

Stakeholder perspectives of factors contributing to the conduciveness of the business environment of small and medium-sized enterprises in Lesotho



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Background: The business environment for small and medium-sized enterprises (SMEs) in Lesotho faces several challenges, such as weak regulatory frameworks and inconsistent policy implementation. Approximately 85% of imports come from South Africa, creating a significant trade imbalance. This trade deficit hinders local business growth and makes it challenging for SMEs to thrive.

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

Setting: The study was conducted in Lesotho and focuses on SMEs in Maseru, Leribe, Berea and Mafeteng districts.

Methods: 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 by using ATLAS.ti

Results: 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.

Conclusion: The study concluded that government policies and regulations play a pivotal role in shaping a business environment conducive to SMEs.

Contribution: This study contributes to the academic understanding of SME development by exploring stakeholder perspectives of the impact of government policies on SMEs in Lesotho. It reveals how policy implementation issues influence SME practices and identifies contextual factors affecting their success, such as a lack of incentives. It connects the literature on the effectiveness of regulations and empirical findings, thereby offering practical and theoretical guidance in developing SME-tailored support strategies.

Keywords: business environment; Lesotho; SMEs; regulatory frameworks; stakeholder perspectives; sustainability; government policies.

Introduction

The business environment for small and medium-sized enterprises (SMEs) in Lesotho is restricted by weak regulatory frameworks, inconsistent policy implementation and over-reliance on imports from South Africa (85%). This situation results in a constant trade deficit that hinders the growth and development of local SMEs. The economic progress of Lesotho remains insufficient to overcome its vulnerability (African Development Bank 2024a:1–2; Alize le Roux 2024:3–8; Nkabane & Wantchami 2024:20). However, current development projects, such as Millennium Challenge Corporation II (MCC) and The Lesotho Highlands Water Project II (LHWP), offer moderate economic progress with an expected growth of 3% between 2024 and 2025 but a decline of 2% in 2026 (Central Bank of Lesotho 2024:1–2). The African Development Bank is the primary lending arm of the African Development Bank Group. For clarity, this manuscript refers to both as the African Development Bank.

Lesotho is a small lower-middle-income country surrounded by South Africa, with the currency of Lesotho, the loti, fixed at par with the South African rand. Approximately 75% of Lesotho's population resides in rural areas. Its income is supplemented by water royalties from South Africa and revenue from South African Customs Union membership

(African Development Bank 2024b:16; GOL 2025:2–10; International Monetary Fund 2023:85).

Key factors, including economic conditions, technological advancements and political stability, are critical to the success of SMEs (Abdullahi, Odeh & Alaga 2025:36). Small and medium-sized enterprises in developed countries benefit from a stable environment and strong support systems, while those in developing countries operate within poor infrastructure, unstable political conditions and fluctuating economic situations (Nwakpa, Onwuka & Amaefule 2021:349–356).

Several African nations, including Lesotho, face political obstacles, such as inconsistent regulatory frameworks, corruption and unpredictable policies (Duri 2020:1–18). Also, complex administrative policies, public sector corruption, high crime rates and a lack of essential business support services are significant barriers to the SMEs in Lesotho (International Monetary Fund 2023:4–52). Creating vibrant and competitive industrial sectors requires an inclusive and sustainable business environment (United Nations 2024:2–9). This environment must be supported by good governance and institutional reforms that reduce corruption and enhance the ease of doing business (Muhanika 2021:6).

A conducive business environment includes incentives that motivate innovation and increase productivity, which are essential for sustainable development, thus encouraging businesses to operate effectively. However, the Lesotho business environment is characterised by weak 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 challenges make it difficult for SMEs to succeed (Nkabane & Wantchami 2024:17–20; World Bank 2023:3–9). However, little is known about stakeholders' perceptions of the impact of government policies on the SME business environment. This gap limits the ability to develop effective SME-specific policy interventions. This study addresses this gap by exploring stakeholder perspectives on how government policies impact the business environment for SMEs in Lesotho.

By exploring the complexities of policy implementation from the stakeholders' viewpoints, the study aims to reveal both the intended goals of policy documents and the unintended consequences that can affect SMEs' operations. Stakeholders support SMEs' sustainability efforts by offering expertise, monitoring and specialised information that help SMEs navigate the challenges associated with adopting sustainable practices (Ahmadov, Ulp & Gerstlberger 2024:277).

