A rapid assessment on remittances for cost reduction, enhanced financial inclusion and increased resilience of migrants and remittance receiving families in Lesotho

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Abbreviations

AD	Authorised dealer in foreign exchange
ADLA	Authorised Dealers in foreign exchange with limited authority
AML	Anti-Money laundering
BDA	Basotho Diaspora Association
BDT	Bangladeshi taka
BEAC	Bank of Central African States
CA	Central America
CBL	Central Bank of Lesotho
CDP	Compulsory Deferred Pay
CEF	Financial Education Committee
CMA	Common Monetary Area
CONAIF	National Council for Financial Inclusion
CONDUSEF	National Commission for the Protection and Defence of the Users of Finance
COVID-19	Coronavirus disease
DRC	Democratic Republic of Congo
ENIF	National Financial Inclusion Survey
FICA	Financial Intelligence Centre Act
FSCA	Financial Sector Conduct Authority
FSDS	Financial Sector Development Strategy
G20	Group of 20 Countries
GhIPSS	Ghana Interbank Payment and Settlement System
GSMA	GSM Association
IME	The Institute of Mexicans Abroad
IOM	International Organisation for Migration
KYC	Know your Customer
LAC	Latin America and the Caribbean
KNOMAD	Global Knowledge Partnership on Migration and Development
MARS	Migration and Remittance Survey
MFIs	Microfinance Institutions
MM	Mobile Money
MNOs	Mobile Network Operators
MoF	Ministry of Finance
MTO	Money Transfer Operators
MWA	Migrant Workers Association
NFIS	National Financial Inclusion Strategy
NSDP	2012 National Strategic Development Plan
PNIF	National Financial Inclusion Policy
RSCG	Rural Savings and Credit Groups
SACCO	Savings and Credit Cooperatives
SADC	Southern African Development Community
SARB	South African Reserve Bank
SHCP	Finance and Public Credit
SIMM	Lesotho Scaling Inclusion through Mobile Money

TEBA	Employment Bureau of Africa (TEBA)
UNCDF	UN Capital Development Fund
UNDP	United Nations Development Programme
USA	United States of America
VSLA	Village Savings and Loan Association

Executive summary

Remittances from migrant workers in Lesotho are an important source of financial support for many of its citizens. They also form an important source of income for the national economy. As such, supporting the flow of remittances by providing safe and affordable financial products for remittance senders and recipients in turn helps to make Lesotho itself more resilient and able to cope with shocks such as natural disasters, climate change and the COVID-19 pandemic.[1]

Despite the high importance of remittances to the Basotho, research suggests that, until recently, only a small portion of remittances into Lesotho have been carried by formal financial service providers, with the bulk of remittances still carried via informal channels. Reasons for this include a high preference for cash, limited commercial (formal) options for transmission and limited access to formal networks in rural areas, inadequate digital infrastructure or access, and poor interoperability between banks and digital finance providers.[2] Remitters have thus not been able to benefit from the greater reliability and security typically provided by formal financial service providers, which are also often able to offer more rapid transfer services, and may also provide ancillary financial services such as savings products.

Resolving these issues and formalising remittance markets poses a number of challenges. The first and in some ways most difficult problem is that many remitters are poor and can only afford to send small sums of money. A precondition for the establishment of any truly effective remittance system is thus to address the problem of keeping transaction costs as low as possible, to allow these small transactions to remain commercially viable – which has knock-on implications for regulatory design, as transaction monitoring systems tend to increase transaction cost.

The second major set of problems in revitalising cross-border remittance markets has to do with the fact that two sets of regulatory systems and financial infrastructure are involved, in both the sending and receiving country. This makes it more difficult to identify the source of regulatory barriers, and means that time and effort needs to be expended on regulatory coordination in order to resolve such issues.

Remittances to Lesotho have rightly been a topic of research for a number of decades. As a small, land-locked country surrounded by a wealthier neighbour, Lesotho has experienced very high levels of labour migration, making remittances extremely important to the domestic economy. Estimates of the number of Basotho migrants abroad vary widely, but suggest that between 6% and 20% of the population is resident in South Africa at any given time. For many Basotho, everyday life straddles the border in a tangible way. The community of ethnic Basotho in South Africa is almost twice as large as the population of Lesotho,[3] and many families have members on both sides of the border.

It is by definition extremely difficult to estimate the size of informal markets, where data availability is poor and economic behaviour is often deliberately concealed. However, a number of research projects, including that summarised in the table below, have confirmed that around 80% of remittances to Lesotho have probably flowed via informal channels.

Methods used to send cash home to Lesotho, 2005

	Method used to send cash home
Post Office	5.1%
Wife's TEBA account	1.8%
Bring personally	54.1%
Via a friend/ co-worker	33.4%
Via Bank in home country	1.8%
Via TEBA own account	0.7%
Bank in South Africa	0.9%
Via Taxis	0.2%
Other method	1.9%
Total	**100.0%**

Source: (Crush, Dodson, Gay, Green, & Leduka, 2010, p. 44)

In the last decade, however, there have been sharp improvements in the degree of financial inclusion in Lesotho. The proportion of adults excluded from the remittance market dropped from 43% in 2011 to 28% in 2021, while adults accessing formal remittance products increased from 26% to 60%. This improvement in access levels has likely led to much greater formalisation of remittance flows to Lesotho. A recent estimate of SADC remittance volumes, for example, suggested that only 30% of Lesotho remittances were travelling by informal channels by 2018, which is a massive shift.[4] This study included data from the South African Reserve Bank, which showed an increase in formal remittance flows from South Africa to Lesotho from R446 million in 2016 to R1 317 million in 2018 - 195% growth in two years.[5]

In Lesotho's domestic remittance market, uptake of mobile money products has been a key driver, with 84% of adults sending money using mobile products.[6] The total volume of mobile transactions has increased sharply since the inception of the product in 2013, from less than one million transactions worth less than M100 million per month in 2014, to around five million transactions worth around M1 billion per month by 2020.[7] A lack of interoperability between the payment systems of mobile network operators and banks is however still of concern, and will need to be resolved to ensure system growth continues.[8] A major turning point in the Lesotho cross-border remittance market was the introduction of the Shoprite remittance product, which was launched in 2015, and by January 2019 was described as reaching the R1 billion mark.[9]. Shoprite has a substantial retail footprint in South Africa and Lesotho[10] and offered the service at an attractive price point.[11] The design of the Shoprite product required approval by the reserve banks of both Lesotho and South Africa.

While growth in formal remittance product uptake has been a marked area of improvement, there is also a distinct rural/urban divide still evident in access to formal financial services. In 2011, 57.9% of urban adults were banked, versus only 29.5% of adults in rural areas.[12] Hawthorne *et al* suggest that the banking sector in Lesotho does not actively target poorer, rural customers, as they are less profitable.
Growth in access to financial services does also not necessarily translate into educated financial decision-making or effective usage of financial products. Financial literacy and digital skills development can be seen as a way to unlock the potential provided by formal banking and digital financial services in Lesotho.[13]

The research included a fieldwork component, with eight focus groups held with remittance sender sin South Africa and recipients in Lesotho. This allowed the development of substantial insight into the experience of remitting. When asked about reasons for migration, and the importance of remittances for household income, a very clear picture was painted by respondents of poverty at home, and a search for opportunity across the border.

We all love Lesotho, but the problem is hunger, you cannot live in a place where there is nothing to eat, you must go out and plan for your kids, hunger made us to leave Lesotho.

Rustenburg group (senders)

A number of themes can be identified from the focus group discussions. Firstly, while many Lesotho migrants in South Africa do have formal residency status, which allows easier access to formal financial services, issues with access to the necessary documentation remains a problem for others. Better access to forms of identification issued by Lesotho authorities would help to address this issue, but South African immigration law, and its interaction with South African financial regulation, is also a major contributor to the problem. Efforts to address the problem of access to documentation thus need to be ongoing.

The focus group findings were consistent with a picture of a massive swing to formal remittances in the Lesotho-South Africa corridor in recent years. However, while access to formal services has improved dramatically, the focus group participants were still experiencing major problems with the quality of service from many formal providers, and were eager to see improvements continue. Shoprite's remittance service is very widely used, but queues and congestion around the service mean that the actual process of retrieving funds on the Lesotho side of a transaction can be extremely arduous.

From the banking transaction side, the sources of consumer unhappiness seem to be significantly more complex. Remittance senders and receivers found the fee system for remittances extremely difficult to predict – possibly partly because of the way that the pay-out method chosen can affect total bank fees. They also reported finding it difficult to predict the extent to which banks operating on both sides of the border would display any real degree of operational integration, and expressed concerns that banks which currently do offer a good quality of service were possibly in the process of making access more difficult.

The remittance product which was regarded most highly by the focus group participants was mobile money, and M-Pesa in particular was described as simple to use and convenient. However, it is still not possible to make a direct wallet-to-wallet transfer on this product, cross border. Mobile money offers obvious advantages to those who live in rural areas of Lesotho, and thus face substantial travel costs to access bricks and mortar outlets. It is also viewed as a more accessible form of remitting than internet banking, for example – respondents who were not confident to use internet banking or other app-based products would still tend to be happy to use M-Pesa.

The most worrying aspect of the focus groups was as regards financial resilience. It was not surprising to find that COVID-19 had had a major negative impact on the income of many remitting households. What was more surprising was to find that the principle coping mechanism of these households had been to turn to unregulated moneylenders. High levels of indebtedness are always of concern, but high levels of indebtedness to unregulated lenders raise the potential for severe financial and indeed criminal abuses. From a policy point of view, an immediate question must be why formal financial products were not accessed by these individuals. Is the formal microlending market in Lesotho sufficiently robust at present, or is more attention needed in this area? Consumer education on the perils of over-indebtedness, and better financial management techniques in general, may also be of use – although it should be noted that high household dependency ratios and low income levels do put hard limits on the ability of many households to save for a rainy day.

Research on the remittance commercial environment confirmed a lot of the findings from the focus groups. Bank account products remain available only to those with accounts, and even then, branch and banking networks are not widespread in Lesotho. Whilst Hello Paisa, Mukuru and Shoprite bring competition into the space, providing avenues for those unbanked to send money using formal products, limitations still exist. Shoprite is reported to experience long queues both to send and receive cash, as well as incidents of inadequate float for pay outs. Hello Paisa and Mukuru, while app based, still require the sender to either have a bank account to do pay-in the cash, or to physically visit a pay-in point. On the pay-out side, both providers have partnered with M-Pesa to facilitate payments into mobile money accounts in Lesotho – thereby removing the need to physically collect cash. Relationships with M-Pesa however appear weak, with intermittent service downtimes which disallow the use of this pay-out option.

Two international case studies helped to provide perspective on the Lesotho experience of cross-border remitting. The first case study used was the North-South corridor of America to Central America, and in particular Mexico, as this market is well studied and, like the South Africa-Lesotho corridor, the countries share a land border. For the South-South country comparison, the India-Bangladesh corridor was used. India has a large migrant population and these Bangladeshi migrants, like Basotho in South Africa, come from a neighbouring country, and the majority of them are low-income earners.

These case studies exhibited very different levels of success in formalising remittances. The USA-Mexico channel has successfully facilitated competition among non-banking remittance service providers, which has helped to reduce remittance prices, and increase access to formal remittance products. Bangladesh, in contrast, has retained a model where banks are the key players in remittance products, and where innovation in mobile and digital financial services has been relatively slow. Issues with the efficiency of the formal foreign exchange market, and a thriving informal remittance sector, have further impeded growth in Bangladesh's remittance markets. Effectively, the two case studies chosen are at opposite positions in terms of performance, with the Mexico-USA corridor substantially outperforming the Bangladesh market.

The use of the matricula system for Mexican migrants is of particular interest, and it has allowed financial institutions to decouple their AML requirements from the question of whether migrants are documented or not. The Matricula Consular is a type of identity card issued by Mexican consulates to Mexican citizens who reside outside Mexico. To obtain a matricula card, migrants only need only to be able to prove Mexican citizenship (for example, via a birth certificate), present a picture ID of some sort, and provide proof of local address. Before issuing the cards, Mexican authorities also conduct some cross checks to screen out applicants with a history of fraud, or who are otherwise undesirable.[14] From the point of view of financial institutions, therefore, the matricula both confirms identity and address, and provides some screening for previous criminal behaviour.

While this system has experienced some political pushback, and is not accepted by all US financial institutions, its usefulness to migrants is reflected in its very high take-up rate among the migrant community – as much as 75 to 80% of undocumented Mexican migrants are estimated to hold one of these cards.[15]. It is also notable that this is just one of several initiatives that are run by Mexican consulates, reaching out to migrant communities where they are based to offer assistance with financial education and access to paperwork. This is a model which should be explored by the Lesotho government. In contrast, the Bangladeshi example illustrates that, even with a number of policy programs undertaken by the state, success in formalising remittance markets can be prevented if the basics of market regulation are problematic.

Taken as a whole, the research illustrates that substantial progress has been made in facilitating the development of affordable, convenient formal remittance products in Lesotho in recent years. Nevertheless, it is evident that problems remain, and that much more needs to be done to fully realise the potential of these markets. The international experience illustrates that proactive governments can make a big difference in developing and facilitating remittance markets. a number of recommendations can thus be made for government action going forward.

To begin with, it is evident that the Mexican consular system, including both the matricula card initiative and its efforts to provide financial education to migrants, have great potential. Rolling out improved consular services for migrants in South Africa, as regards assistance in accessing Lesotho identity documents, will help to address the ongoing issues that many migrants experience in dealing with AML requirements at financial institutions. A specialised form of identification that includes verification of address might be particularly useful, as proof of address is specifically required by many KYC systems. More research will likely be needed to determine if this kind of specialised ID system (similar to the matricula card) would be acceptable to South African financial regulators as a KYC option, and thus of use to Lesotho migrants.

Another avenue with significant potential, but which will likely require additional research to flesh out, is the issue of improved system interoperability. Interoperability substantially increases the usefulness of a payments system to users, and facilitates competition, but is unlikely to occur without some sort of state intervention. It is however advisable to ensure that the cost and technical regulatory implications of such steps are thoroughly researched before policy actions are taken, in order to ensure that interoperability requirements are properly sequenced, designed and implemented. Interoperability has a number of different aspects – legal systems have to be enabling, technical and communication protocols need to be aligned, and the data and hardware challenges of interoperable systems need to be addressed. Interoperability in practice is thus likely to be a process which is facilitated by the Central Bank of Lesotho (in conjunction with the Lesotho Communications Authority), but which requires substantial communication and interaction with the payments firms involved. [16]

Lesotho's authorities can also pursue action independently on a number of other issues. For example, action should be taken to ensure that banks in Lesotho implement the disclosure of bank charges regulations with regards to remittance products. The difference in regulation of mobile money agents and MTO agents is also of concern, and changes the competitive dynamics between these firms. What is not clear is which regulatory framework is more appropriate – should mobile money agents be more strictly regulated, or should MTO agents be less strictly regulated? Further research on this issue would be useful.

The analysis also shows that it would be beneficial to strengthen engagement between South African and Lesotho regulators (while in the longer term engagement at the SADC level would also be desirable, in the short term the focus should be on South African financial sector regulators, as they have a disproportionate influence on Lesotho's remittance markets). A number of issues could fruitfully be discussed, as follows:

- At present it seems that the South African Reserve Bank has better quality data on the flow of remittances from South Africa to Lesotho than the Central Bank of Lesotho does. The CBL could request access to such SARB data.
- Similarly, an engagement between the CBL and the SARB could touch on the issue of the inconsistent interpretation of KYC requirements by the banks, which has reduced access to finance for undocumented migrants. Here the SARB may be able to issue a guidance note to South African banks as regards appropriate implementation of risk-based approaches, and their obligations to obtain proof of a right to work when onboarding Lesotho migrants in South Africa.
- It is not clear whether the review of the exchange control system being undertaken by National Treasury will result in changes which will affect remittance systems. However, it would be useful to establish interactions with National Treasury and the Ministry of Finance, in order to ensure that the National Treasury is explicitly considering what impact any change will have on remittances and the CMA more generally
- It may also be of use to discuss the implementation of the Conduct Standard for Banks with the Financial Sector Conduct Authority (FSCA), as regards pricing transparency in the South African leg of cross border transactions

The final set of engagements that are needed with South African authorities are as regards mobile money, and are worth considering in more depth. Much of the problem with enabling cross border mobile money seems to be derived from the National Payment System Act, which dates back to 1998. South Africa's National Treasury has recently undertaken a review of the Act, with a public comment phase that closed in 2019.[17] It is not clear whether this has resulted in revised legislation, and whether enabling amendments are planned. Discussions between the Lesotho Ministry of Finance and South African National Treasury would be desirable at this point, to emphasize the need for change and set out the position of Lesotho in this regard.

The rapid formalisation of remittance markets in Lesotho in recent years shows how much potential these markets have, and the extent to which remittance recipients and senders are looking for improved access to financial services. Effort expended on improving the regulatory frameworks of these markets is likely to reap rich dividends, and make a real difference in improving the quality of life of some of the poorest communities in Lesotho.

[1] *Alliance for Financial Inclusion, 2018 - Digitally–enabled cross border remittances in Lesotho: key policy considerations to break uptake barriers*
[2] *Alliance for Financial Inclusion, 2018*
[3] *The 2011 South African census counted 3.8 million individuals speaking Sesotho as a first language. See http://www.statssa.gov.za/census/census_2011/census_products/Census_2011_Census_in_brief.pdf*
[4] *(Truen, Rateiwa, & Thosago, 2019, p. table 29)*
[5] *(Truen, Rateiwa, & Thosago, 2019, p. table 16). It should be noted that this research for the first time included data on cross border bank card transactions by individuals – in other words, withdrawals from South African bank accounts by private individuals in Lesotho. As a result, the estimate is substantially larger than the remittance estimates produced purely from SARB forex reporting systems. Later research is also available which includes only this forex data, and this again shows rapid increases in formal remittances, albeit off a smaller base – from R121 million in 2016 to R1 021 million in 2020. (DNA Economics, 2022, p. 16)*
[6] *(Hawthorne, Goga, Patel, Wills, & McHardy, 2021, p. 14)*
[7] *(Hawthorne, Goga, Patel, Wills, & McHardy, 2021, p. 68)*
[8] *(Hawthorne, Goga, Patel, Wills, & McHardy, 2021)*
[9] *https://finmark.org.za/knowledge-hub/blog/shoprite-lesotho-cross-border-remittance-product-achieves-r1-billion-mark?entity=blog&offset=2, accessed 19 May 2022*
[10] *It should be noted that discussions with market participants suggest that other South African retailers with a similar geographic footprint in Lesotho have not expressed interest in offering remittance products. The ability to roll out this model in other retailers in a similar way may thus be limited, going forward.*
[11] *(Truen, Kgaphola, & Mokoena, 2016)*
[12] *(Centre for Financial Regulation and Inclusion (Cenfri) and Econsult (Botswana), 2015, p. 8)*
[13] *UNCDF, 2021. Making Access Possible: Lesotho Financial Inclusion Refresh.*
[14] *(Congressional Research Service, 2005, pp. CRS-2)*
[15] *(Caballero, Cadena, & Kovak, 2018)*
[16] *https://blogs.worldbank.org/psd/establishing-payments-interoperability-coordination-key*
[17] *https://pmg.org.za/call-for-comment/783/*

1. Introduction

Remittances from migrant workers in Lesotho are an important source of financial support for many of its citizens. They also form an important source of income for the national economy. As such, supporting the flow of remittances by providing safe and affordable financial products for remittance senders and recipients in turn helps to make Lesotho itself more resilient and able to cope with shocks such as natural disasters, climate change and the COVID-19 pandemic.[1]

Despite the high importance of remittances to the Basotho, research suggests that, until recently, only a small portion of remittances into Lesotho have been carried by formal financial service providers, with the bulk of remittances still carried via informal channels. Reasons for this include a high preference for cash, limited commercial (formal) options for transmission, difficulty accessing formal service providers in rural areas, inadequate digital infrastructure, and poor interoperability between banks and digital finance providers.[2] Remitters have thus not been able to benefit from the greater reliability and security typically provided by formal financial service providers, which are also often able to offer more rapid transfer services, and may also provide ancillary financial services such as savings products.

Resolving these issues and formalising remittance markets poses a number of challenges. The first and in some ways most difficult problem is that many remitters are poor and can only afford to send small sums of money. A precondition for the establishment of any truly effective remittance system is thus to address the problem of keeping transaction costs as low as possible, to allow these small transactions to remain commercially viable – which has knock-on implications for regulatory design, as transaction monitoring systems tend to increase transaction costs.

The second major set of problems in revitalising cross-border remittance markets has to do with the fact that two sets of regulatory systems and financial infrastructure are involved, in both the sending and receiving country. This makes it more difficult to identify the source of regulatory barriers, and means that time and effort needs to be expended on regulatory coordination in order to resolve such issues.

Lesotho also faces a number of obstacles that are unique to it, centred around the fact that much of its remittance receiving population is not only rural and impoverished, but lives in mountainous regions where rolling out of financial infrastructure is extremely costly and challenging. These challenges will require innovative solutions and careful implementation to resolve, and it seems likely that a combination of digital financial solutions, coupled with appropriate financial education of remittance senders and receivers, will be core to addressing these issues.

The International Organisation for Migration (IOM) contracted DNA Economics to undertake a study to assess remittance services between South Africa and Lesotho, including the effect of, and any new developments that may have been introduced during COVID-19. The findings of the study will provide recommendations to the Government of Lesotho so as to strengthen remittance transfer mechanisms

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[1] *Alliance for Financial Inclusion, 2018 - Digitally–enabled cross border remittances in Lesotho: key policy considerations to break uptake barriers*
[2] *Alliance for Financial Inclusion, 2018*

and bolster financial inclusion in Lesotho. Furthermore, the study will also produce recommendations to contribute to the following policy objectives:

(i) **Digital Financial Service and Financial Inclusion**: how to ensure affordable, reliable and accessible remittances to Lesotho through DFS to excluded population groups;

(ii) **Enhancing Financial Literacy and Digital Skills**: how to increase financial literacy and digital skills among remittance senders and recipients;

(iii) **Remittance services in Remote Areas**: how to improve access to affordable remittances in remote or hard to reach areas - exploring innovative solutions; and

(iv) **Resilience Building / Shock preparedness**: identifying financial products/ services[3] that would build resilience and prepare for shocks amongst remittance receiving households.

