

FinScope Lesotho 2011



Making financial markets work for the poor

FINSCOPE

Introduction

The Government of the Kingdom of Lesotho, through the Central Bank of Lesotho, recognises that the scope and efficiency of the financial sector play an important role in facilitating economic and private sector growth. In light of this, one of the main objectives of the government is to improve the reach and depth of financial services delivery in Lesotho.

A key constraint in pursuit of this objective has been the lack of comprehensive information about the levels of financial inclusion, as well as the factors inhibiting usage of financial services. Against this background, the Central Bank of Lesotho (CBL) initiated the implementation of the FinScope Lesotho 2011 survey.

The FinScope survey is a research tool which was developed by FinMark Trust. It is a nationally representative survey of how individuals source income, and how they manage their financial lives. It also provides insight into attitudes and perceptions regarding financial products and services. To date, FinScope surveys have been conducted or initiated in 17 countries.

Commissioned by CBL, the FinScope Lesotho 2011 survey was conducted by Ask Afrika, with funding and technical assistance from FinMark Trust. The objectives of this survey were:

- To measure **levels** of financial inclusion (i.e. the proportion of the population using financial products and services – formal and informal);
- To describe the landscape of access (the **types** of products and services used by financially included individuals);
- To identify the drivers of, and barriers to, the usage of financial products and services;
- To stimulate evidence-based dialogue that will ultimately lead to effective public and private sector interventions that will increase and deepen financial inclusion.

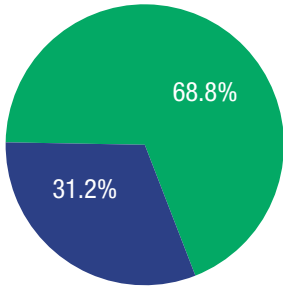


The Kingdom of Lesotho



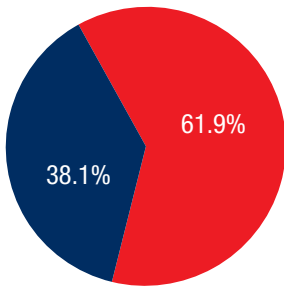


Urban-rural distribution



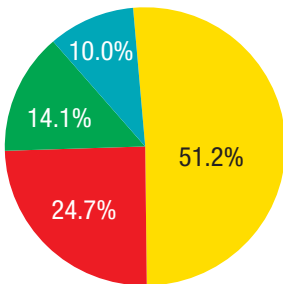
- 68.8% Rural
- 31.2% Urban

Gender distribution



- 61.9% Female
- 38.1% Male

Geographical distribution of the Basotho population aged 18 years or older by ecological zone



- 51.2% Lowlands
- 24.7% Foothills
- 14.1% Mountains
- 10.0% Senqu River Valley

Sample and methodology

- Nationally representative individual-based sample of Basotho aged 18 years and older
- Sample frame developed by the Lesotho Bureau of Statistics (BoS)
- 2000 face-to-face interviews conducted by Ask Afrika
- Survey data was weighted and validated by BoS

Understanding the lives of Basotho

- The majority (69%) live in rural areas
- 39% are under the age of 30 years (an age group that FinScope data shows as not yet economically settled)
- Two thirds (67%) have primary school education as their highest level of education
- More than half (54%) rely on irregular and inconsistent incomes – such as from farming (31%), own business (12%), money from family and friends (11%)
- 12% rely on salaries and wages
- Putting the drive for better financial inclusion in context: daily realities
 - Less than 25% are from households with an own tap (in the home/yard)
 - 26% are from households with no toilet facilities
 - 55% are from households that use charcoal/wood for cooking
 - 31% are from households that use electricity or gas for cooking