Research problem

Small and medium-sized enterprises are the pillars of economies worldwide, accounting for 90% of businesses and 67% of jobs globally. However, their success is threatened by

numerous challenges in their operating environment (Abdullahi et al. 2025:37; United Nations 2024:2). In Lesotho, SMEs face significant challenges that hamper their development and sustainability, including complex regulations, public sector corruption, insufficient infrastructure and limited access to mentoring, training and finance (African Development Bank 2024b:23; International Monetary Fund 2023:4–52). Governments play a vital role in fostering a business environment conducive to SMEs.

Although many African countries have established ecosystems to assist SMEs, most of these systems have proven inadequate and overly complicated, hindering SME growth (African Development Bank 2024a:64). Additionally, a competitive 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 Southern African Development Community (SADC) average of 0.2 (GOL 2025:11). This situation affects their ability to attract investment, which is essential for sustainability and growth.

Small and medium-sized enterprises are the key drivers of employment and economic growth in Lesotho, particularly in large sectors like textiles, and are increasingly involved in cross-border trade, reflecting global trends (Ojo & Adelakun 2025:1–2). However, government policies have not effectively fostered a conducive environment for the development of SMEs. This state has resulted in low SME survival rates of less than 10% and limited contributions to the economy (Amadasun & Mutezo 2022:2, 2023:1). The government's efforts to improve the business environment have been impeded 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).

Purpose of the study

Therefore, the study investigates stakeholders' perceptions of how government policies affect the business environment for SMEs in Lesotho.

The remainder of the article is organised as follows: Section 2 comprises the literature review. Section 3 presents the theoretical framework. Section 4 outlines the research methodology, including data collection and analysis. Sections 5 and 6 present the results and discuss the findings. Section 7 concludes the study, summarising the key insights and implications.

Research 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.

Research question

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

Literature review

Government policies and the development of small and medium-sized enterprises

The relationship between government policies and the development of SMEs in developing countries is complicated, evidenced by both opportunities and constant challenges. Although the existing literature acknowledges SMEs as critical drivers of economic growth, job creation and poverty alleviation (Amoah et al. 2022:63–64; Chen 2024:123), the effectiveness of supportive government interventions remains contested.

Several research studies highlight the positive effects of regulatory, technical and fiscal measures, citing improvements in market competitiveness, innovation and access to finance (Chen 2024:123). However, these benefits are often hampered by implementation inefficiencies, misallocation of resources and policy inconsistencies, which may even undermine regional development and discriminate against SMEs (Qiong & Premaratna 2025:1–6).

Instead of generally facilitating SME sector growth, government policies usually create a dynamic business environment in which SMEs must face opportunities and constraints. For example, although technical and financial support can stimulate innovation, onerous regulations and administration requirements can restrict the flexibility of SMEs and increase their operating costs. Therefore, SMEs should take advantage of government support while also working to improve their internal management processes. This approach helps the SMEs achieve sustainable long-term development and mitigate any negative impacts (Chen 2024:127).

This duality suggests that the development of SMEs depends on both government action and their adaptive capacity. Sustainable growth emerges when SMEs strategically leverage policy opportunities while also enhancing their potential for sustainable economic development (Amoah et al. 2022:65).

Stakeholder role

The critical role of stakeholders and their pressure in influencing the sustainable practices of SMEs reinforced the above perspective (Baah et al. 2021:100–101). Small and medium-sized enterprises are encouraged to adopt sustainable business models by regulatory requirements, consumer expectations and a desire to make a positive environmental impact. However, financial and knowledge constraints often hinder their responsiveness, indicating a need for collective proactive measures by the government and SMEs (Oliveira et al. 2024:2–3). Active engagement with

stakeholders is important in promoting the sustainable development of SMEs.

Fostering sustainability within the SME sector necessitates the identification of stakeholders and the evaluation of the quality and impact of their contribution. Various stakeholder groups play important roles in supporting the sustainability agenda of SMEs, with financial institutions enabling access to green financing. Therefore, SMEs should critically assess which stakeholders are more relevant to their context to foster relationships that drive the achievement of their sustainable development objectives (Ahmadov et al. 2024:277).

Governments create regulations that promote an eco-friendly environment for businesses; however, the impact varies with the organisation's size and maturity, indicating a need for tailored regulatory requirements (Cantele & Zardini 2020:128–131). Thus, more specific policies that address the unique conditions of SMEs are necessary to enhance the compliance and environmental adaptability of SMEs (Ahmadov et al. 2024:279).