1.1 Methodology

The methodology used for this study was a combination of reviews of previous research in the field, analysis of legislation, semi-structured interviews with key stakeholders, and primary research engaging with remittance senders in South Africa and remittance receivers in Lesotho.

In the document review phase, we examined the existing policy and legislative framework for remittances in Lesotho and South Africa, concentrating on regulatory barriers to market entry, and regulatory features that influence transaction cost. A review of prior research into remittances in Lesotho provided deep context on the development of these markets, and their importance to the Lesotho economy. The Lesotho experience is then contrasted to a sample of other developing markets in Latin America and Asia, with the objective of understanding remittance channels, remittance patterns, financial inclusion (access to formal remittance and digital finance services) and financial resilience in these countries and suggest / recommend potential application of similar models adjusted to the Lesotho/ South African remittance market.

In the primary research phase, semi-structured interviews with representatives of remittance service providers, policymakers and sector regulators allowed the team to interrogate the experience of operators engaging with the regulatory framework, and to understand the types of product innovation that have both succeeded and failed in the Lesotho market to date. The perspective of the customer/user of remittance systems was then sampled through eight focus group discussions in South Africa and Lesotho. It can be challenging to fully understand the perspective of consumers, particularly those from low income and isolated communities, without such direct interactions, and the focus group research provided substantial insight and nuance to the analysis.

2. Remittances in Lesotho

Remittances to Lesotho have rightly been a topic of research for a number of decades. As a small, land-locked country surrounded by a wealthier neighbour, Lesotho has experienced very high levels of labour migration, making remittances extremely important to the domestic economy. The 2005 Migration and Remittance Survey (MARS) found that 76% of Lesotho respondents had parents and 25% had

[3] *Including the take-up of saving, investment and insurance products*

grandparents who had worked in South Africa.[4] In order to understand the full economic potential of remittances in Lesotho, it is useful to begin by considering how this phenomenon has developed and changed over time.

Estimates of the number of Basotho migrants abroad vary widely, but it seems clear that the bulk of these migrants are in South Africa. A 2010 World Bank estimate put the number of Basotho in South Africa alone at 428 000, while an estimate produced by the Lesotho Bureau of Statistics (BOS) suggested that only 135 285 Basotho lived abroad.[5] Research on SADC migration to South Africa completed in 2016 estimated that the total number of Basotho nationals in South Africa at that point was around 402,015, of which only around 36.5% were estimated to have regularised residency status in South Africa (and thus the legal right to seek employment in South Africa). With a total population size of just over 2.1 million, these figures suggest that between 6% and 20% of the population is resident in South Africa at any given time.

It is thus clear that the migrant population is large and varied. For many Basotho, everyday life straddles the border in a tangible way. The community of ethnic Basotho in South Africa is almost twice as large as the population of Lesotho[6], and many families have members on both sides of the border. In 2003, 18% of Lesotho citizens also held a South African identification document.[7]

Historically, labour migration from Lesotho has been dominated by the movement of men to work in South Africa's mines. By the late 1970s, more than half of households in Lesotho included a migrant mineworker,[8] and around 80% of migrants were in the mining industry.[9] However, the total number of Lesotho mineworkers in South Africa peaked in 1990, at just under 100 000,[10] and by 2018 had fallen to just under 20 000.[11]

These developments have substantially changed the pattern of migration from Lesotho to South Africa. Crush *et al* identify two main ways in which migration has changed, as follows:

> *"(a) a diversification in patterns of labour migration as new migrants seek out other employment opportunities in post-apartheid South Africa and (b) an increase in female migration to South Africa as female household members replace retrenched males and seek employment opportunities in sectors that prefer female employees (such as domestic service and commercial farming)."*[12]

While economic migration from Lesotho was dominated by the mining sector, much of the remittance needs of these migrants were dealt with by a compulsory deferred pay (CDP) system. This was put in place by the Lesotho Deferred Pay Act of 1974, which required that 60-90% of pay (later decreasing to

[4] (Crush, Dodson, Gay, Green, & Leduka, 2010, p. 8)
[5] (Centre for Financial Regulation and Inclusion (Cenfri) and Econsult (Botswana), 2015, p. 8)
[6] The 2011 South African census counted 3.8 million individuals speaking Sesotho as a first language. See http://www.statssa.gov.za/census/census_2011/census_products/Census_2011_Census_in_brief.pdf
[7] (Truen, et al., 2005, p. 117)
[8] (Crush, Dodson, Gay, Green, & Leduka, 2010, p. 8)
[9] (Crush, Dodson, Gay, Green, & Leduka, 2010, p. 8)
[10] (Crush, Dodson, Gay, Green, & Leduka, 2010, p. 9)
[11] (Truen, Rateiwa, & Thosago, SADC remittance values and volumes, 2018 , 2019)
[12] (Crush, Dodson, Gay, Green, & Leduka, 2010, p. 14)

30%)[13] be transferred to a Lesotho Bank account, which funds could then only be withdrawn in Lesotho.[14] This remittance service was handled by the migrant's employer in terms of the legislation, with the obligation placed on the employer to place deferred pay into the Lesotho account of the employee.[15]

The CDP system was unpopular with labour unions because of its compulsory nature, and in addition by 2005/06 allegations had been made that funds in the collective account used by the system were not being well managed. The CDP system thus collapsed at this time, and administration of the system was taken over by the Employment Bureau of Africa (TEBA), which was established 120 years ago as an agency to recruit labour for South Africa's mines.[16] Nalane et al (2012, 20) point out that there have been a number of sources of attrition to the CDP scheme, as follows:

> *The number of contributors to the Deferred Pay Scheme has also declined as many Basotho acquired South African's identification documents and started contributing to South Africa's Unemployment Insurance Fund (UIF). In addition, irregular migrants (including those working illegally on some abandoned mines) are not constrained by the Deferred Pay Act.*

Nevertheless, as late as 2005, TEBA remittances were still one of the principal formal remittance methods for Lesotho. As shown in Table 1, the bulk of remittances were transported informally, either by taking money home personally, or sending it via friends or co-workers.

Table 1: Methods used to send cash home to Lesotho, 2005

	Method used to send cash home
Post Office	5.1%
Wife's TEBA account	1.8%
Bring personally	54.1%
Via a friend/ co-worker	33.4%
Via Bank in home country	1.8%
Via TEBA own account	0.7%
Bank in South Africa	0.9%
Via Taxis	0.2%
Other method	1.9%
Total	**100.0%**

Source: (Crush, Dodson, Gay, Green, & Leduka, 2010, p. 44)

Taking money home by hand is a viable way of remitting for many migrants because they still live close enough to Lesotho to travel home frequently. The same survey quoted in Table 1 above, for example, found that 57.1% of migrants returned home at least once a month, and a further 24.4% returned home at least once every 3 months.[17] If the migrant themselves is not returning home, then often a trusted

[13] *(Nalane, Chikanda, & Crush, 2012, p. 20)*
[14] *(Crush, Dodson, Gay, Green, & Leduka, 2010, p. 39)*
[15] *(Hlaoli, 2016, p. 25)*
[16] *(Nalane, Chikanda, & Crush, 2012, p. 20)*
[17] *(Crush, Dodson, Gay, Green, & Leduka, 2010, p. 36)*

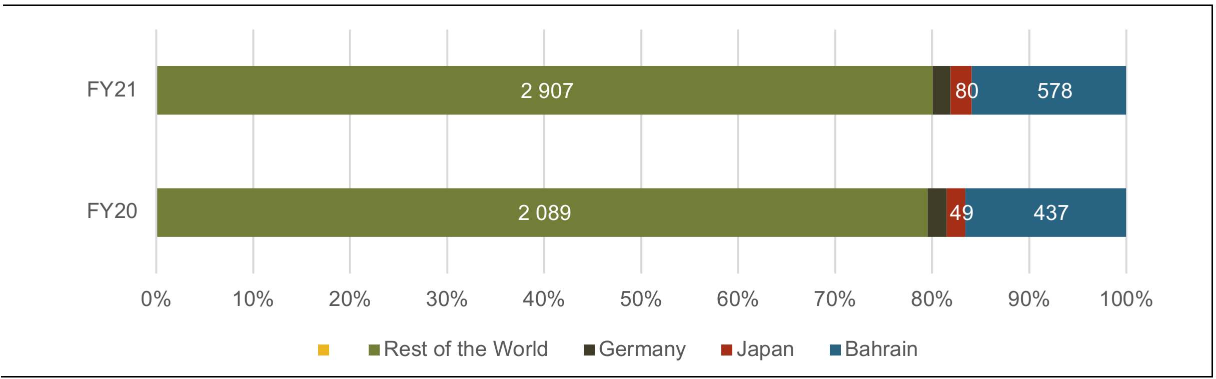
acquaintance is, and can be asked to take money with them. There is also a long tradition of sending money via taxi drivers, an informal system operated with some limited oversight from regional taxi associations.[18] All of these informal methods of remitting came under intense pressure during the COVID-19 lockdowns, when South Africa closed its borders to all but essential travel.

It is by definition extremely difficult to estimate the size of informal markets, where data availability is poor and economic behaviour is often deliberately concealed. There is wide consensus that, historically, the vast majority of remittances to Lesotho have travelled informally. This is borne out by the survey findings in Table 1, and confirmed by other researchers, including an Alliance for Financial Inclusion report which estimated that, in 2015, as much as 83% of the market was informal,[19] and a 2016 report for FinMark Trust which again estimated that around 80% of flows were informal.[20]

In the last decade, however, there have been sharp improvements in the degree of financial inclusion in Lesotho, for remittance products as well as other forms of financial services. The proportion of individuals with access to formal financial products increased from 60% in 2011 to 87% in 2021. The proportion of adults excluded from the remittance market dropped from 43% to 28% over the same period, as shown below, while adults accessing formal remittance products increased from 26% to 60%. This improvement in access levels has likely led to much greater formalisation of remittance flows to Lesotho. A recent estimate of SADC remittance volumes, for example, suggested that only 30% of Lesotho remittances were travelling by informal channels by 2018, which is a massive shift.[21] This study included data from the South African Reserve Bank, which showed an increase in formal remittance flows from South Africa to Lesotho from R446 million in 2016 to R1 317 million in 2018 - 195% growth in two years.[22]

[18] (Sekantsi, 2018, p. 11)
[19] (Sekantsi, 2018, p. 11)
[20] (Truen, Kgaphola, & Mokoena, 2016, p. table 29)
[21] (Truen, Rateiwa, & Thosago, 2019, p. table 29)
[22] (Truen, Rateiwa, & Thosago, 2019, p. table 16). It should be noted that this research for the first time included data on cross border bank card transactions by individuals – in other words, withdrawals from South African bank accounts by private individuals in Lesotho. As a result, the estimate is substantially larger than the remittance estimates produced purely from SARB forex reporting systems. Later research is also available which includes only this forex data, and this again shows rapid increases in formal remittances, albeit off a smaller base – from R121 million in 2016 to R1 021 million in 2020. (DNA Economics, 2022, p. 16)

Figure 1: Access to remittance products (percentage of adults)



Source: (Hawthorne, Goga, Patel, Wills, & McHardy, 2021, p. 13)

Much of the increase in access to formal remittance products over this period can be attributed to non-banking financial service providers, and the market share of banking remittance products fell over the period. Interestingly, there has also been little progress in the proportion of Basotho who have a bank account at all – 38% were banked in 2011, increasing to only 39% in 2021. Surveys of Lesotho citizens indicate that affordability, both in terms of maintaining a minimum balance in the account and paying high service fees, remains a major obstacle to accessing banking accounts.[23] However, a review of SADC remittance prices undertaken in 2021[24] found that, on a per transaction basis, banking remittance transfers from South Africa can be extremely affordable. In a mystery shopping exercise, the researchers found that the banks involved treated a transfer from South Africa to Lesotho as a domestic transfer, and did not charge for domestic transfers (because of Lesotho's membership of the Common Monetary Area with South Africa). The cost of remitting via bank was thus effectively zero. When non-banking remittance providers were included in the data, the average cost of remitting rose to a still low 3.8% of transaction size on a transaction of USD55. Growth in formal remitting has certainly been facilitated by these low price levels, which are well below the SADC average of 9.6% for USD55 in 2021.

In Lesotho's domestic remittance market, uptake of mobile money products has been a key driver, with 84% of adults sending money using mobile products.[25] The total volume of mobile transactions has increased sharply since the inception of the product in 2013, from less than one million transactions worth less than M100 million per month in 2014, to around five million transactions worth around M1 billion per month by 2020.[26] A lack of interoperability between the payment systems of mobile network operators and banks is however still of concern, and will need to be resolved to ensure system growth continues.[27] It should also be noted that, despite widespread 3G network coverage in Lesotho, ubiquitous phone ownership, and relatively affordable data costs, internet usage levels are still quite low. The Lesotho Communications Authority has identified smart device costs as likely to be a major remaining barrier to internet access and is in the process of trying to reduce the price of entry level

[23] *(Hawthorne, Goga, Patel, Wills, & McHardy, 2021, p. 12)*
[24] *(DNA Economics, 2022)*
[25] *(Hawthorne, Goga, Patel, Wills, & McHardy, 2021, p. 14)*
[26] *(Hawthorne, Goga, Patel, Wills, & McHardy, 2021, p. 68)*
[27] *(Hawthorne, Goga, Patel, Wills, & McHardy, 2021)*

devices.[28] Unless this affordability issue is addressed, the full potential for digital remitting methods in Lesotho will remain unrealised.

A major turning point in the Lesotho cross-border remittance market was the introduction of the Shoprite remittance product, which was launched in 2015, and by January 2019 was described as reaching the R1 billion mark.[29]. Shoprite has a substantial retail footprint in South Africa and Lesotho[30] and offered the service at an attractive price point (at launch, only R9.99 regardless of transaction size, up to a maximum transaction size of R5 000).[31] The design of the Shoprite product required approval by the reserve banks of both Lesotho and South Africa. Ultimately, anti-money laundering (AML) risks were managed by restricting transaction sizes, while uptake was facilitated by reducing the amount of documentation the sender needed to present to complete the transaction.

While growth in formal remittance product uptake has been a marked area of improvement, when placed in the context of Lesotho's wider financial inclusion landscape, issues such as access to and use of financial services are still evident in other areas. This is perhaps not surprising, as use of remittance services is for many households the first kind of formal financial product utilised. Only 12% of credit recipients, for example, use formal products, with 48% accessing credit facilities via friends and family or other informal means.[32] There is also a distinct rural/urban divide still evident in access to formal financial services. In 2011, 57.9% of urban adults were banked, versus only 29.5% of adults in rural areas.[33] Hawthorne *et al* suggest that the banking sector in Lesotho does not actively target poorer, rural customers, as follows:

> *"Lower income consumers that tend to reside in rural areas are less profitable and thus banks are unlikely to go serious lengths to cater to these sub-populations… The dominance of the banks in relation to the provision of credit was cited as a major problem resulting in banks focusing on corporates and high net worth individuals as opposed to the broader mass market."*

Growth in access to financial services does also not necessarily translate into educated financial decision-making or effective usage of financial products. Of the 39% of adults banked, 87% reported that they do not use these accounts for regular transacting, and while there is 90% 3G coverage, only 42% of individuals use the internet. They are thus unable to use many digital financial products (which are app or online). This means that despite having *access* to financial products and digital financial services, Basotho are not *using* these to their fullest. Financial literacy and digital skills development can be seen as a way to unlock the potential provided by formal banking and digital financial services in Lesotho.[34]

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[28] (Hawthorne, Goga, Patel, Wills, & McHardy, 2021, p. 43)
[29] https://finmark.org.za/knowledge-hub/blog/shoprite-lesotho-cross-border-remittance-product-achieves-r1-billion-mark?entity=blog&offset=2, accessed 19 May 2022
[30] It should be noted that discussions with market participants suggest that other South African retailers with a similar geographic footprint in Lesotho have not expressed interest in offering remittance products. The ability to roll out this model in other retailers in a similar way may thus be limited, going forward.
[31] (Truen, Kgaphola, & Mokoena, 2016)
[32] (Hawthorne, Goga, Patel, Wills, & McHardy, 2021, p. 13)
[33] (Centre for Financial Regulation and Inclusion (Cenfri) and Econsult (Botswana), 2015, p. 8)
[34] UNCDF, 2021. Making Access Possible: Lesotho Financial Inclusion Refresh.

While several factors determine financial literacy levels, educational attainment and economic status play a key role. Lesotho's least developed country status means that socio-economic challenges, including widespread poverty, large rural populations, gender disparities and poor infrastructure create a barrier for delivery of financial education. In 2012, a report conducted on behalf of the Lesotho Central bank estimated that 75% of low-income earners do not have the skills and knowledge needed for making informed financial decisions.[35] Another study was conducted across primary school students in Lesotho who received financial education as part of the school curriculum. This study surveyed the level of financial literacy of 120 school learners drawn from six primary and secondary schools located in the district of Maseru.[36] The findings showed that while the students generally have knowledge of basic concepts of financial education, there are indications of negative financial attitude and behaviour, especially with regards to saving. This highlights the differing needs of the population by age group. Older individuals who may not have received formal education lack the basic foundational knowledge to make informed financial decisions and to make effective use of the financial services available to them. On the other hand, it seems that younger populations who may be more literate, need more time to understand the importance of financial education and change their behaviour.

2.1 The experience of remitting to Lesotho

The research included primary research, surveying attitudes to and experiences of remitting among remittances senders and recipients. The research methodology used was focus groups, which comprise semi-structured conversations between a moderator and a small group of participants. The group discussion allows the researcher to develop nuanced and detailed insights on the studied phenomenon. Because the groups involved are small, however, care needs to be taken to remember that results are not necessarily statistically significant.

2.1.1 Field work methodology

Eight focus groups were held, of which five were held in South Africa with individuals remitting to Lesotho, and three were held in Lesotho with individuals receiving remittances from South Africa. Each discussion ran for approximately 90 minutes, and included approximately eight individuals, plus a moderator (the actual size achieved of 62 individuals is shown in the table below). After the discussion, each participant was asked to complete a short questionnaire on their remittance patterns – 54 questionnaires were completed. Discussions were held in January and February 2022.

Table 2: Focus group plan

Sample Breakdown	Number of participants	Completed mini-questionnaires
Remittance senders – South Africa		
Group 1: Remittance senders- South Africa - Farm workers - Group location: Western Cape: Ceres	*n* = 7	*n* = 7

[35] *Monitor Group, 2012, Bridging the Gap.*
[36] *Makhele, T., Thabana, J., Raselimo, M. 2017. Financial Literacy Level Of Primary And Secondary School Learners In Lesotho: Prospects For Integration Of Financial Education Into School Curriculum. International Journal of Economics, Commerce and Management. United Kingdom. ISSN 2348 0386*

Group 2: Remittance senders: South Africa - Mine workers - Group location: Rustenburg	*n* = 9	*n* = 9
Group 3: Remittance senders: South Africa - Factory workers/ street vendors - Group location: KwaZulu-Natal; Newcastle	*n* = 9	*n* = 8
Group 4: Remittance senders: South Africa - Domestic workers - Group location: Gauteng, Katlehong	*n* = 7	*n* = 7
Group 5: Remittance senders: South Africa - Professionals and Skilled workers - Group location: Online discussion	*n* = 10	*n* = 3
Remittance senders total	***n* = 42**	***n* = 34**
Remittance recipients – Lesotho		
Group 1: Remittance receivers: Lesotho - Receivers of remittance from their SA family members. - Group location: Mokhotlong district	*n* = 7	*n* = 7
Group 2: Remittance Receivers: Lesotho - Receivers of remittance from their SA family. - Group location: Maseru	*n* = 6	*n* = 6
Group 3: Remittance Receivers: Lesotho Receivers of remittance from their SA family. Group location: Quthing	*n* = 7	*n* = 7
Remittance recipients total	***n* = 20**	***n* = 20**
Total sample size	***n* = 62**	***n* = 54**

Recruitment for the remittance senders groups in South Africa was undertaken by the Basotho Diaspora Association (BDA), and the Migrant Workers Association (MWA). The database of migrant workers held by the MWA allowed recruitment of specialised migrant types (farmworkers, mineworkers, as shown in the table above), for more focused discussions of unique characteristics of the remittance experience by type of remitter. The skilled workers focus group was recruited from the members of the Basotho Diaspora Association. In Lesotho, the focus group moderator undertook the recruitment of remittance recipients, concentrating on recipients from a mixture of urban and rural areas.

