

REPORT



# Lesotho FinScope Consumer Survey Report 2021

November 2021

## FOREWORD

The financial landscape in Lesotho has changed considerably since the inaugural FinScope Consumer Survey was launched in 2011. The FinScope baseline survey preceded the adoption of numerous financial inclusion initiatives that have been implemented, including the Rural Financial Intermediation Programme (RFIP) and the Support Financial Inclusion in Lesotho (SUFIL).

RFIP, implemented between 2008 – 2015, aimed to deepen rural financial intermediation and strengthen structures working with rural communities. The SUFIL increased coordination in the financial sector by establishing structures that ensured the involvement and participation of all financial sector players in all financial sector initiatives. The progress made through these initiatives has given Basotho much hope and the desire to aspire for more significant achievements.

Following the initiatives mentioned above, the Lesotho Scaling Inclusion through Mobile Money (LeSiMM) was initiated. LeSiMM focused on driving inclusive pro-poor growth by scaling up formal and semi-formal financial services for low income and rural-based through mobile money. This project did not only intensify the use of mobile money as an alternative for the unbanked and underbanked, but it stimulated the use of mobile money for payment of goods and services, thus creating an ecosystem of mobile-based payments. The Lesotho population currently enjoys the benefits of transacting from the palms of their hands due to this intervention. "As Government, we are now confident of our partnership with the Mobile Network Operators in the payment of selected public services. It is our plan in the foreseeable future to see all our social grants being digitised as well as all other government services."

Since 2011, there has been a substantial increase in the financially included numbers, showing positive progress, specifically the formally served population. FinScope Lesotho Survey is an integral research tool that addresses the need for credible financial sector information. This information aims to guide policymakers, regulators, donors, and financial services providers to promote financial inclusion in Lesotho. The main objective of the 2021 FinScope consumer survey in Lesotho was to assess how the landscape of financial access and use has changed since 2011 and to measure the extent to which various developments within the financial sector have impacted the levels of financial inclusion in the country.

This report shows that there has been an increase in financial inclusion to 91 percent (increasing from 81 percent in 2011). This represents an increase of 10

percentage points over the past ten years, indicating improved efficiency in Lesotho financial systems. These changes result from the direct efforts of the Lesotho Government to strengthen financial inclusion, as guided by sector interventions. However, despite this progress in financial inclusion levels, more intervention is still required to increase and deepen financial inclusion. There should be a specific focus on promoting greater interoperability to encourage maximum use of digital financial services (DFS). Encouraging greater use of the available guaranteed programmes will encourage banks to lend to creditworthy enterprises and farmers and promote consumer protection and empowerment.

The FinScope findings are only helpful if they are used to effect change and increase financial inclusion levels. To ensure the usefulness of FinScope Lesotho 2021, the findings are offered in several formats. These formats maximise usefulness and provide targeted messages to key stakeholder sectors. In addition to this report, a series of targeted thematic reports may be produced.

The Ministry of Finance would like to thank all stakeholders who participated in this project in their personal and institutional capacities, without which the project would not have been successful. The Ministry would specifically like to thank the Ministry of Finance and the Central Bank of Lesotho representatives, Bureau of Statistics (BOS) and FinMark Trust, and the broader stakeholder groups for undertaking this survey. The Ministry hopes that the policymakers, regulators and financial service providers, non-governmental organisations and development partners will be encouraged to continue coordinating efforts to accelerate and deepen financial inclusion in Lesotho.

**Thabo Sophonea**  
**Minister of Finance**

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## Acronyms and abbreviations

<b>ATM</b>	Automated Teller Machine
<b>BOS</b>	Bureau of Statistic Lesotho
<b>CBL</b>	Central Bank of Lesotho
<b>CICO</b>	Cash-in/cash-out
<b>DFID</b>	Department for International Development
<b>EA</b>	Enumeration Area
<b>FCDO</b>	Foreign, Commonwealth & Development Office
<b>FMT</b>	FinMark Trust
<b>FAS</b>	Financial Access Strand
<b>FS</b>	FinScope
<b>FSP</b>	Financial Services Provider
<b>GoL</b>	Government of Lesotho
<b>LeSiMM</b>	Lesotho Scaling Inclusion through Mobile Money
<b>MFI</b>	Micro Finance Institution
<b>MoF</b>	Ministry of Finance
<b>NGO</b>	Non-Governmental Organisation
<b>NBFIs</b>	Non-Bank Financial Institutions
<b>PPS</b>	Probability Proportion to Size
<b>PSU</b>	Primary Sampling Units
<b>ROSCAs</b>	Rotating Savings and Credit Associations
<b>RUFIP</b>	Rural Financial Intermediation Programme
<b>SADC</b>	Southern African Development Community
<b>SACCOs</b>	Savings and Credit Cooperatives
<b>SSU</b>	Secondary Sampling Units
<b>SUFIL</b>	Financial Inclusion in Lesotho

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## EXECUTIVE SUMMARY

Lesotho regards financial inclusion as one of the essential enablers for achieving its development and poverty reduction objectives. The Government's continued work in supporting financial inclusion is proved by its efforts to approve the Inclusive Finance Strategy of Lesotho, Financial Sector Development Strategy, National Strategic Development Plans, and other policies that promote inclusive finance and contribute to economic and social development Lesotho. To effectively track progress in achieving the set targets and other aspirations of inclusive finance, a second FinScope Consumer Survey was commissioned, following the baseline survey of 2011. The survey is designed to track overall levels of financial inclusion and assess trends or changes over time.

FinScope 2021 Consumer survey reveals that the state of financial inclusion in Lesotho has dramatically improved on many fronts since 2011. Financial inclusion increased to 91 percent in 2021 from 81 percent in 2011. This increase represents about 1.2 million adults who have access to formal and informal financial products and/or services. High uptake of formal non-bank products or services has been vital in driving formal financial inclusion. Access to these financial services such as savings, credit, insurance and transactional products enable individuals to store value in a safe place, receive and transfer value, and manage liquidity and risk.

**Profile of Basotho:** The population is estimated to be about 2.1 million people, with 1.3 million representing the adult population aged 18 years and above. Farming forms an integral part of many households, and adults are essentially dependents and rely on low and more irregular sources of income. Encouragingly, the proportion of those without formal education has dropped from 26 percent in 2011 to 8 percent in 2021, reflecting the government's efforts to improve literacy levels.

**Access to amenities:** Many households have relatively low levels of access to piped water and flush toilets though there have been some notable improvements since 2011. There are significant disparities between urban and rural areas; around three-quarters of the urban populace has access to water and electricity versus 20 percent of the rural populace. The level of access to amenities also varies per district, with Mokhotlong and Thaba-Tseka recording significantly lower levels.

**Access to financial service points:** The number of mobile money agents has increased, allowing most adults to access the points within 30 minutes. Mobile money agents are broadening reach and are playing a pivotal role in reducing the

time taken to reach financial institutions, even for the rural populace. Bank branches, ATMs and Post Office institutions/platforms are the least accessible financial points as adults take more than 30 minutes on average to reach them regardless of the mode of transportation used.

**Financial inclusion:** Lesotho is one of the most financially included countries in the Southern African Development Community (SADC). Approximately 1 197 504 (91 percent) adults are financially included; this represents about 273 293 adults brought into the fold of financial inclusion since 2011, representing an increase of 10 percentage points. Formal financial inclusion has increased from 60 percent in 2011 to 87 percent in 2021, surpassing the set target of 85 percent formally served adults. The vast uptake of non-bank other formal products/services like mobile money has been the significant driver of formal inclusion increase from 49 percent in 2011 to 85 percent in 2021. This resulted in a considerable decline in the proportion of adults using informal products/services to manage their finances, from 62 percent in 2011 to 46 percent in 2021 and adults exclusively relying on informal products from 21 percent in 2011 to 4 percent in 2021. Adults with higher educational attainments and those who are formally employed are more likely to be formally financially included than their counterparts. There is a 4 percent financial inclusion gender gap favouring females (93 percent versus 89 percent males).

**Financially excluded:** There has been a reduction in the proportion of financially excluded adults down to 9 percent (121 286) in 2021 from 19 percent (209 499) in 2011. Financially excluded adults do not use any formal or informal financial products to manage their financial needs. They may, however, borrow from friends and family or save at home. The highest level of exclusion among adults residing in Thaba-Tseka (23 percent) followed by Mokhotlong (20 percent), Qacha's Nek (16 percent) and Mafeteng (13 percent) compared to the national average (9 percent).

The following financial-inclusion picture emerges when considering the uptake of the specific financial products/services:

- **Banking:** The proportion of adults using bank products has almost remained the same over the past decade. About 39 percent (510 827) of adults are banked, representing about 76 031 more adults in 2021 compared to 2011. The banking industry serves a larger proportion of formally employed adults and residing in urban areas than their counterparts. This leaves a more significant proportion of Basotho being unbanked (61 percent).

- **Mobile money:** Mobile money plays a key role in making the financial sector more inclusive in Lesotho. About two thirds (66 percent) of Basotho have access to a mobile money account. Mobile money is aiding in reducing exclusion rates among the rural populace, females, and youth, showing that mobile money has proven helpful in increasing financial inclusion in rural and remote areas where a lack of infrastructure constrains the outreach of conventional financial institutions. Mobile money users are also switching to broad activities. About 86% of them used mobile money for a combination of activities, including savings, remittances and digital financial services.
- **Mpate Sheleng, saving groups, Cooperative and MFIs:** There is high uptake of Mpate sheleng (31 percent) and Savings group (15 percent) among Basotho whilst usage of cooperatives (2 percent) and MFIs (2 percent) is still low.
- **Savings and investments:** Findings indicate more than half of Basotho are saving (56 percent or 733 473 adults). Compared to 2011, there is a considerable increase in adults saving using other formal channels from 8 percent in 2011 to 43 percent in 2021, mainly driven by mobile money. The urban population is still saving more via banks than in their mobile money accounts. Informal savings had also declined to 17 percent in 2021 from 29 percent in 2011. This decline may have been due to the COVID-19 restrictions, which negatively impacted social groupings and cash availability. Savings are usually earmarked for consumption and emergencies.
- **Borrowing and credit:** The credit active consumers' level remains similar to 2011, with 60 percent (785 145) of adults borrowing in the past 12 months. Overall credit consumption declined slightly, driven by a drop in the other formal credit (14 percent in 2011 versus 8 percent in 2021) and borrowing from friends and family (52 percent in 2011 versus 39 percent in 2021). The low- and irregular-income profiles of many adult populations serve as a challenge for formal credit eligibility. Basotho's borrowing needs are being met mainly by the informal sector, including family and friends. Lack of access to formal credit is a significant concern and is highlighted as a need for business owners, including other productive borrowings such as housing development.
- **Insurance and risk mitigation:** In the day-to-day lives of individuals, unexpected events occur and are likely to affect families differently. Two-thirds of Basotho (60 percent/786 539 adults) experienced a significant risk/event that impacted their financial lives in the 12 months prior to the

survey. The main risks experienced apart from the poor economic situation were facing severe illness among family members (18 percent), followed by job losses (17 percent) and death of a family member (14 percent). The impact of the COVID-19 pandemic might have exacerbated the situation of job losses and severe illness among households. Adults resorted mostly to non-financial coping mechanisms, such as doing nothing (26 percent), cutting expenses (28 percent), and only 2 percent claimed insurance.

- **Insurance products** protect against risk events, and about 57 percent (757 805 adults) of Basotho have insurance products. Of the insured adults, 86 percent have formal insurance and 14 percent use only informal insurance from burial societies. Insurance in Lesotho remains driven by funeral cover, while main insurable risks remain uncovered. Only 11 percent have non-funeral insurance, while 93% have funeral covers. More than half of the insured adults use Mpate sheleng whilst a third uses burial societies. Raising awareness of the benefits of insurance products and offering low-cost, tailor-made non-funeral products will be crucial to Basotho.
- There have been considerable shifts in the methods used to remit money over the past decade. **Remittances** have increased from 57 percent of adults remitting in 2011 to 72 percent (950 534 adults) in 2021. Approximately 64 percent of adults (842 761) have received money from their loved ones, whilst 40 percent (527 963) have sent money. There has been a 41 percent increase in the number of Basotho immigrants since 2011. Recipients are more skewed towards females and youth. Worth noting is the increase in the use of other formal non-bank channels from as low as 1 percent in 2011 up to 56 percent in 2021, drop-in use of informal channels (11 percent in 2011 to 3 percent in 2021) and family and friends (34 percent in 2011 to 11 percent in 2021).
- **Financial capability** influences the ability to use financial services. About 3 in 7 or 45 percent (588 887 adults) of Basotho scored low on financial capability. They scored low on budget control and knowledge. Adults with low financial capabilities skew towards seniors who are dependents and those with primary and lower levels of education.
- **Financial health:** The financial health framework seeks to assess how well one's daily financial system helps build resilience from shocks and creates opportunities to pursue one's dreams. Basotho displays good signs of financial health in planning and prioritising but scored low on managing day-to-day expenses and maintaining reserves. Only 18 percent of Basotho are

financially healthy, whilst 49 percent are financially coping and 33 percent financially vulnerable.

The priorities of financial inclusion in Lesotho should continue to ensure that the lives of Basotho are improved. Thus, identifying and facilitating the implementation of the financial interventions that will enhance the resilience and sustainable livelihoods for Basotho should be viewed as a priority for financial inclusion in the country.

Below are some of the recommendations proposed to improve the lives of Basotho:

- Adopt Financial Inclusion 2.0 (FI2.0) agenda that seeks to link financial inclusion directly with improving people's lives and addressing real economy needs through better financial solutions.
- Emphasise the focus on the usage and quality of the financial services and capitalise on the Financial Health index (indicators) to monitor these.
- Ensure credit provision that enables productive capacity or improves the quality of life. Lack of access to formal credit remains a significant concern and is highlighted as a need for business owners and those who desire to buy or develop their properties.
- Expand insurance to manage the better impact of risk and broader coverage for insurable risks experienced by Basotho.
- Make a case for the payment of interest on mobile money wallet balances to customers to test the elasticity of customers to use interest on savings (via mobile wallets).

Financial awareness campaigns: Continuous consumer education/literacy programmes are necessary to create a better value proposition for financial inclusion among Basotho.

## 1. INTRODUCTION TO LESOTHO GOVERNMENT INITIATIVES

Lesotho's economic performance has been sluggish, and real economic growth experienced a downward trajectory between 2013 and 2017 from 5.3 percent per annum to 2.9 percent<sup>1</sup>. In 2018 and 2019, there has been some growth, but the current COVID-19 pandemic and the slow global economic growth are further hampering the progress expected and economic rebound. Growth in Lesotho has not been inclusive. Efforts to allocate more resources to micro, small and medium enterprises (MSMEs) and promote inclusive and sustainable economic growth are paramount. The Government of Lesotho's (GoL) concern for inclusive growth has driven policy design, and various policies have been implemented to increase employment, household income and human development. The National Strategic Development Plan I (NSDP) acknowledged the financial sector as the basis for sustainable and broad-based economic growth. The NSDP II sets the growth and development strategy for Lesotho and provides strategic direction to all stakeholders pursuing Lesotho's development goals.

To promote the development of a sound, diverse and inclusive financial sector, the Government of Lesotho approved its Financial Sector Development Strategy in 2013. This Financial Sector Development Strategy (FSDS) follows the National Strategic Development Plan objectives for the financial sector to maximise its contribution to economic and social development in Lesotho and fulfil National Vision 2020. This strategy had the following specific objectives:

- Improving access to finance.
- Increasing alternatives for mobilising financial resources.
- Promoting a savings culture.
- Improving financial sector efficiency.
- Bridging the skills gaps in the financial sector and increasing financial literacy.
- Improving financial stability and soundness.

There has been a significant increase in the focus on financial inclusion. This focus includes the financial sector's delivery of financial services to all individuals

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<sup>1</sup> National strategic development plan II (2018/19 – 2022/23)

(including disadvantaged or low-income sections of the population) and all businesses (including those in the informal sector). This strategy necessitates a broad two-pronged approach that involves increasing the effective demand for financial inclusion and broadening and deepening the supply-side institutions' contributions. This need was demonstrated by the introduction of mobile money operators and agent banking into the market, which helps overcome the challenge of geographic terrain.

The GoL's ongoing commitment to promoting and supporting financial inclusion and its financial sector's commitment was also demonstrated by the Ministry of Finance and Development Planning (MoFDP) approving the Inclusive Finance Strategy of Lesotho (2012/13-2016/17) in March 2012. The national strategy's emphasis was on improving the delivery of quality and diverse financial services to the excluded population by focusing on sustainability, accessibility and affordability. The strategy had five aims:

- Facilitate and expand the outreach of quality financial services by service providers and innovative products to meet the needs of MSME operators, smallholder farmers, and low-income people involved mainly in productive activities.
- Increase the financial and investment capacity of the private sector in urban and rural areas by linking with the formal financial sector.
- Create and capacitate sustainable, inclusive financial providers such as deposit-taking MFI, financial cooperatives, and credit-only MFIs.
- Create an enabling policy and regulatory environment at the macro level and support meso level infrastructure.
- Educate society on financial services (knowledge barriers) and implement client protection interventions.

To continue measuring progress in financial inclusion and obtaining information about how the landscape of access to, and usage of, financial services has changed since the last FinScope survey (2011), the Ministry of Finance initiated the second repeat FinScope survey in 2020.

## 2. FINSCOPE SURVEYS

FinScope is a research tool developed by FinMark Trust (FMT), an independent trust established in 2002 to make markets work for the poor. The FinScope Consumer Survey is a nationally representative survey that looks at how individuals source money and manage their financial lives. It identifies the factors that drive financial behaviour and prevent individuals from using financial products and services.

It also provides financial service providers with crucial strategic information regarding their target markets and the financial services these markets need – enabling them to extend their reach and broaden the range of services they provide. FinScope insights also guide policymakers and regulators in addressing or responding to some of the challenges they face in meeting financial inclusion targets and deepening financial inclusion.

Implementing the FinScope survey over time further provides the opportunity to assess whether and how a country's situation changes. FinScope surveys have been conducted in 36 countries - 14 of which are from the SADC region, including a Baseline Study on Financial Education in Seychelles, 14 from other African countries, 7 from Asia and Haiti in the Caribbean. Currently, FinScope Consumer Surveys are being implemented in Ghana, South Africa and Sudan.

### 2.1. FinScope Lesotho

A lack of credible information drove the first implementation of the FinScope survey Lesotho in 2011 to guide policy interventions and financial service providers to expand the reach and depth of the financial system. This decision to implement FinScope was urged by the Ministry of Finance (MoF) as the overall custodian of Lesotho's financial sector.

In pursuit of their objective of obtaining information about how the landscape of access to, and usage of, financial services has changed since 2011, the Ministry of Finance, together with the Central Bank of Lesotho (CBL), initiated the second repeat FinScope survey to continue measuring progress in the financial inclusion. FinScope 2021 illustrates how many adults Basotho are linked to financial inclusion, specifically formal accounts, through different sector interventions.