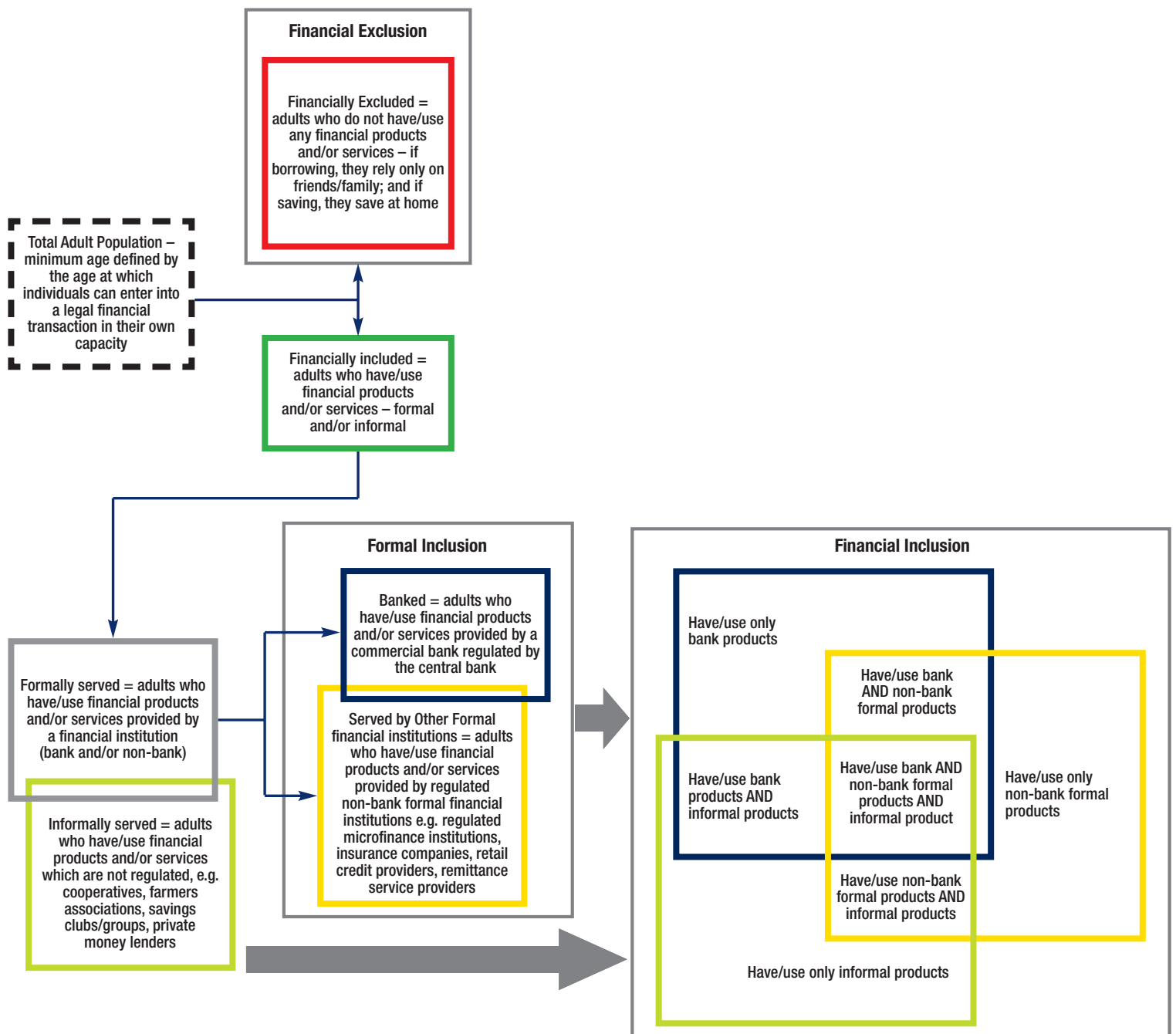


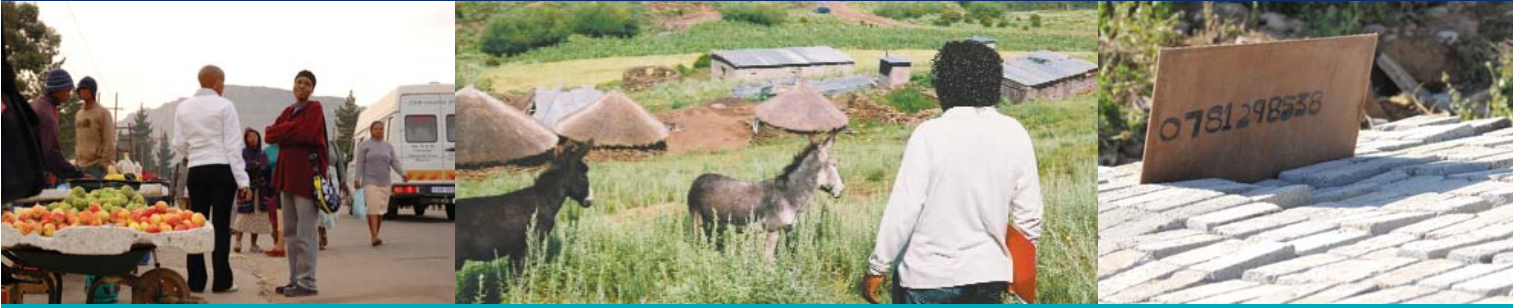


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Financial inclusion

The FinScope survey uses the following categorisation to describe levels of financial inclusion:



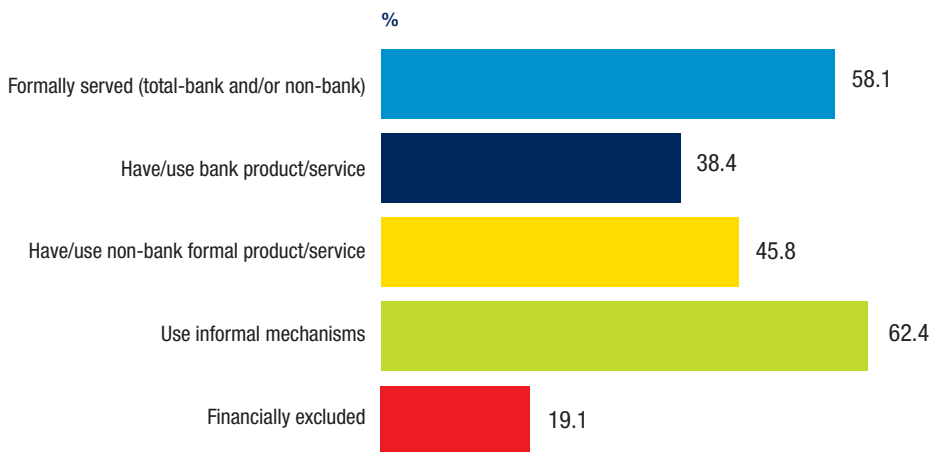


Financial inclusion in Lesotho

As the legal age at which an individual in Lesotho can open a bank account is 18 years, the adult population is defined as all individuals aged 18 years and older:

- 81% of adult Basotho are financially included and 19% are financially excluded
- 58% are formally included
- 38% are banked
- 46% have/use non-bank formal financial products and/or services

Levels of inclusion

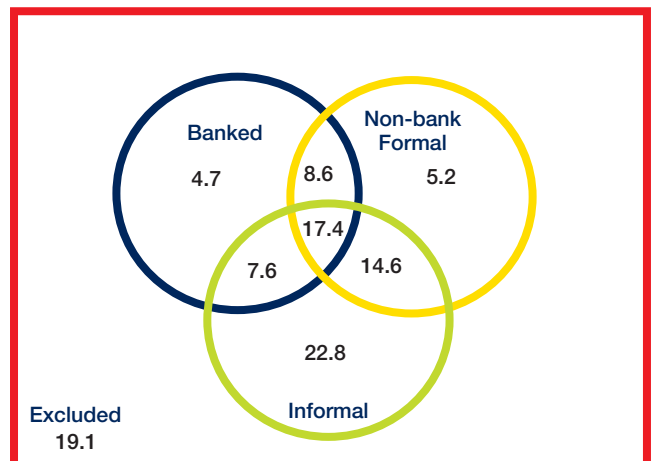


Overlaps in product/service usage

- 88% of Banked adults have/use other financial products/services as well
 - 65% of Banked adults use informal products
- 89% of adults who have/use non-bank formal products/services also have/use other financial products/services

These overlaps suggest that:

- For most of the banked population, bank products/services do not meet all their financial needs
- For two out of three individuals who are formally served, the informal sector either meets a financial need that the individuals are not getting from the formal sector, or it provides additional benefits that are not necessarily financial in nature (e.g. the social aspect of savings clubs)





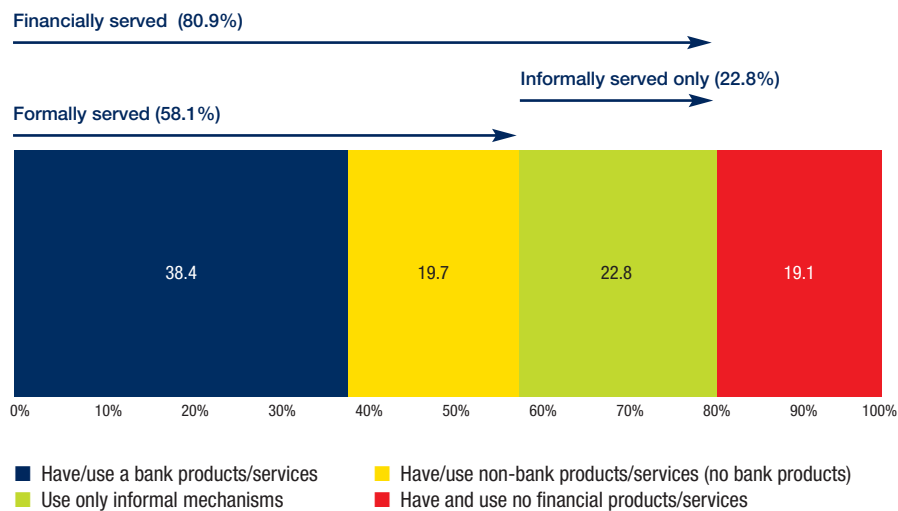
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Access Strand

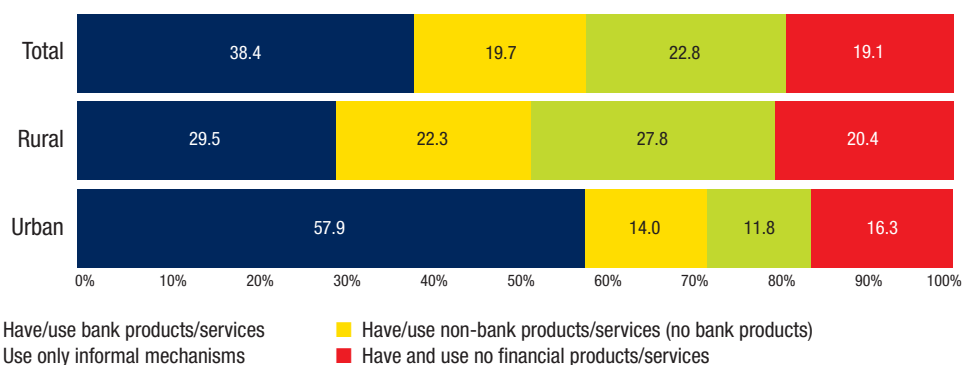
The FinScope approach uses the Financial Access Strand to compare levels of financial inclusion across countries. In constructing this strand, the overlaps in financial product/service usage are removed, resulting in the following segments:

- Financially excluded individuals
- Individuals who have/use informal products/services and no formal products
- Individuals who have/use formal non-bank products/services and no commercial bank products
- Individuals who have/use commercial bank products

