Making Access Possible

Lesotho

Household welfare and national growth through an enhanced quality and depth of financial inclusion

Financial Inclusion Roadmap

2014–2020

cenfri
The Centre for Financial Regulation & Inclusion

FINMARK TRUST
Making financial markets work for the poor

UNCDF MAP

PARTNERING FOR A COMMON PURPOSE

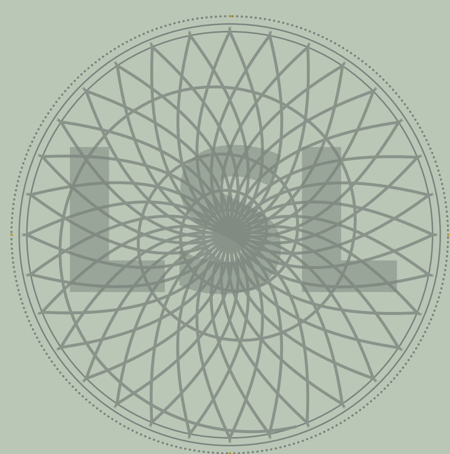
Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level.

At country level, the core MAP partners collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Lesotho represents a partnership between the United Nations Capital Development Fund (UNCDF), the Centre for Financial Regulation and Inclusion (Cenfri) and FinMark Trust for the Development of a Strategic Framework for Financial Inclusion in Lesotho.

This report was produced by the FinMark Trust as part of the larger MAP diagnostic work.

The cover symbol

Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features a plant synonymous with the region, which is the Spiral Aloe. The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment. By combining the Aloe with the currency symbol of Lesotho we represent the characteristics of the country, linking financial inclusion with successful growth.



ABOUT MAP Lesotho

This roadmap document is produced as part of a series of documents in the Making Access Possible (MAP) Lesotho initiative.

MAP Lesotho was conducted as a result of a formal request by the Government of Lesotho, via the Ministry of Finance in August 2013. The MAP project is formally hosted by the Ministry of Finance, with the cooperation of the Central Bank of Lesotho. A steering committee has been formed to oversee the MAP diagnostic and roadmap development process.

The key research findings from the MAP diagnostic in Lesotho are captured in the Synthesis Report which summarises the main findings of a comprehensive demand-side, supply-side and regulatory diagnostic (''Making Access Possible: Lesotho Country Diagnostic Report'', 2014). The supply-side analysis covers payments, savings, credit and insurance, and therefore provides an understanding of microfinance in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups. The demand-side analysis draws from quantitative data provided by the Lesotho FinScope Survey 2011, as well as insights generated by qualitative research in the form of focus group discussions and individual consumer interviews conducted as input to the study. The supply-side analysis was informed through in-country consultations with industry, regulators and other stakeholders, complemented by desktop research and a mystery shopping exercise.

Documents produced as part of the MAP Lesotho initiative include:
(1) The MAP Lesotho Financial Inclusion Synthesis Findings 2014.
(2) Making Access Possible: Lesotho Country Diagnostic Report 2014.
(3) Qualitative Report on Financial Inclusion in Lesotho, KLA 2014.
These are available as separate deliverables. The FinScope report "Summary report and presentation - Lesotho FinScope Survey 2011" and the FinScope dataset are also available on request.

The roadmap synthesises the main findings and recommendations from the comprehensive diagnostic report and presents a way forward on the recommended priority areas for financial inclusion in Lesotho.

MAP acknowledges and builds on existing financial inclusion research conducted in Lesotho to date.

MAP Lesotho is funded by FinMark Trust.

The MAP methodology and process has been developed jointly by the UNCDF, FinMark Trust and Cenfri to foster inclusive financial sector growth.

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List of Abbreviations and Acronyms

AML	Anti Money Laundering
ATM	Automated Teller Machine
BEDCO	Basotho Enterprise Development Corporation
BOP	Balance of Payments
CBL	Central Bank of Lesotho
CENFRI	Centre for Financial Regulation and Inclusion
CMA	Common Monetary Area
CRA	Credit Reporting Act
CRS	Catholic Relief Services
EFT	Electronic Funds Transfer
FI	Financial Inclusion
FIA	Financial Institutions Act
FICA	Financial Intelligence Centre Act
FIP	Financial and Investment Protocol
FSD	Financial Sector Development
FSDS	Financial Sector Development Strategy
G2P	Government to Person
GDP	Gross Domestic Product
GPFI	Global Partnership for Financial Inclusion
IOL	International Organisation for migration
KYC	Know Your Customer
LPB	Lesotho Post Bank
M	Maloti
MAP	Making Access Possible
MFI	Microfinance Institution
MNO	Mobile Network Operator
NBFI	Non-Bank Financial Institution
NSDP	National Strategic Development Plan
POS	Point of Sale
ROSCAs	Revolving Savings and Credit Associations
RSCGs	Rural Savings and Credit Groups
RTGS	Real Time Gross Settlement
RUFIP	Rural Financial Intermediation Program
SACCOs	Savings and Credit Cooperatives
SADC	Southern African Development Community
SARB	South African Reserve Bank
SME	Small and Medium Sized Enterprises
SMMEs	Micro, Small and Medium Enterprises
SUFIL	Support for Financial Inclusion in Lesotho
TA	Technical Assistance
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Fund
VSLA	Village Savings and Loan Association

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EXECUTIVE SUMMARY

The Lesotho Financial Inclusion Roadmap lays out a plausible vision for the enhancement of financial inclusion in Lesotho. It is based on the diagnostic contained in the *Making Access Possible: Lesotho Country Diagnostic Report, 2014*, which in turn draws on supply-side analysis based on in-country research and interviews with key players, and demand-side analysis from quantitative data provided by the Lesotho FinScope Survey 2011 and qualitative insights from Focus Group Discussions (FGDs) and individual consumer interviews.

"It is envisaged that the proposed interventions will result in an increase in depth and quality of financial inclusion in Lesotho, and a sustainable financial sector able to increase citizen welfare, create economic growth, and hence meet national goals."

Making Access Possible (MAP) Lesotho was conducted as a result of a formal request by the Government of Lesotho via the Ministry of Finance in August 2013, and the programme has been funded by the FinMark Trust.

In summary, the analysis paints a picture of a market where citizens are broadly served by financial services, with many having more than one financial service. However significant gaps remain in the formal penetration of credit and remittances, and in the quality (diversity, relevance, ease and cost of access) of products in savings and insurance. The recommendations point to a need for coordinated action by government, private sector and development partners to address these shortcomings.

MAP, based on a comprehensive analysis, prioritises those interventions which will provide the largest welfare gain. The roadmap provides a framework to define, prioritise, coordinate, measure and track these interventions.

In order to provide a vision and direction, a policy goal is proposed towards which supportive intervention logic is organized and monitored. The proposed goal is based on an existing goal in the SUFIL Inclusive Strategy, and proposes to:

"Increase access to quality and diverse formal financial services to support economic growth and improve household welfare by (a) Increasing outreach and quality of financial services, (b) Increasing financial and investment capacity, (c) Creating and capacitating inclusive financial service providers, (d) Ensuring an enabling regulatory environment, and (e) Customer education".

The Roadmap proposes six immediate and urgent priorities to support this goal, namely **(1).** Lowering the cost of transactions and enhancing the range of low cost savings options; **(2).** Facilitating low-cost domestic and cross-border remittances and payments; **(3).** Enhancing risk mitigation beyond funeral cover; **(4).** Supporting the provision of targeted SMME and farm credit; **(5).** Leveraging inward investments by migrant workers; and **(6).** Selective institutional reforms.

