GOVERNMENT OF LESOTHO

FINANCIAL SECTOR DEVELOPMENT STRATEGY II

2025 - 2030

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FOREWORD

> "We must work together to ensure that financial services reach every corner of our country and contribute meaningfully to livelihoods, job creation, and sustainable development."

The Financial Sector Development Strategy (FSDS) II continues the long-term planning trajectory building on the preceding strategy. The strategy follows a comprehensive diagnostic through the Financial Sector Assessment Program (FSAP) and Financial Sector Stability Review (FSSR) by the World Bank and International Monetary Fund respectively. The strategy presents a broad framework that shall enhance economic wellbeing for Basotho, particularly broadening employment opportunities with the private sector playing the key leading role. The FSDS II is intended to enable realization of the aspirations of the National Strategic Development Plan (NSDP) II through catalytic interventions that implement the requisite financial sector reforms.

Significant achievements were made under the FSDS I. These include improved financial sector soundness and stability, increased financial inclusion and higher credit to households. Despite considerable progress made in the sector, there are gaps that require urgent attention if the sector is to optimally play its catalyst role. The identified gaps include streamlining of supervision and regulation of financial cooperatives and low financial intermediation.

As such, there is an urgent need to scale up efforts towards access to finance to productive economic sectors to generate the much-needed employment opportunities. Lesotho needs a robust private sector to achieve sustainable broad based economic growth. Access to finance is critical to achieving that objective. As a result, this strategy focuses on broadening lending opportunities for small businesses. In addition, the strategy proposes initiatives to support the private sector to seize potential opportunities that can be derived from climate smart agriculture investment responding to climate change impact and mitigation.

The development of relevant agricultural insurance products will be the priority. Further interventions will focus on housing finance, agricultural finance and investment funds for access by SMEs. The improvement of the partial credit guarantee regime needs to be fast tracked. We also need to scale up opportunities for growth through capital mobilisation within an efficient and secure environment. The planned development of the Securities Act will provide the impetus needed to this initiative. Maseru Securities Market will also be capacitated to improve efficiency for the private sector's capital mobilisation.

In conclusion, I wish to express my sincere appreciation for the support received from the World Bank and European Union. I also want to thank all stakeholders who contributed towards the success of this important initiative.

Dr. Retšelisitsoe Matlanyane
Honorable Minister of Finance & Development Planning

PREAMBLE

> "We will continue to play a catalytic role in the implementation of this strategy, working closely with the Government, financial institutions, and development partners"

The development of the Financial Sector Development Strategy (FSDS) II was done against the background of phenomenal growth in the size of the financial sector and increased financial inclusion. At the end of 2023, the financial sector was recorded at 13.9 per cent of GDP compared to 7.6 per cent in 2014. This makes the financial sector the third largest contributor to GDP in Lesotho after public administration sector and manufacturing sector. During the same period, significant growth was also realized in household and MSMEs financial inclusion. Overall, the FSDS I has laid a solid foundation for the financial sector to effectively underlie broad and inclusive economic growth in Lesotho.

Despite this exceptional performance by the sector, the level of financial intermediation, particularly for the SME sector, remains low. There are also new challenges that require urgent attention. They include mitigation of climate change risks to the financial sector and the heightened cyber-attack threat. Therefore, the FSDS II (2025-2013) aims to attain a stable and resilient financial sector and to deepen the financial sector.

These objectives will be achieved by implementing initiatives crafted around three strategic pillars and four cross cutting issues. The strategic pillars are maintaining a stable and resilient financial sector, enhancing financing for economic development and developing long-term finance and its efficiency. The cross-cutting areas are strengthening the national payments system, enhancing access to digital financial services, strengthening market conduct and financial consumer protection and enhancing financial sector data dissemination.

The first pillar recognizes that financial stability is critical for sustainable economic growth and the nation's welfare. As the financial sector grows both in size and sophistication more effort needs to be directed towards bolstering its stability and its ability to withstand shocks. Significant disturbances can incur substantial societal costs, highlighting the importance of maintaining stability. The second pillar recognizes that despite significant progress made in increasing financial inclusion by households, access to finance, particularly to SMEs, remains a challenge. The SME sector as one of the potential economic growth engines for Lesotho economy. The strategy recognizes that in parallel to supporting the banking sector to increase financing of the sector, it is critical that other sources of finance are unlocked for the sector to flourish. The last pillar recognizes the importance and criticality of developing long-term finance in Lesotho. This can complement private sector development and long-term economic growth.

In conclusion, I wish to note that the strategy is very ambitious and has quite a sizable number of activities. As such I urge all implementing agencies to collaborate with the FSDS Secretariat located in the Central Bank of Lesotho for smooth implementation of the strategy.

Dr. Emanuel Maluke Letete
Governor, Central Bank of Lesotho

FSDS II IN SUMMARY

VISION

Efficient, inclusive and stable financial sector through which funds can be channeled to support private sector led growth

OBJECTIVES

The strategic objectives are to attain a stable and resilient financial sector and deepen the financial sector

PILLARS

Maintaining a stable and resilient financial sector, Enhancing financing for economic development and developing long-term finance and improving its efficiency

CROSS CUTTING

CCI 1: Strengthening the National Payments System
CCI 2 : Enhancing Acess to Digital Financial Services
CCI 3 : Strengthening Financial Consumer Protection and AML/CFT
CCI 4 : Ennhacing Financial Data Dissemination

Government Ministries

Ministry of Finance and Development Planning
Ministry of Trade, Industry, and Business
Development Ministry of Labour and Employment
Ministry of Local Government, Chieftainship,
Ministry of Agriculture, Food Security and
Nutrition Ministry of Public Works and
Transport Ministry of Communications,
Science and Technology Ministry
of Environment and Forestry

Financial Sector

Banking Association of Lesotho
Insurance Association of Lesotho
Payments Association of Lesotho
Lesotho Microfinance Association
Mobile Network Operators
Fintech Companies Pension
Funds Credit Bureau

State-Owned Institutions

Central Bank of Lesotho
Lesotho National Development
Corporation Lesotho Housing and
Land Development Corporation
Revenue Services Lesotho Public Officers’
Defined Contribution Pension Fund
Financial Intellegence Unit Basotho
Enterprises Development
Corporation and
Administration Authority

IMPLEMENTATION

Development Partners

World Bank International
Monetary Fund UNDP
Lesotho European
Union Alliance for
Financial Inclusion

ACRONYMS AND ABBREVIATIONS

ACH	Automatic Clearing House
AML/CFT	Anti Money laundering/ Counter Financing of Terrorism
ATM	Automatic Teller Machine
BSA	Banking Supervision Application
CBL	Central Bank of Lesotho
CIS	Collective Investment Scheme
CMA	Common Monetary Area
DFS	Digital Financial Services
EFT	Electronic Fund Transfer
FCP	Financial Consumer Protection
FSDS	Financial Sector Development Strategy
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GOL	Government of Lesotho
GNI	Gross National Income
ID	Identification Document
IMF	International Monetary Fund
KYC	Know Your Customer
LSW	Lesotho Wire
LCBM	Local Currency Bond Market
LeSWITCH	Lesotho National Switch
LNDC	Lesotho National Development Corporation
MSME	Micro Small and Medium Enterprises
MSM	Maseru Securities Market
MNO	Mobile Network Operators
MFI	Micro Finance Institutions
MTIBD	Ministry of Trade, Industry and Business Development
MGYSD	Ministry of Gender, Youth and Social Development
MoFDP	Ministry of Finance and Development Planning
M2	Broad Money Supply
MVA	Motor Vehicle Accident
NSDP	National Strategic Development Plan
NSFE	National Strategy for Financial Education
NFIS	National Financial Inclusive Strategy
NBFIs	Non-Bank Financial Institutions
OTC	Over the Counter
PCG	Partial Credit Guarantee
POS	Point of Sale
RGTS	Real Gross Time Settlement
SACU	Southern African Customs Union
SACCOs	Savings and Credit Cooperatives
WB	World Bank

EXECUTIVE SUMMARY

Introduction

The second Lesotho Financial Sector Development Strategy (FSDS II) is intended to underpin the growth and development of the financial sector during the period 2025-2030. It follows the first FSDS, which ran from 2013-2017.

The new strategy has been developed through a consultative process involving stakeholders from both the public and private sectors, as well as development partners. FSDS II is intended to enable realization of the aspirations of the National Strategic Development Plan (2024-2028) through key interventions that implement the requisite financial sector reforms.

FSDS 1 Achievements

FSDS II builds on the significant progress in financial sector development achieved during FSDS I and in the following years. The financial sector has grown steadily over this period and is now one of the largest sectors of the economy in terms of share of gross domestic product (GDP).

The soundness and stability of the financial sector was maintained, financial sector depth has improved, and financial inclusion for both households and firms has broadened.

Major achievements include:

1. Strengthening prudential regulation and supervision of banks and insurance companies.
2. Expansion of regulatory coverage to pensions and large financial cooperatives.
3. Establishment of a dedicated financial consumer protection regime.
4. The establishment of a credit bureau and a collateral registry.
5. The establishment of the Maseru Securities Market.
6. Enhancement of payments systems oversight and the establishment of the National Payment Switch.

Challenges to be addressed during FSDS II

Notwithstanding the achievements of FSDS I, several challenges remain to be addressed during FSDS II. In terms of financial stability, the statutory powers of the Central Bank of Lesotho (CBL) to regulate the financial sector, manage risks and to intervene in the event of crisis need strengthening. While the regulation and supervision of banks has been modernised, there are regulatory gaps, notably for large financial co-operatives. There are also emerging risks to be addressed, notably those emanating from cyber-security threats, climate change, and the need to comply with global requirements regarding anti-money laundering and countering the financing of terrorism. The exchange control regime is outdated and needs modernisation to encourage inflows of foreign direct investment.

Although the banking sector has been sound, stable and profitable, some structural issues remain. Reflecting the size of the market, the number of banks is small with limited competition, especially for deposit-taking activities, and there is a need to consider a modernisation of the licensing regime to accommodate emerging forms of financial institutions. Lending by banks and micro-finance institutions (MFIs) is still dominated by credit to households, with a small proportion of lending to firms. The banking system has a high level of liquidity, with material share of assets held as deposits in South Africa. A shortage of credit for small, medium and micro enterprises (SMMEs), in part reflecting the lack of mentoring and development programmes to help develop bankable SMMEs. The high level of lending to households has also led to problems of personal over-indebtedness.

Outside of the banking system, there has been slow development of capital markets and the provision of long-term finance, especially equity finance. There are also gaps in the coverage of pension funds and insurance, with the latter having very limited penetration outside of funeral insurance.

FSDS II approach

The vision for the FSDS II 2025-2030 is to have an **'Efficient, inclusive and stable financial sector through which funds can be channelled to support private sector led growth'**. The vision will be achieved by the efforts undertaken under FSDS II as well as a number of complementary strategies.

FSDS II has **two strategic objectives** which are sought to be achieved by actions organized under **three strategic pillars and four cross cutting areas**. The strategic pillars are maintaining a stable and resilient financial sector, enhancing financing for economic development and developing long-term finance and its efficiency. The cross-cutting areas are strengthening the national payments system, enhancing access to digital financial services, strengthening market conduct and financial consumer protection and enhancing financial sector data dissemination.

The attainment of the FSDS II Vision will be supported by the following related strategies:

1. National Financial Inclusion Strategy (NIFS) III (2024-2028)
2. National Strategy for Financial Education (NSFE) 2024-2029
3. Remittances Strategy 2023-2028 Payments Strategy.

Strategic Pillar 1

Strategic Pillar 1 is **Maintaining a Stable and Resilient Financial Sector**: Financial stability is critical for sustainable economic growth and the nation's welfare. As the financial sector grows in size and sophistication more effort needs to be directed towards bolstering its stability and its ability to withstand shocks.

There are three Strategic Priorities under this Pillar:

The first is **Building Financial Sector Resilience**. The resilience of the financial sector will be bolstered by a number of actions. The introduction of a statutory financial stability objective for the CBL, alongside the liberalization of exchange controls, represents an important shift towards modernizing Lesotho's financial sector. By taking a comprehensive approach that integrates both micro and macro-prudential regulation, the CBL can more effectively manage systemic risks, enhance resilience, and contribute to long-term economic growth. This strategic priority will be achieved through actions taken to safeguard financial system stability, strengthen the prudential supervision of the banking and non-bank deposit taking sectors, strengthen domestic and cross-border coordination and modernize the exchange control regime.

Outcome: A stable, and resilient financial sector, with institutions fully compliant with risk-based regulations, enhanced supervisory tools ensuring effective oversight.

The second priority is **Enhancing Crisis Management and Resolution Frameworks**. Financial safety nets will be strengthened through the development of an Emergency Liquidity Assistance (ELA) Framework and a Deposit Insurance Scheme.

Outcome: A robust crisis management system is in place, active regional collaboration and a strengthened resolution framework enabling swift intervention in distressed institutions.

The third priority is **Mitigating Emerging Risks**. Climate change and cyber-crime are key risks that need to be mitigated during FSDS II, by greening the financial sector, and strengthening financial system cyber resilience.

Outcome: The financial sector successfully integrates climate and cyber, risks into its frameworks, with institutions adopting Environmental, Social and Governance (ESG) considerations, and reduced cyber threats.

Strategic Pillar 2

Strategic Pillar 2 is Enhancing Financing For Economic Development. The supply of credit to businesses remains limited and actions on multiple fronts are envisaged to address this challenge. Addressing this challenge will improve Lesotho's investment climate and business environment for all firms as well as provide particular attention to facilitating the supply of finance to SMEs, particularly young and growth-oriented SMEs. This will require facilitating an increased supply of finance for businesses from both banks and non-bank lenders, as well as unlocking other sources of finance for the sector to flourish.

Actions under this pillar will be taken under the following priority areas:

Strengthening Credit Infrastructure, including the Credit Reporting System and facilitating increased use of the Collateral Registry, and operationalising the insolvency regime.

Outcome: Experience easier access to credit through an improved credit reporting system and expanded collateral frameworks.

Enhancing Public Support for Credit Instruments, including improving the functioning of existing credit instruments such as the Partial Credit Guarantee scheme, and business mentoring and incubation support to SMEs. Actions that will be explored include spinning off LNDC's financing operations, establishing a co-investment fund for SMMEs, while new housing finance and agricultural finance instruments will be considered.

Outcome: Credit guarantees effectively support SMEs, with increased loan approvals and reduced rejection rates, making financing more accessible and fostering business growth.

Modernise exchange control and support development of green financing. Facilitate increased FDI and support development of green financing by modernising the currency and exchange rate control act and developing a trade verification system. Green finance development will be supported by developing and implementing a climate finance strategy, a national taxonomy for sustainable activities and guidelines for the issuance of green instruments.

Outcome: Increased FDI is supported through a modern exchange control regime and green financing is mainstreamed in the financial sector.

Strategic Pillar 3

Strategic Pillar 3 is Developing Long Term Finance and Improving Its Efficiency. Actions to increase financial depth through further development of the insurance and pensions sectors, and the effective deployment of long-term savings mobilized by these sectors through the capital markets will be promoted.

This pillar includes actions under three priority areas:

Develop insurance markets: the legal and regulatory environment for insurance, and the supervision of the sector will be modernized, and actions will also be taken to support the development and introduction of new insurance products, including micro-insurance, compulsory third-party vehicle insurance, and agricultural index insurance.

Outcome: A thriving insurance sector ensures widespread coverage, particularly for low-income groups, with expanded microinsurance offerings and enhanced regulatory oversight promoting stability and trust.

Develop pensions sector: the financial soundness of the pension sector will be strengthened, and its coverage broadened.

Outcome: A sustainable and inclusive pension system that provides adequate coverage, including for informal sector workers, ensuring fund stability and strong governance across all pension schemes.