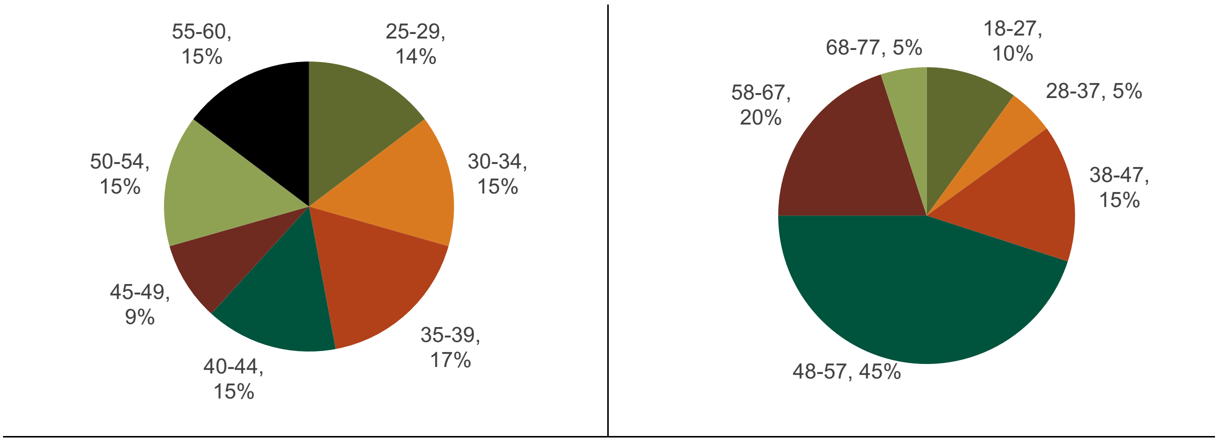
2.1.2 Focus group findings

The focus groups, as expected, provided rich context on the experience of sending and receiving remittances, and the difficulties faced by participants in this market. The sender and receiver group differed substantially in terms of demographics. Recipients were 90% female, versus 65% female for the senders. Recipients also tended to be substantially younger – as shown in

Figure 2 below, 70% of recipients were 48 or older, while 71% of senders were 49 or younger. This is consistent with a pattern of economically active adults sending remittances disproportionately to older parents / relatives.

Figure 2: Age distribution (years), focus group participants

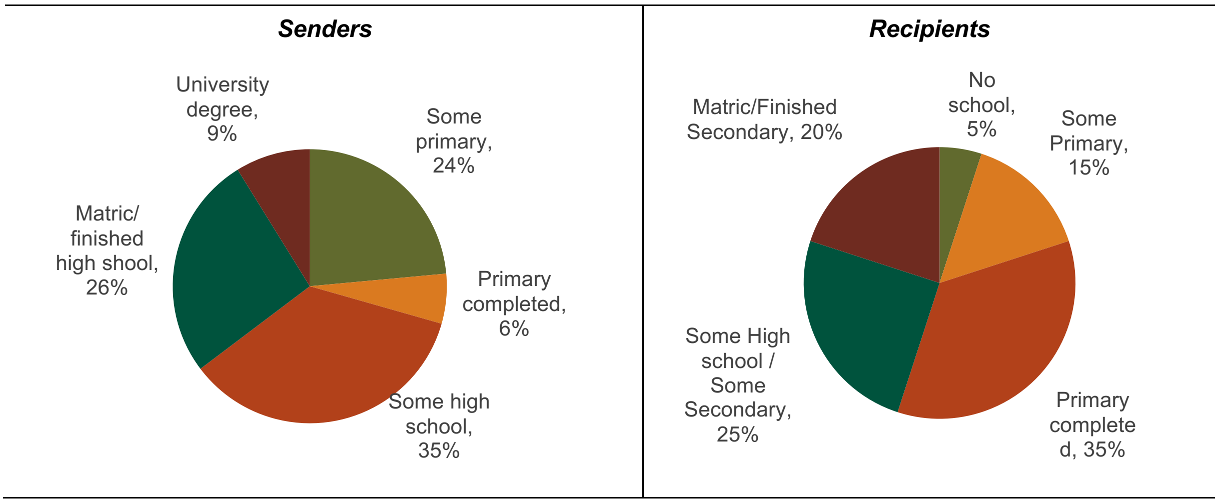
Senders	***Recipients***



Source: Focus group exercise

Similarly, the senders had higher levels of academic achievement than the recipients. Thirty five per cent of senders had achieved at least a matric (i.e. had completed secondary education), while only 20% of recipients had. It should be noted that group 5 consisted entirely of individuals with tertiary qualifications, but only 3 of the ten group participants completed the mini-questionnaire, and thus the 9% of participants with a university degree is an underestimate of the actual sample.

Figure 3: Educational achievements



Source: Focus group exercise

The recipient households were fairly large, averaging just under 6 members each, which is significantly larger than the national average household size of 3.9.[37] Ninety percent of recipient households included school-going children, and 35% had a member who was described as too old or too sick to work. Senders had lived in South Africa for 13.4 years on average, varying between 2 and 33 years. Despite such long residence in South Africa, strong ties were maintained with Lesotho. 71% owned property in Lesotho, typically a house (only one of the individuals with property in Lesotho did not own a house). Seven individuals also owned either a business, a farm or farm animals in Lesotho. The frequency with which focus group participants returned home differed greatly, depending largely on their ability to afford

[37] *(Lesotho Bureau of Statistics, 2021)*

the trip. Lower income respondents with children in Lesotho described the difficulty of choosing between spending money on seeing their children, versus spending money on feeding their children. Higher income individuals, particularly from the online group, in contrast returned home frequently.

> *It's a problem because you have to think of taxi fare for yourself and then you have to pay the kids' fare too, and on the way it's covid tests and there is no money, by the time you get home there will be no money for food left, so it's rather better to stay home, because you have children to think of. It's difficult if you do not live with your children because you could go seasons without seeing them, but if you live with them you at least know with that money I could've used to travel I can buy them bunny chows and make them food so that they don't get hungry.*

Katlehong group (senders)

Moderator: *And how frequently did you go home, back home?*

Respondent: *I've had 24 COVID tests in the last 2 years so I've been to Lesotho about 20 times in the last 2 years.*

Online group (senders)

The role of remittances and the impact of COVID-19

When asked about reasons for migration, and the importance of remittances for household income, a very clear picture was painted by respondents of poverty at home, and a search for opportunity across the border.

> *We all love Lesotho, but the problem is hunger, you cannot live in a place where there is nothing to eat, you must go out and plan for your kids, hunger made us to leave Lesotho.*

Rustenburg group (senders)

> *It's very important to me, because without the money there's no life as we struggle. In them* [i.e. the migrant] *working there's truly life at home*

Quthing group (recipients)

These findings were echoed in the questionnaire presented to respondents. When asked about the households' most important financial goals, 65% of remittance recipients included buying enough food in their answer, and 65% included paying for education, which reflects the limited means of these households. Furthermore, 90% of remittance recipients said it would be difficult or very difficult to meet these financial goals. Remittance senders were fully cognisant of the urgency with which money was needed at home.

Respondent: *I cannot eat while they starve, sometimes there is 15 people in the household, I must make sure that they eat every day. All 15 of them they also must be clothed and have homes, not one house. My mother must have a house, my sibling must have a house, I also must have a house for my own family.*

Moderator: *So, are you going to build houses for all of them or you just contribute?*

Respondent: *Like I say I cannot eat while they do not have food.*

Rustenburg group (senders)

The COVID-19 pandemic had a significant impact on the income of remittance senders in the respondent group. Forty three per cent stated that they earned less because of COVID-19, with only 7% earning more, and 10% losing their jobs entirely (the remaining 40% were not affected). The impact of lost earnings was extremely difficult, both for the migrants themselves, and for the families that relied on their remittances. These families struggled to meet basic needs for food and shelter during this time.

The situation caused a lot of Basotho nationals to become beggars in South Africa, asking for shelter and food.

Rustenburg group (senders)

***Moderator**:* *Mrs D… how much would you send during Covid Lockdown?*

***Respondent**:* *I did not send anything.*

***Moderator**:* *So, what were they eating?*

***Respondent**:* *Nothing much, they had to ask for things like mielie meal [maize flour] from neighbours, for three months I could not send anything home.*

Newcastle group (senders)

COVID-19 also had practical impacts on remitting systems, particularly during the most severe lockdown restrictions. Senders and recipients struggled to physically access remitting systems, which often require travel to a retail outlet. The result was that money took longer to arrive, and the effort that needed to be made to retrieve funds increased substantially, depending on the remittance method used.

The money that comes from (Ceres) was very important in times of COVID, but it used to be very hard to get the money as the children used to struggle to go to the shops to send the money. All the shops were closed because of Corona. We struggled a lot in times of Covid because even if you were promised money, you would not get it because of lockdown.

Quthing group (recipients)

***Moderator**:* *How long does it take you to get where you get your money?*

***Respondent**:* *To go to (Steke) is better than other places but the challenge is that when you go to (Steke) you have to cross the border and the border is closed at the moment, second option is to cross the river and you get arrested for that…..*

***Moderator**:* *So how did you receive the money?*

***Respondent**:* *By crossing the river.*

***Moderator**:* *How does it work? How did you get to (Steke)?*

***Respondent**:* *By using public transport, it took a while to get a taxi and you have to walk a long distance.*

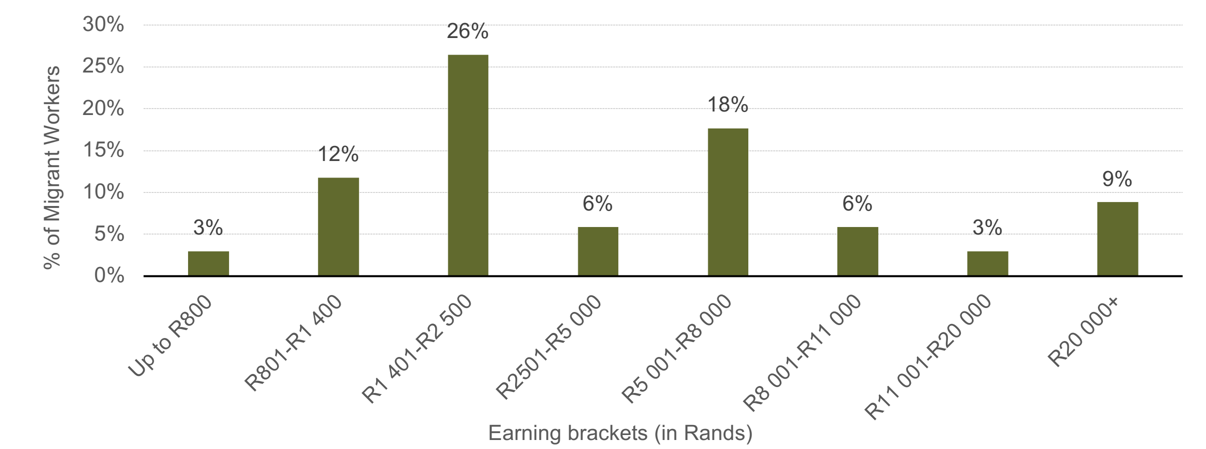
***Moderator**:* *Is it not dangerous?*

***Respondent**:* *It is very dangerous and there's a high number of robberies. We had to cross the river and be chased away by South African soldiers.*

Quthing group (recipients)

As shown in Figure 4 below, the majority of remittance senders in the focus groups earned R8 000 or less per month (at current exchange rates, approximately USD550). While the focus groups did include a number of highly educated, high earning individuals, successful efforts were thus made to include low income remitters in the discussions.

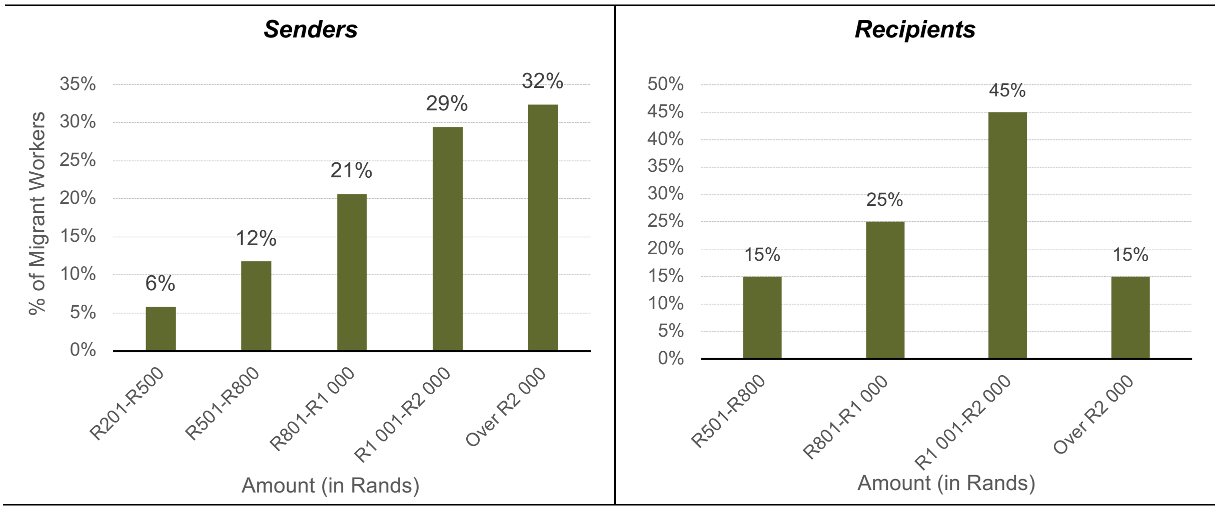
Figure 4: Senders' monthly earnings before tax



Source: Focus group exercise

When asked how much was typically remitted at one time, the senders and recipients groups had somewhat different answers, as shown in Figure 5 below. This may reflect slightly lower average incomes in the recipients groups than in the senders group.[38]

Figure 5: Amount of money remitted per transaction



Source: Focus group exercise

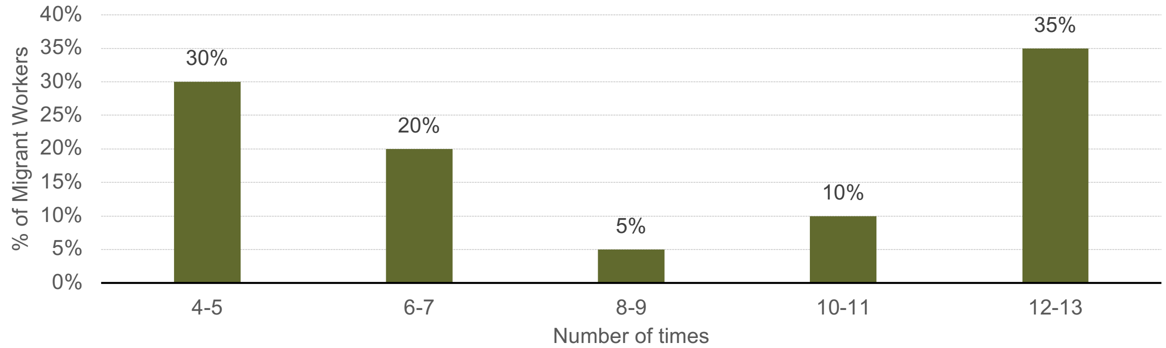
[38] *The FinMark Trust has recently complete a study on the average remittances size between SA and Lesotho. However, at the time of completing this second draft, the FinMark report was not yet published. Should it be published before the end of this study, the key findings around transaction size will be included in this study.*

Remittance recipients suggested that two distinct patterns of remitting predominated, as shown in Figure 6 below. The most common pattern, experienced by 35% of respondents, was a roughly monthly remittance. After this, the most common pattern seen was 4 to 5 transactions per year. The focus group discussion suggested that this roughly quarterly remittance pattern can be caused by a number of underlying factors, such as pay-outs from a savings club, or a pattern of visiting home every three months.

> *… so my nephew would usually tell me that he will send money in 3 months' time because he's joined a stokvel. So, when it's his turn to receive the stokvel money, he will send us money. And that's how we would receive the money.*

Mokhotlong group (recipients)

Figure 6: Number of times remittance recipients receive money per year



Source: Focus group exercise

The experience of remitting

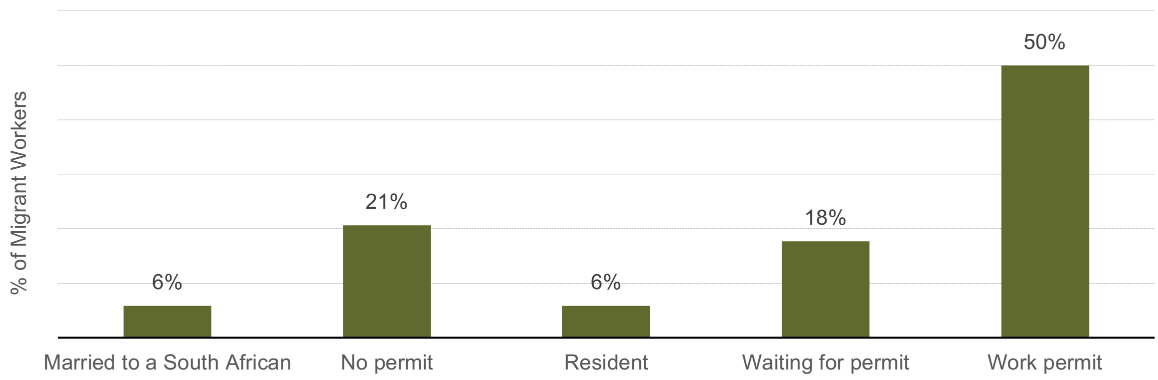
The experience that an individual has of remitting is profoundly affected by their residence status in South Africa. Those with formal residence status have a much easier time in accessing formal remittance services, as the following exchange in the Newcastle focus group confirms:

> ***Respondent**: I use Absa, so far it has been good to me and has not given me any problems. I left my Absa card at home so I just deposit money into it and they can withdraw from Nedbank*
>
> ***Moderator**: So, you were able to open an account because you have a work permit.*
>
> ***Respondent**: Yes, I have a work permit.*
>
> ***Moderator**: Okay, so you opened an account and left the card at home, then you just deposit money to that card for the people at home to withdraw from?*
>
> ***Respondent**: Yes, they can even withdraw from a Nedbank ATM.*

Newcastle group (senders)

Of the respondents in the remittance senders groups, fully 50% had a work permit, and only 21% had no form of residence status at all. 9% of respondents were also South African citizens, with South African ID numbers. Lesotho migrants have benefited from a number of amnesty programs offered by South Africa, which have helped to regularise their migration status, and are more likely to have legal residence status in South Africa than immigrants from many other SADC countries.[39] 45% of recipients had a bank account in Lesotho, and 76% of senders had a bank or post office account in South Africa. 65% of recipients and 74% of senders said it was not difficult to open the account.

Figure 7: South African residency status of remittance senders



Source: Focus group exercise

Nevertheless, dealing with South African and Lesotho border controls continues to be a major source of concern for many respondents. Recent tightening of passport controls, for example, seem to have changed the frequency with which some migrants have been able to return home, and have lengthened their stay in South Africa.

> ***Moderator**:* *So before you used to go home every three months?*
>
> ***Respondent**:* *Yes.*
>
> ***Moderator**:* *And that stopped when they changed what?*
>
> ***Respondent**:* *The passports. When they changed the old with the new ones honestly a lot of people struggled then, because you try keeping the date to return to Lesotho on time, let's say it's supposed to be back on the 29th, and let's say I get there on the 30th, they don't listen to your story. They destroy it.*
>
> ***Respondent**:* *They destroy it.*
>
> ***Moderator**:* *What do they destroy?*
>
> ***Respondent**:* *The passport.*
>
> ***Respondent**:* *And they fine you 5 years.*[40]

Newcastle group (senders)

Residency status and overall access to formal documentation, such as South African ID or Lesotho passports, is also an ongoing impediment to accessing formal financial services. Even remittance

[39] *(Truen, Rateiwa, & Thosago, 2019, p. table 15)*

[40] *The reference to a five year fine suggests that the regulatory framework which is causing these issues is on the South African side of the border. Since 2014, migrants who overstay their South African visa risk being declared undesirable and banned from re-entering the country for either 12 months (overstays under 30 days) or five years (overstays over 30 days). See discussion at https://scalabrini.org.za/wp-content/uploads/2020/06/Scalabrini_centre_cape_town_overstaying_visa_infographic_covid-19.pdf*

products like Shoprite, which have relatively little in the way of know-your-customer requirements, need the user to be able to show more ID than many migrants are able to. This does not necessarily prevent the sender from using the service but does add to the cost and complexity of the remitting event.

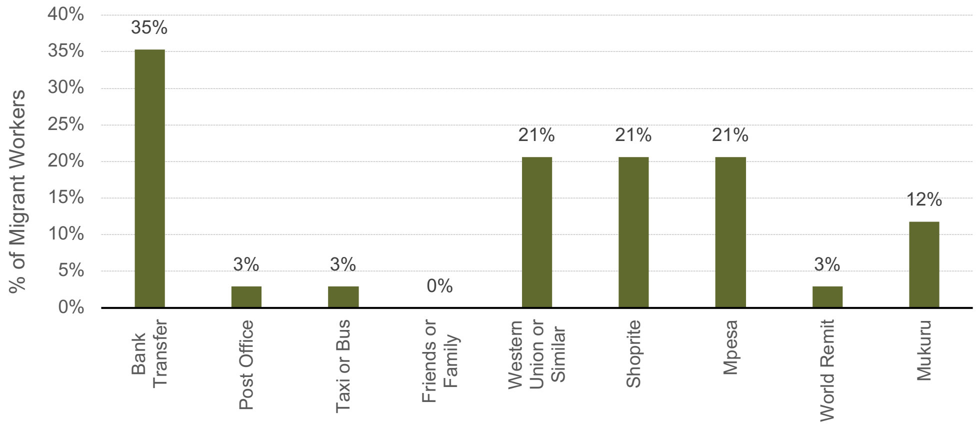
> ***Respondent**: The big problems that we come across when sending money is that when we go send money at Shoprite, us people from Lesotho, we only have passports and they want IDs, so there are people who already made a business out of us by making us pay them to use their South African IDs to send money home.*
>
> ***Moderator**: Oh with their ID.*
>
> ***Respondent**: Yes you find them there waiting for people to send money to Lesotho and they charge R50 just to send money home*
>
> ***Respondent**: R100.*
>
> ***Respondent**: Or sometimes R100*

Katlehong group (senders)

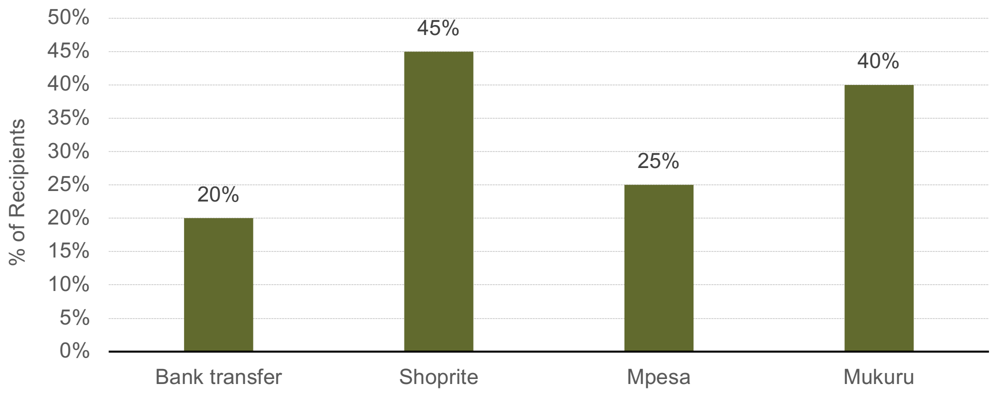
Both senders and recipients were asked about remittance channels used, with the results shown in Figure 8 below. It is immediately apparent that the senders identified a much larger number of potential remitting channels, which is possibly a reflection of the fact that more senders were sampled than recipients. Bank transfers were the most commonly used method in the senders group, with Shoprite the most frequent channel for recipients. However, some caution needs to be taken with these results. For example, 21% of senders and 25% of recipients said they used M-Pesa to remit, but the M-Pesa service does not offer cross-border functionality (from South Africa's side – there is however a pay-out option in Lesotho with M-Pesa (Hello Paisa and Mukuru)).