These priority areas of action have been identified based on the most urgent customer needs identified in the MAP research, and will be implemented in the context of existing sector strategies, i.e. the FSDS[1] and SUFIL Inclusive Finance Strategy[2]. Other existing financial inclusion initiatives are directly complementary to the identified MAP priorities, and the implementation team will ensure that synergies are exploited and duplication avoided in line with the Paris Declaration for Aid Effectiveness[3].

It is envisaged that the proposed interventions will result in an increase in depth and quality of financial inclusion in Lesotho, and a sustainable financial sector able to increase citizen welfare, create economic growth, and hence meet national goals.

1 Background

1.1 Lesotho Financial inclusion Roadmap - Introduction

The purpose of the Lesotho Financial Inclusion Roadmap is to assist the government and stakeholders to identify and implement actions to improve financial inclusion in Lesotho, based on the research as documented in the diagnostic report.

The diagnostic is based on the application of the MAP diagnostic and programming framework to support expanding access to, or consolidating the provision of, financial services for individuals and micro and small businesses. It is contained in the Making Access Possible: Lesotho Country Diagnostic Report, 2014 prepared by the Centre for Financial Regulation and Inclusion (Cenfri) and Econsult (Botswana).

MAP Lesotho was conducted at the formal request of the Government of Lesotho via the Ministry of Finance in August 2013. This request followed a presentation of MAP to the Ministry of Finance, the Ministry of Development Planning and the Central Bank of Lesotho on 31 July 2013. The MAP project is formally hosted by the Ministry of Finance, with the cooperation of the Central Bank of Lesotho. A MAP task team has been formed to oversee the MAP diagnostic and roadmap development process.

The key research findings from the MAP diagnostic in Lesotho are captured in the comprehensive demand-side, supply-side and regulatory analyses ("Making Access Possible: Lesotho Country Diagnostic Report", 2014). The supply-side analysis is based on in-country consultations with industry, regulators and other stakeholders, complemented by desktop research and a mystery shopping exercise. The demand-side analysis is based on the FinScope (2011) survey, as well as insights generated by qualitative demand-side research in the form of focus group discussions and individual consumer interviews conducted as input to the study by the research firm KLA.

This roadmap synthesises the main findings and recommendations from the diagnostic and presents a way forward on the recommended priority areas for financial inclusion in Lesotho.

MAP Lesotho has been funded by FinMark Trust.

1.2 Roadmap approach and methodology

Schematically the roadmap approach is shown in Figure 1. The roadmap is founded on priority areas identified in the research, representing gaps and opportunities in the market which can have the largest positive impact on consumer welfare if appropriately addressed. Within the diagnostic report framework, each of the highlighted gaps and issues is analysed from the perspective of the user or potential user of the financial product or service, using the Making Markets Work for the Poor (MM4P) approach. This approach identifies the stakeholders, structures, laws, regulations and customary relationships that underpin the product or service.

In order to provide a vision and direction, a policy goal (vision) is proposed towards which supportive intervention logic can be organized and monitored, indicating how the proposed interventions will contribute to the achievement of the goal and outcomes.

The final stage of the process is to build consensus from the key stakeholders for the interventions, and to place it in the format of a road map, including responsibilities and accountabilities and activities. Costs, timeframes and targets will be firmed up at the beginning of the implementation phase.

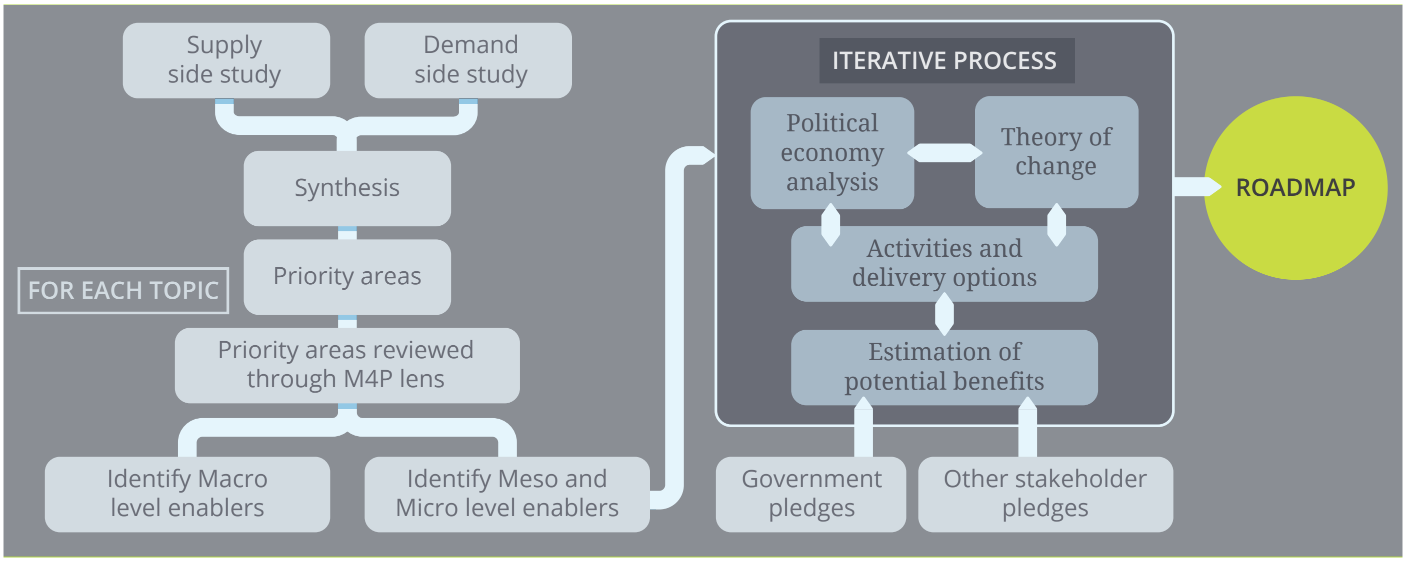

Figure 1: Roadmap approach

2 Lesotho Financial sector context

2.1 Country Context

While Lesotho shares many of the characteristics of the other Southern African countries, it also has many distinctive features that have important implications for extending financial inclusion. It is a small country physically, demographically and economically, with a population of 2 million. The country's terrain is largely mountainous making transport and road communications difficult, with many people living in areas that are considered "remote" due to inaccessibility. There is widespread cell phone access, with mobile teledensity of 86.3 cellular subscriptions per 100 inhabitants in 2013.

Although classified by the World Bank as a lower-middle income country, it is relatively poor by the standards of SACU countries, with a GDP per capita of US$1200 (M11,500). The SMME sector is small, and most of the developments in trade, including in the textile industry, have been driven by foreign direct investment. The government of Lesotho has created a number of departments and agencies to help develop local entrepreneurs (such as BEDCO). Agriculture contributes only 7.4% to GDP, but is the mainstay of rural inhabitants and contributes to livelihood sustenance to over 70% of the population. Wool and mohair comprise the biggest commercial farming activities.

Lesotho is a member of SADC, the Southern African Customs Union (SACU) and the Common Monetary Area (CMA). SACU receipts form an important source of fiscal revenue. SADC, while less important than SACU and the CMA for Lesotho, has various relevant regional economic and financial integration initiatives taking place, notably the Finance and Investment Protocol (FIP) and initiatives around a regional payment system.