Theoretical framework

This study is anchored in 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, Marzi & Turzo 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 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 attempt to align themselves with the standards, expectations or values imposed by their environment. This perspective helps to explain the relationship between businesses and the institutions and actors within their operational context. Broadly defined, institutions refer to a collection of standards for social or organisational conduct, which can be formal structures 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.

Research methods and design

Research approach

This qualitative study employed a phenomenological approach to explore how government policies affect the business environment for SMEs in Lesotho. This approach was suitable for facilitating an in-depth understanding of participants' experiences, thoughts and feelings regarding the impact of government policies on SMEs. The approach provided insights that other qualitative approaches, such as case studies, do not prioritise.

Research design

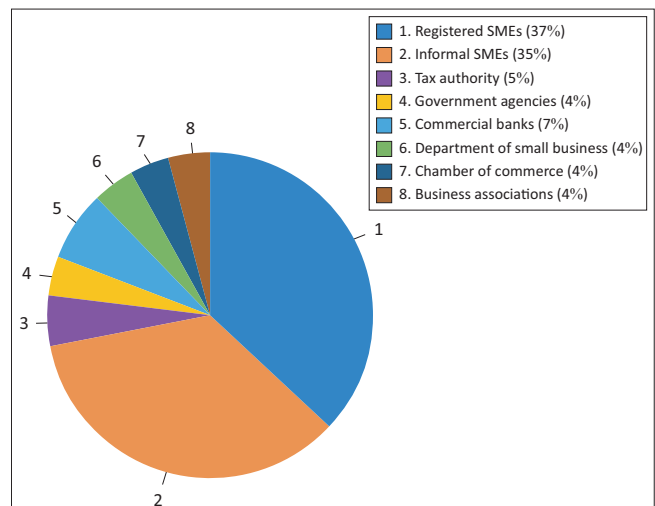
The study followed a cross-sectional design, which enabled observation and measurement of the impact of government policies on the SME business environment in Lesotho at a single point in time with no follow-ups. This design was appropriate for investigating the current perceptions and lived experiences. However, the study acknowledges that this design provides a snapshot of stakeholders' perspectives at one point and cannot account for time-related changes in policy influence. Although longitudinal studies can reveal how perceptions and the impacts of policies evolve, this research offers important evidence regarding the current SME policy environment in Lesotho.

Population and sampling

The study population consisted of registered SMEs and informal SMEs operating in Maseru, Berea, Leribe and Mafeteng districts. The population 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 by using purposive and snowball sampling.

Figure 1 shows the distribution of participants classified by stakeholder groups. There were 17 registered SMEs, 16 informal SMEs, 2 officials from the Department of Small Businesses, 3 representatives of commercial banks, 2 representatives of the tax authority, 2 representatives from the government agencies, 2 representatives of business associations and 2 representatives from the Lesotho Chamber of Commerce and Industry. The sample size in each group was influenced by the saturation point (Mwita 2022:417).

A standardised interview protocol and consistent coding were applied across all stakeholder groups to ensure analytical comparability. Each group was analysed equally, emphasising thematic similarities and differences rather than frequency. Data saturation was assessed iteratively and determined when no new themes emerged within each group. The final sample size of 46 participants, justified by the diversity of stakeholder groups, reinforces the validity of the findings.



ME, small and medium-sized enterprises.

FIGURE 1: Participants' distribution.

Data collection instrument and procedure

Data were collected through semi-structured interviews from 46 participants across various stakeholder groups and were thematically analysed by using ATLAS.ti. The interview protocol was designed to align directly with the research questions and objectives, clearly operationalising the constructs. The same protocol, with consistent pilot testing and interview induction, was maintained to ensure uniform data collection across all participants. Based on individual participants' preferences, interviews were conducted face-to-face or virtually, and each interview lasted from 40 min to 60 min. Additionally, document analysis was used to complement the interview responses and guarantee methodological triangulation. Confidentiality, anonymity and voluntary participation were maintained throughout the study.

Data analysis

Data were analysed by 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. 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.

While the use of ATLAS.ti significantly aided in organising and managing the large volumes of qualitative data (Ñañez-Silva et al., 2024:1), the interpretive dimensions of researchers' analyses were paramount. Initial codes were crafted inductively, with the analytical journey guided by careful consideration of their relevance to this study's research questions (Sharma 2024:124). Data familiarisation involved more than repetitive reading; it was a thoughtful engagement with the material, allowing for the discovery of deeper meanings and insights.

