National University of Lesotho

CENTRAL BANK OF LESOTHO
BANKA E KHOLO EA LESOTHO

STAKEHOLDER ENGAGEMENT WORKSHOP

PERSONAL FINANCE MANAGEMENT PROGRAMME

by the

NATIONAL UNIVERSITY OF LESOTHO

in collaboration with the

CENTRAL BANK OF LESOTHO

REMARKS BY THE FIRST DEPUTY GOVERNOR

Let me start by paying my respects to His Majesty, King Letsie III

Then to his first Minister, the Right Honourable the Prime Minister, Ntate Sam Matekane

The Honourable Minster of Education & Training, Professor Ntoi Rapapa

The Honourable Minister of Finance & Development Planning, Dr Retsélisitsoe Matlanyane

The Governor of the Central Bank of Lesotho, Dr Maluke Letete

The Dean of the Faculty of Social Science at NUL, Professor Phomane Peter Khaola

Ladies and Gentlemen

A very good morning to you

I am going to relate to you, to the best of my recollection, as I have no prepared speech, how this journey started.

Some years back, circa 2016/17, while I was the Bank's Head of Research, I commissioned a study to understand the extent to which our monetary policy decisions are transmitted to the rest of the economy though the CBL Rate that had just been introduced.

The findings were interesting. They were that interest rates in Lesotho do not seem to affect lending. We dug a little further to understand the drivers of lending, particularly from a demand side. What we found was that the ease with which one can access a credit facility was the primary determinant. Cost was a secondary consideration, if it was at all.

What that meant was if I as a borrower went to Lender A and he had a list of requirements I needed to fulfil, I would find those to be an inconvenience I don't need. If on the other hand Lender B had none of those requirements besides verifying a couple of things, I would borrow from him even if the rate charged on the loan was 50%.

That was rather concerning. For me, in hindsight, that was the first signal of financial illiteracy among our people.

Fast forward to 2022, I am in the Governor's Office. We were inundated with complaints. I asked the Consumer Protection office to analyze these and draw out common themes and patterns if they could find any.

Two things emerged: First was that the complainants did not understand the financial products and the contracts they had entered. Second, the complainants were feeling the burden of the debts they were carrying and were looking for some form of relief. These were salaried people, mostly GOL employees.

We called in the chiefs of the big GOL employers – LMPS, LCS, LDF, TSD, Ministry of Public Service. We sat around the table and communicated the problem to them. This was around April 2022. Our view was that the payslip seemed to be the tool that afforded the salaried people all these loans as it served as some sort of "collateral". At the time I likened the payslip to a chainsaw which is a very useful tool and aids productivity but if not handled well, could lead to catastrophic outcomes. The conversation around indebtedness had started.

In March 2023, we had what was themed Indebtedness Roundtable in this very room.

Ladies and gentlemen,

The thing about financial literacy and personal finance is that it doesn't matter if you have studied economics, accounting or finance. It really doesn't. Let me give you an example of two economics concepts that I had learnt and taught to many generations of students that I could not relate to personal finance but are some of its pillars.

Example 1: The **life-cycle hypothesis**, which is one of the theories of consumption. What it says is that an economic agent has two lifetimes – the working life and the post-working life. During the working life the agent will split his earned income between consumption and savings. In the post-working life, the savings are used to finance consumption. **This is the essence of retirement planning.** We fall short of saying this in economics class.

Example 2: In economics we teach **demand for money** and that economic agents have three motives of holding money – the transaction motive, the precautionary motive and the speculative motive. That's all we teach the students who are in turn happy to memorize these and reproduce them in the exam and get the certificate.

My own reflections have been that these are the three "accounts" one should strive to have. The transaction account out of which daily expenses are catered for; the emergency fund out of which one pays for unplanned events such as a car breakdown, unexpected hospital visits, and other unfortunate unforeseen events that come our way. Most of us manage this by taking out insurance. And finally, if means permit, have the investment account where we have money that we are looking to grow and multiply by whatever schemes – government securities, shares (via Easy Equities for example), or different business projects.

Individuals, businesses and governments all need these three "accounts".

Let me conclude my remarks by sharing with you a folk story that you may know or have heard.

Of a father that was too tired and too busy to play with his young kid who had been pestering him for attention. After much thought and annoyance, the father remembered that there was a page of a world map in the house from a magazine. He got the map, cut it into pieces and handed the pieces to the young kid to put back together. He was sure that he had pacified the little kid, and he would have some time of peace and quiet. In no time the kid returned with the map faultlessly put back together. The father was surprised and could only exclaim "but how?" "How were you able to put this back together so fast? The little kid innocently replied, "I know that page that had the world map. On the other side was a man. So, I fixed the man, and I knew that if I fixed the man, the world would be fixed."

Our country has many problems. Financial illiteracy has proved to be very costly to many Basotho. It is my conviction that the introduction of a certificate course in Personal Financial Management, through this partnership with NUL, is in a way fixing the man which will in turn fix several problems that are, for now, seemingly out of our reach.

I thank you.