



FinScope Lesotho 2011 Top Line Findings

July 2011

Prepared by FinMark Trust for the Central Bank of Lesotho

Funding provided by UKaid and the Central Bank of Lesotho

Definitions

TERM	DEFINITION
Access strand	A measurement of financial inclusion across the formal-informal institutional provider continuum.
Additive	Financial services that target existing customers.
Adults	Those aged 18 years or older
Banked	Individuals using one or more traditional financial product supplied by banks.
Credit	Obtaining funds from a third party with the promise of repayments of principal and, in most cases, with interest and arrangement charges in exchange for the money.
Demand-side barriers	Demand-side barriers to access to financial services relate to characteristics inherent to individuals that prevent them from using financial services such as perceived insufficient income, low levels of financial literacy and lack of trust in financial institutions.
Formal other	Individuals using one or more financial product supplied by formal financial institutions which are not banks.
Formal products	Products provided by government regulated financial institutions such as commercial banks, insurance companies and microfinance institutions.
Formally included	Individuals using formal financial products supplied by institutions governed by a legal precedent of any type. This is not exclusive usage, as these individuals may also be using informal products.
Financial access landscape	A measurement of usage of both formal and informal products across the four main product groups: transactions, savings, credit and insurance.
Financially served	Individuals using one or more formal and/or informal financial product.
Financially excluded	Individuals who are not using any formal or informal financial product.
Financial inclusion	The extent to which the adult population in the country engages with financial products and services, such as savings, transaction banking, credit and insurance, whether formal or informal.
Informal products	Financial services provided by individuals and/or associations which are not regulated by government such as savings clubs (susu clubs) and private moneylenders.
Informally only served	Individuals who are not using any formal financial products but who are using one or more financial products supplied from an informal source, such as a savings club or informal moneylender.

Informally served	Individuals who make use of informal financial products (regardless of whether or not they use formal financial services and products)
Insurance	Payment of a premium for risk of an event happening, where payout is made if or when the event occurs.
Remittances	The sending and receiving of money between people in one place to people in another, using formal and/or informal means.
Savings	Safeguarding and accumulating wealth for future use.
Supply-side barriers	Supply-side barriers to access to financial services relate to factors inherent to financial service providers that prevent individuals from using their services such as location of access points and the cost of using their services.
Transactional	Financial services that use cash or other means (such as cheques, credit cards, debit cards or other electronic means) to send or receive payments.

Structure of the report

Section 1 outlines the background to FinScope in Lesotho, the rationale for conducting the survey and the methodology applied

Section 2 provides an overview of the adult Basotho population, in terms of their key demographics and their livelihoods.

Section 3 considers the financial inclusion landscape in Lesotho by types of institutions as well as by types of products.

Section 4 concludes on some key insights gained from FinScope Lesotho 2011

Survey background and methodology

1.1 Introduction

This report documents the background, methodology and top-line findings of the UKaid/Central Bank of Lesotho-sponsored FinScope Lesotho 2011 quantitative research survey into financial markets in Lesotho. The study was undertaken during the period -2011.

Background to FinScope in Lesotho

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

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

The FinScope survey tool

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

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

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

To date, FinScope surveys have been completed in 15 African countries, including Zambia, South Africa, Namibia, Botswana, Kenya, Tanzania, Uganda, Nigeria, Rwanda, Malawi, Swaziland and Mozambique. A new survey is underway in Zimbabwe. Mauritius, Morocco, Sudan and Burundi have expressed interest to conduct FinScope surveys as well. This Pan-African implementation of FinScope facilitates valuable cross-country comparison, benchmarking and ongoing performance monitoring.

The FinScope Lesotho 2011 survey

In 2011, FinMark Trust was requested by the CBL to conduct a FinScope survey (FinScope Lesotho 2011), which was funded by UKaid and the Central Bank of Lesotho. The objective of this survey was to provide further insights into Lesotho's financial sector.

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

1.2 Survey methodology

Implementation structure

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

In accordance with its contract, and with the objective of building local capacity in executing FinScope in Lesotho, local research organisations were invited to tender for the fieldwork component of the study. Regrettably, the absence of a local research house with the capacity

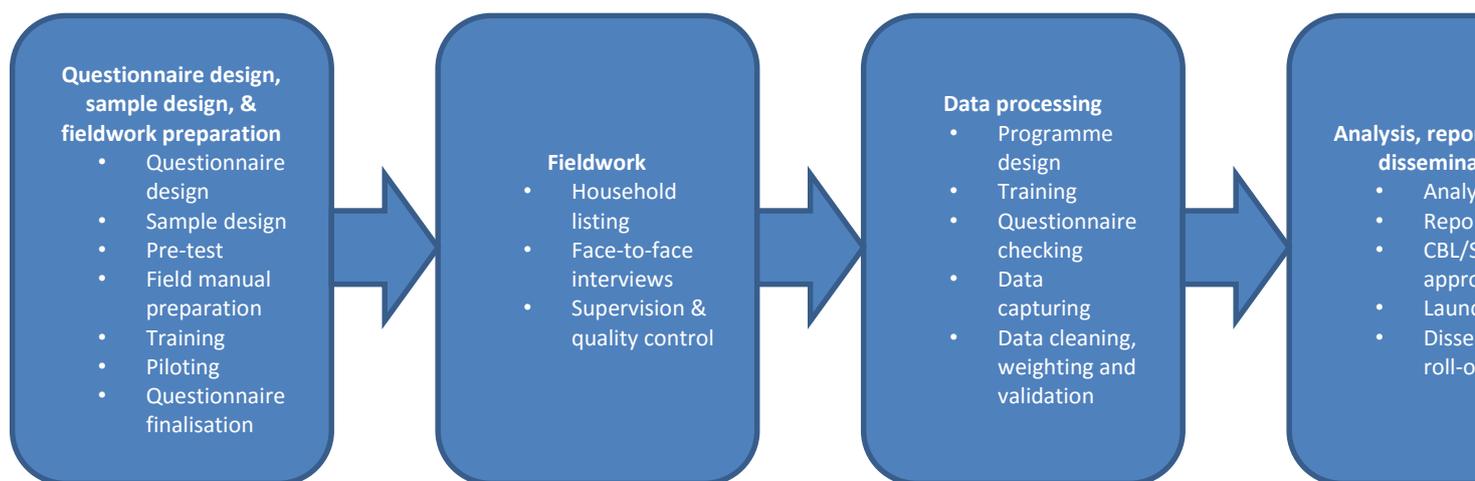
and understanding of the requirements of the project led to a South African- based company being selected. The research house selected to conduct the fieldwork – Ask Afrika - was selected on a competitive basis. All enumerators used for the survey were recruited from within Lesotho.

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

Implementation stages

FinScope Lesotho 2011 was initiated in January 2011 and implemented in a number of phases as summarised by Figure 1.

Figure 1. Survey implementation stages



Questionnaire design

The questionnaire design phase drew from lessons obtained during the Lesotho PostBank survey conducted in 2009¹ and the facilitation of a stakeholder workshop, which was attended by a broad cross-section of stakeholders within the financial sector.

The FinScope Lesotho 2011 questionnaire was therefore adapted to the Lesotho context.

The questionnaire was translated into Lesotho’s vernacular language – SeSotho - and included questions on the following topics:

¹ The details can be requested from the Lesotho PostBank

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

Sample design

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

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

Fieldwork preparation

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

An 8-day training programme was conducted in March 2011 and was attended by 39 interviewers and 5 supervisors. Specific topics covered during the training included:

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

Mock interviews were conducted during training to test interviewer technique and understanding.

Following the completion of the fieldwork, the questionnaire and translations were finalised, taking into account issues that were highlighted during the pilot.

Fieldwork

Fieldwork took place between April and May 2011 and was carried out by 5 teams. Each team consisted of one supervisor and 7-8 interviewers.

BoS supplied the EA maps for the fieldwork, as well as information on the number of households in the EAs. Selection intervals were determined from the information supplied by BoS, and on reaching the EAs, the supervisors applied the selection interval to select the households to be visited by the interviewers. Where BoS did not have the number of households, a listing of the EA was conducted and the same process followed to select households to be visited for the main interview. The listing was done to update the Census data and ensure accuracy of the data weighting and validation process.

Data collection was carried out through face-to-face interviews with the selected respondents. In order to secure an interview with the selected respondent, two call backs were allowed for each selected respondent in addition to the initial contact. In cases where selected respondents were not available (after the 2 call backs) or refused to be interviewed, a substitution procedure was followed.

A total of 2,000 interviews were successfully completed, as shown in Table 1.

Table 1. Distribution of completed interviews by ecological zones

Ecological zone	Number of EAs	Number of interviews
Lowlands	104	1040
Foothills	26	260
Mountains	44	440
Senqu River Valley	26	260
Total	200	2000

Quality control

Quality assessment for Finscope Lesotho was managed by the field team and the Quality Assessor Manager. The first round quality assessment was done by 7 quality assessors in the Lesotho office.

The quality assessors were trained to check the questionnaire thoroughly for:

- The respondent selection procedure
- Missing values
- Following and check routing instructions

Any queries were corrected with personal back checking and telephonic validation. It was sent to the Pretoria office via courier and upon arrival they were checked in and the quality assessor name and back check detail per questionnaire were captured.

A second round of quality assessment was done by the Pretoria QA team. The quality assessors were too trained to check the questionnaire thoroughly for:

- Missing values
- Following and check routing instructions

Questionnaires with queries were referred back to the Lesotho office for correction. The questionnaires were physically sent back to Lesotho. Any queries were corrected with personal back checking and telephonic validation.

Data processing

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

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

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

Data analysis, reporting and dissemination

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

2 Context

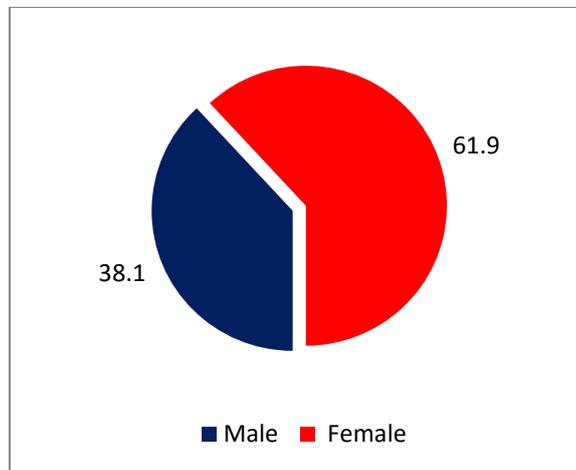
Financial inclusion cannot be understood in isolation. It needs to be understood in the context of other dynamics within a country or community. To fully comprehend financial inclusion, it is important to know things like the demographic profile of the population, the different ways in which people generate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

2.1 Demographic and landscape overview

Adult population at a glance

In 2011, there were an estimated 1 133 712² people aged 18 and older in Lesotho. The population is skewed towards females, as shown in Figure 2.

Figure 2. Gender distribution: percentage of adults

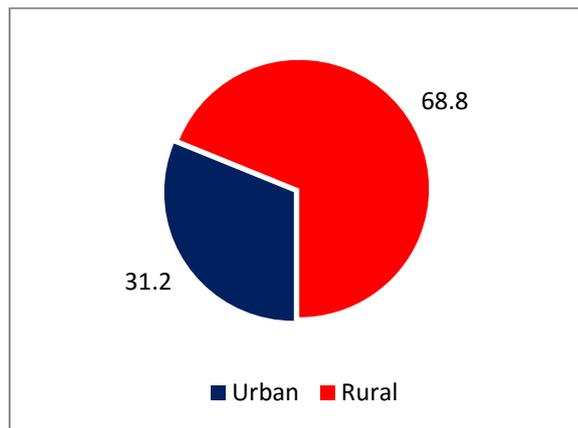


As

Figure 3 below illustrates, about seven out of every ten Basotho aged 18 years or older live in rural areas:

² All data quoted in this report, unless otherwise stated, draws directly from FinScope Lesotho 2011.

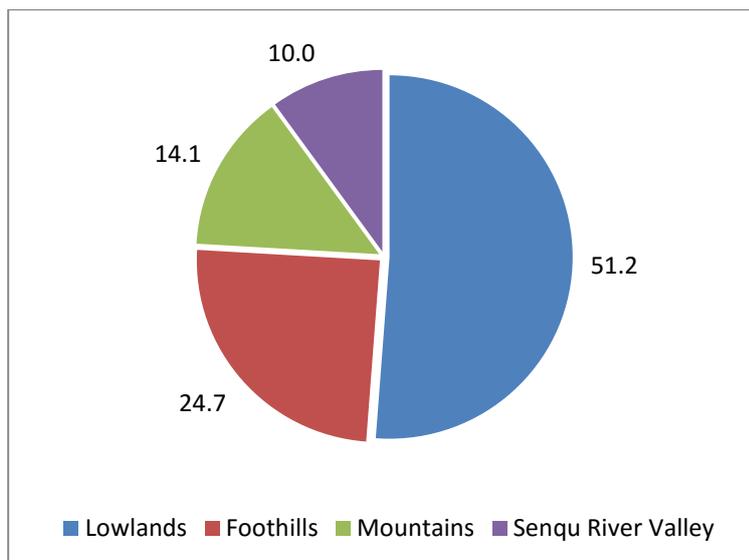
Figure 3. Rural-urban split of the adult population



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

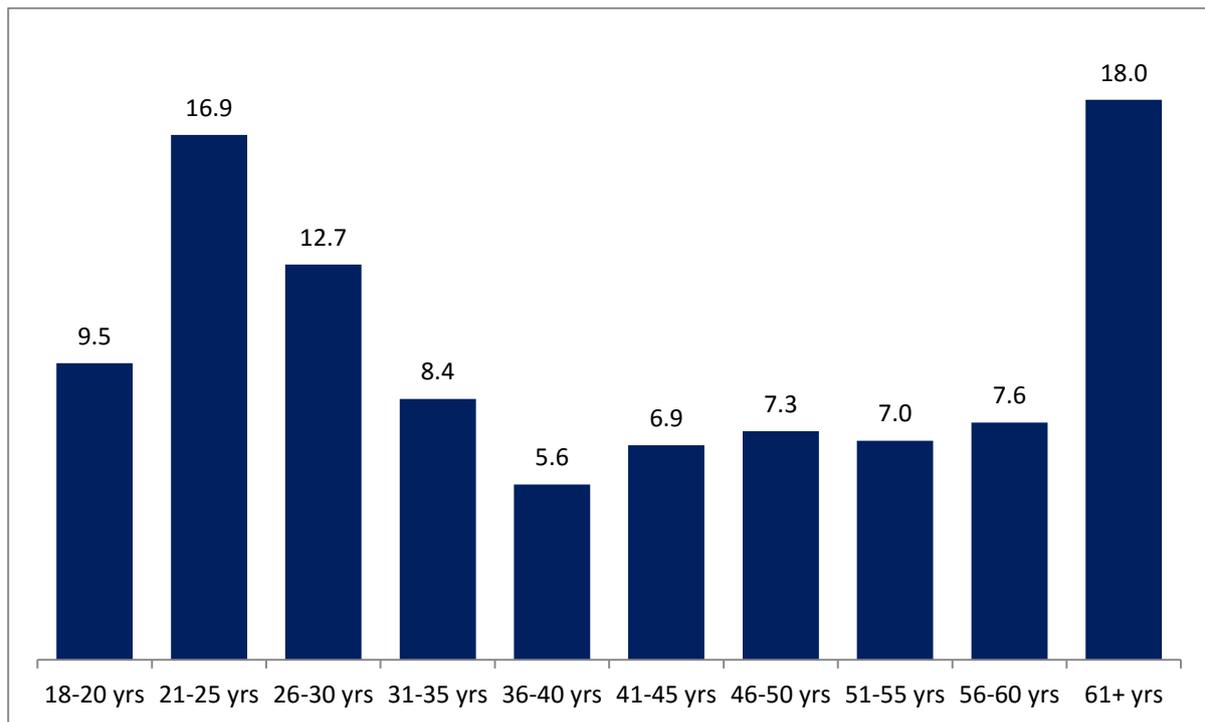
Most (75%) of Basotho aged 18 years or older live in the Lowlands and Foothills ecological zones. The Mountains are home to 10% of the adult population:

Figure 4. Geographical distribution of the Basotho population aged 85 years or older by ecological zone



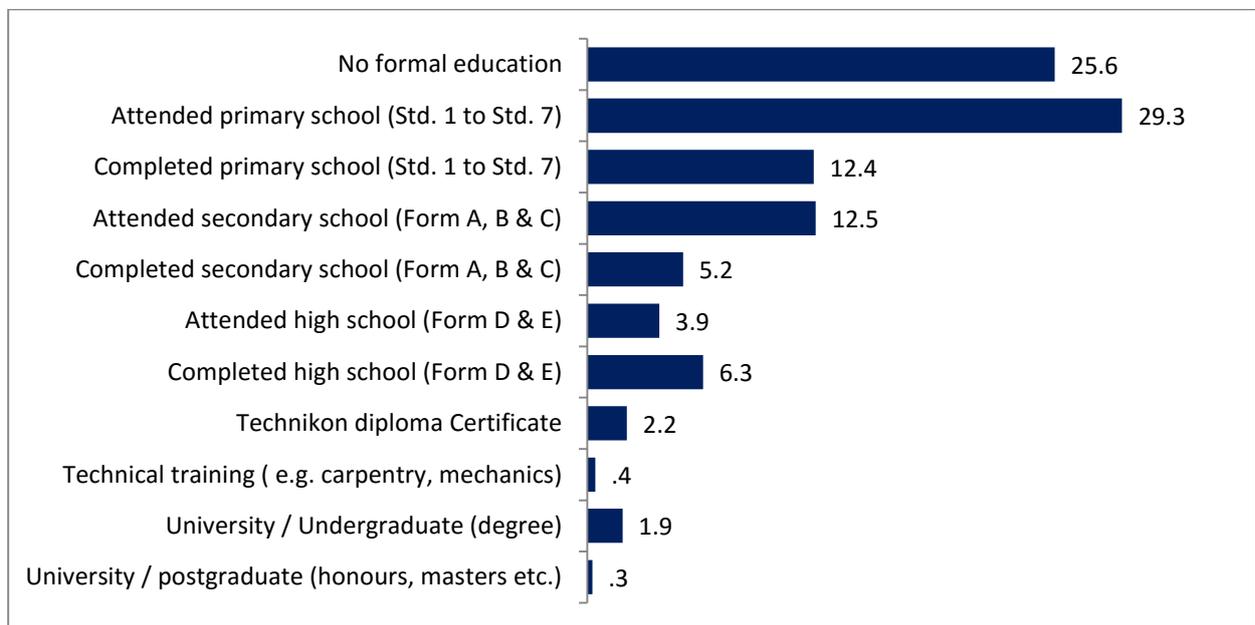
Almost half (47%) of the Basotho aged 18 years or older are under the age of 35 (see Figure 5).

Figure 5. Age distribution of the Basotho population aged 18 years or older



Two-thirds of Basotho adults (67%) have no higher than a primary school level education. About 26% have no formal education (see Figure 6).

Figure 6. Education profile of Basotho aged 18 years or older



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

Understanding people’s lives

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

Access to basic amenities

The Lesotho FinScope 2011 survey findings show that a significant proportion of Basotho aged 18 years or older do not have access to basic amenities. Those who live in rural areas are worse off than their urban counterparts, in terms of access to drinking water, sanitation and energy sources for cooking, as illustrated in Figures 7, 8 and 9.

