INSTITUTE OF SOUTHERN AFRICAN STUDIES

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SPONSORSHIP

This paper is based on a longer study of Lesotho's wool and mohair industry by Hunter (1987) and on an MSc Thesis at the University of Saskatchewan by Mokitimi (1988). Support for Hunter's research was provided by the USAID-funded Land Conservation and Range Development and Farming Systems Research projects in the Lesotho Ministry of Agriculture and by the IDRC-funded Agriculture Marketing Research Project in the Institute of Southern African Studies at the National University of Lesotho. This latter project also provided the funding for Mokitimi's research. All assistance is gratefully acknowledged. The views expressed in this paper are those of the authors and do not reflect the views of any of the institutions or agencies which have supported this research, nor of the governments of Lesotho, the United States, or Canada.

ACKNOWLEDGEMENTS

The authors would like to express their appreciation to the following people who reviewed earlier drafts of this report: J. Mokotjo, M. Motsamai, D. Khusu, J. Black, C. Drew, C. Weaver, C. Fritsch, M. Lake, K. Showers and A. Anteneh. Their comments were helpful in improving the argument and in avoiding obvious errors of fact or judgement. Remaining errors are the authors'.

ABSTRACT

This paper traces the development of Lesotho's wool and mohair marketing system from one dominated by the private sector in the pre-Independence period to one dominated by government marketing in the post-Independence era. It seeks to assess what practices or market structures generated the longstanding Basotho antipathy towards private sector marketing and concludes that the pre-Independence structure could be characterized as one of "duo-trading", a situation which exists when a trader has a relative monopsony in the purchase of agricultural produce from farmers and a relative monopoly in the sale of consumer goods to farmers. Evidence suggests that traders did not normally exploit their monopsony position in the purchase of wool and mohair. Prices paid were approximately those paid on a competitive market. Instead, with the aid of high sales receipts, they took advantage of their monopoly position to extract higher profits in the sale of consumer goods. Unfortunately, government attempts to reform the marketing structure have failed to take account of the duo-trading structure and have assumed that only a monopsony position prevailed. As a result, they have had little impact on the returns to traders, except perhaps to raise them. As far as farmers are concerned, government intervention has resulted in a dualistic shearing and sales pattern. Farmers with disproportionately large flocks tend to shear at government woolsheds where a variety of implicit government subsidies augment their wool and mohair incomes. Smaller farmers, preferring the immediate cash payments made by traders, pay full, unsubsidized costs and receive relatively lower incomes as a result. Although the present government-private marketing structure operates reasonably well, there are a number of inefficiencies (in addition to inequities) which ought to be addressed by government policy makers. This paper makes some suggestions for overcoming some of these

problems. This is followed by the outline of a proposal for a more wide ranging restructuring of the wool and mohair marketing system.

I. Introduction

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 agent, 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.

This marketing system has evolved in response to real or perceived problems with pre-existing 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.

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. As well, it may have relevance to a more general analysis of agricultural marketing problems in Lesotho.

II. Historical Background

Wool production in Lesotho began in the 1850s, barely 20 years after the founding of the nation by Moshoeshoe I. Basotho acquired wooled 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 behind 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.

This commercialisation of small stock keeping parallels a similar upsurge of commercial grain production by the 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.

Competition with cheap Australian and American grain, as well as South African imposts against Lesotho's grain exports, severely limited Lesotho's grain exports. In response, the Basotho turned increasingly to the complementary pursuits of labour migration and wool and mohair production. Between 1900 and 1931, the Merino population increased 10 times--from 300,000 to almost three million. The Angora population increased by a similar factor from about 100,000 to over one 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. Total small ruminant numbers have remained more or less constant ever since.

III. Evolution of the Marketing System

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, owned 46 percent of the trading stations in the three most populous lowland districts. 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.

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 buy and sell. Because of transport constraints, however, they invariably bought and sold in small lots and operated mostly in the remote areas distant from trading stations. Often in the first few decades of the 20th Century, there were four times as many licensed hawkers as traders. Hawkers were often Indian, mixed race, or Basotho, in contrast to traders, who were invariably white. Compared to trading, capital requirements for hawking were relatively low. Profits were lower, as well. By the 1950s, the authorities attempted to control more closely the classing of fleeces and hawking declined as hawkers were forbidden to trade in wool and mohair.

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:

1. 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).
2. Capital requirements and risk were high. Traders had to provide wool and mohair storage and classing facilities and had to advance payment to farmers in anticipation of sales at uncertain prices on the world market. One analyst estimated that in 1958 a capital investment of M110,000 (1958 prices) was required for these purposes (Stutley, 1960: 233).

In addition to these "natural" constraints on competition, traders pursued several "rent-seeking" constraints. Principal of these was:

3. Restrictive licensing. As early as 1890, the Basutoland Traders Association (BTA) was formed to lobby government on its behalf. 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 the Butha Buthe District. The BTA also sought to restrict the number of licenses granted for any one locale 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 and Basotho and Indian traders were often denied licenses in these areas and granted them in the less desirable rural locales.

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

4. 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".
5. Payment with script or chits. Some traders would not pay cash but would give farmers chits against purchase of consumer goods in their store. This effectively bound the farmer to sales and purchases from the same trader.
6. 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 (Stutley, 1960).

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

In the 1950s, government, seemingly at the urging of the Catholic Church (Stutley, 1960), 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 never handled more than 10 percent of the total clip. Although traders opposed these co-ops and sometimes practiced predatory pricing against them, their ultimate failure was more due to financial and managerial problems of their own making (Biggs, 1964). By the 1960s, most societies had ceased to function.

