

The evolution of the wool and mohair marketing system in Lesotho: Implications for policy and institutional reform



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AFRICAN LIVESTOCK POLICY ANALYSIS NETWORK

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Introduction

1. For over 80 years, wool and mohair sales have provided Lesotho with its largest exports and with its largest domestically-generated sources of income. Presently, fleeces are marketed through any of three outlets: private traders, a government-sponsored marketing service, or, illegally, through smugglers. With the exception of some of the smugglers' purchases, all of the wool and mohair is sold on world markets through a South African farmers' marketing co-operative under the auspices of the South African Wool and Mohair Boards. The proportion of the clip which is marketed through each outlet varies from year to year depending on the level of world prices and on the relative effectiveness of the outlets in responding to stockowners' marketing needs.

2. This marketing system has evolved in response to real or perceived problems with preexisting systems. In addition to private sector marketing, Lesotho has experimented with co-operative societies, parastatal corporations, and government marketing/regulating departments. Some of these institutions have been more successful than others. Since all but a tiny portion of Lesotho's clip is marketed in South Africa, this evolution has had to respond to initiatives from this source as well as from domestic concerns.

3. Evaluations of the efficiency and effectiveness of the present system suggest that there is room for additional adjustment and change. In addition, market structure analysis indicates that the private trading sector has been incorrectly characterized and, consequently, that past reforms have inadequately addressed problems in this area. This paper outlines these evaluations and analyses and seeks to draw implications from them for continued institutional and policy reform. It is hoped that the paper would also provide relevant lessons for the analysis of similar agricultural output marketing problems in other parts of Africa.

Historical background

4. Wool production in Lesotho began in the 1850s, barely 20 years after the founding of the nation by Moshoeshoe I. Basotho acquired woolled Merino sheep through labour migration and employment on South African sheep farms and, sometimes, through stock theft. Wool prices were high at this time and contemporary reports agree that the principal motivation for this acquisition was the cash income to be gained from wool sales. The initiation of mohair production lagged that of wool production by about 20 years. By the end of the 19th Century, however, almost all of the sheep flock and most of the goat flock had been transformed from traditional meat producing varieties to the exotic Merino sheep and Angora goat breeds.

5. This commercialization of small stock keeping parallels a similar upsurge of commercial grain production by Basotho. This grain found ready markets in the neighboring Orange Free State and in the South African diamond and gold fields. By the 1870s, Lesotho was becoming well integrated into the Southern African market economy and was widely described as prosperous. By this time, traders had established over 70 trading stations where the growing agricultural surplus was exchanged for manufactured consumer goods and farm implements. By the 1890s, an additional 50 stations had been established.

6. Competition with cheap Australian and American grain, as well as South African imports against Lesotho's grain exports, severely limited Lesotho's grain exports. In response, Basotho turned increasingly to the complementary pursuits of labour migration and wool and mohair production. Between 1900 and 1931, the Merino population increased ten-fold - from 300,000 to almost 3 million heads. The Angora population increased by a similar factor from about 100,000 to over 1 million. As a result of a combination of severe drought, world economic depression-induced falls in wool and mohair prices, and substantial range degradation from overgrazing, sheep and goat populations fell by one half between 1931 and 1937. They have remained more or less constant ever since.

Evolution of the marketing system

7. The marketing structure seems initially to have been highly competitive with many small traders and itinerant hawkers competing for the farmers' business. Following the Gun War of 1880-81 between the Basotho and the decade-old colonial administration, when a number of traders fled the country or sold their licenses, the trading structure became markedly more concentrated as some traders acquired the licenses and stations of others. In 1920, one trader Frasers (a trading chain in southern Africa), owned 46% of the trading stations in the three most populous lowland districts of Lesotho. Several other traders also had multiple stations and dominated trade in particular locales. This pattern has persisted. In the 1980s, Frasers had about one third of the private licenses for wool and mohair purchases.