Figure 7. Access to drinking water: percentage of Basotho aged 18 years and older

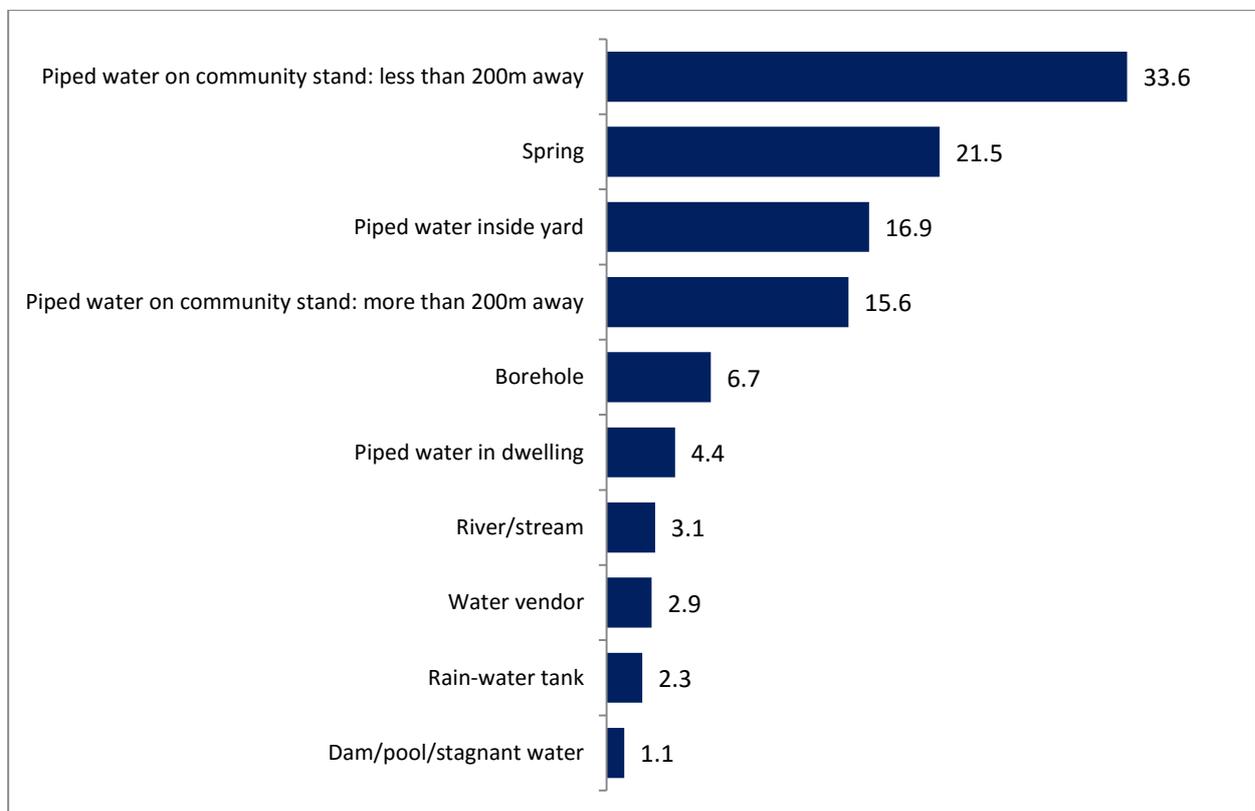
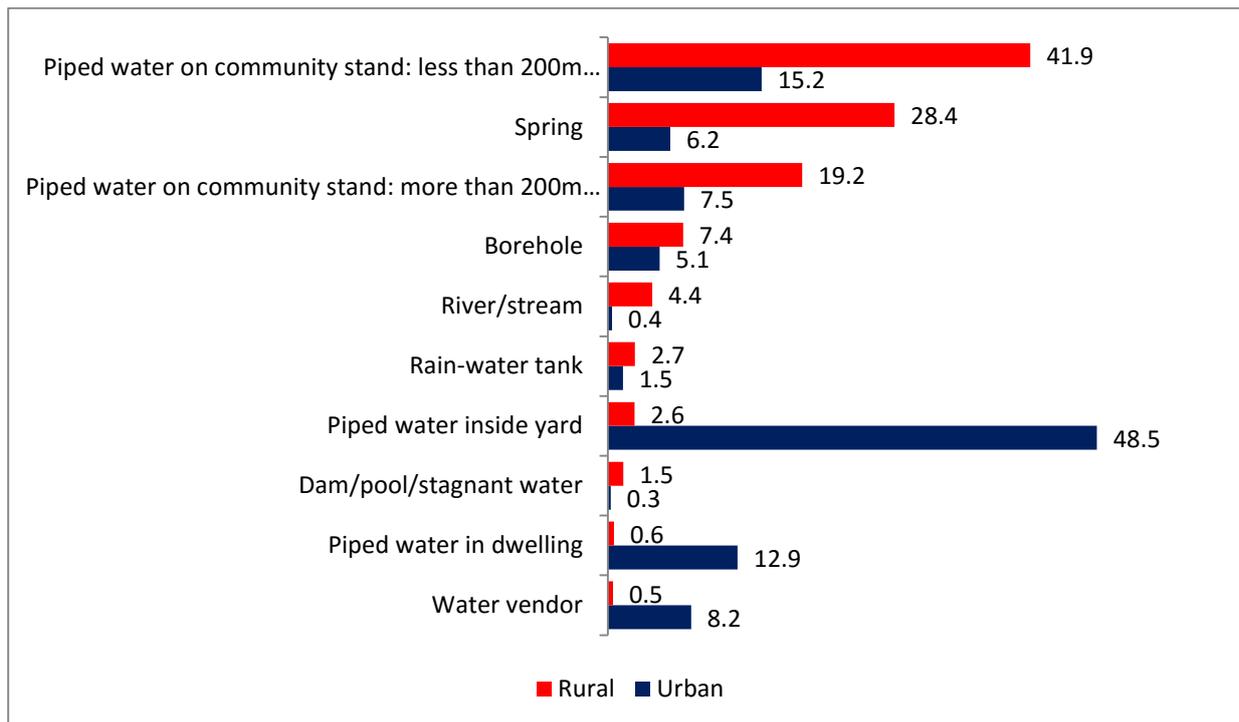
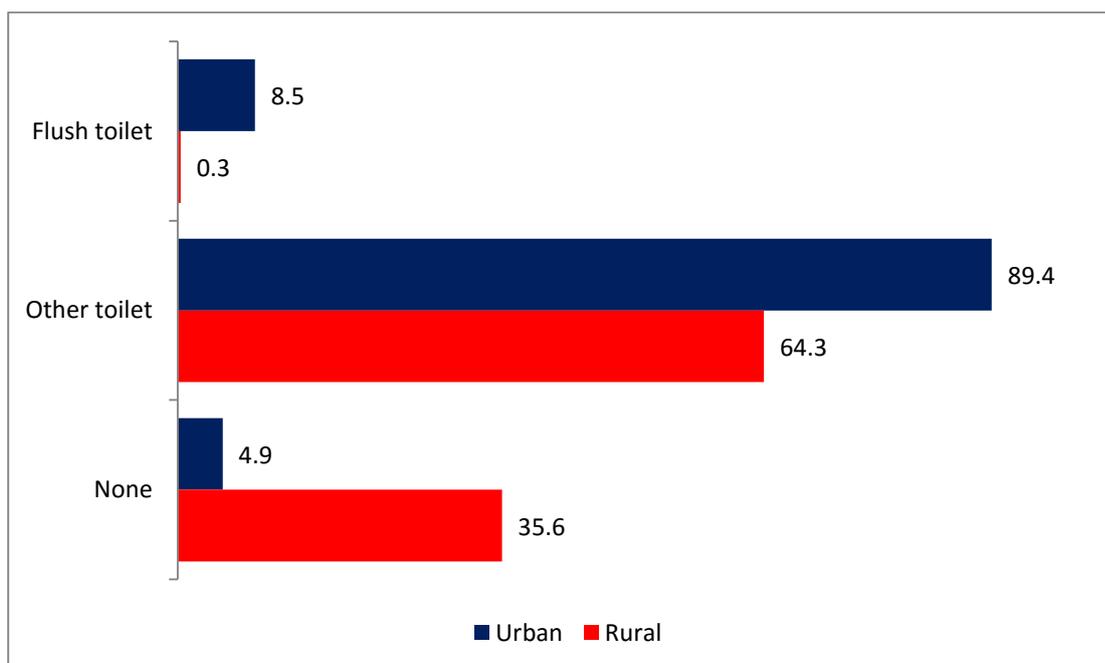


Figure 8. Access to drinking water: percentage of Basotho aged 18 years and older – Rural vs. Urban



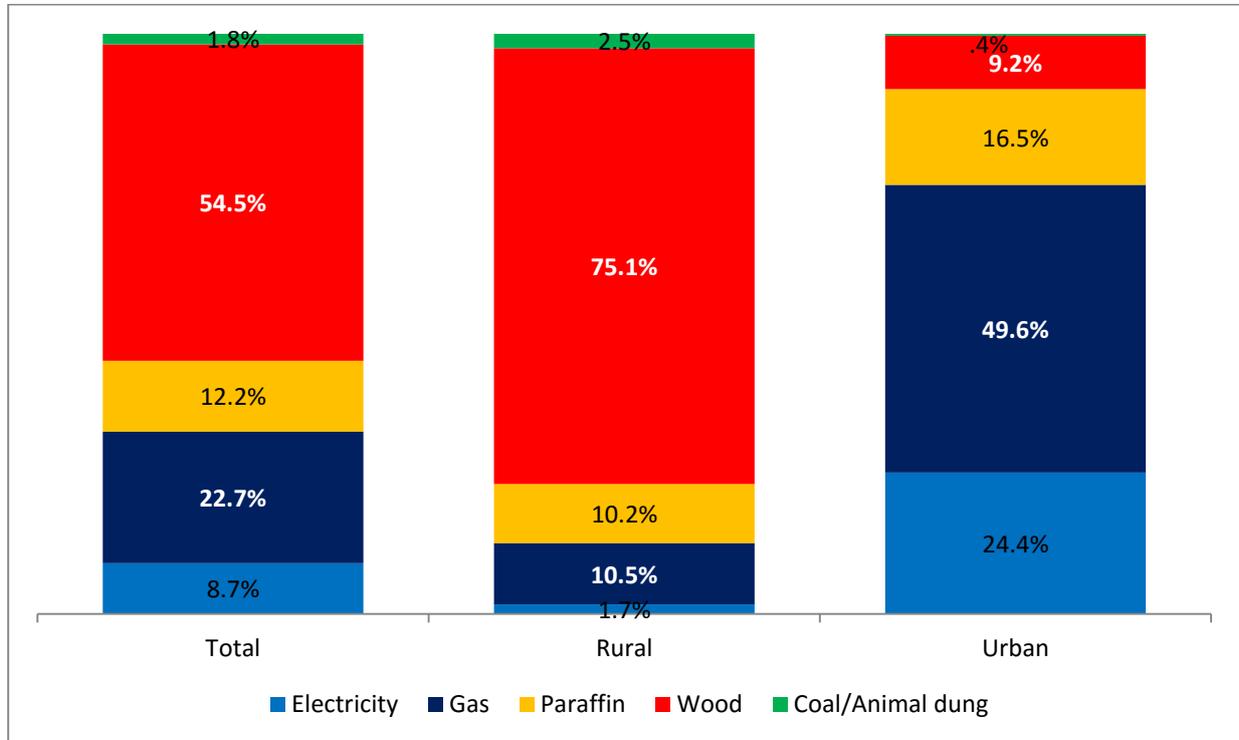
Figures 7, 8, and 9 should be looked at with the aim of understanding the relative importance of having something like a bank account for someone with no easy access to water, no sanitation facilities and has to fetch wood for cooking. While over 50% of Basotho adults have access to piped water within 200m, only 4.4% of Basotho adults have access to piped water in their homes – almost all of them in urban areas. More than a third of Basotho adults who reside in the rural areas have no sanitation facilities (see Figure 8).

Figure 9. Access to sanitation facilities: percentage of Basotho aged 18 or older



Furthermore, as Figure 10 indicates, the major sources of energy for cooking are firewood, and gas. Firewood is predominantly used in the rural areas, while gas is predominantly used in the urban areas. This implies that many in the rural areas spend time gathering firewood.

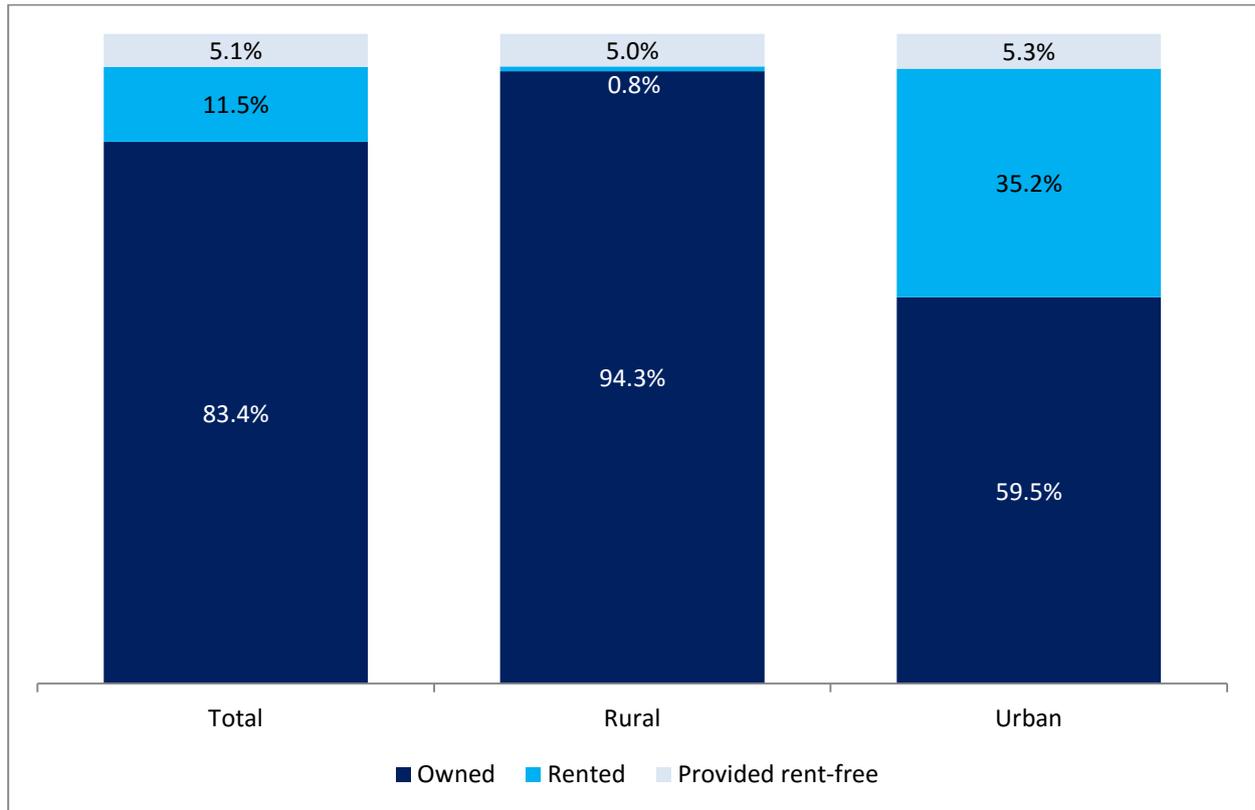
Figure 10. Energy sources used for cooking: percentage of Basotho aged 18 years or older



Assets – Home ownership

Home ownership is higher in rural areas (see Figure 11), than it is in urban areas. As can be expected, rentals appear to be a feature of urban areas in Lesotho (35% compared to less than 1% in rural areas). More than eight in ten Basotho aged 18 years or older indicated that they or a member of their household own the dwelling that they live in. However less than 10% of Basotho who own the homes they live in said that they would use their homes as collateral to secure loans. While this might be a function of not knowing that this is something that is possible, it is also likely, as FinScope surveys in other countries have shown, that Basotho might not view their dwellings as assets and are therefore just not willing to do anything that may result in them losing their homes. Follow up research might explore the true reasons for this in Lesotho.

Figure 11: Dwelling ownership: percentage of Basotho aged 18 years or older



One of the avenues that is often touted as the way to expand the reach of financial services is through mobile phones. The success of M-Pesa in Kenya certainly has helped strengthened this view. However, the seeming failure of M-Pesa in South Africa has led to the moderation of this view. However, to try and understand the potential in Lesotho, it is therefore important to look at the level of usage of mobile phones. Looking at the proportions of the population who personally use mobile phones addresses this, but it is also an indicator of the level of connectivity.

Figure 12. Usage of mobile phones: percentage of Basotho aged 18 years or older

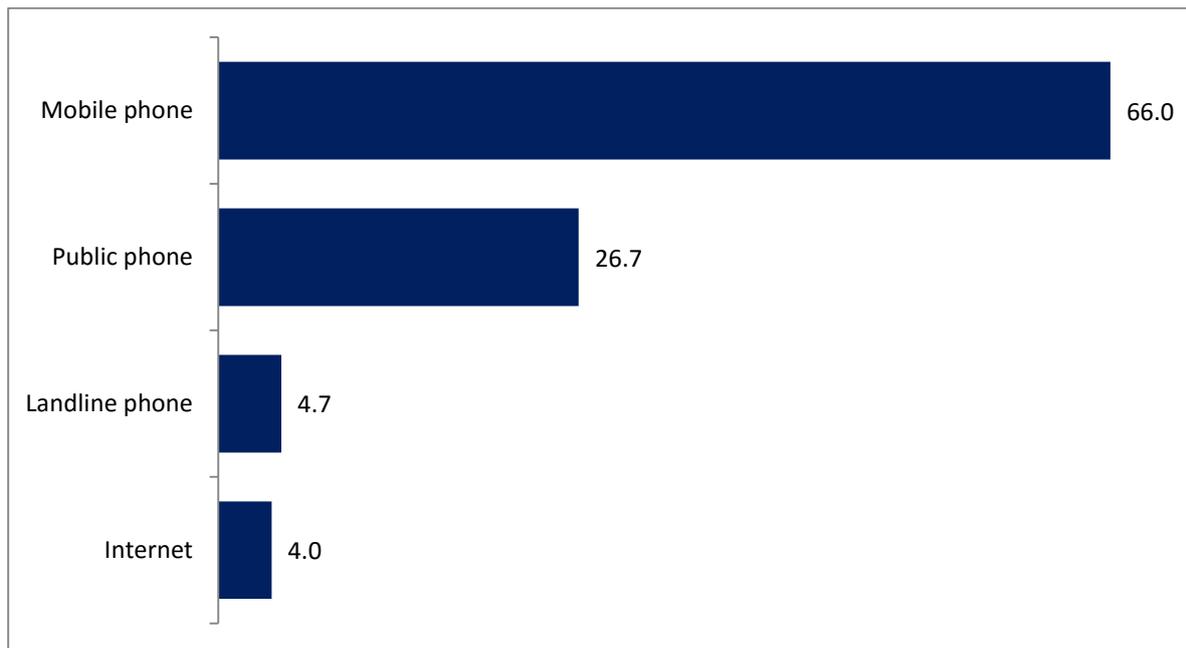
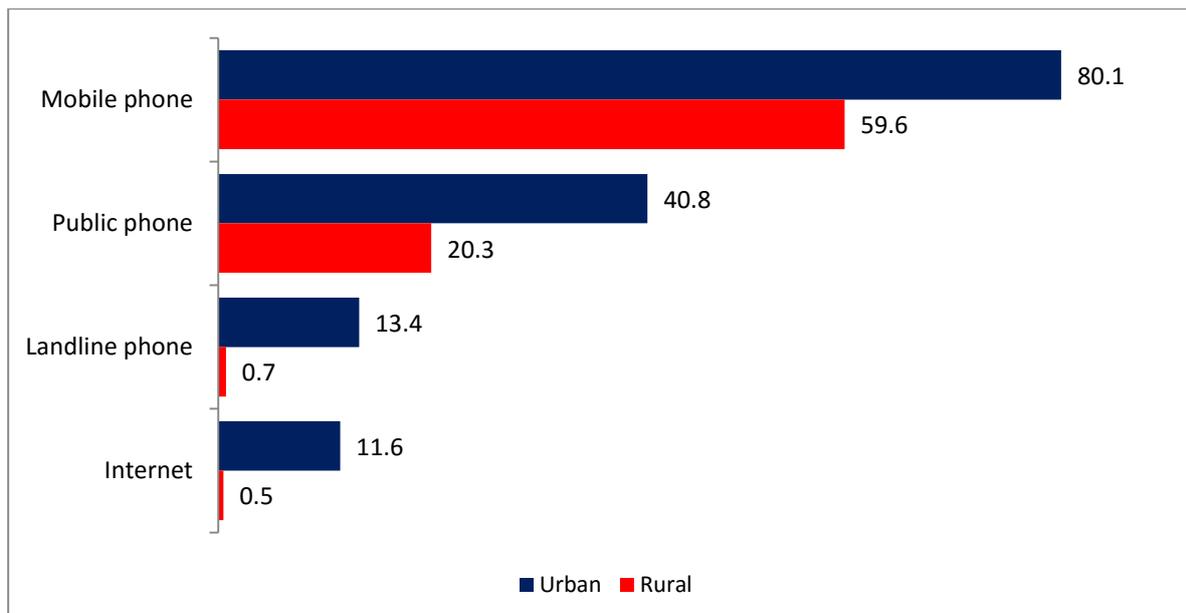


Figure 13. Usage of mobile phones: percentage of Basotho aged 18 years or older – Rural vs. Urban



Mobile phone access is high – similar to other African countries. As can be expected, it is higher in urban areas than in rural areas.

Geographical access to facilities

The distance to the nearest grocery store, local village market, post office and bank – measured in terms of the time taken to reach these places – helps achieve mainly two things. The first is that it gives a sense of the levels of access to infrastructure. The other, and perhaps the more important, is that it helps to provide a context in which to evaluate the distribution of financial services institutions. Very often, the lack of physical access (‘the

banks are too far') is given as the reason for why people do not especially engage with the formal financial institutions. Pressure is often subsequently brought to bear on the formal financial institutions to erect points of presence in these often rural areas. What is important is to put the distance to formal financial institutions in relation to the distances to other basic institutions such as the nearest grocery store, local village market, and post office. Once this is done, it is then possible to see if physical access is really the main problem. Another benefit of looking at physical access in this way is that it also provides service providers with ideas regarding possible alternative distribution channels for their products and services.

