



MAKING ACCESS POSSIBLE

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The Centre for Financial Regulation & Inclusion



Making financial markets work for the poor



# **Making Access Possible**

## **Qualitative demand-side report**

### **Lesotho**

June 2014

The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri) to foster inclusive financial sector growth.

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## Executive Summary

This document is a summary of the demand-side research that was conducted in Lesotho as part of the Making Access to Financial Services Possible (MAP) study to complement the quantitative analysis of FinScope<sup>1</sup> survey data.

The MAP study is conducted in a number of countries. It aims to develop, pilot and codify a toolkit of financial approaches, methodologies and strategies in order to:

- Overcome barriers to financial inclusion
- Identify opportunities to increase financial inclusion
- Coordinate stakeholders (government, private sector and donors) in practical action

The qualitative research conducted in Lesotho aimed to understand how consumers function financially; more specifically, how they use their money, what their financial needs are and what barriers they face in terms of greater financial inclusion.

Qualitative research, in the form of 12 focus groups, 4 in-depth interviews and 6 in-home immersion interviews, was conducted in Lesotho at Maseru and Butha-Buthe from 17 October to 26 October 2013. The sample was structured to reflect the target market for financial inclusion in Lesotho<sup>2</sup>.

### Overview

The qualitative demand-side research indicated limited engagement of the target market with formal financial services. There are a number of factors that limit access to and use of financial services, in this report referred to as access<sup>3</sup> and usage barriers<sup>4</sup>, that underpin this limited engagement. The most obvious reason is that the target market is living from hand to mouth and is over-indebted, in many cases battling to survive and are not confident enough in their personal eligibility to explore formal financial alternatives. Despite this, many are still very hopeful and determined to improve their lives and the lives of their children.

As government organisations have not provided sufficient and tangible support, the target market has learned to rely on their own abilities and means to earn an income and 'pull themselves' out of poverty. Lesotho respondents were, overall, creative and entrepreneurial in their approach to earning an income and are actively seeking different ways to not only survive but to eventually succeed and progress.

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1 A nationally representative demand-side survey to gauge the level of financial inclusion, as well as people's interaction with financial services, rolled out by FinMark Trust. See [www.finscopeafrica.com](http://www.finscopeafrica.com).

2 MAP applies a broad conception of the target market for financial inclusion as the unserved and underserved population. They are often low-income and not formally employed.

3 Access barriers relate the supply of financial services. Such barriers mean that individuals are precluded from using the services due to factors outside of their control, such as affordability, availability of the service within easy reach to them, the eligibility requirements set, or the appropriateness of the available products to their particular needs.

4 Usage barriers refer to factors that cause people not to use financial services even if there is nothing that prevents them from doing so in an absolute sense. They are therefore factors internal to the individual or society, including perceptions, trust, financial capability or the fear of officialdom.

Money is seen as the enabler to their aspirations, for both themselves and their loved ones. However, the reality on the ground is that the majority are still living a hand-to-mouth existence, spending on basic necessities as soon as any money is made. There is a strong spirit of collectiveness, as is evident in social and financial structures like burial societies and stokvels; these structures could potentially assist individuals to lift themselves from poverty.

### **Current needs**

Most households struggle to survive on either a single or dual income. Many have one core source of income with a secondary source used to supplement the main income. As a single source is never sufficient, consumers look for ways to make money in order to make ends meet. In the face of limited formal income earning opportunities, consumers often have to rely on their own creativity and ingenuity to find alternative earning methods.

Household needs are focused on basic items, such as groceries, school fees, transport and rent. Added to these are necessities such as funds to purchase business stock and to service debt. Trying to manage all these expenses on a limited income has largely contributed to a cycle of debt and poverty. Many respondents claim they are unable to save any money at the end of the month. In addition, informal traders and micro-enterprise owners also struggle to save any money which can be re-invested back into their business. Therefore, the cycle of debt consumers find themselves in, also hampers business expansion or growth.

### **Eligibility for formal financial access**

Engagement with formal financial services is determined by respondents' eligibility to access the various services. Key to eligibility is employment status and main source of income. Being formally employed gives respondents a regular income. But more importantly, formal employment gives respondents access to the documentation required by formal financial institutions; which, in turn, gives them access to affordable credit options. The opposite is true for traders or self-employed people, who only have the option to use expensive informal credit and unsecure saving and risk mitigation options as they cannot produce official pay-slips or contracts of employment.

The main qualitative research findings for each of the product markets are set out below.

## **MARKET FOR CREDIT**

### **Current situation of the target market**

A large proportion of respondents' income is used to repay debt to informal money-lenders or to money lending saving societies. Indications are that debt repayment typically amounts to 30% to 45% of household income among respondents. Individual loan amounts are mostly relatively small. Indications are that most of the loans are less than M 3000, sometimes as little as a few hundred Maloti.

### **Credit providers**

Informal money-lenders are the main suppliers of credit to the target market. Informal money-lenders charge interest of 20% or more per month (the highest rate mentioned was 30% per month). The target market is subject to bullying tactics from moneylenders – and there are many stories of ‘Mashonisas’ confiscating identity documents or passports, bank cards and possessions (e.g. household appliances such as fridges or microwave ovens). Perceptions about informal money lenders differ in Lesotho. On the one hand they offer a service many need and are seen by some as a source of assistance and help. To the respondents, they are a more familiar and comfortable source of finance and are seen as part of the community. In addition, there is some room to re-negotiate payment terms with informal money lenders. On the other hand they are resented by many for their threatening tactics and for their part in perpetuating the cycle of indebtedness found in Lesotho society.

Collective saving societies<sup>5</sup> play a pivotal role in Lesotho society and many respondents are members of at least one stokvel (rotational or accumulative savings societies) and at least one burial society (batashilling). Many within the target market borrow money from stokvels, specifically accumulative societies. Societies may lend out money to either members or non-members at varying interest rates. Society members are charged an interest rate of 10% to 15% while non-members are charged between 15% and 20%. In some cases society members are encouraged to lend out the society’s money as the interest earned on loans is added to the coffers and increases the society’s funds, which means members can expect bigger pay-outs.

Some may borrow money from neighbours and relatives. These loans tend to be smaller amounts and there is no indication that interest rates are charged in these cases.

### **Use cases<sup>6</sup>**

The reasons mentioned for the use of loans were predominantly for consumptive<sup>7</sup> purposes. Some mentioned using loans for productive<sup>8</sup> purposes, such as buying stock for a business, expanding or renovating a house/ property. This however, was very limited.

Use cases include consumption smoothing<sup>9</sup>, buying big ticket items<sup>10</sup> and paying educational expenses. Risk mitigation for health emergencies, form part of the use cases for credit.

Loans from informal institutions are often used to repay existing loans, sometimes to pay only the interest on these loans and not to repay capital.

### **Barriers to formal credit providers**

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5 Most of these societies operate as accumulative savings and credit associations (referred to as ASCAs). ASCAs are member-based entities whereby members contribute an agreed amount of savings, which may then be lent out to members and sometimes non-members. At the end of an agreed upon period, the savings pool and interest proceeds are then distributed amongst the group. ASCAs are distinguished from ROSCAs (rotating savings and credit associations). The latter operates on a rotating basis whereby members take turns to receive the savings contributions of other members.

6 Use cases: a use case can be defined as the practical application of a need for a certain financial services. That is, the various purposes for which people use a financial service such as credit, savings or insurance. So, for example, a credit use case can be to borrow in order to give your child an education, or to borrow in order to build a house.

7 Credit used for consumptive purposes: Credit that is used up for groceries or household necessities

8 Productive use of credit: Credit that is used to build or renovate a house or invest in a business

9 Consumption smoothing: Cash required for smoothing over short-falls between income and expenses. Used for consumptive purposes

10 Big ticket items: Fridge, furniture etc.

- Eligibility, specifically inability to produce a salary slip;
- lengthy administrative processes;
- formal credit products are not flexible, specifically on repayment;
- proximity (more limited in mention); and
- Perception of not being the target market of formal institutions (especially true in the case of informal earners).

## **MARKET FOR SAVINGS**

### **Current situation of the target market**

While the majority of the Lesotho target market claim they are unable to save money, the vast majority contribute monthly towards informal savings societies. Therefore, while respondents are saving, they may not consider their actions as a form of 'savings'. Therefore, saving does take place, but predominantly via informal savings societies.<sup>11</sup>

Beyond their monthly contributions to societies it seldom occurs that a dedicated amount is budgeted for savings. Since expenses invariably exceed income, most households have nothing left to save. The only mention of savings was to store value<sup>12</sup> and this was done, most likely for a specific purpose. Saving for the purpose of accumulating value<sup>13</sup> was not mentioned at all. The Lesotho target market did not appear to engage in this form of saving

As mentioned before, savings societies play a pivotal role in the Lesotho target market's lives. The wide range and variety of the different societies operating informally in Lesotho is testament to this pivotal role. Most societies are either rotational or accumulative in nature. Societies as a saving mechanism can only function properly if the members trust each other and if individuals can fulfil their obligation to contribute regularly (monthly). The Lesotho target market generally acknowledges that the best way in which each individual can advance is if assisted by the group as a whole, therefore much trust and reliance is placed on the collective. In addition, respondents rarely miss paying their society contributions. The penalties for such actions are considered severe and most feel pressure from the rest of the group to pay, and pay on time.

### **Savings providers**

Most saving activities take place on an informal collective level in the form of savings societies.

There are very few mentions of banking accounts being used as a saving mechanism. In fact even amongst those who have a bank account, banks are not used to save. There are indications that account holders withdraw most, if not all their money as soon as it is deposited

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<sup>11</sup> Quantitative studies might underrepresent the savings component in Lesotho, since respondents might respond to questions whether they save that they do not, even if they save in informal societies.

<sup>12</sup> For example when lumpy income is received, such value needs to be stored until it is used. Savings therefore are largely a consumption smoothing action

<sup>13</sup> Saving to accumulate value can entail saving towards a certain savings goal and generally entails money being retained and added to over a period of time.

into the account. The fees and charges banks impose eat into the capital sitting in respondents' accounts, which goes against the notion of saving.

For those using banks, the institutions are perceived to be a 'place into which my money goes and from which I withdraw my money' – therefore, a purely transactional vehicle.

### **Use cases**

As most saving activities occur within the context of a saving society, saving use cases are often linked with the purpose of that society.

Most save to purchase big ticket items such as fridges, to pay for renovations or expansions to a house, to pay for school fees, buy school uniforms or purchase Christmas groceries. Some limited mentions were made regarding saving in order to start a business or re-invest in a business (i.e. buying live-stock such as chickens or pigs).

### **Barriers to formal savings products**

- Affordability (service charges);
- Perception of not being the target market of formal institutions (especially true in the case of informal earners).
- Mistrust in formal institutions (due to lack of understanding of service charges).

## **MARKET FOR INSURANCE**

### **Current situation of the target market**

The target market generally does not mitigate risk, with the exception of informal funeral cover in the form of funeral societies or Batashillings. Nearly every respondent interviewed was a member of a funeral society. These societies do not only provide monetary support in the event of a funeral but also traditional and communal support, addressing both an emotional as well as financial need for respondents. In Lesotho, the target market tends to insure against death in a collective manner, rather than on an individual basis.

To a more limited extent, some have a formal funeral policy or life cover with one of the insurance providers in Lesotho. This was predominantly amongst those who are formally employed or to a lesser extent used to be formally employed.

### **Insurance providers**

Formal insurance providers offering funeral insurance (e.g. Alliance, Old Mutual, Aon, LNIG, Metropolitan<sup>14</sup>) were mentioned.

### **Barriers to insurance services**

- Mistrust;

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<sup>14</sup> Insurance providers in Lesotho: These companies gained the most mentions during focus group discussions.