Also in the 1950s, 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 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, only 14 of 215 general trading licenses were held by Basotho.

At Independence in 1966, 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 was greatly restricted. In 1973, the parastatal Livestock Marketing Corporation (LMC) was established to buy wool and mohair through government-established shearing sheds in competition with private buyers. This was followed in 1975 by 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 personnel and transport, and poor management. Large quantities of wool and mohair remained unpurchased and prices paid were sometimes lower than those offered on South African markets. Turmoil in the marketing system led some farmers to bypass official channels while others reportedly slaughtered many of their animals.

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 and Livestock Products Marketing Services (LPMS), which continues to operate today. This organization has overcome the most glaring problems of its immediate predecessors and has achieved a high degree of acceptance by farmers. 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 traders' prices and margins.

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 growers to share equally in high and low prices, regardless of when their fleeces are sold. A Stabilization Fund, financed by levies on growers, effectively establishes a floor price under sales. In addition, Lesotho is eligible for EEC STABEX assistance should its export earnings from wool or mohair fall below an agreed multi-year average. Lesotho received STABEX support for its mohair sales in 1980, 1981, 1982 and 1987 (personal communication, J. Mokotjo).

IV. The Structure of Private Trading: Duo-trading(1)

All changes made to the marketing structure to provide more competition in wool and mohair markets were predicated on two assumptions. The first was based on an assessment of the constraints to competition which

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(1)This section is based on Mokitimi, 1988.

suggested 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 of this, the true source of trader profit was not identified. The second incorrectly equated marketing margins with profit mark-ups and failed to identify the legitimate marketing costs that any marketing channel must bear.

As a result of these misconceptions, 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 growers.

Although the factors listed above did, in fact, give the trader a (more or less effective) monopsony, there was one other factor of paramount importance: they also had a (more or less effective) monopoly in the sale of consumer goods. Traders bought wool, mohair, and other agricultural produce; the farmers used the income gained to purchase consumer goods. If the trader did not buy, the farmer could not buy; the more the trader could pay, the more the farmer could spend.(2)

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(2)Mine wages, by providing farmers with an independent source of cash income, provided something of a counterweight to the necessity for traders to pay high prices for agricultural goods. This made it sensible for traders to extract some monopsony profit from growers. Since the miners were mobile and could potentially "shop around", wages 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

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 trading relationship. Most of the competitive constraints listed 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.

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.

Most colonial-era studies concluded that trade in farm products was, indeed, competitive in outcome (see, e.g., Stutley, 1960; Biggs, 1964; Ashton, 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 (see Section VI.A). Traders often complained that they made losses on wool and mohair purchases. Such was not the case in consumer goods sales, however. Students of the pre-Independence marketing structure were in agreement that trader's profits from consumer sales were certainly "adequate", although probably not "excessive" (Biggs, 1964; Ashton, 1967; Tarbox, 1979). Traders themselves testify that this was where the profits were made.

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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).

Although increased competitiveness in wool and mohair purchasing may have been a necessary reform, it was not sufficient. Nor was it likely to have much positive impact on growers. Such an impact was dependent on changes to alter the monopoly position of traders in consumer goods sales.

V. The Present Marketing System

The present marketing system consists of two official outlets and one unofficial (and illegal) outlet and handles approximately 3,400 tons of wool and 800 tons of mohair annually. Each tends to serve a different kind of grower and satisfies the different needs and constraints of each client.

A. Government Woolsheds

Government operates approximately 90 shearing sheds scattered throughout the country. Although these fall under the auspices of the Livestock Department and are staffed by department employees, responsibility for various aspects of shearing and marketing are fragmented amongst several organizations. Shearing supervision, classing and dispatch of records to LPMS are the responsibility of the woolshed supervisor, a Livestock Department employee. The determination of shearing schedules and the dispatch of wool and mohair to bulking sheds are in the hands of growers' groups known as Wool and Mohair Growers' Associations (WMGAs).(3) Bulking,

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(3)Wool and Mohair Growers' Associations are organized with the assistance of the Livestock Department, partly to assist with marketing, but principally as a vehicle for flock improvement and extension efforts. In addition, they articulate their members' concerns to the government regarding wool and mohair policy. As a condition of membership, wool or mohair growers are supposed to follow certain recommended practices concerning flock management and improvement. An analysis of 1985/86 LPMS data (Hunter, 1987: 80-85) indicated that WMGA members had significantly larger flocks than others marketing through the LPMS channel. WMGA flocks had, on average, 42 more sheep and 17 transport to market and preparation of cheques are the responsibility of LPMS. Finally, the actual dispatch of cheques to farmers is the function of Livestock officials. This fragmentation of responsibility frequently results in unnecessary delays in payment and makes timely record-keeping difficult.

The number of animals sheared at these sheds varies from year to year depending on market conditions and the timeliness of LPMS payments (see below), but recently has been in the range of 53 to 63 percent for sheep and about 55 percent for goats (Figures 1 and 2). These animals are owned by approximately 35 to 38 percent of the stock keepers (Figure 3). The average sheep flock (53 head) sheared at government woolsheds is 20 percent larger than the national average, as is the average goat flock (31 head). Both are substantially larger than those sheared elsewhere, as Figure 4 makes clear.