As commonalities were identified, the researcher documented both patterns and the rationale behind coding choices. The codes were organised into subthemes and themes based on similarities. The researcher reviewed themes individually and refined them 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, Lee & Lee 2022:8) as shown in Figure 3.

Data trustworthiness

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 by using in-depth, semi-structured interviews, and only participants familiar with the research topic were purposively selected. This approach helped ensure that only data relevant to the study objectives were gathered. The relevance and clarity of the questions were tested through pilot interviews, and the necessary amendments were made to the interview protocol for the main 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 participants enhanced the breadth and depth of the data collected, allowing for a deeper understanding 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. Collectively, they supported the analytical claims by demonstrating that interpretations are based on participants' perspectives and have been systematically verified.

Ethical considerations

Ethical approval was received from the Institutional Review Board at a large north-western public university on 03 September 2024 with approval number NWU-00683-24-A4. Each participant provided written informed consent, and unique identification numbers were assigned to protect their identities. Data were securely stored in a locked cabinet or on password-protected devices with access limited to the researcher.

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. In this qualitative research, percentages are used to highlight the frequency of a specific theme within each stakeholder group.

Figure 2 shows a word cloud that visualises keywords that frequently appeared in the data, which were then used to discover possible themes (Thelwall 2023:5). This cloud provided a basis for the initial codes. This graphic displays words such as 'SMEs, government, Lesotho, regulations, support, costs, business, challenges, compliance, incentives, registration, and tax'. The frequency of these terms signifies their importance in assessing government policies on the business environment for SMEs.

Figure 3 visualises a network that presents the development and interconnection of the four main themes: policies and regulatory approach, impact of policies on SMEs' performance and engagement, support systems and recommendations for improvement. These were supported by subthemes and key quotations from the data. Seventeen codes were grouped into nine subthemes based on similarities, which contributed to forming the broader themes.

The network 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 improvement theme, which presents solutions suggested by participants, is linked to more subthemes and codes. Its prominence suggests that participants foresee a need for significant and urgent improvements.



FIGURE 2: Frequently used words in study interviews.