- awareness;
- perception of not being part of the target market for formal insurance; and
- perceptions about affordability

## **MARKET FOR PAYMENTS**

### **Current situation of the target market**

Respondents tend to opt for non-complicated and inexpensive options to facilitate payment and remittance needs. Cash is still used most frequently, with very few mentions of other forms of payment. When sending money to relatives living a distance away, the majority send cash with a 3<sup>rd</sup> party or deposit money in to a bank account of a 3<sup>rd</sup> party.

Generally, respondents reflect a high level of trust between people in Lesotho, which reduces the risk factor associated with sending cash to a relative with another person or depositing the cash in someone else's bank account. As the target market generally trust one another, the need to use any other forms of sending money, is less prominent. People are by and large happy with the remittance options available to them.

### **Providers**

Apart from cash transactions and hand-delivering cash, mobile money providers are used by some, although this is more limited. Mobile money providers mentioned are: Econet (MTN), Mpesa (Vodacom), Money Market (via Shoprite stores) and to a lesser extent eWallet<sup>15</sup>.

Teba bank is often used by migrant mine-workers working in South Africa to send money to their partners and families back home.

Respondents who are formally employed by private organisations or by government mostly receive their salaries in a bank account.

### **Use cases**

Formal payment systems are used to send money to dependents, to pay accounts and sometimes to pay informal moneylenders.

Bank accounts are used to receive salaries or student allowances and sometimes to pay informal moneylenders and cooperatives.

### **Barriers to formal payment and remittance services**

- Awareness (given that mobile operators in Lesotho have not been operational for that long, most are not aware of how mobile money services work.)
- Perceptions about high charges of bank products.

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<sup>15</sup> Mobile Money providers in Lesotho: The top two mobile money providers in Lesotho are Mpesa (offered by Vodacom) and Econet (offered by MTN). Money Market is the mobile money solution offered by the Shoprite retail chain and eWallet is linked to First National Bank.

- Financial capability<sup>16</sup>: lack of awareness of and comfort with formal services.

## SUMMARY OF ACCESS AND USAGE BARRIERS ACROSS PRODUCT MARKETS

The access and usage barriers are discussed in the report for each product category. In summary, the most prominent barriers to access and usage of formal financial services are the following:

Access barriers	
<b>Eligibility</b>	<p>Eligibility is possibly the biggest barrier to taking up formal financial services, particularly to obtain credit. This is particularly relevant for those who are not formally employed and cannot produce a payslip or an employment contract.</p> <p>Processes to open accounts are considered cumbersome and require too much paperwork, the latter posing particular problems to those who are not functionally literate.</p>
<b>Product features</b>	<p>The target market requires a substantial amount of flexibility from financial products, particularly for credit, given their economic realities which often require immediate access to funds and inconsistent incomes. Products cannot be based on the assumption of regular monthly incomes as these assumptions fail to address the needs of the target market - the most relevant being flexible repayment terms for credit. While the target market acknowledges the risks that come with borrowing from informal money lenders, this channel does offer some room to re-negotiate repayment terms when times are financially tight for consumers.</p> <p>Loans from informal sources are also available immediately to respondents whereas formal loans from banks may take a few days to a few weeks before the cash is made available.</p> <p>Service charges on savings accounts are a major barrier, not only from an affordability point of view, but also because of the way in which the target market interact with their accounts. Those with formal bank accounts feel as if they are 'in the dark', because they do not understand the formulas of bank charges or of fluctuating interest rates applied to loans. Respondents need to be able to calculate all the costs and interest rates associated with the channel in use in order to plan ahead and ensure they are able to afford the product or service. In contrast, informal savings options such as societies make it very clear to members what their pay out is likely to be. The same can be said for informal credit, where users are made aware of how much interest they owe on each loan they take and when the payment is due.</p>
<b>Affordability</b>	<p>Affordability is a major access barrier, specifically for savings. Respondents perceive bank charges, specifically on savings accounts, to be so high that they deplete savings. This can feed perceptions that formal institutions 'steal' customers' money. This also goes against the notion of saving (i.e. how can one save through the bank if the bank fees and charges eat away any interest I may earn on the capital amount?).</p>
Usage barriers	
<b>Perceptions</b>	<p>Respondents assume that the cost of financial products from formal institutions are</p>

<sup>16</sup> Financial capability is the knowledge, skills, attitude and behaviour that enables effective management of a person's finances as well as interaction with financial services.

	<p>expensive, therefore they often do not investigate options.</p> <p>Knowledge of banking products, or the lack thereof, stems from the distance that exists between respondents and formal financial institutions. The general perception is that formal financial institutions cater only for those who can afford their products. Those who are currently, or may have been previously, banked have negative experiences stemming from their limited knowledge of what they signed up for; they recount these experiences to others, resulting in negative viral information sharing.</p>
<b>Mistrust</b>	<p>Overall, there is a general mistrust of formal financial institutions, especially insurance companies, amongst the target market. This is largely driven by the lack of knowledge respondents have of the financial products and services these institutions offer. When the accompanied documents and terms and conditions are misunderstood, respondents tend to jump to conclusions when bank charges are imposed on accounts or insurance claims are rejected. All these misunderstandings lead to respondents believing that these institutions do not have their best interests at heart.</p>
<b>Limited financial capability</b>	<p>Knowledge amongst respondents about how financial institutions really work and their responsibilities as a client is limited. While respondents broadly know of various formal financial products available, they are rarely of the terms and conditions associated with those products or 'how they work'. There does not appear to be much desire amongst the target market to find out further about these products as they believe that formal financial institutions are not interested in them, therefore they do not even investigate available options.</p>

## 1. Guide to reading this document

This document is a summary of the demand-side research that was conducted in Lesotho as part of the Making Access to Financial Services Possible (MAP) study. The findings of the demand-side research are used (in conjunction with supply side findings) as input for a diagnostic report on financial access in Lesotho.

This document highlights the needs of the target market and explores the barriers to their optimal use of formal financial products and services. It identifies opportunities from a demand-side perspective to improve the quality of financial access in Lesotho. It is accompanied by two further outputs: a PowerPoint presentation where all relevant findings are discussed in detail, illustrated with schematic depictions and actual case studies; and a number of pen portraits of respondents interviewed individually within their own environment.

### **The advantages and limitations of qualitative research**

Unlike quantitative research<sup>17</sup>, qualitative research obtains information from a small number of respondents from specific sections of the target population. The findings of qualitative research cannot be extrapolated to the target population, but it gives indications and insights into a range of behaviour, perceptions and attitudes of the target population.

The information in this report, particularly the quotes, reflects what respondents said during the interviews and in focus group discussions. For these respondents, their perception is their reality; however, their perceptions may not be based on fact. In this report the researchers try to distinguish between perceptions based on fact and those that are not. However, stakeholders in Lesotho would be in the best position to make this distinction. Both of these should be addressed: if the perceptions are not based on fact, improved communication about the facts is indicated; if they are based on facts that negatively impact on behaviour, these realities should be reviewed and, if required, addressed.

### **Structure**

This document consists of the following sections:

- Section 2 outlines the research methodology followed
- Section 3.1 sketches the context of the target market, covering social context, physical context and economic context.
- Section 4 considers respondents' financial capability
- Section 5 discusses respondents' household income and expenditure realities, specifically the use of debt and the impact of debt repayment on financial well-being.
- In Section 6 the interaction of respondents with financial services across the four product markets (payment and remittances, credit, savings and insurance) is described. For each

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<sup>17</sup> In quantitative research data is collected from a large number of respondents (representative of the target market), thus the findings are statistically representative of the target population.

category, respondents' needs are expressed as use cases; the providers and delivery channels used for each use case and their competitive advantages and disadvantages are also explained. Lastly the access and usage barriers to formal financial services for each product category are explored.

- By way of conclusion, Section **Error! Reference source not found.** highlights opportunities for improved access to formal financial services stemming from the research, as well as some recommendations from a qualitative demand-side perspective.

### **Explanatory notes**

The following abbreviations are used in the document:

- M: Lesotho Maloti
- USD: United States Dollar

At the time of the fieldwork (October 2013), the currency equivalents were as follows: USD1= M9.80.

As Lesotho belongs to the Common Monetary Area, the Maloti is pegged to the Rand. The Basotho therefore use the South African Rand and Lesotho Maloti interchangeably. Often during the research, when discussing income and expenses, respondents referred to both the Rand and Maloti when discussing their financial status.

## 2. Research methodology

### 2.1. Objectives

The research aimed to explore:

- The social and physical context of the target market and the implication thereof on financial access;
- The economic realities and financial services needs of the target market;
- The drivers of usage of formal and informal financial products and services, and the extent to which these satisfy the needs of the target market;
- Current take-up and use of a range of formal and informal financial products;
- The barriers to access (proximity, affordability, features and eligibility) and whether these barriers are based on reality or perception;
- Opportunities, from a demand-side perspective, to improve the quality and reach of financial access in Lesotho.

### 2.2. Geographic areas

Research was conducted in two distinct regions within Lesotho, aiming to access both the urban and the more rural consumer. Consumers were accessed in both Maseru (urban centre) and Butha-Buthe and surrounds (rural centre).

Butha-Buthe was chosen for logistical reasons, as it was close in proximity to Maseru (160 km) and allowed the research team to complete field work within the shortest time possible, covering both centres in a period of 8 days. Both centres acted as economic hubs for the out-lying communities and villages. Therefore some respondents lived in such places as Tseka (around Maseru) and Hlotse, St Paul and Molefis (in the Butha-Buthe region).

### 2.3. Data collection methodology and sample

Two different data collection methodologies were employed, namely focus group discussions which were two and a half hours in duration and one-on-one in-depth interviews/ immersions which were between an hour and a half and two hours in length. The focus group discussions included between 8 to 9 respondents per session and took place in one central venue/ location. The in-depth interviews/ immersions typically took place at respondents' homes or place of work.

A questionnaire was used during the recruiting stage to ensure that the required respondents attended the focus group discussions or were available for the in depth individual interviews.

The focus groups were designed in such a way as to target respondents with specific needs such as the following: credit usage (Segment A), savings (Segment B) and risk mitigation (Segment C). The in-depth interviews were designed to target specific consumer profiles that are likely to be found in Lesotho society linked predominantly to modes of earning an income (i.e. farm labourer, urban trader etc.).

Based on these questionnaires, the profile of the 106 respondents (including both Maseru and Butha-Buthe) who participated in the study was as follows:

- Gender:
  - Male: n = 51
  - Female: n = 55
  
- Main source of income:
  - Formal employment by state: police officer, municipal office clerk, janitor at municipal offices, security guard at municipal offices;
  - Formal employment by private sector: driver, security guard, bartender at local motel, repairing electronic goods;
  - Informal irregular employment: gardener, carpenter, construction worker, selling floor polish, agricultural worker on someone else's farm;
  - Urban trader: selling snacks, airtime, shoes, chickens;
  - Rural trader: selling snacks, fruit and vegetables, airtime, shoes, chickens, traditional herbs and medicine;
  - livestock farmer with own land;
  - government grant recipient;
  - Female headed household with spouse working in South Africa.
  
- Bank usage
  - Using formal financial products: 30% of the sample made use of formal financial products, the majority being a transactional bank account. Most used bank was Standard Lesotho Bank, followed by FNB and Nedbank.
  - Not using any formal products: 70% of the sample did not use any formal financial products.
  
- Income: Half the sample earned a personal monthly income ranging from M 0 – M 2000 (Lower income earners), while the other half we defined as higher income earners, with an approximate monthly income ranging from M 2000 to M 5000. In many cases household income did not exceed M 5000.

The sample was structured to reflect the target market for financial access in Lesotho. However, due to the limited interaction of the target market with formal financial services, the insights about these services were not as rich as it could have been, had the sample been drawn on the usage (or not) of financial services.