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 often, as stated above,

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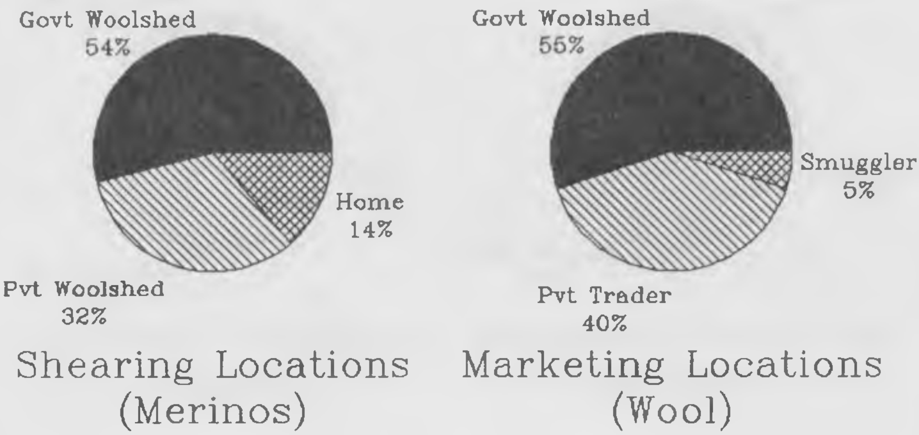
more goats. They also earned approximately 20 percent higher returns per animal. This was the result of both higher fleece weights (a quantity difference) and higher wool/mohair prices (a quality difference). Despite what appear to be beneficial effects of the WMGAs, they affect relatively few wool and mohair growers. According to the above-mentioned data, there were only 4329 sheep-holding and 2504 goat-holding WMGA members in 1985/ 86. They represented about 27 percent of the wool growers and 14 percent of the mohair growers selling through the LPMS channel. The proportion of all growers was smaller: WMGA members represented only about 9 percent of wool growers and 5 percent of mohair growers. Because of disproportionately large flock sizes, however, WMGA members' animals represented a rather larger proportion--at 23 percent of the sheep and 10 percent of the goats--of the total small ruminant population.

Figure 1:
Merino Shearing and Wool Sales
(by location, 1985/86)



Source: Hunter (1987)

owing to factors beyond LPMS' control.(4) 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, however. Payment by cheque has been found necessary to minimize financial irregularities during payout.

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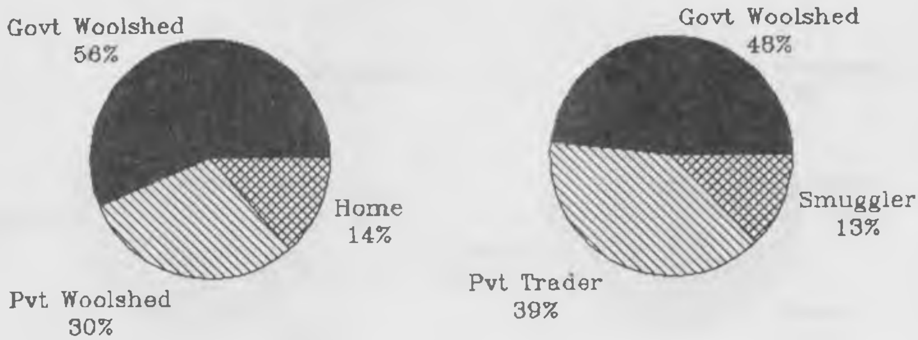
(4)Three independent studies confirm these delays. See the results of a 1986 Woolshed Survey (Hunter, 1987: 161), a 1986/87 survey of wool and mohair growers (Crees and Grimble, 1988), and Musiyambiri's study (1987: VII.2).

Figure 2:
Angora Shearing and Mohair Sales
(by location, 1985/86)



Shearing Locations (Angoras)

Marketing Locations (Mohair)

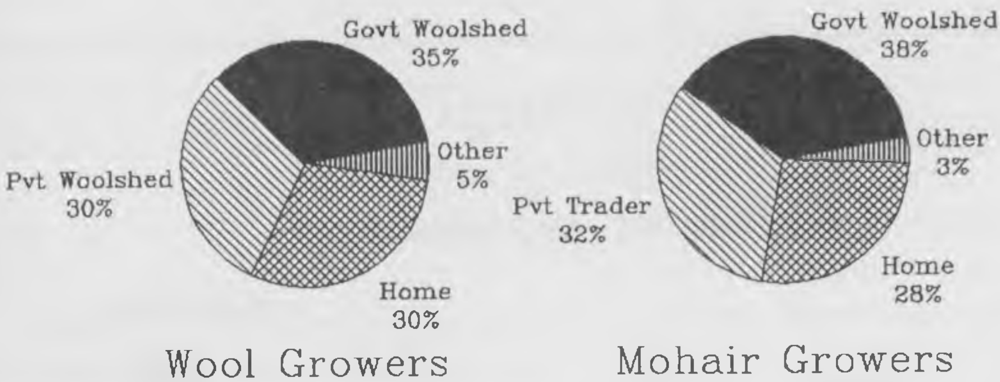
Source: Hunter (1987)

LPMS acts as the growers' agent with the South African Wool and Mohair Boards. In addition to the functions outlined above, 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.

Prices paid to growers 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. These are deducted by LPMS from the both payments before payment to growers.

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

Figure 3:
Percent of Households Using
Shearing Locations, 1985/86



Source: Hunter (1987)

selling through LPMS to be higher total payment.(5) In second place, listed by about 20 percent, was convenience--the government woolshed was either the only outlet or the closest one available. The major disadvantage listed, also by about two-thirds of the respondents, was slow payment.

