



Lesotho National Financial Inclusion Strategy 2024-2028



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The strategy benefited from the review of the National Financial Inclusion Strategy (NIFS) 2017-2021, numerous policy documents as well as comprehensive stakeholder consultations and inputs from the Lesotho financial sector and government ministries, in consultation with the national Financial Inclusion Steering Committee (FISC), to come up with a final document.

The Financial Institutions Unit (FIU) of the Ministry of Finance and Development Planning’s Private Sector Development and Financial Affairs department facilitated all stakeholders’ engagement meetings and validation of the strategy. The Ministry would not have accomplished this alone without teaming up with the Central Bank of Lesotho and the FinMark Trust in driving the entire process.

Abbreviations

AfDB	African Development Bank
AfCTA	African Continental Free Trade Agreement
BEDCO	Basotho Enterprise Development Corporation
CAFI	Competitiveness and Financial Inclusion Project
CBL	Central Bank of Lesotho
CCBG	SADC Committee of Central Bank Governors
CRB	Credit Reference Bureau
DFI	Development Finance Institution
DOC	Department of Cooperatives
DP	Development Partner
EDSP	Economic Diversification Support Project
EU	European Union
FCP	Financial Consumer Protection
FESC	Financial Education Steering Committee
FIA	Financial Institutions Act
FIC	Financial Inclusion Council
FISC	Financial Inclusion Steering Committee
FSDS	Financial Sector Development Strategy
FSPs	Financial Service Providers
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GOL	Government of Lesotho
KPI	Key Performance Indicators
KYC	Know Your Customer
L-PCG	LNDC Partial Credit Guarantee
LCA	Lesotho Communications Authority
LEMFA	Lesotho Microfinance Association
LERIMA	Lesotho Electronic Registry Interest of Moveable Assets
LNDC	Lesotho National Development Corporation
LPB	Lesotho Post Bank

M&E	Monitoring and Evaluation
MAFS	Ministry of Agriculture and Food Security
MCC	Millennium Challenge Corporation
MCST	Ministry of Communications, Science and Technology
MFDP	Ministry of Finance and Development Planning
MFIs	Microfinance Institutions
MGYSD	Ministry of Gender, Youth and Social Development
MOET	Ministry of Education and Training
MOHA	Ministry of Home Affairs
MoU	Memorandum of Understanding
MSM	Maseru Securities Market
MSMEs	Micro, Small and Medium Enterprises
MTIBDT	Ministry of Trade, Industry, Business Development, and Tourism
NFIS	National Financial Inclusion Strategy
NGOs	Non-Governmental Organizations
NIFS	National Inclusive Finance Strategy (2017 – 2021)
NSDP	National Strategic Development Plan
OBFC	One-Stop Business Facilitation Centre
PAL	Payments Association of Lesotho
PCGF	Government Partial Credit Guarantee Fund
PSDEP	Private Sector and Economic Diversification Project
RSL	Revenue Services Lesotho (previously Lesotho Revenue Authority)
SACCOs	Savings and Credit Co-operative Societies
SDG	Sustainable Development Goal
SADC	Southern African Development Community
SIBE	Support to Improving the Investment and Business Environment
SME	Small and Medium Enterprise
STE	Short Term Expert
ToR	Terms of Reference
WDI	World Development Indicators (World Bank)

Preamble

Harnessing the power of financial inclusion requires a harmonized effort from diverse stakeholders which can only be achieved through a well-developed and coordinated national strategy for financial inclusion (NFIS). The development of this National Financial Inclusion Strategy is a continuation of efforts by the Government of Lesotho to provide affordable, appropriate, and quality financial services and products accessible to all categories of the population as well as the micro, small and medium enterprises (MSMEs). The Strategy replaces the ended NFIS 2017 – 2021 (or NFIS I).

The government of Lesotho has facilitated the development of this Strategy with support of the Southern African Development Community (SADC) Secretariat. The Secretariat, in conjunction with the European Union provided the support through the “Support to Improving the Investment and Business Environment (SIBE) in the SADC Region” programme. Launched under the 11th European Development Fund (EDF), the SIBE programme is implemented by the SADC Secretariat. The Programme’s overall objective is to achieve sustainable and inclusive growth, and to support job creation through the transformation of the region into a SADC investment zone.

In developing this Strategy, a thorough review of the progress achieved under the previous strategy has been carried out, including whether its objectives have been achieved. This analysis has provided a strong foundation to build upon, informing the focus and approach adopted in this strategy. The progress assessment has built upon previous research and progress reports developed by the Ministry of Finance¹. The Strategy has also facilitated domestication into the Kingdom of Lesotho of important aspects of the SADC Regional Strategy for Financial Inclusion and SME access to finance 2023 – 2028.

The development of the NFIS II has relied on in-depth research that included a review of documentation and data, and stakeholder interviews. Documents reviewed included relevant government and regulator policies and publications, donor research, stakeholder documents, and other credible sources. This was augmented with stakeholder interviews which covered key ministries, regulators, NGOs, and financial sector players². The process identified the strong successes on which the future can be built, and challenges which have to be addressed to achieve the desired results going forward.

¹ The progress assessment built on the Lesotho FinScope (Consumer) 2021 and the MAP Refresh of 2021

² Interviews were conducted during October– November 2023, and February 2024

Table of Contents

Acknowledgements.....	ivii
Abbreviations	iv
Preamble.....	vi
Table of Contents.....	vii
Executive Summary	1
1.1. Country Context.....	8
1.2. Financial Inclusion and Development.....	9
1.3. Purpose and Definition of Financial Inclusion	10
1.4. Government Financial Inclusion Policy Vision	11
1.5. Economic Sectors of Focus	13
2. Review of Progress under NFIS I.....	14
2.1. Overview of the NFIS I 2017 – 2021	14
2.2. Progress and Critical Actions Implemented during NFIS I	14
2.4. Financial Inclusion Outcomes and Progress against Targets.....	18
2.5. Lessons Learnt	19
3. Situational Analysis – Status of Financial Inclusion	20
3.1. Access, Usage and Quality of financial services.....	20
3.2. Priority and Vulnerable Segments	24
3.2.1. MSMEs and smallholder farmers.....	24
3.2.4. Vulnerable Groups	28
3.3. Supply of Financial Services.....	29
3.3.1. Banks and Payments Infrastructure.....	29
3.3.2. Non-Bank Financial Services	34
3.3.3. Development Finance and Entrepreneurship Services.....	37
3.3.4. E-government.....	41
3.4. Financial Capability and Financial Health	42
3.5. Selected Financial Inclusion Enablers	45
4. NFIS II 2024 – 2028	47
4.1. Focus of the NFIS II	47

4.2. Vision and Strategic Priorities of the NFIS II	48
5. Implementation Action Areas.....	50
5.1. Financial Education, Financial Consumer Protection and Risk Management	50
5.2. Products and Mechanisms for MSMEs and Farmers	53
5.3. Digitization and Usage of a Wide Range of Products	59
5.4. Enabling Environment and Collaboration.....	63
6. Institutional Capacity and Coordination.....	69
6.1. Financial Inclusion Coordination.....	69
6.2. Stakeholder Roles and Responsibilities	71
6.3. Funding and other Key Success Factors.....	73
7. Monitoring and Evaluation	74
7.1. M&E Framework.....	74
7.2. NFIS II Indicators	75
7.3. Data Collection.....	76
Annexure 1: Lesotho Financial Inclusion Action Plan 2024 – 2028	77
Annexure 2: Lesotho Financial Inclusion M&E Indicators 2024–2028	87
Annexure 3: Progress against targets under NFIS I	90

Table of Figures

Figure 1: Summary of NFIS II Strategic Priorities and Objectives	2
Figure 2: Access to Financial Services in Lesotho	21
Figure 3: Financial Access Strand across Districts	22
Figure 4: Transactions account usage in Lesotho	23
Figure 5: Distribution of MSMEs in local industry	24
Figure 6: Financial capability by education and rural/urban split	24
Figure 7: Financial health dimension scores of the financially vulnerable	44
Figure 8: Two prong approach of the NFIS II	48
Figure 9: Highlights of financial inclusion barriers and suggested solutions	49
Figure 10: Summary of NFIS II Strategic Priorities and Objectives	50
Figure 11: Revamped FI coordinating mechanism	69

Table of Tables

Table 1: Key NIFS 2017-2021 progress highlights and challenges	15
Table 2: Summary of Financial Inclusion Reforms implemented in Lesotho during 2017 – 2023	16
Table 3: Number of Access points per 100,000 adults 2018 – 2022	23
Table 4: Selected financial inclusion indicators for the banking industry	30
Table 5: Official remittances between Lesotho and South Africa	33
Table 6: Progress made towards the national inclusive finance strategy objectives	42

Executive Summary

The Lesotho National Financial Inclusion Strategy 2024 – 2028 (NFIS II) underlines the importance that continues to be attached to financial inclusion and its role in advancing national policy objectives. Lesotho formulated its previous National Financial Inclusion Strategy in 2017 spanning the period from 2017 – 2021 (NFIS I).

Financial inclusion is particularly relevant to Lesotho which has a high incidence of poverty and inequality with approximately half of the population below the national poverty line. There is a high unemployment rate, especially among the youth. Labour productivity is one of the lowest in the world³, and there is a large informal sector (employing approximately 60% of those employed⁴). Lesotho is economically closely linked with surrounding countries creating opportunity for greater trade integration in the context of SADC and the African Continental Free Trade Area (AFCTA) frameworks. Cross-border remittances contribute 20% of Lesotho's GDP.

In developing this strategy, an assessment of NFIS I has been undertaken which found significant financial inclusion progress. Basotho have high levels of financial inclusion, and 87% of adults have access to at least one formal financial service. However, there has been low uptake of productive growth and resilience focused products, and a limited ecosystem of digital services that would enable people to improve their wellbeing. There are also gaps in the low levels of financial capability, instances of poor market conduct by providers, and limited reach of the financial system (27% of adults have no access to transactional accounts). One third of Basotho are in poor financial health, indicating a need for interventions that result in higher incomes, resilience, and financial capability.

The progress assessment highlights the exigency to implement financial inclusion with desired outcomes in mind. Stakeholders should prioritize efforts to unlock access to credit and insurance for smallholder farmers and MSMEs, leveraging on the digital financial services foundation to enable access to products and services that make a difference in people's lives, and at an institutional level, promote innovation and collaboration. Financial services should help entrepreneurs and farmers increase their resilience and

³ World Bank. 2020. Lesotho Policy Notes. Available: Online

⁴ Bureau of Statistics. 2021. 2019 Lesotho Labour Force Survey (LFS) Report. Available: Online

productivity, and to adapt/mitigate climate change impacts. Financial services should also build citizen's resilience to shocks, access to opportunities, and finance for development.

The NFIS II primary objective is to contribute to the achievement of the National Strategic Development Plan 2023/24 – 2027/28 (NSDP II). The strategy will also contribute to SADC industrialization and regional integration through its support to the SADC Strategy for Financial Inclusion and SMEs Access to Finance 2023 – 2028, and to the achievement of Sustainable Development Goals (SDGs). The strategy in particular addresses SDGs on poverty, inequality, gender, decent work and economic growth as well climate. It seeks to build on the ongoing digital revolution, in line with aspirations of the NSDP II.

The NFIS II proposes the following vision to encapsulate the proposed stakeholder focus between 2024 and 2028:

A dynamic, inclusive financial sector that enables all Basotho individuals and businesses to access and use the financial and non-financial services they need to contribute to inclusive national growth, their well-being and resilience, and a sustainable future

The vision will be achieved through the implementation of 4 Strategic Priorities, supported by 15 Strategic Objectives (Figure 10).

Vision 2024-28	Vision: A dynamic, inclusive financial sector that empowers all individuals and businesses and enables them to access and use the financial and non financial services they need in order to contribute to inclusive national growth, their resilience, and a sustainable future			
	1. Financial Education, consumer protection & risk management	2. Products & mechanisms for MSMEs and farmers	3. Digitisation and usage of a wide range of products	4. Enabling environment and collaboration
Strategic Objectives	1.1 Delivery of Financial education is enhanced	2.1 Products & ecosystems supporting smallholder farmers are developed	3.1 Digital infrastructure reaches all Basotho individual and businesses	4.1 Frameworks to support product innovation are in place
	1.2 Financial consumer protection Framework is implemented	2.2 Mechanisms to improve MSME access to finance are enhanced	3.2 Affordable, digitised products and services are available	4.2 CBL regulatory capacity for innovation is enhanced
	1.3 Risk management framework for digital platforms is improved	2.3 Environment for MSMEs to access finance and/or to formalize	3.3 Low cost remittances and remittance related products are enabled	4.3 MFIs and SACCO sector is strengthened to serve the unbanked
		2.4 Specific initiatives for priority segments are implemented	3.4 Resilience products for businesses & individuals are developed	4.4 Capacity of key players involved in financial inclusion is enhanced

Figure 1: Summary of NFIS II Strategic Priorities and Objectives

The four strategic priorities of the NFIS II are summarized as follows:

1. Enhance financial education/literacy, consumer protection and the risk management framework for digital platforms to empower individuals and small enterprises across segments, and to build trust in the financial system
2. Develop targeted products, services and mechanisms for MSMEs and smallholder farmers to help increase availability of productive credit and insurance, lower their risk, and to benefit vulnerable and priority segments
3. Promote digitization and usage of a wide range of financial and non-financial products and services to ensure improved household wellbeing
4. Strengthen the enabling environment and collaboration of stakeholders, to support increased innovation, and inclusive and effective NFIS implementation

Coordination of the NFIS II implementation will be led by a Financial Inclusion Council (FIC) to provide overall policy direction, supported by a reconstituted Financial Inclusion Steering Committee (FISC) that meets more regularly, and the Financial Inclusion Forum. The FIC will incorporate high level ministry and Central Bank of Lesotho (CBL) executives. Both the FIC and FISC will include a wider range of institutions compared to the current FISC. The FISC will continue to coordinate activities on a day-to-day basis.

The Financial Inclusion Forum brings together a wider range of stakeholders, and it is proposed to introduce a working group structure within it to promote private sector participation. The suggested working groups are as follows:

- Financial education and consumer protection;
- Digital financial services and fintech
- MSMEs and smallholder farmers
- Data and M&E.

Gender and vulnerable groups' issues will be addressed across all working groups.

Adequate capacity of coordination structures is of utmost importance particularly at the Ministry of Finance. It is also proposed that a unit within CBL be mandated to coordinate

CBL's financial inclusion activities. Other involved institutions should ensure a sufficiently senior staff designated to coordinate financial inclusion activities within the institution.

There are several critical projects being undertaken by development partners and these partners should formalize report backs to stakeholders in context of the FI Forum.

A well-resourced monitoring and evaluation framework will be used to systematically monitor the implementation of NFIS II. Enhanced data collection and analysis capacity, coupled with adequate resources for regular demand side surveys are proposed to enable this framework. Availability of disaggregated supply side data should be prioritised, and this may imply improvements to providers' management information systems.

FOREWORD

The Government of Lesotho recognizes the National Financial inclusion strategy 2024-2028 as a renewal and ongoing commitment to advance the government efforts in achieving the national priorities as outlined in the National Strategic Development Plan II extended; of ensuring sustainable food security, stimulating the manufacturing sector, harnessing technology, building human capital, and embracing good governance.



The government recognizes that financial inclusion is not only a matter of economic policy but a fundamental right and catalyst for an inclusive financial sector and socioeconomic development environment where both individuals and businesses, are equally empowered with appropriate investments necessary to improve their livelihoods now and for the future.

It is against this background that the government developed the National Financial Inclusion Strategy 1 (NFIS I) which was implemented from 2017-2021. Implementation of NFIS I demonstrated that financial inclusion has an enormous potential to improve livelihoods through facilitating financial intermediation, stimulating savings and a broader economic growth by leveraging on digitization and technological developments. Implementation of NFIS 2017 – 2021 through numerous thematic interventions, reflected a significant formal financial inclusion growth of 24% from a target of 61% to 85%. This growth resulted with an overall inclusion level of 91% in 2021 from 81% as recorded by Lesotho FinScope Surveys 2021 and 2011, respectively.

The NFIS II draws from the success and challenges of the preceding strategy to unlock access to opportunities, finance for development, achieve of the NSDP II (extended) led by a robust private sector while ensuring alignment to the SADC Industrialization and regional integration agenda through the SADC Strategy for Financial Inclusion and SME Access to Finance 2023-2028.

It is therefore the purpose of this strategy too, to address the Sustainable Development Goals 1(No Poverty), 2 (No Hunger),5(Gender Equality) 8 (Decent Work and Economic Growth), 9 (Industry, Innovation, and Infrastructure) and 13 (Climate Action) to ensure and support an inclusive, resilient, and sustainable financial sector in Lesotho for improved household welfare and economic growth.

The NFIS II is founded on collaboration between government agencies led by the Ministry of Finance & Development Planning, regulators, financial services providers, civil society organizations, donor agencies and technical partners committed to advancing the financial inclusion agenda in Lesotho. The Strategy is guided by a national vision and strategic pillars underpinned by comprehensive strategic objectives addressing the challenges and barriers in accessing financial services and products such as low literacy levels, lack of innovation and limited regulatory capacity.

The Government through the Ministry of Finance & Development Planning pledges its continued commitment and leadership in the implementation of the strategy. Let us all show our active participation and forge partnerships for implementation and progress tracking of this strategy to ensure alignment to national priorities and sustainable financial future for all Basotho.

Dr. Retšelisitsoe Adelaide Matlanyane, MP
Minister of Finance & Development Planning

PREFACE

Lesotho's financial inclusion journey dates as far back as the late 80s to the early 2000s with implementation of numerous rural financial intermediation initiatives. The Rural Financial Intermediation Programme 2008-2015 and the Support to Financial Inclusion Project 2009 – 2014 further catalyzed financial sector reforms and institutionalized national financial inclusion. These projects borne the first National Strategy for Financial Inclusion 2017-2021. Implementation of this strategy has significantly increased financial inclusion to currently 91 percent as recorded by the Consumer FinScope 2021. This is a 10 percent increase from 81 percent in 2011. This noteworthy boost is due to leveraging on technological innovations brought about by mobile money benefitting more, the previous unbanked and marginalized rural population.



With the 2023-2028 strategy, the government intends to continue its efforts and agenda of advancing financial inclusion through development of targeted products, services and mechanisms for MSMEs and smallholder farmers to bridge the current financing gap witnessed in the sector, including continuing to embrace technology to achieve the four key strategic objectives contained in the strategy.

To drive implementation of the strategy, the Ministry of Finance & Development Planning will continue to assume its central coordinating position supported by the established institutional structures; that is the Financial Inclusion Council, Financial Inclusion Steering Committee, the Financial Inclusion Forum, and thematic working groups to ensure the involvement of all key sector stakeholders. Let us all have ownership of this national strategy by pledging our collaboration and commitment at all levels, to ensure its effective implementation and achievement of Lesotho's development goals.

Nthoateng Lebona (Ms)
Principal Secretary
Ministry of Finance & Development Planning

1. Introduction

1.1. Country Context

Lesotho has a high incidence of poverty: Lesotho is a middle-income country with a GDP per capita of USD 1000⁵. There are high levels of poverty and inequality. Approximately half of the population falls below the national poverty line⁶. Lesotho falls into the top 20 percent of countries ranked by inequality, with a Gini coefficient of 44.6⁷.

Small rural population: Lesotho's population is estimated at 2.1 million people⁸. About 70% of the population live in rural areas, having decreased from 75% in 2010⁸. Adult population (over 18 years) is estimated at 1.3 million while half of the population is aged 24 years and younger. The country is administered in 10 districts with more than half of the population in the three districts of Maseru (27%), Leribe (17%) and Berea (13%).

Diversifying economy. The Lesotho economy has steadily been transformed from being predominantly agriculturally based to include a greater role for services and manufacturing. Agriculture now accounts for 6% of Lesotho's GDP⁹.

Close linkage to SADC region. Lesotho's economic prospects are linked to surrounding countries. Cross-border trade is predominantly with South Africa where 80% of imports originate¹⁰. There is also a shared exchange rate and monetary policy with South Africa. Lesotho can benefit from greater trade integration with the rest of SADC and with Africa in context of the African Continental Free Trade Area (AFCTA).

High migration rates into South Africa: There are an estimated 402,000 Basotho migrants in South Africa¹¹. This translates into a high level of (largely inward) cross-border remittances, ranking second in Sub-Saharan Africa at 20% of GDP in 2020¹². This creates

⁵ WDI 2022

⁶ Lesotho Poverty Mapping Report, 2018

⁷ World Bank. 2019. Lesotho Poverty Assessment: Progress and Challenges in Reducing Poverty

⁸ Bureau of Statistics Lesotho

⁸ WDI 2022, <https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=LS&view=chart>

⁹ FAO Lesotho: Contributing to Agriculture, Food Security, Nutrition and Rural Development, 2019

¹⁰ African Development Bank. 2021. African Economic Outlook 2021 From Debt Resolution to Growth: The Road Ahead for Africa.

¹¹ SADC Remittances market assessment, 2021, FinMark Trust

¹² World Bank. 2020. Phase II: COVID-19 Crisis through a Migration Lens. Available: Online

room for financial services targeted at the diaspora such as repatriation funeral insurance, payment of dependents' insurance premiums, retirement or other long-term savings, and payment of loans. This requires seamless cross-border person-to-business payments.