## 2.4. Timing

The fieldwork was conducted between the 17th and 26th of October 2013.

### 3. Target market context

#### 3.1. Social context

##### 3.1.1. Functioning of households

Households are typically large in Lesotho driven mainly by the practice of adopting the children of deceased family members as a result of the high death rate from HIV/AIDS and TB. Therefore respondents will often have both their biological children and adopted children to look after. Older respondents (in their 50's and older) often find themselves having to look after grandchildren due in most part to the untimely death of their adult children.

In addition to the high mortality rate of the adult population, employment opportunities also impact on the overall structure of households and families. Historically, the male population of Lesotho sought work across the border at the mines and farms in South Africa. While this trend is not as prevalent as it once was, there is still a 'migrant worker' population within Lesotho itself. As work opportunities are limited in one area, respondents move to another area in search of jobs, leaving behind their children in the care of older parents, siblings etc. Often fathers are absent from home, leaving the care of the children solely to their wives. Therefore, many have grown up or are living in fragmented households and families.

"I have 3 kids; they are 28, 25 and 18. I also have 3 grandchildren. I like being self-employed so I sell airtime."

*Butha-Buthe, Females, Aged 41 – 55 years*

"I live with my six children and my grandchildren. Only the younger ones go to school. My husband and I are divorced."

*Maseru, Females, Aged 41 – 55 years*

##### 3.1.2. Interdependence within households and families

Respondents tended to rely quite heavily on their families, especially as illness and labour circumstances means that children need someone to look after. It appears to be a given that in the case of a death in the family or when the mother and/ or father need to leave for work, other family members (older siblings, aunts, grandparents) step in to look after the children. Admittedly this adds pressure on family units, but no one shirks this responsibility.

In some cases respondents are financially responsible for dependents that live elsewhere (i.e. they send money to another relative who is tasked with looking after those children).

Adopted children, or non-biological children are viewed no differently than biological children and are treated equally getting access to the same resources (i.e. school, food, shelter and clothing).

### 3.1.3. Interdependence in communities

The Basotho people are highly reliant on each other; collectivism is well established in the country. Faced with mounting hardships, consumers acknowledge that together they have a better chance of up-lifting one another than alone. Burial societies and collective savings groups often form the back-bone of the community.

There are a wide variety of different types of burial and savings societies and many operate at a complex and intricate level, reflecting how entrenched the practice has become in Lesotho. Collective bodies meet a wide variety of financial as well as social needs of consumers, which will be explored in greater detail further in this report.

While there are anecdotes of collective societies breaking down due to mistrust amongst members or the mishandling of funds, these are relatively few compared to the overall picture of a dominant and entrenched practice within Lesotho society.

The success of collectivism in Lesotho reflects the overall trust consumers have in one another and that despite great poverty, they seek out ways to help one another and those less fortunate.

“I belong to a society where the main aim is not to help ourselves but to empower other women in our societies on life issues like sewing and other things that they can do to better with their lives. We target those that are not employed and encourage them to do something for themselves. The only benefit we get is that we would be invited for workshops where we get training on issues such as HIV/AIDS.”

*Butha-Buthe, Female, Aged 25 – 40 years*

### 3.1.4. Social values and attitudes

#### **A respectful, resolute and private nation**

A lasting impression of Basotho society is that of a very respectful, resolute and private people. Their hardships and struggles have made them humble and respectful of others and at the same time quite private individuals. HIV/Aids have ravaged the Basotho people to such an extent that almost everyone we spoke to had lived through the loss of a family member and many were now faced with having to look after the children that have been left behind. Funerals are a very frequent occurrence and are an inescapable reality.

While they were willing to share the difficulties they faced in the groups, the majority of respondents did not speak openly about HIV/Aids. This is mostly out of respect for those who have passed on as well as for those who are living with it. This respect stems from the acknowledgement that those around them have suffered equally and no one is immune to life's hardships.

## **National pride**

The Basotho people are highly nationalistic. This pride in their country reflects in their preference for Lesotho brands (i.e. respondents insisted on calling Standard Bank 'Standard Lesotho Bank' during the focus group discussions). Respondents are more likely to support home-grown brands.

This strong national pride is especially evident in the younger generation, especially younger males, who are opting to remain in the country rather than leave for South Africa in search of work opportunities. This appears to be in direct contrast to older males who have sought employment across the border.

## **Criticism of authorities**

Most are willing to criticise the government, however this criticism does not extend to the king. While there are stories of corruption, maladministration or neglect on the part of government agencies, these are never linked to the king who is seen as a separate entity to government. In fact, the Basotho rarely refer to the king or the royal family. However, this is not out of fear, but rather out of respect and reverence.

Respondents appeared to have certain expectations of the government for some form of assistance in finding jobs or in finance and training to start a small business. However, most feel disappointed and abandoned by the authorities. Despite mentions of various government initiatives being implemented, the majority have not benefited directly from these programmes.

## **Spirituality**

The Basotho people are highly spiritual and have strongly entrenched religious beliefs and convictions. This is especially evident amongst older women.

The role the church plays in their lives is vitally important and is a source of great support and comfort especially during challenging and trying times.

The strong belief in God and His benevolence has made many respondents thankful and grateful for the little they have even when faced with daily hardships and struggles.

"I love God in a special way because when it gets tough, it soon becomes easy when I pray. I am thankful because even when it becomes difficult I'm still able to eat something every day."

*Butha-Buthe, Females, Aged 41 – 55 years*

This spirituality has led some women to become involved in charitable organisations and societies. Some respondents, despite their own financial hardships, dedicate their time and their own (scarce) resources to help others who are even more destitute.

"We collect our children's old clothes to donate and we go to child headed families to go and bath

them and that is the purpose of our society. I was touched when I heard that they help orphans and street kids, their main focus is on these children. When it is cold we donate shoes to them.”

*Maseru, Females, Aged 41 – 55 years*

### 3.1.5. Gender

#### Gender roles

Lesotho is a patriarchal society with deeply entrenched gender roles. However over the years, these gender roles have begun to shift, with women taking a far more leading role within the family and financial decision making.

Historically, as more and more men left the country for work abroad, women remained behind to look after the family, often becoming the main breadwinners in the household.

This shift in gender roles has resulted in some resentment amongst men and women. Men feel their dominant position within the household has been undermined, while women feel let down by their partners’ inability to adequately provide for the family.

Younger male respondents would like to avoid the situation their older counter-parts find themselves in and reverse the gender dynamics in their own partnerships and families. Their choice to remain in Lesotho rather than find work in South Africa is partly as a result of this desire.

“Since my husband works in the mines, I am the one that makes sure there’s food in the family, kids go to school, they have clothes and if there is something that needs to be fixed I do it or find somebody to do it.”

*Butha-Buthe, Females, Aged 25 – 40 years*

#### Gender and financial capability

Formal employment is limited across the sample, however men are more likely to have a formal job that women, either with a private company or government organisation.

With the absence of their male partners, women were forced to become more financially proactive and astute. While men (those not formally employed) are more reliant on skills they have learned to earn an income (i.e. fixing electrical appliances, carpentry, construction and farm work), women are more inventive in how they make money with the majority going into informal trade.

While informal financial channels such as savings societies and informal money lenders are used extensively across the sample, it is women who operate in that sphere to a greater extent. Men are more likely to access formal channels (i.e. bank accounts, insurance products

etc.). Therefore, there is a correlation between formal employment and access to formal financial products and services (to be discussed in greater detail in section 10).

### 3.1.6. Quality of life

The Basotho people are burdened by seemingly insurmountable hardships. Poverty is exacerbated by a dangerous cycle of debt and respondents appear unable to break free of it. In addition to financial challenges, Aids has ravaged the adult population adding an additional layer to the burdens felt by most Basotho.

"I think most of our problems are based on finances, money is always an issue. I have to still maintain both my parents who are not working and make sure they are fed; their insurances and policies are paid because they no longer have the ability to pay them. I don't earn enough money to afford all of that."

*Maseru, Male, Aged 25 – 40 years*

"I'm struggling a lot. I sell atchar and a few snacks and my husband does some piece jobs in the construction companies, so the income is too small to sustain my family. My first born is 14 years and in standard 7, 2nd is 8 and the last is 7. I also stay with my brother's kid who is 15 and my sister who is 7. So we are 6 in the family and it's not easy."

*Butha-Buthe, Female, Aged 25 – 40 years*

However, despite this, the people of Lesotho are incredibly hopeful and in many cases aspirational. The majority are determined to overcome their hardships and their ultimate aim is to improve their own lives as well as the lives of their children. Education is seen as a key enabler to the future success of their children.

The majority aim to achieve financial independence through the establishment of their own business or the expansion and growth of an existing enterprise. The Basotho are highly driven and most believe they will succeed. They dream of financial stability as well as the material trappings of a comfortable life such as a large house, or car.

"My dream is to have my own place. Right now I am not able to build because I'm sending my kids to school. And I just pray that God will help them succeed in life."

"I'd also want to have a bigger house so that each child can have their own bedroom but it's not easy."

*Butha-Buthe, Females, Aged 41 – 55 years*

"My dream is to see my kids educated and get good jobs."

*Maseru, Female, Aged 25 – 40 years*

## **3.2. Physical context**

### **3.2.1. Physical access to formal financial services and institutions**

The majority live within a relatively close proximity to a bank branch. However most respondents require transportation to get there (i.e. a taxi cab). For those who use banks, they make the trip to the nearest branch once or twice a month, mostly after pay-day. If only an ATM is required, these may be found attached to some petrol stations or in smaller shopping centres/ malls.

Even in Butha-Buthe, the centre of the small town had small branches for Standard Lesotho Bank, Nedbank and First National Bank. Bodiba and Post Bank appeared to be the only banking institutions not present in Butha-Buthe. Respondents mentioned there were branches in centres nearby to Butha-Buthe, such as Hlotse and Leribe.

Costs are a consideration when planning a trip to the branch as the taxi fare is often an expense respondents can't afford.

Insurance companies (e.g. Alliance or LING) are not situated in Butha-Buthe, but have offices in Maseru and other larger centres. Even in these centres these companies may have only one or two offices. Of the limited respondents who have insurance products, it appears that access to these products is mostly via a broker.

### **3.2.2. Connectivity**

An overwhelming majority have a cell phone, and are mostly on pre-paid plans which means air time is a main-stay of their expenses.

However access to the internet is very limited, with mostly younger respondents (male) going online.

### **3.2.3. Infrastructure**

#### **Roads and transport**

Most roads in Maseru are tarred as are the main roads connecting towns and smaller centres. In Maseru, some of the out-lying areas on the outskirts of the city are accessible by gravel roads.

The main road into Butha-Buthe is tarred although badly in need of repair (severely pot-holed). Again, the smaller roads leading into the surrounding residential areas from the main centre of the town were gravel roads.

From the gravel roads access to most houses was via sandy/ soil foot-paths.

Most consumers use a taxi to travel distances which are too long to reach on foot. No respondents mentioned using the bus. In some cases, remittances to distant relatives are sent

via a taxi driver (the remittance system will be discussed in greater detail later on in the report).

## Electricity

Most respondents mention having access to electricity at home, however cooking is done predominantly over a gas stove.

### 3.3. Economic context

Most of the respondents interviewed earned between M 800 and M 5 000 a month. As most earned their income informally, amounts varied from month to month. Some mentioned that government jobs (e.g. teachers, senior police officers or municipal office workers) earned on average a higher salary compared to other types of employment.

“My customers are mostly the police or teachers. They earn a better salary so they can afford to take out larger loans.”