8. Providing a measure of competition to the trading stations were the hawkers, or itinerant traders. Initially, although they could not establish permanent trading stations, they were not restricted as to what they could trade in. Because of transport constraints, however, they invariably bought and sold in small lots and operated mostly in the remote areas, distant from the established trading stations. In the first few decades of the 20th Century, there were often as many as four times licensed hawkers as traders. In contrast to traders, who were invariably white, hawkers were often Indian, mixed race, or Basotho. Compared to trading, capital requirements for hawking were relatively low. Profits were lower as well. By the 1950s, hawking declined as hawkers were forbidden to trade in wool and mohair as authorities attempted to control more closely the classing of fleeces.

9. Traders occupied a relative monopoly-monopsony position in their trading locale. The following factors, inherent in the nature of the business or the specific conditions of the trade, contributed to this:

a. Transport was difficult, time-consuming, and expensive owing to the very mountainous terrain. This limited farmers' ability to "shop around" with their clip (if clipped at home) or with their flocks (if clipped at the trader's station). Nonetheless, contemporary reports from the 1920s to the 1960s suggest that some of this was done (Biggs, 1964; Stutley, 1960; Pim, 1935; Sayce, 1924).

b. Capital requirements and risk were high. Traders had to provide wool and mohair storage and classing facilities and they had to advance payment to farmers in anticipation of sales at uncertain prices on the world market in South Africa. One analyst estimated that in 1958 a capital investment of \$154,000 was required for these purposes (Stutley, 1960, p. 233).

In addition to these "natural" constraints on competition, traders instigated several "rent-seeking" restrictions. The most important of these was:

c. Restrictive licensing. As early as 1890, the Basutoland Traders Association (BTA) was formed to lobby the government. It sought to limit the entry of Indian traders into the business, fearing the "unfair" competition of the allegedly narrower Indian trading margins. As a result, Indian traders were largely confined to only one district. The BTA also sought to restrict the number of licenses granted for any one trading location and to limit the number of new entrants into the industry. The government Licensing Board was for the most part sympathetic to these concerns of "over-trading" and "unfair competition" in its granting of licenses. Strict limits on

the number of trading locations in population centres were set while at the same time Basotho and Indian traders were often denied licenses in these areas and pushed out to the less desirable rural locations.

Finally, traders themselves adopted a number of trading practices which effectively limited competition. These included:

d. Provision of credit against commodity sales. Farmers could purchase consumer goods on credit but had to pledge their output as collateral. Although this credit was often useful - even necessary - it did limit the ability of farmers to "shop around".

e. Payment with script or chits. Some traders would not pay cash but would give farmers chits to be used for the purchase of consumer goods in their store. This effectively bound the farmer to sales and purchases from the same trader.

f. Employment of touts to encourage producers to deal with a particular trader. Their impact was ambiguous, however, since they also acted as market intelligence agents and helped to advertise the prices offered by the various traders.

As a result of these factors or practices, there was the widespread belief amongst farmers that traders were taking advantage of them (see, e.g., testimony before the Basutoland National Council, 1964).

10. In the 1950s, the government, seemingly with the urging of the Catholic Church, encouraged the formation of co-operative societies to provide greater competition in the purchase of wool and mohair as well as to eliminate what was thought to be excessively high traders' margins. By 1958, 14 co-ops had been formed. However, they were never able to handle more than 10% of the total clip. Although traders opposed these coops and sometimes even practiced predatory pricing against them, their ultimate failure was more due to their own financial and managerial problems. By the 1960s, most of the cooperative societies established for the purpose had ceased to function.

11. Also in the 19950s, the government found it necessary to respond to Basotho demands for increased participation in trading. Although Basotho held a majority of restricted traders' licenses (which forbade them to purchase wool and mohair), only 3 of the 193 general trading licenses were held by Basotho in 1932. After 1953, no new licenses were issued to non-Basotho, although existing licenses could be transferred to anyone. By 1958, however, still only 14 of the 215 general trading licenses were held by Basotho.

12. At Independence in 1966, the government felt compelled to respond to stock keepers' complaints with institutional reforms to the marketing structure. Although private traders were not forbidden to purchase wool and mohair, the number of licenses issued to this category of traders was greatly restricted. In 1973, the parastatal Livestock Marketing Corporation (LMC) was established to buy wool and mohair through government-established shearing sheds in direct competition with private buyers. This was followed in 1975 by the Lesotho Mohair Industries (LMI) which sought to bypass South African markets and to sell directly to European buyers. Neither venture was successful owing to under-capitalization, lack of adequate personnel and transport, and poor management. As a consequence, large quantities of processed wool and mohair remained unpurchased and the prices paid to farmers were sometimes lower than those offered on the South African markets. Turmoil in the marketing system led some farmers to bypass official channels while others reportedly slaughtered many of their animals.