High unemployment rates¹³¹⁴: There are approximately 1.35 million working-age people in Lesotho, of whom only half are in the labour force¹⁴. The official unemployment rate of 23% is high, but unemployment is even more severe for youths aged 15 to 35 at an estimated 29%¹⁵. Direct constraints to productive employment include inadequate skills and low labour productivity, among the lowest in the world¹⁵. Public sector employment plays a significant role¹⁶ and there is a large informal sector. Approximately 60% of those employed work in the informal sector¹⁷.

1.2. Financial Inclusion and Development

Financial inclusion supports development outcomes. Financial inclusion can in the longer term contribute to increase in per-capita income levels¹⁸. Nevertheless, there is need to focus on specific interventions that directly lead to desired outcomes. Financial services such as credit or insurance can help entrepreneurs to actualize business opportunities, while farmers can better adapt to, and mitigate climate change impacts. For consumers, financial services are crucial to build resilience to shocks, widen access to opportunities, and increase access to basic services, such as energy and health.

Financial inclusion mobilises finance/investment. Financial services are also an important tool to mobilise finance for development. Given the large informal sector in Lesotho, products that allow the financial sector to intermediate more effectively can be important links to national inclusive growth objectives. In addition, through viable and sustainable business cases that leverage existing household need or spend, financial services can help attract investment.

¹³ Lesotho Labour Force Survey, Bureau of Statistics

¹⁴ Lesotho LFS, Bureau of Statistics

¹⁵ World Bank. 2020. Lesotho Policy Notes. Available: Online

¹⁶ *ibid*

¹⁷ Bureau of Statistics. 2021. 2019 Lesotho Labour Force Survey (LFS) Report. Available: Online

¹⁸ Suri, T., & Jack, W. 2016. The long-run poverty and gender impacts of mobile money. *Science*, 354(6317), 12881292

1.3. Purpose and Definition of Financial Inclusion

Definition of financial inclusion: Lesotho has adopted the following definition for financial Inclusion that reflects a growing aspiration to impact wellbeing.

“Individuals and businesses accessing and using a wide range of suitable and affordable quality financial products and services that meet their needs – in order to contribute to inclusive socio-economic growth and well-being – the products and service being delivered in a responsible and sustainable way”.

A variety of products delivered responsibly: Affordable financial products and services are broadly defined to include a range of quality financial services such as credit, savings, insurance, investments, payments and remittance services, delivered by a diverse range of financial service providers (banks, deposit taking and credit only MFIs, SACCOs, Insurers, fintechs, etc.) including to those who are currently financially excluded.

The three dimensions of financial inclusion include:

- **Access:** the combination of both the availability and appropriateness of financial products and services;
- **Usage:** the frequency of interaction with, and utility of the product or service; and
- **Quality:** the combination of product fit, value add, convenience and risk – including the affordability, ability to meet the unique needs of various customer segments, proximity, delivery (e.g. loan processing time), and the provision of services with dignity (e.g. due customer care and consumer protection).

Contribution to NSDP II: In the Lesotho context, financial products and services must contribute to the capacity of individuals and MSMEs to improve incomes and employment, economic development, access to basic services, and household resilience. The products and services play a pivotal role in combatting poverty. Financial inclusion is therefore part and parcel of the National Strategic Development Plan 2023/24 – 2027/28 (NSDP II).

Contribution to SADC integration and the SDGs: NFIS II will contribute to the SADC industrialization and regional integration agenda through its alignment with the regional financial inclusion strategy. It will also contribute to the achievement of Sustainable

Development Goals (SDGs), in particular SDG 1, to end poverty in all its forms; SDG 5, to achieve gender equality and economic empowerment of women; SDG 8, to promote jobs and economic growth; SDG 10, reduce inequalities; and SDG 13, to take urgent action to combat climate change and its impacts. By increasing access to basic services, financial inclusion will indirectly support SDG 3, 4 and 7.

1.4. Government Financial Inclusion Policy Vision

Financial inclusion is prominent in government policy: The role of financial inclusion is outlined in several policy documents.

1. **The NSDP II as extended to 2023– 2027** is the key guiding document for the NFIS 2024 - 2028. NSDP II highlights that Lesotho is yet to eradicate multidimensional poverty or inequality, and almost half the population live below the \$1.90 per person per day poverty line¹⁹. The NSDP II response sets out priority areas of action and the NFIS II seeks to contribute to these as follows:

- In the area of food security and the agriculture revolution, improve agriculture productivity, climate-change-resilience, and risk management. The NSDP II envisages a Commodities Futures Exchange, and a warehouse receipting system.
- In the Development Finance Revolution, increased access to productive credit for farmers and MSMEs through the private sector, and continued reorganisation and/or strengthening of the Lesotho National Development Corporation (LNDC), Basotho Enterprise Development Corporation (BEDCO) and the Lesotho Post Bank.
- Leverage the ICT Revolution by promoting digitisation in the agriculture sector and use of digital ID technologies and digital financial services in various sectors.
- Strengthen climate risk management resilience especially through the promotion of relevant insurance products.

2. The **Financial Sector Development Strategy (FSDS) II** is currently in development following the expiration of FSDS I in 2017. A Financial Inclusion Policy 2022-2026 was developed in 2021 and will guide the development and implementation of this strategy.

¹⁹ Lesotho Poverty Mapping Report, 2018

3. **Key relevant sectoral policies strategies** include the Lesotho Remittance Strategy 2023-2028. The Comprehensive National Agricultural Policy (CNAP) for Lesotho 2022 – 2026, the Lesotho Instrument-Based National Agricultural Investment Plan (L-IBNAIP) 2022-2026, and the Micro, Small and Medium Enterprise (MSME) Policy are all pending Cabinet approval. The NFIS II considers the key approaches and recommendations from these strategies. The recommendations include the setting up of the Lesotho Agricultural Development Fund (LADF).
4. **The Gender and Development Policy 2018 – 2030:** In the financial inclusion context the gender policy seeks to promote women, men, boys', girls' and other marginalized groups full and equal access to and control over productive resources, opportunities as well as benefits of socio-economic growth and development. Ending all forms of discrimination has a multiplier effect across sectors, and gender is to be mainstreamed across all development programmes.
5. **The National Youth Policy 2017 – 2030** guides youth priorities and is anchored on seven thematic areas including improved economic livelihoods of youth. As a policy priority, the Youth Development Bill is in process of being enacted, and will enable important structures to support youth, including the Youth Development Fund.
6. **The SADC Strategy for Financial Inclusion and SMEs Access to Finance 2023 – 2028** adopted in August 2023 emphasises increased access to and usage of quality financial services towards developmental outcomes, rather than an end goal in itself. It highlights key areas to be prioritised in national strategies including participation in regional payment platforms, Anti Money Laundering, Combating Financing of Terrorism and Proliferation financing (AML/CFT/PF), sustainable finance, innovation and fintech, consumer protection and market conduct frameworks, and emerging product areas such as micro insurance and micro pensions. Disaggregated financial inclusion data is a key enabler of the strategy.
7. **The SADC Financial Inclusion Gender Action Plan 2023** seeks to promote equitable access to financial services and financial inclusion of women-owned businesses and women entrepreneurs. The plan is designed to help Member States

improve gender outcomes, particularly through gender responsive policies, laws and regulations; adequate coordination mechanisms; and access to digital financial services and financial literacy for women.

The NFIS II will be supported in its implementation, by two strategies that are in development. A National Financial Education Strategy is being developed under the leadership of the CBL, while the Ministry of Communications, Science and Technology is developing the Lesotho's National Digital Transformation Strategy.

1.5. Economic Sectors of Focus

Four priority sectors: The NSDP II identifies manufacturing, commercial agriculture, creative industry, and tourism as key growth sectors. The Lesotho agriculture sector lends itself to a financial inclusion focus as it is largely based on informal, subsistence farming, and is exposed to significant climate change related risks.

Financial Inclusion and basic services: In addition to serving the growth sectors, financial inclusion should play a role in promoting access to basic services, notably energy, education, health and water. Digital payments platforms coupled with concrete partnerships can help increase access to these services²⁰, contributing to the SDG Goals. As an example, households spend 8% of monthly expenditure amounts on health (or M204 per month)²² while less than 1% of the adult population have medical insurance. Affordable financial services can help households to cope, including savings, credit, insurance, and remittance mechanisms.

²⁰ FinMark Trust, Expanding Access to Education, Energy and Health Services Through Digitally Enabled Delivery in Lesotho, February 2021, <https://finmark.org.za/Publications/Access%20to%20basic%20services%20Lesotho.pdf> ²² FinScope 2021

2. Review of Progress under NFIS I

2.1. Overview of the NFIS I 2017 – 2021

Vision of NFIS I: The objective of the national financial inclusion strategy (2017 - 2021) was to develop an inclusive financial system to support the Lesotho National Strategic Development Plan I and other development programs and policies of government.

Towards this objective, the vision of NFIS I was to “Increase access to quality and diverse formal financial services to support economic growth and improve household welfare”.

The vision was to be achieved through five key objectives, namely:

- (i) Expanding the outreach of quality financial services;
- (ii) Increasing the financial and investment capacity of the private sector by linking it with the formal financial sector;
- (iii) Creating and capacitating sustainable inclusive finance providers such as deposit taking MFI, financial cooperatives, and credit-only MFIs; (iv) Ensuring an enabling policy and regulatory environment; and (v) Customer education and consumer protection.
- (i) Ensuring an enabling policy and regulatory environment; and
- (ii) Customer education and consumer protection.

2.2. Progress and Critical Actions Implemented during NFIS I

Significant implementation progress: An assessment of progress under the previous strategy was conducted in 2021 by the Ministry of Finance with support from the UNCDF MAP Programme²¹. The assessment found that of approximately 75 activities set out in the NIFS I, 53 (or 70%) had been completed. Table 1 below summarizes the activity level progress and challenges.

²¹ Lesotho MAP Financial Inclusion Refresh, 2021, UNCDF

Table 1: Key NIFS 2017-2021 progress highlights and challenges

OBJECTIVE 1: INCREASE OUTREACH AND QUALITY OF FINANCIAL SERVICES		
Sub objective	Progress	Underachievement
Lowering cost of transactions and enhancing range of low-cost savings options	- Increased availability of low-cost accounts (bank and mobile money) - Increased reach of access infrastructure - Introduction of Agent banking	- Interest on mobile money wallets did not yield anticipated impact - Full mobile money and bank interoperability yet to be achieved - Inconsistent agency rules between banks and non-banks
Facilitating lowcost domestic and cross-border remittances and payments	- Shoprite channel has been a success but needs to integrate with other financial services providers - Mobile money and ADLA license operators in recent years offer cross border services	- Cost of cross border remittances remain high - Mobile money agent liquidity challenges persist despite improvements
Enhancing risk mitigation beyond funeral cover	- Legal framework for microinsurance framework has been developed - Insurers leveraging mobile money as aggregators and to collect premiums	- Limited penetration of non-funeral insurance - Lack of affordable agriculture, MSME and health insurance
Targeted SMME and farm credit	- MSME and smallholder farmer research and pilots implemented - Ongoing reform/strengthening of Bedco, LNDC credit guarantee	- Penetration of productive credit remains very low - Small business partial credit guarantee scheme underused
OBJECTIVE 2: INCREASE FINANCIAL AND INVESTMENT CAPACITY		
Leveraging inward investments by migrant workers	There have been some efforts to better estimate the number of Basotho migrants in South Africa	Product design to capitalise on cross-border remittances face licensing challenges
OBJECTIVE 3: CREATE AND CAPACITATE INCLUSIVE FINANCIAL SERVICE PROVIDERS		
Selective Institutional reforms	- MFIs have emerged as viable alternative financial services providers - Mobile money and fintechs playing a role as e-money issuers	- Microfinance regulatory gaps need to be closed - Lesotho Post Bank continues to improve but needs more capacity
OBJECTIVE 4: ENSURE AN ENABLING ENVIRONMENT		
National coordination of financial	Coordination structure in place led by the Ministry of Finance and CBL despite resource constraints	FI steering committee needs to be expanded; Better information for tracking progress needed

inclusion initiatives		
Development and implementation of policy and regulations	• Various pieces of legislation have been passed²⁴ • Successful digital financial ID pilot	• Implementation and impact need close monitoring to ensure desired results are achieved
OBJECTIVE 5: CONSUMER EDUCATION		
Consumer education, and consumer empowerment	• Consumer protection Act enacted • Better fee disclosure implemented • Targeted financial education through the Financial Education Steering Committee (FESC), banks, insurance and mobile network operators	• Implementation and impact need close monitoring to ensure desired results are achieved

Source: Financial Inclusion MAP Refresh 2021, Key Informant Interviews (Nov 2023)

2.3. Regulatory Reforms during NFIS I implementation

Regulatory reforms undertaken: Substantial regulatory reforms have been undertaken since 2017 to tackle barriers to financial inclusion, as further illustrated in Table 2.

Table 2: Summary of Financial Inclusion Reforms implemented in Lesotho during 2017 – 2023

Policy/ Regulatory Reform	Overview
Financial Institutions (Amendment) Act, 2023	Repeal of Money lenders Act 1993, bringing money lenders under the Financial Institutions Act, 2012 and the Financial Institutions (Credit Only and Deposit Taking Micro Finance Institutions) Regulations of 2014
Launch of National Switch (effective 14th October 2022)	Enable mobile money users to transfer funds from a mobile money wallet held with one mobile money provider to a wallet held by a different provider (future phases to follow)
Financial Institutions (Banks) Pricing Directives of April 2022	Address pricing concerns in bank sector, review Bothebelele account ²⁵ , and commit banks to provide basic financial education to their clients and the general public
Financial Institutions (Banks) Pricing Directives of 2017	
Financial Consumer Protection Act of 2022	

Financial Consumer Protection (Disclosure of credit information) Regulations 2023	Establish the right of consumers in the financial sector
Insurance Regulations (Micro-Insurance) regulations, 2020	Introduction of micro insurance to extend formal insurance products to low- income earners
Security Interest in Movable Property Act, 2020	Allow a security interest to be registered in the movable collateral registry. CBL launched the Lesotho Electronic Registry Interest of Moveable Assets (LERIMA) project in July 2021.
Security Interest in Movable Property Regulations, 2020	
Pension Funds Act, 2019	Guides the registration and regulation of the pension funds
Collective Investment Schemes Regulations 2018	Licensing, regulation and management of collective investment schemes
Financial Institutions (Large Financial Cooperatives) Regulations 2016	Brought large financial cooperatives with assets >M5 million under CBL supervision
Payments Systems (Issuers of Electronic Payments Instruments) Regulations, 2017	Regulation and oversight of issuers of electronic payments instruments including mobile money
Payment System Oversight Framework 2018	Ensure adequate oversight over the national payment system
Financial Institutions (Disclosure of Bank Charges and Interest Rates) Regulations 2016	Disclosure of Bank charges to customers
Financial Institutions (Agent Banking) Regulations 2016	Regulation of Agency Banking

Source: Central Bank of Lesotho interviews, Nov 2023; CBL Website

²⁴ Including Micro-insurance regulations, agency banking, large financial co-operatives, amendments to FIA 2012, and repeal of money lenders act

A basic savings account for those earning under M3000 per month with no fees and low minimum balance

Adequate regulatory capacity is now needed: The above reforms lay a firm foundation for the NFIS II. However, it is also necessary that adequate regulatory capacity and agility is in place, to ensure the country reaps maximum benefit from the reforms.

2.4. Financial Inclusion Outcomes and Progress against Targets

Lesotho has achieved the vision goal: Annexure 3 summarizes the progress against envisaged outcomes. Significant progress has been made and more than half of the targets have been achieved, while others are a work in progress. Of most significance is that Lesotho achieved its vision goal. The percentage of adults (18+) with access to at least one formal product increased from 61% in 2011 to 87% by 2021, better than the 85% target. The percentage of adults with access to 2 or more products reached 71% against a target of 65%. The proportion of adults who rely solely on informal means decreased from 21% to 4%, and only 9% of the adult population is financially excluded.

Some key challenges remain: Despite the successes, areas of challenge remain and a few of these are highlighted below:

- **Banking penetration** has barely improved: the percent of adults with a bank account increased by only one percentage point between 2011 and 2021.
- **Access still needs to be addressed:** Although 73 percent of adults have a mobile or bank transactions account, 27% do not. There is room to increase mobile money coverage beyond the current 66% of adult population, by focusing on rural areas.
- **The Rural – Urban gap:** The gap persists in terms of access to financial services, especially for bank services: 95% of adults who live in urban areas are financially included with 57% being banked, compared to 88% in rural areas being financially included and only 26% being banked.
- **Low formal credit uptake:** Credit has the lowest reach among the financial products, however usage for both men and women contracted over the period 2011 to 2021. Access to formal credit dropped from 17% to 12%.
- **Low insurance uptake:** Access to insurance at 57% of adults masks the low uptake of non-funeral products: 93% of adults with any form of insurance have funeral cover.

There are also some opportunity areas: The high-level results highlight some areas of opportunity. The improved inclusion should be used to focus energies on maximizing impact, leveraging mobile money. As an example, the large increase in adults that save using non-bank channels (those exclusively using non-bank channels increased from 2% in 2011 to 25% in 2021) provides an opportunity to promote digital savings vehicles. The effort can target women who typically make more use of informal savings channels compared to men; and youth who have a relatively high mobile money uptake.

2.5. Lessons Learnt

Given the successes and challenges experienced, the NFIS II will build on the foundation of NFIS I. A few of the key learnings to consider are highlighted below.

Leveraging the ICT and mobile money revolution: Access to mobile money services has expanded substantially (66% of adults), and mobile money agents are the closest formal financial service providers in rural areas. It is important that this foundation is used to enable access to more financial and non-financial services. This includes access to other financial products. In addition, the success of mobile money agent network should help focus regulators on easing bank agent regulations, and to address the pertinent challenges experienced by the latter in their services offering.

Unlocking access to credit for small businesses: Deliberate actions to encourage credit uptake are needed. These may for example, include the development of dedicated wholesale finance facilities to encourage MSME and agriculture financing, new incentives or requirements for market players, and adequate focus on supporting mechanisms such as partial credit guarantee facilities, credit bureau and the collateral registry. Given lack of records in the MSME sector, it is also necessary to encourage use of alternative data (mobile transactions data) to generate credit scores and to assess credit worthiness.

Innovation and collaboration frameworks: By levelling the regulatory playing field and putting in place the necessary enabling frameworks, it is possible to encourage business models and partnerships that leverage the strengths of various players and technology to extend reach. In this regard, safe access to customer transaction level information via application programming interfaces (APIs), increased regulator agility, development of

regulatory sandboxes, and full inclusion of fintechs and mobile money operators in the payments system will together work to support innovation.

Improvements to regulatory frameworks: Existing frameworks do not always allow new product combinations. As an example, regulators could allow mobile money operators to offer micro credit products (currently a limited product e.g. for airtime exists). A further example is that limited licenses could be provided to allow for development of cross border products (e.g. P2B and B2B payments from South Africa into Lesotho).

Adequate resources to support recent regulatory reform: The regulators and policy makers have put in place numerous legal and regulatory instruments to reform the sector. Key among these is the reform of the microfinance sector, the consumer protection framework, and renewal of the national payments systems law. There is need to ensure adequate resources to manage the transition, and to monitor the impact over time. Where desired results are not achieved, regulators should be quick to re-strategize.

Coordination of financial inclusion activities: Financial inclusion coordination is important if results are to be achieved and tracked. Adequate capacity must be in place, at the Ministry of Finance, Central Bank of Lesotho, and at each entity responsible for implementing aspects of the national financial inclusion strategy. The Ministry of Finance should put in place a financial inclusion communication strategy to guide information dissemination at national level to financial inclusion stakeholders.

3. Situational Analysis – Status of Financial Inclusion

3.1. Access, Usage and Quality of financial services

3.1.1 Access to financial services

Comparatively high levels of financial inclusion: Formal inclusion is now relatively high at 87% in 2021 (Figure 2). Among the SADC countries where FinScope surveys have been undertaken, Lesotho has one of the lowest levels of financial exclusion at 9%.

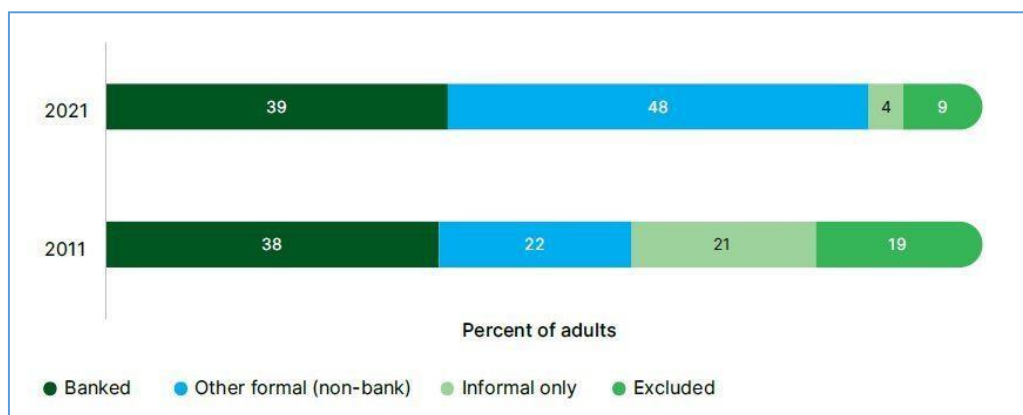


Figure 2: Access to Financial Services in Lesotho

Source: FinScope 2011 and 2021

Mobile money has been a key driver of inclusion: Improvements in financial inclusion have been as a result of a notable increase in those exclusively using “other formal products/services”, from 22% to 48% of adults between 2011 and 2021. This has been driven by uptake of mobile money particularly for remittances and short-term savings. As of 2021, 66% of adults had mobile money accounts. Adults relying exclusively on informal mechanisms reduced significantly from 21% in 2011 to 4% in 2021.