The FinScope Lesotho Consumer Survey looked at financial markets and the individual's interaction with the financial system. It deals with financial behaviour, needs, household structure, household livelihoods, wallet size and financial products. The Survey covered general money matters (both formal and

informal financial service products and providers), digitalisation (e-payments), savings and investments, credit and loans, long-term and short-term insurance, legal and housing questions and other categories of interest in the financial arena. Therefore, specific objectives of the FinScope Lesotho Consumer 2021 Survey are summarised below:

- To describe the **levels of financial inclusion** (i.e. levels of access to financial products and services – both formal and informal).
- To describe the **landscape of access** (i.e. the type of products and services used by financially included individuals).
- To identify the **drivers** of and **barriers** to financial access.
- To assess **trends/changes** over time (from 2011).
- To stimulate evidence-based dialogue that will ultimately lead to effective public and private sector interventions to **increase** and **deepen financial inclusion**.
- Provide information on new opportunities for increased financial inclusion and the extent to which financial services are meeting Basotho needs.

This report documents the principal findings of the survey and presents recommendations for stakeholders of Lesotho's financial sector. The breadth of information collected in the survey allows analysis of the population across a multitude of different variables such as specific provincial, rural/urban, income level, household size, age group, gender, etc. Country comparison at countries that implemented FinScope/Financial demand surveys are possible.

## 2.2. Methodology and survey design

As with the previous 2011 survey, FinScope 2021 was represented at national, district, settlement (urban, peri-urban and rural) and ecological zones. The achieved sample size was 2 999 households. An adult (aged 18 years and above) residing in the household was randomly selected within each sampled household.

The survey used a three stage-sampling approach comparable with the sampling methodology applied for the previous FinScope Survey 2011. The first level of sampling entailed selecting 250 enumeration areas (EAs) using a probability proportional to population size approach. During the second stage of sampling, a sample of 12 households was randomly selected within each enumeration area

using an equal probability method. The third level of sampling was at an individual level. One individual (i.e. the intended respondent) was selected at random using a Kish grid from all individuals 18 years or older in each of the sampled households within an EA. This approach was applied to ensure that all Lesotho adults who are 18 years and above would have an equal probability of selection.

### 2.3. Sampling

The sample clusters/EAs were selected from the Bureau of Statistic Lesotho (BOS) master sample frame. The BOS master sample frame was developed based on Lesotho Population and Housing Census enumeration areas, structured according to the adopted census geographic hierarchy. The entire census geographic hierarchy involves districts, electoral constituencies, community councils, ecological zones (i.e. Lowlands, Foothills, Mountains and Senqu river valley) and settlement types (urban, peri-urban and rural). The EAs in the sampling frame is stratified into urban, peri-urban and rural strata ordered by district, constituencies, community councils and ecological zone to have a geographical representative sampling frame. The sample allocation can be summarised as follows:

**Table 1:** Distribution of sample clusters by district and ecological zone stratum

District	Ecological zone				Total
	Lowlands	Foothills	Mountains	Senqu	
<b>Botha-Bothe</b>	13	6	1	0	20
<b>Leribe</b>	31	1	1	0	33
<b>Berea</b>	31	0	0	0	31
<b>Maseru</b>	36	8	1	0	45
<b>Mafeteng</b>	20	5	0	0	25
<b>Mohale's hoek</b>	11	2	4	7	24
<b>Quthing</b>	0	0	4	14	18
<b>Qacha's Nek</b>	0	0	10	5	15
<b>Mokhotlong</b>	0	0	18	0	18
<b>Thaba-Tseka</b>	0	0	15	6	21
<b>Total</b>	<b>142</b>	<b>22</b>	<b>54</b>	<b>32</b>	<b>250</b>

**Table 2:** Distribution of sample clusters by district and settlement stratum

District	Settlement			Total
	Urban	Peri-Urban	Rural	
<b>Botha-Bothe</b>	6	0	14	20
<b>Leribe</b>	11	2	20	33
<b>Berea</b>	13	5	13	31
<b>Maseru</b>	25	3	17	45
<b>Mafeteng</b>	7	0	18	25
<b>Mohale's Hoek</b>	5	0	19	24
<b>Quthing</b>	6	0	12	18
<b>Qacha's Nek</b>	5	1	9	15
<b>Mokhotlong</b>	3	0	15	18
<b>Thaba-Tseka</b>	2	3	16	21
<b>Total</b>	<b>83</b>	<b>14</b>	<b>153</b>	<b>250</b>

## 2.4. Listing and household selection

A listing exercise was undertaken by each survey team whereby all households in the selected EAs were listed using a short-listing form to capture the number of all members in all households to identify all adults who are 18 years and older. After completing the listing exercise, the team supervisors compiled a list of households with one or more 18 years and older members. The supervisors thereafter randomly selected 12 households within each EA. To select the 12 households, the supervisor used a developed template for systematic random selection of households that specified the 12 serial numbers to be selected based on the total number of households listed.

The 12 selected households were sent to the IT coordinators for uploading in the CAPI system. After that, the CAPI prepared a roster of persons aged 18 years and older who reside in each of the 12 sampled households.

## 2.5. Questionnaire design

Being a repeat survey, the FinScope Survey Lesotho 2021 was conducted with an updated version of the FinScope 2011 Lesotho survey questionnaire. A series of meetings of the Technical Steering Committee was held to revise and update the survey questionnaire. The final version of the questionnaire was approved by the Ministry of Finance, with endorsement from the Central bank of Lesotho, BOS

and FMT. As with the previous survey, the final English instrument was translated into Sesotho once the English version had been approved.

As the implementing agency of the survey, the Bureau of Statistics carried out the questionnaire review before data collection to ensure that it is suitable for the local environment. In addition to the questionnaire review, BOS had to migrate and adopt Computer Assisted Personal Interviewing (CAPI) application using Survey Solution over Pen and Paper Interviewing (PAPI) system. Before main data collection, two days of pre-testing the questionnaire activity were conducted to understand how the survey operates in an in-field setting and how well respondents receive the survey content and material.

## 2.6. Fieldwork and quality control

The fieldwork staff structure consisted of field coordinators (6), IT coordinators (2), supervisors (10) and interviewers (30). The actual fieldwork was organised into 10 teams consisting of 1 supervisor and 3 interviewers per team. Each team covered 25 enumeration areas. The coordinators were responsible for 2 operational regions (i.e. North and South) formed to implement the survey. Each region comprised 5 teams. Three coordinators were assigned to North Region, while the other 3 coordinators were assigned to South Region. The total fieldwork period was 60 days.

Fieldwork quality controls were conducted throughout the fieldwork period. Both the members of the steering committee (SC), supervisors and coordinators carried out the field and back checks to ensure the following:

- The interviewers abided by the proper fieldwork guidelines during data collection and recorded the appropriate answers to questions.
- The selected households were visited for the interview.
- 100% verification of all completed interviews.
- All observed mistakes ranging from violating the techniques of asking the questions and wrong entries observed were asked to be corrected by the field interviewers.

Prior to implementing original survey fieldwork plan activities, there was a delay in procuring fieldwork equipment. This delay was due to total lockdowns caused by the COVID-19 pandemic. This affected the delivery of procured equipment. In one instance, fieldwork was put on hold due to a delay in the payments of stipends to fieldworkers.

## 2.7. Data submission, cleaning and weighting

Once fieldwork was completed, the data was converted to SPSS format. The data was then cleaned and coded. The data was weighted (considering the three levels of sampling) using the 2016 Population and Housing Census and household listing data for the final dataset to represent the Lesotho adult population (i.e. 18 years and older). The listing data allowed the universe to be reflected more accurately. A finalised dataset in SPSS format was validated and signed off to ensure that the data reflects Lesotho's population 18 years or older as at 2021 estimates.



Lesotho is a country bordered by South Africa with around 2.1 million people, of which 1.3 million represent the adult population aged 18 years and above. Basotho reside mainly in rural areas though there has been significant growth in the urban population over the past years. There are slightly more females and youth aged 35 years, and younger constitute about 61% of the population.

### 3. LESOTHO DEMOGRAPHIC PROFILE

This section presents the findings of the demographic and household characteristics. The survey captures a range of information, including data on individuals and some household information. Some results include valuable insights from the demographic profile into consumer behaviour and potential interaction with the financial system.

It discusses the profile of individuals aged 18 years and above and includes information on gender distribution, livelihoods and levels of education. In relation to household conditions, results are presented on access to amenities.

#### 3.1. Demographic and household characteristics

Lesotho is a country bordered by South Africa with around 2.1 million people, of which 1.3 million represent the adult population aged 18 years and above. Basotho reside mainly in rural areas though there has been significant growth in the urban population over the past years. There are slightly more females and youth aged 35 years, and younger constitute about 61% of the population. In terms of educational attainments, secondary and above enrolment remain below 50%. Still, the proportion of adults without formal education has dropped significantly (from 21 percent in 2011 to 8 percent in 2021), and more adults have enrolled for tertiary education. Building a knowledge-based economy requires adequate outreach of schooling across the nation. The demographics are displayed in Figure 1 below.



Figure 1: Demographic profile

Table 3 displays further analysis of the demographic profile of Basotho. This comprehensive profile of the population can assist in determining particular financial consumer education needs for the various segments of society. Basotho with lower educational attainments (primary qualification and below) make up most of the population in rural areas (70 percent) versus 32 percent in urban areas, suggesting that progressing beyond primary school is still a problem requiring policy attention. The youth and middle-aged population are likely to stay in urban areas searching for better employment or economic opportunities.

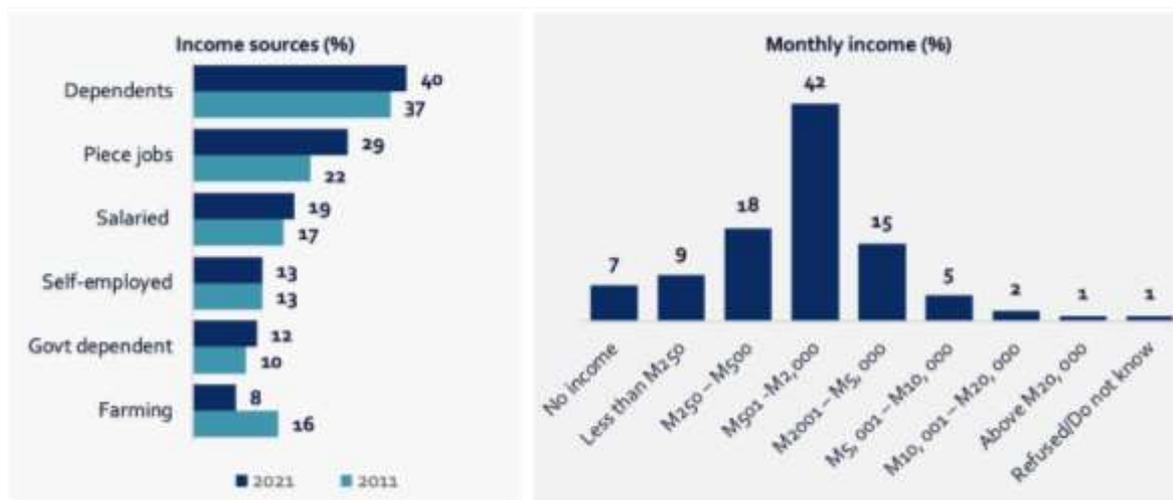
**Table 3: Sex, age and education distribution**

	Total 2011	Total 2021	Urban 2021	Rural 2021	Male 2021	Female 2021
<b>Total adult population</b>	1 133 711	1 318 790	474 454	844 336	635 971	682 819
<b>Age</b>	%	%	%	%	%	%
<b>Youth (18-35 years)</b>	47	36	46	32	39	35
<b>Seniors (36+ years)</b>	53	64	54	68	61	65
<b>Education level</b>						
<b>No formal education</b>	26	8	3	11	7	8
<b>Primary</b>	42	48	29	59	50	49
<b>Secondary</b>	28	34	47	27	34	33
<b>Vocational /Specialised training</b>	0.4	1	1	0.2	1	0.3
<b>University/tertiary</b>	4	10	20	4	8	9

### 3.1.1. Livelihoods (income sources)

Essentially, there have not been major shifts since the previous 2011 FinScope survey in Basotho's livelihoods except for the decline in the adults who depend on farming for income. Most adults are still dependents (52%), with 40% relying on family members or friends for support whilst the other 12% depending on the government's social grants. There has been a slight increase in the proportion of salaried individuals and the number of business owners. In addition, a third of the adults are informally employed or engaged mainly in piece jobs. With many adults being dependents and informally used, the personal monthly income

shows low incomes being earned by Basotho as the majority (76%) are earning M2 000 and less (\$USD140) per month. The household income level is an essential factor in explaining outcomes such as education, entrepreneurship, and employment, among others. On average, most households have one member contributing to the household income, signifying a high dependence ratio among Basotho.



**Figure 2:** Sources of income and personal monthly income (%)

The main source of income was further grouped into target groups that are key in defining and prioritising measures to improve financial inclusion. This is done through a segmentation that merges groups of adults earning from similar income sources, e.g., government and private sector employees are both formally employed. As shown in figure 3, clear distinctions between rural and urban adults' livelihoods are reflected within those formally and informally employed. Only a few rural adults are formally employed (8 percent) compared to 35 percent in urban areas. Further analysis indicates that more women are dependents, and males are more likely to be informally employed (34 percent).

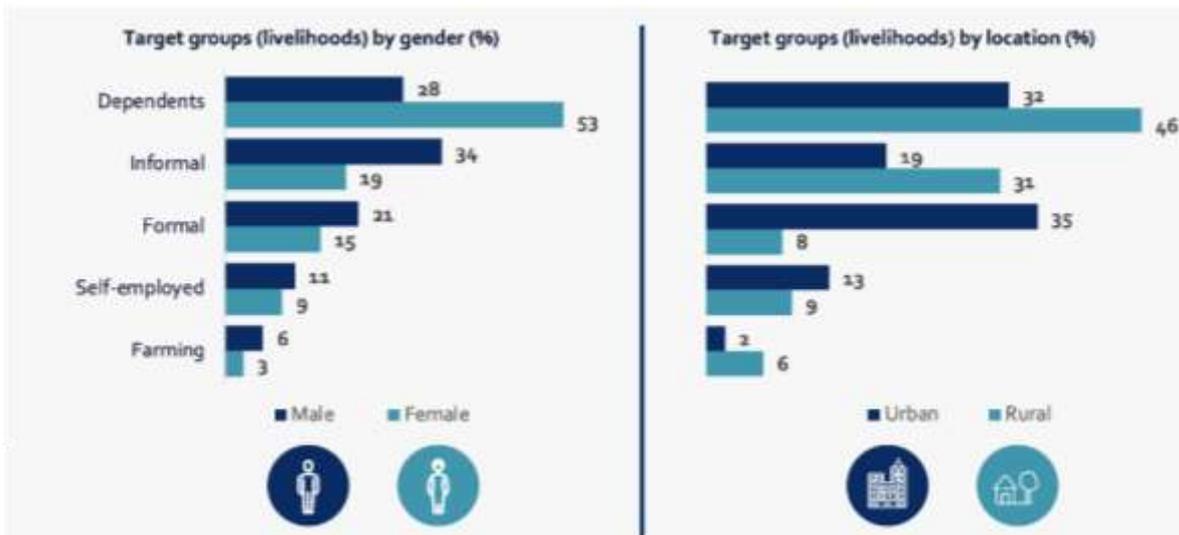


Figure 3: Target groups by location and gender (%)

### 3.1.2. Impact of Covid on livelihoods

According to the 2021 FinScope Survey, approximately 73 percent of Basotho's livelihoods were negatively affected by the COVID-19 pandemic in 2020. Basotho either had their income reduced, whilst others stopped working/ got retrenched and failed to operate for those running businesses. About 23 percent (298 094) of adults received support to cushion the impact of COVID-19, with the most support being received from the government and family and friends.

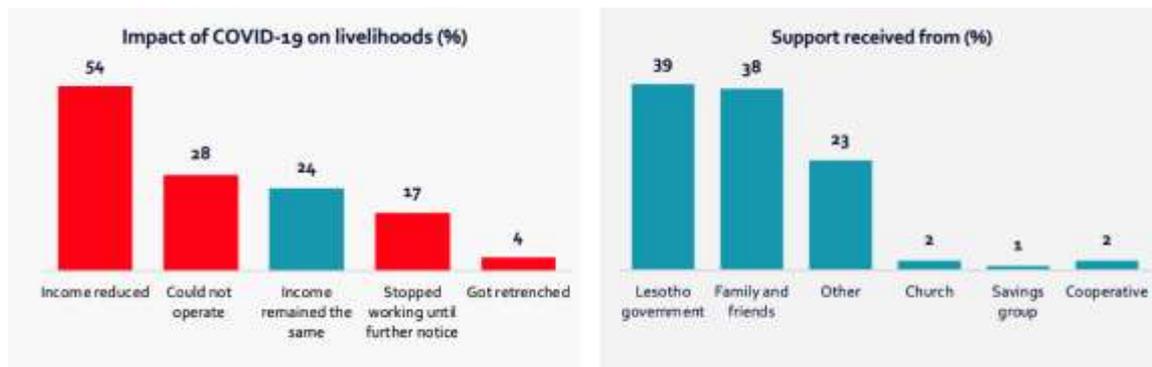


Figure 4: Impact of COVID-19 on livelihoods and support received

Although there has been an overall decline in the poverty indicators among the households as shown in Figure 5 (owing to the impact of COVID-19 impact on livelihoods as well as small and irregular income), approximately two thirds (63 percent) of Basotho experienced severe distress in terms of managing or balancing their income and expenses. This distress may indicate the hardships that Basotho people are facing.

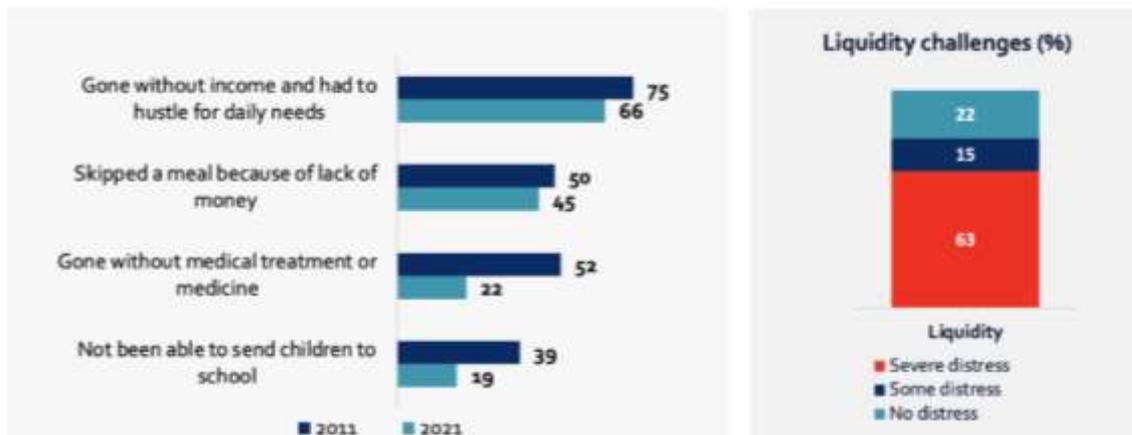


Figure 5: Households that experienced poverty-related symptoms (%)

### 3.1.3. Farming

Agriculture is the most popular livelihood source for two-thirds of households (67 percent), with 50 percent involved in farming and other work. Only 17 percent of the households rely solely on farming for a living. Of those Basotho engaged in agriculture, most of them (80 percent) farm for consumption whilst the other 18 percent farm for consumption and increase household earnings. Only 2 percent are fully commercial farmers who indicated that they sell most of their farm outputs (see figure 6). Providing support to farmers will likely improve productivity or yields, which will aid in the number of households engaged in meaningful agriculture and those who produce exclusively for the market. Creating a strategic value chain ecosystem and provision of appropriate financial services will improve the sector's contribution to enhanced sustainable livelihoods through increased farm outputs, incomes, and the provision of additional employment opportunities.