13. In 1978, the activities of LMC and LMI were terminated and many of their activities were

undertaken by a section of the Ministry of Agriculture, the Livestock Products Marketing Services (LPMS), which continues to operate today. LPMS does not take possession of the clip but acts only as a marketing agent for farmers shearing at government woolsheds. In addition to this, it provides certain regulatory functions including the inspection of the facilities of private traders, the maintenance of classing standards and training of classers, inspection of scales, licensing of private traders, and, in conjunction with traders and the Ministry of Agriculture, the determination of tracers' prices and margins.

14. In 1971, South Africa instituted a one-channel marketing system whereby all wool and mohair, including Lesotho's, are marketed through the South African Wool and Mohair Boards with the farmers' marketing co-operative, Boeremakelaars Koop BKP (BKB), acting as the sole broker. All wool and mohair is pooled by the boards and is sold by a dual-payment system by which farmers are given an advance payment (determined by the boards) before and a post-payment after final marketing. This permits all producers to share equally in the effect of high and low prices, regardless of when their fleeces are sold. A Stabilization Fund, financed by levies on producers, effectively establishes a floor selling price. In addition, Lesotho is eligible for EEC STABEX assistance should its export earnings from wool or mohair fall below an agreed multi-year average. In 1987/88, Lesotho received STABEX support for its mohair sales.

The structure or private trading duo-trading

15. All changes made to the marketing structure to provide more competition in the wool and mohair markets were predicated on two premises. The first was based on an assessment of the constraints to competition and concluded that traders were reaping monopsony (single purchaser) profits from wool and mohair purchases. The second equated high trading margins with high profits and was used to reinforce the first. Neither assumption was correct, however. The first was founded on an incomplete assessment of the market structure within which the trader operated. As a result, the true source of trader profit was not identified. The second incorrectly equated marketing margins with profit markups and failed to identify the legitimate marketing costs that any marketing channel must bear.

16. As a result of these misperceptions, the changes made to the marketing structure have had little impact on traders' profits, except, perhaps, to increase them. Nor, since there were few opportunities for cutting costs (but many opportunities for increasing them through marketing inefficiencies), did they have much impact on raising the prices paid to producers.

17. Although the factors listed above (paragraph 9) did in fact give the trader a (more or less effective) monopsony, there was one other factor of paramount importance which contributed to the prevailing situation: the traders also had a (more or less effective) monopoly in the sale of consumer goods. Farmers sold wool and mohair (and other agricultural produce) to the traders, and with the income thus gained, they purchased consumer goods. Under the circumstances, if the trader did not buy, the farmer could not buy; the more the trader could pay, the more the farmer could spend. ¹

18. If the farmer could be prevented or discouraged from "shopping around" for his consumer goods, the trader could earn monopoly profits from this end of the transaction. Most of the competitive market constraints listed in paragraph 9 above operated just as effectively to reinforce the trader's monopoly as his monopsony position. Especially effective were restrictive licensing, script payment, and debt obligations.

19. Thus, although the trader had a monopsony in agricultural commodity purchases, it was ordinarily not in his interest to take advantage of this. Instead, he would pay a price close to or perhaps exceeding the price that would prevail in a competitive market. It made better business sense for him to take advantage of his monopoly position in the sale of consumer goods. Profits were better made at the sale end rather than the purchase end of the transaction.

20. Most contemporary studies concluded that trade in farm products was, indeed, competitive in outcome (Stutley, 1960; Biggs, 1964; Asthon, 1967). In addition, traders' accounts note the highly speculative nature of the trade, the high marketing costs, and the narrow - even occasionally negative - marketing margins. Traders often complained that they made losses on wool and mohair purchases. Such was not the case in consumer goods sales, however. Contemporary studies of the marketing structure were in agreement that trader's profits from consumer sales were certainly "adequate", if not "excessive" (Biggs, 1964; Ashton, 1967; Tarbox, 1979). Traders themselves testify that this was where the profits were made.