Uneven access to financial services across the country: The FinScope survey also highlighted uneven levels of access to financial inclusion (Figure 3). High levels of financial exclusion are prevalent among adults in Thaba-Tseka, Mokhotlong and Qacha's Nek districts. These districts typically have poorer infrastructure, and higher multidimensional poverty incidence²². This indicates a need for district level interventions to complement the national ones, such as for financial literacy.

²² UNICEF, Lesotho Child Poverty Report, 2021, <https://www.unicef.org/esa/media/10551/file/UNICEF-LesothoChild-Poverty-Report-2021-Policy-Brief.pdf>

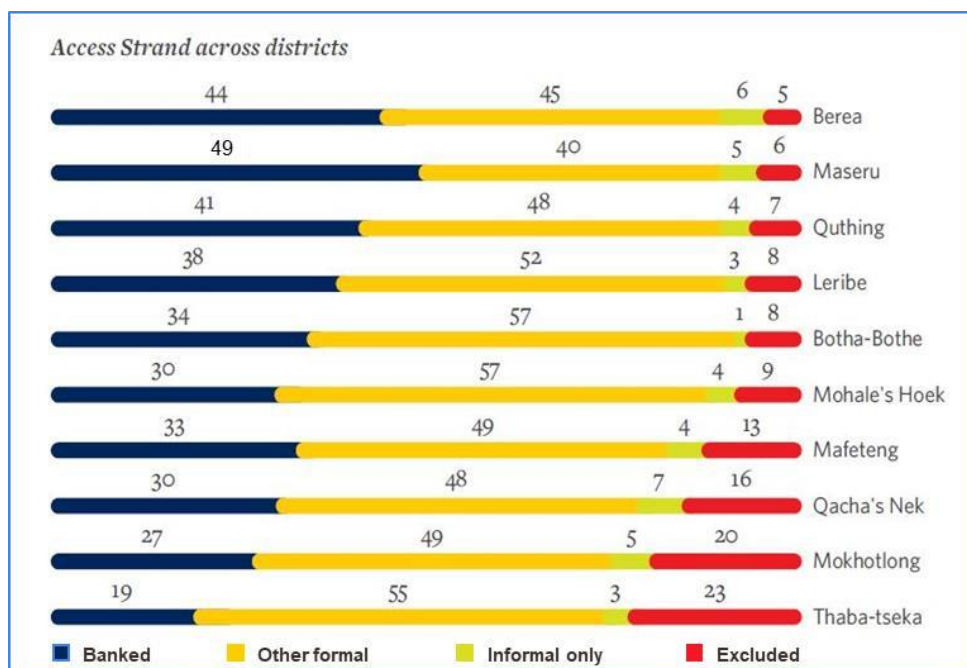


Figure 3: Financial Access Strand across Districts

Source: FinScope 2021

Credit is the least accessed product: Formal remittances have the deepest reach among adults in the formal products category (59%), while credit has the lowest (12%). Uptake in non-bank savings and remittances is driven by mobile money, while funeral cover remains a strong driver of insurance.

Increasing financial inclusion depth: There has been an increasing depth of access, with 71% of adults having access to more than one formal financial product in 2021 compared to only 31% in 2011.

3.1.2 Usage and quality financial services

Usage of financial services is significant: An estimated 73% of adults have either a mobile money or bank transactions account. Figure 4 demonstrates that 73% of banked adults use their bank account at least monthly – classified as high or medium users²³, while 72% of adults with mobile money accounts use them on a monthly basis or more.

²³ High users defined as those who use their account at least 3 or more times on a monthly basis, medium users once or twice monthly.

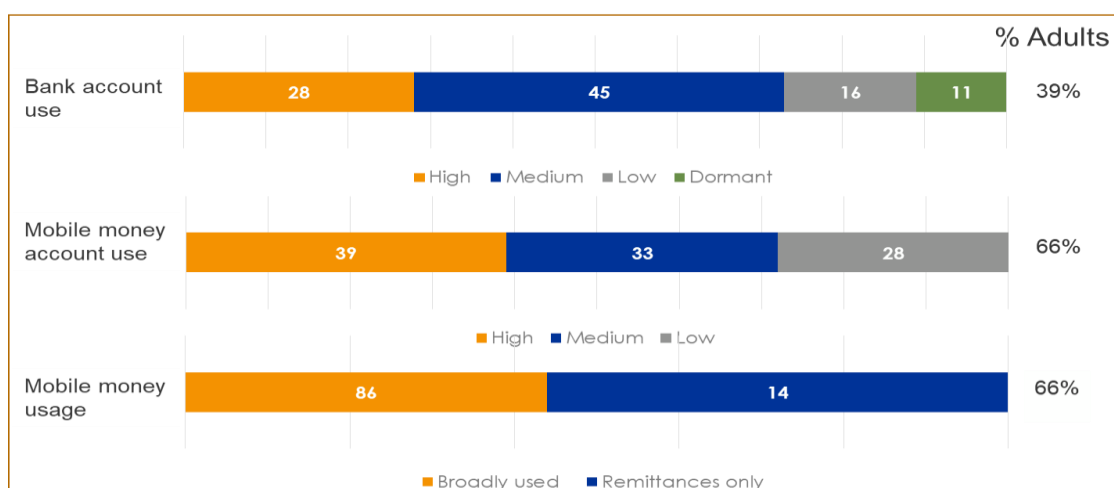


Figure 4: Transactions account usage in Lesotho

Source: FinScope 2021

Mobile money being used for a variety of needs: The mobile money usage indicator in Figure 4 goes beyond frequency to consider the type of activity used through the platform. An estimated 86% of mobile money users have moved beyond remitting (P2P) towards other use cases such as paying bills, third party online payments and storing/saving money.

Increasing convenience: Mobile money agents are the closest formal points of presence in rural areas, and 54% of rural dwellers are within 30 minutes of one. In comparison, only 15% of rural dwellers are able to reach bank infrastructure within 30 minutes. This is due to the comparatively higher number of mobile money agents compared to other financial service provider access points (Table 3). Expansion of bank agent network presents an untapped opportunity.

Table 3: Number of Access points per 100,000 adults 2018 – 2022

Number of Access Points per 100,000 adults between Sep 2018 – Sep 2022

	2018	2019	2020	2021	2022
Active Mobile money Agents	326	526	626	804	1 308
Bank branches	4	4	4	4	4
Active Bank agents	15	17	23	29	37
Active ATMs	16	18	15	15	19
Active POS	124	162	151	154	222
MFI branches	19	5	7	9	12
Insurance branches	2	3	3	3	4
Insurance agents	34	38	39	37	41
Post office branches	4	4	3	3	4

Source: Lesotho Ministry of Finance M&E Report 2022

3.2. Priority and Vulnerable Segments

3.2.1. MSMEs and smallholder farmers

MSMEs an important sector: The MSME sector is recognized as being a significant contributor to job creation, development and economic growth, with an estimated 255,420 adults working in the sector (up from 118,130 in 2016), according to the FinScope MSME 2023 survey²⁴. A key challenge is that most of the MSMEs (estimated at 76%) are informal. MSME activity is skewed to wholesale and retail activity, agriculture and to some extent manufacturing (

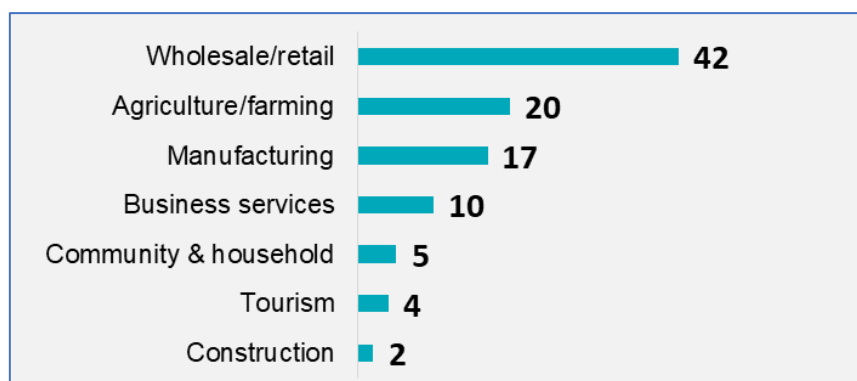


Figure 5: Distribution of MSMEs in local industry

Source: FinScope MSME 2024

Informality hinders MSMEs access to credit: MSMEs lack finance for a variety of reasons, notably the lack of formal registration and business records, and high-risk perception. Requirements to formalise are still onerous, including the need for a business address, bank account (for a trader's license), and tax registration. The reform of the tax regime through tax exemptions, presumptive tax (e.g. turnover based taxes), and review of value added tax (VAT) which is due on invoice rather than on receipt can ease

²⁴ FinScope Micro, Small and Medium Enterprises (MSME) Survey Lesotho 2023.

compliance for smaller businesses. Targeted support to businesses can encourage formalization²⁵, and digitization which allows alternative credit assessment mechanisms.

Farmers also starved of finance and insurance: Lending to the agricultural sector is low especially due to high risks in the sector, worsening due to climate change. Another key issue is land tenure as most land is owned on a community basis, limiting commercial viability and access to finance. In addition, smallholder farmers are often unable to access agriculture insurance due to poor or no availability of appropriate products as well as high costs emanating from high risks associated with the sector.

Significant climate change impacts on agriculture: The effects of climate change in Lesotho include rising temperatures and increased incidence of droughts and extreme rain events. Mechanisms to mitigate and adapt to the effects of climate change are therefore of utmost importance, including sustainable finance approaches that direct finance towards sustainable activities, and insurance products for the agricultural sector.

3.2.2. Women

Positive inclusion gender gap: Lesotho has made progress in promoting access to finance for women and is now one of the few countries with a positive gender gap – of 6 percentage points for formal financial services. Nevertheless, there is need to continue focus on financial inclusion for women, as a tool towards broader gender outcomes. Lesotho ranks poorly on both the 2020 Gender Inequality Index (GII) (rank 139 out of 162 countries)²⁶, and

²⁵ Campos, F., Goldstein, M., & McKenzie, D. 2015. Short-term impacts of formalization assistance and a bank information session on business registration and access to finance in Malawi. The World Bank.

²⁶ World Economic Forum. Available: Online.

the Global Gender Gap (rank 88 out of 185 countries)²⁷. Women in Lesotho are more likely to be unemployed compared to men²⁸.

The higher levels of financial inclusion are an opportunity: The increase in formal financial inclusion for women between 2011 and 2021 is in large part driven by increasing adoption of digital financial services (69% of women use mobile money services compared to 63% of men). Women also borrow more (64% compared to 54% of men)²⁹. By focusing on such entry points, financial inclusion can become a tool for engineering greater gender equality, empowering women through affordable and flexible credit facilities, preferential procurement and incentives to help break down the social, cultural and stereotype barriers that remain an obstacle for women's economic empowerment³⁰.

Financial sector should empower women: Financial sector innovations should provide transformative effect on gender roles and power-relations in financial decision-making and pursuit of entrepreneurial opportunities. They can make specific interventions that alleviate or recognize women's needs and conditions such as disproportionate unpaid domestic workload, and products for women smallholder farmers in specific agricultural value chains. Recent legislative and institutional changes on land tenure³⁵ have seen inconsistent application of the law due to policy implementation failure and limited awareness of the new laws. Financial education, capacity and awareness campaigns can help make women aware of their rights and opportunities. This also calls for adequate gender mainstreaming

²⁷ UNDP. Human Development Reports. Available: Online

²⁸ World Bank. 2020. Lesotho Policy Notes. Available: Online

²⁹ FinScope 2021

³⁰ AFI. 2019. Policy framework for women's financial inclusion using digital financial services. Available: Online

³⁵ Lesotho National Housing Policy, 2018.

competency and capacity in responsible government agencies³¹, while CBL can support with formal guidance to the financial sector.

3.2.3. Youth

Unemployment among youth challenges: Youth in Lesotho comprises those aged 15 – 35 years. Among their major challenges is high unemployment and skills mismatch. Two-thirds of university students graduate from the fields of education and social sciences, while most private and public investments are in favour of creating jobs in the fields of agriculture, manufacturing, tourism, and technology³².

Youth have low access to credit: An estimated 88% of youth are financially included with a high uptake of mobile money (at 73% compared to the adult proportion at 66%) and remittance services. However, they borrow the least. Youth have little access to land, assets or credit history. Youth funding by Governments needs to be improved including through existing facilities. The Department of Youth under the Ministry of Gender, Youth and Social Development (MGYSD) has plans to implement a Youth Development Fund, but the Fund is yet to materialize pending the passage of the Youth Development Bill.

Empowering youth through entrepreneurship: Youth require finance, opportunities, entrepreneurial skills and a strong innovation and entrepreneurship ecosystem. Laws prescribing quotas for youth procurement have been passed, but the monitoring has been

³¹ Gender Audit of the Public Sector in the Kingdom of Lesotho – Final Report, March 2022, Ministry of Gender, Youth and Social Development, GoL

³² World Bank. 2020. Lesotho Policy Notes. Available: Online

weak. There are skills support programmes such as BEDCO's Youth Development Project for youth-owned agribusinesses, however more are required. Financial literacy is also an important aspect of empowerment. The Financial Education Steering Committee (FESC) has been collaborating with the Ministry of Education and Training to integrate financial education into the school curricula.

Lesotho should partner with SADC towards youth objectives: Technology offers an opportunity to encourage youth innovation, and there are broader SADC efforts towards this objective. SADC is planning to launch a youth innovation fund, as well as to leverage technology to attract youth into capital market investment³³. These should be leveraged wherever possible.

3.2.4. Vulnerable Groups

Relatively well-developed social welfare system: The Lesotho social protection system is relatively well-developed compared to other SADC countries. Social protection spending is high (6.4% of GDP and 14.3% of government spending) and has helped reduce poverty and inequality³⁴. However, cost-effectiveness can be improved as resources often end up going to the non-poor while coverage is estimated at 20% of the target population due to overlap in the various programmes.

Need to keep updated vulnerability records: Databases used to identify vulnerable households should be kept up to date, so that social assistance programmes can respond quickly to shocks. GoL is undertaking pilot assessments of vulnerable households in the National Information System for Social Assessment (NISSA) where ongoing recertification has seen four (4) districts being covered thus far.

³³ SADC Strategy on Financial Inclusion and SMEs Access to Finance, 2021, SADC Secretariat

³⁴ World Bank. 2020. Lesotho Policy Notes. Available: Online

Digitization of social welfare payments: The majority of social welfare payments are made in cash³⁵ which recipients including old-age pension (OAP) recipients have to walk long distances to collect. Attempts to digitize social assistance payments³⁶ face various challenges, including vested interests and lack of adequate financial education among recipients. Mobile money can better target beneficiaries, bring services closer to recipients, and enable administrative cost savings. The integration of digital identity can also reduce fraud.

Financial inclusion barriers for the vulnerable: Vulnerable populations such as the elderly, disabled or refugees have challenges that prevent access to financial services. Lack of financial and digital literacy, mobile phone devices and identity documents are common amongst them while other issues are bespoke, e.g. lack of sight or mobility.

Providers should innovate to meet the needs: Financial service providers should be encouraged to innovate to meet the requirements of vulnerable populations. Information sharing can help increase understanding of the issues to be addressed, while regulators can support these by ensuring disaggregated data is available to inform providers.

3.3. Supply of Financial Services

3.3.1. Banks and Payments Infrastructure

3.3.1.1 Banks

Bank reach remains limited: The entry level Bothebelele bank account introduced by the banks in 2018 following a CBL directive has not performed as expected, with 55,000 in 2019 dropping to 22,000 accounts by 2020³⁷. Key barriers include limited bank

³⁵ The Social Assistance Department is responsible for all five national social assistance programs: Old Age Pensions, Child grants, Orphaned and Vulnerable Children (OVC) Bursary, Public Assistance, and the relatively new Disability grant. The total number of beneficiaries stands at 184,900

³⁶ A small percentage of the OVC bursary, Child Grants and Public Assistance are via Mobile Money. Digital enrolment for Old Age pensioners has been piloted in 4 districts under a World Bank supported project however only a small percentage of beneficiaries have adopted mobile money. The Ministry is targeting to have digital payments for all recipients within 3 years following the pilot.

³⁷ Lesotho Financial Sector Assessment, May 2022, World Bank Group

infrastructure in rural areas and customer perception of banks. Banks can strengthen their leverage on mobile platforms, for example through bank micro credit products.

Agency banking rollout has been slow: The rollout of agency banking was intended to extend bank reach in rural areas. However, to date, there are only 388 bank agent points³⁸. On boarding and reporting requirements are seen by the industry as onerous. Agent bank regulations were recently reviewed by CBL. The review should be part of ongoing effort to increase the reach and sharing of the bank agent network. An activity-based approach to agency regulation is recommended as it creates a level playing field, flexibly enabling the sharing of agent networks between banks and nonbanks and minimizing regulatory arbitrage with emergence of new types of players³⁹. The approach applies uniform rules to all types of providers and all types of accounts for a given type of activity.

Table 4: Selected financial inclusion indicators for the banking industry

	2018	2019	2020
Bank agents	-	205	346
Deposit accounts	592 750	680 830	707 629
Bothebelele accounts	358	56 242	22 287
Outstanding loan accounts	52 041	56 242	63 919
Business loan accounts	1 092	1 794	1 953
MSME loan accounts	978	1 031	1 440

Source: CBL Supervision Annual Report 2021, July 2023, CBL

Banks extending very limited credit: Bank credit remains extremely low (6% of adults at the last FinScope 2021), mostly to adults working in the formal sector. In contrast, business owners rely mostly on credit from informal lenders and to a limited extent, microfinance institutions which are slowly opening to MSME lending. A key constraint is lack of financial statements by MSMEs but banks remain highly risk averse. Partial credit guarantee schemes to encourage banks to lend to MSMEs remain small in scale.

³⁸ Lesotho financial inclusion M&E dashboard, 2023, FinMark Trust

³⁹ Kerse, Mehmet, Patrick Meagher, and Stefan Staschen. 2020. "The Use of Agents by Digital Financial Services Providers." Technical Note. Washington, D.C.: CGAP. Available [here](#).

Lesotho Post Bank agent network facing challenges: The Lesotho Post Bank (LPB) has been pushing its financial inclusion mandate, including developing targeted products for the agriculture and MSME sectors. However, its bank agency network rollout has faced system integration issues while its mobile money agency network has been slow. CBL is reluctant to relax the mobile money agency conditions to match those for mobile money agents, citing that; licensed banks should work to more stringent conditions.

Need for collaboration between banks and other players: Banks continue to perceive mobile money operators, money transfer operators, MFIs, SACCOs and fintechs as competitors, limiting much required support. A mindset change can allow symbiotic partnerships to emerge especially in market segments where banks are unable or unwilling to operate. Smaller operators can penetrate these segments if adequately supported by banks who hold the required licenses, data, and capital. The availability of banking as a platform services (open banking) can also spur innovation, and Lesotho should consider a framework that takes into consideration regional markets.

3.3.1.2 Payments systems, digital financial services and mobile money

National payments switch key to inclusion: The national payment systems (NPS) Vision 2019 – 2023 highlighted the need for a new domestic national switch, to achieve common utilisation of payment systems infrastructure, and to provide interoperability. Following launch of the switch in October 2022, licensed mobile money issuers⁴⁰ resolved interoperability between their respective wallets, however interconnectivity with banks is yet to be implemented. Adoption of common payments standards including ISO20022 is also important to promote interoperability regionally and internationally.

Legal payments framework being updated: To strengthen the legal and regulatory framework for payments and alignment with the SADC Payment Systems Model law, a new National Payment System Bill⁴¹ is in development to replace the NPS Act of 2014. The new Act seeks to better accommodate non-banks in the NPS, and innovation through among others, the facilitation of open banking and regulatory sandboxes.

⁴⁰ Vodacom Mpesa, Sasai Econet, Smartel money, Chaperone and Khetsi

⁴¹ The Payment Systems Bill has received certification by the office of Attorney General and is currently awaiting approval by Cabinet for its presentation before Parliament

Interest distribution for mobile wallets: To encourage the use of wallets as savings instruments, there has been effort to distribute interest from the related trust accounts to customers. The initial distribution in 2021⁴² cumulated interest from 2017 –2021 and was substantial, however subsequent distributions have been too small to be meaningful. Given that interest legally belongs to e-money deposit holders and distributing it should not lead to perception of deposit taking, regulators can consider distribution mechanisms that defray selected transaction fees, or that encourage increased use of savings wallets.