Figure 14. Access to facilities - percentage of Basotho aged 18 years or older

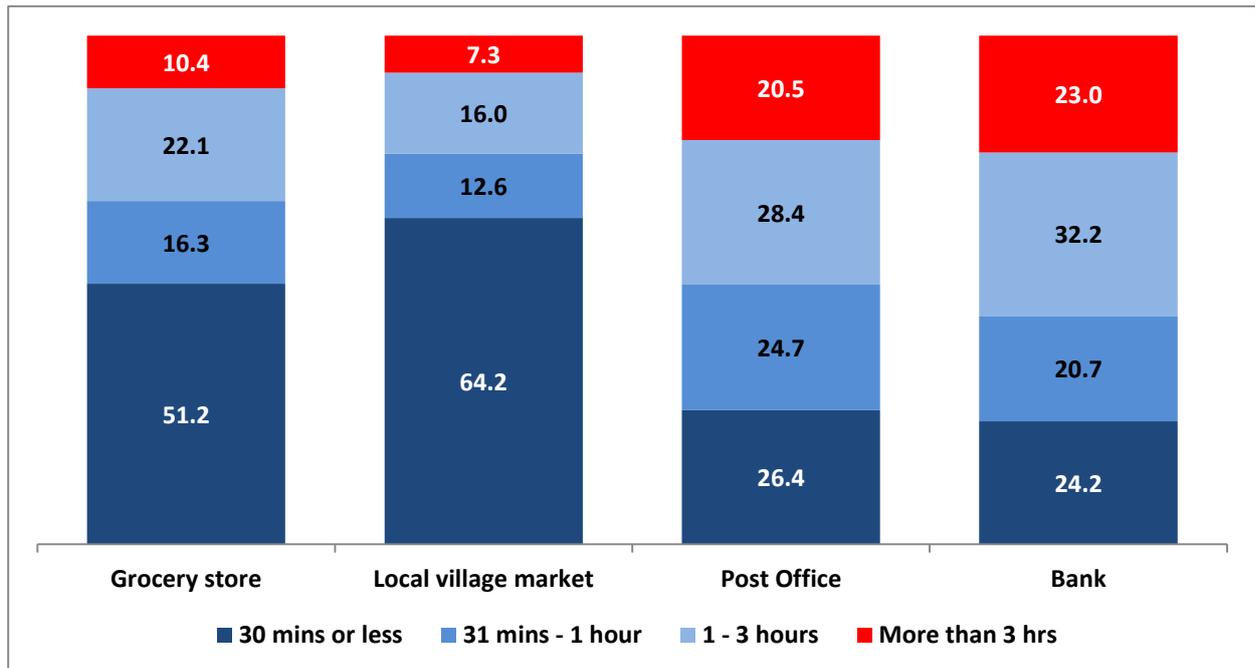


Figure 15. Access to facilities - urban: percentage of Basotho aged 18 years or older

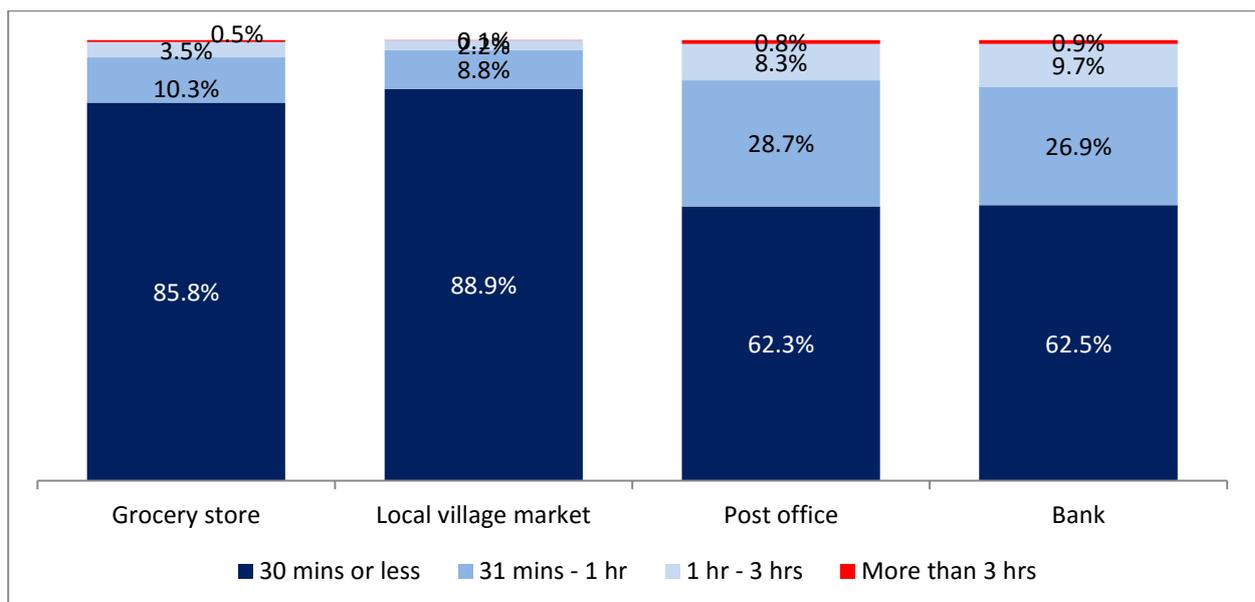
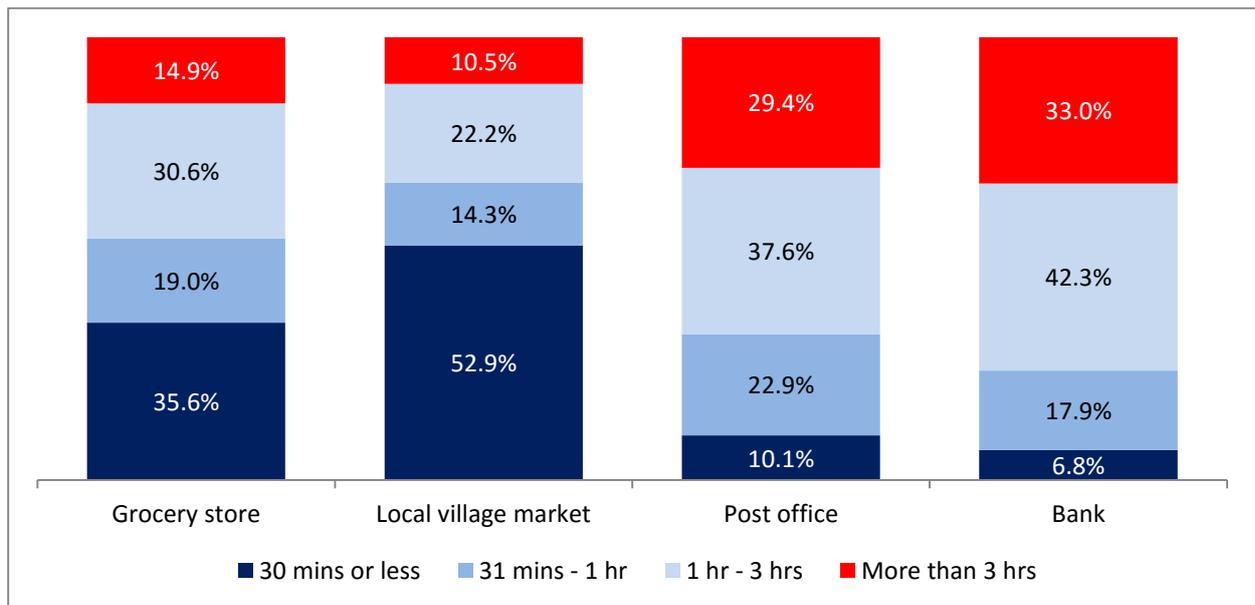


Figure 16. Access to facilities - urban: percentage of Basotho aged 18 years or older



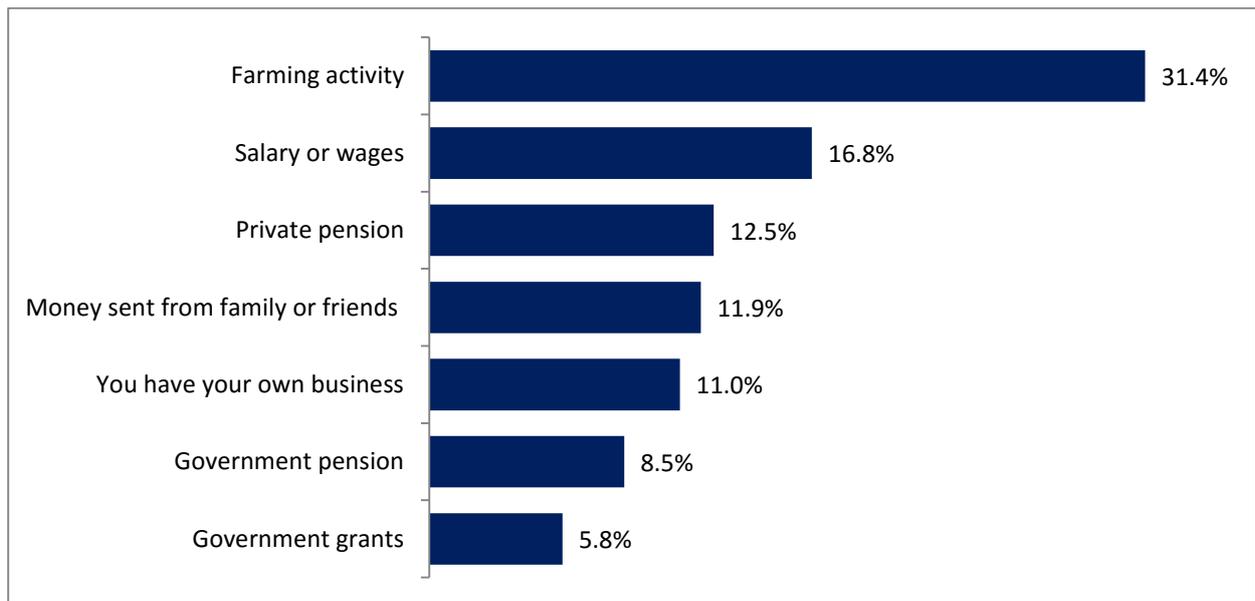
As can be expected, access to infrastructure is better in urban areas. In particular, geographical access to banks and the post office is much better in the urban areas than in the rural areas. The higher accessibility of the 'grocery stores' and the 'local village markets' could be of interest to institutions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

2.2 Income-generating activities

In addition to appreciating the general demographics of the Basotho adult population and how they live their lives, as outlined in Section 2.1, it would be impossible to understand the extent and nature of financial inclusion in Lesotho without looking at how people generate their income. Without knowing the income realities of Basotho, it will be difficult to understand their financial service usage choices and constraints, as income is one of the primary determinants of engagement with financial services providers. Understanding the source, regularity and consistency of the earned income can also inform the optimal way that financial services should be structured to increase usage by, and benefit to, Basotho.

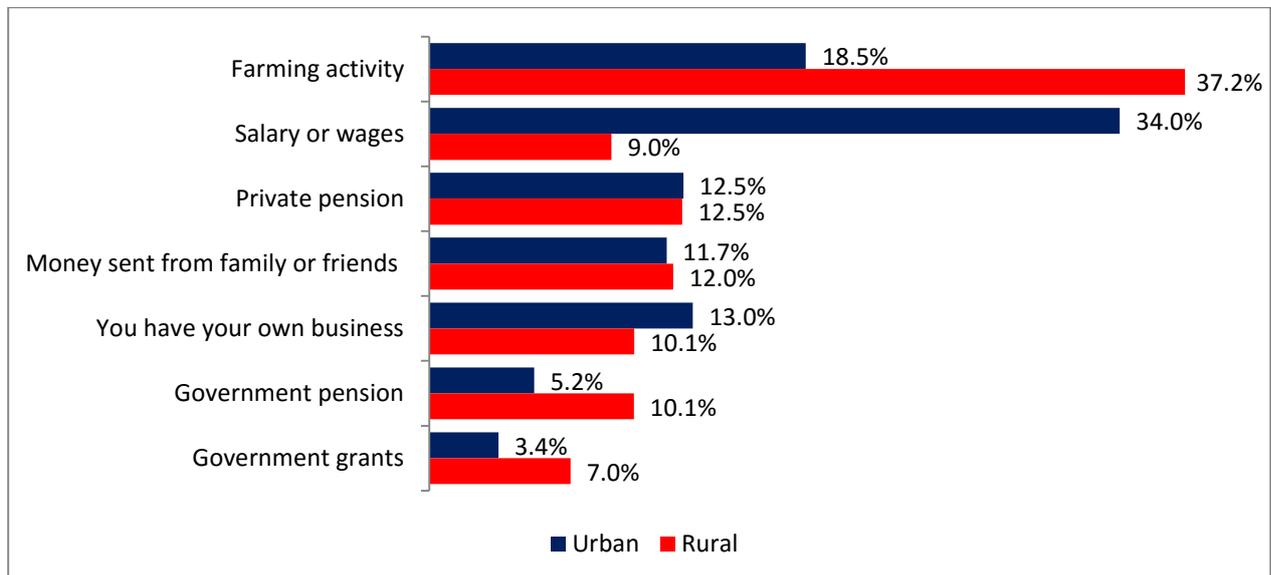
Figure shows the main income-earning activities in Lesotho.

Figure 17. Main income generating activities: percentage of Basotho adults



Only 17% of Basotho adults earn most of their income in the form of wages and salaries. Because salaries and wages are regular and stable sources of income, people who earn wages and salaries are almost always the preferred targets of formal financial institutions. However, this target market, when fully subscribed, accounts for only 17% of the Basotho adult population.

Figure 18. Main income generating activities: percentage of Basotho adults – Rural vs. Urban



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

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

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

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

Summary

A few points emerge from Section 2 that are useful to keep in mind in thinking about the prospects of increasing the levels of financial inclusion in Lesotho:

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

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

3. Financial inclusion in Lesotho

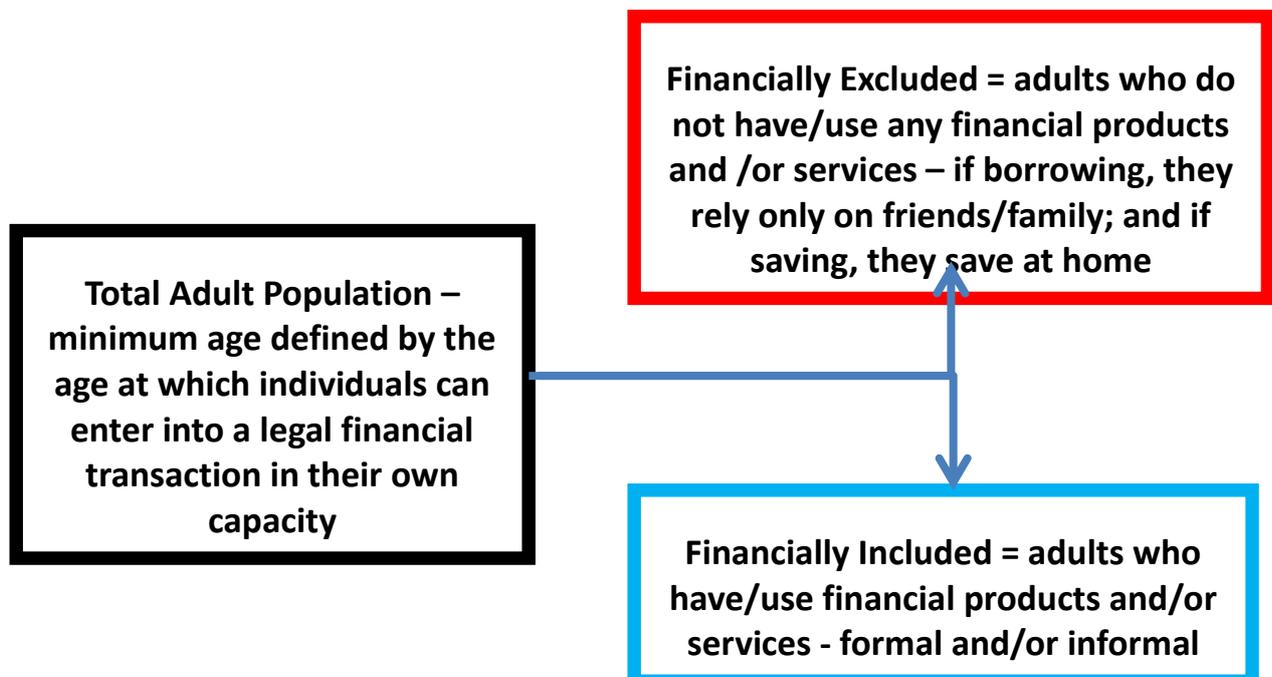
This section considers the landscape of financial inclusion in Lesotho as it emerges from the FinScope Lesotho 2011 findings, bearing in mind the profile of the adult population as sketched in the preceding section. Section 3.1 defines financial inclusion. Section 3.2 explains and employs the financial access strand and financial access landscape tools to indicate the overall state of financial inclusion. Section 3.3 investigates the usage of different types of financial services. Section **Error! Reference source not found.** considers the barriers to financial inclusion in Lesotho in an attempt to explain the current levels of financial exclusion.

3.1 What is financial inclusion?

The concept “financial inclusion” is core to the FinScope methodology. Financial inclusion considers that part of the adult population that uses any kind of financial service, formal or informal. The term used for this part of the population, is “financially served” or “financially included”.

The FinScope methodology uses financial product usage to segment the adult population. The starting point (Step 1) is the total adult population, which is initially segmented into two groups: the ‘financially excluded’ and the ‘financial included’:

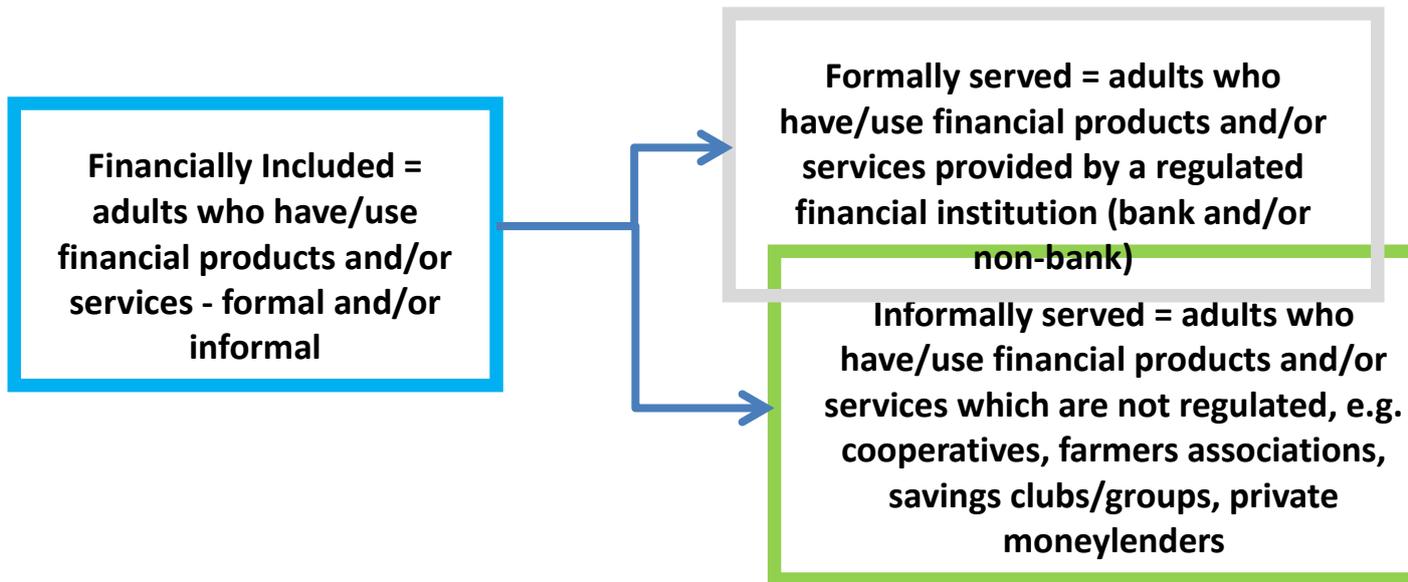
Figure 19. Understanding Financial Inclusion: Step 1



The 'financially excluded' segment is made up of adults who manage their financial lives without the use of any financial products or mechanisms external to their personal relationships.