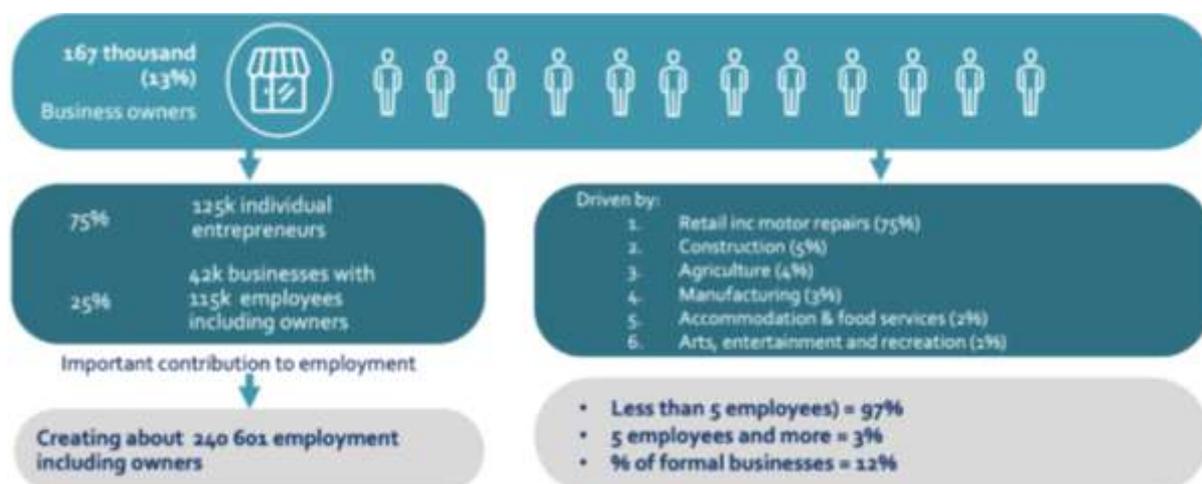


Figure 6: Household involvement in farming (%)

### 3.1.4. Size, scope & formality of business owners

Although the FinScope Consumer survey is not designed to measure and quantify micro-, small and medium enterprises or their business owners, the survey went deeper in unpacking adults who own businesses. Hence, these analyses in this section relate to the adults who claim to have businesses under which they are self-employed as a primary or secondary source of income.

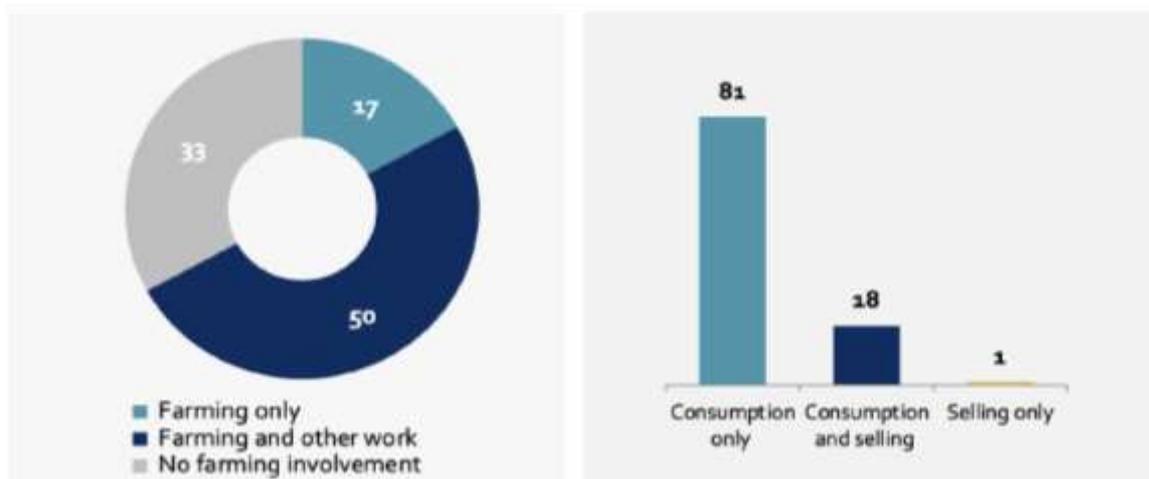


Figure 7: Size and scope of business owners

The MSME sector employs approximately 240 601 adults, including the business owners, as shown in figure 7. As such, the sector contributes significantly to job creation and poverty alleviation as survivalist businesses play a pivotal role, especially as a buffer against slipping into deeper poverty and reducing individual and household vulnerability. The majority of the small business owners are mainly involved in wholesale and retail businesses (75 percent). Although fewer businesses are involved in secondary or tertiary sectors such as manufacturing (3 percent), supporting the primary sector (mining, agriculture) is crucial at the early stage of development. Due to the COVID-19 pandemic, business owners highlighted the most significant challenge as having few customers, which implies reduced revenue or profits. Supporting small businesses will be key in reducing the number of businesses that will close because of the pandemic.

## 3.2. Sustainable Development Goals (SDGs)

In addition to understanding the demographic profile and livelihoods of the population, it is also essential to assess the realities of everyday life and the challenges people face in terms of access to basic amenities and access to infrastructure. According to Maslow's hierarchy of needs, individuals will meet their needs beginning with the most basic needs such as shelter, food, water etc. People who have low access to basic amenities and infrastructure and struggle to

make a living and make ends meet are unlikely to prioritise access or even use financial services with their limited means to afford these services.

### 3.2.1. Access to basic amenities

The survey findings reveal that there is some slight improvement in access to basic services. However, access to some amenities is still low, especially sanitation, as shown in Figure 8. However, the level of access varies per district, with Mokhotlong and Thaba-Tseka recording significantly lower levels. This could indicate higher levels of hardship and living standards for the population in these districts. Further analysis shows significant disparities between urban and rural areas; around three-quarters of the urban populace has access to water and electricity versus 20 percent of the rural populace (see Figure 8). These gaps in access affect the livelihoods and well-being of the Basotho people and prevent further socio-economic improvement.

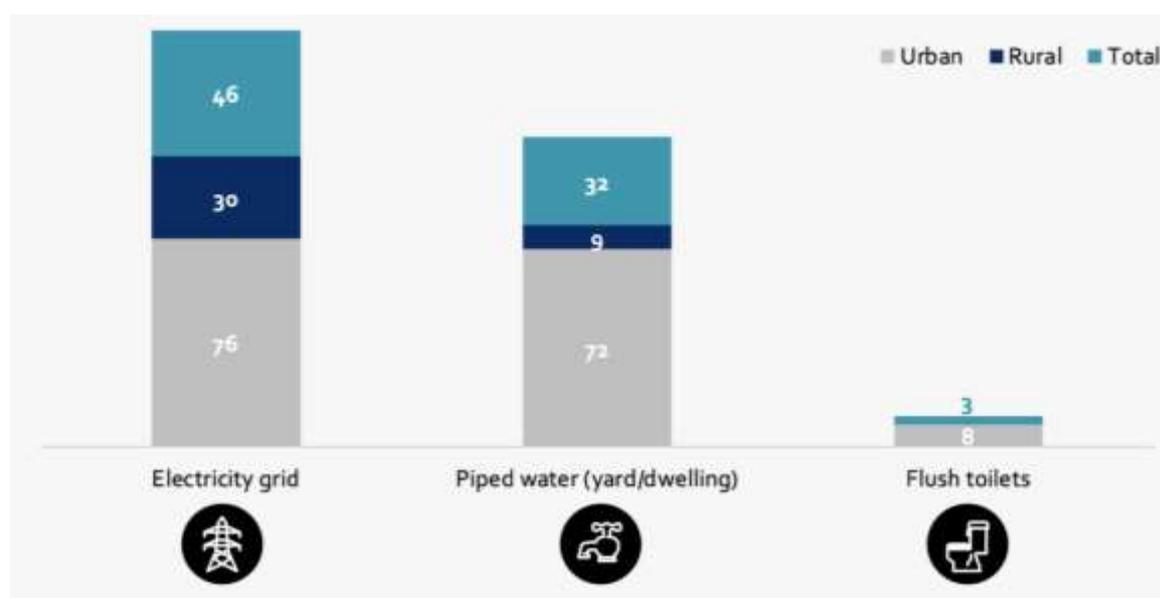


Figure 8: Access to amenities by location (%)

### 3.2.2. Access to infrastructure

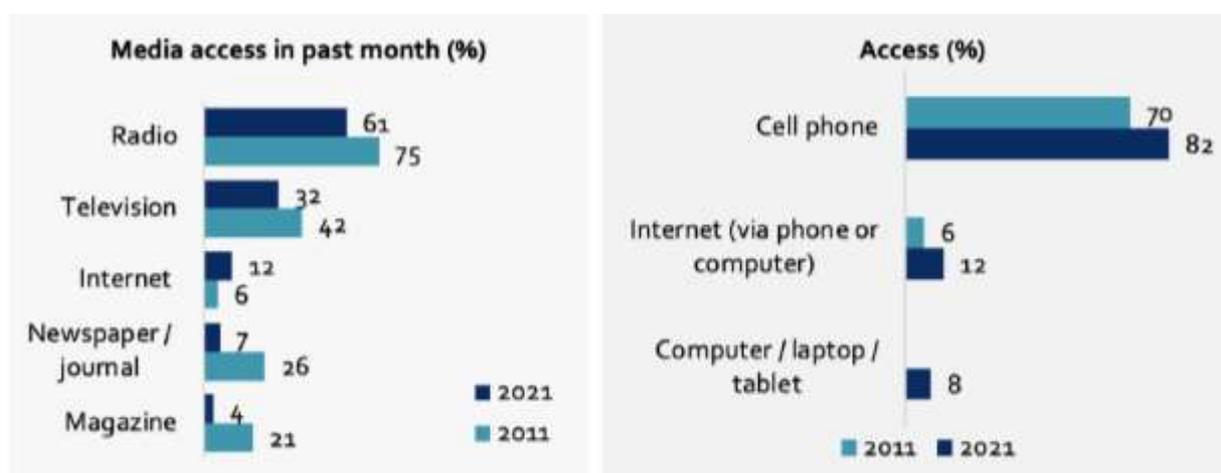
There are significant differences in the average time taken to different access points among adults residing in urban and rural areas. The least accessible infrastructure among adults is traditional financial service points such as bank branches, ATMs and Post Office. In contrast, the most accessible are schools, mobile money agents and grocery stores. The closer the services are to the people, the more adults are likely to increase uptake and usage. Mobile money agents broaden the reach and play a key role in reducing the time to reach financial institutions, even for the rural populace.

**Table 4:** Time is taken to reach destination (%)

	National	Less than 30 mins		30mins-1hr		More than 1hr	
		Urban	Rural	Urban	Rural	Urban	Rural
Mobile money agent	69	94	54	6	26	0	20
ATM	36	72	15	25	37	4	48
Bank	30	61	14	34	35	5	51
Post Office	34	57	12	35	37	8	51
Grocery store	79	79	50	20	31	1	20
Public transport	90	90	68	10	17	1	14
School	81	81	60	18	28	1	12
Hospital	71	71	22	26	37		42

### 3.3. Information access and connectivity

A major constraint to accessing financial services in many areas is the limited telephonic or cell phone service, including the capacity to afford them. Technology such as cell phones, computers, and the internet provides the opportunity to access financial services. Access to internet also provides an opportunity to mobilise existing financial products with ease. Still, the low usage rate of technology may mean that individuals must rely on traditional channels to access financial services. A higher proportion of Basotho (82%) have access to a mobile phone - access provides opportunities for formal financial inclusion mainly through mobile-based financial services. Figure 9 shows media platforms accessed in the past month prior to the survey; using the radio and TV to convey financial education will help reach a larger audience.



**Figure 9:** Access and usage of communication media in past month (%)

## 4. FINANCIAL CAPABILITY

Financial capability is the combination of attitude, knowledge, skills, and self-efficacy needed to make and exercise money management decisions that best fit the circumstances of one's life within an enabling environment that includes, but is not limited to, access to appropriate financial services. Put more succinctly, financial capability is the ability to act (have the willingness, confidence, and opportunity to act) in a financially responsible manner. The ultimate objective of financial capability is to attain financial resilience by using appropriate financial products and services. There is an inherent value to a financially capable population as the benefits are wide-reaching, where all stakeholders stand to gain.

Financial capability is essential because people (consumers) without financial knowledge pay higher costs and assume higher debts, and they are more exposed to exploitation by devious Financial Services Providers (FSPs). Additionally, they are less likely to seek investment advice and, as a result, are more prone to make investment mistakes and are more likely to report credit arrears or have trouble paying their debts. In contrast, financially capable people make rational financial decisions by using relevant information. They are also more likely to take up financial products such as a bank account or a loan, accumulate enough stock of wealth for use upon retirement, and participate in financial markets. Financially capable individuals also successfully run their small businesses, set aside rainy-day funds and use several sources of information when choosing financial products. In Lesotho, this is incredibly important given the high poverty levels and the lack of social security.

The benefits of a financially capable nation also extend to FSPs. They are likely to benefit as financially capable people are more likely to plan, manage income and expenses well, and have the knowledge and confidence to choose, purchase, and use financial products and services effectively. This is likely to stimulate uptake and usage of financial products, reducing risks and costs associated with people using unsuitable products and increasing financial market stability.

To better understand the financial capability of Basotho, this section will present the findings from the survey on the financial characteristics and dimensions of financial capability.

## 4.1. Financial characteristics of the Basotho population

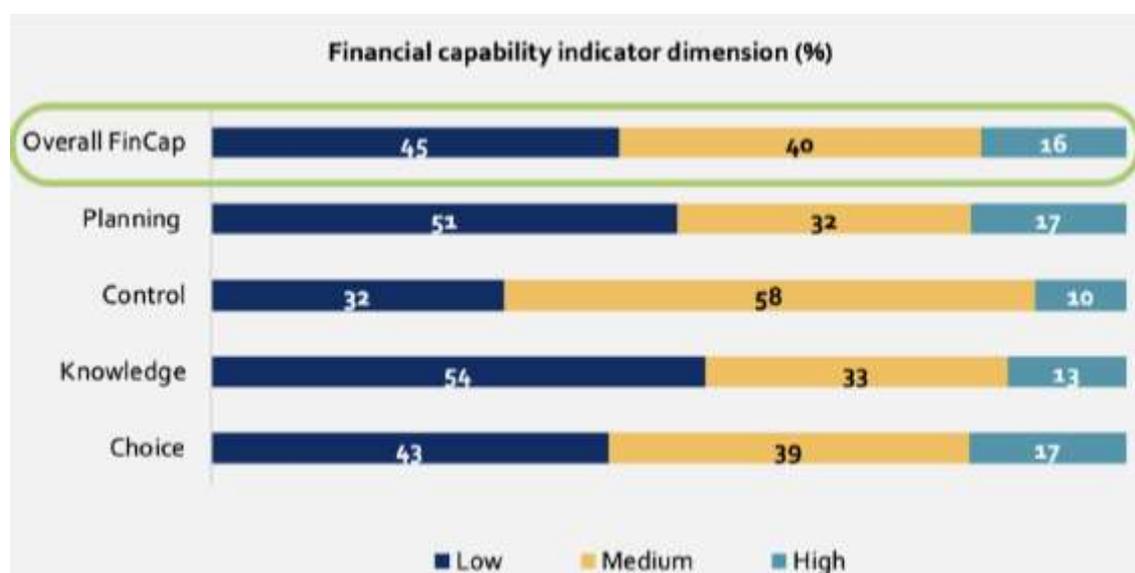
It is universally recognised that dimensions of financial capability (discussed in the next section – 4.4), including planning, control, knowledge and ability to make sound financial choices are important determinants of financial capability. Also, people’s socio-economic status influences an individual’s ability to engage in financially effective behaviour. Section 3.1.1 provided an overview of Lesotho in terms of socio-economic, revealing that around 70 percent of Lesotho’s population relies on irregular and inconsistent income activities such as mainly depending on money from others (remittances at 40 percent) and informal jobs (piece job at 26 percent and farming 4 percent). Only 28 percent of the population is salaried (18 percent) and business owners (10 percent). Small and irregular incomes are more likely to affect how the nation manages income, expenses, and plans.

## 4.2. Financial capability dimensions

The financial capability index is developed based on financial behaviour's four categories (dimensions): planning, control, knowledge, and choice. A financial capability score was created to profile Basotho adults who exhibit low, moderate and high financial capability. To determine the scores, the average was calculated based on the Likert scale questions. The financial capacity dimensions (categories) are described below:

- **Planning for the future:** Financial planning, in this instance, is measured through budgeting, which is the process of creating a plan to spend money; this spending plan is called a budget. Creating a spending plan allows the person to determine in advance whether they will have enough money to do the things they need to do or would like to do. Figure 10 shows that the planning score is just above half (51 percent) of the adult population fail to plan. This may be linked to small, inconsistency and irregular income.
- **Control:** The control dimension entails budget management, which helps manage sudden financial changes that affect a person’s life. Being prepared for uncomfortable circumstances like a bad year, such as a job loss or any economic slump, keeps you secured, at least for a while. Financial control also helps to manage expenses even better by monitoring spending patterns and expenses. A significant proportion of the adults in Lesotho face severe budgetary constraints considering that the national average wage in Lesotho is M 2000. However, most Basotho have a budget that monitors their income and expenditure (68 percent having medium and high scores).

- Knowledge:** The relationship between financial knowledge and behavioural change is found to be mediated by individual characteristics. These characteristics include attitudes and non-cognitive skills, and as well as by the context in which the decision is taken. The results of consumer interviews suggested the importance of knowing “how to do things” rather than the “knowledge of the thing itself”. The knowledge indicator seen in Figure 10 skews to a low score (55 percent). The low score in the knowledge dimension is driven by a lack of understanding of terms and conditions used in the contracts.
- Choice dimension:** Choosing financial products involves careful consideration in purchasing financial products and evaluating the financial products purchased. Figure 10, choice indicator, shows that around 57 percent of Basotho would engage fairly with financial service providers and activities.