Potential to expand services on mobile money: To enable use of mobile money to deliver a wider range of products, mobile money operators have established partnerships with licensed micro credit and insurance providers, and innovated products for informal savings groups (mokhatlo). To support further innovation and in line with the SADC financial inclusion strategy, there is room for limited participation in deposit taking and national settlements, which can unlock a wider range of services on the platform⁴³. Further expansion of mobile money agent networks is also needed into rural areas where cash liquidity has been a persistent challenge. The addition of mobile money aggregators and ease of movement of cash between merchant and mobile agent accounts is helping to alleviate the challenge.

Lesotho fintech industry in early days: The CBL has set up a fintech working group whose mandate includes crypto currency. The working group is leading the process to develop a national fintech strategy in line with rest of SADC where a majority of 9 countries recently surveyed either had or were working towards a national fintech strategy⁴⁴. The survey also found that 7 of the countries have a regulatory framework for fintech in place. In Lesotho fintechs are regulated as e-money issuers while CBL does not supervise or regulate cryptocurrencies. This needs to be urgently addressed.

⁴² Regulators often consider interest payments a feature unique to deposits. When E-Money is regarded as a payments and not deposit-taking service, interest payment is prohibited. Some regulators allow “sharing of interest” from the trust funds among customers, an innovative regulatory practice

⁴³ SADC Strategy for financial inclusion and SMEs access to finance 2023 – 2028, SADC Secretariat

⁴⁴ Fintech developments in the SADC region, SADC Payments Integration Project Office, 2022

Collaboration is critical to drive innovation. The regulation of fintech and mobile money operators falls under the CBL-NPS, although some activities fall into CBL-Bank Supervision. There are also overlaps with the Lesotho Communications Authority (LCA) for which a Memorandum of Understanding (MoU) is in place but currently being reviewed. Regulators should continue to collaborate to support innovation, including in product development, cyber security, and network coverage in rural areas.

3.3.1.3 Remittances

Large dependence on remittances: Cross border remittances are of high priority given their impact on households. A key challenge has been the high cost of cross border remittances, with banks and cross border money transfer operators charging between 8 and 10% of remitted value (for a M850 remittance)⁴⁵. Lesotho is a net receiver of remittances (Table 5), and the first mile cost in South Africa is a significant cost driver. This highlights the need to work with South African regulators to reduce first mile costs.

Table 5: Official remittances between Lesotho and South Africa

LSL millions	2016	2017	2018	2019	2020	2021
Outbound (to SA)	56.5	18.3	6.8	3.7	7.6	4.0
Inbound (to Lesotho)	121.9	246.0	461.2	592.7	1 021.0	968.0

Source: SADC Remittances Market 2021, FinMark Trust

Challenge of undocumented migrants: Many Basotho migrants in South Africa are undocumented, contributing to first mile costs. Lesotho could engage South African authorities to accept the use of the Lesotho Special Permit (LSP) or the Lesotho national ID. The regional e-KYC framework will also contribute to lower costs.

Remittance linked products: Direct cross border payments into investment, loan, insurance or utility accounts are yet to be licensed and these would be of benefit to the diaspora and help increase volumes and reduce cash outflows. Mobile money is already playing an increasing role in remittances, with Authorised Dealers with Limited Authority

⁴⁵ Key stakeholder interviews, Nov 2023

(ADLAs) partnering mobile money and this needs to extend to outgoing remittances. Provision of credit and digital financial platforms for cross border traders can enhance remittances volumes and contribute to regional trade.

Shoprite model yet to be replicated/optimised: The Shoprite cross border model has been able to achieve low costs on remittances, the model being predicated on increased store footfall. However, the limitation of receiving in Shoprite stores has led to long queues, and there is potential for regulators to engage with Shoprite on this.

Increased competition necessary in remittances market: Regulatory requirements (KYC and balance of payments reporting) caused World Remit and Hello Paisa to suspend services in Lesotho, limiting options available to the diaspora. The services were popular with the diaspora ⁴⁶. CBL should seek to attract additional ADLAs and partnerships, for example by relaxing balance of payments reporting regulations for small remittance transactions and/or revising ADLAs' licensing requirements.

Regional cross border remittances project: The Transactions Cleared on an Immediate Basis (TCIB) scheme aims to lower prices for cross border remittances by enabling interoperability across borders. TCIB requires participation of non-bank players and readiness in terms of capacity and adoption of ISO 20022 standards, and the harmonization of Balance of Payments codes.

3.3.2. Non-Bank Financial Services

3.3.2.1 Microfinance institutions and SACCOs

The MFI industry is at a nascent stage: The current structure of the microfinance sector emerged following legal amendments that transitioned Money Lenders into MFIs. The repeal of the Money lenders Order of 1989 in January 2023 brought money lenders under

⁴⁶ Lesotho: Remittance Strategy 2023-2028, March 2023, GoL

the purview of the Financial Institutions Act, 2012 and the Financial Institutions (Credit Only and Deposit Taking Micro Finance Institutions) Regulations of 2014.

SACCO sector developing: The Financial Institutions (Large Financial Cooperatives) Regulations, 2016, transferred prudential regulation of large cooperatives (with assets >M5 million) to the CBL. To date only Boliba has come under the CBL supervision and all smaller cooperatives are exclusively regulated by the Department of Cooperatives (DOC), under the Cooperatives Societies Act of 2000.

Significant reporting gaps: Of the 150 licensed MFIs, many especially in Tier 3 are not able to submit regular regulatory reports, while there are often errors and inconsistencies for the ones that provide data. Attempts to encourage MFIs to invest in loan management systems have experienced challenges especially due to the costs involved. Similarly, only a small subset of SACCOs are able to provide adequate reports. Addressing the issue requires a systematic approach. It is a licensing requirement for new MFIs to have loan management systems, however some already licensed MFIs are not compliant. Regulators could consider establishing a centralized reporting center or pre-identify loan management systems to allow economies of scale among small players.

Regulatory capacity is limited: The CBL capacity for supervision of the MFI sector is limited and given the large number of MFIs (>150), there is need to significantly beef up monitoring and supervision capacity. Similarly, the Department of Cooperatives lacks adequate capacity to handle all the SACCOs and has been encouraging merger to allow economies of scale. Larger SACCOs have systems in place to submit required reports, however the department faces capacity constraints to supervise these larger SACCOs.

Regulatory gaps need to be closed: There is inadequate information flow between CBL and the Department of cooperatives which could result in SACCOs crossing the threshold (assets >M 5 million) but delaying entering CBL supervision. A formal mechanism for collaboration that includes notification of thresholds could be considered. In the longer term, there is potential for cooperatives to come together to form a cooperative bank, however there are currently no enabling provisions in the legal framework.

MFI business model needs to evolve: MFIs have a large focus on salaried civil servants (deduction at source); however, this is resulting in dwindling profits and over indebtedness. Products for MSMEs are emerging but this is still in its early days. MFIs cite lack of adequate capital to diversify, with banks perceiving them as competitors. MFIs are yet to apply to become deposit taking given the state of market development. Regulatory reform can also help promote MFI innovation for example, by allowing state owned enterprises and corporations to pay a proportion of purchase order proceeds directly to MFIs to lower MSME lending risk. MFIs can also be supported to innovate – currently they have to set up separate entities to provide services additional to credit.

Role of MFI Apex body: The apex body for MFI sector is the Lesotho Microfinance Association (LEMFA) which has around 70 of the 150 registered MFIs as members. With adequate capacity LEMFA can support improved reporting compliance by capacity strapped MFIs and encourage registration of unregistered MFIs. There is room to formalize and improve collaboration between CBL and LEMFA to establish it as a formal MFI sector platform for consultation, advocacy and liaison. This can be achieved through an MoU which will also encourage non-members to see value in LEMFA membership.

3.3.2.2 Insurance, pensions and capital markets

Affordable insurance is required: Insurance has a big role to play given widespread use of costly risk mitigation mechanisms such as credit. The sector needs to diversify beyond funeral insurance by learning from other markets and leveraging technology to achieve cost effective products. The microinsurance framework is in place, however there are gaps in the legal framework that need to be addressed.

Partnerships can drive insurance reach: Insurers have already started to partner with mobile money operators to collect premiums and to sell policies. There is opportunity to take the partnerships further, working closely with banks to get them to finance risk reducing mechanisms (e.g. green houses that reduce climate risk) or to provide their customers with agriculture insurance that minimises lending risk for banks.

Agriculture insurance is expensive: Several players have introduced crop and livestock insurance products targeting larger farmers. To catalyze increased uptake, it is important

to strengthen agricultural value chains, and to create an agriculture reinsurance market which will require detailed long-term data to calibrate premiums⁴⁷. Ecosystem approaches are also needed: livestock insurance will be expensive if there is no road accessibility, livestock tracking, or legal framework for theft in place. On the demand side, financial capacity and product awareness among smallholder farmers is low, necessitating subsidies and creative delivery models such as use of rural NGOs and along with credit or agro inputs bundling to increase affordability.

Public private partnerships towards a product for smallholder farmers: Large scale agriculture insurance is highly complex, requiring resources and government partnership. The country has significant weather data that can be leveraged on to develop index crop insurance based on experience from other countries such as Kenya and Zambia. The sector in partnership with Ministry of Agriculture & Food Security, LNDC and the Ministry of Finance and Development Planning is working on a prototype for use by local insurers.

Gap for an informal sector pensions product: The informal sector in Lesotho is large in comparison with the formal sector. Yet there are no pension products that can adequately serve the informal sector. In line with the SADC financial inclusion strategy, there is opportunity for Lesotho to develop a framework that can enable appropriate informal sector pensions products.

Role of capital markets: The Maseru Securities Market is small with only one listed stock⁴⁸. The exchange could explore instruments such as green, gender and youth bonds. It can also support the introduction of a local commodity exchange mechanism, and crowd funding.

3.3.3. Development Finance and Entrepreneurship Services

Holistic approaches for farmers and agri-MSMEs: Agriculture finance is perceived by financial service providers as risky, especially considering climate change. There is need

⁴⁷ Agriculture insurance feasibility study in Lesotho, International Finance Corporation, Nov 2020

⁴⁸ <https://www.msm.org.ls>

for systematic approaches that help to reduce risk for providers and farmers in high priority value chains, guided by policy makers and supported by development partners:

- Improvements to the land tenure system to encourage productive farming
- Secured markets and/or off take contracts
- Clustering of smallholder farmers and/or use of market aggregators
- Ensuring that standards are set, and adhered to – the capacity and resources of the National Standards Institution⁴⁹ should be reviewed
- Certification processes, particularly digital certification
- Availability of affordable finance and insurance products, with subsidies or other soft instruments such as interest free loans and grants where necessary
- Catalytic efforts led by development partners, with clear exit strategies for sustainability
- Farmer training and capacity on standards and record keeping

Digitisation a priority in agriculture: Digitisation in agriculture can play a positive role in making information available thereby increasing productivity and lowering production costs and price dispersion⁵⁵. Digitization can also promote new technology driven business models⁵⁰, digital marketplaces, and warehouse receipt systems⁵¹.

Financial inclusion at core of farmer's climate response: Financial inclusion is an essential enabler of grass-roots climate adaptation⁵² and mitigation. There are various ongoing climate related programmes in the farming sector, and these should continue.

Access to global funds should be leveraged: Local farmers can take advantage of international funds, and there is need for sensitisation on these opportunities. Lesotho is

⁴⁹ The Lesotho Standards Institution (LSI) was launched in 2020 by the Ministry of Trade & Industry to develop and publish national standards, test and certify local product, and to provide training relating to standards ⁵⁵ Aker, J. C. (2010). Information from markets near and far: Mobile phones and agricultural markets in Niger. American Economic Journal: Applied Economics, 2(3), 46-59.

⁵⁰ Gine, X., J. Goldberg & D. Yang. 2012. Credit Market Consequences of Improved Personal Identification: Field Experimental Evidence from Malawi. American Economic Review: 102(6): 2923 – 2954.

⁵¹ Disruptive technologies in agricultural value chains Insights from East Africa, prepared by: Aarti Krishnan, Karishma Banga and Maximiliano Mendez-Parra, dated: March 2020.

⁵² Zetterli, Peter. 2023. "Climate Adaptation, Resilience, and Financial Inclusion: A New Agenda." Focus Note. Washington, D.C.: CGAP. [Available online](#).

receiving some funds (such as the Green Climate Fund⁵³) but various others could be explored. These include the IFC-Amundi Green Bond Fund, the International Monetary Fund (IMF) Resilience and Sustainability Facility (RSF), and the Global Environment Facility (GEF). In October 2020 Lesotho signed an MoU with the African Risk Capacity (ARC) Group to address climate risks and scale up national disaster risk management and financing.

Regional integration can support agriculture: Agriculture in Lesotho can benefit from increased regional integration, where Lesotho can participate in regional trade and value chains. In line with the SADC financial inclusion strategy, this brings with it the need to expand the application of standards and certification in the agriculture sector.

LNDC Partial Credit Guarantee (L-PCG) demonstrates potential: The L-PCG has undergone various reviews since 2020 to increase effectiveness and has been able to increase its reach and demonstrate potential to expand. An ongoing review will enable the facility to serve start-ups, introduce portfolio guarantees, and eliminate minimum loan sizes. The review will also relax the requirement for audited statements.

Government Partial Credit Guarantee Fund (PCGF) needs reform: The PCGF (M50 million facility) has not been as effective, and banks have been reluctant to use it. Consideration can be given to closing it. Other facilities in place include an agriculture guarantee scheme launched in 2021 through a partnership between the Ministries of Finance and Ministry of Agriculture that supports lending for tractors. The learning could be built upon and extended to climate related financing.

BEDCO should be supported with resources: BEDCO addresses an important gap for enterprise development services. A reform programme initiated in 2019/20 is nearing completion. However, BEDCO faces resource constraints with a limited regional footprint, and a requirement to be self-sustaining which led to the renting out some of its facilities. Adequate resourcing can ensure that BEDCO focuses on its core mandate.

Need for development finance facilities: Given the lack of development finance facilities, LNDC could transition its Development Finance unit (currently responsible for

⁵³ <https://www.greenclimate.fund/countries/lesotho>

the partial credit guarantee facility) into a development finance institution. This could be done in a gradual manner, with functional enhancements being put in place as amendments to the legal framework are implemented. In addition to this, impact investors and development partners can further support MSMEs by launching targeted financing facilities, such as implemented in Uganda⁵⁴. SADC is also in the early stages of operationalizing the Regional development Fund (RDF) which could be useful to support MSME lending by MFIs and SACCOs, and in time, direct lending to some MSMEs⁵⁵.

Critical projects underway: Lesotho is undertaking a number of projects that will push forward the transformation of the agriculture and MSME sectors:

- **The Smallholder Agricultural Development Program (SADP)** 2020 – 2026 under the Ministry of Agriculture in partnership with IFAD and the World Bank is in its second Phase⁵⁶. The USD 52 million project will help strengthen the capacity of smallholder farmers to minimize impacts of climate variability, provide financial support to farmers and agro-processors, and provide contingency emergency response funding.
- **The Competitiveness and Financial Inclusion (CAFI) Project** 2022 – 2027 (USD 55 million) under the Ministry of Trade, Industry, Business Development, and Tourism was launched in April 2023 with World Bank support. The project will support MSMEs and entrepreneurs, especially women and youth with business support services and finance. in partnership with the Lesotho National Farmers Union (LENAFU), the project will also incubate youth and women into horticulture farmers and help scale concept fruit projects. It will build on important initiatives already underway, including the One-Stop Business Facilitation Centre (OBFC), the credit information bureau, the collateral registry, and the LNDC partial credit guarantee. It includes a USD4 million disaster risk financing for MSMEs.
- **The Millennium Challenge Corporation**⁵⁷ Lesotho Health and Horticulture Compact is availing USD300 million over 5 years in various areas that include financial inclusion.

⁵⁴ The Uganda Deal Flow Facility (DFF) was set up in 2021 to address the persistent capital gap for MSMEs in Uganda and aims to make 220 MSMEs ‘investment-ready’. See <https://fsduganda.or.ug/the-deal-flow-facility/>

⁵⁵ SADC Strategy on Financial Inclusion and SMEs Access to Finance, 2021, SADC Secretariat

⁵⁶ Phase 1 ended in 2020 and targeted increased productivity and market opportunities for farmers reaching 78501 direct project beneficiaries/farmers. Details on Phase are available at <https://projects.worldbank.org/en/projectsoperations/project-detail/P165228>

⁵⁷ The Millennium Challenge Corporation (<https://www.mcc.gov>) is an independent U.S. Government foreign aid agency established by Congress in 2004. The Lesotho compact 2 comprises three components, the Business environment and Technical Assistance (BETA), Health Systems Strengthening (HSS), and Market Driven Irrigation Horticulture (MDIH) Projects

The Compact will invest in climate-smart irrigation infrastructure and attract commercial farmers to collaborate with small-holder farmers to produce high-value horticulture crops and build strong value chains. It will seek better legal protections in land tenure. The compact will also provide MSMEs with technical assistance, grants, business development services and linkages to finance. The Lesotho Millennium Development Agency (LMDA) will oversee implementation.

3.3.4. E-government

Ongoing national digital transformation project: The Ministry of Communications, Science and Technology (MCST) is leading efforts to digitize government within the context of a national digital transformation strategy. Some services have been published on the government portal, however capacity within line ministries is limited, and a government payments gateway is yet to be implemented. To ensure a cohesive approach to digital government, an initial pilot of 5 use cases in 3 ministries is being implemented and is expected to go live in late 2024. The pilot includes farmer registration, ID, passports, death certificates and pension payments.

Key projects supporting digital government: A number of projects are ongoing within government to implement aspects of digital government, including under the CAFI project (government enterprise architecture and interoperability framework, single government payments gateway), and the Lesotho Public Sector Foundations for Service Delivery (LPSFSDP) (digital ID infrastructure upgrade, Government Security Operations Centre (SOC) for cybersecurity). There is also an infrastructure component supported by AfDB.⁵⁸

Government payment digitization effort is slow: Digitization of government payments has been slow and stakeholders have cited their limited involvement in key processes, and social resistance to the digitization of payments. As an example, despite efforts social assistance payments are still largely made in cash. There needs to be increased collaboration and messaging on digitizing government payments, and it is also crucial that the Ministry of Finance strongly supports the MCST to move the agenda forward.

⁵⁸ AfDB, Implementation Progress and Results Report (IPR) for the Lesotho e-government Infrastructure project Phase II, June 2023. Available [online](#)

Legal framework for digitization: The legal framework for digitization should be updated, including in particular; cyber security, e-transactions and e-commerce, and data protection.

3.4. Financial Capability and Financial Health

3.4.1 Financial capability

A high proportion of adults lack financial capability⁵⁹: The Lesotho FinScope Consumer Survey Report 2021 found that 45% of Basotho have low financial capability, while a further 40% demonstrated only moderate financial capability. Adults with low financial capabilities skew towards those with low levels of education who in turn make up most of the population in rural areas (70%). Thus the need for financial education is most prevalent in rural areas (Figure 6).

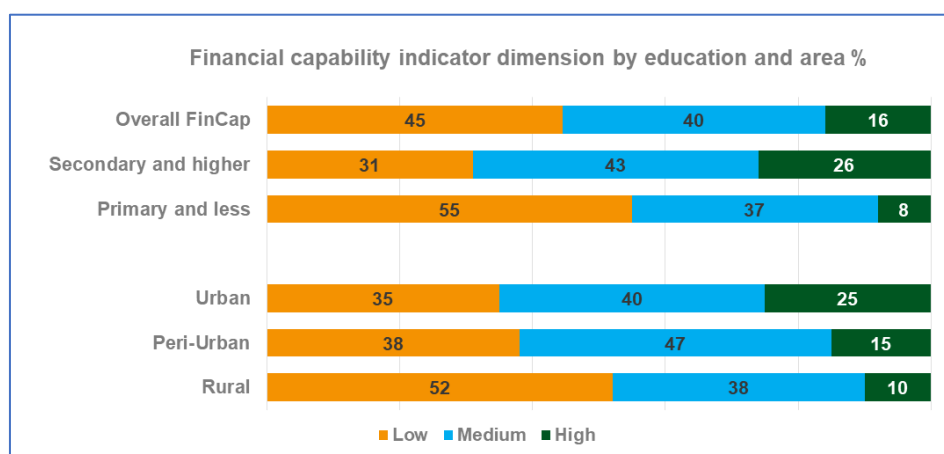


Figure 6: Financial capability by education and rural/urban split

Financial capability influences use of financial services: People with lower financial capability are more likely to be excluded, and where included are unlikely to use financial services optimally. They can also easily become over indebted, and are unable to detect fraud or errors in time.

Financial education should be prioritized: The development of a National Financial Education strategy is currently ongoing, and the buy-in and involvement of a wide range of stakeholders is required to anchor a systematic approach that yields impact through:

⁵⁹ Financial capability refers to ability to apply financial knowledge to select and use financial services.

- Assessing the effectiveness of the existing financial education curriculum in primary, secondary and high school. The approach and pace of infusing it into other subjects should be benchmarked versus other comparable countries.
- Introduction of financial education for youth, through technical and vocational institutions, and youth and community resource centers. Many young adults have received little or no financial education while at school.
- Financial education for adults, particularly farmers and MSMEs, and in formal work places e.g. security guards. Delivery methods should incorporate respective associations, technology, and trainer-of-trainers methodology.
- Financial education for the public through community structures, public media, social media, and Apps.