*Butha-Buthe, Female, Informal Money Lender Aged 33 years*

For the most, life is a struggle and a lack of adequate finances is at the core of their personal and family challenges. Not only is the lack of finance hindering their ability to buy basic necessities for the family (food, school fees etc.), but it is also the key obstacle they face in achieving their goals and aspirations. For those involved in informal trade or owners of micro enterprises, lack of money means they are often unable to inject a cash investment into their business in order to facilitate expansion and growth. Ultimately, without access to an adequate investment most microenterprises will remain too small and underdeveloped to properly support respondents and their family.

Even those who are formally employed claim their monthly salary is insufficient to cover their needs.

“My problem is money. My salary is not enough.”

*Maseru, Male, Aged 25 – 40 years*

“What I really like to do is farming but I am unable to do what I want and the main thing that is holding me back is money.”

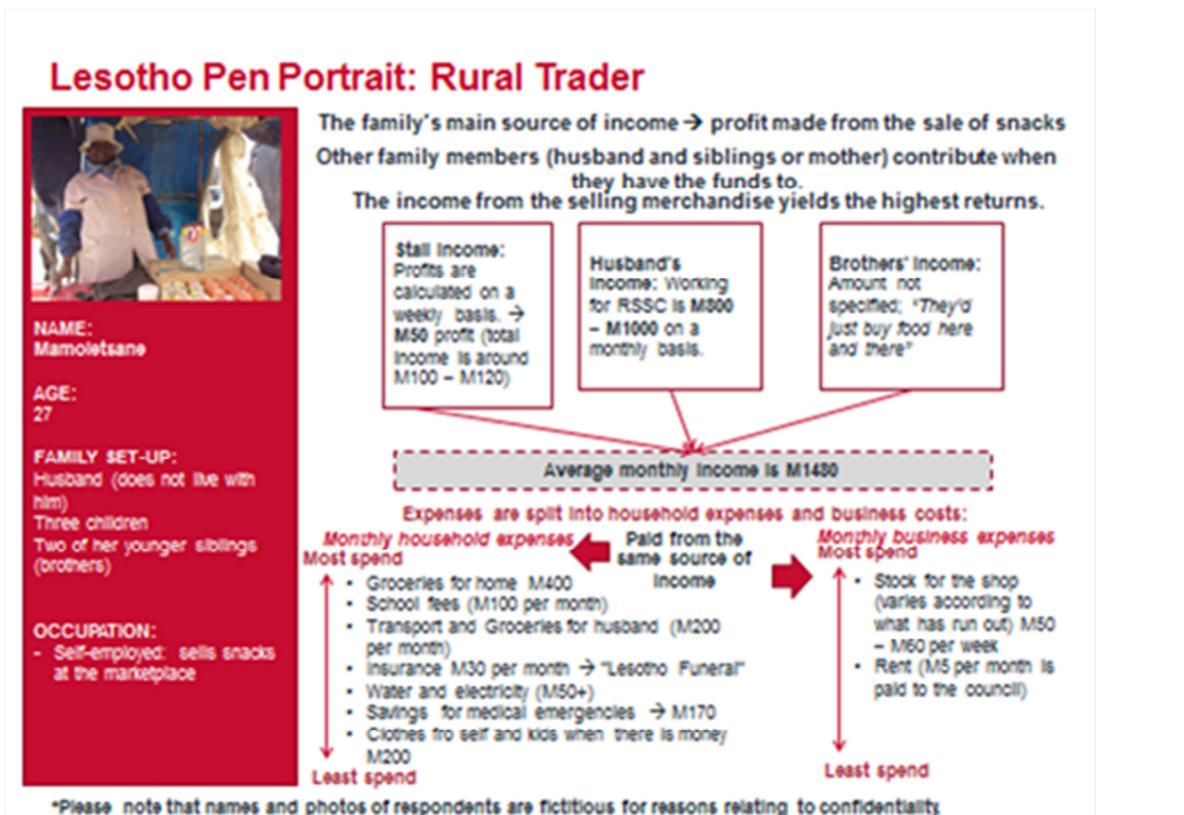
*Butha-Buthe, Male, Aged 25 – 40 years*

Most respondents have to spread their limited income over a large household; some respondents have up to 6 children; respondents’ households consist of up to 4 to 8 members. While educating their children is a priority for most, there are some limited mentions that when income is insufficient the older children are pulled out of school.

“I have 6 children, but because I am struggling in my business (fruit and snack stall in the market) only the younger ones go to school.”

Limited formal employment leads to a proliferation of survivalist small traders and enterprises. Formal employment is mostly limited, with the majority engaged in informal methods of earning an income. Younger male respondents are more likely to have a formal job such as security guards, municipal clerks, drivers or work at IT hardware companies.

By contrast older women are more likely to be running small micro enterprises such as stalls at local market places selling fruit, snacks, airtime, poultry etc. Women have started these small businesses out of necessity to make money to survive. They are creative with these enterprises.



**Figure 1: Small business out of necessity to survive**

Source: individual interview, 2013

Younger women may have formal jobs such as teaching, but some are also engaged in the informal sector such as running a small hair salon from home, selling floor polish, curtains, or catering etc.

The majority of older men trade a skill by doing piece jobs or hand crafts (yard-work/gardening, carpentry, construction, electrical repairs etc). Some own a small car wash or keep livestock (cattle or goats). Men (both younger and older) are generally less enterprising and creative in the way they earn their income and tended to expect some form of assistance from the authorities in getting out of poverty. Women tended to take it upon themselves to

generate an income. While some men claimed to be unemployed, women did not describe themselves as such. All the women in the sample had found some way of making money and were always thinking of additional approaches to income generation.



Boss Sehololo, works as a gardener and farm labourer on the small-holdings of local Butha Buthe farmers and residents. He used to work on the Katse dam doing construction jobs. But since 2000 has been doing odd jobs in Butha Buthe: *"It's not every day that people need me, so you find that you go 3 days without a single job."* During a busy month he can earn just under M1000.

While he lives alone he supports his two orphaned nephews by sending them between M150 and M200 a month

**Figure 2: Farm labourer**

*Source: individual interview, 2013*

As mentioned earlier, the key challenge small traders have in growing and expanding their businesses is lack of finances.

"The space at the back is too small to raise more chickens (currently keeps 100)... so I would have to buy land somewhere else and that is a lot of money. And then I would have to have security there so people don't try and steal my chickens."

*Maseru, Female, Aged 32, Poultry Trader*

## 4. Financial capability of the target market

### 4.1. Awareness and knowledge of formal financial institutions, products and services

Respondents are generally aware of the various products offered by formal financial institutions. They are able to describe in basic terms what a transactional account or a loan is and what it entails from a customer's perspective.

Respondents have a good understanding of how interest on loans work and how repayments are calculated. The theory behind short-term loans and the practical implications thereof is something most consumers are intimately familiar with. From their dealings with informal money lenders and through their collective savings societies, most are comfortable with the act of borrowing and lending money and how that money is generally repaid. However, it is important to note that loan repayments differ slightly when borrowing from 'Bateshillings' (savings societies) and Mashonisa's and when borrowing from the banks. This may be one of the reasons why there is some confusion amongst respondents regarding loan repayments from banks.

In addition, respondents understand that banks charge certain fees on their transactional and savings accounts. However most respondents do not know what those fees and charges are for. As the amounts of those fees can vary from month to month, this often adds to the confusion respondents have around bank charges.

Awareness of the various banks and other financial institutions is quite high. Respondents were aware of all the banks operating in Lesotho (i.e. Nedbank, FNB and Standard Lesotho Bank). To a lesser extent Lesotho Post Bank and Boliba were also mentioned. Boliba, in respondents' opinions straddled two positions; that of a bank as well as that of a co-operative. It began as a co-operative for saving and loan purposes and has since evolved to offer bank accounts and investment products.

Most of the banks in Lesotho (with the exception of Post Bank and Boliba) are off-shoots of the top South African banks with the exception of Absa and Capitec which do not appear to operate in the country.

Interestingly, some respondents were sceptical or cautious of Post Bank. Its status as a government owned enterprise seems to impact this sentiment of distrust some have for the institution.

"We don't trust Post Bank. It's a government bank. "

*Maseru, Male, Aged 25 – 40 years*

Insurance companies consumers are aware of are predominantly Alliance, LNIG, Old Mutual, Aon, Metropolitan and Momentum (more limited). Awareness of insurance products is mainly limited to funeral policies and education policies.

## 4.2. Confidence with financial terminology and processes

Respondents are generally confident in their dealings with informal financial channels and have a strong grasp of financial matters when dealing with societies and informal money lenders. However this confidence does not extend to their dealings with the formal financial institutions and the products they offer.

This lack of confidence stems mainly from the following situation: banks and insurance companies make use of financial jargon and technical terms most respondents are unfamiliar with. Therefore, it is not the fact that respondents are financial illiterate, rather it's the fact that the language used to explain the terms and conditions is difficult for them to grasp and understand.

This lack of understanding and confusion very often manifests itself when banked respondents describe their feelings around bank charges. Many feel the bank charges are unfair, the purpose behind the charges lacks transparency and therefore it can be viewed as theft on the part of the banks.

"I used to keep my money in a bank account. But then when I went to withdraw it, there was less than when I first deposited the money. I asked them why and they told me about these charges, but I didn't understand why they took so much."

*Butha-Buthe, Female, Aged 33 years, Police officer and Informal Money lender*

## 4.3. Awareness of consumer rights and protection

There are very few mentions of any bodies or organisations which assist consumers when dealing with financial institutions and organisations. Generally respondents are unaware of any such groups which they can turn to if they feel unfairly treated or 'robbed'.

As the majority of respondents use informal channels extensively there are no organisations or bodies which can assist them in protecting their interests and rights when dealing with informal money lenders or savings schemes. Respondents are aware of the risks involved and still make use of these channels.

Therefore, anecdotes of respondents being the victims of fraud or unfair practices, from both formal and informal institutions, is a recurring theme which came up in the interviews and group discussions. Many have lost money or even live-stock and yet feel they have very little recourse in trying to recoup that money.

"R: We joined an association called Oamapofa and our chickens were taken from us to be slaughtered in Maseru at the station, they have been ripping us off since 2007 until now.

M: They took chickens but did not give you money?

R: Even a cent we have not gotten, my chickens were two hundred and eighty seven that was how I fell and I have nothing now.

M: You gave them all the chickens?

R: Yes, a truck was parked here and they took them to the slaughter house, until now, that was in 2007."

*Butha-Buthe, Male, in his 50's, Farmer*

## 4.4. Skills

### 4.4.1. Budgeting and planning

Most respondents had very small and irregular incomes; to plan or budget was in many cases difficult since many lived hand-to-mouth. This was particularly true for traders, who often did not keep track of the amounts coming in and their expenses. Very often money is spent on essentials the moment it is received. Operating on a monthly basis is quite difficult for most, even amongst those who earn their income on a monthly basis.

"M: So you are able to see your profits weekly right? So you can add that to a month or you only focus on weekly profits?

R: A month is just too long.

M: So you only stick to weekly?

R: Yes and I am able to go on with life."

*Butha-Buthe, Female, Aged 27 years, Rural Trader*

Currently there appears to be no body or organisation offering any type of financial education or budgeting training. Some respondents mentioned in the groups that the button exercise (which was conducted to ascertain income versus expenditure) was the first time some respondents had a chance to properly scrutinise their expenses. Many suggested that financial education workshops structured in a similar fashion to the focus group discussions would be a beneficial way of teaching people how to budget and save.

### 4.4.2. Financial (numeric and written) literacy

Generally the literacy levels amongst respondents are high, even amongst the lower income and more rural segments. Most have a basic grasp of numeric concepts and are able to understand simple mathematics.

For the majority of respondents, the education of their children is a priority. Amongst younger respondents, furthering their own education is also quite crucial and is seen as a key method of progressing in life.

Despite this, financial limitations can curtail or hinder an individual's schooling career with some mentions of teenagers dropping out of school early due to parents' inability to pay for school fees.