21. Although increased competitiveness in wool and mohair purchasing may have been a necessary reform, it was not sufficient. Nor was it likely to have such positive impact on producers unless changes were introduced to alter the monopoly position of traders in

consumer goods sales.

The present marketing system

22. The present marketing system consists of two official outlets and one unofficial (and illegal) outlet and handles approximately 3400 tons of wool and 800 tons of mohair annually. Each tends to serve a different kind of producer and satisfies the different needs of each client. The relationships between these three outlets are presented in Figures 1 and 2 which also show the approximate proportion of farmers using and of clip moving through each outlet.

(i) Government woolsheds

23. The government operates approximately 100 shearing sheds scattered throughout the country. Although they fall under the auspices of the Livestock Department, their day-to-day administration is in the hands of producer groups known as Wool Growers Associations (WGAs). The number of animals sheared at these sheds varies from year to year depending on market conditions and the timeliness of LPMS payments (see paragraph 24), but recent estimates indicate that the proportions have been in the range of 53 to 63% for sheep and about 55% for goats. These animals are owned by approximately 35 to 38% of the stock keepers. The average sheep flock sheared at government woolsheds is, at 53 head, about twice as large as the national average. The average goat flock, at 31 head; is almost half again as large as the national average.

24. After shearing, classing, and weighing a farmer's wool or mohair, a receipt is issued against the advance (or first) payment by cheque. Although LPMS attempts to get cheques to farmers within a month, delays of up to 3 or 4 months are not uncommon. After the entire clip has been sold, a second payment may be made if the average realized price is in excess of the advance price. If it is not, the difference is made up by the Stabilization Fund. Second payment cheques, which are sometimes substantial, may take a year or more after shearing to reach farmers. Farmers receive interest on these delayed payments. Payment by cheque is necessary to minimize financial irregularities.

25. LPMS acts as the growers' agent with the South African Wool and Mohair Boards. In addition to the functions outlined above (paragraph 13), it bulks wool from the government woolsheds, arranges transport to South African markets, and serves as a conduit for payments. It also operates a fibre-testing laboratory.

26. Prices paid to farmers selling through this outlet are determined by the South African Wool or Mohair Board in consultation with LPMS and are gross of all marketing costs and levies which are deducted by LPMS from both the advance and second payments.

27. Data from surveys of livestock holders conducted at their homesteads and at woolsheds reveal that almost two-thirds of the respondents listed the primary advantage of selling through LPMS to be higher total payment.² In second place, listed by about 20%, was convenience - the government woolshed was either the only outlet or the closest one available. The mayor disadvantage listed, also by about two-thirds of the respondents, was slow payment.

(ii) Private traders

28. Although the number varies from year to year, there are currently approximately 40 private traders licensed to purchase wool and mohair. This is less than one-third the number

operating before government involvement in marketing. Despite the relatively few private shearing sheds, they shear about one-third of the animals owned by about one-third of the stock keepers. Flocks shorn by private traders average 22 sheep and 20 goats. These are, on average, much smaller than the flocks shorn at government woolsheds.

29. In addition to wool or mohair shorn on the premises, private traders also purchase home-shorn fleeces. Although home-shearing is discouraged (because of problems of contamination of fleeces with dirt and difficulties of classing), approximately 15% of animals, owned by 30% of stock keepers, are shorn at home. Home-shorn flocks, at 14 sheep and 11 goats, are a little more than half as large as those shorn by private traders. Home-shearing in general tends to be done in the more remote areas. For the remote area producer, the cost of driving the flock to a shed for shearing is high in terms of time lost and distance travelled. Precise data are difficult to come by but estimates are that about two-thirds of the wool and one-half of the mohair shorn at home are sold to private traders. The remainder is sold to smugglers (see paragraph 32). Thus, traders are purchasing wool or mohair from approximately 50% of smallstock keepers whose flocks are average to below-average in size.

30. Traders' prices are gazetted by the government after a committee of traders and government officials agree on the allowable marketing margin. In the event of disagreement, the government has the last word. This margin makes allowances for transportation and handling charges, shed operation and depreciation, and commission (profit mark-up). In addition, since traders pay cash upon sale, their marketing margin also includes an allowance for the cost of financing the purchase in advance of sale in South Africa.