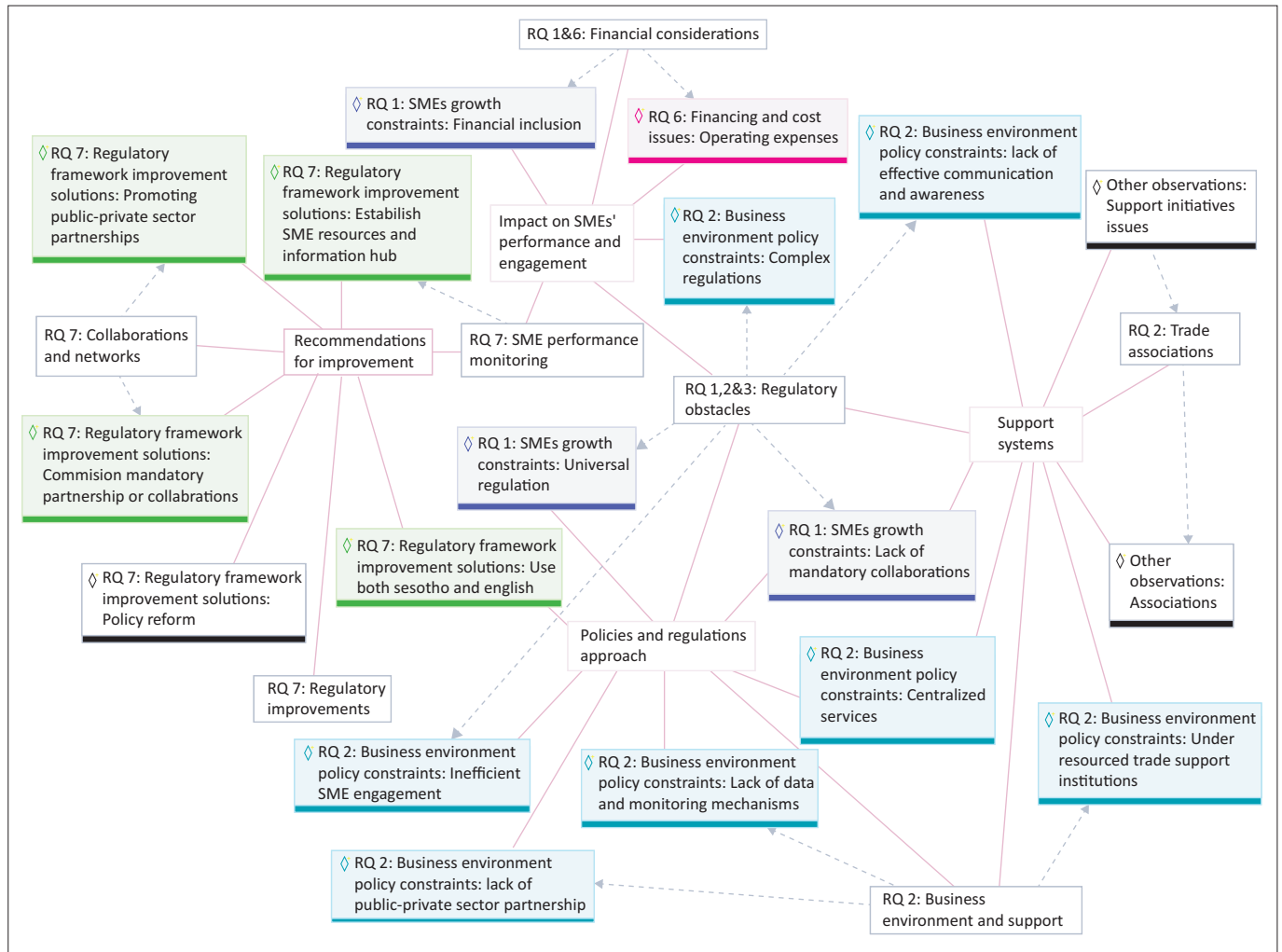


FIGURE 3: Network of government policies on the business environment for small and medium-sized enterprises.

The document analysis presents the distribution and frequency of the codes used in all documents within ATLAS.ti, as shown in Table 1. Table 1 illustrates the popularity of each code. The following codes emerged as the most significant issues across the interviews: policy reforms, operating expenses and financial inclusion. Conversely, support initiatives, issues 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 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 that it may not be a priority for stakeholders.

Theme 1: Policy and regulatory approach

Registered small and medium-sized enterprises

Government policy development was a key concern. Of the registered SMEs, 35% reported that broad, uniform regulations imposed significant compliance pressures. Respondents explained that these regulations did not consider the administrative capacity, operational diversity or sectoral context of SMEs. Consequently, many SMEs

experience compliance burdens that frequently exceed their capacity, leading to selective compliance or non-compliance at times.

Many participants attributed broad-based policies to the exclusion of SMEs from policy discussions, with large companies often seen as representatives of the private sector:

'Lesotho SMEs struggle with regulatory compliance because decisions are made without their input, leading to most losing interest in regulatory matters.' (C002 FM 2025)

Regarding how they stay informed about regulatory developments, a few respondents indicated hiring professionals, such as accountants, while many relied on their peers or the media. The majority indicated that they were not proactive and learn about changes only when required to comply, which intensified compliance pressure.

Informal small and medium-sized enterprises

Of the respondents, 63% identified language as a barrier, saying that policies are predominantly issued in English, while many cited Sesotho as their primary language. Participants viewed English-only policies as inequitable, limiting comprehension for those not fluent in English.

TABLE 1: Analysis of codes by document.

Codes	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
• Other observations: Associations Gr = 12	0	1	0	0	1	3	7	0	12
• Other observations: Support initiatives issues Gr = 66	4	14	9	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	9	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 effective communication and awareness 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

Note: Gr (Groundedness), the number of quotations linked to a code. That is number of times the code appears in the data. GS (Density), the number of relationships a code has with other codes in the network.

RQ, Research question; SMEs, small and medium-sized enterprises.

Many participants reported that their engagement with the regulatory process is limited by the difficulty in understanding policy text and the non-inclusive communication channels used for stakeholder engagement during policy development. Several participants also reported reluctance to engage with new regulations as a result of the perception of exclusion.

Department of Small Business

All participants emphasised that the engagement of SMEs in policy development is mainly through their associations. However, the participants stated that a lack of tailored policies is a key factor in sector stagnation. Participants also indicated that relevant departments lack sufficient data on the performance of SMEs, and broad-based policies undermine both the ability and the motivation to assess the policy impact on SMEs.

Business associations

Several participants noted that development projects are often imposed on SMEs, which they felt reduces SME motivation and engagement and consequently undermines the project's effectiveness.