**Figure 10:** Financial capability indicator and FinCap dimensions (%)

### 4.3. Financial capability overall indicator

Financial capability surveys can measure some observable aspects of this internal capacity and the interaction between internal capacity and the enabling environment. The indicator can identify areas of financial capability, inclusion, and consumer protection that need improvement. The FinCap indicator can also help assess knowledge and actions linked to policies and regulations; and target potential demographic groups. The results (see Figure 10, overall FinCap indicator) segmented the following:

- About 45 percent of Basotho adults exhibited low financial capability;

- Two in five adults (40 percent) demonstrated moderate financial capability, and
- Only 16 percent showed high financial capability.

Figure 11 indicates that Basotho, who are in formal employment, demonstrate a high level of financial capability, probably due to their stable sources of income. In Figure 12, it can be seen that those with a high level of education exhibit medium and high financial capability. Urban dwellers (also in Figure 12) exhibit higher levels of financial capability. This signals that there is a stark differentiation of FinCap by area type. This is a good signal for possible interventions to inform programme designers that area type is to be considered as an important factor.

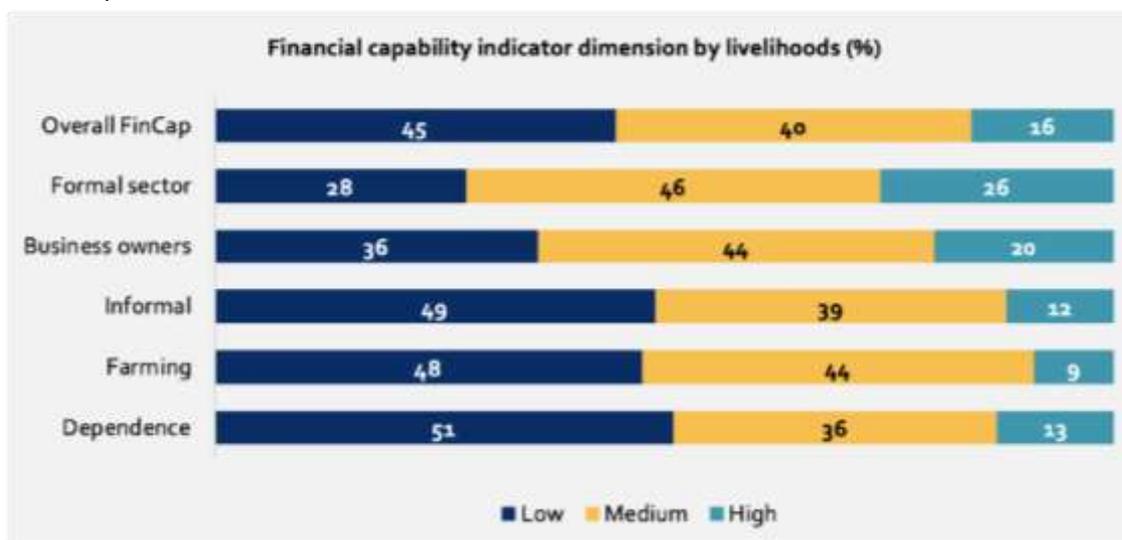


Figure 11: Financial capability indicator dimension by livelihoods (%)

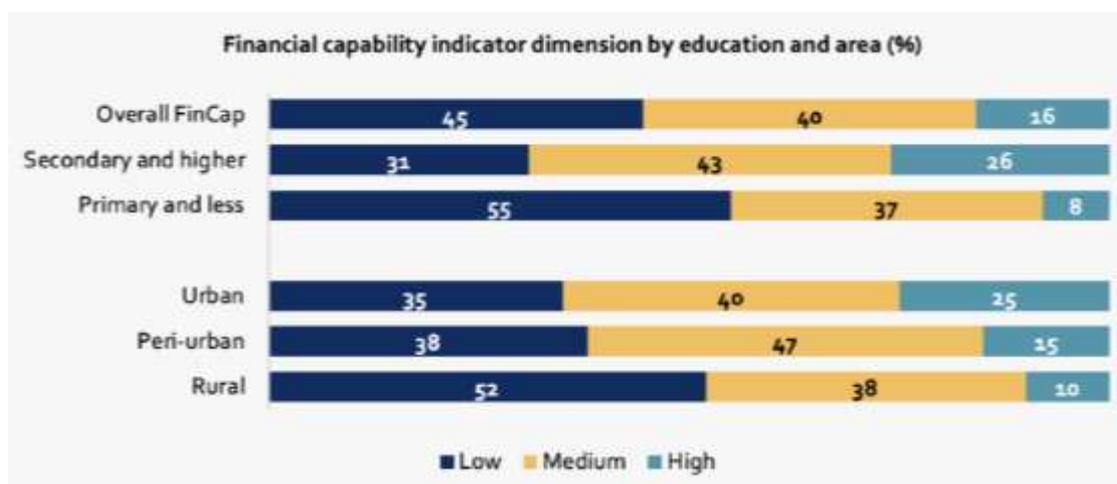


Figure 12: Financial capability indicator dimension by education and area (%)

Table 5 concludes this section by showing the profile of those contributing to low financial capability levels. Those consumers with low and moderate levels of financial capability should be the focus of a targeted financial education strategy. Characteristics such as age, gender, education and income design inform principles related to messaging, content and delivery mechanisms.

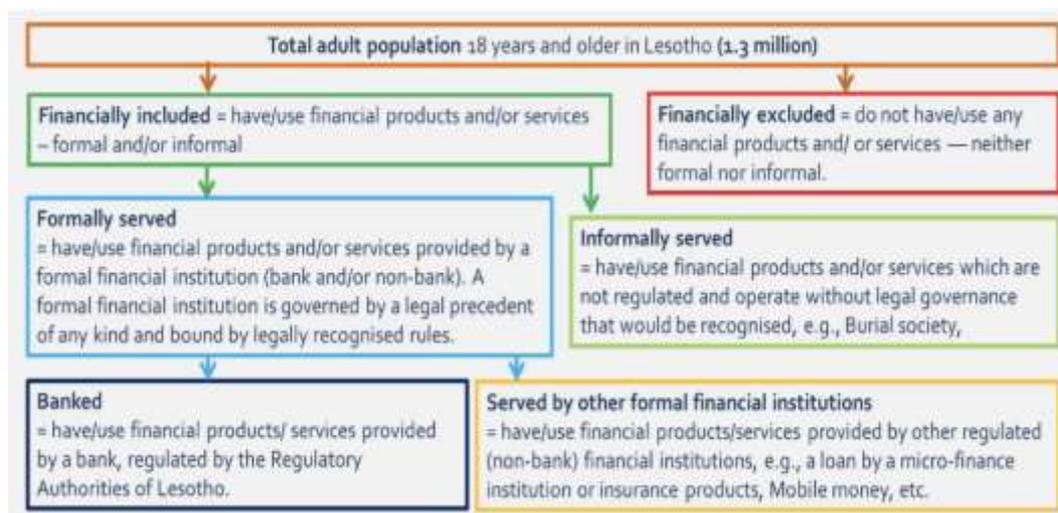
**Table 5:** Profile of adults with low financial capabilities (%)

	Description	Low capacity (45%)
<b>Source of income: Dependents</b>	Mainly 50 years plus, primary and low level of education	51%
<b>Source of income: Informal</b>	Primary and low level of education	49%
<b>Source of income: Farming</b>	Primary and low level of education	48%
<b>Age groups</b>	50-59 years and older	47%
	60 years plus	56%
<b>Education</b>	Primary and less level of education	55%
	Secondary and above level of education	31%
<b>Gender</b>	Male	45%
	Female	44%
<b>Area</b>	Rural population	51%

## 5. FINANCIAL SERVICES PRODUCT UPTAKE AND USAGE

Financial inclusion: The concept of “financial inclusion” is core to the FinScope methodology, and the Financial Access Strand is one of the key measures of FinScope surveys. According to the Inclusive Finance Strategy of Lesotho (2012/13-2016/17), financial inclusion is broadly defined as access to a range of quality financial services such as credit, savings, insurance and payment systems and remittances by diverse financial service providers. Financial service providers include banks, microfinance banks, deposit-taking MFIs, credit-only MFIs, financial cooperatives, NGOs, etc. Access is to those who are excluded or denied financial access from the mainstream financial system. Financial inclusion can be viewed by using formal versus informal financial services for the adult population, between urban and rural areas, or how people earn their income.

Figure 13 provides the financial inclusion framework and summarises key aspects/concepts of financial inclusion. The term financially included (served) refers to the percentage of adults that have or use financial products (both formal financial and informal mechanisms) to manage their financial lives. Financial exclusion refers to those adults that do not use any financial product or service, including those that voluntarily choose not to. Those who do not access these products and services are considered to be financially excluded.



**Figure 13:** Financial inclusion framework

Consistent with the 2011 scope, this study focused on four types of financial services: (i) transactions (e.g. deposits and withdrawals) and remittances; (ii) savings/investment; (iii) credit; and (iv) insurance. These services are provided in varying degrees by the banks, other formal (non-banks) such as micro-institutions or mobile money and/or informal service providers, whereas formal

financial service providers tend to offer specialised services, e.g. credit, insurance, pension schemes, etc.

## 5.1. Overview of financial inclusion in Lesotho

The state of financial inclusion in Lesotho has expanded on many fronts since 2011. Approximately 91 percent of the adults are financially included in 2021, up from 81 percent in 2011. This represents about 1.2 million adults who have access to formal and informal financial products and/or services. Formal financial inclusion increased to 87 percent in 2021 from 60 percent in 2011, surpassing the target of 85 percent formally served adults in 2021.

Formal non-bank products primarily drive formal financial inclusion. Other formal (non-bank) financial services cover a broad range of services, including microfinance, savings and credit cooperatives, savings and credit operators (known as OPEs), mobile money operators, insurance companies, pension funds, money transfer agencies, government funds, etc. There is an increase of 36 percentage points from 49 percent in 2011 to 85 percent in 2021, attributable primarily to mobile money. The proportion of banked adults slightly increased to 39 percent from 38 percent in 2011, representing an increase of about 76 thousand adults that have been brought into banking between 2011 and 2021.

The informal service sector forms a critical part of household financial access, linked to savings and credit offered under the savings and credit groups and the burial society. There is a considerable decline in informal services uptake from 62 percent in 2011 to 46 percent in 2021. About 9 percent remained excluded from the financial system. These individuals are not using formal financial products/services and/or informal mechanisms to manage their financial lives. If they borrow, they rely only on friends or family, and if they are saving, they save at home.

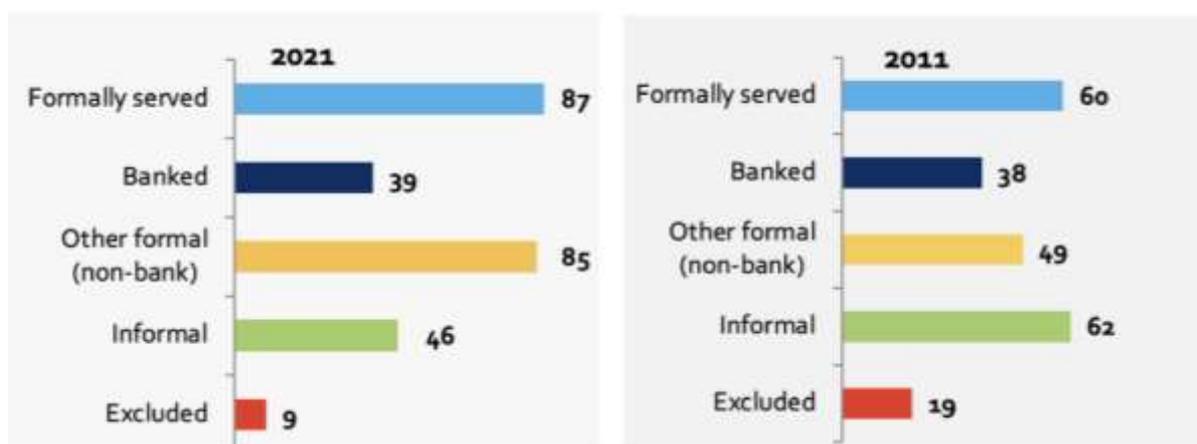


Figure 14: Overview of financial products uptake (%)

## 5.2. Overlaps in product uptake

Consumers generally use a combination of financial products and services to meet their financial needs. As illustrated in Figure 15, there often are overlaps in product uptake as one sector might not fulfil all needs. Someone could, for example, be banked and receive his/her salary through a bank account but could also belong to a savings group to enable him/her to get quick access to money in times of an emergency such as unforeseen medical expenses or to pay school fees or use mobile money to remit money. About 42 percent of the adults use a combination of formal and informal mechanisms to manage their financial needs. This is slightly up from 40% in 2011. There is an evident growth in those who rely solely on non-bank financial institutions, which reduced exclusive use of banking services and informal mechanisms.

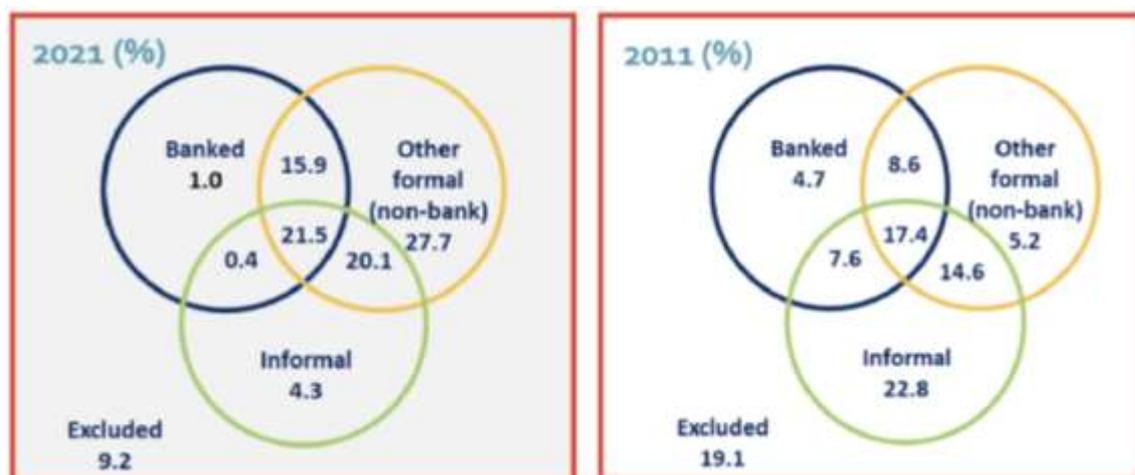


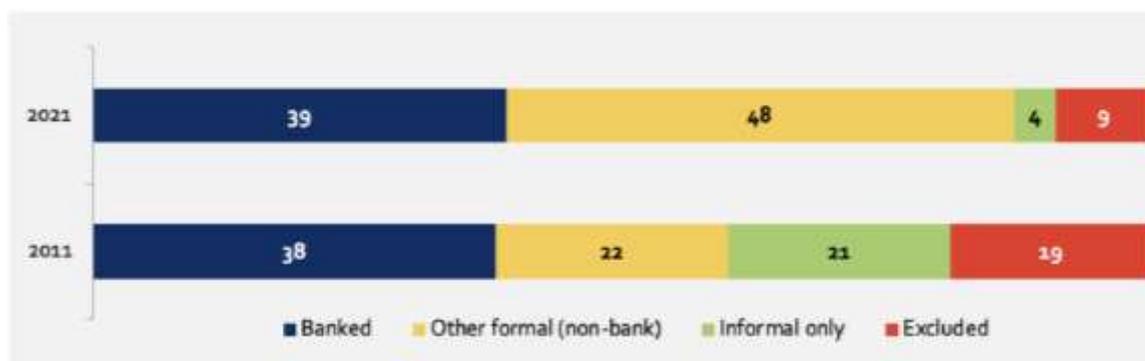
Figure 15: Overlaps in financial products uptake (%)

## 5.3. Lesotho Financial Access Strand

The Financial Access Strand (FAS) is one of the key measures of FinScope surveys. It is constructed based on the premise that the goal of financial inclusion initiatives is formal financial inclusion. The Strand ranges from formal banking services provided by commercial banks at the one extreme, shifting to other formal financial services provided by a large variety of formal financial service providers (FSPs) and microbanks/microfinance institutions. Further along, at the other end of the Access Strand, we find a vast range of informal services and products: adults who use these products only and no formal product usage or ownership.

The Financial Access Strand in Figure 16 reveals that:

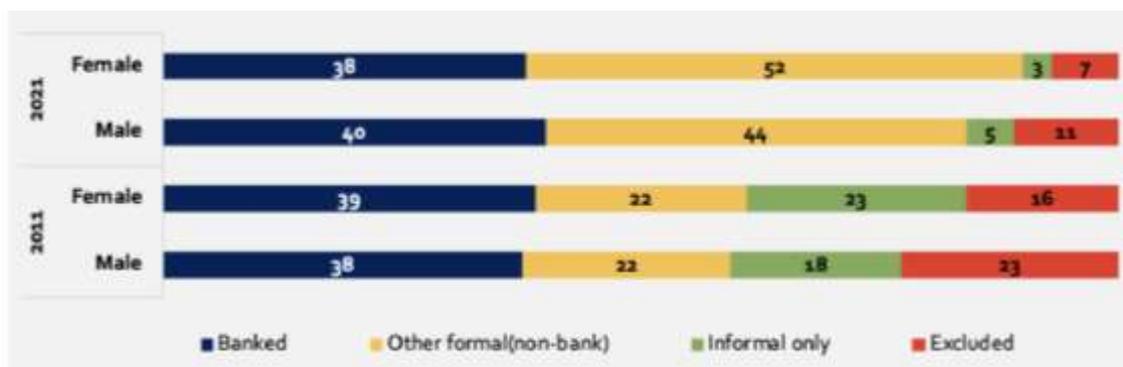
- About 2 in 5 (39 percent) of Basotho are banked but can also use other formal non-bank or informal products or services.
- There is a considerable increase in the proportion of adults who are not banked but use other formal channels from 22 percent in 2011 to 48 percent in 2021. Undeniably, mobile money providers are playing a significant role in reaching out to the unbanked population. These individuals may, however, also use informal financial mechanisms.
- There is a significant drop in the percentage of adults relying only on informal mechanisms and do not have/use any formal financial products or services to manage their financial lives (from 21 percent in 2011 to 4 percent in 2021).
- About 9 percent (121 286) of the adults are financially excluded or do not use any formal or informal financial products to manage their lives but may borrow from friends and family or save at home.



