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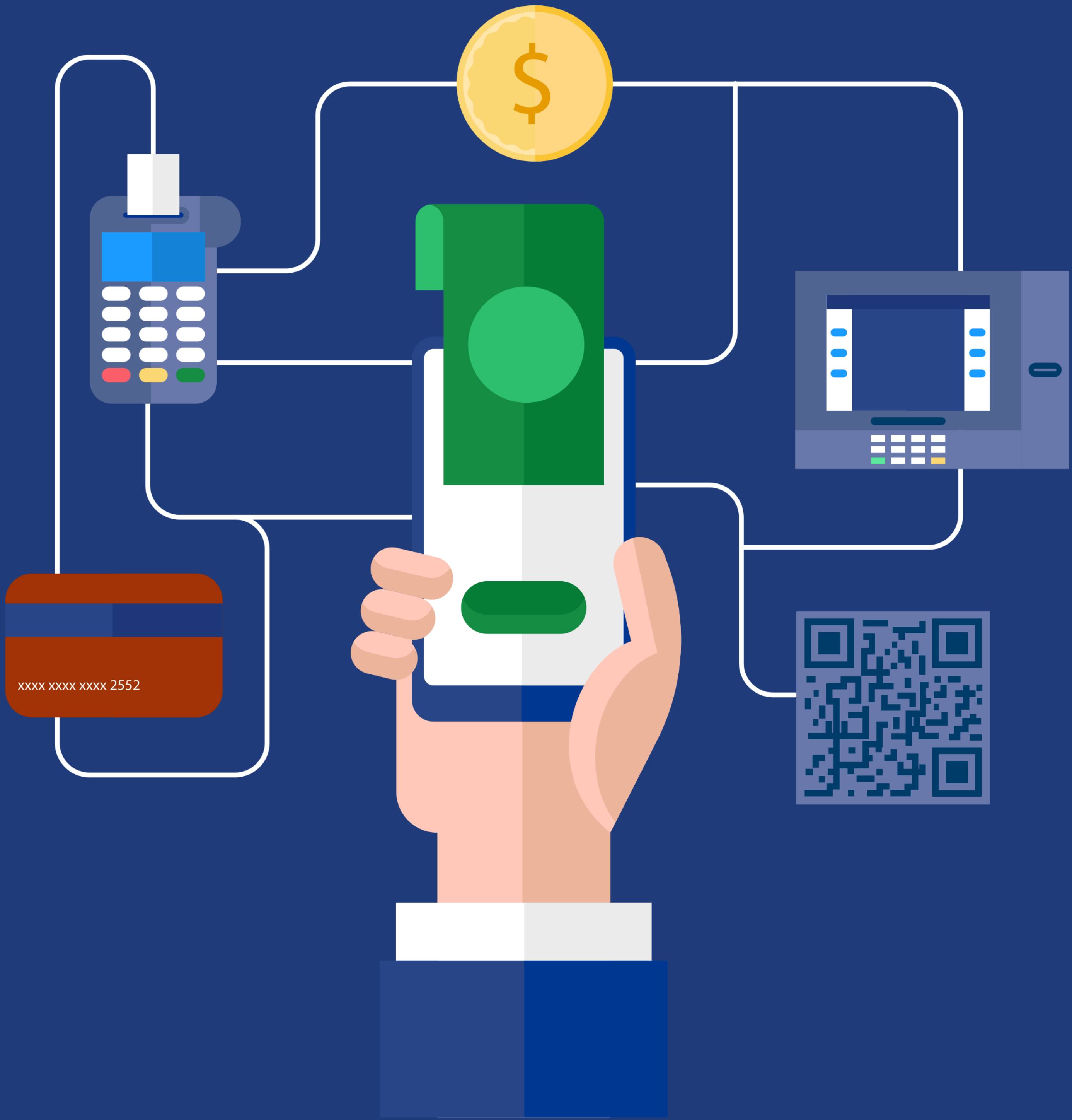


Social Assistance in Lesotho: Moving from Manual to Digital Payments

KEY HIGHLIGHTS AND RECOMMENDATIONS

A few lessons can be weaved from the experience of Lesotho this far to guide the next steps:

- To improve efficiency and effectiveness, the transition to digital payments should go alongside efforts to upgrade the National Information System for Social Assistance (NISSA) and the Management Information System for Social Assistance (MISSA) and ensure interoperability with other systems, especially the National Identity and Civil Registry (NICR).
- Accelerating the pace of digitalization and promptly addressing concerns is key to avoid a backlash from early adopters.
- Unless liquidity issues and the problem of unavailability of cashout points are addressed, some beneficiaries will continue to resist the drive towards digitalization. This will require constant engagement of service providers across the country.
- A robust and transparent Grievance Redress Mechanisms (GRM) is required for beneficiaries to lodge complaints, provide feedback and or request clarifications on challenges they encounter with digital payments.
- The continuation of sensitization activities is necessary among communities in order to ensure full understanding of the digital payment modality and clarify requirements, roles and responsibilities.
- To give beneficiaries the opportunity to choose their preferred digital payment modality, improve accessibility and reduce risk of exposure to only two mobile network operators, it is important to also involve banks in the provision of social assistance digital payments.
- To enhance coordination among the various stakeholders contributing to the Ntlafatsa Bana project, at national, district and community council level, in order to ensure joint delivery of efforts and effective and timely achievement of results.

BACKGROUND

Cash transfers have gained relevance as a key policy instrument to address poverty and reduce the vulnerability of households to shocks in many developing countries in recent years (Iazzolino, 2018). Cash transfers refer to a direct payment from a government or development partner to an individual. These can take the form of a deposit into a bank account, a mobile money account, debit/smart card, the distribution of hard currency or a paper voucher (UNICEF 2021:3). According to a review conducted by the Overseas Development Institute (Bastagli et al., 2016), 130 low- and middle-income countries have implemented at least one unconditional cash transfer programme, while 63 countries present at least one conditional cash transfer programme. In Sub-Saharan Africa, there are 40 countries implementing unconditional cash transfer programmes. According to Beegle et al. (2018), at least 320 cash transfer programs could be identified in the region, confirming their recent steady expansion. During the COVID-19 pandemic, the coverage of cash transfers reached an unprecedented level of 17% of the world's population (Gentilini 2020). The benefits of cash transfers span over several sectors. Cash transfers have positive effects on monetary poverty, hunger and malnutrition, attendance to school and education levels, health, violence against children and women, girls and women empowerment, housing and living conditions (UNICEF, 2021).

Despite advancements in technology, most of the cash transfers are delivered manually, which presents several challenges. Duplicates, corruption and ghost beneficiaries are some of the risks related to manual cash payments, in addition to extra costs required for the hiring of responsible staff and security to ensure the smooth transport and disbursement of cash. Manual cash transfers often require beneficiaries to walk long distances to reach the payment points where grants are distributed (Iazzolino, 2018). In Lesotho, this burden is particularly heavy for households living in the highlands due to the challenging topography. Additionally, walking long distances consumes a lot of time and can be an obstacle for people with disabilities. Due to the mountainous terrain of Lesotho, some households travel up to three hours one way to reach a payment point, often in very cold weather. For these and many other reasons, coupled with the rapid spread of digital technologies as well as the fall of their cost, which made internet and mobile phones accessible to many people in Lesotho, the case for digital payments has become strong.

2. SHIFT FROM MANUAL TO DIGITAL PAYMENTS

According to Klapper and Singer (2017:212), digital or electronic government-to-person (G2P) payments can take different forms. Examples include direct deposits into bank accounts, transfers to pre-paid or stored-value cards that work as a virtual account, or mobile money transfers. Depending on the type of digital payments, recipients can access the funds through an automated teller machine (ATM), point-of-sale (POS) terminals, banking or mobile money agents, or other means.

Box 1: Digital payments in Zambia

Zambia started introducing digital payments for social protection purposes through Payment Service Providers (PSPs) in 2017. Some elements characterizing this shift were identified to be crucial for a successful implementation. To start with, beneficiaries were allowed to independently choose their preferred service provider. No single provider was able to serve all districts. This enabled the Government to avoid monopolies and to reduce the cost of digital payments. Secondly, multiple and underperforming management information systems were substituted by a unique, opensource tool, which opened for the possibility to rely on a modular and customizable software, with the potential to be configurated and deployed quickly. The third element of success was the design of alternative digital solutions for payments to be performed in areas with no connectivity, compared to areas covered by the network. Remote areas with no connectivity continued to be reached by one civil servant acting as pay point manager, who could benefit from the creation of a mobile app able to register payments offline and later upload them to the system. The app contained features to verify the identity of the beneficiary as well as the correctness of the payment delivered. The fourth and last learning insight was about the importance of operational and data quality issues in system design *(Source: Wadie Hobson et al., 2022).*

Shifting from manual transfers to digital can have multiple benefits both for senders and receivers. Digital payments entail lower costs of disbursement and receipt of the money, thus improving efficiency, while they also allow for greater speed of payments. In addition, digital payments are expected to increase transparency and security of payments, tackling those potential risks mentioned before. Other potential advantages are linked to the entry into the formal financial market and women's economic empowerment (Iazzolino, 2018; Klapper & Singer, 2017).