Tax authority

All participants shared that many SMEs incur penalties, citing limited resources for obtaining professional advice on complex tax requirements. Participants also reported that several SMEs miss out on available tax reliefs or credits, indicating a knowledge gap and ultimately resulting in higher taxes.

Government agencies

All participants reported that high political instability resulted in broad-based policies. They also stated that

political unrest limits efforts and resources needed to assess the effectiveness of existing policies across different economic sectors.

Theme 2: Impact of policies on the performance and engagement of small and medium-sized enterprises

Registered small and medium-sized enterprises

Of the participants, 48% identified limited collaboration among SMEs and with other economic players as a major weakness in Lesotho. Many respondents highlighted several challenges relating to market access, including a lack of innovation. All respondents reported that high compliance costs further constrain SMEs' capacity and financial performance.

Informal small and medium-sized enterprises

Of the respondents, 75% indicated that SMEs' lack of grants and subsidies, low profits and reliance on imports, particularly from South Africa, reduces growth potential:

'Lesotho SMEs take too long to realise their growth potential as a result of very low profits stemming from high operating costs.' (E004 IN 2025)

Banks

All participants indicated that the *Financial Consumer Protection Act of 2022* is effectively implemented, but its impact is limited by related policies. Of the participants, 67% reported that banks' frameworks require loans to be insured; however, local insurers do not cover certain sectors, such as agriculture.

It was noted by 33% that Lesotho SMEs struggle to pursue untapped opportunities in sectors like wool and mohair processing, with government policies seen as partially effective in promoting these markets:

'At the inception of the *African Growth and Opportunity Act*, tax exemptions for foreign investment in wool and mohair processing could have reduced reliance on imports.' (BANK001 2025)

Business associations

All participants stated that the skills gap and the low-skilled labour force increase the import costs for SMEs. Of the respondents, 50% reported that SMEs face high costs and administrative burdens during import clearance, citing a lack of economies of scale:

'Several fruits and vegetables SMEs buying from South Africa suffered double taxation as they were not familiar with the declaration process.' (ASS00 2025)

Department of Small Business

All department representatives shared that the government offers SMEs financial support through programmes like the Lesotho Enterprise Assistance Programme (LEAP), Business Environment Technical

Assistance and Partial Credit Guarantee. However, 50% felt that the limited monitoring and strict conditions hamper the effectiveness of these initiatives:

'The majority of SMEs fail to secure loans as none of these programmes can be used as collateral.' (DEPT001 2025)

Chamber of commerce and industry

Of the respondents, 50% stated that water and electricity costs are high and not subsidised for SMEs. Another 50% indicated that Lesotho's landlocked status increases import costs as a result of the lack of a direct sea route.

Theme 3: Support systems

Tax authority 1

Regarding policy support initiatives, all the respondents noted that Lesotho's SMEs have access to preferential regional markets through trade agreements. These include the Southern African Development Community, the Common Market for Eastern and Southern Africa and the African Continental Free Trade Area. The respondents further noted that these regional agreements offer resource-friendly support for SMEs, surpassing the advantages of international agreements, such as Lesotho's Deutsche Gesellschaft für Internationale Zusammenarbeit relationship.

Department of Small Business

All respondents highlighted that institutions such as the Basotho Enterprise Development Corporation and the Department of Small Business were specifically established to support the SMEs in Lesotho. They also noted that Lesotho previously had a dedicated ministry for SME and that Lesotho's membership in the Southern African Customs Union facilitates access to cross-border markets. However, 50% of respondents highlighted that skill gaps, complex regulations and insufficient support systems hinder this opportunity.

Registered small and medium-sized enterprises

During the interviews, two additional issues were raised: centralised government services and poor communication. Over 75% of the participants felt that support systems fail to serve SMEs in remote areas, noting that the One-Stop Business Facilitation Centre's sole location in Maseru district increases registration and licensing costs for businesses in other districts as a result of additional transport costs. While registration can be made online, many participants reported that the system is complicated and that they 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)

Of the respondents, 55% believe that government initiatives for support do not benefit all SMEs, because of inefficiency and corruption in communication and resource allocation. While many appreciated modern technology, few emphasised

the continued importance of traditional channels, like radio broadcasts and community gatherings, especially in underdeveloped rural areas.