Develop long-term capital markets: the enabling environment for capital market development will be strengthened and actions taken to facilitate increased trading in the MSM, including the offloading of Government-owned shares in selected companies.

Outcome: Capital markets see increased liquidity and participation, with a variety of financial instruments available, more SMEs listed, and investor confidence growing steadily.

1

Strengthening the National Payments System:
A modern national payment system is a critical foundation to the national financial sector. It enables safe, timely and efficient settlement of large and small payments, thereby facilitating safe and efficient economic transactions. The NPS will be fully operationalised and strengthened through legislative reform, to achieve full interoperability between banks, mobile money and other financial sector participants.

Outcome: A fully interoperable and secure national payments system processes transactions seamlessly, reducing fraud while increasing efficiency, speed, and accessibility for all users.

2

Enhancing Access to Digital Financial Services:
Digital financial services are central to increasing financial inclusion of households and MSMEs. Building upon the successes achieved so far, an enabling legal and operational environment for Fintech will be developed, and there will be full digitalization of Government payments.

Outcome: The digital financial ecosystem flourishes, with seamless mobile banking, fintech innovation, and open banking frameworks driving widespread digital adoption.

3

Strengthening Financial Consumer Protection (FCP) and national Anti Money Laundering / Counter Terrorism (AML/CFT) regime:

The FCP regulatory framework will be enhanced and market conduct supervision fully operationalized.

Outcome: Individuals and businesses have high confidence in financial services due to strong FCP and AML/CFT regimes and their effective implementation.

The national AML/CFT regime, covering both financial and non-financial sectors, will be strengthened

Outcome: AML/CFT Supervision strengthened covering financial institutions, designated businesses and professionals.

4

Enhance Financial Data Dissemination:
The availability of existing financial data will be expanded and new data developed that can help in financial sector and economic development. The aim is to ensure that financial data is widely accessible, timely, and reliable, with institutions meeting reporting standards, an open financial data portal in operation, and enhanced analytical insights driving policy decisions.

Outcome: Financial data is widely accessible, timely, and reliable, with institutions meeting reporting standards, an open financial data portal in operation, and enhanced analytical and enhanced analytical insights driving policy decisions.

Implementation, Monitoring and Evaluation

The implementation of the FSDS II will be overseen by the Financial Sector Development and Inclusion Council; The Council will act as national steering committee guiding Lesotho's financial sector development and financial inclusion and oversee the implementation of both FSDS II and NFIS II.

FSDS II also includes a detailed Action Plan, identifying actions to be implemented, with lead and supporting responsibilities for implementation identified for each. Finally, it includes a range of indicators classified as long-term and intermediate outcomes, with mid-term and final target outcomes for each.

1 INTRODUCTION

1.1 The Government of Lesotho (GOL) envisages the financial sector as one of the key enablers necessary for the achievement of sustainable and inclusive economic growth that can lead to private sector led job creation. This role of the financial sector has been articulated in the various editions of the National Strategic Development Plans (NSDPs). The current NSDP II[1] (2024-2028) has the goal of private sector-led job creation and inclusive growth and identifies financial sector development as a key enabler for achieving the plan's goal. NSDP II identifies the following five objectives for financial sector development: (1) improvement of the access to finance, (2) Improvement of resource mobilization for productive sectors and other economic sectors, (3) Improvement of regulatory frameworks for financial sector, (4) Improvement of financial stability and soundness and (5) Improvement of land use to enable access to credit. These objectives are supported through FSDS II and complementary strategies (discussed in more detail in Chapter 4).

1.2 To achieve the aspirations of the NSDP, the Government of Lesotho has adopted the Financial Sector Development Strategy (FSDS) approach as the viable vehicle for catalysing the implementation of financial sector reforms in Lesotho. This resulted in the development and implementation of the Financial Sector Development Strategy I (2013-2017). As will be discussed further in Chapter 3, the FSDS I has served the sector well, by addressing the long-standing challenges that were hampering developments in the financial sector. The challenges included lack of coordination among stakeholders both domestic and development partners. Therefore, the FSDS brought together all stakeholders that have an impact in the financial sector to agree on the preferred reform program. It also improved the coordination of technical assistance and stakeholders buy-in.

[1]The NSDP II originally covered 2018/19-2022/23. It was extended by the government in early 2024 to cover 2023/24-2027/28.

1.3 Significant progress in financial sector development was achieved during FSDS I and in the following years. Soundness and stability of the financial sector was maintained, financial sector depth has improved, and financial inclusion has broadened. Financial inclusion rose from 81 per cent in 2011 to 91 per cent in 2021 while access to finance by small businesses rose from 9 percent in 2016 to 21 percent in 2023. Major achievements include: (1) strengthening prudential regulation and supervision of banks and insurance companies, (2) expansion of regulatory coverage to pensions and large financial cooperatives, (3) establishment of dedicated financial consumer protection regime, (4) improvement of credit infrastructure through the establishment of the credit bureau and collateral registry, (5) improvement of the capital market through the establishment of Maseru Securities Market, and (6) strengthening of the National Payments System through the establishment of the National Payment Switch and enhancement of payments systems oversight.

1.4 Several key diagnostics such as Financial Sector Stability Review (FSSR) and Financial Sector Assessment Program (FSAP) Development Module have been completed. These were complemented by the consumer surveys that were completed in 2021 and the Micro, Small and Medium Enterprises (MSME) Survey was completed in 2016 and in 2023. These diagnostics show significant progress has been achieved but more still needs to be done, hence, the need for the development of the FSDS II (2025-2030).

1.5 The FSDS II (2025-2030) envisions to expand and deepen progress realised under its predecessor, and fill identified gaps for further development of the sector. Emerging issues include climate change, rapid technological developments, rising cyber-crime threats and the need to strengthen anti- money laundering and countering of financing of terrorism regime. Outstanding and emerging areas to be addressed by the FSDS II are grouped in three strategic pillars – maintaining a stable and resilient financial sector, enhancing financing for economic development, and developing long-term finance and improving its efficiency, and four cross-cutting areas – strengthening of the national payments system, enhancing access to digital financial services, strengthening market conduct and financial consumer protection and AML/CFT regime and enhancing financial sector data dissemination.

1.6 The strategy was developed through a consultative process.[2] The process commenced with the high-level workshop comprising of the Honourable Minister of Finance and Development Planning, Governor of the Central Bank of Lesotho, and the Principal Secretary of the Ministry of Finance and Development Planning, during which the vision for the strategy was crafted and agreed. Thereafter, the public, private sector representatives and development partners were engaged to identify and sequence priority actions to be implemented to realize the set vision.

1.7 The FSDS II (2025-2030) is organized as follows. Chapter two follows the introduction and presents the Lesotho financial sector context. Chapter three presents the state of financial sector development achievements and remaining challenges. Chapter four presents the strategic pillars and cross cutting issues of the FSDS II. Chapter five presents the implementation plan for the strategy and Chapter six discusses the monitoring and evaluation framework.

[2]The World Bank and European Union provided technical support for the development of the strategy

2 FINANCIAL SECTOR CONTEXT

Macroeconomic Background

2.1 During the last fifteen years, the Lesotho's GDP's growth has slowed down owing to several external factors. These included external factors such as droughts and COVID-19, but also due to unaddressed development weaknesses, particularly an anaemic private sector. The private sector in Lesotho largely depends on government and have not positioned itself as the viable engine of economic growth. One of the limitations is credit to the non-financial sector of the economy. Between 2014 and 2016, the country experienced a moderate economic growth rate of about 3 to 4 per cent. However, in 2017, the economy faced a contraction due to domestic and external factors which included political instability, decrease in mining activities, as well as a drop in global demand for textiles and clothing. Subsequently, growth rebounded between 2018 and 2019, owing to an upturn in demand for textiles and clothing as the international markets began improved.

2.2 The situation was further exacerbated by the outbreak of the COVID-19 pandemic in 2020 that negatively affected world economies. Lesotho economy was not immune, contracting by 8.2 per cent. The pandemic's negative impacts included a disruption in important industries such as retail, tourism and manufacturing, as well as a drop in remittances received from migrant workers.

2.3 Nonetheless, the economy began recovering in 2021. Lesotho's economic growth averaged 2.2 per cent post COVID-19 pandemic to the year 2023. The realised growth emanated, largely from the tertiary and primary sectors. The developments in the tertiary sector mainly reflected increased performance in the financial service subsector. Whereas the primary sector's improvement was buoyed by performance in the mining and quarry subsector, alongside an improved agricultural subsector performance. On the contrary, the secondary sector performance was subdued during the review year, mostly due to weak external demand for textiles and clothing exports, which moderated strong growth in the construction industry.

2.4 Lesotho's inflation has experienced fluctuations due to both global developments as well as domestic factors. For the period of 2014 to 2020, inflation rates fluctuated around 4 per cent to 6 per cent to per annum, except for 2016 following drought conditions in the region. The year 2020 marked the beginning of the COVID-19 global pandemic which significantly increased inflation rate beyond the 8 per cent mark. Inflation reached a peak of 9.8 per cent per annum in July 2022 largely due to supply chain disruptions, increased cost of food, increased cost of fuel and weaker rand exchange rate. The higher inflation mainly reflected an increase in the non-food component which was moderated by the food component. The non-food inflation rate increased to 2.2 per cent in 2023 from 1.7 per cent in 2022, while food inflation decreased to 8.8 per cent during the review period from 9.3 per cent in 2023.

2.5 Broad money supply (M2) rose by 20.0 per cent in 2023, in contrast to a decline of 3.4 per cent in 2022. This reflected an increase in net foreign assets of the banking system, which outweighed the fall in the net domestic claims. Expressed in real terms, M2 grew by 11.9 per cent in 2023, compared to a decline of 10.6 per cent observed in 2022. The CBL policy rate closed the year 2023 at 7.75 per cent, which was equivalent to an increase of 75 basis points from December 2022. Consequently, the average prime lending rate increased from 10.50 per cent to 11.25 per cent, while the one-year deposit rate rose by 27 basis points to 4.74 per cent.

Table 1: Selected Macroeconomic Statistics

Variable	2020	2021	2022	2023	2024
GDP (%)	-8.2	2.3	2.4	1.8	2.4
GNI (%)	-8.5	0.3	5.4	3.3	3.1
GDP Per Capita (%)	-8.6	1.8	1.9	1.4	2.0
GNI Per Capita (%)	-8.9	-0.1	4.9	2.7	2.6
Primary Sector (% Share)	13.0	14.7	13.3	14.5	13.2
Secondary Sector (% Share)	23.3	23.3	23.2	20.9	20.3
Tertiary Sector (%Share)	51.9	49.8	50.1	50.6	51.8
Finance and Insurance (%Share)	13.1	12.1	12.3	13.9	14.7
Inflation rate (%)	5.0	6.1	6.2	6.4	6.1
Prime lending rate (%)	8.19	8.44	10.50	11.25	11.00
CBL Policy rate (%)	3.50	3.75	7.00	7.75	7.50
Public Debt to GDP (%)	55.06	56.77	59.55	59.83	57.90
Current Acc to GDP (%)	-5.11	-7.60	-11.54	-5.30	5.04

2.6 Lesotho's current account was in deficit between 2020 and 2023 reflecting higher deficits in the trade account relative to surpluses in the income accounts. The current account balance improved substantially in 2024, recording a surplus equivalent to 5.7 per cent of GDP. The improvement in current account balance benefitted from higher surpluses in the primary and secondary income accounts, driven by increases in interest returns on foreign investments held by financial institutions and SACU receipts, respectively. The trade account remained in deficit in 2024 on account of large imports associated with the ongoing mega-projects.

2.7 Lesotho's total public debt stock continues to be below the SADC debt threshold of 60 per cent of GDP. Between the fiscal years 2020/21 and 2024/25, public debt averaged 54.6 per cent of GDP. Notably, from 2020/21 to 2023/24, public debt stock fell by 2.0 per cent, driven partially by redemptions of the domestic component and the effects of the currency depreciations. By the end of the fiscal year 2024/25, public debt stock was estimated at 54.1 per cent of GDP, down from a revised 58.3 per cent of GDP in the previous fiscal year. Domestic debt stock, which stood at revised 10.5 per cent of GDP in 2020/21, increased slightly to 10.9 per cent of GDP in 2024/25. This debt consists of long-term securities with tenors of up to 15 years and short-term securities of less than one year, entailing both monetary and fiscal instruments. Monetary instruments are designed to manage liquidity volatility, while fiscal securities are used to finance fiscal operations.

Financial Sector Structure

2.8 The Lesotho financial sector has grown significantly relative to the size of the country. It contributed to 14.7 percent of GDP in 2024. The structure of Lesotho's financial sector has evolved significantly in recent years with addition on new institutions. Notable achievements include the establishment of the stock exchange, establishment of the credit bureau and the collateral registry, and the expansion of CBL functions to include market conduct and financial consumer protection. The structure has also been influenced by new laws that have allowed for licensing of pension funds, payment service providers and financial leasing. The CBL is the sole regulator of the financial sector with its functions including monetary policy operations, financial stability, currency operations, banking and non-bank supervision, payments systems operations and oversight, capital markets development, and consumer protection. Overall, the sector comprises of; commercial banks, non-bank payment and remittance service providers, insurance industry, pension industry, Capital Markets, and micro-finance institutions (MFIs). The sector is supported by key financial market infrastructure including a private Credit Bureau (Experian), a public Collateral Registry (Lerima), and a Central Securities Depository (CSD). Table 2 presents the structure with the number of participants in each category.

Banking Sector

2.9 Lesotho's banking sector is comprised of four commercial banks. All private banks are subsidiaries of South African banks and the fourth bank is fully owned by the Government of Lesotho (GOL). The three foreign-owned banks control about 90.0 percent of the total banking industry's assets, revenue, and deposits.

The four commercial banks collectively have 50 branches across the country, largely in urban areas. The banking sector is characterized by limited competitiveness and high market concentration indicated by the Herfindahl Hirschman index (HHI)3 of 4 255. To moderate the effects of market position on pricing of financial products CBL has issued pricing directives. The banking sector remains well capitalized, liquid and profitable.

At the end of 2023, the total banking industry assets were M27.5 billion and relative to the previous year, the total assets increased by 38.5 per cent. The industry has evolved from offering traditional services to more technologically based products and services.

E-Money Issuers and Remittance Service Providers

2.10 There are six providers of domestic mobile money services. These include one bank, two subsidiaries of mobile network operators and three fintechs. They all have an accumulated trust account balance of M849.8 million, which is a 32.3 per cent increase from 2023. The growth in the trust account balance is consistent with the increasing market penetration in Lesotho.

2.11 There has been an increase in the number of remittance service providers in Lesotho. The remittance service providers are critical in the low value cross-border money transfers. They consist of inward cross-border transactions carried out through mobile money services and the Shoprite money transfer service with a total of 1414 049 successful transactions to the tune of M1 624 787 674 in 2024. Notwithstanding the notable contributions of the payment service providers to the payments landscape in Lesotho, further expansion of access and usage will result in positive outcomes.

Insurance Sector

2.12 The insurance sector is the second largest industry in Lesotho financial system. It is made up of 10 providers that offer life and non-life insurance products, 4 short term/general insurers and 6 long term/life insurers. Its asset base amounted to M10.79 billion as at 2023, of which 88.53 per cent belongs to the long-term/life business sub- sector compared to short term/general. Insurance penetration, however, remains low due to limited awareness and trust issues within the population. There are also competition issues with the sector being dominated by two companies. These may be due to the small size of the sector.

[3] A measure of market concentration, HHI<1000- highly competitive; HHI 1000-1800 moderately competitive and HHI>1800 less competitive in the market.