Figure 8: Method used to send or receive money

Senders



Recipients



Source: Focus group exercise
Note: multiple responses permitted

Only 3% of senders, and no recipients, mentioned use of informal remitting channels. This is consistent with the massive increase in uptake of formal remittance products, as evidenced in the South African Reserve Bank data quoted in section 2 above. Much greater availability of formal remitting products, coupled with consumer distrust of unreliable informal systems , has led to a rapid swing in remitting behaviour.

> ***Respondent**: I'm going to give you my money. If it doesn't get home to my children or it gets lost, what am I going to do?*
>
> ***Respondent**: Or they use it without telling you, you've been thinking the kids are eating at home but nothing like that.*
>
> ***Respondent**: You get to Gauteng, I hear from the kids when I ask if they got the money and they say, what money? It never got here. I gave Lebo the money, what happened. And they go, they never got here, and when you meet Lebo in the streets in Gauteng it's a fight.*

Katlehong group (senders)

Nevertheless, both senders and recipients expressed a great deal of frustration with the quality of formal financial services. Shoprite was a very popular channel, due to its convenience and price point, but the queues at many Shoprite stores made collecting remittances extremely difficult. For many recipients there are already significant transport costs associated with travelling to the nearest Shoprite, and if the queue is so long that the recipient needs to come back another day, the total cost of the transaction quickly becomes prohibitive. The indignity of standing in the sun all day, often without easy access to a toilet, was also mentioned.

> ***Respondent**: With Shoprite if I for example send R2000 I must add R20 on top of that, the problem is when the person I am sending the money to lives in the villages and they have to catch a taxi or two to town to withdraw the money, and they find a long queue when they get there. The sun even sets while they are still in the queue to receive the money.*
>
> ***Moderator**: They end up leaving without the money?*

***Respondent**: Yes, then return the next day only to leave empty handed again because of the long queue at Shoprite.*

***Moderator**: Okay. That's the reason why you don't use Shoprite sometimes?*

***Respondent**: Yes.*

Rustenburg group (senders)

It really takes a while with me. It could take about 4 days. Sometimes you'd have to wake up in the wee hours of the morning at around 3 am just to go join the queue at Shoprite and there's already a long queue at that time.

Mokhotlong group (recipients)

There is a challenge from leaving here and going to Shoprite in Maseru. Since now… Even if they had… Perhaps if the system was designed in such a way that once Shoprite gets your money, it transfers it to you virtually. It would shorten the long distance that we have to travel. It really puts you in low spirits when you must travel the long distance.

Maseru group (recipients)

The issues experienced with the formal banking system were very different. The first set of problems was to do with the pricing of bank remittance products – both how high the charges are, and the unpredictability and opacity of the charging structure. A number of respondents emphasized how difficult it was to predict exactly how much any given banking transaction would cost. This issue with banking charges was contrasted against that of money transfer operators such as Shoprite or Mukuru, where all charges are upfront and transparent.[41]

You get that, let me make an example. You send R1 000 home when they withdraw it, they will tell you that they only received R830, meaning the bank took R170, but if you deposited it through an ATM, you would find that, if you sent R1 000 the children will get either R970 or R950, they will sometime only charge you R30 or sometimes R50.

Newcastle group (senders)

***Respondent**: I have been using FNB, I have an FNB account, and the children also have FNB accounts at home, but I have not figured out how their charges work.*

***Moderator**: Okay, because I want to know that do you think it's important to go to FNB so that they can explain to you why for example you sent R800 home, but the children only received R600.*

***Respondent**: It's not easy.*

***Respondent**: It's not easy.*

***Moderator**: It's not easy?*

***Respondent**: They will just tell you that it is bank charges.*

---

[41] *It should be noted that the quotes which follow reflect focus group participant recollections and are unlikely to be completely accurate as regards fee levels.*

Newcastle group (senders)

***Respondent**: When I withdraw from the bank sometimes Standard I get charged around R200 but when withdrawing from Shoprite if its R600 I get exactly R600 no charges.*

***Moderator**: Where you saying you're being charged a certain amount; does it show what is the charge amount for?*

***Respondent**: Yes sir, it shows but at times the charges are more than what's shown. For an example if someone sent you R650 you won't be able to withdraw R600 because it won't come out because of the charges, only if you withdraw R500 will the money come out, you won't even know where the money ended.*

Quthing group (recipients)

Higher income respondents with a greater familiarity with formal remitting products tended to raise additional concerns about interoperability between various payment systems. One respondent found it so frustrating to navigate the inconsistencies of the formal financial system that he used an informal courier to send funds when the money needed to arrive with urgency.

…. one of the frustrating things is that I mean it's getting more and more difficult to transfer money … the screws are being tightened in all ways. The fact that I could go to an ATM and deposit money and it would reflect in Maseru FNB used to be very convenient, but now the problem is all those little things are being closed. It's a problem of the inconsistencies of different banks…. working within the same legislative framework, it's a bit frustrating. You know sometimes I sit here and I'm thinking I wish I could give someone money to cross with it across the border, cash every month, because it is easier for them to cross the border, they must just get to the ATM and take cash. But that's how frustrating it often gets when you've got to get things done urgently. I mean there is someone who walks the parks of Bloemfontein and does deliveries for people and sometimes when I want to pass money along at home urgently I ask to transfer it to him and take the ATM cash and the person will come fetch it from Maseru. And there's always that sense that you feel like you are smuggling money, which is not the intention of it, but the system it's so inefficient.

Online group (senders)[42]

Respondents with experience of mobile banking also emphasized the lack of interoperability between the various mobile products and the banking system. These issues are then reported to become even more complex when money needs to be transferred from a South African bank to the same bank's Lesotho operations.

So firstly there is no cross over between Eco Cash and Voda Com Limited (VCL), if I have so I have got a Standard Bank account, I can't send money to M-Pesa account because Standard Bank is aligned with Eco Cash, I can only send Eco Cash, so that by itself is already a limitation. And secondly, what I've been advised, because I needed to get money from Lesotho to South Africa and the money is sitting in a M-Pesa account, and they indicated that they have no way of transferring that money into a South African account. So it looks like there is Chinese walls between those mobile platforms and your

[42] Note that response levels in the online group to the short questionnaire were quite low, which is perhaps why this instance of use of informal remittance methods was not picked up in the data.

> *traditional, whether it's internet or an ATM platform. … from what I understand if it's a Lesotho account I can't transfer into say a M-Pesa account, sorry Eco Cash account with Standard Bank South African account but I can do so with a Lesotho Standard bank account, so there is also a limitation in terms of those cross overs, but there are Chinese walls between the platform owners as well as that from South Africa into Lesotho, you can't use those mobile platforms.*
>
> **Online group (senders)**

FNB was widely mentioned as the one bank with fairly easy interoperability between its South African and Lesotho divisions, and one respondent in the online group suggested that he tried to get everyone that he worked with to open an FNB account for that reason and was very worried that this "loophole" would be closed. For other banks operating on both sides of the border, transactions between countries were found to be difficult to negotiate.

> *What hit me hard is the issue of banks. The government must open banks in the country that can associate with South African banks. For example, … with FNB when you are here, you can easily transfer money to someone who uses FNB in South Africa. These other ones, you can go to Nedbank wanting to send money to South Africa and the one here will tell you that they do not have an association with the South African Nedbank. That really threw me off. They should establish relationships so that the money transfers can be made easy. They should have smooth interconnections.*
>
> **Maseru group (recipients)**

Digital financial services and financial literacy

The focus groups spent some time on the issue of access to digital financial services and financial literacy. When directly questioned about previous use of digital services, 21% of senders and 50% of receivers confirmed that they had at least once remitted or received money using the internet or their phone. However, in the focus group discussions themselves, a number of respondents indicated a lack of sufficient knowledge to use such services. Interestingly, for many of these respondents the issue was not access to a smartphone, but rather the knowledge to confidently use it.

> ***Moderator**:* *But I saw a smartphone somewhere around here (laughing).*
>
> ***Respondent**:* *This gentleman has it.*
>
> ***Moderator**:* *So why you do not use it then?*
>
> ***Respondent**:* *I do not have knowledge ma'am.*
>
> **Rustenburg group (senders)**
>
> ***Moderator**:* *Okay. A lot of people have said that using the internet, and smartphones and online things to send money home can be difficult and confusing, have you tried it?*
>
> ***Respondent**:* *No.*
>
> ***Respondent**:* *No, I have not tried it.*
>
> ***Respondent**:* *No.*
>
> ***Moderator**:* *So, no one has a smartphone.*
>
> ***Respondent**:* *We have them.*

***Respondent**:* *We have them, but we hardly use them.*

***Respondent**:* *We don't use them.*

***Moderator**:* *You don't know how to use them?*

***Respondent**:* *Yes.*

Newcastle group (senders)

Access to mobile networks and electricity was a concern for some respondents, particularly in rural areas. Respondents spoke of the difficulty of charging phones at a neighbour's house, and of children complaining about bad network signal when calling them. These issues affected non-digital remittances as well, as the sender could have difficulty informing the receiver that money had been sent to Shoprite, for example, and was available for collection.

***Moderator**:* *Is there electricity or network connection where you leave?*

***Respondent**:* *Yes, sir, but network is a bit of a problem*

***Moderator**:* *Does the network issue have an effect in you receiving money?*

***Respondent**:* *Yes, sir it does, because if someone sends me money I have no way of knowing other than that person to call me and tell me that money was deposited, I have no other way of knowing unless they call to tell me that money was sent.*

Quthing group (recipients)

A number of respondents mentioned obtaining help in using digital and mobile services, from friends, family, brand ambassadors, and staff at shops and banks. This kind of one-on-one training on an app is both a useful means of transferring knowledge and raises concerns as regards the potential for fraud and theft. M-Pesa was the one digital remittance service that was consistently cited as particularly easy and unintimidating to use.

***Moderator**:* *Where do you use Mukuru?*

***Respondent**:* *They have agents that help you register. When I did it, it was because I was coming to South Africa. I saw a woman who was an ambassador walking around and she helped me to apply. And others applied too so there is a lot.*

Katlehong group (senders)

***Respondent**:* *I have never used internet to send money or receive money. I just use M-Pesa and follow all directions. It's quite easy to use.*

***Moderator**:* *How did you know how to use M-Pesa for the first time?*

***Respondent**:* *The first time I used it I explained to the person that was helping me to withdraw the money that I don't know how to use. The person showed me step by step on how to use it and it was simple.*

***Moderator**:* *Who was helping you?*

***Respondent**:* *If you go to the shops, the owner of the shop will help you and if you go to Vodacom the consultant will help you.*

***Respondent**: My kids help me with transactions because I'm old now.*

***Respondent**: Internet banking is very difficult cause they use very hard words, I once sent money using internet banking but I was helped by bank employees.*

Quthing group (recipients)

There was also some concern among focus group participants about the risk of using digital services, getting the details of the transaction wrong, and having no recourse to get the money back. The complexity of entering long strings of numbers, or using "very hard words" as per the respondent above, were intimidating to respondents, and there seemed to be a lack of knowledge of what recourse would be available if a transaction went wrong.

Remitting to remote areas

When questioned about remitting to remote rural areas, respondents suggested that the cost of remitting typically included a significant amount of money and time spent on travel to remittance outlets. The more distant the rural area, the more costly it would be to get into town to fetch money, and recipients were often forced to borrow money to cover these transport costs. If anything went wrong with the collection of funds, for example if the queue at Shoprite was too long, or the ATM swallowed the bank card, the recipient could be left sleeping on the street overnight, or incurring duplicate travel costs to complete the transaction the next day.

***Moderator**: So, the deep villages.*

***Respondent**: Yes.*

***Moderator**: So, in that case how do you send money to them.*

***Respondent**: I use Shoprite.*

***Moderator**: Is there a Shoprite in the villages?*

***Respondent**: Shoprite is in town, so they will have to leave the villages very early in the morning around 6am to go to town and find a Shoprite. When they get there, they find a long queue, maybe there is 100 people in front, the sun will even set without them receiving that money.*

***Moderator**: So, they are still forced to go to town?*

***Respondent**: Yes, there is no other option.*

Rustenburg group (senders)

***Respondent**: When I have a need for money, they deposit money at Shoprite. The disadvantage is that there's always a long queue. Even if money is sent through FNB ATMs, ATMs are always far and not working. Sometimes you are given this money while you don't even have transport to fetch the money and now you must use Standard Bank which is closer but charges more as they charge R100.*

***Moderator**: How far is Mohale's Hoek? Where you saying you find FNB ATMs?*

***Respondent**: It's not far because transport is R42.*

***Moderator**: Sorry is this R42 for going or is it for going and coming back?*

***Respondent**: Yes sir, its R42 to go and R42 to come back, in total its R84.*

Quthing group (recipients)

For domestic remittances, M-Pesa was mentioned as a good method of remitting to remote areas. However, M-Pesa can only be used for domestic transactions. One respondent suggested that when World Remit was in operation, money could be sent from South Africa to Lesotho via World Remit, and then World Remit would forward it on to the final destination using M-Pesa. However this channel is no longer in operation. Another respondent suggested that a friend would receive cross-border remittances at Shoprite for them and then forward it using M-Pesa. However, for those who could not set up this kind of workaround, M-Pesa could not be used for cross-border remittances, and there was palpable frustration that this channel was not available to the cross-border market.

***Respondent**: M-Pesa is the best option for the people who live in the deep rural areas, the only problem about M-Pesa is the charges.*

***Moderator**: So, will this method work in the mountains?*

***Respondent**: Yes, it has been working my sister.*

***Moderator**: Is there any other method, we have M-Pesa and what else?*

***Respondent**: M-Pesa is the easiest method.*

***Respondent**: It is the only one.*

***Respondent**: It is a whole lot easier than the many others.*

Newcastle group (senders)

***Moderator**: Yes, but what are you suggesting, are you saying they should have another M-Pesa?*

***Respondent**: What I am getting from what my fellow gentleman is saying, I think he wants M-Pesa to work as efficiently as it does when we are in Lesotho, I think he wants it to be easy to use even when you are somewhere else.*

***Moderator**: You cannot use M-Pesa when you are this side?*

***Respondent**: No.*

Rustenburg group (senders)

Financial resilience

Remittance networks themselves are a crucial part of the financial resilience of the households they support. They allow for a diversification of income sources and the establishment of networks of mutual financial assistance between the remitter and the recipient household. The COVID-19 pandemic has however stretched some of these networks of support past their capacity, and the focus group research provided ample evidence of a decrease in financial wellbeing as a result.

To begin with, respondents were questioned about their overall ability to save. Their responses highlight the impact of poverty and high dependency ratios on the ability to meaningfully save. For many respondents, money is spent as it is received, and there is not sufficient income to buy essentials, let alone save. In the written questionnaire, when asked whether money received is saved, invested, used for insurance products or used immediately, 50% of recipients said it was used immediately, 55%

purchased insurance products, 10% saved a portion of the money, and none used the money to invest (multiple responses were permitted).

> ***Moderator**:* … now tell me from your earnings do you save something?
>
> ***Respondent**:* What do you mean saving how?
>
> ***Respondent**:* The only way I save is when I pay insurance like funeral cover.
>
> ***Respondent**:* Saving is not easy, what he is saying is true, we do not only take care of our immediate families, but we also have extended relatives like cousins who depends on you, and you cannot ignore that, you must help.
>
> ***Moderator**:* So, saving is difficult.
>
> ***Respondent**:* Yes, it is difficult to save, everyone depends on you, and you sometimes find you are the only one working. You find at home I have male siblings with wives, and they are all not working, so they become my responsibility, all of them. I cannot say they are men with wives, they must fend for themselves, I have to help them.

Rustenburg group (senders)

Where respondents did successfully save money, it was often through payments on insurance, or through informal savings clubs. There were also respondents who mentioned using the M-Pesa e-wallet as a way to keep savings.

> ***Respondent**:* We do not save money at all, when it comes in, we see needs, we buy. We may at least take R20 to (Reya go boka). So that when we have a problem, we will not burden people.
>
> ***Moderator**:* (Reya go boka) that you are talking about, what is it?
>
> ***Respondent**:* It is insurance.

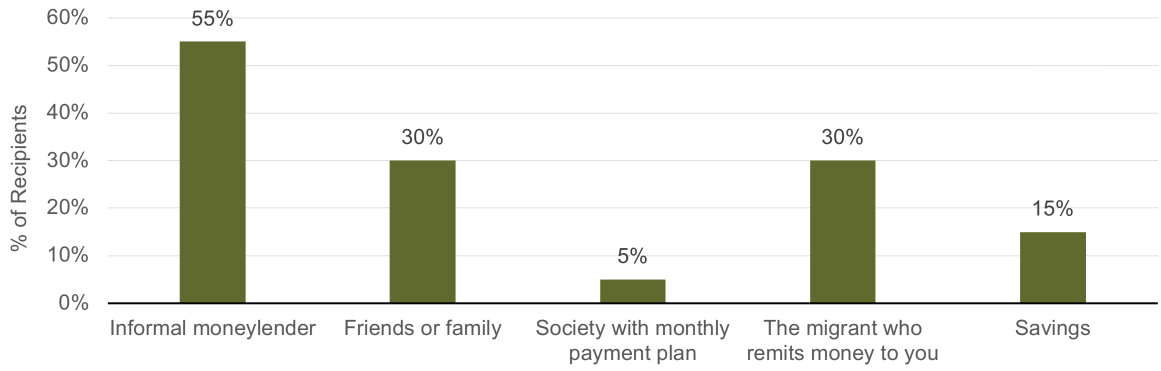
Quthing group (recipients)

> ***Moderator**:* Okay, the money you send through M-Pesa is for saving no other things, right? So how do you get it when you get home?
>
> ***Respondent**:* If you keep sending through M-Pesa they give you a number can keep your money.
>
> ***Moderator**:* So, you can keep your money in M-Pesa for a long time without withdrawing it?
>
> ***Respondent**:* Yes ma'am.

Newcastle group (senders)

When asked about where they would source money in an emergency, more than half of remittance recipients mentioned informal moneylenders, the single most commonly cited source of emergency funding. As shown in Figure 9 below, the next most common sources of money were friends and family, or the migrant who remits to the household. Only 15% of respondents could access savings, and 5% could access funds from a society with a monthly payment plan.

Figure 9: Source of money in an emergency, remittance recipients



Source: Focus group exercise
Note: multiple responses permitted

While the formal financial sector is subject to regulation and consumer protection requirements, borrowings from informal moneylenders do not benefit from this framework. Consumers who use these services thus have no protection from excessive interest payments, unethical debt collection practices, or over-indebtedness. It is thus deeply concerning that remittance recipients seem to be heavily reliant on this source of funds in emergencies. While the remittance senders were not asked a similar question in the written questionnaire, they also repeatedly mentioned use of moneylenders in the focus group discussions. They also disclosed that it was not uncommon to borrow money in order to make remittance payments.

Moderator: *Did you ever borrow money to send to people at home?*

Respondent: *Yes, it happened.*

Moderator: *Did it happen a lot?*

Respondent: *Yes, it did.*

Rustenburg group (senders)

Moderator: *… and then another question is if you ever borrow money just to send money home?*

Respondent: *Yes, when it's rough at home, you have to pay a lot to loan sharks. Let's say you left a child at home and they get sick or a problem, I have to make a plan and borrow money. Then I send the money and I'm left to deal with the debt from the loan shark.*

Moderator: *Okay so sometimes you go to loan sharks so that the children can have something.*

Respondent: *Yes, there is no one to borrow R500 from, especially when you do not have a stable job.*

Respondent: *Everyone is loaning money out.*

Moderator: *Okay, and you guys do you borrow money so that you are able to send it home?*

Respondent: *Yes.*

Moderator: *And when you borrow money, who do you borrow it from?*

Respondent: *Loan sharks.*

Katlehong group (senders)

All of these issues of financial resilience were complicated by the COVID-19 pandemic when many senders lost jobs or income. In this situation of extreme financial stress, remitters turned over every stone to continue to support their families, including borrowing from employers and using up business assets. The financial effects of these decisions made in extremis are likely to affect these households for years to come.