About half the population live in absolute poverty, and FinScope Lesotho (2011) shows that 60% of the adult population earn less than M500 (USD 60.60) per month. Free and subsidised primary healthcare is available but is overburdened; with HIV/AIDS being the single biggest burden on social security infrastructure (Lesotho has the third highest HIV/AIDS infection rate in the world). The population is largely rural, with a large migrant community. Basotho migrant workers are a vital support for domestic livelihoods, and according to the Lesotho Bureau of Statistics, there are 135,285 Basotho citizens residing abroad (about 7% of the population) mostly in South Africa. However, the World Bank reported the migrants in South Africa alone in 2010 to be 428,000 or 20% of the population. Historically, the main source of employment for these migrants was mine work, but this has reduced substantially, affecting unemployment. The government of Lesotho acknowledges the importance of engaging the diaspora in poverty alleviation and wealth creation. It is working with the IOM to develop an overseas employment and diaspora engagement policy and the Lesotho National Development Corporation is conducting investment drives in South Africa. There is no evidence of specific financial products directed at the Basotho diaspora.

Politically the government has been supportive of financial inclusion as a means to poverty alleviation. Notable recent projects are the SUFIL programme (UNDP, UNCDF funded inclusive finance project) and the RUFIP programme (an IFAD project started in 2008 to support member-based financial institutions and rural outreach). More broadly there has been overarching financial sector development work, with financial sector development being included in the National Strategic Development Plan (NSDP), and the preparation of a broad-based sector strategy (FSDS). The NSDP has six strategic objectives relating to the financial sector, and the inclusion of the financial sector in the NSDP marks an important first step in developing an overarching framework for financial sector development.

The FSDS aims to effect the NSDP aspirations regarding financial sector development, and gives a high priority to financial inclusion in line with the policy priorities of the government. The FSDS was approved in 2013 and is under implementation.

Although much still needs to be done and resources committed, there is existing strong support from development partners for financial inclusion in Lesotho, with a number of other ongoing initiatives. Immediately relevant work is being carried out by for example Care International, CRS, FinMark Trust, UNCDF, UNDP, World Bank, WFP and World vision.

2.2 Status of Financial inclusion in Lesotho

Lesotho has a high level of financial inclusion in regional terms, and among the 15 African countries where FinScope surveys were undertaken recently, Lesotho has the third highest formal financial inclusion rate of 61% behind South Africa (68%) and Namibia (65%) (Figure 2).

Access to banking is relatively low in comparison to SACU countries, with 38% of adults being banked. In the rural areas, only 29.5% are banked (compared to 57.9% in urban areas).

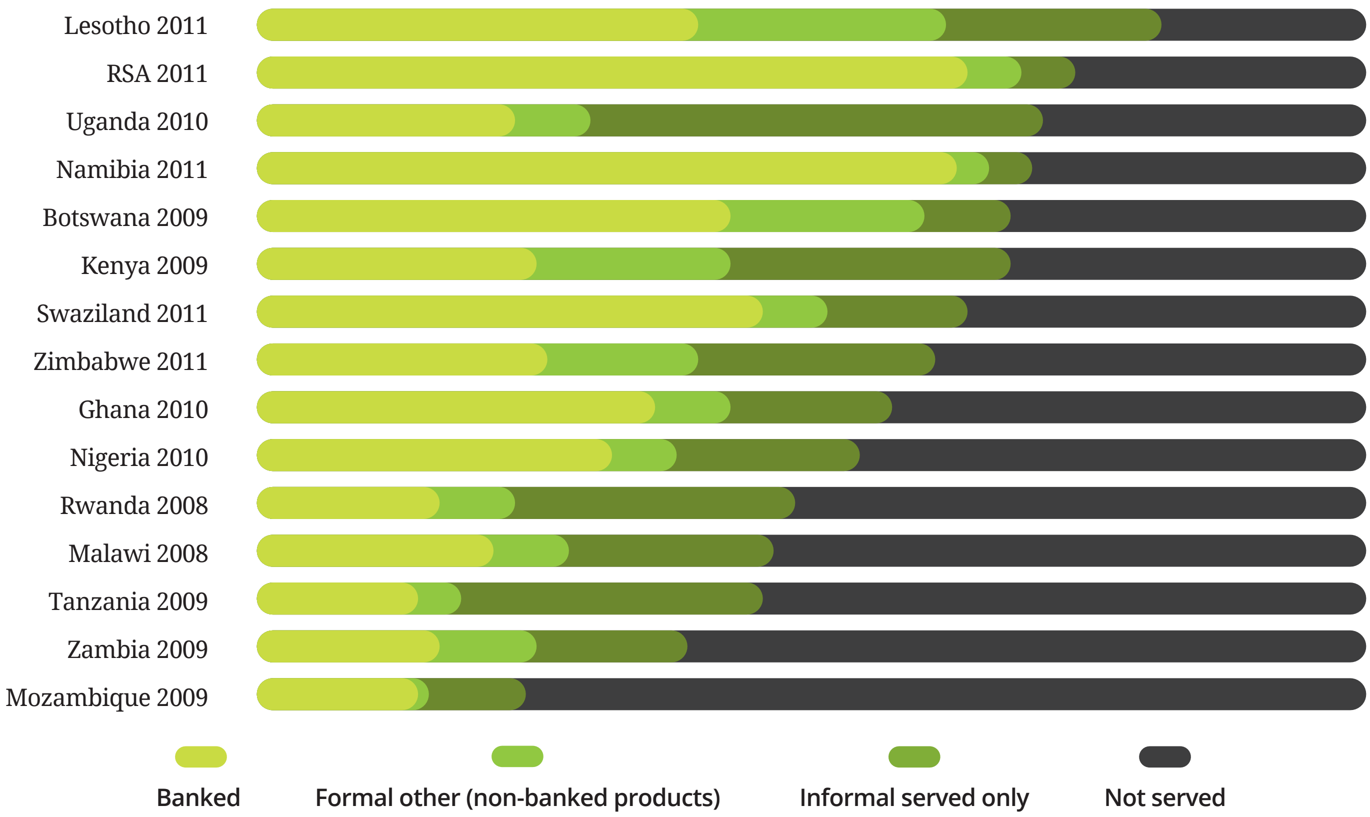

Figure 2: Financial inclusion in selected African countries
Source: FinScope, Various dates

Usage of formal insurance and savings products is high (38% and 34% respectively), but low for formal credit and remittances (17% and 18% respectively). Given the prominence of migrant labour to the Lesotho economy, remittances fulfil an important role. The remittances strand shows that 29.9% of adults only rely on family/friends or another person to send and receive money. 17.5% remit via formal channels and about 10% use only informal remittance channels (e.g. via a cross-border minibus taxi driver). Note that mobile money was only introduced in Lesotho after the 2011 FinScope survey and is therefore not reflected in the uptake figures.

There is very high uptake of informal services, with 62.4% of the adult population using informal financial mechanisms (the access strand in Figure 2 does not show the overlap between usage of formal and informal products), with 29% of adults saving through informal groups, 33% borrowing from informal sources and 37% belonging to a burial society. 11% of adults make use of informal remittance services.

Basotho are fairly broadly served, with 31% of adults having more than one formal product (53.2% of the formally included have more than one formal product).

More than half of those using informal products also use more than one type of informal product (52.3%), and there a large overlap between formal and informal usage (70% of the formally included also have an informal product).

There is relatively high product awareness, and qualitative research respondents were generally able to describe products in basic terms. They also have some understanding of interest and banks charges. However most respondents did not know what those fees were charged for, and monthly variation in fees added to the confusion. Respondents showed a grasp of financial matters when dealing with societies and informal money lenders.