The Lesotho Access Strand 2011

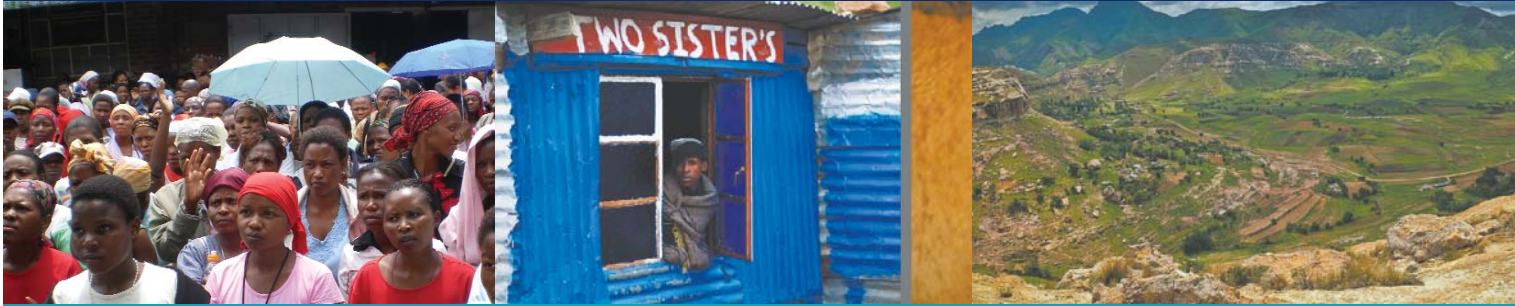


Comparing rural and urban

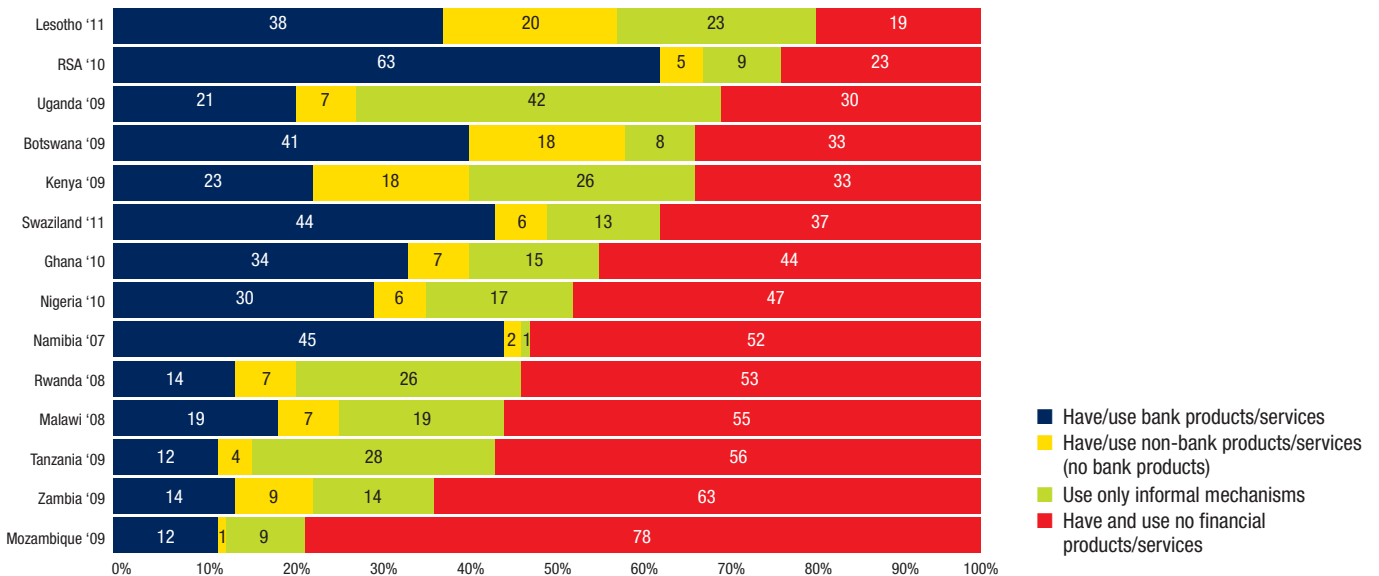


- The most significant difference between rural and urban levels of financial inclusion is in the usage of bank products – 58% of urban adults being banked compared to 30% of rural adults
- The informal sector plays an important role in pushing out the boundaries of financial inclusion, serving 23% of the adult population who are not served by the formal sector
- The role of the informal sector is significantly more pronounced in rural areas

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Comparing levels of financial inclusion with other countries¹



¹ Countries where FinScope surveys have been conducted

The types of financial products and services used

Understanding the levels of financial inclusion is only the first step. While insightful in itself, this understanding is enhanced by exploring the products and services that individuals are likely to have/use within each category of inclusion.

What is driving Banking?

- 87% of banked individuals have/use transactional products
- 86% have/use savings products
- 42% use the bank for remittance purposes
- 10% have/use credit products

What is driving Other Formal?

- 81% of formal non-bank product/service users use insurance products/services
- 31% have/use credit products
- 18% have/use savings products

What is driving Informal?