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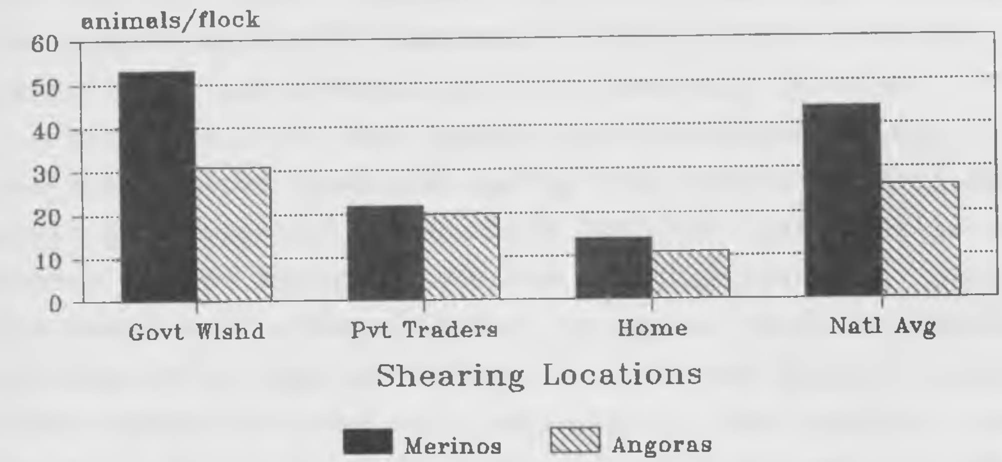
(5)The homestead survey was conducted during the Winter and Spring of 1985. 537 livestock holding households selected randomly from all geo-climatic regions of the country were sampled. This survey is described in Swallow, et. al., 1987, and will hereinafter be referred to as the Livestock Holders Survey (LHS). The woolshed survey was conducted during the 1985/86 wool and mohair shearing seasons. 200 small stock owners were interviewed at government and private wool-sheds. This survey is described in Hunter, 1987, and will be referred to as the Woolshed Survey (WS).

B. **Private Traders**

Although the number varies from year to year, there are currently a little over 40 private traders licensed to purchase wool and mohair. This is less than one-third the number operating before government involvement in marketing.

Figure 4:
Flock Sizes
(by shearing location)



Calculated from LPMS and 1985 Livestock Holders Survey (LHS) data.

Despite the relatively few private shearing sheds, they shear about one-third of the animals owned by about one-third of the stock keepers (Figures 1, 2, and 3). Flocks shorn by private traders average 22 sheep and 20 goats. These are generally much smaller than the flocks shorn at government woolsheds (see Figure 4). 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 percent of animals owned by 30 percent of stockkeepers are shorn at home (Figures 1, 2, and 3). Home-shorn flocks (14 sheep and 11 goats) are a little more than half as large as those shorn by private traders (Figure 4) and tend to be located in the more remote areas. For the owner, the cost of driving the flock to a shed for shearing is high in terms of time lost and distance travelled. Precise data is 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 may be sold to smugglers (see below). Thus, traders are purchasing wool or mohair from approximately 50 percent of small stock keepers. Their flocks are average to below-average in size.

Although it is not known how widespread is the practice, Hunter observed during the course of wool and mohair productivity research in 1987/88 that some larger farmers divide their flocks for shearing between government and private sheds. It seems that one reason for this is to take advantage of both the higher payments of the former and the cash payments of the latter. Some livestock officials have suggested that it may also be to spread wool and mohair payments throughout the year. A farmer with sheep and goats (about 58 percent of small ruminant holders, Hunter, 1989), may thus receive 6-8 payments per year.

Traders' prices, based on first-payment prices announced by the South African Wool or Mohair Boards, are gazetted by Government after a committee of traders and government officials agree on the allowable marketing margin. In the event of disagreement, 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.

The Livestock Holders' Survey (LHS) and Woolshed Survey (WS) data on advantages of marketing to private traders are more ambiguous than they are for LPMS. Prompt payment receives a plurality of support in one survey but in another, growers list highest total payment as being the primary advantage. Finally, many growers 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, growers are more in agreement that traders' payments are lower.

This seeming inconsistency is explained by the different nature of the trader's and government prices. The trader's price is a <u>net</u> price and includes all allowable deductions. The price paid at the government woolsheds is a <u>gross</u> price from which a variety of marketing and transport costs are deducted later when farmers receive their cheques. Since the gross price is higher than the net price, there may be the <u>appearance</u> that government prices are higher than private ones. As indicated below, however, a comparison of <u>net</u> prices paid by both outlets is more ambiguous. In some years, as in the early 1980s, there may be very little difference between the two. At other times, as is the case presently, the difference may be in favor of the government price.

C. <u>Smugglers</u>

Before 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, growers have a variety of motivations for selling to smugglers:

1. To avoid costs of driving flocks to shearing sheds or transporting home-shorn fleeces to 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.
2. Because smugglers come to farmers and pay cash, they may be a particularly desirable sales outlet for those in need of ready cash for emergency needs. Although traders also pay cash (and higher prices, as well), there are transportation costs involved in getting it.
3. Smugglers purchase wool and mohair from stolen animals (personal communication, L. Moteane and M. Machongo). Proof of ownership must be shown to market through official channels but not through smugglers. Although wool or mohair from stolen animals could be shorn at home and sold through official channels, selling to smugglers avoids possibly incriminating documentation and lowers the thief's profile. Survey evidence suggests that perhaps as many as 2 to 3 percent of sheep or goats may be stolen in any year (Hunter, 1987: 117-118).

The principal disadvantages listed by survey respondents are unreliability and small payments. These are not surprising, given the nature of the trade.

Because their activities are illegal, reliable data on smuggling is necessarily difficult, if not impossible, to obtain. Nonetheless, data on the amount of wool and mohair characteristic of Basotho producers sold in magisterial districts just outside Lesotho provide upper-limit estimates of the amount of smuggled clip. By these estimates, less than 5 percent of wool (which ordinarily has a relatively low value per unit weight) and perhaps as much as 15 to 20 percent of the mohair (which ordinarily has a high value per unit weight) may be smuggled. This may change with market conditions, however. The present high wool price, by providing scope for a greater margin, appears to be encouraging wool smuggling to a greater extent than before. 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.