3.4.2 Financial Consumer Protection

Financial sector market conduct in need of improvement: There is room to strengthen transparency and disclosure requirements – coupled with closer market conduct supervision – particularly in the insurance industry. In the microfinance sector, there are concerns related to pricing and the large number of unregistered MFIs who are not regulated. Customers may confuse registered and unregistered MFIs, and CBL should take stronger action on unregistered entities and shut them down as necessary.

New consumer protection framework being implemented: The Consumer Protection Act of 2022 has been passed, and related regulations are in process of being developed. The FCP (Disclosure of credit information) Regulations 2023 have so far been enacted. Regulations in the pipeline include the Financial Services Marketing and Advertisement Regulations, Product Risk Management Regulations, and Complaints Handling Guidelines. To ensure effective market conduct supervision it will also be necessary to update the Examination Guidelines to align with the new Act.

Existing supervisory capacity is inadequate: The human capacity and skills profile of the FCP Department of CBL with a staff complement of 7 staff is not adequate to meet the requirements in the Act. The structure of the department should be reviewed, to ensure adequate staffing level including to draft regulations and to conduct examinations across the large number and variety of FSPs.

3.4.3 Financial health

One third of Basotho are financially vulnerable: Only 18% of Basotho are financially healthy⁶⁰ compared to 33% who are financially vulnerable. The financially vulnerable skew towards rural areas, those aged 50 years and above, dependents on remittances and grants, low education, and those residing in the districts of Botha Buthe, Leribe, Mafeteng, Mphahlele's Hoek and Mphahlelong.

Higher incomes and resilience are needed: The financially vulnerable face an inability to meet their liquidity needs (89% scored low), save or meet goals (81% scored low), and to manage risks (79% scored low) (Figure 7). This calls for interventions that can help increase incomes, provide affordable and accessible resilience building products, and promote the use of consumption smoothing mechanisms and meeting long-term goals through consumer empowerment and financial literacy programmes.

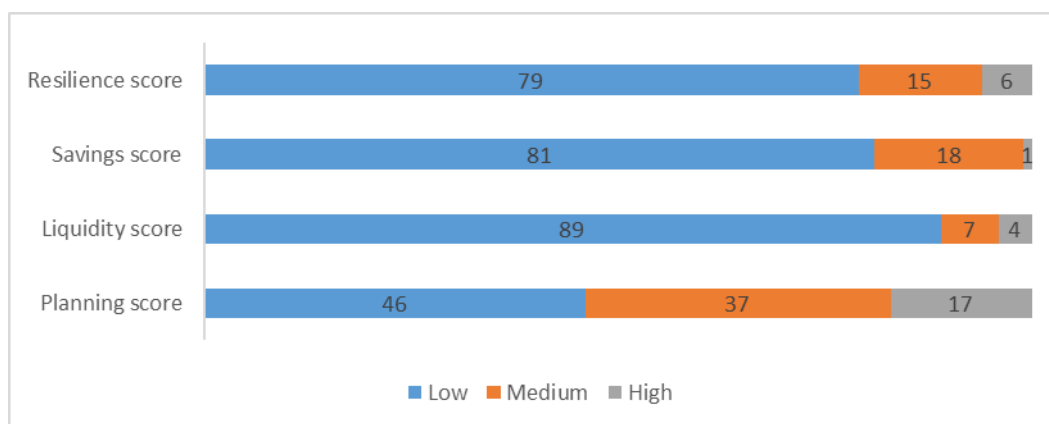


Figure 7: Financial health dimension scores of the financially vulnerable

Source: FinScope 2021, FinMark Trust Analysis

⁶⁰ Financial health measures ability to manage day to day (liquidity), to build and maintain reserves (save or meeting goals), to plan and prioritise (planning); and to manage risks (resilience). The financial health indicator categorises individuals depending on their ability to meet these goals

3.5. Selected Financial Inclusion Enablers

3.5.1 Credit Information

Inadequate credit information compliance: Only one in seven adults are registered on the Lesotho credit information database compared to OECD benchmark of two in three adults⁶¹. Regulations require all credit issuers to use the credit bureau, however there are important data gaps including mobile money micro loans (e.g. for airtime), utility payments, MSME data, and data from many MFIs and SACCOs. Mobile money microloans were initially exempted due to high bureau charges, however alternatives to this exemption can be explored. In addition, many already registered MFIs lack adequate systems to comply for which stronger regulatory action is needed.

Future phases should widen credit bureau data: Attempts to include MSME data from banks have moved slowly and this should be prioritized. A further possible improvement is credit scoring. Both enhancements are important but may need to be subsidized. Inclusion of non-credit data could also be considered in future, in particular insurance premium data, and government payroll deduction data.

Collateral registry usage should be increased: CBL launched the Lesotho Electronic Registry Interest of Moveable Assets (LERIMA) project in July 2021. It is important to increase the registry's usage. Active sharing of information on changes in asset status with lenders and focus on a few assets that are easier to register and manage could help drive uptake. The registry should be linked to the credit bureau.

Alternatives needed to complement credit bureau: It will be useful to promote alternative credit assessment mechanisms.

Parallel improvements to justice infrastructure: It is difficult and expensive to deal with delinquency. The small claims court is ineffective due to lack of adequate consequence for defaulters, while the Commercial Court has a backlog of cases. Long debt collection processes can easily allow loans to prescribe.

⁶¹ An Assessment of Lesotho's Credit Information Infrastructure, Inception Report, Version 2.0 date 13 Nov 2023

3.5.3 AML/CFT/PF

Limited capacity to implement risk-based approaches: The Mutual Evaluation Report of 2023 found low understanding of ML/TF risks and AML/CFT obligations among nonbank financial institutions⁶². As an example, MFIs have been required to implement risk-based AML/CFT approaches in their credit assessment but lack capacity.

Limited supervisory capacity: Capacity to regulate AML/CFT/PF risks in the non-bank sector (both at CBL and the Department of Cooperatives) was also found inadequate and should be bolstered. Alternatively, the supervisory mandate of the Financial Surveillance and Integrity Department within the CBL Bank Supervision division could be expanded to include non-banks. A critical gap also exists in the supervision of virtual asset providers. Lesotho should leverage SADC support in this area.

Building on the ID eKYC pilot: The Ministry of Home Affairs has established a generic interface that allows all sectors to query personal ID information. A digital financial identity pilot on the platform allowed financial service providers to verify identity digitally. The service has proven useful and is being opened up to the whole financial sector. A new fee structure is also being developed. A cross border version has been piloted and will help inform a SADC regional cross border eKYC framework.

Opportunities to further enhance eKYC: Data privacy remains an issue as the Data Protection Commission is yet to be set up. Additionally, there is potential for establishment of an eKYC registry, where KYC credentials can be shared between trusted providers. A further area of interest is eKYC for MSMEs, which remains challenging due to lack of integration between the Revenue Services Lesotho (RSL) and OBFC platform for tax clearance certificates.

3.5.4 Regulatory capacity and agility

Regulating for innovation: The agility of the CBL as a regulator needs to improve, in particular the balance between financial inclusion and financial stability, a traditionally

⁶² ESAAMLG (2023), Anti-money laundering and counter-terrorist financing measures - Lesotho, Second Round Mutual Evaluation Report, ESAAMLG, Dar es Salaam <http://www.esaamlg.org/reports/me.php>

difficult balance. In addition, across sectors there is a view that license categorizations are strict, and often require onerous conditions (e.g. new management structures) for providers to innovate beyond the existing narrow license definitions.

Product approval processes should be enhanced: Providers cite the long timeframe for new product approvals, and in some circumstances the lack of appreciation of product concepts – e.g. composite products vs individual products. CBL can address this through having adequate staff seniority, ensuring retention of institutional memory, capacity building, and stakeholder engagement.

Co-creation frameworks will enhance innovation. The current approach to issue in principle and provisional licenses is useful but could be enhanced to include co-creation through formal sandbox regulations. This in line with practice in the rest of SADC for example in Eswatini, Mauritius, South Africa and Zimbabwe. Given rapid advancement of technology, it is important that CBL more generally build capacity on technology including regulatory and supervision technology (RegTech and SupTech).

4. NFIS II 2024 – 2028

4.1. Focus of the NFIS II

Financial inclusion needs to focus on impact: The analysis of financial inclusion above demonstrates a sector that has achieved relatively high levels of financial inclusion, well above most other SADC Member States. Focus must therefore evolve towards deepening the usage and impact of that inclusion. The low uptake of growth and resilience focused products should be addressed, and the limited ecosystem of digital services widened to impact positively on citizens.

In parallel remaining gaps must be closed: The key gap in access to financial services relates to the significant rural population that is yet to be reached, with access to transactional accounts being only 73% of adults. Transactional accounts provide a foundational product upon which other important services can be provided. Other gaps include the low levels of financial literacy, compounded by instances of poor market conduct by players. These should be addressed to increase trust in the financial system, and to ensure correct usage and uptake of financial services.

Two-prong strategic approach: To achieve these objectives the NFIS II proposes a two-prong strategic approach. The strategy firstly proposes a focus on the productivity and resilience of MSMEs and farmers, including to climatic shocks. The second focus will be on promoting digitization and innovation to enable the private sector and government to deliver a wide range of affordable products and services that directly impact on and improve the lives of Basotho in line with the Sustainable Development Goals.

The high-level strategic framework is summarized below.

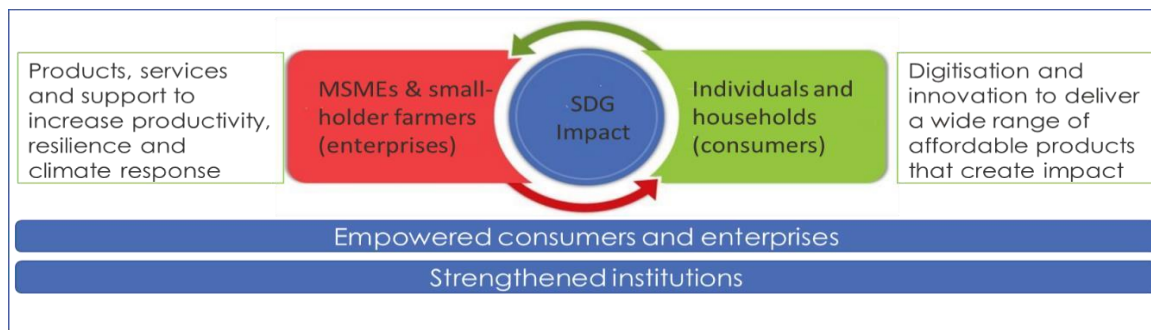


Figure 8: Two prong approach of the NFIS II

4.2. Vision and Strategic Priorities of the NFIS II

The following vision encapsulates the focus of the stakeholder activities between 2024 and 2028:

A dynamic, inclusive financial sector that enables all Basotho individuals and businesses to access and use the financial and non-financial services they need in order to contribute to inclusive national growth, their well-being and resilience, and a sustainable future.

The selection of the issues to be addressed within the focus of the NFIS II is based on a theory of change that links the barriers and issues preventing the full potential of financial inclusion to be leveraged for development with the strategies to be implemented, and anticipated outcomes (Figure 9).

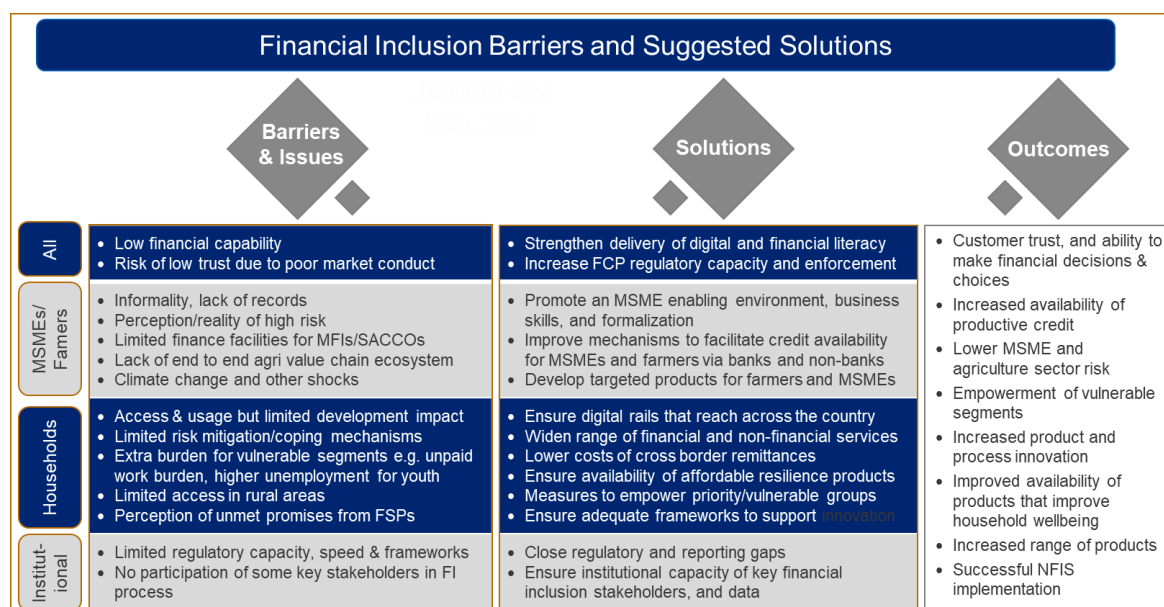


Figure 9: Highlights of financial inclusion barriers and suggested solutions

Source: Author's analysis

Four strategic priorities. The NFIS II strategic priorities cover the demand, supply, regulatory, and the policy and coordination of financial inclusion as follows:

1. Enhance financial education/literacy, consumer protection and the risk management framework for digital platforms to empower individuals and small enterprises across segments, and to build trust in the financial system
2. Develop targeted products, services and mechanisms for MSMEs and smallholder farmers to help increase availability of productive credit and insurance, lower their risk, and to benefit vulnerable and priority segments
3. Promote digitization and usage of a wide range of financial and non-financial products and services to ensure improved household wellbeing
4. Strengthen the enabling environment and collaboration of stakeholders, to support increased innovation, and inclusive and effective NFIS implementation

Strategic objectives: The strategic priorities and objectives of the NFIS II 2024 – 2028 are summarized in Figure 10 below. A total of 15 strategic objectives are split across the four strategic priorities.

Strategic Objectives	Strategic Priority	Vision: A dynamic, inclusive financial sector that empowers all individuals and businesses and enables them to access and use the financial and non financial services they need in order to contribute to inclusive national growth, their resilience, and a sustainable future			
		1. Financial Education, consumer protection & risk management	2. Products & mechanisms for MSMEs and farmers	3. Digitisation and usage of a wide range of products	4. Enabling environment and collaboration
		1.1 Delivery of Financial education is enhanced	2.1 Products & ecosystems supporting smallholder farmers are developed	3.1 Digital infrastructure reaches all Basotho individual and businesses	4.1 Frameworks to support product innovation are in place
		1.2 Financial consumer protection Framework is implemented	2.2 Mechanisms to improve MSME access to finance are enhanced	3.2 Affordable, digitised products and services are available	4.2 CBL regulatory capacity for innovation is enhanced
		1.3 Risk management framework for digital platforms is improved	2.3 Environment for MSMEs to access finance and/or to formalize	3.3 Low cost remittances and remittance related products are enabled	4.3 MFIs and SACCO sector is strengthened to serve the unbanked
			2.4 Specific initiatives for priority segments are implemented	3.4 Resilience products for businesses & individuals are developed	4.4 Capacity of key players involved in financial inclusion is enhanced

Figure 10: Summary of NFIS II Strategic Priorities and Objectives

5. Implementation Action Areas

5.1. Financial Education, Financial Consumer Protection and Risk Management

5.1.1 Financial Education

Ongoing financial education initiatives to build upon: CBL runs a comprehensive financial education programme, primarily delivered through the Financial Education Steering Committee (FESC) that is made up of the major stakeholders within the financial sector. The programme is able to reach various market segments, including the employed, rural and informal sectors. It is partnering with the University of Lesotho to enhance the trainer of trainer component. Banks also provide basic financial education to their clients and the general public as per the Financial Institutions (Banks) Pricing Directives of April 2022, and this could be extended to non-banks, particularly mobile money operators, and larger SACCOs and MFIs.

Enhanced delivery of financial education interventions: There is room to improve the financial education programme delivery by utilizing organizations beyond the FESC, i.e.

whose core mandate is financial education. To achieve this, a common mechanism of financing the initiative is required, possibly underpinned by a regulatory arrangement that mandates a percent of income to be contributed. Ad hoc or voluntary contributions could also be implemented. This will enable the roll out of market wide financial education interventions and avoid marketing-oriented training. Technology use can be enhanced in the programme, for cost effective delivery. Importantly, the impact of these interventions needs to be periodically measured, to ensure anticipated outcomes are achieved.

A further area of potential improvement is in the integration of financial education curricula into schools. Given curriculum overload financial education has been infused into other subjects with the target of reaching all classes from Grade 1 – Grade 11. This does not seem to be working as well as anticipated. Educational outcomes are yet to be assessed, while the process of piloting one class at a time is taking long to fully implement. In addition, the intervention is not uniformly implemented across all schools. The approach should be benchmarked against similar countries – and in this context stakeholders should review progress and impact to date and identify improvement opportunities. A key long-term goal should be to extend financial education into all sectors of learning.

The following policy actions are proposed:

1. Develop and implement a financing mechanism for financial education delivery, potentially through a regulation, and introduce delivery models beyond FESC members, prioritising rural areas and use of technology
2. Introduce product related content in the national financial education programme especially focused on non-funeral insurance and credit, to catalyse behaviour change
3. Engage the Ministry of Education to review progress, benchmark, and assess impact to date of the school financial education curriculum, and to identify a joint way forward
4. Develop mechanisms to measure and track the impact of financial education interventions

5.1.2 Financial Consumer Protection (FCP)

FCP framework implementation: The recently enacted financial consumer protection framework is in process of being implemented, and as mentioned earlier there is need for adequate regulatory resources and capacity to develop the regulations and to enforce responsible market conduct. Public communication on consumer protection policies and redress mechanisms will help in ensuring the proper and fair treatment of all customers. The development of fact sheets by providers for more complicated products can also ensure availability of relevant information before customers commit to such products.

Ongoing market scanning is also needed, and close linkage with supply side interventions in related areas. The over indebtedness of salaried employees, fraud and cyber security risks, and unmet customer expectations should all be addressed from both a demand and supply side. The latter relate especially to insurance investment products, as well as loan, general insurance, and house mortgage contracts.

The following policy actions are proposed:

1. Review and enhance the human resources of the CBL to regulate financial consumer protection
2. Develop and enact regulations to operationalize the FCP Act of 2022 (i.e. Financial Services Marketing and Advertisement Regulations, Product Risk Management Regulations, Complaints Handling Guidelines, Examination Guidelines)
3. Develop regulation to strengthen transparency and disclosure requirements in the insurance sector; and enhance enforcement of market conduct and product transparency rules across the sector
4. Review regulations across product areas to ensure adequate customer protection for users of digital financial products, with adequate transparency on terms & conditions, and customer rights and responsibilities

5.1.3 Risk management framework for digital platforms

Improved business continuity planning: The NFIS II emphasizes the use of digital technologies to extend financial inclusion. It is therefore important to be mindful of emergent risks, business continuity challenges and cyber security exposure especially to

unsophisticated consumers. Key public institutions and financial service providers are often unprepared for cyber-attacks, leading to potential intrusions that can quickly undermine confidence in digital platforms. Key systems, particularly the national ID database need to put in place business continuity plans to build confidence in their use.

Data protection framework: The data protection legal framework should be updated, particularly regarding the cyber security and data protection laws. A draft Computer Crime and Cybersecurity Bill developed in 2013 was rejected by the National Assembly while the Data Protection Act of 2011 needs to be updated. In addition, the Data Protection Commission responsible for enforcing the data protection law is yet to be set up.

The following policy actions are proposed:

1. Develop and implement improved Business Continuity Management plans to increase resilience of key systems, particularly the Digital Identity system
2. Improve the data protection framework, by enacting a new Computer Crime and Cybersecurity law, a Data Protection law, and setting up the Data Protection Commission

5.2. Products and Mechanisms for MSMEs and Farmers

5.2.1 Smallholder farmers

Holistic ecosystems for smallholder farmers: Lending to the agricultural sector in Lesotho is low due to high risks in the sector, compounded by climate change impacts. Smallholder farmers also lack access to credit and insurance due to poor availability of products. Holistic approaches are needed, combining the clustering of farmers, access to markets, adherence to standards, certification, digitization, farmer capacity, and access to affordable finance and insurance products. Collaboration among financiers, insurers, policy makers and development partners is essential to unlock the opportunities. There are several ongoing large projects from which the country can build, notably the Smallholder Agricultural Development Program (SADP), CAFI 2022 – 2027, and the Millennium Challenge Corporation.

Participation of key role players is crucial: Financial service providers especially banks, mobile money operators, insurers and MFIs need to prioritise product innovation,

as well as partnerships to lower risk for example by insuring financed farmers, financing climate resilience projects, and data sharing. Sector regulators and policy makers (MFDP, CBL, MAFS and LCA) in turn should prioritise the financial capacity and awareness of farmers, development of innovative product prototypes, access to local and international finance, and development of agriculture reinsurance. They should also promote sector digitization and exchange of data among the providers.