Table 2: Structure of the Financial Sector				
ASSETS	Number	Maloti (In Millions)	% of GDP[3]	% of financial system
Banks	**4**	**28, 103. 80**	**68.30%**	**41.28%**
State-owned bank	1	2,501.34	6.10%	3.67%
Private banks	3	25,602.46	62.43%	37.61%
Non-bank Deposit-taking Institutions		**41,04**	**0.10%**	**0.06%**
Savings and credit cooperatives (SACCOs)	227	41,04	0,10%	0,06%
Non-Deposit taking Micro finance institutions	**134**	**1,777.82**	**4.34%**	**2.61%**
Tier II	10	1,694.55	4.13%	2.49%
Tier III	124	83.27	0.20%	0.12%
Insurance companies[2]	**10**	**10,642.55**	**25.95%**	**15.63%**
Long-term/Life	6	10,093.99	24.61%	14.83%
Short-term/Non-life	4	548.56	1.34%	0.83%
Retirement funds[2]		**18,845.35**	**45.95%**	**27.68%**
Statutory / Public Funds	2	14,317.02	34.91%	21.03%
Private pension funds	4	1,097.26	227,00%	1.61%
Umbrella funds	5	3,431.07	8,37%	5.04%
Capital markets Intermediaries[2]		**8,671.54**	**21.15%**	**12.74%**
Collective investment schemes	4	8,671.54	21.15%	12.74%
Total		**68,082.10**	**166%**	**100%**

Note: Projected nominal GDP for 2024 as per September 2024 Macroeconomic Outlook equals M41, 145 million

Pension Industry

2.13 The sector comprises pension funds, pension funds administrators and intermediaries. The oversight of the pension industry is relatively new in Lesotho. It was introduced with the promulgation of the Pension Funds Act, 2019 and implementing regulations of 2020. It comprises of pension funds, pension funds administrators and intermediaries. There were 11 registered pension funds at the end of 2023, with total membership of 72,437. Out of the 11 registered funds, two were public pension funds, which accounted for 65.8 per cent of the membership. Pension funds' assets amounted to M16.4 billion, 76.2 per cent of which was attributable to public pension funds.

Microfinance Institutions (MFIs)

2.14 The MFI sector is relatively large from the perspective of the number of institutions but play a limited role. Significant growth followed the introduction of the tiered licensing approach. MFIs play an important role in providing access to credit for low-income households and small businesses that are often excluded from the traditional banking system. At the end of 2023, there were 143 licensed MFIs. These are categorized into three tiers based on their asset base. Tier I MFIs are authorized to accept deposits. Tier II MFIs are limited to providing credit-only services and should possess assets totaling M10 million or more. Tier III MFIs, are restricted to offering credit-only services and operate below the M10 million asset threshold. This industry is largely dominated by larger MFIs, which happen to be foreign owned. The aggregate value of assets in MFI industry stood at approximately M1.5 billion at the end of the year 2023.

Savings and Credit Cooperatives (SACCOs)

2.15 Savings and Credit Cooperatives (SACCOs) are key service provider to Lesotho rural economy. The SACCOs have dual supervision with the small ones supervised by the Department of Cooperatives under the Ministry of Trade, Industry and Business Development while the large ones are supervised by the CBL. They are crucial for Lesotho's rural economy, providing saving and lending services to underserved populations. The SACCOs are dominated by small entities, with only four large SACCOs having significant market values.

Capital Markets

2.16 Lesotho's capital market is at a nascent stage of development. It is comprised of asset managers, collective investment schemes, stock exchange and licensed market players which include issuers, stockbrokers, broker-dealers and investment advisors. There was a total of four licensed asset managers at the end of 2023. The number of active and locally registered collective investment schemes (CISs) remained at four while there were fourteen foreign registered schemes that were marketed by the locally registered asset managers. CISs total assets under management amounted to M3.49 billion at the end of 2023. There were also three broker dealers and three investment advisors.

2.17 The Maseru Securities Market has had a lackluster performance. While it was established in 2016 it continued to be dominated by government bond listing with nine government bonds. It only had its first equity security listing in 2021.

Consumer Protection and Market Conduct

2.18 Lesotho has established the Market Conduct and Financial Consumer Protection regulator. The Financial Consumer Protection Act of 2022 designated CBL as the Market Conduct and Financial Consumer Protection regulator and supervisor within an integrated institutional set-up. The implementation of the Act has commenced. The major hurdle is to develop the implementation regulations of the Act. To date two sets of regulations have been promulgated and three sets are in the pipeline.

Financial Market Infrastructure

Credit infrastructure

2.19 Significant progress has been achieved in the development of credit infrastructure. The credit infrastructure comprises (1) credit reporting system, (2) secured transactions and collateral registry, (3) insolvency regime data protection framework and (4) digital identity. Following the licensing of the credit bureau in 2013, the credit information sharing initiative (CIS) was embarked on from 2016. This has resulted in an increase in the credit information submission to Lesotho's credit bureau by the following credit provider; 4 commercial banks, 6 Tier II MFIs, twenty-one Tier III MFIs, 2 SACCOs, 2 telecommunications companies, 3 insurance companies, and 7 retailers. At end of 2023, the number of persons recorded in the credit bureau were 233,694, with 125,582 being credit-active borrowers, while the number of credit accounts had reached 231,178.

2.20 Lesotho has a modern collateral registry. The credit infrastructure system in the country was further reinforced with the launch of Lesotho Registry of Interest in Movable Assets (LERIMA) in 2021 following the promulgation of the Security Interest in Movable Property Act 2020. This platform facilitates the extension of credit through moveable assets as collateral. As at the end of 2023 credit extended through this platform amounted M1.9 billion shared among banks, MFIs, and legal representatives.

Payment Infrastructure

2.21 The payment market infrastructure is the bed rock for economic development, that caters for wholesale and retail payments. The wholesale payments are operated through the Real-Time Gross Settlement (RTGS) system, also known as Lesotho Wire (LSW). It has five participants, comprising of four commercial banks, as well as CBL.The retail payment systems handle large volumes of transactions of relatively low value. These include payment platforms such as the automated clearing house (ACH) for processing of electronic funds transfers (EFT). Additionally, there is the national payment switch (LeSwitch) that process interoperable transactions.

Central Securities Depository (CSD)

2.22 Lesotho also has the CSD to support the activities of the capital markets in both primary and secondary markets.[4]. A CSD is a system that facilitates the safekeeping and transfer of securities through book entries, essentially eliminating the need for physical certificates as proof of holding any financial security. The CSD system offers a wide range of depository functions. The system provides registration, full support of securities operations and settlement using DvP with RTGS system. A CSD is categorized as a financial market infrastructure that holds and transfers securities electronically, acting as a crucial part of the financial market infrastructure for settling transactions.

Identification Infrastructure

2.23 Although not yet fully digital, Lesotho's national identity cards have a very high level of outreach. The National Identity system has over 90 per cent coverage, the National Identity system has been linked to the credit bureau, banks, insurance companies and mobile network operators to harness the know your customer process. In order to sustain these benefits, it is important that issue of expiry of the national identity documents and the stability of the ID system are addressed.

Data Protection Framework

2.24 Lesotho also has established the data protection regulatory framework. This was established by the enactment of the National Data Protection Act of 2012. The act mandates for the establishment of the Data Protection Commission under the Ministry of Home Affairs, Public Safety and of Parliamentary Affairs. However, to date the implementation of this act has not been done. The current rapid expansion of big data has made the implementation of the act more urgent.

Financial Sector Legal and Regulatory Landscape

2.24 Lesotho's financial sector is underpinned by several laws. The main laws include: The Central Bank of Lesotho Act (2000); the Financial Institutions Act (2012), the Exchange Control Order (1987), the Insurance Act (2014), the Pension Funds Act (2019),

Credit Reporting Act (2011),Securities Interest in Moveable Property Act (2020), and Financial Consumer Protection Act (2022). These laws are supported by several subordinate regulations. Annex I presents a detailed listing of laws and regulations that supports Lesotho financial sector, and the relevant international standard for each sub-sector.

2.25 The CBL is the primary regulator of the financial sector. Its functions include monetary policy operations, financial stability, currency operations, supervision of banks and non-bank financial institutions, payments systems operations and oversight, capital markets development, and financial consumer protection. Other regulators that have some overlapping mandates include the Companies Registrar and the Department of Cooperatives under the Ministry of Trade and Business Development. While not yet in place, the Data Protection Commission is also expected to have a regulatory role over entities in the financial sector once it has been established.

2.26 The main mandate of the Central Bank of Lesotho, as spelled out in the CBL Act (2000), is to achieve and maintain price stability. The Act also includes several provisions that implicitly give the CBL the financial stability mandate, amely (i) to foster the liquidity, solvency and proper functioning of a stable market-based financial system; (ii) to promote the safe and sound development of the financial system and (iii) to promote the efficient operation of the payments system. Drawing on this mandate it has the responsibility for maintaining financial soundness and financial stability in Lesotho and undertakes both macro-prudential supervision activities and micro-prudential supervision of both banks and non-bank financial institutions.

[4] A CSD is a system that facilitates the safekeeping between banks and transfer of securities through book entries, essentially eliminating the need for physical certificates as proof of holding any financial security.

3 ACHIEVEMENTS, CHALLENGES AND WAY FORWARD

3.1 Significant progress on financial sector development was achieved under the FSDS I and in the following years. This chapter discusses the key achievements made on financial sector development during FSDS I and in the following years and identifies key remaining challenges that need to be addressed

3.2 GOL and CBL took steps to understand progress achieved, outstanding gaps and emerging issues after the FSDS I through several key diagnostics and surveys. The IMF undertook the Financial Sector Stability Review (FSSR) in 2021, and the World Bank undertook the Financial Sector Assessment Program (FSAP) Development Module in 2022, and an Electronic Payment Acceptance Assessment in 2024. The IMF and the World Bank also jointly undertook the Domestic Bond Market Assessment in 2022. These were complemented by the Finscope Consumer Survey in 2021 and the MSME Survey in 2023.

Financial Soundness and Stability

Macro and Micro-Prudential Supervision

3.3 In recent years the CBL has made significant progress in improving the macro and micro-prudential supervision of the financial sector. Nevertheless, there are several areas that remain outstanding and need to be developed further during FSDS II.These include: (1) Financial stability framework and macro-prudential supervision, including legal, policy, and institutional framework; (2) Micro-prudential supervision of Banks, notably risk based-supervision, early warning and crisis resolution, (3) Micro-prudential supervision of insurance and pension providers and (4) supervision of microfinance institutions and SACCOs.

Macro-Prudential Supervision

3.4 Financial stability framework and macro-prudential supervision. CBL has established a division with mandate for macro-prudential supervision under the banking supervision and financial stability department. The division undertakes macro-prudential indicators surveillance, conducts research on financial stability developments and has allowed CBL to produce and publish periodic financial stability reports.

3.5 Notwithstanding the achievements, several challenges remain for macro-prudential supervision (safeguarding the stability of the financial sector as a whole). These include the need to: a) develop an overarching legal framework and policy to give a firm legal foundation to the CBL's role and mandate; b) enhance CBL's powers and capacity to handle resolution of financial institution, covering early intervention and ability to resolve crises (to prevent the spread of any crisis across the financial sector and minimise systemic risks), deposit insurance, and improved co-ordination of crisis management; and c) strengthen CBL capacity to monitor core stability risks such as household over-indebtedness (with borrowing from both bank and non-bank sources), and emerging risks from climate change, new types of financial instruments (e.g. virtual assets), cybersecurity, fintech, fraud and the sovereign-bank nexus.

Micro- Prudential Supervision of Banks and Other Deposit Taking Institutions

3.6 Micro-prudential supervision of banks and large financial cooperatives: CBL adopted a Risk Based Supervision (RBS) approach for supervision of licensed banks in 2009. Under this approach, the CBL assesses the risk profile of each institution and ascertains the effectiveness of the systems and procedures to identify, measure, monitor and control risks. The framework has been revised frequently to enhance its effectiveness. The latest review was done in 2023 and focused on improving the characteristic framework, institutional reports for offsite surveillance, supervisory review process of internal capital adequacy assessment process and the RBS risk rating model. To further efforts to improve the quality of banking supervision, the CBL has implemented Basel 2.5, which is a hybrid of Basel II and Capital requirements of Basel III. Basel 2.5 combines capital requirements with supervisory review and market discipline to improve risk management.

3.7 Some progress has been achieved following the issuance of the financial institutions (Large Financial Cooperatives), 2018. The largest SACCO was licensed by CBL in 2024.However, the delay in finalising the planned Financial Cooperatives Act is posing a challenge for managing the transition from small cooperative to large cooperative. The responsibility for regulation and supervision of large financial co-operatives is divided between the Ministry of Trade, Industry, and Business Development (MTIBD) and CBL. This has created an avenue for regulatory arbitrage. It is important that MTIBD and CBL's regulatory coverage is well defined. The transition from a small SACCO to a large financial cooperative should be defined. Furthermore, supervision of the SACCOs should be strengthened to minimise the risk of their failure. The capacity of MTIBD to collect data from and monitor small SACCOs needs to be improved, and the need for dedicated legislation for SACCOs (as opposed to co-operatives in general) remains.

3.8 The elevated levels of non-performing loans in MFIs heightens the credit risk and concentration risk as their clientele is dominantly civil servants. They are also exposed to funding constraints and low profitability. In addition, no Tier 1 (deposit-taking) MFIs have been established, e.g. permitting current account deposits and access to the payments system. There needs to be an opportunity for MFIs to access payment systems.

Micro-Prudential Supervision of Insurers and Pension Funds

3.9 Good progress has been achieved in regularising and consolidating the pensions sector. The Pension Act was enacted in 2019 and several regulations were issued subsequently enabling the prudential supervision. Many small and unregulated pension schemes identified in the first FSDS now registered as stand-alone funds or being members under umbrella funds. The pension funds are mostly Defined Contribution (DC) funds and therefore entail little risk from asset-liability mismatch or actuarial perspectives. The main risks in this sector are to pension fund members (i.e. lack of diversification and optimal portfolio construction from a risk-return perspective, investment horizon, market downturns close to retirement, consumer protection), rather than prudential risks.The informal employees in Lesotho remain without access to pension fund or any form of savings for retirement. There are ongoing discussions regarding the introduction of a statutory national pension scheme, but these are at an early stage.

3.10 The insurance sector remains small but there is a need for (gradual) improvements in CBL capacity, data collection and analytical skills. There is a gap in the regulatory framework with no legislation relating to medical aid funds (which provide a specialised type of insurance). The collection of better data from insurers and pension funds to enable effective supervision is under way and needs to be progressively enhanced and integrated into the Banking Supervision Application (BSA). This will aid in strengthening risk-based supervision of Other Financial Institutions.

Financial Deepening

Credit

3.11 Despite significant progress in the last fifteen years, Lesotho banking system continues to be characterised by shallow financial depth. This is evidenced by low levels of savings by households measured by deposit to GDP ratio. There is also limited financial intermediation shown by relatively low loans -to-deposit ratios. This leads to high liquidity, and assets held with parent companies in South Africa. The ratio of domestic credit to the private sector to GDP is low as compared to other SACU countries (albeit higher than in eSwatini). The banks perform relatively poorly according to conventional efficiency measures, with (rising) high cost-to-income ratios, much higher than all CMA countries and Botswana. There are many reasons for this, including the small economy and limited lending opportunities. This constrains the number of banks, and leads to both a lack of economies of scale (leading to high unit costs) and limited competition between banks. Bank lending is dominated by credit to households, mainly payroll-based lending to salaried individuals, particularly civil servants. Corporate lending is based around credit to larger firms and parastatals, and credit associated with public sector projects.

3.12 To further deepen credit markets, there could be consideration of revising the licensing structure for banks and other deposit-taking financial institutions. Beyond the banks, other credit providers are MFIs and SACCOs but their share in overall credit market is estimated to be relatively small. Under the regulations for Tier 1 (deposit-taking) MFIs are prevented from offering transactional accounts and can only offer (interest-bearing) deposit accounts. In contrast, MNOs can only offer transactions accounts and cannot pay interest on wallet balances. There may be a need to introduce a tiered bank licensing framework, with both "full scope" and "limited scope" banks, and allowing the latter to offer both transactions accounts and interest-bearing savings/deposit accounts.