The 'financially included' segment is taken through a further step of segmentation:

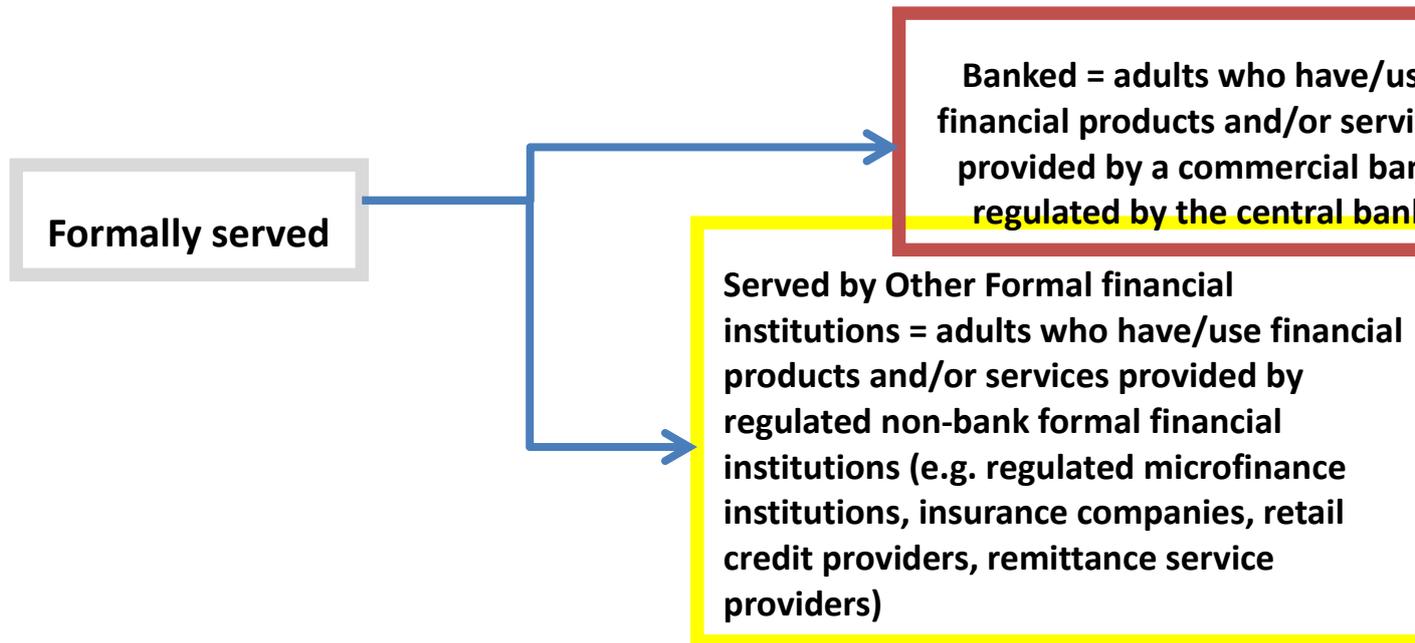
Figure 20. Understanding Financial Inclusion: Step 2



As the 'financially included' segment is made up of adults who have/use both formal and informal financial products and mechanisms, this second step in the segmentation seeks to identify:

- Those who have or use products or services from financial institutions that are regulated through an Act of law (formal financial institutions). Those who have or use products and services from these institutions fall in the 'formally served' segment.
- Those who have or use products or services from financial institutions that are not regulated (informal financial institutions and mechanisms). Those who have or use products and services from these institutions and make use of these mechanisms fall in the 'informally served' segment.
- Those who have or use products or services from both formal and informal financial service providers.

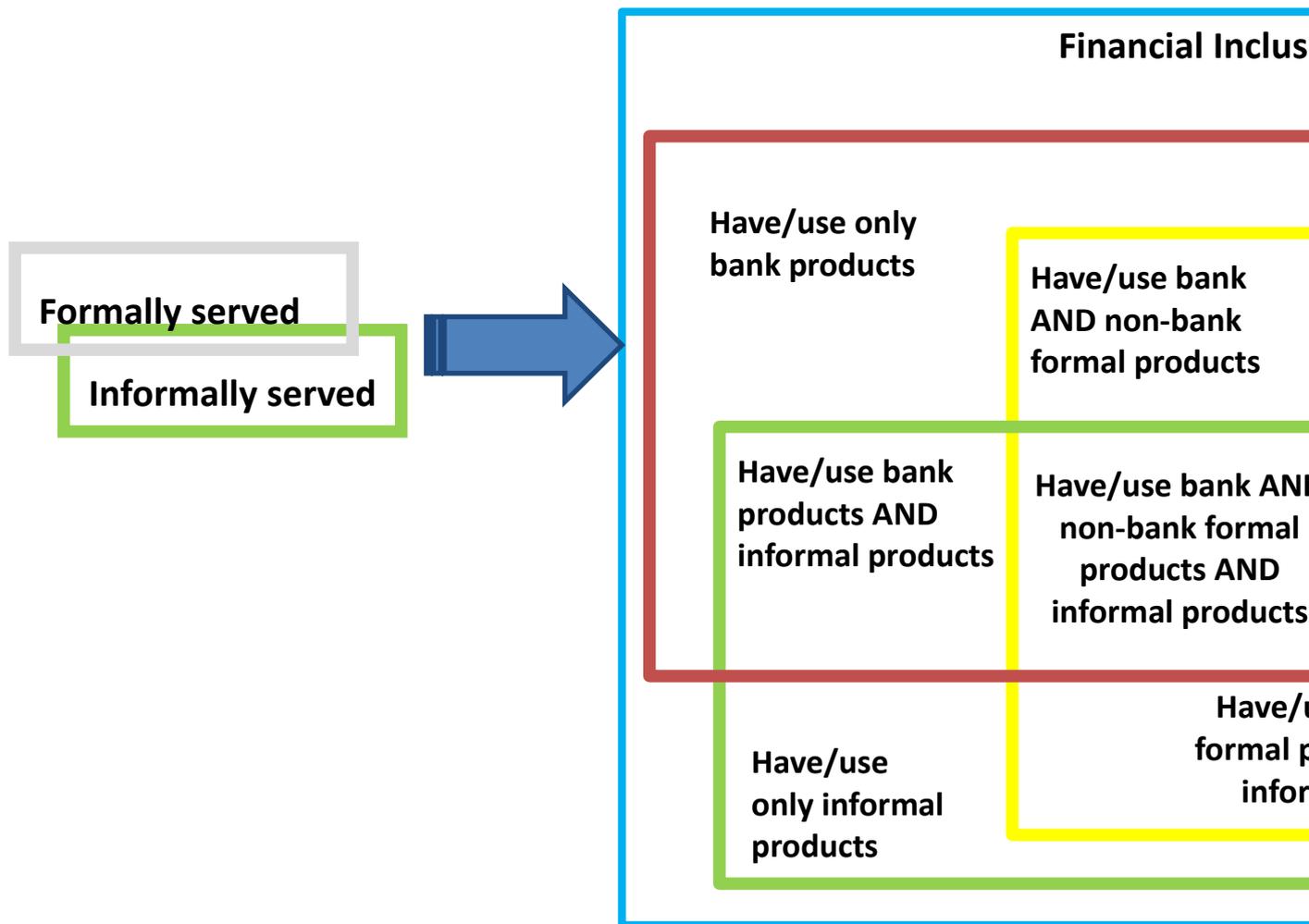
Figure 21. Understanding Financial Inclusion: Step 3



The 'formally served' segment is made up of adults who have or use products or services from financial institutions that are regulated through an Act of law (formal financial institutions). This step further segments this segment into:

- Those who have or use products or services from licensed commercial banks that are regulated by the country's central bank. Those who have or use products and services from licensed commercial banks fall in the 'banked' segment.
- Those who have or use products or services from financial institutions that are regulated through Acts of law but are not commercial banks. Those who have or use products or services from such institutions fall into the 'served by Other Formal financial institutions' (later referred to as 'Other Formal' segment).
- Those who have or use products or services from both commercial banks and other formal financial institutions.

Figure 22. Understanding Financial Inclusion: Step 4



The final stage in the segmentation looks at the overlaps amongst these different segments:

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

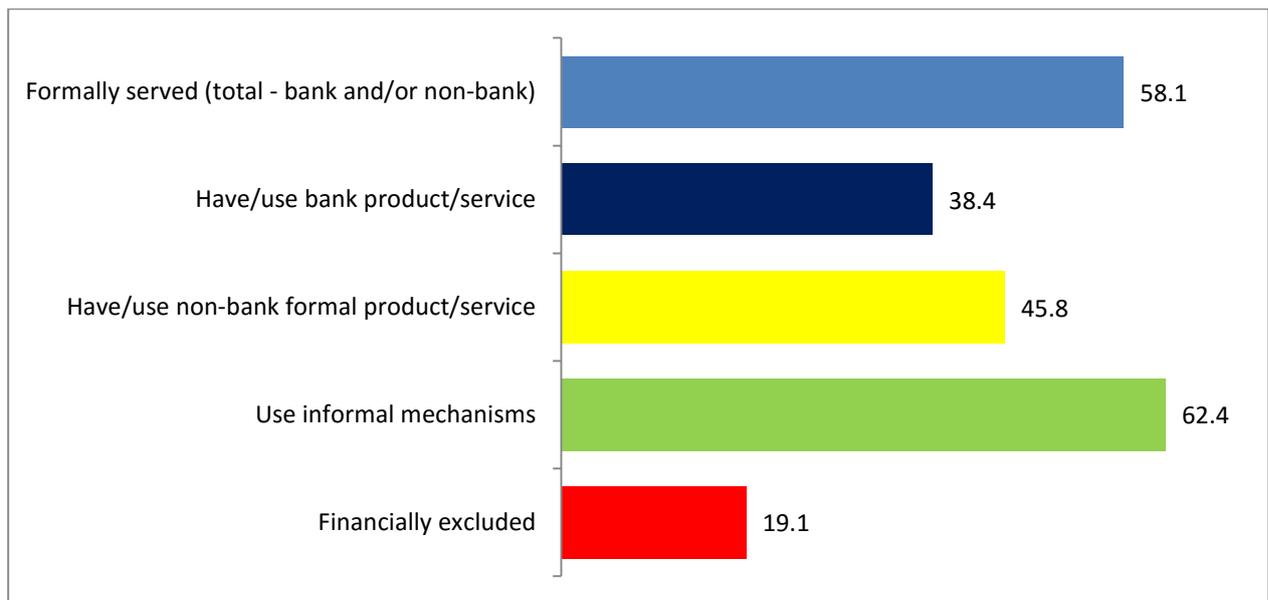
- Those who have or use other formal and informal products and service

3.2 Overall picture of financial inclusion

Formal versus informal inclusion, rural versus urban

A total of 19.1% of Basotho adults do not use any form of financial product or mechanism to manage their financial lives, be it formal or informal. In total, 58.1% use formal financial services and 62.4% use informal financial services, as indicated in Figure 22.

Figure 23. Formal versus informal financial product usage among Basotho adults



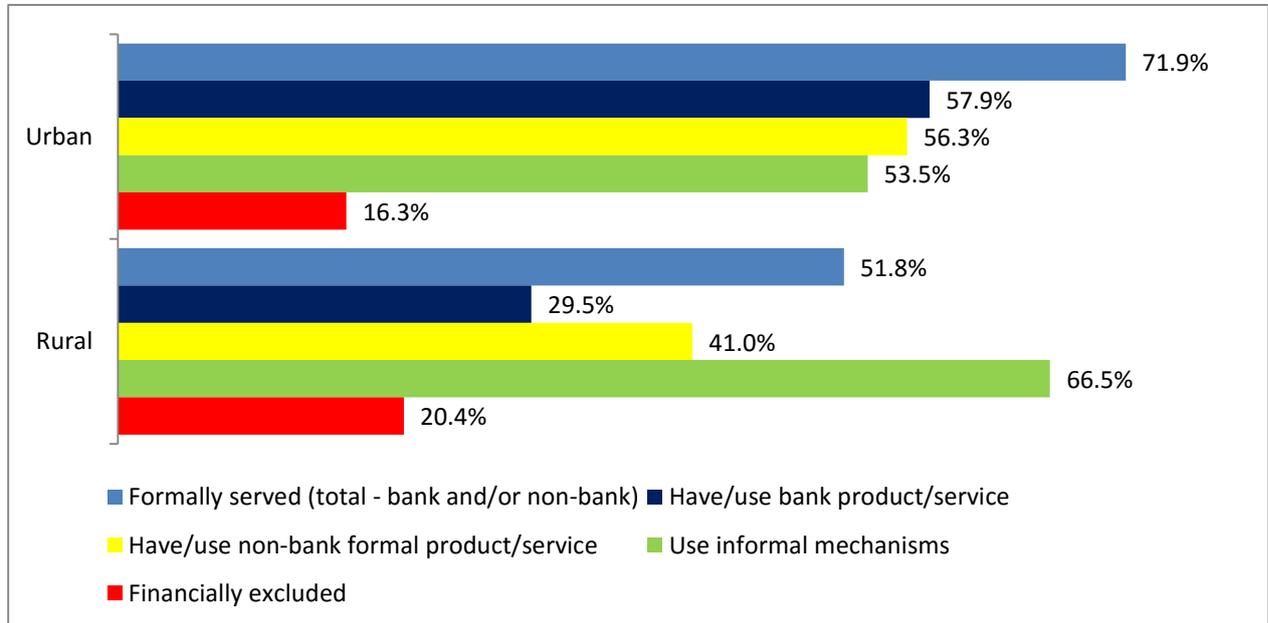
The proportion of the population that makes use of informal products and services (62.4%) shows the significance of the informal sector in Lesotho. Within the formal sector, the non-bank formal financial institutions play a significantly larger role than the banks: 38.4% of Basotho adults have a bank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

It is important to note in reading Figure 22 that there will be overlaps between formal and informal financial services usage. That is: some people who have a formal financial product will also have an informal one; formal and informal usage as depicted in the figure cannot simply be added up to reach total inclusion. The same holds for banking and non-bank

financial services: many of those who use non-bank financial services are likely to also have a bank account. These differences will become apparent when inclusion is unpacked further.

Figure 23 shows a comparative analysis of rural and urban usage figures.

Figure 24 . Percentage of Basotho adults using financial services: Rural vs. Urban



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

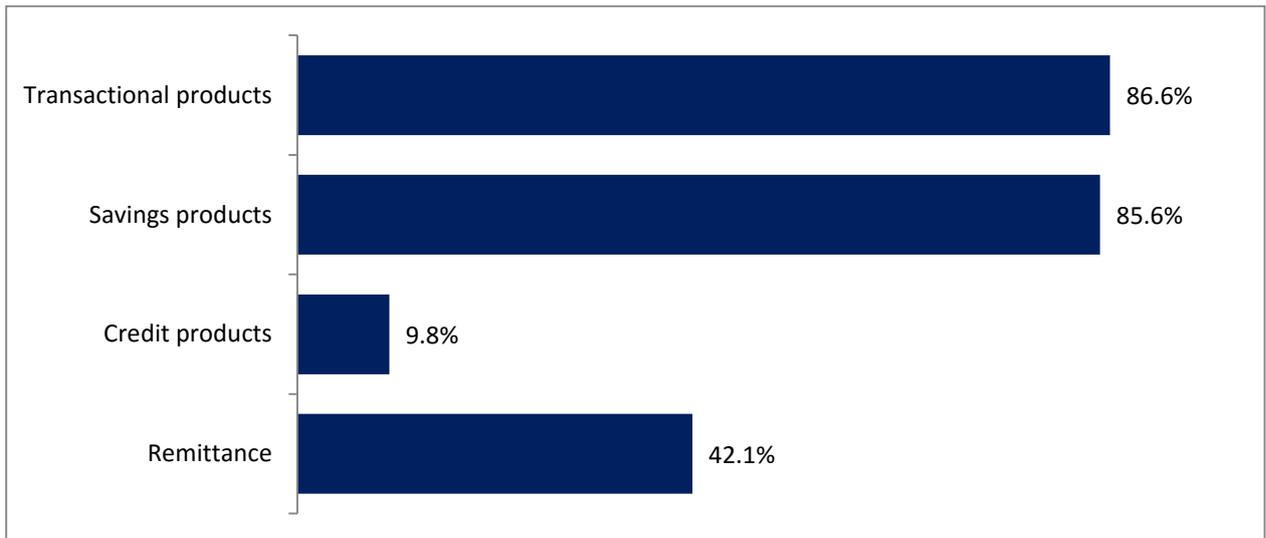
It is important to note the more important role played by the informal sector in the rural areas. More adults in the rural areas use informal financial services than formal financial services. Not to downplay the large importance of the informal sector in urban areas, but comparatively, the role of the informal sector is more significant in the rural areas.

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

In Figures 24-29, we look at what is driving financial inclusion in Lesotho. It is important to get an understanding of:

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

Figure 25. Types of banking products used by Banked Basotho adults



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

Figure 26. Types of banking products used by Banked Basotho adults – Rural vs. Urban

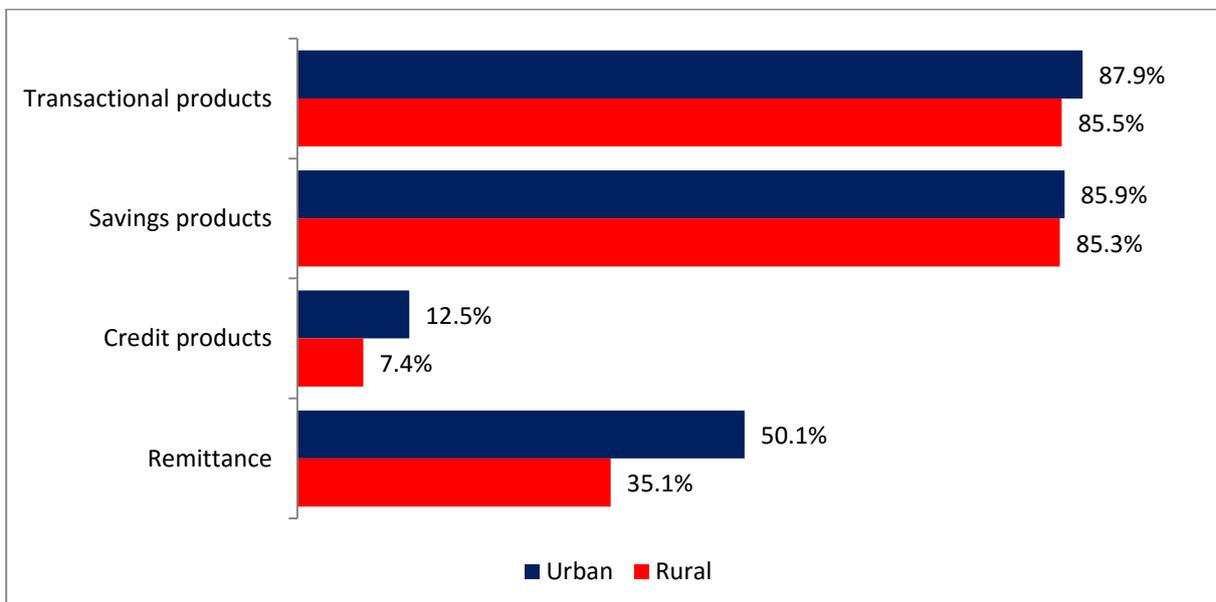
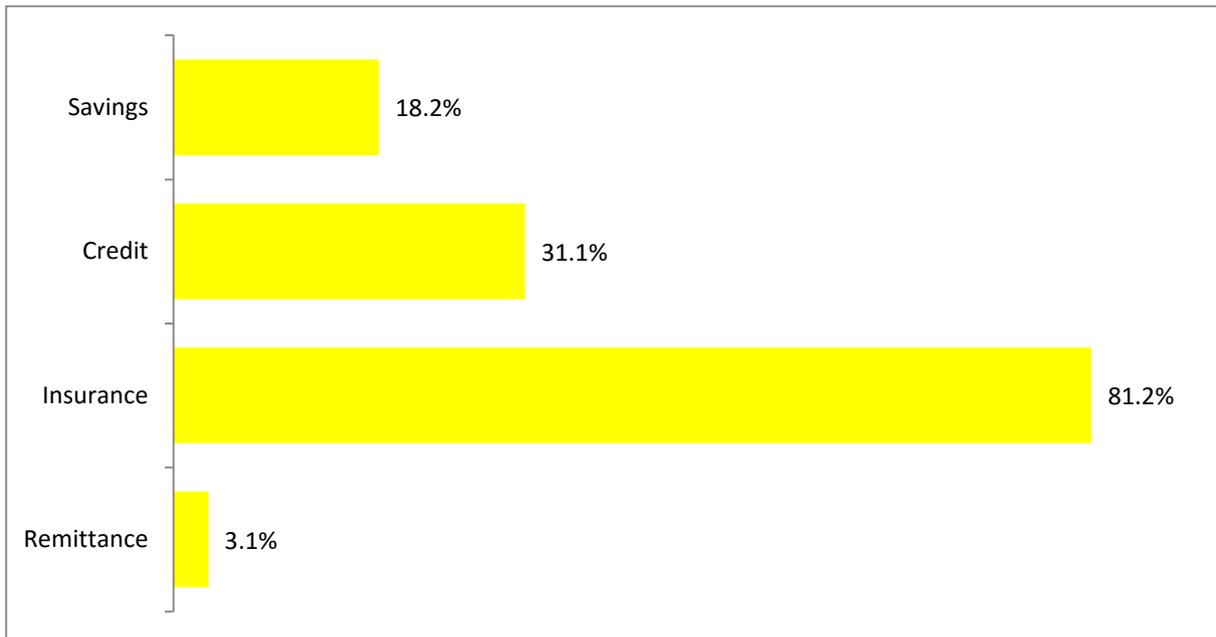


Figure 27. Types of products and services used by Basotho adults who use non-bank formal financial institutions