Business associations and the chamber of commerce

All respondents stated that their institutions advocate for SME support policies and serve as the collective voice for private sector businesses. Additionally, several 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)

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)

Theme 4: Recommendations for improvement

Forty-seven H of registered SMEs and 6% of informal SMEs suggested that for government tenders, the government mandates partnerships between large companies and interested SMEs to facilitate skills transfer and SMEs access to resources. Many respondents also advocated for policy reforms that include tailored incentives, subsidies and bilingual (Sesotho and English) policy documents to improve SME compliance and growth. Respondents further suggested establishing an SME resource hub, promoting public-private partnerships to improve communication, resource allocation and SME engagement in policy development. They further recommended implementing a simplified, hybrid business registration process, accommodating diverse sectors and enhancing compliance.

Discussion

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 final theme was recommendations for improvement. 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. Pressure to comply with institutional requirements was tied to maintaining business legitimacy. These issues stifle innovation, limit access to financial resources and constrain economic growth. This outcome is consistent with the findings that SME-targeted support policies facilitate the creation of a conducive business environment and ecosystem (Prasannath et al. 2024:1557).

The second theme (the impact of policies on SMEs' performance and engagement) examines how government policies affect the performance of SMEs and their involvement in decisions that affect their operation. This theme aligns with findings that when SMEs are actively engaged with stakeholders, they are likely to experience improved financial performance, greater competitiveness and contribute more to economic growth (Elpisah 2023:29). 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.

Limited access to these resources indicates legitimacy-based gatekeeping, where government agencies favour businesses that meet compliance requirements. This finding highlights that resource allocation is influenced by institutional norms, leaving informal SMEs disadvantaged even under inclusive policies. Small and medium-sized enterprises 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 for SMEs within the Lesotho business environment. Small and medium-sized enterprises can benefit from programmes like the partial credit scheme and support structures 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 (Ahmadu et al. 2025:47). The existing trade agreements create export market opportunities but require SMEs to demonstrate legitimacy through compliance, which constrains effective accessibility. This condition highlights that benefits remain unequally distributed, strengthening capability gaps between businesses.

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 language barrier appeared as a cognitive institutional barrier, limiting the ability of SMEs to interpret regulatory expectations and compliance requirements.

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

Figure 4 shows stakeholder interest and influence on each theme. The first theme is highly influenced by banks, tax authorities and trade associations. Most stakeholders, except for the Chamber of Commerce, agree that a broad-based policy approach negatively affects the SME business environment. Likewise, all stakeholders, as shown in Table 1, agree that the current Lesotho Government policies do not sufficiently support a conducive business environment for SMEs and recommend policy reforms.

While centralised services may be intended for efficiency, they can hinder compliance by increasing associated costs. For example, 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 tapping into niche markets are significant. Lesotho exports wool and mohair in their raw form. Small and medium-sized enterprises 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. Public-private partnerships are a vital feature of a conducive business environment in developing countries like Lesotho. They promote community engagement and socioeconomic empowerment by involving stakeholders in sustainable development projects (Asuamah Yeboah 2024:10). This activity can improve voluntary compliance, as SMEs may take greater ownership of the development projects.

The perception 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 gap could

result in inefficient policies that could hinder the overall economy, which significantly depends on SMEs (Amadasun & Mutezo 2022:2–6). Likewise, concerns that the implementation efficiency of the *Financial Consumer Protection Act* can be hampered by the insurer's reluctance to cover some sectors also indicate a lack of coherence in related policies, potentially leading to frustration.

Restrictive financial aid conditions, such as LEAP's requirement for SMEs to cover 100% of costs before a 75% reimbursement, render these impractical for mostly financially challenged SMEs, leading to limited uptake and impact. The issue of skills gap and low-skilled labour force may suggest a mismatch between education and the labour market. Prior research indicates that a major cause of this mismatch is the outdated curriculum in many educational institutions and insufficient collaboration with employers, resulting in underutilised human capital and hindering innovation, productivity and economic growth (Narsaria 2025:169; Wei & Yew 2024:60). The curriculum in Lesotho needs reform to better equip graduates with entrepreneurial skills, as the current employment-based approach of the curriculum fails to prepare them to start their own businesses (Thetsane 2024:6).

In June 2025, the government launched the Bacha Entrepreneurship Project in collaboration with Standard Lesotho Bank and Revenue Services Lesotho through the Basotho Enterprise Development Corporation. This initiative offers 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 can fail to meet their needs. Additionally, the absence of SME performance monitoring suggests a lack of assessment regarding the impact 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, Zhao and Zhang (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 related to policy implementation and the unforeseen implications evident in formal policy documents. This study underscores the gap between the intentions of government policies and their actual impact on the business environment of SMEs, thereby elucidating the significant challenges. This study also reinforces previous research indicating that inadequate implementation of government policies contributes to the poor performance of SMEs (Abbas et al. 2024:44; Ahmadu et al. 2025:33). The overall analysis of the findings and

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	●	●	●	●

SME, small and medium-sized enterprises.

