Research Ethics Committee (EMS-REC)** on, **03/09/2024** the Economic and Management Sciences Research Ethics Committee hereby **approves** your study as indicated below. This implies that the North-West University Senate Committee for Research Ethics (NWU-REC) grants its permission that, provided the special conditions specified below are met and pending any other authorisation that may be necessary, the study may be initiated, using the ethics number below.

Study title: A stakeholder approach to exploring the conduciveness of the business environment in Lesotho for the SME-sector.

Study Leader/Supervisor (Principal Investigator)/Researcher: Prof. R. Lotriet
Student: SMJ. Chalitse (49958968)

N	W	U	-	0	0	6	8	3	-	2	4	-	A	4

Institution Study Number Year Status

Status: S = Submission; R = Re-Submission; P = Provisional
Authorisation; A = Authorisation

Application Type:

Commencement date: 03/09/2024

Risk:

Minimal

Expiry date: 03/09/2025

Approval of the study is initially provided for a year, after which continuation of the study is dependent on receipt and review of the annual (or as otherwise stipulated) monitoring report and the concomitant issuing of a letter of continuation.

Special in process conditions of the research for approval (if applicable):

- None.

General conditions:

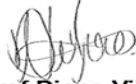
While this ethics approval is subject to all declarations, undertakings and agreements incorporated and signed in the application form, the following general terms and conditions will apply:

- The study leader/supervisor (principle investigator)/researcher must report in the prescribed format to the EMS-REC:
 - annually (or as otherwise requested) on the monitoring of the study, whereby a letter of continuation will be provided, and upon completion of the study; and
 - without any delay in case of any adverse event or incident (or any matter that interrupts sound ethical principles) during the course of the study.

- *The approval applies strictly to the proposal as stipulated in the application form. Should any amendments to the proposal be deemed necessary during the course of the study, the study leader/researcher must apply for approval of these amendments at the EMS-REC, prior to implementation. Should there be any deviations from the study proposal without the necessary approval of such amendments, the ethics approval is immediately and automatically forfeited.*
- *Annually a number of studies may be randomly selected for an external audit.*
- *The date of approval indicates the first date that the study may be started.*
- *In the interest of ethical responsibility, the NWU-SCRE and EMS-REC reserves the right to:*
 - *request access to any information or data at any time during the course or after completion of the study;*
 - *to ask further questions, seek additional information, require further modification or monitor the conduct of your research or the informed consent process;*
 - *withdraw or postpone approval if:*
 - *any unethical principles or practices of the study are revealed or suspected;*
 - *it becomes apparent that any relevant information was withheld from the EMS-REC or that information has been false or misrepresented;*
 - *submission of the annual (or otherwise stipulated) monitoring report, the required amendments, or reporting of adverse events or incidents was not done in a timely manner and accurately; and / or*
 - *new institutional rules, national legislation or international conventions deem it necessary.*

The EMS-REC would like to remain at your service as scientist and researcher, and wishes you well with your study. Please do not hesitate to contact the EMS-REC or the NWU-SCRE for any further enquiries or requests for assistance.

Yours sincerely,



Prof Diana Viljoen-Bezuidenhout

Chairperson: NWU Economic and Management Sciences Research Ethics Committee

APPENDIX F: LETTER FROM THE LANGUAGE EDITOR



Centre for Scholarly Publishing Services (PTY) Ltd

Reg no: 2015/444302/07

26 November 2025

TO WHOM IT MAY CONCERN

MATSEPIISO CHALATSE

North West University Business School
Faculty of Economic and Management Sciences
North-West University
Potchefstroom Campus
Private Bag X6001
Potchefstroom
2520

This serves to confirm that a dissertation titled *Exploring stakeholders' perspectives on the conduciveness of the Lesotho SME business environment* by Matsepiso Chalatsé submitted in fulfillment of the requirements for the degree Doctor of Philosophy in Economic and Management Sciences with Business Administration at the North-West University has undergone both a thorough copy-editing as well as proof-reading processes.

Sincerely,

.....
Solani Ngobeni
Publishing Director
Centre for Scholarly Publishing Services (Pty) Ltd.

Cell: 061 506 6115
www.csps.co.za

APPENDIX G: SIMILARITY REPORT

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