The overall picture painted confirms a high level of overall inclusion, with people being broadly served, and a crucial role being played by informal sector in extending access to credit and insurance. These features would indicate Lesotho to be on Group 4 (progressive) positioning on the GPFI financial inclusion framework[4], characterized by high access and high use of multiple products, and for which the immediate focus is typically around the quality of access and products, and customer literacy.

2.3 Barriers to financial inclusion

The research identified a number of barriers to the increased use of formal financial services and products, and these included:

1. **Fear of credit,** with 66% of adults without credit citing it as their reason for not accessing credit, and 42% having concerns about their ability to repay the loan.
2. **Lack of payslips and proof of income,** given that only 14% are salaried workers. There is also a perception amongst most Basotho adults that they earn too little to qualify.
3. **Products do not cater for irregular incomes.** Many Basotho earn irregular income from farming, piece work and remittances, but most formal products are relatively inflexible.
4. **Doorstep barriers.** Many Basotho do not regard themselves as a target market for formal financial institutions particularly banks, perceiving them to be for higher income workers. Potential users therefore often do not even investigate the available options.
5. **Proximity.** As physical infrastructure is situated in urban centres, many clients have to travel to interact with the banks and other institutions which entail time and transport costs.
6. **Expense / cost of bank accounts:** The high costs associated with transaction and savings accounts (both real and perceived) are a significant barrier to usage for the low income population. The most frequently cited consideration when opening an account (by 33% of adults) is bank charges, while the high costs associated with cross border remittances sent via formal channels constitute a substantial portion of the value of the remittance sent.
7. **Lack of mobile money awareness and education.** A key barrier to take-up of mobile money is awareness of the channel and education around how it works and what is required from users
8. **Lack of KYC exemption** for low value bank transactions is a barrier to consumers as well as creating a non-level playing field for providers (both domestically and cross border). These could be aligned to requirements for mobile money.
9. **Lack of excess income:** Lack of excess income the primary reason for Lesotho adults not to save
10. **Product features:** formal insurance typically requires debit order deductions. This is problematic for the low-income (only 15% of those earning less than M500 per month have a bank account).
11. **Negative perceptions** of formal players in insurance, being seen by some as 'thieves', 'crooks' and 'con men' as due to perceptions that they either delay, avoid or depart from claims settlements. This is possibly as a result of strategies implemented by insurers to deal with fraud and false claims.
12. **Consumer protection concerns** stemming from inadequate market conduct during the sales process. One of the critical aspects highlighted is the provision of clear product information. There is also need to improve on simplicity in product information

From a regulatory perspective a number of issues limit the effectiveness and sustainability of the available or potential products:

1. **Inconsistent monitoring across formal provider types:** CBL does not monitor all types of formal credit in Lesotho; making it difficult to identify need and growth areas. Many chain stores and retail shops offer credit facilities to consumers, which is not captured or monitored. The current lack of prudential supervision over Boliba and limited supervision over moneylenders could create future negative outcomes for consumers.
2. **Limited support for agriculture and SMME credit:** Aspirational farmers and SMMEs are potential growth areas, but are very poorly documented and poorly served.
3. **Proposed agency banking regulations may be overly stringent** and create a non-level playing field. Agency banking offers a potential mechanism for banks to extend their services to remote and less sparsely populated areas. However, the regulations being proposed under the FIA impose relatively strict requirements on banking agents.
4. **South African regulations are a potential barrier to cross border mobile money transfers** including SARB requirements for full FICA controls (full KYC verification of sender and recipient and justification of the reason for the transaction), forex controls and Balance of Payments (BoP) reporting. In addition, non-citizens must demonstrate their immigration status.
5. **Lack of regulatory space for alternative distribution or bancassurance.** Insurers and intermediaries are seeking ways to innovate to increase uptake of insurance products by low-income population segments. However, the current framework is not facilitative of alternative distribution channels.
6. **Mobile money operators restricted from offering interest on products.** Mobile money guidelines opened space for MNOs to earn interest on float but not to pay interest on savings to subscribers.

2.4 Market drivers

As measures are put in place to unlock the barriers to financial inclusion, there are broader trends that need to be taken into account. Some of these include:

- The Banking environment is being transformed, with recent rapid credit growth resulting in a decline in excess liquidity. Banks may soon be forced to begin competing for deposits.
- Mobile money is new but experiencing rapid uptake.
- Regulatory reform and modernisation is taking place, but very slowly. This could lead to regulatory gaps and

risks; create uncertainty; and inhibit innovation that would enable institutions to improve access and provide products and services that the market seems to desire.

- Small financial sector limits potential for economies of scale
- Collective informal institutions such as savings groups and burial societies play a key role in financial inclusion. These function effectively.

"Many Basotho do not regard themselves as a target market for formal financial institutions particularly banks, perceiving them to be for higher income workers."

3 Enhancing Financial Inclusion in Lesotho

3.1 MAP Prioritisation process

In defining and prioritising measures to improve financial inclusion, seven target market segments were identified for Lesotho, namely (1) Salaried, (2) Piece jobs, (3) Own business, (4) Agriculture, (5) Private dependants, (6) Government dependants, and (7) Non-resident Basotho. The main needs identified for each of these segments from the research are shown below.

SEGMENT	ESTIMATED SIZE	IDENTIFIED NEEDS
Salaried workers	160 000	• *Well-served, not main FI priority* • *Low-cost remittance services* • *Long term (educational) savings* • *Utilise access to credit to borrow for businesses*
Piece job workers	200 000	• *Cost-effective, accessible remittance services* • *Need for products to store (save) irregular earnings safely.* • *Insurance and savings through collective vehicles*
Own business	135 000	• *Mostly survivalist – but some with growth potential* • *Low cost transactional and remittance services* • *Risk mitigation – beyond funeral insurance* • *Low cost savings options* • *Asset-based credit (limited)*
Agriculture	140 000	• *Specialised agricultural finance for commercially-oriented farmers* • *Possible crop / livestock insurance* • *Need low cost savings and transactional services* • *Given survivalist nature, business credit unlikely for most farmers*
Private dependants	300 000	• *Reasonably well served (links to salaried)* • *Conduit for expatriates' earnings* • *Access to low cost, convenient remittances – domestic and cross-border* • *Savings products to store the remittances*
Migrants	300 000	• *Largest segment, well paid* • *Need to save and send money home i.e. enhanced access in sending country* • *Longer-term savings and asset accumulation towards retirement* • *Funeral insurance including repatriation of body* • *Insurance and endowment mechanisms to pay for premiums cross-border for dependants*
Government dependants	190 000	• *Reasonably well served through informal channels (burial, savings clubs)* • *Secure savings and alternative to cash for receipt of welfare grants*

Table 1: Needs by market segment

Given that a financial inclusion roadmap will not be able to bridge every gap and realise every opportunity, financial inclusion interventions should be prioritised according to those opportunities that best meet the welfare objective. Selected priorities could support welfare policy objectives by reducing transaction costs, improving households' opportunities to access goods and services, offering tools to mitigate risks, increasing accumulation of capital or allocating such capital to productive opportunities. This in turn is linked to how closely a particular intervention meets each of the segments' needs, and hence its potential reach given the number of people and average income of each segment. Additionally while all institutions need to be leveraged to deliver the identified priorities, it is worth noting that some institutions are likely to deliver quicker impact, given their (current or potential) scale, incentive to go down market, and the extent to which consumer protection concerns arise. In this regard the emerging role of MNOs and Retailers is particularly critical to complement the role of traditional large players (Insurers and banks) who may need to be incentivised through regulation and competition to serve low income customers. Money lenders are well positioned in the low income market but consumer protection concerns would need to be adequately addressed.