Policy makers in the agriculture sector (MAFS and MTIBDT supported by development partners) should spearhead the aggregation and clustering of farmers, development of farmer capacity and access to markets, development of capacity and resources at the National Standards Institution, adherence to standards, certification, and linkage to regional trade and value chains. Government also needs to support the effort with infrastructure particularly road and telecommunications, land tenure reform, and improvements to the justice system (e.g., for recovery of loans).

Enhanced products for smallholder farmers: Affordable credit and insurance products, and access to international funds by farmers will help promote resilience and growth of the sector. These are also vital mechanisms for grass-roots climate adaptation and mitigation. Specific mechanisms to promote access to finance include the proposed agriculture development fund under the Ministry of Agriculture and Food Security, and the development of a commodity exchange and a warehouse receipt system as a standalone initiative or as part of the broader SADC initiative in this respect.

The following policy actions are proposed:

1. Develop and scale value chain approaches and programmes to enhance capacity across the smallholder farmer ecosystem including farmer capacity, aggregation, standards, market access and digitization, and new financial product development
2. Explore viability and develop business plan to implement commodity exchange and warehouse receipt system
3. Catalyze development of, and scale insurance mechanisms for the agriculture sector including crop and livestock insurance, climate risk insurance and disaster risk insurance mechanisms
4. Establish the agriculture development fund

5. Create the environment for, and linkages to expand farmer access to international funds by prioritizing funds to be accessed and ensuring stakeholders to meet the required conditions

5.2.2 Access to finance for MSMEs

Strengthened mechanisms for MSME access to finance: Mechanisms to promote MSME finance should consider their informality, and bank reluctance to lend to them. In this light it is important to complete the ongoing review of the partial credit guarantee schemes to determine the best way forward. The L-PCG has shown potential and ongoing effort to enable it to serve start-ups without minimum loan sizes and with relaxed requirements for audited statements should be continued. This can be further supported by BEDCO becoming an information broker between MSMEs and banks, to help close information gaps in MSME credit applications while providing an accessible feedback loop to the MSMEs. An alternative to the PCGF could in due course be considered, to be delivered through the non-bank sector to better reach the unbanked.

Non-bank lending can be supported by the introduction of a development finance institution, through functional enhancements to the LNDC development finance unit and the necessary legal reforms. Such a DFI could provide capital for MFIs and SACCOs, complemented with sustainable finance and crowd funding products to be enabled through the capital markets. The PCGF has made little progress to date and could be considered for closure.

Policy makers have been engaging with banks to increase MSME lending, and the parties have identified some bottlenecks to be addressed in context of the engagement. These bottlenecks should be resolved jointly by the stakeholders, while similar engagement with non-bank credit providers should be introduced. A major challenge is the lack of transactions records in the MSME sector, and hence structured capacity support to apply for finance should complement these efforts. BEDCO can play this role in a coordinated approach where it prepares MSMEs to qualify and apply for L-PCG or DFI services.

Increased use of credit risk infrastructure: Access to richer credit information can further support lending. The exemption on mobile money micro loans should be

reconsidered, while noncompliance by registered MFIs and SACCOs needs to be addressed. In due course a wider range of data providers should be incorporated, notably utility payments, government payroll deductions, insurance premium data, MSME data, and credit scoring data. Alternative methods of assessing credit worthiness such as mobile transactions and remittances payments data should be promoted.

A further suggested improvement to increase use of the collateral registry, and to allow for closer tracking and sharing of information on changes in status of registered assets e.g. insurance, theft, damage or sale of the asset.

The proposed policy actions include:

1. Assess and implement learnings from the two partial credit guarantee schemes to date, and explore viable alternatives to serve the unbanked e.g. introducing role for BEDCO or a new scheme
2. Establish a development finance institution, potentially by implementing the required legal, structural and capacity enhancements to transform the LNDC development finance unit
3. Continue engagement with credit providers to set targets and/or provide incentives to increase lending towards MSMEs, agriculture and sustainable finance; jointly addressing identified bottlenecks
4. Develop capital market products for MSMEs and sustainable finance i.e. green, gender, youth and MSME bonds, and enable crowd funding
5. Provide capacity support to MSMEs to improve their ability to keep records, and to apply for finance
6. Enhance usage of available credit risk infrastructure, including by widening available data on the credit bureau, and tightening collateral management on the LERIMA registry e.g. in case of accident, theft or sale of asset
7. Promote use of alternative credit assessment data and approaches e.g. mobile transactions data, psychometric approaches, others

5.2.3 Enhancing the environment for MSMEs to access finance and/or to formalize

Potential to improve the MSME environment: A majority of businesses are informal and there is limited information and data on them. The Business Licensing and

Registration Act, 2019 mandates registration of all formal and informal businesses with the Ministry of Trade. A database is in process of being set up, and this will be useful for planning purposes, and for increased access by informal MSMEs to formal business support mechanisms. It will also enable rollout of disaster relief mechanisms such as was required for COVID-19, which is important for a majority of the MSMEs.

Despite OBFC's effort to ease business registration and licensing, formalization remains a challenge for many small and micro businesses. Informal MSMEs have inadequate information on the requirements for formalization, tax implications and the value of registration, and it is important to rollout awareness campaigns to sensitize MSMEs to these and other issues such as digitization and alternative finance. Registration and compliance requirements can be eased through reform of the tax regime (e.g. tax exemptions, presumptive taxes, and VAT tax reform for smaller businesses), affordable fee structures, and enabling mobile payments at OBFC.

For formal MSMEs there is opportunity to ease KYC through auto-issuing of business identifiers at registration and renewal as mandated by the Business Licensing and Registration Act, 2019. A manual system is in place, but its automation will help eliminate errors and fast track adoption. Integration between OBFC and RSL systems will also facilitate KYC, enabling providers to implement e-KYC for MSMEs.

The following policy actions are therefore recommended:

1. Implement an informal MSMEs database as envisaged in the Business registration Act of 2019
2. Establish/strengthen informal MSMEs business support mechanisms e.g. resilience funds, inclusion in business support services programmes
3. Implement awareness campaigns to sensitize MSMEs to the potential and value of formalization, registration, digitization, alternative finance, and to increase tax awareness
4. Promote ease of KYC verification for MSMEs by automating and accelerating the rollout of unique identifiers, and fast tracking the integration between OBFC and RSL systems
5. Investigate and implement tax reforms to ease MSMEs tax compliance i.e. exemptions or presumptive tax below a revenue threshold, pre-funding of VAT

5.2.4 Priority and vulnerable customer segments

Empowering priority segments: Interventions targeted at the priority and vulnerable segments will be mainstreamed into the NFIS II implementation, so that all financial inclusion projects in Lesotho should consider the special needs of these segments of the market. Financial education is in particular important, and these segments should be prioritized in the design and delivery of programmes. In addition, financial services providers should be encouraged to develop products that strengthen gender and youth empowerment including to support the achievement of government targets. Awareness of recent amendments in laws and regulations e.g. affecting women should be addressed through financial education interventions.

There are grassroots opportunities to support communities, farmers and MSMEs to identify emerging climate related risks and trends to help improve their climate adaptation, mitigation, productivity, and resilience. By identifying such trends, unsustainable practices and susceptibilities to environmental depletion (water, green lands/forests) can be addressed, and communities assisted to adopt sustainable mitigation and coping strategies. There are also emerging green opportunities to be taken advantage of, for example green energy diversification, and recycling, which can lead to green jobs and circular economies.

Proposed policy actions include:

1. Encourage financial service providers to develop products that strengthen gender and youth empowerment i.e. aligned to needs of priority groups, and that help achieve national targets
2. Ensure financial education programmes incorporate modules to increase awareness on laws and regulations that are updated to address gender and youth issues
3. Design and implement the Youth Empowerment Fund
4. Support communities, farmers and MSMEs to identify climate related risks, practices and/or opportunities to help improve their climate adaptation, mitigation, productivity and resilience

5.3. Digitization and Usage of a Wide Range of Products

5.3.1 Financial sector digital infrastructure

Interoperability and reach are key priorities: The implementation of a domestic national switch is in progress, and future progress will ensure seamless interconnectivity between banks and mobile money wallets. A new National Payment System Bill is in development that will facilitate increased innovation especially by non-bank players.

The bank agent network is crucial in ensuring that digital infrastructure reaches all corners of the country. Yet rollout has been slow while the agency business case in rural areas remains challenging, due to limited customer numbers, logistical challenges and low economic activity. Future reviews of the regulations should aim at increasing the reach especially in rural areas. An activity-based approach to agent regulation is recommended, where agents offering the same service are managed under the same law/regulation. This will enable increased sharing of agent networks and minimize regulatory arbitrage. There should also be a three-way collaboration between CBL, providers and the agents to ensure they are successful in extending their reach.

A significant proportion of the country is yet to be covered by mobile telecommunication network, and an ongoing infrastructure project supported by AfDB is adding 27 telecommunication towers which will provide 98% population coverage by the end of 2024. Increased availability of affordable handsets in rural areas can be achieved by LCA broadening the scope of the universal service fund to subsidise handsets, and potentially a review of applicable duties and taxes. Stakeholders should also implement the concept of digital ambassadors⁶³ to support digital literacy and uptake of various e-services including financial services.

Proposed policy actions include:

1. Implementation of the national payments switch, prioritizing interconnectivity especially between banks and mobile money wallets

⁶³ Lesotho's National Digital Transformation Strategy (draft dated 15 Jan 2024), available at <https://www.gov.ls/download/lesotho-national-digital-transformation-strategy/>

2. Fast track the draft National Payment System Bill, maintaining key themes such as innovation, participation of all players in the NPS, and alignment with SADC Payment Systems Model law
3. Review the bank and mobile agent regulations to promote increased reach and interoperability especially in rural areas, with equal treatment of players offering the same service
4. Develop programmes to promote increased access to telecommunication networks and mobile devices in rural, low-income areas

5.3.2 Availability of affordable, digitised services

Increasing access to relevant products: Consumers are not able to fully leverage the digital ecosystem for increased access to government and other services to improve their wellbeing and convenience. An affordable and wide range of financial and non-financial services that lead to increased wellbeing are therefore a priority. In addition, the price of digital transactions continues to be relatively high and effort to lower it should continue, especially for mobile money which aligns to the needs of underbanked customers. This can be achieved through increased economies of scale – by ensuring that more services and customers use digital platforms. Improved interoperability and level playing field amongst various types of providers will promote competition and collaboration, further bringing down costs.

Government is a major user of payments infrastructure and can digitize many of its payments in context of an e-government framework. However, the effort has faced challenges due to governance, blockages from parties with vested interests, and capacity constraints. Given the current perception of limited stakeholder involvement, there is need for more collaboration and capacity building, particularly in context of the implementation plan for the national digital transformation strategy. The private sector plays a critical role and should also be included via appropriate mechanisms.

A further area of priority is increasing the acceptance of electronic (and particularly mobile) payments by merchants. Among the stumbling blocks is that merchants avoid the

formal system as a tax or forex avoidance mechanism, while some of the merchant networks are accustomed to card rather than mobile money payments.

Proposed policy actions include:

1. Establish/strengthen coordination mechanisms to accelerate the implementation of e-government and the digitalization of government payments
2. Accelerate digitalization of financial services targeting priority groups i.e. social assistance cash payments, informal savings group (mokhatlo) products
3. Develop financial products to promote access to clean energy, health and education to Basotho
4. Explore bottlenecks to merchant uptake of digital payments and develop strategies to promote wider acceptance of electronic payments to incentivize retention of digital balances by customers

5.3.3 Low-cost remittances and remittances related products

Addressing first mile costs and competition: Given the household impact of cross border remittances, lowering their cost and utility is of high priority. A key challenge as identified earlier is the high first mile cost in South Africa which is the main source of remittances. This in turn is largely due to a bank-led system that is yet to embrace nonbank participants, as well as the cost of addressing undocumented migrants. These issues necessitate cross border collaboration with South African authorities.

Within Lesotho regulatory requirements have constricted the number of players and competition among operators. The CBL should seek to encourage more competition, by reviewing regulations for small remittance transactions and ADLA licensing requirements. Regional collaboration can also be useful in addressing costs, including through participation in regional platforms such as RTGS and TCIB, and continuing support for a regional e-KYC framework. One bank in Lesotho is yet to join RTGS, while TCIB participation should include all non-bank players

The utility of the cross-border remittances is also of interest, and there have been attempts to launch products that allow direct cross border payments into domestic products such as investments and utility payments. CBL is working towards making this by addressing

reporting challenges to meet FATF requirements. Engagement on this should continue as it would greatly benefit the diaspora and keep funds in the financial ecosystem. Diaspora funds could also be tapped for benevolent purposes, especially to support financial inclusion, and stakeholders should facilitate engagement in this regard. Proposed policy actions include:

1. Develop and implement strategies to attract additional ADLAs/partnerships for remittances e.g. relax regulatory requirements for small remittances, ADLAs' licensing requirements
2. Establish framework to enable products that leverage direct cross border payments e.g. to pay investment, loan, insurance or utility accounts
3. Engage the South African Reserve Bank (SARB) to ease Basotho documentation requirements (use of Lesotho Special Permit or national ID), e-KYC, and to lower first mile costs (role of non-banks)
4. Promote participation by local players in the regional infrastructure (TCIB, RTGS) e.g. capacity building, legal frameworks, ISO20022 implementation
5. Set up diaspora fund targeted at enabling diaspora community to promote MSMEs in key sectors e.g. innovation, agro-processing.

5.3.4 Availability of resilience products

Microinsurance and informal sector pensions are prioritized: Resilience is important to enhancing and sustaining incomes which in turn will result in a reduction in poverty and inequality. Given the high levels of informality, the development of mechanisms and products suited to the informal sector are prioritized. These include micro-insurance, micro pensions, and digital mobile wallet savings.

Uptake of microinsurance remains limited despite a framework being in place under the Insurance Act of 2014. To address the current bottleneck, Cabinet approval for the repeal of the 2014 Act has been received and a new Bill is being drafted. The new Insurance Bill seeks to strengthen corporate governance, introduce administrative penalties in line with similar legislations elsewhere, and expressly cover parametric insurance and microinsurance (rather than merely addressing it through general insurance).

Limited penetration of 3rd party insurance in Lesotho makes it expensive and out of reach for many customers with productive assets. The Motor Vehicle Insurance Ministerial Order of 1989 established a limited scheme where funds collected through a fuel levy pay for bodily injuries and death claims resulting from road accidents. LNIG Hollard administers the scheme on behalf of government. The Order does not fall under the Insurance Act and is being repealed. GoL can take the opportunity to catalyze broader uptake of 3rd party insurance for example through a premium subsidy.

In line with SADC recommendations, a framework to facilitate informal sector pensions is necessary, while the existing distribution mechanism for interest on mobile money wallets should be reviewed.

Proposed policy actions include:

1. Draft and fast track implementation of a new insurance law (Insurance Bill 2024) specially to anchor parametric and micro insurance development
2. Develop and implement strategies to catalyze compulsory 3rd party insurance
3. Develop and implement a framework for an informal sector micro pensions scheme in Lesotho
4. Revise mobile money interest distribution and consider alternatives that benefit deposit holders directly and meaningfully, e.g. encourage use of savings wallets, defray fees

5.4. Enabling Environment and Collaboration

5.4.1 Frameworks to promote product innovation

Innovation frameworks are needed: A key concern raised by various stakeholders is the need for adequate frameworks to enable innovation. Current approaches could be enhanced with co-creation frameworks, in particular sandbox regulations. Data sharing frameworks (open finance) can also be useful to promote innovation as data is often in siloes that are inaccessible to providers who can innovate with it to enhance financial inclusion⁶⁴. Through a level playing field that enables easy access to customer data by

⁶⁴ MF Vidal, S Sirtaine, Open Finance Can Reduce Financial Inclusion Gaps: Here's How, CGAP Leadership Essay Series, MARCH 2024, <https://www.cgap.org/blog/open-finance-can-reduce-financial-inclusion-gaps-heres-how>

new innovative providers, open finance can increase competition and enable MSMEs to form new lending relationships with non-bank lenders⁶⁵. Open finance relies on widespread existing account ownership, enabling legal and regulatory frameworks, a strengthened data protection regime, and the requisite investment in technology – including the necessary ICT skills and platforms, and API architecture.

In the short term, deeper data sharing can also be encouraged through the establishment of a financial sector data bank, brokered by the regulators and policy makers where FSPs can share historical financial records on specific market segments such as MSMEs.

Established and emerging financial service providers can also take advantage of electronic KYC, by building on the prior pilot that enabled a small subset of financial service providers to query ID data.

The setting up of a fintech working group now needs to be bolstered with the development of a national fintech strategy. Such a strategy will help define the way forward including identifying regulatory gaps to be addressed. One of the key gaps is in respect of virtual assets and virtual providers, and in this Lesotho can draw on experiences of neighbouring countries e.g. South Africa and beyond. The Lesotho AML/CFT assessment done in 2023 found a significant deficiency, and there is urgent need for regulation to be introduced.

Proposed policy actions include:

1. Promote increased collaboration for innovation within the Central Bank, and develop sandbox regulations to anchor collaboration for novel products
2. Develop frameworks, regulations and a financial sector data bank to deepen data sharing among financial sector players, and ultimately to enable open finance
3. Strengthen e-KYC infrastructure, by enabling all approved financial sector players to affordably query national ID data, protecting the data, and in the medium term establishing a national e-KYC registry

⁶⁵ Babina T et al, Customer data access and fintech entry: early evidence from open banking, Bank of England Staff Working Paper No. 1059, February 2024, <https://www.bankofengland.co.uk/-/media/boe/files/workingpaper/2024/customer-data-access-and-fintech-entry-early-evidence-from-open-banking.pdf>

4. Develop frameworks for the regulation and supervision of virtual assets and virtual asset providers, including AML/CFT/PF aspects
5. Develop and implement a fintech strategy, including introducing necessary legal and regulatory frameworks

5.4.2 Regulatory capacity for innovation

Enhancing capacity for innovation: In addition to establishing the necessary frameworks, regulators should also have the capacity to make decisions that support innovation, in good time. Of particular concern is maintaining a healthy balance between financial inclusion and financial stability, easing licensing across product categories, and approval timeframes for new products.

Sufficient thought should be given to financial inclusion in introducing new products. Companies implementing local versions of their international products should explicitly identify how they reflect local needs, for example by integrating seamlessly with mobile money which is widely available. In addition to reviewing the policy of how such products are evaluated for approval – the regulator should be sufficiently empowered to mandate and enforce local requirements that serve the need of Basotho.

The implementation of risk-based approaches to AML/CFT/PF is crucial for financial inclusion and innovation but is also closely linked to SADC regional objectives. Implementation of risk-based approaches is still nascent in the non-bank sector, and more support is needed as identified in the Mutual Evaluation Report⁶⁶. Regulatory capacity can be bolstered by consolidating existing CBL staff into a new unit with the mandate that includes both banks and non-banks. Capacity support for providers is also essential and is especially urgent for the insurance, MFI and SACCO sectors.

Proposed policy actions include:

1. Review and provide adequate staff and technical capacity to make timely product approval decisions, and to ensure localization of products designed elsewhere

⁶⁶ FATF, Lesotho Mutual Evaluation Report, September 2023.
<https://www.fatfgafi.org/en/publications/Mutualevaluations/Lesotho-MER-2023.html>

2. Enhance regulator and financial service providers capacity to implement AML/CFT/PF risk-based approaches particularly in the non-bank sector
3. Establish a new unit to supervise AML/CFT/PF across all institutions regulated by the CBL
4. Engage the private sector to explore further product innovation that can be enabled with regard to MSME, insurance and housing sectors

5.4.3 Institutional capacity of the MFI and SACCO sector

Improving reporting, regulation, and innovation: SACCOs meeting the criteria of M5 million in assets are assigned to the CBL for prudential regulation. Experience to date shows that SACCOs have to make a large leap to meet CBL requirements. A framework should be developed for use by the Department of Cooperatives to gradually scale the requirements for SACCOs approaching bank stage (e.g. between M1 million – M5 million in assets). This would help the SACCOs to transition over time. Further, there is no specific law for financial cooperatives and the department has proposed the Financial Cooperatives Bill. With SACCOs becoming larger, the bill should be fast tracked⁶⁷.

There is need to clearly stipulate the role of both the Department of Cooperatives and the CBL in regard to the supervision of SACCOs, and to close existing information gaps particularly on SACCO graduation. An MoU or similar instrument that defines the data that should be shared between the two regulators and how often would be useful. These enhancements also imply a need for more capacity at the DOC, and allocation of more resources by government and development partners.

Reporting by MFIs and SACCOs (to the regulators as well as to the credit bureau) remains a big challenge given the lack of loan management systems among tier 3 MFIs and smaller SACCOs. Resolving this challenge should focus on assisting providers to access shared platforms to increase affordability and standardization (eg. purchase price and

⁶⁷ The draft legislation is awaiting enactment by parliament. See also <https://coops4dev.coop/sites/default/files/2021-06/Lesotho%20Legal%20Framework%20Analysis.pdf>

skills). Also of significant concern is the vast number of unregistered MFIs – estimated to be more than registered ones – which pose significant consumer protection issues. LEMFA should be established as a formal partner to help address these challenges.