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

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

Figure 28. Types of products and services used by Basotho adults who use non-bank formal financial institutions – Rural vs. Urban

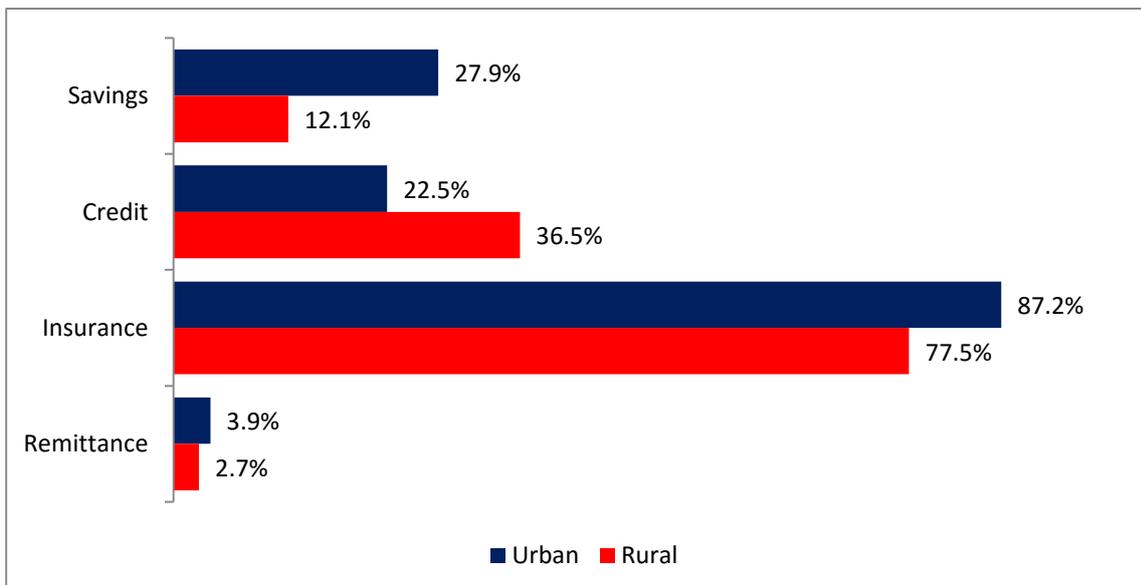
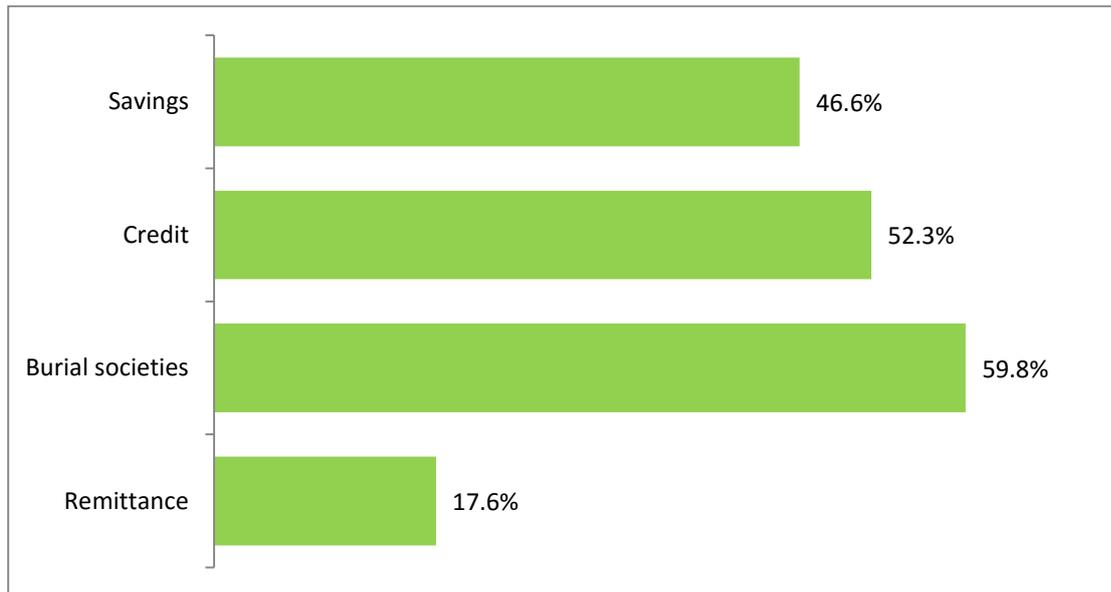


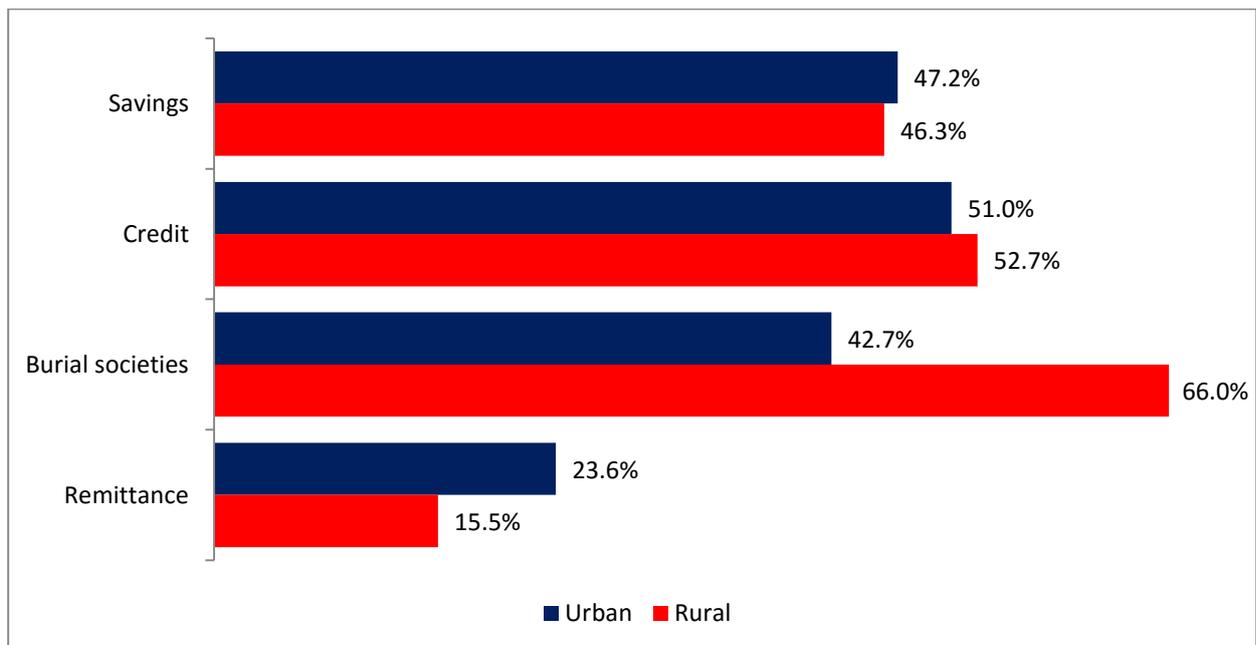
Figure 29. Types of products and services used by Basotho adults who use informal products and mechanisms



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

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

Figure 30. Types of products and services used by Basotho adults who use informal products and mechanisms – Rural vs. Urban



Usage overlaps

Figure 22 showed that there are overlaps in the usage of the different categories of financial products and services. In this section, we examine the extent of those overlaps.

Overall, a significant proportion of the adult population uses a combination of financial services (see Figure 29).

Figure 31. Overlap of usage of banking, formal other and informal financial services: total adult population

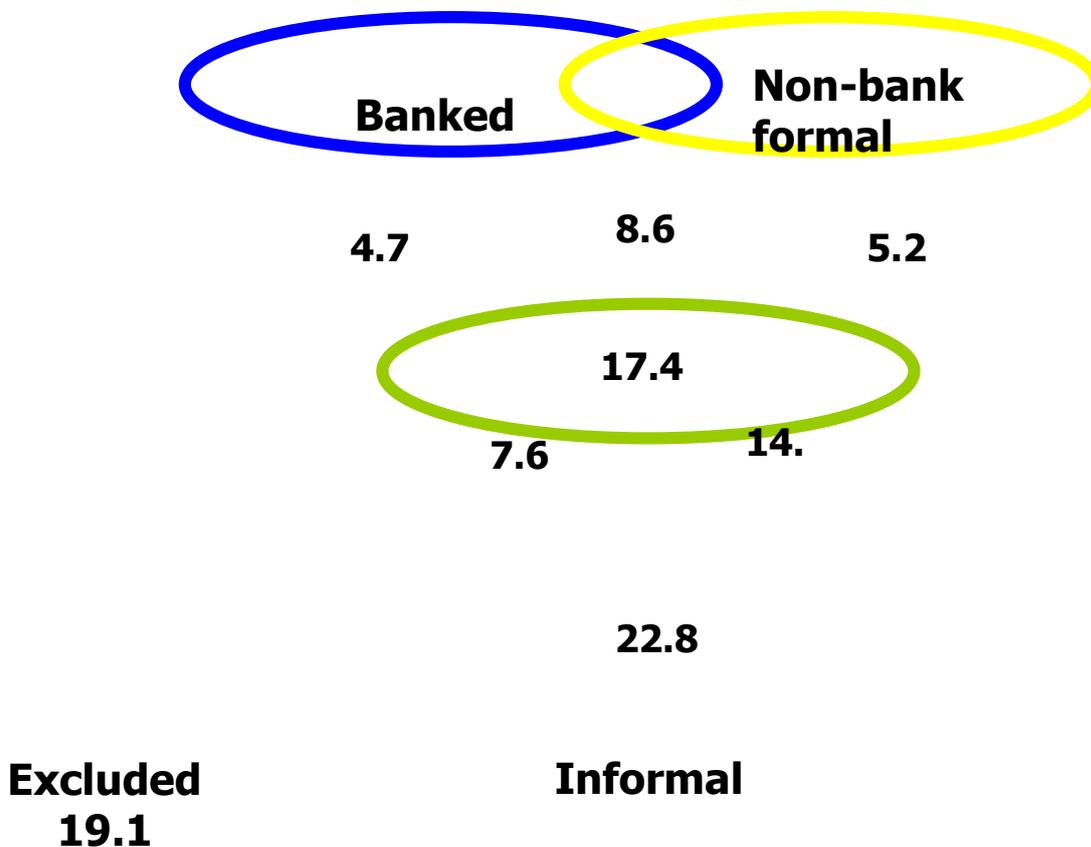
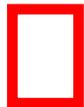


Figure 31 shows that:

- 4.7% of Basotho adults are only banked
- 26% are banked *and* use other formal financial services
- 17.4% are banked *and* use other formal services *as well as* informal services
- 7.6% are banked *and* use informal services

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

financial products and services, 64% of them also make use of formal financial services and products.

Further analysis of the FinScope Lesotho 2011 dataset should seek to further describe the characteristics of those within each of these seven segments.

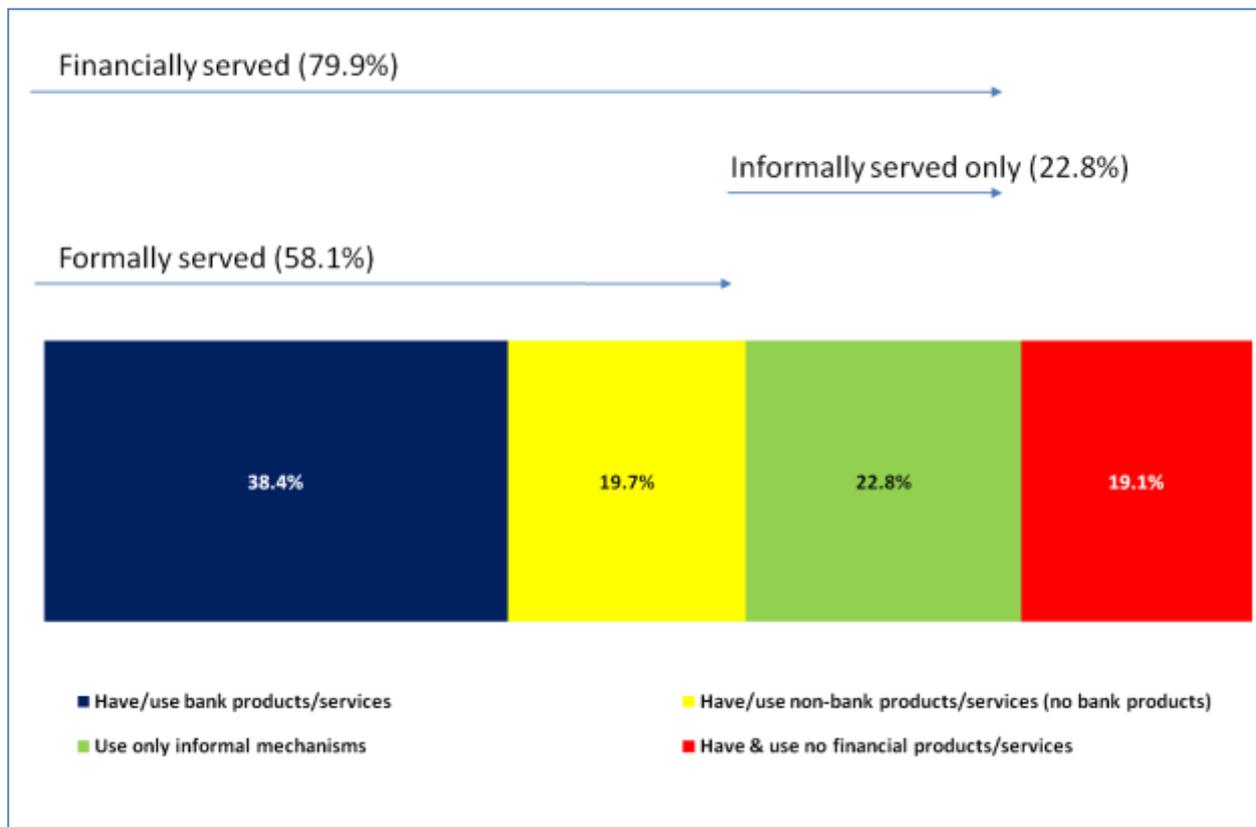
Financial access strand

Another tool to consider financial inclusion, which removes some of the overlaps highlighted in the previous analysis, is the financial access strand (FAS). The FAS is based on the definition of financial inclusion and the corresponding segmentation of the adult population as set out in Section 3. To recap, all adults in a country will fall into one of the following categories:

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

Figure 32 plots financial services usage in Lesotho according to these categories.

Figure 32. Financial access strand for Basotho adults



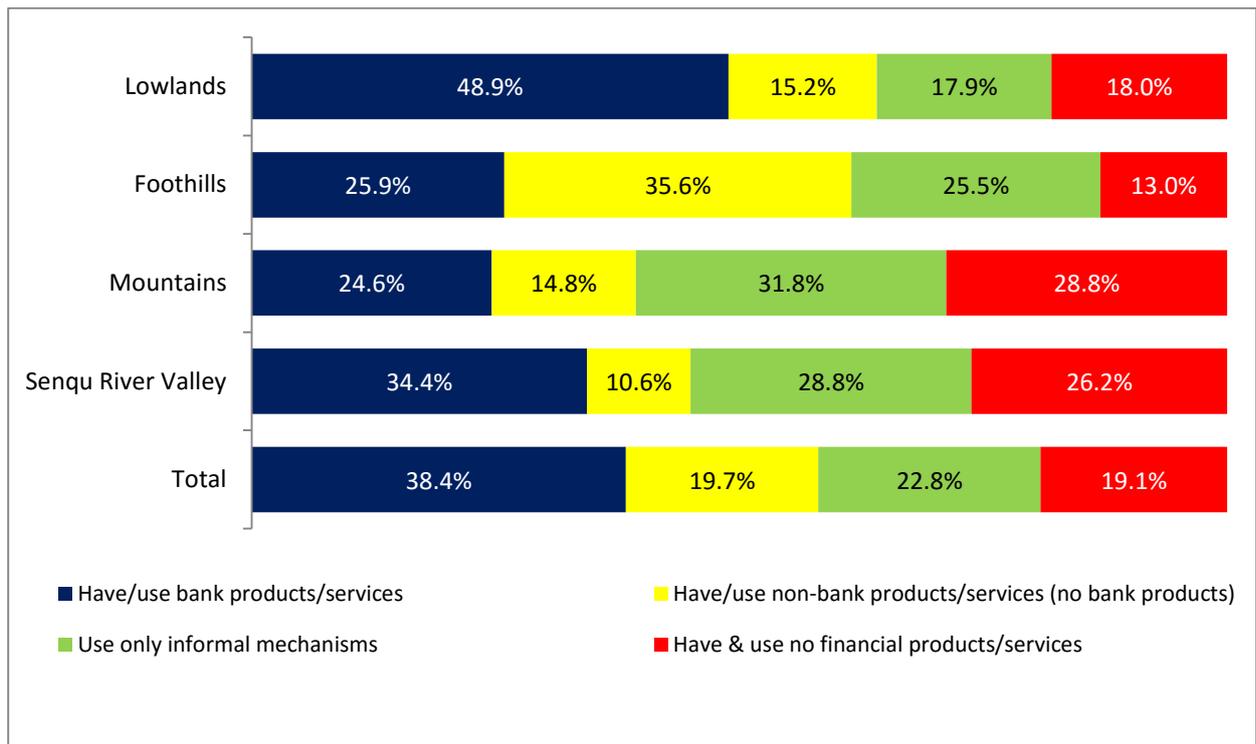
A total of 79.9% of Basotho adults are financially served – made up of those who use bank products/services, those who use non-bank formal products/services, and those who make use of informal services/mechanisms. The balance (19.1%) is classified as financially excluded:

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

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

The FinScope FAS tool can be used to compare financial inclusion levels across different population segments or regions within a country. Figure 33 shows Lesotho's access strands for the different ecological zones in Lesotho.

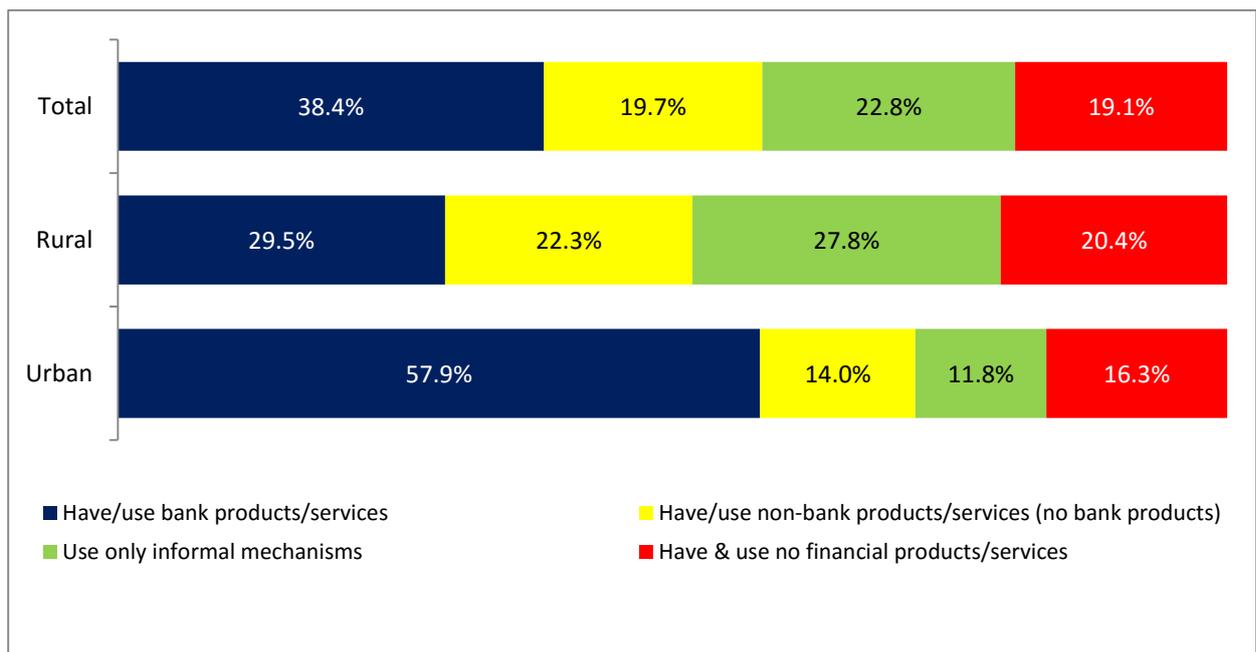
Figure 33. Financial access strands for the different ecological zones in Lesotho



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

Figures 34 and 35 consider the access strands for Lesotho for the rural and urban areas and by gender.