Based on the analysis, the six shortlisted priority strategies are shown in Table 2 below.

SHORTLISTED PRIORITY	POTENTIAL IMPACT
1. Lowering cost of transactions and enhancing range of low cost savings options 2. Facilitating low-cost domestic and cross-border remittances and payments 3. Enhancing risk mitigation beyond funeral cover	*Directly improve household welfare through efficiency gains and risk mitigation*
4. Targeted SMME and farm credit	*Support economic growth*
5. Leveraging inward investments by migrant workers	*Increase financial sector intermediation to support investment and growth*
6. Selective institutional reform	

Table 2: Shortlisted priorities for financial inclusion in Lesotho

IMPACTED OBJECTIVE	MAP PRIORITY AREA
1. Increase outreach and quality of financial services	• *Lowering cost of transactions and enhancing range of low cost savings options* • *Facilitating low-cost domestic and cross-border remittances and payments* • *Enhancing risk mitigation beyond funeral cover* • *Targeted SMME and farm credit*
2. Increase financial and investment capacity	• *Leveraging inward investments by migrant workers*
3. Create and capacitate inclusive financial service providers	• *Selective institutional reforms*

Table 3: Mapping of MAP priority areas to desired national financial inclusion outcomes

"Some institutions are likely to deliver quicker impact, given their... scale, incentive to go down market, and the extent to which consumer protection concerns arise."

It should be noted that these are not the only opportunities to enhance financial inclusion in Lesotho. However, these selected strategies present targeted interventions likely to have the greatest welfare impact in light of target market needs and realities.

3.2 A Proposed Goal for financial inclusion in Lesotho

In order to provide a vision and direction financial inclusion in Lesotho, a policy goal is proposed

"Increase access to quality and diverse formal financial services to support economic growth and improve household welfare through five key objectives:

1. Increasing outreach and quality of financial services
2. Increasing financial and investment capacity
3. Creating and capacitating inclusive financial service providers,
4. Ensuring an enabling regulatory environment, and
5. Customer education".

The proposed national financial inclusion goal is based on an existing goal identified in the SUFIL Inclusive Strategy. The goal identifies the five main objectives needed to achieve it. The six priorities identified in the MAP research will support these objectives. The linkage between the objectives and the MAP priority areas is as shown in the table to the left.

4 Implementation Priority Areas

The implementation priority areas have been linked to the five key outcomes necessary to achieve the proposed national financial inclusion goal.

4.1 OBJECTIVE 1 *- Increase outreach and quality of financial services*

In support of the desired outcome of increasing outreach and quality of financial services, the following four MAP priorities have been identified:

- Lowering cost of transactions and enhancing range of low cost savings options
- Facilitating low-cost domestic and cross-border remittances and payments
- Enhancing risk mitigation beyond funeral cover
- Targeted SMME and farm credit

Each of these initiatives is now discussed in detail.

Lowering cost of transactions and enhancing range of low cost savings options

The main objectives for this initiative are to increase the accessibility of low cost accounts, address the challenges of rural access, and to encourage savings for both short-term store of value and for longer-term goals. In achieving these objectives, some of the challenges that have to be addressed include the high bank charges, a lack of tiered KYC for bank accounts, restrictions on mobile money account use and the high costs associated with branch-based financial services.

The analysis shows that high charges in the banking sector lead to negative customer perceptions and use of bank accounts merely as “mailbox accounts”, rather than as a transaction or savings tool. The target market analysis indicates a need for accessible, low-cost savings options across target markets – for short-term storage of received remittances, but also for longer-term goal-orientated savings products, e.g. towards education or for health or other emergencies. Facilitating lower-cost, more accessible savings options and transaction accounts can therefore have direct welfare benefits.

Potential actions to lower cost of transactions and enhance the range of low cost savings options include:

- Facilitate continued growth of mobile money to enhance competition
  - *Allow MNOs to pay interest on mobile money deposits*
  - *Alleviate agent liquidity issues*
  - *Address interoperability and exclusivity issues*
  - *Enable an ecosystem of goods and services that can be purchased with mobile money (including retail, insurance and savings)*
  - *Monitoring and maintaining low fees*
  - *Investigate potential and challenges for distribution of G2P payments via mobile money*
  - *Agent location analysis*
- Potential linkages between mobile money providers and the other financial service providers
- Consistent KYC and agency rules between banks and non-banks to ensure a level playing field
- Enhance role of post office as a distribution channel
- Development of products and services suitable for low income and entry level consumers
- Incentivise account balances for longer durations of time, potentially embedding free funeral cover based on the deposits
  - *Tiered accounts with interest rate incentives for maintaining balances*
  - *Embed free funeral cover based on the deposit value maintained in a bank account*
  - *SMS can be used as a tool for reminders and confirmations of transactions*
  - *Encourage goal-oriented savings*
- Targeting of groups by both MNOs and Banks through appropriate tailored group accounts to leverage the large funds vested in community-based savings and insurance groups.
- Greater disclosure of fees, and consumer education - improved communication and targeted marketing
- Support development of agency banking

These activities are proposed to be coordinated and championed by the CBL.

Facilitating low-cost domestic and cross-border remittances and payments

The objective is to ensure more accessible and cheaper domestic and cross-border remittances and payments. The key challenge to be addressed includes the FICA / KYC / AML / BoP restrictions on cross-border remittances from South Africa, and the mobile money agent network and liquidity within Lesotho. Achieving this objective will represent a direct welfare gain for all of the target market segments – either as senders or receivers. Potential actions in this regard include:

- Formalising the retailer payments model to allow retailers beyond Shoprite to offer cross-border and domestic money transfers
- Work with South African authorities to lower barriers to cross-border payments, including

"While funeral cover enables decent burials and prevents households from incurring debt or drawing down savings when faced with funeral expenses, it is a sunk expenditure that does not provide a return in terms of the wealth of the family and, hence, does not directly lift people out of poverty."

access by informal sector workers
- Assist mobile operators to address constraints to cross-border mobile money
- Active banking strategy, through targeted marketing and product design strategies to capitalise on cross-border remittance flows to build deposit base
- Address mobile money agent liquidity challenges

This initiative is envisaged to be coordinated and championed by the CBL.

Enhancing risk mitigation beyond funeral cover

The objective is to enable a broader range of risk management / mitigation products that can help to lift households out of poverty, reduce transaction costs and improve consumer recourse processes. There are some challenges to be addressed, including a limited understanding of insurance other than funeral cover amongst consumers, the currently high costs of premium collection, and the lack of a legal framework for micro-insurance.

Most Basotho adults already have funeral cover. While funeral cover enables decent burials and prevents households from incurring debt or drawing down savings when faced with funeral expenses, it is a sunk expenditure that does not provide a return in terms of the wealth of the family and, hence, does not directly lift people out of poverty. To achieve this objective, the product suite accessible to the low-income market would need to be broadened to include products that can assist pay for dependants' education or reduce vulnerability to health risks. Given the dearth of current health insurance options and the accessibility challenges, extending the health insurance will be challenging and require innovation for example distribution on a group basis and bundling of funeral cover with other elements such as life and health.