**Figure 16:** Lesotho Financial Access Strand (FAS) 2021 and 2011 (%)

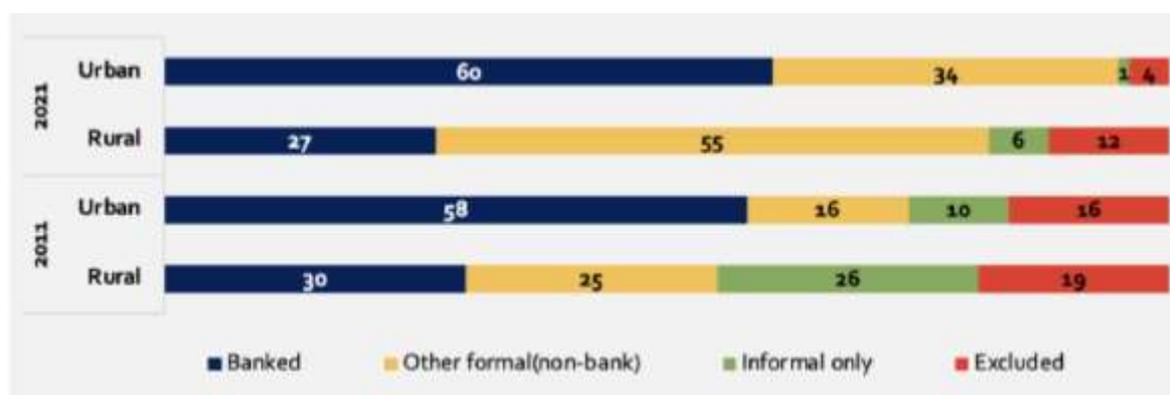
The Financial Access Strand can be drawn up for the entire adult population or various sub-categories. Together, these different perspectives build a coherent picture of financial inclusion in Lesotho. The FAS segmented into different groups reveals that the 'one-size-fits-all' approach does not work in financial inclusion and suggests that the financial strategy interventions and targets should speak to specific segments with identified challenges.

**Gender FAS** - Figure 17 shows that about 89 percent of males are financially included versus 93 percent of females, signifying a 4-percentage points gender gap in favour of females. Compared to 2011, the gender gap has reduced from 7 percent to 4 percent in 2021. The high uptake of mobile money aided in driving financial inclusion between males and females, especially among females. A giant leap is noted from 22 percent other formal access by females in 2011 to 52 percent in 2021 and for males from 22 percent to 44 percent in 2021.



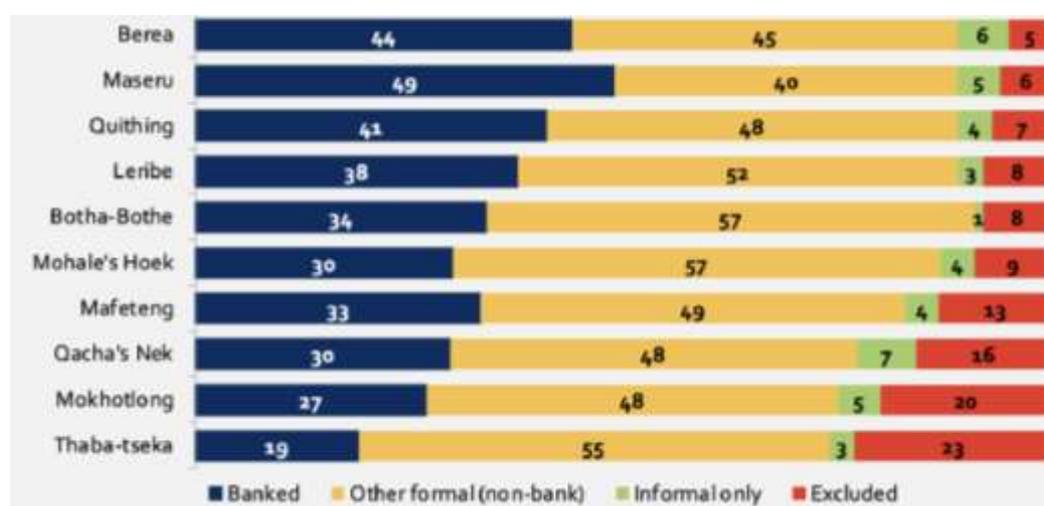
**Figure 17:** Financial Access Strand by gender (%)

**Urban-rural FAS** - High financial inclusion among adults in the urban areas (96 percent) versus 88 percent in rural areas (Figure 18). Although the urban-rural financial inclusion gap widened in favour of the urban populace from 4 percent in 2011 to 8 percent in 2021 because of the drop in usage of informal products, the formal financial inclusion gap reduced to 12 percent from 19 percent in 2011. Financial inclusion among the urban dwellers is driven mainly by bank products, whereas for rural households, its other formal non-bank products are primarily driven by mobile money. The uptake of mobile money has led to reduced uptake of only informal products, especially among the rural populace.



**Figure 18:** Financial Access Strand by area (%)

**District FAS:** From Figure 19, it can be seen that there are significant disparities among districts, with 94 percent of adults residing in Maseru being financially included versus 77 percent adults in Thaba-Tseka. Other districts like Mokhotlong, Qacha's Nek and Mafeteng also record higher proportions of financially excluded adults than the national average. Most of these districts with higher proportions of financially excluded adults have poorer infrastructure and adults experiencing poverty symptoms. There is a need to design targeted interventions that empower households at the district level to improve their living standards. Offering financial education, improving access to banking facilities or agents and empowering rural households might enhance their livelihoods, leading to demand financial products.



**Figure 19:** Financial Access Strand by District (%)

**Education FAS:** Education is an essential determinant of financial inclusion because it allows people to understand how the formal economy operates and how they can fully participate in it. Adults with higher levels of education or high financial capability are more likely to be financially included, which might be linked to their better economic prospects. Educational attainments give a higher chance of successful entrepreneurship, the likelihood of formal employment and better financial capability. Figure 20 shows this true, where those with no formal education have the highest proportions of excluded adults (21 percent). Adults with higher levels of education are more likely to be banked (85 percent) and use formal financial products than adults with lower levels of education. Financial Capability is also influencing the ability of Basotho to use financial services, especially banking financial services.

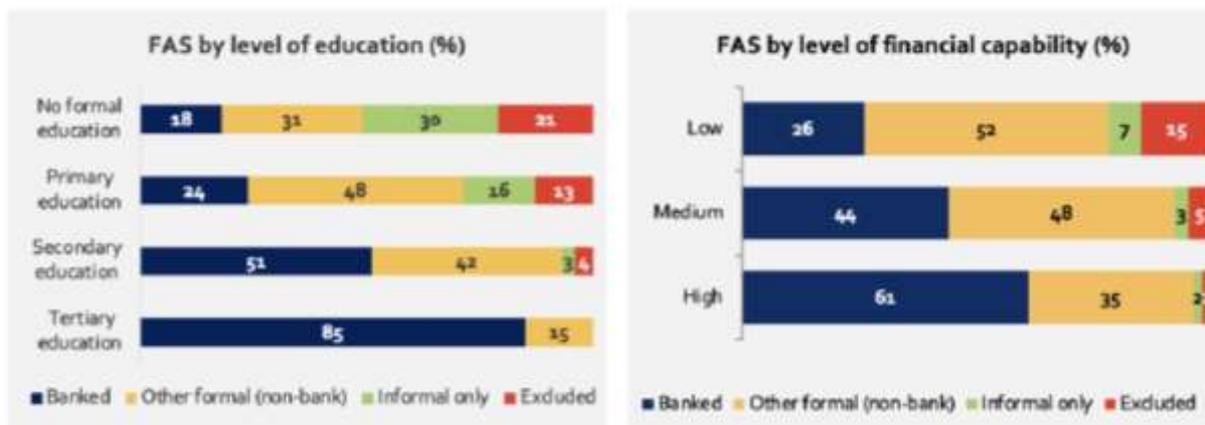


Figure 20: Financial Access Strand by level of education (%)

**Livelihood FAS:** Figure 21 shows the following narrative: The banking sector is more likely to serve adults from the formal sector. Beyond banking, other forms of formal options/non-bank (such as mobile money) are reaching out to informally employed adults, farmers, dependents, and self-employed individuals. Dependents, farmers and informally employed individuals (piece jobs) are likely to be financially excluded; hence offering these individuals tailor-made products will likely increase uptake.

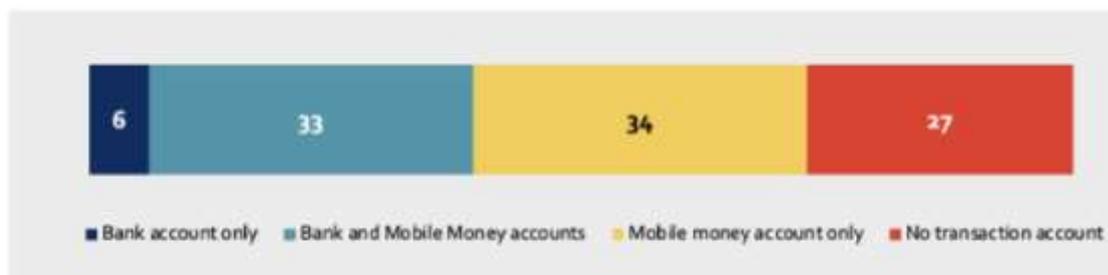


Figure 21: Financial Access Strand by employment activities (%)

#### 5.4. Transaction usage (Bank and mobile money account)

Access to a transactional account is the first step towards broader financial inclusion since it allows people to store money and send and receive payments. In this report, transactional accounts are defined as those accounts offered by a bank and/or mobile money services providers. The underlying proposition of a transactional account is to help account holders manage their money. An account often, but not always, supports a money management objective by enabling users to keep track of money as it moves into and out of the account.

Approximately three quarters (73 percent) of Basotho have a transaction platform mainly through mobile money and/or bank account. It appears that mobile money in Lesotho is used as an entry-level transactional account as it is seen to be substituting bank account ownership. Among those who have a transactional account, almost half of them (47 percent) use only mobile money, showing the impact of mobile money in helping people transact formally. About a third of Basotho (27 percent) do not have access to a transactional account, and these are primarily adults residing in rural areas. Efforts should be made to increase uptake among the adults, as this is the first step towards broader inclusion.



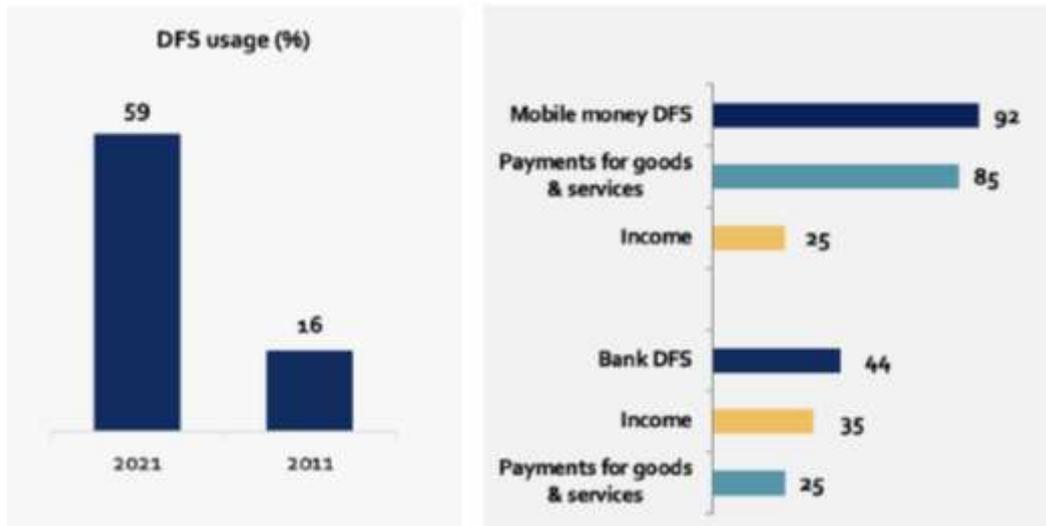
**Figure 22:** Transactional account Strand (%)

#### 5.4.1. Digital financial services

Digital finance and financial inclusion have several benefits to users of financial services, digital finance providers, governments and the economy; notwithstanding, a number of issues persist, which, if addressed, can make digital finance work better for individuals, businesses and government. The digital finance issues discussed in this section are relevant for the ongoing debate and country-level projects directed at greater financial inclusion via digital finance in developing and emerging economies.

Digital financial services (DFS) consist of a broad range of financial services accessed and delivered through digital channels. The use of mobile money and or bank accounts aids in driving the use of digital financial services. Figure 23 shows a significant growth in the usage of digital financial services in 2021 to 59 percent compared to only 16 percent since 2011.

The introduction of mobile money mainly drives growth. Of those who use digital financial services, 92 percent use mobile money digital platforms to make payments for goods and services. Banking digital platforms usage (44 percent) are mainly used for receiving income from employers. Leading activities that drive digital financial services are further unbacked in the following sections (5.5 banking and 5.6 mobile money).



**Figure 23:** Digital financial services usage (%)

FinScope Lesotho 2021 survey shows that all adult Basotho use cash regularly. Both sections 5.5 and 5.6 show that 82 percent of the banked population and 74 percent of mobile money users deposit or withdraw cash regularly. According to the role of cash-in, cash-out-digital-financial-inclusion blog<sup>2</sup>, “dethroning cash in emerging markets may not compel customers to prefer DFS over cash”. The blog further suggests that new evidence suggests that cash-in/cash-out (CICO) networks play a critical role in a country’s transition from cash-based to fully digital financial systems. In most emerging markets, customers who want to use DFS can do so only if they can convert cash into e-money and back again, as needed.”

Global data show that an increase in digital finance transactions does not automatically translate into a reduction in the use of cash, which means CICO remains important as countries start to digitise. Figure 28 shows that 41 percent (543 496) adults in Lesotho use cash only. They skew towards the rural population (77 percent), with piece jobs and depending on other people and government grants as the primary source of income. They also have a low financial capability (60 percent) and coincidentally do not have a transactional account (60 percent). Two in five or 218 844 of those who use cash only have at least one or two transactional accounts. This means that to enhance digital financial services in Lesotho, one needs to focus on rolling out transactional accounts to the one-third of the population that do not have access and creating an educational programme that encourages DFS usage.

<sup>2</sup> <https://www.cgap.org/blog/role-cash-incash-out-digital-financial-inclusion>



Figure 24: Digital financial services usage (%)

## 5.5. Banking

Financial inclusion is the central goal of the national financial inclusion strategy, and principles of financial inclusion include access, affordability, appropriateness, usage, quality etc., of financial products and services. The banking sector is one of the key enablers of financial inclusion in Lesotho. Figure 25 (banking status) shows that 39 percent or 510 827 of the adult population in Lesotho are banked, leaving most of the population as unbanked (14 percent or 187 699 have lapsed users and 47 percent or 620 264 who have never had a bank account).

Access to financial services per se does not guarantee economic outcomes that arise from financial inclusion. Individuals can reap the benefit of financial inclusion only if they effectively employ the services to derive value. Figure 25 (bank account usage) shows that almost three quarters (73 percent) of banked adults use their account at least monthly. However, 27 percent of the banked population are low or dormant users. The 'low users' skew towards adults in informal employment or adults who receive irregular incomes. Both the low/dormant and lapsed users use mobile money account at 80 percent and 71 percent uptake, respectively.

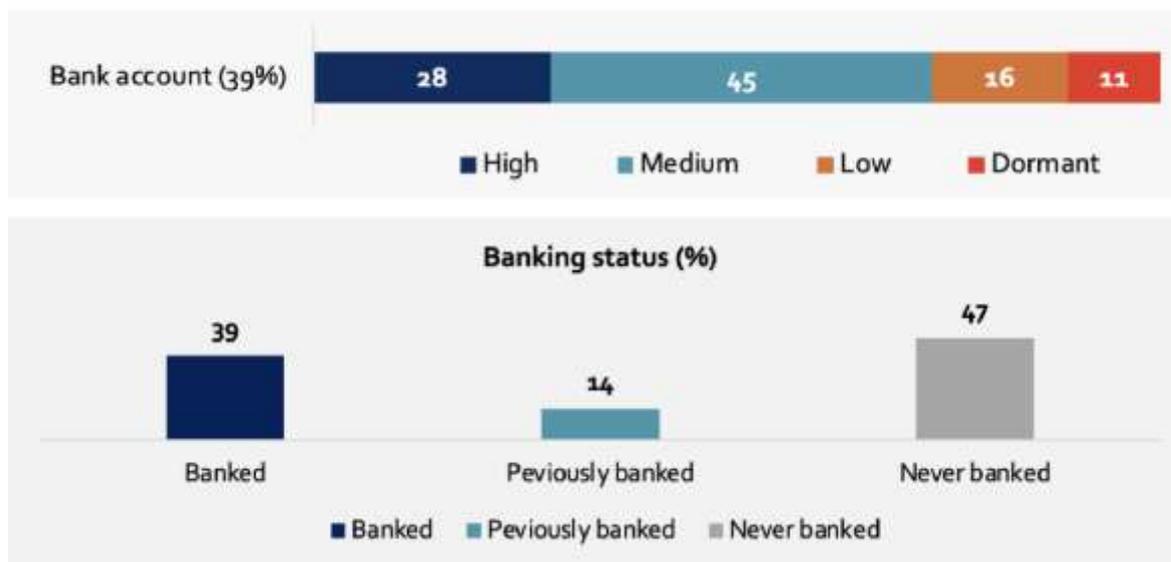
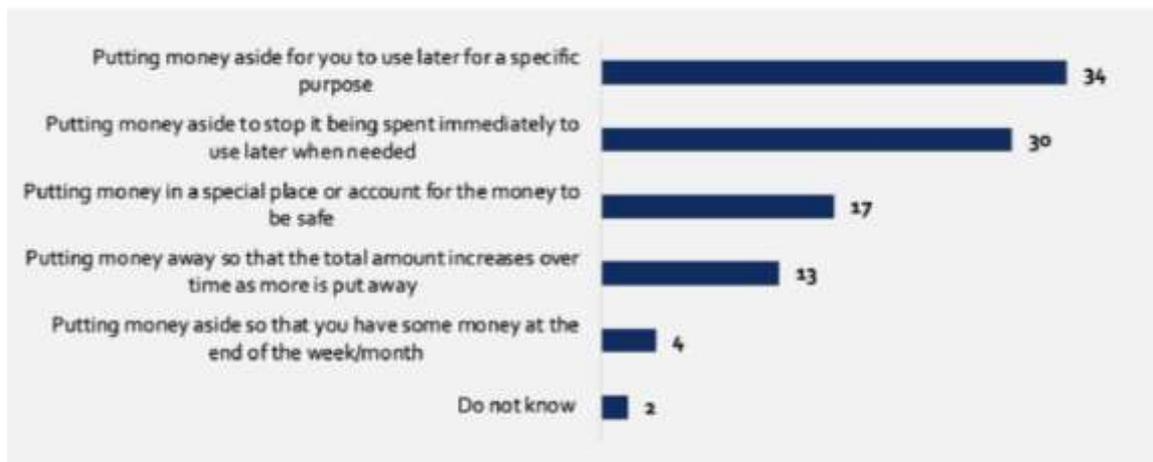


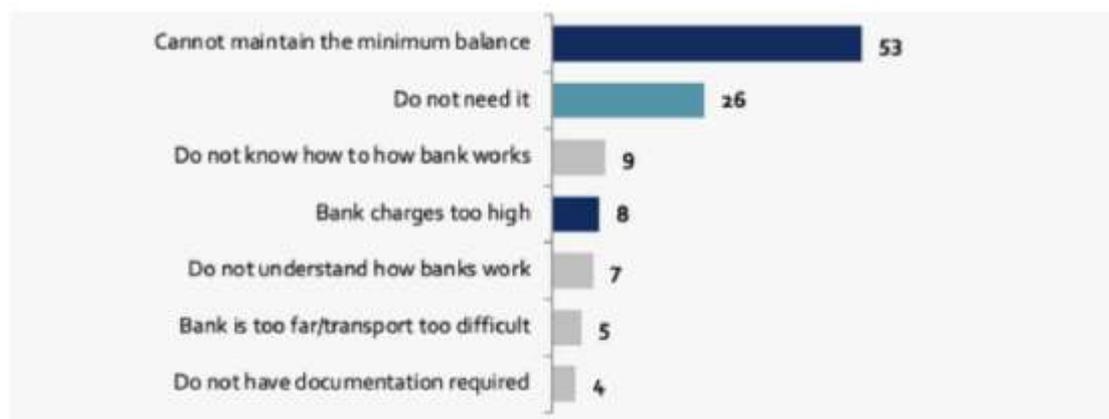
Figure 25: Bank account uptake and usage (%)

Figure 26 shows that the majority of the banked adults use their bank accounts primarily to deposit and withdraw money (82 percent). Around 40 percent or 207 535 Basotho receive income from their employers or government through their bank accounts, while 34 percent or 173 681 banked adults saved monies in their bank accounts. A third (146 492) of the bank population make payments for activities such as school fees, bills and services through their bank account.