FIGURE 4: The stakeholders' levels of themes influence the matrix grid.

literature review as summarised in Figure 5 revealed that the Lesotho business environment remain weak with a fragile regulatory system, political instability, limited access to finance, high tax rates and large informal sector (World Bank Group 2022:9–12).

Synthesis of findings to answer the research question

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 performance of SMEs, 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, such as 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 the way these policies are perceived and experienced by SMEs and key stakeholders. These observations form the basis for the recommendations proposed.

Implications and recommendations

This study highlights the significant role of government policies in shaping a conducive business environment for SMEs, particularly in developing countries where they drive economic growth, innovation and job creation. Addressing issues such as regulatory hurdles, access to finance and establishment of effective support systems and initiatives is essential for SMEs to thrive and make significant contributions to the economy. A conducive business environment benefits individual SMEs and 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, such as the World Bank, on how Lesotho can leverage the SME sector to foster economic growth:

- There is a need to scale local start-ups, enhance SMEs' competitiveness, expand and capture more value within 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).
- The Lesotho government should lower the cost of doing business, align policies with the African Continental Free Trade Area standards and transfer most or all of economic functions to the private sector, allowing it to drive the economy while the government focuses on regulation (World Bank 2025).
- 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.
- The government should offer SMEs financial incentives, such as 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).
- Government policies should be expressed in Sesotho to improve the SMEs' understanding, engagement and communication efficiency. This move can enhance policy implementation, compliance and participation in economic development.
- The Lesotho government should focus on addressing the inherited challenges of being landlocked.

Limitations of the study

The 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.

Directions for future research

It is recommended that future research focus on the impact of SMEs in the other six districts to gain deeper insights. Additionally, future research could compare the

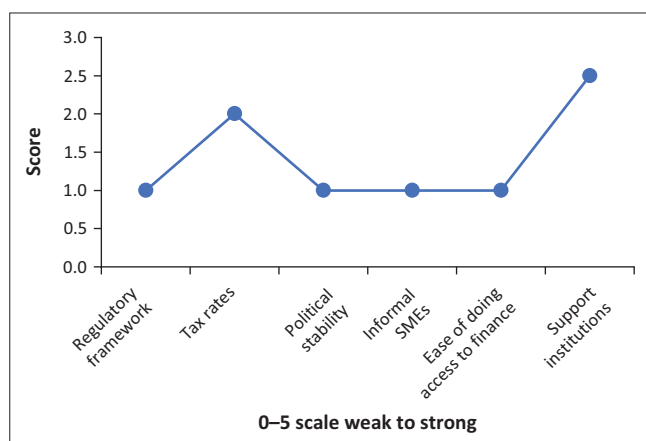


FIGURE 5: The status of the conduciveness of the Lesotho business environment.

conduciveness of the business environment for SMEs in Lesotho with that of other developing countries in the South African region or its neighbouring country, South Africa, to identify best practices and regional insights.

Conclusion

The study concludes that government policies play a pivotal role in shaping a conducive business environment for SMEs. It provides evidence from existing literature and primary data collected for this research. The study offers insights into how government policies affect the conduciveness of the business environment by examining stakeholders' experiences with the regulatory environment, policy frameworks and support systems. A conducive business environment is essential for strong performance, sustainability and overall economic development. The key findings indicated that broad-based policies hinder the competitiveness of SMEs.

Despite several government financial aid programmes, access to finance remains a key constraint as a result of 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 formalisation, 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.

Contribution

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. By exploring the views of multiple stakeholders, this study provides better insights into the factors influencing the development of SMEs in Lesotho. The research deepens academic knowledge, informs policy and provides practical guidance for supporting SME development and growth.

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Competing interests

The authors declare that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

CRedit authorship contribution

Sesema M. Chalitse: Conceptualisation, Formal analysis, Investigation, Methodology, Writing – original draft, Writing – review & editing. Ronnie Lotriet: Conceptualisation, Supervision. All authors reviewed the article, contributed to the discussion of results, approved the final version for submission and publication and take responsibility for the integrity of its findings.

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Data availability

Accessibility of the data supporting the findings of this study is limited only to the researcher, and data are not publicly available, as it may violate consent agreements.

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