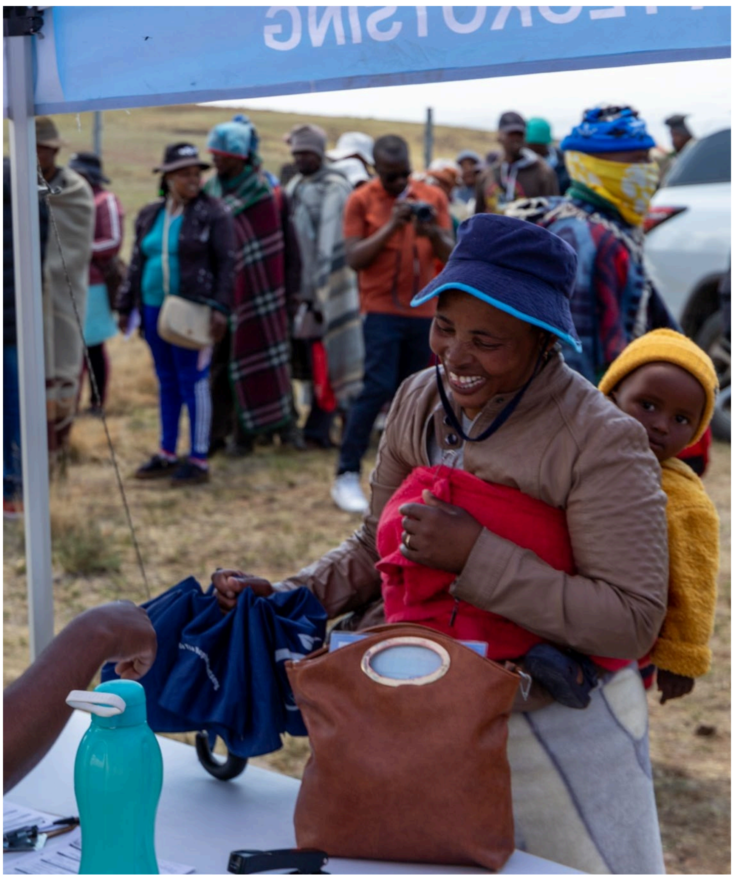
Despite these positive elements, the digitization of payments does not come without challenges. For example, infrastructure required for digital payments for good network coverage is not always available. Klapper & Singer (2017) mentions challenges related to up-front investments to be done in the payment system infrastructure, the creation of a reliable and consistent digital payment experience, the development of an appropriate regulatory framework and the sensitization of beneficiaries on the modalities of receipt of their benefits. Governments, in this sense, have a pivotal role in the creation of a fully integrated and well-functioning digital ecosystem around digital payments, which encompasses legal and regulatory aspects, beyond practical ones.

Box 2: Transition from Manual to Digital Payments in Kenya

Kenya shifted to digital payment of social benefits in 2013. Initially, all cash transfers were done manually, with beneficiaries receiving direct cash. This system, which was fraught with inefficiencies, pushed the Government to move payments to digital. Two payment service providers were initially selected, responsible for disbursing the transfers through prepaid cards after having confirmed the identity of the beneficiaries through national ID cards and biometric authentication. However, problems related to authentication failures and incorrectly routed cards continued to be encountered. For this reason, the Government opted for a more competitive system, in which multiple banks were employed as payment service providers. Banks were selected based on their ability to distribute funds in both urban and rural areas through branches, ATMs and banking agents. Moreover, the Government decided to refund commissions to banks, but only after the beneficiary withdrew at least part of the transfer payment, as an incentive for them to serve even remote areas. Systems to verify the identity of beneficiaries were put in place, as well as the opportunity for them to change a service provider once a year *(Source: Gelb et al., 2023).*

In Lesotho, mobile money usage has grown rapidly in the past few years, and progress has been recorded for all groups, including for those with less financial means, lower education level and situated in rural areas. However, active accounts only equate to around two-thirds of the adult population, so while mobile phone penetration appears high, this reflects the use of multiple SIM cards. An estimated two-thirds of Basotho people are reported not to be using the internet regularly.