## 5. Income and expenditure

### 5.1. Income

#### 5.1.1. Sources

The majority of respondents' households survive on more than one source of income, as a single source of income would more than likely be insufficient. This is especially true for women.

Respondents have a main or primary income source (e.g. salary or income from a small business) as well as a secondary source (e.g. income from a small side business if respondents are formally employed and earn a salary or money sent from a husband or male partner) and some may even cite a third source which may be money sent from relatives or pay-outs from societies etc.

"I earn money from what I sell. But then my husband sends me money and I also get money from my society ... but that only happens once a year."

*Maseru, Females, Aged 25 – 40 years*

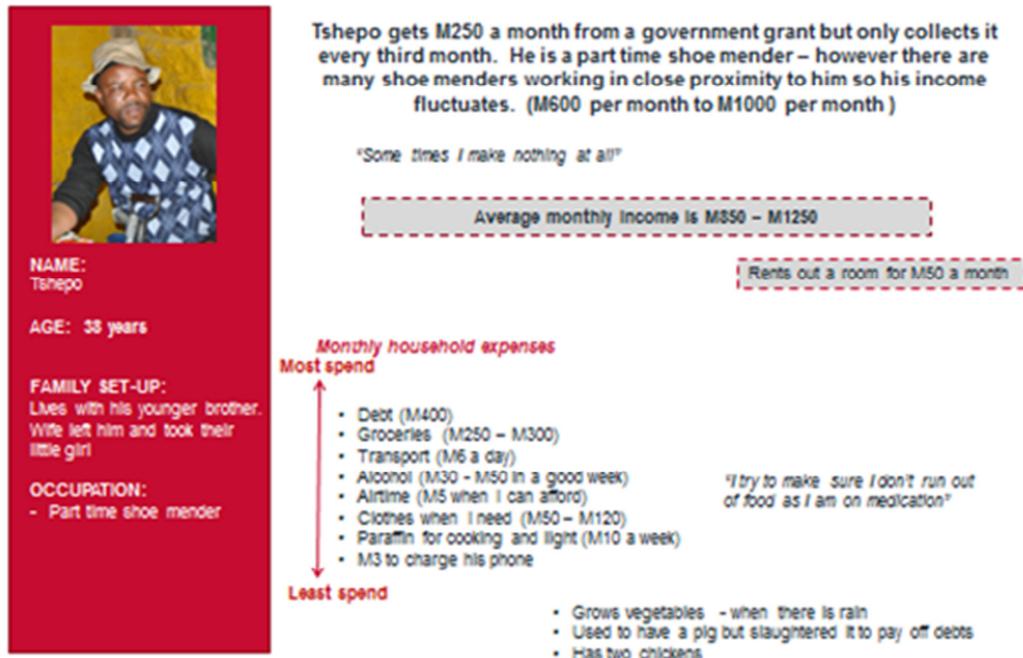
"I get my salary once a month and then I earn some money from the cakes I make as well. I also sell"

*Maseru, Male, Aged 25 – 40 years*

Various avenues of income are also required, as in some cases individuals may only earn their income after extended intervals (i.e. pension or social grants pay-outs every three months). Other sources of income are needed to cover day-to-day necessities in between grant pay-outs.

The income earned from business and any other income received is combined to service both household and business needs. All income earned caters for both household and business needs, with household needs being the priority.

## Lesotho: Social Grant Recipient



**Figure 3: Social grant recipient**

Source: individual interview, 2013

### 5.1.2. Income from agriculture

For many men (and some women) in the more rural areas, farming for themselves is a goal they aspire to achieve. However, for those who are involved in the practice, earning an adequate income from farming is very difficult.

Farmers such as Naphtali (see Figure 4 and Figure 5 ) are hampered by a lack of finance in order to take full advantage of their land and therefore generate enough money to live on. Support from the government is limited. His largest expenses are cattle and chicken feed as well as field fertilizer. If he does not have the money to buy fertilizer for his fields at planting season the fields remain fallow. He purchases manure from the government storage ware houses outside of Maseru. Each bag costs M 150. He requires one bag per hectare and his fields amount to 5.5 hectares. In order to transport the manure from Maseru to Butha-Buthe, he clubs together with other local farmers to hire a truck to deliver the bags.

Currently his main source of income comes from the sale of his chickens and the eggs they produce at the local Butha-Buthe market. When his fields produce a good yield of beans he also sells bags of beans at the market. However, due to lack of money or poor weather conditions, in recent years he has produced enough beans to feed his family only.

## Lesotho Pen Portraits: Rural Farmer

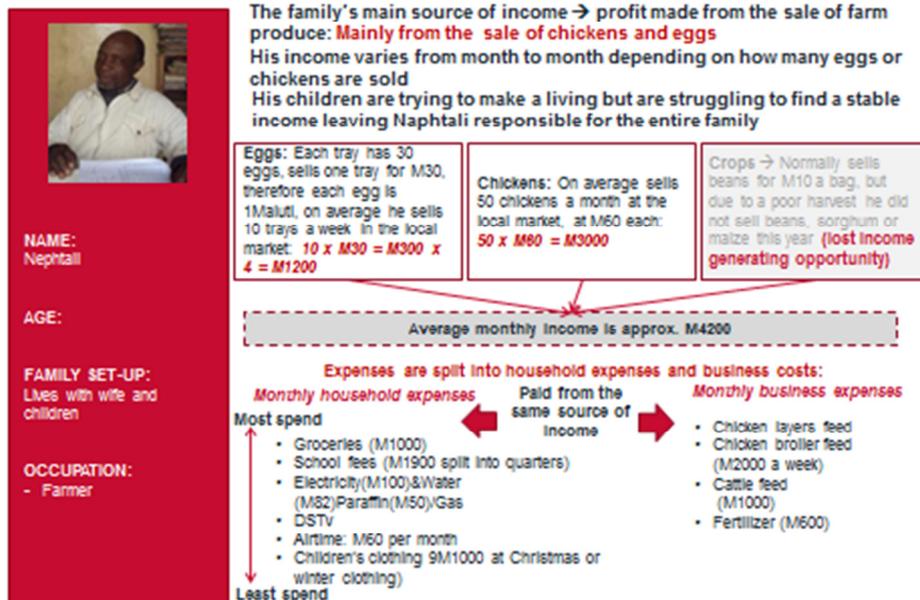


\*Please note that names and photos of respondents are fictitious for reasons relating to confidentiality.

Figure 4: Rural farmer

Source: individual interview, 2013

## Lesotho Pen Portraits: Rural Farmer



\*Please note that names and photos of respondents are fictitious for reasons relating to confidentiality.

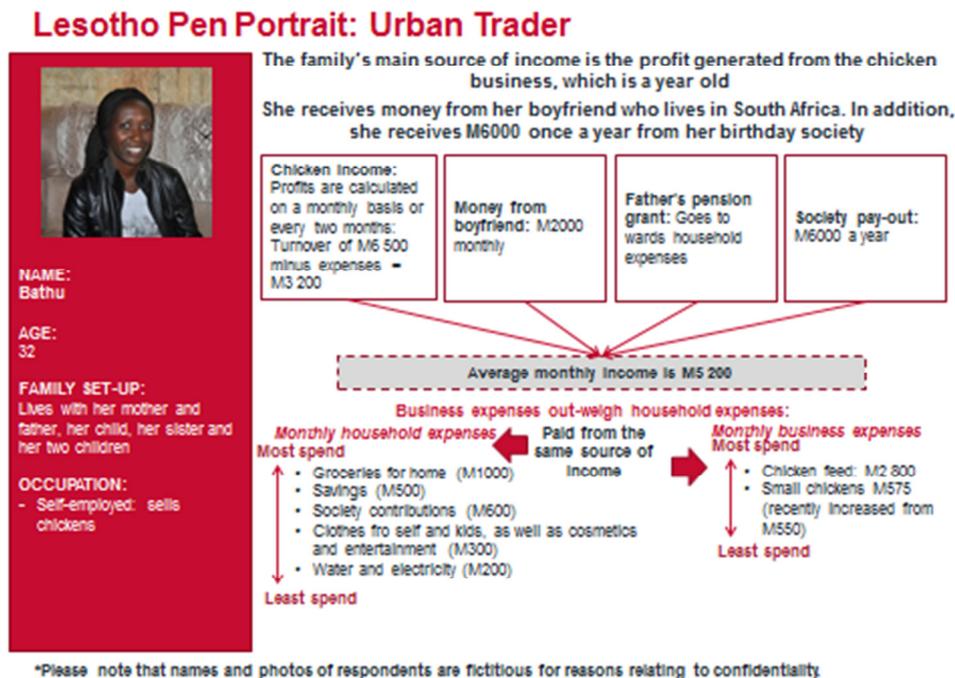
Figure 5: Rural farmer

Source: individual interview, 2013

### 5.1.3. Income from trading

Traders generally understand the concept of expenses versus profit and are able to calculate how much their business makes. For the smaller businesses, profits are often calculated weekly or even daily rather than monthly as respondents spend the money almost as soon as it is made.

Profits generated are typically very low, as expenses are high. In addition, traders do not differentiate between household/ family expenses and business expenses. Income generated from the business goes towards covering both and so the business in actual fact must support both itself and the household.



**Figure 6: Lack of differentiation between household/family expenses**

Source: individual interview, 2013

In Bathu's case (Figure 6), she is able to put away approximately M 500 a month into an FNB account, which is surplus money from her chicken sales once all household and business expenses are paid for.

## 5.2. Expenditure/payments

### 5.2.1. How expenses are funded?

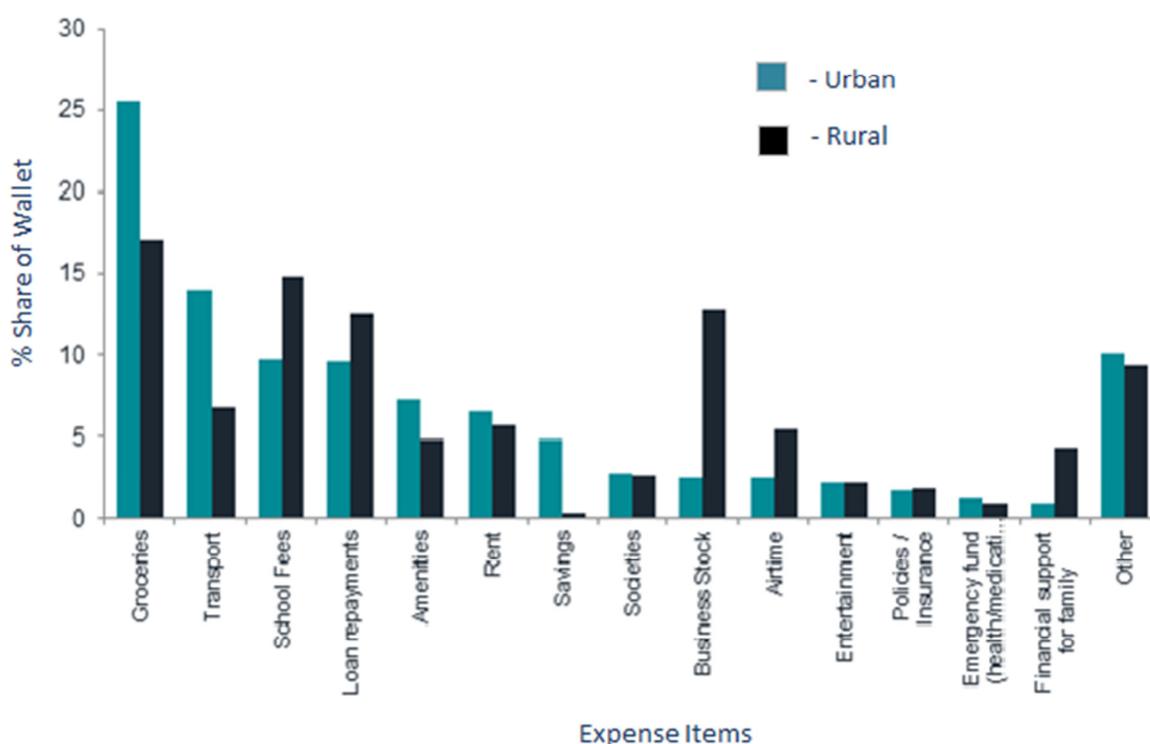
For most respondents, their income goes towards funding their expenses. As soon as income is generated it is allocated to specific needs which need to be met. When expenses outweigh

income, as invariably happens in most cases, respondents often use loans from informal money lenders to bridge the gap.