- 60% of informal product/service users belong to burial societies
- 52% use credit services
- 46% use informal savings mechanisms
- 18% use informal remittance mechanisms

The Landscape of Access

The FinScope approach uses the Landscape of Access diagram to illustrate the extent to which individuals (aged 18 years and older) have/use financial products and services. The diagram depicts, on its five axes, the percentage of adults that have/use:

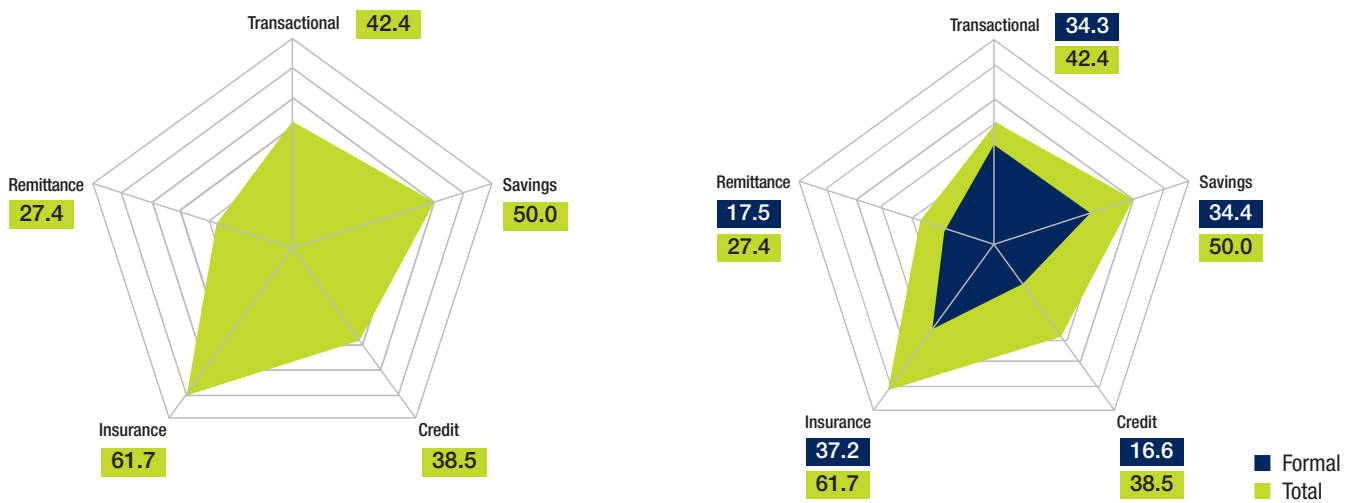
- Transactional products/services
- Savings products/services
- Credit products/services
- Insurance products/services
- Remittance products/services



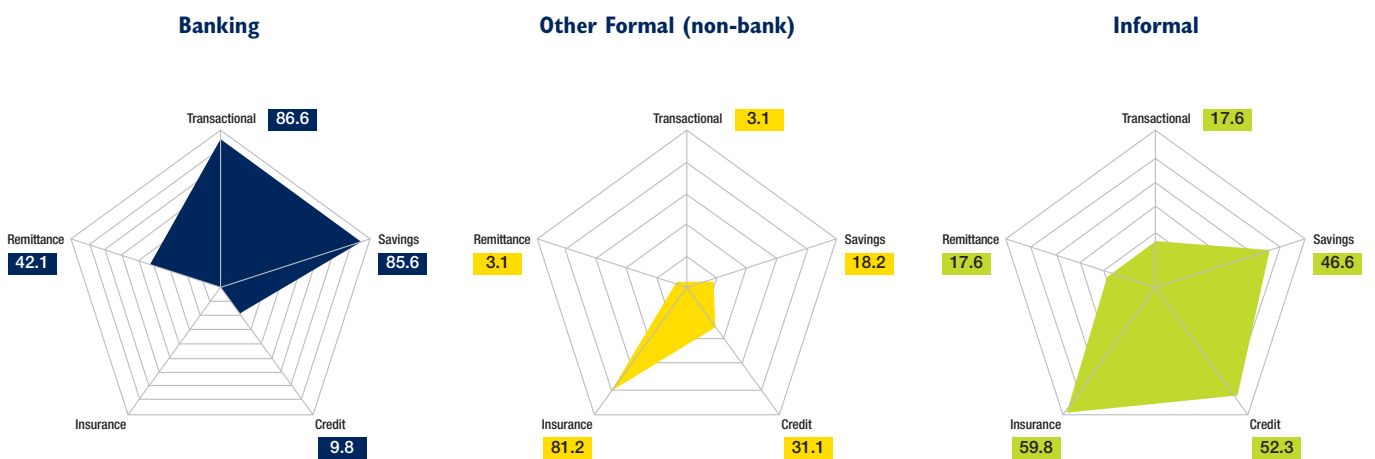
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Landscape of Access – Lesotho 2011

The role of the informal sector in pushing out the boundaries of financial inclusion



The roles of the different financial services sectors in the population*



- The role of the banking sector in Lesotho is mostly transactional and savings oriented
- The role of the non-bank formal sector is significantly skewed towards insurance
- More credit is accessed through the non-bank formal sector than through the banks
- The role of the informal sector is significantly skewed towards insurance, credit and savings