> ***Moderator**: Let us say for example you used to normally send R500 home, how did you manage during Covid when you could only send R200, did you ever borrow money to send home during Covid? And where did you borrow it from?*
>
> ***Respondent**: Yes, we did borrow money from Chinese.*
>
> ***Moderator**: Are your employers Chinese?*
>
> ***Respondent**: Yes ma'am.*
>
> ***Moderator**: So, you borrowed at work, what about others?*
>
> ***Respondent**: I used up all my cash that I saved from selling from the streets, we could not sell anymore, so I used up money I should buy stock with to send my mom and kids. Even now it is difficult for me, my business has really suffered, I would appreciate if I can find my foot again, this Covid pandemic was terrible, it was hard.*
>
> ***Moderator**: Yes, it was hard, did your friends borrow you money?*
>
> ***Respondent**: Yes, I did borrow from friends in Lesotho and even today I could not pay them because I had to start afresh with very little money.*
>
> **Newcastle group (senders)**

2.1.3 Summary of fieldwork findings

A number of themes can be identified from the focus group discussions. Firstly, while many Lesotho migrants in South Africa do have formal residency status, which allows easier access to formal financial services, issues with access to the necessary documentation remains a problem for others. Better access to forms of identification issued by Lesotho authorities would help to address this issue, but South African immigration law, and its interaction with South African financial regulation, is also a major contributor to the problem. Efforts to address the problem of access to documentation thus need to be ongoing.

The focus group findings were consistent with a picture of a massive swing to formal remittances in the Lesotho-South Africa corridor in recent years. However, while access to formal services has improved dramatically, the focus group participants were still experiencing major problems with the quality of service from many formal providers, and were eager to see improvements continue. Shoprite's remittance service is very widely used, but queues and congestion around the service mean that the actual process of retrieving funds on the Lesotho side of a transaction can be extremely arduous.

From the banking transaction side, the sources of consumer unhappiness seem to be significantly more complex. Remittance senders and receivers found the fee system for remittances extremely difficult to predict – possibly partly because of the way that the pay-out method chosen can affect total bank fees. They also reported finding it difficult to predict the extent to which banks operating on both sides of the border would display any real degree of operational integration, and expressed concerns that banks which currently do offer a good quality of service were possibly in the process of making access more difficult.

The remittance product which was regarded most highly by the focus group participants was mobile money, and M-Pesa in particular was described as simple to use and convenient. However, it is still not possible to make a direct wallet-to-wallet transfer on this product, cross border. Mobile money offers obvious advantages to those who live in rural areas of Lesotho, and thus face substantial travel costs to access bricks and mortar outlets. It is also viewed as a more accessible form of remitting than internet banking, for example – respondents who were not confident to use internet banking or other app-based products would still tend to be happy to use M-Pesa. Overall, though, the respondents did seem quite open to experimenting with new remittance methods and products, as long as customer support to learn how the method worked was easily accessible.

The most worrying aspect of the focus groups was as regards financial resilience. It was not surprising to find that COVID-19 had had a major negative impact on the income of many remitting households. What was more surprising was to find that the principle coping mechanism of these households had been to turn to unregulated moneylenders. High levels of indebtedness are always of concern, but high levels of indebtedness to unregulated lenders raise the potential for severe financial and indeed criminal abuses. From a policy point of view, an immediate question must be why formal financial products were not accessed by these individuals. Is the formal microlending market in Lesotho sufficiently robust at present, or is more attention needed in this area? Consumer education on the perils of over-indebtedness, and better financial management techniques in general, may also be of use – although it should be noted that high household dependency ratios and low income levels do put hard limits on the ability of many households to save for a rainy day.

2.2 Benchmarking international remittances systems

It is typically useful to compare experiences internationally, in order to try and tease out what features of a market are essential, and which features policymakers have more discretion on. International comparisons can also provide valuable insights on the types of product and regulatory innovations which have facilitated development in other countries. In this section we examine remittance channels, financial inclusion, and financial resilience in two international remittances corridors. The first is the North-South corridor of America to Central America, and in particular Mexico as this market is well studied and, like the South Africa-Lesotho corridor, the countries share a land border. For the South-South country comparison, the India-Bangladesh corridor has been identified. India has a large migrant population and these Bangladeshi migrants, like Basotho in South Africa, come from a neighbouring country, and the majority of them are low-income earners.

In addition, we include a brief review of examples of innovation in international remittance markets. In the focus group research, which will be detailed in section 3, a frequent theme raised is concerns in relation to the low levels of interoperability of remittance systems in Lesotho. We therefore also include a review of international approaches to remittance system interoperability.

2.2.1 North-South Corridor: United Stated of America to Mexico

Remittances are an important source of foreign currency income in Central America (CA) and represent a critical lifeline for millions of households. As such, there is strong policy interest in making these payments as affordable, agile, reliable, and remotely accessible as possible. Mexico is the largest remittance recipient in the Latin America and the Caribbean (LAC) region and received 42% ($52.7 billion) of the regional remittance total in 2020.[43] This value equates to 4% of Mexico's GDP as of 2020.[44] The largest portion of this, 95%, is sent from migrants in the United States of America (USA).

The average transaction costs of remittances in this corridor have been declining steadily. In 2017 the average transaction cost charged by remittance service providers for sending $200 was 5%,[45] and by 2021 this had fallen to 3.7%[46]. Mexico is currently the least expensive recipient country in the Group of Twenty (G20). This reduction in cost has been driven by increased competition, technological change and product innovations.

A major component of success in formalising remittances in this market has been to find a way of dealing with the irregular migration status of many remitters, without excluding them from formal financial markets. Since 1871, Mexican consulates have on request issued a type of identity card to Mexican citizens who reside outside Mexico, the Matricula Consular, which has played an important role in this process. To obtain a Matricula card, migrants need only present the following documentation:

> *(1) a birth certificate or other document demonstrating Mexican citizenship; (2) a document with a picture demonstrating identity, such as a voter identification or a driver's license; and (3) proof of a local address in the United States, such as a utility bill.*[47]

The matricula card issued includes a photo of the bearer and their US address. Before issuing the cards, Mexican authorities also conduct some cross checks to screen out applicants with a history of fraud, or who are otherwise undesirable.[48] From the point of view of financial institutions, therefore, the matricula both confirms identity and address, and provides some screening for previous criminal behaviour.

Applications for the matricula card grew rapidly post September 2001, when use of photo-based identity became more widespread in the United States.[49] By 2018, one research report estimated that 38% of the Mexican born population in the United States held a valid matricula, rising to 75 to 80% of undocumented Mexican migrants.[50] Within the United States, the cards are recognised as a valid form of identification by a variety of institutions, from police departments to libraries, but each institution

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[43] *World Bank. (2021). Remittance Flows Register Robust 7.3 Percent Growth in 2021. Press Release No: 2022/027/SPJ*
[44] *World Bank Data. (2020). Personal Remittances Received (% of GDP), Mexico.*
[45] *Dilip, R. (2010). What Are Remittances. International Monetary Fund.*
[46] *Global Partnership for Financial Inclusion. (2021). G20 National Remittance Plan, Mexico 2021.*
[47] *(Congressional Research Service, 2005, pp. CRS-2)*
[48] *(Congressional Research Service, 2005, pp. CRS-2)*
[49] *(Congressional Research Service, 2005, pp. CRS-1)*
[50] *(Caballero, Cadena, & Kovak, 2018)*

appears to retain the discretion as to whether to accept the card, and many do not.[51] For financial institutions, the provisions of s326 of the Patriot Act have relevance. This legislation requires that financial institutions must collect identifying information on customers, which is further defined through regulation to need to include a national identity number which can be derived from a "number and country of issuance of [a] government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard."[52] This allows the use of the matricula as a form of identification when accessing the financial system (although again, each financial institution seems to retain discretion as to whether it will acknowledge the matricula).

There has been some internal political opposition to use of the matricula from the United States. The Congressional Research Service summarised the issues as follows:

> *In important respects, the debate over the matrícula consular is a debate about how to address the issue of unauthorized immigration to the United States. Those who support domestic acceptance of the matrícula consular emphasize that the card is issued solely for identification purposes and does not confer any type of legal immigration status on the bearer. They maintain that acceptance of the card is necessary in a post-September 11, 2001 America in which photo identification is required to conduct daily business and that such acceptance is beneficial not only for the holders but for the banks and other institutions as well. ….*
>
> *Opponents of domestic acceptance of the matrícula consular argue that the card is needed only by aliens who are illegally present in the United States and do not possess other acceptable identification documents. They maintain that the matricula consular helps unauthorized Mexicans live and conduct business in the United States by, for example, enabling them to open bank accounts. In so aiding illegal aliens, opponents charge, the card effectively confers quasi-legal status on them in subversion of U.S. immigration law.*[53]

In Arizona in 2011, legislation was implemented to ban the use of the matricula as an accepted form of identification. This legislation was subsequently overturned in 2021, reinstating use of the matricula in the state.[54] The use of the card thus remains widespread, and has inspired other nations (including Guatemala, Ecuador, and Brazil) to issue similar documentation to their migrants.

Competition among private entities has been instrumental in driving down prices and making formal services more attractive for migrant workers. The shift towards formal systems has mostly occurred in the first mile of remittance transfers, while there has been increased access, awareness, transparency, and information in the market. There have also been several initiatives undertaken by Mexico as well as bilateral initiatives between the USA and Mexico to encourage the use of formal channels. One of these bilateral initiatives is "Direct to Mexico", established in 2005 between the US Federal Reserve Bank and Mexico's Central Bank "Banco de México". It supports the sending of remittances between bank accounts from the USA to Mexico by offering competitive exchange rates, lower commission fees and

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[51] *(Congressional Research Service, 2005, pp. CRS-2)*
[52] *(Congressional Research Service, 2005, pp. CRS-3)*
[53] *(Congressional Research Service, 2005, pp. CRS-5)*
[54] *https://www.tucsonsentinel.com/local/report/030821_consular_id/ducey-signs-bill-recognizing-validity-consular-id-cards/*

secure transactions. Remittance channels used have changed over time, with most senders now using electronic transfers, as shown in the table below.

Table 3: Mexico remittance channels

Remittance Sending Channel	Usage (%)
Money order	0.12
Cash and kind	0.65
Electronic transfers	99.22

Source: Banco de México. (2021). Revenues by Workers' Remittances. Balance of Payments.

Further, 81% of remittances were sent through non-banking institutions and 21% through commercial banks [55]. Points of entry in the United States for a formal remittance include banks and credit unions, post offices, money transfer operators (MTOs) such as MoneyGram and Western Union, individual businesses and chain stores (grocery, convenience, department) that serve as independent operators or as agents for MTOs.[56] There has also been an increase in the number of distribution channels in Mexico's urban areas and regional centres. Remittances are delivered to recipients through a variety of outlets, including banking and microfinance institutions, MTOs, department stores, small neighbourhood stores, telegraph offices, exchange houses, and post offices.[57] In urban and regional centres, these outlets are plentiful, however, rural areas do not have the same level of access enjoyed by urban areas.[58]

Whilst there has been an improvement in **financial inclusion** in Mexico, progress has been slow. As reflected in Table 4, the 2018 National Financial Inclusion Survey (ENIF) found that less than half of the adult population had access to basic savings accounts, and only a quarter could access insurance products.

Table 4: Mexico financial inclusion statistics

Financial Inclusion Measure	2015 (% of adult population)	2018 (% of adult population)
Savings Account	44.1	47.1
Insurance	-	25.4
Loan (at least one loan)	29.1	31.1
Pension Fund	-	39.5

Source: National Financial Inclusion Survey 2018

The National Financial Inclusion Policy (PNIF) was developed by Mexico's National Council for Financial Inclusion (CONAIF) and the Financial Education Committee (CEF) in March 2020. The policy incorporated a strategy on promoting access and use of financial services in sending and receiving remittances. The strategy includes the following action plans[59]:

[55] *Banco de México. (2021). Revenues by Workers' Remittances. Balance of Payments.*
[56] *Raúl Hernández-Coss. (2005). The U.S.-Mexico Remittance Corridor Lessons on Shifting from Informal to Formal Transfer Systems. The World Bank. ISBN-13: 978-0-8213-6087-3.*
[57] *Ibid*
[58] *Dilip, R. (2010). What Are Remittances. International Monetary Fund.*
[59] *Global Partnership for Financial Inclusion. (2021). G20 National Remittance Plan, Mexico 2021. https://www.gpfi.org/sites/gpfi/files/sites/default/files/Mexico.pdf*

- Promote and facilitate the on-site and remote opening of deposit, savings, and saving for retirement accounts for migrants and their families;
- Promote the reduction of remittance costs and disseminate lower cost providers to population;
- Establish economic-financial education programs through Mexican consulates in the United States and personnel of civil society organizations; and
- Promote the acceptance of consular identification as an official identification for migrants in Mexican banks.

The government of Mexico has also begun to adopt financial inclusion and financial education programmes for migrants through consulates. These actions are being implemented by an inter-institutional group of government agencies which includes the National Commission for the Protection and Defence of the Users of Finance (CONDUSEF), the Institute of Mexicans Abroad (IME), the Ministry of Finance and Public Credit (SHCP) and the Bank of Welfare (Banco del Bienestar), among others[60]. They complement previous financial education initiatives, as described in
Table 5. While progress in financial inclusion has been slow these efforts demonstrate the commitment of the Mexican authorities to collaborate successfully with several domestic bodies to expand financial inclusion in Mexico.

Table 5: Mexico financial education initiatives

Programme Name	Year	Description
Debicuenta exprés (Express Debit Account)	2017	This is a financial product launched by the Bank of Welfare allowing the remote onboarding of Mexicans migrants in the U.S. and their families in Mexico. This is a fully digital solution which allows for scanning of IDs.
Mexican pension system	-	This programme is run by the National Commission of the Retirement Savings System. It provides services and information for migrants related with the "saving for retirement system", to enhance the incorporation of migrants to the Mexican Pension System.
National Financial Education Week	2020	The financial education week was launched virtually, providing more than 500 activities and conferences for Mexican citizens abroad, in coordination with 44 consulates in the United States.
The Banking Program for Migrants and their Families	2021	This program aims to enhance strategies to reduce the risks and costs of transactions for migrants as well as the offer of competitive exchange rates nationwide. It consists of reinforcing and amplifying the financial services coverage to facilitate sending remittances by reducing costs, ensuring security and simplifying procedures.
Annual digital newsletter for migrants	Annual	Developed by the Institute for Mexicans Abroad, in collaboration with CONDUSEF this newsletter provides migrants with relevant information about procedures to access Mexican financial services, financial education, among others.
Expanding Rural Finance Project	2016 - 2020	A total of 192 participating financial intermediaries (PFIs) provided 174,000 credits to 140,000 rural producers and MSMEs with an average loan size of US$1,850; 81 percent of credit recipients are women

Source: Global Partnership for Financial Inclusion, 2021

[60] *Ibid*

There is also evidence of a general upward trend in the uptake of **digital financial services**. The ENIF (2018) showed that while 43,1% of individuals still rely on brick-and-mortar bank branches or other financial institutions, the number of individuals using mobile banking services has increased. Mobile banking uptake has risen from 937,000 people in 2012, to 2.7 million in 2015, and approximately 7.9 million by 2018. This is despite the fact that while many individuals have access to a cell phone or smartphone, the number of homes with a computer and internet connection remain low, as shown in Table 6.

Table 6: Digital channel penetration, 2021

Digital Channel	Penetration (%)
Homes with a computer	44.3
Homes with internet connection	56.4
Users of cell phone or smartphone	88.1

Source: National Survey on Availability and Use of Information Technologies in Households, 2021

Several initiatives have been introduced to promote the use of digital channels for general financial services as well as remittances. These are summarised in Table 7 .

Table 7: Digital financial inclusion initiatives, Mexico

Initiative	**Description**
CoDi (Digital Payment)	This is an application run by the Banco de Mexico which eliminates the need for commercial banks to develop their own mobile digital payment platforms to send and receive money. The success of the initiative is still to be determined, but as of 2020 there were 6.4 million user accounts against a goal of 18 million accounts.
Financial Advisory Windows (VAF)	The Institute of Mexicans Abroad promotes the digitization of remittances in collaboration with Mexican FinTech companies to disseminate these services within the migrant community, mainly in the United States
Financial Inclusion DPF (2019)	The Bank supported a comprehensive legal and regulatory framework for Fintech in Mexico that enables the authorization, operation, and supervision of Fintech institutions, (Instituciones de Tecnología Financiera, ITFs), focusing on two particular types: crowdfunding institutions (IFC) and electronic payment funds institutions (IFPE). This legal and institutional framework for Fintech, is the first of its kind worldwide. It is expected to provide an opportunity to expand financial services access through innovation.

Source: Global Partnership for Financial Inclusion, 2021

This remittance corridor was fairly resilient during the COVID-19 pandemic. Total remittances grew 27.1% in 2021, to reach a total of $51,594 million.[61] There are several explanations for this buoyancy in remittances including targeted efforts by Mexican authorities, the large stimulus package provided by the USA government to both citizens and noncitizens with a social security number, and a shift towards formal remittance channels as informal channels became too expensive or inaccessible due to the restrictions on physical movement. There was also an increase in earnings of migrants as the

[61] *BBVA Research. (2021). Mexico | Remittances grew 27.1% in 2021, reaching a new historical maximum*

unemployment rate of Mexican migrants in the U.S. fell from 4.1% to 3.7%.[62] Three actions were taken by Mexican authorities to support Mexicans in the USA and their families, as follows:[63]

- Banking Mexican migrants in the United States and their families in Mexico through the Bank of Welfare;
- Facilitating the opening of deposit accounts for Mexicans abroad with the Certificate of Consular Registration or Passport issued abroad by the Ministry of Foreign Affairs; and
- A remittance banking program run by the Ministry of Finance and the Bank of Welfare.

Several of these initiatives had already been underway as part of the broader financial inclusion strategy, and served the country well during the pandemic. These were important steps which supported remittance sending and it highlighted the need to continue lowering the cost of remittances and driving digitalisation for wider financial inclusion.[64]

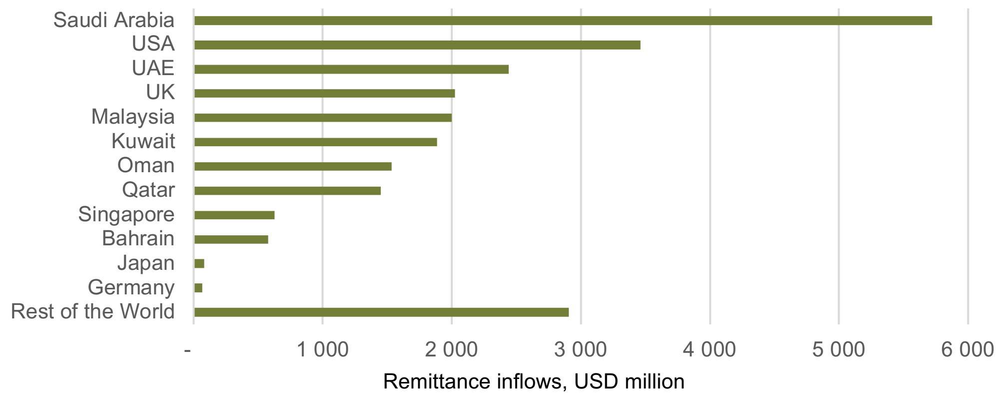
2.2.2 South-South Corridor: India to Bangladesh

Remittances are an important source of income in Bangladesh. The Global Knowledge Partnership on Migration and Development (KNOMAD) reported that remittance inflows accounted for 6,6% of the country's GDP in 2020, ranking the country as the eighth highest remittance earner globally. Formal remittances totalled $24.8 billion in 2021, a 36% increase from 2020, suggesting that remittance inflows remained resilient during the COVID-19 pandemic[65] (although physical movement restrictions during the pandemic did tend to divert remittance flows from informal to formal channels).

In terms of formal remittance inflows, the largest single source of remittances for Bangladesh is Saudi Arabia, as shown in Figure 10. However, as shown in Figure 11, the single largest destination country for Bangladeshi migrants is estimated to be India, with more than 2.7 times as many Bangladeshis as Saudi Arabia. Usually, the flow of remittances at least to some extent mirrors than pattern of migration. The large number of Bangladeshis in India thus suggests that there must also be significant remittances flowing from India to Bangladesh.

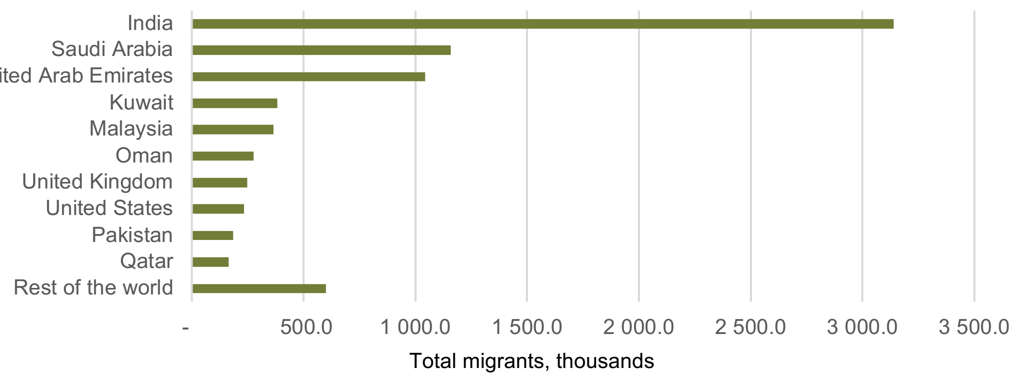
[62] *Ibid*
[63] *Global Partnership for Financial Inclusion. (2021). G20 National Remittance Plan, Mexico 2021.*
[64] *Ibid*
[65] *Bangladesh Bank Quarterly, October-December 2021*

Figure 10: Bangladesh remittance inflows by source, 2021



Source: Bangladesh Bank Quarterly, October-December 2021

Figure 11: Top ten destination countries for Bangladeshi migrants



Source: World Bank Bilateral Estimates of Migrant Stocks in 2017, available at https://www.knomad.org/sites/default/files/2018-04/bilateralmigrationmatrix20170_Apr2018.xlsx

A number of factors may be at play to explain this apparent discrepancy. For example, Bangladeshis migrating to India may have fewer economic opportunities, lower earning potential, and less ability to remit than Bangladeshis in Saudi Arabia. Alternatively, Bangladeshis may use the geographical proximity of India to Bangladesh to travel home frequently, taking money with them. Finally, there may be well-established informal remitting channels, and the majority of the money may be travelling informally. Some combination of these and other unknown factors is also possible.

