

# FinScope Consumer Survey Lesotho 2011



**FINS**COPE



**FINMARKET TRUST**

Making financial markets work for the poor



# Table of contents

Acknowledgements	1
Definitions	2
Executive summary	3
<b>1 Introduction</b>	<b>5</b>
1.1 Background to FinScope in Lesotho	5
1.2 FinMark Trust	6
<b>2 Country context</b>	<b>7</b>
2.1 Demographic background	7
2.2 Economy	8
2.3 Financial markets	10
2.4 Government financial programmes and reforms	13
<b>3 Survey methodology</b>	<b>17</b>
3.1 Questionnaire design	18
3.2 Sample design	18
3.3 Training, pilot and fieldwork	18
3.4 Quality control	19
3.5 Data processing	19
3.6 Data analysis, reporting and dissemination	20
<b>4 Study findings</b>	<b>23</b>
4.1 Demographic characteristics of the adult population	23
4.2 Understanding people's lives	25
4.3 Income-generating activities	29
4.4 Financial inclusion in Lesotho	31
4.4.1 Financial inclusion – overview	31
4.4.2 Product uptake	33
4.4.3 Financial Access Strand	36
4.4.4 Landscape of Access	40
4.5 Financial behaviour	42
4.5.1 Savings	42
4.5.2 Borrowing	44
4.5.3 Insurance	47
4.5.4 Remittances	48
<b>5 Key take-outs and conclusions</b>	<b>50</b>

## List of tables

Table 1	Formal Sector Employment (FY2009/10 data, extrapolated from 2008 Labour Force Survey)	9
Table 2	Number of Branches and ATMs by institution	10
Table 3	Methodological overview	17
Table 4	Distribution of completed interviews by ecological zones	19

## List of figures

Figure 1	Proportion of population and Bank Branches/ATMs by district (as of June 2011)	11
Figure 2	Survey implementation stages	17
Figure 3	Gender distribution: percentage of adults	23
Figure 4	Rural-urban split of the adult population	23



## List of figures continued

Figure 5	Geographical distribution of the Basotho population aged 85 years or older by ecological zone	23
Figure 6	Age distribution of the Basotho population aged 18 years or older	24
Figure 7	Education profile of Basotho aged 18 years or older	24
Figure 8	Access to drinking water: percentage of Basotho aged 18 years and older	25
Figure 9	Access to drinking water: percentage of Basotho aged 18 years and older – Rural versus Urban	25
Figure 10	Access to sanitation facilities: percentage of Basotho aged 18 or older	26
Figure 11	Energy sources used for cooking: percentage of Basotho aged 18 years or older	26
Figure 12	Dwelling ownership: percentage of Basotho aged 18 years or older	27
Figure 13	Usage of mobile phones: percentage of Basotho aged 18 years or older	27
Figure 14	Usage of mobile phones: percentage of Basotho aged 18 years or older – Rural versus Urban	27
Figure 15	Access to facilities - percentage of Basotho aged 18 years or older	28
Figure 16	Access to facilities - urban: percentage of Basotho aged 18 years or older	28
Figure 17	Access to facilities - urban: percentage of Basotho aged 18 years or older	29
Figure 18	Main income generating activities: percentage of Basotho adults	29
Figure 19	Main income generating activities: percentage of Basotho adults – Rural versus Urban	30
Figure 20	Formal versus informal financial product usage among Basotho adults	31
Figure 21	Percentage of Basotho adults using financial services: Rural versus Urban	32
Figure 22	Types of banking products used by Banked Basotho adults	33
Figure 23	Types of banking products used by Banked Basotho adults – Rural versus Urban	33
Figure 24	Types of products and services used by Basotho adults who use non-bank formal financial institutions	34
Figure 25	Types of products and services used by Basotho adults who use non-bank formal financial institutions – Rural versus Urban	34
Figure 26	Types of products and services used by Basotho adults who use informal products and mechanisms	35
Figure 27	Types of products and services used by Basotho adults who use informal products and mechanisms – Rural versus Urban	35
Figure 28	Overlap of usage of banking, formal other and informal financial services: total adult population	36
Figure 29	Financial Access Strand for Basotho adults	37
Figure 30	Financial Access Strands for the different ecological zones in Lesotho	37
Figure 31	The Lesotho Access Strand: Rural versus Urban	38
Figure 32	The Lesotho Access Strand: male versus female	38
Figure 33	The Lesotho Access Strand: Country comparisons (ranked on 'financial exclusion' levels)	39
Figure 34	The Lesotho Access Strand: Country comparisons (ranked on the proportion that is banked)	40
Figure 35	Financial Landscape of Access for Lesotho	41
Figure 36	Financial Landscape of Access: Role of the informal financial services sector	41
Figure 37	Financial Landscape of Access: Rural versus Urban	42
Figure 38	Claimed savings	42
Figure 39	Savings mechanisms/products: Rural versus Urban	43
Figure 40	Savings: Reasons for saving for Basotho adults who save	43
Figure 41	Claimed borrowing	44
Figure 42	Sources of borrowing for those who have borrowed	44
Figure 43	Reasons for borrowing for those who have borrowed	45
Figure 44	How Basotho adults would spend a large amount of borrowed money	45
Figure 45	How Basotho adults would spend a large amount of borrowed money – Rural versus Urban	45
Figure 46	Attitudes of Basotho adults regarding borrowing	46
Figure 47	Reasons for not borrowing	46
Figure 48	Insurance coverage: Total, Rural versus Urban	47
Figure 49	Insurance coverage: Total, formal versus informal, Rural versus Urban	47
Figure 50	Understanding of insurance: Rural versus Urban	48
Figure 51	Remittances during the 12 months prior to the FinScope survey	48
Figure 52	Remittance mechanisms used by individuals who remitted during the 12 months prior to the FinScope survey	49
Figure 53	Remittance mechanisms used by individuals who remitted during the 12 months prior to the FinScope survey – Rural versus Urban	49

# Acknowledgements

Special thanks go to the donors of this study including FinMark Trust, UKaid (DFID) and the Central Bank of Lesotho. Any conclusions or recommendations stated here are those of the authors and do not necessarily reflect official positions of funders.

Acknowledgements also go to the Steering Committee which comprised representatives from FinMark Trust, the Central Bank of Lesotho, Ministry of Finance Lesotho, Bureau of Statistics, Banking Association of Lesotho, Microfinance association and Insurance association.

These stakeholders formed an integral part in the survey questionnaire design and offered valuable insight into the financial sector in Lesotho.



## Definitions

Term	Definition
Access Strand	A measurement of financial inclusion across the formal-informal institutional provider continuum.
Additive	Financial services that target existing customers.
Adults	Those aged 18 years or older
Banked	Individuals using one or more traditional financial product supplied by banks.
Credit	Obtaining funds from a third party with the promise of repayments of principal and, in most cases, with interest and arrangement charges in exchange for the money.
Demand-side barriers	Demand-side barriers to access to financial services relate to characteristics inherent to individuals that prevent them from using financial services such as perceived insufficient income, low levels of financial literacy and lack of trust in financial institutions.
Formal other	Individuals using one or more financial product supplied by formal financial institutions which are not banks.
Formal products	Products provided by government regulated financial institutions such as commercial banks, insurance companies and microfinance institutions.
Formally included	Individuals using formal financial products supplied by institutions governed by a legal precedent of any type. This is not exclusive usage, as these individuals may also be using informal products.
Financial access landscape	A measurement of usage of both formal and informal products across the four main product groups: transactions, savings, credit and insurance.
Financially served	Individuals using one or more formal and/or informal financial product.
Financially excluded	Individuals who are not using any formal or informal financial product.
Financial inclusion	The extent to which the adult population in the country engages with financial products and services, such as savings, transaction banking, credit and insurance, whether formal or informal.
Informal products	Financial services provided by individuals and/or associations which are not regulated by government such as savings clubs and private moneylenders.
Informally only served	Individuals who are not using any formal financial products but who are using one or more financial products supplied from an informal source, such as a savings club or informal moneylender.
Informally served	Individuals who make use of informal financial products (regardless of whether or not they use formal financial services and products)
Insurance	Payment of a premium for risk of an event happening, where payout is made if or when the event occurs.
Remittances	The sending and receiving of money between people in one place to people in another; using formal and/or informal means.
Savings	Safeguarding and accumulating wealth for future use.
Supply-side barriers	Supply-side barriers to access to financial services relate to factors inherent to financial service providers that prevent individuals from using their services such as location of access points and the cost of using their services.
Transactional	Financial services that use cash or other means (such as cheques, credit cards, debit cards or other electronic means) to send or receive payments.

## Executive summary

The Government of the Kingdom of Lesotho, through the Central Bank of Lesotho (CBL), recognises that the scope and efficiency of the financial sector play an important role in facilitating economic and private sector growth. In light of this, one of the main objectives of the government is to improve the reach and depth of financial services delivery in Lesotho. A key constraint in pursuit of this objective has been the lack of comprehensive information about the levels of financial inclusion, as well as the factors inhibiting usage of financial services. Against this background, the Central Bank of Lesotho (CBL) initiated the implementation of the FinScope Lesotho 2011 survey.

The FinScope survey is a research tool which was developed by FinMark Trust. It is a nationally representative survey of how individuals source their income, and how they manage their financial lives. It also provides insight into attitudes and perceptions regarding financial products and services. To date, FinScope surveys have been conducted or initiated in 16 countries.

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

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

A total of 2000 face-to-face interviews were conducted with Basotho adults aged 18 years and older between April and May 2011. The Lesotho Bureau of Statistics (BoS) developed the sample frame, weighted and validated the survey data.

### Understanding people's lives

The FinScope Consumer Survey Lesotho 2011 highlighted the following key issues that impact the lives of people in Lesotho: The majority of the Basotho adult population (69%) live in rural areas. 39% are under the age of 30 years (an age group that FinScope data shows as not yet economically settled). Two thirds (67%) have primary school education as their highest level of education. There are low levels of income which is often irregular. More than half (54%) rely on irregular and inconsistent incomes – such as from farming (31%), own business (12%), and money from family and friends (11%). Only 12% receive salaries or wages. Putting the drive for better financial inclusion in context illustrates the following daily realities: Less than 25% are from households with an own tap (in the home/yard), while 26% are from households with no toilet facilities.

While more than half of the Basotho adult population (55%) are from households that use basic energy sources (charcoal/wood) for cooking, only 31% are from households that use electricity or gas for cooking.

### Financial inclusion

In spite of this situation, however, the level of financial inclusion in Lesotho is unexpectedly high with only 19.1% of the adult population being financially excluded. The main reason for the high level of financial inclusion is the high level of usage of products related to funeral cover: 62.4% of the adult population use informal financial mechanisms (which in itself is significantly high compared to other countries where FinScope surveys have been conducted). While 60% of these individuals use the informal sector for funeral cover through burial societies, 45.8% of the adult population have/use non-bank formal products/services. Once again this is significantly high when compared to other countries where FinScope surveys have been conducted. 81% of these individuals have funeral insurance.

Although the usage of funeral cover is a significant driver of the high level of inclusion, this is not the only driver – without funeral cover, the level of inclusion will still be high at 66%. The proportion of the banked population is high (38%), although most individuals use bank accounts and have/use transactional and savings type facilities.



Almost half (42%) of the banked population use their bank accounts for remittance purposes. Although the high usage of non-bank formal products/services and informal mechanisms is mostly driven by funeral cover, a significant proportion of those who use these, do so to gain access to credit facilities offered by non-bank formal institutions and by the informal sector: 31% of those who use non-bank formal products use credit products (i.e. microfinance). More than half (52%) of those who use informal mechanisms use informal sources of credit. One could easily attribute the high levels of financial inclusion in Lesotho to the fact that in terms of land size and population, Lesotho is a relatively small country with just more than one million adults to serve financially. Providing access to financial services might therefore be relatively less problematic than in most other countries. However, an assessment of the type of services and products used by formally served individuals seems to indicate that non-bank formal service providers, in particular, are doing something right in terms of reach; certainly as far as addressing the need for insurance provision and microfinance is concerned.





# I Introduction

## I.1 Background to FinScope in Lesotho

The existence of central banks bears testimony to the importance of well-functioning financial markets to economic development of any country. One of the objectives of the Central Bank of Lesotho (CBL) is 'to promote the safe and sound development of the [Lesotho] financial system'. A resultant imperative arising out of this objective is to improve the reach and depth of financial services delivery in Lesotho.

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

### The FinScope survey tool

The FinScope survey tool was developed by FinMark Trust as a nationally representative survey of consumer perceptions about financial services and issues. FinScope provides insights into how people source their income and manage their financial lives. It looks at the use of, and demand for financial services and products, as well as attitudes, vulnerability, coping behaviour and consumption patterns of individuals. By exploring the use of informal as well as formal financial products, FinScope helps to build a valuable picture of the role that the formal and informal sectors play in a country's financial market.

A representative sample of the adult population, rich and poor, rural and urban, is used to create a continuum of the market in order to lend perspective to various market segments. By doing so, FinScope assists in establishing credible benchmarks and indicators of financial inclusion, while at the same time providing insights into market obstacles to growth and highlighting opportunities for policy reform and innovation in product development and delivery.

FinScope findings can therefore be of value both to policymakers who wish to develop policy aimed at improving the functioning of financial markets, to private service providers who are able to design product strategies around the segmentation and trends highlighted by the data, and to donors and non-governmental agencies who wish to support increased financial inclusion to specific regions or population groups.

To date, FinScope surveys have been completed in 15 African countries, including Lesotho, Zambia, South Africa, Namibia, Botswana, Kenya, Tanzania, Uganda, Nigeria, Rwanda, Malawi, Swaziland, Ghana, Mozambique, and Zimbabwe. This Pan-African implementation of FinScope facilitates valuable cross-country comparison, benchmarking and ongoing performance monitoring.

### FinScope Consumer Survey Lesotho 2011

In 2011, FinMark Trust was requested by the CBL to conduct a FinScope Consumer Survey, which was funded by UKaid and the Central Bank of Lesotho.

The objectives of the FinScope Consumer Survey Lesotho 2011 include the following:

- To measure the **levels of financial inclusion** (i.e. the proportion of the population using financial products and services – both formal and informal) in Lesotho
- 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 the usage of financial products and services
- To stimulate **evidence-based dialogue** that will ultimately lead to effective public and private sector interventions that will increase and deepen financial inclusion strategies

This report provides an overview of the top line findings of the FinScope Lesotho 2011 survey. It is hoped that the wealth of information that this initial survey provides will serve to guide the Central Bank of Lesotho in the effective implementation of its objectives, inform other industry support processes and product innovation strategies, and thereby contribute meaningfully towards the ultimate long-term goal of effective financial access for all Basotho.

## 1.2 FinMark Trust

FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in March 2002 and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. FinMark Trust is a not-for-profit independent trust whose purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. In pursuit of its purpose, FinMark Trust supports institutional and organisational development which increases access to financial services in Africa, by conducting research to identify the systemic constraints that prevent financial markets from reaching out to poor consumers, and by advocating for change on the basis of research findings.

## 2 Country context

### 2.1 Demographic background

Much of Lesotho's 1.9 million population is rural, but the urban population is growing. According to the Bureau of Statistics<sup>1</sup> Lesotho is three quarters (75%) rural, with 1,421,000 people living rurally versus 470,000 in urban areas. However, over the coming ten years the population in the rural areas will remain constant whereas towns and cities will grow by approximately 20%, reflecting better employment opportunities there<sup>2</sup>.

**Poverty:** A substantial proportion of the population lives in poverty. According to the most recent Household Budget Survey (2002/03)<sup>3</sup>, about 29.1% of households were found to be unable to meet food consumption needs and therefore classified as very poor; and more than half (56.6%) of households were estimated to be below the poverty line.

**Income inequality:** Lesotho has high income inequality. Lesotho has a GINI coefficient<sup>4</sup> of 63.2, denoting one of the highest income inequalities in the world (This is worse than in countries like South Africa or Brazil, only Namibia is more unequal). To a large extent, this is because there is a large portion of the predominantly rural population entirely excluded from any type of formal economic activity, living on subsistence farming. However, even within the urban areas there is a high degree of inequality. According to a recent study conducted in Maseru<sup>5</sup>, a distinct number of socio-economic groups can be identified and broken down as follows:

- High (2%-3%): Large modern homes; very high housing standard; high motorization rate (2+ vehicles per household); significant residual income and savings; senior officials, leading businessmen and expatriates.
- Medium (± 14%): Comfortable homes, high housing standard; wide motorization (approaching 1 vehicle per household); available residual income and limited savings; professionals, management, some businessmen, land owners and relatively well established families.
- Low (41%): Basic homes, reasonable housing standard; very limited motorization (old cars, taxis in some households); very limited residual income and effectively no savings; fixed employment; relatively few dependants; relatively long residency in the city and employed migrant singles and couples.
- Subsistence and below (42%): very small homes; no car; minimal if any residual income; no savings or economic cushion; minimum wage earners with dependants; unemployed or casual labourers; wage earners with more dependants; new migrants; or established residents pushed into abject poverty by unemployment and/or chronic illness.

**Education:** Lesotho invests a high proportion of its GDP in education (12%) and consequently has high primary school enrolment rates and one of the highest literacy rates in Africa. Primary school education is free and the Government has a school feeding programme to further encourage participation. An estimated 85% of the population 15 years old and over is literate. Girls have a higher literacy rate than boys, partially because many boys in the rural areas are expected to spend much time looking after livestock. Basic literacy would therefore not be expected to be a major barrier to access to financial services.

**HIV/Aids:** Lesotho is one of the worst affected countries by the HIV and AIDS epidemic. Recent estimates put the prevalence ratio at 23.2% of the population<sup>6</sup>. Life expectancy at birth has deteriorated rapidly in the last decade from 48 years old in 2001 to 37 years old now<sup>7</sup>. HIV and AIDS is most prevalent amongst the young working-age population where the prevalence ratio can be up to 50%<sup>8</sup>. The epidemic also disproportionately affects females. In addition to the human tragedy, for many households the epidemic has severe financial implications. It carries the risk of both lost income as well as unforeseen expenditure.

<sup>1</sup> Lesotho Bureau of Statistics: Lesotho National and Sub-National Population Projections (June 2010)

<sup>2</sup> Bureau of Statistics, Lesotho National and Sub-National Population Projections, June 2010

<sup>3</sup> Lesotho Bureau of Statistics: Household Budget Survey (2002/03)

<sup>4</sup> United Nations Development Programme, Human Development Report 2007/08,

<sup>5</sup> Maseru Urban Planning and Transport Study (March 2010) Completed by Shapira and Helleman Planners, through the World Bank for Ministries of Public Works, Local Government and Chieftainship Affairs and the World Bank

<sup>6</sup> CIA World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/lt.html>

<sup>7</sup> Lesotho Bureau of Statistics: Lesotho National and Sub-National Population Projections (June 2010)

<sup>8</sup> Partners in Heal (PIH) Lesotho

Many families have lost or are at risk of losing an income earner. Anti-Retroviral drugs (ARVs) are free. However, as HIV and AIDS compromise a person's immune system, it causes a number of other opportunistic diseases, which do carry a medical cost. Moreover, AIDS patients have higher nutritional requirements which push up household food bills. Finally, many households face unforeseen expenditure when they are called upon to take care of AIDS orphans. Extended families and strong social networks mitigate the risk to individual households, as financial burdens are often shared. However, many of these networks are at breaking point and the epidemic affects entire communities.

## 2.2 Economy

The economy is rather dependent on the Government and the private sector is somewhat underdeveloped. Government expenditure accounts for over 50% of the GDP<sup>9</sup>. This is very high for a developing country. The Government is very reliant on proceeds from the Southern African Customs Union (SACU) for income. This source has recently accounted for over 50% of total revenue. Dependency on SACU revenues, and limited ability to mobilise domestic resources, carries an on-going risk to Government expenditure. During the recent financial crisis, there has been a sharp decline in international trade which consequently resulted in a sharp decline of Government revenue. Despite substantial budget cuts, the deficit is still high and the Government is on an IMF programme. Many basic goods are imported from South Africa and as a result Lesotho has a substantial trade deficit. Lesotho imports more than twice as much as it exports<sup>10</sup>.

**Employment:** There is no reliable time-series data on employment. The 2008 Labour Force Survey suggests that, out of a population of 1,237,000 aged 15+, 608,000 people are employed and 192,000 are unemployed, giving an unemployment rate of 24% (although it seems likely that the global economic crisis has made the situation worse since 2008). Women accounted for 44.7% of those employed and 50.9% of the unemployed. Only about 200,000 are believed to have formal wage employment, while the remainder, approximately 400,000, work as family labour (often only in seasonal jobs) or in informal activities. A substantial majority of the employed (71.7%) appear to be engaged informally, especially in household activities (such as subsistence agriculture) but also in formal enterprises. Many informal workers do not receive wages but are paid in kind.

The Government is the largest employer in Lesotho, creating 48,252 jobs in 2009. The majority will be health and education workers, with a large proportion also working in administration. The largest private sector employer is the textile industry with 40,599<sup>11</sup>. However, over 8,000 jobs have been lost in this sector in the last five years.