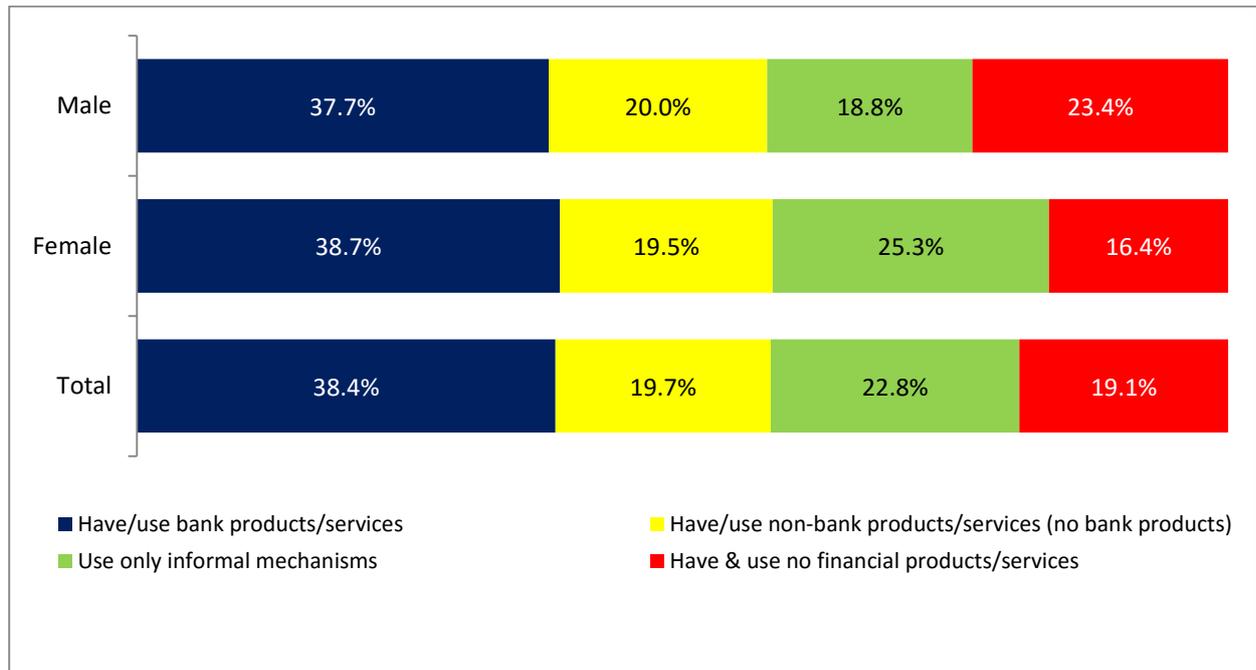
Figure 34. The Lesotho access strand: Rural versus Urban



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

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

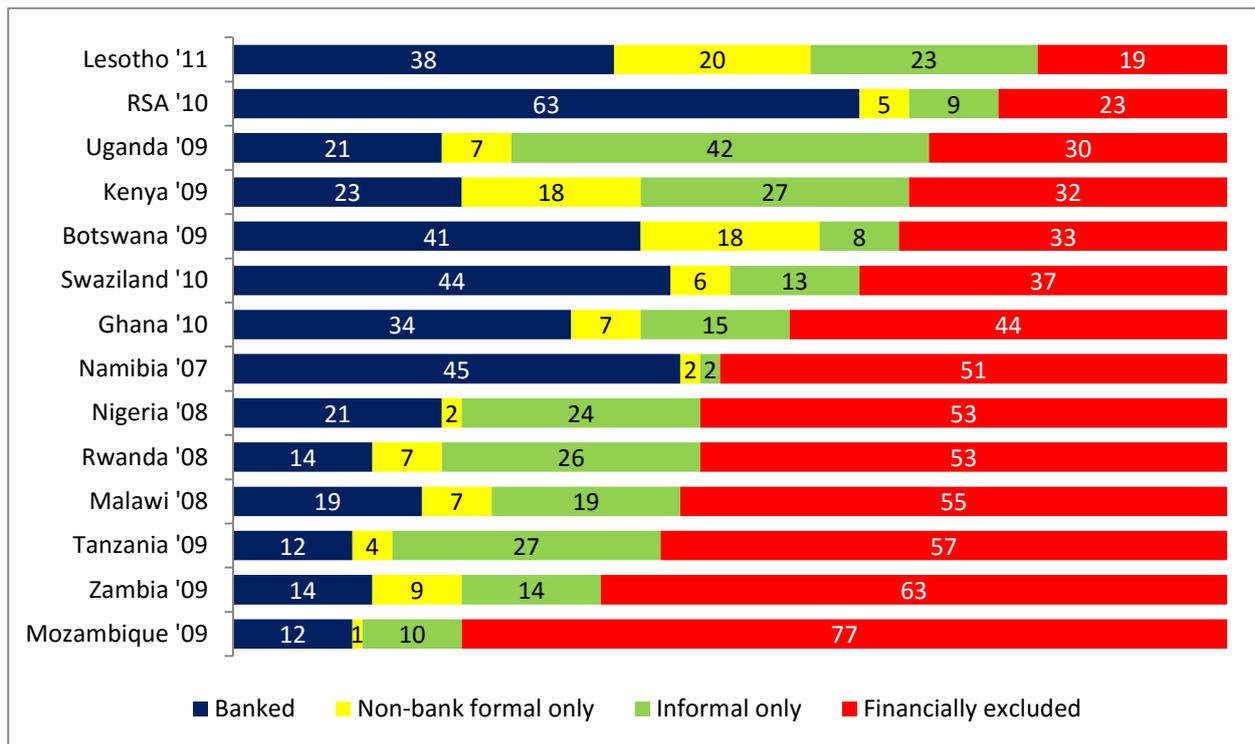
Figure 35. The Lesotho access strand: male versus female



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

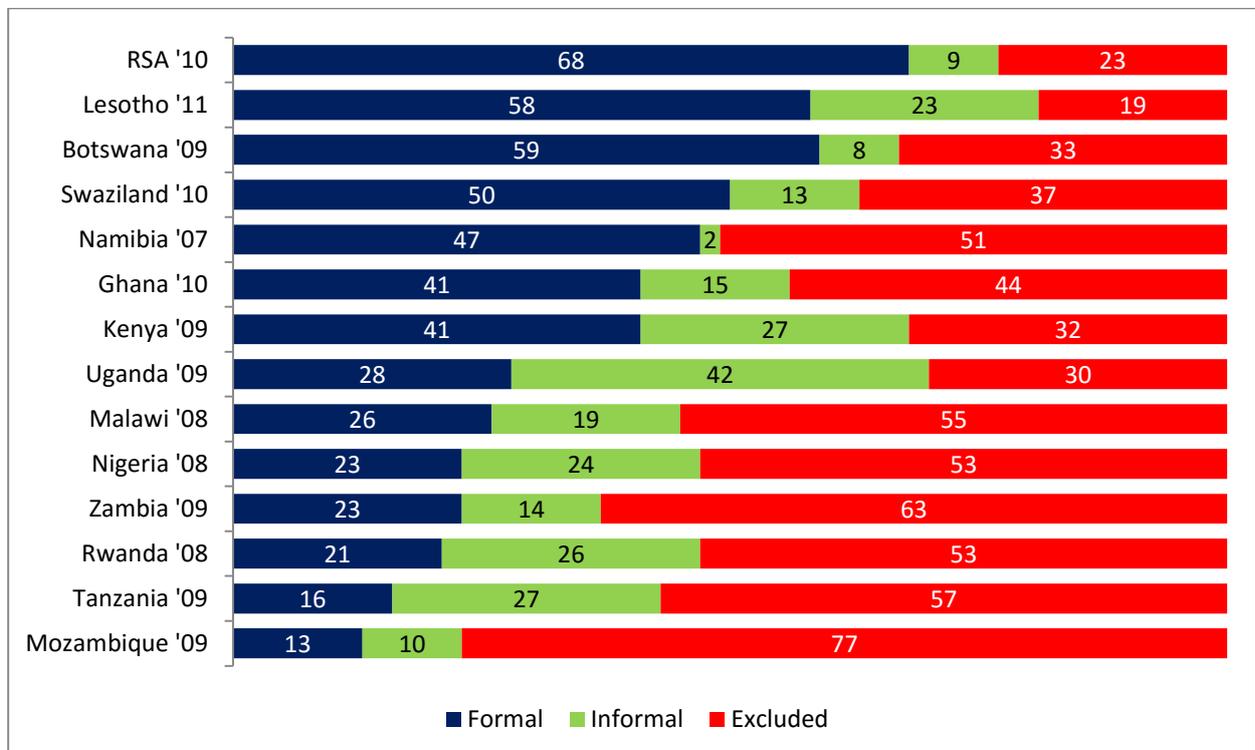
The FinScope FAS tool can be used to compare financial inclusion levels across different countries. Figures 35, 36 and 37 shows how the access strand for Lesotho compared to the other countries where FinScope surveys have been conducted. Figure 35 ranks the countries in terms of the level of financial exclusion; Figure 36 ranks the countries in terms of the proportion of the adult population that is served by the formal sector; and Figure 37 ranks the countries in terms of the proportion of the adult population that is banked.

Figure 36. The Lesotho access strand: Country comparisons (ranked on 'financial exclusion' levels)



Lesotho has got the lowest level of financial exclusion (19%), while Mozambique has got the highest level of financial exclusion (77%).

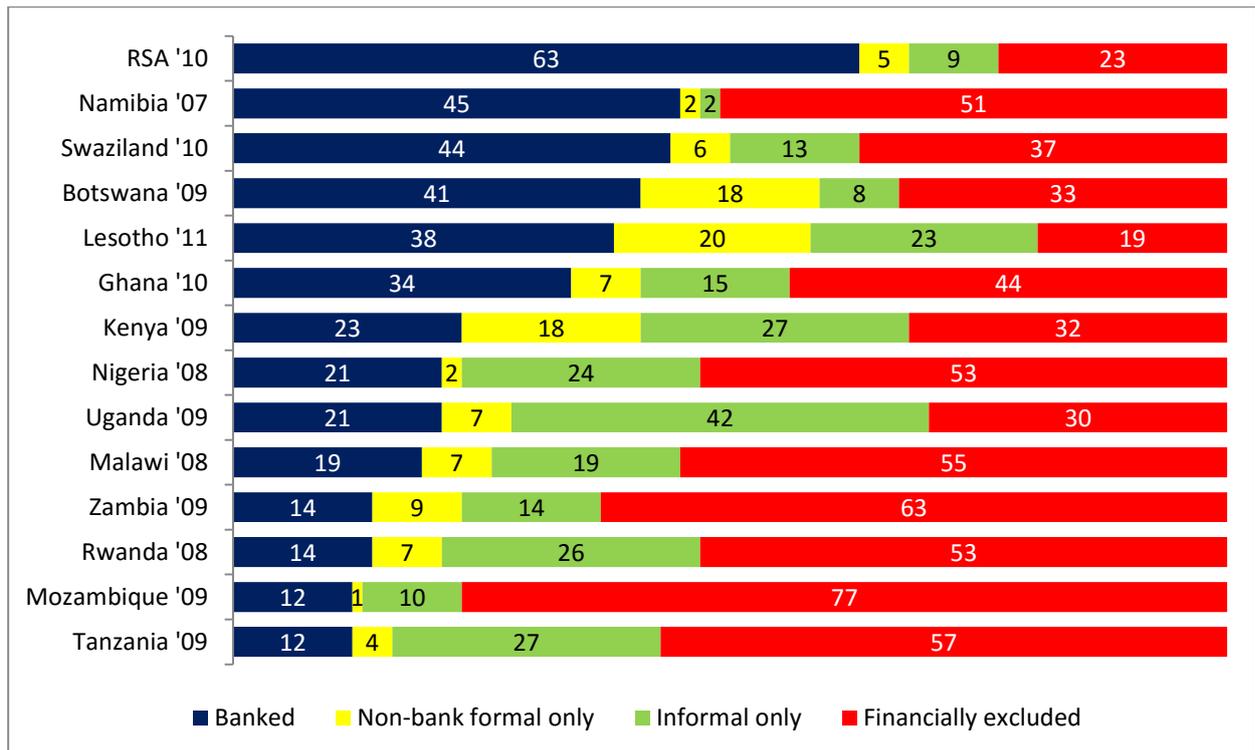
Figure 37. The Lesotho access strand: Country comparisons (ranked on the proportion served by the formal sector)



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

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

Figure 38. The Lesotho access strand: Country comparisons (ranked on the proportion that is banked)



Apart from showing where Lesotho ranks in terms of the proportion of adults that are banked, Figure 37 shows how a country’s different financial services providers – both formal and informal – work together to provide financial services to the greater population. Having a big proportion of people banked does not necessarily equate to higher levels of financial inclusion. Namibia, which ranks 2nd in terms of banked adults (45% adults banked), ranks 8th in terms of the proportion of its adult population that is financially included (49%).

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

Landscape of access

The financial access landscape (FAL) is another FinScope tool. This is a diagram that illustrates the extent to which individuals (aged 18 years or older) have or use financial

products and services. The diagram depicts, on its five axes, the percentage of adults that have or use:

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

Figure 39. Financial access landscape for Lesotho

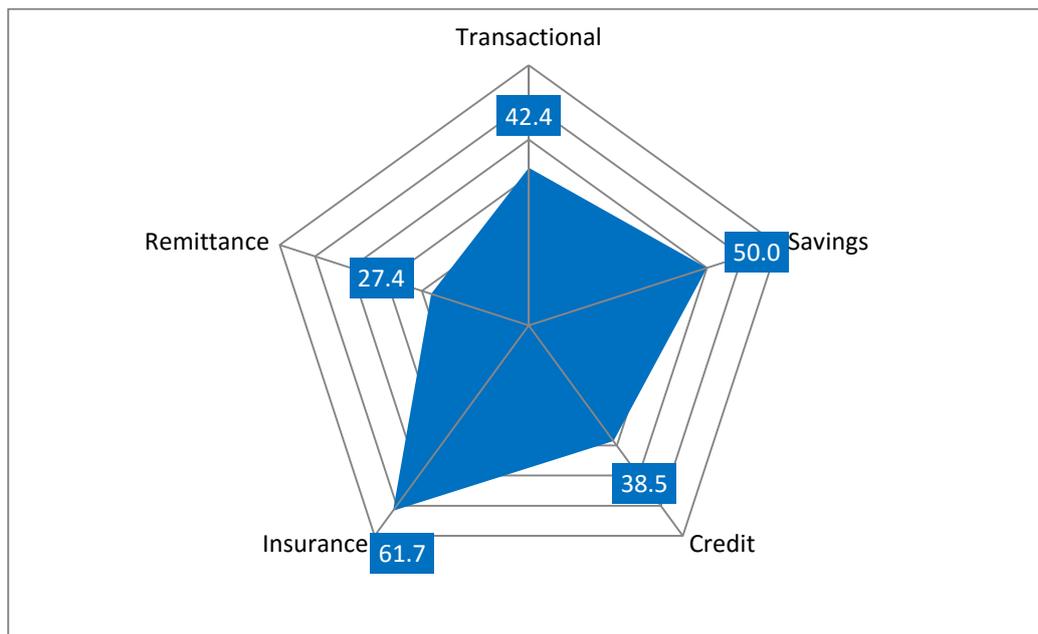
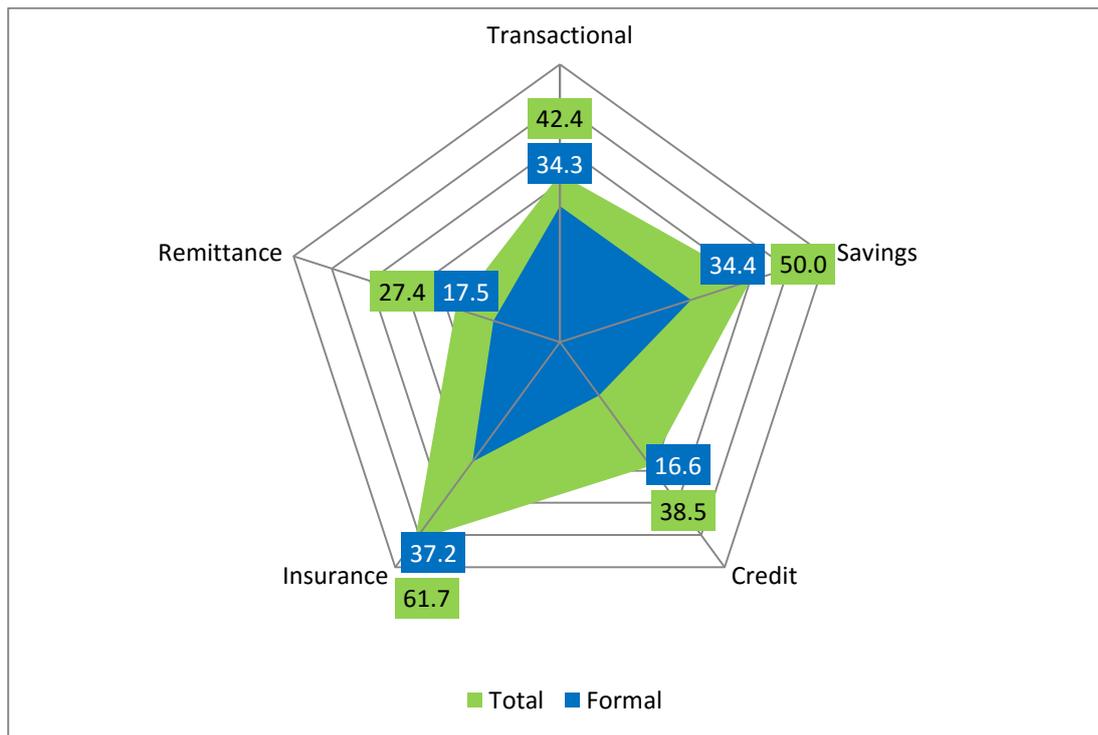


Figure 38 shows the percentages of Basotho adults using the different categories of products (i.e. Transactional, Savings, Credit, Insurance and Remittance) – both formal and informal types of each. The financial access landscape of Lesotho shows that the usage of insurance products or services is very high (61.7%). The graph also shows that apart from insurance, savings (50%) and transactional (42.4%) products and services are the dominant ways in which Basotho adults interact with the financial services sector.

Figure 40 shows the contribution made by the informal financial services sector.

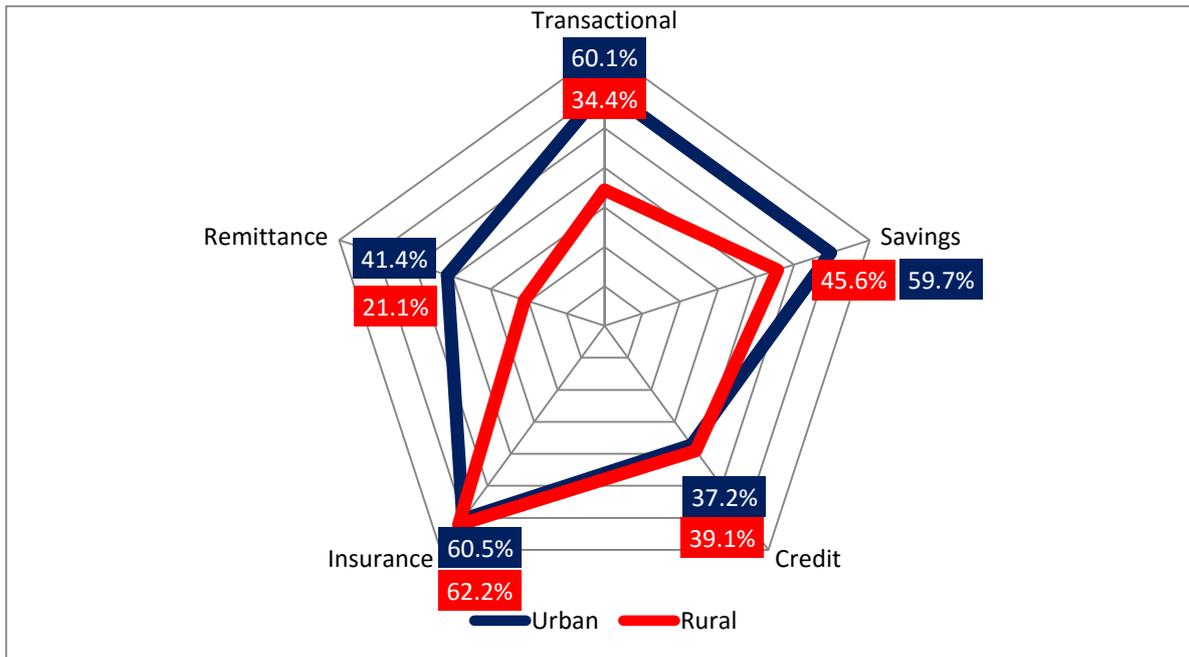
Figure 40. Financial access landscape: Role of the informal financial services sector



The difference between the 'Total' diamond and the 'Formal' diamond shows the role of the informal sector in pushing out the boundaries of financial inclusion. As Figure 39 shows, the role of the informal sector is significantly skewed towards insurance, credit and savings. In the case of insurance, the informal sector increases the proportion of people served by more than 60%; the informal sector increases the proportion of people who are served when it comes to savings by over 40%, and those who are served when it comes to insurance by over 130%. The informal financial sector plays a very significant role in Lesotho.