By some estimates informal channels account for 40% of total remittances to Bangladesh,[66] which suggests that the India-Bangladesh remittance market may in fact be larger than formal data suggests. The bulk of the informal remittance market uses what is known as the Hundi system, which relies on personal trust rooted in family relationships or regional affiliations. The average cost of formal remitting systems is fairly competitive – the United Nations Capital Development Fund (UNCDF) estimate of the average cost of sending $200 to Bangladesh is 4.1%.[67] However, research has found that found that

[66] *(IOM, 2019)*
[67] *(UNCDF, 2021).*

informal systems tend to be much cheaper. One study suggested a transaction which would cost around Bangladeshi taka (BDT) 236.5 through formal channels, would only cost BDT 75.53 via Hundi.[68] Formal channel transaction costs comprise of service fees and conveyance while the Hundi system costs are driven by phone charges, conveyance and remittances lost. Hundi is thus popular as it offers lower fees, better exchange rates and does not require legal identification.

The discrepancy between the formal and informal exchange rates is also a fairly substantial driver of informal remitting. A news report from 1 January 2022,[69] for example, suggested that the formal exchange rate to the US dollar was BDT85, compared to BDT91-92 in the informal exchange market. Remittances exchanged on the informal exchange market thus provide the recipient with 7-8% more local currency. The Bangladeshi government program currently provides remitters with a 2.5% cash incentive for formal remittances (introduced in 2019 at 2%, and increased to 2.5% in 2022), but it is evident that this is dwarfed by the exchange rate advantage offered by informal markets. Any attempt to further formalise Bangladeshi remittance markets thus faces considerable headwinds.

Financial inclusion remains a top priority for the Government of Bangladesh. The government's 7th Five Year Plan aims to achieve "low-cost mechanisms at citizens doorsteps for banking, money transfer, including safety net payments and local and foreign remittances, credit, including micro-credit, insurance, including crop, health, life and disaster insurance.[70]" While there is still work to be done, Bangladesh has made important strides in financial inclusion. Table 8 shows the changes in financial access and usage over the period 2014-2017. The number of individuals (older than 15 years) with a bank account increased dramatically from 31% to 50%, while the number of digital payments made or received rose even more steeply, from 7.4% to 34.1%. There has also been rapid growth in uptake of mobile money, from 2.7% in 2014 to 21.2% in 2017[71].

Table 8: Indicators of financial access and usage (population > 15Y) - Bangladesh

Financial Service	2014 (%)	2017 (%)
Bank account	31.0	50.0
Financial institution account	29.1	41.0
Mobile money account	2.7	21.2
Made or received digital payments	7.4	34.1
Saved at a financial institution	7.4	9.9
Borrowed from a financial institution or used a credit card	10.0	9.2

Source: The Little Data Book on Financial Inclusion, 2018, World Bank

Bangladesh Bank data on financial inclusion in Bangladesh suggests that 48% of bank branches are located in rural areas, and the remaining 52% are in urban areas. The number of branches per 100 000 persons rose from 4.98 in 2009 to 6.04 in 2018. Over the same period, the number ATMs per 1000

[68] *(Siddiqui & Abrar, 2003).*
[69] *TBS Report, 01 January, 2022.* Incentive raised to 2.5% to boost remittance inflow. *Accessed at https://www.tbsnews.net/economy/govt-increases-remittance-incentive-25-351640*
[70] *General Economics Division Planning Commission. 2015. Seventh Five Year Plan. Government of the People's Republic of Bangladesh. https://www.unicef.org/bangladesh/sites/unicef.org.bangladesh/files/2018-10/7th_FYP_18_02_2016.pdf*
[71] *World Bank. 2018. The Little Data Book on Financial Inclusion.*

square kilometres increased from 8.6 to 66.0.[72] Digital connectivity (specifically mobile), is an increasingly important channel driving improved financial inclusion in Bangladesh. As is evident from Table 9, mobile penetration is over 100%, and levels of smartphone and internet usage are also very high, so the population is well-prepared to migrate to digital financial services.

Table 9: Mobile and internet penetration rates

Mobile Service	Penetration (%)
Mobile penetration rate	103
Smartphone users	83
Internet users	68

Source: UNCDF. (2021). Review Of Remittance Policy, Legal And Regulatory Framework: Bangladesh

The UNCDF sets out central elements of the commercial landscape for remittances in Bangladesh as follows:[73]

- **Banks**: the banking sector is active in the remittance market, with 41 domestic private commercial banks and 9 foreign commercial banks in operation. Internet banking fund transfer is available through six banks
- **Mobile network operators**: mobile financial services are only provided in what the Bangladesh Bank describes as a “bank-led model.” In 2019, 16 banks provided these services, and inward remittances accounted for only 0.07% of mobile financial services transaction volumes[74]
- **Remittance service providers**: money transfer operators can only operate in Bangladesh in partnership with banks that have corresponding exchange houses

Approximately 96% of remittances to Bangladesh are estimated to be sent and withdrawn in cash. The bank-led model for mobile financial services are likely contributes to this, as initiatives allowing the termination of remittances in digital wallets are still in the early stages of development.[75] However, the pandemic has accelerated the update of digital financial services in Bangladesh, and an additional 300,000 mobile financial service accounts were opened as physical transactions and movements became limited[76].

2.2.3 International innovation

The case studies above provide interesting lessons on the extent to which active, involved regulators and central banks can intervene in remittance markets, foster innovation, and ally with regulators in other countries to significantly improve remittance outcomes. The Mexican experience of the Matricula card also highlights the importance of ensuring that barriers to remitting potentially created by immigration law are dealt with. Remittances straddle several areas of regulation, and regulatory reform that concentrates on only financial markets may be insufficient to truly address barriers to growth.

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[72] *Bangladesh Bank. 2019. Survey on Impact Analysis of Access to Finance in Bangladesh*
[73] *(UNCDF, 2021, p. 5)*
[74] *https://www.bb.org.bd/pub/annual/fsr/final_stability_report2019.pdf*
[75] *(UNCDF, 2021)*
[76] *Ali, S. & May, M. 2021. Bangladesh’s COVID-19 Response Is Taking Digital Finance to New Levels. CGAP. Website: https://www.cgap.org/blog/bangladeshs-covid-19-response-taking-digital-finance-new-levels .*

Efforts to expand financial inclusion and improve financial resilience using mobile money:
COVID-19 exposed financial vulnerabilities and highlighted the lack of adjacent financial services, such as credit, savings and insurance available to the users of mobile money services. Data suggests that only one in four mobile money providers globally offer dedicated savings facilities, either through partnerships with deposit-taking institutions or directly.[77]

In 2020, Orange, a major telecoms provider in Africa and the Middle East, and NSIA, a leader of bancassurance launched Orange Bank Africa in Côte d'Ivoire in an effort to drive financial inclusion in West Africa. The objective is to use the Orange Money service to offer a range of savings and micro credit services to those excluded from conventional banking.[78]

Efforts were also made to digitise savings groups in Tanzania (similar to M-Pesa group saving in Lesotho). M-Koba is a joint initiative between Vodacom Tanzania and TPB Bank aimed at digitising savings groups. Savings group leaders can create a group account and add members to the group using only their mobile phone number. Importantly, M-Koba has been made interoperable, giving full access to members of other networks in Tanzania (in other words, group members do not all need to be on the Vodacom network).[79]

M-Pawa Tanzania, Mo-Kash in Uganda and Rwanda and M-Shwari in Kenya all offer savings and credit facilities that help boost financial resilience. Users can save, draw on micro-loans and access finance for productive investments.

Mobile network operators (MNOs) also have a role to play in creating, localising and delivering microinsurance services – with premiums paid using airtime or mobile money (which could include remittances into an e-wallet). 130 mobile-enabled insurance services are currently offered in 28 countries, and in 2020, 43 million policies were issued. Almost 65 per cent of providers collect premiums using mobile money, compared to only 31 per cent in 2017.[80]

Oko Crop Insurance in Mali has partnered with Orange Mali to integrate insurance products into Orange Mali's offering. This has helped digitise the product, allowing farmers to pay premiums and receive claims pay-outs using their mobile money accounts. This partnership has helped Oko expand its network, and helped drive financial education in Mali, with mobile agents trained to raise awareness, educate users and assist them in setting up their accounts, complete transactions, and submit claims. This is an example of the potential of mobile payment systems to facilitate the roll out of complementary financial services.

Efforts to improve interoperability between bank accounts, mobile and international cards:

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[77] *https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2021/03/GSMA_State-of-the-Industry-Report-on-Mobile-Money-2021_Full-report.pdf*
[78] *https://www.intelligentcio.com/africa/2020/08/12/orange-and-nsia-launch-orange-bank-africa/*
[79] *https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2021/03/GSMA_State-of-the-Industry-Report-on-Mobile-Money-2021_Full-report.pdf*
[80] *https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2021/03/GSMA_State-of-the-Industry-Report-on-Mobile-Money-2021_Full-report.pdf*

Payment systems interoperability is a complex issue that deserves careful attention, and a brief introduction to some of the issues involved is provided in Box 1 at the end of this section. As set out in the SADC Mobile Money Guidelines 2020, interoperability between mobile money platforms should be encouraged by regulators. In a number of African countries, there are now practical examples of such regulatory initiatives being put into place.

In 2020, the Ghana Interbank Payment and Settlement System (GhIPSS) implemented a universal QR code that enables all Ghanaians to make instant payments from their mobile money wallets, bank accounts or international cards. By simply scanning the QR code, known as GhQR, the funds are instantly transferred to the merchant irrespective of the bank or mobile network operator or financial service provider of the user.[81] As at the fourth quarter of 2021, 20 institutions had gone live using the product, including both banks (ABSA, Stanbic, Zenith, etc) and major mobile service providers (such as Vodafone).[82] GhiPPS continues to promote the service to the public through "experience fairs" at shopping centres.

The Democratic Republic of Congo has also launched a QR-code based system, CongoPay, a mobile payment platform, in conjunction with TerraPay. The aim of the system is again to improve interoperability between Airtel money, mobile money, and merchant accounts as a means of promoting financial inclusion and improving financial resilience in the DRC.[83]

In the CEMAC region, which includes Cameroon, the Central African Republic, Chad, Equatorial Guinea, Gabon and the Republic of the Congo, the Bank of Central African States (BEAC) has endorsed the commercialisation of GIMACPAY, a converged card, mobile and money transfer ecosystem that facilitates interoperable mobile money and banking payments. It allows users in the CEMAC Zone to transfer money from a mobile account to a mobile account of another operator or a bank account and vice versa (wallet to wallet), make purchases of goods and services from affiliated merchants, withdraw money from bank ATMs using a code, and receive international transfers into mobile wallets or bank accounts (remittances). The system uses QR codes in addition to other payment methods, such as USSD services and mobile banking.[84] The pilot included several providers including CBC, BGFIBank Gabon, BICEC, UBA, MTN Cameroon, ORANGE Cameroon, CCEI Bank, NFC Bank and BSCA participated Bank, CCA BANK, Express Union, TERRAPAY, and MAVIANCE.[85]

Organisations such as the GSM Association (GSMA) are also putting in place systems to facilitate the development of mobile money interoperability. In particular, the GSMA has launched an Interoperability Test Platform, using the open source Mojaloop software, which provides mobile money providers and other service providers with an environment in which they can test the interoperability of their systems.[86]

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[81] *https://ghipss.net/index.php/services/ghana-s-universal-qr-code#:~:text=GhQR%20is%20interoperable%20because%2C%20with,service%20providers%20across%20the%20country.*
[82] *GhiPSS Update volume:9, quarter 4 (2021). https://ghipss.net/phocadownload/newsletter/External-Newsletter-Vol9.pdf*
[83] *https://cemac-eco.finance/congo-edges-closer-to-payment-interoperability/*
[84] *http://gimac-afr.com/en/les-services/#1633114981718-2b40cca8-c645*
[85] *https://cemac-eco.finance/gimacpay-the-converged-card-mobile-and-transfer-ecosystem-now-a-reality/*
[86] *(Andersson-Manjang & Naghavi, 2021)*

Box 1: Payment systems interoperability

Payment systems interoperability (in other words, the ability to make a payment in one system, and have it be successfully terminated in another system) has a big impact on remittance markets. The sender and the recipient of a remittance often have access to a very different set of financial service providers, and if these firms are not interoperable, then it becomes much more difficult to complete a transaction.

In any networked system, the value of the network to the user increases exponentially as the size of the network increases. For remittance recipients in isolated areas, with access to only a small number of options for receiving payments, it is even more important that the financial infrastructure they can access be interoperable with the remittance products senders want to use. Essentially, interoperability multiples the usefulness of existing infrastructure, by making each interoperable network point more highly functional. Interoperability thus has significant potential to improve market outcomes in a country with Lesotho's geographical challenges.

Interoperability has a number of different aspects, and Agustín Carstens, General Manager of the BIS, suggests that interoperability can be thought of in terms of three distinct sets of challenges, as follows:

> *The first challenge is systems may use different technical standards, communication protocols, and supporting hardware and software infrastructure.*
>
> *The second challenge is around data and semantics. Payment systems often speak different languages. Translation can be used to allow systems to speak to each other, but poor translation can lead to data being lost or corrupted.*
>
> *The third challenge concerns the business rules governing payments systems. These rules deal with questions like who can access the payments platform and how obligations are settled. Differences in business rules between payments systems can undermine interoperability.*[87]

The World Bank's Payments Systems survey separately examines the degree of interoperability between ATMs, point of sale terminals and mobile money, and points out that mobile money systems are less likely to be interoperable, possibly because they are a newer type of payment system where these technical and legal questions are less likely to have been resolved.[88]

Unfortunately, however, "[i]nteroperability initiatives are unlikely to develop spontaneously,"[89] and the problem of poor interoperability in mobile money will probably need state intervention to be resolved. This is because a highly interoperable market tends to facilitate competition, by allowing smaller operators to offer customers access to a network of payment points just as large as all their competitors. Established firms, which already have a large network of payment points in place, are unlikely to spontaneously offer competing firms access to their network, and thus give up their competitive advantages.

2.2.4 Lessons from international experience

[87] Interoperability in payments: for the old and the new? Speech by Agustín Carstens, General Manager of the BIS, Singapore Fintech Festival, 8 November 2021. Accessed on 14 July 2022 at https://www.bis.org/speeches/sp211108.htm
[88] (World Bank, 2020, p. 43)
[89] BIS Annual Economic Report, 24 June 2020. Accessed on 14 July 2022 at https://www.bis.org/publ/arpdf/ar2020e3.htm

The two international case studies selected provide very different perspectives on cross-border remittance markets. The USA-Mexico channel has successfully facilitated competition among non-banking remittance service providers, which has helped to reduce remittance prices, and increase access to formal remittance products. Bangladesh, in contrast, has retained a model where banks are the key players in remittance products, and where innovation in mobile and digital financial services has been relatively slow. Issues with the efficiency of the formal foreign exchange market, and a thriving informal remittance sector, have further impeded growth in Bangladesh's remittance markets. Effectively, the two case studies chosen are at opposite positions in terms of performance, with the Mexico-USA corridor substantially outperforming the Bangladesh market.

The use of the matricula system for Mexican migrants is of particular interest, and it has allowed financial institutions to decouple their AML requirements from the question of whether migrants are documented or not. While this system has experienced some political pushback, and is not accepted by all US financial institutions, its usefulness to migrants is reflected in its very high take-up rate among the migrant community. It is also notable that this is just one of several initiatives that are run by Mexican consulates, reaching out to migrant communities where they are based to offer assistance with financial education and access to paperwork. This is a model which should be explored by the Lesotho government. In contrast, the Bangladeshi example illustrates that, even with a number of policy programs undertaken by the state, success in formalising remittance markets can be prevented if the basics of market regulation are problematic.

There is substantial evidence of innovation undertaken both by the private sector alone, and in concert with national governments, in African remittance markets. A number of these initiatives focus on the potential of mobile money systems for improving remittance market functionality, and on improving interoperability between the various payment systems in a given country. The issue of interoperability is important in a context like Lesotho's, where challenging geographical conditions and a lack of mobile money interoperability in particular mean that many remittance recipients can only access a small number of remittance outlets conveniently. These issues will be dealt with further in the following regulatory analysis.

3. The regulatory and policy environment

Remittance markets are subject to regulation from both the sending and the receiving country. This regulatory review thus examines both the regulatory environment for remittances in Lesotho, and the regulatory environment of its principal remittance origin country, South Africa. Remittances are affected by a number of different areas of regulation, including immigration law, anti-money laundering legislation, financial sector regulations and cell phone and internet financial services regulations. The analysis below provides an overview of the most recent relevant features of the regulatory environment for Lesotho remittances, and how they have changed in recent years.

3.1 Lesotho

The Government of Lesotho has put in place numerous policies and guidance notes in relation to remittances, digital finance and financial inclusion. This section will outline the key documents in respect of each of the aforementioned issues, and then provide more detail on the current regulatory framework for remittances in general, and mobile money in particular.

3.1.1 Policy environment

The Ministries of Finance and Development Planning in Lesotho have identified remittances and financial inclusion as important issues for Lesotho. A number of policy initiatives have been launched, including the preparation of the Financial Sector Development Strategy (FSDS) and National Financial Inclusion Strategy (NFIS). The overarching policy framework is provided by the **2012 National Strategic Development Plan (NSDP)**, which touches on key aspects in respect of financial services and technological innovation. In regard to financial services, the NSDP identifies the following key priorities: (1) improving access to credit; (2) enhancing financial stability and soundness by improving the institutional framework and enhancing efficiency in the sector; and (3) increasing public financial literacy and bridging the skills gaps in the sector. The document does not however outline specific strategies in regard to remittances.

The **2013 Financial Sector Development Strategy** (FSDS) follows from the NSDP with focused and detailed objectives for the financial sector. The document covers a number of issues, including financial stability and soundness, financial inclusion and improving efficiency. When dealing with remittances, the policy emphasizes concerns over the inefficiency and high cost of remitting systems, and suggests that:

> *"The main potential in the short-term will come from enabling cross-border mobile phone remittances, whereby a transaction can be initiated from a mobile phone in South Africa and received on a mobile phone in Lesotho. The main barriers to such remittances are regulatory rather than technical."*

The FSDS thus identifies **mobile money** as an important focus and provides that the expansion of mobile money (MM) and agency banking is a key sub-strategy for increasing the supply-side contribution to expanded financial inclusion. This is largely due to the cost-saving advantage which MM offers, especially in relation to a disbursed rural population that can be reached through existing infrastructure—mobile telecom systems and retail businesses versus traditional "bricks and mortar" financial institutions locations.

The FSDS also addresses the issue of financial literacy. The document sets out the following key actions to take towards improving financial literacy: (1) Establish the Ministry of Finance (MoF) as the focal point in government for financial literacy and coordinate all donor sponsored initiatives there; (2) Conduct a financial literacy baseline, strategy design and implementation study; (3) Develop the tools and a manual to implement training; (4) Train a small group of trainers to roll out training; (5) Focus primary initial effort on participants in MFIs, VSLAs, RSCGs and SACCOs who have opportunity to use what they learn; and (6) Identify existing relevant training and education facilities and focus on one such facility to provide higher level training.

As regards the overall development of digital skills to facilitate economic development, Lesotho has implemented several strategies. This includes the ICT Policy for Lesotho (2005) which laid the foundation for developing a society that is ICT literate, the Curriculum and Assessment Policy (2008) which references ICT as a contributing subject to creativity and entrepreneurial skills, and the Medium-Term Education Sector Plan for 2016–2026 which commits to supporting the development of school leavers to ensure that they obtain the desired level of skills across a number of subjects including ICT.[90] While these policies are not directly linked to the uptake of digital financial products (instead linked to employment and education), increasing digital skills together with strong financial education efforts can help drive an increased understanding and uptake of digital financial services.

The **National Strategy for Financial Inclusion**, 2017-2021, provides more detail as regards financial literacy objectives. This strategy has five objectives

- Objective 1: Increase outreach and quality of financial services
- Objective 2: Increase financial and investment capacity
- Objective 3: Create and capacitate inclusive financial service providers
- Objective 4: Ensure an enabling environment
- Objective 5: Consumer education and more generally consumer empowerment

This strategy set out 17 targets for achieving these objectives, with two aligned to consumer education[91]. The targets and the progress to data is set out in Table 10 below.

Table 10: Extract of Progress made towards the national inclusive finance strategy objectives

Target	Progress by 2021
Put in place a Financial Sector Consumer Protection Framework by end of 2017	A financial consumer protection division was established at the CBL
Establish a dedicated Unit responsible for financial inclusion within the Private Sector Department at the Ministry of Finance by 2018	Not achieved

Source: Hawthorne, R., Goga, S., Patel, Z., Wills, N., & McHardy, G. (2021). Lesotho Financial Inclusion Refresh. UNCDF.

This along with better fee disclosure and consumer protection regulation have been enforced. These targets do not however set out specific consumer behaviours aimed to be changed through the education programmes or broader targets such as the involvement of other financial institutions in promoting financial education. Box 2 below provides a summary of OECD/INFE guidance on designing such programs, which emphasizes the need for stakeholder cooperation.