The largest market for Lesotho's textile exports is the United States<sup>12</sup>, which when in recession, decreased its textile imports. Textile exports and exports of other manufacturing to South Africa have been increasing steadily over the last few years. Employment in agriculture is more difficult to measure because most farmers operate in the informal sector. Formal labour statistics show employment of 31,942 in agriculture; however a much wider number of households (250,000) will depend on farming for at least some part of their income/daily subsistence. Employment data shows that almost 14,000 people are employed in trade (see table below). However, Lesotho is thought to have approximately 100,000 Micro Small and Medium Enterprises (MSMEs)<sup>13</sup>, most of whom are informal trading enterprises. These MSMEs are overwhelmingly micro enterprises with no employees. Although diamond mining and water<sup>14</sup>, do contribute substantially to national income, both are very capital intensive industries and do not employ many people on a permanent basis. The start of Phase II of the Lesotho Highlands Development Project, a dam building project, should create a substantial number of temporary construction jobs in the next few years.

<sup>9</sup> Note: as a result of the recent financial crisis, this figure has fluctuated somewhat. Source: Ministry of Finance and Development Planning

<sup>10</sup> In 2010, Lesotho exported \$985 million, whilst it imported \$1.76 billion (Source: MOFDP)

<sup>11</sup> Source: MoFDP / BOS. 2009 data.

<sup>12</sup> Lesotho has preferential trade agreements with the United States of America under the African Growth and Opportunity Act (AGOA).

<sup>13</sup> Ministry of Trade, Industry, Cooperatives and Marketing (MTICM): State of Small Enterprise Survey 2006.

<sup>14</sup> Through Lesotho Highlands Development Authority (LHDA), a network of dams and tunnels, Lesotho exports water to South Africa. Annual Government income from water royalties amounts to approximately M400m.

**Table 1. Formal Sector Employment (FY2009/10 data, extrapolated from 2008 Labour Force Survey)**

Sector	Employment
Government	48 252
Textiles	40 599
Agriculture	31 942
Construction and Utilities	24 098
Trade	13 997
Transport and Communications	9 380
Other Manufacturing	5 233
Food Industries	3 197
Tourism	3 126
Finance	2 342
Mining*	1 182
Other	17 379
<b>Total</b>	<b>200 726</b>

\* Mining in Lesotho, excludes numbers employed in South Africa (±50,000)

**Remittances:** The Basotho have a long history of working throughout the region, and sending remittances back home. In 2006, the World Bank estimated that as much as 25% of national income was derived from remittances<sup>15</sup>. Currently, just over 50,000 Basotho work in the mining sector in South Africa<sup>16</sup>. This is substantially lower than the more than 100,000 migrant workers as late as the 1980s but still a large proportion of the working age (male) population. This affects both household structures as well as income patterns. As a result of migration, many households have no adult males. The Maseru urban study<sup>17</sup> found that a third of households in Maseru (34%) were single parent households. 18% of those are single parent households because one parent (often the father) works in South Africa. Many such households depend on income earned elsewhere through remittances.

**Ease of doing business:** On most measures of competitiveness, Lesotho ranks fairly low by international standards. Crucially, the cost of doing business is lower in all other SACU countries and the majority of textile exporters, with whom Lesotho competes for jobs. The cost of doing business falls disproportionately on small businesses, as they do not have support staff to manage administrative requirements. The high cost of doing business pushes many of Lesotho's estimated 100,000 MSMEs into the informal sector. The Doing Business Indicators<sup>18</sup> are an annual measure of the burden of selected business regulations (in 183 countries in 2010) and rank countries on 10 dimensions. These dimensions range from the number of days it takes to open a business, to the amount of forms to fill out to submit taxes and to the cost of exporting a container of goods. Lesotho ranks 138 out of 183 countries<sup>19</sup>. South Africa ranks number 43. Lesotho ranks particularly low on the ease of dealing with construction permits (rank: 163) and the ease of import/export (rank: 140). Compared to South Africa, Lesotho does rank quite well on the ease of employing workers (no longer ranked). Better labour relations are an often cited reason for South African businesses moving to Lesotho. The 2012 indicators should show some improvements as Parliament has recently passed a new Land Act and Companies Act.

<sup>15</sup> See [www.worldbank.org/prospects/migrationandremittances](http://www.worldbank.org/prospects/migrationandremittances).

<sup>16</sup> Source: Ministry of Finance and Development Planning

<sup>17</sup> Maseru Urban Planning Maseru Urban Planning and Transport Study (March 2010)

<sup>18</sup> Compiled by the World Bank

<sup>19</sup> World Bank Doing Business Indicators: [www.doingbusiness.org](http://www.doingbusiness.org)

## 2.3 Financial markets

Conventional wisdom has it that there is a substantial amount of unmet demand for financial services in Lesotho. A large percentage of the population of Lesotho is “unbanked,” including an estimated 85% of businesses. In some of the rural parts of the country, people travel up to 120 kilometres to access banking services<sup>20</sup>. Three South African banks dominate the banking sector (Standard Bank, First National Bank and Nedbank). In addition, there is the newly created government owned Lesotho PostBank. Between them, these banks operate a total of 31 branches (the vast majority of which are shared between Standard Lesotho Bank and Lesotho PostBank)<sup>21</sup>.

The South African banks are profitable, well capitalized, and liquid, with non-performing loans being of a moderate level and well provisioned<sup>22</sup>. The Lesotho PostBank still requires a Government subsidy<sup>23</sup> to cover its operational cost.

**Bank access:** Coverage in Lesotho is low and patchy but fast growing. All banks have made expansions in recent years. Notably, Lesotho PostBank and First National Bank have made major expansions from a very low base. Further expansion plans are in the pipeline. The northern lowlands districts have the best access to financial services, and Maseru disproportionately so. Almost half of Lesotho’s branches and ATMs are within the Maseru Urban Area. On average, there are 4.44 branches and ATM locations for every 100,000 people in Lesotho. There are substantial regional disparities. In Maseru (the highest), there are almost 10 branches and ATM locations for every 100,000 people whereas in Mokhotlong (the lowest), there are only two branches and ATM locations for every 100,000 people.

**Table 2. Number of Branches and ATMs by institution**

Sector	No. of branches	No. ATM locations	No. of ATMs
<b>Banks (all banks)</b>			
Standard Lesotho	16	32	54
Lesotho PostBank	13	0	0
Nedbank	10	15	NA
FNB Lesotho	3	18	26
<b>Insurance providers</b>			
Metropolitan Insurance	5	NA	NA
Lesotho National Insurance Group	3	NA	NA
Alliance Insurance	1	NA	NA
Prosperity Insurance Company	1	NA	NA
Medi Life Assurance	1	NA	NA
Momentum Life Lesotho	1	NA	NA
<b>Financial cooperatives</b>			
Boliba Credit and Savings	4	0	0
Boliba is the largest of the financial cooperatives, many other Cooperatives and Rural Savings Groups offer financial services through the informal sector			

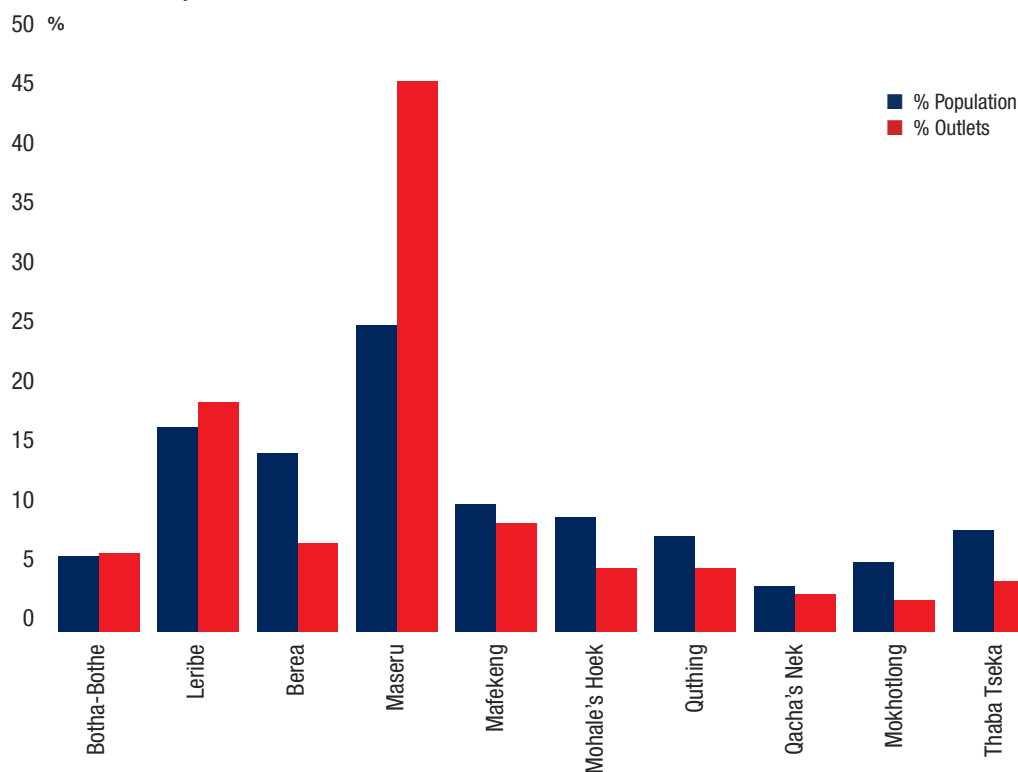
<sup>20</sup> Millennium Challenge Corporation: Compact between USA and Lesotho (2007)

<sup>21</sup> Draft Non-Bank Financial Institutions (NBFI) Policy (January, 2010) completed by Oxford Policy Management on behalf of the Central Bank of Lesotho

<sup>22</sup> Technical Assistance to Strengthen the Leasing Industry in Lesotho, Options for Strengthening the Legal, Regulatory and Tax Framework (May, 2010), completed by Fiona McCulloch through the World Bank Private Sector Competitiveness Project on behalf of the Ministry of Finance and Development Planning

<sup>23</sup> The subsidy from Government for the Financial Year 2009/10 was Maloti nine million. It is planned for this subsidy to decrease over time (source: Ministry of Finance and Development Planning). In addition it received support from donors such as the Millennium Challenge Corporation (MCC) and the International Fund for Agricultural Development (IFAD)

**Figure I. Proportion of Population and Bank Branches/ATMs by district (as of June 2011)**



The more densely populated and affluent districts have the most access to bank branches and ATMs. Three quarters of them are located in the the northern and central districts of Botha-Bothe, Leribe, Berea and Maseru. Notably, in the figure above, Berea looks the most under-represented population proportion to the number of outlets. This is, however, misleading as a large number of people in Berea in fact live within the Maseru urban area and therefore should have very good access to financial services. The southern lowland districts of Mafekeng and Mochale's Hoek have reasonable access to financial services, although slightly lower than their population suggests. The worst access is in the Highland districts of Quthing, Qacha's Nek, Mokhotlong and Thaba-Tseka. The 420,000 people that live in these districts only share nine branches between them.

**Credit:** Extension of credit is low but growing. Lending amounts to 10-12% of GDP, which is substantially lower than other BNLS countries<sup>24</sup>. The value of outstanding credit to the private sector has grown from M1.5bn in early 2009 to M2.2bn in early 2011. The financial system is characterised by excess liquidity. Instead of lending domestically, banks invest this excess liquidity in government securities or export it to South Africa. This amount of credit is split approximately evenly between households and businesses. Most credit to households is for consumption. The corporate sector has adequate credit to fund their investment needs. Lending is limited not by supply but by demand as many of Lesotho's corporates can accommodate investment projects through their retained earnings. Many corporates are part of international firms and also have access to South African and international financial markets. However, smaller domestic firms (MSMEs) struggle to raise enough capital to finance their businesses. As a result of real and perceived risks of lending, the extension of credit is concentrated among a very small number of business borrowers (only 1,200 – 1,300 private sector loans annually)<sup>25</sup>. The entry of moneylenders into the financial system is considered somewhat controversial in Lesotho. In many ways, they are a demand-driven development, given the assumption of the need for consumption credit among many employed individuals. However, there is a general dislike by the high rates that they charge<sup>26</sup>. In terms of the availability of financial products, however, the benefit is mostly to salaried people in general, and public servants in particular. As of

<sup>24</sup> Economist Associati (March 2010)

<sup>25</sup> Economist Associati (March 2010). Concentration of credit is reinforced by 2007 CBL data which shows that the top 20 borrowers accounted for no less than 38% of total credit.

<sup>26</sup> Although, according to the Money Lenders Act there is a 25% maximum rate that they may charge (including fees), some provisions in the Act are being relaxed.

September 2009, there were a total of 113 licensed moneylenders operating in the country<sup>27</sup>. Few credit options are available to the self-employed. A significant unsatisfied demand exists – especially for MSMEs and the rural/agricultural sector. The largest proportion of bank lending is for the purchase of civilian vehicles. In 2009, 46% of all loans were granted for this asset class<sup>28</sup>. This is very high and again implies that credit is predominantly the domain of the already employed rather than the self-starter. Numerous studies about small businesses list access to credit as one of the main constraints on growth. For example, the 2007 World Bank's 'Investment Climate Study' states that 50% of all the enterprises interviewed for the study rated the cost of financing as a 'major' or 'very severe' obstacle.

**Savings:** Although, from the perspective of social protection, access to reliable ways of savings often plays a more important role than access to credit, and less is known about savings. At a national level, banks have excess savings but that is more a reflection of low levels of credit granted. Many salaried persons use savings accounts effectively as checking accounts. Salary deposited by the employer in an account is cashed out the following day (observe bank queues at month end). This makes data on household savings less reliable. In the semi-formal sector savings and credit cooperatives (SACCOs) and Rural Savings and Credit Groups (RSCGs) play an important part. As of 2007, there are estimated to be 141 SACCOs with 33,339 members (having an average size of roughly 240 members per SACCO)<sup>29</sup>. SACCOs are registered and supervised by the Commissioner for Cooperative Development under the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM). Crucially, they are not supervised by the Central Bank of Lesotho (see MKM and Financial Institutions Reform below). RSCGs are registered under the Societies Act of 1966. Donors support many informal savings groups. However, because no demand-side survey (like FinScope) has been undertaken in Lesotho before, little is known about how important savings are for most Basotho.

**Insurance:** There are several insurance companies in operation in Lesotho. The main ones are Lesotho National Insurance Group, Metropolitan Lesotho and Alliance Insurance Company. There are also a few smaller ones in operation. There is not a large body of literature discussing the insurance industry in Lesotho. It is known that many insurance products are the preserve of the affluent. Minimum monthly payments of even M150, for a variety of policies can be prohibitive for those on the minimum wage (approximately M700 a month), let alone those working informally. However, an important role in this sector is played by numerous burial societies. Many of these societies offer products that allow people to save / insure against funeral costs. Such products are likely to be used by a much wider segment of the population. Some, like the bankrupt MKM (see below) have offered more complex products.

**Regulatory and supervisory regime:** The key laws governing the financial sector in Lesotho are (in date order):

- Societies Act, 1966
- Companies Act 1967
- Insurance Act 1976
- Money Lenders Order, 1989
- Money Lenders (Amendment) Act 1993
- Financial Institutions Act 1999
- Central Bank of Lesotho Act 2000
- Cooperative Societies Act 2000

There are currently separate supervisory regimes dependent on the type of financial institution in question. The current system has a number of systemic weaknesses (see MKM and Boliba below), which are in the process of being addressed (see Reforms below). Broadly speaking<sup>30</sup>:

- The Central Bank of Lesotho (CBL) is responsible for the supervision of banks and insurance companies. Moreover, the current Money Lenders Order provides powers to the Minister of Finance to make regulations governing moneylenders.

<sup>27</sup> Draft Non-Bank Financial Institutions (NBFI) Policy (January 2010)

<sup>28</sup> Options for Strengthening the Legal, Regulatory and Tax Framework (May, 2010)

<sup>29</sup> Statistics from the World Council of Credit Unions (WOCCU) and from the office of the Commissioner for Cooperative Development

<sup>30</sup> Draft Non-Bank Financial Institutions (NBFI) Policy (January 2010)



- All Savings and Credit Cooperatives (SACCOs) are registered and regulated by the Commissioner for Cooperative Development at the Ministry of Trade, Industry, Cooperative and Marketing (MTICM). There is currently no formal system of off-site supervision or on-site inspection for financial cooperatives. However, the Department of Cooperatives is upgrading supervision from annual audits to quarterly reporting.
- Under the 1966 Societies Act, the Registrar for Societies registers but does not supervise societies. Some societies provide financial services and include burial societies, savings clubs, and Rural Savings and Credit Groups (RSCGs). It is important to note, however, that a large number of societies are not registered.

**Important Recent Events:** A couple of recent scandals have shocked Lesotho's financial system. Moreover there are still some vulnerabilities that carry systemic risks. As a result, many Basotho carry false expectations of and have low trust in the finance system in general.

**Block Farming:** Low agricultural productivity is a problem in many of Lesotho's rural areas and affects a large proportion of the population that is dependent on subsistence agriculture. A key problem is that many farmers have only small plots of land for which investment in tools and machinery is uneconomical. The Government has therefore encouraged farmers to group together and in 2006 set up a loan guarantee scheme to assist these farmers. This scheme has become the subject of a political scandal. The scheme was poorly designed and has cost the Government hundreds of millions of Maloti. A 100% guarantee gave farmers little incentive to pay back their loans and banks little incentive to instigate costly recovery procedures. Indeed, some local politicians added to the confusion by claiming that as this was a government scheme and therefore farmers didn't need to repay their loans. Consequently, fewer than half the 200 plus farmers repaid anything and recovery of loans stands at only 5%. Problems are still on going.

**MKM/Star Lion Group:** MKM was a burial society that offered first insurance and later investment products that became subject to a pyramid scheme scandal in 2007/08. Various schemes promised to reward 'investors' upwards of 60% returns, but the financial model was inherently unsustainable and collapsed. Although news reports that 400,000 people have been affected by the scheme are possibly an exaggeration, there is no doubt that the impact of the scandal was systemic. MKM clearly acted outside of the law. In addition to failures to obtain the correct licenses for its business activities, it also actively misleads the Central Bank of Lesotho by providing false information about its financial situation. The scandal also demonstrates that at the time most people had little awareness of how financial markets operate and that high reward carries high risk. Many Basotho will have this scandal at the back of their minds when they have to make financial decisions about their lives. There continues to be calls on Government to compensate the victims of this scheme.

**Boliba Credit and Savings Cooperative:** Boliba was established in 2000 by about 50 founders as a multi-purpose cooperative society. It is engaged predominantly in providing savings and credit activities, but also trading in construction material. It serves about 50,000 clients, which until recently were not members of the society. These clients belong mostly to the low-income groups of Maseru city, as indicated by the low average balances per savings account. In line with the 2000 cooperative legislation (article 68), it is entitled to mobilise deposits from members and non-members. However, as a cooperative, Boliba is not supervised by Central Bank of Lesotho (CBL) and has in recent years operated substantially below the lowest levels of capital adequacy (i.e. 8% under Basel I convention). New legislation has been drafted to correct this, but until a new prudential and supervisory regime is in place, this represents a systemic risk to the financial sector: In the worst-case scenario many thousands of creditors could lose their money. It is worth noting that the practices of Boliba in most countries would be considered illegal. However, because in Lesotho it operates lawfully, there would be more cause for government intervention in the case of collapse.



## 2.4 Government financial programmes and reforms

The Government and various development partners such as the World Bank, the International Fund for Agricultural Development (IFAD) and the Millennium Challenge Corporation (MCC) are working together to increase access to finance and overcome a number of vulnerabilities in the financial market. To this end, a number of projects are underway.

**Financial sector legal and supervision reforms:** The Central Bank of Lesotho (CBL) is currently revising the 1999 Financial Institution Act. Although the original emphasis was on Bank regulation, it has now changed towards Non-Bank Financial Institutions (NBFIs). In effect, Lesotho 'imports' much of its banking regulation from South Africa because the only three commercial banks are South African. Lesotho therefore benefits from high quality regulation and supervision elsewhere. The Lesotho PostBank is wholly Government owned and is therefore not expected to carry much systemic risk. The problems are with the NBFIs. Firstly, in many cases there is no legal framework for the development of relevant products for the poor. Secondly, the emergence of weakly supervised deposit-taking institutions and a number of operators that exploited the grey areas in the laws and regulations governing the financial system highlighted the need for regulatory reform (see Important Recent Events above). A large number of people have lost their savings and confidence in the financial system is low. The new Financial Institutions Act proposes to adopt a 4-tiered approach which will define different levels of prudential regulation and licensing requirements for (i) banks (ii) credit plus institutions (iii) credit only institutions and (iv) ancillary institutions. Other Financial Sector Regulatory and Supervisory reforms are:

- The Ministry of Trade, Industry, Cooperatives and Marketing (MTICM) is in the process of finalising a Financial Cooperatives Policy that includes proposals for the development of a separate law for financial cooperatives alongside amendments to the Cooperative Societies Act 2000
- Central Bank of Lesotho (CBL) is working on the development of substantive legislation for Collective Investment Schemes (CIS), to replace the Central Bank of Lesotho Regulation 2001
- An Insurance Bill to replace the 1976 Insurance Act, currently before the Parliament Council

**Partial Credit Guarantee Facility:** This not-yet-operational government initiative, was announced in 2009 to stimulate lending to Micro Small and Medium Enterprises (MSMEs). The Government will create an independent legal entity to administer the scheme. Crucially, applications will be made directly to the banks, not the scheme itself. This scheme would require an initial capitalisation of M50m, where after the scheme should be self financing through a 'credit guarantee fee' of between 1% and 4% of the value of the loan. In order to ensure repayment, the scheme will only cover between 50% and 70% of the final losses<sup>31</sup> incurred by the banks. This will ensure that banks only issue loans for projects that are commercially viable and will also ensure that banks instigate debt recovery procedures upon non-repayment. The aim of these measures is to avoid the aforementioned problems with block farming. It is important to note that, at least initially, the main beneficiaries of the scheme will be medium sized businesses. The scheme is not designed as a poverty alleviation measure; instead it aims to stimulate job creation through business expansion.