The limited scope tier could be open to Tier 1 MFIs, mobile money service providers and digital-only banks.This would help to provide more competition to the existing banks and allow a wider range of banking business models. "Limited scope" banks would be regulated according to the amount of balance sheet risk taken on.

3.13 Exchange controls are outdated. The regulation of the exchange control in Lesotho is governed by the Exchange Control Order, 1987, Exchange Control Regulations, 1987 are outdated. They have made the exchange control cumbersome and hinderance to the transfer of funds. A planned repeal of exchange control Order of 1987 and enactment of new Currency and Exchanges Bill should go a long way in modernising the exchange control regime.

Table 3: Selected Bank Indicators, SACU countries (2023)

Country	Domestic credit to private sector (% GDP)	Bank cost-to income ratio (%) ***	Broad money (% GDP)	Bank deposits (% GDP)***
Botswana	30.1	58.4	41.7	47.0
eSwatini	21.4	57.6*	28.1^	28.0
Lesotho	25.7	77.6	42.3**	36.2
Namibia	61.0	53.6	72.6^	70.1
South Africa	92.2^	61.0	73.0	60.4

* 2019 ** 2020 *** 2021 ^ 2022 **Source**: IMF, World Bank

[5] In 2022, balances with banks abroad amounted to 16% of total banking assets.

Long-Term Finance

3.14 Insurance penetration in Lesotho is very low, apart from funeral insurance. This reflects low incomes, and low awareness of insurance products and needs. In the long term there is a need to build up the use of other insurance products to improve firms and household resilience. There is need for products innovation, such as micro-insurance products and better use of data and digital channels. The review of motor vehicle accident (MVA) scheme and consideration for the introduction of Third-Party motor vehicle insurance remains the priority. Agricultural insurance is another area of that needs further research and investigation to determine risks that can be covered viably and associated premium levels. There is a need for bench-marking agricultural insurance with international practice.

3.15 Pensions sector in Lesotho is smaller than the pensions sectors in other SACU member states. With total assets of some M17 billion (41% of GDP), the pension sector in Lesotho is smaller than the pension sectors in other SACU member states, which are all over 50% of GDP. However, with limited domestic assets to invest in, efforts are being directed to develop new investment opportunities e.g investment in government infrastructure. Development of the domestic capital market will also create instruments for investment of pensions assets. Furthermore, because regulation of the pensions industry is relatively new, there is a need to strengthen regulation and supervision to improve compliance and ensure financial soundness and stability of the industry.

3.16 The development of the capital market has been slow. The MSM is up and running, following the publication of Capital Market Regulations in 2014. However, the MSM is very small, with one listed equity (from 2021), nine listed government bonds, and very limited trading/ liquidity. It would be desirable to have an expansion of MSM listings, including equities, corporate bonds and exchange traded funds (ETFs). There is also a need to consider alternatives to the main board of the MSM, with less stringent listing requirements that could provide more investment opportunities for local pension funds and improve their ability to meet local asset requirements, as well as providing the private sector with an alternative channel for raising both equity (risk) and loan capital.

3.17 However, the universe of potential private sector issuers is limited. Given the costs of listing (regulatory, compliance etc.), firms would have to be persuaded that public MSM listings are worthwhile, rather than using banks or private or over the counter (OTC) placements. While the listing of some major firms (e.g. banks or telcos) would transform the market, the value proposition to these firms is limited given that their parent companies are already listed in the Johannesburg Stock Exchange. The value proposition is likely to be higher for State-Owned Enterprise (SOE) privatisations, or divestments by LNDC.

3.18 Regulatory overlaps present an obstacle to listings. Listings are subject to requirements of the Capital Market Regulations under the CBL and those under the Companies Act under the MTIBD. This extends the listing process and provides inconsistent requirements. Resolving this and placing responsibility for listing requirements and approvals solely under the CBL, with notification to MTIBD, would help to streamline the listings process. The management of the MSM also needs to be moved out of the CBL as soon as it is feasible for it to be taken over by a private sector entity.

3.19 The evolution of the capital market would also be assisted by the further development of the Local Currency Bond Market (LCBM). Government bonds typically provide a foundation for the broader capital market. Lesotho already has an established programme of primary bond issuance, but with little secondary market activity and a narrow investor base. A range of actions have been proposed by the IMF-WB LCBM assessment in 2023 to support the market. These include publishing a Medium-Term Debt Strategy and an Annual Borrowing Programme; improving consultation with market participants; greater transparency for secondary market transactions; formalising mechanisms for investor relations management; making better use of established financial market infrastructure; and improved government cash flow and liquidity forecasting.

Financial Inclusion of Households

3.20 Household financial inclusion, as measured by regular FinScope surveys, has broadly improved over the years. The most recent FinScope household survey in 2021 showed that overall financial inclusion increased from 81 per cent to 91 per cent of adults over the ten years since the previous survey in 2011. Formal inclusion increased dramatically, from 60 per cent in 2011 to 87 per cent in 2021. The increase was underpinned by the use of "other formal" financial services from 49 per cent to 85 per cent of adults, driven primarily by the use of mobile money. However, access to banking remained relatively unchanged at 39 per cent for adult population. Significant changes to the banking model would be needed for better access to banking services and products to adults with lower, less regular or informal incomes.

3.21 Digital Financial Services (DFS) have the potential to advance financial inclusion of households and digitization of government payments, can play a key role increasing its availability and use. The Ministry of Gender, Youth and Social Development (MGYSD) initiated the process of digitizing social payments at the end of 2024, it is estimated that 48 per cent of social payments are delivered digitally, primarily through mobile money accounts. The Revenue Services Lesotho (RSL) and the Accountant General Office, entities of the Ministry of Finance and Development Planning (MFDP), have also taken initiatives to digitize tax and non-tax revenue payments (fees and fines). GOL has also initiated steps to establish a Government Payments Gateway to increase efficiency and effectiveness in government payments by leveraging economies of scale.

3.22 Given that remittances are a very important source of income for Basotho, this is another area that can benefit significantly from digitization. Remittances through banking channels used to be cheap and quick, with intra-CMA payments using the same channels as domestic South African payments. However, recent regularisation regarding cross-border payments, to meet international AML requirements, have resulted in the halting of this channel, and a sharp increase in the cost of most cross-border remittances between South Africa and Lesotho. There is a need to create relevant policy and improve legal framework to enable innovative additional payment channels and product suitable for remittances.

Access to Finance for MSMEs

3.23 The 2023 FinScope MSME survey provides very useful information on the MSME landscape in Lesotho. While only one third (34 per cent) are banked (mainly for transactions/payments), and only 10 percent have access to credit from formal financial service providers, 82 per cent use other formal financial services (mainly mobile money and insurance). Share of MSMEs reporting access to credit from formal sources has increased significantly from 2 percent in 2016 to 10 percent in 2023. Not surprisingly, as Table 5 shows, there is a large heterogeneity between SMEs and micro enterprises with small and medium enterprises having much higher level of access to credit than micro-enterprises.

Table 4: MSME Overview

Type	% of total	Total	Use formal credit (%)	Unserved
Medium	1	1 387	42	805
Small	4	5 549	53	2 608
Micro	24	33 294	18	27 301
Individual	71	98 493	14	84 704
Total		138 723		115 418

Source: estimates based on FinScope MSME, 2023

3.24 Extending access to credit for SMEs is a necessary component of financial sector development. The concentration on consumer lending to salaried individuals reflects banks' and MFIs' perceptions of risk. They don't have an appetite for taking on high levels of risk for SMEs. Many SMEs, especially start-ups, currently finance their business through owners or family/friends contributions. Where credit is provided to SMEs, it is done on terms that reflect the high level of risk and the high costs of providing small loans, resulting in high interest rates.

3.25 Improvements in credit reporting and the establishment of the moveable assets registry have helped to improve credit risk assessments and reduce lending risks. In the medium term the credit risk of SMEs would need to be reduced through better information availability for lenders. There should also be a consideration of the establishment of the suitable funding mechanism for private sector development. These should include consolidation and coordination of the existing measures to enhance access to finance which factors risk levels for SMEs. The effectiveness of these mechanisms can be improved by (i) extending credit reporting to include firms, and (ii) extending the use of the moveable asset registry beyond large, fixed assets to include smaller moveable assets and equipment that are more likely to be used by SMEs.

3.26 Enhanced availability of credit guarantees can play a key role in mitigating credit risks for lenders. There are two Partial Credit Guarantee (PCG) schemes in Lesotho. The scheme operated by LNDC is for corporates and is somewhat successful but has unused guarantee capacity. The one directly managed by MTIBD is for the MSME. The proposal to merge thetwo schemes and reform them to align them with best practice principles remains the priority. Extending eligibility for PCG support to loans made by Tier 2 MFIs, if effectively managed, can play a key role in increasing access to finance for MSMEs.

3.27 Improving SME access to finance requires significant intervention in building capacity in the SME sector. This would enable access to credit and capital necessary for them to expand, innovate, and scale-up their business operations. Nevertheless, SMEs face obstacles such as limited business management skills, financial literacy, and broader business environment related challenges. Addressing these will be critical in developing a pipeline of "bankable" SMEs.

3.28 Beyond MSME finance, there is also a need to improve availability of agricultural finance and finance for affordable housing. Agriculture finance is generally limited to a few larger scale commercial farmers. Lending to small farmers is constrained by high risks and overhead costs but could be developed alongside the development of agricultural value chains such that loan repayments are secured through offtake agreements and deducted from the proceeds of sales of agricultural produce. Housing finance is similarly limited to conventional higher-value properties suitable for mortgage lending. Low-cost housing properties are often built and financed on an incremental basis, using savings or short-term personal loans. There may be scope for extending affordable housing finance for low-income households through a housing micro-finance scheme. A study is needed to explore options for developing housing finance in Lesotho including partnerships with development focused MFIs.

Cross-cutting areas

3.29 The establishment of the national switch, a key market infrastructure, is a key achievement. The National Switch was launched in 2022 and has been handling e-money transfers across networks for over a year now and card transactions have recently been added. The major step still outstanding is introducing inter-operability between banks and e-money issuers, ideally enabling low-cost, real-time settlement ac≠ross platforms. This would also help to reduce the need for cash-out services, which can sometimes result in agent liquidity problems. This will encourage merchants (especially in rural areas) to accept electronic payments (mobile money or cards) rather than insisting on cash.

3.30 There is an urgent need to develop the Fintech regulation and supervision frameworks. Effort should be directed towards developing the dedicated Fintech regulatory regime. This will also include Crypto assets.

3.31 The GOL achieved a major milestone with the enactment of the Financial Consumer Protection Act, 2022. Two regulations have been issued under the Act and additional ones are under consideration. On consumer empowerment, the Bank has been implementing the households indebted campaign among the salaried employees. The campaign is focused on different sections of the civil service including teachers, armed forces

and medical professionals. On market conduct, comprehensive examinations have been done for some financial institutions in 2024. Going forward, more implementing regulations need to be developed, and monitoring of consumer protection risks be strengthened. The delayed implementation of the National Data Protection Act, 2012 remains a concern.

3.32 There is a need to review opportunities to reduce regulatory burden where possible. This is a need to address regulatory over-reach, promote efficient use of scarce regulatory resources, and support financial sector efficiency. The development of regulatory sandboxes are an instrument that can allow service providers to introduce new products, and explore business models and partnerships between various players and technologies, before a full regulatory framework is in place.

4 STRATEGIC FRAMEWORK AND COMPONENTS

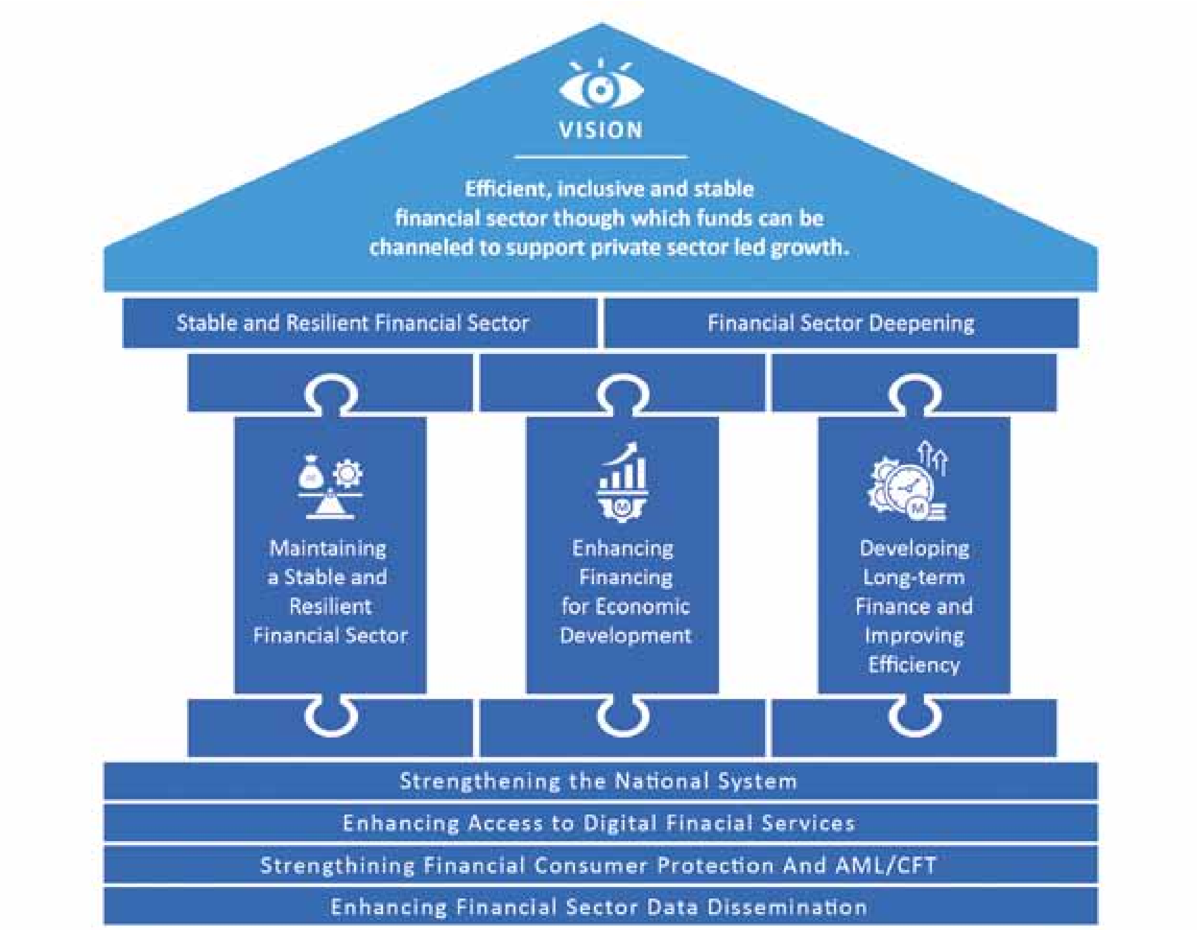
4.1 **This chapter lays out the strategic framework for the strategy, presents a visualization of how success looks like in 2030**, and identifies the key actions envisaged to be undertaken during the strategy period. It also briefly discusses the complementary strategies that will contribute to the FSDS II vision.

Strategic Framework

4.2 The vision for the FSDS II 2025-2030 is to have an 'Efficient, inclusive and stable financial sector through which funds can be channeled to support private sector led growth''. The vision will be achieved by the efforts undertaken under FSDS II as well as the complementary strategies.