CBL and DOC can encourage consolidation in the microfinance sector by designing and/or enforcing registration and system requirements and shutting down non-compliant organizations. A review of MFI minimum capital requirements in due course (e.g. in 3 years) could also be considered. Innovation should be encouraged to help move SACCO and MFIs towards MSME financing. Regulatory flexibility could for example help ease licensing requirements for supporting products, while capacity building for AML/CFT/PF and cyber security could help providers to navigate the emerging digital environment.

Proposed policy actions include:

1. Develop a framework to guide supervision of cooperatives whose size is approaching the bank stage (e.g. M1 – M5 million), to promote a gradual transition
2. Sign an MoU between Department of Cooperatives and the CBL to stipulate the role of each regulator and to establish data sharing protocols, i.e. define what data should be shared between the regulators and how often
3. Fast track the finalization and enactment of legislation for financial cooperatives (Financial Cooperatives Bill)
4. Encourage development partners to provide capacity to the Department of Cooperatives to strengthen supervision of, and reporting by financial cooperatives
5. Enhance regular and accurate reporting by MFIs through a centralized database and reporting facility, and/or a standardized, affordable loan management system for Tier 3 MFIs
6. Establish LEMFA as a formal MFI sector platform, by formalizing the relationship with CBL in an MoU, and helping non-members see value in membership
7. Encourage MFI consolidation and digitization, by enforcing registration and systems requirements, closing down non-compliant operators, and in due course raising minimum capital requirements

8. Implement regulatory reform to enable MFI innovation e.g. deduction at source for purchase order proceeds and easier licensing of services related to existing business models such as payments

5.4.4 Capacity of key players involved in financial inclusion coordination

Improving financial inclusion coordination: The Financial Inclusion Steering Committee will be expanded to include additional stakeholders, notably from the Ministries responsible for MSMEs, Agriculture and SACCOs. In addition, the introduction of a Financial Inclusion Council is proposed to enhance the involvement of senior principals in the ministries and in the CBL. The establishment of working groups in context of the FI Forum will enhance private sector involvement in the financial inclusion process.

To ensure the successful implementation of NFIS II, capacity of key players needs to be built, particularly for the coordinating entities, ministries, and agencies responsible for implementation and data collection. These institutions should develop annual work plans to reflect the activities outlined in Annexure 1. Adequate budget and resources should also be allocated towards data collection, both on the supply and demand side.

The coordination structures are described in more detail in Section 6.

Proposed policy actions include:

1. Strengthen the financial inclusion coordination by introducing the FI Council, and revisiting the FISC Terms of Reference to incorporate additional ministries; and to reintroduce regular meetings
2. Enable key ministries and agencies involved in financial inclusion to participate meaningfully by helping them identify FI contact persons, and through capacity building, exposure and awareness
3. Strengthen the capacity and resources of the MFDP financial inclusion coordination unit
4. Strengthen the coordination of financial inclusion and data collection within the Central Bank, potentially by consolidating the activity within one of its departments
5. Mandate the collection of disaggregated data across the financial sector, and enable compliance through realistic timelines, data templates and capacity support for data collection

6. Enhance the collection of M&E outcome and impact data, especially by implementing regular consumer and MSME survey (every 4 years)
7. Develop a financial inclusion communication strategy

6. Institutional Capacity and Coordination

6.1. Financial Inclusion Coordination

Financial inclusion coordination: Collective ownership and effort of all involved is a prerequisite for successful implementation. To strengthen coordination, it is proposed to set up a Financial Inclusion Council which will include senior executives to provide oversight and high-level policy direction. On a day-to-day basis, financial inclusion coordination will continue to be led by the Financial Inclusion Steering Committee (FISC), supported by the FI Secretariat and the Financial Inclusion Forum. The revamped NFIS institutional mechanism is summarized in Figure 11 below.

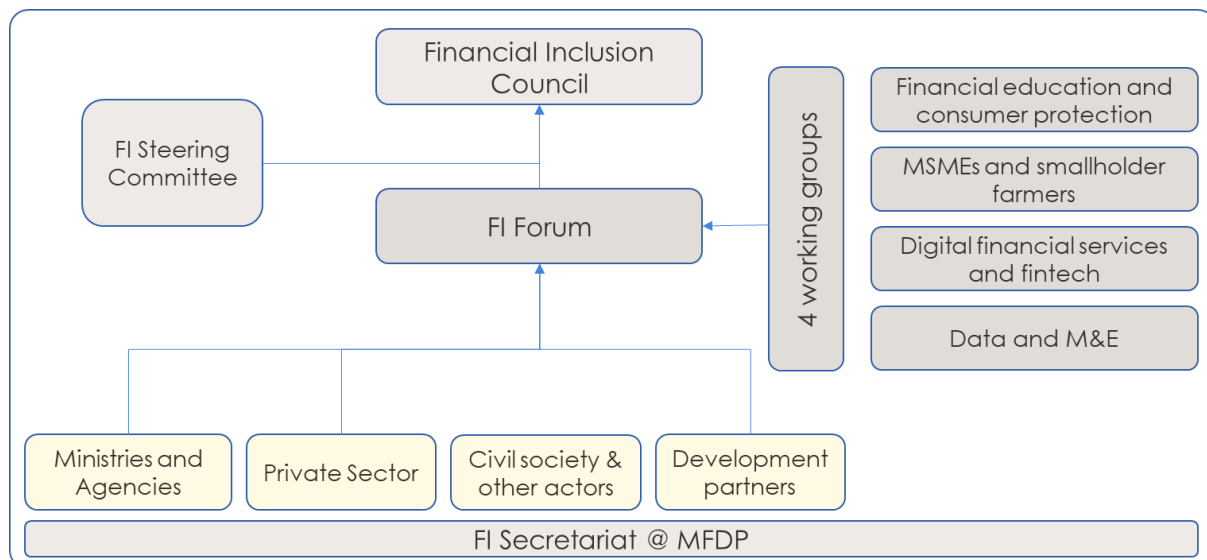


Figure 11: Revamped FI coordinating mechanism

Financial Inclusion Council: The Financial Inclusion Council will provide overall direction and oversight for financial inclusion activities. It will include top-line management from MFDP and CBL (e.g. Principal Secretary, Governor and Deputy Governor), key

ministries (e.g. PS Trade and PS Agriculture), and the Chief Executives of selected institutions such as BEDCO and LNDC. It will meet twice a year.

Financial Inclusion Steering Committee: The FISC will provide day to day direction for financial inclusion activities. The FISC currently comprises officials from the Ministry of Finance and CBL, supported by development partners. To increase effectiveness, membership will be expanded to include the Ministry of Trade which oversees trade, industry, cooperatives and MSMEs, and the Ministry of Agriculture. It will meet quarterly.

MFDP FI Coordination Unit (Secretariat): The FI Coordination unit within the MFDP Private Sector Development & Financial Affairs area acts as the financial inclusion Secretariat and is responsible for supporting the activities of the FISC, including activity coordination, M&E data collection, and stakeholder engagement. The unit should develop consolidated annual work plans to guide stakeholders as they each work towards full implementation of the NFIS II. The Secretariat's resources and capacity should be strengthened under the ongoing broader MFDP departmental review.

The FSDS II coordination structure is being developed and should be finalized taking cognizance of the mandate of the FISC and minimize duplication.

FI Forum: The FI Forum brings together a wider range of stakeholders. Sufficient resources should be allocated to sustain the initiative. It is proposed to introduce formal working groups that include the private sector, meeting regularly (quarterly or monthly) and reporting back to the FI forum. Four working groups are suggested:

- Financial education and consumer protection;
- Digital financial services and fintech
- MSMEs and smallholder farmers
- Data and M&E, including its accuracy, availability and relevance.

Institutional capacity to coordinate: The staffing capacity of the MFDP unit that coordinates financial inclusion activities was highlighted earlier. Similarly, CBL is a key driver of financial inclusion, and its effectiveness can be optimized if an existing or new unit within CBL is mandated to coordinate the CBL's financial inclusion activities. This

would strengthen the current situation where individuals carry it along with other responsibilities, and where responsibility for data and information is not always clear.

Financial inclusion focal points: A systematic capacity enhancement approach is required at all institutions carrying out the financial inclusion mandate on a day-to-day basis. Each institution should have a sufficiently senior staff designated to coordinate financial inclusion activities within the institution, and to maintain and report on the institution's financial inclusion work plan and budget.

Synergies with the development sector: Development partners such as the UN, World Bank, IFAD, FinMark Trust and others are active in the area of financial inclusion. The FISC has responsibility to ensure that these partners work together in synergy, and that they prepare plans to ensure long term sustainability of their interventions. These partners contribute to the achievement of the NFIS II and should therefore be required to report back on progress at the FISC or FI Forum.

6.2. Stakeholder Roles and Responsibilities

Wide range of stakeholders: Implementation involves stakeholders within and beyond the financial sector. These include the CBL and various GoL ministries such as the MFDP, Ministry of Agriculture and Food Security, Ministry of Communications, Science and Technology, Ministry of Gender, Youth and Social Development, Ministry of Education and Training, Ministry of Trade, Industry, Business Development, and Tourism, Ministry of Labour and Employment, and others. It also includes donors, industry bodies, and the private sector.

Government ensures an enabling environment: The government, through sector regulators, ministries and agencies is responsible for leadership and creating an enabling environment that ensures the required range and quality services. Government will also facilitate outreach to underserved areas, by using government channels and business to achieve scale (e.g. digitizing its own payments), and setting industry guidance and targets.

Ministry of Finance champions the NFIS: The MFDP is the owner and lead champion of the NFIS. The ministry in partnership with CBL will be the lead institution to monitor

and coordinate the implementation of the strategy. The ministry will also work closely with the FISC and CBL to ensure collaboration with the FSDS.

Line Ministries and agencies catalyze financial inclusion: Sector ministries such as Agriculture, Trade and Industry, Labour, Social Assistance, Gender and Youth, Health and Education will be expected to champion financial inclusion in their respective programmes. This will include promoting the digitalization of payments and increased access to financial services. The Ministries of Agriculture, and Trade and Industry will play a crucial role in the development of financial products for farmers and MSMEs. The Ministry of Education and Training is central to the delivery financial literacy programmes.

The private sector will extend services to all: The private sector, including industry associations, bears the responsibility of extending services to all segments of the population, including the rural poor and excluded. It plays an important role in engaging with the government to create the necessary enabling environment. Further, the private sector has an important responsibility to define its strategic objectives with financial inclusion in mind and considering long-term sustainability and good corporate citizenship. Private sector institutions are directly represented in the financial inclusion forum. Representation in formal committees could be improved by the sector associations setting up secretariats to represent and communicate regularly with members.

Development partners promote inclusion and sustainability: Development partners have an important role to play by supporting the implementation of the strategy with both resources and technical assistance. Development partners should collaborate with one another, consolidating resources where possible to avoid duplication of efforts. Additionally, they promote best practices relevant to Lesotho, and set clear exit strategies that take into account sustainability at the end of their initiatives.

Consumers of financial services: MSMEs, smallholder farmers and the priority and vulnerable segments are the main beneficiaries of this strategy. Consumers will use financial services to improve their livelihoods and contribute to inclusive growth. The FISC will promote the participation of these beneficiaries in the implementation of process, especially through their officially recognized associations and lobbies.

6.3. Funding and other Key Success Factors

For successful implementation, stakeholders have identified a number of key success factors, of which adequate funding is of utmost importance. The funding model for financial education was already considered, however there are other aspects that require funding, such as regular demand side data collection, stakeholder convening and capacity building, and implementation of specific strategies such as e-KYC, guarantee facilities or the setting up of an informal MSME database.

Government has been leading the process to mobilise partners to finance many of these activities, nevertheless it can take a stronger role, for example by allocating budget for demand side data collection. Important activities should continue to be led by government, in partnership with SADC, development partners and the private sector. There is particular need to strengthen government budget allocation and contribution from the private sector. Various models can be explored, for example a voluntary fund or regulation, to support high priority initiatives that stakeholders agree upon. The MFDP will develop a funding plan that identifies gaps to be closed in the implementation of this strategy, with specific proposals to ensure funds are mobilised.

Among other success factors identified include ensuring stakeholders are inclusively engaged in activities, strong coordination, and continuous M&E. Activities should be embedded within with different ministries and agencies, each developing an annual plan that they can regularly report against. The MFDP should develop and maintain a detailed consolidated implementation plan, reviewed each year to ensure it remains relevant.

Of critical importance to ensure the strategy achieves its objectives is wider availability of financial data across the sector, incentives (e.g. tax rebates and de-risking mechanisms), and engagement with providers to ensure they expand their services to target markets including MSMEs and farmers. Development partners and other actors (e.g. LNDC) can also develop pilots and business cases to demonstrate value for providers. Once new products are introduced, it is important to track product impact and not just uptake.

7. Monitoring and Evaluation

7.1. M&E Framework

An M&E framework is integral to successful implementation: A robust well-resourced monitoring and evaluation framework (M&E framework) is required to systematically monitor implementation progress of NFIS II. The framework serves to keep the strategic implementation plan on track, and also provides the basis for reassessing priorities when anticipated results are not achieved. The framework includes the reporting schedule, scope and frequency of reporting, accountable entities, and implementation timelines.

- a) **Performance Monitoring Plan**, which provides a framework for monitoring day to-day progress on implementation
- b) **Evaluation Plan**, to determine whether the key NFIS performance indicators have been achieved, and to identify areas that may require re-strategising
- c) **Monitoring and Evaluation Indicators**, to evaluate whether progress in the implementation is in line with the targets, objectives and goals of NFIS II
- d) **The Monitoring and Evaluation Unit** located within the MFDP responsible for collecting, analyzing and reporting on financial inclusion data and progress.

The MFDP is responsible for monitoring and evaluating the implementation of NFIS II, collaborating closely with the CBL who provides a large component of the data.

Capacity building as part of the progress monitoring: The M&E approach should evolve towards outcomes and impact as financial inclusion focus shifts beyond access and usage. This calls for capacity and enhanced skillset at CBL and the MFDP, to collect and interpret data. Data should be regularly collected on both the demand and supply side, and adequate budget should be set aside. To minimize duplication, M&E reporting should work in synergy with the SADC-CCBG financial inclusion data portal, and the SADC-Secretariat data portal initiatives. Based on experience to date, coordination of data collection within CBL, and its interface with MFDP should be streamlined.

Enhanced data from providers: Disaggregated data in the financial sector is scarce. Improvements to providers' management information systems are needed, including linkage to the Ministry of Home Affairs database which carries data on age and gender.

Financial service providers should be encouraged to be more deliberate in collecting such data, while regulators need adequate capacity to define data needs and templates, and to ensure quality of data. CBL plans to develop appropriate templates for the bank sector in the near term and this should be reciprocated for non-bank sector at the proper time.

The operationalisation of the M&E framework will entail the following:

- Supply-side data is generated by regulators and line ministries and provided to the MFDP who will perform quality checks.
- Demand-side data is generated by the MFDP, which includes relevant analyses.
- The MFDP produces M&E reports every six months for internal use.
- The MFDP publishes an annual M&E report, including commentary.
- M&E data is fed by the MFDP into the SADC and CCBG FI data portals.

7.2. NFIS II Indicators

The Theory of Change: Summarised in Section 4, the theory of change has guided the development of the indicators, which not only measure the level of access, usage and quality of financial services, but also attempt to estimate whether such usage is resulting in real sector outcomes; financial health; and inclusion of all.

Proposed indicators: The indicators are included as Annexure 1, which also defines the type of data to be collected, sources of data and the reporting institution. The indicators measure the medium- and long-term outcomes, and some of the systemic changes to be achieved. Selected indicators seek to disaggregate the data, to ensure inclusion across dimensions of age, gender and geography. Strategic action tracking is not included but will be reported on as an additional role and responsibility of the MFDP.

The reporting institutions include:

- (a) Regulators, including CBL, LCA and the DOC
- (b) MFDP for Consumer and MSMEs surveys (FinScope surveys)
- (c) Line ministries in the case of MSMEs and farmers.

7.3. Data Collection

Data collection: Supply-side data collection should be conducted annually. This will be complemented with a lighter process at mid-year for internal tracking and reporting to the governance mechanisms. Sector regulators and line ministries will be responsible for collecting, preparing and sharing data with the MFDP. Existing M&E templates will be used for data collection where possible. The dashboards/visualisation and any other analyses on the indicators will be done by the MFDP which should have the technical ability to ensure only high-quality data is analysed and disseminated.

Demand-side survey for consumers and MSMEs should be conducted every 3 – 4 years respectively to provide demand-side data and an evaluation mechanism for the NFIS II.

Implementation tracking: This entails tracking implementation against the expected systemic changes. The outcome of strategic actions should be measured against a target outcome. Targets will be determined in conjunction with the FISC. The baseline indicator value reflects the most recent available data and acts as the starting point. MFDP will be responsible for leading the baseline data collection and target setting for each indicator.

Reporting and dissemination: Stakeholder activity and M&E progress updates based on supply-side data will be implemented and communicated annually. These will be linked to the M&E data collection cycle and FI Council meetings, while more in-depth assessments will be made each time demand side surveys are conducted. External reporting will take the form of formal annual financial inclusion reports and dashboards. Annual reports will include a level of impact assessment to ensure the relevance of financial inclusion efforts.

Annexure 1: Lesotho Financial Inclusion Action Plan 2024 – 2028

Vision: A dynamic, inclusive financial sector that enables all Basotho individuals and businesses to access and use the financial and nonfinancial services they need in order to contribute to inclusive national growth, their well-being and resilience, and a sustainable future								
OBJECTIVE	ACTIONS	RESP	Expected Output/Outcome	TIMELINE				
				2024	2025	2026	2027	2028
Strategic Priority 1: Enhance financial education/literacy, consumer protection and risk management framework for digital platforms								
1.1 Enhance delivery of financial education interventions	1.1.1 Develop and implement a financing mechanism for financial education delivery, potentially through a regulation, and introduce delivery models beyond FESC members, prioritising rural areas and use of technology	CBL	Financing mechanism for financial education is in place	X				
	1.1.2 Introduce product related content in the national financial education programme especially focused on non-funeral insurance and credit, to catalyse behaviour change	FESC	New product related content developed and delivered		X			
	1.1.3 Engage the Ministry of Education to review progress, benchmark, and assess impact to date of the school financial education curriculum, and to identify a joint way forward	FESC, MOET	Implementation plan for revised school curriculum approved	X	X			
	1.1.4 Develop mechanisms to measure and track the impact of financial education interventions	MOET, CBL	M&E Framework to track financial education interventions is in place		X	X	X	
1.2 Implement financial consumer protection framework	1.2.1 Review and enhance the human resources of the CBL to regulate financial consumer protection	CBL	Capacity of CBL FCP Department enhanced	X	X			
	1.2.2 Develop and enact regulations to operationalize the FCP Act of 2022 (i.e. Financial Services Marketing and Advertisement, Product Risk Management, Complaints Handling Guidelines, Examination Guidelines)	CBL	Regulations as per FCP Act enacted	X	X			

	1.2.3 Develop regulation to strengthen transparency and disclosure requirements in the insurance sector; and enhance enforcement of market conduct and product transparency rules across the sector	CBL	Regular examinations conducted for insurance and microfinance products		X	X	X	
	1.2.4 Review regulations across product areas to ensure adequate transparency for users of digital financial products in regard to terms & conditions, and customer rights and responsibilities	CBL	Bank, non-bank and digital payments regulations are reviewed to ensure adequate transparency		X	X		
1.3 Improve the risk management framework for digital platforms	1.3.1 Develop and implement improved Business Continuity Management plans to increase resilience of key systems, particularly the Digital Identity system	MOHA	Business Continuity Plan for Digital ID system is implemented	X	X	X		
	1.3.2 Improve the data protection framework, by enacting a new Computer Crime and Cybersecurity law, a Data Protection law, and setting up the Data Protection Commission	MCST	New Computer Crime & Cybersecurity and Data Protection laws enacted, and Data Protection Commission set up	X	X	X	X	X
Strategic Priority 2: Develop targeted products, services and mechanisms for MSMEs and smallholder farmers								
2.1 Enhance products and ecosystems for smallholder farmers	2.1.1 Develop and scale value chain approaches and programmes to enhance capacity across the smallholder farmer ecosystem including farmer capacity, aggregation, standards, market access and digitization, and new financial product development	MAFS, DP	Value chain programmes implemented and assessed	X	X	X	X	X
	2.1.2 Explore viability and develop business plan to implement commodity exchange and warehouse receipt system	MAFS, MSM, MFDP	Business plan for Commodity Exchange developed and assessed		X	X	X	
	2.1.3 Catalyze development of, and scale insurance mechanisms for the agriculture sector including crop and livestock insurance, climate risk insurance and disaster risk insurance mechanisms	MFDP, MAFS, DP	New agriculture sector insurance products launched	X	X	X	X	X