**Development of a National Leasing Policy:** In another measure to improve access to finance to businesses, the government of Lesotho is developing a national leasing regulatory framework. Although there is a relatively effective Hire Purchase Act (1974), there are currently no leasing companies in Lesotho. Moreover, hire-purchase legislation is targeted at consumer protection for smaller purchases (mostly of furniture and white goods). The National Leasing Policy aims to create a legal environment conducive to leasing, in particular by supplementing the 1974 Hire Purchase Act. Through leasing, banks and specialised leasing companies can provide more asset finance to businesses because they are better protected against counterparty default. The benefit to companies, and small businesses in particular, is that leasing reduces up front capital requirements and therefore improves cash flow. Instead an asset is financed throughout the useful lifetime of the lease.

The Government is receiving support from the World Bank Private Sector Competitiveness Project and aims to have the policy implemented by 2013.

**On-going support to Lesotho PostBank:** The Lesotho PostBank (LPB) is a wholly government owned bank, set up in 2004 in order to expand financial services to the poor. The Bank has set up a network of twelve branches throughout the country and through a strategic partnership with Lesotho Postal Services (LPS), and offers products through an additional network of 47 post offices. The LPB has not yet fully covered its operational costs, and still has a long way to go before it achieves its goal of becoming a fully-fledged bank with a portfolio of savings products, microfinance lending and electronic transacting services. The LPB receives government and donor support in the following ways:

- An annual subsidy from the Government of Lesotho (totalling Maloti nine million in FY 2009/2010)

<sup>31</sup> Final loss is defined as the loss to the bank after the recovery of collateral

- The Millennium Challenge Corporation (MCC) is supporting a project to introduce automated clearing and alternative payment options that will reduce payment and settlement times and lessen the use of cash and checks. The LPB will receive \$822,000 to implement the smart card/debit card switching technology
- The International Fund for Agricultural Development (IFAD) sponsored, RUFIP project (see below) is helping LPB to improve its institutional structures, operations and marketing. The value of this support is \$3.5 million over the seven years of the project

**RUFIP / SUFIL:** RUFIP and SUFIL are two broadly complementary programmes aimed at improving financial service provision to the poor: They differ mostly in terms of source funding: RUFIP is primarily funded through IFAD and SUFIL is primarily funded through UNDP. The conclusions of the FinScope survey will be important in determining the specific interventions of these programmes. The Rural Financial Intermediation Programme (RUFIP) is a seven year programme whose overall objective is to enhance access to efficient financial services by the rural poor on a sustainable basis. The programme comprises four components: (a) development of Member-Based Financial Institutions (MBFIs), including Financial Cooperatives (FCs), Rural Savings and Credit Groups (RSCGs) and other informal groups; (b) facilitating rural outreach of formal financial institutions, mainly focusing on strengthening of the newly established Lesotho PostBank (LPB) as a fully-fledged commercial bank; (c) development of an enabling environment for microfinance, involving the support for policy dialogue, as well as capacity building of the Department of Cooperatives (DOC) at the MTICM, the CBL and other relevant service providers, including the Ministry of Agriculture and Food Security (MAFS), and several Non-Governmental Organisations (NGO's); and (d) programme coordination, monitoring and evaluation. SUFIL is a three year complementary programme, launched in 2010, and its goal is to improve and expand access to sustainable financial services for the low segment of the market and women in particular. The programme intends to follow a sector-based approach that will holistically look at the different levels of inclusive finance building blocks at the macro, meso and micro level. At the macro level, SUFIL aims to improve the policy and regulation to create an enabling environment within which microfinance can thrive. At the meso level, the aim is to capacitate technical service providers, enhance financial literacy and to disseminate knowledge. At the micro level, the aim is to help establish financial service providers and to make them sustainable. Both programmes are dependent on reform of the Financial Institutions Act and the adoption of Non-Bank Financial Institution legislation to implement a number of their stated outcomes.

**Lesotho Enterprise Assistance Programme (LEAP):** The World Bank, through its Private Sector Development and Economic Diversification Project (PSC&ED), has a matched grant programme to help local entrepreneurs fund projects to start and expand their businesses. Entrepreneurs can apply for up to \$50,000 in funding. The Programme originally suffered low take up. Initially the grant covered 60% of project funding, but crucially was only given upon completion of the project. Most small businesses did not have the necessary cashflow to pay for projects up front. In 2010, the programme was reviewed, improvements were made and the matched funding component increased to 80%. Despite some notable success stories, the programme does not have national impact on financial services. By September 2010, Leap had assisted seven associations, 45 firms, and had committed funds for a further 17 associations and 29 firms. Total disbursements stood at USD 374,000, representing only 38% of the total funding allocated to LEAP.

**Credit Bureau and National Identity Card Activity:** The Ministry of Home Affairs, with support of the Millennium Challenge Corporation, is seeking to address these problems by setting up a credit bureau and introducing a prerequisite system of national identity cards. Implementation is scheduled to be completed in 2013. The Credit Bureau will rate the credit worthiness of individuals. Currently, lack of credible information about people's identity and their financial situation is stated as one of the key reasons by financial institutions for their low levels of domestic lending. Women, for example, could have separate passports under their maiden and their married names. There is currently no means to link them. The problem is compounded because most houses do not have recognisable addresses. The development of a National Identification Card (NIDC) is a necessary step in the process of establishing a credit bureau. The NIDC will restrict all citizens and lawful residents to a single unique identity number that can be used to recognize individuals in multiple information technology systems.

**Land Reform Project:** The Ministry of Local Government and Chieftainship Affairs, responsible for land administration, with support of the MCC, is midway through a project to improve land administration. This project will have an indirect impact on financial access in a few years time when it is fully implemented. Many small businesses struggle to meet the collateral requirements in order to obtain loans from banks. This is partially the result because many Basotho cannot collateralise the few assets that they have. Traditionally many Basotho have invested excess earnings in land and livestock. Banks do not consider livestock to be valid as collateral because it is a movable good and in Lesotho carries an additional high risk of stock theft. That leaves land, which by the constitution every Mosotho is entitled to. However, because of problems with land registration procedures, few people can prove that they own title to land. According to the Millennium Challenge Corporation (MCC) there are currently only about 10,000 officially registered plots of land<sup>32</sup>. Therefore, few Basotho currently have the option of collateralising their land. The previous 1979 Land Act was a key bottleneck, preventing the Land Surveys and Physical Planning (LSPP) Department to effectively carry out land registration procedures. In 2010, a new Land Act was passed by Parliament and a new Land Administration Authority (LAA) has been legally established. However, Lesotho is still some years away from having a land market conducive to improved access to finance.

### 3 Survey methodology

The table below gives an overview of the methodology applied. The following sections provide more detail regarding the questionnaire, sampling approach, and analytical tools.

**Table 3: Methodological overview**

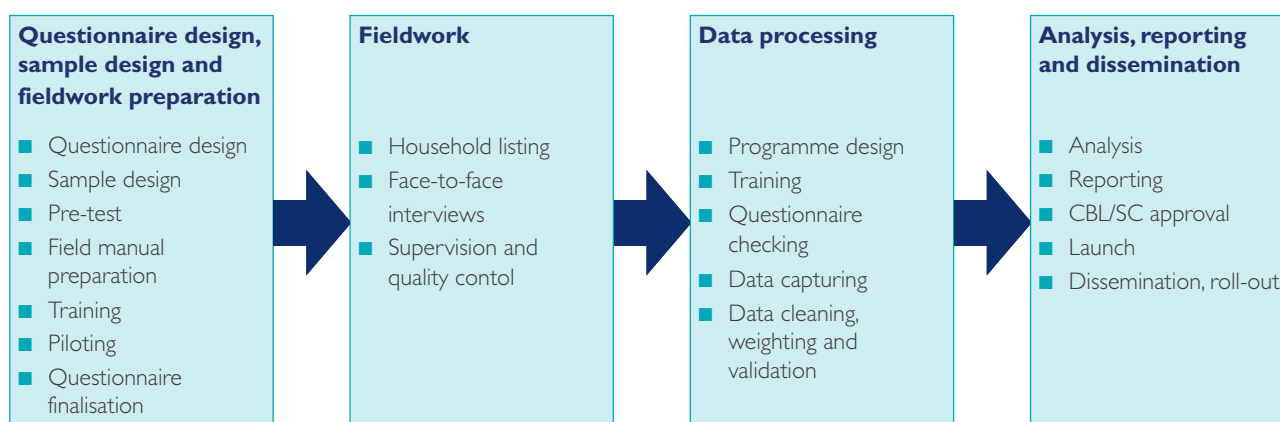
<b>Methodology</b>	Face-to-face, pen and paper interviews were conducted among adults (18 years or older) in Lesotho
<b>Sample</b>	N = 2000, nationally representative individual-based sample of Basotho aged 18 years and older. Sample frame developed by the Lesotho Bureau of Statistics (BoS)
<b>Questionnaire length</b>	± 75 minutes
<b>Fieldwork</b>	April and May 2011
<b>Data management</b>	Survey data was weighted and validated by BoS, 26% back checks, data captured in SPSS
<b>Implementation</b>	The study was funded by UKaid and CBL, fieldwork was conducted by Ask Afrika

FinMark Trust was requested by CBL to implement FinScope Lesotho 2011. FinMark Trust was responsible for the oversight and day-to-day implementation of the survey and producing deliverables in accordance with the project milestones agreed in consultation with the CBL.

In accordance with its contract, and with the objective of building local capacity in executing FinScope in Lesotho, local research organisations were invited to tender for the fieldwork component of the study. Regrettably, the absence of a local research house with the capacity and understanding of the requirements of the project led to a South African based company being selected. The research house selected to conduct the fieldwork – Ask Afrika was selected on a competitive basis. All enumerators used for the survey were recruited from within Lesotho.

FinScope Lesotho 2011 was initiated in January 2011 and implemented in a number of phases as summarised in the figure below.

**Figure 2. Survey implementation stages**



Following approval of the survey findings by the CBL and FinScope Lesotho 2011 Steering Committee, FinScope Lesotho 2011 was officially launched in Maseru. FinMark Trust further assisted the CBL in the design and roll out of a dissemination strategy that will maximize the distribution and application of the data. To facilitate this process, the FinScope Lesotho 2011 dataset and all published materials are made freely available to any individual or organisation with a legitimate interest in them. Such parties might include commercial service providers, government departments, industry associations, academic or commercial research organisations, whether from Lesotho or elsewhere.

### 3.1 Questionnaire design

The questionnaire design phase drew from lessons obtained during the Lesotho PostBank survey conducted in 2009<sup>33</sup> and the facilitation of a stakeholder workshop, which was attended by a broad cross-section of stakeholders within the financial sector. The FinScope Lesotho 2011 questionnaire was therefore adapted to the Lesotho context. The questionnaire was translated into Lesotho's vernacular language – SeSotho – and included questions on the following topics:

- Household information and demographics
- Farming
- Income and expenditure
- Access to infrastructure
- Financial literacy and awareness
- Attitudes and perceptions towards finance
- Savings
- Borrowing
- Product penetration and banking
- Insurance
- Informal finance
- Remittances
- Psychographics

### 3.2 Sample design

The sampling frame for the survey was developed by the Lesotho Bureau of Statistics (BoS) based on an area-based sampling methodology that used the population census as the main frame and which ensured that each citizen 18 years and above had an equal probability of being sampled. The sample is therefore representative of the population of adults aged 18 and above within seven reporting domains, these being national, urban and rural, and the four ecological zones.

The Enumeration Area (EA) was used as the Primary Sampling Unit (PSU), with a total of 200 EAs being selected systematically with probability proportional to size. Ten households within each sampled EA were randomly selected and one eligible individual within each household was selected for interview using a Kish grid. This provided a target sample of 2,000 adults aged 18 and above which allows statistically reliable estimates for national, urban/rural and regional/zonal desegregation. Further details of the sampling methodology are available on request.

### 3.3 Training, pilot and fieldwork

Preparation for the fieldwork included the training of Ask Afrika field staff and the piloting, finalisation and reproduction of the questionnaire.

An eight day training programme was conducted in March 2011 and was attended by 39 interviewers and five supervisors. Specific topics covered during the training included:

- Background to FinScope and objectives of FinScope Lesotho 2011;
- Survey methodology;
- Questionnaire content;
- Sampling and reporting procedures to be followed; and
- Quality control procedures.

Mock interviews were conducted during training to test interviewer technique and understanding. Following the completion of the training, the questionnaire and translations were finalised, taking into account issues that were highlighted during the pilot.

Fieldwork took place between April and May 2011 and was carried out by five teams. Each team consisted of one supervisor and 7-8 interviewers. BoS supplied the EA maps for the fieldwork, as well as information on the number of households in the EAs. Selection intervals were determined from the information supplied by BoS, and on reaching the EAs, the supervisors applied the selection interval to select the households to be visited by the interviewers. Where BoS did not have the number of households, a listing of the EA was conducted and the same process followed to select households to be visited for the main interview. The listing was done to update the Census data and ensure accuracy of the data weighting and validation process. Data collection was carried out through face-to-face interviews with the selected respondents. In order to secure an interview with the selected respondent, two call backs were allowed for each selected respondent in addition to the initial contact. In cases where selected respondents were not available (after the two call backs) or refused to be interviewed, a substitution procedure was followed.

A total of 2,000 interviews were successfully completed, as shown in the table below.

**Table 4. Distribution of completed interviews by ecological zones**

Ecological zone	Number of EAs	Number of interviews
Lowlands	104	1 040
Foothills	26	260
Mountains	44	440
Senqu River Valley	26	260
<b>Total</b>	<b>200</b>	<b>2 000</b>

### 3.4 Quality control

Quality assessment for FinScope Lesotho was managed by the field team and the Quality Assessor Manager. The first round quality assessment was done by seven quality assessors in the Lesotho office. The quality assessors were trained to check the questionnaire thoroughly for the respondent selection procedure, missing values, following and routing instructions. Any queries were corrected with personal back checking and telephonic validation. It was sent to the Pretoria office via courier and upon arrival they were checked-in and the quality assessor name and back-check detail per questionnaire were captured. A second round of quality assessment was done by the Pretoria QA team. The quality assessors were also trained to check the questionnaire thoroughly for missing values, following and routing instructions. Questionnaires with queries were referred back to the Lesotho office for correction. The questionnaires were physically sent back to Lesotho. Any queries were corrected with personal back checking and telephonic validation.

### 3.5 Data processing

Completed questionnaires were scanned, using ReadSoft software, which allows for exportation of the dataset to SPSS. The data was cleaned and validated in SPSS by the statistician, after which the weighting process took place. 522 call-backs were done, which resulted in 26% back checks, which is well beyond the industry norm of 10%.

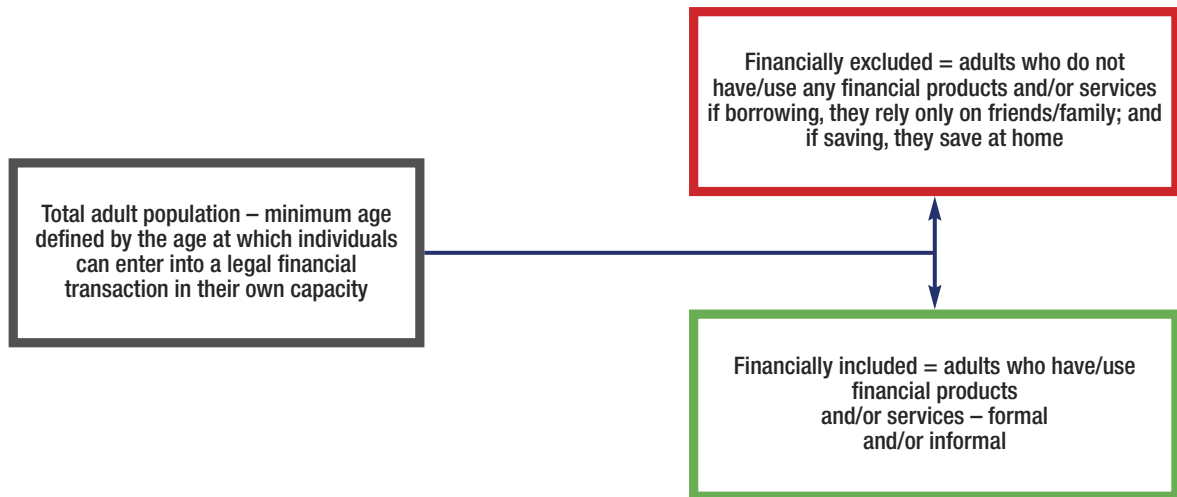
Responses to open ended questions were sent for coding to Ask Afrika's coders. Open ended questions referring to "Other-specify" options were accompanied by the response codes as included in the questionnaire. These response codes were then used as a basis for the coding frame to be developed. Upon completion of the coding, the coding frames were checked per question. Coded responses were imported into the SPSS dataset.

The Lesotho Bureau of Statistics calculated the weights that were applied to the final dataset.

### 3.6 Data analysis, reporting and dissemination

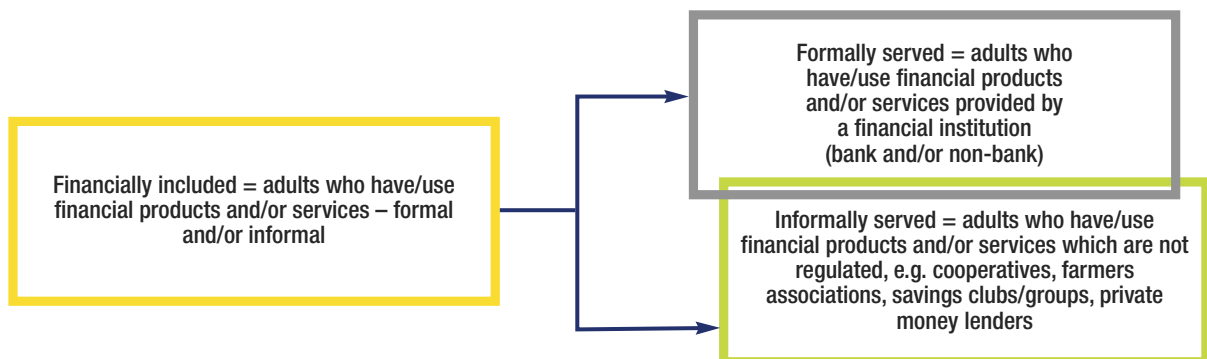
Analysis of the data has been performed by FinMark Trust. This report contains an overview of the analysis of the top line findings undertaken to date. These findings were presented to the FinScope Lesotho 2011 Steering Committee team in July 2011 and comments from this meeting have been incorporated into this report.

**Defining financial inclusion:** The concept “financial inclusion” is core to the FinScope methodology. Based on financial product usage, the bankable population is firstly segmented into two groups: the ‘financially excluded’ and the ‘financially included’:



The ‘financially excluded’ segment refers to individuals who manage their financial lives without the use of any financial products or mechanisms external to their personal relationships. To further understand financial inclusion, the ‘financially included’ segment of the population is taken through a further step of segmentation. As the ‘financially included’ segment of the population comprises individuals who have/use formal and/or informal financial products and mechanisms, this second step in the segmentation seeks to identify:

- Those individuals who have or use products or services from financial institutions that are regulated through an Act of law (formal financial institutions) – the ‘formally served’ segment of the population;
- Those individuals who have or use products or services from financial institutions that are not regulated (informal financial institutions and mechanisms) and/or use community based organisations/mechanisms to save or borrow money – the ‘informally served’ segment;
- Those individuals who have or use both formal and informal products and services.