4.3 FSDS II has two strategic objectives which are sought to be achieved by actions organized under the three strategic pillars. These priorities are organized under three strategic pillars and four cross cutting areas as presented in Figure 2 below. The strategic objectives are to attain a stable and resilient financial sector and deepen the financial sector. The strategic pillars are maintaining a stable and resilient financial sector, enhancing financing for economic development and developing long-term finance and improving its efficiency. The cross-cutting areas are strengthening the national payments system, enhancing access to digital financial services, strengthening market conduct and financial consumer protection and enhancing financial sector data dissemination.

Figure 1: Financial Sector Development Strategy II Strategy House



What Success Looks like in 2029

4.4 Success in implementing these priorities means achieving a resilient,inclusive, and innovative financial sector that fosters stability, growth, and confidence. Implementation of pillar I & II ensures the rector is well-regulated and capitalized to ensure financial institutions remain strong and adaptable to emerging risks.

While the pillar intends on deepening the sector to broaden access to credit, insurance, pension and capital markets, thus empowering both businesses and individuals to participate in the sector. Table 6 below shows in detail what success looks like under each pillar.

Table 5: Strategy Destinations

Strategic Pillar 1: Maintaining a Stable and Resilient Financial Sector	Strategic Pillar 2: Enhancing Financing for Lesotho's Economic Development	Strategic Pillar 3: Deepening the Financial Sector and Improving Its Efficiency
Building Financial Sector Resilience. A stable, and resilient financial sector, with institutions fully compliant with risk-based regulations, enhanced supervisory tools ensuring effective oversight.	**Strengthening Credit Infrastructure.** SMEs and businesses experience easier access to credit through an improved credit reporting system and expanded collateral frameworks, resulting in higher loan approvals and financial inclusion.	**Deepening Insurance Penetration.** A thriving insurance sector ensures widespread coverage, particularly for low-income groups, with expanded microinsurance offerings and enhanced regulatory oversight promoting stability and trust.
Crisis Management and Resolution Framework A robust crisis management system is in place, active regional collaboration through signed MoUs and participation in crisis management working groups and a strengthened resolution framework enabling swift intervention in distressed institutions.	**Enhancing Public Support for Credit Instruments.** Credit guarantees effectively support SMEs, with increased loan approvals and reduced rejection rates, making financing more accessible and fostering business growth.	**Strengthening the Pension Sector.** A sustainable and inclusive pension system that provides adequate coverage, including for informal sector workers, ensuring fund stability and strong governance across all pension schemes.
Mitigating Emerging Risks (Climate & Cyber) The financial sector successfully integrates climate and cyber, risks into its frameworks, with institutions adopting ESG considerations, and reduced cyber threats.	**Enhancing and Supporting Green Financing.** Green financing becomes a mainstream component of the financial sector, with banks issuing sustainable financial products, adhering to climate disclosure frameworks, and supporting environmentally responsible investments.	**Deepening Capital Markets.** Capital markets see increased liquidity and participation, with a variety of financial instruments available, more SMEs listed, and investor confidence growing steadily.

Cross-Cutting

A fully interoperable and secure national payments system processes transactions seamlessly, reducing fraud while increasing efficiency, speed, and accessibility for all users.

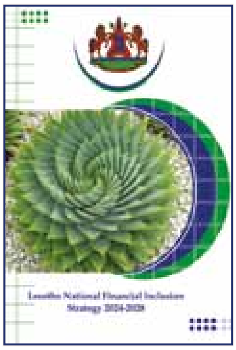
The digital financial ecosystem flourishes, with seamless mobile banking, fintech innovation, and open banking frameworks driving widespread digital adoption.

Consumers have high confidence in financial services due to strong regulatory enforcement, transparent lending practices, and widespread financial literacy initiatives ensuring informed decision-making.

Financial data is widely accessible, timely, and reliable, with institutions meeting reporting standards, an open financial data portal in operation, and enhanced analytical insights driving policy decisions.

Complementary Strategies

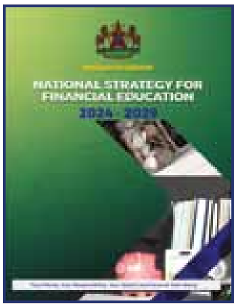
The attainment of the FSDS II vision will be supported by the following related strategies:



(1) National Financial Inclusion Strategy (NIFS) III (2024-2028)

The NFIS III (2024-2028) intends to intensify efforts and agenda of advancing financial inclusion. It recognizes that Lesotho has achieved relatively high levels of financial inclusion, well above some countries in the region. In building to this achievement, focus must now be beyond access and therefore evolve towards making impact and deepening usage, while ensuring that gaps are closed for the excluded and that no one is left behind. At the high level, the NFIS III has adopted a two-pronged strategic approach. On the one hand, the strategy proposes a focus on products, services and support to increase productivity, resilience and climate responsiveness, while on the other hand focus will be on promoting digitization and innovation to deliver a wide range of affordable products that create impact. These will cover the demand, supply, regulatory, and the policy coordination of financial inclusion through the four strategic priorities or pillars below:

- Enhance financial education, consumer protection and risk management.
- Develop targeted products and mechanisms for MSMEs and smallholder farmers.
- Promote digitization and usage of a wide range of financial and non-financial products.
- Strengthen the enabling environment and collaboration of stakeholder.



(2) National Strategy for Financial Education (NSFE) 2024-2029[6]

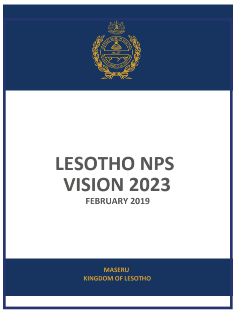
The NSFE 2024-2029 aims to create a financially educated national capable of making informed financial decisions beneficial to the financial system, society and the entire Lesotho economy. Its key objective is to promote financial education among the population of Lesotho. This will be achieved through the implementation of initiatives under the following four strategic pillars:

- To provide financial education to children.
- To provide financial education to youth.
- To provide financial education at workplace.
- To provide financial education to people of all ages.

(3) Remittances Strategy 2023-2028

The Lesotho Remittances Strategy 2023-2028 aims to leverage remittances sent by the diaspora by strengthening the remittance transfer mechanisms and bolstering financial inclusion. The strategy is motivated by the fact that Lesotho ranks among the top recipients of remittances. The strategy pursues the following six objectives:

- Enhance institutional coordination and accountability mechanism for implementation.
- Bolster legal and regulatory capacity.
- Reduce the cost of remittance services through the promotion of competition, the use of innovative payment instruments, and by enhancing access to formal financial services.
- Strengthen financial education and financial inclusion.
- Improve access to identity documents for know-your-customer requirements.
- Build financial resiliency of the remittance senders and receiving families to prepare for future shocks.



(4) Payments Strategy 2025-2029[7]

The Payments Strategy 2025-2029 is currently under development following the expiry of its predecessor in 2024. The strategy will expand more on the issues related to infrastructure developments, enhancing resilience and preserving the integrity of the payments system.

[6] *Under development*
[7] *To be developed*

STRATEGIC PILLAR 1: MAINTAINING A STABLE AND RESILIENT FINANCIAL SECTOR

4.5 Financial stability is critical for sustainable economic growth and the nation's welfare. As the financial sector grows in size and sophistication more effort need to be directed towards bolstering its stability and its ability to withstand shocks. Significant disturbances can incur substantial societal costs, highlighting the importance of maintaining stability. This involves both preventive measures to mitigate crisis risks and management strategies to limit costs during a crisis. This will be achieved by focusing on the following strategic priorities:

- Building financial sector resilience
- Enhancing crisis management and resolution frameworks.
- Mitigating emerging risks (ML/FT, Cyber and Climate Change).

Strategic Priority 1A : Building Financial Sector Resilience
• Safeguard financial system stability • Strengthen prudential supervision of banks and NBFI • Strengthening domestic and cross-border coordination
Strategic Priority 1B: Crisis Management and Resolution Frameworks
• Enhance the early intervention framework for banks and NBFI • Strengthen recovery and resolution planning capacity • Strengthen financial safety nets
Strategic Priority 1C : Mitigating Key Risks
• Greening the financial sector • Strengthening system cyber resilience

STRATEGIC PRIORITY 1A: BUILDING FINANCIAL SECTOR RESILIENCE

4.6 The resilience of the financial sector will be bolstered. The introduction of a statutory financial stability objective for the CBL represents an important shift towards modernizing Lesotho's financial sector. By taking a comprehensive approach that integrates both micro and macro-prudential regulation, the CBL can more effectively manage systemic risks, enhance resilience, and contribute to long-term economic growth. This holistic approach will strengthen Lesotho's financial system, increase investor confidence, and support sustainable development.

4.7 This strategic priority will be achieved through actions taken to safeguard financial system stability, strengthen the prudential regulation and supervision of the banking and non-bank deposit taking sectors, strengthen domestic and cross-border coordination.

4.8 Safeguard Financial System Stability: Actions will be taken to;

- Develop and adopt the Financial Stability Act to provide CBL with an explicit financial stability mandate and macroprudential powers. This will involve developing the Financial Stability Bill and implementing regulations.
- Develop and adopt the macroprudential policy framework, and implement the framework for Banks.

4.9 Strengthen Micro-prudential Supervision of Banks: Actions will be taken to,

- Develop and adopt the Banking Act
- Review and adopt liquidity requirements regulations
- Undertake self-assessment for compliance with the 2024 Banking Core Principles (BCP) for effective banking supervision and strengthen risk-based supervision of banks to address gaps that may be identified by the above BCP assessment;
- Enact Financial Cooperatives Act and give CBL absolute powers to regulate large financial cooperatives.

4.10 Strengthening domestic and cross-border coordination: Actions will be taken to strengthen cross border coordination of recovery and resolution planning (including crisis simulation exercises).

4.11 Crisis preparedness and management will be enhanced. The proposal for a Deposit Insurance Scheme

STRATEGIC PRIORITY 1B: ENHANCING CRISIS MANAGEMENT AND RESOLUTION FRAMEWORKS

(DIS) and systemic bank resolution funding is a vital step toward enhancing financial stability in Lesotho. By integrating deposit protection and systemic risk management, the CBL can safeguard depositors and maintain the resilience of the banking sector during crises. This comprehensive framework, paired with a careful assessment of funding options and governance structures, will strengthen the effectiveness of Lesotho's financial stability policies and foster greater confidence in the financial system.

The Financial Institutions Act (FIA), 2012 provides some resolution powers, but there are major gaps, as is recognized by the CBL. The gaps and deficiencies include a lack of clearly stated resolution objectives, insufficient powers for resolution, an excessive dependency on court-based powers, inadequate resolution safeguards, and a lack of legal protection for the CBL and its officers and staff. It is important that the CBL and MOF collaborate on a framework for resolution funding that clearly outlines the funding sources, conditions, and recovery options. This strategic priority will be achieved by enhancing the early intervention framework for banks, strengthening CBL's recovery and resolution planning capacity, and strengthening financial sector safety net.

4.12 Enhancing the early intervention framework for Banks and NBFI: the following actions will be taken,

- Strengthen enhanced risk-based supervision and
- Strengthen financial contingency planning
- Undertake regular testing of the early intervention framework.

4.13 Strengthen CBLs recovery and resolution planning capacity: the following actions will be taken,

- Develop and adopt recovery planning guidelines for banks and insurance companies and related supervisory assessment frameworks.
- Develop and adopt the crisis management and resolution framework.

4.14 Strengthen financial safety nets through the development and adoption of an Emergency Liquidity Assistance (ELA) Framework and deposit insurance scheme.

STRATEGIC PRIORITY 1C: MITIGATING EMERGING RISKS

4.15 Climate change and cyber-crime are key risks that have been identified as important to mitigate during the FSDS II period. They will be mitigated by:

- Greening the financial sector,
- Strengthening financial system cyber resilience.

4.16 Greening the financial sector: Climate change represents a major risk for the financial sector. Hence, it is critical that the financial sector aligns with the national efforts to pave way for the implementation of proper mitigation, adaptation and transition strategies, towards this, CBL will:

- Conduct a climate risk management survey among financial institutions.
- Develop the financial sector climate risk management guidelines.

4.17 Strengthening financial system cyber resilience: Cyber-attacks on financial institutions appear to be on the rise globally and in the region. As such, it is important that the financial sector enhances readiness. This can be done by improving coordination in the event of an attack and strengthening intelligence gathering and information sharing. The following strategies will be pursued:

- Revise and strengthen the Financial Sector Cybersecurity Guidelines issued to the sector.
- Establish a Financial Sector Cybersecurity Incident Response Team (CSIRT) to coordinate the incidence response in the sector.
- Establish the Financial Sector Cyber Intelligence and Information Sharing to facilitate information sharing within the sector.

STRATEGIC PILLAR 2: ENHANCING FINANCING FOR ECONOMIC DEVELOPMENT

4.18 Lesotho has made significant progress in increasing financial inclusion for households. However, access to finance, particularly SMEs, remains a challenge because of the dominance of commercial banks as the main source of funding in the economy. The SME sector has been identified as one of the potential economic growth engines for Lesotho. The following strategic priorities will be pursued:

- Strengthening credit infrastructure.
- Enhancing public support for credit instruments
- Modernise exchange controls and support green financing.

Strategic Priority 2A Strengthening Credit Infrastructure
• Expand credit bureau coverage and reach. • Enhancing risk management and product development. • Operationalise insolvency regime.
Strategic Priority 2B Enhancing Public Support For Credit Instruments
• Expand funding avenues for economic development. • Strengthen and scaling up business mentoring and incubation support to SMEs. • Build financial institutions capacity in SME lending.
Strategic Priority 2C Modernise Exchange Controls and Support the Development of Green Financing
• Modernizing the exchange control regime to support economic growth. • Develop infrastructure to seize green financing.

STRATEGIC PRIORITY 2A: STRENGTHENING CREDIT INFRASTRUCTURE

4.19 While significant progress has been achieved in developing the credit infrastructure in Lesotho, the SMEs continue to face significant barriers in accessing finance. The barriers arise because SMEs have little track record, are perceived risky and have high failure rate. As a result, available products in the sector are not suitable for SMEs. This strategic priority will be achieved by,

- expanding credit bureau coverage and reach,
- supporting product development and risk management and
- strengthening insolvency regime.

4.20 Expand credit bureau coverage and reach. This will be done by;

- Expanding credit bureau data to encompass commercial entities.
- Integrating collateral registry with the national ID registry, credit bureau, and motor vehicle registry.

4.21 Enhancing Risk Management and Product Development. Towards this, the following actions will be taken:

- Review our licensing processes with the aim of reducing regulatory barriers for innovative financial service providers to facilitate entry and competition.
- Facilitate credit providers in developing products leveraging on moveable assets as collateral, to enable improved access for informal enterprises.

4.22 Operationalize the Insolvency regime: Actions will be to;

- Develop the implementing regulations for the Insolvency Act of 2022.
- Operationalise Insolvency Regulator.
- Establish a licensing and monitoring process for insolvency practitioners.
- Establish institutional mechanisms to provide support to SMEs that might be at the risk of insolvency.

STRATEGIC PRIORITY 2B: ENHANCING PUBLIC SUPPORT FOR CREDIT INSTRUMENTS

4.23 Improving access to various forms of credit is critical to unlocking Lesotho economic growth and development. This requires significant intervention in building capacity in the SME sector. This would enable access to capital necessary for them to expand, innovate, and scale up their business operations. Nevertheless, SMEs usually face obstacles such as highentry costs, limited financial literacy, and regulatory difficulties when attempting to access capital markets. The strategic priority will be achieved by:

- a) Expand funding avenues.
- Strengthen and scaling up business mentoring and incubation support to SMEs and facilitating their linkages with established domestic and global value chains.
- Build financial institutions capacity in SME lending.

4.24 Expand Funding Avenues for Economic development; actions will be taken to;

- Establish investment fund for early stage and high growth SMEs.
- Undertake an assessment of options to increase access to affordable housing finance.
- Develop agricultural finance strategy informed by the diagnostic study.
- Review Partial Credit Guarantee Schemes as a pre-cursor for Development Finance Institution.