D. Summary

The relationships between these three outlets and their respective functions and activities are diagrammed in Figures 5 and 6. These flow-charts demonstrate the interrelations of the graphs referred to earlier. (Percentages in the right-hand "pie" of Figure 2 differ from those in Figure 6 (marked with an *) because they are based on all of the mohair clip, including the estimated 14 percent which is double-clipped. Because double-clipping is not sanctioned, most of these fleeces would be smuggled--although some private traders may buy in the off-season, store the fleeces and sell them when it is legal).

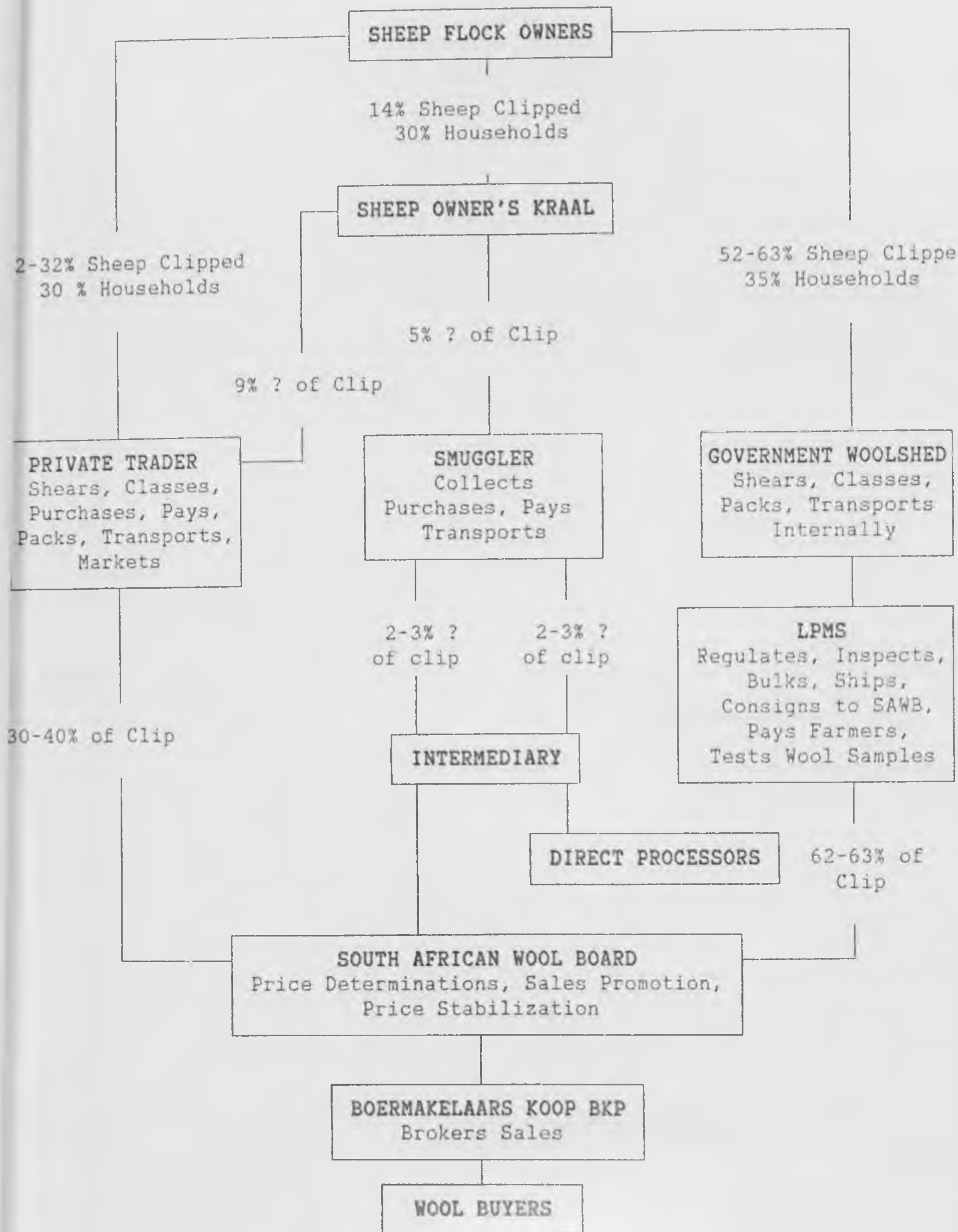


FIGURE 5
The Wool Marketing Network

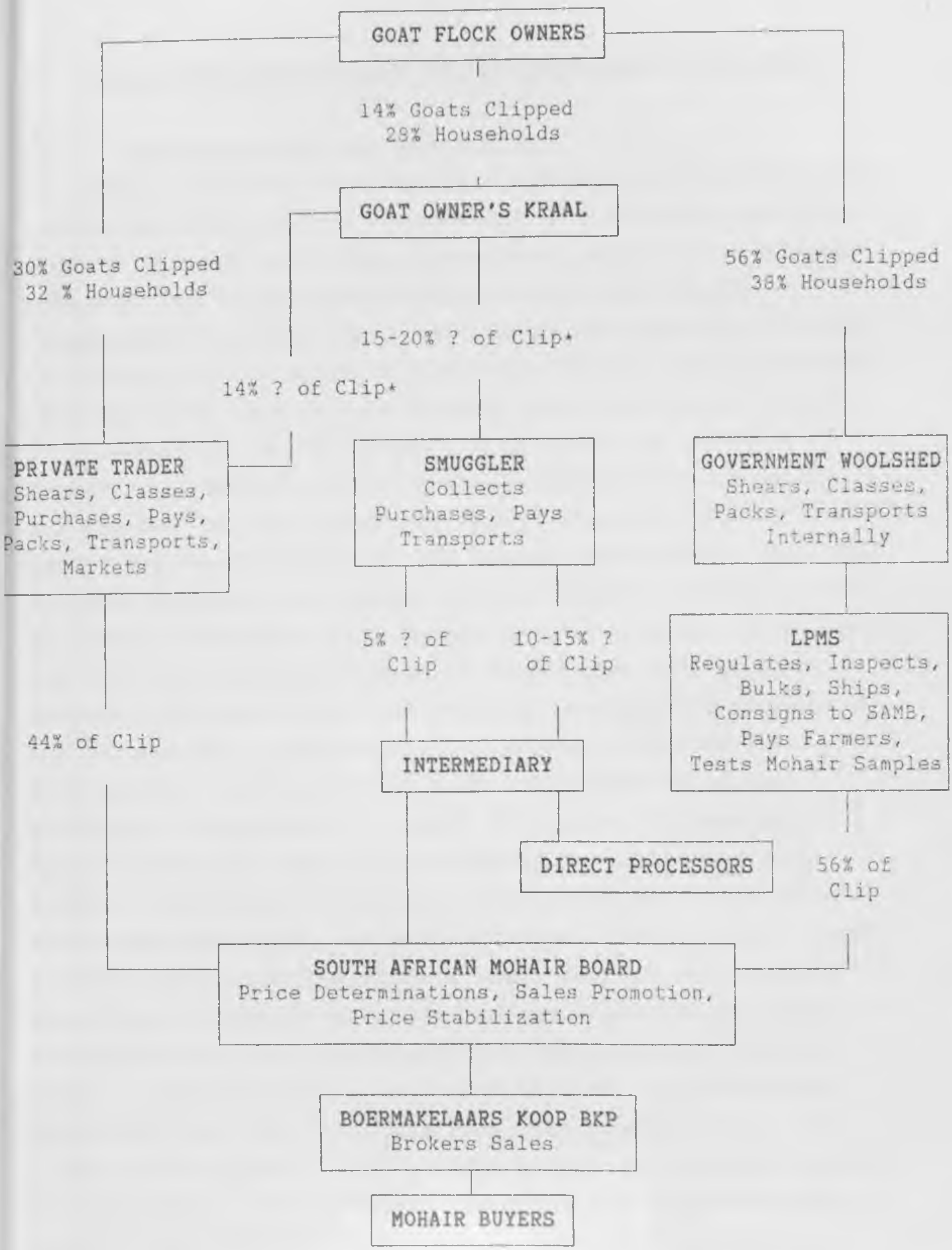


FIGURE 6
The Mohair Marketing Network

VI. Relative Performance in the Marketing Structure

A. Marketing Margins and Profits

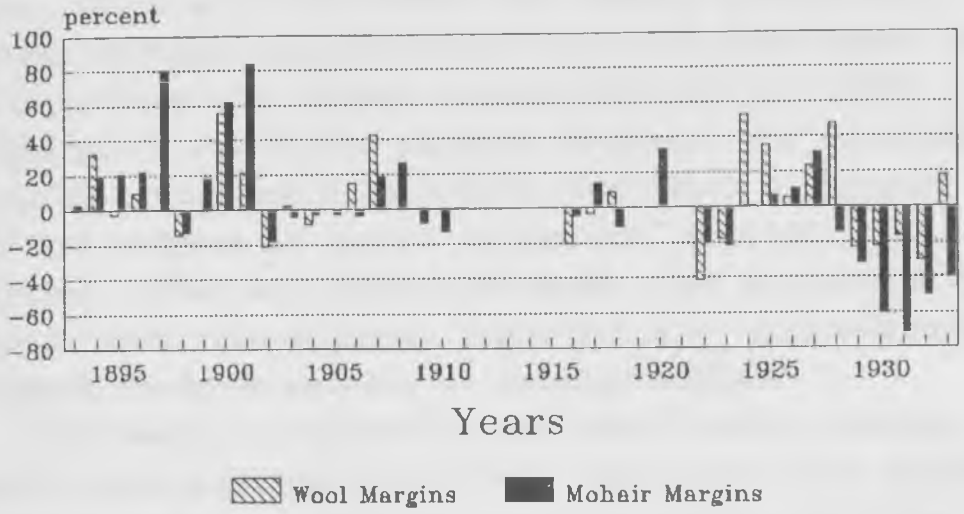
There are both theoretical and empirical grounds for believing that private traders did not extract monopsony profits in wool and mohair purchases prior to government intervention in the marketing of wool and mohair. Comparison of prices paid to farmers and prices received by traders on the auction floors in South Africa between 1893 and 1933 reveals an average gross marketing margin of 5.0 percent for wool and 1.8 percent for mohair (Mokitimi, 1988: 91-92). These margins are abnormally low because of the impact of heavy losses by traders during the early years of the Great Depression. For sub-periods, margins were often rather higher. Between 1893 and 1902, the gross wool margin averaged about 10 percent and the gross mohair margin averaged about 28 percent. Between 1900 and 1910, the margins averaged 11 percent and 13 percent, respectively. Between 1922 and 1933, wool margins averaged 8 percent and mohair margins averaged -22 percent. Indeed, as Figure 7 reveals, negative margins were not uncommon for both wool and mohair throughout the period. While marketing margins were sometimes high, so were storage, transportation and finance costs and the market, particularly for mohair, could be a volatile one, with accompanying high risks. Although there are problems with comparing an average from a highly volatile series with data from selected years and one must not draw too firm conclusions, such comparison suggests that recent marketing margins may be rather higher than earlier. Margins for 1982/83 were about 35 percent for wool and 22 percent for mohair, regardless of the (official) marketing channel used (Hunter, 1987: 166-167). In 1985/86, margins were about 8 percent for wool and 3 percent for mohair for farmers selling through government channels and 20 percent and 11 percent for mohair for farmers selling through private channels. Marketing margins may be high because of marketing inefficiencies or restricted competition, but they usually reflect unavoidable marketing costs. Their magnitude inadequately reflects underlying profit levels.