Along with these strategic imperatives various other consumer education initiatives have been conducted. Table 11 provides an overview of this but may not be exhaustive as it is based on publicly available information:

Table 11: Lesotho Financial Education Programmes

Organisation	Programme	Year
Central Bank of Lesotho	**Lesotho Global Money Week:** This a month long awareness campaign, jointly implemented by the central bank and financial services providers covering issues such as Savings and investments; Financial sector players and local products; Borrowing; Insurance; Budgeting and financial planning	2014 - 2021

[90] *World Bank, 2020. Lesotho-Digital-Economy-Diagnostic*
[91] *Hawthorne, R., Goga, S., Patel, Z., Wills, N., & McHardy, G. (2021). Lesotho Financial Inclusion Refresh. UNCDF.*

The Bankers Association of Lesotho	**Fraud Awareness Campaign:** This aims to increase awareness of possible fraud and educate clients and the public on the appropriate use of Automated Teller Machines (ATMs), bank cards and electronic banking platforms.	2015 & 2019
FNB Lesotho	**Online education content:** The FNB Lesotho website has an education component which provides information on the following financial topics: saving & investing; budgeting; insurance; credit; transacting and understanding your bank	-

While the central associations have run consumer education programmes, there is a marked gap in individual financial institutions running their own programmes. This may be due to a lack of publicly available information or a lack of regulation which does not require these institutions to run financial education programmes.

Box 2: OECD/INFE guidance on financial education strategy design

The OECD International Network on Financial Education (OECD INFE) defines financial literacy as "a combination of awareness, knowledge, skills, attitudes and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing."[92]

To place the definition of financial literacy into greater context, the OECD's four dimensions of financial literacy are outlined below. Notably, financial knowledge is one aspect of the wider definition required for financial literacy which also includes practical capabilities such as being able to discern and chose among different financial products.

- **Financial Knowledge:** The knowledge an individual has to comprehend financial numeracy, having an understanding of financial concepts such as interest and inflation.
- **Financial control**: The ability to make financial decisions frequently, being meticulous in managing own finances as well as possessing a high propensity to save instead of spending.
- **Financial planning:** The ability to devise financial targets, investing for the future. Also encompassed in this domain is active participation towards meeting the set plans or targets.
- **Choosing financial products:** The ability to assess the awareness one has to a specified category of financial products, for example, awareness of banking products, credit products, and other financial services (including remittances services).

Financial literacy equips individuals with the knowledge and skills necessary to manage their money effectively and is becoming increasingly important in a world with highly complex financial environment with rising financial inclusion.[93] Financially literate individuals are more likely to seek advice from financial

[92] *Recommendation of OECD Council on Financial Literacy, 29 October 2020; https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0461*

[93] *https://www.standardbank.co.za/southafrica/personal/learn/understanding-the-importance-of-financial-literacy#:~:text=Financial%20literacy%20means%20understanding%20financial,in%20control%20of%20your%20life.*

advisers, source and find financial information and apply their learnings leading to improved financial behaviour. A lack of financial literacy could lead to higher debts and financial costs[94]; exploitation by devious financial service providers[95] including fraud[96]; little to no planning for the future including retirement and unexpected life events.

The OECD/INFE sets out four pillars for crafting a national financial education strategy which they define as “a nationally co-ordinated approach to financial education that consists of an adapted framework or programme”[97]. These four pillars are[98]:

1. **Recognises the importance of financial education** - including possibly through legislation- and defines its meaning and scope at the national level in relation to identified national needs and gaps
2. Involves **the cooperation of different stakeholders** as well as the identification of a national leader or co-ordinating body/council
3. **Establishes a roadmap** to achieve specific and predetermined objectives within a set period of time
4. **Provides guidance** to be applied by individual programmes in order to efficiently and appropriately contribute to the strategy

The OECD has further laid out Recommendation on Principles and Good Practices for Financial Education and Awareness[99]. These recommendations include seven principles and 19 recommended good practices. The seventh principle is highly appropriate and is quoted here:

> *Financial education programmes should be designed to meet the needs and the financial literacy level of their target audience, as well as reflect how their target audience prefers to receive financial information. Financial education should be regarded as a life-time, on-going and continuous process, in particular in order to take account of the increased complexity of markets, varying needs at different life stages, and increasingly complex information.*[100]

This principle highlights the need to take the unique characteristics and challenges of the audience you are seeking to impart the financial education to. Importantly, this needs to continue throughout an individual’s life as they experience difference needs based on their life stage. Finally, the recommendations highlight that financial literacy efforts should be practical as individuals must be able to apply the knowledge they have learnt to make improved decisions.

The **National Payment System Oversight Framework (2018)** provides high-level strategic direction for the modernization of the national payment system over the five year period from 2019 to 2024. In line with this document, the Central Bank of Lesotho (CBL) continues to modernize domestic payment,

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[94] Lusardi and Tufano, 2015
[95] Lusardi and Mitchell, 2011
[96]https://www.standardbank.co.za/southafrica/personal/learn/understanding-the-importance-of-financial-literacy#:~:text=Financial%20literacy%20means%20understanding%20financial,in%20control%20of%20your%20life.
[97] OECD/INFE, 2012, High-level principles on National strategies for Financial education
[98] Ibid
[99] OECD, 2005, Recommendation on Principles and Good Practices for Financial Education and Awareness
[100] Ibid.

clearing and settlement systems infrastructure and the supporting legal and regulatory framework. , as well as adopted risk-based oversight framework, international best practices and standards for payment systems and services, including the General Principles for International Remittance Services, as drafted by the Bank for International Settlements. The five key areas covered by the General Principles are as follows:

> *Transparency and consumer protection… The market for remittance services should be transparent and have adequate consumer protection.*
>
> *Payment system infrastructure… Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.*
>
> *Legal and regulatory environment… Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.*
>
> *Market structure and competition… Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.*
>
> *Governance and risk management… Remittance services should be supported by appropriate governance and risk management practices.*[101]

The application of the principles should help to achieve the public policy objectives of having safe and efficient international remittance services, which require the markets for the services to be contestable, transparent, accessible and sound. In the policy document, the CBL further commits to having oversight frameworks for the payment system which are risk-based and proportional. The policy does flag the risk to payment systems of coordination issues and interoperability failures, and suggests that it is the CBL's responsibility to coordinate "among competing payment system providers to achieve optimal networking of systems and integration to allow interoperability between and/or among such payment systems." Little detail is however provided on how this is to be accomplished.

The **National Financial Inclusion Strategy** (2012) was designed to: (1) establish a shared vision for the sector; (2) define guiding principles and the support required for the development of inclusive finance in Lesotho; (3) stipulate the core elements needed to promote financial inclusion; (4) indicate the role of stakeholders in implementing the strategy; (5) identify the targets and specific results to be achieved within the next five years; (6) propose the strategic interventions and actions plan; and (7) coordinate the activities of various sectors in implementing the strategy. The Ministry of Finance and Development Planning is the lead institution for this strategy**.**

One notable initiative is the "Lesotho Scaling Inclusion through Mobile Money" (Lesotho SIMM) launched by the Government of Lesotho in collaboration with the CBL and with support from United Nations Development Programme (UNDP)'s Regional Service Centre for Africa. The project seeks to mobilise adoption of mobile money for improved access to finance, household and business financial management, through innovations and financial solutions based on mobile technology. The

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[101] National Payment System Oversight Framework, https://www.centralbank.org.ls/images/Financial_Stability/Policy_Framework/Payment_System_Oversight_Framework_2018.pdf

development of a geographic information system database on the location of financial access points in Lesotho provided valuable insight on the practical manner in which Lesotho's challenging geographic conditions affect access to financial services. Additional activities associated with the project included mobile money literacy programmes and capacity building as regards the introduction of interest on mobile money savings.[102]

In 2021 the Government of Lesotho launched the **National Diaspora Policy**, which acknowledges that "(t)he socio-economic importance of the diaspora has been traditionally linked to the role of remittances in safeguarding the wellbeing of Lesotho."[103] This policy seeks to improve diaspora engagement in investment opportunities in Lesotho, and improve services to and integration with this community.

2022 saw the launch of the **Development Finance Assessment Report and the Integrated National Financing Framework Roadmap (DFA and INFF)** for Lesotho. This project is undertaken to assist Lesotho to establish architecture for financing sustainable development, by promoting SDG-aligned development planning and development financing. Other than being a primary source of income in other households, remittances are considered a critical element in the mobilisation for development financing resources for Lesotho. Specifically, the DFA report makes the following recommendations on remittances:

> *4. To facilitate easy transfer of remittances to Lesotho, the Government may consider the creation of corridors and leverage on digital technologies (especially digital corridors) to ensure that the cost of transfers is kept low and that the physical cash transfers over the border are discouraged.*
>
> *5. To mobilise remittances for development purposes, the Government may introduce investment opportunities for migrant workers and those in diaspora, such as diaspora bonds or diaspora banking and investment accounts, giving these classes of investors fiscal and other initiatives through use of all facilities and opportunities such as for digital banking/financial services. Special consideration should be given to women migrants and returning women migrants.*[104]

While these objectives are commendable, it would perhaps be worthwhile to sound a note of caution on the use of remittance funds for development purposes. A large proportion of remittances are used to fund household survival, and thus are not available for investment purposes. Where remitters can afford to invest, they are unlikely to regard favourably any program which affects their ability to make their own financial choices. In order to avoid unanticipated consequences which could move remitters out of formal financial markets, care needs to be taken that any use of remittance funds for development purposes remains strictly on a voluntary basis.

3.1.2 Licensing and operating conditions for remittance service providers in Lesotho

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[102] *(Hawthorne, Goga, Patel, Wills, & McHardy, 2021)*
[103] *https://lesotho.un.org/sites/default/files/2021-07/Diaspora%20Policy%20FINAL%20%28003%29.pdf*
[104] *Lesotho Development Finance Assessment 2021, available at https://www.ls.undp.org/content/dam/lesotho/docs/Lesotho%20Development%20Assessment%20Report.pdf*

As already noted, one of the General Principles for International Remittance Services identified by the Bank for International Settlements is that "competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry." To date, we identify eight companies involved in cross-border remittances in Lesotho. As at December 2021, the following six companies were licenced in Lesotho in terms of the Financial Institutions Act of 2012, with the authority to deal in foreign exchange, and thus to conduct cross-border remittances:

- Commercial banks and forex agencies:
    - Standard Lesotho Bank
    - Nedbank Lesotho
    - First National Bank Lesotho
    - Lesotho Postbank
- Foreign exchange bureau and money transfers
    - Mukuru Bureau de Change
    - Interchange[105]

Shoprite remittance services are provided in partnership with Standard Bank, in terms of its licences. TEBA also offers remittances services, and efforts are underway to formalise its licencing situation – at present it is not part of the Central Bank of Lesotho's licencing framework, which is troubling from a consumer protection perspective. It should be noted that, of the eight institutions which are participating in this market, arguably only four, namely Mukuru, Interchange, Shoprite and TEBA, focus their activities on remittance markets.

The market structure created by this licencing environment is fairly concentrated. Economic theory suggests that, where there is a small number of firms operating in a market, competitive pressure on firms to provide good quality, affordable services may not be sufficient. The relatively small number of firms currently operating in Lesotho's remittance market is thus of concern as regards the efficient functioning of the market. There also do not seem to be interoperability requirements for these operators, which would tend to further fragment the market, and make it more difficult for smaller market entrants to compete on an equal footing (see the discussion of the competitive effects of interoperability in Box 1).

Money transfer agencies are governed by the Financial Institutions (Money Transfer) Regulations, 2014. In terms of Section 22 of these regulations, licensees are required to "establish procedures to prevent money laundering and financing of terrorism that are scaled to the risk the licensee is exposed to." This kind of risk-based regulation in principle allows licensees to reduce the amount of effort and expense expended on know your customer procedures for low-risk, low-income consumers, which should allow the development of operational models for remittance service providers which are inclusive and inexpensive.

[105] *https://www.centralbank.org.ls/images/Financial_Stability/Financial_Institutions/LFI_Double_Spread_Newspaper_Insert_Dec_2021.pdf*

Discussions with sector participants suggest however that anti-money laundering regulations do nevertheless have an effect on the remittance market, and particularly on bank-to-bank transactions. At present the Financial Action Task Force (FATF) is undertaking a mutual evaluation of Lesotho's AML systems, which is likely to increase regulatory pressure in this area.

In 2017 the CBL also issued Payment Systems (Issuers of Electronic Payments Instruments) Regulations, which tightened reporting requirements for cross-border transactions. Prior to these regulations, cross border transactions in the Common Monetary Area were not consistently reported to the CBL as cross-border transactions. Market participants suggest that these regulatory changes influenced the withdrawal of firms like Capitec and Investec from the cross-border payment market.

3.1.3 Mobile money regulations

Mobile money in Lesotho is regulated in terms of the Payment Systems (Issuers of Electronic Payments Instruments) Regulations 2017. As at December 2021, Lesotho had 5 licencees in the mobile money issuers license category, namely VCL Financial Services, Cassava FinTech Lesotho, Lesotho Postbank, Chaperone Ltd and Smartel Money.[106] In addition, EcoCash operates using the Standard Lesotho licence.

Mobile money operations in Lesotho date back to the launch of EcoCash in 2012, which was rapidly followed by VCL's M-Pesa in 2013.[107] The system was launched using existing regulatory frameworks, and stakeholders suggest that regulatory revisions are now likely to be needed to facilitate the healthy growth of this product segment. What has been put in place is mobile money transaction limits – as at September 2020, these limits were increased to facilitate payments during the COVID-19 pandemic, as shown in the table below. It is not clear if the increased limits will be maintained going forward.

Table 12: Mobile money transaction limits

KYC/CDD level	Verification requirements	Limit prior to 8 Sept 2020	Current limit
Partial KYC	Full names and Surname Mobile phone number Physical address Passport/ ID number	Daily Limit: M5,000 Monthly Limit: M15,000	Daily Limit: M10,000 Monthly Limit: M20,000
Full KYC	As per KYC requirements as laid out in the Money Laundering and Proceeds of Crime Act 2008, as amended	Daily Limit: M7,500 Monthly Limit: M20,000	Daily Limit: M17,500 Monthly Limit: M30,000

Source: https://www.centralbank.org.ls/images/Publications/Research/Reports/Annual/Increase_of_Mobile_Money_Transaction_Limits.pdf

[106] *https://www.centralbank.org.ls/images/Financial_Stability/Financial_Institutions/LFI_Double_Spread_Newspaper_Insert_Dec_2021.pdf*

[107] *(Sekantsi, 2018, p. 10)*

The importance of mobile money is highlighted in the FSDS, which recommends that an enabling regulatory environment should be established by combining the necessary elements of consumer protection and maintenance of financial stability with a light regulatory touch that does not stifle innovation. Specifically, the FSDS suggests a tiered approach to KYC requirements, trust fund requirements, prohibition of the use of funds held in mobile money systems for lending, and prohibition of tied agents.

A guidance note on mobile money was issued by the CBL in 2013. It outlines CBL policies on issues such as the authorization of mobile money issuers, and the conduct of the business of mobile money issuing, effective oversight of the mobile money payment system, and so forth. Since then, the Payment Systems Act 2014 has been enacted, which governs the creation of payment systems such as e-money. However, this Act does not provide specific legal regulation in line with all of the requirements of the 2013 guidance note. In particular, the act does not require interoperability for mobile money operators, as is recommended by the SADC Mobile Money Guidelines.[108] Without regulatory obligations to interconnect, operators are unlikely to voluntarily offer their competitors access to their networks, and thus the level of interoperability offered to mobile money operators is likely to remain at a level lower than that which consumers might desire.

Hawthorne et al also note that there are asymmetries in the way that mobile money and remittance provider agencies are treated. Remittance provider agents in Lesotho go through an approval process by the CBL, which raises costs and delays agent rollout. Mobile money operators do not need to go through this process, and it is unclear why this difference exists.

3.1.4 Disclosure of bank charges

In 2016 the CBL issued the Financial Institutions (Disclosure of Bank Charges and Interest Rates) Regulations. This piece of regulation is designed to improve the transparency of banking charges, and has an important role to play in consumer protection and in ensuring the efficient operation of financial markets. It is relevant to this research primarily because of the focus group findings in section 0, where multiple respondents suggested that they struggled to understand the remittance fees charged by banks and did not get adequate responses from the banks when those fees were queried.

The regulations require that:

> *S5(1) A bank shall disclose to its customers and to the public the charges applicable to accounts by means of a written statement, copies of which shall be displayed and made available to customers and to the public…*

The regulations also allow the Commissioner to set minimum criteria for this display of charges. It thus seems both that Lesotho regulations in fact require greater transparency on remittance fees than the banks are currently achieving, and have a mechanism in place that the regulator can use to standardise the way in which fee transparency is achieved. This would be a highly desirable outcome for this market, as it would help to improve confidence in banking remittance products, allow consumers to accurately

[108] *(FinMark Trust, 2019)*

evaluate the attractiveness of different remittance products, and in general ensure greater fairness and equity in the treatment of remittance product consumers.

3.2 South Africa

The South African remittance regulatory landscape has changed significantly in the last few years, with many steps taken to ease regulatory requirements, promote competition and improve accessibility to remittance products. Nevertheless a number of regulatory issues in the South African market still affect remittances to Lesotho.

Prior to 2014 the remittance market was dominated by commercial banks, holding authorised dealer in foreign exchange (AD) licences. The remittance market was viewed as non-core business for the banks, and service level quality and price competition was limited. The introduction of **ADLA** (Authorised Dealer in foreign exchange with limited authority) licenses lowered the regulatory barrier to entry for non-bank entities substantially. ADLA licencees entered the market in significant numbers, and as these firms were typically specialised cross-border remittance providers, focused on servicing this market, increased competition has resulted in a substantial improvement in price and service quality outcomes. For many cross border markets, there has also been significant switch from informal to formal remittance markets as a result.

These developments in the ADLA markets were facilitated by changes to AML regulations. In 2017, the FICA (Financial Intelligence Centre Act 38 of 2001) was amended to allow for a **risk-based approach to Know Your Customer** (KYC). This allowed remittance providers to lower their KYC requirements for smaller value transactions, for example by omitting the requirement for proof of income. Lower KYC requirements effectively reduce the per transaction cost of offering remittance services, allowing low income customers who had to previously rely on informal methods to switch to formal channels.

It should be noted however that there have been **inconsistencies in the way these requirements have been implemented by South African financial institutions**. The ADLAs have all implemented a risk-based approach to AML, and for low value transactions and accounts do not ascertain the source of funds – in particular, they do not check whether the migrant has a work permit, and thus a legal right to earn funds in South Africa. In contrast, it is reported that the ADs still do require this component of KYC, and thus in effect will not service migrants without proof of residency status. Genesis Analytics (2021) suggest that "in the migrant market, banks still believe that Immigration regulations still prevent them from opening bank accounts for foreigners in the absence of migrant workers' proof of right to work in South Africa." The effect of this is that full KYC is applied to all transactions, regardless of size, with the result that per transaction costs in the banking system remain very high.

This issue has a clear impact on remittances to Lesotho. As seen in the focus group findings, for many banking remittance transactions to Lesotho, transaction fees are extremely high. On other transactions (for example, FNB-to-FNB transactions), cross-border remittances are treated as domestic transactions, because Lesotho and South Africa are both in the common monetary area. The net effect is a massively inconsistent treatment of such transactions by licenced ADs.

On 3 July 2020, the Financial Sector Conduct Authority (FSCA) introduced the Conduct Standard for Banks. This regulatory framework allows the FSCA to supervise the market conduct of the banking sector and intervene where necessary, in accordance with its legislative mandate. The Standard therefore ensures that banks are compliant with the high-level requirements and ensures that customers are treated fairly. Similarly to Lesotho regulations on disclosure of bank charges, the Conduct Standard also requires that:

> *7(1) Before, during and after the conclusion of a contract for the provision of a financial product or a financial service, a bank must take reasonable steps to ensure that a financial customer is aware of all relevant facts that could reasonably be expected to influence the financial customer's decisions relating to the financial product or financial service, including – …*
>
> *(b) all estimated costs to the financial customer in relation to the supply of that financial product or financial service…*

These regulations again potentially provide a means of engaging with banks as regards the inconsistency and unpredictability of banking remittance fees, as highlighted by the respondents in the focus groups.

Since 2019 South Africa's financial sector regulatory environment has also undergone significant changes, with a key aim of enhancing the strength of the National Payment System. Additional supporting interventions have been targeted at improving system transparency, reducing scope for money laundering, and ensuring that customers are treated fairly. These changes to regulations are expected to impose both direct and indirect costs on ADLAs, and ultimately on remitters, and care will need to be taken to ensure that the progress made to date in this market is not rolled back.

National Treasury is also reviewing the **administrative elements of the exchange control system**. The goal is to introduce a risk-based approval system for cross border transactions, which is more transparent than the current process and which provides improved AML and tax evasion oversight. To do so, the system will need to improve coordination between the various regulatory agencies involved in financial, AML, tax and overall law enforcement. The overall regulatory framework, with foreign exchange transactions limited to ADs and ADLAs, overseen by the SARB, will not change, but it is possible that practical changes to remittance systems may have material impacts.

South Africa has not had great success as regards the use of **mobile money systems** for remittances. Attempts have been made as far back as 2010, when M-Pesa was introduced by Vodacom and the Nedbank Group. However, in practice these initiatives have not been successful, and the regulatory environment is typically identified as the cause of the issue.[109]

In its Review of the National Payment Systems Act in 2018, National Treasury suggested that the licencing system in domestic remittances might be the central problem. It was noted that, in cross-border remittances markets, the ADLA reform removed the requirement for money transfer operators to partner

[109] *Dagada, R. 19 August 2021.* Over-regulation is killing mobile money in SA. *ITWeb. Accessed at https://www.itweb.co.za/content/mQwkoM6PVRyv3r9A*

with an AD to complete a transaction, and that this independence of action for MTOs transformed the cross-border market.

However, in the domestic remittance market, MTOs are still required to partner with a licenced bank, as the receipt of remittance funds is regarded as a deposit taking activity in terms of the Banks Act. Treasury states that the issue is as regards the wording of the National Payment System Act, which defines legitimate payment system participants as those who "as a regular feature of that person's business accept money or payment instructions from any other person for purposes of making payment on behalf of that other person to a third person to whom that payment is due" (s7(2)). The problem is that remittances are not construed as "payments due," which means that MTOs are not legitimate members of payment systems, and must thus continue to partner with another firm to complete transactions. This is confirmed by FinMark Trust (2017: 20).