4.25 Strengthen and scaling up business mentoring and incubation support to SMEs and facilitating their linkages with established domestic and global value chains by promoting capacity building for SMEs to develop sustainable and growing businesses.

4.26 Build financial institutions capacity in SME lending by linking SMEs graduating from mentoring pipelines to potential financiers.

STRATEGIC PRIORITY 2C: MORDENISE EXCHANGE CONTROLS AND SUPPORT THE DEVELOPMENT OF GREEN FINANCING

4.27 Modernizing the exchange control regime to support economic growth: Exchange control regime needs to be updated to unlock foreign direct investment and support economic growth. Actions will be taken to;

- Develop the Currency and Exchanges Act.
- Develop the trade verification system.

4.28 The availability of climate finance presents an opportunity for Lesotho to catalyze her infrastructure development. However, accessing climate finance requires the country to have in place specific measures to enable the flow of climate funds. To that end, the following actions will be undertaken.

- Develop and implement climate finance strategy.
- Develop the national taxonomy for sustainable activities.
- Develop guidelines for the issuance of green instruments.

STRATEGIC PILLAR 3: DEVELOPING LONG TERM FINANCE AND IMPROVING ITS EFFICIENCY

4.29 Long-term finance will be developed. While some progress has been made in the banking sector, the insurance and long-term finance remain behind. Hence the following strategic priorities will be pursued:

- Develop insurance markets.
- Develop pensions sector.
- Develop long term capital markets.

Strategic Priority 3A Develop Insurance Markets
• Strengthen insurance regulation and compliance. • Support micro-insurance for low-income earners. • Promote public insurance programs.
Strategic Priority 3B Develop Pensions Sector
• Promote compliance and financial soundness. • Promote access to pension by the informal sector.
Strategic Priority 3C Develop Long-Term Capital markets
• Catalyze secondary market development in government securities • Creating and enabling environment for access to capital • Promotion of MSM through offloading of Government of Lesotho shares in selected companies

STRATEGIC PRIORITY 3A: DEVELOP INSURANCE MARKETS

4.30 Expanding insurance penetration in Lesotho is important for enhancing financial inclusion and supporting sustainable economic growth. Funeral insurance continues to be the major product for most households partly due to cultural beliefs. The performance can further improve if compliance with the insurance Act by funeral schemes is enforced. Medical insurance also needs to be addressed. The major issue is to strategically shift insurance towards supporting productive sectors of the economy such as agriculture. The following strategies will be pursued;

- Strengthen insurance regulation and compliance.
- Support micro-insurance for low-income earners.
- Promote public insurance programs.

4.31 Strengthen insurance regulation and compliance; actions will be taken to;

- Enact modernized Insurance Act.
- Strengthen risk based supervision for insurance.
- Develop implementing regulations for modernized Insurance Act.
- Develop supervisory framework for Medical Aids schemes.
- Promote Compliance with the Insurance Act (e.g funeral schemes).

4.32 Support micro-insurance for low-income earners; actions will be taken to;

- Undertake scoping mission on microinsurance practices.
- Review microinsurance framework and Regulations.
- Strengthen distribution channels through agent and broker networks by introducing binder functions.

4.33 Promote public insurance programs; actions will be taken to;

- Support the development of agricultural index insurance program.
- Enact the modernized Road Traffic Act and introduce. Compulsory Third-party vehicle insurance.

STRATEGIC PRIORITY 3B: DEVELOP PENSIONS SECTOR

4.34 Strengthening financial soundness of pension and broadening its coverage is the priority. Access to pensions in Lesotho is important for maintaining the livelihoods of the old age segment of the population in retirement and for reducing the burden of social security on the fiscus. The integrity and stability of the pension industry is key for the attainment of these objectives. To this end, the following strategies will be pursued:

- Promote compliance and financial soundness.
- Promote access to pension by the informal sector.

4.35 Promote compliance and financial soundness: Actions will be taken to,

- Improve the regulatory framework.
- Improve supervisory framework by introducing risk-based supervision.
- Conduct compliance workshops for pension funds and service providers.
- Review the Public Officers Defined Contribution Pension Act and Specified Officers Defined Contribution Pension Act.
- Address the funding deficit in the Public Officers Defined Contribution Pension Fund and embark on the data cleaning project.

4.36 Promote access to pension by the informal sector; Action will be taken to, undertake a study to review the retirement saving options for the informal sector.

STRATEGIC PRIORITY 3C: DEVELOP LONG-TERM CAPITAL MARKETS

4.37 The enabling environment for capital market development will be strengthened and actions will be taken to facilitate increased trading in the MSM. Lesotho has taken initial steps to develop capital by establishing MSM and promulgating the Pensions Act, 2019, and Collective Investment Schemes regulations. These reforms have availed capital domestically and the challenge is to direct the funds to the real sector. The following strategies will be implemented.

- Catalyze secondary market development in government securities.
- Creating and enabling environment for access to capital.
- Promotion of MSM through offloading of GOL shares in selected companies.

4.38 Catalyze secondary market development in government securities.

- Increase the issuance of benchmark bonds.
- Facilitate the issuance of corporate bonds.
- Automate trading in MSM.

4.39 Creating an Enabling Environment for Access to Capital; actions will be taken to;

- Develop the Securities Act and its implementing regulations.
- Improve the MSM listing requirements.

- Introduce SME specific platform and regulatory sandboxes.

4.40 Promote MSM through offloading of government shares in selected companies; actions will be taken to;

- Facilitate for the offloading of government minority stakes in selected companies for listing in the MSM.
- Undertake a feasibility study to inform the development of the diversified plan for MSM.

CROSS-CUTTING STRATEGIC PRIORITIES

CCI 1: Strengthening the National Payments System

4.41 In order to broaden financial inclusion of households and MSMEs, access to safe, affordable and fast payments is critical. The National Payments Switch aims to achieve all of these drawing on efficiency gains resulting from economies of scale achieved through interoperability. However, there is a need to address a lack of innovative financial instrument notable geared towards among others the MSME. The following are some of the elements to be pursued;

- Enact modernized NPS Act and implementing regulations.
- Fully operationalize the National Payments Switch to enable complete interoperability of retail payments between banks and non-banks.
- Develop Framework to support Open Finance.

CCI 2: Enhancing Access to Digital Financial Services

4.42 Digital financial services are in the centre of the GOL strategy to increasing financial inclusion of households and MSMEs. Building upon the successes achieved so far, it is important that more services are on boarded mainly on Government payments. The following strategies will be pursued;

a) Enhancing an enabling legal environment for Fintech

b) Digitalization of Government payments

4.43 Enhancing an enabling legal environment for Fintech; actions will be taken to;

- Implement the sandbox facility to support the introduction of new specialised digital financial products.
- Improve payment service provider KYC mechanisms and identity information sharing framework.
- Enhance the integration of payment service providers to regional platforms to ensure expanded access to payment services and products.

4.44 Digitization of Government Payments; actions will be taken to,

- Establish the Government payments gateway.

CCI 3: Strengthening Financial Consumer Protection and AML/CFT Regime

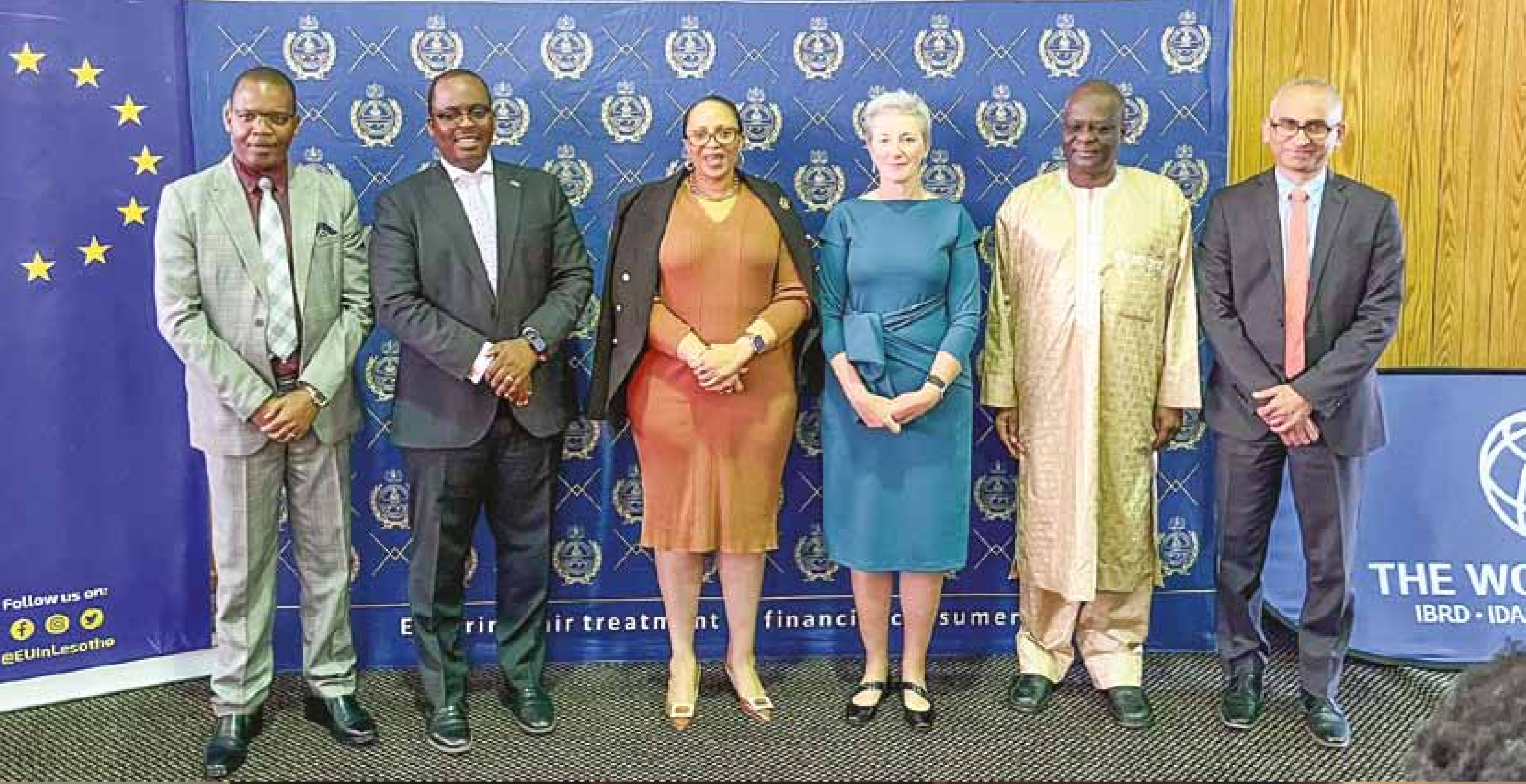
4.45 The Government of Lesotho achieved a major milestone with the enactment of the Financial Consumer Protection Act, 2022 which gave CBL the mandate to regulate and supervise market conduct in the financial sector. While the Act is being implemented, more implementing regulations still needs to be developed. There is also a need to develop supervisory tools and capacity. During the strategy period the following strategies will be pursued to enhance market conduct regulation and supervision; (a) Improve market conduct regulatory and supervisory regulatory frameworks and (b) Develop framework for debt relief.

4.46 The national AML/CFT regime, covering both financial and non-financial sectors, will be strengthened. Efforts will be made to strengthen capacity for AML/CFT supervision. Actions to be taken include: a) Update the 2018 AML/CFT National Risk Assessment; b) develop and adopt an AML/CFT Strategy drawing on the updated NRA and 2023 Mutual Evaluation Report; c) Strengthen AML/CFT supervision of financial institutions and Designated Non-Financial Businesses and Professions; and, d) include beneficial ownership information in the business registry under MTIBD.

CCI 4: Enhancing Financial Data Dissemination

4.47 CBL is the hub of the sizable data pertaining to the financial sector. However, new data that has emerged with the evolution of the sector has not made it to regular publications. Efforts need to be made towards improving the dissemination of the financial sector data. The following actions will be undertaken,

- Review the Banks publications to accommodate additional data (payments, credit).
- Explore options for financial sector wide data warehousing.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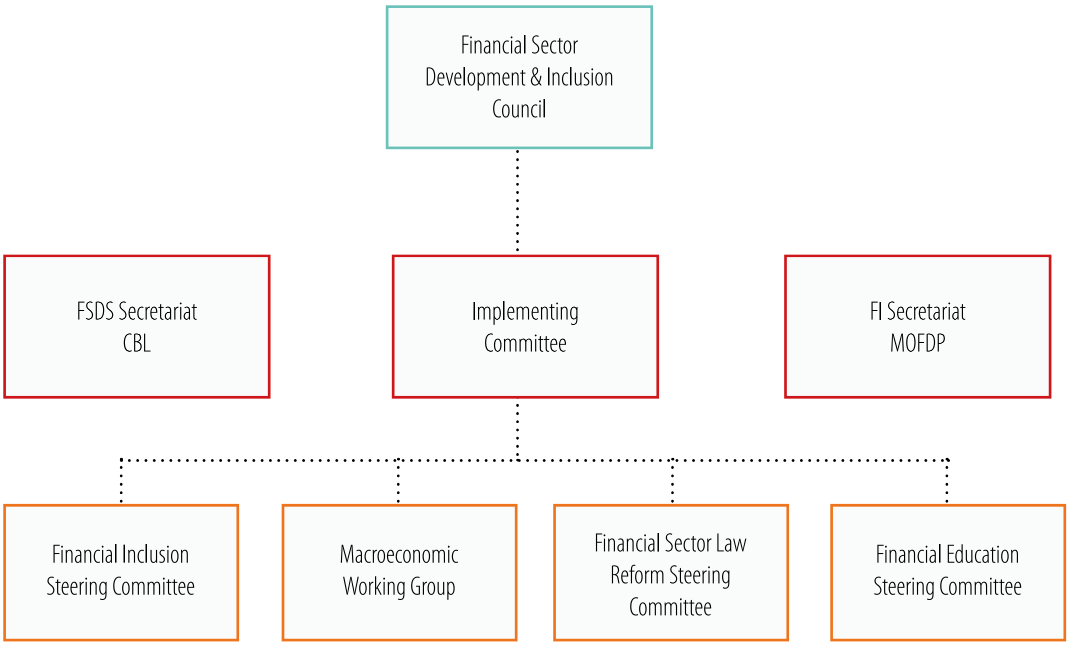
MASERU SECURITIES MARKET
DATE
SECURITY
VOLUME
ORDER TYPE
PRICE(M)
BID
ASK
EXECUTED
OUTSTANDING
BROKER
SELLER
BUYER

INSTITUTIONAL ARRANGEMENT

5.1 The implementation of FSDS II will utilize the already existing structures established during the FSDS I and other existing committees in the Ministry of Finance and Development Planning. This is intended to avoid duplication and ensure efficiency. Figure 2 below summarizes the harmonized institutional structure.

Figure 2 Harmonized FSDS II and NIFS Implementation Structure



5.2 The first structure is the Financial Sector Development and Inclusion Council. In 2014, the Cabinet of the GOL approved that the FSDS should be monitored by the senior level Steering Committee. The functions of the Council are:

- To provide strategic direction for the implementation of the FSDS and NIFS.
- To coordinate the seeking of donor funding and technical assistance for all financial sector related projects.
- To report progress to Cabinet.
- To make recommendations to the Cabinet on any major changes to the strategies.

5.3 The Council will meet once a year and will comprise of the selected Principal Secretaries, Governor of the CBL, and Chairpersons of associations in the financial sector. The membership will be as follows;

- Principal Secretary - Ministry of Finance and Development Planning (Chair).
- Governor - Central Bank of Lesotho (Co-Chair).
- Principal Secretary- Ministry of Trade, Industry and Business Development.
- Principal Secretary - Ministry of Law and Justice,
- First Deputy Governor - Central Bank of Lesotho.
- Banking Association of Lesotho.
- Insurers Association of Lesotho.
- Lesotho Microfinance Association.
- FSDS Secretariat (Secretary).