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

1. 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 percent 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. Hence, they are not strictly competitive. Growers 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 survey responses and by observers, that traders often downgrade fleeces while classing.
2. 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.

In the early 1980s, evidence suggests that the net prices paid by LPMS and those paid by traders were almost identical (see Hunter, 1987: 165). In 1982/83, growers received 64.8 percent of the gross wool price by selling

Figure 7
Gross Wool & Mohair
Marketing Margins (1893–1933)



Source: Mokitimi, 1988

to traders and 66.3 percent by selling through LPMS. In the same year, those selling to traders and through LPMS received 77.8 and 80.8 percent, respectively, of the gross price for the higher-valued mohair.(6) This should not be taken to imply that the two outlets were operating with equal efficiency. Many of the operating costs of the government outlets (shed maintenance, staff salaries, LPMS operating costs) are borne by Government and not charged against wool and mohair payments, as they are for traders. If they were, net prices paid by LPMS would appear in a much less favorable light. For example, Crees and Grimble (1988), estimated that the net price received by growers selling through government woolsheds

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(6)In making these comparisons, farmer or WMGA-borne expenses, including shearing costs (applicable to private and government woolsheds) and internal Lesotho transport and stationery costs (government woolsheds only) were factored in, in addition to the usually reported charges.

in 1985/86 was M 3.08/kg for wool and M 11.95/kg for mohair, while for growers selling to traders the prices were M 2.75 and M 11.08, respectively. Using their estimates for woolshed staff costs but including only one-half of their reported budget for LPMS, as explained below, there was a 35 lisente/kg subsidy for growers selling through the government outlet at that time. Had these growers had to bear these costs (as did their counterparts selling to private traders), the government price advantage would have been completely eliminated in wool and reduced by almost 50 percent in mohair. In addition, Crees and Grimble estimate that growers selling through LPMS have a hidden 4 percent cost disadvantage in interest foregone because of delayed payment.

The earlier approximate net price parity between traders and government woolsheds appears to have altered in the mid-to-late 1980s to the government woolsheds' advantage. Between 1983 and 1986, traders' allowable marketing charges increased a little over 100 percent for mohair and almost 60 percent for wool. The marketing charges deducted by LPMS actually declined by 12 percent for mohair and by 7 percent for wool during this period. Several factors moderate these changes, however: (a) inflation in Lesotho has been running at the rate of between 12 and 16 percent per annum during this period; thus, costs overall have been rising; (b) all of the costs borne by traders are government subsidies to growers marketing through LPMS or are costs borne directly by WMGA members; thus they do not appear explicitly as deductions from growers' cheques; (c) mohair prices increased by 56 percent between 1983 and 1985 and then declined by 26 percent in 1986; wool prices increased by 98 percent between 1983 and 1986; thus, as a percentage of price, margins increased somewhat for mohair but declined for wool.

B. <u>Efficiency Considerations</u>

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

1. As previously noted, until recently the prices paid to growers 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; 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 percent 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 and depreciation are borne by the Livestock Department and by 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.(7) The result

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(7)In recent years, the LPMS recurrent budget has been about M 700,000. Assuming that 50 percent of this goes to wool and mohair marketing, this makes a government subsidy of M 350,000 per annum. In addition, there are approximately 90 operating government woolsheds. Although staff size will vary with size of operation, an average of three permanent staff are assumed: one supervisor earning approximately M 2900/year, one recorder earning approximately M 3000/year, and one classer earning approximately M 2400/year. In addition, sheds employ temporary classers during the shearing season. An average of one per shed, employed for a little more than 5 months per year at M 6.88 per day, is assumed. This makes a payroll of M 747,600 for permanent staff and M 100,000 for temporary employees (we are indebted to P. Makoanyane, LPMS, for helping with these estimates). In sum, a total subsidy of M 1,197,600 is provided to growers marketing is about 52 cents per kilogram, or between 10 and 15 percent of the recent price for wool and between 5 and 15 percent of the recent price for mohair. Were these costs to be borne by growers, the price advantage of the LPMS outlet would be entirely eliminated and it is likely that many fewer growers would make use of this outlet.

2. 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 to 9 months. During the remaining months, the woolshed is idle and the two or three permanent employees at each have little to do. Not only do private traders usually have a longer shearing season, but they also have greater flexibility to reassign their facilities and employees to other tasks during the idle months. Thus, the government woolsheds are using labour less efficiently.
3. Since private traders' woolsheds average a much higher volume than government woolsheds, overhead costs are more widely spread and are cheaper per kilogram of shorn wool or mohair.

C. Equity Considerations

Government woolsheds serve slightly more than a third of growers. Their flocks are rather larger than average and much larger than those of growers selling elsewhere. As discussed above, growers marketing through this outlet have a number of marketing and overhead costs subsidized by government and, in addition, have recently

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through the government-LPMS outlet. Dividing this by the amount of wool (about 1,870,000 kg.) and mohair (440,000 kg.) sold through this outlet, gives the annual average subsidy of about 52 lisente per kg.

received higher net prices than growers marketing to private traders. Thus, the substantial government subsidies are going to larger growers. This would seem to be undesirable from the standpoint of equity.