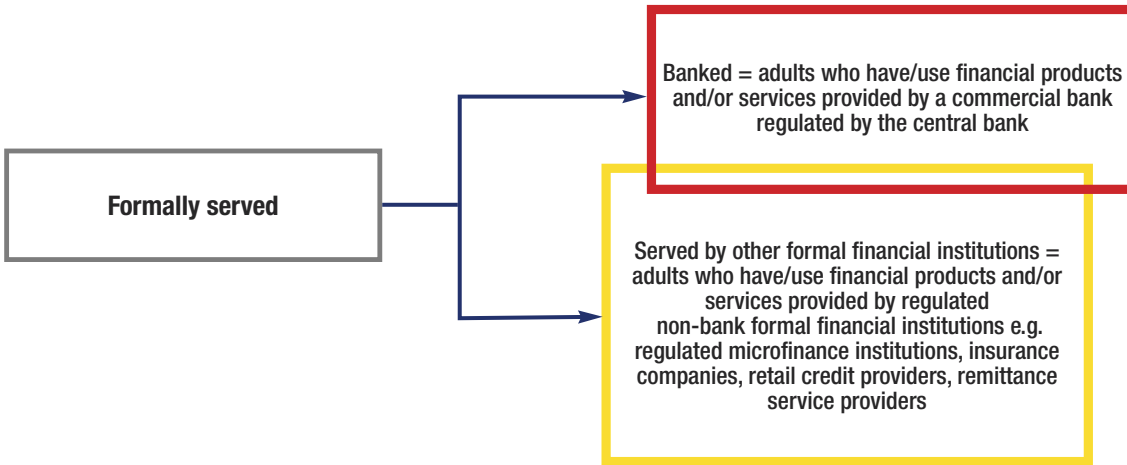


The next step in the segmentation seeks to better understand or unpack the ‘formally served’ segment of the population – i.e. individuals who have or use products or services from financial institutions that are regulated through an Act of law (formal financial institutions). This step further segments the formally served population into:

- Those individuals who have or use products or services from licensed commercial banks that are regulated by the central/reserve bank – the ‘banked’ population;

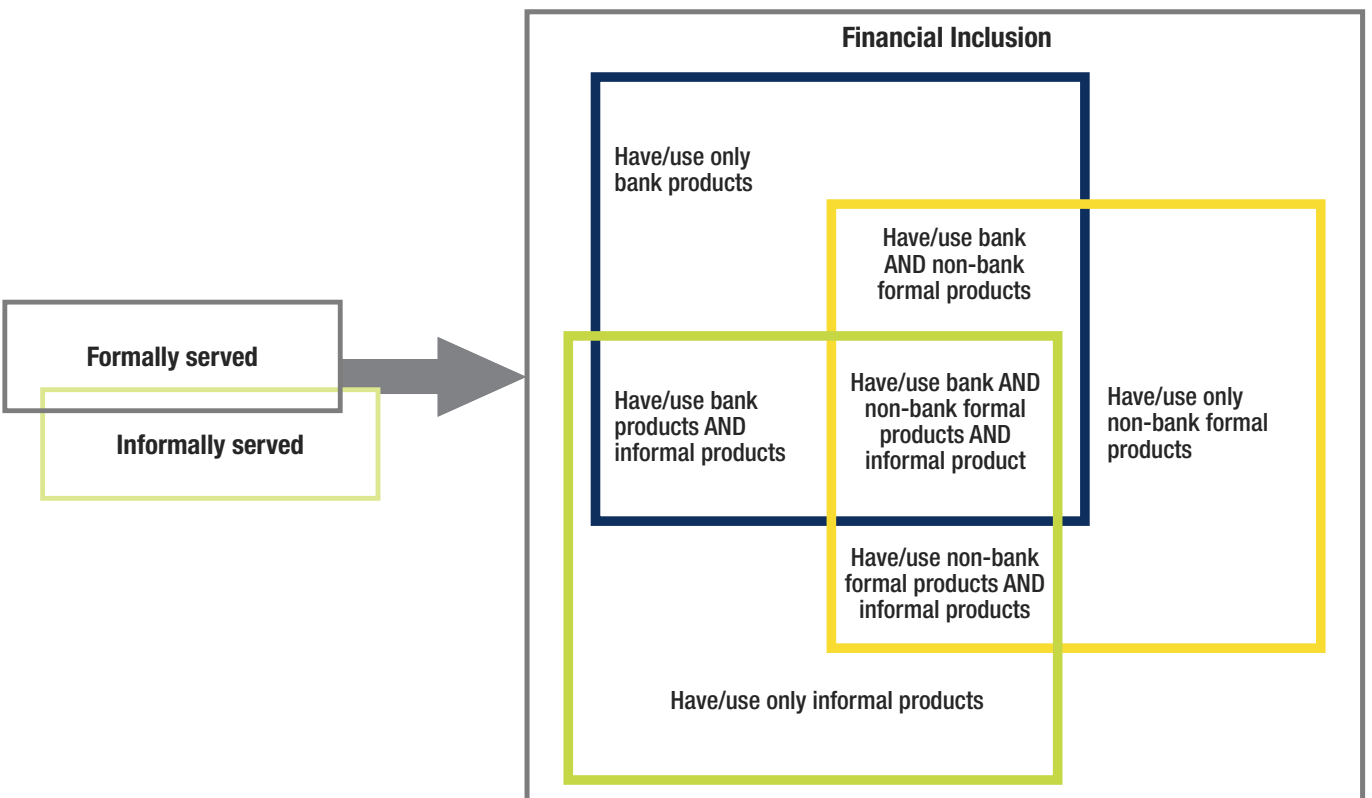


- Those individuals who have or use products or services from financial institutions that are regulated through Acts of law but which are not commercial banks. Those individuals who have or use products or services from such institutions, comprise the 'Served by Other Formal financial institutions' segment of the population (referred to as 'Other Formal' segment);
- Those individuals who have or use products or services from both commercial banks and other formal financial institutions.



Finally the segmentation process looks at the overlaps between the different population segments allowing for a better understanding of the following population segments:

- Those individuals who have or use only bank products and services;
- Those individuals who have or use bank and other formal products and services;
- Those individuals who have or use bank and informal products and services;
- Those individuals who have or use bank and other formal and informal products and services;
- Those individuals who have or use only other formal products and services;
- Those individuals who have or use only informal products and services;
- Those individuals who have or use other formal and informal products and services.



**FinScope indicators:** In order to reflect on the FinScope objectives, the FinScope approach uses a specific set of indicators developed for this purpose:

- The Financial Access Strand
- The Financial Access Landscape

The **Financial Access Strand** is used to enable comparison of levels of financial inclusion across countries/market segments. In calculating the Access Strand, a hierarchical approach is used in order to depict:

- The percentage of adults who are banked (banked) – identifying adults using commercial bank products. This is not necessarily exclusive usage – these individuals could also be using financial products from other formal financial institutions or informal products as well as bank products;
- The percentage of adults who are formally served but who are not banked (other formal) – identifying adults using financial products from formal financial institutions which are not commercial banks such as microfinance institutions or insurance companies. This excludes bank usage, but is not exclusive in terms of informal usage – these individuals could also be using informal products;
- The percentage of adults who are not formally served but who are informally served (informal only) – adults using informal financial products or mechanisms only. This is exclusive informal usage and does not include individuals who are within the banked or other formal categories of the access strand that also use informal services;
- The percentage of adults who are excluded/unserved – adults using no financial products to manage their financial lives – neither formal nor informal and depend only on family/friends for borrowing and save at home if they save.

The Financial Access Landscape is used to illustrate the extent to which individuals have or use financial products and services. The web diagram depicts, on its five axes, the percentage of adults that have or use:

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

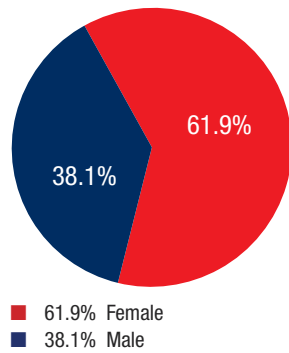
## 4 Study findings

### 4.1 Demographic characteristics of the adult population

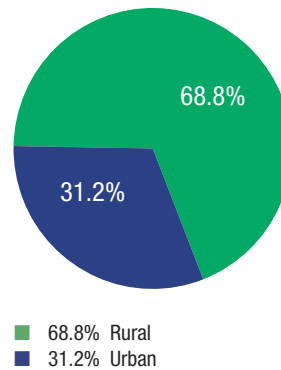
Financial inclusion cannot be understood in isolation. It needs to be understood in the context of other dynamics within a country or community. To fully comprehend financial inclusion, it is important to know things like the demographic profile of the population, the different ways in which people generate income, their life realities, and their perceptions regarding financial services. These and other questions are core to understanding the financial inclusion landscape within a country or community.

In 2011, there were an estimated 1 133 712<sup>34</sup> people aged 18 and older in Lesotho. The population is skewed towards females, as shown in the figure below. About seven out of every ten Basotho aged 18 years or older live in rural areas.

**Figure 3. Gender distribution: percentage of adults**



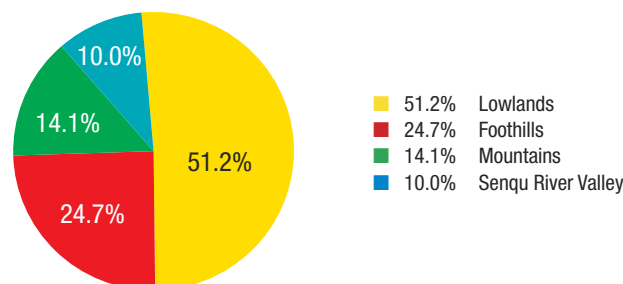
**Figure 4. Rural-urban split of the adult population**



Urban areas, by definition, tend to be more endowed with infrastructure that enables the presence of services – including financial services. As a result, it often follows that access to financial services is higher in urban areas than it is in rural areas. The rural-urban split of the population therefore has an effect on the overall financial inclusion picture in a country.

Most (75%) of Basotho aged 18 years or older live in the Lowlands and Foothills ecological zones. The Mountains are home to 10% of the adult population.

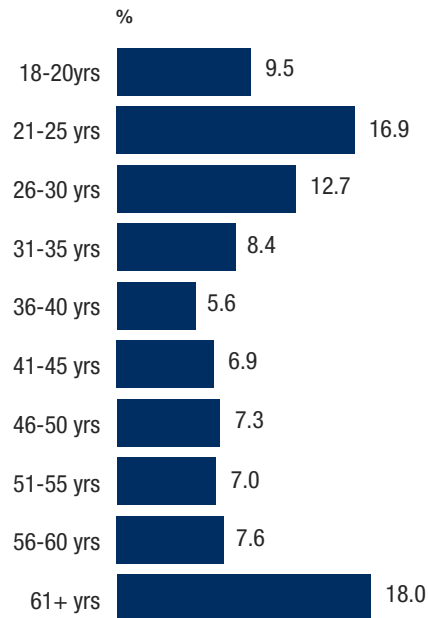
**Figure 5. Geographical distribution of the Basotho population aged 18 years or older by ecological zone**



<sup>34</sup> All data quoted in this report, unless otherwise stated, draws directly from FinScope Lesotho 2011.

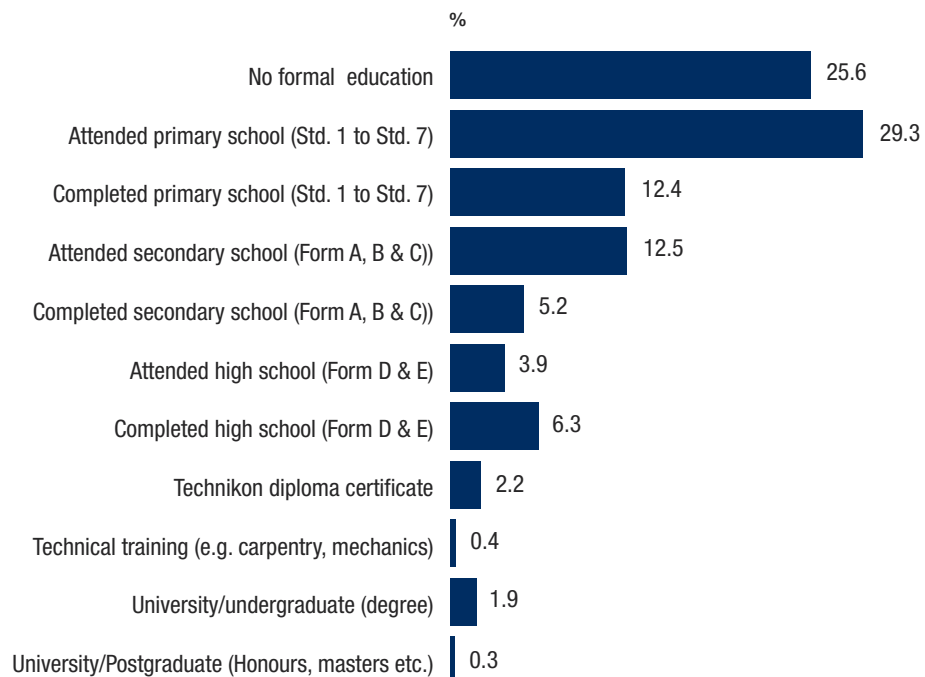
Almost half (47%) of the Basotho aged 18 years or older are under the age of 35.

**Figure 6. Age distribution of the Basotho population aged 18 years or older**



Two-thirds of Basotho adults (67%) are not educated beyond primary school level. About 26% have no formal education.

**Figure 7. Education profile of Basotho aged 18 years or older**



The education levels in a country are important as, generally, a correlation exists between education levels and financial behaviour. In attempting to address issues of financial inclusion, it is therefore important for service providers, for example, to understand the level of education of their target markets in order to be able to design effective communication.

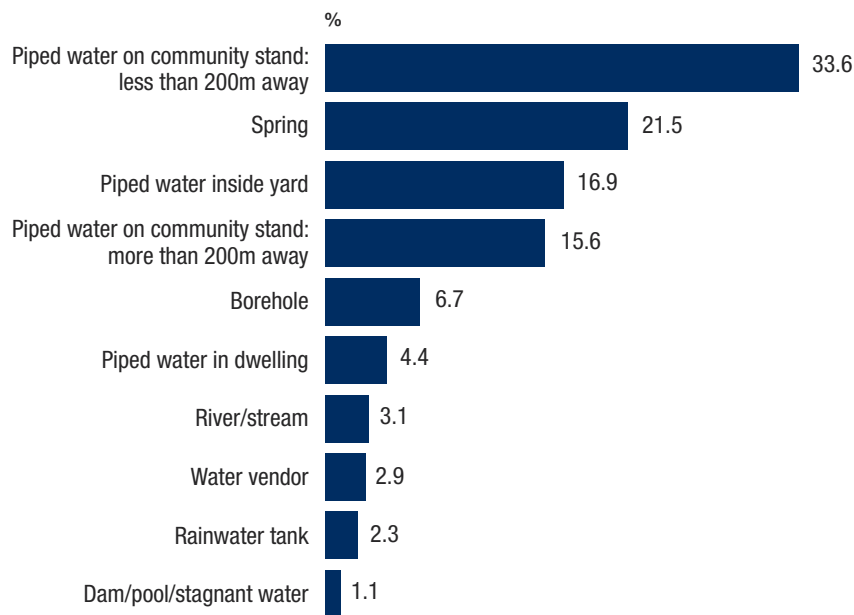
## 4.2 Understanding people’s lives

In addition to assessing the demographic characteristics, it is also important to have a good understanding of the realities and challenges that people face in their daily lives – in terms of access to amenities, access to infrastructure and wealth profiles. All of these aspects are likely to affect how people interact with financial services. People struggling to survive on a daily basis, whose lives are characterised by a lack of access to basic amenities, are unlikely to prioritise usage of financial services, particularly formal financial services. Their efforts are more likely to be directed towards coping with their daily life demands.

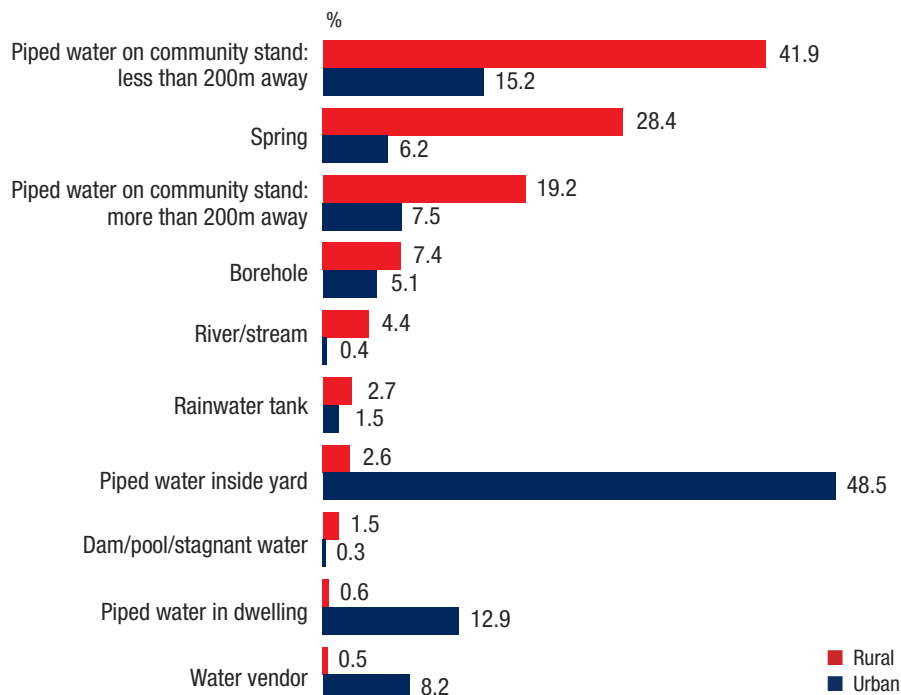
### Access to basic amenities

A significant proportion of Basotho aged 18 years or older do not have access to basic amenities. Those who live in rural areas are worse off than their urban counterparts, in terms of access to drinking water, sanitation and energy sources for cooking, as illustrated in Figures 8, 9, 10 and 11.

**Figure 8. Access to drinking water: percentage of Basotho aged 18 years and older**

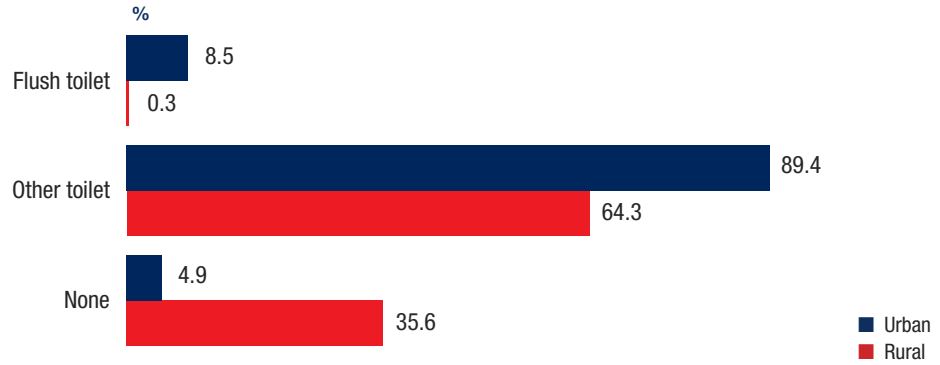


**Figure 9. Access to drinking water: percentage of Basotho aged 18 years and older Rural versus Urban**



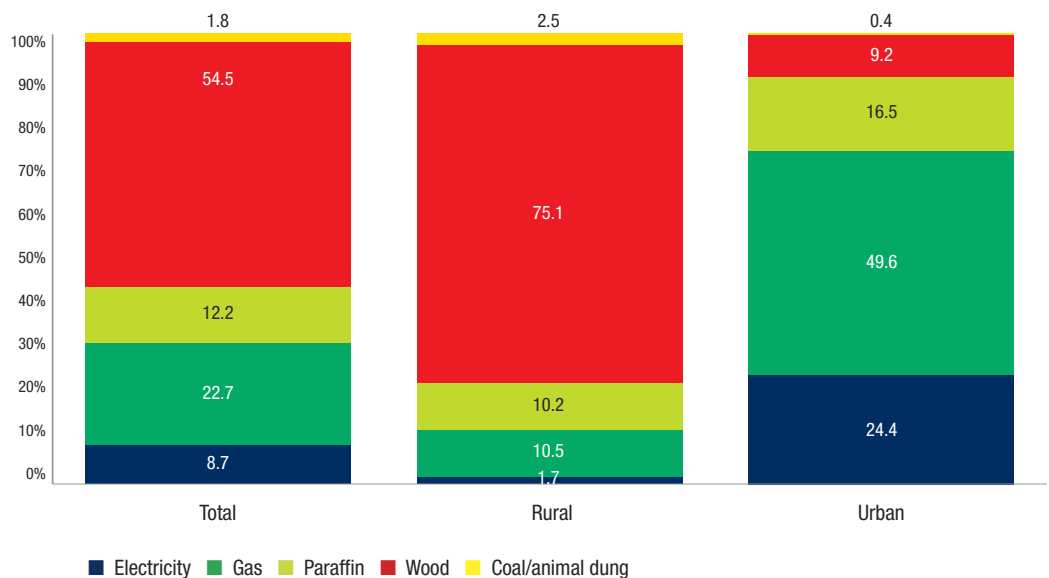
Figures 8, 9, 10 and 11 should be looked at with the aim of understanding the relative importance of having something like a bank account for someone with no easy access to water, no sanitation facilities and has to fetch wood for cooking. While over 50% of Basotho adults have access to piped water within 200m, only 4.4% of Basotho adults have access to piped water in their homes – almost all of them in urban areas. More than a third of Basotho adults who reside in the rural areas have no sanitation facilities.