Figure 41 shows the landscape of access in the urban and rural areas:

Figure 41. Financial access landscape: Rural vs. Urban



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

3.3 Financial behaviour

Having looked at the main indicators in the sections above, this section looks at the financial behaviour of adult Basotho. In particular, it looks at it in terms of four main areas:

- Saving;
- Borrowing;
- Risk mitigation; and
- Remittances

Savings

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

Figure 42. Claimed savings

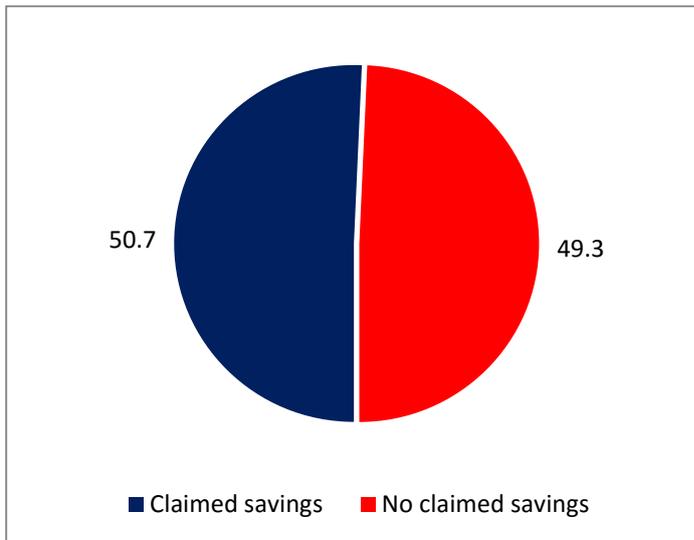


Figure 43. Savings mechanisms/products: Rural vs. Urban

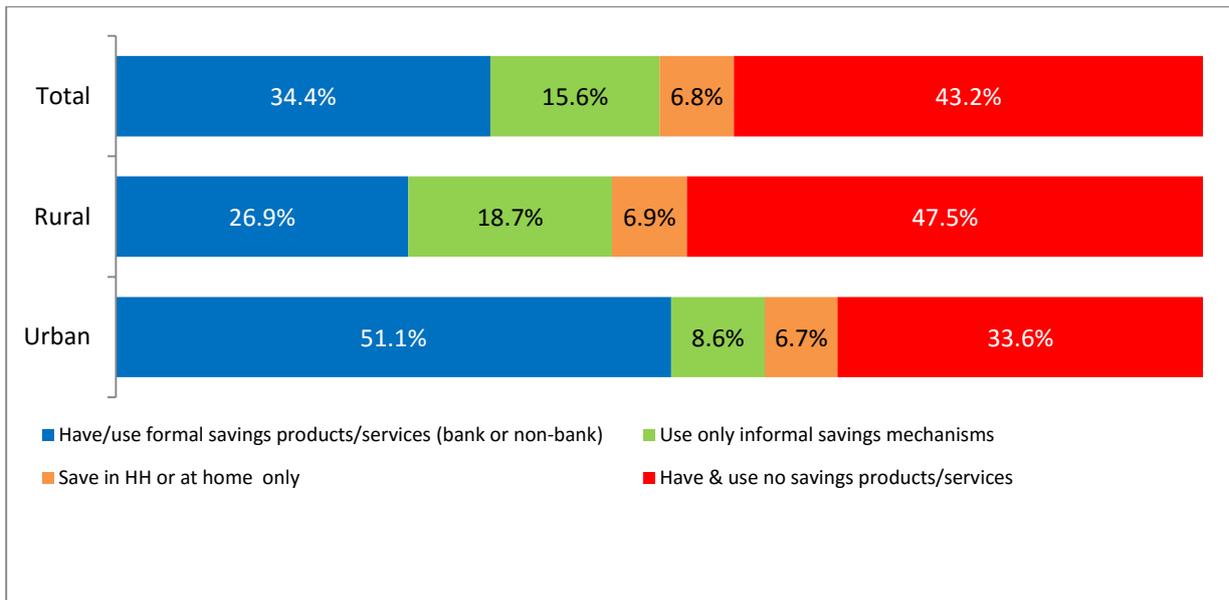


Figure 44 below sheds some light on what might be behind the choice of savings mechanisms.

Figure 44. Savings: Reasons for saving for Basotho adults who save

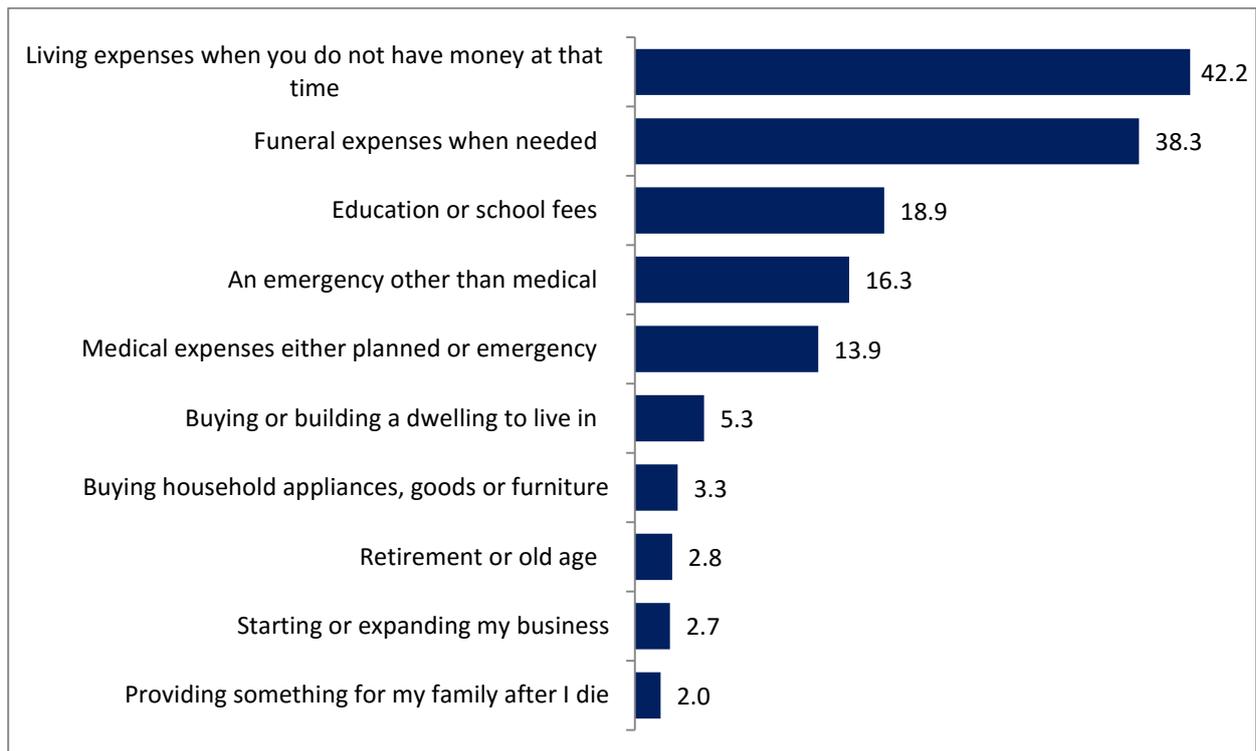


Figure 44 shows the reasons for saving advanced by those adults who claimed to save. Two of the main reasons (living expenses & funeral expenses) indicate that Basotho adults save for reasons which require that they have quick and assured access to their money when they need it.

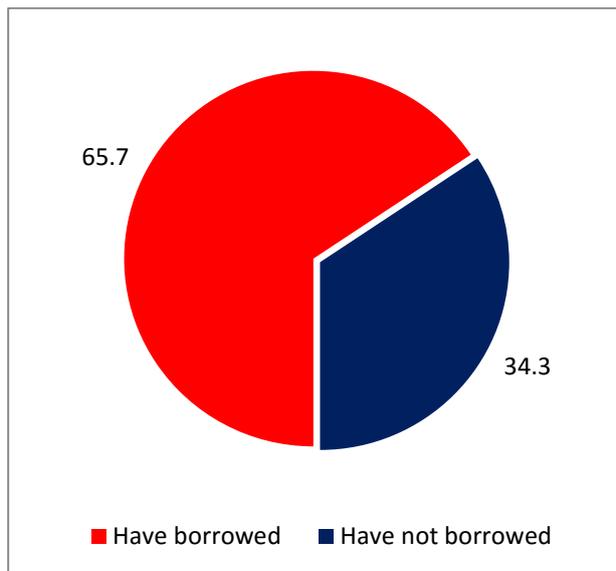
Of concern might be the seeming lack of a substantial long term orientation:

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

Borrowing

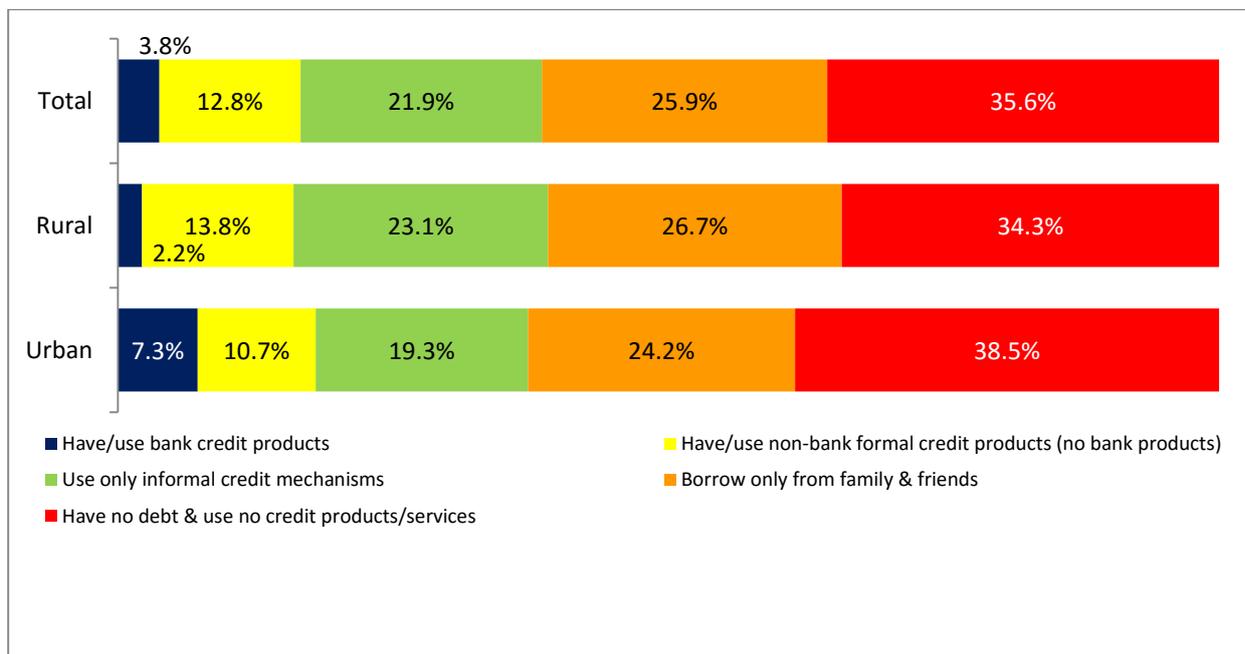
The general pattern witnessed in other countries where FinScope surveys have been conducted is that people generally overstate (over-claim) savings and understate (under-claim) borrowing. This does not seem to be the case in Lesotho, where 66% claimed to have borrowed or have been paying back a debt in the 12 months prior to the interview being conducted (Figure 45).

Figure 45. Claimed borrowing



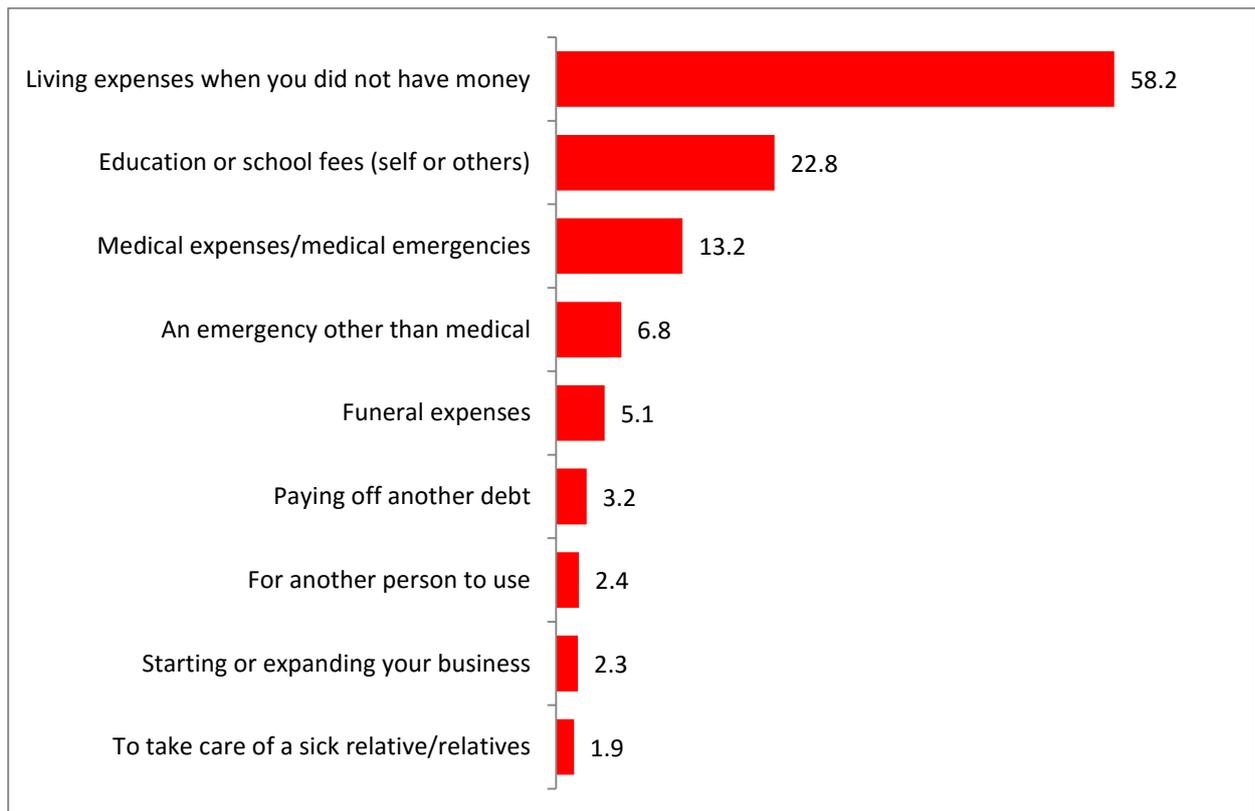
The use of bank credit is very low in Lesotho – only 4% - and is skewed towards urban adults (7% vs. 2% for rural adults). Non-bank formal credit usage is also low – 13% - and is slightly skewed towards rural adults (14% vs. 11% for urban adults). The main sources of borrowing in Lesotho are informal mechanisms (22%), and from family and friends (26%) (see Figure 46):

Figure 46. Sources of borrowing for those who have borrowed



The reasons for borrowing for the most part mirror the reasons for saving. This too might help explain the sources of borrowing (see Figure 47).

Figure 47. Reasons for borrowing for those who have borrowed



Most borrowing is done for short-term reasons such as covering living expenses when their income is insufficient (58%). The next most frequent motivations for borrowing are school fees (23%), followed by emergencies and funeral expenses. While it might appear as though a long-term orientation to borrowing reasons is lacking – only 2.3% borrowed for the purpose of starting or expanding their businesses – this might not be the case, as Figures 48 - 50 below show:

Figure 48. How Basotho adults would spend a large amount of borrowed money

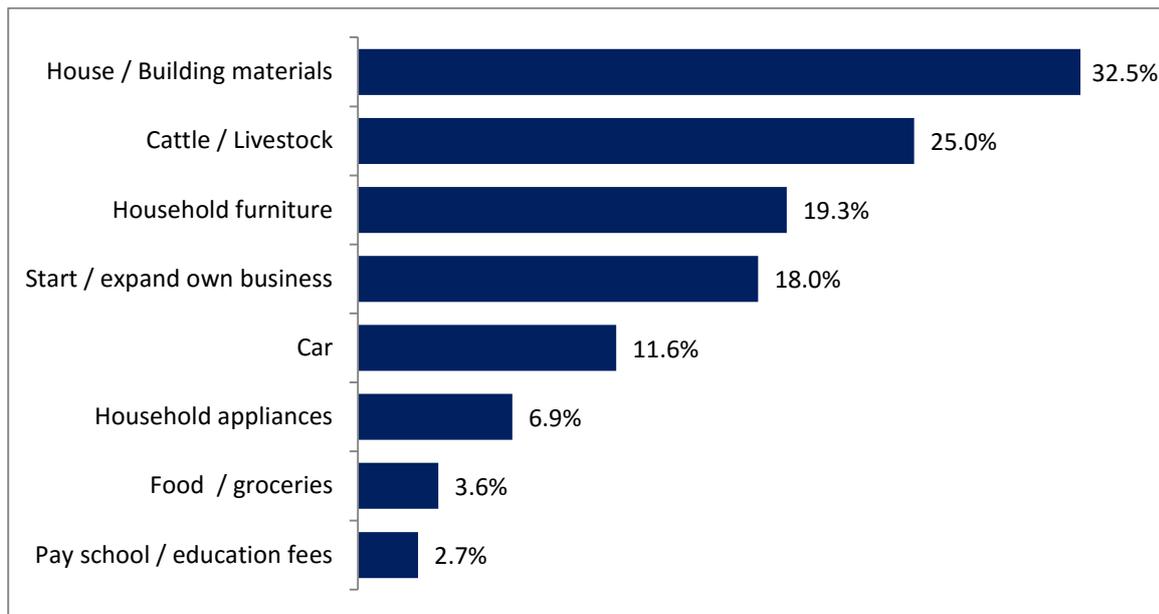
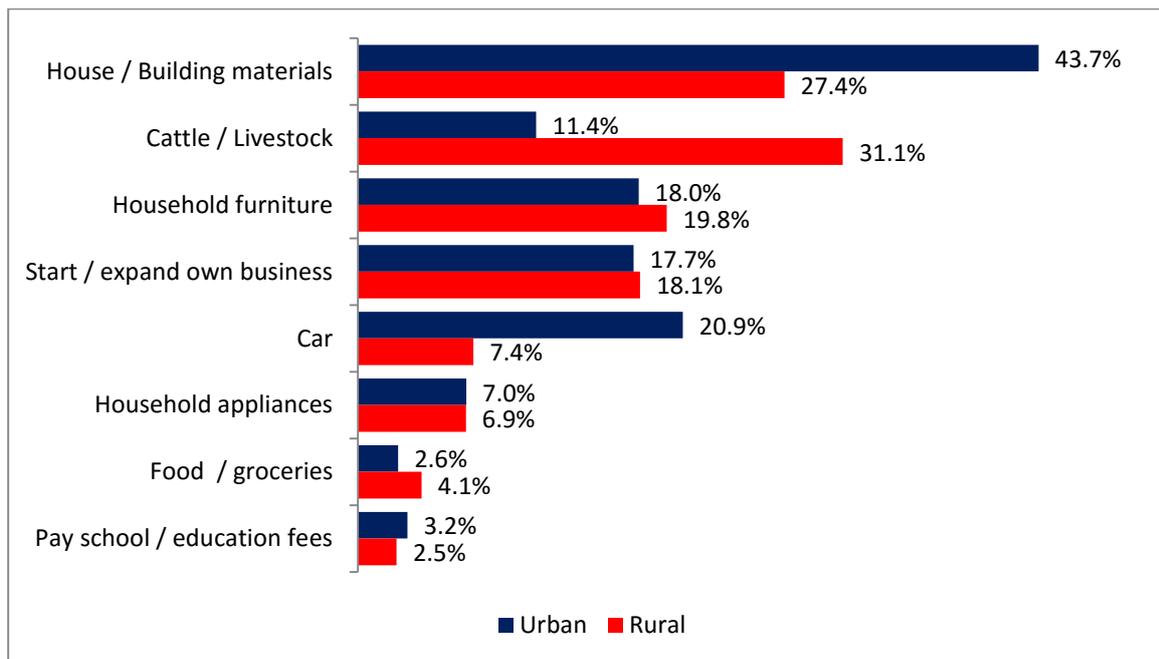
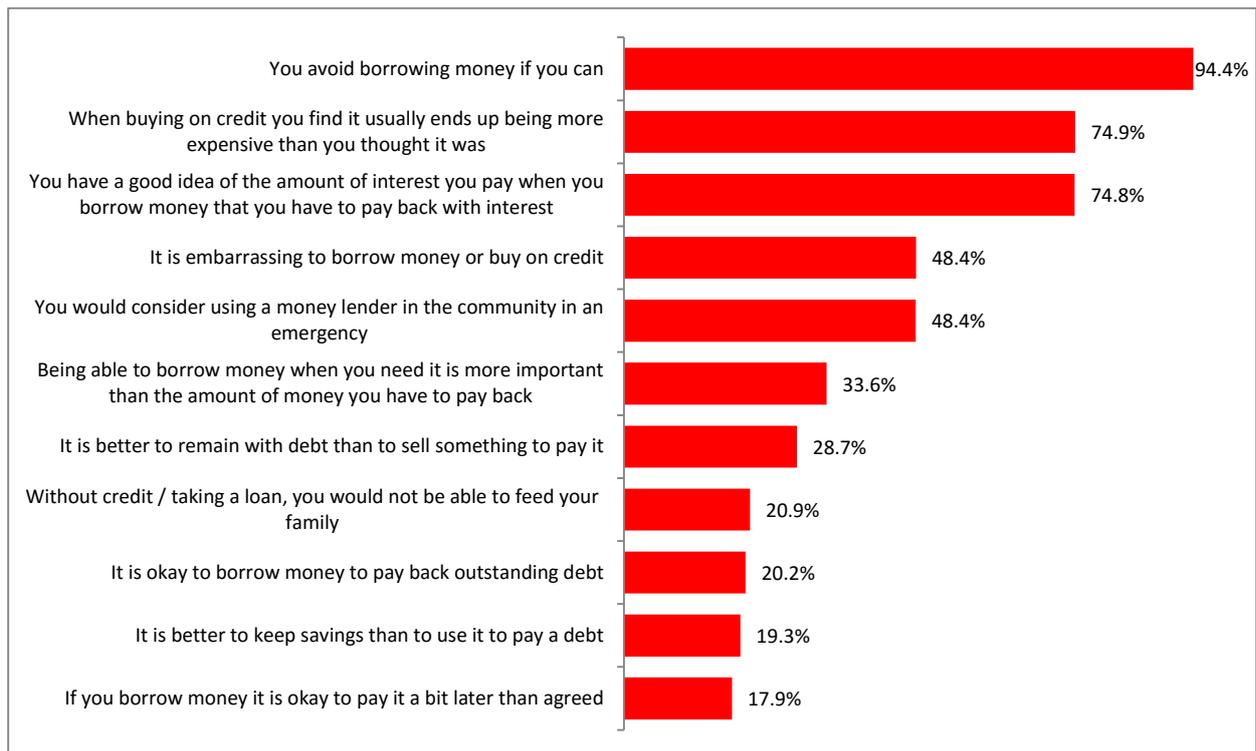