## 5.2.2. Expense items

### 5.2.2.1. Normal expenses

Groceries, transport, school fees and servicing loans take up the largest portion of the share of wallet among respondents:



**Figure 7: Share of wallet**

Source: Focus group discussions, 2013

There are differences in spending amongst urban and rural respondents, as illustrated in Figure 7. It appears as if Maseru respondents spend more on groceries, amenities and transport, while those from Butha-Buthe spend more on school fees, loan repayments, airtime and financial support for families.

### 5.2.2.2. Extra-ordinary expenses

Extra-ordinary expenses most mentioned are for medical purposes. Most do not have any form of medical aid or hospital or medical cover. Should medical emergencies arise, very few have money on the side for emergencies. In such cases the majority will take out a loan with a Mashonisa (informal moneylender) to cover the medical costs.

### 5.2.2.3. Repayments of loans (as a proportion of income)

Repayments of loans constitute a large proportion of most households' expenses. This was particularly the case in rural respondents who appear to be spending more on servicing loans than their urban counter-parts.

However, it is important to note that respondents are not always open and honest about how much they spend monthly in terms of loan repayments. Amounts may be understated in order to hide the true level of their indebtedness.

- **Respondent 1 - 48% of income used to repay debt**

From 23 buttons: "Transport is 2 buttons, school fees is 3 buttons, loans is 10 buttons, groceries have 4 buttons, stock for the small business is 3 buttons and then the association is also 3 buttons and rent and airtime is I buy when I have money."

*Maseru, Female, Aged 41 – 55 years*

- **Respondent 2 - Earning close to M5 000, 10% of income used to repay debt**

"I spend R650 on food, clothes R200, rent R150, school fees for my child is R250, airtime R150, transport for myself is R30, food for my child at school is R150, my debt is R500, going to shops and paying for cell phones and societies that is...and paraffin and gas is R300 and building material is R3000 and cement is R2000 I cannot speak about everything as there is too much and it is not balancing."

*Butha-Buthe, Male, Aged 25 – 40 years*

- **Respondent 3 - Pays over M 1000 per month to service two separate loans**

"I pay rent, M230, insurance of M121, Loan (from micro-lender) M669, funeral policy M35, loan shark M400, my monthly air time of M150, my child at school at Roma I send them M300 every month, so what is left for me I normally buy groceries for M200 or M245 and all these add up to M1940."

*Butha-Buthe, Females, Aged 41 – 55 years*

## 5.3. Budget deficits

### 5.3.1. Reasons for deficits

The key reason for the gaps between income and expenses is that respondents do not earn enough to cover all their needs. While costs increase, income levels remain stagnant or decrease which often means that gaps become even wider and harder to bridge.

In such cases many resort to taking out small, short-term loans from Mashonisas in order to bridge the gaps which occur at month end.

This scenario often exacerbates the situation because once respondents take out the loan to cover the income shortfall, the loan repayments themselves place them into deeper debt and cause the gap to expand. Therefore when the following month-end comes, respondents owe even more money than before.

None of the respondents interviewed appeared to be irresponsible with their money. All tried to cover their most urgent and basic needs first (i.e. food, shelter and children's needs such as school fees and clothes). Generally the luxury items mentioned were such things as visits to salons (for women) and entertainment (drinks at the local tavern, mentioned predominantly by men but also by younger women). Amounts spent on these varied from M50 to M200. In the cases when money was tight, these activities were often avoided in order to prioritise more important expenses. Airtime and transport were also mentioned as items which would be cut down. Some respondents mentioned they would be able to negotiate different payment terms for their rent with their land-lords in more difficult months.

## 6. Interaction with financial services

### 6.1. Credit

Most respondents have accessed credit in the recent past and continue to do so. Borrowing money has become an entrenched part of Lesotho society and a crucial means of making ends meet or covering emergency/ unexpected expenses. This practice is not likely to decrease or disappear unless the overall financial status of consumers drastically improves.

At the out-set, it is important to note that the vast majority of respondents make use of informal credit channels, which means the credit they access is not regulated which opens them up to even greater risk.

The following section details the various needs for credit, as well as the financial products most frequently used to obtain the credit.

#### 6.1.1. Need for credit and financial products currently used to access credit

As mentioned above the majority of respondents use informal sources of credit, mainly Mashonisas and to a lesser extent societies. While many admit that these channels charge a higher interest rate than the banks (formal), in respondents' opinion these sources are more accessible and accommodating to them and have fewer barriers to entry. Interest rates charged by informal money lenders range between 15% and 25% per month. The average seemed to be 20% per month. More limited mentions were of informal money lenders charging 30% per month. In some cases Mashonisas charge as high as 30% as a penalty only when customers default on their repayments. Credit is used for multiple purposes, as is listed in Table 1.

USE CASES	FINANCIAL PRODUCT USED
Consumption smoothing: cover any household shortfalls during the month or to buy stock for an enterprise	Informal Money-Lenders, small loans from relatives or neighbours
Medical emergencies and health expenses	Informal Money-Lenders, small loans from relatives or neighbours
Servicing existing loans	Informal Money-Lenders
To bury relatives or loved ones who do not have funeral cover in place at their time of death	Informal burial societies, family and friends, formal funeral policies
To fund a new enterprise	Informal rotational or accumulating societies, formal Co-operatives (limited)
To grow an existing enterprise	Informal rotational or accumulating societies
To buy every day goods/ clothing	Store credit accounts, formal clothing retail credit (limited)
To buy big ticket items	Formal furniture retail credit, accumulating or rotational societies, informal money lender
Educational expenses	Informal money lenders, accumulating societies

**Table 1: Credit use cases**

### 6.1.2. Financial products currently used to access credit

Use of Mashonisas or informal money lenders is entrenched in Basotho society. It is the most accessed source of credit amongst respondents, surpassing all other channels (both formal and informal) in terms of incidence of usage.

Mashonisas play a dichotomous role in Basotho society as they are seen as a beneficial, helpful 'friend' but are also resented for being a contributing factor for respondents' endless cycle of debt.

Informal money lenders (and in some limited cases formal micro-lenders) also use aggressive and sometimes violent tactics to get their money back from defaulting customers. The most common occurrences are of money lenders sending their employees to customers' homes to confiscate household appliances specified as surety when the loan was first taken out. Others mention instances when money lenders would threaten or actually use violence to compel customers to pay up.

"They come to your house and take your fridge or your kettle when you don't have the money to pay".

*Butha-Buthe, Female, Aged 25 – 40 years*

Saving societies are also a frequently accessed source of informal credit. Many will provide loans to both members and non-members at differing interest rates. Members are normally charged 10% per month while non-members are given an interest rate of between 15% and 20% per month.

Most societies appear to encourage the practice of lending out money as this is one of the methods used to increase their capital growth. In some societies members are given quotas of how much money they need to lend out and therefore how much interest they must earn for the society. The more interest earned, the more capital the society can accumulate and therefore the more it has to share amongst its members.

Some respondents mention borrowing from neighbours or relatives. However, this is generally for smaller amounts of money such as M20 or M50, as neighbours or relatives rarely have large amounts of spare cash to lend. These small loans are generally interest free.

The reasons why different credit providers are used are explained in the following tables:

**RETAIL CREDIT:** Offered by mostly clothing stores like Jet, Truworthis, Edgars, Pep and furniture stores like Lewis. In some limited cases, local grocery stores or general dealers offer regular customers credit to buy groceries and other household items. In addition, some hardware and building material stores will offer credit on such things as bricks, cement etc.

#### **FORMAL CHANNEL**

#### **WHO IS ACCESSING:**

- Mostly formally employed (clothing and furniture retailers), since a salary slip is mostly required

to open an account. Beyond these respondents, very few have store credit accounts.
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>• For those who qualify, retail credit is easy to get.</li> <li>• Accessing retail credit requires proof of employment or payslip which majority of the respondents do not have.</li> <li>• The process to open an account required time and paperwork</li> </ul>

**Table 2: Reasons for choice of retail credit as source of credit**

<b>BANK LOAN</b>
<b>FORMAL CHANNEL</b>
<b>WHO IS ACCESSING:</b>
<ul style="list-style-type: none"> <li>• Those who are formally employed (limited incidence). Interestingly, those who have a loan from a bank often also access informal money lenders for a second or third loan.</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>• A key detractor for getting a loan from a bank is the application process itself which involves documents and steps which many respondents don't have or cannot produce: <ul style="list-style-type: none"> <li>○ Need to provide a pay-slip → this drives the perception that banking products in general are targeted only at employed consumers and therefore <i>'are not aimed at me'</i>.</li> <li>○ Need to provide a letter from an employer or a chief as confirmation of respondent's ability to pay back the loan → this goes against respondents' need <b>for</b> confidentiality, as most do not want their employer or chief to know that they are applying for a loan.</li> <li>○ The process takes long and often respondents need funds immediately.</li> <li>○ Banks evaluate respondents qualifications based on level of income/ salary, leading many to believe they would be automatically disqualified due to a lack of formal employment or regular income.</li> </ul> </li> <li>• As loan repayment terms at the bank differ from those offered by Mashonisas, this can often lead to confusion around how the bank terms work and what is expected from respondents.</li> <li>• However, most admit that the bank charges lower interest rates than Mashonisas and savings societies. It is a safer credit channel as banks don't utilise the same tactics as Mashonisas do.</li> </ul>

**Table 3: Reasons for choice of bank loan as source of credit**

<b>INFORMAL PROVIDERS / MONEY-LENDERS / 'Mashonisas'</b>
<b>WHO IS ACCESSING:</b>
<ul style="list-style-type: none"> <li>• All are accessing these, both formally and informally employed.</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<b>Drivers of usage/ choice:</b> <ul style="list-style-type: none"> <li>• Mashonisas play a huge role in contributing to respondents' indebtedness; they are a trusted source when emergency funds are needed, since their loans are immediately accessible to respondents and require no paperwork.</li> <li>• In addition, there are no barriers to entry, as most Mashonisas appear to be willing to loan money regardless of employment status.</li> <li>• Interest rates for loans acquired from Mashonisas are high (20% - 30% per month) however respondents are willing to trade off the high cost for the convenience acquiring the loan quickly and relatively hassle free.</li> </ul>

<ul style="list-style-type: none"> <li>Loans from Mashonisas offer interest rate stability as it does not fluctuate each month, which is the case with loans acquired from banks.</li> <li>Some Mashonisas offer respondents the flexibility to renegotiate loans. Some take personal circumstances into account and may be accommodating based on those, for instance to allow a seasonal worker to pay back only after a few months.</li> </ul> <p><b>Detractors to usage:</b></p> <ul style="list-style-type: none"> <li>The associated risks involved in getting a loan from informal lenders are high. Respondents mention the following instances: <ul style="list-style-type: none"> <li>Identity documents and ATM cards are withheld until the loan is repaid.</li> <li>Intimidation is used against individuals owing funds to the shylocks.</li> </ul> </li> </ul>
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**Table 4: Reasons for choice of informal money lenders as source of credit**

In respondents’ minds, Mashonisas are viewed both positively and negatively. They are either ‘helpful friends’ willing to lend a hand when respondents are in a tight spot or they are ‘greedy, money hungry’ individuals who are out to squeeze as much cash out of respondents as possible and living ‘the high life’ off of respondents’ earnings.