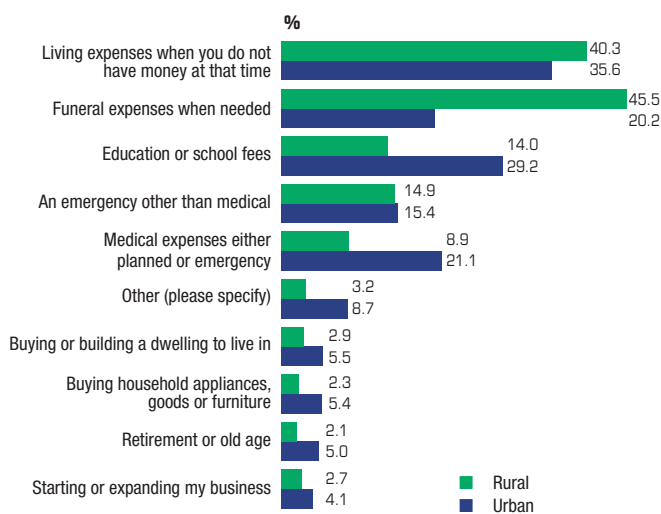
*Formal insurance is classified here as non-bank formal



Saving, borrowing and remitting

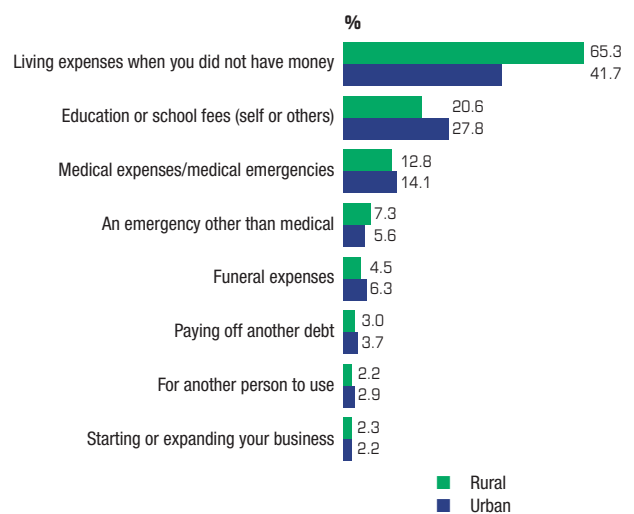
Drivers of savings

51% of adult Basotho claim to save or put money aside



Drivers of borrowing

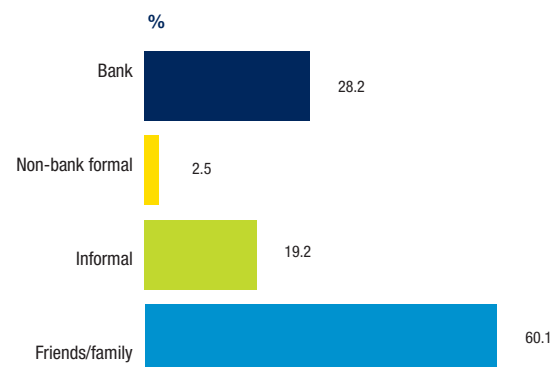
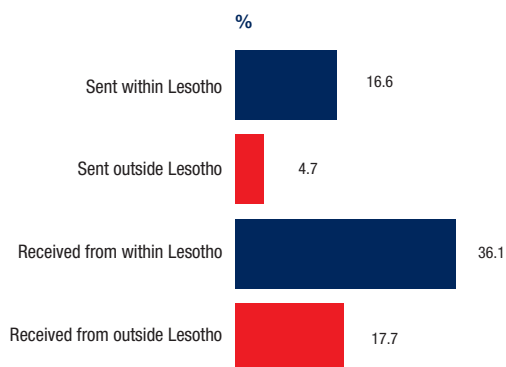
66% of adult Basotho claim to have borrowed in the 12 months prior to the survey



Attitudes to borrowing

- 94% avoid borrowing if they can
- 48% believe it is embarrassing to borrow money or buy on credit
- 21% believe they would not be able to feed their families if they could not borrow
- 20% believe it is okay to borrow to repay existing debts

Remittances (internal and external) and mechanisms



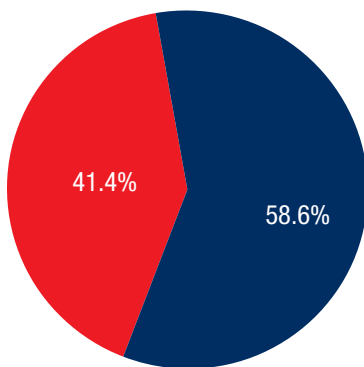
Most of those who sent money did so from within Lesotho, and most of those who received money, received it from someone within Lesotho

Most individuals who remit do so through family/friends
Banks are preferred to informal channels (e.g. sending with taxi or bus drivers)

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Risks and insurance

- 37% have formal insurance
- 72% of those with no formal insurance regard affordability as a barrier



- 41.4% Do not have insurance product/mechanism
- 58.6% Have insurance product/mechanism