**Figure 10. Access to sanitation facilities: percentage of Basotho aged 18 or older**



Furthermore, the major sources of energy for cooking are firewood, and gas. Firewood is predominantly used in the rural areas, while gas is predominantly used in the urban areas. This implies that many in the rural areas spend time gathering firewood.

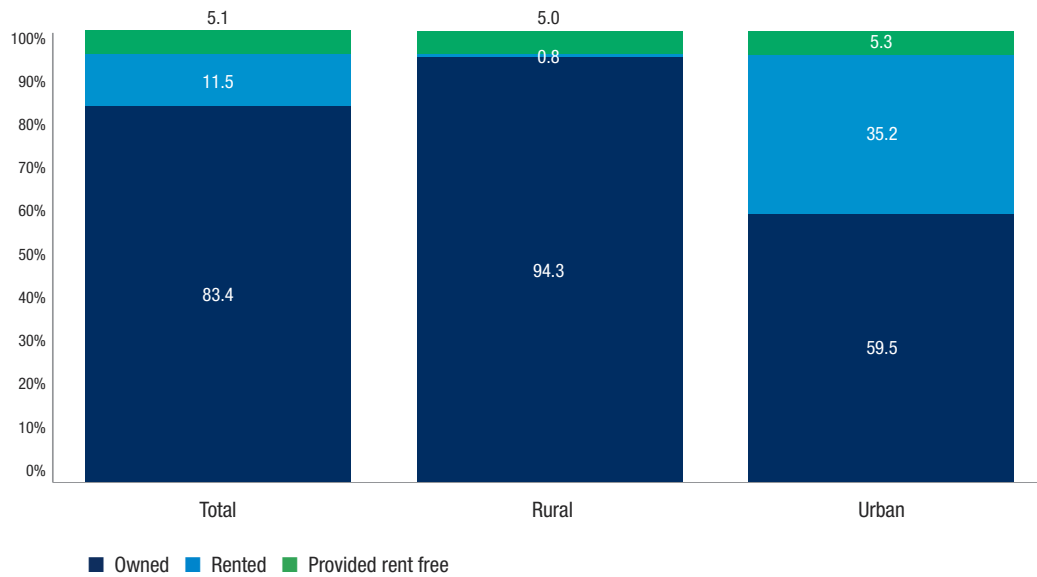
**Figure 11. Energy sources used for cooking: percentage of Basotho aged 18 years or older**



### Assets – Home ownership

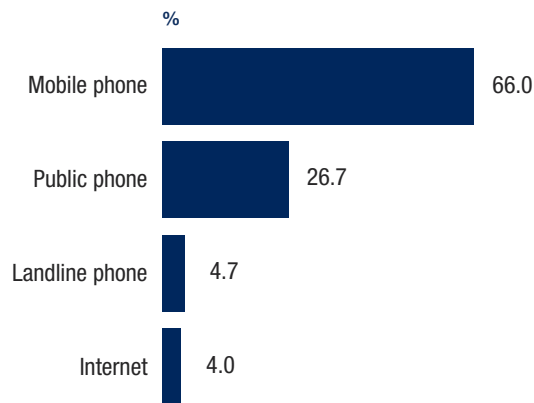
Home ownership is higher in rural areas (Figure 12), than it is in urban areas. As can be expected, rentals appear to be a feature of urban areas in Lesotho (35% compared to less than 1% in rural areas). More than eight in ten Basotho aged 18 years or older indicated that they or a member of their household own the dwelling that they live in. However less than 10% of Basotho who own the homes they live in said that they would use their homes as collateral to secure loans. While this might be a function of not knowing that this is something that is possible, it is also likely, as FinScope surveys in other countries have shown that Basotho might not view their dwellings as assets and are therefore just not willing to do anything that may result in them losing their homes. Follow up research might explore the reasons for this in Lesotho.

**Figure 12. Dwelling ownership: percentage of Basotho aged 18 years or older**

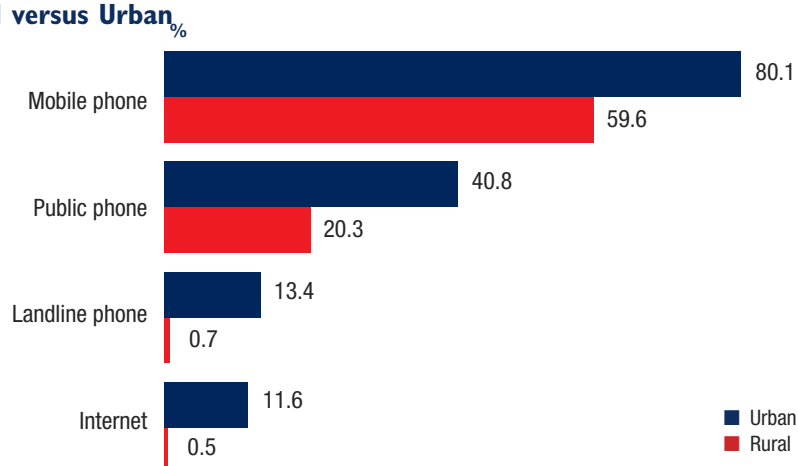


One of the avenues that is often touted as the way to expand the reach of financial services, is through mobile phones. The success of M-Pesa in Kenya certainly has helped strengthen this view. However, the low up-take of M-Pesa in South Africa has led to the moderation of this view. It is therefore important to look at the level of usage of mobile phones to try and understand the potential in Lesotho. Looking at the proportions of the population who personally use mobile phones addresses this, but it is also an indicator of the level of connectivity. Mobile phone access in Lesotho is high – similar to other African countries. As can be expected, it is higher in urban areas than in rural areas.

**Figure 13. Usage of mobile phones: percentage of Basotho aged 18 years or older**



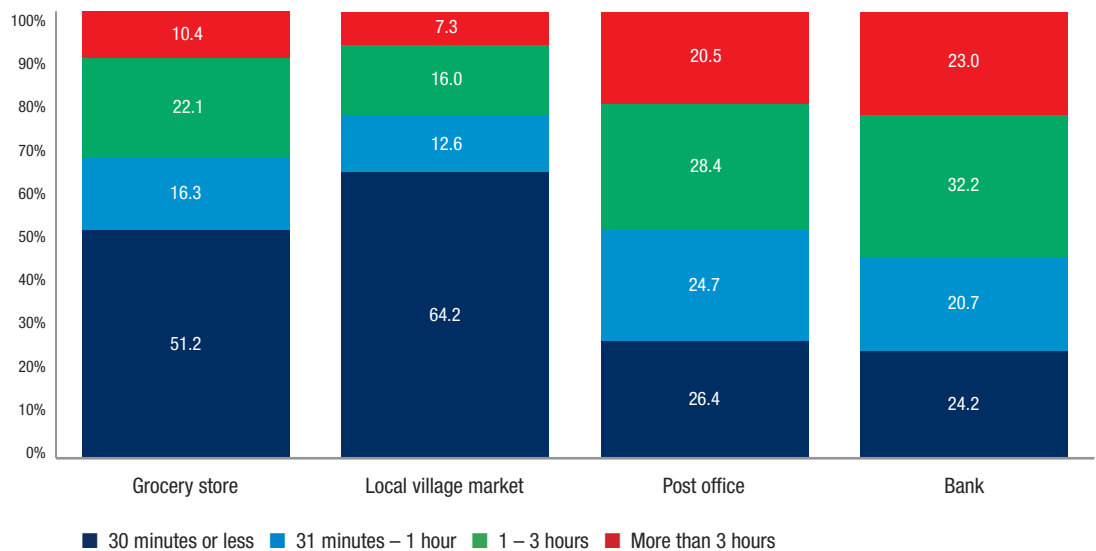
**Figure 14. Usage of mobile phones: percentage of Basotho aged 18 years or older Rural versus Urban**



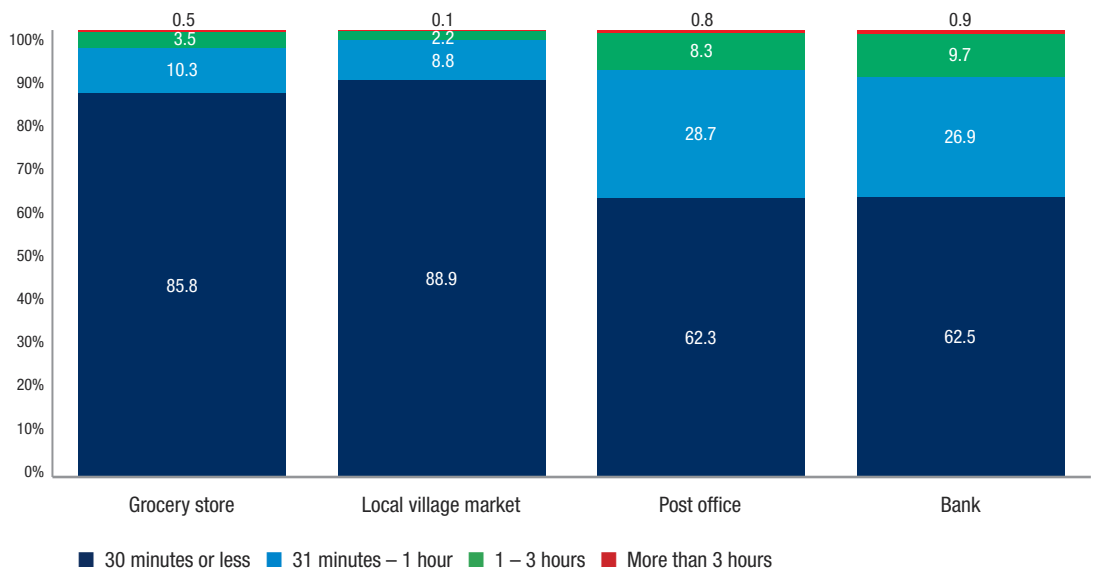
## Geographical access to facilities

The distance to the nearest grocery store, local village market, post office and bank – measured in terms of the time taken to reach these places – helps achieve mainly two things. The first is that it gives a sense of the levels of access to infrastructure. The other, and perhaps the more important, is that it helps to provide a context in which to evaluate the distribution of financial services institutions. Very often, the lack of physical access (“the banks are too far”) is given as the reason for why people do not especially engage with the formal financial institutions. Pressure is often subsequently brought to bear on the formal financial institutions to erect points of presence in these often rural areas. What is important is to put the distance to formal financial institutions in relation to the distances to other basic institutions such as the nearest grocery store, local village market, and post office. Once this is done, it is then possible to see if physical access is really the main problem. Another benefit of looking at physical access in this way is that it also provides service providers with ideas regarding possible alternative distribution channels for their products and services. As shown below, the majority have access to a grocery store or local village market within 30 minutes or less.

**Figure 15. Access to facilities – percentage of Basotho aged 18 years or older**

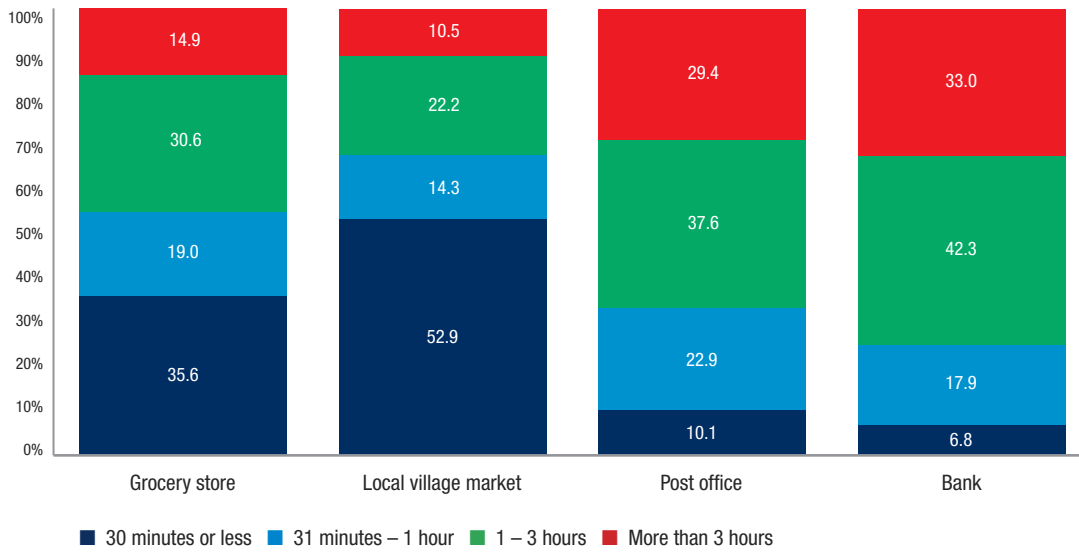


**Figure 16. Access to facilities – Rural: percentage of Basotho aged 18 years or older**





**Figure 17. Access to facilities – Urban: percentage of Basotho aged 18 years or older**

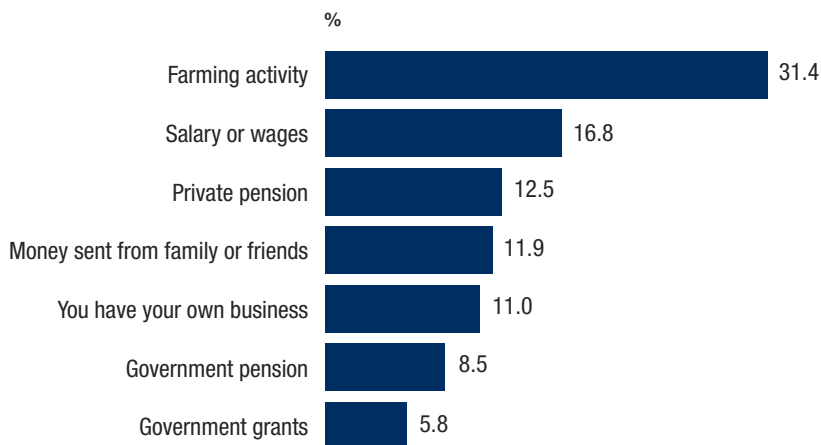


As can be expected, access to infrastructure is better in urban areas. In particular, geographical access to banks and the post office is much better in the urban areas than in the rural areas. The high accessibility of grocery stores and local village markets could be of interest to institutions looking to access the rural population. They could be examined by service providers as potential alternative distribution channels for financial products and services.

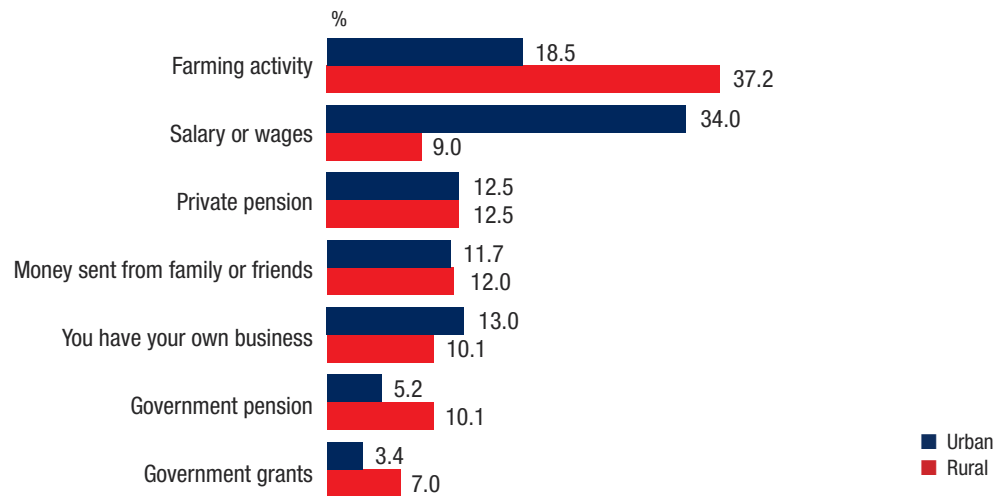
### 4.3 Income-generating activities

In addition to considering the general demographics of the Basotho adult population and how they live their lives, it would be impossible to understand the extent and nature of financial inclusion in Lesotho without looking at how people generate their income. Without knowing the income realities of Basotho, it will be difficult to understand their financial service usage choices and constraints, as income is one of the primary determinants of engagement with financial services providers. Understanding the source, regularity and consistency of the earned income can also inform the optimal way that financial services should be structured to increase usage by, and benefit to, Basotho. As shown below, only 17% of Basotho adults earn most of their income in the form of wages and salaries. Because salaries and wages are regular and stable sources of income, people who earn wages and salaries are almost always the preferred targets of formal financial institutions. However, this target market, when fully subscribed, accounts for only 17% of the Basotho adult population.

**Figure 18. Main income generating activities: percentage of Basotho adults**



**Figure 19. Main income generating activities: percentage of Basotho adults Rural versus Urban**



Farming activity and salaries and wages are the main sources of income for Basotho adults in Lesotho. Over 30% of Basotho derive most of their income from farming related activities, while over 15% derive most of their income from salaries and wages. For those who rely most on salaries and wages, just less than half of them (48%) receive their payment as cash in their hands, and another 43% have their salaries and wages paid into a bank account.

Just over one in ten (12%) of rural adults and just over one in ten (12%) of urban adults rely on someone else for their main source of income. This is low in comparison with other countries for which FinScope data is available. For example, FinScope Mozambique (2009) indicates the dependency rate among adults to be almost 50%. This suggests that Basotho are more likely to make an effort to generate an income rather than to rely on others.

Income levels are always an important area of interest. However, income information collected in surveys such as this should, at best, be taken as very rough indications. This is because:

- The information is not verified in any way
- Given that most Basotho earn irregular and inconsistent income on account of their income generation activities, it is only likely to be the information from those who earn salaries and wages that can be assumed to be reliable.

### Key take-outs

A few points emerge from the previous sections that are useful to keep in mind in thinking about the prospects of increasing the levels of financial inclusion in Lesotho:

- The majority of Basotho live in rural areas (68.8%)
- Less than 25% are from households with an own tap (in the yard or inside the home)
- 26% are from households with no toilet facilities
- 54.5% are from households that use wood for cooking – 75% of those in the rural areas use wood, while just under 50% of urban dwellers use gas for cooking
- Almost 40% of Basotho are 30 years old or younger (an age group that FinScope data shows as not yet economically settled)
- One in four (25.6%) have no formal education, and a further 41.7% have no more than primary school education
- More than half rely on irregular and inconsistent incomes, mainly from farming activity (31.4%), money sent from family and friends (11.9%) and own businesses (11%)
- Only 16.8% rely on salaries and wages as their main source of income

It is important to keep these realities in mind when looking at financial inclusion in Lesotho, especially when the attention turns to targets for the various categories of financial inclusion.

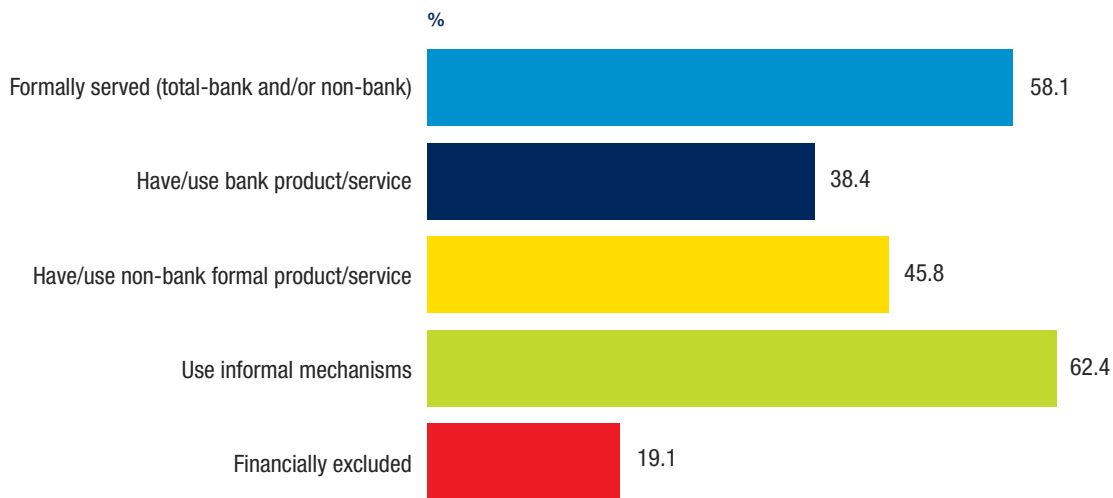
## 4.4 Financial inclusion in Lesotho

This section considers the landscape of financial inclusion in Lesotho as it emerges from the FinScope Lesotho 2011 findings, bearing in mind the profile of the adult population as sketched in the preceding sections.

### 4.4.1 Financial inclusion – overview

A total of 19.1% of Basotho adults do not use any form of financial product or mechanism to manage their financial lives, be it formal or informal. In total, 58.1% use formal financial services and 62.4% use informal financial services, as indicated in Figure 19.