This interpretation of South African law suggests that the failure to launch cross-border mobile money services to Lesotho may have its roots in South African legislation. In other words, because of problems with rolling out mobile money to South African consumers, the ability to complete a mobile transaction into Lesotho has been reduced. While Treasury has reviewed the NPS Act, this review does not seem to have yet resulted in legislative amendments, and it would be useful for Lesotho to see if a way forward can be achieved.

3.3 Regulatory findings

A number of actionable recommendations flow from the regulatory analysis. The first is that it would probably be beneficial to strengthen engagement between South African and Lesotho regulators (while in the longer term engagement at the SADC level would also be desirable, in the short term the focus should be on South African financial sector regulators, as they have a disproportionate influence on Lesotho's remittance markets). A number of issues could fruitfully be discussed, as follows:

- At present it seems that the South African Reserve Bank has better quality data on the flow of remittances from South Africa to Lesotho than the Central Bank of Lesotho does. The CBL could request access to such SARB data.
- Similarly, an engagement between the CBL and the SARB could touch on the issue of the inconsistent interpretation of KYC requirements by the banks, which has reduced access to finance for undocumented migrants. Here the SARB may be able to issue a guidance note to banks as regards appropriate implementation of risk-based approaches, and their obligations to obtain proof of a right to work.
- It is not clear whether the review of the exchange control system being undertaken by National Treasury will result in changes which will affect remittance systems. However, it would be useful to establish interactions with National Treasury and the Ministry of Finance, in order to ensure that the National Treasury is explicitly considering what impact any change will have on remittances and the CMA more generally
- It may also be of use to discuss the implementation of the South African Conduct Standard for Banks with the Financial Sector Conduct Authority (FSCA), as regards pricing transparency in cross border transactions

The final set of engagements that are needed with South African authorities are as regards mobile money, and are worth considering in more depth. Much of the problem with enabling cross border mobile money seems to be derived from the National Payment System Act, which dates back to 1998. South Africa's National Treasury has recently undertaken a review of the Act, with a public comment phase that closed in 2019.[110] It is not clear whether this has resulted in revised legislation, and whether enabling amendments are planned. Discussions between the Lesotho Ministry of Finance and South African National Treasury would be desirable at this point, to emphasize the need for change and set out the position of Lesotho in this regard.

Lesotho's authorities can also pursue action independently on a number of issues, as follows:

- Action should be taken to ensure that banks in Lesotho implement the disclosure of bank charges regulations with regards to remittance products.
- It may be desirable to impose an interoperability requirement as regards mobile money operators in Lesotho. Further research will be needed on the potential impact of this before a decision is reached.
- The difference in regulation of mobile money agents and MTO agents is of concern, and changes the competitive dynamics between these firms. What is not clear is which regulatory framework is more appropriate – should mobile money agents be more strictly regulated, or should MTO agents be less strictly regulated? Further research on this issue would be useful.

4. Remittance commercial environment

Several formal channels exist for the remitting of monies between South Africa to Lesotho. In this section we provide an overview of the service providers and the products offered.

4.1 Commercial banks

Commercial banks within South Africa are licensed as Authorised Dealers by the SARB to remit funds beyond the borders of the country. Within Lesotho, three of the four commercial banks (with the exception of Lesotho Post Bank) are subsidiaries of AD-licensed South African banks viz: Standard Bank, First National Bank, and Nedbank, providing an opportunity for easy account to account transfers between South Africa and Lesotho:

- The banking infrastructure of FNB Lesotho is based in South Africa and as such, the bank is able to complete transfers directly between FNB SA and FNB Lesotho with no switch or settlement required.
- Nedbank and Standard Bank are able to easily complete these transactions as the South African bank and the Lesotho subsidiary are part of the same group. The remittance is however transmitted through BankServ.

[110] *https://pmg.org.za/call-for-comment/783/*

- ABSA – which does not have a subsidiary in Lesotho, is able to remit funds through correspondent banking relationships with other banks in Lesotho.[111]

Importantly, all the South African commercial banks consider transfers from to Lesotho to be domestic transactions (part of the SACU Common Monetary Area (CMA)), allowing the sender to remit using the domestic banking platform without incurring additional transaction fees (beyond the account-specific fees paid by the account holder). Despite the ease with which remittances can be completed using banking channels, their usage is limited. Research suggest that this is due mainly to the requirement that both the sender and recipient hold a bank account, while banking networks (ATM, bank agents etc) are generally poor outside of urban and peri-urban areas.

Table 13: Commercial Bank footprint in Lesotho

	Branches	Point of Sale Machines	ATMs
FNB Lesotho	7	0	40
Nedbank Lesotho	10	0	0
Standard Bank Lesotho	18	707	93

Source: Bank websites

4.1.1 Shoprite Money Transfer (agent for Standard Bank)

The Shoprite cross-border money transfer services enable remitters in South Africa to send money from any Shoprite store in South Africa, including affiliated Checkers, U-save and OK stores, to Shoprite stores in Lesotho (and Eswatini). The service is owned by Standard Bank as the sponsoring bank (changed from Capitec Bank), with Shoprite acting as the agent for pay-in and pay-outs. This means that all regulatory aspects including licensing and AML requirements are set by the bank, and simply implemented by Shoprite as the agent. This also significantly increases Standard Bank's footprint beyond that listed above.

To use the service, senders only require an ID document, passport or asylum permit and proof of address which they present to the cashier. The money is paid in and as the service remains within the Shoprite/ Standard Bank group, the money is immediately available to the recipient. Whilst remittances can only be initiated at a store which has a money market counter, withdrawals (pay out) can be done at any point of sale/ teller in any Shoprite store (across the group). The standard cost of a transaction is R25 irrespective of the amount remitted.

The service has, to a great extent, addressed the money transfer challenges faced by the Basotho diaspora in South Africa, who previously had to use informal channels. The money transfer service has seen impressive growth in terms of processed transaction volumes and values.

Table 14: Shoprite footprint in South Africa (sender) and Lesotho (recipient)

	South Africa	Lesotho

[111] *Alliance for Financial Inclusion, 2018*

Shoprite	517	7
USave	400	8
Checkers	235	0
Checkers Hyper	36	0
Checkers Foods	3	0
OK	343	9
House and Home	47	0
LiquorShop	558	3
Total footprint	**2 139**	**27**

Source: https://www.shopriteholdings.co.za/group/our-footprint.html

4.2 Authorised Dealers with Limited Authority

The introduction of the authorised dealer with limited authority (ADLA) licence category by the South African Reserve Bank (SARB) has introduced competition into cross-border remittance markets with several 'new' operators offering remittance services in the South Africa Lesotho Corridor. While these remittance services are offered at a higher cost when compared to commercial banks (difference in cost associated solely with transaction costs as foreign exchange margins are zero), these providers have a wider geographic footprint in both urban and rural areas in Lesotho given that they provide a range of payouts options by partnering with banks, cash agents and mobile partners.

4.2.1 Mukuru (ADLA Category 2)

Founded and launched in 2006, Mukuru operates in 20 countries and aims to enhance the lives by helping people move money around the world. To use the service, remitters create a Mukuru account, using just their ID document, passport or asylum permit. Mukuru uses a risk-based approach and offers three categories of account, linked to the depth of FICA that the user has been assessed at – Mukuru Lite, Mukuru Core, and Mukuru Max. These categories inform the maximum limits that a user can send. Registration and approval takes approximately 24 hours (irrespective of the type of account), after which the user can begin using the service. The minimum amount that can be send is R150, while the maximum daily and monthly limits are linked to the category of account held by the user.[112]

- Mukuru Lite – Monthly limit = R 2,000
- Mukuru Core – Monthly limit = R 25,000
- Mukuru Max - Monthly limit = More than R 25,000

Deeper KYC processes allow the user to progress to higher categories of account which unlocks higher value limits.

Users must add recipients to their account, providing information such as country, pay out method and pay out partner, together with the recipient name, surname, contact number and relationship. Each time the user remits monies, they create an order (via the App, call centre, WhatsApp or USSD), with a unique reference number generated and used for payment. Payment must be made within 24 hours, either through an EFT (into Mukuru bank accounts), or physically at a designated pay in point such as

[112] *Mukuru, 2022 - https://www.mukuru.com/sa/send-money-to-lesotho/*

Mukuru Store/ Kiosks, Pick 'n Pay, Boxer, Checkers, Shoprite, Makro, Game, Spar, Ackermans and PEP Stores.[113]

Two options for pay out are offered for remittance recipients in Lesotho.

- Cash pay-out allows for monies to be withdrawn from a network cash collection points in Lesotho, including:
    - Interchange Africa which has only 1 branch in Maseru
    - Mukuru Store/ Kiosks (number of agents unknown)
    - Standard Lesotho Bank which has a footprint of 18 branches and 93 ATMs in Lesotho.
- Mobile wallets transfers, where monies are transferred directly into the recipient's mobile wallet. Vodacom Lesotho (VCL) partnered with Mukuru in 2014 to facilitate inbound remittances whereby money is instantly available in the recipients' M-Pesa wallet.

The transfer of monies to Vodacom M-pesa wallets can also contribute to financial inclusion by allowing users M-Pesa customers to use their wallets to send and receive money, purchase airtime and pay bills. It also contributes to financial resilience as M-Pesa offers users two option in this regard. Firstly, M-Pesa customers are able to retain funds – up to a maximum of M 15 000, within their wallets thereby using it as a form of savings.[114] Second, M-Pesa 'standard' customers are able to open a collective or group savings account – known as the M-Pesa Mokhatlo Savings Account, allowing them to transfer funds from their individual M-Pesa accounts into the group account, while limiting withdrawals from the account through a heavier admin burden. This product as seen as a way of digitising the traditional cooperative saving schemes often found in families and communities.[115]

4.2.2 Hello Paisa (ADLA Category 4)

Founded and launched in 2005 by Hello Group, Hello Paisa is a South African remittance service that offers the fast sending of cash from SA to 10 SADC countries including Lesotho. Remitters create a Hello Paisa account via the mobile application, or via a Hello Paisa agent or the Hello Paisa store, using just their ID document, passport or asylum permit and proof of residence. Importantly, Hello Paisa is able to serve a previously excluded market as it has introduced physical site verification when the user is unable to produce a proof of address.

Hello Paisa also uses a risk-based approach and offers three categories of account, linked to the depth of FICA that the user has been assessed at – FICA Lite, Full FICA, and Self-declaration - with these categories informing the maximum limits that the user can send. Registration and approval is instant, allowing the user can begin using the service immediately. The minimum amount that can be sent is R150, while the maximum daily and monthly limits are linked to the category of account held by the user:

- FICA Lite – Max daily limit per transaction = R 3000 (excl charges and fees), Monthly limit = R 10,000 (excl charges and fees)
- Full FICA – Max daily limit per transaction = R 5000 (excl charges and fees), Monthly limit = R 25,000 (excl charges and fees)

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[113] Mukuru, 2022 - https://www.mukuru.com/sa/send-money-to-lesotho/
[114] Vodacom, 2022 - https://www.vodacom.co.ls/?page_id=6902
[115] https://lestimes.com/vodacom-launches-game-changing-service/

- Self-declaration - Max daily limit per transaction = R 15000 (excl charges and fees), Monthly limit = R 25,000 (excl charges and fees)

Deeper FICA processes allow the user to progress to higher categories of account which unlocks higher value limits.

Users must add recipients to their account, providing information such as country, pay out method and pay out partner, together with the recipient name, surname, contact number and relationship. Each time the user remits monies, they create an order (via the App, call centre or USSD), with a unique reference number generated and used for payment. Payment for the order must be made within 24 hours, either through a bank transfer (into Hello Paisa bank accounts or via Ozow), or physically at a designated pay in point - Hello Store, Pick 'n Pay, Boxer, Checkers, Shoprite, Spar, Makro, Ackermans, Pep Stores. Importantly, the provider does not accept cash deposit into their bank account given the banking fees associated with cash deposits. Hello Paisa also offers its own brand of banks cards to their clients which they can use to make remittance payments.

Only one option for pay out if offered for remittance between South Africa and Lesotho – Vodacom M-Pesa (VCL), which like Mukuru above sees the money instantly transferred into the mobile wallet of the recipient (the benefits of the M-Pesa account have been unpacked above).

In recent weeks, Hello Paisa has experienced difficulties in this partnership with M-Pesa, resulting in the suspension of services between South Africa and Lesotho twice since the start of 2022.[116] Further communication from the provider on 6 April 2022 suggests that M-Pesa recipients of remittances via Hello Paisa now need to validate a token by dialling *240# and selecting 'yes' before the transferred will be made available in their M-Pesa wallet. The research team will try to find further information behind this change.

4.3 The Employment Bureau of Africa (TEBA)

The Employment Bureau of Africa (TEBA) was established 120 years ago as an agency to recruit labour for South Africa's mines, with the recruitment process governed by the Bilateral Agreement between the Government of the Republic of South Africa and the Government of the Kingdom of Lesotho (Treaty Series 1/1973).[117] The agency provided a range of services to mineworkers, including the establishment of TEBA Cash - a private commercial South African savings bank in the mid-1980s established as an alternate method to receive salaries, and to offer much-needed savings products to mineworkers.

The introduction of the Deferred Pay Scheme in Lesotho (1974) was seen as a means of ensuring that "that a higher percentage of money paid to Basotho mineworkers was invested/utilized in the domestic [Lesotho] economy".[118] As miners recruited by TEBA were already receiving their pay through the organisation, they were considered best placed to implement the prescripts of this scheme. The organisation established two systems that enable Lesotho migrants in the mining sector to send funds

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[116] One of the study researchers has both a Hello Paisa and Mukuru account, and has received communication about the suspension of services via SMS.
[117] https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---migrant/documents/presentation/wcms_422411.pdf
[118] https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_118271.pdf

to families back home in Lesotho – through the compulsory deferred pay (CDP) system known as the standard remittance scheme, or on their own volition through the cash remittance system.

The standard remittance system included an agreement with mine-owners and employers that allowed the user to remit 30% of their nett salary (usually deducted as part of payroll) to a Lesotho bank account, with the 1.5% cost carried by the employer. The cash remittance system allows the user to remit up to R 25 000 per month at a cost of $3 per transaction.[119;120] Research suggests that for the self-initiated service, cash can only be paid in at any TEBA office and can only be withdrawn from a TEBA agent in Maseru, Mafeteng, and Leribe districts, and that the provider has no intention to integrate with digital or banking services. As of 2018, there were approximately 28 000 Basotho miners using TEBA remittance service, but It is expected that this number would have changed in recent years given shifts in the sector, changing immigration policies, and COVID-19, but no updated data could be sourced.[121]

4.4 Inter -Postal Services Money Transfer

Postal services enable migrants to send and receive money using the post office network. The Lesotho Post Office, in collaboration with other postal services in Southern Africa (including South Africa) introduced inter-postal money transfer service, a reliable and secure remittance product that enables people without bank accounts to send and receive money using postal orders and money orders.

When compared to other remittance service providers, the benefits of this service include the large network through both South Africa and Lesotho which extends to remote rural areas where banking or digital infrastructure is inadequate or unavailable. In South Africa, this service is offered through the Universal Post Union and managed by the International Financial System, a system application that automates the processing and management of international money orders in compliance with exchange regulations. Monies can be sent from any post-office in South Africa, with proof of identification and proof of residence required.[122] As the funds are within the CMA, there is no monthly limit to the amount that the user can send, rather only a single transaction size limit R 5,000. The transferred funds are available at the destination post office (or partner outlet/ bank) in Lesotho on the same day.

4.5 Commercial environment findings

Research suggests that despite the increasing number of providers and remittance options in this corridor, challenges remain which affect consumers. Bank account products remain available only to those with accounts, and even then, branch and banking networks are not widespread in Lesotho. Whilst Hello Paisa, Mukuru and Shoprite bring competition into the space, providing avenues for those unbanked to send money using formal products, limitations still exist.

Shoprite appears to have service quality problems with long queues both to send and receive cash, as well as inadequate float for pay outs. Congestion will likely continue to be a problem at Shoprite while it

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[119] Alliance for Financial Inclusion, 2018
[120] Cost in 2018 – no updated cost data could be sourced
[121] Furthermore, while efforts were made to contact TEBA to unpack their involvement in the remittances system, changes made to the organisation (UBank), and recent trends, the study team were unsuccessful.
[122] https://www.gov.za/speeches/send-money-home-through-post-office-30-nov-2021-0000

continues to have such a large share of the low income remittance transaction market, which makes facilitating the growth of competitors and/or greater interoperability key. Hello Paisa and Mukuru, while app based, still require the sender to either have a bank account to do pay-in the cash, or to physically visit a pay-in point (bank deposits are not accepted given the costs associated with this). On the pay-out side, both providers have partnered with M-Pesa to facilitate payments into mobile money accounts in Lesotho – thereby removing the need to physically collect cash. Relationships with M-Pesa however appear weak, with intermittent service downtimes which disallow the use of this pay-out option.

5. Recommendations and conclusion

Substantial progress has been made in facilitating the development of affordable, convenient formal remittance products in Lesotho in recent years. Nevertheless, it is evident that problems remain, and that much more needs to be done to fully realise the potential of these markets. The focus group discussions illustrated these problems:

- Shoprite is affordable and in South Africa is very accessible, but queues and congestion around the service mean that the actual process of retrieving funds on the Lesotho side of a transaction can be extremely arduous.
- Using bank accounts to remit is reported to offer a level of service and fee structure which is difficult to predict
- Mobile money is highly regarded, but it is still not possible to make a direct wallet-to-wallet transfer cross border

The international experience illustrates that proactive governments can make a big difference in developing and facilitating remittance markets. The Mexican consular system in particular actively reaches out to the migrant community, to assist undocumented migrants to prove their identity and address to financial institutions, and to provide financial education. In other countries, a number of governments are championing interoperable payments systems and micro credit and savings products, which will both improve access to formal remitting products and help remitters access the kind of financial products that can help to improve financial resilience.

It would be fruitful for Lesotho to look into the potential of these types of initiatives going forward. Rolling out improved consular services for migrants in South Africa, as regards assistance in accessing Lesotho identity documents, will help to address the ongoing issues that many migrants experience in dealing with AML requirements at financial institutions. A specialised form of identification that includes verification of address might be particularly useful, as proof of address is specifically required by many KYC systems. More research will likely be needed to determine if this kind of specialised ID system (similar to the Mexican matricula card) would be acceptable to South African financial regulators as a KYC option, and thus of use to Lesotho migrants.

Another avenue with significant potential, but which will likely require additional research to flesh out, is the issue of improved system interoperability. As is discussed in Box 1, interoperability substantially increases the usefulness of a payments system to users, and facilitates competition, but is unlikely to occur without some sort of state intervention. It is however advisable to ensure that the cost and technical regulatory implications of such steps are thoroughly researched before policy actions are taken, in order to ensure that interoperability requirements are properly sequenced, designed and implemented. Interoperability has a number of different aspects – legal systems have to be enabling, technical and communication protocols need to be aligned, and the data and hardware challenges of interoperable systems need to be addressed. Interoperability in practice is thus likely to be a process which is facilitated by the Central Bank of Lesotho (in conjunction with the Lesotho Communications Authority), but which requires substantial communication and interaction with the payments firms involved.[123]

Lesotho's authorities can also pursue action independently on a number of other issues. As discussed in section 3.1.4, action should be taken to ensure that banks in Lesotho implement the disclosure of bank charges regulations with regards to remittance products. The difference in regulation of mobile money agents and MTO agents detailed in section 3.1.3 is also of concern, and changes the competitive dynamics between these firms. What is not clear is which regulatory framework is more appropriate – should mobile money agents be more strictly regulated, or should MTO agents be less strictly regulated? Further research on this issue would be useful.

The analysis also shows that it would be beneficial to strengthen engagement between South African and Lesotho regulators (while in the longer term engagement at the SADC level would also be desirable, in the short term the focus should be on South African financial sector regulators, as they have a disproportionate influence on Lesotho's remittance markets). A number of issues could fruitfully be discussed, as follows:

- At present it seems that the South African Reserve Bank has better quality data on the flow of remittances from South Africa to Lesotho than the Central Bank of Lesotho does. The CBL could request access to such SARB data.
- Similarly, an engagement between the CBL and the SARB could touch on the issue of the inconsistent interpretation of KYC requirements by the banks, which has reduced access to finance for undocumented migrants. Here the SARB may be able to issue a guidance note to South African banks as regards appropriate implementation of risk-based approaches, and their obligations to obtain proof of a right to work when onboarding Lesotho migrants in South Africa.
- It is not clear whether the review of the exchange control system being undertaken by National Treasury will result in changes which will affect remittance systems. However, it would be useful to establish interactions with National Treasury and the Ministry of Finance, in order to ensure that the National Treasury is explicitly considering what impact any change will have on remittances and the CMA more generally
- It may also be of use to discuss the implementation of the Conduct Standard for Banks with the Financial Sector Conduct Authority (FSCA), as regards pricing transparency in the South African leg of cross border transactions

123 [1] https://blogs.worldbank.org/psd/establishing-payments-interoperability-coordination-key

The final set of engagements that are needed with South African authorities are as regards mobile money, and are worth considering in more depth. Much of the problem with enabling cross border mobile money seems to be derived from the National Payment System Act, which dates back to 1998. South Africa's National Treasury has recently undertaken a review of the Act, with a public comment phase that closed in 2019.[124] It is not clear whether this has resulted in revised legislation, and whether enabling amendments are planned. Discussions between the Lesotho Ministry of Finance and South African National Treasury would be desirable at this point, to emphasize the need for change and set out the position of Lesotho in this regard.

The rapid formalisation of remittance markets in Lesotho in recent years shows how much potential these markets have, and the extent to which remittance recipients and senders are looking for improved access to financial services. Effort expended on improving the regulatory frameworks of these markets is likely to reap rich dividends, and make a real difference in improving the quality of life of some of the poorest communities in Lesotho.

[124] *https://pmg.org.za/call-for-comment/783/*

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