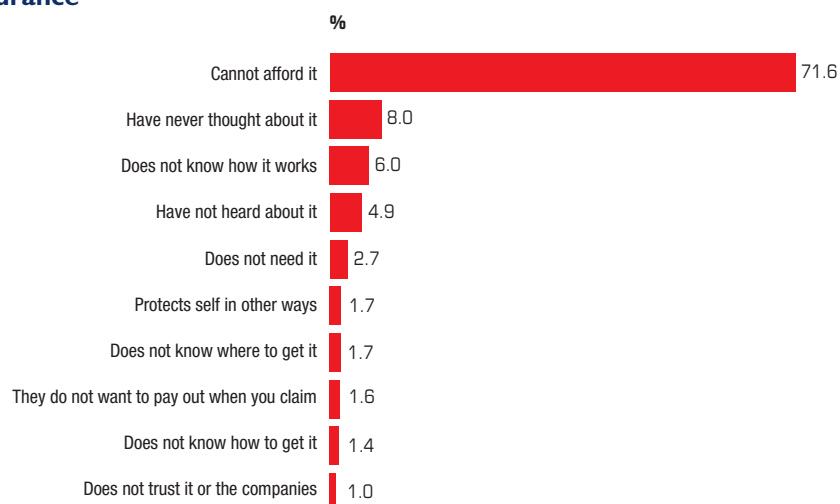
Main risks

- Illness in the household/family that requires medical expenses
- Death of income earner
- Death of family member
- Loss of employment
- Harvest failure

Main coping mechanisms

- Borrowing from friends and family
- Using savings
- Just living on what they had
- Selling assets/crop/livestock

Barriers to insurance





Barriers to financial inclusion

The FinScope survey measures the extent to which the following factors prevent financially excluded individuals from using financial products or services:

Perceived supply-side factors

- Physical access – distance, convenience of operating hours, etc.
- Affordability
- Interest rates – low interest rates for savings products, high rates for credit products
- Service – customer service, processing times, etc.

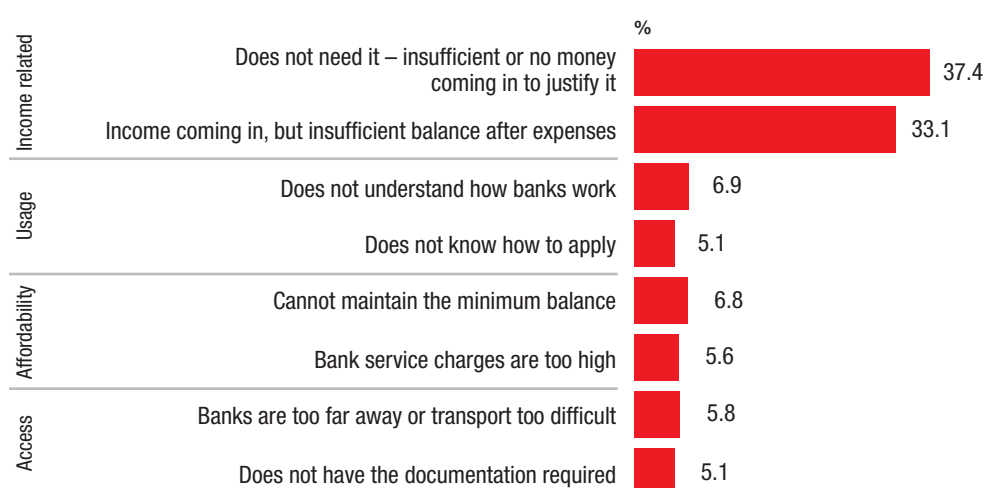
Perceived demand-side factors

- Income – inadequacy of income in terms of regularity/consistency; having nothing left after covering living expenses, etc.
- Usage – attitudes towards financial matters and institutions

Regulatory factors

- Eligibility
 - Perceived eligibility – individuals who are of the perception that they do not qualify to use the products/services offered by financial institutions
 - Know Your Customer (KYC) requirements – individuals who do not have both proof of identity and proof of residence

Barriers to banking in Lesotho



- Demand-side barriers, specifically those that are income-related, are more likely to be perceived as a barrier to banking than supply-side barriers.
- In terms of supply-side barriers, physical access, affordability and documentation are more likely to be perceived as barriers.



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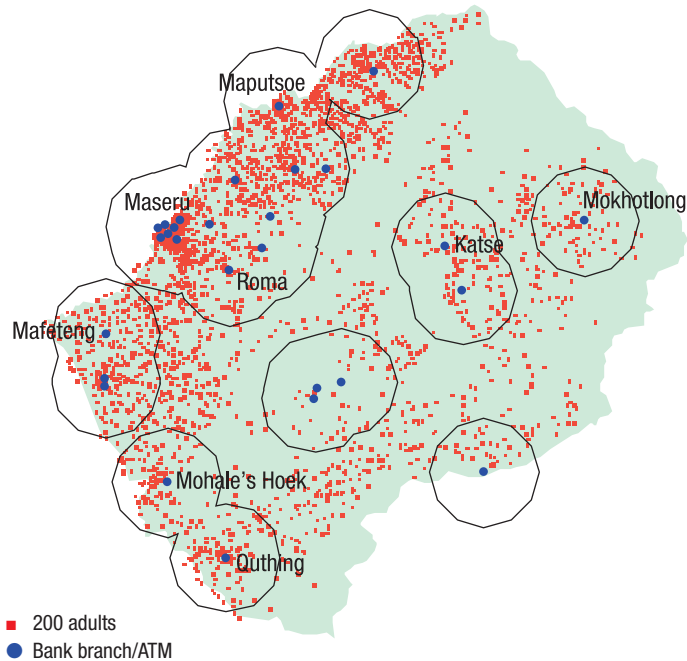
FinScope Lesotho 2011: Key take-outs