Proposed focus areas include:

- Legal framework for micro-insurance through regulations, based on new Insurance Act
- Develop life insurance / savings products that can be bundled with funeral products
- Explore alternative premium payment frequency and collection methods such as mobile money
- Explore distribution innovation such as targeting viable aggregators like banks and MNOs, and investigate the scope for embedding cover in savings accounts as loyalty benefit/encouragement of savings
- Develop accommodating regulatory framework for mobile money to act as agents for insurance companies
- Explore the viability of health and health-related insurance and greater coordination between the CBL, Ministry of Finance and Ministry of Health
- Explore the viability of property insurance and agricultural insurance products
- Improve awareness of all non-funeral insurance products and their benefits (including through Ministry of Education)
- Improve and enforce consumer protection provisions and education
- Review new proposed pension policy and its impact on financial inclusion

The CBL will coordinate and champion this initiative, working closely with the Ministry of Finance on some of the activities.

Targeted SMME and farm credit

In order to support the national growth objectives, it has been recommended to improve access to credit and other financial services for SMMEs and farmers. Although the targeted aspirational SMMEs and 'commercial' farmers may be in the minority, a significant number of them have the capacity to grow and enhance employment, and therefore there is need to provide them with the financial services that they may need especially by incentivising private credit providers to serve them.

This is challenging due to a lack of market information on current usage and needs, and potential borrowers with good prospects, as only a small proportion of SMMEs and farmers have growth potential. Additionally there is currently a focus on lending rather than an integrated financial services approach, a lack of appetite for risky credit by banks, a limited number of players focusing on productive credit, and an expectation that government rather than private sector should provide SMME and agricultural credit.

The small economic and industrial base means that individual entrepreneurs, farmers and small businesses can fulfil an important role in supporting livelihoods, even if the more aspirational among them represent only a small group and most are survivalist in nature. Simply providing access to finance is unlikely to grow SMMEs and farmers at scale or position them as growth points for the economy at large. This would in the first instance require a conducive trading and enabling environment, as well as support structures regarding business fundamentals (as for example already pursued through BEDCO). The effective provision of other financial services, including savings, payments and insurance to SMMEs is also critical to their development.

Potential actions identified to realise the objectives include:

- Targeted market research to identify which SMMEs and Farmers would benefit from credit and what their other requirements are (targeting specific promising sub-sectors, as well as the value chain aggregators and other networks with potential to reach them).
- Increasing consumer loans from banks and other credit providers especially those intended for start-ups
- Targeted product design with a holistic view on financial services required by SMMEs and farmers, including savings and payments as well as credit
- Leverage existing channels (e.g. farmer networks, sectoral groupings, BEDCO, credit guarantee schemes)
- Leverage mobile money opportunities
- Government needs to incentivise and leverage the private sector to provide SMME and agricultural credit e.g. providing access to state-run networks, reduced requirements
- Education and awareness of the benefits of financial services products and access
- Strengthen SMME capacity development (including BEDCO)

The project will be coordinated by the CBL, in conjunction with the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM) in the case of SMMEs, and with the Ministry of Agriculture and Food Security (MAFS) for farmers.

4.2 OBJECTIVE 2
- Increase financial and investment capacity

One priority initiative has been proposed in support of increasing the financial and investment capacity of the private sector in urban and rural areas.

Leveraging inward investments by migrant workers

The objective of this initiative is to utilise the financial capacity of migrant workers from Lesotho to support investment in SMMEs as well as greater financial sector intermediation in Lesotho. Key challenges to be overcome include the lack of formal financial linking mechanisms since the decline of migrant mineworkers (no comparable replacement to TEBA deferred pay / remittance channel), the informal status of many Basotho workers in South Africa, and the current lack of low cost cross-border remittance channels.

Migrant workers can be targeted for productive investments in Lesotho. The Moliko Trust, established by the South African National Union of Mineworkers (NUM), is indicative of a demand for productive credit in Lesotho expressed by migrant workers in South Africa. Drawing on international experience, a number of strategies can be considered for more effectively encouraging and leveraging inward productive investment, for example: designing and marketing cross-border financial products where the investment is made in Lesotho but the loans are repaid in South Africa; utilising cross-border channels such as TEBA to distribute loans; enhancing access to low-cost cross-border payment channels to facilitate cross-border investments; and insurance products targeting migrant workers (for example including cover for body repatriation, or focusing on providing cover for dependants in Lesotho).

Government could incentivise private sector innovation in this regard, including creating a database to which financial service providers can gain access for marketing purposes, or by offering regulatory incentives or concessions to banks that offer such products. Additionally at the front end a low-cost remittance channel is needed and as noted earlier would require engagement of South African counterparts.

Identified actions to realise the opportunity include:

- Enhance low cost cross-border remittance channels through MNOs, Retailers and reduced cost bank transfers

- Better documentation and estimates of Basotho in South Africa (border records, SA census) and develop diaspora strategy
- A communication campaign to provide special status to migrants and develop their sense of belonging to Lesotho and facilitate their inward investment
- Develop specific financial services targeted at migrants, such as specific education savings or health insurance products for their dependants that they can directly contribute towards
- Design and marketing of cross-border products, e.g. where investment is made in Lesotho but loans are repaid in SA
- Utilise cross-border channels such as TEBA to distribute loans
- Review of legal and policy framework relating to cross-border transfers and the diaspora

The Ministry of Finance will coordinate this initiative.

4.3 OBJECTIVE 3 *- Create and capacitate inclusive financial service providers*

A programme is proposed to reform, strengthen and / or capacitate some specific service providers.

Selective Institutional reforms

In order to ensure that consumers have a range of service provider options, it is important to intervene to improve the viability and governance of some selected financial services providers and ensure their sustainability, and to increase options for consumers and competition in the market with the potential development of new players. One of the challenges anticipated is the lack of appropriate regulatory frameworks for some of the envisaged new entities (i.e. regulations still being developed).

The key actions envisaged under the Ministry of Finance and the CBL include:

- Establishment of new types of institutions
  - *E-card providers*
  - *Encourage MFIs as an alternative credit and deposits provider*
- Graduation path to formalize informal financial service providers
  - *Money lenders*
  - *Funeral parlours*

The CBL will coordinate these activities on behalf of the Ministry of Finance.

Further action is recommended but which is beyond the remit of the Ministry of Finance. Some existing institutions, notably Boliba and the Lesotho Post Bank are currently not functioning in an optimum manner, and efforts to stabilise them need to be supported and strengthened in order to ensure consumer protection and increase options for consumers and competition in the market. Such efforts will ensure that the institutions are viable and adhere to the necessary governance standards. This is especially challenging as the process has been politically sensitive with politically motivated strategies, and in the case of the LPB have suffered a lack of resources or strategic partner. The proposed efforts include:

- Work with the Ministry of Trade to fast track existing efforts to stabilise Boliba:
  - *Transfer of supervision of large cooperatives from Department of Cooperatives to CBL (as per FIA)*
  - *Forensic audit*
  - *Governance reform*
  - *May need to recapitalise*
- Work with the Ministry of communications to fast track existing efforts to stabilise LPB:
  - *Reform governance and clarify mandate*
  - *Develop viable business plan*
  - *Upgrade and modernise payment system*
  - *Move to branchless platform*
  - *Consider alliance with MNO*

The CBL will work with the respective Ministries to ensure the efforts are supported from a financial inclusion perspective.

4.4 OBJECTIVE 4 *- Ensure an enabling environment*

The national coordination of financial inclusion initiatives including attending to cross cutting regulatory activities will support a suitable environment to achieve the financial inclusion objectives outline above.