**Figure 26:** Banking activities

Looking at the barriers in Figure 27, the key reason for not having or using products and services offered by a commercial bank is costs related (53 percent cannot maintain a minimum balance, and 8 percent cannot afford bank charges). Other reasons are the product need (26 percent), lack of financial awareness (do not understand or know how banks function), lack of documentation required, and the distance to get to the bank.

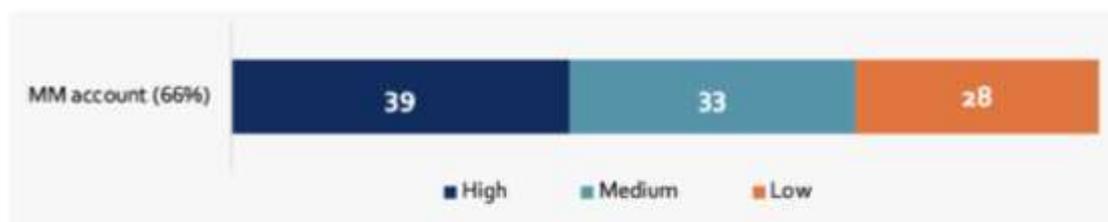


**Figure 27:** Barriers to banking (%)

## 5.6. Mobile money

When considering what drives the usage of mobile money accounts, it is important to do so by looking through the consumer lens, as it seeks to understand the triggers, drivers, and barriers to unlock usage. Around 82 percent or 1 081 408 adults in Lesotho have access to mobile phones. About two thirds (66 percent) or 873 331 of Basotho use mobile money. Mobile money is playing a pivotal role in making the financial sector more inclusive in Lesotho. Further, Mobile money is aiding in reducing exclusion rates among the rural populace, females, and youth shows that mobile money has proven helpful in increasing financial inclusion in rural and remote areas where a lack of infrastructure constrains the outreach of conventional financial institutions.

Mobile money account usage can be seen as a reflection of both client and firm values if it is used as uptake on its own is not sufficient. It is important to note that individuals will benefit only if they effectively use the services to derive value. Positively, Figure 28 shows that around three quarters (72 percent) of adults with mobile money accounts use them on a monthly basis. The mobile money users are defined through 3 segments: high users who use their account at least 3 or more times on a monthly basis. About 40 percent of mobile money are 'high users', a third is medium users using their accounts once or twice monthly.



**Figure 28:** Mobile money Uptake and Usage (%)

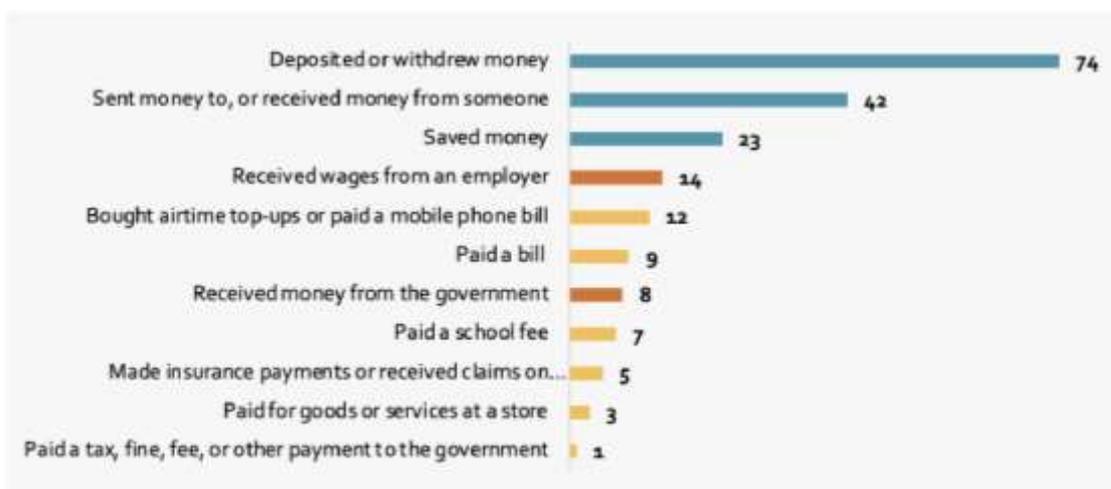
Mobile money usage indicator goes beyond the frequency of usage and looks at the actual activities conducted through the platform. The innovation of mobile money has been to put payments (money transfer) as the first rung in the ladder of financial inclusion. Still, the current trend has moved beyond sending and receiving money (P2P) to becoming payments to businesses (P2B) and savings facilities where people can store money over time.

Among the services available to mobile money users are money transfer, airtime purchase, and bills payments. The mobile money Usage Strand indicator seen in Figure 29 indicates that 86 percent of mobile money users are 'broadly users', meaning they use the platform beyond sending or receiving money. Only 14 percent of the mobile money users use it for remittances only. 34 percent of the mobile money users do not have a mobile money account.



**Figure 29:** Mobile money Usage Strand (%)

Figure 30 details all activities that Basotho do through the mobile money account. These activities range from withdrawing and/or depositing cash at 74 percent, 27 percent payments (P2B) 23 percent receiving income from employers and/or government (B2P). About a quarter or 209 925 mobile money users in Lesotho claim to be using their accounts to save pockets. Mobile money savings is attributed as one of the driving devices to the increased formal savings in Lesotho (this is unpacked in section 5.7). The increased formal savings present an opportunity to be packaged as elements of a broader savings proposition.



**Figure 30:** Mobile money activities (%)

Although mobile money benefits the majority of Basotho, they encounter challenges in using technology, including network failures (38 percent) and Withdrawal limit (31 percent), among others. Enhance digitisation could assist with the cash float. Still, as discussed in 5.4.1, the increase in digital finance transactions does not automatically translate into a reduction in the use of cash, which means CICO remains important as Lesotho starts to digitise.

Of those not using mobile money, the key barriers to the uptake are no access to a mobile phone and lack of product knowledge.

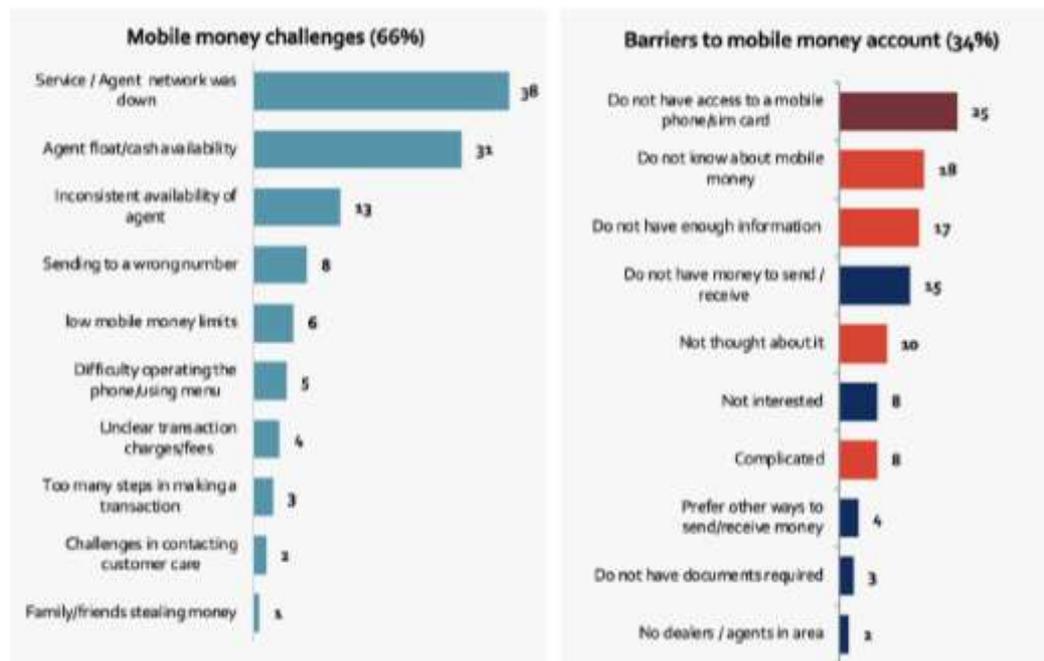


Figure 31: Mobile money challenges and barriers (%)

## 5.7. Savings

For this study, 'savings' refers to money or a store of value set aside for paying for something other than regular expenditures or transactions. This meaning is different from investment, which relates to money put into a medium, be it formal or informal, to bear interest with the risk of losing the amount invested. Figure 32 shows that most Basotho defined savings as putting money aside to use it later (34 percent) or preventing using the money immediately to use it later when the need arises (30 percent). It is only 13 percent that defined savings as a mechanism that allows you to earn interest as the saving increases over time. This may be suggesting that the saving culture in Lesotho is not driven by long-term saving behaviour.



**Figure 32:** Understanding of savings (% agreeing)

Overall, as shown in figure 33, more than half of the adults are saving (56 percent), and there is a massive surge in adults saving using other formal channels (non-bank) from 8 percent in 2011 to 43 percent in 2021, mainly driven by mobile money. However, there has been an increase in formal savings (33 percent in 2011 to 48 percent in 2021), the proportion of Basotho keeping their money in the bank as savings has reduced from 33 percent in 2011 to 23 percent in 2021. Further analysis reveals that the urban populace is still saving more via banks than their mobile money accounts. Informal savings had also declined to 17 percent in 2021 from 29 percent in 2011. This may have resulted from the COVID-19 restrictions, which have a negative impact on social groupings and cash float. About 44 percent of adults are not saving, attributed mainly to low and seasonal incomes.

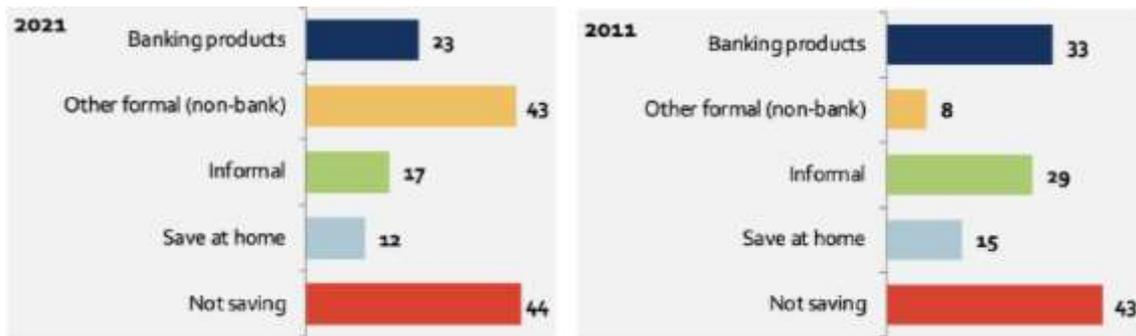


Figure 33: Savings overall (%)

Lesotho's adoption and saving through mobile money accounts account for three-quarters of (74 percent) of all savings. Further analysis shows that the savings behaviour through mobile money accounts could be defined as short-term savings. This is money set aside to run through a monthly cycle or stop it from being spent immediately. Most of the savers are putting aside money to cover day-to-day expenses and emergencies. While saving is a behaviour that merits support and encouragement, savings are beneficial when money is set aside for developmental purposes such as paying for education, investment in business or other opportunities that can enhance future income-generating capacity. Positively, a third of saving Basotho are saving for developmental reasons. This implies that the introduction of integrated savings products that suit the needs of Basotho will help them effectively manage their financial resources.

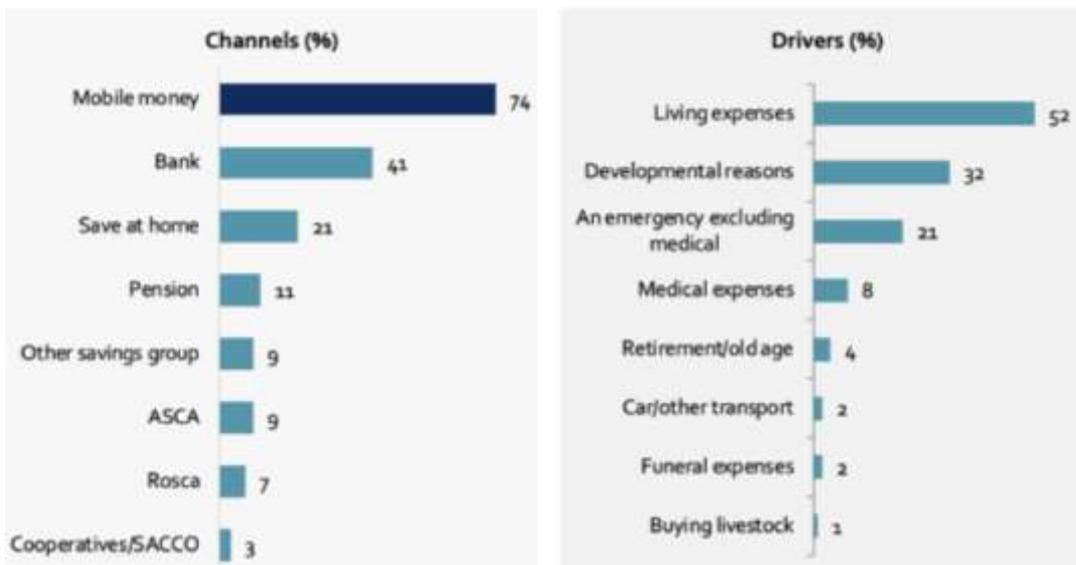


Figure 34: Saving channels and drivers of those who are saving (%)

Adults who do not plan and save for their future are likely to face financial challenges or be dependent on others or the state when old age approaches. Figure 35 indicates that 27 percent of Basotho currently do not have plans for how they will survive when they are ageing. About 36 percent reported that they would be dependent on the Government for support and 10 percent on their family members. Other Basotho will encourage them to rely on their savings, pension or sell their assets. It is essential to educate adults on how they can start saving and investing for the future to protect themselves against financial shocks and mitigate the risk of falling into abject poverty. Savings also present funds that can be invested and are essential to motivate across all formal and informal platforms.

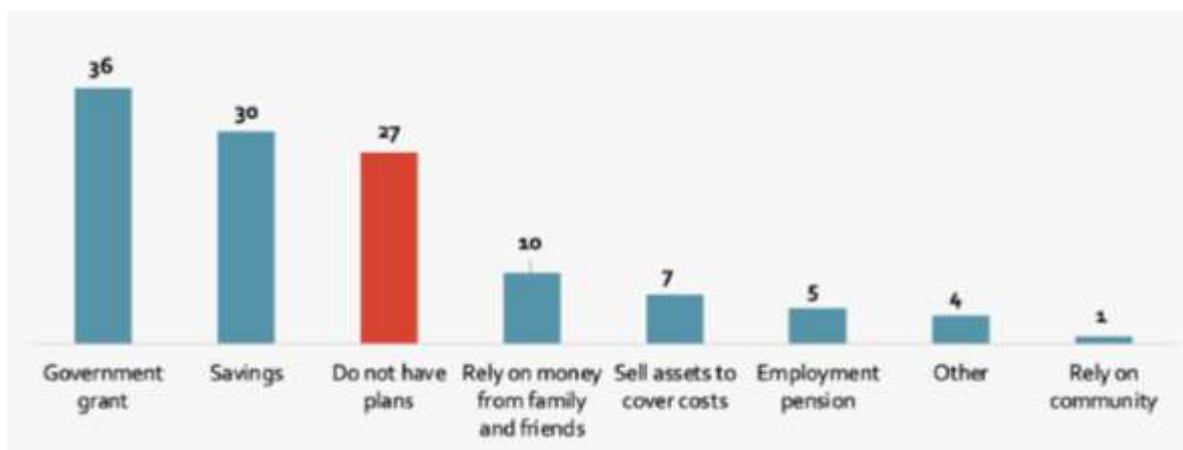


Figure 35: Saving mechanisms for old age (%)

## 5.8. Credit

Credit is generally referred to as an agreement or obligation to receive money or goods promised to pay later. Credit can be acquired from formal financial institutions or informally from money lenders or friends and family. When obtaining credit, individuals have different objectives to meet, and some might borrow for productive reasons while others for consumptive reasons. The availability of credit at a reasonable cost provides individuals with the opportunity to manage short-term liquidity and take advantage of opportunities when they arise.

The credit-active consumers level remains similar to 2011 levels, with 60 percent of adults borrowing in the past 12 months. Overall credit consumption declined slightly (by 4 percentage points), mainly driven by a drop in the other formal credit and borrowing from friends and family. Bank credit increased slightly from 4 percent to 6 percent, and other formal credit declined to 8 percent from 14 percent in 2011. The low and irregular income profiles of many adult populations

serve as a challenge for formal credit eligibility. Basotho’s borrowing needs are being met mainly by the informal sector, including family and friends. However, there has been a considerable drop in credit from family and friends from 52 percent in 2011 to 39 percent in 2021. As previously mentioned, the COVID-19 pandemic negatively impacted people’s incomes, thus reducing the disposable income among families.

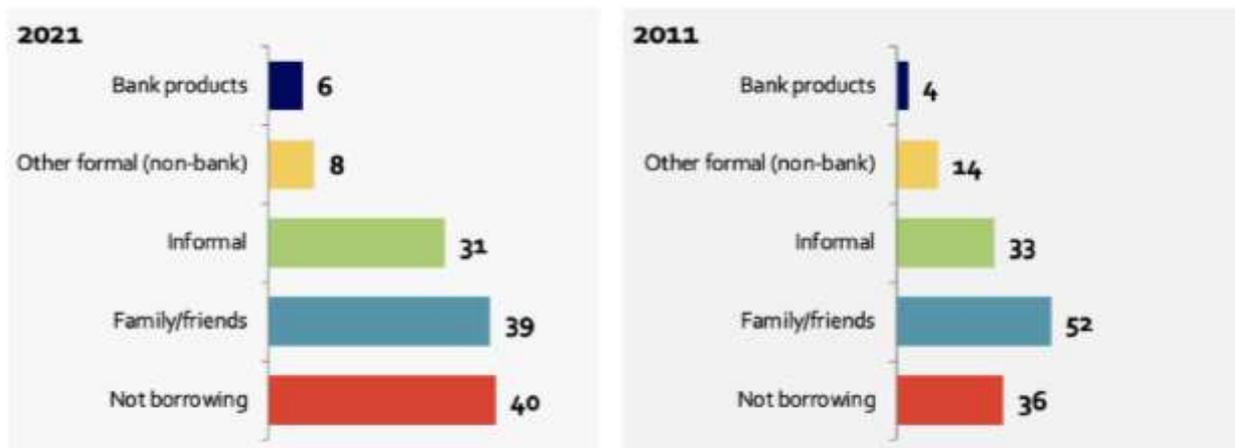


Figure 36: Credit overalls (%)

Further analysis by target groups or sources of income reveals that formal financial institutions mainly serve adults working in the formal sector. Most individuals rely on credit from money lenders or from family and friends. The primary reasons are to get money as soon as possible and a suitable repayment period. Lack of access to formal credit is a major concern and is highlighted as a need for business owners. However, it is also noted that any interventions will require an enabling environment that will bridge the gap between these businesses and the financial institutions.