**Figure 20. Formal versus informal financial product usage among Basotho adults**

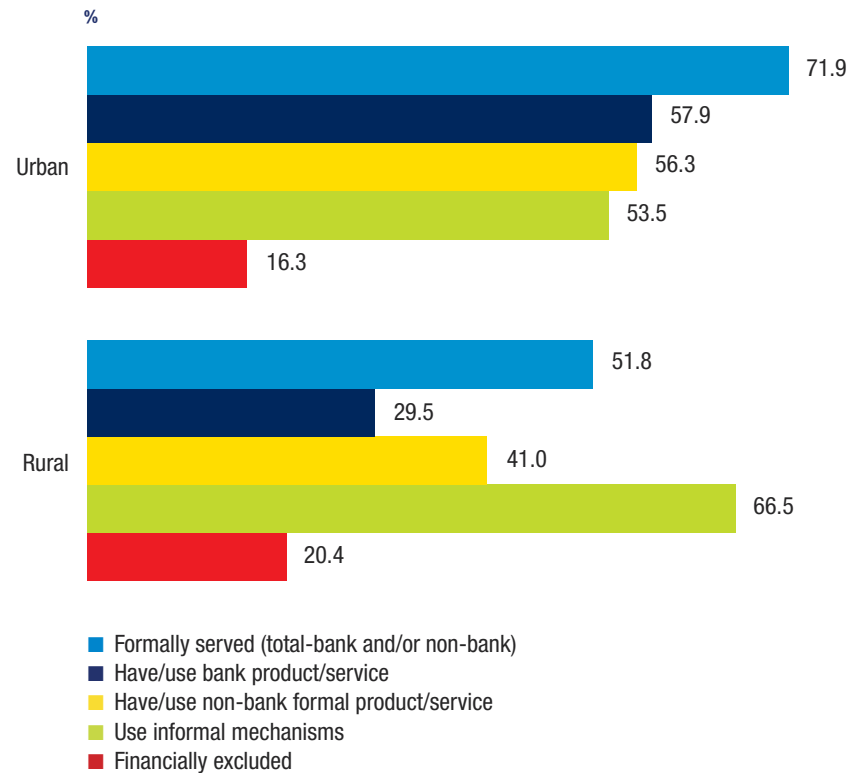


The proportion of the population that makes use of informal products and services (62.4%) shows the significance of the informal sector in Lesotho. Within the formal sector; the non-bank formal financial institutions play a significantly larger role than the banks: 38.4% of Basotho adults have a bank account, while 45.8% use products from non-bank financial institutions.

It is important to note that there will be overlaps between formal and informal financial services usage. That is: some people who have a formal financial product will also have an informal one; formal and informal usage as depicted in the figure cannot simply be added up to reach total inclusion. The same holds for banking and non-bank financial services: many of those who use non-bank financial services are likely to also have a bank account. These differences will become apparent when inclusion is unpacked further.

The following figure shows a comparative analysis of rural and urban usage figures.

**Figure 21. Percentage of Basotho adults using financial services: Rural versus Urban**



Formal financial services usage is higher in urban than in rural areas: 72% of urban adults use formal financial products, versus 52% in rural areas.

It is important to note the more important role played by the informal sector in the rural areas. More adults in the rural areas use informal financial services than formal financial services. Without downplaying the importance of the informal sector in urban areas, comparatively, the role of the informal sector is more significant in the rural areas.

Similar to other countries where FinScope studies have been carried out, banks in Lesotho are not the dominant formal financial services providers. In Lesotho, non-bank formal institutions are driving the usage of formal financial services – 30% of Basotho adults living in rural areas use banks, compared to 41% who use the other formal financial institutions.

Next we look at what is driving financial inclusion in Lesotho. It is important to get an understanding of:

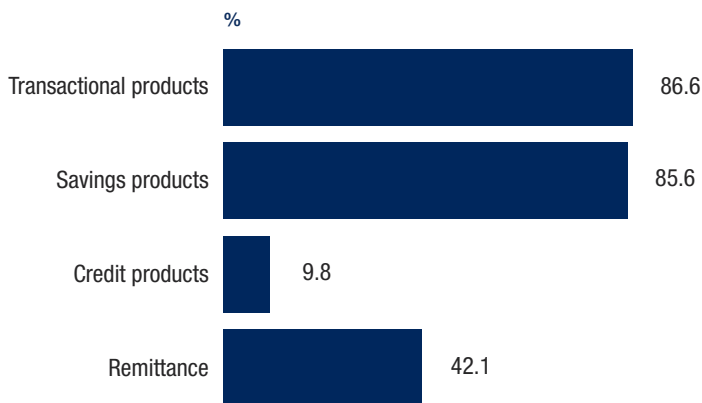
- What is driving the use of banking products and services?;
- What is driving the use of products and services from the other formal (non-bank) financial institutions?; and
- What is driving the use of informal products and services?

## 4.4.2 Product uptake

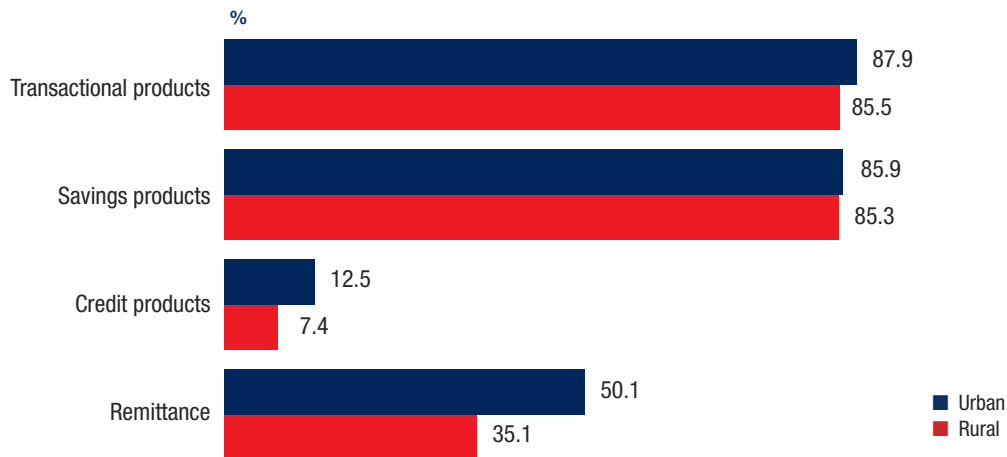
### Banking

Banking in Lesotho is driven primarily by the use of transactional products (used by 87% of banked Basotho adults) and the use of savings products (used by 86% of banked adults). Remittances/money transfers (42%) are the next most used services, with banks being the source of credit for only 10% of banked Basotho. There is no difference in terms of transactional products and savings products between those in rural and urban areas. The differences are in terms of credit products where 13% of the urban adults make use of bank credit compared to 7% of rural adults; and in terms of remittance services where 50% of urban adults make use of the banks for remittance services, compared to 35% of rural adults.

**Figure 22. Types of banking products used by banked Basotho adults**



**Figure 23. Types of banking products used by banked Basotho adults Rural versus Urban**

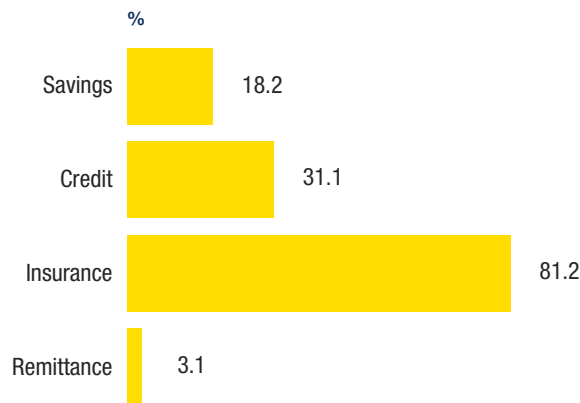


### Other formal (non-banked)

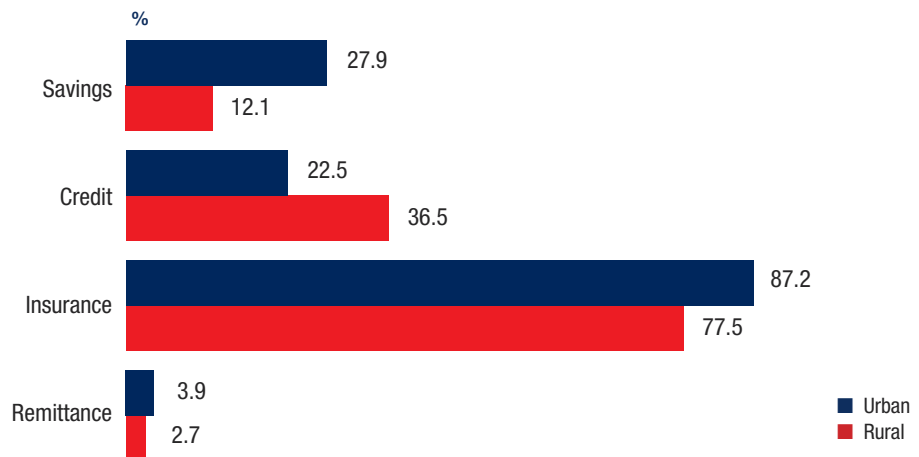
The use of non-bank formal financial products and services in Lesotho is driven mostly by insurance (81%) and credit products (31%). Insurance usage in Lesotho is driven primarily by the take up of funeral insurance.

Non-bank formal institutions extend credit to more rural adults (37%) than urban adults (23%). The extent of the reach of the non-bank formal institutions is seen in that they provide insurance products to 78% of rural adults who make use of these institutions.

**Figure 24. Types of products and services used by Basotho adults who use non-bank formal financial institutions**



**Figure 25. Types of products and services used by Basotho adults who use non-bank formal financial institutions – Rural versus Urban**

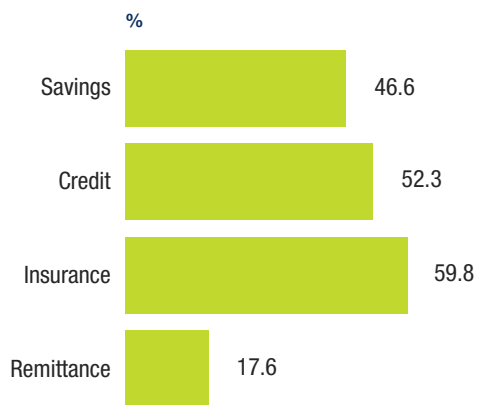


### Informal mechanisms

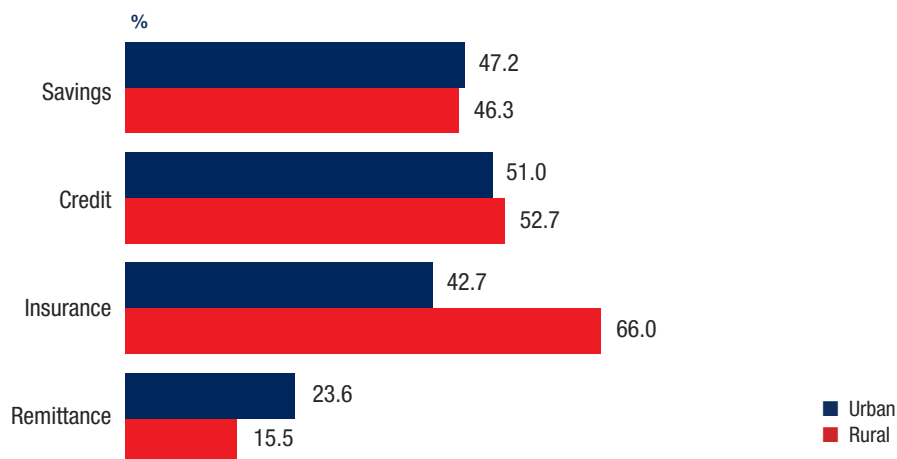
The informal sector is used primarily for membership to burial societies (60% of those who use informal financial products and services); credit services (52%); and savings services (47%).

Those who use informal services and mechanisms in the rural areas use them for informal burial insurance through burial societies (66%), credit services (53%) and savings (46%). Urban adults who use informal services and mechanisms use them mainly for credit services (51%), followed by savings (47%) and funeral insurance through burial societies (43%).

**Figure 26. Types of products and services used by Basotho adults who use informal products and mechanisms**



**Figure 27. Types of products and services used by Basotho adults who use informal products and mechanisms – Rural versus Urban**



## Overlaps

There are overlaps in the usage of the different categories of financial products and services. In this section, we examine the extent of those overlaps.

Overall, a significant proportion of the adult population uses a combination of financial services as shown below.

**Figure 28. Overlap of usage of banking, formal other and informal financial services: total adult population**

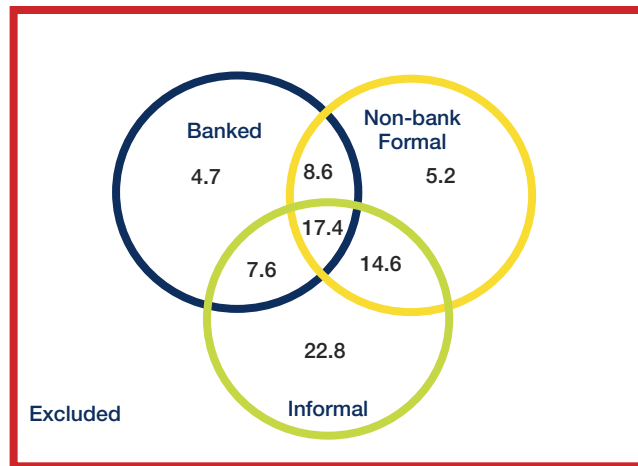


Figure 28 shows that:

- 4.7% of Basotho adults are only banked, meaning they only use/have products/services offered by a commercial bank
- 26% are banked and use other formal financial services
- 17.4% are banked and use other formal services as well as informal services
- 7.6% are banked and use informal services

In total, 88% of those that are banked also use another type of financial product or service. Of the 46% of Basotho adults who use other formal financial products and services, 87% of them use other categories of financial products and services. Of the 62% who use informal financial products and services, 64% of them also make use of formal financial services and products.

### 4.4.3 Financial Access Strand

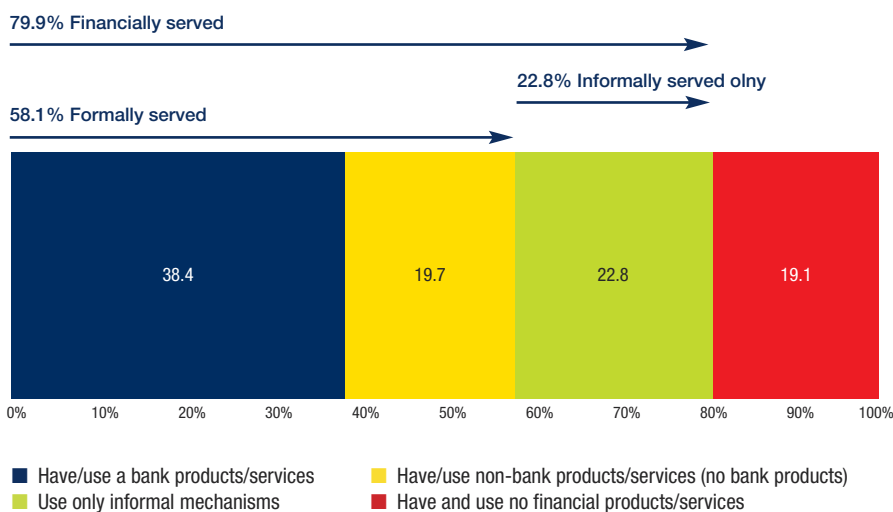
Another tool to consider financial inclusion, which removes some of the overlaps highlighted in the previous analysis, is the Financial Access Strand (FAS). The FAS is based on the definition of financial inclusion and the corresponding segmentation of the adult population as set out in the analytical framework. To recap, all adults in a country will fall into one of the following categories:

- **Banked** – Individuals using commercial bank products. This is not exclusive usage – these individuals could also be using financial products from other formal financial institutions or informal products.
- **Formal other** (non-bank formal) – Individuals using financial products from formal financial institutions which are not commercial banks such as microfinance institutions or insurance companies. This excludes bank usage, but is not exclusive in terms of informal usage: these individuals could also be using informal products.
- **Informal** – Individuals using informal financial products only. This category is defined as exclusive informal usage and does not count those within the banked or formal other categories that also use informal services.
- **Excluded** – Individuals using no financial products to manage their financial lives – neither formal nor informal.



The following figure illustrates financial services usage in Lesotho according to these categories.

**Figure 29. Financial Access Strand for Basotho adults**



A total of 79.9% of Basotho adults are financially served – made up of those who use bank products/services, those who use non-bank formal products/services, and those who make use of informal services/mechanisms. The balance (19.1%) is classified as financially excluded:

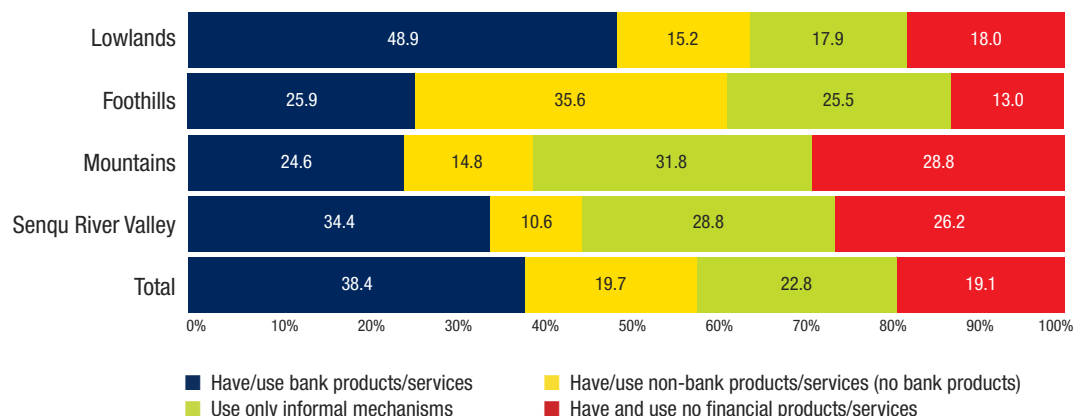
- 58.1% are formally served, including the following:
  - 38.4% have or use a product or service from a commercial bank – they are 'banked'
  - 19.7% have or use a product or service from a formal non-bank financial institution but do not use bank products
- 22.8% are informally served only

The informal sector plays an important role in pushing out the boundaries of financial inclusion in Lesotho by serving 22.8% of the adult population who do not make use of the formal sector.

### Access Strand by location and gender

The FinScope FAS tool can also be used to compare financial inclusion levels across different population segments or regions within a country. The following figure shows Lesotho's Access Strands for the different ecological zones in Lesotho.

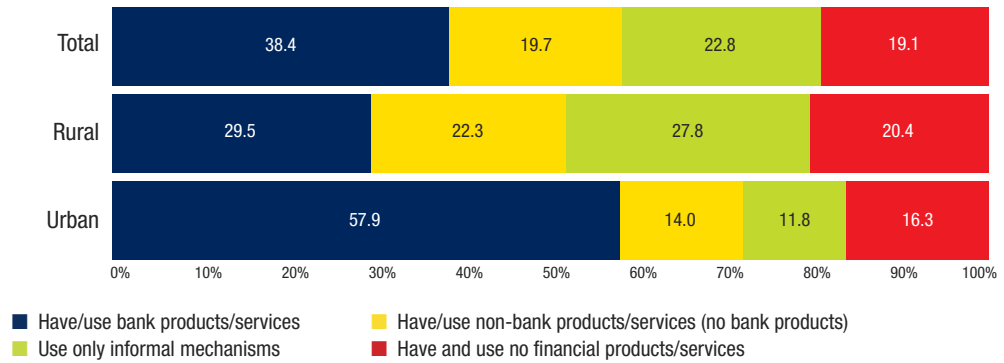
**Figure 30. Financial Access Strands for the different ecological zones in Lesotho**



The highest level of financial inclusion is in the Lowlands (82%), and the highest level of financial exclusion is in the Mountains (28.8%). The informal sector is most significant in terms of pushing out the boundaries of access in the Mountains (31.8%), Senqu River Valley (28.8%), and Foothills (25.5%). The Lowlands (48.9%) has the highest proportion of banked adults, while the Mountains region (24.6%) has the least.

The following figures illustrate the Access Strands for Lesotho by location (rural and urban areas) and by gender.

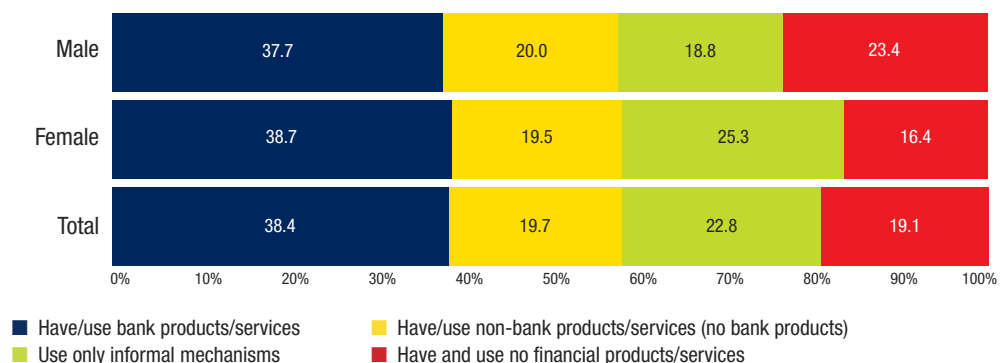
**Figure 31. The Lesotho Access Strand: Rural versus Urban**



Similar to other countries where FinScope surveys have been conducted, people living in urban areas are more likely to be banked (58%) than rural adults (30%). The non-bank formal institutions play a bigger role in the rural areas, compared to the urban areas.