	2.1.4 Establish the agriculture development fund	MAFS, CBL	Agriculture Development Fund launches	X	X	X		
	2.1.5 Create the environment for, and linkages to expand farmer access to international funds by prioritizing funds to be accessed and ensuring stakeholders to meet the required conditions	CBL, MFDP, MAFS	Engagement ongoing with various funds and conditions put in place for applications		X	X	X	X
2.2 Strengthen mechanisms to enhance MSME access to financial services	2.2.1 Assess and implement learnings from the two partial credit guarantee schemes to date, and explore viable alternatives to serve the unbanked e.g. introducing role for BEDCO or a new scheme	MFDP, LNDC, MTIBDT	Strategy for reform of Partial Credit Guarantees developed	X	X			
	2.2.2 Establish a development finance institution, potentially by implementing the required legal, structural and capacity enhancements to transform the LNDC development finance unit	MFDP, LNDC, CBL	Process to establish a DFI put in place	X	X	X	X	
	2.2.3 Continue engagement with credit providers to set targets and/or provide incentives for them to increase lending towards MSMEs, agriculture and sustainable finance; jointly addressing any identified bottlenecks	CBL	Engagement held and way forward agreed based on available information		X	X	X	
	2.2.4 Develop capital market products for MSMEs and sustainable finance i.e. green, gender, youth and MSME bonds, and enable crowd funding	MSM, MFDP	Viability of new products assessed and way forward determined		X	X	X	X
	2.2.5 Provide capacity support to MSMEs to improve their ability to keep records, and to apply for finance	BEDCO, MTIBDT, MFDP	Capacity building programmes reviewed for improvement/ expansion opportunities	X	X	X	X	X
	2.2.6 Enhance usage of available credit risk infrastructure, including by widening available data on credit bureau, and tightening collateral management on LERIMA registry e.g. in case of accident, theft or sale of asset	CBL, CRB LERIMA	Breadth (# of adults covered) and depth (number of queries/collateral assets) is increased	X	X	X	X	

	2.2.7 Promote use of alternative credit assessment data and approaches e.g. mobile transactions data, psychometric approaches, others	CBL, MFDP	Alternative credit assessment methods explored and implemented where viable	X	X	X		
2.3 Enhance the environment for	2.3.1 Implement an informal MSMEs database as envisaged in the Business registration Act of 2019	OBFC, MTIBDT	MSME database implemented	X	X	X		

MSMEs to access finance and/or to formalize	2.3.2 Establish/strengthen informal MSMEs business support mechanisms e.g. resilience funds, inclusion in business support services programmes	MTIBDT, MFDP, BEDCO, DP	Informal MSME support mechanisms put in place e.g. disaster relief fund	X	X	X	X	X
	2.3.3 Implement awareness campaigns to sensitize MSMEs to the potential and value of formalization, registration, digitization, alternative finance, and to increase tax awareness	MTIBDT, BEDCO, MFDP, RSL	Awareness campaigns implemented	X	X	X	X	X
	2.3.4 Promote ease of KYC verification for MSMEs by automating and accelerating the rollout of unique identifiers, and fast tracking the integration between OBFC and RSL systems	OBFC, RSL	MSME unique identifier allocation process automated	X	X			
	2.3.5 Investigate and implement tax reforms to ease MSMEs tax compliance i.e. exemptions or presumptive tax below a revenue threshold, prefunding of VAT	RSL, MFDP, MTIBDT	Tax reforms considered and decided upon		X	X	X	
2.4 Implement segment focused interventions to promote empowerment of vulnerable segments	2.4.1 Encourage financial service providers to develop products that strengthen gender and youth empowerment i.e. aligned to needs of priority groups, and that help achieve national targets	MFDP, CBL	Financial service providers take into account gender/age/disability in product development			X	X	X
	2.4.2 Ensure financial education programmes incorporate modules to increase awareness on laws and regulations that are updated to address gender and youth issues	FESC, MFDP	Financial education programmes include component on awareness for updated laws and regulations	X	X	X	X	X

	2.4.3 Design and implement the Youth Empowerment Fund	MGYSD	Youth Empowerment Fund implemented	X	X	X		
	2.4.4 Support communities, farmers and MSMEs to identify climate related risks, practices and/or opportunities to help improve their climate adaptation/mitigation, productivity and resilience	DPs	Community based support programmes designed and implemented	X	X	X	X	X
Strategic Priority 3: Promote digitization and usage of a wide range of financial and non-financial products and services								

3.1 Expand the financial sector digital infrastructure to enable coverage of all citizens and businesses	3.1.1 Implementation of the national payments switch, prioritizing interconnectivity especially between banks and mobile money wallets	CBL, PAL	Interoperability between banks and mobile wallet implemented	X	X			
	3.1.2 Fast track the draft National Payment System Bill, maintaining key themes such as innovation, participation of all players in the NPS, and alignment with SADC Payment Systems Model law	CBL	National Payments System Bill enacted	X	X	X		
	3.1.3 Review the bank and mobile agent regulations to promote increased reach and interoperability especially in rural areas, with equal treatment of players offering the same service	CBL	Regulations in place that ensure equal treatment of players offering the same service	X	X			
	3.1.4 Develop programmes to promote increased access to telecommunication networks and mobile devices in rural, low income areas	LCA, MFDP	Affordable mobile phone devices are available in rural areas		X	X	X	X
3.2 Increased availability of affordable, digitised financial and non-financial services	3.2.1 Establish/strengthen coordination mechanisms to accelerate the implementation of e-government and the digitalization of government payments	MCST, MFDP, CBL	Increase in digitization of government payments	X	X	X		
	3.2.2 Accelerate digitalization of financial services targeting priority groups i.e. social assistance cash payments, informal savings group (mokhatlo) products	MGYSD, MCST	Increase in digitization of social assistance payments	X	X	X		

	3.2.3 Develop financial products to promote access to clean energy, health and education to Basotho	MFDP	Relevant products developed by financial service providers		X	X	X	X
	3.2.4 Explore bottlenecks to merchant uptake of digital payments and develop strategies to promote wider acceptance of electronic payments to incentivize retention of digital balances by customers	CBL, MFDP, MTIBDT	Increased volumes of merchant electronic payments	X	X	X		
3.3 Implement strategies to	3.3.1 Develop and implement strategies to attract additional ADLAs/partnerships for remittances e.g.	CBL	Additional ADLAs licensed	X	X	X		
promote low cost remittances and remittance related products	relax regulatory requirements for small remittances, ADLAs' licensing requirements							
	3.3.2 Establish framework to enable products that leverage direct cross border payments e.g. to pay investment, loan, insurance or utility accounts	CBL	Modalities for cross border products finalised and products launched	X	X			
	3.3.3 Engage the South African Reserve Bank (SARB) to ease Basotho documentation requirements (use of Lesotho Special Permit or national ID), e-KYC, and to lower first mile costs (role of non-banks)	CBL, MFDP	Engagement with SARB undertaken and way forward finalised	X	X	X		
	3.3.4 Promote participation by local players in the regional infrastructure (TCIB, RTGS) e.g. capacity building, legal frameworks, ISO20022 implementation	CBL, MFDP	Local players participate actively in RTGS and TCIB	X	X	X		
	3.3.5 Set up diaspora fund targeted at enabling diaspora community to promote MSMEs in key sectors e.g. innovation, agro processing	MFDP, CBL	Viability of diaspora fund assessed, and implemented if appropriate			X	X	X
3.4 Encourage development of resilience products for	3.4.1 Draft and fast track implementation of a new insurance law (Insurance Bill 2024) especially to anchor parametric and micro insurance development	CBL	Insurance Bill enacted	X	X	X		

businesses & individuals	3.4.2 Develop and implement strategies to catalyze compulsory 3rd party insurance	CBL, MFDP	Government supported third party insurance product targeted at mass market is launched			X	X	X
	3.4.3 Develop and implement a framework for an informal sector micro pensions scheme in Lesotho	MFDP, CBL	Informal sector micro pensions framework implemented		X	X	X	
	3.4.4 Revise mobile money interest distribution and consider alternatives that benefit deposit holders directly and meaningfully, e.g. encourage use of savings wallets, defray fees	CBL, MFDP	Distribution of mobile money interest revised and implemented	X	X	X		
Strategic Priority 4: Strengthen the enabling environment and collaboration of stakeholders								
4.1 Put in place adequate	4.1.1 Promote increased collaboration for innovation within the Central Bank, and develop	CBL	Sandbox regulations in place	X	X			
frameworks to promote product innovation	sandbox regulations to anchor collaboration for novel products							
	4.1.2 Develop frameworks, regulations and a financial sector data bank to deepen data sharing among financial sector players, and ultimately to enable open finance	CBL, MFDP	Data sharing frameworks considered and implemented			X	X	X
	4.1.3 Strengthen e-KYC infrastructure, by enabling all approved financial sector players to affordably query national ID data, protecting the data, and in the medium term establishing a national e-KYC registry	MOHA, CBL	All approved financial sector players enabled to affordably query national ID data	X	X	X		
	4.1.4 Develop frameworks for the regulation and supervision of virtual assets and virtual asset providers, including AML/CFT/PF aspects	CBL	Regulatory framework for virtual assets and virtual asset providers is in place	X	X			
	4.1.5 Develop and implement a fintech strategy, including introducing necessary legal and regulatory frameworks	CBL, MFDP	Fintech strategy developed and adopted	X	X			

4.2 Enhance the CBL regulatory capacity for innovation	4.2.1 Review and provide adequate staff and technical capacity to make timely product approval decisions, and to ensure localization of products designed elsewhere	CBL	Product approval capacity at CBL is reviewed and enhanced	X	X	X		
	4.2.2 Enhance regulator and financial service providers capacity to implement AML/CFT/PF risk based approaches particularly in the non-bank sector	CBL	Supervision capacity in non-bank sector is enhanced	X	X	X	X	
	4.2.3 Establish a new unit to supervise AML/CFT/PF across all institutions regulated by the CBL	CBL	Unit to supervise AML/CFT/PF across CBL is established	X	X	X		
	4.2.4 Engage the private sector to explore further product innovation that can be enabled with regard to MSME, insurance and housing sectors	CBL, MFDP	Private sector engagement held and way forward agreed		X	X	X	
4.3 Strengthen the MFI and SACCO sector	4.3.1 Develop a framework to guide supervision of cooperatives whose size is approaching the bank	MTIBDT, CBL, MFDP	Framework developed and implemented	X	X			

to serve the unbanked	stage (e.g. M1 – M5 million), to promote a gradual transition							
	4.3.2 Sign an MoU between Department of Cooperatives and the CBL to stipulate the role of each regulator, and to establish data sharing protocols, i.e. define what data should be shared between the regulators and how often	CBL, MTIBDT, MFDP	MoU between CBL and Department of Cooperatives signed	X	X			
	4.3.3 Fast track the finalization and enactment of legislation for financial cooperatives (Financial Cooperatives Bill)	MTIBDT, MFDP	Financial Cooperatives Bill enacted		X	X	X	
	4.3.4 Encourage development partners to provide capacity to the Department of Cooperatives to strengthen supervision of, and reporting by financial cooperatives	MTIBDT, MFDP, DP	Department of Cooperatives receives development partner support to improve SACCO supervision	X	X	X	X	X

	4.3.5 Enhance regular and accurate reporting by MFIs through a centralized database and reporting facility, and/or a standardized, affordable loan management system for Tier 3 MFIs	CBL	All MFIs that are registered provide adequate and accurate data to the regulator	X	X	X		
	4.3.6 Establish LEMFA as a formal MFI sector platform, by formalizing the relationship with CBL in an MoU, and helping non-members see value in membership	CBL, LEMFA, DPs	MoU between CBL and LEMFA is signed, and LEMFA represents at >70% of the sector as measured by number of loans	X	X			
	4.3.6 Encourage MFI consolidation and digitization, by enforcing registration and systems requirements, closing down non-compliant operators, and in due course raising minimum capital requirements	CBL	All MFIs in operation are registered and supervised		X	X	X	
	4.3.7 Implement regulatory reform to enable MFI innovation e.g. deduction at source for purchase order proceeds and easier licensing of services related to existing business models such as payments	CBL	Regulatory reforms considered and implemented	X	X	X		
4.4 Enhance capacity of key players involved in financial inclusion coordination	4.4.1 Strengthen financial inclusion coordination by introducing the FI Council, and revisiting the FISC Terms of Reference to incorporate additional ministries; and to reintroduce regular meetings	FISC, MFDP	FISC terms of Reference revised	X				
	4.4.2 Enable key ministries and agencies involved in financial inclusion to participate meaningfully by helping them identify FI contact persons, and through capacity building, exposure and awareness	MFDP	Focal points identified, and provided with capacity to support the FI process		X	X		
	4.4.3 Strengthen the capacity and resources of the MFDP financial inclusion coordination unit	MFDP	Staff capacity and budget of the FI coordination unit is increased	X	X	X		
	4.4.4 Strengthen the coordination of financial inclusion and data collection within the Central Bank, potentially by consolidating the activity within one of its departments	CBL	Focal point for coordination and data collection identified and in place	X	X			

	4.4.5 Mandate the collection of disaggregated data across the financial sector, and enable compliance through realistic timelines, data templates and capacity support for data collection	CBL, MFDP, MTIBDT	Disaggregated data available from >50% of all financial service providers		X	X	X	
	4.4.6 Enhance the collection of M&E outcome and impact data, especially by implementing regular consumer and MSME survey (every 4 years)	MFDP, CBL	Consumer and MSME FinScope implemented every 4 years	X	X	X	X	X
	4.4.7 Develop a financial inclusion communication strategy	MFDP	Communication strategy in place outlining stakeholder touch points		X			

Annexure 2: Lesotho Financial Inclusion M&E Indicators 2024–2028

1. Percentage of adults (age 18+) formally and informally included, disaggregated by gender, age and urban/rural (Source: Demand-side survey) Proxies⁶⁸:

- Number of registered personal bank accounts per 10,000 adults
- Number of registered mobile money accounts per 10,000 adults
- Number of insurance policies per 10,000 adults
- Number of microfinance institution loans per 10,000 adults (registered MFIs)
- Number of SACCO members per 10,000 adults (registered SACCOs)

Rationale: Measure uptake

Category: Headline/uptake

2. Percentage of MSMEs with access to formal credit across bank and non-bank sector, disaggregated by gender, age and urban/rural (Source: Demand-side surveys) Proxy:

- Volume/value of loans to MSMEs (bank and non-bank)
- Number of customers registered on Credit Reference Bureau
- Number of active registrations on LERIMA
- Value of obligations on LERIMA

Rationale: Measure financing support for MSMEs

Category: Headline/uptake

3. Percentage of adults (disaggregated by gender, youth and rural) with access to, and usage of formal financial services (Source: Demand-side surveys) Proxies:

- Number of active (12 months) personal bank accounts per 10,000 adults
- Number of 90-day active mobile money accounts per 10,000 adults

Rationale: Measure uptake

Category: Headline/uptake

4. Percentage of adults that trust formal financial services (also by gender, youth and rural) (Source: Demand-side surveys)

Proxy: Total number of customer complaints per 100,000 accounts – by type

⁶⁸ Note: Children below 18 years own accounts, usually administered by adults. To avoid survey tracking of children, the indicator is aligned to the legal age limit. Proxies use supply side data and all accounts will be tracked. Proxies are to be disaggregated by gender, age and urban/rural wherever possible

Rationale: This indicates trust in formal financial services, and thus the impact of financial education and consumer protection measures. Category: Headline/Quality

5. Percentage of adults that self-assess to have a 'high' or 'moderate' financial capability. (Source: Demand-side surveys)

Rationale: This indicates the impact of financial education measures.

Category: Headline/Quality

6. Percentage of adults (disaggregated by gender, youth and rural) using digital financial services (Source: Demand-side surveys) Proxies:

- POS transactions (volume/value)
- Mobile money transactions (volume/value) disaggregated by airtime purchases, P2P, P2B, B2P, G2P, P2G and B2B
- Mobile money Cash in and Cash out ratio (volume, value)
- Formal cross border remittances (volume/value)

Rationale: Tracks the level of digital financial inclusion as a key enabler of inclusive growth, focusing on quantity and purpose of usage Category: Usage

7. Weighted average cost of basket of selected financial services products in Maloti (Basket to be finalized but it should incorporate remittance costs, mobile money transactions costs and bank account transactions costs) (Source: Supply-side data)
Rationale: Track prices – if or how fast prices are decreasing over five years Category: Quality

8. Percentage of adults (disaggregated by women, youth) with access to micro pension services (Source: Demand-side data)

Proxy: Number of micro pension policies issued per 10,000 adults

Rationale: This measures the use of long-term savings/investments by adults working in the informal economy. Category: Uptake/usage

9. Percentage of adults (disaggregated by women, youth) with access to micro-insurance services (Source: Demand-side data) Proxies:

- Number of life policies (excluding funeral) per 10,000 adults
- Number of non-life policies per 10,000 adults
- Number of micro-insurance policies per 10,000 adults

Rationale: This measures the use of formal risk management services by adults working in the informal economy. Category: Uptake/usage

10. Percentage of adults within less than 30 minutes of a bank branch, bank agent or mobile money agent (Source: Demand-side survey) Proxies:

- Number of active POS per 100,000 adults at national level
- Number of bank branches per 100,000 adults (disaggregated by urban/rural)
- Number of ATMs per 100,000 adults (disaggregated by urban/rural)
- Number of active bank agents per 100,000 adults (disaggregated by urban/rural)
- Number of active mobile money agents per 100,000 adults (disaggregated by urban/rural)
- Number of active money transfers operator agents per 100,000 adults

Rationale: This indicator tracks proximity and accessibility to financial services.

Category: Headline/Access

11. Number of registered fintechs (non-bank market entrants offering digital financial services)

Rationale: High numbers of fintechs can indicate a supportive regulatory environment for technological innovation in finance.

12. Number of customers enabled to access basic services (education, health, water, clean energy, social services) disaggregated by gender and youth.

Rationale: This will measure the extent to which digital financial services innovation is enabling access to a wider range of basic services.

13. Number of SADC regional guidelines and frameworks adopted by Lesotho ⁶⁹.

Rationale: Implementing/localising the regional frameworks will help Lesotho to contribute to SADC objectives while simultaneously improving the local financial inclusion environment

14. Percentage of financially healthy adults (plan for the future, manage risk and manage day-to-day liquidity) (Source: Demand-side survey)

Rationale: This will measure the link between financial inclusion and the economic well-being of adults.

⁶⁹ This indicator will distinguish between frameworks in process of being implemented versus those that are fully operationalised.

Annexure 3: Progress against targets under NFIS I

Table 6: Progress made towards the national inclusive finance strategy objectives

Target	Progress highlights
1. Percent of adults (18+) with access to at least one formal product from 61% to 85% by 2021	87%
2. Percentage of women (18+) with access to at least one formal product from 61% to 85% by 2021	90%
3. Percentage of adults (18+) with two or more formal products from 53.2% to 65%, and women from 61% to 67% by 2021.	Adults: 71% Women: 73%
4. Percentage of adults (18+) with at least one formal product from a non-bank channel from 22% to 38% by 2021.	84%
5. Percent of adults (18+) saving from 58% to 70% by 2021.	Not achieved: 56% ⁷⁰
6. Access points (including bank branches, POS, ATM and agent points) per 100,000 adults (18+) from 299 to 900 by 2021	1,044 (includes registered mobile money agents)
7. Increase non-ATM withdrawal transactions from 11% to 40% of total transactions by 2021.	Cash out is 32% of mobile money transactions value
8. Cost of low value (M 400-500) unregistered mobile money transfers / cash outs from M8.44 / M6.28 to M5.00 / M4.00 by 2021	Partly achieved: Transaction charges are M4 to M9
9. Reduce cost of a non-bank domestic M850remittance from 7.96% to 4% of remitted value, and cross border from 5.7% to 4.5% by 2021.	Cheapest option via Shoprite < M 25/ transaction
10. Introduce bank to wallet, wallet to bank and wallet to wallet interoperability.	Partially available (wallet-wallet fully available)
11. By 2018, develop and approve a local Strategy to leverage inward remittances for investment.	Not achieved
12. Percent of SMMEs with access to productive credit from 2% (FinScope SMME 2016) to 20% by 2021, and those with access to any formal financial service from 45% to 60%.	Partly achieved: Bank credit from 2% to 7%, and access to formal financial services from 45% to 85%.
13. Finalise microinsurance regulation by 2017	Microinsurance regulations passed
14. Develop a framework / strategy by 2018 to (i) encourage MFIs as an alternative credit and deposits provider, (ii) formalize large informal providers such as money lenders and funeral parlours, and (iii) to introduce new classes of providers as needed e.g. e-card providers.	Microfinance strategy developed. Legal reforms for MFIs, money lenders, mobile money issuers, etc.
15. Percent of adults with access to insurance products (other than funeral insurance) from 4% to 20% by 2021.	Not achieved.

⁷⁰ There was a 10-percentage point decline in adults savings via banks and a significant increase in adults saving using other formal channels (via mobile money increased from 8% in 2011 to 39% in 2021).

16. Put in place a Financial Sector Consumer Protection Framework by end of 2017.	Law enacted; FCP division established at CBL
17. Establish a dedicated Unit responsible for financial inclusion within the Private Sector Department at the Ministry of Finance by 2018.	Achieved – but more resources needed

Source: Financial Inclusion MAP Refresh, NIFS (2017-2021), FinScope Consumer 2011, FinScope Consumer 2021, and FinScope Micro, Small and Medium Enterprises Survey Lesotho 2023.