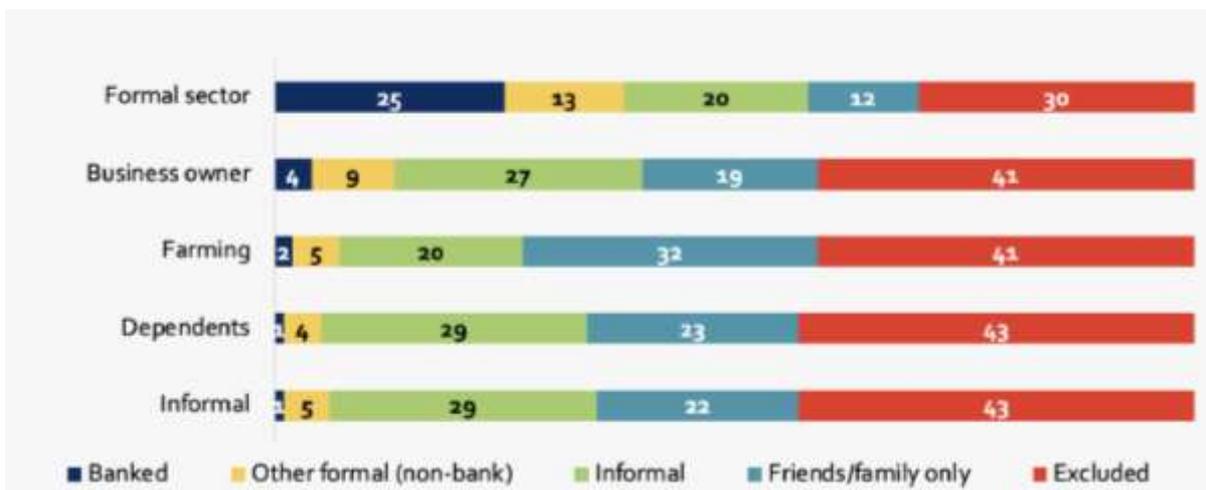


Figure 37: Credit Strand by target groups/livelihoods (%)

The survey explored the barriers to credit (Figure 38), and most of the adults cited fear of debt as the main barrier to credit. There is a need to educate Basotho adults about borrowing matters to eliminate fear amongst individuals, particularly highlighting that credit can be used for productive reasons and help improve livelihoods. Hand in hand, the cost of borrowing and collateral can be investigated to allow more productive lending.

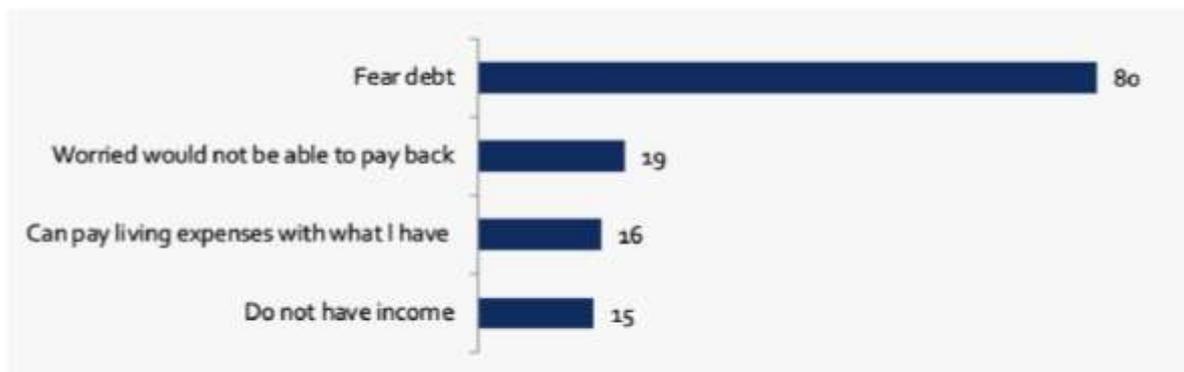
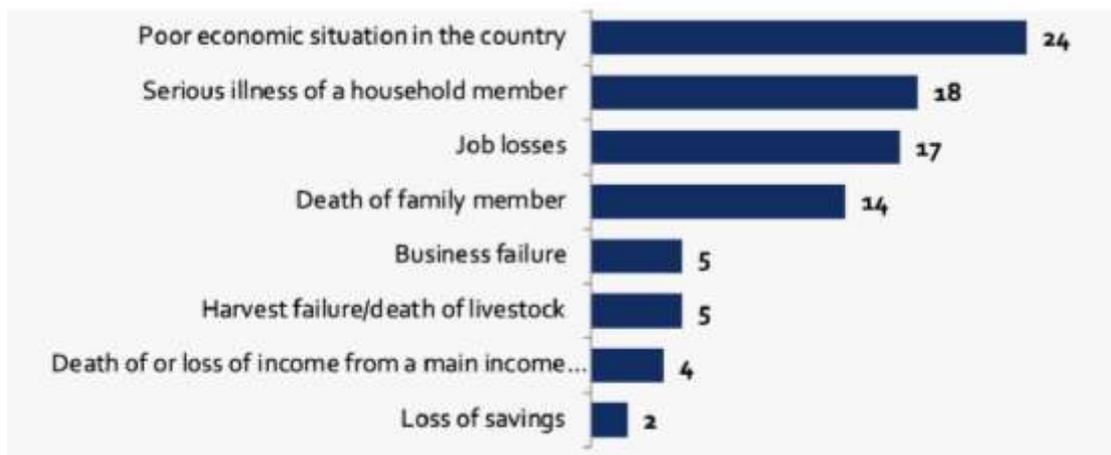


Figure 38: Barriers to borrowing (%)

## 5.9. Insurance and risk management

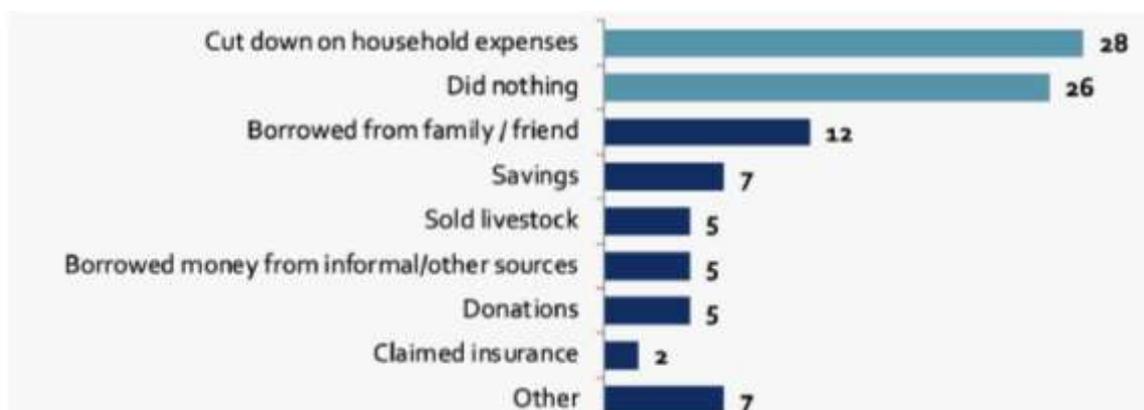
Insurance is a risk management tool primarily used to offset any cost that the occurrence of an unplanned event would incur. In the day-to-day lives of individuals, unexpected events occur and are likely to affect families differently. For this survey, insurance was categorised into formal (policies supplied by licensed insurance companies) and informal (members of village burial and welfare groups).

Three in five Basotho (60 percent) experienced a major risk/event in the past 12 months (prior to the FinScope 2021 survey). The main risks experienced among the households, apart from the poor economic situation, were facing severe illness or health problems among family members (18 percent), followed by job losses (17 percent) and death of a family member (14 percent), as shown in Figure 39. The impact of the COVID-19 pandemic might have exacerbated the situation of job losses and severe illness among households. Basotho adults are well covered for funeral expenses, not illness and loss of income, of the insurable risks.



**Figure 39:** Main risk with most significant impact (%)

Individuals have different coping strategies, and of those adults who experienced a major risky event, more than half of them (54 percent) to non-financial coping mechanisms of either adjusting their expenses (28 percent) or taking no action about the situation (26 percent). Figure 40 also shows that some of the adults used financial coping mechanisms such as credit (17 percent), or savings (7 percent) or claimed insurance (2 percent). Only a small proportion of the adults claimed on their insurance policies; possibly since the majority of the households had to do nothing or cut down expenses, reflects economic hardships that families might be experiencing. There is an opportunity for micro-insurance providers to offer low-cost tailored products that might help cope with shocks.



**Figure 40:** Main coping strategies (%)

**Insurance uptake:** Individuals and households experience various risk events, and income-generating capacity can be eroded in the absence of insurance products due to risk events. Insurance products protect against risk events. As displayed in Figure 38, formally insured adults have grown by 9 percentage points since 2011. There has been a drop in the use of informal products driven mainly by a decline in the usage of burial societies. Similar to the savings group, the

decline may have resulted from the COVID-19 restrictions on regular meetings and the general lack of burial society needs due to a limited number of people attending funerals. Further analysis shows that females and seniors are more likely to be insured than their counterparts. Of the uninsured, insurance remains perceived as unaffordable.

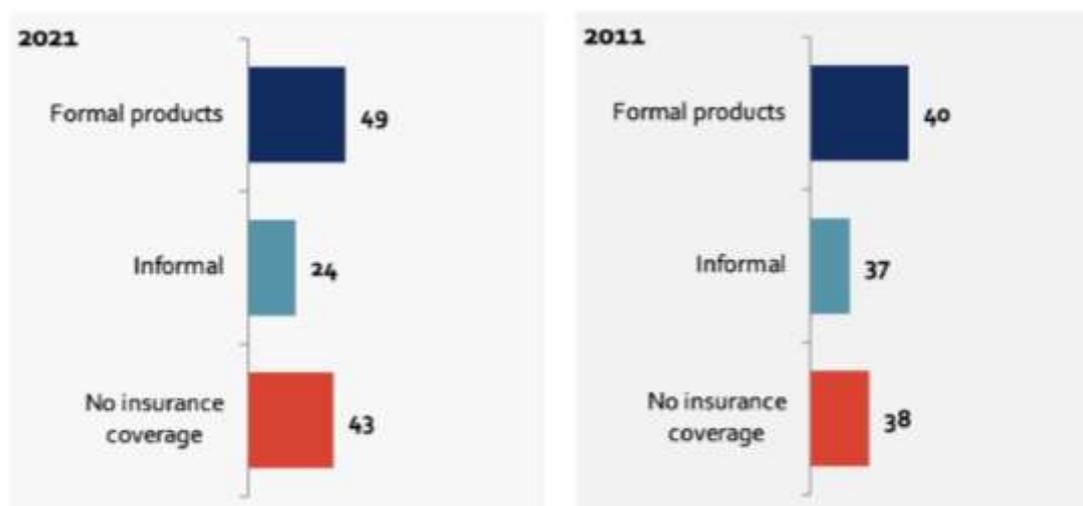


Figure 41: Insurance overalls (%)

Products driving insurance: Insurance in Lesotho remains driven by funeral cover, while main insurable risks remain uncovered. Miss-match between the insurable risks and insurance uptake is a cause for concern. Of the insured adults, only 11 percent have non-funeral insurance, while 93 percent have funeral covers. This should be improved to deal with common insurable risks that include illness and job/income losses. Most uninsured adults claim that they cannot afford the insurance, do not know enough about these products and have not thought about having insurance. Raising awareness of the benefits of insurance products and offering low-cost, tailor-made non-funeral products will be crucial to Basotho.

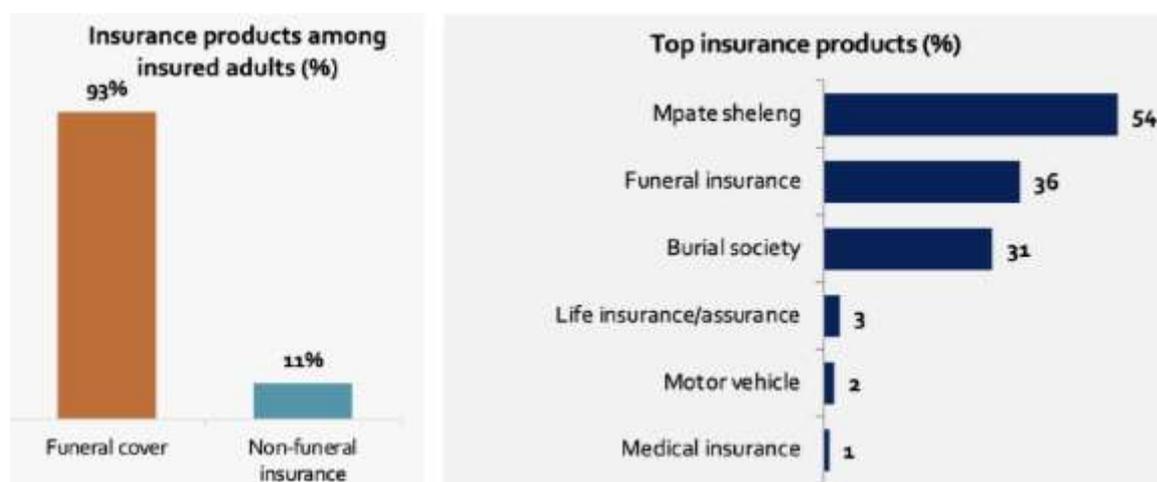
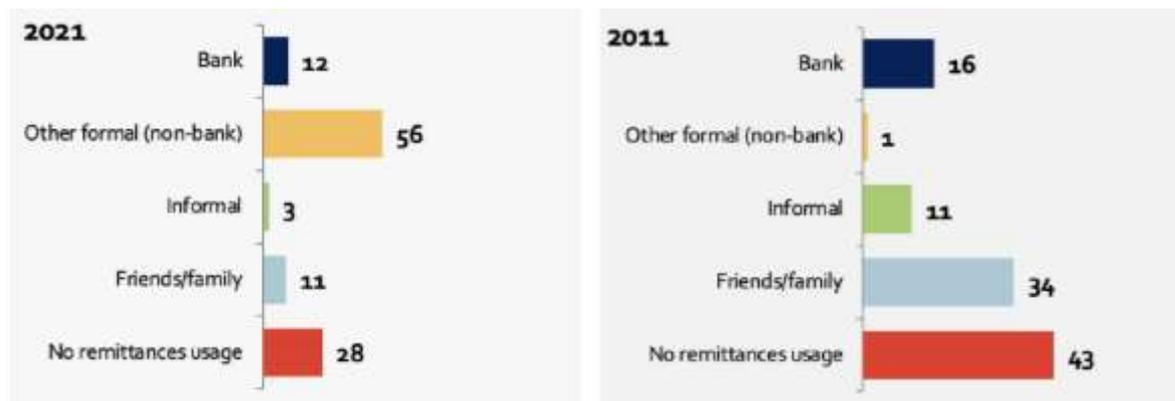


Figure 42: Insurance products (%)

## 5.10. Remittances

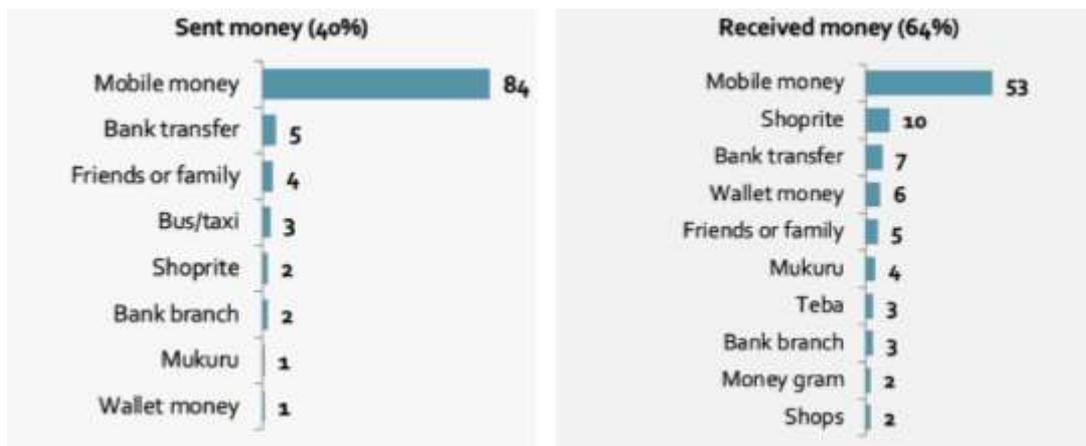
Lesotho continues to export migrant labour to neighbouring countries, especially South Africa, for employment opportunities. Remittances represent the flow of resources from one individual to the other with the intention of supporting the recipient, co-investing in a business venture, or meeting a financial obligation, etc. Thus, it is recorded that a significant population of the working members of the households living outside of Lesotho send money to their spouses or their dependents back home. Urban-centred economic growth also leads to significant rural-urban migration.

The transfer of money is much more prevalent amongst adults in Lesotho than from adults outside the country. Approximately 64 percent of adults (842 761) have received money from their loved ones within and outside the country, whilst 40 percent (527 963) have sent money. Recipients are more skewed towards females and youth. As shown in Figure 43, there has been considerable shifts in the methods used to remit money over the past decade. Remittances have increased from 57 percent of adults remitting in 2011 to 72 percent in 2021. Worth noting is the increase in the use of other formal non-bank channels from as low as 1 percent in 2011 up to 56 percent in 2021 and the drop in use of informal channels (11 percent in 2011 to 3 percent in 2021) or family and friends (34 percent in 2011 to 11 percent in 2021). Basotho used to remit via banks formally, but after adopting mobile money, more adults started using mobile money platforms as they are deemed more convenient.