5.4 The second structure is the Implementation Committee comprising of Deputy Principal Secretaries in selected Ministries in the FSDS II and Deputy Governor of the Central Bank of Lesotho. The Implementation Committee will oversee the implementation of the FSDS and will meet more frequently at the minimum twice a year. The functions of the implementation Committee are:

- To monitor the day to day progress in the implementation of the FSDS.
- To coordinate the seeking of donor funding and technical assistance for all financial sector related projects.
- To report progress to the Council.
- To provide necessary support to the FSDS Secretariat.
- To establish any Steering Committee as may be required.

5.5 Membership of the Implementation Committee will comprise of the following:

- Deputy Governor - Central Bank of Lesotho (Chair).
- Deputy Principal Secretary - Ministry of Finance and Development Planning (Co-Chair).
- Deputy Principal Secretary- Ministry of Trade, Industry and Business Development.
- Deputy Principal Secretary- Ministry of Local Government, Chieftainship, Home Affairs and Police.
- Deputy Principal Secretary – Ministry of Agriculture and Food Security.
- Deputy Principal Secretary - Ministry of Law and Justice.
- Deputy Principal Secretary - Cabinet Office (Economic Affairs).
- Banking Association of Lesotho.
- Insurers Association of Lesotho.
- Lesotho Microfinance Association.
- FSDS Secretariat (Secretary).

5.6 The Implementation Committee will be supported by the following Committees.

- Financial Inclusion Steering Committee.
- Financial Education Steering Committee.
- Financial Sector Laws Reform Steering Committee.
- Macroeconomic Working Group (MWG).

5.7 The day-to-day implementation work will be done through the following working groups;

- Financial Education and Consumer Empowerment Working Group.
- Access to Finance Working Group.
- Digital Financial Services Working Group.
- Financial Integrity Working Group.
- Climate Finance Working Group.
- Data and M&E Working Group.

5.8 There will also be the Financial Sector Development and Inclusion Forum which will be held once a year. It will include the Financial Inclusion Day. The Forum will bring together a wide range of stakeholders including Ministries, Private Sector, Financial Sector, Civil Society and Development Partners. Other working groups will be formed in line with the policy areas covered by the strategy.

RISKS AND MITIGATION

5.9 The strategy is subject to several risks. Table 6 below presents the risks and response measures by strategic pillar.

Table 6: Risks and Response Measures

Strategic Pillars	Risks	Threat/Opportunity	Response Measures
Maintaining a Stable and Resilient Financial Sector	• Markets shocks	Threat	Crisis management and resolution framework
	• Technological advancement	Threat/Opportunity	Establishing financial sector crisis response plan and team
Enhancing Financing for Lesotho's Economic Development	• Credit risk	Threat	Strengthening credit infrastructure
	• New Market entrants	Opportunity	Creating an enabling environment for capital access
Developing Long-term Finance and Improving Its Efficiency	• Access to finance	Threat/Opportunity	Enhancing risk management and product development

6 MONITORING AND EVALUATION

6.1 The Monitoring and Evaluation (M&E) Framework serves as a structured approach to facilitate and evaluate progress towards the implementation of the FSDS II. It outlines the key performance measures, expected outcomes, and responsible institutions or ministries.

6.2 The FSDS II Results Framework provides a structured approach to assess the achievement of the strategy results. It outlines expected final and intermediate outcomes, the key performance indicators to be used to measure the achievement of the outcomes, and the definitions of the performance indicators. Annex III provides the Results Framework.

6.3 The FSDS II Secretariat will use the FSDS II Implementation Plan and Results Framework to monitor implementation progress and achievement of strategy results. The M&E Framework will be used for mid-term and final evaluation of the strategy. The Secretariat will facilitate the evaluation process and the submission of the evaluation reports to the FSDS II Implementation Committee and the Council.

Annex I: Financial Sector Legal and Regulatory Landscape

Banking	Adopted Standard
Laws • Central Bank of Lesotho Act, 2000 • Exchange Control Order, 1987 • Money Laundering and Proceeds of Crime Act, 2008 • Financial institutions Act, 2012 **Regulations** • Exchange Control Regulations, 1989 • Financial Institutions (AML/CFT) Regulations 2015 • Financial Institution (Minimum Local Assets Requirements) Regulations 2016 • Financial Institutions (Licensing Requirements) Regulations 2016. • Financial Institutions (Banks) (Assets Classification) Financial Regulations 2016 • Financial Institutions(Mergers and Transfer of Assets and Liabilities) Regulations 2016 • Financial Institutions (Liquidity Requirements) Regulations 2016 • Financial Institutions (Disclosure of Bank Charges and Interest Rates) Regulations 2016 • Financial Institutions (Commercial Banking Permissible Activities) Regulations 2016 • Financial Institutions (Agent Banking) Regulations 2024 • Financial Institutions (Disclosure of Financial nformation) Regulations 2016 • Money Laundering and Proceeds of Crime Regulations, 2019 • Financial Institutions (Payment of Expenses for Examination) Regulations 2019 • Financial institutions (AML/CFT) (Amendment) Regulations 2019 • Financial Institutions (Processing and Licensing Fees) Regulations 2021 • Financial Institutions (Prompt Corrective Action) Regulations 2016 • Financial Institutions (Banks)(Branching Requirements) Regulations 2016 • Financial Institutions (Foreign Currency Exposure Limits) Regulations 2016 • Financial Institutions (Lending Limits) Regulations 2016 • Financial Institutions (Consolidated Supervision) Regulations 2016 • Financial Institutions (Banks) (Risk Management) Regulations 2016 • Financial Institutions (Large Financial Cooperatives) Regulations 2016 • Financial Institutions (Computation of Capital Charge for Credit, Operational and Market Risks) Regulations 2023 • Financial Institutions (Licensing Requirement) (Amendment) Regulations, 2024	• BASEL Standards

INSURANCE	PENSIONS	MICRO FINANCE INSTITUTIONS and SACCOs	MARKET CONDUCT AND FINANCIAL CONSUMER PROTECTION	FINANCIAL MARKET INFRASTRUCTURES	CAPITAL MARKETS
Laws Insurance Act, 2014	**Laws** Pension Funds Act, 2019	**Laws** Financial Institutions Act 2012	**Laws** Financial Consumer Protection Act, 2022	**Laws** Credit Reporting Act, 2011 Lesotho Payment System Act 2014 Security interest in Movable property Act, 2020	
Regulations Insurance (Registration and Licensing Requirements) Regulations, 2021 Insurance (Qualification Requirements for insurance intermediaries) Regulations 2021 Insurance (Licensing of insurance intermediaries) Regulations, 2016 Insurance (Financial Reporting Requirements) Requirements, 2016 Insurance (Reinsurance) Regulations 2016 Insurance (Fit and Proper Requirements for intermediaries) Regulations 2016 Insurance (Good Practice for insurance intermediaries) Code 2016 Insurance (Good Practice for insurers) code 2016	**Regulations** Pension Funds (Disclosure) Regulations, 2020 Pension Funds (Investments) Regulations, 2020 Pension Funds (Financia Reporting Requirements) Regulations, 2020 Pension Funds (Registration and Licensing) Regulations, 2020 Pension Funds (Operations) Regulations, 2020	**Regulations** Financial Institutions (Credit-only and Deposit Taking Microfinance Institutions)(Amendment) Regulations 2018	**Regulations** FCP (Disclosure of Credit Information) Regulations,2023 FCP (Marketing and Advertisement) Regulations, 2024	**Regulations** Payment Systems Regulations, 2014 Financial Lease Regulations, 2013	**Regulations** Central Bank (Capital Markets) Regulations, 2014 (Amendment) Regulations, 2023 Local Loans (Government treasury Securities) (Trading) Regulations, 2009 Trading in Government of Lesotho Treasury Bills, Regulations, 2001 Central Bank of Lesotho (Collective InvestmentSchemes) Regulations, 2018 (Amendment) Regulations, 2023
Adopted Standard International Association of Insurance Supervisors (IAIS) International Financial Reporting Standard	**Adopted Standard** International Organisation of pensions supervisors (IOPS)		**Adopted Standard** World Bank Good Practices for Financial Consumer Protection G20/OECD High Level Principles on Financial Consumer Protection	**Adopted Standard** Committee of Payment and Market Infrastructures (CPMI)	**Adopted Standard** International Organisation of Securities Commissions (IOSCO) principals

Annex 2:

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
Strategic Priority 1A: Building Financial Sector Resilience							✓	✓		
1. Develop and adopt the Financial Stability Act to provide CBL with an explicit financial stability mandate and macroprudential powers.	Financial Stability Act	% of progress toward development of Act	CBL MFDP	OPC Ministry of Law & Justice Financial Institutions	Immediate priority			✓		
2. Develop and adopt the macroprudential policy framework	Published Macroprudential Policy Framework	% of Progress in Policy framework development	CBL	OPC Ministry of Law & Justice Financial Institutions	High priority					
3. Finalize and implement the framework for domestically important banks.	Approved framework document for Domestic Systemically Important Banks (DSIBs) with implementation guidelines.	% of Progress in Framework development	CBL		Immediate priority			✓		
4. Develop and adopt the Banking Act	Gazetted Banking Act.	% of progress toward development of Act	CBL MFDP	OPC Ministry of Law & Justice Financial Institutions	Immediate priority	✓	✓	✓		
5. Review and adopt liquidity requirements regulations	Updated and published liquidity regulations	% of progress toward development of regulations	CBL		Immediate priority	✓				
6. Undertake self-assessment or compliance with the 2024 Banking Core Principles (BCP)	Completed BCP self-assessment report with findings and action plan	% of principles assessed.	CBL		Medium priority		✓			
7. Strengthen risk-based supervision of banks to address gaps identified by the BCP assessment	Strengthen riskbased supervision of banks to address gaps identified by the BCP assessment	% of BCP recommendations implemented	CBL	Financial institutions	Medium priority		✓			

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
Strategic Priority 1A: Building Financial Sector Resilience										
9. Implement risk-based prudential supervision.	Risk-Based Supervision (RBS) framework and supervisory guidelines implemented.	Number of NBFIs assessed using risk-based supervision	CBL		Immediate priority	✓				
10.Establish mechanisms to intervene at an early stage of stress	Financial Contingency Planning Framework and Early Intervention Guidelines issued.	Frequency of stress testing exercises	CBL		Medium priority		✓			
11. Review the Cooperatives Act to grant CBL full regulatory powers.	Gazetted Financial Cooperatives Act granting CBL full regulatory oversight.	% of progress toward development of Act	CBL MFDP MTIBD		Immediate priority		✓			
12. Strengthen cross-border coordination for recovery and resolution planning.	Signed Memoranda of Understand-ing (MoUs) with regional regulators on crisis man-agement and resolution.	Number of MoUs signed with regional regulators	CBL		High priority		✓			
13. Conduct crisis simulation exercises with regional stakeholders.	Crisis simu-lation report with key findings and recommenda-tions.	Number of simulation exercises conducted	CBL		Medium priority				✓	

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
Strategic Priority 1B: Crisis Management and Resolution Framework										
16. Strengthen enhanced riskbased supervision	Updated risk-based supervisory models and early warning indicators implemented.	Frequency of tests performed	CBL	OPC Ministry of Law & Justice Financial Institutions	Immediate priority			✓		
17. Strengthen financial contingency planning	Planning Framework and Early Intervention Guidelines developed and issued	Number of contingency planning simulations conducted per year	CBL Financial institu-tions		Immediate priority			✓		
18. Undertake regular testing of the early intervention frame-work.	Report on intervention framework testing with adjustments based on lessons learned.	Number of framework tests conducted annually	CBL		Medium priority				✓	
19. Develop and adopt recovery planning guidelines for banks and insurance com-panies and related supervisory assess-ment frameworks	Published Recovery Planning Guidelines for banks and insurers.	Number of guidelines developed and implemented	CBL		Immediate priority				✓	
20. Develop and adopt the crisis management and resolution framework	Officially adopted Crisis Management and Resolution Framework document.	% of Progress in Framework development	CBL		High priority		✓			
21. Develop and implement a Deposit Insurance Scheme (DIS).	Established Deposit Insurance Fund and operational-ized Deposit Insurance Scheme.	Scheme operationalized	CBL BAL		Immediate priority		✓	✓		
22. Strengthen Emergency Liquidity Assistance (ELA) Framework.	Published revised ELA Framework with eligibility and access guidelines.	% of Progress in Framework development	CBL BAL IAL		Medium priority				✓	

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
Strategic Priority 1C: Mitigating Key Risks (Climate & Cyber)										
23. Conduct a climate risk management survey among financial institutions.	Climate Risk Management Survey Report published.	Survey report published	CBL Financial institu-tions		Medium priority		✓			
24. Develop the financial sector climate risk manage-ment guidelines for financial institutions.	Published Climate Risk Manage-ment Guidelines for financial insti-tutions.	% of progress to develop Guidelines	CBL Financial institu-tions		Immediate priority		✓			
25. Revise and strengthen Financial Sector Cybersecurity Guidelines.	Updated and published Financial Sector Cybersecurity Guidelines.	Number of Guidelines updated	CBL	BAL	Immediate priority					
26. Establish a Finan-cial Sector Cybersecurity Incident Response Team (CSIRT).	Operational-ized CSIRT with dedicated staff and response protocols.	CSIRT operationalized	CBL	Ministry of Science, Technology, Innovation LCA	Immediate priority	✓	✓			
27. Establish the Financial Sector Cyber Intelligence and Information Sharing to facilitate information sharing within the sector.	Launched Cyber Intelligence and Information Sharing Platform.	% of progress towards Plat-form development	CBL BAL		Immediate priority	✓	✓			
Strategic Priority 2A: Strengthening Credit Infrastructure										
28. Expand credit bureau data to encompass commercial entities.	Commercial entities provide data into the credit bureau database.	% increase of commercial entities providing data to the Credit bureau	CBL MTIBD Credit Bureau		Immediate priority	✓				
29. Integrate collateral registry with ID, credit bureau, and motor vehicle registry.	Fully integ-rated collateral registry system with realtime data access.	Registry fully integrated	CBL LAA MLGCHAP MPWT Credit Bureau		Medium priority			✓		
30. Review our licensing processes with the aim of reducing regulatory barriers for innovat-ive financial service providers to facilitate entry and competition.	Revised regulations enabling fintech and alternative lending solutions published.	Number of new fintech and financial service providers licensed	CBL Financial Institu-tions	OPC Ministry of Law & Justic Financial Institutions	Medium priority			✓	✓	

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
Strategic Priority 2A: Strengthening Credit Infrastructure										
31. Facilitate credit providers in developing products leveraging on moveable assets as collateral, to enable improved access for informal enterprises.	Legal and regulatory framework for moveable assetbased lending established.	% increase in SME loans secured by movable assets	CBL Financial Institu-tions		Medium priority			✓		
32. Develop the implementing regulations for the Insolvency Act of 2022.	Gazetted Insolvency Regulations.	Adoption of Insolvency regulations	MTIBD Office of Master	OPC Ministry of Law & Justice Financial Institutions	High priority		✓			
33. Operationalise Insolvency Regulator.	Establishment of a functional Insolvency Regulator office.	% of staff recruited to mend the office	MTIBD Office of Master		Medium priority			✓		
34. Establish a licensing and monitoring process for insolvency practitioners.	Developed Licensing criteria and application procedures.	Number of applications processed	MTIBD Office of Master		Medium priority				✓	
35. Establish institu-tional mechanisms to provide support to SMEs that might be at the risk of insolvency.	Mechanisms supporting SMEs are in place and operational-ised	Number of mechanisms introduced.	MTIBD LNDC BEDCO		Medium priority			✓		
Strategic Priority 2B: Enhancing Public Support for Credit Instruments.										
36. Establish an Investment Fund for SMEs (early-stage and high growth funding).	SME Invest-ment Fund legally established and operational-ized.	Fund established and operationalized	MFDP MTIBD	LNDC BEDCO CAFI Project Min of Law and Justice	High priority		✓			
37. Undertake an assessment of options to increase access to affordable housing finance.	Published Housing Finance Market Assessment Report.	Assessment report completed and published; number of policy recommenda-tions adopted.	MFDP MLGCHAP	LHLDC LAA Habitat for Humanity LSPP MFIs	Immediate priority	✓	✓			
38. Develop an Agricultural Finance Strategy informed by a diagnostics.	Approved Agricultural Finance Strategy and implementa-tion plan.	Strategy published and implemented	CBL MAFSN MTIB		High priority		✓			