- National coordination of financial inclusion
  - *National coordination structures for financial inclusion*
  - *Information to understand and track financial inclusion (product based statistics, customer numbers, transaction levels, transaction costs, claims ratios, number of loan accounts etc.)*
  - *Policy framework review: Review over-arching policy environment for banks operating in Lesotho, and to ensure their objectives are aligned to National objectives especially in serving the low income*
  - *Process to ensure integration of regional learnings e.g. consumer credit issues in other countries, Mzansi performance in South Africa*
  - *Regional cooperation especially on cross border remittances and diaspora issues*
  - *Review of SUFIL Inclusive Finance Strategy and alignment to this National roadmap*

At a national level the development and implementation of new and existing policy and regulations related to financial inclusion also needs to be coordinated to ensure they support common objectives. The main regulatory interventions that have been identified so far in this regard include:

- Address regulatory reform backlog: Pass legislation, finalise and gazette regulations for:
  - *Insurance Act / Micro-insurance regulations*
  - *FIA / various regulations, e.g. agency banking, large financial co-operatives*
  - *Payments Systems Act / various regulations*
  Repeal of Money Lenders Act
- Regulatory reform to promote innovation: Risk-based harmonisation of regulations regarding banks and mobile money in relation to KYC and interest on mobile money

Achievement of these activities will be coordinated by the Ministry of Finance.

4.5 OBJECTIVE 5
- Customer education

Consumer education, and more generally consumer empowerment underlies each of the priority areas identified above, and in Lesotho should promote awareness and understanding of financial services, protect customers, as well as improve the ability of consumers to effectively use financial services. Some of the main needs relate to the sufficiency of information to make appropriate financial decisions and it is therefore suggested that product specific information and education will need to be addressed as a priority. Financial behaviour is impacted not only by objective factors, but also by perceptions and trust. To be effective, consumer education should therefore overcome negative perceptions and seek to engender trust in financial institutions.

Specific action points that have been identified include:

- Consumer empowerment framework e.g. fees disclosure
- Improve awareness of all non-funeral insurance products and their benefits (including through the Ministry of Education)
- Improve and enforce consumer protection provisions especially for credit and insurance
- Education and awareness of the benefits of financial services products and access for SMMEs and farmers
- Targeted consumer education and improved communication especially by banks

This should be coordinated by the Ministry of Finance.

“Lesotho should promote awareness and understanding of financial services”

5 Roadmap to reform

5.1 Anticipated Programme benefits

Financial services play a critical role in enabling poor people to sustain livelihoods and improve living conditions by helping to stretch small, irregular and uncertain incomes to pay for expenses and secure investment opportunities. Improved access to finance is regarded as pro-growth and also a means to reduce income inequality and poverty. A number of studies have shown that countries with more developed formal financial systems record faster declines in income inequality and poverty levels.

The financial access box in Lesotho has been ticked. However, the research painted a picture where people with access are not necessarily using the services optimally, due to perceived lack of value or trust, and high costs of access and usage. The kind of financial services that people use (including high-cost bank accounts, low-value community or home-based savings, high-cost informal loans, funeral cover and informal remittances) are not serving to lift them out of poverty, but are merely helping them to "get by". Institutions in place (both formal and informal) generally work well especially at community level, but where government or donors have implemented subsidised development credit programmes or formed collective savings and credit groups, sustainability has often been lacking.

The conclusion is that the focus should be on how financial services can be leveraged or re-engineered to more effectively alleviate poverty and support economic growth, calling for a targeted roadmap that focuses on the "biggest marginal gain" activities from a consumer needs and welfare perspective. The analysis has shown that these "biggest marginal gain" areas do not relate to the formalisation of savings clubs or burial societies. The roadmap has therefore focused on alternative actions most likely to contribute to poverty alleviation and economic growth, through possible efficiency gains and risk mitigation, targeted productive credit and inward investment promotion and increased financial sector intermediation to support investment and growth.

The proposed programme will deepen and broaden financial services in the following ways:

- Direct improvement in household welfare through efficiency gains and better risk mitigation as a result of the emergence of products that more efficiently serve the target market, especially lower cost transactional accounts, low cost domestic and cross border remittances, more effective low cost savings accounts and increased option of risk mitigation products. It will also ensure improved customer capability through customer education.
- Support for economic growth through targeted SMME and farm credit by enabling financial institutions to better serve them through more relevant products and new distribution channels.
- Better harnessing of migrant resources in South Africa and beyond to create growth within Lesotho.
- Reform, stabilisation and alignment to national objectives of key institutions serving the low income including the LPB, Boliba, Money lenders, Funeral parlours, banks, MFIs, and others and to enable efficient delivery of services.
- At the macro level the programme will enable an enhanced legal and regulatory framework that allows for market players to more effectively deliver services to the poor, especially the banks, Mobile network operators, Insurers, money lenders, MFIs and others to make them more sustainable.
- Quantify and track parameters that will measure financial inclusion in Lesotho, to ensure that the programme of action remains relevant to national objectives.
- Overall the program will result in a deepening of financial inclusion in Lesotho, addressing some of the quality barriers observed in the research, and extending reach for unserved pockets especially the SMMEs and farmers.

Increasing quality and depth of access will be beneficial to the economy, as there is substantial evidence that financial inclusion yields tangible benefits for the poor. By providing more relevant savings, credit, transaction and insurance services, financial services will better enhance people's capacity to diversify and manage risk and encourage entrepreneurial behaviour and economic dynamism.

5.2 MAP in the context of other ongoing financial inclusion work

As outlined earlier, the Financial Sector Development Strategy (FSDS) which gives a high priority to financial inclusion was adopted in 2013. An Implementation committee has been established under the chairmanship of the Principal Secretary in the Ministry of Finance.

The FSDS includes almost 200 action items to be implemented over a five year period, covering the six strategic objectives of the NSDP, and broken down into a number of detailed areas. Under Financial Inclusion there are action items relating to Financial Literacy; SME Financial Inclusion; Legal reforms; Increasing Commercial Bank Participation; Lesotho Post Bank; Microfinance Institutions, RSCGs and VSLAs, SACCOs; Housing Finance; Agricultural Finance; Mobile money/e-Money Accounts; Micro-Insurance; and Credit Information. It also addresses Consumer Protection; Insurance; Cross-Border Competition; and Pensions.

While the FSDS provides overall strategic direction and consensus on the menu of potential activities, there is a need to narrow down the recommendations into a list of concrete activities that can be implemented according to a defined implementation timeline. MAP applies a demand-side lens to focus the FSDS recommendations into a set of key roadmap priorities to achieve client impact at scale.

MAP also builds on other existing financial inclusion research conducted in Lesotho to date, including the Support for Financial Inclusion in Lesotho (SUFIL) and RUFIP (Rural Financial Inclusion Project) programmes. SUFIL is a UNDP, UNCDF and Government of Lesotho programme carried out over the period 2010 – 2013, with the objectives to improve inclusive financial regulatory and policy environment, strengthen financial infrastructure, improve access to a broader range of financial services, build technical capacity, implement a consumer education program and establish a microfinance resource for the industry. A key outcome of the programme was the development of an "Inclusive Finance Strategy of Lesotho", which is currently in draft as it was put on hold pending the completion of the FSDS strategy.

RUFIP (2008-2014) is another relevant project that was developed with the support of IFAD. The programme's components include the development of member-based financial institutions, formal financial institutions for rural outreach, and an enabling environment for financial inclusion. The programme amongst other achievements has resulted in the establishment of 25 small financial cooperatives, 30 Rural Savings and Credit Groups, 330 informal groups (VSLAs & SLICs) and support for a forensic audit on Boliba, a major service provider.