D. Differences in Wool and Mohair Quality

Some have argued that the quality of wool and mohair fleeces shorn at private woolsheds is poorer than that shorn at government woolsheds and that this counterbalances the seemingly less equitable treatment of farmers patronizing private traders. The evidence does not support this argument. Data recently gathered jointly by the Land Conservation and Range Development Project, the Lesotho Agricultural Production and Institutional Support Project and LPMS (Hunter, forthcoming) shed light on this matter. Despite the fact that wool and mohair fleece weights of government woolshed-shorn adult animals are significantly heavier (by .55 kg for wool and .06 kg for mohair), there are few other significant consistent differences between the two outlets. For wool, differences in crimps/inch, yield and fibre diameter were insignificant at the 5 percent confidence level. Staple length was significant but the average government woolshed advantage was only 4 millimetres. For mohair, yield and fibre diameter were insignificant while staple lengths were, again, significantly different. In this case, however, the advantage was approximately one millimetre to the private woolshed-shorn goat. Data were also gathered on faults, i. e. fleeces that were so kempy or hairy as to be virtually valueless. For wool, 3.9 percent of adult fleeces shorn at private woolsheds were faulty while only 1.3 percent shorn at government woolsheds were. The situation was almost exactly the opposite for mohair, however: 3.6 percent of adult fleeces shorn at government woolsheds while only 2.1 percent shorn at private woolsheds were faulty. In sum, there is no convincing evidence for a significant, unambiguous difference in the quality of the average fleece shorn at the two outlets.

VII. Conclusions and Recommendations

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 growers. 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, at times, earned) before. As well, several ineficiencies and adverse equity effects have been introduced into the system. It is evident that where monopsony/monopoly conditions prevail, increased competition in the purchasing side of the transaction is a necessary, but not sufficient, condition for the reduction of excess profits.

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 product marketing agencies. In pre-Independence Lesotho, restrictive licensing, high capital requirements, and certain anti-competitive practices of traders all contributed to problems in this area. All of these could have been dealt with by 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 aspirant Basotho traders. Special or subsidized credit provisions could also have been provided. The hawker's license also helped to increase competition. In addition, elimination of anti-competitive licensing restrictions and government policing of anti-competitive practices could have increased competition short of direct government involvement in marketing. The dramatic increase in mine wages in the 1970s stimulated many Basotho to invest in small rural shops. This proliferation of rural outlets further increased competition in retail trade.

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 been made for Basotho entrants, this could have lessened the European predominance in trading, as well.

What of the future? There are several opportunities for continued institutional development and reform. At a minimum, the fragmented responsibility for marketing whereby some functions are undertaken by the Livestock Department and others by LPMS should be ended. This leads to payment delays, lack of proper accountability and, ultimately, to inefficiency. Unifying these functions under LPMS would substantially lessen these problems. Steps should also be taken to fully charge users of government woolsheds for the services provided to them. This would eliminate most of the inequity of government subsidies being paid to larger, and more prosperous, stockowners.

While these reforms would go far towards eliminating the inefficiencies and inequities of the present system, for reasons outlined above, it is unlikely that government or parastatal woolsheds can operate as efficiently as private woolsheds. Thus, serious consideration should be given to returning much of the wool and mohair marketing to the private sector. The government would still have a role to play in the wool and mohair marketing system, but it would be concentrated more on regulating, monitoring and facilitating the efficient operation of the private marketing system. In addition to the regulatory functions presently undertaken, government should:

1. provide a regulatory function to police anti-competitive and dishonest practices and to ensure that minimum standards in grading and packaging are maintained;
2. establish procedures for revoking wool and mohair licenses of traders who are persistent in these practices and in non-compliance with these standards;
3. provide a monitoring function to gather and analyze 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 programs;
4. operate a market information service to keep farmers apprised of market prices;
5. train and certify wool and mohair classers;
6. represent Lesotho's interests on the South African Wool and Mohair Boards, in STABEX determinations, on the International Wool Secretariat, the International Mohair Association and other relevant bodies.

While this shift of emphasis is important to a more efficient and equitable marketing structure, the government may, nonetheless, find it justifiable to operate some marketing outlets, particularly in areas where, for reasons of high cost, private buyers are unwilling to operate. In this regard, implicit subsidies may be justified in order to extend marketing facilities to all growers.

Those shearing sheds for which continued government operation are not justified might be leased to private buyers. If preference were given to smaller Basotho buyers, this could be a means by which small operators with smaller amounts of capital could get into the business and could significantly increase the larger traders' competition. It would also help eliminate some of the apparent injustices of the pre-Independence system.

Because smuggling is illegal, government assessments of the marketing system often ignore the role of smugglers. Officials ignore smugglers at their peril, however. Many growers consider the smuggler a very real alternative marketing 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 some growers.

Survey data suggest that many of the functions currently performed by smugglers were previously performed by hawkers. Consideration should, therefore, be given to relicensing itinerant buyers. They could operate as agents of established traders or, perhaps, independently. Relicensing such buyers to purchase wool and mohair should lessen much of the attraction of smuggling by providing legitimate competition to smugglers.

Finally, the competitiveness of any marketing system is enhanced by knowledgeable producers and consumers. In this regard, continued training of wool and mohair producers in standards of classing can only help to improve their competitive bargaining position vis-a-vis buyers and help guard them from being taken advantage of during classing.

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