<b>INFORMAL PROVIDERS / MONEY-LENDERS / Savings Societies</b>
<b>WHO IS ACCESSING:</b>
<ul style="list-style-type: none"> <li>All are accessing these, both formally and informally employed.</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>Accumulative savings societies provide short-term loans to both their members and non-members as a way of increasing their capital growth. Members are charged an interest rate of 10% while non-members are charged 20% to 25%.</li> <li>Most respondents belong to some form of saving society and therefore this is a familiar and comfortable source of credit for them.</li> <li>By lending money from their own societies, members are assisting the group to increase their funds.</li> <li>There are no perceived barriers to entry as eligibility requirements are limited.</li> <li>However, members may risk expulsion from the group if they are unable to pay back the loans they have borrowed. There are limited mentions of respondents accessing an informal loan from a Mashonisa in order to pay back a society loan.</li> </ul>

**Table 5: Reasons for using Savings Societies**

**6.1.3. Barriers to accessing formal credit services**

**6.1.3.1. Access barriers**

- Eligibility:** Eligibility is the biggest barrier to formal credit. Formal credit providers require proof of employment, which most respondents would not be able to provide. Banks also consider one’s income levels to determine eligibility for credit products and most respondents feel that they earn too little and therefore would be immediately disqualified.

<p>“I would ask the bank for a loan if I could. But I know the outcome already. My salary is too little. They would refuse to give me the money.”</p>
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*Butha-Buthe, Male, Aged 41 – 55 years*

- **Features:** Interest rates on formal loans are not fixed (unlike rates of informal providers) and fluctuate from month to month. This unpredictability is a detractor for some, especially when considering that incomes may vary from month to month as is the nature of informal employment.

#### 6.1.3.2. Usage barriers

- **Perceptions:** Most respondents did not regard themselves as part of the target market for banks. In the opinion of most, banks are aimed at those who are formally employed earning a higher salary (i.e. government workers).
- **Appropriateness of the product:** The majority of the sample earn an irregular income, which means they require more flexible terms from formal institutions. However, formal channels seldom allow for flexibility. In addition, respondents often require the loans immediately as those loans are ear-marked for emergency situations. In contrast, the administrative processes of banks take a long time and do not give immediate access to funds.

## 6.2. Payments and remittances

### 6.2.1. Need for payment and remittance services

The majority of respondents are sending money to relatives and dependents in other regions and centres. Although many use the opportunity to go home and see their loved ones, in many instances the transport costs are prohibitive, therefore other delivery mechanisms are required. The majority sends cash with a friend travelling to the area, taxi driver or deposit it into a 3<sup>rd</sup> party's bank account.

Mobile money channels are used but to a limited extent. Respondents are generally aware of EcoNet/ EcoCash, Mpesa, or eWallet (more limited) but most are unfamiliar with how they work.

Due to the high incidence of credit use, repayments have to be made, in most instances monthly to informal money lenders, many of whom take the customers' ATM card and access their account directly.

USE CASES	FINANCIAL PRODUCT USED
Receiving cash from clients	Delivery in person / Delivery through trusted individual/ Bank accounts/ Mobile Money
Transferring funds - Sending money home	Delivery in person / Delivery through trusted individual/ Bank accounts (either own or someone else's) / Mobile Money / eWallet
Transferring funds - Sending money to loved ones	Delivery in person / Delivery through trusted individual/ Bank accounts (either own or someone else's)/ Mobile Money / eWallet

USE CASES	FINANCIAL PRODUCT USED
Receiving salary	Bank accounts (most formally employed) / Receive cash in hand (informally employed)
Receiving student allowance	Bank accounts
Making monthly contributions to society	Delivery in person /Bank accounts/ Mobile money (when the society is in another region)
Pay for goods and services	Cash (predominantly), store credit account
Making monthly contributions to co-operative	Delivery in person / Bank accounts
Buying electricity/paying for electricity account	Purchase at a store in person / Mobile Money
Paying retail accounts	Pay account in person/ debit or stop order
Making payments to informal money-lenders	Delivery in person / Delivery through trusted individual/ Bank account or EFT
Paying for children's school fees	Delivery in person / Bank accounts

**Table 6: Payments and remittance use case**

Those using mobile money in Lesotho are attracted by its ease and convenience of the channel. However this is a relatively new innovation in the country and generally awareness is still low.

While there is potential for the usage of Mobile Money to grow in Lesotho, current informal methods of sending money or payments are meeting respondents' needs and therefore some may hesitate to adopt a new method.

"The other way is to get the account number of someone that you trust and you ask them to give you their account number so if someone needs to send you money you can make use of their account but you need to tell them that I am expecting so much that is coming from so and so and when it comes they will tell you that it has arrived."

*Butha-Buthe, Males, Aged 25 – 40 years*

### 6.2.2. Informal payment mechanisms – hand delivery

<b>CHANNEL:</b>
<ul style="list-style-type: none"> <li><b>DELIVERING CASH BY HAND, IN PERSON (informal):</b> Respondents may opt to take money to recipients in person or send the money with someone they trust to deliver it to their family or loved ones.</li> </ul>
<b>WHO IS ACCESSING:</b> Everyone
<ul style="list-style-type: none"> <li>All are accessing these, both formally and informally employed</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>Respondents deliver cash to relatives in person when coupled with a planned visit</li> <li>If a visit is not planned then a trusted friend or 3<sup>rd</sup> party will be asked to deliver the money. Generally the Basotho trust one another and of the respondents interviewed no one mentioned any money being stolen or lost using this method.</li> </ul>

**Table 7: Reasons for choice of cash by hand, in person as payment or remittance mechanism**

### 6.2.3. Formal payment mechanisms - deposits via bank account

<b>CHANNEL:</b>
<b>BANK ACCOUNT (Formal):</b> Respondents either own accounts or make use of other people’s banks accounts.
<b>WHO IS ACCESSING:</b>
<ul style="list-style-type: none"> <li>• Formally employed (banked)</li> <li>• Informally employed (unbanked)</li> <li>• Wives of miners working in SA</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>• Formally employed respondents have a bank account mostly due to the insistence from their employer who prefer to pay salaries into accounts rather than hand over cash. However, most withdraw their entire salary as soon as it is deposited and use it to cover their expenses over the month.</li> <li>• Wives of miners working in SA access Teba bank accounts set up by their husbands via which they receive money their partners send them from South Africa. Teba is considered the miners’ bank.</li> <li>• The informally employed use a trusted 3<sup>rd</sup> party’s bank account to send money to family in other regions. While there is a risk of the money being stolen or lost, this seldom happens. Generally people trust one another.</li> <li>• Depositing the money into a bank account is preferred as the transactional costs are lower than transportation costs should the respondent choose this method over travelling home with the money.</li> <li>• Mashonisas often take the ATM card and pin of customers and access their accounts on their behalf in order to ensure they get their money on time.</li> </ul>

**Table 8: Reasons for using a bank account as a payment mechanism**

### 6.2.4. Formal payment mechanisms – Mobile money

Most users of mobile money were very clear on how the system works and were quite vocal about the advantages. The majority either used Mpesa (Vodacom) or EcoNet (MTN) with eWallet and Shoprite’s Money Market being mentioned to a limited extent.

<p>“M: How do you do it though, do you load money on your phone?</p> <p>R: I go to [EcoNet] it is a shop and I deposit the money into my account onto my cell phone and it will be loaded in the shop and it will go to my mom’s phone and she will get an sms and she will go to the container of [EcoNet] at home with her phone</p> <p>M: There are in the rural areas?</p> <p>R: Yes and she will show them the sms that has come in and they will ask her for a PIN</p> <p>M: The PIN is on her phone?</p> <p>R: Yes and her PIN will register her and they will then check and give her the money and who sent her the money</p> <p>M: Normally how much do you send her though?</p> <p>R: It can be R200 or R300”</p>
--

*Butha-Buthe, Males, Aged 25 – 40 years*

<b>CHANNEL:</b>
<b>MOBILE MONEY:</b> EcoNet (MTN), Mpesa (Vodacom) and eWallet. The registration and usage of Mpesa and EcoNet are largely the same.
<b>WHO IS ACCESSING:</b>
<ul style="list-style-type: none"> <li>• Both formally and informally employed.</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>• Most respondents own a cell phone, accessing the mobile money option is relatively easy and hassle free.</li> <li>• Registering as a mobile money user requires only a cell phone, sim card from one's cellular network provider and an ID. However, both registered and non-registered cell phone users can transfer funds using mobile money.</li> <li>• For those already using this channel, satisfaction is high with the low charges and with the ease, convenience and safety of the channel.</li> <li>• Those not using mobile money cite a lack of awareness as the key barrier to take-up. The majority of Lesotho respondents are aware of Mpesa and EcoNet but many don't know how mobile money works. Education is required to explain to respondents how to register and then how to receive and send cash.</li> <li>• In one limited case a Butha-Buthe respondent paid her Maseru society's contributions via mobile money.</li> <li>• Amongst non-users and users, there is the perception that mobile money channels do not allow respondents to send or receive money from South Africa.</li> </ul>

**Table 9: Reasons for choice of mobile banking as payment or remittance mechanism**

## 6.2.5. Barriers to formal payment and remittance services

### 6.2.5.1. Access barriers

- **Awareness and education:** The key barrier to take-up for mobile money in Lesotho is awareness of the channel and education around how it works and what is required from users. Amongst those who are unaware there was quite a bit of interest when mobile money users spoke about the channel. With some grass-roots educational campaigns this barrier could be easily overcome.
- **Channel appropriateness:** It appears, that at the moment, the other channels respondents use to send or receive money are working well, both formally (own bank account or 3<sup>rd</sup> party account) and informally (delivered by hand in person or via a 3<sup>rd</sup> party). To ensure respondents take up mobile money channels, they may need to be convinced of the benefits to them.

## 6.3. Savings

### 6.3.1. Need for savings

The majority of respondents claim they do not save any portion of their income. However, most contribute to some form of savings society which constitutes a form of informal savings. Therefore respondents do not consider their contributions to be a form of savings.

In addition a very limited number of formally employed or previously formally employed respondents have some form of savings or investment product, predominantly education policies with Momentum or Alliance.

Very a few mention saving in a cash box at home. In truth many respondents keep a box at home into which spare cash is put in a regular basis. However, the likeliest event, is that the spare cash is used a few days later and therefore very few can 'save' it for a significant amount of time. As there is always something needed for the family, respondents aren't able to accumulate any significant amount.

There is no indication that respondents save for emergencies (i.e. medical emergencies). When these situations occur most don't have the money and then they would borrow from societies or informal money lenders.

USE CASES	FINANCIAL PRODUCT USED
Savings for children's education (Secondary school fees)	Informal Societies
To start a new business venture or expand a current one	Informal Societies / Formal Co-operatives/livestock
To purchase year end groceries	Accumulating Informal Societies
Educational expenses in the new year	Accumulating Informal Societies / Education policies at insurance companies (Ltd.)
To fund the growth of an existing enterprise	Rotational Informal societies/ home based savings
Short term consumption smoothing	Rotational Informal savings societies/home based savings
To facilitate weekly stock purchases	Home based savings/ Rotational Informal saving societies (often at markets)/
Unplanned eventualities	Informal societies/at home
To build a house	Informal societies/lay buy at building material stockists/ buying building material and store it until enough accumulated to start/complete building

**Table 10: Savings use cases**

Table 10 of savings use cases illustrates that informal societies are used in most cases when saving. It is important to note, that when emergencies do take place, in most cases respondents borrow money to cover the costs as saving for unforeseen events is very rare.