Despite the challenges, the Government of Lesotho, as is the case with many others in the world, has started the shift towards digital cash transfers to beneficiaries of social assistance programmes such as the Child Grants Programme (CGP) and the Disability Grant. In this case, the shift is being done with the technical and financial support from UNICEF and the European Union under the Equitable Lesotho – Ntlafatsa Bana Project. Ntlafatsa Bana is a collaborative initiative by the European Union, UNICEF, and the Government of Lesotho with the core objective of enhancing the capacity of the Government to efficiently deliver social assistance programmes, including the Child Grants Programme (CGP) as well as improving access to sustainable energy, water, nutrition services and birth registration (Cash Plus). Other partners such as the World Bank are also involved.



Box 3: Cameroon delivers humanitarian cash digitally

At the end of 2020, in response to the COVID-19 pandemic, the Cameroonian government launched the COVID-19 Emergency Cash Transfer Program (ECT- COVID-19) for poor urban households. The programme provided 80,000 households in the ten regional capitals with USD 275 equivalent over three tranches and, for the first time, the Government opted for delivering the cash transfers digitally. However, a few challenges were identified and they related to: (i) lack of a regulatory and legal framework for digital payments; (ii) lack of national ID cards among beneficiaries; (iii) ID mismatches between SIM cards, mobile money accounts, and financial accounts. Other challenges include poor communication with the beneficiaries, who did not show up during the enrollment phases of the programme.

Lessons learnt mirror, in a way, the challenges described. Digital government-to-person payments require an enabling legal and regulatory environment. Secondly, they need to be sustained by robust data management along the delivery chain. Collecting reliable information on, for example, IDs, SIM cards and financial account ownership is particularly important for women due to their lower civil registration and financial inclusion rates. Third, establishing a strong and effective two-way communication with beneficiaries is recognized as a crucial element, which spans from their sensitization to the programme to the creation of robust grievance redress mechanisms *(Source: Botea and Ndiaye, 2023).*

3. PROGRESS, CHALLENGES AND LESSONS LEARNED IN LESOTHO

The Government of Lesotho, with leadership from the Ministry of Gender, Youth and Social Development (MoGYSD) and financial and technical support from European Union, UNICEF and the World Bank is making steady progress towards digital payments. This is contributing to improvements in the delivery of social assistance. The Government is transitioning from manual payments (via third-party cash-in-transit services) to mobile payments through selected mobile network providers. According to the State of ICT in Lesotho survey, 79 per cent of individuals owned a mobile phone in 2016.

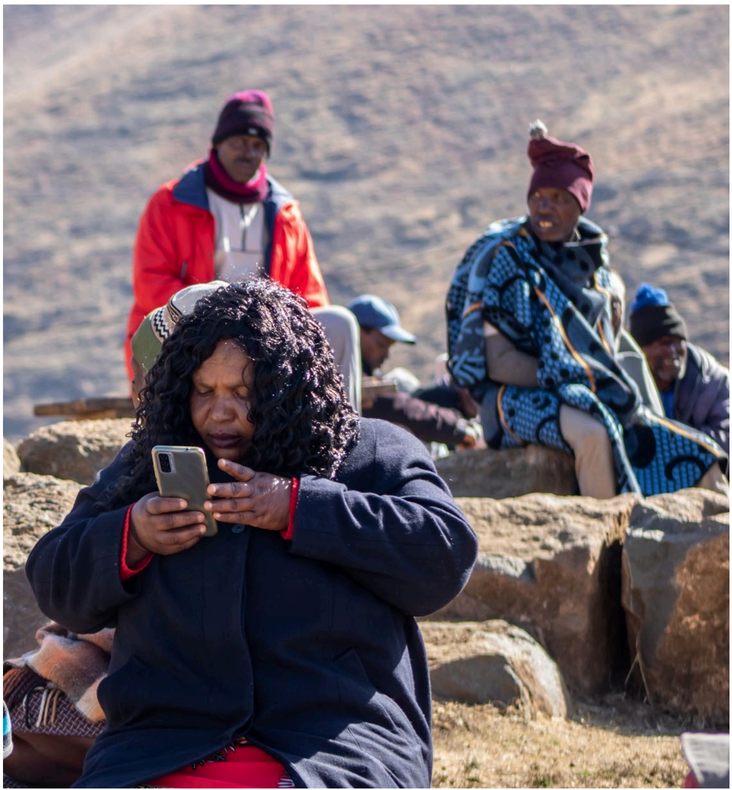
UNICEF's efforts primarily focus on the digitization of the Child Grants Programme, an unconditional cash transfer programme implemented by the MoGYSD that targets poor and vulnerable households that have at least one child between the age of zero and 17 years. The programme provides regular quarterly cash transfers of between M (Maloti) 600 and M900, indexed by the number of children in the household. The primary objective of the CGP is to improve the living standards of orphans and vulnerable children by reducing malnutrition, improving their health status, and increasing their school enrolment by supplementing households' income.