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
Strategic Priority 2B: Enhancing Public Support for Credit Instruments.										
39. Review the Partial Credit Guarantee Scheme as a pre-cursor for Development Finance Institution.	Revised Partial Credit Guarantee Scheme with improved access criteria.	Number of SMEs benefitting from guarantee scheme	MFDP MTIBD	LNDC BEDCO Financial Institution	Immediate priority	✓	✓			
40. Promote capacity building for SMEs to develop sustainable and growing businesses.	Training programs delivered with SME participation reports.	Number of SMEs trained	CBL MTIBD BEDCO	Business Associations	Immediate priority	✓	✓			
41. Facilitate linkages with established domestic and global value chains.	Established SMEfinancier matchmaking platform with engagement tracking.	Number of SMEs successfully connected to financiers.	MFDP MTIBD CAFI Project MCC Project		Immediate priority	✓	✓			
42. Build financial institutions capacity in SME lending by linking SMEs graduating from mentoring pipelines to potential financiers.		Number of SMEs	MFDP MTIBD CAFI Project MCC Project		Medium priority		✓	✓		
Strategic Priority 2C: Modernizing Exchange Controls and support the development of green financing.										
43. Develop a Currency and Exchanges Act.	Gazetted Currency and Exchanges Act.	% of progress toward development of Act	CBL MFDP	OPC Ministry of Law & Justic Financial Institutions	Immediate priority		✓	✓		
44. Establish a Trade Verification System to streamline foreign transactions.	Deployed Trade Verification System with operational guidelines.	% of System operationalized	CBL RSL MFDP		High priority	✓	✓			
45. Develop and implement a Climate Finance Strategy.	Approved Climate Finance Strategy and roadmap document.	% of banks adopting climate finance principles	CBL MFDP LMS/ Office of the Prime Minister	NCCC Financial Institutions LNDC	High priority		✓			
46. Establish a National Taxonomy for Sustainable Activities.	Nationally recognized Taxonomy for Sustainable Finance adopted.	Compliance rate of financial institutions using the taxonomy	CBL MFDP LMS/ Office of the Prime Minister	NCCC Financial Institutions LNDC	Medium priority			✓		
47. Develop Guidelines for the issuance of green instruments.	Published Green Finance Guidelines for banks and financial institutions.	% of progress in developing guidelines	CBL MFDP	Financial Institutions	Medium priority			✓	✓	

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
Strategic Priority 3A: Develop insurance markets										
48. Enact a modernized Insurance Act	Gazetted modernised Insurance Act .	Proportion of insurers compliant with risk-based regulations	CBL IAL	OPC Ministry of Law & Justic Financial Institutions	High priority		✓			
51. Develop a supervisory framework for medical aid schemes.	Approved and implemented Medical Aid Schemes Supervisory Framework.	Framework developed and implemented	CBL		Medium priority		✓	✓		
52. Promote Compliance with the Insurance Act	Compliance workshops held with reports on participation and key takeaways.	Proportion of workshops conducted; compliance rate among funeral schemes.	CBL		Immediate priority	✓				
55. Review Microinsurance framework Regulations.	Revised and published Microinsurance Regulations.	Regulations updated and enforced; number of microinsurance providers compliant.	CBL		Medium priority	✓				
56. Strengthen distribution channels through agent and broker networks.	Expanded network of licensed microinsurance agents and brokers.	Number of new agents/brokers registered	CBL IAL		Low priority		✓			
57. Develop an Agricultural Index Insurance Program..	Launched Agricultural Index Insurance with pilot projects.	Index developed and opertionalised	CBL IAL		High priority		✓			
59. Develop the modernized Road Traffic Act and introduce Compulsory Third-party vehicle insurance	Gazetted revised Road Traffic Act with provisions for Compulsory Third-Party Insurance.	Number of vehicles insured under the new law; reduction in road accident claims.	MPWT		Immediate priority			✓		
Strategic Priority 3B: Develop Pension Sector.										
60. Improve the regulatory framework	Published outstanding pension regulations.	Number of new or revised regulations implemented	CBL		Immediate priority	✓	✓	✓	✓	✓
61. Improve supervisory framework by introducing riskbased supervision.	Implemented Risk-Based Supervision (RBS) model for pension funds.	Proportion of pension funds assessed using risk-based supervision	CBL		Immediate priority	✓				

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
Strategic Priority 3B: Develop Pension Sector.										
62. Conduct compliance workshops for pension funds and service providers.	Compliance workshops conducted with participation reports.	Number of compliance workshops held annually	CBL		Immediate priority	✓	✓	✓	✓	✓
63. Review the Public Officers Defined Contribution Pension Act and Specified Officers Defined Contribution Pension Act.	Amended and gazetted pension acts.	Act reviewed and amendments implemented	PODCPF MFDP	OPC Ministry of Law and Justice	Immediate priority	✓	✓			
64. Address the funding deficit in the Public Officers Defined Contribution Pension Fund and data cleaning	Funding deficit reduction plan developed; cleaned and updated pension fund data.	Number of beneficiaries accessing financing % of member records verified and updated	PODCPF MFDP		Immediate priority	✓	✓	✓	✓	✓
65. Undertake a study to review the retirement saving options for the informal sector	Published study report on retirement savings options for the informal sector.	% of progress made towards the study	CBL MLE MFDP		Immediate priority			✓		
Strategic Priority 3C: Deepening Capital Markets.										
66. Increase the issuance of benchmark government bonds.	Regular issuance calendar for benchmark government bonds established.	Number of benchmark bonds issued annually	CBL MFDP		Immediate priority	✓	✓	✓	✓	✓
67. Facilitate the issuance of corporate bonds.	First tranche of corporate bonds successfully issued.	Volume of corporate bonds issued	CBL		Immediate priority	✓	✓	✓	✓	✓
68. Automate trading in the MSM.	Fully automated MSM trading platform operationalized.	% of progress towards automated trading platform	CBL		Immediate priority		✓			
69. Develop the Securities Act and its implementing regulations.	Gazetted Securities Act and supporting regulations.	% of progress in development of Act and regulations.	CBL		Immediate priority	✓	✓			
70. Improve the MSM listing requirements.	Revised MSME listing requirements published.	Number of MSMEs listed; reduction in listing costs and requirements.	CBL		Immediate priority	✓	✓			

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
Strategic Priority 3C: Deepening Capital Markets.										
71. Introduce a specific platform and regulatory sandboxes.	Operational SME listing platform and approved regulatory sandboxes.	% of progress towards operationalizing sandbox; Number of SMEs using the sandbox.	CBL		Immediate priority		✓			
72. Facilitate for the offloading of government minority stakes in selected companies for listing in the MSM.	Public listing of selected SOEs completed.	Number of SOEs with divested stakes listed on the market	MFDP CBL LNDC		Immediate priority	✓	✓			
73. Undertake a feasibility study to inform the development of the diversified plan for MSM.	Feasibility study report on MSM expansion published.	Progress towards completion and publication of feasibility study	CBL MFDP		Immediate priority		✓			
CCI 1: Strengthening the National Payments System										
74.Develop a modernized National Payment Systems Act and implementing regulations	Gazetted National Payment Systems Act with updated provisions.	Act enacted and operationalized	CBL PAL	OPC Ministry of Law & Justic Financial Institutions	Immediate priority	✓				
75. Fully operationalize the National Payments Switch to enable complete interoperability of retail payments between banks and non-banks	National Payments Switch operational, enabling seamless transactions between banks and non-banks.	Transactions processed through switch	CBL PAL		Immediate priority	✓	✓	✓		
76. Develop Framework to support Open Finance	Framework Developed and published.	Volume of corporate bonds issued	CBL		Medium priority		✓			
CCI 2: Enhancing Access to Digital Financial Services										
77. Enhancing an enabling legal environment for Fintech	Operational fintech regulatory sandbox with initial cohort of participants.	Number of fintech firms utilizing the sandbox	CBL		Immediate priority	✓				
78. Implement the sandbox facility to support the introduction of new specialised digital financial products.	Functional regulatory sandbox established	Number of participants enrolled	CBL		Medium priority			✓		

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
CCI 2: Enhancing Access to Digital Financial Services										
79. Improve payment service provider KYC mechanisms and identity information sharing framework	Enhanced digital KYC protocols implemented	Number of institutions integrated into identity framework	CBL		Medium priority			✓		
80. Enhance the integration of payment service providers to regional platforms to ensure expanded access to payment services and products	Payment service providers connected to regional platforms	Volume and value of cross-border transactions	CBL		Medium priority				✓	
81. Digitalise Government Payments	Key government payment streams digitised	% of reduction in cash-based transactions	CBL MFDP MCST RSL		High priority		✓			
82. Extend usage of the national payment systems by Government of Lesotho.	Digital platform for government payments fully implemented and operational.	% of government transactions processed through the gateway	CBL MFDP		High priority		✓			
83. Establish the Government payments gateway	Government gateway developed and integrated with existing payment infrastructure.		Ministry of Communication s	MFDP	Immediate priority			✓		
84. Development of the Financial Innovation Framework	Approved and implemented Financial Innovation Framework with product creativity programme	% of implementation of framework	CBL		Medium priority			✓		
CCI 3: Strengthening Financial Consumer Protection and AML/CFT Financial Consumer Protection										
85. Improve market conduct regulatory and supervisory regulatory frameworks	Published and enforced Market Conduct Regulations.	Data privacy and cybersecurity laws that may restrict digital transactions or cross-border data flows.	CBL		Immediate priority	✓	✓			
86. Develop framework for debt relief.	Approved and implemented Debt Relief Framework with clear eligibility criteria.	Progress on development process	CBL		High priority			✓		

Actions	Outputs	Proposed Measures	Lead Institution /Ministry	Supporting Institution/ Ministry	Priority	2025	2026	2027	2028	2029
AML/CFT										
87. Update the 2018 AML/CFT National Risk Assessment	Updated NRA report	Number of sectors/ entities assessed	MFDP FIU		High priority		✓			
88. Develop and adopt an AML/CFT Strategy drawing on the updated NRA and 2023 Mutual Evaluation Report	AML/CFT Strategy and action plan	Published Strategy	MFDP FIU		Immediate priority	✓				
89. Strengthen AML/ CFT supervision of financial institutions and Designated Non-Financial Businesses and Professions	Updated supervisory frameworks and guidelines	% of institutions rated as compliant	CBL MTIBD LIA Law Soci-ety	FIU	High priority		✓			
90. Include beneficial ownership information in the business registry under MTIBD.	Enhanced registry system that requires beneficial ownership disclosure	% of registered entities with BO info submitted	MTIBD		Immediate priority	✓				
CCI 4: Enhancing Financial Data Dissemination										
91. Expand financial sector data publications.	Regularized and expanded financial sector reports with improved accessibility.	Number of reports published	CBL		High priority	✓				
92. Explore options for financial sector-wide data warehousing.	Feasibility study and im-plementation roadmap for financial data warehousing completed.	Progress on development and operationaliza-tion of a data warehouse	CBL		High priority	✓				

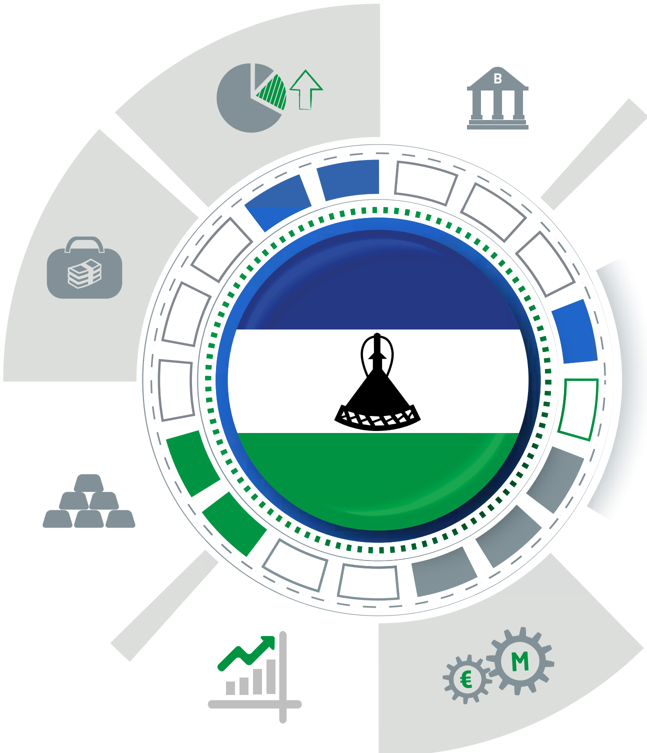
Annexure 3: Results Framework

Strategic Priority	Indicator	Source/definition	Baseline	Mid-term target	Final target
Stable and Resilient Financial Sector	Tier 1 (Core capital) to Risk Weighted Assets (%)	To be sourced from CBL Bank Supervision Financial Soundness indicators (website) [target: adequate regulatory level]	16.0 % (Dec-24)	Greater than 8 %	Greater than 8 %
	NPLs to Total Gross Loans (%)	To be sourced from CBL Bank Supervision Financial Soundness indicators (website) Target is a maximum	4.27% (Dec-24)	Less than 5%	Less than 5%
	Household Debt to household consumption expenditure (%)	Claims on households (Q4 2023) (QER) M6 999.44m Household final consumption (2023, GDP data) M35 714m [measure of household indebtedness – target: keep below 20% - has fluctuated between 18%-20% over 2019-23]	22.2% (2024)	Less than 20%	Less than 20%
	Liquid Assets Ratio (LAR) (liquid assets to total assets)	To be sourced from CBL Bank Supervision Financial Soundness indicators (website)	23.1% (Dec 24)	Greater than 18%	Greater than 18%
Financial Sector Depth	Gross insurance premiums to GDP (%)	Can be calculated by insurance regulator (CBL) GWP data published in CBL Financial Stability Report (2023)	3.0% (2024)	3.2%	3.5%
	Pension assets to GDP (%)	Can be calculated by pensions regulator (CBL) Based on 2024 GDP M41 634mn Retirement Fund Assets (2024) of M18 8bn	45.2% (2024)	53%	60%
	Domestic long-term finance assets to GDP (%)	Sum of private sector medium/long-term bank and NBFI loans, corporate bonds to GDP Data source: CBL bank, NBFI supervision depts – not publicly available.	16.96% (2023)	21%	25%
	Credit to NFC to GDP (%)	NFC – non-financial corporates Credit to non-financial firms from banks; non-bank lenders;; credit instruments listed on MSM; Data source: CBL bank, NBFI supervision depts, IMF https://www.imf.org/external/datamapper/NFC_LS@GDD/LSO	6.55% (2023) (IMF)	8.5%	10%
	Value of retail payment transactions to GDP (%)	Can be calculated by payments system operator (CBL) Value of retail transactions passing through payments switch, including mobile money, payments cards [target: increase to ??]	24% (2024)	50%	75%

NOTES

PAGE	NOTES

GOVERNMENT OF LESOTHO



FINANCIAL SECTOR DEVELOPMENT STRATEGY II

2025-2030