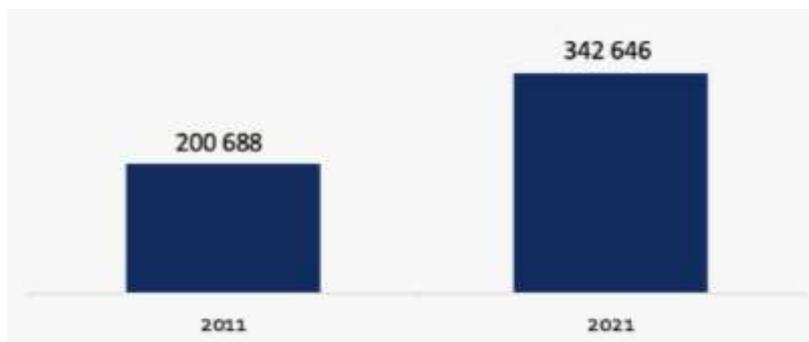
**Figure 43:** Remittance incidence (%)

Among those who are remitting, the impact of mobile money is visible as Basotho are mainly using mobile money to send and receive money from one another. About 84 percent of adults used mobile money to send money whilst 54 percent also received money through mobile money. A smaller proportion of remitters used Mukuru, Shoprite and Banks, among others.



**Figure 44:** Remittance channels (%)

Cross border remittances: FinScope Lesotho 2021 estimates the population of Lesotho living abroad to be around 340 000 people, making Lesotho one of the most migration-dependent countries in the SADC region. There has been a 41 percent increase in the number of Basotho immigrants since 2011. Migrant labour has a central impact on household structures and livelihood activities. Around 60 percent of Basotho outside Lesotho (diasporas) sends money home monthly mainly to finance the daily expenses of their families. Lesotho’s emigrants could be sending around M336 million monthly – this could be approximately M4 billion flow into Lesotho families annually.



**Figure 45:** Diaspora remitters

Cross-border remittances have shifted from being predominately done informally through family or friend or public transport (the runner) to more formal methods. Banking channels and Shoprite are now commonly used by diasporas or Basotho living outside Lesotho. Interventions such as Shoprite money have substantially positively impacted international remittances, thus bringing some positive linkage between financial inclusion and poverty reduction.

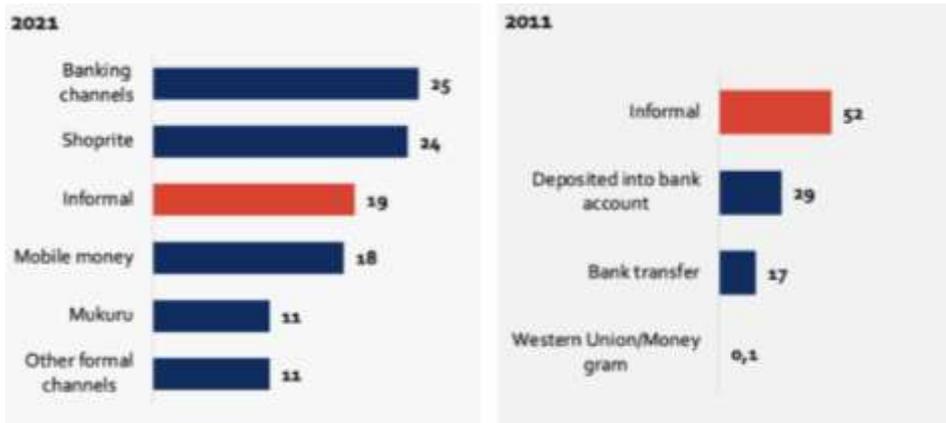


Figure 46: Channels used - outside Lesotho (%)

## 5.11. The landscape of Access and depth of financial inclusion

### 5.11.1. Landscape of access

The Landscape of Access is used to illustrate the extent to which financially included individuals have/use financial products/services and also highlights the drivers of overall inclusion. Figure 47 shows that Lesotho's financial inclusion is driven by transactional activities (mobile money and bank accounts), mainly used to withdraw and deposit cash, payments/transfers, and saving money. This excludes those borrowing from family/friends and those who save at home/hiding in a secret place. Uptake of transactional products, especially mobile money, is driving inclusion in Lesotho, followed by remittances.



Figure 47: Landscape of access (of those with any financial product)

### 5.11.2. Financial product portfolio (Depth strand)

Figure 48 indicates that Basotho have an effective range of product portfolios (transactions, savings, credit and insurance) and high/medium use of financial devices. This indicator, therefore, looks at a depth of the financial product landscape (that is, transaction products, savings, credit and insurance). It includes a context-specific list of sources and tools, both formal and informal. There has been substantial improvement in adults that have access to more than one formal financial product. More financially served adults (87 percent) have more than one formal financial product, with 71 percent having access to two or more products in 2021, up from 31 percent in 2011.

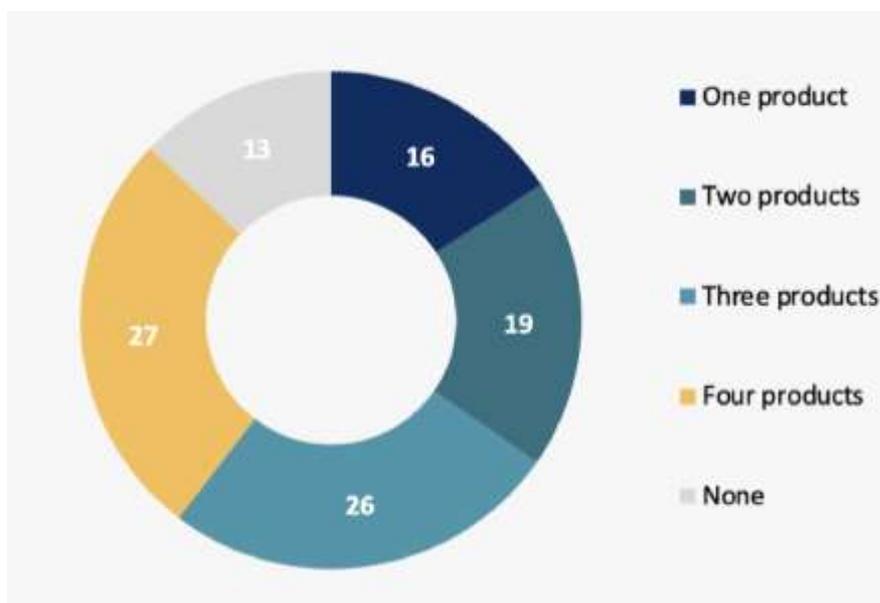


Figure 48: Depth Strand (Formal landscape products)

## 6. FINANCIAL HEALTH

Individuals in the developing world are striving to improve their financial lives. Financial inclusion and financial health are cornerstones for international development. Similar to a financially capable nation, an inclusive and healthy financial system benefits all participants. Individuals (consumers) have greater and more flexible access to vital financial services; entrepreneurship is encouraged; financial services providers (FSPs) are empowered to diversify their customer base and portfolios of services/ products and enhance their corporate brand and reputation. In pursuing improved financial health, people spend money, save money, borrow money, plan ahead, and work to grow their assets and protect their resources.

FinScope Lesotho 2021 survey embraced this framework and thus provided a baseline of financial health indicators. A consumer is financially healthy when he or she:

- **Planning and prioritising** – necessitate that improving and maintaining financial health requires active and intentional engagement, including activities such as planning and prioritisation;
- **Balancing income and expenses** - this entails success in shaping income and expenditure to meet daily needs and financial obligations;
- **Building and maintaining reserves** - this indicator captures the behaviour of intentionally or habitually putting away assets, as well as the magnitude of assets immediately available;
- **Recovering from financial setbacks** - this indicator assesses how well a person can leverage financial resources to weather and recover from an economic setback.

The financial health index is developed based on the above four categories of financial behaviour (that is, planning (plan score), balancing income and expenses (spend score), building and maintaining reserves (save score) and ability to manage risks (resilience score). The following section unpacks these four dimensions (Figure 49) in detail as analysed across several variables.

## 6.1. PLANNING AND PRIORITISING

Improving and maintaining financial health requires active and intentional engagement, including activities such as planning and prioritising. Around 90 percent of adult Basotho have lifetime goals they would like to achieve, which require purposeful management of financial resources. Basotho's goals and aspirations revolve around improving their economic well-being, whether by starting a business, improving shelter, buying land, or investing in education (see Figure 49). Table 6 (FinHealth dimension) shows 80 percent of Basotho scored high in this dimension, but there is a clear gap in the housing supply and credit to assist entrepreneurs. Programs aimed at low-cost housing and credit access would enhance the nation's financial health that the steps or devices used towards achieving goals do not show financial health.



Figure 49: Major priority goal (%)

## 6.2. BALANCING INCOME AND EXPENSES

This dimension describes an individual's day-to-day financial management for both short-term and long-term needs. Individuals use financial strategies to shape their expenses in response to income, and vice versa, even when income is volatile or unpredictable. Strategies Basotho use include saving excess cash and borrowing when there is an income gap. Nearly two-thirds of Basotho two-thirds of Basotho experienced severe distress in the past 12 months. Subsequently, most adults have a low spend score of 63 percent (see Table 6). This is not surprising as around 71 percent of Lesotho adults depend on informal, inconsistent, and irregular livelihoods with an average personal monthly income of M1100.



Figure 50: Liquidity coping mechanisms (%)

### 6.3. BUILDING AND MAINTAINING RESERVES

Building and maintaining reserves indicator captures the behaviour of intentionally saving money or putting away assets. People save in many forms, both in money (cash and accounts) and in tangible items that can store value later, such as land, gold, or livestock. Most individuals have a diverse portfolio of assets to satisfy different liquidity needs. Cash in a bank or mobile account is available for immediate emergencies, while commitment savings plans or livestock store value for longer-term purposes. Table 6 (FinHealth dimension – save score) shows that 47 percent of adults scored low in this indicator. This is directly linked to the fact that the majority of families spend their wallets on living expenses.

### 6.4. MANAGING AND RECOVERING FROM FINANCIAL SETBACKS

A financially healthy nation should be prepared for the unexpected, for financial setbacks or emergencies. This indicator assesses how well-equipped people are to manage, as well as to recover from, a financial setback or crisis. This indicator measures the incidence of adults who experienced unforeseen or unexpected risk events that caused financial loss. The report revealed (in section 5.9, Figure 39) that 60 percent of adults experienced shock events that caused financial loss. These included hardships created by a poor economy and the following insurable risks:

- Job loss – 21 percent
- Death of a family member – 18 percent

- Death of a family member – 14 percent
- Business/harvest/livestock failure – 10 percent

As indicated in Figure 40 (insurance section), of those who experienced setbacks, 54 percent adjusted their expenses (28 percent), and others did nothing (26 percent) to cope with shocks. Further, 22 percent of adults relied on non-financial devices (social 17 percent and physical 5 percent). This may indicate that the devices mitigating financial setbacks are not adequate to meet all the possible financial setbacks experienced by Basotho.

**Table 6:** FinHealth dimensions (%)

FinHealth dimensions	Low score	Medium	High score
Planning and prioritising (Plan score)	20.4%	33.5%	46.1%
Ability to manage day to day (spend score)	63.5%	14.7%	21.8%
Build and maintain reserves (save score)	46.9%	35.7%	17.4%
Ability to manage risks	41.7%	18.5%	39.9%

Financial health (impact indicator): Financial inclusion and financial health are cornerstones for international development. An inclusive and healthy financial system benefits all participants—individuals have greater and more flexible access to vital financial services; entrepreneurship is encouraged; financial services providers (FSPs) are empowered to diversify their customer base and their portfolios of services/ products, enhance their corporate brand, reputation.

The majority of Basotho do plan and prioritize ahead, but challenges with liquidity management do not allow them to build and maintain reserves as little that they set aside is used to smoothen liquidity issues. They also rely on adjusting their expenditure or on a social support system to mitigate risks!

## 6.5. FINANCIAL HEALTH INDICATOR (OVERALL)

The Financial Health overall indicator score is created to profile Basotho adults who may be either financially vulnerability, financially coping or financially healthy. To determine the scores, the average was calculated based on the Likert scale questions.

As stated in the above sections, most Basotho do plan and prioritise ahead, but challenges with liquidity management do not allow them to build and maintain reserves as little that they set aside is used to smoothen liquidity issues. They also rely on adjusting their expenditure or on social support systems to mitigate risks! Figure 51 shows that one-third of Basotho are financially vulnerable.

The financial health indicator is very important. It determines how financially healthy Basotho are, provides a baseline for future targets, and identifies actions needed to guide policymakers and regulators in ensuring that financial inclusion benefits Basotho.



Figure 51: FinHealth dimensions (%)

### 6.5.1. Characteristics of the Financially Vulnerable Basotho

To reduce the financially vulnerable adults, the FinHealth indicator should display characteristics of those financially vulnerable populations. The financially vulnerable adults (consumers) should be the focus of targeted intervention. Classifying the population into financial health segments will go a long way in ensuring the intervention targets and addressing specific financial inclusion components.

Table 7 describes the financially vulnerable as adults who skew towards:

- Rural population,
- Botha -Bothe; Leribe; Mafateng; Mohale's Hoek and Mokhotlong districts
- Females
- Those within ages of 50 years and above
- Lower levels of education and financial capabilities
- Income sources linked to small and irregular incomes

**Table 7:** Profile of financially vulnerable people (%)

Description	Financially Vulnerable
Settlement	Rural population
District	Botha -Bothe; Leribe; Mafateng; Mohale's Hoek and Mokhotlong
Gender	Slightly more females
Age group	50 years and above
Main source of income	Dependents, Piece jobs and farming
Education	Primary and less level of education
Transactional account	Unlikely to use a bank or mobile money accounts (36%)
Financial capability	60 percent have low financial capability
Poverty indicator	They are more likely to skip a meal because did not have enough money to buy food (66 percent)
Poverty indicator	78 percent go without cash income and had to make a plan

The financial vulnerable are less likely to receive remittances than financial coping and healthy groups. They are more likely to receive money informally if they receive remittances because they don't have transactional accounts. The fact that they rely on remittances that are physically delivered in cash contributes to high poverty indicators compared to the rest of the population.

## 7. CONCLUSIONS AND RECOMMENDATIONS

In summary, the FinScope 2021 report provides an overview of how Basotho (18 years and older) manages their finances and elements that influence their uptake and usage of financial services while tracking the changes from the FinScope Consumer 2011 survey. Lesotho is one of the most financially included countries in the SADC region. This makes the financial inclusion journey in Lesotho an exciting one. A few concluding points are given below.

### 7.1. Concluding points

Overall improvement in the level of education since 2011 (more people have post-secondary education, and the number of adults without formal education has dropped to 8 percent in 2021 from 26 percent in 2011). Secondary education and beyond enrolment rates are less than 50 percent. A considerable number of adults have low financial capabilities, directly linked to senior citizens and those with primary and lower levels of education.

The majority of the adult population are individuals with small, inconsistent, and irregular incomes, such as those who rely on remittances, piece jobs and farming.

Lesotho has positively developed and resulted in the notable expansion of formal financial inclusion exceeding the set target of 85 percent formally served adults for 2021. Formal financial increased by 27 percentage points to 87 percent in 2021, reducing adults exclusively dependent on informal mechanisms from 21 percent in 2011 to only 4 percent in 2021. The number of excluded adults has been reduced from 19 percent in 2011 to 9 percent in 2021.

Some of the highlights of the positive financial inclusion figures seen in Lesotho include:

- Increased usage of transactional accounts and e-money, which were the main drivers in the increased financial inclusion.
  - i. Around three quarters (73 percent) of Basotho have at least a transactional account (66 percent mobile money and 39 percent bank account).
  - ii. About 60 percent of adults in Lesotho have used digital payments in the past 12 months prior to the survey.

- Mobile money is being widely and broadly used; 72 percent of users transact monthly. The innovation of mobile money has placed payments as the first step in the process of financial inclusion. Still, Basotho is sending and receiving money in real-time and storing money over time. Activities conducted through mobile money make mobile money account services more relevant. They could be a driver for high usage as it accommodates the mindset of today's consumers, just with better tools.

## 7.2. Summary of progress and focus areas

Category	Progress	Focus area
<b>Formally served adult population</b>	Number of formally served adults exceeded 2021 target of 85%.	About a third of Basotho do not have a transactional account - Can we also deepen the bank reach?
<b>Introduction of low-cost transactional products</b>	More people use mobile money, and informal remittances are significantly reduced.	Mobile money network and float challenges need to be addressed. Quite a few households still receiving cross-border remittances informally – this may be an issue with undocumented diasporas.
<b>Savings</b>	Number of adults who have formal savings grew by 26% since 2011 and driven by mobile money account.	The payment of interest on mobile money balances may need to be considered.
<b>Credit</b>	Credit uptake remains at a similar level to 2011.	Lack of access to formal credit remains a major concern and is highlighted as a need for business owners.
<b>Insurance</b>	More adults are now insured formally, albeit driven by funeral cover and leaning more people exposed to other risks.	Expand insurance to manage the impact of risk better.
<b>Housing finance</b>	A significant number of Basotho have a dream to buy formally surveyed plots or developed houses.	Reviews/align financial regulations and housing and land policies/regulations that will hopefully support a more conducive environment for accelerated economic growth and investment climate.

### 7.3. Recommendations

The priorities of financial inclusion in Lesotho continue to ensure that the lives of Basotho are improved. To this end, the following areas could be prioritised:

- Adopt Financial Inclusion 2.0 agenda and enhance impact measurement indicators:
  - Financial Inclusion 2.0 focuses on addressing real economy needs through better financial solutions. Embedding the part of the financial sector role in a clearer view of how it engages the real economy is one of the key changes in FI2.0. Identify and facilitate the implementation of the financial interventions that will improve the resilience and sustainable livelihoods for the target groups and enhance the contribution to the macro-economic indicators for the country.
  - Emphasise the focus on the usage and quality of the financial services and develop specific indicators to monitor these. The use of digital financial services and economic platforms can unlock the opportunities and contribute positively to financial inclusion.
- Deepening the bank reach - Banking services have focused on the most obvious commercial opportunities, including the formally employed and the salaried market. Efforts that have looked at the deepening bank reach in more remote areas such as agent banking should be encouraged. Leaner banking structures, where infrastructure setup costs use existing structures, such as post offices, supermarkets have also proved to increase penetration of banking services to marginalised communities in other markets.
- Prioritise financial consumer education through providing a comprehensive National Financial Consumer Education Strategy. This will give a framework to guide the implementation, facilitate the mobilisation of resources, stakeholder coordination and monitoring and evaluation.
- Ensure credit provision that enables productive capacity or improves the quality of life. An environment for banks to lend to MSMEs remains a priority. Lack of access to credit is a major concern and is a clear need, especially for business owners. It is, however, also noted that any interventions will require the provision of an enabling environment that will bridge the gap between these businesses and the financial institutions in terms of improving the data to open these businesses, have and use technology as well as the development of the value chain ecosystem to reduce transaction costs.

- Expand insurance to manage the impact of risk better. Improve the provision of insurance products and regulations to overcome industry challenges. To increase uptake of non-funeral insurance, premiums for such insurance products must be affordable and be tailored to suit different groups.
- Review/align financial regulations as well as housing and land policies/regulations that will hopefully support a more conducive environment for accelerated economic growth and investment climate
- Make a case for the payment of interest on mobile money wallet balances to customers to test the elasticity of customers to use interest on savings (via mobile wallets).

## REFERENCES

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