- The population of Lesotho is faced with the reality of having to rely on low levels of income - often from sources that provide an irregular or inconsistent flow of money.
 - One in three adults rely on salaries/wages or a private pension;
 - One in ten is dependent on the Government for an income (in the form of government pension or social grants);
 - More than half of the adult population rely either on farming, their own businesses or remittances as a source of income.
- In spite of this situation however, the level of financial inclusion in Lesotho is unexpectedly high with only 19.1% of the adult population being financially excluded.
- The main reason for the high level of financial inclusion is the high level of usage of products related to funeral cover:
 - 62.4% of the adult population use informal financial mechanisms (which in itself is significantly higher compared to other countries where FinScope surveys have been conducted). 60% of these individuals use the informal sector for funeral cover through burial societies;
 - 45.8% of the adult population have/use non-bank formal products/services. Once again this is significantly higher when compared to other countries where FinScope surveys have been conducted. 81% of these individuals have funeral insurance.
- Although the usage of funeral cover is a significant driver of the high level of inclusion, this is not the only driver – without funeral cover, the level of inclusion will still be high at 66%.
 - The proportion of the banked population is high (38%), although most individuals using bank accounts have/use transactional and savings type facilities. Almost half (42%) of the banked population use their bank accounts for **remittance** purposes;
 - Although the high usage of non-bank formal products/services and informal mechanisms is mostly driven by funeral cover as mentioned above, a significant proportion of those who use these, do so to gain access to **credit facilities** offered by non-bank formal institutions and by the informal sector.
- 31% of those who use non-bank formal products, use credit products (i.e. microfinance).
- More than half (52%) of those who use informal mechanisms use informal sources of credit.
- One could easily attribute the high levels of financial inclusion in Lesotho to the fact that in terms of land size and population, Lesotho is a relatively small country with just more than one million adults to serve financially. Providing access to financial services might therefore be relatively less problematic than in most other countries. However, an assessment of the **type of services and products** used by **formally** served individuals seems to indicate that non-bank formal service providers, in particular, are doing something right in terms of reach; certainly as far as addressing a need for insurance provision and microfinance is concerned.



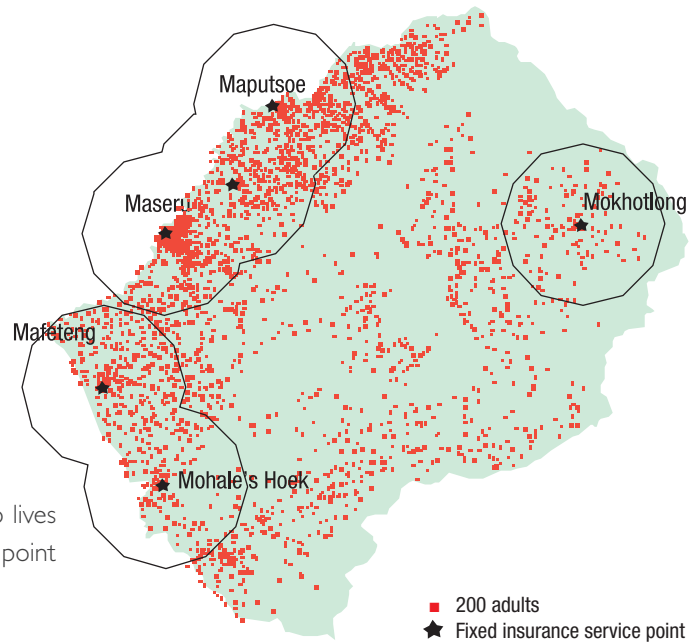
Geographical access

The maps below indicate that physical access to financial institutions might not be a significant barrier in Lesotho.



■ 68% of the adult population of Lesotho lives within 20km of a bank branch or ATM

■ 56% of the adult population of Lesotho lives within 30km of a fixed insurance service point



Contact

For further information about the FinScope Lesotho database, please contact:

Ntee Bereng (Mrs)
 Head – Non-Bank Supervision Division
 Central Bank of Lesotho
 Email: nbereng@centralbank.org.ls
nbereng@gmail.com

Trevor Kaseke
 Email: trevork@finmark.org.za

Tel +27 11 315 9197 | Fax +27 86 518 3579
www.finmarktrust.org.za | www.finscopeafrica.com

Tel +266 22232041 | Cell +266 58852266
www.centralbank.org.ls



Established with initial funding from the UK's Department for International Development, FinMark Trust is an independent trust whose business is controlled by seven trustees from countries in Southern Africa. FinMark Trust's purpose is 'Making financial markets work for the poor; by promoting financial inclusion and regional financial integration'. It does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust plays a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.