31. Livestock Holders (LHS) and Woolshed (WS) Survey data (see Swallow et al, 1987 for description) on advantages of marketing to private traders are not so unambiguous as they are for LPMS. Prompt payment receives a plurality of support in one survey, but in another, producers list highest total payment as being the primary advantage. Finally, many producers list the fact that private traders will purchase coloured fleeces (government woolsheds will not) or that they are the only (or closest) purchaser available. As to disadvantages, producers are more in agreement that traders' payments are lower.

(iii) Smugglers

32. Because their activities are illegal, reliable data on smuggling are necessarily difficult, if not impossible, to obtain. Nonetheless, data on the amount of Lesotho-type wool and mohair sold in magisterial districts just outside Lesotho provide upper-limit estimates of the amount of smuggled clip. Such estimates indicate that less than 5% of wool (which has a relatively low value per unit weight) and perhaps as much as 15 to 20% of the mohair (which has a high value per unit weight) may be smuggled. Smugglers purchase fleeces in farmers' villages.

33. Historical data, as well as anecdotal evidence, suggest that smugglers are residual buyers whose business expands or contracts according to the health and efficiency of the two official channels.

34. Before the government got involved in marketing and when hawkers were still purchasing wool and mohair, most smuggling seems to have been done to avoid paying the wool and mohair levy. Today, according to the LHS and WS, producers have a variety of motivations for selling to smugglers:

- a. To avoid costs of driving flocks to shearing sheds or transporting home-shorn fleeces to the market. In this regard, smugglers are fulfilling the function formerly performed by hawkers. This motivation seems to apply particularly to small flock owners in remote areas and to those with a large proportion of low-value, off-colour animals.

b. Because smugglers come to farmers and pay cash, they may be a particularly desirable sales outlet for those requiring ready cash for emergency needs. Although traders also pay cash (and higher prices, as well), there are transportation costs involved in getting it.

c. Smugglers purchase wool and mohair from stolen animals. Proof of ownership must be shown in order to market through official channels but not through smugglers. Survey evidence suggests that perhaps as many as 2 to 3% of sheep or goats may be stolen in any year.

35. The principal disadvantages listed by survey respondents are unreliability and low prices. Given the nature of the trade, this is not surprising.

Relative performance in the marketing structure

(i) Marketing margins and profits

36. Prior to government intervention in the marketing of wool and mohair, there are both theoretical and empirical grounds for believing that private traders did not extract monopsony profits in wool and mohair purchases. Indeed, during a number of years, profits from these transactions were negative (Mokitimi, 1988). While marketing margins were sometimes high, so were storage, transportation and finance costs. In addition, traders faced high risks associated with a volatile market, particularly for mohair. Marketing margins are inadequate indicators of profit levels.

37. Since government intervention began, two factors have operated to enhance the profits of private traders dealing in wool and mohair.

a. The first is the reduced number of traders operating in this market, a factor which has enhanced their monopsonistic position. In addition, traders are rather highly concentrated: seven owned 72% of the trading stations handling wool and mohair in 1986. Although traders now face competition from government woolsheds, survey data suggest that these two outlets serve different kinds of clientele with different needs. Producers requiring traders' services now have to go longer distances to obtain them, if indeed they are available in their area at all. They are, thereby, placed in a less advantageous position vis-a-vis the trader. Although this does not affect the prices paid for a particular class of wool or mohair, it may have an impact on the classes into which fleeces are put. Within limits, traders still have discretion in classing fleeces and there have been numerous claims made, both from surveys and by observers, that traders often downgrade fleeces while classing.

b. The second is the guaranteed commission or profit mark-up allowed by government. This is in addition to an allowance for all legitimate costs incurred in marketing.

38. Until recently, the net prices paid by LPMS and those paid by traders were almost identical. In 1982/83, producers received 65% of the gross wool price by selling to traders and 66% by selling through LPMS. In the same year, those selling to traders received 78% of the gross price for the higher-valued mohair. Those selling through LPMS received 81%. This should not be taken to imply that the two outlets were operating with equal efficiency, however, since many of the operating costs of the government outlet (shed maintenance, staff salaries, LPMS operating costs) are borne by the government and not charged against wool and mohair payments as they are for traders. If they were, net prices paid by LPMS would be in a much less favorable position.