There is other ongoing financial inclusion work within Lesotho, further shown in the table below.

This national roadmap, based on MAP research, outlines the immediate priorities for financial inclusion given the customer needs identified in the research. It is already aligned to the FSDS as noted above, and is complementary to the RUFIP programme. The SUFIL Inclusive Strategy (currently in draft) is recommended to be revised by the Ministry of Finance, in order to come up with a national financial inclusion strategy that is aligned to FSDS, and to integrate into it the MAP priorities.

Other existing financial inclusion initiatives noted above are complementary to the identified roadmap priorities. The implementation team will need to ensure that synergies are exploited and duplication avoided in line with the Paris Declaration for Aid Effectiveness[6].

5.3 Implementation and evaluation

The Ministry of Finance in conjunction with the CBL will be responsible for the implementation of the proposed programme. On finalisation of the MAP outputs and stakeholder feedback process, the roadmap will be approved by the MAP Steering committee, and presented to the Minister and Principal Secretary in the Ministry of Finance for endorsement. It will then be presented to the FSDS Implementation committee as a report back, and in this way the roadmap will become part of the FSDS implementation, and tracked at cabinet level as such.

Activities requiring the input of other Ministries will be escalated to them within the FSDS framework which is already inter-ministerial in function.
The Minister of finance in conjunction with the inter-ministerial FSDS steering committee will therefore provide oversight, coordinate and ensure

MAP PRIORITY AREA	ONGOING WORK TO BE TAKEN INTO ACCOUNT
Lowering of transaction costs and enhancing range of low cost savings options	• *Finmark capacity building initiative in payments*
Facilitating low cost domestic and cross border remittances	• *Finmark regional cross border initiative* • *Finmark / Cenfri / Shoprite pilot on cross border remittances* • *Money laundering - The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)*
Enhancing risk mitigation beyond funeral cover	• *Microinsurance data collection across four countries (Finmark Trust)* • *Committee of Insurance Supervisors initiative (Finmark Trust / CISNA)*
Targeted SMME and farm credit	• *MSME Policy for Lesotho - UNDP* • *Collateral registry and leasing (World Bank)* • *Credit bureau (MCA, Finmark Trust for Association of providers)* • *Care, World vision, CRS and WFP support for rural savings and credit groups*
Inward migrant investment	• *ACP Migration observatory initiative*[5]
Institutional reform	• *Ongoing policy and implementation initiatives within government*
National coordination	• *Lesotho a member of AFI global initiative*

Table 4: Overview of other ongoing financial inclusion work in Lesotho

the implementation of the recommendations in the roadmap, and the appropriate resources.

It is suggested that each ministry or organisation will implement specific areas of the roadmap under their jurisdiction, and report to the Ministry of finance on progress. In some instances an area of the roadmap may require more than one organisation, and working sub-groups are recommended for these.

The key stakeholders required during implementation are shown in Figure 3 below.

5.4 Measurement

Successful implementation partly depends on being able to measure progress, as well as communicating the outcomes of the interventions. The Ministry of finance will monitor and evaluate the proposed outcomes, and provide regular report backs to various government organs.

The actual measurement criteria will be finalised as a first step of the implementation process. Activity based tracking is recommended, complemented by the tracking of outcome based targets including Access, Usage, Affordability, Appropriateness, Financial literacy, and Consumer protection.

Secondary indicators will be proposed through the workplanning process where necessary, to report on the progress or impact of specific stakeholder initiatives. Examples of these include average bank fees for a low income account, penetration and usage of mobile money accounts, number of SMME and farmers served, and reduction in the average remittance transaction cost.

	CATEGORIES	INSTITUTIONS	ROLES & RESPONSIBILITIES
1	Regulatory authorities	• *CBL*	*1. Regulatory and support to FI* *2. Advice and guidance to their institutions on achieving Financial Inclusion targets.*
2	Ministries	• *Finance* • *Trade* • *Agriculture* • *Education* • *Health* • *Planning* • *Labour* • *Home Affairs* • *Communications* • *Social development*	*1. Coordination of Initiatives* *2. Budget* *3. Ensure that initiatives within ministry comply with Policy statements and with best practice*
3	Associations & networks	• *Banking* • *Postal network*	*1. Represent members' ideas in Financial Inclusion committees meetings* *2. Encourage best practice among members*
4	Sector entities	• *Banks, MNOs, Retailers, Insurers, Funeral Parlours, NGOs, MFIs*	*1. Implementation of best practices* *2. Feedback to coordinating bodies*
5	Development partners	• *UNDP, UNCDF, Finmark, WB, EU, IMF, WFP, Unicef, MCA*	*1. Financial and Technical support* *2. Coordinate amongst each other and with Government*

Figure 3: Financial inclusion stakeholders

> ***"The roadmap provides a framework to define, prioritise, coordinate, measure and track the programme, within the context of the broader SUFIL Inclusive Strategy and FSDS."***

6 Conclusions

The financial access box in Lesotho has been ticked. Citizens are broadly served by financial services, with many having more than one financial service. However significant gaps remain in formal penetration of formal credit and remittances, and in the quality (diversity, relevance, ease and cost of access, customer capability, trust in the service providers) of financial services products in general. As a result the access has not always translated into usage or anticipated welfare benefits for the poor. The high-cost bank accounts, low-value community or home-based savings, high-cost informal loans, funeral cover and informal remittances that people use are not serving to lift them out of poverty, but are merely helping them to "get by". Sustainability has often been lacking for subsidised development credit programmes and collective savings and credit groups. The focus of the roadmap has therefore been initiatives that will enable financial services to be leveraged or re-engineered to more effectively alleviate poverty and support economic growth.

The proposed programme will deepen and broaden financial services and directly improve household welfare through efficiency gains and better risk mitigation as a result of the emergence of products that more efficiently serve the target market. It will also result in support for economic growth through targeted credit, better harnessing of migrant resources in South Africa and beyond to create growth within Lesotho, the reform, stabilisation and alignment to national objectives of key institutions serving the low income and an enhanced legal and regulatory framework that allows for market players to more effectively deliver services to the poor.

The immediate next steps in implementing the roadmap include:

- Continue to canvass stakeholder feedback for the roadmap, including with the heads of the organisations represented in the steering committee, ministries to be involved in the implementation, donor partners and private institutions required for implementation.
- The MAP Steering committee should finalise and approve the MAP outputs, documents and roadmap
- Present the MAP outputs to the Minister and the Principal Secretary in the Ministry of Finance for endorsement and further report back to the FSDS Steering committee
- Resourcing and implementation within the FSDS framework

Endnotes

1. Financial Sector Development Strategy (FSDS) was finalized and accepted by Cabinet in late 2013. The five year plan is currently in its first year of implementation.
2. SUFIL is a UNDP / UNCDF funded three year program (2010-2013) to stimulate financial service providers to serve the poor and women. The SUFIL inclusive finance strategy is in draft.
3. Paris Declaration for Aid Effectiveness, available at www.oecd.org/dac/effectiveness/34428351.pdf
4. Financial Inclusion Data: Assessing the Landscape and Country-level Target Approaches, Oct 2011, prepared by the IFC on Behalf of the Global Partnership for Financial Inclusion
5. http://www.acpmigration-obs.org/lesotho
6. Paris Declaration for Aid Effectiveness, available at www.oecd.org/dac/effectiveness/34428351.pdf

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