



Lesotho Competitiveness and Financial Inclusion Project

Integrating a Gender Equality Lens



Acknowledgments¹

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Summary

The Competitiveness and Financial Inclusion (CAFI) project (P175783) aims to increase access to business support services and financial products for micro, small and medium enterprises (MSMEs), and entrepreneurs, especially women and youth. Specific disaster risk financing (DRF) activities under the project strengthen the financial resilience of MSMEs to climatic and pandemic shocks. The importance of strengthening access to finance and financial resilience for women-owned MSMEs (WMSMEs) is a central theme of the project, including within its DRF activities.

The project contains three components:



Component 1: Financial inclusion and resilience of MSMEs

Supports enhancing government-to-business digital services to more effectively serve MSMEs, improving their access to financial services and strengthening their resilience to climatic shocks. Special attention is devoted to WMSMEs that are particularly vulnerable to climatic shocks due to lower access to financial services as compared to male business owners.



Component 2: Scaling support for entrepreneurship and MSMEs

Supports the setting up of an entrepreneurship hub and a seed financing facility, scaling the Lesotho Enterprise Assistance Program for MSMEs and expanding SME participation in high potential value chains.



Component 3: Project Management and Implementation

Supports project management and implementation of project activities, including project monitoring and evaluation, citizen engagement, etc. Special attention is devoted to promoting equal participation of women in all decision-making bodies under the project and contributing to tackling barriers in recruitment, retention, and promotion.

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DRF-related activities fall under component 1 and are closely aligned with overall project activities that will strengthen access to financial services for MSMEs. DRF activities support the government to establish a risk layered approach to financing disaster response, including establishing an MSME resilience window within the Ministry of Finance contingency fund ensuring funds are available in times of crisis to support MSMEs. This will particularly benefit women who represent more than 50 percent of workers in the informal sector. Further, DRF activities support the design and procurement of a sovereign insurance backstop and co-financing for insurance premiums. Design of these instruments take account of gender differences.

This brief focuses on gender considerations and actions implemented under DRF-related activities within the project.

Integrating A Gender Equality Lens: The “How”

Step 1: Analysis:



Lesotho is highly vulnerable to frequent and severe weather events, particularly droughts and floods. These can have strong adverse impacts on vulnerable MSMEs. In 2020-2021, Lesotho declared two states of emergency that had impacted MSMEs. The first was declared for the COVID-19 pandemic, which brought economic activity to a near standstill, and the second was for heavy rains that caused many parts of the country to flood. The Government of Lesotho introduced measures to support MSMEs, but this put significant pressure on the fiscal position of the country. Lesotho does not have a DRF strategy and relies on budget reallocations, borrowing, and humanitarian aid for financing disaster response. As a result, MSMEs are very vulnerable to shocks as they don't have access to pre-arranged financial protection.

Strengthening support to the informal sector is critical, given that the vast majority of MSMEs are informal. MSMEs are a mainstay of the economy, accounting for 85 percent of all firms and employing 200,000 people². In both 2002 and 2017, more than 80 percent of household businesses in Lesotho were not registered. Although there are more than 76,000 MSMEs in Lesotho, 83 percent do not employ any workers and fewer than 3 percent employ 5+ people. This demonstrates that the majority of MSMEs are small, reliant on cash flow and therefore highly vulnerable to shocks. Women account for 59 percent of the sector's employment³.

In terms of formal entrepreneurship, Lesotho has the highest percentage of firms with female participation in ownership in the formal sector (39 percent) in Sub-Saharan Africa, where the average rate is 29 percent.⁴ Women also account for 36 percent of top managers in Basotho firms, more than double the average of 14.1 percent for Sub-Saharan Africa. The country also has the highest percentage cumulatively of female participation in employment, top management and firm ownership, compared to the equivalent percentages for the region and for economies with similar income levels. However, whereas women are more likely to venture into entrepreneurship than men, they are hamstrung by social, cultural, and legislative impediments and lack of technical skills. The country's draft national policy for micro, small, and medium enterprises (MSMEs), 2021, recognizes as a strategic objective the need to ensure equal economic opportunities for women in MSME activities. This project thus aligns well with government priorities.⁵

WMSMEs are particularly vulnerable to climatic shocks. Shocks disproportionately increase the work burden of women⁶ – who, in addition to being more likely to be self-employed and/or employed in the informal sector, are also tasked with walking long distances to collect water for their families in droughts, growing/providing food, covering educational costs/needs, and generally sustaining the family. In rural areas, men are more likely to leave their villages in search of alternate income sources, thereby giving women the full responsibility of family caretaking. Thus, when climatic shocks occur, a loss of income for self-employed women can have large and catastrophic effects on families and communities, emphasizing the need for rapid support to WMSMEs.

Even before the COVID-19 pandemic, women had a particularly challenging time accessing financing for their businesses, given they are required to include their husband's name and income statements to access a loan and are less likely to be approved by a bank, particularly if they are unmarried, as they are perceived to be riskier borrowers. Evidence shows that this is a systemic challenge (see figure below).