39. Lately, this approximate price parity appears to have somewhat changed. Between 1983 and 1986, traders' allowable marketing charges increased a little over 100% for mohair and almost 60% for wool. During the same period the marketing charges deducted by LPMS actually declined by 12% for mohair and by 7% for wool. Several factors are relevant in this regard: (a) inflation in Lesotho has been running at the rate of between 12 and 16% per annum during this period. Thus, costs overall have been rising; (b) all of the costs incurred by the traders are the counterpart items of government subsidies to producers marketing through

LPMS, or are costs borne directly by WGA members; thus they do not appear as deductions from payment cheques; (c) mohair prices increased by 56% between 1983 and 1985 and then declined by 26% in 1986; wool prices increased by 98% between 1983 and 1986; thus, as a percentage of price, margins increased somewhat for mohair but declined for wool.

(ii) Efficiency considerations

40. For several reasons the government woolshed/LPMS outlet is less efficient than the private outlet:

a. As previously noted, until recently the prices paid to producers using either the LPMS or the private channel were almost the same. Yet most of LPMS's costs were met by government subsidy. Some of the items in LPMS's operating budget have nothing to do with wool and mohair marketing - LPMS also organizes livestock markets and facilitates hides and skins sales, and some expenses are for regulatory or monitoring activities that would need to be undertaken in any case. Nonetheless, since wool and mohair marketing activities are LPMS's major responsibility, it would seem justifiable to allocate at least 50% of its recurrent budget to functions which are otherwise borne by the private sector. In addition, the cost of permanent woolshed staff and woolshed maintenance as well as depreciation are borne by the Livestock Department and donors. Summing expenditures from both sources and dividing by the amount of wool and mohair marketed through LPMS gives a rough estimate of the government subsidy paid per kilogram of fleece marketed through this outlet. The result is about 50 cents per kilogram, or 10 - 15% of the recent price for wool, and between 5 and 15% of that for mohair. Were these costs to be borne by producers, the price advantage of the LPMS outlet would be entirely eliminated and it is likely that much fewer producers would make use of this outlet.

b. With the exception of temporary classers, who are hired for the shearing season, and shearers, who are self-employed, all government woolshed employees are full-time staff. Many of the government woolsheds are used only a few months a year, however, and even the busiest are used for only 8-9 months. During the remaining months, the woolshed as well as 2 or 3 permanent employees at each woolshed are practically kept idle. Not only do private traders usually have a longer shearing season, but also have greater flexibility to reassign their facilities and employees to other tasks during the idle months.

(iii) Equity considerations

41. Government woolsheds serve slightly more than a third of producers. Their flocks are much larger than average and much larger than those of producers selling elsewhere. As discussed in paragraph 40, producers marketing through LPMS have a number of marketing and overhead costs subsidized by the government and, in addition, have recently received higher net prices than those selling to private traders. Thus, the substantial government subsidies are going to the larger producers. This would seem to be undesirable from the standpoint of equity.

Conclusions and recommendations

42. The above review of the evolution of the wool and mohair marketing structure reveals that private traders did indeed hold a relative monopsony/monopoly position in the market and were able to earn monopoly profits from the trade. On both theoretical and empirical grounds, however, there are reasons to believe that this was not earned in the wool and mohair side of the transaction, but in the sale of consumer goods to producers. All reforms to the wool and mohair marketing structure since the 1950s have been predicated on the premise that the wool and mohair trade needed to be made more competitive. Whatever the merit of that premise, because the source of profit was incorrectly identified, these reforms have had little positive impact on the problem. Indeed, government intervention now guarantees traders a profit from wool and mohair sales where none was guaranteed (or as frequently earned) before. As well, several inefficiencies and adverse equity effects have been introduced into the system. It is evident that where monopsony/monopoly conditions prevail, increased competition on the purchasing side of the transaction is a necessary, but not sufficient, condition for the reduction of excess profits.