Figure 49. How Basotho adults would spend a large amount of borrowed money – Rural vs. Urban



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

Figure 50. Attitudes of Basotho adults regarding borrowing

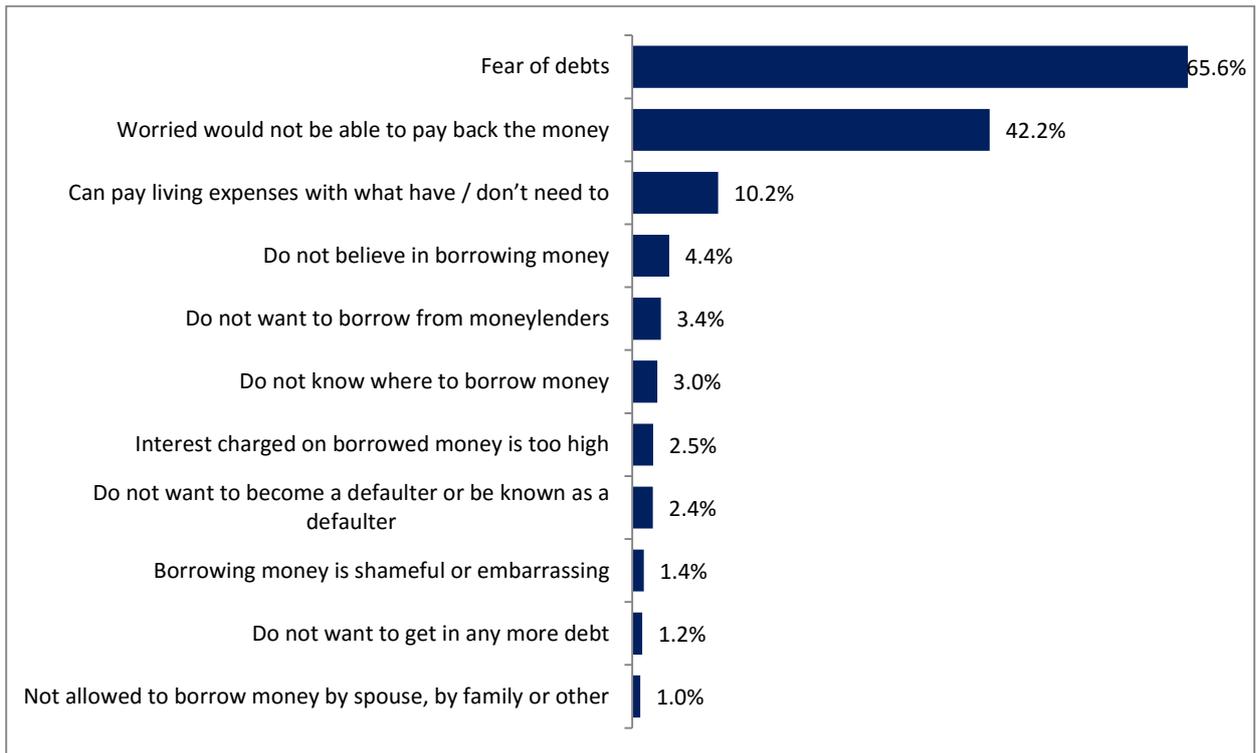


Basotho adults do claim to understand the implications of borrowing – 75% know that buying on credit results in more money being paid. They generally are averse to borrowing – 94% say they avoid borrowing if they can.

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

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

Figure 51. Reasons for not borrowing (for those who did not borrow during the 12 months prior to the interview)



Insurance

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

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

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

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

In terms of insurance, 62% of the adult population is covered – 37% have formal insurance and 25% have informal insurance (see Figure 52).

Figure 52. Insurance coverage: Total, Rural vs. Urban

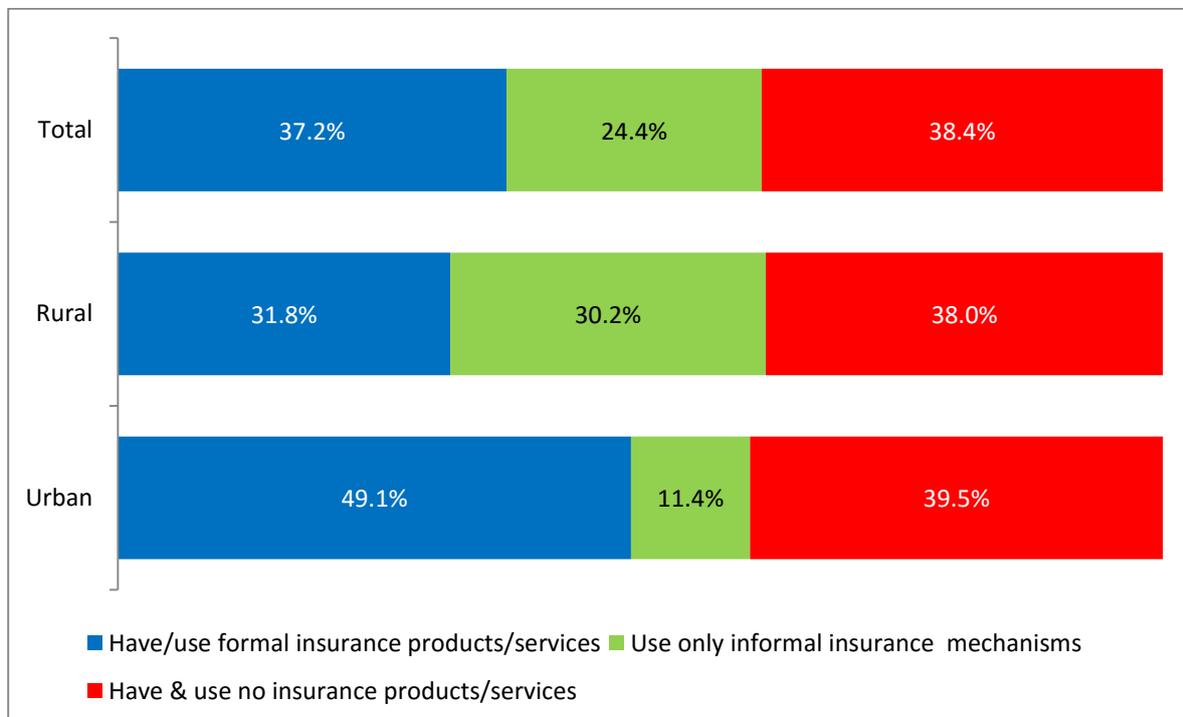
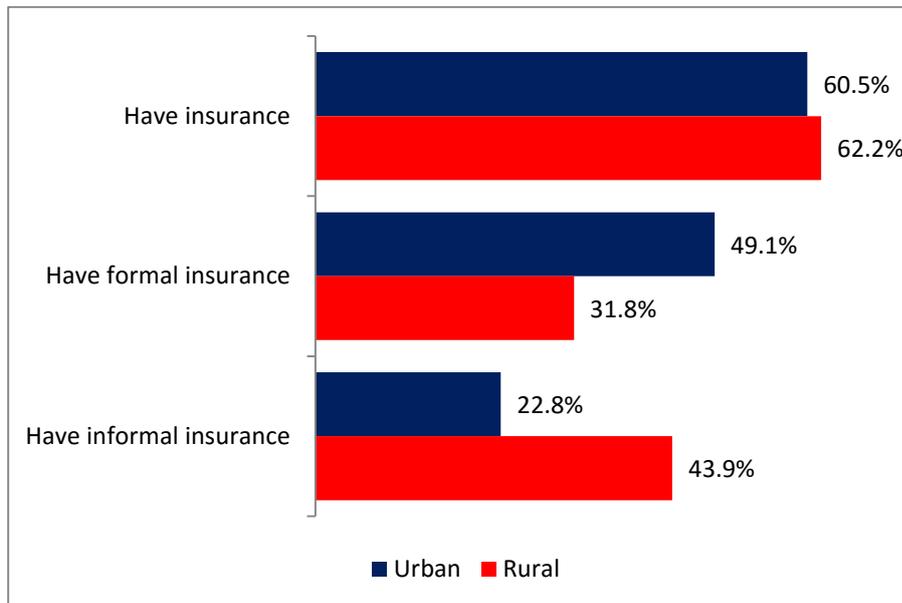


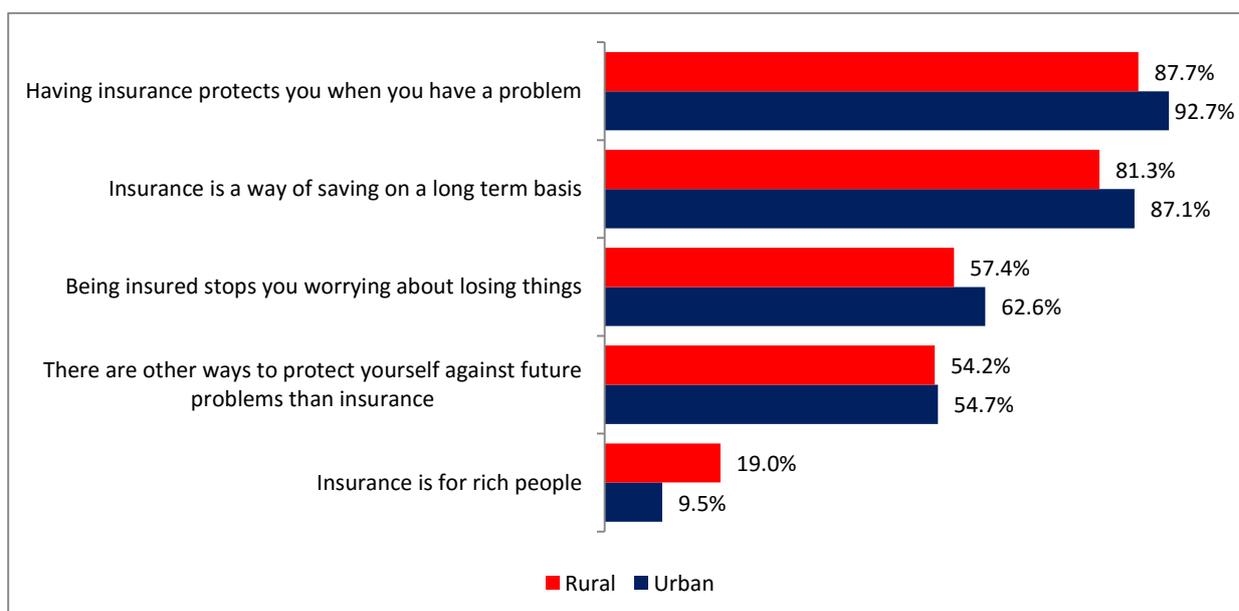
Figure 53. Insurance coverage: Total, Rural vs. Urban



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

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

Figure 54. Understanding of insurance: Rural vs. Urban



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

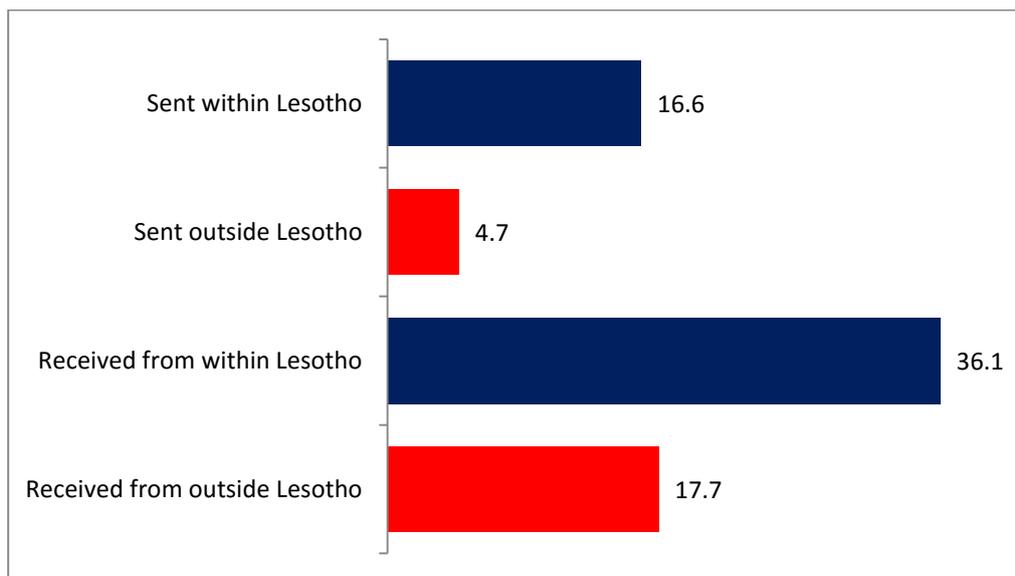
For the remainder of Basotho adults who do not have any insurance coverage – formal or informal – the reason advanced by most (73%) is that they are unable to afford it.

Remittances

In terms of remittances:

- 17% of Basotho adults sent money to someone within Lesotho
- 5% sent money to someone outside Lesotho
- 36% received money from someone within Lesotho
- 18% received money sent from someone outside Lesotho

Figure 55. Remittances during the 12 months prior to the FinScope survey



Friends and family is the channel most used by Basotho adults to send or receive money (60%) (see Figure 56). The usage of the informal sector in remitting money is low (19% of those who remit), compared to the formal bank channel – bank transfer (28%). The low usage of non-bank formal institutions is perhaps explain by the absence of the big money transfer entities like Western Union and Moneygram in Lesotho.

Figure 56. Remittance mechanisms used by individuals who remitted during the 12 months prior to the FinScope survey

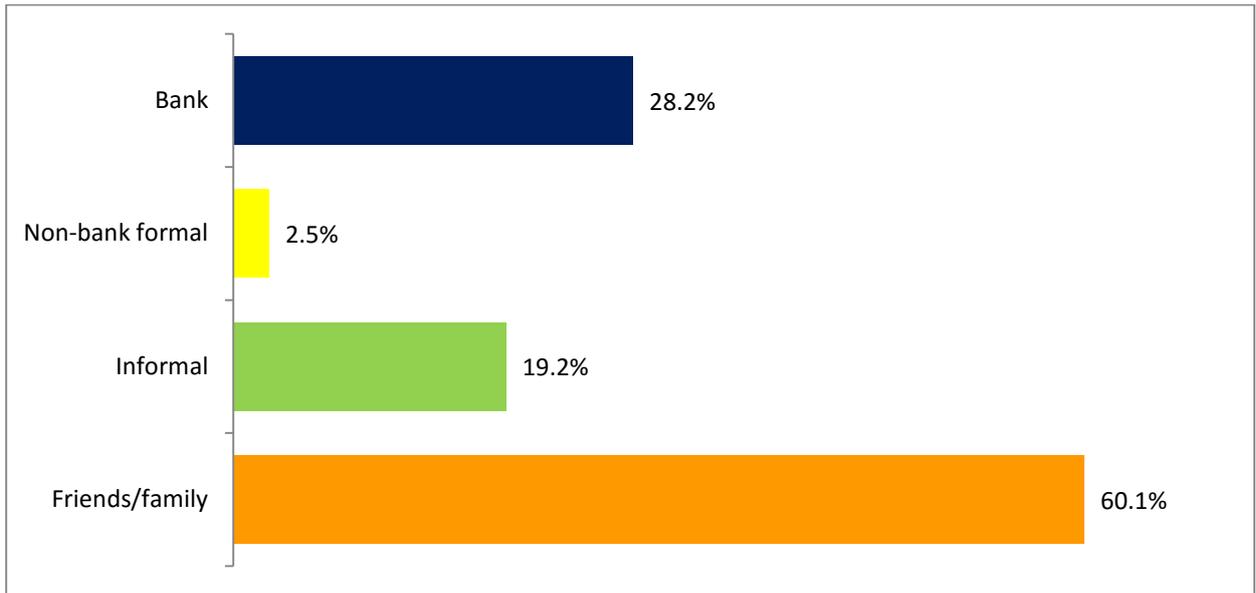
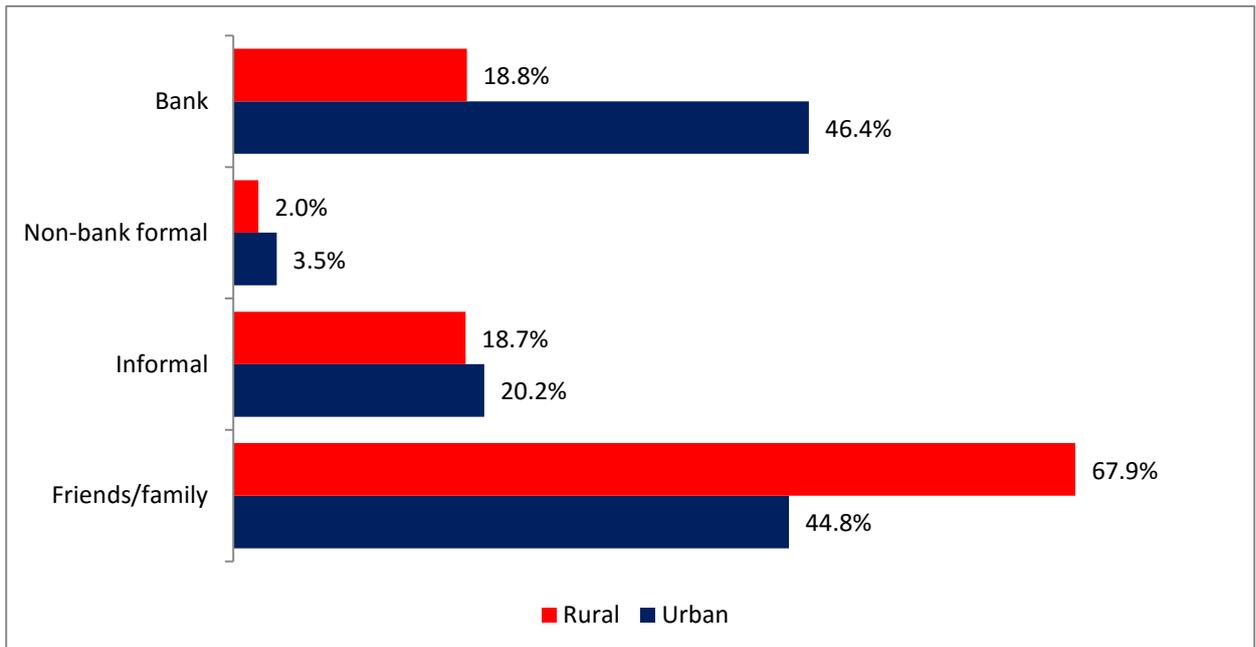


Figure 57. Remittance mechanisms used by individuals who remitted during the 12 months prior to the FinScope survey – Rural vs. Urban



3 Key take-outs

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

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

- Coping with the lack of basic amenities is a reality for the large proportion of the population, especially in the rural areas
- Income for the majority of the population is irregular and inconstant small amounts

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

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

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

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