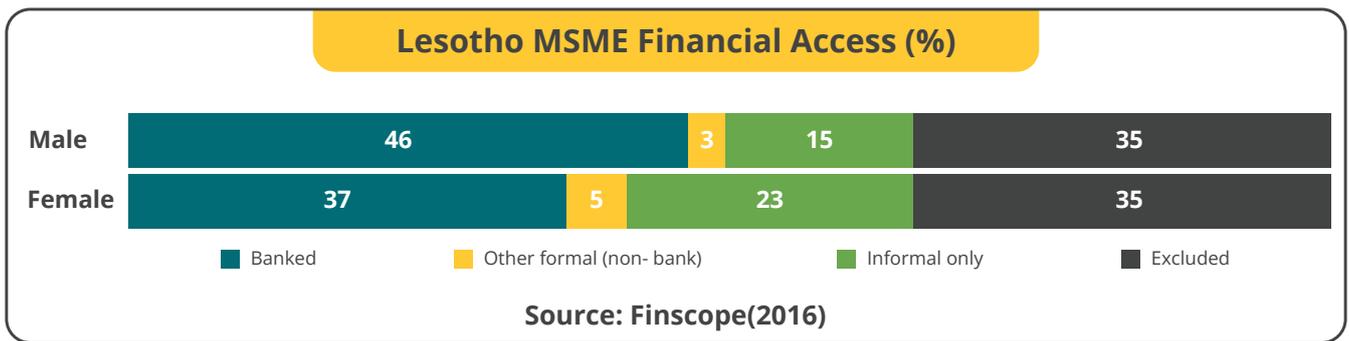
²Lesotho National Strategic Development, 2018/19-2022/23

³Rise International, 2021

⁴World Bank Enterprise Survey 2016

⁵For more details, see [Lesotho: Gender Assessment](#)

⁶World Bank Systematic Country Diagnostic



The World Bank focused on a gender aspect during project preparation and collected sex-disaggregated data through a Pulse Survey of MSMEs post COVID-19 and Focus Group Discussions (FGDs). FGDs were arranged by the Project Management Unit (PMU) leveraging existing connections to local business organizations. These discussions were held with men and women jointly. FGDs revealed significant challenges for firms to gain access to financial services and relief grants – and this was particularly the case for female business owners. These women considered they needed to get their husbands’ permission first before trying to access finance. The Pulse Survey conducted in January 2022 found that micro businesses were least likely to be open and were far less likely to invest in digital technology post COVID-19. The survey also found that only 19 percent of businesses were able to access public support, with the figure dropping to 8 percent for small businesses.

The data revealed that 82 percent of businesses in Lesotho are informal (FINSCOPE) – many of them female-run, and therefore there is a real need to scale up support to informal businesses to help build their resilience to rebound from future shocks.



Photo: © Stephan Gladieu / World Bank

Step 2: Design: Linking Analyses to Project Actions

The significant challenges women face accessing finance will be addressed under Component 1 of the broader project, which seeks to strengthen digital financial service provision and improve access to credit, with a specific focus on WMSMEs.

As mentioned, DRF activities are included under Component 1. They draw upon work pre-dating this project undertaken by the World Bank to help the government establish a COVID-19 relief scheme. This entailed the PMU's coordinating the collection of information on informal businesses, including their mobile money account details, and putting this data into a spreadsheet. The delivery channel was set up for the scheme, but transfers were significantly delayed due to the Government not having resources at its disposal. This data is being used to help inform the design of a MSME Resilience Window that will be incorporated into the government's contingency fund. The window will consider gender differences in the design of eligibility criteria for the window; and will establish targets to ensure WMSMEs receive relief funds in the event of shocks. No more details are available at this time, as the resilience window is still under design.

Step 3: Monitoring & Evaluation: Include sex-disaggregated indicators to help track impacts on women.

The project tracks results for female-run firms via three main indicators. The indicator relevant to the DRF project activities is the first indicator listed below. Other indicators are included below for completeness' sake.



Value of financing (seed funding, grants, partial credit guarantee, credit infrastructure improvements, resilience funding) accessed by enterprises through the program (Amount (USD)) of which is financing accessed by enterprises that are women-owned (Percentage)



Number of firms benefiting from private sector initiatives (Number) of which are women owned (Percentage)



Percentage of enterprises supported by the program with increased revenue in real terms (Percentage) of which are women owned (Percentage)

The project also intends to conduct an impact evaluation during implementation in partnership with the World Bank's Africa Gender Innovation Lab, and to conduct a targeted survey aimed at tracking women's experience of accessing payouts.



Knowledge Nuggets



It is critically important for task teams to work with gender experts as early as possible in project preparation so that there is sufficient time to thoughtfully incorporate gender considerations - not when project preparation is well underway and there is insufficient time due to project approval deadlines.



When undertaking data collection and analysis, it is important to look at gender dynamics because the data will show which gender considerations need to be integrated.



Conducting focus group discussions with female business owners provided rich information about the challenges women experience with accessing finance – this information would not have been possible to gather without conducting focus groups.



Given many women-run businesses are located in rural areas in Lesotho, it is important that there be direct outreach to these small informal businesses to raise awareness about the benefits of being included in a database that compiles information to enable transfer of relief funds. The important point here is that “outreach” and “raising awareness” are critically important complementary activities to ensure that information on women-owned businesses is captured and help women benefit at least as much as men from payouts under a government scheme such as the one in this project. The project will provide support to women during implementation to join the database.