43. Increased competition in the sale of consumer goods at the wholesale and retail level is also necessary if excess profits are to be reduced. In this regard, government retailers and wholesalers are rarely any more effective than marketing agencies. In Lesotho, restrictive licensing, high capital requirements, and certain anti-competitive practices of traders all contributed to the problems in this area. All of these could have been dealt with by the government short of actually involving itself in marketing. The restricted traders' license (which permitted trade in everything but wool and mohair) went some way towards overcoming the high capital requirements of trading and attracted many aspiring Basotho traders. Special or subsidized credit provisions could also have been provided. The hawkers' license also helped to increase competition. With the dramatic increase in mine wages in the 1970s, many Basotho invested in small rural shops. This proliferation of rural outlets has further increased competition in retail trade. In addition, elimination of anti-competitive licensing restrictions and government policing of anticompetitive practices would increase competition short of direct government involvement in marketing.

44. From the standpoints of both efficiency and equity, most of the product marketing should have been left to the private traders. As with retail trade, competition could have been encouraged by facilitating the participation of new entrants in the market. If special provision had further been made for Basotho entrants, this could have lessened the European predominance in trading.

45. The government should still have a role to play in the wool and mohair marketing system, but it should reduce its present role as a direct participant and concentrate on its regulatory, monitoring and facilitating functions. Additional to the existing functions mentioned in paragraph 13 above, the government, particular, should:

- a. provide a regulatory function to police anti-competitive and dishonest practices and to ensure that minimum standards in grading and packaging are maintained;
- b. provide a monitoring function to gather and analyse data relating to wool and mohair production and marketing so as to keep the industry abreast of trends and developments and to provide guidance to government's livestock development programmes;

- c. operate a market information service to keep farmers apprised of market prices;
- d. train and certify wool and mohair classers;
- e. represent Lesotho's interests in the South African Wool and Mohair Boards, in STABEX determinations, the International Wool Secretariat, the International Mohair Association and other relevant bodies.

46. While this shift of emphasis remains necessary, the government may find it justifiable to operate some marketing outlets, particularly in areas where, for reasons of high cost, traders are unwilling to operate. In this regard, implicit subsidies may be justified in order to extend marketing facilities to all producers.

47. Those shearing sheds for which continued government operation is not justified should be leased to private buyers. This could be a means by which small operators could get into the business and could significantly increase the larger traders' competition.

48. Because they are illegal, most government analyses of the marketing system ignore the role of smugglers. Officials ignore smugglers at their peril, however. Farmers consider the smuggler a very real alternative outlet and are prepared to utilize him when official outlets are unable to meet their marketing needs. In this way, smugglers are not only a bellwether of the marketing system but a last resort for producers.

49. Survey data suggest that many of the functions currently performed by smugglers were previously performed by hawkers. Re-licensing hawkers to purchase wool and mohair should lessen the attraction of smuggling.

Footnotes

1. Mine wages, by providing farmers with an independent source of cash income, provided something of a counterweight to the necessity of traders paying high prices for agricultural goods. Thus, they made it sensible for traders to extract some monopsony profit from growers. Since the miners were mobile and could potentially "shop around", they also provided the miners with the possibility of evading the 'traders' extraction of monopoly profit. These two factors were minimised in importance by the action of the largest, dominant trader in Lesotho who sought to capture the monopoly profits at the South African mine head. Frasers opened consumer goods outlets at the mine compounds and pursued a number of highly effective methods at building strong consumer loyalty (amongst which was the now-distinctive Basotho blanket). Later, when there was the possibility that Basotho retailers might provide competition in the consumer trade, Frasers helped set many of them up in business and then became their wholesale supplier (see Walton, 1958).

2. The first survey, done during the winter and spring of 1985 was a survey of 537 livestock holding households selected randomly from all geo-climatic regions of the country. This survey is described in Swallow et al (1987). This will be referred to as the Livestock Holders Survey (LHS). The second survey was a survey during the 1985/86 wool and mohair shearing seasons of 200 smallstock owners interviewed at government and private woolsheds. This survey is described in Hunter (1987). This will be referred to as the Woolshed Survey (WS).