The role of the informal sector in pushing out the boundaries of financial inclusion is significantly more pronounced in the rural areas where it serves 28% of the adults who are not formally served, compared to 12% in the urban areas.

**Figure 32. The Lesotho Access Strand: male versus female**

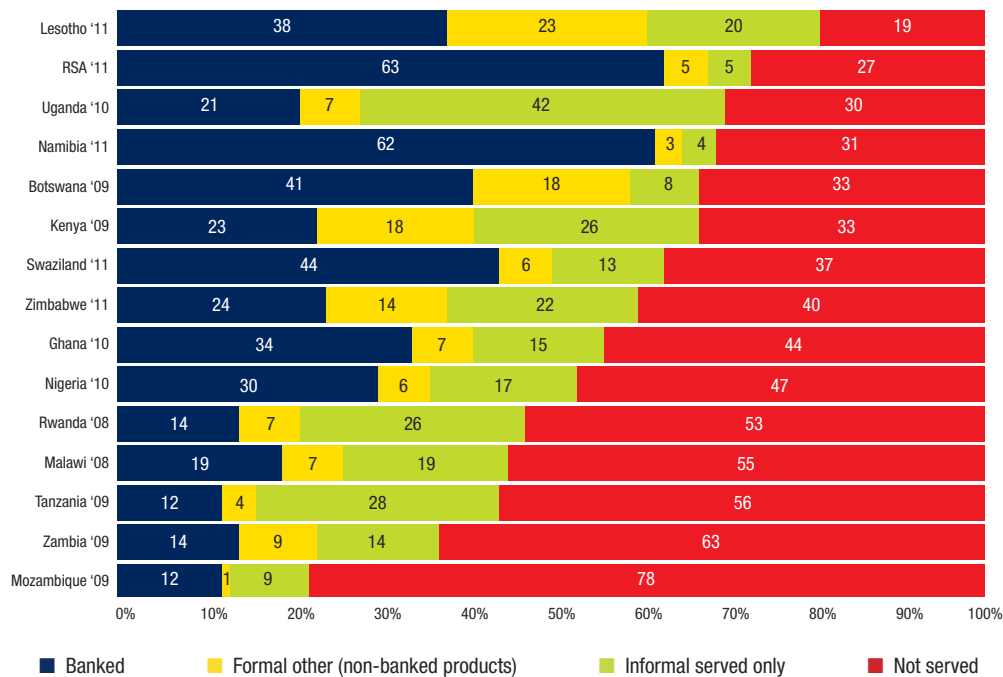


Financial inclusion is higher amongst females in Lesotho (84% female versus 77% male). A gender analysis shows that despite males and females having similar proportions banked (39% female versus 38% male), and similar proportions using non-bank formal institutions (20% female versus 20% male), it is in the proportions that use informal services only that distinguishes the financial inclusion levels for males and females in Lesotho – 25% of Basotho adult females use informal services/mechanisms only, compared to 19% of Basotho adult males.

## Access Strand – country comparison

The FinScope FAS tool can be used to compare financial inclusion levels across different countries. The following figures illustrate how the Access Strand for Lesotho compares to other countries where FinScope surveys have been conducted. Figure 32 ranks the countries in terms of the level of financial exclusion, and Figure 33 the countries in terms of the proportion of the adult population that is banked.

**Figure 33. The Lesotho Access Strand: Country comparisons (ranked on ‘financial exclusion’ levels)**

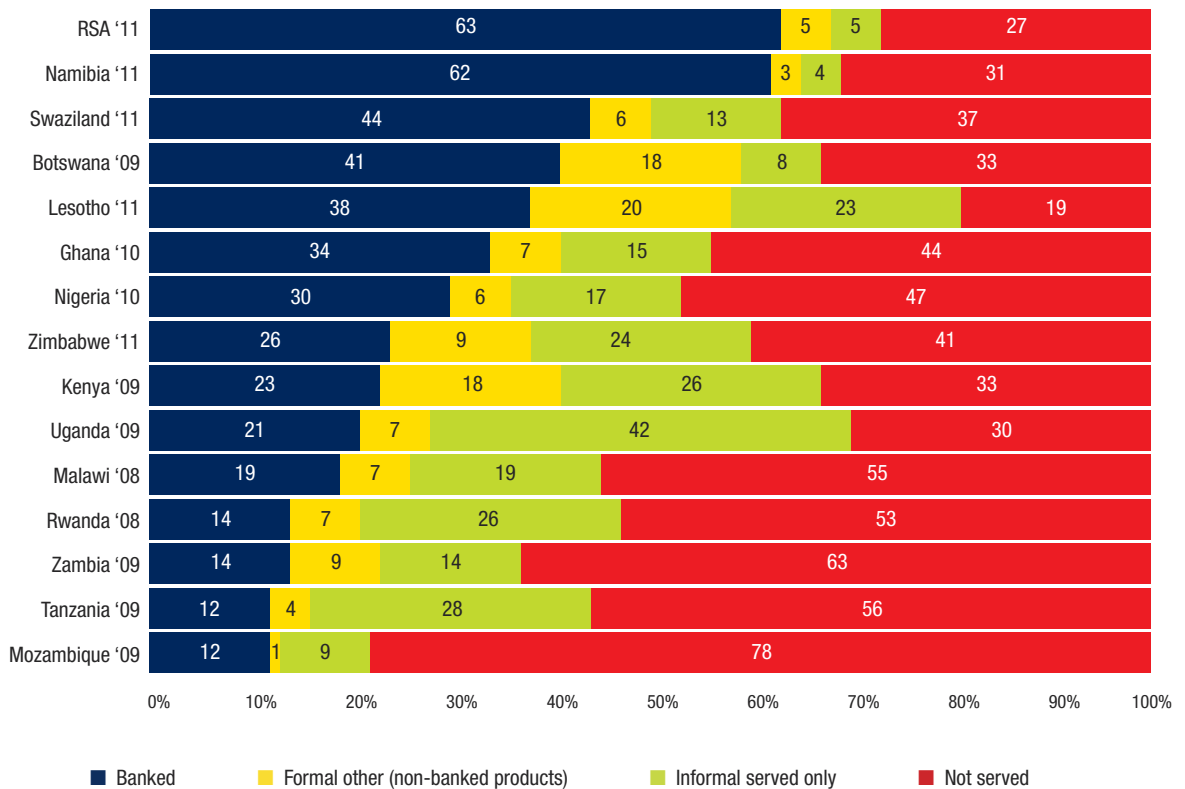


Lesotho has the lowest level of financial exclusion (19%), while Mozambique has the highest level of financial exclusion (78%).

For most countries, the role played by the informal sector cannot be downplayed, or underestimated. Lesotho is one such country on account of 23% of its adult population making use of the informal sector only.

The high formal inclusion in Lesotho is because of the usage of non-bank formal institutions. As indicated earlier in this report, non-bank formal institution usage is driven by the take up of insurance – particularly funeral insurance from insurance companies. For a significant proportion of those who make use of these institutions, funeral insurance is the only product they have.

**Figure 34. The Lesotho Access Strand: Country comparisons (ranked on the proportion that is banked)**



The figure above also illustrates how a country's different financial services providers – both formal and informal – work together to provide financial services to the greater population. Having a big proportion of people banked does not necessarily equate to higher levels of financial inclusion. Namibia, for example, which ranks 2nd in terms of banked adults (62% of adults are banked), ranks 4th in terms of the proportion of its adult population that is financially excluded (31%).

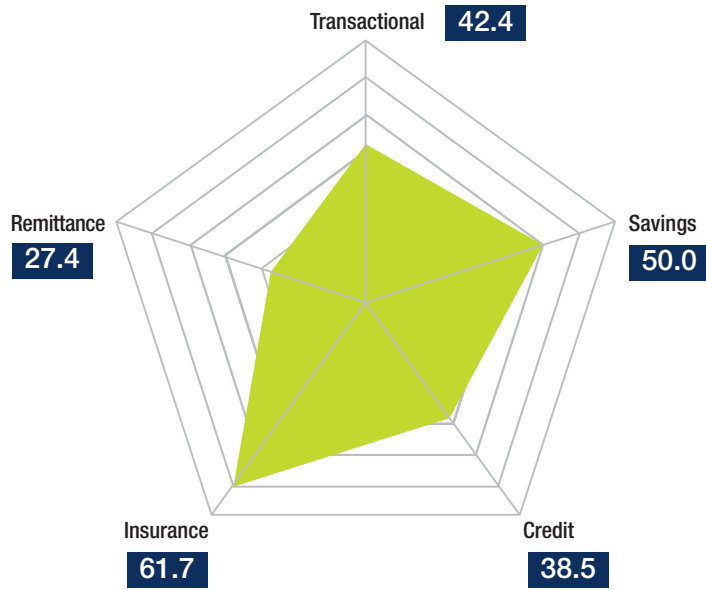
The Access Strand is a useful indicator for quick comparisons across countries. Caution, however, is needed when comparing results across countries. Each country has a unique financial sector and general economic context that has to be taken into account when making any comparative analysis.

#### 4.4.4 Landscape of Access

The Financial Landscape of Access (FLA) illustrates the extent to which individuals (aged 18 years or older) have or use financial products and services. The diagram depicts, on its five axes, the percentage of adults that have or use:

- Transactional products/services (e.g. cheque account, debit card)
- Savings products/services
- Credit products/services
- Insurance products/services
- Remittance products/services (e.g. Western Union/Moneygram, bank transfers)

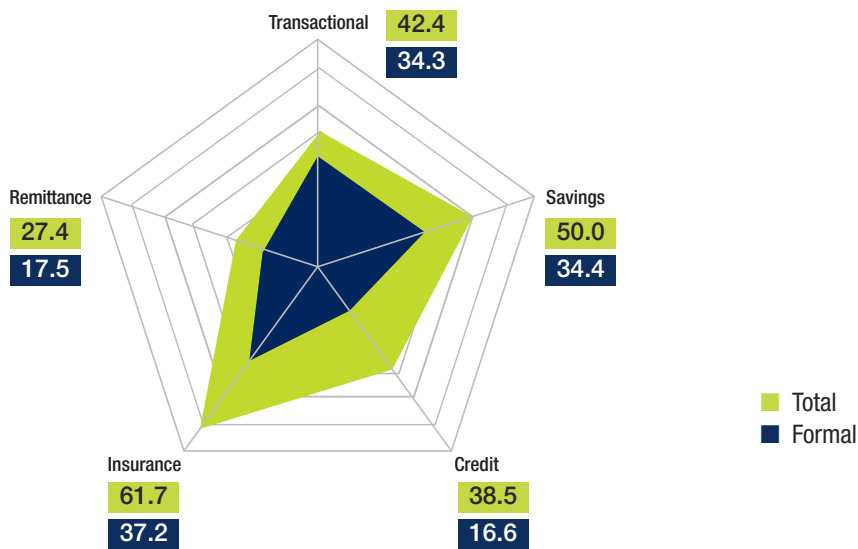
**Figure 35. Financial Landscape of Access for Lesotho**



The figure above illustrates the percentages of Basotho adults using the different categories of products (i.e. transactional, savings, credit, insurance, and remittance) – both formal and informal types of each. The Landscape of Access in Lesotho shows that the usage of insurance products or services is very high (61.7%). The graph also shows that apart from insurance, savings (50%) and transactional (42.4%) products and services are the dominant ways in which Basotho adults interact with the financial services sector.

The following figure shows the contribution made by the informal financial services sector:

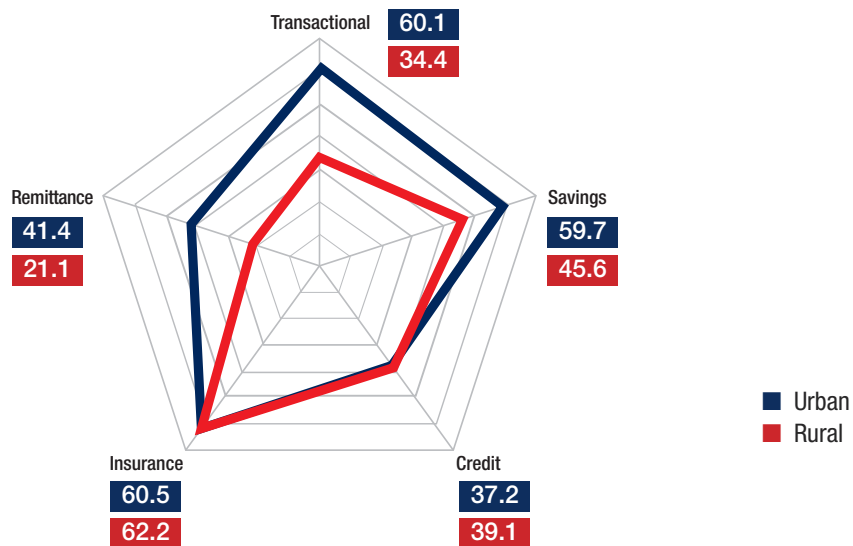
**Figure 36. Financial Landscape of Access: Role of the informal financial services sector**



The difference between the 'Total' diamond and the 'Formal' diamond shows the role of the informal sector in pushing out the boundaries of financial inclusion. As Figure 35 shows, the role of the informal sector is significantly skewed towards insurance, credit and savings. In total, the informal financial sector plays a very significant role in Lesotho.

The following figure shows the Landscape of Access in the urban and rural areas:

**Figure 37. Financial Landscape of Access: Rural versus Urban**



That insurance and credit take up is higher – albeit marginally – the rural areas compared to the urban areas differentiates Lesotho from most of the other countries where FinScope surveys have been conducted.

## 4.5 Financial behaviour

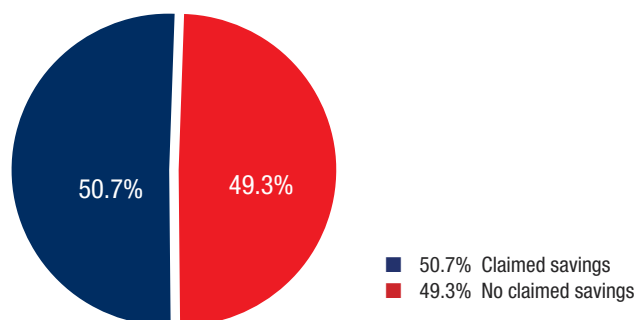
This section looks at the financial behaviour of adult Basotho in terms of:

- Saving
- Borrowing
- Risk mitigation
- Remittances

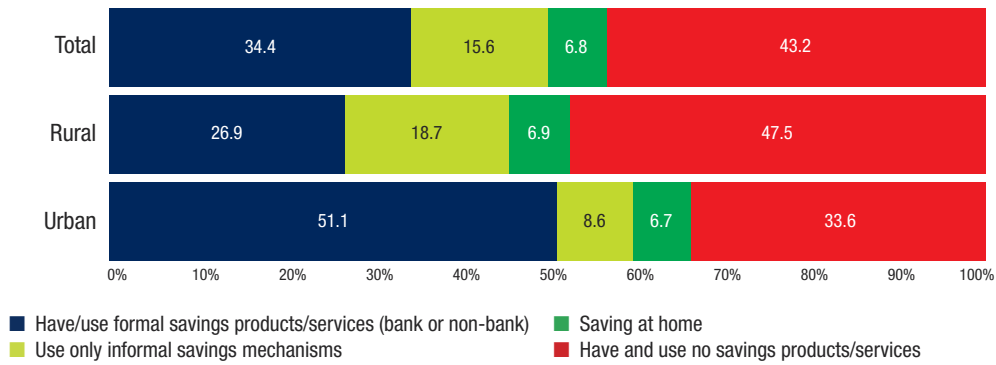
### 4.5.1 Savings

In total, 51% of adults claim to save in some way. In terms of those who make use of savings products and mechanisms, there is a higher proportion of urban adults who are saving (66%), compared to adults residing in rural areas (52%). There are significant skews in terms of the mechanisms used to save between those staying in the urban or rural areas. While over half of adults in urban areas (51%) save through the use of formal products, only 27% of rural savers make use of formal products for saving. There is a significantly higher proportion of rural savers who make use of informal mechanisms (19%) to save, compared to urban savers who use informal saving mechanisms (9%) as illustrated in Figure 38.

**Figure 38. Claimed savings**



**Figure 39. Savings mechanisms/products: Rural versus Urban**



The following figure outlines the reasons for saving among the Basotho.

**Figure 40. Savings: Reasons for saving for Basotho adults who save**

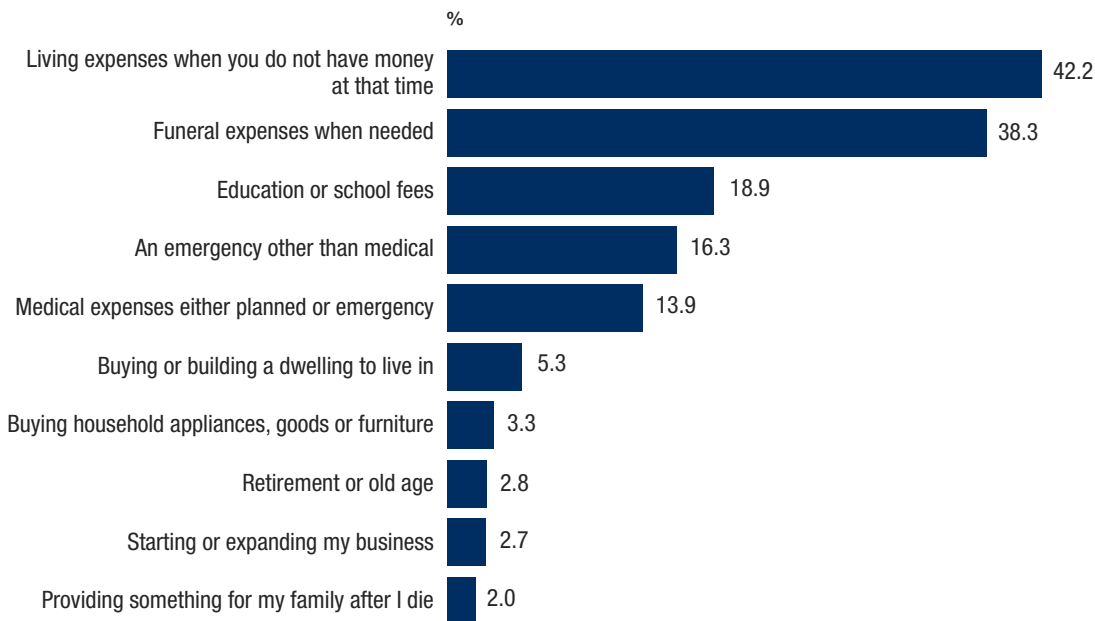


Figure 40 shows the reasons for saving advanced by those adults who claimed to save. Two of the main reasons (living expenses and funeral expenses) indicate that Basotho adults save for reasons which require that they have quick and assured access to their money when they need it.

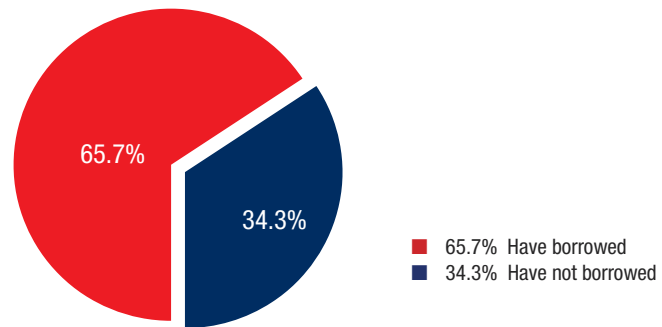
Of concern might be the seeming lack of a substantial long term orientation:

- 2.8% are saving for retirement or old age
- 2% want to leave something for their families when they pass on

### 4.5.2 Borrowing

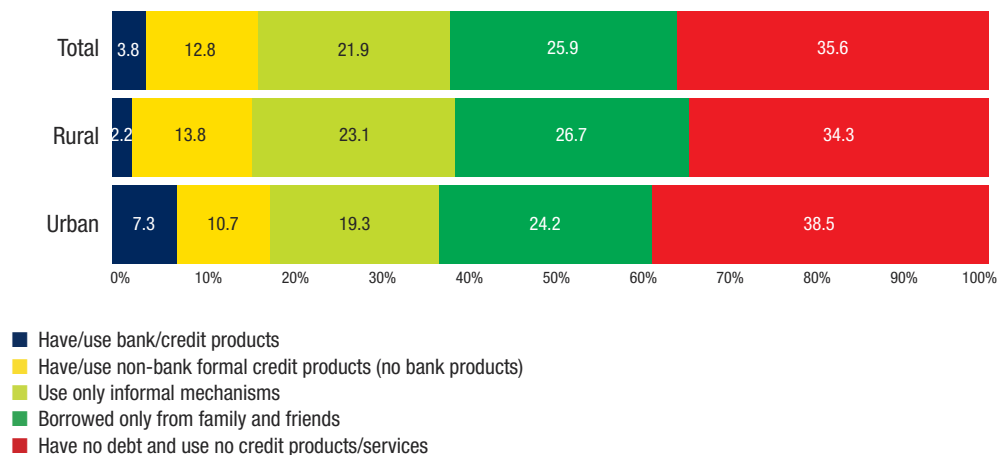
The general pattern witnessed in other countries where FinScope surveys have been conducted is that people generally overstate (over-claim) savings and understate (under-claim) borrowing. This does not seem to be the case in Lesotho, where 66% claimed to have borrowed or have been paying back a debt in the 12 months prior to the interview being conducted (Figure 41).