The transition starts with collection of beneficiary information and subsequent enrollment for mobile payments. When a payment cycle starts, the MoGYSD staff and the two mobile network providers involved in the programme collaboratively conduct sensitization at payment points. On site, Auxiliary Social Workers are trained in mobile phone number collection before the activity commences, while the mobile network service providers' staff conduct Know Your Customer (KYC) processes. This includes collecting mandatory KYC information and verifying beneficiaries' enrolment in mobile services directly at the payment points. Unregistered beneficiaries are signed up on the spot and oriented towards conducting mobile money transactions. As of September 2024, around 18,000 Child Grants Programme (CGP) households, out of 42,300, received their cash through digital channels. This represents 43 per cent of total, registering an overachievement compared to the target set for the Ntlafatsa Bana project (40 per cent). Households are mostly situated in rural areas and sixty per cent of the payees are female.

From a project intervention perspective, the digitalization of social assistance payments is only the first layer of wellbeing improvement for the vulnerable households targeted. Indeed, Ntlafatsa Bana provides for a Cash Plus initiative, which aims at helping CGP beneficiaries and families access child protection (birth registration), housing (access to electricity/ renewable energy) and nutrition (community-based nutrition interventions), and water and sanitation services.

A recent study by UNICEF Lesotho revealed that the majority of beneficiaries appreciates the benefits of digital payments. For example, it was mentioned that digital payments will eliminate travel costs to payment points, both in terms of time and financial resources, especially for those who live in rural, remote and mountainous places. Beneficiaries also reported that digital payments have the potential to offer greater predictability of payments. Moreover, the communities mentioned that the digital modality may avoid some family members, often men, to access the cash and spend it on other things that do not improve the well-being of targeted beneficiaries.

Despite this encouraging progress, the transition to mobile payments is facing some challenges which require urgent attention of policy makers and service providers. A key challenge is the availability of cash out points. In some communities, only a few shops offer this service, and beneficiaries are requested to pay a fee to cash out the money. Digital illiteracy, as well as lack of access to a reliable phone and connectivity are also concerning. Other emerging challenges relate to management of grievances in case of no receipt of payment and how to provide the recipient's proof of life with e-payments over time. The Ministry of Gender, Youth and Social Development, together with the development partners, will discuss strategies to address such challenges.



4. RECOMMENDATIONS

A few lessons can be weaved from the experience of Lesotho this far to guide the next steps:

Cash transfers have gained relevance as a key policy instrument to address poverty and reduce the vulnerability of households to shocks in many developing countries in recent years.

Shifting from manual transfers to digital can have multiple benefits both for senders and receivers. Digital payments entail lower costs of disbursement and receipt of the money, thus improving efficiency, while they also allow for greater speed of payments. In addition, digital payments are expected to increase transparency and security of payments, tackling potential risks related to duplicates, corruption, ghost beneficiaries and others. Other potential advantages are linked to the entry into the formal financial market and women's economic empowerment.

In Lesotho, mobile money usage has grown rapidly in the past few years, and progress has been recorded for all groups, including for those with less financial means, lower education level and situated in rural areas.

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The Ministry of Gender, Youth and Social Development, together with the development partners, is in the process of discussing strategies to address existing challenges and to improve joint delivery of efforts and achievement of results.

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This policy note was authored by Francesca Conte and peer reviewed by Bob Muchabaiwa and Sophia Shawa (all from the Social Policy section) under the leadership of Kimanzi Muthengi, Deputy Representative. The notes are intended to encourage policy dialogue to address social, economic, and other challenges faced by children in Lesotho. This issue focused on transitioning from digital to manual payments of social protection benefits. The findings, interpretations and conclusions expressed in this paper are those of the authors and do not necessarily reflect the policies or views of UNICEF or the European Union Delegation to the Kingdom of Lesotho. The text has not been edited to official publications standards and UNICEF accepts no responsibility for errors.

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