3. The percentage of home clipped mohair exceeds the percentage of home clipped goats to reflect goats clipped twice a year. Total clip percentages add up to 115-120% to reflect the estimated amount of double-clipped goats. Because double-clipping is not sanctioned, most of these fleeces would be smuggled to market.

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FIGURE 1. The Wool Marketing Network

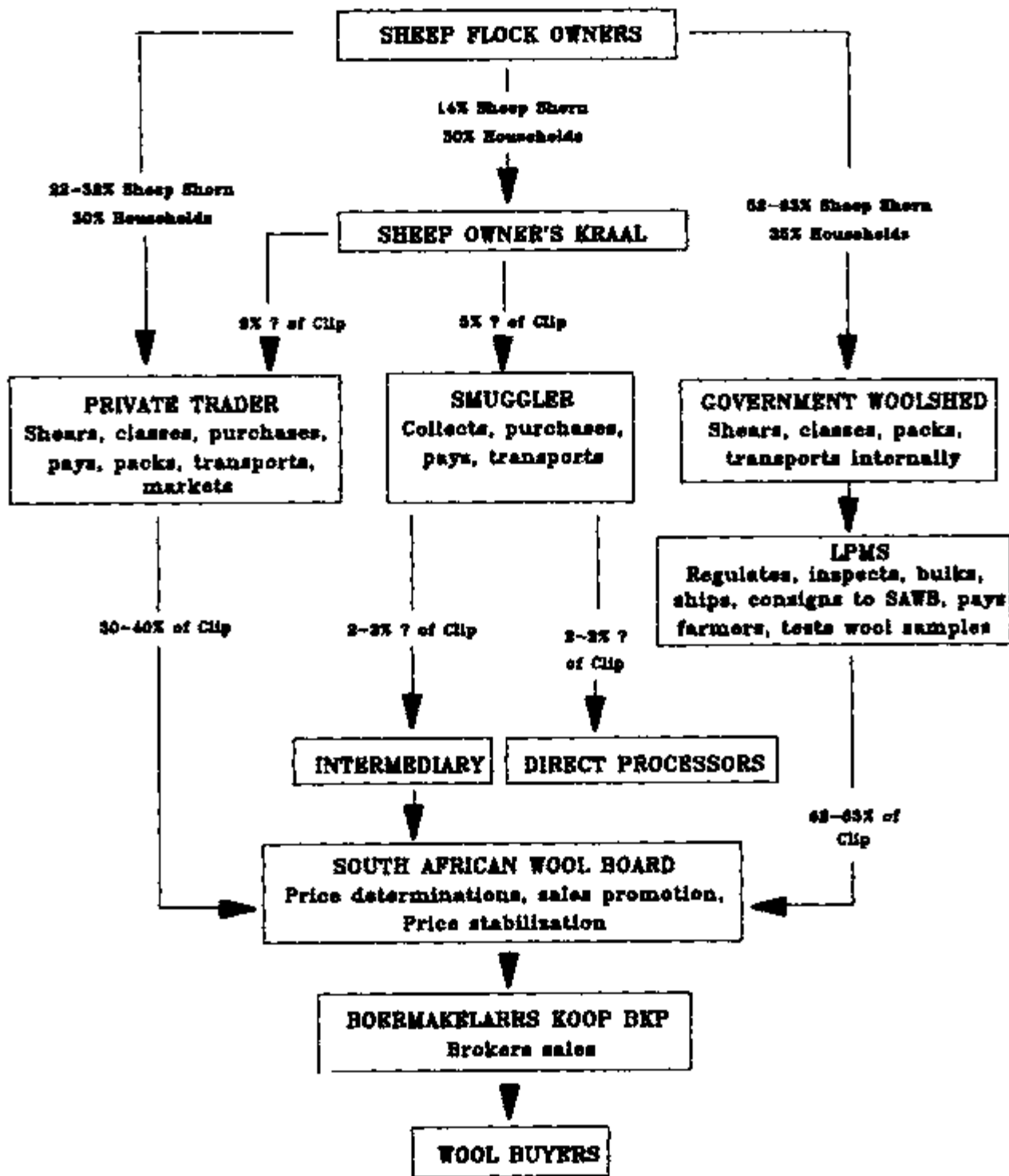


FIGURE 2. The Mohair Marketing Network