**Figure 41. Claimed borrowing**



The use of bank credit is very low in Lesotho (4%) and is skewed towards urban adults (7% versus 2% for rural adults). Non-bank formal credit usage is also low (13%) and is slightly skewed towards rural adults (14% versus 11% for urban adults). The main sources of borrowing in Lesotho are informal mechanisms (22%), and from family and friends (26%) (Figure 42):

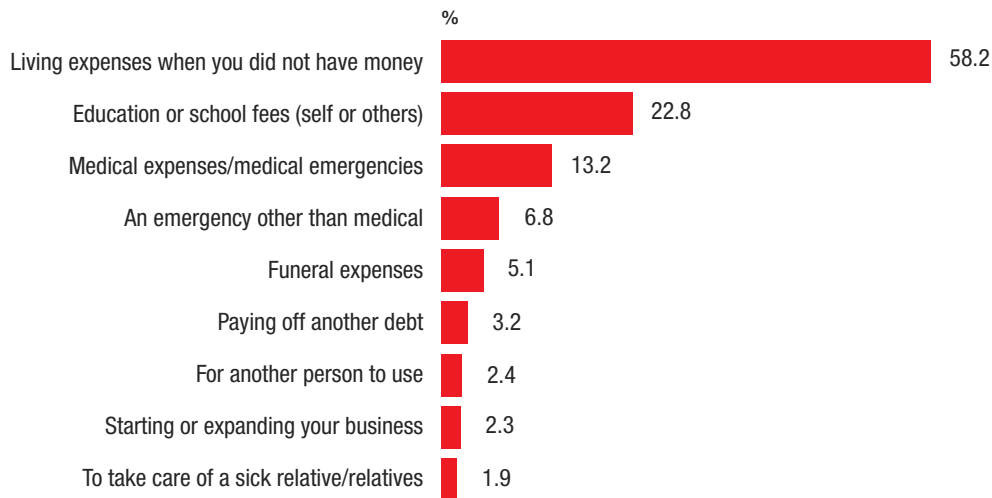
**Figure 42. Sources of borrowing for those who have borrowed**



The reasons for borrowing for the most part mirror the reasons for saving. This too might help explain the sources of borrowing (Figure 43).

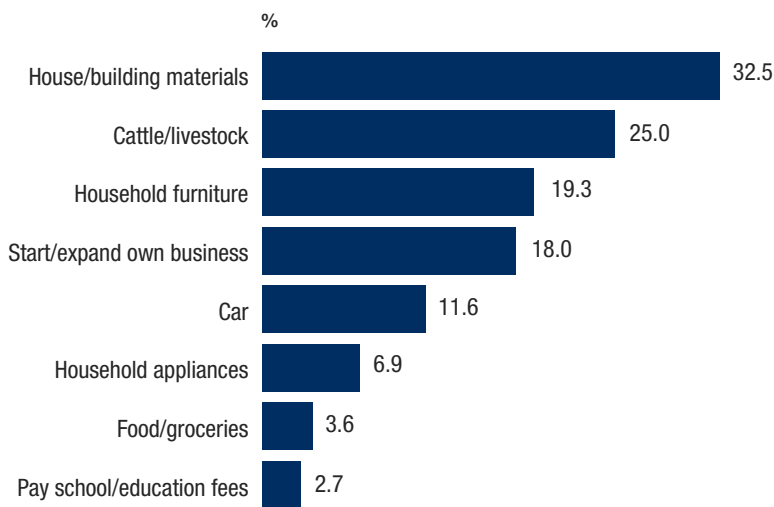


**Figure 43. Reasons for borrowing for those who have borrowed**

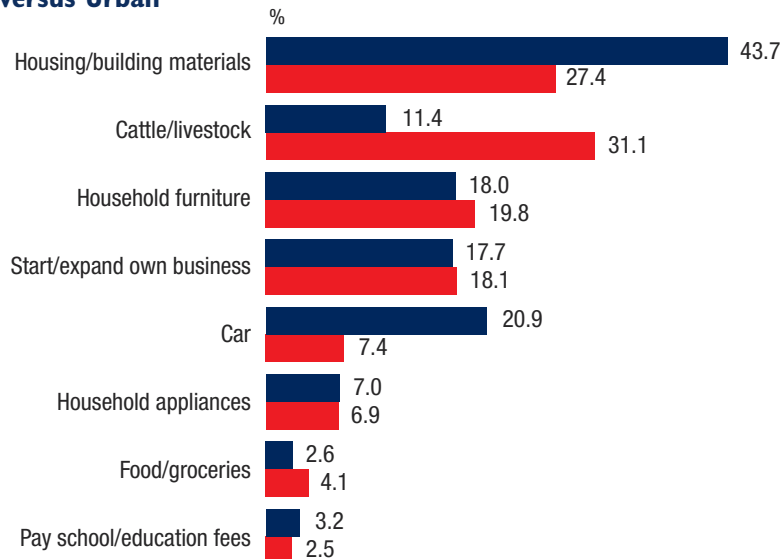


The main reason for borrowing refers to short-term purposes such as covering living expenses when income is insufficient (58%). The next most frequent motivations for borrowing are school fees (23%), followed by emergencies and funeral expenses. While it might appear that reasons for long-term orientation to borrowing is lacking – only 2.3% borrowed for the purpose of starting or expanding their businesses – this might not be the case, as the following figures show:

**Figure 44. How Basotho adults would spend a large amount of borrowed money**



**Figure 45. How Basotho adults would spend a large amount of borrowed money – Rural versus Urban**



When asked how they would spend a large amount of money if they could borrow it, more 'long-term' reasons emerge. Most people (33%) – skewed towards urban dwellers (44% urban versus 27% rural) - would spend it on a house or building materials, followed by livestock (25%) – skewed towards rural dwellers (11% urban versus 31% rural).

**Figure 46. Attitudes of Basotho adults regarding borrowing**



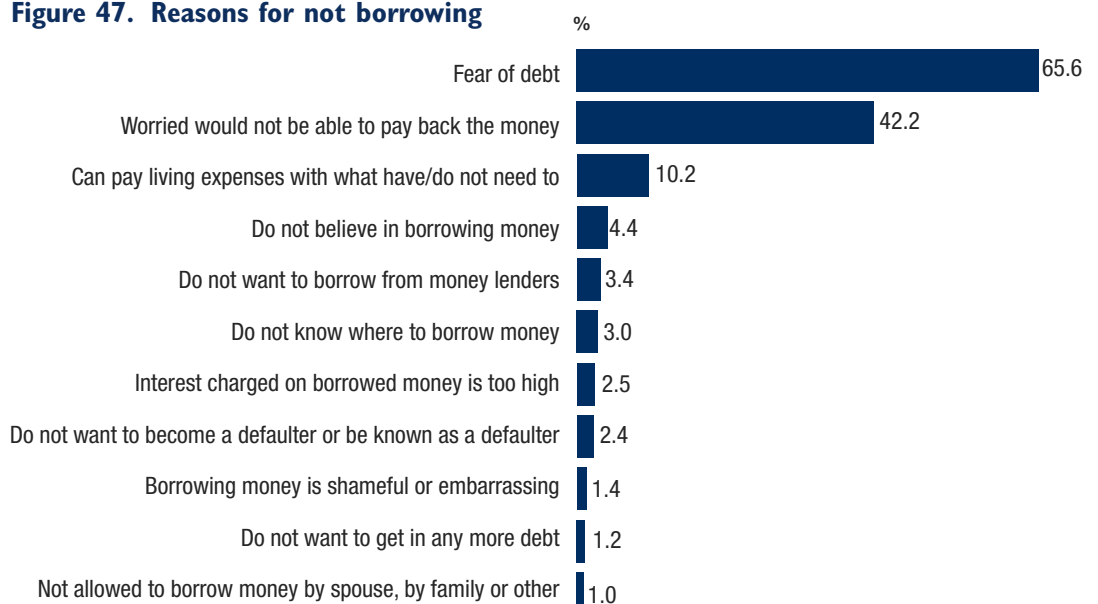
Basotho adults claim to understand the implications of borrowing – 75% know that buying on credit results in more money being paid. They are generally averse to borrowing – 94% say they avoid borrowing if they can.

The figures above seem to indicate that the borrowing and saving behavior of Basotho adults is driven more by the realities of their daily lives, rather than the absence of a long-term orientation, or an inability to understand the implications of debt.

The aversion to debt appears to be pervasive in Lesotho, as the following figure shows. Two in three adults (66%) who did not borrow or were paying back debt during the 12-months prior to the interview cited 'fear of debt' as their reason for not having borrowed, while 42% cited concern over their ability to repay as a reason for not having borrowed. Combining the attitudes towards borrowing, the reasons for those who did not borrow, and the reasons for which Basotho borrowed appears to reinforce the view that it is the demands of daily lives that force Basotho adults to borrow, rather than a general willingness to borrow.

For those who did not borrow during the 12 months prior to the interview.

**Figure 47. Reasons for not borrowing**



### 4.5.3 Insurance

Basotho adults cited the following as the main risks they face in terms of their income:

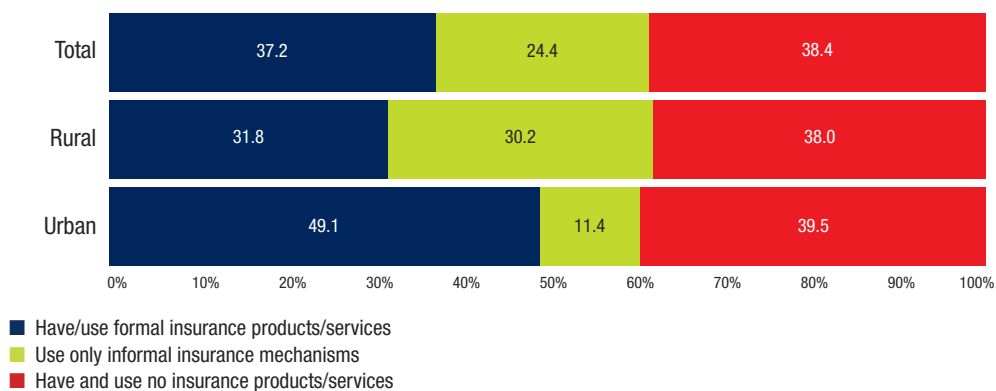
- Illness in the household/family that requires medical expenses
- Death of income earner
- Death of family member
- Loss of employment
- Harvest failure

Having identified these as the main risks, the main coping mechanisms for Basotho adults in the event of these events occurring were:

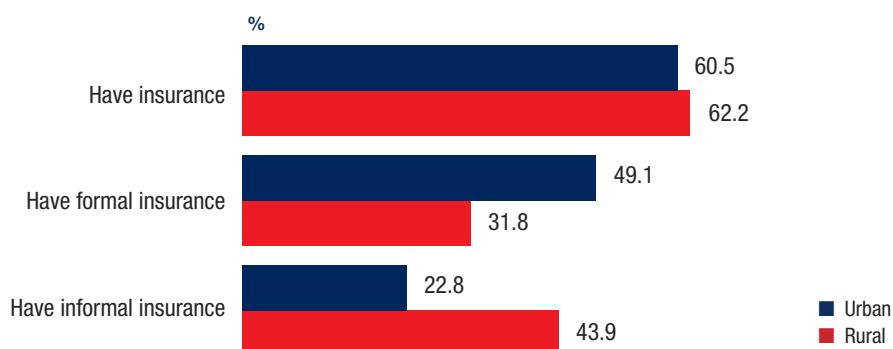
- Borrowing from friends and family
- Using savings
- Just living on what they had
- Selling assets/crop/livestock

In terms of insurance, 62% of the adult population is covered – 37% have formal insurance and 25% have informal insurance (Figure 49).

**Figure 48. Insurance coverage: Total, Rural versus Urban**



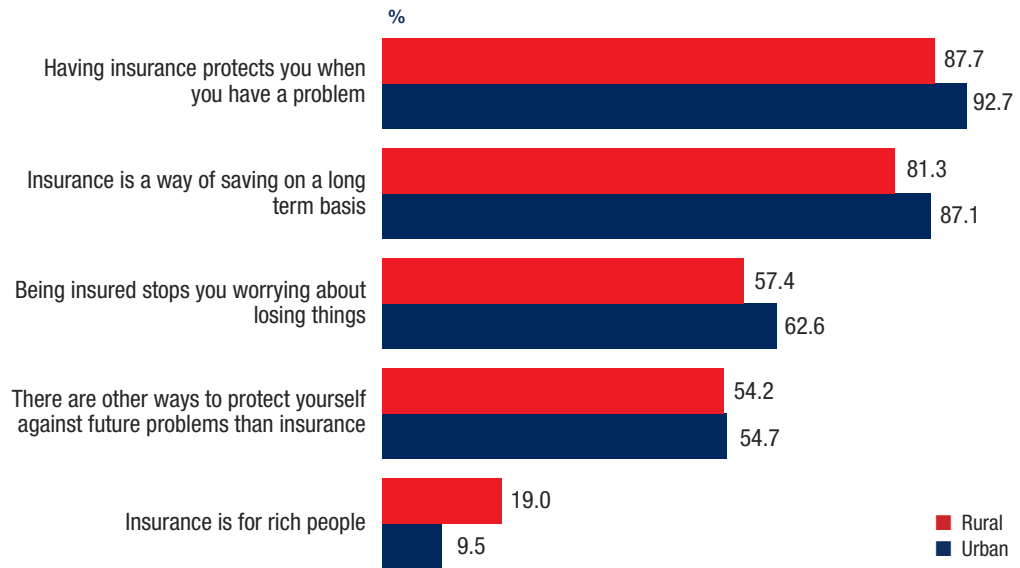
**Figure 49. Insurance coverage: Total, formal versus informal, Rural versus Urban**



Insurance coverage mainly refers to funeral insurance from formal institutions, and burial society membership from the informal sector. Informal insurance is more prevalent in the rural areas (44%) compared to the urban areas (23%). The risk that is top of mind for most Basotho adults – death of a family member – might explain both the fact that insurance coverage is very high in Lesotho (62% rural versus 61% urban), and that it is driven by the take up of funeral cover.

There appears to be a good understanding of the benefits of insurance cover amongst Basotho adults:

**Figure 50. Understanding of insurance: Rural versus Urban**



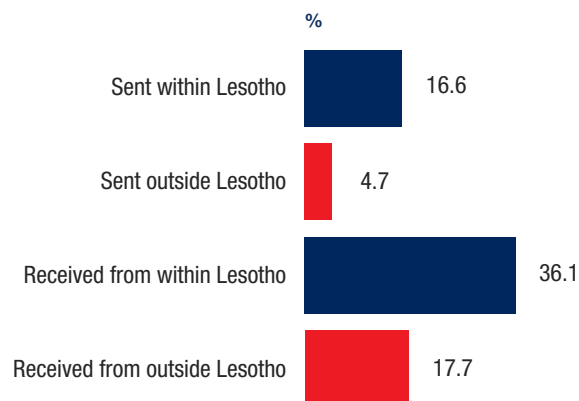
No significant differences exist between rural and urban Basotho, except for the perception that 'insurance is for rich people' being more likely to be found amongst rural dwellers (19%) than in urban dwellers (10%).

For the remainder of Basotho adults who do not have any insurance coverage – formal or informal – the reason advanced by most (73%) is that they are unable to afford it.

#### 4.5.4 Remittances

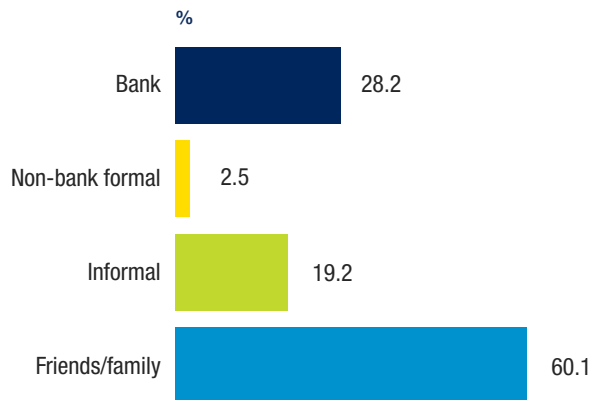
Remittance is relatively high in Lesotho: 36% of adults received money from someone within Lesotho and 18% received money sent from someone outside Lesotho. While 17% of Basotho adults sent money to someone within Lesotho, 5% sent money to someone outside Lesotho.

**Figure 51. Remittances during the 12 months prior to the FinScope survey**

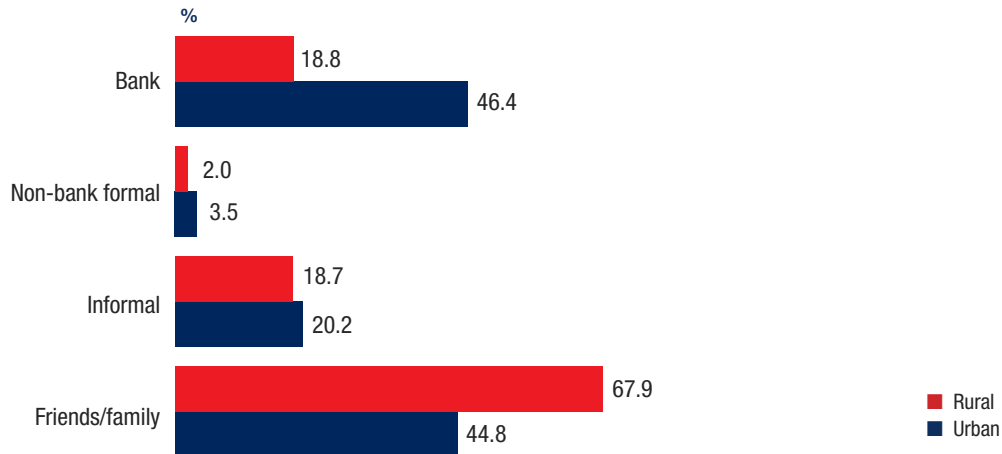


Friends and family are the channels mostly used by Basotho adults to send or receive money (60%) (Figure 52). The usage of the informal sector in remitting money is low (19% of those who remit), compared to the formal bank channel – bank transfer (28%).

**Figure 52. Remittance mechanisms used by individuals who remitted during the 12 months prior to the FinScope survey**



**Figure 53. Remittance mechanisms used by individuals who remitted during the 12 months prior to the FinScope survey – Rural versus Urban**



## 5 Key take-outs and conclusions

FinScope Lesotho 2011 provides a snapshot of how adult Basotho currently source their income and manage their financial lives. As well as providing insights into attitudes, demand and consumption patterns, the findings provide a valuable picture of the role that both the formal and informal sectors play in Lesotho's financial market.

Financial product and service usage is linked to people's livelihoods, and therefore the priority that individuals give to usage of financial products and services must be viewed in the context of the realities of their lives. The realities that must be borne in mind when looking at financial inclusion in Lesotho include the following:

- Coping with the lack of basic amenities is a reality for the large proportion of the population, especially in the rural areas
- Income for the majority of the population is irregular and often in small amounts
  - One in three adults rely on salaries or private pension
  - One in ten Basotho is dependent on Government or social grants
  - More than half the population rely either on farming, their own business or remittance as a source of income

The survey illustrates that these realities have an impact on financial behavior in Lesotho. Despite a good understanding of the financial impact of borrowing, and the presence of long-term ambitions, it appears that daily realities have a greater bearing on the demand for financial services:

- Just under half of those who save, do so to meet daily household needs
- Six in ten of those who borrow, also do so to meet daily household needs

The prevalence of insurance – funeral insurance – in Lesotho proves the theory that to the extent that they can afford it, people will pay for services that they perceive to provide value in their lives. The death of a household member – income earner or not – is the risk that is top-most in the minds of most Basotho adults. Death brings with it significant financial expense. It is therefore perhaps little wonder that funeral insurance is the one product/service that is driving the high prevalence of insurance in Lesotho.

According to the FinScope indicators, Lesotho has the lowest proportion of its population that are 'financially excluded' of all the countries that FinScope surveys have been conducted in. This presents both a risk and an opportunity for financial sector role players in Lesotho. The risk is that on the basis of the indicators, complacency can be the result. The significant take up of non-bank formal sector products is primarily funeral insurance. The reach of the non-bank formal institutions, particularly in the rural areas, shows that people in the rural areas can be reached. Thus far, however, they have only been reached with one type of product – funeral insurance. The opportunity and challenge for Lesotho is to leverage the existing distribution channels to reach them with more services and products that can improve their livelihoods.





Making financial markets work for the poor

Tel +27 11 315 9197 Fax +27 86 518 3579  
[www.finmarktrust.org.za](http://www.finmarktrust.org.za)  
[www.finscope.co.za](http://www.finscope.co.za)