Saving in the bank does not appear to take place. Even amongst those who have a bank account, money is often withdrawn as soon as it comes in.

The reasons for choice of various channels for savings are explained in the following tables.

### 6.3.2. Informal financial products currently used to save

<b>CHANNEL</b>
<p><b>GROUP SAVINGS (INFORMAL CHANNEL):</b></p> <ul style="list-style-type: none"> <li>• <b>Rotational Societies:</b> cash or merchandise/goods contributed on rotation</li> <li>• <b>Grocery Societies:</b> contributions are collected throughout the year and the distributed at the end of the year</li> <li>• <b>Live-stock Societies:</b> primarily aim to provide livestock, animal feed or farming material</li> <li>• <b>Investment Societies:</b> usually include higher contributions</li> <li>• <b>Work-based Societies:</b> contributions are made towards buying more stock or materials to build better stalls</li> <li>• <b>Burial Societies:</b> contributions are made towards savings up for the eventuality of death</li> </ul>
<p><b>WHO IS ACCESSING:</b></p> <ul style="list-style-type: none"> <li>• Group savings participation generally occurs within both formally and informally employed individuals. Work-place based societies predominantly involve informal traders working alongside each-other in the marketplace.</li> <li>• Majority find out about these societies through close friends, family and/or workplace and social circles.</li> <li>• Most usually have a start-up or initiation fee, followed by monthly contributions.</li> </ul>
<p><b>CHOICE AND PERCEPTIONS:</b></p> <p><b>Perceptions</b></p> <ul style="list-style-type: none"> <li>• The popularity of Bata Shillings is evident by the huge take-up amongst respondents → this is an accessible, non-intimidating form of forced savings.</li> <li>• Even if money is tight, respondents do not miss paying their contributions and would rather cut out other expenses.</li> <li>• Besides the financial benefits, membership to the societies provides communal and social support, where members can turn to one another for emotional assistance, a sense of togetherness and a common goal → everyone in the society is in the same ‘boat’ struggling with similar issues.</li> </ul> <p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>• Members as well as non-members can borrow money from societies, with members being charged about 10% interest and non-members 20% → this is encouraged practice as the interest earned on loans helps grow the society’s funds.</li> <li>• Certain societies give their members quotas in terms of how much they should lend out.</li> </ul> <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>• The average society has a life-span of up to 2 or 3 years → internal disputes and distrust amongst members erodes the society and many dissolve and disband.</li> <li>• With the society’s funds being kept by the treasurer or rotated amongst members, there is the risk of the money being stolen/ lost.</li> </ul>

**Table 11: Reasons for choice of self-help society as savings mechanism**

<b>CHANNEL:</b>
<ul style="list-style-type: none"> <li>• Home based savings</li> </ul>
<b>WHO IS ACCESSING:</b>
<ul style="list-style-type: none"> <li>• Limited use, but mostly informally employed</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>• While most respondents mention keeping a 'cash box' at home, most are not able to save any money for more than a few days. As soon as money is put into the cash box it is used for household needs → as there is always a need to be met in the household saving at home is something respondents struggle to do.</li> </ul>

**Table 12: Reasons for choice of home based savings as a savings mechanism**

### 6.3.3. Formal financial products currently used to save

<b>CHANNEL:</b>
<ul style="list-style-type: none"> <li>• Education policy</li> </ul>
<b>WHO IS ACCESSING:</b>
<ul style="list-style-type: none"> <li>• Very limited usage but mostly the formally employed or those who were previously formally employed</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>• Of the various savings channels respondents mentioned the only formal channel mentioned was education policies via formal insurance providers (e.g. Alliance, Metropolitan etc.)</li> <li>• Taken up mostly by those who are formally employed as a payslip is often required in the sign-on process.</li> <li>• Even those who have the product often don't fully understand how the premiums are calculated versus the eventual pay-out → there is the perception amongst respondents that what insurance companies eventually pay-out is less than the total amount of premiums paid over the policy's term → this entrenches the belief already held that insurance companies mislead and misinform customers and are 'thieves'</li> <li>• Generally respondents need cash to cover school fees and other school related expenses at the beginning of each year, however education policies only mature after a term of 5 or 10 years, which does not fit with the market's needs</li> </ul>

**Table 13: Reasons for choice of education policy as savings mechanism**

### 6.3.4. Barriers to formal savings products

There was almost no mention of respondents saving via formal channels (i.e. savings accounts with banks or saving or investment products with insurance companies). This however does not mean respondents do not save, they simply find the informal method of saving via societies to be far more beneficial to them and fits in with their current needs.

#### 6.3.4.1. Access barriers

- **Affordability:** A key barrier to saving with the bank is bank charges and the belief amongst most respondents is that bank charges eat into one's capital thereby depleting one's cash

reserve. This obviously is counter to the purpose of putting money into the bank for the purpose of saving.

While there are monthly contributions to informal societies, these contributions are not viewed in the same light as bank fees or charges because the amount a members contributes goes towards their eventual pay-out. Respondents know they will get a certain amount of money or goods for their monthly 'investment' with society.

#### 6.3.4.2. Usage barriers

- **Perceptions:** Most respondents are of the opinion that they are not the target market of banks, therefore they do not even investigate savings options at the banks.
- **Mistrust:** Some do not trust the banks driven primarily by the existence of bank charges, which are perceived to be the bank's way of 'stealing our money'.

### 6.4. Insurance

#### 6.4.1. Need to mitigate the financial impact of risk

Lesotho respondents, on the whole, do not take up any form of formal insurance products for the purpose of risk mitigation. When emergencies or unforeseen events happen, such as a medical emergency or damage to property, they borrow the money required (mostly from informal channels) and pay it back as per the terms.

The only formal types of risk mitigation some may have are funeral policies with one of the insurance companies operating in the country.

"I have a policy. It's about M78 a month. It covers me, my children and my partner. It pays for a coffin and other things."

*Butha-Buthe, Female, Aged 25 – 40 years*

Affordability or lack thereof is the primary consideration for respondents when faced with the option of taking up an insurance product, so they are likely to only choose cover for unavoidable events such as death. Death is a reality and a given which cannot be avoided, therefore covering one-self and family members for this eventuality makes sense to respondents. However other unforeseen events may or may not happen, so respondents prefer to use the money for more immediate and urgent needs rather than on mitigating against an unpredictable and unknown factor.

Informally, the vast majority belong to a burial society (even those who have a funeral policy with an insurance company). This meets the same needs as a formal policy but has the additional benefit of ensuring community involvement and participation when a family members passes (i.e. some burial societies require their members to attend funerals and carry out certain traditional functions, in addition to the financial assistance).

<b>CHANNEL:</b>
<ul style="list-style-type: none"> <li>• Funeral policy (Mentioned with Momentum, Alliance, Metropolitan, Old Mutual)</li> </ul>
<b>WHO IS ACCESSING:</b>
<ul style="list-style-type: none"> <li>• A limited number of respondents take up funeral policies.</li> <li>• Mostly formally employed</li> <li>• Previously employed</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>• While respondents see the need to have funeral cover and can cite what their policy covers them for, there are perceptions in the market that insurance companies do not always pay out or try and avoid paying out when the time comes to make a claim.</li> <li>• Respondents who have a formal funeral policy are often members of an informal burial society – which in their minds is a way of ensuring they get something when a family member dies (i.e. if the insurance company does not pay out then the burial society will). Therefore they are mitigating against their formal policy with the informal channel.</li> </ul>

**Table 14: Reasons for choice of funeral policy**

<b>CHANNEL:</b>
<ul style="list-style-type: none"> <li>• Burial societies</li> </ul>
<b>WHO IS ACCESSING:</b>
<ul style="list-style-type: none"> <li>• The majority belong to a burial society. In fact, on average most respondents belonged to two societies, one of which was a burial society and the other a savings society (either accumulative or rotational).</li> </ul>
<b>CHOICE AND PERCEPTIONS:</b>
<ul style="list-style-type: none"> <li>• Generally, respondents have a lot more faith in their informal burial societies than they do in the formal funeral policies in terms of whether or not the society will come through when they need it to.</li> <li>• ‘Pay-outs’ may be in cash or in actual products (food, coffin, gas for cooking, cooking utensils) and services (labour at the grave site, society members participation in traditional burial functions).</li> <li>• Some societies are linked to the church and church-related functions are included in the funeral ‘package’ a member is entitled to (i.e. ministerial services, access to church resources etc.).</li> <li>• Society monthly contributions may be as low as M10 and as high as M100, which on average is more affordable than formal funeral policy premiums.</li> </ul>

**Table 15: Reasons for choice of burial society**

#### 6.4.2. Barriers to formal insurance products

- **Affordability**

The most important barrier to uptake is affordability. Respondents weigh up the cost of premiums and the benefits the policy may offer. In addition, as many earn an irregular income, it is difficult to predict from month to month whether or not they will be able to afford the premiums. Respondents know that should they default on premiums in one month they stand a good chance of losing the entire policy which means all their previous contributions are lost. This indicates that some see insurance policies as a form of investment.

- **Perceptions**

For many respondents, there was greater mistrust of insurance companies than there was of the banks in Lesotho. Insurance companies were seen as 'thieves', 'crooks' and 'con men' driven mainly by the perceptions that insurers look for reasons to avoid paying customers when the time comes to claim. In addition, even when respondents do get paid-out, the final amount or pay-out may not be what they were expecting and therefore this drives the further sentiment that insurers mislead and lie to them at the time of taking up the policy.

## 7. Conclusion

The qualitative demand-side research has highlighted that perceptions within the market are as much a barrier to take-up of formal products as accessibility. Most respondents are able to access the banks; however their behaviour towards formal institutions is mainly governed by what they think rather than reality. Therefore, many remain unbanked because they feel they are not eligible for a bank account and are not the bank's target market.

Generally Lesotho respondents are financially savvy and familiar with most financial terms and products and the basics of how they work. Their inventiveness and creativity in the informal sector must not be underestimated. Therefore key barriers to financial usage are not related to knowledge and skills, but rather to affordability, perceptions around eligibility and the fact that up to this point the informal channels they use and engage with have offered them what they need.

The research indicated some opportunities relating to product features and eligibility:

- There is an expressed demand for credit evident in the high usage of informal money lenders. There are opportunities for the banks to take to market a loan offering tailored to meet this market's needs (i.e. flexible payment terms, smaller loan amounts, etc.). Respondents already think the banks charge a lower interest rate than the informal money lenders and are a far less risky lending option. However, there is also the need for broad-based, grass-roots financial education and training to counter over-indebtedness.
- Products should be designed taking the economic realities of the target market into account (i.e. the irregularity of income for many respondents, the fact that many need constant access to their cash).
- Affordability is key for this market. Many do not feel they can afford formal products or solutions and therefore some do not even try to access such services. Financial institutions should consider an affordable, entry-level offering to encourage even the lowest earning respondent to take it up.
- Lesotho respondents tend to operate collectively in the informal financial sphere, but formal institutions and products are designed for the individual. There are opportunities for the formal institutions to offer products and solutions designed for a collective (i.e. society accounts or family group savings products).
- Eligibility is one of the major barriers to financial inclusion; being self-employed has specific implications for financial access. A self-employed respondent is unable to provide pay-slips or employment letters, which therefore excludes him/her from applying for certain financial products (e.g. accounts or loans).
- Remittances are an integral part of respondents' lives. Money is sent and received all over the country, as well as from abroad, with many using informal channels such as taxi drivers or hand-delivery. Others are depositing into a 3<sup>rd</sup> party's account. There is opportunity to educate respondents about the benefits of using mobile money channels, as the use of cell

phones is extensive and wide-spread. Currently many respondents are unaware of how mobile money solutions work.